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Content

INTRODUCTION.....	2
MAIN ECONOMIC EVENTS.....	3
ANALYSIS OF STATISTICS.....	10
1. MACROECONOMIC POLICY	10
1.1. ECONOMIC GROWTH.....	10
1.2. FISCAL POLICY	12
1.3. MONETARY POLICY	13
1.4. FOREIGN EXCHANGE POLICY.....	16
1.5. PRICES AND INFLATION	17
2. INSTITUTIONAL AND MARKET TRANSFORMATIONS.....	20
2.1. DENATIONALIZATION AND PRIVATIZATION, TYPES OF OWNERSHIP	20
2.2. MARKET INFRASTRUCTURE.....	21
2.3. SMALL ENTREPRENEURSHIP.....	25
3. STRUCTURAL – INVESTMENT POLICY.....	34
3.1. INDUSTRY.....	34
3.2. CONSUMERS GOODS MARKET.....	37
3.3. AGRARIAN SECTOR.....	40
3.4. INVESTMENTS	45
4. FOREIGN TRADE	55
4.1. TRADE BALANCE, EXPORTS, IMPORTS	55
4.2. ENTERPRISES WITH FOREIGN INVESTMENTS.....	58
5. LIVING STANDARDS AND THE LABOR MARKET	67
5.1. INCOMES AND EXPENDITURES OF THE POPULATION	67
5.2. DOMESTIC TRADE AND SERVICES	68
5.3. EMPLOYMENT AND THE LABOR MARKET	71
6. SOCIO-ECONOMIC DEVELOPMENT IN THE REGIONS	77
ANALYTICAL PART	86
1. ISSUES OF IMPROVING THE POLICY OF STIMULATING DOMESTIC EXPORTERS	86
2. TRENDS IN FORMING THE STRUCTURE OF INVESTMENT SOURCES IN UZBEKISTAN.....	92
3. THE COMPETITIVE ADVANTAGES OF UZBEK AGRICULTURAL PRODUCE ON THE INTERNATIONAL MARKET	95

Introduction

The information and analytical review Uzbekistan Economy for the first half of 2005 presents dynamics, trends and specifics of the current economic reform; macroeconomic, institutional, structural and investment, foreign trade and social transformations as well as social and economic development of the regions.

The Macroeconomic Policy and the Economic Growth. In the first half of 2005 the real GDP of the country grew by 7.2% (in the respective period of 2004 it was 6.2%). The major contributors to the economic growth were the industry (share in GDP growth – 0.9%), the agriculture (1.1%), the transportation and communications sectors (1.0%), the trade and public catering (1.2%), and the net taxes (2.2%). The persistent monetary policy resulted in the relatively low inflation (3.3% to the value of the previous December). The public budget was executed with 1.2% surplus to GDP. The nominal exchange rate to the US dollar decreased by 5.4% compared to the first half of 2004.

The Institutional and Market Transformations. In the analyzed period the significant work has been done on implementation of the Program of Denationalization and Privatization of Enterprises for 2005-2006, specifically 445 industrial and social infrastructure entities were privatized. The sale of government property generated UZS 38.2 billion, including the state-owned holdings of stock worth UZS 26.8 billion and the real estate for the total amount of UZS 9.5 billion. The total sales of the stock market reached UZS 65.0 billion, and exceeded the value of the respective period of the previous year by 24.1%. The development of small businesses facilitated creation of 253.5 thousands new jobs. The weight of small businesses in GDP grew from 29.1% to 30.9%.

The Structural and Investment Activity. The positive development dynamics in the real sector was continued. The industrial growth index accounted for 107.5%, and was significantly influenced by rapid development of the final demand sectors (mechanical engineering, light industry). The growth rates of agricultural produce remain sustainable (7.2%). About 24.3 thousands farms were established on the basis of 445 unproductive *shirkats* (collective farms) accounting for 12.6% of the total agricultural produce, as opposed to 10.5% in 2004. There was the increase of the investment activity, the growth rates of capital investment reached 5.4% versus 2.2% in the first half of 2004.

The Foreign Trade. Foreign trade turnover of Uzbekistan in the first half of 2005 was UZS 4.8 billion, increasing by 16.6%. The exports accounted for 58.4% of the total foreign trade turnover and imports for 41.6%. As a result, the active trade balance reached USD 808 million compared to USD 689,1 million in the first half of 2004. The exports grew by 23.6% and the imports by 22.6%. Exports to the CIS countries grew at more rapid pace (131.5%) than exports to other foreign countries (120.1%). In the first half of 2005 more than 3 000 new jobs were created at the enterprises with foreign investment and their exports increased by 11.2%.

The Welfare of the Population and the Labor Market. The nominal cash income of the population increased by 22.7% (compared to 16.1% in the first half of 2004). The growth of cash income of the population owed mainly to the increase of wages (26.5%), the social transfers (38.7%), and the income from entrepreneurial activity (22.6%). The retail turnover increased by 8.1%, while the fee-based services to the population by 11.6%. The growth of the population was caused by natural factors and totaled 310 thousands people (1.2%). The bulk of the increase in the employment was due to the development private and small businesses (83.2%).

The Social and Economic Development of the Regions. During the first half of 2005 the growth in key macroeconomic indicators (gross regional product, industry, agriculture, investments, retail trade turnover and fee-based services) was registered in the Republic of Karakalpakstan, the regions of Uzbekistan and Tashkent City. The inter-regional differentiation in Gross Regional Product decreased from 5.4 to 4.7 times, in industrial output from 24.3 to 18.1 times, in agricultural output from 5.0 to 4.4 times, in investments from 6.8 to 6.5 times and in fee-based services from 11.1 to 10.6 times.

The analytical review includes papers covering such topics as the facilitation of exports, the trends and shifts in the investment area, the comparative advantages of local agricultural produce at the global market, and so forth. The data published in the review were provided by the State Committee on Statistics, the Central Bank of Uzbekistan, the Ministry of Finance, the State Committee for Property Management and Privatization, international publicly available sources, as well as being derived 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 unani-

mously 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.

April

A meeting devoted to the establishment of a sound competitive environment for the development of entrepreneurship took place in the capital. Representatives of ministries, associations, government authorities, public organizations and entrepreneurial agents participated in the event, which was organized by the State Demonopolization and Competition Development Committee.

A forum of manufacturers and entrepreneurs arranged jointly by the Chamber of Commerce and Industry of the Republic of Uzbekistan and the Movement of Entrepreneurs and Businessmen of Uzbekistan was held in the Tashkent City Khokimiyat. The major purpose of the forum was to ensure practical guarantees for the activities of entrepreneurs and to define measures for the elimination of insufficiencies and for the stable development of economy.

Members of a Korean delegation visiting Uzbekistan met with the Chairman of the State Joint-Stock Company "Uzengilsanoat". They discussed issues of developing investment and technical cooperation in the textile industry, in particular, establishing a Center of Textile Industry Technologies in Tashkent.

An Uzbek-Italian business forum arranged by the Agency for Foreign Economic Relations and the Italian Institute of Foreign Trade took place at the metropolitan International Business Center. Issues of expanding trade and economic relations between the two countries and the joint implementation of new investment projects in the areas of tourism, business and industry were discussed.

Members of a delegation visiting from the Asian Development Bank (ADB) met with the Governor of the Central Bank and the Minister of Finance, and also took part in discussions at the Chamber of Commerce and Industry of Uzbekistan on mutual cooperation. The ADB stated that it was prepared to actively participate in accelerating the reform of the Uzbekistan banking system, liberalizing the foreign exchange market, and providing technical assistance for the development of private entrepreneurship, bank privatization and the attraction of foreign investment into this area.

With the aim of further improving the investment climate; increasing the attraction of private direct foreign investment for the implementation of the program of privatization, modernization, technical re-equipment and reconstruction of production; creating new jobs; and also ensuring reliable legal protection and guarantees for foreign investors, the Decree "On Additional Measures for Encouraging the Attraction of Direct Private Foreign Investment" was issued by the President of the Republic of Uzbekistan.

In order to reform and liberalize the banking system, ensure its sustainable development, enhance the efficiency of commercial banks' activity, and increase their level of capitalization and broader participation in investment processes, the Cabinet of Ministers of the Republic of Uzbekistan passed a Resolution "On Measures for Further Reforming and Liberalizing the Banking System".

Representatives of German business circles visited Uzbekistan. Under the program of the visit, there was a high-level exchange of views on Uzbek-German economic relations and a discussion of ways to further develop bilateral trade. An Uzbek-German economic forum was held at the International Business Center on 5 April, in which representatives of trade and industrial circles of Uzbekistan and a delegation of representatives of the Union of East and Central Europe (OMF, Germany) participated. The forum declared that bilateral trade and investment cooperation between these two countries has many opportunities for expansion.

A seminar under the auspices of the Asian Development Bank (ADB) project in Uzbekistan was held on 1 April in the Surkhandarya region on the reconstruction of the Amu Zang system of machine channels. The purpose of the seminar was to discuss major steps on the project and to explain measures on its implementation by the regional partner. A loan amounting to 73.2 million USD was issued to implement the project funded by the ADB to assist in restoring the system of the Amu Zang machine channels.

An international symposium was arranged by the Associations of "Uzbekipagi" and the UN Food and Agriculture Organization (FAO) in Tashkent on 12 April on issues of the revival and development of silkworm breeding and the handicraft silk industry in the countries of Central Asia and the Black and Caspian Sea region.

On 11 April a seminar was held in the metropolitan hotel "Radisson" organized by the Chamber of Commerce and Industry of Uzbekistan and by one of the USAID funded projects. Its purpose was to discuss problems related with accession to the World Trade Organization (WTO) and the familiarization of Uzbekistan's business circles with the benefits and costs of accession to this organization.

With the goal of further improving the investment climate; increasing the attraction of private direct foreign investments for implementing the program of privatization, modernization, technical re-equipment and reconstruction of production; creating new jobs in regions of the republic with excess labor resources; and also ensuring reliable legal protection and guarantees for foreign investors, the Decree "On Additional Measures for Encouraging the Attraction of Direct Private Foreign Investments" by the President of the Republic of Uzbekistan was issued on 11 April.

The Khokimiyat of the city of Tashkent developed preliminary performance characteristics for 74 projects included in the Program of Attracting Foreign Investments into the Capital of Uzbekistan for the period of 2005- 2006. Significant financial injections (amounting to 96.8 million USD) into projects on the efficient development of the municipal economy of Tashkent city are planned. The goal is to attract 72.14 million USD into light industry enterprises. The establishment of the "Farkhod tex" JV is among the largest projects.

May

At the meeting of the Cabinet of Ministers the issues of the effectiveness of the economic reforms in the silk industry and ensuring its development were discussed. In 2004 the volume of silk industry production increased by 104 percent, the production of threads of raw silk – by 113.7 percent, and the export of production accounted for 16.3 million USD (an increase of 135.6%).

The President of the Republic of Korea visited the Republic of Uzbekistan from 10 to 12 May on the invitation of the President of Uzbekistan. At the meeting, issues of further expanding the scale of cooperation between firms and companies of Uzbekistan and South Korea and of developing and implementing new joint projects were discussed and specific plans for individual sectors were developed.

On 18 May 2005 the International Monetary Fund held in Washington a videoconference for representatives of the mass media and diplomatic missions operating in Uzbekistan. Using channels of video-communication, the Deputy Director of the Department of Middle East and Central Asia IMF and the Head of the IMF Mission on Uzbekistan spoke live, informing participants of the conference of the results of the discussion of the report on the assessment of economic reforms in Uzbekistan in 2004 at the meeting of the Board of Directors of the IMF held on 16 May 2005 in Washington.

The President of the Republic of Uzbekistan made a state visit to the People's Republic of China on 25-27 May. Leaders of Uzbekistan and China discussed in detail issues concerning the further development of bilateral relations, analyzed the state of cooperation in trade and economic, political, scientific/technical and humanitarian areas, and planned long-term tasks. In the course of negotiations, special attention was paid to strengthening cooperation in such areas as exploring and exploiting energy resources, transport, communication and information technologies.

The international conference "Cotton and Textiles – Important Factors of Economic Growth in Central Asia" took place in the capital, the purpose of which was to broadly familiarize foreign business circles with the cotton and textile industry and Uzbekistan's export potential, to develop investment cooperation, and to exchange opinions on the current state and development prospects of the international market of cotton fiber and textiles. The Program of Expanding Investment Cooperation in the Country's Textile Industry intended for 2005-2008 envisages the implementation of almost a hundred projects totaling 1.2 billion USD. Participants of the event visited cotton terminals, plants and textile enterprises in Tashkent, Yangi-Yul and Chirchik. They also visited the "Cotton and Silk World-2005" exhibition that was held in the metropolitan "Uzexpocenter" in the context of the conference. The production of 50 companies from Uzbekistan, USA, UK, Russia, Turkey, Switzerland, India and other countries – modern equipment on growing and processing cotton, equipment on textile production – was presented at the exhibition.

In the course of the state visit of the President of the Republic of Uzbekistan to China, two loan agreements were signed between the National Bank of Uzbekistan for Foreign Economic Activity (NBU FEA RUz) and the Export-Import Bank of China in the total amount of 31.4 million USD. Funds were assigned for funding supplies of digital equipment for the reconstruction and modernization of the telecommunication network of the joint-stock company "Uztelecom" and purchasing generators for generating power by the Tupolang Hydroelectric Power Station (HPS). Under several interbank agreements, the provision of interest-free loans by the government of China in the total amount of 100 million Yuan is envisaged.

According to the rating of the authoritative international banking journal "The Banker," the National Bank of Uzbekistan for Foreign Economic Activity joined the list of the 100 largest banks of Central and Eastern Europe, Russia and Central Asia, occupying 23rd place.

Two major events for industry in Uzbekistan were held on 17-19 May at RTEC "Uzexpocenter:" the 9th international exhibition and conference "Oil and Gas Uzbekistan" and the 1st Uzbek international exhibition "Mining, Extraction and Mining Equipment". The organizers of the exhibition were the international exhibition company ITE Group Plc (UK) and ITE Uzbekistan Company. About 100 companies from 19 countries participated in the exhibition. Displays at the exhibition "Mining, extraction and mining equipment" were presented by about 20 companies from Germany, Poland, Russia, USA, Sweden and Uzbekistan.

The Tashkent aviation production association V.P. Chkalov (State Joint-Stock Company "TAPOiCH") started production of a new modification of the IL 76 aircraft. The first craft of the newly modified IL -76TD is meant for the Russian air company "Volga-Dnepr". The new IL-76 has a greater range, with a 23% increase in engine efficiency. The new liner will be piloted by four crew members (half the number needed in previous versions of the IL 76). There is an agreement with Russian consumers to supply 15 aircraft to Russia. An order for a new IL 76 was also received from Azerbaijan. The first two of the newly modified aircraft should be assembled in 2005 and in 2006 Tashkent the aircraft construction plant should begin serial production.

An exhibition of construction materials and units took place in Tashkent. The purpose of the exhibition was to point out the current potential of the material and technical basis of construction and possibilities of exporting of production.

June

A presentation "Investment Potential of the Construction Materials Industry of Uzbekistan", was held at the International Business Center; the organizers of the event were the "Uzstroyateriali" joint-stock company and the Agency for Foreign Economic Relations of the republic. Issues considered in the course of the presentation included the foreign trade regime, the export potential of the sector, prospects of mortgage lending and possible sources of funding investment projects and also issues of developing town-planning and building social infrastructure in the republic.

"The Role and Importance of Budgetary and Tax Policy and the Banking System in Developing Small Business and Private Entrepreneurship" – was the topic of a seminar held in the Legislative Chamber of the Oliy Majlis. Results of polling conducted among entrepreneurs were discussed at the seminar. Proposals and recommendations for overcoming certain obstacles hindering the further development of small business and private entrepreneurship were developed.

The first meeting of the Uzbekistan Association of Lessors took place on 6 June in Tashkent. The main directions of this association's activity were defined as follows: facilitating the improvement of the normative and legal base in accordance with international standards; and providing consulting assistance in establishing state and regional infrastructure encouraging the development of leasing.

The Decree of the President of the Republic of Uzbekistan dated 14 June 2005 "On Measures for the Further Improvement of the System of Legal Protection of Entrepreneurship Agents" developed a list of measures to improve the system of legal protection of representatives of private business from illegal interference into their activity by controlling authorities, to ensure protection of their rights and legal interests and to ban unjustified limitations on entrepreneurial activity.

In order to encourage further accelerated development of small business agents and to radically increase their role and share in the economy of the country, the Decree of the President of the Republic of Uzbekistan "On Additional Measures to Encourage the Development of Microfirms and Small Enterprises" on 20 June 2005 was issued. This Decree stipulates that starting from 1 July 2005, agents of entrepreneurship carrying out their activity on the territory of Uzbekistan will make a single tax payment instead of four taxes.

In order to ensure the practical implementation of measures in the area of intensifying market reforms and further economic liberalization, the President of the Republic of Uzbekistan on 14 June issued the Decree "On Measures for the Acceleration of the Realization of Priority Directions in the Area of Intensifying Market Reforms and Further Economic Liberalization".

With the aim of expanding benefits to enterprises attracting direct private foreign investments (investments made by individuals who are foreign citizens, individuals without citizenship and citizens of the Republic of Uzbekistan residing abroad permanently, and also foreign non-government legal entities), The Cabinet of Ministers of the Republic of Uzbekistan on 15 June issued the Resolution "On Introducing an Addition to the Regulation of the Inter-agency Council on Issues of Foreign Investments and Loans under the Cabinet of Ministers of the Republic of Uzbekistan".

A new textile JV with the participation of Swiss Ritter was established in the Kurgantepe district of Andijan region based on the local JSC "Samo". The project, totaling 4.5 million Euro, envisages production of up to 15 tons of yarn a day. At present, the assembly of necessary equipment has started at the JV, and the beginning of operations is planned for shortly before Independence Day. All production made in Kurgatepe will be exported.

The signing of the Program of Cooperation between the government of the Republic of Uzbekistan and the UN Children's Fund (UNICEF) for 2005-2009 took place at the Cabinet of Ministers of the Republic of Uzbekistan. The signed documents reflected strategies developed in the area of maternity and childhood protection, including: positive results in the fight against deficiencies in microelements and also problems in the broad immunization of children, the popularization of the practice of breastfeeding, early childhood development, improving sanitary and hygienic conditions in schools and mahallas and propaganda of a healthy lifestyle among youth. The objective of the program is to achieve higher results in ensuring the health of mothers and children.

The resolution of the Cabinet of Ministers of the Republic of Uzbekistan (2 June 2005) "On the Improvement of the System of Training Professionals in the Area of Information Technology" was approved, with the aim of improving the quality of training and retraining professionals and also increasing the competence of professionals in the area of information-communication and innovation technologies. According to benchmarks of the Program of Computerization and Information-Communication Technologies Development, by 2010 no less than 8500 teachers of computer technology; 8950 highly skilled professionals in the area of information-communication technologies (ICT); and 10275 junior experts in the area of the ICT should be trained, while 8600 highly skilled professionals, 6500 junior experts and 4800 teachers should be retrained.

With the aim of further improving the business environment and increasing the of the Uzbekistan economy in order to attract Russian investors, meetings were held with representatives of various agencies and companies of Uzbekistan in the Siberian federal district of the Russian Federation. These meetings and agreements on bilateral cooperation will facilitate dynamic growth of the Uzbekistan economy, higher employment and the welfare of population.

ANALYSIS OF STATISTICS

1. Macroeconomic Policy

1.1. Economic Growth

Modern economic growth is defined as economic development in which the growth rate of long-term output remains consistently higher than the growth rate of the population.¹ This is a new phenomenon in world economic history. Until the postwar period, output grew at approximately the same rate as the population, with a stable and low average per capita income. There are reasons to believe that this phenomenon has a particular timeframe, as due to resource limitations the rate of per capita GDP growth cannot exceed population growth rates indefinitely.² We may assume that modern economic growth is a transition process from one sustainable state (pre-industrial agrarian societies) to another (post-industrial societies with a high per capita income).

In the first half of 2005 the implementation of the economic reform measures – determined by the President at the Joint Meeting of the Legislative Chamber and the Senate of the Oliy Majlis in January 2005 and aimed at the continuous liberalization of the economy – had a stimulating impact on the social and economic situation in the country. Specifically, the ongoing reforms in the areas of foreign trade liberalization, foreign currency regulation, attraction of foreign investment and development of private business and agriculture have positively affected the business and investment climate in the country. The key factors of economic growth remain the growth of the external demand for Uzbek exports, the increase of investment activity and the sustainable operation of practically all sectors of the economy.

The GDP in nominal terms in the first half of 2005 was UZS 5676.7 billion. The real GDP in the first half of 2005 grew by 7.2 percent, which was 1 percent more than in the first half of 2004. The growth of per capita GDP reached 5.9 percent compared to 5.1 percent in the first half of 2004. This was ensured by the dynamic development of the base sectors of the economy (5.7 percent), the increase in capital investments (5.4 percent), the growth in exports (16.7 percent) and the improvement in the employment situation (Table 1.1.1, Figure 1.1.1).

The growth of GDP was also facilitated by the following: the low level of inflation (3.3 percent) and the implementation of the Public Budget with a surplus (1.2% to GDP). In addition, the devaluation of the nominal exchange rate of UZS to USD accounted for 5.4 percent and the real exchange rate for 1.2 percent, stimulating the export operations of the domestic producers.

Due to the efforts focused on facilitating the output of goods and services (the corporate income tax rate was reduced from 18 percent in 2004 to 15 percent in the first half of 2005; capital investment grew from 2.2 to 5.4 percent), the share of real added value in industry grew by 4.4 percent compared to the first half of 2004, in agriculture by 7.2 percent, in construction by 3.4 percent, in transportation and communications by 9.2 percent, in trade and public catering by 11.0 percent and in other sectors, including non-production services, by 3.0 percent) (Figure 1.1.1).

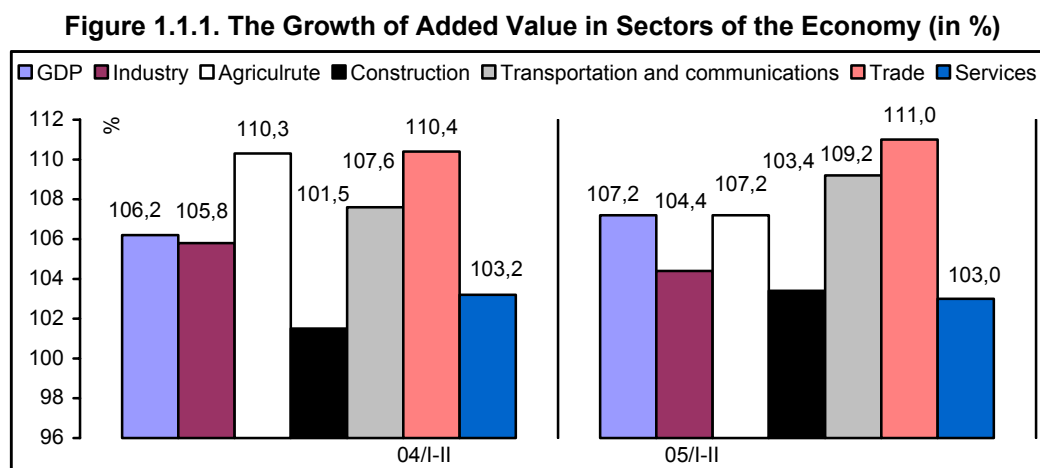
Table 1.1.1. Key Macroeconomic Indicators for the First Halves of 2004 and 2005 (in %)

	2004	2005
GDP (produced)	106.2	107.2
Population	101.1	101.2
Per Capita GDP growth rate	5.1	5.9
Base Sectors Output (Industry, Agriculture, Construction, Transportation and Communications)	107.0	105.7
Industrial Output	109.6	107.5
Exports	125.2	116.7
Capital Investments	102.2	105.4
Inflation (June to December of the previous year)	-0.8	3.3
Public Budget Execution (in % of the GDP)	1.6	1.2
Foreign Exchange Rate	2.1	5.2
Unemployment (end of the period in %)	0.4	0.4

Source: The State Statistics Committee of Uzbekistan .

¹ Kuznets S. Modern Economic Growth: Rate, Structure and Spread. New Haven, London, 1966; Kuznetz S. Total Output and Production Structure. Cambridge, 1971.

² Meadows S. D., Meadows D.L., Randers J., Behrens W. H. The Limits to Growth. New York, 1974; Meadows S. D., Meadows D. L., Randers J. Beyond the Limits. Postmills. 1992.

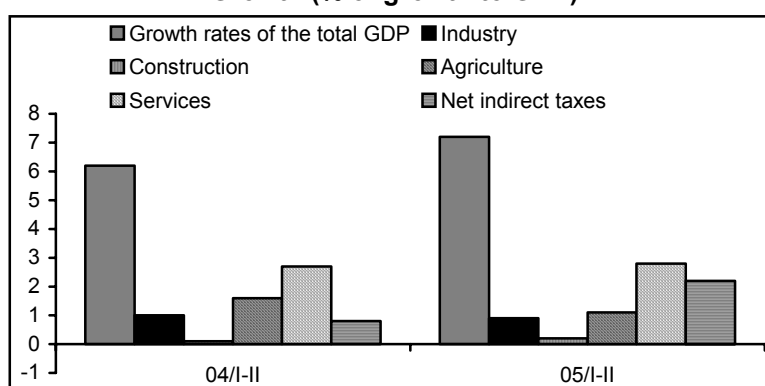


Source: The State Statistics Committee of Uzbekistan.

Of 7.2 percent growth in GDP (compared to 6.2 percent in the first half of 2004), industry accounted for 0.9 percent (1.0%), agriculture for 1.1 percent (1.6%), construction for 0.2 percent (0.1%), transportation and communications for 1.0 percent (0.8%), trade and public catering for 1.2 percent (1.2%), other sectors and services for 0.6 percent (0.7%), and net taxes for 2.2 percent (0.8%) (Figure 1.1.2).

The last two years were marked by the stabilization of industry input into GDP at the level of 0.9-1.0 percent and the increase of the share of construction by 0.1 percent and transportation and communication by 0.2 percent. This was achieved largely due to the implementation of measures for the reform, modernization and reconstruction of the technical and technological basis of these sectors of the economy.

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



Source: The State Statistics Committee of Uzbekistan.

The share of industry in the production structure of GDP increased from 20.7 to 24.0 percent, partially due to the growth of demand for locally produced export-oriented competitive goods in major trade partner countries (Table 1.1.2). In addition, the growth of industrial output was facilitated by efforts towards the modernization of the technological base of industry and the introduction of advanced management and marketing methods. Positive results were achieved to a considerable extent due to the increase in capacity utilization and the increase in finished and localized output in mechanical engineering and metal processing, ferrous metallurgy, electrical, cotton-ginning and other sectors. The total growth of industrial output reached 7.5 percent.

Table 1.1.2. Growth and GDP Breakdown by Economic Sector

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	9637.8	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
04/I-II	4542.3	106.3	20.7	15.0	5.8	42.0	16.5
05/I	2504.0	104.8	27.4	9.1	4.9	45.1	13.5
05/I-II	5676.7	107.2	24.0	14.1	5.9	43.6	12.4

Source: The State Statistics Committee of Uzbekistan

In the structure of GDP use, capital investments increased from 23.2 to 24.8 percent and changes in inventories from -14.5 to -14.7 percent, which resulted in an increase in gross savings from 8.7 to 10.1 percent. (Table 1.1.3). This was partially facilitated by the acceleration of the growth of capital investments from 2.2 to 5.4 percent.

The growth of capital investments is indicative of positive processes in the development of the real sector of the economy resulting from ongoing favorable market conditions for the output of the export-oriented companies of Uzbekistan, the growth of the 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 77.8 to 76.2 percent, largely due to the decrease in the share of households' spending (from 56.0 to 54.0 percent) and the slight increase in expenditures for public administration (from 21.8 to 22.2 percent).

The demand for exported goods in the first half of 2005 remained high mainly due to the ongoing favorable situation on international markets. Due to the stock of orders for delivery of goods to foreign markets, the stable operations of export-oriented industries of the real sector and the implemented measures for foreign trade liberalization, exports increased by 16.7 percent, while the share of net exports in GDP increased from 13.5 to 13.7 percent.

A significant reserve for further economic growth is provided by the improvement and intensification of efforts to increase the efficiency of earlier implemented investment projects and to increase the foreign investment inflow into the economy,³ as well as to implement measures for the unconditional realization of the Privatization Program by the end of 2005 and the further reform of the agrarian sector. In the nearest future, a significant boost in private sector activity and an increase in its input into GDP growth are anticipated. This should be supported by measures in line with the recent Decrees and Resolutions by the President of Uzbekistan on strengthening legal safeguards for entrepreneurs, decreasing the tax burden, simplifying tax compliance and statistical reporting and liberalizing financial responsibility.

1.2. Fiscal Policy

Fiscal policy is based on two economic regulators used by the government: taxes and public expenditures. These can be applied in various combinations, providing a large number of options to affect the real volume of national output and its structure, as well as employment and inflation. Both of these levers serve the same goal and are closely intertwined. However, the impact of taxes and public expenditures on the scope and dynamics of GDP is quite the opposite. An increase in public expenditures leads to an increase in aggregate demand and gross national product. An increase in tax revenues, in contrast, leads to a decrease in aggregate demand due to the decrease in the available income of the population, and then to a decrease in GDP, as output decreases along with the decrease in demand for it. Therefore, the key task of fiscal policy is to affect aggregate demand and GDP by means of changes in taxes and public expenditures. The increase in taxes results in a decrease in GDP. However, such a decrease can be compensated for, if government revenues from increased taxes are channeled towards increasing public expenditures.

In the first half of 2005, the Government of Uzbekistan undertook measures to ensure sustainable economic growth and to increase the real income of the population, by improving the efficiency of government participation in generating and efficiently utilizing public funds. This was facilitated to a significant extent by measures taken to improve the tax system and to implement efficient schemes for public expenditures.

The growth in the business operations of economic entities in the first half of 2005 resulted in a revenue surplus of 2.8 percent, or UZS 1601 billion. This was achieved through the overfulfillment of the forecast for all types of tax revenues. The highest rise was generated by resource taxes. The forecasted revenue targets were on the whole achieved by all the regions of the country. The social sector and welfare accounted for

Table 1.1.3. Breakdown of GDP by Use (%)

Period	Total Final Consumption, in %		Gross Savings, in %		Net Exports, in %
	Private	Public	Gross Domestic Capital Investments*	Changes in Inventories and Other	
2000	61.9	19.7	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
04/I-II	56.0	21.8	23.2	-14.5	13.5
05/I	50.4	23.3	26.5	-14.5	14.3
05/I-II	54.0	22.2	24.8	-14.7	13.7

Source: The State Statistics Committee of Uzbekistan

* Including net purchased valuables

³ Press release from the Cabinet of Ministers meeting on the outcomes of the social and economic development of the country in the first half of 2005, the efficiency of measures for the intensification of economic liberalization processes, and the role and responsibility of the government in implementing new strategic reform objectives. "Narodnoye Slovo" Newspaper, issue 13, Tashkent, 20 July 2005.

53.7 percent of the total expenditures of the public budget. The public budget for the first half of 2005 was executed with a surplus of 1.2 percent to GDP (Table 1.2.1).

Table 1.2.1. The Execution of the Public Budget (% to GDP)

Indicator	2000	2001	2002	2003	2004	04/I	04/I-II	05/II	05/1-II
Deficit (-)	-1.0	-1.0	-0.8	-0.4	-0.4	4.0	1.6	1.9	1.2
Surplus (+)									

Source: The Ministry of Finance of the Republic of Uzbekistan, estimates by the author

In the second half of 2005, the implementation of measures for reducing the tax burden on the economy, simplifying taxation procedures, improving the tax administration system, canceling economically unjustified and inefficient tax privileges and increasing economic incentives for taxpayers for timely and full tax compliance, as well as measures for 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 one of the factors in 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 market and the banking sector. The monetary policy of the CBU adheres to its guidelines 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.⁴ As a result of the efforts implemented, the inflation level, as measured by the consumer price index (CPI), has not exceeded the forecast and accounts for 3.3 percent.

The achievement of this indicator was primarily facilitated by measures for stabilizing monetary circulation and decreasing the extra-banking turnover of cash. The implementation of these measures led to an increase in the amount of cash deposited in bank accounts through a cashier service by 57 percent, while deposits of the population increased by 31 percent compared to the first half of 2004.

In order to implement the Cabinet of Ministers Resolution #445 of 24 September 2004, "On Measures for the Further Development of the System of Settlements on the Basis of Plastic Cards", the CBU and commercial banks have been undertaking measures for the expansion of the electronic payments system using plastic cards. By 1 July 2005 the number of cards issued by 21 banks reached 1,150,620 and had grown by 744,866 cards compared to the beginning of the year. In the first half of 2005, commercial banks installed 8030 ATMs, which is 5173 units more than at the beginning of the year. During those six months the cash turnover in national currency using plastic cards accounted for UZS 57.6 billion in the country. Thus, in the first half of 2005, the amount of payment executed using plastic cards increased by more than 7 times. The quantity of transactions in the first half of 2005 accounted for more than UZS 3.2 million, an increase of 7.3 times.

The Discount Rate. In the first half of 2005 the discount rate of the CBU stabilized at the level of 16% annually. The discount rate of the CBU in the first half of 2005 was 4 percent lower than in the first half of 2004. This to a certain extent facilitated the reduction of interest rates on fixed-term deposits of legal entities and individuals in local and foreign currency in commercial banks (Table 1.3.1, Table 1.3.2).

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
04/II	20.0	20.6	11.9	32.2
05/I	16.0	21.0*	11.0*	31.0*
05/II	16.0	21.4*	10.8*	30.5*

Source: The CBU. *Estimates by the author

⁴ For more detail please see "Bankovskiy Vedomosti", issue 15, dated 6 April 2005.

Obligatory Reserve Requirements. In order to increase the efficiency of monetary policy instruments and facilitate lending activity, the Central Bank of Uzbekistan has changed the requirements for obligatory reserves deposited by commercial banks in the Central Bank from 1 February 2005. Specifically, the requirements for obligatory reserves for on-demand and fixed-term deposits in national currency were reduced from 20 to 15 percent annually and new requirements were put into effect for obligatory reserves of 5 percent of deposited obligations in foreign currency.

Open Market Transactions. Presently the most widespread open market instrument is the use of transactions with short-term treasury bills (GKO) and medium-term treasury bills (GSKO). During the first half of 2005 seven auction placements were conducted on the GKO market. The amount of external debt in terms of GKO decreased by 27.4% compared to the beginning of the year. The total declared amount of all GKO issues as of 1 July 2005 increased by 1.5 percent. The average weighted interest rate for GKO was 12.4 percent annually.

Table 1.3.2. Changes in Interest Rates for Deposits in Foreign Currency (in %)

Period	Average Weighted Interest Rate for Fixed-Term Deposits of Legal Entities in Foreign Currency	Average Weighted Interest Rate for Fixed-Term Deposits of Individuals in Foreign Currency
2000	4.1	3.6
2001	1.2	5.6
2002	2.5	8.6
2003	2.5	6.4
2004	2.5	5.6
04/I	2.5	6.0
04/II	2.5	5.8
05/I	2.5	4.9
05/II	2.5*	4.7*

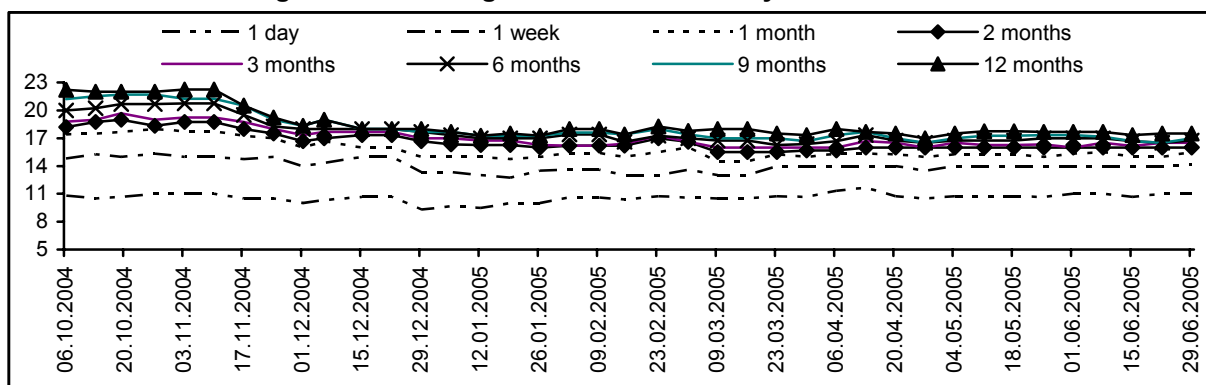
Source: The CBU. *Estimates by the author

Six auctions were conducted for the placement of GSKOs with 546 days maturity. The amount of external debt in GSKOs by 1 July 2005 increased by 42 percent compared to the beginning of the year. The total declared amount of all GSKO issues by 1 July 2005 increased by 40.14 percent. The average weighted interest rate for GSKOs was 13.0 percent annually.

Interbank Interest Rates. In addition to the discount rate there are other rates on the interbank market, including interest rate indices for interbank deposits (loans) in the national currency - UZIBOR, UZIBID and UZIAR. In May 2004, a system of rates for interbank cash assets – UZIBOR (Uzbekistan Interbank Offered Rate) – was introduced. This is the interbank rate of the selling bank for interbank deposits in Uzbek Soums. UZIBID and UZIAR were introduced at the beginning of 2005. UZIBID (Uzbekistan Interbank Bid Rate) is the interest rate at which banks are ready to attract funds on the interbank market of Uzbekistan, and UZIAR (Uzbekistan Interbank Average Rate) is the interbank average rate of the median for Uzbekistan, the average of the median between UZIBID and UZIBOR.

The monitoring of the UZIBOR, UZIBID and UZIAR indices is performed by "Banklararo Maslahat Xizmati" LLC, under the Association of Banks of Uzbekistan using DEPO MARKET software. The indices are calculated along eight various lines – overnight, one week, one month, two months, three months, six months, nine months and one year. At present seven banks (NBU, Asaka Bank, Pakhta Bank, GallaBank, Khalk-Bank, Capital Bank, Ipak Yuli Bank and RavnakBank) enter quotations on placement and attraction of interbank deposits for the above terms on a daily basis till 11:30 AM (Figure 1.3.1).

Figure 1.3.1. Changes in Interbank Money Market Indices



Source: "Business Vestnik Vostoka" newspaper

The Development of the Banking System. In the first half of 2005 the banking system of Uzbekistan underwent qualitative transformations. By 1 July 2005 the banking system comprised 29 commercial banks, including 3 state-owned, 9 private, 5 with foreign participation and 12 joint-stock commercial banks. The number of branches reached 792 units, which was 13 less than in the first half of 2004. This was preceded by the acquisition of AviaBank by Capital Bank, the merger of UzjilSberBank with Ipoteka Bank, the liquida-

tion of Business Bank and so forth. The network of mini-banks increased compared to the respective period of the previous year by 387 units and accounted for 1390 units.

Asset Transactions of Commercial Banks. As of 1 July 2005 the aggregate assets of commercial banks had grown by 18.6 percent compared to the respective indicator as of 1 July 2004 and accounted for UZS 5.472 billion.

Credit Transactions of Commercial Banks. Credit funds allocated by banks for the development of the real sector were mainly focused on the financing of priority projects and the support and development of small businesses and farmers. Specifically, in the first half of 2005 they allocated credit resources worth UZS 215.5 billion to small businesses and private entrepreneurs.

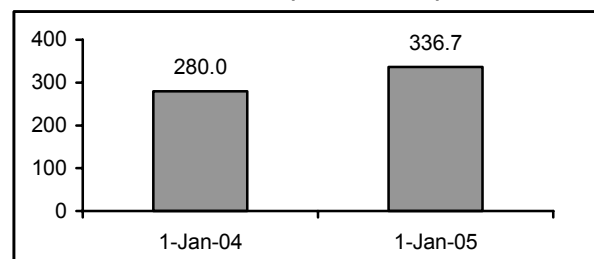
Transactions with Securities of Commercial Banks. The most developed segment of the securities market of commercial banks is the market of the securities issued by these banks. This is testified to by the fact that the share of banks' securities in the total turnover of Toshkent Stock Exchange accounted for 22.8 percent in June 2005. According to the results of the first half of 2005, among the most active players of this market were PakhtaBank, UzPromStroyBank, Ipoteka Bank, KhamkorBank, Asaka Bank, AlokaBank, Ipak Yuli Bank, GallaBank and so forth.

The leaders in the number of issues are AlokaBank, Ipak Yuli Bank and GallaBank, with 11 own issues each. However PakhtaBank remains the largest issuer. Its share in the total amount of issued shares of the banks accounted for 15.6 percent, followed by UzPromStroyBank with 12.7 percent and Asaka Bank with 11.6 percent

Transactions with Liabilities of Commercial Banks. By 1 July 2005 the balances on deposits of the population increased approximately by 31 percent compared to the respective indicator as of 1 July 2004 and reached UZS 366.7 billion. This was facilitated by the measures implemented by the CBU, including the decrease of the discount rate, the obligatory reserve requirements in the national currency, as well as efforts targeted towards decreasing the extra-bank turnover of cash (expansion of transactions using plastic cards, introduction of the procedure of monthly assessment of the repayability of cash by territory and so forth) (Figure 1.3.2).

The Capitalization of Banks. While the aggregate capital of banks by 1 July 2004 amounted to UZS 835 billion, by 1 July 2005 it had reached UZS 862 billion. By 1 July 2005 there were 20 credit unions in Uzbekistan. In addition to lending transactions, credit unions may open fixed-term and savings deposits. The maturity of fixed-term deposits in most cases ranges from 15 to 720 days, while the interest rates vary from 14 to 60 percent annually depending on the term. The maturity of savings deposits in most cases is determined on a contractual basis, while the interest rates vary from 3 to 36 percent, depending on the term.⁵

Figure 1.3.2. Cash Deposits of the Population in Banks (UZS billion)



Source: the CBU.

In general, we may note that in the first half of 2005 the Central Bank made a significant step towards opening possibilities for commercial banks to expand their credit transactions by reducing obligatory reserves requirements. This will allow commercial banks to direct their free cash funds primarily to the development of the real sector of the economy. In addition, the development of the ATM network and the growth of the number of transactions using plastic cards will enable the CBU to decrease the extra-bank circulation of cash. The interbank market of deposits has played an important role in supporting the liquidity of commercial banks, where dynamic growth among the players is observed.

The development of the banking sector was characterized by the consolidation of banking capital through mergers and acquisitions of selected banks, aimed at the optimization of their operations in providing services to their customers, the growth of the attractiveness of bank deposits through the increase of interest rates and the gradual increase of the commercial banks' capitalization. The growth of the network of mini-banks through the opening of new outlets in rural areas has facilitated the provision of banking services to the population, and has considerably affected the growth in bank deposits by the population.

⁵ See "Bankovskiye Vedomosti" newspaper, issue 29, dated 20 July 2005.

1.4. Foreign Exchange Policy

The foreign exchange policy of the CBU in the first half of 2005, in line with the "Guidelines for Monetary Policy for 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.

By 1 July 2005, the players on the internal hard currency market were the Central Bank and 28 commercial banks licensed by the CBU to perform foreign currency transactions. We would like to emphasize that at present, the commercial banks buy and sell foreign currency to each other at the over-the-counter (OTC) foreign exchange rate, based on the demand for the specific foreign currency. In addition, the commercial banks buy and sell foreign currency in cash through their specialized exchange offices at the rates established on the basis of the OTC foreign exchange rate within the limits established by Article VIII of the Agreement with the IMF. The exchange rates established by the CBU, on the basis of average indicators of five-day trading on the OTC market, are applied for accounting, statistical and other reporting of enterprises and organizations as well as for the computation of customs charges on the territory of the Republic of Uzbekistan.

According to the results of the first half of 2005, the nominal exchange rate of the UZS to the USD has decreased by 5.4 percent – by 3.2 percent compared to the previous quarter and by 9.3 percent compared to the respective indicator of 2004. The exchange rate of foreign cash has decreased by 5.3, 3.2 and 9.4 percent respectively (Table 1.4.1). This is caused by the regulation of the exchange rate by the CBU, taking into account and leveling the seasonal fluctuations towards the USD. In addition, the CBU maintains gold and foreign currency reserves at a level sufficient for performing import transactions.

Table 1.4.1. Exchange Rate of the UZS to the USD (end of the period)

Period	CBU Exchange Rate (UZS/USD)	Changes to the Previous Period (in %)	Exchange Rate of Foreign Currency in Cash (UZS/USD)	Changes to the Previous Period (in %)
2000	325	132.1	725	269.9
2001	688	111.7	892	23
2002	970	41.0	1030	15.5
2003	980	1.0	984	-4.5
2004	1058	8.0	1061.8	7.9
04/I	1000	2.0	1004.5	2.1
04/II	1020	2.0	1022	1.7
05/I	1080	2.1	1083.8	2.1
05/II	1115	3.2	1118.1	3.2

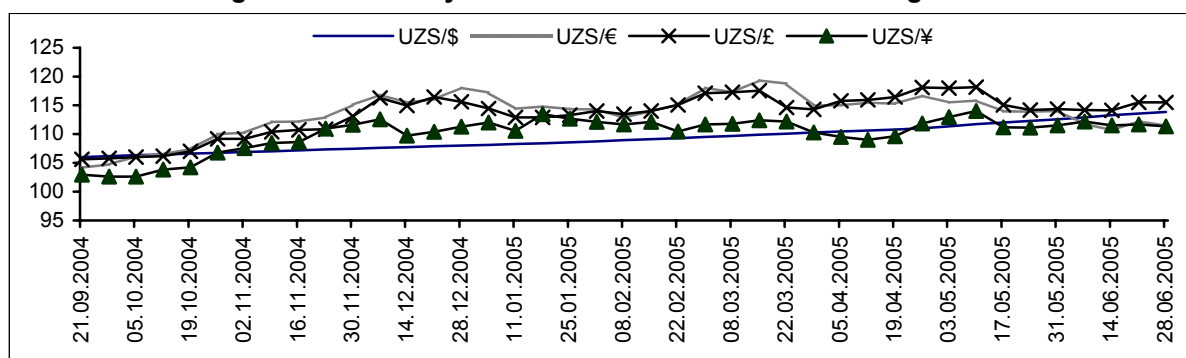
Source: "Bankovskiye Vedomosti" newspaper, estimates by the authors.

The Nominal Exchange Rate. In the first half of 2005 the exchange rate of the national currency to the US dollar was devalued at a steady pace, while the dynamics of the national currency exchange rate to other reserve currencies was characterized by positive changes (Figure 1.4.1). According to the results of the first half of 2005, the UZS has strengthened by 5.6 percent to the Euro, by 0.1 percent to the British Pound and remains almost unchanged towards the Japanese Yen (strengthened by 0.03 percent). The strengthening of the exchange rate to the Euro, British Pound and Yen is related to the world financial market situation, specifically to the strengthening of the US Dollar. This was facilitated by the shift of the foreign exchange policy of the USA from the current management of the account deficit to a change in the rate on federal funds by the Federal Reserve System.⁶ By the end of the first half of 2005 the rate was 3.25 percent, an increase of 1 percent since the beginning of the year. The reason for the increase of this rate was increased inflation expectations in the USA.

The Real Exchange Rate. According to the results of the first half of 2005 there was a decrease in the real exchange rate of the national currency to the USD by 1.2 percent and a respective increase to the Euro by 9.2 percent, the British Pound by 6.2 percent and the Japanese Yen by 4.0 percent (Figure 1.4.2). 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 reserve currencies is facilitating price competition of local products on international markets. The decrease of the real exchange rate of the UZS to the USD and its growth to other reserve currencies was also caused by the strengthening of the USD position on the international forex market and the comparative weakening of the other currencies.

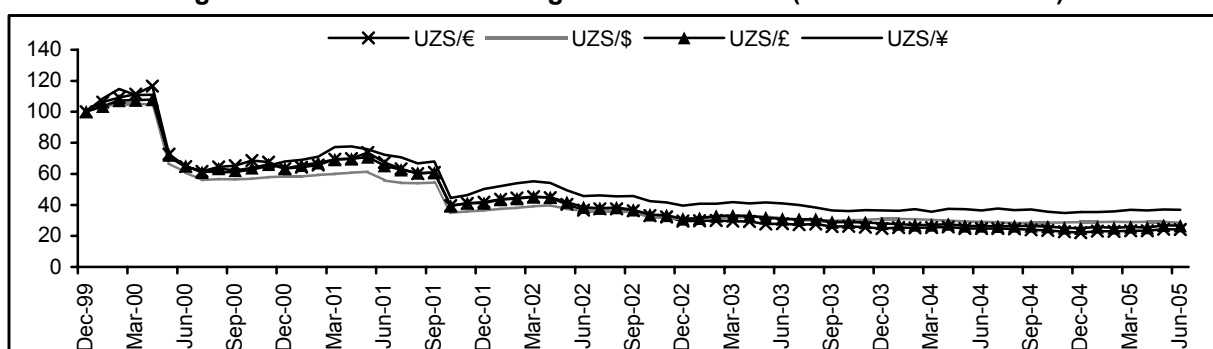
⁶ The current account deficit reached its highest recorded level of USD 195 billion (6.4 percent of GDP) in the first quarter of 2005.

Figure 1.4.1. The Dynamics of the UZS Nominal Exchange Rate



Source: "Bankovskiye Vedomosti" newspaper, estimates by the authors.

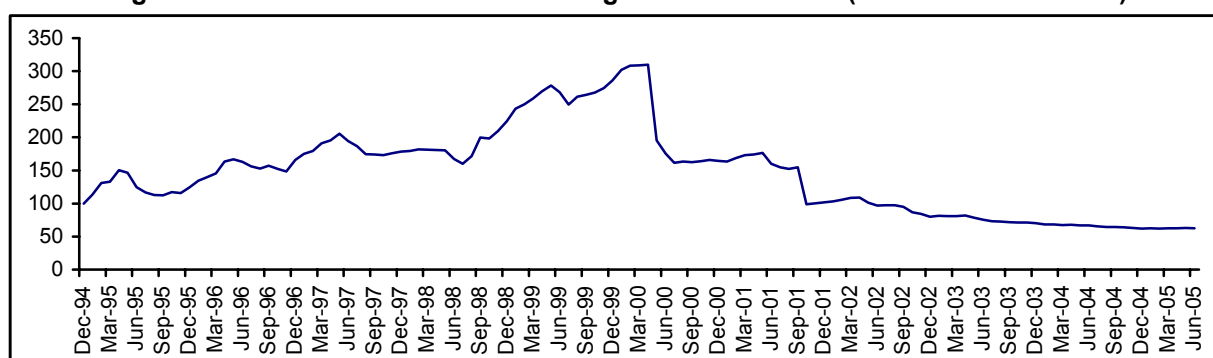
Figure 1.4.2. The Real Exchange Rate of the UZS (December 1994=100)



Source: International Financial Statistics (IFS), IMF; "Bankovskiye Vedomosti" newspaper, estimates by the authors.

The Real Effective Exchange Rate. According to the results of the first half of 2005, the real effective exchange rate of the UZS has increased by 0.6 percent. This growth was facilitated by the relatively slow devaluation of the UZS-USD exchange rate as well as the strengthening of the nominal exchange rate of the UZS to the currencies of the major trade partners of Uzbekistan. This indicates the strengthened purchasing power of the national currency of Uzbekistan. Russia, the USA, the UK, Germany, Korea, China, Turkey, Ukraine and Kazakhstan remain the key trade partners of Uzbekistan.

Figure 1.4.3. The Real Effective Exchange Rate of the UZS (December 1994 =100)



Source: International Financial Statistics (IFS), IMF; "Bankovskiye Vedomosti" newspaper, estimates by the authors.

The sustainable operation of the foreign exchange market and the moderate devaluation of the UZS-USD exchange rate to a certain extent facilitated the growth in export of goods and services, ensuring a trade balance surplus and an increase in the gold and hard currency reserves of Uzbekistan. This, in turn, created the conditions for a decrease in external borrowings and the stabilization of hard currency regulation and money circulation within the country.

1.5. Prices and Inflation

As a result of the continuing tight monetary policy of the CBU, the total growth of prices in the consumer sector did not surpass the forecast target in the first half of 2005 (in June 2005 the increase over December of the previous year was 3.3%). The growth of tariffs for fee-based services continues to have a considerable impact on the growth of inflation. However, a relative decrease in the impact of this indicator on the growth

of inflation (from 10.0 percent in the first half of 2004 to 7.2 percent in the first half of 2005) was observed. This occurred against the background of the growth in prices for foodstuffs (from 4.4% to 3.2%) and the decrease in prices for non-foodstuffs (from 2.4% to 1.1%) (Table 1.5.1, Table 1.5.2. and Figure 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)

Periods	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
04/II	-1.3	-9.1	6.6	25.6
05/I	4.2	0.5	4.5	19.2
05/II	6.8	5.0	3.9	18.2

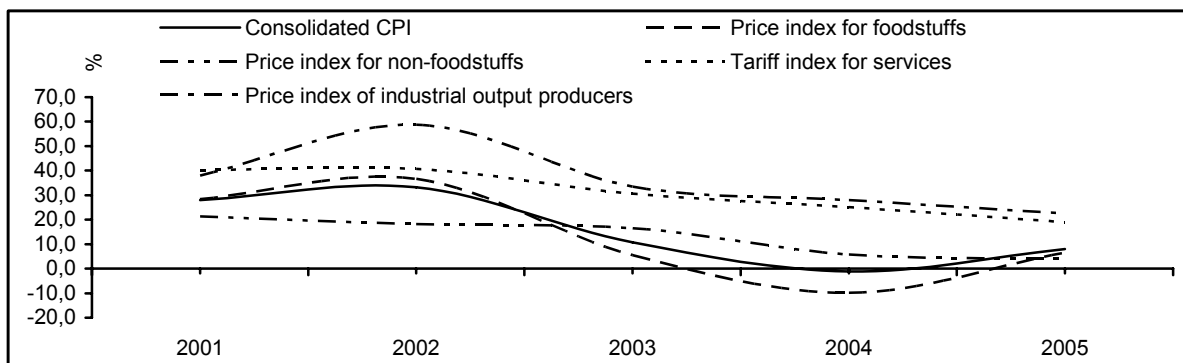
Source: The State Statistics Committee of Uzbekistan

Table 1.5.2. Inflation Level during the First Halves of 2004 and 2005 (growth of prices in %)

	Average Monthly Level		To December of the Previous Year	
	2004	2005	2004	2005
Consumer Price Index	-0.1	0.5	-0.8	3.3
Foodstuffs	-0.7	0.5	-4.4	3.2
Non-foodstuffs	0.4	0.2	2.4	1.1
Services	1.6	1.2	10.0	7.2

Source: The State Statistics Committee of Uzbekistan

Figure 1.5.1. Increase in Prices from June of Given Year to June of Previous Year 2001-2005



Source: The State Statistics Committee of Uzbekistan

During the first half of 2005 the increase in prices (tariffs) according to the consumer price index ranged from 1.22 percent (in Andijan Region) to 4.83 percent (in Tashkent City).

This fluctuation was caused mainly by two factors which accounted 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 33.9 percent and tariffs for utility services by 15.5 percent, while in Andijan the respective indicators were minus 1.2 percent and 11.8 percent.

Table 1.5.3. Inflation Level in Uzbekistan in the First Half of 2005 by Region (%)

Region	Price Increase	Average Monthly
The Republic of Uzbekistan	3.34	0.55
Andijan	1.22	0.20
Namangan	1.45	0.24
Fergana	1.92	0.32
Kashkadarya	2.49	0.41
Samarkand	2.70	0.44
Surkhandarya	2.79	0.46
Tashkent	2.87	0.47
Bukhara	3.20	0.53
The Republic of Karakalpakstan	3.21	0.53
Navoi	3.67	0.60
Sirdarya	3.82	0.63
Jizzakh	4.04	0.66
Khorezm	4.46	0.73
Tashkent City	4.83	0.79

Source: The State Statistics Committee of Uzbekistan

An analysis of the inflation processes in the economy of the Republic of Uzbekistan during the first half of 2005 indicated that the largest impact on the inflation level was caused by the growth of prices for seasonal goods (43.3 percent) and inflation of expenses (31.6 percent) (Table 1.5.4).

Factor analysis of the growth of wholesale producer prices for industrial goods indicated that the increase in prices for power resources (54.3 percent), followed by the devaluation of the OTC exchange rate (10.3 percent) and the growth of transportation costs (11.7 percent) had the most significant impact on inflation in the real sector in the first half of 2005 (Table 1.5.5).

Fruit and vegetables are a typical example of seasonal goods in Uzbekistan and the seasonal increase or decrease in prices for such goods from year to year is characterized by monthly shifts depending on climatic and weather conditions. This can be illustrated by the example of the last two years. While in the first half of 2004 there was a decrease in prices for fruit and vegetables by an average of 26.5 percent, in the respective period of the current year the opposite trend was observed – an increase in prices by 13.3 percent.

The growth of prices for imported goods was affected by the changes in the OTC exchange rate used for the computation of customs charges. In the first half of 2005 the OTC exchange rate was devalued by 5.4 percent.

In line with the Economic Reform Program, subsidies in the housing and utilities sector were gradually decreased, which entailed a rise in tariffs for central heating by 25.5 percent, natural gas (supplied by pipeline) by 18.0 percent, potable water by 14.1 percent and electric power by 12.0 percent.

In the CIS countries in the first half of 2005 the inflation level based on CPI ranged from 0.7 percent in Georgia to 7.8 percent in Russia. In the countries of Central Asia this indicator was at approximately the same level: 3.7 percent in Kazakhstan, 4.5 percent in Kyrgyzstan and almost 4.0 percent in Tajikistan. As seen from the data presented here, the level of inflation in Uzbekistan remains relatively low compared to the other countries of the CIS, except Armenia and Georgia.

Table 1.5.4. Factor Analysis of Inflation in the Consumer Sector during the First Half of 2004-2005

	Impact on CPI, in %	In percent of the total
Total impact	3.3	100.0
Inflationary expectations	0.4	10.9
Money supply growth	0.1	3.9
Inflation of expenses	1.1	31.6
Changes in the OTC exchange rate	0.1	3.5
Growth of wages	0.1	2.1
Growth of prices for seasonal goods	1.4	43.3
Other factors	0.2	4.7

Source: Ministry of Economy of Uzbekistan.

Table 1.5.5. Factor Analysis of Inflation in the Real Sector during the First Half of 2005

	Impact on the CPI (percent)	In percent of the total
All factors	9.8	100.0
Increase of tariffs for power resources	5.3	54.3
The OTC exchange rate	1.0	10.3
Wages	0.6	5.8
Transportation costs	1.1	11.7
Other factors	1.7	17.7

Source: Ministry of Economy of Uzbekistan.

Table 1.5.6. Inflation in the CIS Countries in the First Half of 2005 (in %)

Country	Price Increase	Average Monthly
Azerbaijan	4.89	0.80
Armenia	1.45	0.24
Belarus	3.96	0.65
Georgia	0.66	0.11
Kazakhstan	3.65	0.60
Kyrgyzstan	4.46	0.73
Moldova	4.77	0.78
Russia	7.83	1.26
Tajikistan	3.95	0.65
Uzbekistan	3.34	0.55
Ukraine	6.36	1.03

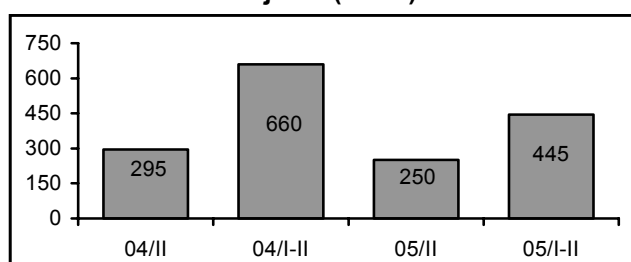
Source: Statistics Committee of the CIS and estimates by the authors.

2. Institutional and Market Transformations

2.1. Denationalization and Privatization, Types of Ownership

In the first half of 2005, the State Property Committee, together with other ministries, agencies and economic associations, carried out intensive preparatory activity towards the sale of state property facilities included in the Program of Denationalization and Privatization of Enterprises for 2005-2006¹ to local and foreign investors. Out of 1002 facilities subject to sale in 2005, the starting selling price was assessed for 882. The State Committee on conducting tender bids when selling state property to foreign investors held 6 meetings, at which terms and conditions were defined for the sale of state-owned and earlier unplaced share holdings of several joint-stock companies; the shares of 5 joint-stock companies (Akhangarantsement", "Toj metal" etc.) and one entire enterprise ("Samarkand tea-packing factory") were sold at tender bids. The territorial committees on selling low-profitable, loss-generating, insolvent enterprises and facilities with low liquidity at zero redemption value developed the terms and conditions for the transferral to private property on a competitive basis of 104 production enterprises and social infrastructure facilities out of 115 envisaged by the Program.

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



Source: State Property Committee of Uzbekistan

In the first half of 2005, in accordance with the approved schedules of denationalization and privatization on the whole, 445 production enterprises and enterprises of social infrastructure, including 250 enterprises and facilities in the 2nd quarter (Graph 2.1.1 and Annex 2.1.1) were transferred into non-state-owned types of property, which was 67.4% and 84.7% respectively of the numbers transferred in the corresponding period of the previous year.

The reduction in the number of facilities transformed into non-state-owned property is caused by two reasons. Firstly, compared with similar programs of previous years, a considerably smaller number of enterprises subject to transformation into non-state-owned property were included in the privatization program for 2005-2006, as this process is approaching its end. Secondly, large-scale offers for bids on newly privatized facilities began at the end of the 2nd quarter of 2005 after the completion of the respective preparatory activity.

In the sectoral context, the largest number of enterprises privatized was in the agriculture and water industry (77), the oil and gas industry (59), health-care (45), education (30), and in the territorial context in the city of Tashkent (72), the Surkhandarya (50) and Tashkent (43) regions, and the Republic of Karakalpakstan (46).

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

Periods	Total founded	Including		
		Joint-stock companies	Limited liability companies	Private enterprises
04/II	295	-	44	251
04/I-II	660	13	98	549
05/II	250	-	29	221
05/I-II	445	1	40	404

Source: State Property Committee of Uzbekistan

The largest privatized facility is the Trade and Exhibition Center, which has been transformed into an open joint-stock company "Uzexpomarkaz milliy ko'rgazma kompaniyasi". 400 limited liability companies and 404 private (having a sole owner) enterprises were established on the basis of other privatized facilities (Table 2.1.1).

One of the most important tasks of the Program of Denationalization and Privatization of enterprises for 2005 – 2006 is the completion of the reduction of the number of joint stock companies and limited liability companies with state participation in their authorized funds, carried out in pursuance of the Decree of the President of the Republic of Uzbekistan of 24 January 2003 "On Measures for the Radical Increase of the Share and Significance of the Private Sector in the Economy of Uzbekistan" based on the principle of minimum sufficiency.

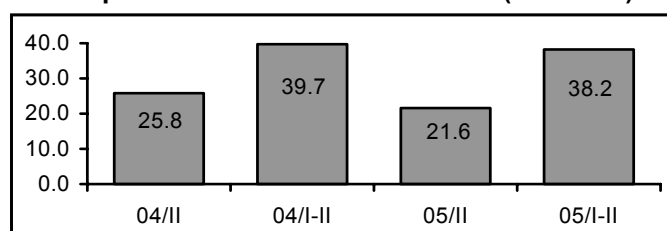
In the first half of 2005, state-owned share holdings of 82 joint stock companies and shares in the authorized funds of 85 limited liability companies were sold to domestic and foreign investors. All of these shares and the share-holdings of 46 joint stock companies were sold at bid auctions under a new mechanism of step-by-step reduction of the starting selling price.

¹ The list of the facilities included in the new Program is examined in the analytical review "Uzbekistan Economy in the 1st quarter 2005".

34 low-profitable, loss-generating and insolvent production enterprises and infrastructure facilities were handed over to private individuals on a competitive basis at zero redemption value on the condition that the new owners accept investment liabilities aimed at the financial rehabilitation of these enterprises and facilities. The total amount of investment liabilities accepted by investors was 3.7 billion Soum, which exceeded by 1.7 times the minimum level established by the State Property Committee.

In the first half of 2005, 38.2 billion Soum payments were made to the special accounts of the State Property Committee from the sale of state facilities, including 21.6 billion Soum in the 2nd quarter (Graph 2.1.2). These indicators in comparison with the proceeds from the corresponding periods of last year constituted 96.2% and 83.7% respectively.

Graph 2.1.2 Privatization Proceeds (bn Soum)



Source: State Property Committee of Uzbekistan

In the total proceeds received over the half-year concerned, proceeds from the sale of state shareholdings made up 26.8 billion Soum (70.1%), from real estate – 9.5 billion Soum (24.9%), from shares in the authorized funds of limited liability companies – 1.0 billion Soum (2.6%) and from other property – 0.9 billion Soum (2.4%).

Proceeds resulting from privatization are allocated on a monthly basis in accordance with the procedures stated for their utilization. In the first place, proceeds from privatization are allocated according to special governmental decisions. In the past three years, it was decided to use 100% of proceeds from the sale of shares of power industry enterprises, the chemical industry and the municipal economy, minus transaction costs, for the restructuring of these enterprises.

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

Directions of Proceeds Distribution	04/II	04/I-II	05/II	05/I-II
State budget	40.9	49.8	24.3	25.6
Local budgets	19.3	22.3	5.4	9.5
Chamber of Commerce and Industry*	-	-	0.8	0.9
Enterprises under Privatization	3.5	4.0	0.4	1.1
Based on special governmental decisions, to economic associations, enterprises and organizations	36.3	23.9	69.1	62.9
Total	100	100	100	100

Source: State Property Committee of Uzbekistan

*the Chamber of Commerce and Industry was created in 2004 and, starting from March of the current year it receives 5% of privatization proceeds, in addition to proceeds distributed on the basis of special governmental decisions.

Other parts of the proceeds arriving in the special accounts of the State Property Committee are transferred to state and local budgets, the Chamber of Commerce and Industry and those same privatized enterprises in whose authorized funds state participation has been maintained for the purposes of technical re-equipment and modernization in accordance with the norms approved by the government.

In the first half of 2005, the State Property Committee transferred 34.87 billion Soum to various organizations and agencies, including 21.9 billion Soum based on special governmental decisions. Growth rates compared with the corresponding periods of the previous year accounted for 6.4% and 180.8% respectively. At the same time, the share of funds directed to organizations and enterprises on the basis of special governmental decisions increased from 23.9% to 62.9% of the total amount of funds allocated (Table 2.1.2). As a result, the shares allocated to the republican budget and local budgets fell by 24.2 p.p. and 12.8 p.p. respectively.

2.2. Market Infrastructure

As of 1st July 2005, the following were registered in the State Securities Register:

- 13645 issues of shares in the total amount of 3266.4 billion Soum, including 86 issues in the first half of 2005 for 156.2 billion Soum;
- 100 issues of corporate bonds of 70 issuers in the amount of 56.3 billion Soum, including 11 issues in the amount of 5.3 billion Soum in the first half of 2005.

The total sale of shares in the securities market for the first half of 2005 reached 65.0 billion Soum, including 43.7 billion Soum in the 2nd quarter, which exceeded sales for the corresponding periods of the previous year by 24.1% and 98.6% respectively. At the same time, an increase in sales was observed both on the primary and the secondary securities markets (Table 2.2.1 and Annex 2.2.1).

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

Periods of time	Primary market		Secondary market		Total	
	Amount	In % to total	Amount	In % to total	Amount	In % to total
04/II	11.7	53.2	10.3	46.8	22.0	100
04/I-II	32.1	61.2	20.3	38.8	52.4	100
05/II	28.3	64.8	15.4	35.2	43.7	100
05/I-II	38.4	59.1	26.6	40.9	65.0	100

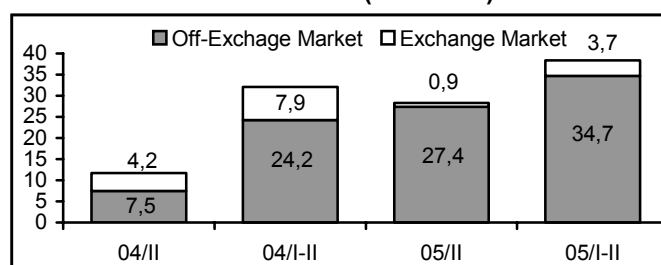
Source: Center for Coordination and Control of Operation of the Securities Market at the State Property Committee

Turnover on the primary securities market resulted predominantly from sales of shares of privatized enterprises and in the first half of 2005 reached 38.4 billion Soum, including 28.3 billion Soum in the 2nd quarter (Graph 2.2.1). Growth rates compared with the corresponding periods of the previous year were 19.6% and 141.9% respectively.

The entire increase in the primary securities market turnover was ensured by a 3.7 times increase in the market's off-exchange segment in the 2nd quarter (Graph 2.2.1). In total, purchase and sale transactions worth 34.7 billion Soum were concluded off the stock exchange, including 23.7 billion Soum through the holding of tender bids and 11.0 billion Soum through direct negotiations with investors.

In the first half of 2005, in the exchange segment of the primary securities market, purchase and sale transactions were concluded for 3.7 billion Soum, including 0.9 billion Soum in the 2nd quarter, which constituted 46.8% and 21.4% respectively of the sales in the corresponding periods of the previous year.

Changes in sales volumes which occurred in the segments of the primary securities market significantly affected the proportion of these segments in the total sales of shares of privatized enterprises. The share of the exchange segment fell from 24.6% in the first half of 2004 to 9.6% in the half-year concerned, and the share of the off-exchange segment rose from 75.4% to 90.4%.

Graph 2.2.1. Sale of Shares on the Primary Stock Market (bn Soum)


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

The decrease in the indicator of exchange trade took place as a result of an almost two-fold reduction in the number of shares of privatized enterprises offered by the government at auction for the first time. As a result of the completion by the beginning of the 2nd half of the current year of work on preparing for auction the bids of many state shareholdings included in the new Program of Denationalization and Privatization of Enterprises, a considerable increase in the turnover of the exchange segment of the primary market is expected in the next year and a half.

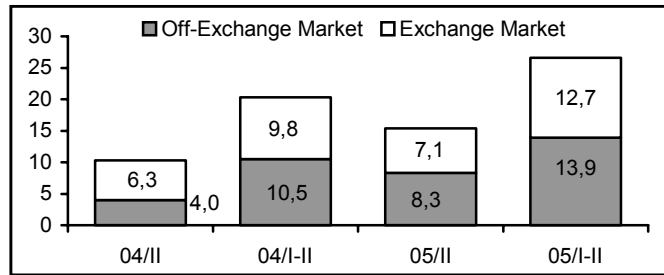
More than 3/4 of the total turnover of the primary securities market was provided by proceeds from the sale of shares of the enterprises of the joint-stock company "Uzqurilishmateriali" (59.8%), the joint-stock companies "Uzbekenergo" (6.4%) and "Uzbekengilsanoat" (5.2%), and the Ministry of Agriculture and Water Industry (5.9%).

A number of governmental decisions taken over recent years and aimed at improving the investment climate, including the Decree of the President of the Republic of Uzbekistan of 11 April 2005 "On Additional Measures for Stimulating the Attraction of Direct Foreign Investments" have facilitated the active participation of foreign investors in purchasing shares placed for the first time. Their share in the total amount of purchase and sale transactions concluded in the first half of the current year on the primary securities market was 71.2%, including 90.0% in the 2nd quarter. At the same time, the semi-annual indicator remained almost at the level of the corresponding period of the previous year, and the indicator of the 2nd quarter grew by 8.4 p.p.

The shares of various categories of small investors in the total amount of transactions concluded on the primary securities market were: small business enterprises 13.8%, economic associations and large enterprises 9.0%, investment mediators 3.5%, private individuals 2.1% and commercial banks 0.4%.

A sustainable trend of rising sales has been observed on the secondary securities market (Graph 2.2.2 and Annex 2.2.1). In the first half of 2005, purchase-and-sale transactions on shares of 576 joint-stock companies were completed; of these, 302 were in the exchange and 274 in the off-exchange segments of this market. Total sales reached 26.6 billion Soum, including 15.4 billion Soum in the 2nd quarter. Growth rates compared with the corresponding periods of the previous year were 31.0% and 49.5% respectively.

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



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

Over the half-year concerned, shares were sold in bid auctions for 12.7 billion Soum, and on the off-exchange market for 13.9 billion Soum (Graph 2.2.2), which exceeded the indicators of the corresponding periods of the previous year by 29.6% and 32.4% respectively.

Due to minor differences in the growth rates of sales on the exchange and off-exchange segments of the secondary market, their shares in the total shares sold on the secondary market remained practically unchanged, and were 47.7% and 52.3% respectively in the first half of 2005. Compared with the similar period of the previous year the following occurred: on the exchange segment – a decrease in 0.5 p.p.; on the off-exchange segment – an increase in 0.6 p.p.

The largest share in the total turnover of the secondary securities market was made up of shares of the enterprises of the joint-stock companies “Uzqurilishmateriali” (19.2%) and “Uzagromashservis” (4.4%), the National “Uzbekneftegaz” holding company (4.8%) and commercial banks (18.9%). In the territorial context the greatest number of transactions for the sale of shares of joint-stock companies was concluded in the city of Tashkent (55.6%) and in Tashkent (20.4%) and Andijan (9.4%) regions. The main participants on the secondary securities market are private individuals. In the first half of 2005 they bought shares for 20.4 billion Soum, which made up 76.6% of total sales and was 5.8 billion Soum (39.7%) more than in the first half of the previous year. These indicators illustrate the process of reallocating initially placed shares of privatized enterprises among private individuals which is occurring in the country.

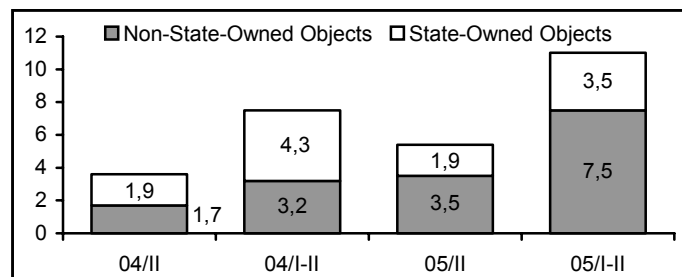
National legal entities and foreign investors bought shares on the secondary securities market for 6.2 billion Soum or 8.8% more than in the similar period of the previous year. Sales proceeds in hard currency constituted 5.7 million USD.

A tendency is being observed of an expansion in the circulation on the securities market of corporate bonds issued by a number of joint-stock companies and limited liability companies attractive for investors (“Almaliq Mining and Smelting Industrial Complex”, “Amantaytau Goldfields” etc). In the first half of 2005 the total turnover of purchase-sale transactions of these bonds exceeded 13.7 billion Soum, which is 7.9% more than in the corresponding period of the previous year.

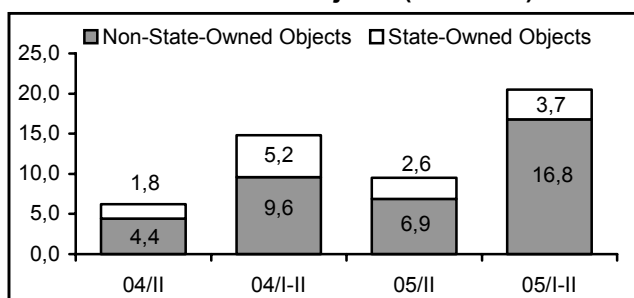
The overwhelming share of transactions on the purchase and sale of corporate bonds was concluded off-exchange: on the primary market for 6.8 billion Soum and on the secondary market for 6.7 billion Soum. Growth rates compared with the corresponding periods of the previous year were respectively 4.5% and 9.2%. At the same time, the number of transactions concluded on the exchange market remained low, at 160 million Soum, and grew over the corresponding period of the previous year by 4.5%.

In the first half of 2005, a total of 11.0 thousand real estate objects were sold for 20.5 billion Soum, including 5.4 thousand objects for 9.5 billion Soum in the 2nd quarter (Graphs 2.2.3 and 2.2.4) at the Republican Real Estate Exchange and its branches (hereinafter the RREE), through exchange and off-exchange (competitive bid) auctions. Growth rates compared with the corresponding periods of the previous year were respectively: for the number of the objects sold – 46.7% and 50.0%, and for the amount of sales proceeds – 38.5% and 53.2%.

Graph 2.2.3. Number of Objects Sold through the RREE (thousand units)



Source: Republican Real Estate Exchange

Graph 2.2.4. Proceeds from the Sale of Real Estate Objects (bn Soum)


Source: Republican Real Estate Exchange

The tendency remained of the predominant share of the total turnover of the RREE resulting from the sale proceeds of real estate at the exchange auction. Over the half-year concerned, real estate purchase and sale transactions were concluded at the exchange auction for 16.9 billion Soum (82.4%), and off-exchange – for 3.6 billion Soum (17.6%).

Of the total amount of real estate sold in the first half of 2005, 7.5 thousand units (68.1%) were offered at auction by private legal entities and individuals, including 3.5 thousand units (64.8%) in the 2nd quarter. Proceeds from the sale of

private property reached 16.8 billion Soum (81.9%), including 6.9 billion Soum (72.6%) in the 2nd quarter. Growth rates compared with the corresponding periods of the previous year were, respectively, 134.4% and 105.9% for the number of objects sold and 75.0% and 56.8% for the amount of sales proceeds. The accelerated growth rates of relative quantitative indicators as opposed to absolute figures occurred as a result of the increasing share of small objects with low prices in the structure of the property sold. The average selling price of an object in the first half of 2005 was 2.2 million Soum, including 2.0 million Soum in the 2nd quarter, which was lower than in the similar periods of the previous year by 26.7% and 23.1% respectively. In the first half of 2005, 3.5 thousand units of state real estate were sold for 3.7 billion Soum (Graphs 2.2.3. and 2.2.4.) through the RREE, which was 81.4% and 71.1% respectively of the level of sales in the corresponding period of the previous year.

The decrease in the number of sales occurred due to the small number of state objects being offered at auction in the 1st quarter of the current year, which were not included in the previous year. The auction of new large objects included in the Program of Denationalization and Privatization for 2005-2006 was begun in April of the current year. As a result, the same number of objects (1.9 thousand units) was sold in the 2nd quarter of 2005 as in that quarter of the previous year, for a growth in total sale proceeds of 44.4%, totaling 2.6 billion Soum.

In the total quantity of real estate sold through the RREE, agriculture and water industry facilities (stock buildings, poultry farms, etc) formed the largest share. In total, in the first half of 2005, 4278 objects were sold for 5183 million Soum, which exceeded the sales amount in the corresponding period of the previous year by 3.6 and 2.3 times respectively (Annex 2.2.2). As a result, the share of these objects in the quantitative structure of property sold through the RREE grew by 22.9 p.p. and in the cost structure by 10.2 p.p. (Table 2.2.2.)

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

Types of Property	2004/II	2004/I-II	2005/II	2005/I-II
Construction in Progress:				
Quantity	6.5	5.6	5.6	4.6
Amount	4.3	4.1	3.2	4.0
Commercial, Consumer Services and Social Infrastructure Objects:				
Quantity	11.0	10.8	9.1	9.5
Amount	27.1	35.1	33.8	26.1
Objects of Agriculture and Water Industry				
Quantity	15.2	15.8	33.0	38.7
Amount	20.1	15.0	18.6	25.2
Land Plots:				
Quantity	40.4	48.5	27.8	26.0
Amount	3.3	2.5	1.6	1.3
Residential Buildings and Non-Residential Premises, Other Property:				
Quantity	26.9	19.3	24.5	21.2
Amount	45.2	43.3	42.8	43.4
Total:				
Quantity	100	100	100	100
Amount	100	100	100	100

Source: Republican Real Estate Exchange

The trend remained of the larger share of turnover of the RREE (43.4%) being formed by proceeds from the sale of residential and non-residential premises and other property. In total, over the half-year concerned

2342 objects of such type were sold for 8911 million Soum. Growth rates were 62.2% and 39.1% respectively (Annex 2.2.2).

As a result of accelerating growth rates of quantitative and cost indicators for the sale of the above types of property offered at auction by predominantly private individuals, there was a decrease in the quantitative and cost structure of trade turnover at the RREE of shares of other types property, including trade, consumer services and social infrastructure facilities. 1053 units of these types of property were sold in the first half of 2005 for 5369 million Soum. Growth rates compared with the same half of the previous year were 29.8% and 3.4% respectively. At the same time, the share of these types of real estate decreased in the quantitative structure of property sold through the RREE by 1.3 p.p., and in the cost structure by 9.0 p.p. (Table 2.2.2).

506 objects with construction still in progress were sold for 815 million Soum, which exceeded the levels of these indicators of the previous year by 21.1% and 32.7% respectively. However, due to the small amount of such objects sold, their share in the quantitative and cost structure of the property sold through the RREE, remained at a low level, equaling 4.6% and 4.0% respectively.

The sale of the right to life-long heritable tenure of land plots meant for individual housing construction continued through the RREE. In total, the right to 2873 land plots was sold for 260 million Soum. The number of land plots decreased in comparison with the first half of last year by 760 units (20.9%), and the proceeds from sale of the right to these plots by 102 million Soum, which was related with the offering at auction of fewer of these plots by local authorities. As a result of this and also of the rise in sales of other types of property, the share of land plots in the quantitative structure of property sold through the RREE fell by 22.5 p.p. and in the cost structure by 1.2 p.p. (Table 2.2.2.).

Apart from real estate, since 2004 the RREE has been selling shares in authorized funds of limited liability companies offered for auction by the government, private enterprises and individuals. In the first half of 2005, shares in the authorized funds of 231 limited liability companies were sold for 957 million Soum, including shares offered for sale by the government – 85 companies for 897 million Soum, and private individuals – 146 companies for 60 million Soum.

With regard to state shares, an almost two-fold reduction was observed in comparison with the same period of the previous year in the quantitative and cost indicators of sale, which is explained by the corresponding reduction in the number of these properties offered for sale. At the same time, the quantitative indicator of shares in the authorized funds of public liability companies offered at auction by private individuals grew 9.7 times. However, total proceeds from the sales of shares by private individuals made up only 57.1% of this indicator in the 2nd quarter of the previous year.

The large increase in the quantitative indicator, while the cost indicator of sales decreased, was caused by the fact that last year when the RREE had just begun providing services for the sale of shares in the authorized funds of limited liability companies, primarily large share holdings were sold (20% and more of the authorized funds), offered to auction by private legal entities. This year, there was a sharp increase in the number of private individuals offering small share holdings at auction (3-5% and less of the authorized funds) which they had purchased in the process of privatization of state enterprises. This is demonstrated by the average selling prices of these properties. While in the first half of 2004, the average selling price of a holding in the authorized funds of a public liability company offered at auction by private individuals was 7,000 thousand Soum, in the same period of 2005, it was 411 thousand Soum.

2.3. Small Entrepreneurship

The development of the private sector and of small entrepreneurship is the highest priority in the intensification of market reforms in Uzbekistan. The Government of the Republic has approved a number of important decrees and resolutions aimed at improving the normative and legal base for the development of entrepreneurship,¹ strengthening its legal protection, reducing the tax burden and simplifying the system of paying taxes and submitting reports.

¹ In June 2005, the President of the country approved decrees and resolutions which are of great importance for creating a favorable entrepreneurial environment:

The Decree of the President of the Republic of Uzbekistan "On Measures for Further Improvement of the System of Legal Protection of Entrepreneurship Agents";

The Decree of the President of the Republic of Uzbekistan "On Additional Measures for Stimulating the Development of Micro-firms and Small Enterprises";

The Resolution of the President of the Republic of Uzbekistan "On Improving the System of Reports Submitted by Entrepreneurship Entities and Strengthening Responsibility over their Illegal Demand".

In the first half of 2005, the number of small entrepreneurship entities increased by 7.4%, creating 253.5 thous. new jobs. Small entrepreneurship accounted for 30.9% of GDP, which exceeded the level of the respective period of the previous year by 1.8 p.p. (Table 2.3.1, Annex 2.3.1). Dekhkan farms and agricultural micro-firms, retail trade micro-firms and small enterprises, and sole entrepreneurship providing paid services all made significant contributions to the rise of the share of small business in the GDP.

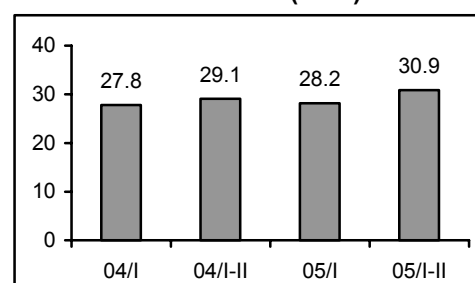
Table 2.3.1. Main Indicators of Development of Small Entrepreneurship

Indicators	Unit	04/ I	04/ I -II	05/ I	05/ I -II
Share of Small Entrepreneurship in the GDP of the RUz	%	27.8	29.1	28.2	30.9
Number Employed in Small Entrepreneurship (SE)	Thous. persons	5680.6	5867.1	6236.2	6360.1
Share of the Employed in SE in Total Employed in Economy	%	60.4	60.8	64.0	63.6
Number of Employed in:					
Small Enterprises	Thous. persons	231.5	234.1	239.3	275.3
Micro-firms	Thous. persons	810.0	893.3	1019.0	1000.9
Sole entrepreneurs	Thous. persons	4639.1	4739.7	4977.9	5083.9
Number of Newly Created Jobs in SE	Thous. persons	113.3	238.4	112.3	253.5
Number of Operating Agents of SE per 1000 People	units	8.7	9.2	9.4	9.7

Source: State Committee on Statistics of Uzbekistan

The rise in the share of the country's GDP occurred in all types of organizational and legal forms of small entrepreneurship. The share of small enterprises reached 5.7% (increase of 0.1 p.p. over the corresponding period of the previous year), micro-firms – 8.6% (increase of 0.3 p.p.). The trend remained unchanged of the highest contribution to the GDP resulting from sole entrepreneurship – 16.6% (increase 1.4 p.p.) (Table 2.3.2). The achievement of these results is connected with the creation of favorable macroeconomic conditions and, above all, with the implementation of measures in a new stage in the reform of the banking system,² allowing expanding financial support to small business and private entrepreneurship entities. In the first half-year, commercial banks and off-budgetary funds issued credits in the amount of 215.5 bn Soum, of which 18.1 bn Soum were micro-loans to small businesses.

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



Source: State Committee on Statistics of Uzbekistan

The share of medium-term and long-term loans in the total loans issued was 67.4%. In addition, nearly 9.0 thous. small business entities were issued loans to form starting capital, amounting to 10.2 bn Soum. As of 1 July 2005, the amount of foreign credit lines attracted to the economy for small business was 510.8 mill. USD.

The economic activity of SE entities in forming the GRP of most regions has become clear. A high rise in SE contribution to GRP was registered in the Sirdarya region, where micro-firms accounted for the main share of the increase in added value (by 3.5 p.p.). In the Jizzakh region, in spite of a slight fall in the share of small entrepreneurship in the gross regional product, it still remained at a high level (54.7%) mainly due to added value generated by micro-firms and sole entrepreneurs. An especially positive trend in the rise of the share of SE in GDP growth (by 4.3 p.p.) was observed in the Namangan region, where an increase in value added was registered in all categories of entities: in small enterprises by 1.0 p.p., in micro-firms – by 1.3 p.p., and individual entrepreneurship by 2.0 p.p. In the Surkhandarya region the SE share in GDP grew by 2.8 p.p. and accounted for 44.8%, also due to increased production in all categories of entities, but to the greatest extent in sole entrepreneurship production. The SE share in GRP grew in the Khorezm, Fergana and Tashkent regions, mainly as a result of the increase in production output by micro-firms and sole entrepreneurs.

A decrease in the share of small entrepreneurship in GRP occurred in the Andijan (by 3.9 p.p.) and Kashkadarya (by 2.4 p.p.) regions, as a result of decreased value added in all categories of entities, especially in micro-firms. The SE share in the GRP of the Navoi region remained at a very low level – 15.8%, which is almost twice as low as the average national level (Table 2.3.2).

² The Resolution of the President of the Republic of Uzbekistan "On Further Reform and Liberalization of the Banking System".

2.3.2. Share of Small Entrepreneurship in the GDP, GRP (in %)

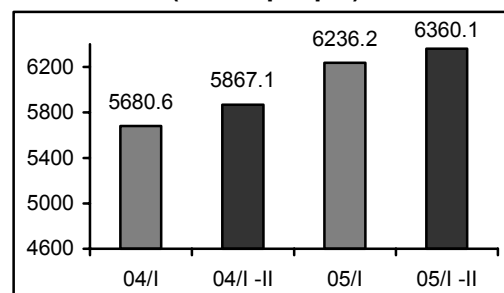
	Total		Including:					
			Small Enterprises		Micro-firms		Individual Entrepreneurship	
	04/I -II	05/I -II	04/I -II	05/I -II	04/I -II	05/I -II	04/I -II	05/I -II
R. Uzbekistan	29.1	30.9	5.6	5.7	8.3	8.6	15.2	16.6
R. Karakalpakstan	34.6	35.8	9.4	8.4	10.7	14.9	14.5	12.5
Andijan region	38.6	34.7	3.8	3.6	8.5	6.5	26.3	24.6
Bukhara region	34.2	37.6	7.1	6.6	8.8	10.9	18.3	20.1
Jizzakh region	57.1	54.7	2.7	3.2	25.9	24.2	28.5	27.3
Kashkadarya region	30.2	27.8	3.0	2.5	11.6	10.1	15.6	15.2
Navoi region	15.6	15.8	1.9	1.9	3.9	4.0	9.8	9.9
Namangan region	41.5	45.8	8.1	9.1	7.7	9.0	25.7	27.7
Samarkand region	52.4	52.6	4.9	6.8	13.3	10.3	34.2	35.5
Surkhandarya region	42.0	44.8	4.1	4.8	14.0	14.2	23.9	25.8
Sirdarya region	58.7	58.1	9.7	6.7	24.2	27.7	24.8	23.7
Tashkent region	28.1	29.7	6.5	6.2	5.6	6.4	16.0	17.1
Fergana region	35.9	37.9	5.8	5.7	10.4	11.9	19.7	20.3
Khorezm region	41.5	43.5	6.8	5.8	8.6	10.4	26.1	27.3
City of Tashkent	43.1	40.2	16.4	15.7	9.6	8.7	17.1	15.8

Source: State Committee on Statistics of Uzbekistan

The number of those employed in SE is consistently rising. In the first half of 2005, it increased 8.4% or by 493 thous. people over the corresponding period of the previous year. The total number of those employed in SE reached more than 6.3 million persons, which contributed considerably to the provision of employment for the population.

The share of those employed in SE in the total number of those employed in the economy grew by 2.8p.p. and reached 63.6%. This growth is related with the increase in the number of newly created jobs (by 6.3%) and in the number of those employed in economic entities (by 13.2%) (Table 2.3.1).

Graph 2.3.2. Number of Employees at SE (thous. people)



Source: State Committee on Statistics of Uzbekistan

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

	04/I	04/I -II	05/I	05/I -II	Growth Rates, 05/I -II to 04/I -II
R. Uzbekistan	5680.6	5867.1	6236.2	6360.1	108.4
R. Karakalpakstan	311.8	318.8	345.6	339.6	106.5
Andijan region	534.4	530.4	579.1	582.2	109.8
Bukhara region	377.9	386.5	422.5	416.9	107.8
Jizzakh region	215.9	232.0	239.0	240.2	103.5
Kashkadarya region	473.7	467.4	536.1	510.8	109.3
Navoi region	149.0	162.7	164.4	180.8	111.1
Namangan region	367.2	381.7	407.8	412.2	108.0
Samarkand region	624.7	645.2	675.6	685.9	106.3
Surkhandarya region	391.1	386.3	436.6	422.1	109.3
Sirdarya region	176.5	181.9	190.8	196.6	108.1
Tashkent region	531.5	596.6	587.0	632.6	106.0
Fergana region	665.9	686.4	717.5	783.7	114.2
Khorezm region	300.9	290.1	333.0	337.9	116.5
City of Tashkent	560.1	601.1	601.2	618.6	102.9

Source: State Committee on Statistics of Uzbekistan

In the regional context, the highest increase in the number of those employed in SE took place in the Khorezm (16.5%), Fergana (14.2%), Navoi (11.1%), Andijan (9.8%) and Kashkadarya (9.3%) regions, where the number of operating enterprises grew at high rates. It was below the average national level in the city of Tashkent (2.9%) and in Jizzakh (3.5) and Samarkand (6.3%) regions (Table 2.3.3.), where the share of operating enterprises over the period concerned fell sharply (Table 2.3.4).

Table 2.3.4. Number of Operating Small Entrepreneurship Entities by Region (thous. units)

	04/I -II		05/I -II	
	Operating SE Entities	Share of Operating SE Entities in Total Number of Registered SE Entities, %	Operating SE Entities	Share of Operating SE Entities in Total Number of Registered SE Entities, %
R. Uzbekistan	235.4	87.0	252.8	82.9
R. Karakalpakstan	12.3	90.4	13.7	90.9
Andijan region	19.1	88.2	14.9	68.4
Bukhara region	18.4	92.0	19.9	88.2
Jizzakh region	16.3	89.0	14.3	76.2
Kashkadarya region	38.5	94.9	48.8	93.6
Navoi region	9.4	91.8	9.5	87.6
Namangan region	11.9	74.0	13.2	74.1
Samarkand region	20.2	88.5	18.7	80.4
Surkhandarya region	11.8	83.2	13.3	81.2
Sirdarya region	10.4	94.1	10.8	88.1
Tashkent region	16.8	86.6	18.0	86.3
Fergana region	19.7	87.5	20.9	79.6
Khorezm region	12.6	83.5	17.9	84.7
City of Tashkent	18.1	71.8	18.8	72.9

Source: State Committee on Statistics of Uzbekistan

Over the first half of 2005, the number of operating SE enterprises grew by 17.4 thous. units and made up more than 252.8 thous. units, an increase over the respective period of 2004 of 107.4%. At the same time, the share of operating SE enterprises in the total number of those registered in the republic in total fell by 4.1 p.p. and made up 82.9% as opposed to 87.0% in the respective period of the previous year (Table 2.3.4).

It remained above the average national level in the Republic of Karakalpakstan (90.9%), Bukhara (88.2%), Sirdarya (88.1%), Navoi (87.6%) and Tashkent (86.3%) regions, where an active transformation in the system of organization of agricultural production was implemented, with farming enterprises given the leading role as the most promising and effective form of agricultural production.

A sharp fall in the number of operating enterprises occurred in Andijan (19.8 p.p.), Jizzakh (12.8 p.p.), Samarkand (8.1p.p.) and Fergana (7.9 p.p.) regions as a result of the decreasing level of sole entrepreneurship development (Table 2.3.4).

The number of operating SE entities per 1000 persons, though tending to increase, nonetheless remains low, and reached just 9.7 units in total in the republic (Table 2.3.1.) (In developed countries this indicator is 4 times higher and is about 35-40 units).

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

Indicators	04/I	04/I -II	05/I	05/I -II
Republic of Uzbekistan – Total	222.4	235.4	245.3	252.8
Industry	21.1	21.0	18.3	18.1
Small Enterprises	2.2	2.1	2.0	2.0
Micro-firms	18.9	18.8	16.3	16.0
Agriculture	130.0	141.4	160.1	167.9
Small Enterprises	2.7	2.9	3.4	3.9
Micro-firms	127.4	138.6	156.7	164.1
Transport and Communications	2.1	2.2	2.4	2.5
Small Enterprises	0.4	0.4	0.4	0.4
Micro-firms	1.7	1.8	1.9	2.0
Construction	11.2	11.3	10.6	10.8
Small Enterprises	0.8	0.8	0.9	0.9
Micro-firms	10.3	10.5	9.7	9.9
Trade and Public Catering	42.7	42.9	39.4	37.7
Small Enterprises	7.9	7.4	6.7	6.7
Micro-firms	34.8	35.5	31.6	31.1

Source: State Committee on Statistics of Uzbekistan

In the first half of 2005, the highest growth rate of operating SE entities remained in agriculture – 118.7%, with an increase of 26.5 thous. units. Of this increase, micro-firms accounted for 96.2%. Small enterprises exhibited a trend towards increase as well. In the sector of transport and communications, the growth rate of the number of operating enterprises reached 113.6% over the corresponding period of the previous year due to the increase in the number of transport micro-firms; however, their total number remained at a low level, which is connected with the insufficient number of vehicles in the republic, especially of passenger cars, and

also with their high wear and tear (above 80%), which does not enable the transport business to develop efficiently.

A negative trend developed in industry, with a reduction (by 13.9%) in the total number of operating small enterprises, due chiefly to a decrease in the number of micro firms (by 14.9%). In construction, the number of operating enterprises decreased by 4.5%, and in the sector of trade and public catering by 12.2% (Table 2.3.5). In this context it should be noted that the reasons for this included malfeasance by the controlling bodies, forced downtimes in production and trade during inspections of financial and economic activities and high taxes paid by entrepreneurs.

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

Indicators	04/I	04/I -II	05/I	05/I -II
Industry				
Share of SE in Total Industrial Output	9.1	8.7	8.4	8.3
Small Enterprises	3.9	3.9	3.5	3.7
Micro-firms	1.9	1.5	1.9	1.5
Individual Entrepreneurship	3.3	3.3	3.0	3.1
Share of SE in Total Production of Consumer Goods	22.3	19.0	21.4	19.8
Small Enterprises	8.8	6.1	7.6	6.3
Micro-firms	2.0	1.3	2.3	2.0
Individual Entrepreneurship	11.5	11.6	11.5	11.5
Share of SE in Total Production of Foodstuffs	31.3	30.8	35.0	34.6
Small Enterprises	7.9	6.4	8.2	7.4
Micro-firms	1.9	1.2	2.2	2.4
Individual Entrepreneurship	21.5	23.2	24.6	24.8
Agriculture				
Share of SE in Total Production	93.3	86.7	93.6	88.0
Small Enterprises	0.7	1.0	0.7	1.2
Micro-firms	2.6	11.0	2.5	11.7
Dekhkan Farms	90.0	74.7	90.4	75.2
Retail Turnover				
Share of SE in Total Turnover	40.2	41.0	40.5	41.4
Small Enterprises	7.9	7.6	7.7	7.9
Micro-firms	5.0	5.6	6.2	6.5
Individual Entrepreneurship	27.3	27.8	26.6	27.0
Paid Services				
Share of SE in Total Paid Services	42.3	46.0	42.1	48.1
Small Enterprises	3.5	3.2	3.2	3.7
Micro-firms	2.9	2.9	2.9	2.7
Individual Entrepreneurship	35.9	39.9	36.0	41.7

Source: State Committee on Statistics of Uzbekistan

As a result of the decreasing number of small enterprises operating in the industrial sector, their share in total industrial production output decreased by 0.4 p.p. and fell to 8.3% from 8.7% in the respective period of the previous year (Table 2.3.6). Production output mostly decreased for small enterprises (by 0.2 p.p.) and individual entrepreneurs (by 0.2 p.p.).

At the same time, the stable increase of consumer goods production rates by SE was a positive result; their share in total production grew by 0.8 p.p., reaching 19.8%. Increases in production were registered at small enterprises (0.2 p.p.) and micro-firms (0.7p.p.). Especially high was the increase in production of foodstuffs, the share of which in total production grew by 3.8 p.p., reaching 34.6%. These results are connected with the implementation of the Program of Measures for the Increase of Production and Saturation of the Domestic Consumer Market with Quality Domestic Goods. In order to implement the Program to the planned extent, conditions were created to assist entrepreneurs in obtaining bank loans; to improve the tax system; to provide privileges to commodity producers for custom payments on the import of raw materials, auxiliary materials, equipment and components; to improve tariff regulation of imports of finished products whose production is dynamically developed in the republic; and to liberalize the custom regime on imports of production.

The share of small entrepreneurship in total agricultural production increased by 1.3 p.p. over the level of the respective period of the previous year, reaching 88.0%. Increased agricultural production by all categories of farms contributed to the increase: small enterprises – by 0.2 p.p., micro-firms – by 0.7 p.p. and dekhkan farms – by 0.5 p.p. (Table 2.3.6). The SE share in total retail trade increased by 0.4 p.p. compared with the

first half of 2004 and reached 41.4% (Table 2.3.6), mainly due to an increase in turnover by small enterprises of 0.3 p.p. and micro-firms of 0.9 p.p.

Sustainable SE growth continued unchanged in the sector of paid services, where its share is growing consistently and reached 48.1% as compared to 46.0% in the respective period of the previous year. The increase of the SE share in this sector is, above all, connected with the increasing activity of small entrepreneurs, whose share in paid services is more than 41%.

In the first half of 2005, the share of small entrepreneurship in foreign economic activity was characterized by its reduction in the share of total exports by 0.3 p.p. (Table 2.3.7). This resulted from a decline in supplies to foreign markets of products of the chemical industry by 3.5 p.p., of machinery and equipment by 3.3 p.p. and other products by 8.9 p.p. (Table 2.3.8).

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

	04/I	04/I -II	05/I	05/I -II
Export				
SE Share in Total Exports	8.7	5.1	4.6	4.8
Small Enterprises	4.0	2.8	3.2	2.9
Micro-firms	3.6	1.2	0.4	0.6
Individual Entrepreneurship	1.2	1.2	1.0	1.3
Import				
SE Share in Total Imports	29.4	30.9	29.4	31.4
Small Enterprises	13.6	13.5	13.7	13.6
Micro-firms	10.6	12.2	11.6	13.3
Individual Entrepreneurship	5.2	5.2	4.1	4.5
Number of SE Entities Participating in Foreign Economic Activity, units	1807	2626	2016	2892

Source: State Committee on Statistics of Uzbekistan

The share of SE imports in total imports increased by 0.5 p.p. compared with the respective period of the previous year, as a result of increased imports into the republic of chemical production (0.5p.p.), machinery and equipment (1.4 p.p.) and other products (0.5 p.p.) (Table 2.3.8).

In the structure of imports, volumes of foodstuffs, ferrous and non-ferrous metals decreased, which was determined by the increasing level of development of work on their production in the republic itself. Machinery and equipment accounted for the highest share in the structure of imports (43.5%), demonstrating that domestic enterprises are continuing the active reconstruction and modernization of their technological base and the establishment of modern facilities to improve the competitiveness of production and its further promotion on the foreign market.

In the territorial context, the highest increase in SE share in the export of production is developing in the Republic of Karakalpakstan (7.5 p.p.) and in Namangan (7.4 p.p.), Sirdarya (0.9 p.p.), Surkhandarya (2.2 p.p.) and Tashkent (0.5 p.p.) regions. Declines in export activity took place in Samarkand (8.5 p.p.) and Fergana (4.8 p.p.) regions as a result of a sharp reduction in the number of operating SE enterprises and a corresponding reduction in competitive export production. Reductions in volumes of SE exports in Khorezm region (7.0 p.p.) resulted from the poor profitability of export production and its poor competitiveness on the foreign market.

In the first half of 2005, the number of SE entities participating in foreign economic activity increased compared with the respective period of the previous year by 266 units, reaching 2.9 thous. units (Table 2.3.7). In spite of the increase, this indicator still remains low and does not match the existing export potential of the country.

Table 2.3.8. Commodity Structure of Export-Import Activities of Small Entrepreneurship Entities (%)

	04/I -II	05/I -II
Exports	100	100
Cotton Fiber	12.4	18.9
Foodstuffs	24.6	30.3
Chemical Products	5.2	1.7
Energy Carriers	11.6	10.2
Ferrous and Non-Ferrous Metals	1.0	1.0
Machinery and Equipment	13.2	9.9
Services	8.1	13.0
Others	24.0	15.1
Imports	100	100
Foodstuffs	11.3	11.2
Chemical Products	17.7	18.2
Energy Carriers	0.2	0.2
Ferrous and Non-Ferrous Metals	8.2	6.2
Machinery and Equipment	42.1	43.5
Services	2.6	2.1
Others	18.0	18.5

Source: State Committee on Statistics of Uzbekistan

Table 2.3.9. Share of Small Enterprises in Foreign Economic Activity by Region (%) %

	Share of Small Enterprises' Exports in Total Exports		Share of Small Enterprises' Imports in Total Imports	
	04/I -II	05/I -II	04/I -II	05/I -II
R. Uzbekistan	5.1	4.8	30.9	31.4
R. Karakalpakstan	3.4	10.9	10.0	63.4
Andijan region	4.0	2.1	7.1	4.9
Bukhara region	2.9	2.1	50.7	79.3
Jizzakh region	2.6	2.1	92.3	58.6
Kashkadarya region	2.0	1.7	20.4	66.4
Navoi region	0.2	0.2	2.7	3.6
Namangan region	61.0	68.4	72.0	50.4
Samarkand region	25.9	17.4	44.2	48.5
Surkhandarya region	4.5	6.7	93.4	63.1
Sirdarya region	0.9	1.8	75.0	63.4
Tashkent region	3.4	3.9	45.1	37.2
Fergana region	17.0	12.2	42.7	42.2
Khorezm region	8.1	1.1	64.5	53.3
City of Tashkent	7.3	6.9	31.8	36.0

Source: State Committee on Statistics of Uzbekistan

In the first half-year the Government made important shifts towards the stimulation of small business through corresponding decrees and resolutions aimed at changes in the tax system and at the improvement of the system of legal protection for representatives of private business from illegal interference in their activity by state bodies. No doubt, these documents will play an important role in the development of entrepreneurship and will allow its role in the economic development of the country to increase, ensuring the employment of the population and improvement in its welfare.

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

Indicator	2000	2001	2002	2003	2004	04/I-II	05/I-II
Number of Privatized Enterprises	374	1449	1912	1519	1228	660	445
Number of Enterprises with Non-State Form of Ownership Established on the Basis of Privatized Property	372	1238	1800	1452	1228	660	445
Joint-Stock Companies	152	227	223	75	28	13	1
Private Enterprises	103	827	1252	981	162	98	40
Enterprises of Other Organizational and Legal Types	117	184	325	396	1038	549	404
Total Proceeds from Privatization (bn Soum)	14.3	23.2	43.6	56.1	78.4	39.7	38.2

Source: State Property Committee of Uzbekistan

Note: A number of joint-stock companies were founded by means of pooling the property of several state-owned enterprises

Annex 2.2.1. Dynamics of the Volume of Sale of Shares on the Securities Market (bn Soum)

Indicator	2000	2001	2002	2003	2004	04/I-II	05/I-II
Total shares Sold on Securities Market	17.11	26.13	41.74	74.7	115.0	52.4	65.0
On Primary Market	6.23	12.26	16.33	53.9	62.1	32.1	38.4
On Exchange Market	4.60	6.84	10.53	19.7	18.5	7.9	3.7
On Off-Exchange Market	1.63	5.42	5.80	34.2	43.6	24.2	34.7
On Secondary Market	10.88	13.87	25.41	20.8	53.0	20.3	26.6
On Exchange Market	0.63	1.10	4.60	12.4	22.8	9.8	12.7
On Off-Exchange Market	10.25	12.77	20.81	8.4	30.2	10.5	13.9

Source: Center for 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. Soum)

Types of Property	2000		2001		2002		2003		2004		04/I-II		05/I-II	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Construction in Progress	296	630	265	559	180	832	586	1176	896	1449	418	614	506	815
Commercial, Consumer Services and Social Infrastructure Objects:	419	450	548	1221	436	1039	954	3203	1423	7232	811	5192	1053	5369
Property of Bankrupt Enterprises	435	1028	565	1264	289	719	372	1559	23	524	-	-	-	-
Property Sold to Cover Tax Debts to State Budgets	-	-	2211	1345	2230	1409	209	388	3	1	-	-	-	-
Property Sold by Orders of Economic Courts	-	-	496	415	343	312	147	391	26	149	-	-	-	-
Agricultural and Water Industry Objects	602	450	510	367	413	396	904	653	2516	4376	1188	2226	4278	5183
Land Plots	5700	254	8662	504	8335	551	7391	490	6296	618	3633	362	2873	260
Residential Buildings and Non-Residential Premises, Other Property	1491	3368	1959	6675	2058	10913	3350	15600	3416	13928	1444	6406	2342	8911
Total	8943	6180	15216	12350	14284	16171	13913	23460	14599	28277	7494	14800	11052	20538

Source: Republican Real Estate Exchange

Annex 2.3.1. Main Indicators of the Level of Development of SE

Indicators	Unit	2000	2001	2002	2003	2004	04/I	04/I -II	05/I	05/I -II
Share of Small Businesses in the GDP	%	31.0	33.8	34.6	35.0	35.6	27.8	29.1	28.2	30.9
of Small Enterprises and Micro-Firms	%	13.1	14.8	15.7	16.5	18.6	13.4	13.9	13.7	14.3
Number of Operating Legal Entities	Thous. Units	149.3	177.7	236.4	229.6	237.5	222.4	235.4	245.3	252.8
Number of Employees at Economic Entities	Thous. Persons	745.3	801.8	900.3	1062.2	1349.0	1041.5	1127.4	1258.3	1276.2

Source: State Committee on Statistics of Uzbekistan

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

Areas of Activity	2000	2001	2002	2003	2004	04/I	04/I -II	05/I	05/I -II
Industry	11.3	14.1	14.1	10.9	10.7	9.1	8.7	8.4	8.3
Agriculture	72.4	75.6	76.4	78.1	80.9	93.3	86.7	93.6	88.0
Retail Turnover	45.9	45.8	43.8	42.4	41.8	40.2	41.0	40.5	41.4
Paid Services	37.9	39.9	41.3	45.4	47.4	42.3	46.0	42.1	48.1

Source: State Committee on Statistics 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	04/I -II	05/I	05/I -II
Exports, %	10.2	9.0	7.5	6.9	7.3	8.7	5.1	4.6	4.8
Imports, %	27.4	26.9	24.9	33.0	32.7	29.4	30.9	29.4	31.4
Number of Entities Participating in Foreign Economic Activity, thous. units	2.8	2.5	2.7	3.2	3.8	1.8	2.6	2.0	2.9

Source: State Committee on Statistics of Uzbekistan

3. Structural – Investment policy

3.1. Industry.

In the industrial sector the trend towards positive development remained unchanged, ensured by the growing domestic and foreign demand for production, the improved financial sustainability of enterprises and the active efforts of domestic business to develop localization of production. The index of industrial growth in the first half of 2005 was 107.5%. In the production structure of GDP, the share of industry grew from 20.7% to 24.0%. Faster growth rates in the final demand sectors have affected the dynamics of industrial growth.

Production volumes in machine-building rose by 38.1% over the level of the previous year (Table 3.1.1). High indicators of foreign economic activity for enterprises of the automobile construction sector were one of the major factors contributing to growth. Exports of machine-building production grew to 253 mill. USD, which exceeded the level of the previous year by 54.8%. The dynamics of intensive growth were backed mainly by the increase in the number of cars produced – by 1.6 times, including the new model of "Lacetti" – by 4.7 times, and "Matiz" – by 1.5 times.

The trend of maintaining restrained dynamics in the rise in prices in machine-building has facilitated positive results in the development of localizing industries, aimed at reducing import-dependence and production costs. The price index for machine-building in the first half of 2005 was at its lowest and exceeded the level of the previous year by just 4.1 p.p., which was one of the factors in strengthening the position of national producers in foreign markets.

Table 3.1.1 Indices of Industrial Production

	Index of industrial production (in % to previous period)			
	04/I	04/I-II	05/I	05/I-II
Industry	108.8	109.6	108.3	107.5
Electric-Power Industry	103	102.2	98.2	98.2
Fuel Industry	109.1	108.5	99.2	99.7
Ferrous Metallurgy	119.1	115.2	127.4	126.2
Non-Ferrous Metallurgy	100.7	105.7	100.7	96.2
Chemical Industry	96.1	100.1	107.3	107.7
Machine-Building	135.3	132	149.5	138.1
Timber, Wood-Working Industry	121.6	108.5	120.3	129.3
Construction Materials Industry	115.0	113.5	104.4	108.3
Light Industry	105.4	104.7	113.1	113.5
Food Industry	102.1	101.2	100.1	105.6
Other	141.1	141.6	106.1	106.3

Source: State Committee on Statistics of Uzbekistan

industries accounted for nearly 80% of the total increase in industrial production. However, in the development of these sectors quite serious fluctuations in production rates for some products were registered, depending on the impact of specific factors and conditions.

In the period concerned the tendency remained of a reduction in the demand for domestic electrical products and agricultural machinery. In the first half of 2005, production decreased: of refrigerators and washing machines – by 61.7%, power cables (isolated cable) – by 6.2%, cotton harvesters and cultivators. Production of tractors increased by just 0.1% (Table 3.1.2). In the processing sectors of light industry, production volumes fell: cotton yarn – by 12.1%, raw silk threads – by 10.1%, silk fabrics – by 18.9%, carpets and carpet products – by 5.4%. Production dynamics in these sectors were restrained by the shortage in working capital for purchasing raw materials at commodity exchanges and by the ongoing process of restructuring of large enterprises.

The production index in the wood-working industry was one of the highest and reached 29.3%. The widening scale of production of domestic furniture and construction materials is related with the intensive rise in construction and equipment of social infrastructure facilities. In the first half of 2005, production volumes increased of: cement – 106.6%, asbestos-cement sheets – 125.2%, paintwork materials – 142.6% and windowpanes – 126.7%. The production index in construction materials industry was 8.3%.

High production rates were achieved in light industry, where the index reached 13.5%, which was higher than the achieved level in the previous year by 8.8 p.p. This positive tendency was supported by an increase in the production of raw cotton – 129.6% and some types of consumer goods: knitwear – 114.8% and footwear – 109.7%. Slowing growth rates for consumer prices affected considerably the dynamics of growth and the increasing demand for light industry production. The price index in light industry was 106.2%, which was lower than the previous year's level by 32.3 p.p. Development rates for the food industry were higher than expected, with the production index exceeding the level of the previous year by 4.4 p.p. and reaching 5.6%. The positive result of this activity was the retention of its position in the sector of the domestic consumer market. The share of goods of domestic production made up more than 90% of the bulk of foodstuffs. In total, machine-building, light and food

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

	Unit	Production of major products in kind		Indices of production of major products (in % to previous year)	
		04/I-II	05/I-II	04/I-II	05/I-II
Power Industry					
Electric Power	Mill. K.W.H.	25579	25139	103.9	98.3
Fuel Industry					
Oil and Condensate	Thous. tons	3501.0	2913.3	98.6	83.2
Gas	Mill.m ³	30054.8	30057.8	105.9	100
Liquefied Gas	Thous. tons	95.9	101.4	127.8	105.7
Coal	Thous. tons	1247	1493	142.6	119.7
Metallurgy					
Steel	Thous. tons	280.7	333.5	110.5	118.8
Rolled Ferrous Metals	Thous. tons	259.7	312.8	111.8	120.4
Machine-Building					
Tractors	Units	1372	1373	93.0	100.1
Cotton Harvesters	Units	5	-	41.7	-
Excavators	Units	18	3	78.3	16.7
Cars	Units	32263	51800	170.1	160.6
"Damas"	Units	4843	7167	136.0	148.0
"Tiko"	Units	1133	-	47.6	-
"Nexia"	Units	17177	30414	144.3	177.1
"Matiz"	Units	8887	13179	7.9 times	148.3
"Lacetti"		223	1040	-	4.7 times
Color TVs	Units	13557	29247	140.6	2.2p
Isolated Cable	Km	1379	1294	2.3 times	93.8
Refrigerators and Freezers	Units	1251	310	78.0	24.8
Conditioners	Units	206	908	-	4.4 times
Washing Machines	Units	627	409	184.4	65.2
Chemical Industry					
Mineral Fertilizers	Thous. tons	441.5	436.1	102.7	98.8
Nitrogen Fertilizers	Thous. tons	370.5	380.6	101.5	102.7
Phosphate Fertilizers	Thous. tons	71.0	55.5	109.5	78.2
Synthetic Ammonia	Thous. tons	511.0	519.3	100.4	101.6
Sulphuric Acid	Thous. tons	398.4	389.1	86.3	97.7
Synthetic Resins and Plastics	Tons	55600	55466	185.8	99.8
Chemical Fibers and Threads	Tons	4550	3230	62.7	71.0
Synthetic Detergents	Tons	954	126	119.3	13.2
Chemical Protectants of Plants	Tons	2709	1838	149.4	67.8
Paint-and-Lacquer Materials	Tons	3741	5333	119.5	142.6
Construction Materials Industry					
Walling	Mill. pieces	29.8	26.3	92.4	88.3
Cement	Thous. tons	2404.0	2562.0	127.8	106.6
Asbestos Cement Sheets	Mill. tiles	135.5	169.6	92.6	125.2
Ceramic Tiles	Thous. m ²	259.6	194.7	92.8	75.0
Light Industry					
Cotton Fiber	Thous. tons	491.0	636.2	91.9	129.6
Cotton Yarn	Thous. tons	84.6	74.4	103.6	87.9
Raw Silk Threads	Tons	239.2	215.1	114.0	89.9

Source: State Committee on Statistics of Uzbekistan

Positive changes in the situation with regard to prices on the international market stimulated the dynamics of production in the chemical industry. Export volumes of the chemical industry's products grew by 11.0% compared with the level of the previous year. The index of chemical production significantly exceeded the level of the previous year and reached 7.7%. The rise in the cost parameters of chemical production was determined to a greater extent by the transformation of domestic prices and to a lesser extent by growth in the quantitative parameters of production. In the first half of 2005, a growth trend was registered in the production of nitrogen fertilizers – 102.7% and synthetic ammonia – 101.6%. Producers' prices for chemical production grew by 23.8%.

The price factor remains the decisive one in the development of the sectors of the fuel industry and non-ferrous metallurgy, where the tendency remained of a significant exceeding of the price index with regard to industry average. Price indices exceeded the current price level in general in industry by 25.6 p.p. in the power industry, by 31.2 p.p. in the fuel industry and by 13.4 p.p. in non-ferrous metallurgy and accounted for 151.1%, 156.7% and 138.9% respectively in respect to the corresponding period of the previous year (Table 3.1.3).

The trend of accelerated growth rates of prices was registered in the food industry as well, which was one of the factors in the decreasing competitiveness of domestic production with regard to imports and in the shrinking domestic demand. The price index in the food industry exceeded the level of the previous year by 11.1 p.p. and reached 116.6%. This trend, under conditions of maintaining a low solvent demand on the domestic market, became one of the reasons for the decline in the production of certain foodstuffs: cheese, granulated sugar, pasta etc. The acceleration of production rates for other major types of foodstuffs: vegetable and animal oils, canned products, milk and dairy products and confectionery mitigated the negative impact of this trend. As a result, imports of foodstuffs in the first half of 2005 grew by just 1.9%.

Table 3.1.3. Indices of Producers' Prices by Industrial Sector (in % to respective period of previous year)

	04/I-II	05/I-II
Industry	130.4	125.5
Power Industry	160.1	151.1
Fuel Industry	152.3	156.7
Ferrous Metallurgy	126.2	107.6
Non-Ferrous Metallurgy	163.2	138.9
Chemical Industry	124.6	123.8
Machine-Building	104.0	104.1
Timber, Wood-Working Industry	104.7	100.5
Construction Materials Industry	120.2	116.5
Light Industry	138.5	106.2
Food Industry	105.5	116.6

Source: State Committee on Statistics of Uzbekistan

The restrained dynamics of producers' prices, ensuring constant high demand on domestic and foreign markets for ferrous metals, strongly affected the nature of ferrous metallurgy operations. The price index for the production of ferrous metallurgy was one of the lowest and accounted for 107.6% vs. 126.2 % in the previous year. The high liquidity level of the products made led to an increase in the physical volumes of production of steel – by 18.8% and rolled non-ferrous metals – by 20.4%. The production index in non-ferrous metallurgy amounted to 26.2%. Maintaining the favorable proportion of domestic and international prices for non-ferrous and ferrous metals resulted in positive export dynamics. Export volumes of production of the metallurgical complex grew by 34.0%.

Under the trend of decreasing physical volumes of production of major types of output, the share of fuel and energy sectors in the structure of industry grew from 23.6% to 27.2%, including in the power industry from 10.4% to 11.2% and the fuel industry from 13.2% to 16.0% (Table 3.1.4.). In conditions of continuing high costs in the production of major types of industrial production, the rise in prices for energy resources at an even greater pace affected significantly the profitability level of the sectors.

Table 3.1.4 Changes in the Structure of Industrial production (in current prices)

	04/I	04/I-II	05/I	05/I-II
Industry	100	100	100	100
Power Industry	10.4	10.4	11.1	11.2
Fuel Industry	12.6	13.2	15.8	16.0
Ferrous Metallurgy	2	2.4	2.4	2.6
Non-Ferrous Metallurgy	14.7	16.1	15.6	16.4
Chemical Industry	5.2	5.7	5	5.3
Machine-Building	10.8	11.8	12.3	13.3
Timber, Wood-Working Industry	0.9	0.8	0.8	0.8
Construction Materials Industry	3.6	3.9	2.9	3.5
Light Industry	25.1	21.1	21.8	18.3
Food Industry	9.2	9.0	7.4	7.7

Source: State Committee on Statistics of Uzbekistan

Under the influence of the price factor, the share of non-ferrous metallurgy also grew from 16.1% to 16.4%. The trend of an increasing share for ferrous metallurgy and machine-building is related mainly with the leading rates of physical volume of production output. The share of ferrous metallurgy grew from 2.4% to 2.6%, machine-building from 11.8% to 13.3%.

In the period concerned the share of light and food industry decreased from 30.1% to 26.0%, chemical industry from 5.7% to 5.3%, and construction materials industry from 3.9% to 3.5%. Factors including price rises, industrial growth rates, changes in the situation with regard to domestic and foreign demand, and also the

efficiency of measures for the financial rehabilitation of insolvent enterprises and the liquidation of hopeless enterprises continued to affect the dynamics of structural changes and industrial growth rates.

According to the results of the first half of 2005, the largest share of loss-making enterprises belonged to the light and food industries – 48.6%, machine-building – 14.2% and chemical industry – 11.4%. The situation remained most complicated in the sectors of light and chemical industries, in which the number of loss-

making enterprises grew almost 2 times. The high level of production facilities in an aging and poor financial state, with large accounts receivable and payable, led to low productivity and efficiency in steps to accomplish the Privatization Program and attract foreign and domestic investments in the process of privatization and denationalization of industrial enterprises. In order to strengthen the sustainability of industrial development it is planned to implement reforms begun earlier on restructuring enterprises, liberalizing foreign trade, regulating foreign exchange, reducing the tax burden, and improving the business and investment climate.

3.2. Consumers Goods Market

The priority development of the consumer market and the production of consumer goods on the basis of local resources are given an important role in the implementation of economic reforms in Uzbekistan.

In the first half of 2005, consumer goods production grew by 17.1% vs. 14.4% in the corresponding period of the previous year. High growth rates were registered in foodstuffs production – 7.0%, and especially in non-foodstuffs production – 28.0% (Table 3.2.1), which was connected with the establishment of new capacities and the expansion of current capacities of both large industrial enterprises and small business entities, as well as the adaptation of enterprises to the high demand in domestic and foreign markets.

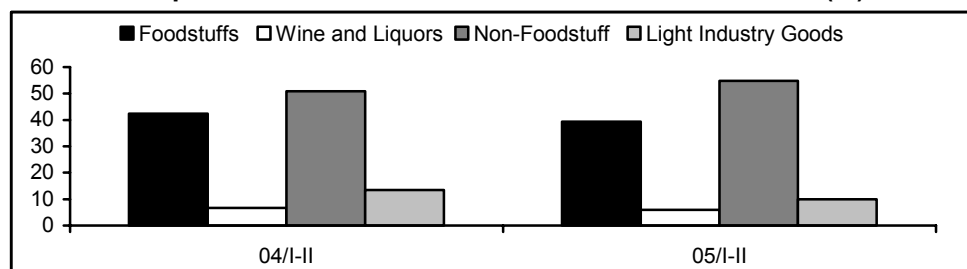
The stable increase in non-foodstuffs production resulted from the development of high-tech businesses oriented towards the production of new types of output designed not only for the saturation of the domestic market but for export as well. As a result, in the first half of 2005, production volumes of automobiles grew by 60.6% and TVs by 2.3 times. The share of non-foodstuffs in the structure of consumer goods increased by 3.9 p.p. vs. the previous year's level and reached 54.8% (Table 3.2.1, Graph 3.2.1, Annex 3.2.1).

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

	04/II	05/II	04/I-II	05/I-II
Consumer Goods	114.9	116.4	114.4	117.1
Foodstuffs	117.6	100.2	112.8	107.0
Wine and Liquor, Beer	101.7	106.5	104.5	101.4
Non-Foodstuffs	114.2	133.6	117.3	128.0
Light Industry Goods	101.8	98.3	105.5	97.2

Source: State Committee on Statistics of Uzbekistan

Graph 3.2.1. Structure of Consumer Goods Production (%)



Among light industry goods an increase was observed in the production of knitwear (14.8%) and footwear (9.7%) (Table 3.2.2, Annex 3.2.2) by large enterprises.

Re-specialization, reconstruction and the ongoing technical re-equipment of large enterprises of light industry as well as the insufficient supply of raw materials and the fall in production of nitron fiber in the republic, led to a reduction in the volumes of production of cotton and silk fabrics, carpets and carpet products. The growth rate of light industry goods was 97.2%, leading to a decline in their share in the structure of consumer goods compared with the previous year's indicator, by 3.6 p.p. (Table 3.2.1, 3.2.2, Graph 3.2.1).

An increase in the processing of agricultural production was observed, helping to increase production of milk and dairy products by 11.9% (Nestle JV increased production output 2.0 times), canned goods – by 51.6% (including those made of fruit and vegetables – by 48.6%) and vegetable oil – by 23.8%, including refined oil – by 22.7% (Table 3.2.2). The increase in the quality of products made by “Coca-Cola ichimligi Uzbekistan LTD” and the resultant increase in demand led to a rise in production of non-alcohol beverages of 10.9 times (Table 3.2.2).

The reconstruction and technical re-equipment of the large flour milling plants and bread-baking plants of the Uzdonmakhsulot association resulted in a reduction of production output of flour and flour products by large

enterprises. However, the increasing number of small enterprises making bread, baked goods and pasta helped to saturate the domestic market with that kind of product; for example, the goods produced by the small enterprises “Issiq non” are in high demand (Table 3.2.2).

The lack of price competitiveness of the sugar produced by Shakar Investment JV and the import of cheaper sugar into the republic were the reasons for the decreased production of sugar (Table 3.2.2).

In the first half of 2005, a high increase in consumer goods production was registered in Andijan region (59.6%) as a result of an increase in production of both foodstuffs (16.4%) and non-foodstuffs (64.6%). The stable activity of UzDAE-WOOAuto JV (Table 3.2.3, Annex 3.2.4) impacted significantly on the high increase in production of non-foodstuffs. As a result, in the territorial structure of consumer goods production, the share of the region grew by 10.0 p.p. compared with the first half of 2004, reaching 28.9%, and in the structure of non-foodstuffs – 48.9% (Table 3.2.4, Annex 3.2.5).

An increase in consumer goods production above the national average was registered in Jizzakh region (17.7%) due to the increase in production of foodstuffs by 14.3% and non-foodstuffs by 66.2%, including light industry goods by 25.9% (Table 3.2.3, Annex 3.2.4). Tashkent, Fergana, Samarkand and Bukhara regions and Tashkent city, having significant production and labor potential (Table 3.2.4, Annex 3.2.5) made up a considerable share in consumer goods production.

The reduction in consumer goods production in Surkhandarya region (4.9%) was caused by a decrease in the production of foodstuffs (by 7.5%, making up 79.1% in commodity structure), and wine and liquors (9.7% and 9.1% respectively) (Table 3.2.3, Annexes 3.2.4, 3.2.6). In Sirdarya region, growth rates of consumer goods production slowed (0.9%) as a result of a 48.4% reduction in the production of wine and liquor, which made up 6.3% in the commodity structure of consumer goods production of the region (Table 3.2.3, Annexes 3.2.4, 3.2.6).

While total consumer goods production in the Republic of Karakalpakstan grew, light industry goods production decreased by 31.4%, which led to a fall in non-foodstuffs production by 25.7%, as light industry goods make up 78% in the structure of non-foodstuffs and consist mainly of knitwear, hosiery, and carpets produced by small enterprises (Annexes 3.2.4, 3.2.6).

Table 3.2.2. Industrial Production of Major Types of Consumer Goods *
(In % to Corresponding Period)

	04/I	05/I	04/I-II	05/I-II
Cotton Fabrics	86.2	83.4	85.2	76.5
Silk Fabrics	104.6	88.9	93.9	81.1
Carpets and Carpet goods	103.6	102.8	148.9	94.6
Hosiery	104.3	157.0	101.4	82.0
Knitwear Goods	91.3	102.4	84.8	114.8
Footwear	68.0	105.7	76.1	109.7
Milk and Dairy Products	2.2 times	88.6	167.8	111.9
Cheese, including brynza	100.0	107.1	87.9	65.5
Canned Goods	114.2	183.8	110.2	151.6
Sugar	149.8	44.6	93.8	58.9
Flour	2.3 times	88.7	2.1 times	85.7
Bread and Baked Goods	75.4	83.9	84.7	78.1
Pasta	123.3	41.6	105.0	70.9
Vegetable Oil	86.4	114.1	86.7	123.8
Grape Wine	74.6	90.3	64.0	91.5
Vodka and Liquors	99.2	104.3	109.1	92.7
Non-Alcohol Beverages	5.5	11.1 times	10.8	10.9 times
Filterless and Regular Cigarettes	85.0	93.9	91.2	87.4

Source: State Committee on Statistics of Uzbekistan

* Data given for large-scale enterprises

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

	04/I	05/I	04/I-II	05/I-II
Republic of Uzbekistan	114.9	116.4	114.4	117.1
Republic of Karakalpakstan	119.0	117.1	122.8	107.0
Andijan	133.3	180.3	136.4	159.6
Bukhara	107.8	104.7	107.6	104.8
Jizzakh	113.0	120.6	117.8	117.7
Kashkadarya	127.0	107.8	124.7	110.7
Navoi	107.3	98.3	106.4	100.6
Namangan	124.7	112.1	116.1	107.0
Samarkand	100.3	110.1	102.0	100.7
Surkhandarya	129.5	101.8	124.1	95.1
Sirdarya	108.0	109.9	115.3	99.1
Tashkent	106.6	107.7	111.1	106.2
Fergana	113.2	115.8	122.4	113.0
Khorezm	96.6	96.5	102.5	106.5
Tashkent City	115.7	107.4*	101.5	103.7

Source: State Committee on Statistics of Uzbekistan

* Without Shakar Investment JV and Toshkent tuqimachilik kombinati JSC

In Navoi region, non-foodstuffs production fell by 6.5%, including light industry goods – by 41.4%. The fall in production by the chemical complex of nitron fiber, which is needed for the production of household and industrial yarn, affected the production of light industry goods (yarn for knitting, knitwear, carpets and carpets products) by enterprises (large and small) not only of the region, but also of other regions too. In Khorezm region, where the largest carpet producing association Khiva Gilami JSC operates, the production of light industry goods decreased by 20.7%, and non-foodstuffs – by 14.9%, due to the insufficient supply of raw materials. The share of light industry goods in the structure of consumer goods of the region was 29.8%, and non-foodstuffs – 94.0% (Annexes 3.2.4, 3.2.6).

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

	04/I	05/I	04/I-II	05/I-II
Republic of Uzbekistan	100.0	100.0	100.0	100.0
Republic of Karakalpakstan	2.0	2.0	1.9	1.8
Andijan	18.3	28.3	19.9	28.9
Bukhara	8.9	8.0	9.3	7.7
Jizzakh	2.7	2.8	2.5	2.9
Kashkadarya	4.4	4.1	4.2	4.1
Navoi	2.7	1.9	2.1	1.8
Namangan	4.5	4.4	4.9	4.0
Samarkand	9.3	8.8	8.7	8.3
Surkhandarya	2.7	2.3	2.8	2.3
Sirdarya	1.6	1.5	1.8	1.4
Tashkent	10.3	9.5	11.4	9.8
Fergana	9.1	9.7	10.0	9.2
Khorezm	3.1	2.6	2.8	2.7
Tashkent City	20.9	14.7*	17.6	15.2

Source: authors' computations based on data from the State Committee on Statistics of Uzbekistan * Without Shakar Investment JV and Toshkent tuqimachilik kombinati JSC

In the territorial structure of consumer goods production, densely populated regions continue to be leaders – Andijan (28.9%), Bukhara (7.7%), Samarkand (8.3%), Tashkent (9.8%), Fergana (9.2%) regions and Tashkent city (15.2%), as excessive labor resources get involved, first of all, in consumer goods production when dealing with the issue of unemployment (Table 3.2.4, Annex 3.2.5).

In the first half of 2005 consumer goods exports grew by 59.8% thanks to increased supplies to foreign markets of foodstuffs by 33.6%, alcoholic

drinks – 2.4 times and non-foodstuffs – by 67.7% (Table 3.2.5, Graph 3.2.2). In the structure of the country's exports, the share of consumer goods increased by 3 p.p., foodstuffs – by 0.3 p.p. and non-foodstuffs – by 2.8 p.p. (Graph 3.2.2) compared with the level of the first half of 2004.

Table 3.2.5. Dynamics of Export and Import of Consumer Goods (In % to Corresponding Period)

	04/I-II	05/I-II
Total exports	125.2	116.7
Consumer Goods	136.9	159.8
Foodstuffs	137.7	133.6
Wine and Liquor, Beer	50.7	243.0
Non-Foodstuffs	136.6	167.7
Total Imports	123.5	116.4
Consumer Goods	110.7	108.6
Foodstuffs	89.8	107.9
Wine and Liquor, Beer	154.7	62.0
Non-Foodstuffs	121.9	108.9

Source: State Committee on Statistics of Uzbekistan

The main goods exported are: flour, meat and milk products, canned fruit and vegetables and juices, dried fruit and vegetables, grape wine, liquor and vodka, cars, TVs and light industry goods. An additional increase in the export of light industry goods is envisaged by the Program on Attraction of Investments into the Textile Industry for 2005-2008, approved by the Resolution of the Cabinet of Ministers of RUz # 38 of 27 January 2005. According to this program, the production by newly established JVs of highly competitive textile goods with high value added, and their export, should be at the level of no less than 80% of production output.

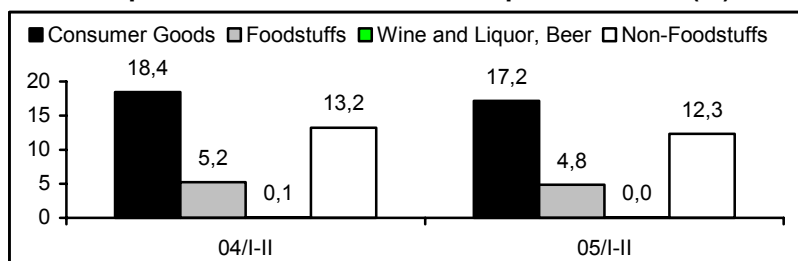
Graph 3.2.2. Consumer Goods Export Structure (%)



As a result of consumer goods production by domestic producers and especially by small businesses, imports of consumer goods decreased by 2.1 p.p. compared with the previous year's level, including a fall in imports of alcoholic drinks by 48%, and non-foodstuffs – by 8.9% (Table 3.2.5).

In the structure of imports, there was an increase in the share of sugar, vegetable and animal oil, canned meat and milk products, and fruit juices made of products not produced in the country, which led to a rise in the indicator for foodstuffs by 7.9% (Table 3.2.5).

Graph 3.2.3. Consumer Goods Import Structure (%)



In the first half of 2005, the saturation of the domestic market with foodstuffs of domestic production reached 95.3%, and non-foodstuffs 90.2%, and in the structure of the country's imports, the share of consumer goods fell by 1.2 p.p., foodstuffs by 0.4 p.p. and non-foodstuffs by 0.9 p.p. compared with the first half of 2004 (Graph 3.2.3).

The results achieved in consumer goods production and the steps taken to support domestic producers and exporters lead to the expectation in the second half of 2005 of an increase in consumer goods production by 14-18% and the maintenance of a high degree of saturation of the domestic market with domestically produced goods, with further increases in export volumes and decreases in imports.

3.3. Agrarian Sector

The agrarian sector has been and remains the major object of deepening economic reforms in Uzbekistan. Steps taken to stimulate and support agriculture, to broadly implement market mechanism for running businesses and to implement considerable changes in farmers' activity have achieved a positive outcome.

According to the results of the first half of 2005, growth rates of gross agricultural production amounted to 7.2% (in the respective period of 2004 – 10.4%). In spite of a relative slowing down in growth rates they remain quite sustainable. The slow-down is connected mainly with decreasing growth in crop production, the growth rates of which decreased from 14.9% to 8.2% or by 6.7 p.p., and the stagnant growth rates of livestock farming production, which remained at the level of 2004 (6.1%) (Table 3.3.1).

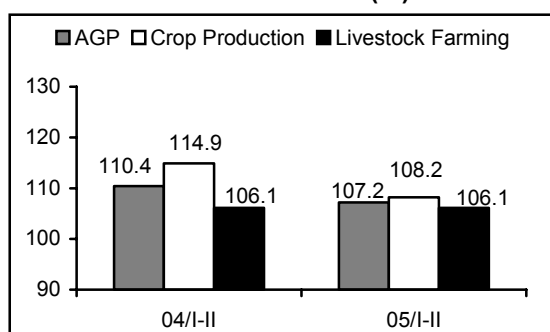
Table 3.3.1. Main Indicators of Development of Agriculture (%)

Indicators	04/ I	04/ I-II	05/ I	05/ I-II
Share of Gross Production of Agriculture in the GDP	9.7	14.5	9.1	14.1
Growth Rates of Production Output of Agriculture				
- Crop Production	106.2	114.9	110.2	108.2
- Livestock Farming	106.8	106.1	106.0	106.1
Structure of Production by Form of Ownership				
- State-Owned	0.9	0.6	0.2	0.6
- Non-State-Owned	99.1	99.4	99.8	99.4
Share of Investments in Agriculture in Total Volume of Investments	5.0	3.0	2.9	3.3

Source: State Committee on Statistics of Uzbekistan

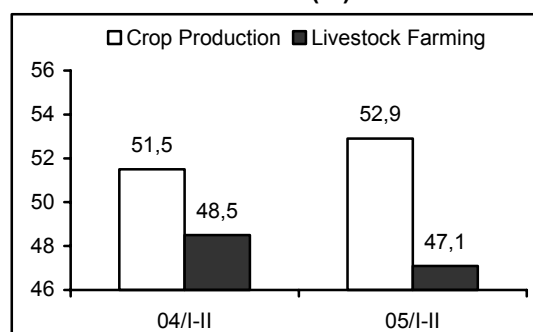
The relative slow-down in growth rates of crop production in the first half of 2005 can be explained to a great extent by bad weather conditions and the dramatic reduction in the productivity of fruit and vegetables compared with 2004 (Graph 3.3.1)

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



Source: State Committee on Statistics of Uzbekistan

Graph 3.3.2 Structure of Agricultural Production (%)



Source: State Committee on Statistics of Uzbekistan

The extent of areas under cultivation decreased from 3695.7 thous. hectares in the first half of 2004 to 3634.7 thous. hectares (by 61 thous. hectares) in the first half of 2005. This may be explained by the delayed distribution of lands to farms and to dekhkan farms. In 2005, cotton was sown on an area of 1431.8 thous. hectares (23.9 thous. hectares less than in 2004). At the same time, a positive shift is being observed towards a reduction in areas under grain and cotton and an increase in fodder crops (Table 3.3.2).

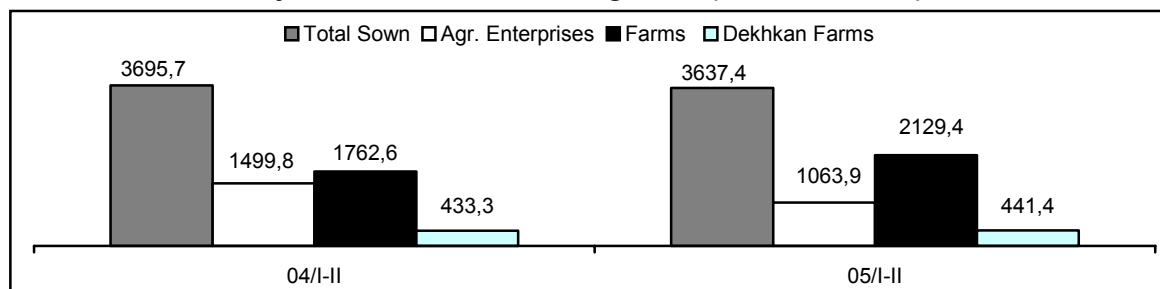
Table 3.3.2. Structural Changes of Areas Under Cultivation

	Unit	04/ I-II	05/ I-II	05/I-II in % to 04/I-II
Total sown	Thousand hectares	3695.7	3634.7	98.3
Grain Crops	Thousand hectares	1382.0	1286.0	93.1
Cotton	Thousand hectares	1455.7	1431.8	98.4
Potatoes	Thousand hectares	52.8	49.8	94.3
Vegetables	Thousand hectares	137.6	137.0	99.6
Melons and Gourds	Thousand hectares	34.7	33	95.1
Fodder Crops	Thousand hectares	284.2	287.8	101.3
Other Crops	Thousand hectares	249.4	409.2	164.1

Source: State Committee on Statistics of Uzbekistan

The share of shirkat farms fell from 40.6% to 29.3% in the structure of area under cultivation by economic entities due to their restructuring into farms. A slight increase in the share of dekhkan farms from 11.7% to 12.1% was observed (Graph 3.3.3).

Graph 3.3.3. Structural Changes in Areas under Crops by Form of Economic Management (thous. hectares)



Source: State Committee on Statistics of Uzbekistan

The reduction of area under agricultural crops did not affect their production volumes. In the first half of 2005, 4098.2 thous. tons of grain were harvested vs. 3889.1 thous. tons in the first half of 2004 (an increase of 105.4%). The average productivity of grain crops as 43.1 centner / hectare (in 2004, 39.0 centner / hectare) (Table 3.3.3).

Table 3.3.3. Main Indicators of Development of Agricultural Production

Product	Unit	04/ I	04/ I-II	05/ I	05/ I-II	05/ I-II in % to 04/ I-II
Grain	Thous. tons	-	3889.9	-	4098.2	105.4
Potatoes	Thous. tons	-	461.9	-	497.2	107.7
Vegetables	Thous. tons	9.5	715.1	10.9	788.3	110.2
Fruit and Berries	Thous. tons	-	208.2	-	240.9	115.7
Grapes	Thous. tons	-	6.9	-	7.6	109.6
Food-Melons and Gourds	Thous. tons	-	25	-	32.3	129.4
Meat (Live Weight)	Thous. tons	204.7	464	218.9	496.0	106.9
Milk	Thous. tons	752.7	1942.5	796.4	2068.1	106.5
Eggs	Mill. pieces	346.5	810.3	355.4	859.3	106.0
Pelts	Thous. pieces	207.2	407.7	225.2	601.9	142.6
Wool	Tons	166	9141	179	9870	107.9
Cocoons	Thous. tons	-	16.8	-	16.0	95.2
Cattle	Thous. tons	5806.4	6203.1	6167.0	6167.0	105.0
Cows	Thous. tons	2546.3	2708.8	2701.0	2201.0	103.6
Pigs	Thous. tons	83.5	80.9	78.7	78.7	102.2
Sheep and Goats	Thous. tons	10634.5	11181.9	11368.8	11368.8	105.7
Poultry	Thous. tons	16743.4	18822.6	17915.3	17915.3	106.6
Horses	Thous. tons	145.4	149.4	150.8	150.8	103.1

Source: State Committee on Statistics of Uzbekistan

Production of the following products grew compared with the previous year: milk by 6.5% (2068.1 thous. tons), meat by 6.9% (496.0 thous. tons), eggs by 6.0% (859.3 mill. pieces), pelts by 47.6% (601.9 thous. pieces) and wool by 7.9% (9870 tons). However, production of silkworm cocoons did not reach the level of the previous year (0.8 thous. tons less than the previous year) (Table 3.3.3).

A relatively high increase was registered in the cattle and poultry population. In all categories of livestock, an increase was achieved. In particular, compared with the corresponding period of 2004, cattle increased by 5.0% (in 2004, by 6.5%), cows by 3.6% (6.2%), pigs by 2.2% (9.9%), sheep and goats by 5.7% (5.3%), poultry by 6.6% (7.0%) and horses by 3.1% (1.4%). (Table 3.3.3). The increase in livestock production was achieved thanks to the increase in its population and the productivity of dekhkan farms.

In accordance with the approved Program of Development of Production and Market Infrastructure, the following were established on the territory of the reorganized farms: 260 mini-banks (183 in 2004), 319 centers for the supply of combustive-lubricating materials (236), 173 centers for the supply of mineral fertilizers (206), 408 alternative machine and tractor fleets (275), 379 Associations of Water Consumers (235), and 137 points for the purchase and sale of agricultural production, which provide services to the newly established farms on a contractual basis on production, and for the purchase and sale of agricultural production.

Accordance with the Order of the President of the Republic of Uzbekistan of 4th November 2004 “On Establishing a Special Commission for Elaborating Proposals on Accelerated Development of Farms in 2005-2007” and the Resolution of the Cabinet of Ministers of 24 December 2004 “On Measures for the Accelerated Development of Farms in 2005-2007,” 445 loss-making, low-profitable and no-prospect shirkats were liquidated and 24.3 farms were created on their basis, with 758.0 thous. hectares of land assigned to them, including 490.7 thous. hectares under cultivation. The number of farms as of 1st July 2005 was 121.6 thous., with 3.7 mill. hectares of land assigned to them, of which 15733 farmers with 583.3 thous. hectares of land specialized in cotton and grain production (on average 37 hectares per farm), 1335 farms specialized in the production of vegetables, 6211 - in gardening and grape cultivation, and the remaining in other areas. The share of farms in the total structure of area under cultivation was 58.6% (42.7% in 2004).

Table 3.3.4. Main Indicators of Activities of Farms

Indicators	Unit	04/ I	04/ I-II	05/ I	05/ I-II
Number of farms	Units	96745	100116	116741	121609
Area of lands assigned to them	Thous. hectares	2531.1	2770	3502.4	3666.4
Area under cultivation	Thous. hectares	-	433.3	-	441.4
Average area of lands per farm	Hectares	26.2	22.7	30.0	30.1
Average personnel per farm	Persons	6.8	7.1	5.8	6.5
Number of employed in farms	Thous. persons	654.5	713.6	680.2	794.3
Share of farms in gross agricultural production	%	2.4	10.5	2.6	12.6
- Crop production	%	0.3	9.5	0.4	11.5
- Livestock farming	%	2.1	1.0	2.2	1.1
Growth rates of production of farms	%	111.4	2.1 times	113.4	129.4
- Crop production	%	116.2	2.4 times	123.0	131.1
- Livestock farming	%	110.8	120.4	111.9	114.5

Source: State Committee on Statistics of Uzbekistan

The growth rate in farm production was 129% vs. 210% in the corresponding period of 2004. Their share in gross agricultural production grew from 10.5% in 2004 to 12.6% in 2005 or by 2.1 p.p. (Table 3.3.4).

Over the period concerned farms produced more wheat by 32.0% (in total 2129.2 thous. tons), potatoes by 31.6% (11.8 thous. tons), vegetables by 18.7% (31.5 thous. tons), fruit and berries by 31.3% (25.3 thous. tons.) and grapes by 2.3 times (0.5 thous. tons) than in the previous year (Table 3.3.5.).

Egg production in farms compared with the corresponding period of the previous year decreased by 2.2 p.p. and amounted to 29.6 mill. pieces. Production of meat grew by 5.3% (in total 8.3 thous. tons), milk by 11.5% (41.6 thous. tons), pelts by 29.8% (22.2 thous. pieces), wool 49.3% (318 tons) and cocoons by 65.8% (6.8 thous. tons). In general the established economic and organizational mechanisms have allowed the efficiency of farm operations to be raised (Table 3.3.5).

Table 3.3.5. Production of Agricultural Output in Farms

Products	Units	04/ I	04/ I-II	05/ I	05/ I-II	05/ I-II in % to 04/ I-II
Grain	Thous. tons	-	1637.6	-	2162.1	132.0
Wheat	Thous. tons	-	1621.0	-	2129.2	131.3
Potatoes	Thous. tons	-	9.0	-	11.8	131.6
Vegetables	Thous. tons	0.5	26.6	0.7	31.5	118.7
Food-Melons and Gourds	Thous. tons	-	1.7	-	2.8	167.1
Fruit and Berries	Thous. tons	-	19.2	-	25.3	131.3
Grapes	Thous. tons	-	0.2	-	0.5	2.3 times
Meat	Thous. tons	3.6	7.9	4.2	8.3	105.3
Milk	Thous. tons	17.6	37.4	19.8	41.6	111.5
Eggs	Thous. pieces	14.5	30.2	14.4	29.6	97.8
Pelts	Thous. pieces	5.4	17.1	6.3	22.2	129.8
Wool	Tons	3	213	4	318	149.3
Cocoons	Thous. tons	-	4.1	-	6.8	165.8
Cattle	Thous. heads	297.2	298.8	312.8	320.7	107.3
Cows	Thous. heads	94.6	93.9	99.2	101.1	107.7
Pigs	Thous. heads	13.5	15.1	13.7	15.7	103.9
Sheep and Goat	Thous. heads	334.4	353.5	443.4	479.0	135.5
Poultry	Thous. heads	680.4	715.1	661.1	795.8	111.3
Horses	Thous. heads	9.7	10.3	11.4	10.9	105.8

Source: State Committee on Statistics of Uzbekistan

75460 farms have, on a voluntary basis, organized 894 Associations of Water Consumers that on a contractual basis carry out water supply and other intraeconomic services; the Associations of Water Consumers have provided services for the supply of water in the amount of 5.1 bn Soum.

There have not been considerable changes in the development of dekhkan farms compared with farms, though they remain the major producers of agricultural products. In the structure of agricultural production output their share remains at the high level of 75.2% (74.9 % in 2004). In dekhkan farms the rate of production grew from 6.3% in the first half 2004 to 7.7%, or by 1.5 p.p. more than in the corresponding period of 2005. This was achieved mainly thanks to an increase in crop production (8.7%). Using just 12.1% of the overall area under cultivation for the production of agricultural crops (11.7% in 2004), dekhkan farms produced 98% of potatoes (97.4% in 2004), 94% of vegetables (93%), 80% of fruit and berries (85%), 89% of melons and gourds (92%), 95% of meat (94.3%), 98% of milk (96%), 76% of wool (74%), 57% of eggs (53%) and 54% of pelts (67%). Their continuing leading role in livestock farming production is related to the fact that overwhelming majority of the livestock and poultry population are at the disposal of dekhkan farms.

Table 3.3.6. Main Indicators of Activity of Dekhkan Farms

Indicator	Unit	04/ I	04/ I-II	05/ I	05/ I-II
Number of Dekhkan Farms	Thous. pieces	4446.5	4480.8	4542.5	4542.7
Area of land assigned to them	Thous. hectares	675.6	676.0	676.6	687.5
Area under cultivation	Thous. hectares	-	433.3	-	441.4
Number of employees on dekhkan farms	Thous. persons	1252.8	1230.3	1269.8	1247.2
Share of dekhkan farms in gross production of agriculture	%	90.0	74.9	90.4	75.2
- Crop Production	%	10.9	59.6	12.7	31.8
- Livestock Farming	%	79.1	91.3	77.7	43.4
Growth rates of production output of dekhkan farms	%	106.9	106.2	107.3	107.7
- Crop Production	%	104.7	105.3	112.9	108.7
- Livestock Farming	%	107.2	106.8	106.5	106.9
Average size of dekhkan farms	Hectares	15.2	15.1	14.9	15.1

Source: State Committee on Statistics of Uzbekistan. *) Estimation

The tendency was maintained of a decreasing share of agricultural enterprises (shirkats) in gross agricultural production, area under cultivation, production of major agricultural crops and in the total structure of livestock and poultry population. This is related to the ongoing reform and restructuring of low-profitable and loss-making shirkats. Within the first half of 2005, 445 shirkats were fully transformed into farms. The share of shirkats in gross agricultural production decreased from 14.6% in the first half of 2004 to 12.2% in the first half of 2005 or by 2.4 p.p.

Table 3.3.7. Production of Output of Agriculture by Dekhkan Farms

Product	Unit	04/ I	04/ I-II	05/ I	05/ I-II	05/ I-II in % to 04/ I-II
Grain	Thous. tons	-	698.5	-	787.5	112.7
Wheat	Thous. tons	-	679.8	-	767.5	100.7
Potatoes	Thous. tons	-	450.5	-	484.2	107.5
Vegetables	Thous. tons	6.4	666.7	8.1	738.9	110.8
Food-Melons and Gourds	Thous. tons	-	22.9	-	28.7	125.3
Fruit and Berries	Thous. tons	-	176.5	-	193.1	109.5
Grapes	Thous. tons	-	6.2	-	6.9	112.9
Meat	Thous. tons	191.9	437.9	204.5	471.0	107.5
Milk	Thous. tons	720.0	1872.2	765.1	2000.1	106.8
Eggs	Mill. pieces	159.1	430.0	180.4	489.5	113.8
Cattle	Thous. heads	5246.1	5648.9	5645.4	5992.3	106.1
Cows	Thous. heads	2365.9	2531.5	2533.1	2638.7	104.2
Pigs	Thous. heads	44.0	45.0	47.2	47.8	106.2
Sheep and Goats	Thous. heads	7398.5	7808.7	8061.9	8353.8	106.9
Poultry	Thous. heads	10799.9	12112.2	12081.6	13627.7	112.5
Horses	Thous. heads	110.9	114.1	117.3	120.8	105.9

Source: State Committee on Statistics of Uzbekistan

Table 3.3.8. Main Indicators of Activity of Agricultural Enterprises (Shirkats)

Indicators	Unit	04/ I	04/ I-II	05/ I	05/ I-II
Share of agricultural enterprises in gross production of agriculture	%	7.6	14.6	7.0	12.2
- Crop production	%	2.6	11.4	2.6	9.7
- Livestock farming	%	5.0	3.2	4.4	2.5
Growth rates of production output of agricultural enterprises	%	103.4	98.0	96.4	88.8
- Crop production	%	111.9	99.4	97.8	88.2
- Livestock farming	%	99.5	93.8	95.7	91.0
Area under cultivation	Thous. hectares	-	1499.8	-	1063.9

Source: State Committee on Statistics of Uzbekistan.

Table 3.3.9. Production Output of Agricultural Enterprises

Product	Unit	04/ I	04/ I-II	05/ I	05/ I-II	05/ I-II in % to 04/ I-II
Grain	Thous. tons	-	1553.8	-	1148.6	105.4
Wheat	Thous. tons	-	1538.8	-	1125.2	73.1
Potatoes	Thous. tons	-	2.4	-	1.2	51.8
Vegetables	Thous. tons	2.7	21.8	2.0	17.9	81.9
Food-Melons and Gourds	Thous. tons	-	0.4	-	0.8	2.1 times
Fruit and Berries	Thous. tons	-	12.5	-	22.5	177.7
Grapes	Thous. tons	-	0.5	-	0.3	49.1
Meat	Thous. tons	9.2	18.2	9.6	16.7	91.7
Milk	Thous. tons	15.1	32.9	11.5	26.4	80.2
Eggs	Thous. tons	172.9	350.1	160.6	340.2	97.2
Cattle	Thous. heads	263.1	255.4	208.8	204.8	80.2
Cows	Thous. heads	85.8	83.4	68.7	68.0	81.5
Pigs	Thous. heads	26.0	20.8	17.8	19.2	92.3
Sheep and Goats	Thous. heads	2901.6	3019.7	2863.5	2987.2	98.9
Poultry	Thous. heads	5263.1	5994.3	5172.6	5646.7	94.2
Horses	Thous. heads	24.8	25.0	22.1	22.3	89.2

Source: State Committee on Statistics of Uzbekistan

Significant changes in the logistical support of agriculture occurred over the period concerned. In the first half of 2005, 1449 tilling and transport tractors were supplied to agriculture (1405 in 2004), including 1235 on a leasing basis (1052 in 2004), 420 tractor trailers (353), 1085 cultivators (850), 830 cotton seeders (60), 328 soil aerators (209) and other machines for plowing the land, cultivating the soil and harvesting fodder. 316 plowing tractors of the caterpillar type were bought.

Services to agricultural producers have consistently been expanded. As of 1st July 2005, 369.3 thous. tons of nitrogen fertilizers, 60.9 thous. tons of phosphate fertilizers and 15.3 thous. tons of potash fertilizers were supplied to agricultural enterprises. 1007 alternative machine and tractors fleets were created on the basis of engine yards and workshops from reorganized shirkats in rural areas.

The intensification of market reforms and the liberalization of the agrarian sector, aimed at achieving the sustainable development of agricultural production and the priority development of farms, depends in many respects on strengthening the material and technical basis of agricultural commodity producers for serving and procuring enterprises; improving mutual settlements between producers and consumers; and strengthening the training and retraining of staff, taking into account their activities in the conditions of market methods of management.

3.4. Investments

The general trend in sustainable development has facilitated investment activity in the economy of Uzbekistan, specifically the growth of capital investments. The implementation of the Investment Program for 2005 resulted in capital investments in the total amount of UZS 1272.8 billion, which is 5.4 percent higher than in the respective period of the previous year.

In January-June of 2005 a number of major facilities were put into operation, including the first power-generating unit of the Talimarjan heat power station, sections of the gas-main pipelines Kagan-Gazli and Mubarek-Gallyaaral, an installation for the utilization of associated gas at Kokdumalak field, and joint ventures with foreign participation in light industry for the production of cotton yarn, knitted goods and apparel (Annex 3.4.1).

The dynamics of the demand for investment under the conditions of the structural transformation of the economy facilitated shifts in the structure of capital investments by form of ownership. The share of investments channeled to the non-public sector increased by 5.3 percent and reached 59.7 percent of the total funds invested in the economy (Table 3.4.1).

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

	04/I	04/I-II	05/I	05/I-II
Capital Investment	100	100	100	100
Public Property	40.8	45.6	32.3	40.3
Non-public Property	59.2	54.4	67.7	59.7

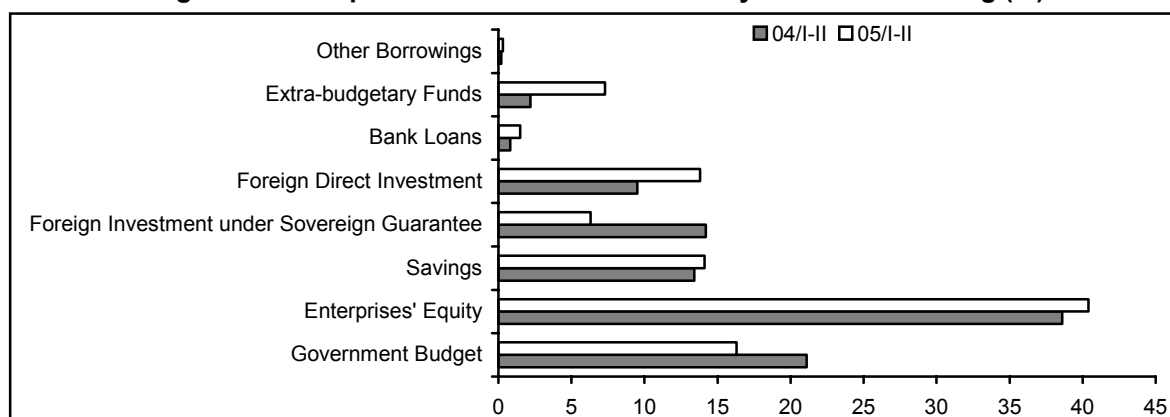
Source: State Statistics Committee of Uzbekistan

The economic reform intensification processes have made a positive impact on the changes in the structure of investments by source of funding. The growth of industrial output facilitated the increase in the share of profits in the equity of enterprises. The share of equity in the overall structure of capital investment by source of funding increased by 1.8 percent,

reaching 40.4 percent. The strengthening of the legal safeguards for businesses, the decrease of the tax burden, the simplification of the tax payment system and the liberalization of financial reporting also contributed to the improvement of the financial sustainability of enterprises.

The favorable macroeconomic environment and the additional measures for stimulating the attraction of foreign direct investment have gained the favorable notice of foreign companies. Foreign investors have strengthened their presence on the domestic market. The share of foreign direct investments in the overall structure increased by 4.3 percent and accounted for 13.8 percent (Figure 3.4.1).

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



Source: State Statistics Committee of Uzbekistan.

Efforts towards further reform and liberalization of the banking system have facilitated an increase in the efficiency and capitalization of the commercial banks as well as their active participation in investment processes. As a result, the share of total investments funded by commercial bank loans increased by 0.7 per-

cent and accounted for 1.5 percent in the overall structure of capital investments. However, the funding of investment projects is still curbed by the high risk due to the current level of interest rates.

In January-February there was an increase in public participation in the funding of capital investments. The share of savings in the total reached 14.1 percent, which was 0.7 percentage points higher than in the previous year. Savings were mainly targeted towards the purchase and construction of housing.

The growth of investment was positively affected by the active attraction of extra-budgetary funds to the implementation of investment projects. The share of extra-budgetary funds in the structure of capital investment increased by 5.1 percent, accounting for 7.3 percent of the total. Extra-budgetary funds, specifically the Road Fund, supported the construction and reconstruction of motor- and railroads.

The progress of liberalization processes in the country had a favorable impact on the decrease in the centralized funding of investments. The share of direct funding of capital investment by the central government decreased by 4.8 percent, and the share of foreign loans under sovereign guarantee decreased by 7.9 percent, accounting for 16.3 and 6.3 percent respectively of the total investment. The bulk of centralized capital investment was channeled to social and economic development needs, for which no alternative funding sources were available (irrigation and land reclamation, construction and reconstruction of education and medical facilities and so forth).

In the first half of 2005 the demand for investment was determined by the aggregate impact of changes in the sectoral and technological structure. An economic upsurge was facilitated by the development of the industry and infrastructure sectors, which resulted in a re-distribution of capital investment flows. Investment into production accounted for 61.1%, which was 3.0% higher than in the previous year (Table 3.4.2.).

The dynamics of investment in production were influenced by the demand for investment in industrial sectors. The share

of investment in industrial sectors accounted for 28.5 percent of the total investments in the economy. In January-June of 2005 this indicator was 4.2 percent higher than in the corresponding period of the previous year. The development of the Kandym group of hydrocarbon fields, the construction of a booster at Gazli PHG and the Dekhkanabad Potash Fertilizer Plant as well as the "Quartz" JSC for the production of glass bottles and a number of joint ventures for the production of consumer goods were all funded by equity and leveraged capital. Reconstruction is progressing at the Samarkand Chemical Plant and Kokand Superphosphate Plant as well as at several mining and smelting combines. Industrial engineering at the UzCase-Tractor JV and modernization of the Tashkent Thermal Power Station are pending.

The structural transformations in the economy call for the priority development of infrastructure and additional investments in the development of transportation and communications. The share of investments in these sectors has increased by 2.6 percent compared to the corresponding period of the previous year and has reached 22.5 percent of their total amount. The modernization of the fleet of diesel locomotives has begun, while the construction of the new railroad track Tashguzar-Baisun-Kumkurgan and of Navoi City airport, the reconstruction of the Navoi-Uchkuduk-Sultanizdag-Nukus railroad, and a number of international highways are progressing. The Agency for Communication and Information is implementing the second stage of the modernization of the network.

Measures for the reform and support of the agrarian sector resulted in a 0.3 percent increase in the share of investment in agriculture, which reached 3.3 percent of total capital investment. The construction of water management facilities in Jizzakh and Sirdarya regions, a drainage system in South Karakalpakstan and reconstruction of pump stations of the Amu-Zang canal is continuing.

In the analyzed period of the current year, there were considerable changes in the structure of foreign capital investment. Its share in production reached 90.6 percent of the total, an increase of 11.9 percent. In the real sector, shares of foreign investment in the development of industry, transportation and communications reached 54.5, 33.7 and 1.8 percent (increases of 17.0, 0.8 and 1.7 percent) respectively. The construction of the above facilities is largely funded by foreign investment, and this affected the growth of its share in industry and agriculture (Table 3.4.3).

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

	04/I	04/I-II	05/I	05/I-II
Total	100	100	100	100
Production, including:	63.4	58.1	67.4	61.1
Industry	25.8	24.3	33.1	28.5
Agriculture	5.0	3.0	2.9	3.3
Construction	0.2	0.3	2.8	0.4
Transportation and Communications	21.7	19.9	22.0	22.5
Trade and Public Catering	1.4	1.3	1.3	0.9
Other	9.3	9.3	5.3	5.5
Non-production	36.6	41.9	32.6	38.9

Source: State Statistics Committee of Uzbekistan.

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

	04/I	04/I-II	05/I	05/I-II
Total:	100	100	100	100
Production, including	81.8	78.7	90.6	90.6
Industry	45.1	37.5	65.3	54.5
Agriculture	0.2	0.1	2.0	1.8
Construction	-	-	0.7	0.3
Transportation and Communications	26.3	32.9	21.9	33.7
Trade and Public Catering	-	-	-	-
Other	10.2	8.2	0.7	0.3
Non-production	18.2	21.3	9.4	9.4

Source: State Statistics Committee of Uzbekistan.

The pattern of investment distribution among industrial sectors has altered as well. The development of the fuel and energy sector, as well as the metallurgy, chemical, petrochemical and light industry sectors has retained a dominating influence on the demand for investment in industry. These particular sectors are characterized by the highest share of investment attractive to foreign investors.

The share of investment in the fuel sector reached 30.6 percent of the total investment in industry. The increase of investment activity by 7.2 percent in metallurgy and by 0.2 percent in mechanical engineering resulted in the growth of the shares of investments in these sectors, which reached 20.2 and 2.6 percent of the total respectively (Table 3.4.4).

The targeted programs passed in 2005 “On Measures for Attracting Investment in the Textile Sector of Uzbekistan” and “On Deepening Economic Reform and Accelerating the Development of the Building Materials Sector” have not yet achieved the anticipated outcomes. The share of capital investment in these sectors decreased by 7.9 and 1.0 percent, i.e. fell to 13.9 and 1.6 percent respectively. The implementation of the above programs will require substantial reorganization of management and marketing in these sectors.

Table 3.4.4. Capital Investment by Industry Sector (%)

	04/I	04/I-II	05/I	05/I-II
Industry, total	100	100	100	100
Power	11.5	11.9	9.5	8.5
Fuel	13.7	18.2	23.1	30.6
Metallurgy	10.6	13.0	12.9	20.2
Mechanical Engineering	2.1	2.4	2.3	2.6
Light	28.1	21.8	15.1	13.9
Food	3.0	4.8	3.5	3.5
Chemical and Petrochemical	24.7	16.9	10.5	7.4
Building Materials	2.0	2.6	4.9	1.6
Other	4.3	8.4	18.2	11.7

Source: State Statistics Committee of Uzbekistan

The share of investment in the following sectors declined: in the chemical and petrochemical industries to 7.4 percent (by 9 percent), in the power sector to 8.5 percent (by 3.4 percent) and in the food sector to 3.5 percent (by 1.3 percent). The implementation of pipe-line investment projects will facilitate the growth of investment in the chemical and petrochemical industry. The modernization of Tashkent Thermal Power Station and work on the relocation of high voltage transmission lines will support the increase of investment activity in the power sector, while intensification of construction of facilities for the production of baby food, dairy products, juices and beverages will support the increase of the share of investment in the food sector.

The change in the structure of capital investment in industrial sectors was also caused by changes in the inflows of foreign investment. The share of foreign investment in the fuel sector increased to 24.1 percent and in metallurgy to 16.9 percent. The significant growth of foreign investment in the fuel and metallurgy sectors is linked with the beginning of the development of the Kandym Group of hydrocarbon fields and the technical re-equipment of current mining facilities (Table 3.4.5).

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

	04/I	04/I-II	05/I	05/I-II
Industry, Total	100	100	100	100
Power	8.8	6.8	6.6	3.4
Fuel	2.1	2.2	6.3	24.1
Metallurgy	0.0	-	11.3	16.9
Mechanical Engineering	0.2	0.5	0.2	1.5
Light	55.2	56.2	31.9	32.4
Food	0.6	3.3	2.6	2.9
Chemical and Petrochemical	32.0	24.7	1.2	0.5
Building Materials	-	2.2	8.7	-
Other	1.1	4.1	31.2	18.3

Source: State Statistics Committee of Uzbekistan

The share of foreign investment in the mechanical engineering sector increased by 1.0 percent and reached 1.5 percent of the total foreign investment in industry in the first half of 2005. Foreign investment in light industry decreased by 23.8 percent, in the chemical and petrochemical industry by 24.2 percent and in the food industry by 0.4 percent. In the power sector the decrease accounted for 3.4 percent. This decrease in

foreign investment in individual industrial sectors is caused by the delay in the implementation of the projects envisaged by the Investment Program.

Modernization of the economy accelerated progressive transformations in the technological structure or application of capital investment. There was an increase in costs for the purchase of machines and equipment and a decrease in costs for new construction. The share of investment for the acquisition of new machines and equipment increased by 1.6 percent and accounted for 34.0 percent of the total investments in the economy. The above transformations should facilitate the decrease in wear-and-tear on the active part of fixed production assets, i.e. the increase in their technological level (Table 3.4.6.). In general, a certain positive shift was achieved in boosting investment processes during the first half of 2005.

Table 3.4.6. Technological Structure of Capital Investment (%)

	04/I	04/I-II	05/I	05/I-II
Total	100	100	100	100
Building and Assembly	52.6	53.8	48.5	54.2
Machinery, Equipment, Tools	36.1	32.4	37.7	34.0
Other Costs	11.3	13.8	13.8	11.8

Source: State Statistics Committee of Uzbekistan

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

Period	Industry	Including:									
		Power Industry	Fuel Industry	Ferrous Metallurgy	Non-Ferrous Metallurgy	Chemical Industry	Machine-Building	Construction Materials Industry	Light Industry	Food 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	12.6	2	14.7	5.2	10.8	3.6	25.1	9.2	6.4
04/I-II	100.0	10.4	13.2	2.4	16.1	5.7	11.8	3.9	21.1	9	6.4
05/I	100.0	11.1	15.8	2.4	15.6	5	12.3	2.9	21.8	7.4	5.7
05/I-II	100.0	11.2	16	2.6	16.4	5.3	13.3	3.5	18.3	7.7	5.7

* including timber, wood-working industry

Source: State Committee on Statistics of Uzbekistan

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

Period	Industry	Including:								
		Power Industry	Fuel Industry	Ferrous Metallurgy	Non-Ferrous Metallurgy	Chemical Industry	Machine-Building	Construction Materials Industry	Light Industry	Food Industry
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
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
04/I-II	109.6	102.2	108.5	115.2	105.7	100.1	132	113.5	104.7	101.2
05/I	108.3	98.2	99.2	127.4	100.7	107.3	149.5	104.4	113.1	100.1
05/I-II	107.5	98.2	99.7	126.2	96.2	107.7	138.1	108.3	113.5	105.6

Source: State Committee on Statistics of Uzbekistan

Annex 3.2.1. Dynamics of Consumer Goods Production (in % to Corresponding Period)

	2000	2001	2002	2003	2004	04/I	05/I	04/I-II	05/I-II
Consumer Goods	106.2	107.6	108.4	108.4	113.4	114.9	116.4	114.4	117.1
Foodstuffs	110.5	110.2	116.1	106.6	109.9	117.6	100.2	112.8	107.0
Wine and Liquor, Beer	108.1	102.6	95.5	98.2	100.9	101.7	106.5	104.5	101.4
Non-Foodstuffs	101.7	106.3	103.7	112.1	118.6	114.2	133.6	117.3	128.0
Light Industry Goods	117.3	110.7	105.8	112.2	99.4	101.8	98.3	105.5	97.2

Source: State Committee on Statistics of Uzbekistan

Annex 3.2.2. Dynamics of Production of Major Types of Consumer Goods by Industrial Enterprises
*** (in % to Corresponding Period)**

	2000	2001	2002	2003	2004	04/I	05/I	04/I-II	05/I-II
Cotton Fabrics	108.1	110.8	106.9	97.8	82.0	86.2	83.4	85.2	76.5
Silk Fabrics	102.0	98.3	97.4	100.3	91.4	104.6	88.9	93.9	81.1
Carpets and Carpet goods	69.6	104.8	108.3	2.8 times	140.2	103.6	102.8	148.9	94.6
Hosiery	119.0	63.3	77.0	188.4	110.0	104.3	157.0	101.4	82.0
Knitwear Goods	97.1	85.7	82.4	100.6	95.9	91.3	102.4	84.8	114.8
Footwear	111.0	149.1	109.5	99.9	81.9	68.0	105.7	76.1	109.7
Milk and Dairy Products	91.3	99.2	115.9	107.6	183.4	2.2 times	88.6	167.8	111.9
Cheese, including brynza	89.5	82.2	74.3	78.4	89.1	100.0	107.1	87.9	65.5
Canned Goods	101.5	97.1	101.3	119.8	80.9	114.2	183.8	110.2	151.6
Sugar	48.6	2.8 times	7.6 times	114.2	78.0	149.8	44.6	93.8	58.9
Flour	95.8	103.4	87.1	73.7	145.6	2.3 times	88.7	2.1 times	85.7
Bread and Baked Goods	106.7	100.2	99.5	55.2	89.0	75.4	83.9	84.7	78.1
Pasta	107.5	110.0	81.0	60.4	110.1	123.3	41.6	105.0	70.9
Vegetable Oil	108.0	96.2	93.8	97.8	100.5	86.4	114.1	86.7	123.8
Grape Wine	88.4	118.6	116.7	73.4	59.9	74.6	90.3	64.0	91.5
Vodka and Liquors	99.1	92.5	92.5	96.6	107.1	99.2	104.3	109.1	92.7
Non-Alcohol Beverages	107.7	76.6	93.1	25.3	26.9	5.5	11.1 times	10.8	10.9 times
Filterless and Regular Cigarettes	72.8	89.8	101.0	92.5	94.6	85.0	93.9	91.2	87.4

Source: State Committee on Statistics of Uzbekistan

* Data for 2003-2005 given on large-scale enterprises

Annex 3.2.3. Dynamics of Consumer Goods Production in the Regions
(In % to Corresponding Period)

	2000	2001	2002	2003	2004	04/I	05/I	04/I-II	05/I-II
R. of Uzbekistan	106.2	107.6	108.4	108.4	113.4	114.9	116.4	114.4	117.1
R. of Karakalpakstan	105.9	113.5	104.3	104.7	110.3	119.0	117.1	122.8	107.0
Andijan	92.6	123.7	97.8	120.3	145.3	133.3	180.3	136.4	159.6
Bukhara	105.9	107.4	103.3	106.0	107.8	107.8	104.7	107.6	104.8
Jizzakh	123.6	119.3	159.3	129.0	115.2	113.0	120.6	117.8	117.7
Kashkadarya	113.1	112.7	108.5	108.8	117.1	127.0	107.8	124.7	110.7
Navoi	115.5	99.98	114.5	105.3	97.3	107.3	98.3	106.4	100.6
Namangan	124.3	111.8	118.1	114.0	110.4	124.7	112.1	116.1	107.0
Samarkand	92.4	102.6	102.5	106.8	109.9	100.3	110.1	102.0	100.7
Surkhandarya	111.9	100.9	114.8	106.2	115.2	129.5	101.8	124.1	95.1
Sirdarya	110.1	120.2	103.0	104.2	107.5	108.0	109.9	115.3	99.1
Tashkent	112.5	114.1	106.6	107.1	111.7	106.6	107.7	111.1	106.2
Fergana	111.3	98.1	106.4	101.6	119.2	113.2	115.8	122.4	113.0
Khorezm	107.8	94.0	95.0	114.5	101.4	96.6	96.5	102.5	106.5
Tashkent City	111.3	101.3	120.2	102.7	103.4**	115.7	107.4*	101.5	103.7

Source: State Committee on Statistics of Uzbekistan

* Without Shakar Investment JV and Toshkent tuqimachilik kombinati JSC

** Without Coca Cola Ishimligi and Shakar Investment JV

**Annex 3.2.4. Consumer Goods Production in the Regions of
the Republic of Uzbekistan in the First Half of 2005**

	Production (In % to previous period)				
	Consumer Goods, Total	Foodstuffs	Wine and Liquor, Beer	Non-Foodstuffs	Light Industry Goods
R. of Uzbekistan	117.1	107.0	101.4	128.0	97.2
R. of Karakalpakstan	107.0	116.0	107.4	74.3	72.6
Andijan	159.6	116.4	103.4	164.6	94.5
Bukhara	104.8	107.9	100.1	102.9	103.6
Jizzakh	117.7	114.3	x	166.2	125.9
Kashkadarya	110.7	110.8	52.5	124.1	121.1
Navoi	100.6	112.3	88.5	93.5	58.6
Namangan	107.0	109.9	106.8	100.8	105.3
Samarkand	100.7	110.4	95.0	93.2	100.2
Surkhandarya	95.1	92.5	90.3	123.1	148.0
Sirdarya	99.1	106.4	51.6	101.5	97.7
Tashkent	106.2	105.0	117.0	100.0	93.0
Fergana	113.0	114.5	70.6	114.0	97.9
Khorezm	106.5	131.3	72.5	85.1	71.3
Tashkent City	103.7	96.9	97.9	118.9	104.7

Source: State Committee on Statistics of Uzbekistan
Non-Foodstuffs including light industry goods.

**Annex 3.2.5. Territorial Structure of Consumer Goods Production in
the Regions of the Republic of Uzbekistan in the First Half of 2005**

	Territorial Structure of Production (%)				
	Consumer Goods, Total	Foodstuffs	Wine and Liquor, Beer	Non-Foodstuffs	Light Industry Goods
R. of Uzbekistan	100.0	100.0	100.0	100.0	100.0
R. of Karakalpakstan	1.8	3.3	4.2	0.4	1.8
Andijan	28.9	4.9	2.9	48.9	13.1
Bukhara	7.7	8.1	4.6	7.7	18.1
Jizzakh	2.9	6.6	X	0.5	0.8
Kashkadarya	4.1	8.6	1.1	1.2	4.6
Navoi	1.8	2.0	0.3	1.9	1.7
Namangan	4.0	6.8	2.9	2.1	9.8
Samarkand	8.3	9.9	8.1	7.1	4.6
Surkhandarya	2.3	4.7	3.6	0.5	1.0
Sirdarya	1.4	2.8	1.5	0.4	1.3
Tashkent	9.8	8.9	47.4	6.5	11.6
Fergana	9.2	7.0	2.7	11.5	13.2
Khorezm	2.7	4.1	3.4	1.5	5.3
Tashkent City	15.2	22.3	17.4	9.8	13.1

Source: Author's computations based on data from the State Committee on Statistics of Uzbekistan

Annex 3.2.6. Commodity Structure of Consumer Goods Production in the Regions of the Republic of Uzbekistan in the First Half of 2005

	Commodity Structure (%)				
	Consumer Goods, Total	Foodstuffs	Wine and Liquor, Beer	Non-Foodstuffs	Light Industry Goods
R. of Uzbekistan	100.0	39.3	5.9	54.8	9.9
R. of Karakalpakstan	100.0	73.2	13.7	13.1	10.2
Andijan	100.0	6.7	0.6	92.7	4.5
Bukhara	100.0	41.5	3.5	55.0	23.3
Jizzakh	100.0	90.4	X	9.6	2.9
Kashkadarya	100.0	82.9	1.5	15.5	11.3
Navoi	100.0	42.7	1.1	56.3	9.0
Namangan	100.0	67.0	4.3	28.7	24.5
Samarkand	100.0	47.2	5.8	47.0	5.5
Surkhandarya	100.0	79.1	9.1	11.8	4.1
Sirdarya	100.0	78.7	6.3	15.0	9.5
Tashkent	100.0	35.5	28.4	36.0	11.7
Fergana	100.0	29.9	1.7	68.4	14.2
Khorezm	100.0	60.8	7.5	31.7	29.8
Tashkent City	100.0	58.0	6.8	35.3	8.6

Source: Author's computations based on data from the State Committee on Statistics of Uzbekistan

Annex 3.3.1. Main Indicators of Development of Agricultural Production

	Unit	2000	2001	2002	2003	2004	04/ I	04/ I- II	05/ I	05/ I-II
Grain	Thous. tons	3929	4072	5792.6	6262.3	6017.1	-	3889.9	-	4098.2
Potatoes	Thous. tons	731.1	744	777.2	827.8	892.7	-	461.9	-	497.2
Vegetables	Thous. tons	2644	2778	2935.6	3299.2	3315.9	9.5	715.1	10.9	788.3
Fruit and Berries	Thous. tons	791	801	842.9	758.7	846.3	-	208.2	-	240.9
Grapes	Thous. tons	624.2	573	516.4	401.4	577.6	-	6.9	-	7.6
Food-Melons and Gourds	Thous. tons	451.4	466	479.1	583.3	571.3	-	25.0	-	32.3
Meat (Live weight)	Thous. tons	842	854	865	935.5	996.3	204.7	464.0	218.9	496.0
Milk	Thous. tons	3633	3665	3721.3	4030.3	4279.8	752.7	1942.5	796.4	2068.1
Eggs	Mill. pieces	1254	1288	1368.9	1611.4	1859.9	346.5	810.3	355.4	859.3

Source: State Committee on Statistics of Uzbekistan

Annex 3.3.2. Distribution of Gross Agricultural Production by Form of Economic Management (%)

	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
Gross Agricultural Production	100	100	100	100	100	100	100	100	100
Agricultural enterprises	27.8	26.8	25.6	23.5	19.9	7.6	14.6	7.0	12.2
Farms	5.5	6.9	10.0	14.1	20.4	2.4	10.5	2.6	12.6
Dekhkan Farms	66.7	66.3	64.1	62.4	59.7	90.0	74.9	90.4	75.2
Crop Production	100	100	100	100	100	100	100	100	100
Agricultural enterprises	46.4	42.6	42.6	37.8	30.9	2.6	11.4	2.6	9.7
Farms	9.7	11.7	17.8	25.3	35.9	0.3	9.5	0.4	11.5
Dekhkan Farms	43.9	45.7	39.6	36.9	33.2	10.9	59.6	12.7	31.8
Livestock farming	100	100	100	100	100	100	100	100	100
Agricultural enterprises	9.0	9.3	8.7	8.1	7.2	5.0	3.2	4.4	2.5
Farms	1.3	1.6	2.0	2.2	2.3	2.1	2.2	2.2	1.1
Dekhkan Farms	89.7	89.1	89.3	89.7	90.5	79.1	91.3	77.7	43.4

Source: State Committee on Statistics of Uzbekistan

Annex 3.4.1. Dynamics of Capital Investment in Current Prices

	Capital Investment, UZS billion	Increase to the respective period of the previous year, %
1995	88.8	4
1996	176.7	7
1997	276.6	17
1998	396.4	15
1999	537.4	2
2000	744.5	1
2001	1320.9	3.4
2002	1526.6	3.8
2003	1899.2	4.8
2004	2473.2	5.2
04/I	346.8	-0.4
04/I-II	951.6	2.2
05/I	502.2	4.2
05/I-II	1272.8	5.4

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	05/I	05/I-II
Capital Investment	100	100	100	100	100	100	100	100	100
Public Property	63.8	47.0	40.8	40.4	41.4	40.8	45.6	32.3	40.3
Non-public Property	36.2	53.0	59.2	59.6	58.6	59.2	54.4	67.7	59.7

Source: State Statistics Committee of Uzbekistan

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

	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
Total	100	100	100	100	100	100	100	100	100
Government Budget	29.2	21.5	23.9	17.4	14.9	19.5	21.1	13.6	16.3
Enterprises' Equity	27.1	31.1	41.2	41.1	43.2	37.4	38.6	45.9	40.4
Savings	12.0	10.3	11.4	13.7	12.4	14.0	13.4	12.0	14.1
Foreign Investment under Sovereign Guarantee	19.8	23.2	14.8	17.8	14.5	17.6	14.2	7.5	6.3
Foreign Direct Investment	3.4	4.8	5.3	7.0	10.0	10.4	9.5	12.4	13.8
Centralized Bank Loans	5.1	5.9	-	-	-	-	-	-	-
Loans by Commercial Banks	1.7	2.2	2.4	1.8	2.3	0.6	0.8	2.6	1.5
Extra-budgetary Funds	1.3	0.1	0.2	0.4	2.4	0.5	2.2	5.7	7.3
Other Borrowings	0.4	0.9	0.8	0.8	0.3	0.0	0.2	0.3	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	05/I	05/I-II
Total	100	100	100	100	100	100	100	100	100
Production	57.5	63.1	59.5	63.0	64.1	63.4	58.1	67.4	61.1
Industry	29.7	38.9	32.9	28.0	28.6	25.8	24.3	33.1	28.5
Agriculture	5.7	5.4	6.7	4.3	3.4	5.0	3.0	2.9	3.3
Construction	0.5	0.6	0.7	0.5	0.5	0.2	0.3	2.8	0.4
Transportation & Communications	16.7	14.0	10.4	20.3	23.1	21.7	19.9	22.0	22.5
Trade and Public Catering	3.0	1.5	1.6	3.3	1.3	1.4	1.3	1.3	0.9
Other Areas	1.9	2.7	7.2	6.6	7.2	9.3	9.3	5.3	5.5
Non-production	42.5	36.9	40.5	37.0	35.9	36.6	41.9	32.6	38.9

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	05/I	05/I-II
Industry, Total	100	100	100	100	100	100	100	100	100
Power	5.3	3.8	6.0	9.4	9.5	11.5	11.9	9.5	8.5
Fuel	20.2	32.3	28.5	21.3	20.3	13.7	18.2	23.1	30.6
Metallurgy	9.0	11.5	12.4	22.3	16.4	10.6	13.0	12.9	20.2
Mechanical Engineering	13.8	14.6	10.2	3.7	3.2	2.1	2.4	2.3	2.6
Light	7.9	15.9	14.3	21.3	20.7	28.1	21.8	15.1	13.9
Food	8.4	5.8	7.9	3.8	5.0	3.0	4.8	3.5	3.5
Chemical and Petrochemical	26.7	9.9	11.9	9.2	7.6	24.7	16.9	10.5	7.4
Building Materials	0.9	1.2	1.6	1.6	2.0	2.0	2.6	4.9	1.6
Other	7.8	5.0	7.2	7.4	15.3	4.3	8.4	18.2	11.7

Source: State Statistics Committee of Uzbekistan

Annex 3.4.6. Technological Structure of Capital Investment (%)

	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
Total	100	100	100	100	100	100	100	100	100
Building and Assembly	58.1	48.2	49.4	48.4	45.6	52.6	53.8	48.5	54.2
Machinery, Equipment, Tools	30.6	39.5	38.6	39.7	43.6	36.1	32.4	37.7	34.0
Other Costs	11.3	12.3	12.0	11.9	10.8	11.3	13.8	13.8	11.8

Source: State Statistics Committee of Uzbekistan

4. Foreign Trade

4.1. Trade balance, Exports, Imports

In the second quarter of 2005, indicators of foreign trade improved significantly. For the first time since 2000, foreign trade turnover reached a maximal quarterly level of 2.5 bln. USD, including 1.5 bln. USD in exports, and 1.0 bln. USD in imports. As a result, in the first half of 2005, the foreign trade turnover of Uzbekistan increased by 16.6% against the level of the corresponding period of 2004 and amounted to 4.8 bln. USD. At the same time, 58.4% of the total volume of foreign trade turnover consisted of exports, and 41.6% of imports. Exports grew slightly faster than imports, by 16.7% vs. 16.4% respectively.

As before, a positive factor in the increase of exports remained the favorable conjuncture of prices for the main export commodities of the republic. World prices for raw cotton and cotton continued to grow. This is explained by the fact that in 2005 the volume of production of cotton in the world decreased by 9 percent, while consumption increased by 2 percent. Previously, in the world market, Uzbek cotton would sell at prices lower than the minimal prices and produced only the cheapest kinds of cotton. Now, the situation has changed and prices for Uzbek cotton have grown, as the level of processing approaches international standards. During the second quarter of 2005, prices for gold also increased, from 427 USD per ounce to 444 USD per ounce, spurred by high oil prices and the weakening Euro.¹ State measures for attracting investments, including foreign investments, into the textile sectors of the republic on the basis of domestic raw-material based production of cotton, as well as for ensuring the export of no less than 80% of the total textile products produced, contributed to the growth of exports of finished goods from the republic. The implementation of measures on Uzbekistan's accession to the WTO, together with the cessation of the Agreement on Textiles and Clothing as of January 1, 2005, and the abolishment of import quotas for textiles in the markets of Europe, the USA and Canada, may significantly increase the export potential of the republic's textile industry.

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

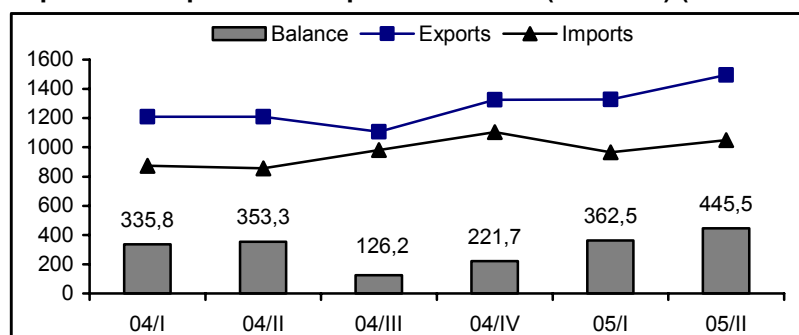
Indicators	04/I-II	05/I-II	including		change in volume, in %	
			04/II*	05/II*	05/I-II to 04/I-II	05/II to 04/II
Foreign trade turnover	4150.7	4838.6	2066.5	2545.3	116.6	123.2
CIS countries	1331.3	1653.9	721.3	916.2	124.2	127.0
Non-CIS countries	2819.4	3184.7	1345.2	1629.1	113.0	121.1
Exports	2419.9	2823.3	1209.9	1495.4	116.7	123.6
CIS countries	694.3	828.6	369.6	486.2	119.3	131.5
Non-CIS countries	1725.6	1994.7	840.3	1009.2	115.6	120.1
Imports	1730.8	2015.3	856.6	1049.9	116.4	122.6
CIS countries	637.0	825.3	351.7	430.0	129.6	122.3
Non-CIS countries	1093.8	1190.0	504.9	619.9	108.8	122.8
Trade balance	689.1	808.0	353.3	445.5	X	X
CIS countries	57.3	3.3	17.9	56.2	X	X
Non-CIS countries	631.8	804.7	335.4	389.3	X	X
Structure of foreign trade turnover, %	100.0	100.0	100.0	100.0	X	X
CIS countries	32.1	34.2	34.9	36.0	X	X
Non-CIS countries	67.9	65.8	65.1	64.0	X	X

Source: State Committee on Statistics of Uzbekistan

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

The results of the first half of 2005 show that the coefficient of exports over imports equaled 1.40, including 1.0 for trade with CIS countries, and 1.68 for trade with non-CIS countries. The corresponding indicators for 2004 were 1.40; 1.09; and 1.58 respectively. As a result, the active trade balance equaled 808.0 mill. USD (445.3 mill. USD in the second quarter) and significantly increased in comparison to the first half of 2004, by 118.9 mill. USD (and by 92.2 mill. USD in comparison with the second quarter of 2004) (Table 4.1.1, Appendix 4.1.1, Graph 4.1.1). 99% of the active balance of trade turnover, which in monetary terms equalled 804.7 mill. USD, was received in the first half of 2005 through trade with non-CIS foreign countries in the first and second quarters. As for the CIS countries, the trade balance in the first half of 2005 equaled 3.3 mill. USD, thanks to a positive trade balance in the second quarter amounting to 56.2 mill. USD. The first quarter resulted in a negative trade balance of 52.9 mill. USD.

¹ Information from Internet (russian.people.com.cn, gazeta.kz, quote.ru).

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

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

The structure of exports is expected to go through further qualitative changes. In the first half of 2005, and during the second quarter, the volume of exports grew in all commodity groups. The volume of exports increased from enterprises of such associations as "Uzeltetprom", "Uzmetcombinat", "Uzavtoprom", "Uzagromashservice", "Uzmyasomolprom", "Uzstroyaterialy". Significant growth in the second quarter was observed in the exports of the commodity group of non-raw

materials (by 1.2-2.4 times) in comparison with the corresponding period of 2004. In the first half of 2005, exports of machinery and equipment increased by 1.5 times (2.4 times in the second quarter) in comparison with the corresponding period of 2004; exports of chemical products – by 1.1 times (1.2 times in the second quarter).

Table 4.1.2. Commodity Structure of Exports (%)

Groups of commodities	Share in the total volume of exports, %				Change in volume, %	
	04/I-II	05/I-II	including		05/I-II to 04/I-II	05/II to 04/II
			04/II*	05/II*		
Cotton fiber	22.3	21.2	19.1	15.9	111.3	103.3
Foodstuffs	3.8	3.3	3.3	3.6	100.3	134.3
Chemical products, plastics, and plastic goods	4.3	4.1	4.5	4.4	111.0	121.0
Energy carriers	10.7	9.3	13.4	11.3	101.7	104.0
Non-ferrous and ferrous metals	7.9	9.1	8.8	8.5	134.1	119.5
Machinery and equipment	6.7	9.0	5.1	10.1	154.8	245.1
Services	11.1	10.9	10.9	10.7	115.2	121.3
Other	33.2	33.1	34.9	35.5	116.3	125.6
Total	100.0	100.0	100.0	100.0	116.7	123.6

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

At the same time, the share of exports of machinery and equipment in the first half of 2005 equaled 9.0% (an increase of 2.3 percentage points over the first half of 2004) and chemical products – 4.1% (a decrease of 0.2 times) (Table 4.1.2, Appendix 4.1.2). Significant growth in exports of the machine-building sector resulted from the high pace of development in machine-building and metal-refinery, especially in the

automobile building industry, because of increased production capacities and stimulated production of final goods. For example, a special Presidential Decree was adopted in March, 2005, in order to support the production of the "Lacetti" automobile, in accordance with which spare parts and components of "Lacetti" that are imported for assembly through contracts between "UzDaewoo" stock company and "General Motors Daewoo Auto and Technology" are exempt from import tariffs. In the chemical industry, exports of products for non-organic chemistry continued to grow as did exports of fertilizers and chemical staple fibers. At the same time, a decline in exports of pharmaceutical products was observed, which was caused by the reduced volume of production in the enterprises of "Uzfarmsanoat".

Unlike in the first quarter, during the second quarter exports of foodstuffs increased by 34.3% over the corresponding period of the previous year, mainly because of exports of vegetables, fruits, and baked goods. As a result, during the first half of 2005, in comparison with the corresponding period of 2004, exports of foodstuffs increased by 0.3% and their share in the total volume of exports equaled 3.3%.

At present, products of reprocessed fruits and vegetables account for approximately 14% of the total volume of exports. On this commodity, Uzbekistan could significantly increase its export potential, given the fact that the republic possesses a huge resource potential and can grow more than 10 mln. tons of fruits and vegetables a year, not to mention the renowned quality and delicious taste of its fruits, grapes and melons. For this reason, it would be expedient to increase the competitiveness of its products, taking into account the world market for such products as frozen fruits, vegetables, berries, fruit juices and syrups, puree, jams, fruits in syrup, and mixed vegetables with an increased content of cellulose. The longevity of products becomes a more attractive factor in the market of foodstuffs.

In the first half of 2005, exports of cotton fiber increased by 11.3%, energy carriers – by 1.7%, non-ferrous and ferrous metals – by 34.1%. At the same time, share of cotton fiber in the total volume of exports de-

creased by 1.1 percentage points and equaled 21.1%; energy carriers – by 1.4 p.p. (9.3%); and non-ferrous and ferrous metals – by 1.2 p.p. (9.1%).

The volume of exports of services increased by 15.2% over the first half of 2004, including by 21.3% in the second quarter (Table 4.1.2). Transportation services accounted for 68% of the total volume of exports of services. Tourism and computer and information services maintained insignificant shares in the total volume of exports of services, 4.3% and 0.1% respectively.

In the commodity structure of imports, growth continued in the volume of imports of products necessary for the reproduction cycle of enterprises and the implementation of investment projects, particularly those using foreign investments. That group includes such commodities as machinery and equipment, chemical products, non-ferrous and ferrous metals (Table 4.1.3, Appendix 4.1.3).

The volume of imports of the leading commodity group, machinery and equipment, increased by 17.1% in comparison with the corresponding period of 2004, including by 33.5% in the second quarter. As a result, the share of imports of this commodity group increased by 0.2 p.p. and reached 45.8% of total imports. Imports of chemical products increased by 14.6%, while imports of ferrous and non-ferrous metals increased by 50.1%. Their shares in the total volume of imports equaled, respectively, 12.9% (a decrease of 0.2 p.p. in comparison with the first half of 2004) and 10.8% (an increase of 2.4 p.p.). Imports of technological equipment continue to grow as do those of organic chemical compounds, pharmaceutical products, fertilizers, perfumery and cosmetics, washing products, plastic goods, ferrous metals and goods made of ferrous metals.

Table 4.1.3. Commodity Structure of Imports (%)

Commodity groups	Share in the total volume of imports, %				Changes in volume, %	
	04/I-II	05/I-II	including		05/I-II to 04/I-II	05/II to 04/II
			04/II*	05/II*		
foodstuffs	8.0	7.0	7.0	7.1	101.9	124.6
chemical products, plastics and plastic goods	13.1	12.9	14.8	13.9	114.6	115.1
energy carriers	2.3	2.0	2.5	1.7	99.0	82.9
ferrous and non-ferrous metals	8.4	10.8	9.3	11.7	150.1	154.8
machinery and equipment	45.6	45.8	40.9	44.6	117.1	133.5
services	11.6	9.0	13.6	8.1	90.3	72.9
other	11.0	12.5	11.9	12.9	132.1	132.7
total	100.0	100.0	100.0	100.0	116.4	122.6

Source: State Statistics Committee of Uzbekistan

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

Unlike in the previous quarters, in the second quarter of 2005, imports of foodstuffs increased by 24.6% over the corresponding period of 2004. In the first half of 2005, imports of foodstuffs increased by 1.9% and their share in the total volume of imports equaled 7.0%. An increase was observed in imports of baked goods, sugar and confectionery products.

In the second quarter of 2005, imports of energy carriers decreased significantly, by 17.1%, as did imports of services, by 27.1%. As a result, in the first half of 2005, imports of energy carriers decreased by 1%, and services by 9.7%. Their shares in the total volume of imports equaled 2.0% and 9.0%, respectively. A significant reduction in the shares of construction and transport services was observed.

In the first half of 2005, imports from the group "other" increased by 32.1% in comparison with the corresponding period of 2004 and its share in the total volume of imports amounted to 12.5%. The growth was mainly caused by an increase in imports of timber and wooded products, textile goods, and ores.

With regard to territorial structure, trade turnover with CIS countries continued to grow more rapidly (1.24 times) than trade turnover with non-CIS countries (1.13 times) thanks to both export and import operations. At the same time, the share of CIS countries in foreign trade turnover increased from 32.1% in the first half of 2004 to 34.2% in the period under review, while that of foreign countries decreased from 67.9% to 65.8% (Table 4.1.1). Thus, the tendency of establishing and strengthening traditional trade links with partners from the CIS was observed.

Exports to CIS countries increased by 1.19 times in comparison with the first half of 2004, and by 1.16 times to non-CIS countries (Table 4.1.1). At the same time, the share of exports to the CIS increased from 28.7% to 29.3%, while exports to non-CIS countries decreased from 71.3% to 70.7% (Table 4.1.4). During the period under review, supplies of machinery and equipment to CIS countries more than doubled. According to half-year results from sales of passenger cars on the Russian market, Daewoo Nexia became the best-

selling car, and Daewoo Matiz (one of two Uzbekistan-made cars offered on the Russian market) reached sixth place.² As for non-CIS countries, exports of such goods as foodstuffs, energy carriers, and non-ferrous metals grew faster than others.

During the first half of 2005, in comparison with the corresponding period of the previous year, imports from CIS countries grew faster than those from non-CIS countries, by 1.30 times vs. 1.09 times. Consequently, the share of imports from CIS countries increased from 36.8% to 41.0%, while imports from non-CIS countries decreased from 63.2% to 59.0% (Tables 4.1.1 and 4.1.4). The focus of import supplies tended to shift towards CIS countries, allowing the economic resources of Uzbekistan to be used more efficiently thanks to relatively less expensive imports from the CIS.

The following six countries became the main trade partners for Uzbekistan's exports in the first half of 2005: Russia – 17.1% of exports (164.1% of the level of the first half of 2004), Iran – 7.6% (138.5%), Great Britain – 7.2% (95.8%), Turkey – 5.7% (131.9%), Switzerland – 4.7% (104.7%), and Kazakhstan – 3.9% (147.0%), (Table 4.1.4, Appendix 4.1.4). The volume of exports to Belgium decreased by 1.7 times in comparison with the first half of 2004.

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

Countries	Share in total volume, %							
	Of Exports				Of Imports			
	04/I-II	05/I-II	Including		04/I-II	05/I-II	Including	
			04/II*	05/II*			04/II*	05/II*
Total	100	100.0	100	100.0	100	100.0	100	100.0
CIS countries	28.7	29.3	30.5	32.5	36.8	41.0	41.1	41.0
Kazakhstan	3.1	3.9	3.6	3.7	6.1	6.0	7.0	5.6
Russia	12.1	17.1	13.2	19.7	22.9	25.2	24.9	25.4
Tajikistan	3.2	2.8	2.7	2.4	1.2	0.3	0.9	0.2
Ukraine	1.3	1.2	1.4	1.1	4.1	6.7	5.3	7.1
Other countries	9.0	4.3	9.6	5.6	2.5	2.8	3.0	2.7
Non-CIS countries	71.3	70.7	69.5	67.5	63.2	59.0	58.9	59.0
Belgium	1.8	0.9	1.4	0.9	0.6	0.7	0.5	0.7
Great Britain	8.7	7.2	10.7	5.8	1.7	1.5	1.9	1.5
Germany	1.0	1.2	0.8	1.2	6.2	6.4	6.1	6.0
India	2.5	0.5	0.4	0.4	0.7	0.7	0.8	0.6
Iran	6.4	7.6	6.1	6.6	1.1	0.7	0.9	0.6
China	2.2	1.7	2.3	1.4	8.7	5.4	8.5	6.8
South Korea	1.4	1.0	1.1	0.8	9.0	13.7	9.7	12.5
Netherlands	0.4	0.6	0.7	0.7	0.7	0.6	0.7	0.7
USA	2.9	2.4	3.4	2.3	10.4	3.4	6.5	3.1
Turkey	5.0	5.7	4.6	4.9	5.3	4.6	4.6	5.0
France	0.7	0.9	10.2	1.3	1.1	1.0	1.1	0.9
Switzerland	5.3	4.7	3.2	3.8	0.3	0.7	0.4	0.9
Japan	0.3	0.5	0.3	0.6	1.6	1.5	1.7	1.4
Other countries	32.7	35.8	24.3	36.8	15.8	18.1	15.5	18.3

Source: State Statistics Committee of Uzbekistan

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

The majority of imports (71.4%) was delivered from eight countries: Russia, whose share in total imports equaled 25.2% (128.4% of the level of the first half of 2004), South Korea – 13.7% (176.9%), Ukraine – 6.7% (192.3%), Germany – 6.4% (119.9%), Kazakhstan – 6.0% (114.0%), China – 5.4% (72.9%), Turkey – 4.6% (101.9%) and the USA – 3.4% (37.5%) (Table 4.1.4, Appendix 4.1.5). The most positive balance of trade turnover was formed with Great Britain, Iran, Switzerland, Tajikistan and Turkey, while the most negative balance was observed in trade with South Korea, Ukraine, Germany, and China.

Thus, in the first half of 2005, the indicators of foreign trade turnover improved. The qualitative changes in the commodity structure of exports and imports continued. The accelerating growth of exports of goods with high value added and the further optimization of the structure of imports were observed. Trade links with partners from CIS have improved. The active balance of trade turnover has increased.

4.2. Enterprises with Foreign Investments

The realization of targeted measures from the Program for Attracting Investments for 2005-2007 positively affected the investment climate in the republic and the development of enterprises with foreign investments during the first half of 2005. In the first half of 2005, enterprises with foreign investments (EFIs) produced goods and services in the amount of 989.7 bn. Soums (Table 4.2.1). Increases in production volumes were

²Information from the Internet ("Asian cars battle for Russia", rbcdaily.ru, August, 2005).

observed in machinery building, metal refining, light industry, foodstuffs production, non-ferrous metallurgy, and the chemical and petrochemical branches of industry.

During the period under review, in comparison with the corresponding period of 2004, three thousand new jobs were created at enterprises with foreign investments. The growth of foreign trade turnover in the first half of 2005, including the second quarter, amounted to 37.3% and 33.8% respectively over the corresponding period of 2004. During the period under review, the share of EFIs in the foreign trade turnover of the republic increased by 3.8 and 1.9 percentage points respectively.

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

	Unit	04/ I-II	05/ I-II	04/ II*	05/ II*	05/ I-II in % to 04/ I-II	05/ II in % to 04/ II
Volume of production of goods, works and services of enterprises with foreign investments (in current prices)	bn. Soums	783.7	989.7	x	x	x	x
Number of employees (full time) at the end of the reporting period	people	106881	110125	x	x	103.0	x
Number of operating enterprises with foreign investments (at the end of period)	units	2290	2483	x	x	108.4	x
Foreign trade turnover	bn. USD	894.9	1229.0	486.7	651.4	137.3	133.8
Exports	bn. USD	375.6	417.7	211.3	211.4	111.2	100.1
Imports	bn. USD	519.3	811.3	275.4	444.0	156.2	161.2
Share of EFIs in the total trade turnover of the republic	%	21.6	25.4	23.6	25.5	x	x
Share of EFIs' exports in the total volume of exports of the Republic	%	15.5	14.8	17.5	14.1	x	x
Share of EFIs' imports in the total volume of imports of the Republic	%	30.0	40.3	32.2	42.3	x	x

Source: State Statistics Committee of Uzbekistan

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

In the first half of 2005, exports of EFIs throughout the whole Republic amounted to 417.7 mill. USD, or 14.8% of the gross exports of the Republic, showing an 11.2% increase from the level of the corresponding period of 2004. During the first half of 2005, the share of EFIs in the total volume of exports of the republic decreased by 0.7 p.p. This was mainly caused by the sharp reduction of exports in the commodity group "other" in the second quarter of 2005, which was a result of the reduced production of certain types of export commodities. Moreover, during the second quarter of 2005, export volumes of EFIs remained practically at the level of the second quarter of 2004, while gross exports of Uzbekistan increased by 23.6%. This trend resulted in a significant decrease in EFIs' share in exports in the second quarter of 2005 (by 3.4 p.p.) as opposed to the corresponding period of 2004.

In the first half of 2005, EFIs' imports of goods, works and services throughout the republic amounted to 811.3 mil. USD or 40.3% of the total volume of imports into the republic, including 444.0 mil. USD and 42.3% respectively, in the second quarter. The growth of import volumes of EFIs in the total volume of imports of Uzbekistan equaled 10.3 p.p. in the first half of 2005, including 10.1 p.p. in the second quarter. This substantial growth resulted chiefly from the necessity of bringing in investment goods for reproduction processes and the realization of new projects with the participation of foreign capital.

Table 4.2.2. Growth Rates and Commodity Structure of Exports of EFIs

	growth rates, %		Share in the total volume of exports, %			
	05/ I-II to 04/ I-II	05/ II to 04/ II	2004/ I-II	2005/ I-II	2004/ II*	2005/ II*
Total	111.2	100.1	100	100	100	100
Cotton-fiber	69.6	49.5	2.7	1.7	3.7	1.8
Foodstuffs	114.8	132.7	4.5	4.6	3.5	4.7
Chemical products	163.7	187.0	2.6	3.8	2.3	4.3
Energy carriers	151.7	140.2	3.0	4.1	3.4	4.7
Ferrous and non-ferrous metals	53.3	101.4	1.1	0.5	0.7	0.7
Machinery and equipment	196.3	163.9	24.6	43.4	26.0	42.6
Services	147.9	157.5	3.6	4.7	3.4	5.3
Others	71.3	62.9	58.1	37.2	57.1	35.9

Source: State Statistics Committee of Uzbekistan

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

In the first half of 2005, in the commodity structure of exports of EFIs, the greatest share was achieved by machinery and equipment (43.4%), followed by the group "others" (37.2%). The growth of exports of machinery-building products was mainly provided by supplies of passenger cars produced in the JV "UzDae-wooAuto" and is related with the increase in its production volumes (in the first half of 2005, production increased by 60.6% in comparison to the corresponding period of 2004). The competitiveness of its products is increasing constantly as measures of the program of localization are being implemented, in accordance with which about 10 new components of cars produced by the JV are produced domestically. The main markets for the JV's products are the CIS countries (Russia, Kazakhstan and others).

More than 30% of the goods in the group "others" belonged to EFIs which produce textiles, products of light industry, industrial construction materials, wood processing and other sub-sectors of the industry. The main types of export commodities include finished textile goods and garments, including cotton fabrics, cotton yarn, bed sets, t-shirts and suits made of mixed fabrics, and furniture. About half of the exports from the commodity group "others" consisted of precious metals and goods made of those metals.

Exports of EFIs throughout the territories of Uzbekistan were characterized by positive shifts. EFIs significantly increased export volumes in such regions as the Republic of Karakalpakstan (by 47.6 times), Jizzakh province (by 8.2 times), and Surkhandarya province (by 98.5 times) (Table 4.2.3).

At the same time, in the same regions and in Sirdarya and Khorezm provinces, the share of exports of EFIs accounted for less than 1% of the total exports of all EFIs in Uzbekistan.

During the period under review, EFIs in 7 provinces of the country decreased their export volumes. This group includes such provinces as Bukhara, Kashkadarya, Navoi, Samarkand, Tashkent, Fergana, and Khorezm.

Table 4.2.3. Growth Rates and Territorial Structure of Exports of EFIs

	growth rates, %		Share of the region in total exports of EFIs of the republic, %	
	05/ I-II to 04/ I-II	04/ I-II	04/ I-II	05/ I-II
Total	111.2	100	100	100
R. Karakalpakstan	4761.6	0	0	0.9
Andijan	199.6	23.3	23.3	41.9
Bukhara	76.8	2.1	2.1	1.4
Jizzakh	820.2	0.0	0.0	0.1
Kashkadarya	60.6	1.9	1.9	1.0
Navoi	66.3	30.4	30.4	18.1
Namangan	107.5	2.3	2.3	2.2
Samarkand	88.2	2.7	2.7	2.2
Surkhandarya	198.5	0.2	0.2	0.3
Sirdarya	130.1	0.3	0.3	0.3
Tashkent	87.3	12.7	12.7	9.9
Fergana	79.9	10.9	10.9	7.9
Khorezm	55.7	0.4	0.4	0.2
City of Tashkent	117.7	12.7	12.7	13.4

Source: State Statistics Committee of Uzbekistan

The share of exports of EFIs in the total exports of the regions significantly increased in such provinces as Andijan (by 26.3 p.p.), Namangan (7.7 p.p.), Samarkand (7.3 p.p.), and Fergana (12.7 p.p.). High growth rates were observed in imports in such sectors as metallurgy (by 2.2 times) and machinery building (by 72.1%) (Table 4.2.4). At the same time, products of machinery building had the greatest share (60.2%) in total imports of EFIs of the Republic.

The positive trend of a decrease in imports of chemical products in the total volume of imports of EFIs was observed during the first half of 2005, from 14% in the first half of 2004 to 11.5% in the first half of 2005, and that of foodstuffs, from 13.6% to 9.7%. Positive results were mainly provided by growth in the domestic production of products of those sectors and by previously adopted measures for the protection of local producers. In particular, import tariffs of 5-10% for certain types of foodstuffs remained in force – since their adoption in 2004 replacing zero tariffs – which in turn resulted in a reduction in imports of foodstuffs.

Table 4.2.4. Growth Rates and Territorial Structure of Imports of EFIs

	growth rates, %		share in total volume of imports, %			
	05/ I-II to 04/ I-II	05/ II to 04/ II	04/ I-II	05/ I-II	04/ II*	05/ II*
Total	156.2	159.8	100	100	100	100
Foodstuffs	111.1	137.9	13.6	9.7	11.9	9.7
Chemical products	128.3	124.3	14.0	11.5	12.4	12.2
Energy carriers	62.9	37.4	0.6	0.3	0.4	0.2
Ferrous and non-ferrous metals	222.9	233.3	6.1	8.6	5.4	10.2
Machinery and equipment	172.1	176.8	54.6	60.2	57.9	58.4
Services	116.8	108.8	4.5	3.3	4.0	3.2
Other	151.7	140.7	6.6	6.4	8.1	6.2

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

A similar trend continued in the second quarter of 2005 for all commodity groups (except products of machinery building and metallurgy complexes) in comparison with the corresponding period of 2004.

During the period under review, the indicator of the coefficient of EFIs' exports over imports worsened (Graph 4.2.1.). In the first quarter of 2005, it equaled 0.56, dropping to 0.48 in the second quarter. This occurred because of the maintenance of export volumes in the second quarter of 2005 at the level of the previous year, despite the accelerated growth of imports, mainly of investment goods of the metallurgy and machinery-building complexes. This eventually led to an increase in the negative trade balance of EFIs in this period from 64.2 mil. USD to 232.6 mil. USD.

During the period under review the trend of an increase in foreign trade turnover of EFIs with partners from the CIS was observed. Their share in the total trade turnover of all EFIs in the Republic increased from 23.7% in the first half of 2004, to 30.7% in the period under review (Table 4.2.5). The share of trade turnover with non-CIS countries decreased by 7 p.p.

Growth rates of exports to the CIS equaled 170.7%, while exports to other countries decreased by 20%, which is explained mainly by expanded relations with the countries

of the CIS and the continuing trend of increased demand in the markets of those countries. The regime of free trade within the CIS continues to play a significant role in improving foreign trade. During the period under review, imports from the CIS grew by 88.5%, while imports from non-CIS countries grew by 50.1%.

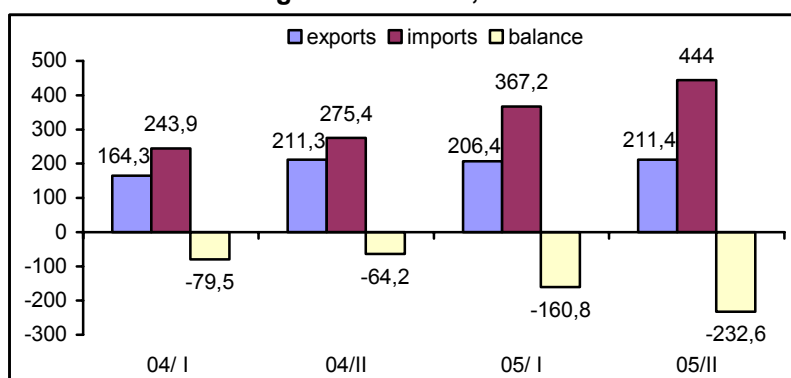
Despite the more accelerated growth of imports in the trade turnover of EFIs with CIS, the trade balance resulted in a positive number (64.5 mil. USD).

An analytical review of operations of EFIs showed that imports continued to surpass exports, resulting in a negative trade balance (-393.6 mil. USD).

Reasons for the continuing negative balance of foreign trade turnover for all EFIs in the Republic lie mainly in the profitability of selling goods in the domestic market and in existing opportunities for repatriating profits. In addition, imports' surpassing exports is caused by the need to bring in investment goods for newly established EFIs. Positive facts in the development of EFIs were the increase in production volumes as well as in export volumes.

During the first half of 2005 several measures for establishing EFIs were adopted. The results of the first half of 2005 show that during that period, in accordance with the programs of the Cabinet of Ministers of Uzbekistan for establishing EFIs in 2005, 23.4% were actually implemented throughout the republic. The best results in implementing the program were achieved in such provinces as Samarkand (45%), Namangan (40%), and the city of Tashkent (38.5%). The relatively low level of implementation of "The Program of Attracting Foreign Investments into the Regions in 2005-2007" is explained by the non-fulfillment of tasks for establishing EFIs, including JVs, in some regions of the republic.

Graph 4.2.1. Dynamics of Exports/Imports of Enterprises with Foreign Investments, mill. USD



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

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

	Volume, mill. USD		Share in total volume, %	
	04/ I-II	05/ I-II	04/ I-II	05/ I-II
Foreign trade turnover	894.9	1229.0	100	100
Countries of CIS	212.0	376.7	23.7	30.7
Other foreign countries	682.8	852.3	76.3	69.3
Exports	375.6	417.7	100	100
Countries of CIS	129.2	220.6	34.4	52.8
Other foreign countries	246.4	197.1	65.6	47.2
Imports	519.3	811.3	100	100
Countries of CIS	82.8	156.1	16.0	19.2
Other foreign countries	436.4	655.2	84.0	80.8
Trade balance	-143.7	-393.6	x	X
Countries of CIS	46.3	64.5	x	X
Other foreign countries	-190.0	-458.1	x	X

Source: State Statistics Committee of Uzbekistan

During the period under review, there were no JVs established in the Republic of Karakalpakstan or in Navoi and Tashkent provinces. The main reasons for this include the insufficiently active participation of local administrative bodies and the absence of appropriate conditions for training specialists in management and professional-technical positions for JVs. In addition, the issue of providing a developed system of market infrastructure remains critical, including in the spheres of banking, transportation and communal-housing services. One reason for the situation is the absence of a clear system for monitoring foreign projects in order to provide assistance to foreign investors in the early stages of their operations in the Republic. In the Republic of Karakalpakstan, in addition to the factors mentioned, the situation is worsened by unfavorable circumstances for establishing and ensuring the successful operation of EFIs, in the form of scarcity of water resources and the poor economic situation.

In the near future, it is necessary to create conditions for the professional training of specialists for joint ventures and to implement measures for the development of market infrastructure in underdeveloped regions. It is necessary to pay special attention to the development of effective investment proposals in the regions, and to seek and attract foreign investors.

Further development of EFIs in Uzbekistan mainly depends on the implementation of the system of measures for the stimulation of private investments, which was developed by the government for the near future. In particular, the Decree of the President of the Republic of Uzbekistan "On Additional Measures for Stimulating the Attraction of Private Foreign Direct Investments" (from 11 April 2005) is aimed at improving the investment climate in the Republic; attracting private foreign direct investments for the implementation of programs on privatization, modernization, technical re-equipment and the reconstruction of production: creating new jobs in labor-intensive regions; and ensuring reliable legal protection and guarantees for foreign investors in the future. In accordance with the Decree from July 1, 2005, those enterprises in radio-electronics, light industry, silk, foods, industrial construction materials, and chemical-pharmaceutical sectors that attract private direct foreign investments are exempt from taxes (for a period up to seven years, depending on the amount of investment) on income, property, development of social infrastructure, development of a territory, ecology, and the single tax for micro-firms and small enterprises, as well as from deductions for the Republican Road Fund. These enterprises are to be allocated throughout the country, aiming to eliminate territorial disproportions in labor-intensive regions, such as the Republic of Karakalpakstan, Jizzakh, Kashkadarya, Sirdarya, Surkhandarya, and Khorezm provinces, and in rural areas of such provinces as Navoi, Andijan, Namangan, and Fergana.

Annex 4.1.1. Trade balance (mill. USD)

Period	Exports	Imports	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
04/II*	1209.9	856.6	353.3
05/I	1327.9	965.4	362.5
05/II*	1495.4	1049.9	445.5

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

Annex 4.1.2. Commodity Composition of Exports (%)

Period	Cotton fiber	Foodstuffs	Chemical products, plastics and plastic goods	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services	Other goods	Total (%)	Total (mill. USD)
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
04/II*	9.1	3.3	4.5	13.4	8.8	5.1	10.9	34.9	100.0	1209.9
05/I	27.3	2.9	3.8	7.2	9.7	7.7	11.2	30.3	100.0	1327.9
05/II*	15.9	3.6	4.4	11.3	8.5	10.1	10.7	35.5	100.0	1495.4

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

Annex 4.1.3. Commodity Composition of Imports (%)

Period	Foodstuffs	Chemical products, rubber and rubber products	Energy carriers	Non-ferrous and ferrous metals	Machinery and equipment	Services	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
04/II*	7.0	14.8	2.5	9.3	40.9	13.6	11.9	100.0	856.6
05/I	7.0	11.9	2.3	9.8	47.2	9.9	11.9	100.0	965.4
05/II*	7.1	13.9	1.7	11.7	44.6	8.1	12.9	100.0	1049.9

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

Annex 4.1.4. Geographical Structure of Exports (%)

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Foreign countries	Belgium	Great Britain	Iran	South Korea	Netherlands	USA	Turkey	Switzerland	Other countries
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
04/II*	1209.9	100.0	30.5	3.6	13.2	1.4	12.3	69.5	1.4	10.7	6.1	1.1	0.7	3.4	4.6	3.2	38.3
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
05/II*	1495.4	100.0	32.5	3.7	19.7	1.1	8.0	67.5	0.9	5.8	6.6	0.8	0.7	2.3	4.9	3.8	41.7

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

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

Annex 4.1.5. Geographical Structure of Imports (%)

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Foreign countries	Great Britain	Germany	China	South Korea	USA	Turkey	France	Japan	Other countries
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
04/II*	856.6	100.0	41.1	7.0	24.9	5.3	3.9	58.9	1.9	6.1	8.5	9.7	6.5	4.6	1.1	1.7	18.8
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
05/II*	1049.9	100.0	41.0	5.6	25.4	7.1	2.9	59.0	1.5	6.0	6.8	12.5	3.1	5.0	0.9	1.4	21.8

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

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

Annex 4.2.1. Commodity Composition of EFI Exports (%)

	Total. mill. USD.	Total %	Cotton- fiber	Foodstuffs	Chemical products	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
04/ II*	211.3	100	3.7	3.5	2.3	3.4	0.7	26.0	3.4	57.1
05/ I	206.4	100	1.5	4.5	3.3	3.4	0.4	44.1	4.2	38.6
05/ I*1	211.4	100	1.8	4.7	4.3	4.7	0.7	42.6	5.3	35.9

Source: State Statistics Committee of Uzbekistan

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

Annex 4.2.2. Commodity Composition 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	0.6	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
04/ II*	275.4	100	11.3	15.8	0.8	7.0	53.3	4.7	7.1
05/ I	367.2	100	9.7	10.7	0.3	6.8	62.3	3.5	6.7
05/ II*	444.0	100	9.7	12.2	0.2	10.2	58.4	3.2	6.2

Source: State Statistics Committee of Uzbekistan

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

Annex 4.2.3. Territorial Structure of EFI Exports (%)

	Total. mill. USD	Total %	R. Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samar kand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tashkent
2000	451.6	100	0.0	13.3	0.3	0.1	0.0	31.9	4.2	2.8	0.0	5.0	14.0	7.2	0.2	21.0
2001	416.9	100	0.0	18.6	0.1	0.3	0.0	29.0	2.0	2.2	0.0	1.0	18.7	7.4	0.2	20.5
2002	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
04/ II*	211.3	100	0.0	24.5	2.7	0.0	1.7	33.3	1.7	1.9	0.2	0.2	12.3	9.0	0.2	12.1
05/ I	206.4	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
05/ II*	211.4	100	0.9	40.5	1.7	0.1	0.9	19.3	2.0	1.8	0.3	0.4	9.0	7.9	0.3	14.8

Source: State Statistics Committee of Uzbekistan

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

Annex 4.2.4. Territorial Structure of EFI Imports (%)

	Total. mill. USD	Total %	R. Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samar kand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tashkent
2000	760.5	100	0.3	28.3	1.0	1.1	0.3	4.6	1.6	4.3	0.3	0.2	8.4	1.4	0.1	48.1
2001	937.2	100	0.3	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
04/ II*	275.4	100	0.5	26.9	0.8	0.4	0.6	8.9	1.7	3.3	0.8	1.6	4.7	1.5	0.8	48.2
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
05/ II*	444.0	100	0.2	31.5	0.3	0.0	3.7	4.8	0.8	2.1	0.1	0.8	3.3	0.8	0.2	51.4

Source: State Statistics Committee of Uzbekistan

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

5. Living Standards and the Labor Market

5.1. Incomes and Expenditures of the Population

The gradual increase of living standards of the population was identified as one of the priority tasks of the economic reforms of 2005. Securing 5.9% growth of per capita GDP has contributed to an increase in the monetary income of the population. According to the balance of monetary income and expenditures of the population, nominal monetary income in the republic during the first half of 2005 increased by 22.7% (against 16.1% in the first half of 2004) and amounted to 4207.5 bn. Soums. Growth of the population's monetary income was mainly provided by a 26.5% increase in wages (as opposed to an 18% increase in the first half of 2004), social transfers – by 38.7% (against 30.1%) and income from entrepreneurial activities by 22.6% (against 11.4%). As a result, the share of wages in the monetary income of the population equaled 27.1% (against 26.3% in the first half of 2004), the share of social transfers – 15.2% (against 12.6%), and the share of entrepreneurial income – 29.2% (against 30.0%) (Table 5.1.1).

Table 5.1.1. Structure of Monetary Income of the Population (based on the balance of monetary income and expenditures of population)

Indicators	In percentage to the total volume		In percentage to the corresponding period of the previous year	
	04/I-II	05/ I-II	04/I-II	05/ I-II
Monetary income, total	100	100	116,1	122,7
Pensions, benefits, and stipends	26.3	27.1	118.0	126.5
Income from sales of agricultural products	12.6	15.2	130.1	138.7
Income from entrepreneurial activities and other income	31.1	28.5	113.7	112.6
Monetary income, total	30.0	29.2	111.4	122.6

Source: State Statistics Committee of Uzbekistan

Growth in wages was provided by: a) an increase in the number of the employed in the economy, including in the private sector (253 new jobs were created in the first half of 2005); b) starting May 1, 2005, an increase of 1.2 times in the wages of employees of budget departments and organizations, all types of pensions and social benefits, and stipends of students of higher educational institutions – based on the Decree of the President of the Republic of Uzbekistan of April 13, 2005. The minimal wage was set at 7,835 soums. The increase in entrepreneurial incomes of the population was secured by government measures for the further stimulation of the development of small and private businesses and the growth of employment in small entrepreneurship. As a result of the development of individual entrepreneurship, the share of small entrepreneurship in GDP increased: from 15.2% in the first half of 2004 to 16.6% in the corresponding period of 2005.

At the same time, a trend of increase in inter-regional differentiation in the income of the population from 1:5.0 to 1:6.1 was observed (Table 5.2.3). Only Navoi province and Tashkent city were identified as regions whose average per capita monetary income was higher than the national average. In Jizzakh, Samarkand, Sirdarya, and Khorezm provinces, as well as in the Republic of Karakalpakstan, average per capita incomes were within the range of 60% to 70% of the national average level. The growth of wages, ensured by an increase in investment attractiveness and the development of the manufacturing sector in those regions, will serve as a preventative measure in lowering inter-regional differentiation in the population's income throughout the country.

In the structure of monetary income of the population, a decrease in the share of consumption expenditures, along with a gradual rise of savings, was observed. Consumption expenditures in the monetary income of the population had a tendency toward decrease, from 78.2% to 76.7% (Table 5.1.2). The disposable income of the population, after all types of expenditures, increased from 0.5% to 1.7% in relation to the volume of monetary income.

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

Periods	Monetary income of population	Of which monetary expenses			Cash remainder
		Consumption expenses	Compulsory payments and mandatory contributions	Bank deposits, purchase of securities and hard currency	
2004/I	100	77.6	7.8	14.8	-0.2
2004/I-II	100	78.2	8.0	14.4	-0.6
2005/I	100	78.1	7.2	14.2	0.5
2005/I-II	100	76.7	7.4	14.2	1.7

Source: State Statistics Committee of Uzbekistan

In the structure of consumption expenses of the population, the share of foodstuffs decreased from 61.8% in the first half of 2004 to 58.4% in the period under review (Table 5.1.3). The population's expenditures for non-foodstuffs increased from 21.6% in the first half 2004 to 24.8% in the period under review. The structure of the population's expenditures for paid services has changed. Expenses for communal services increased (from 1.6% in the first half of 2004 to 2.0% in the period under review) while expenses for transport services have decreased (from 5.5% in the first half of 2004 to 4.9% in the period under review).

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

Years	Consumption expenses of population	including expenses for:								
		Foodstuffs	Non-foodstuffs	Services	of which:					Others
					Housing and communal services	Transportation	Consumer services	Education	Health-care	
2004/I	100	60.4	23.1	15.8	6.3	5.3	1.5	0.9	0.4	0.7
2004/I-II	100	61.8	21.6	16.0	6.5	5.5	1.6	0.6	0.4	0.6
2005/I	100	59.7	22.8	16.9	6.6	5.3	2.0	0.7	0.4	0.6
2005/I-II	100	58.4	24.8	16.2	6.5	4.9	2.0	0.6	0.4	0.6

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

These changes were caused by price factors. The consumer price index increased from 99.7 in the first half of 2004 to 105.5 in the period under review. In the structure of paid services an increase in the share of communal services and a decrease in the share of transportation services were caused by a slow-down in the growth of the price index for transportation services (from 111.3 in the first half of 2004 to 105.8 in the period under review) and communal services (from 111.8 in the first half of 2004 to 110.7 in the period under review).

Table 5.1. 4. Consumer Price Index (as percentage to the corresponding period of the previous year)

Year	Consumer price index	including for:							
		Foodstuffs	non-foodstuffs	services	of which:				
					communal	transportation	housing	education	health-care
2004/I	100.7	93.6	107.2	126.6	156.3	110.5	111.8	105.6	109.9
2004/I-II	99.7	99.2	106.9	126.1	154.8	111.3	111.8	105.6	109.9
2005/I	104.2	100.5	104.5	119.2	141.9	106.8	111.7	109.7	106.8
2005/I-II	105.5	102.7	104.2	118.7	140.0	105.8	110.7	109.9	106.6

Source: State Statistics Committee of Uzbekistan

In general, during the first half of 2005 the trend of an increase in the monetary income of the population continued. Growth was mainly provided by an increase in wages and entrepreneurial incomes. Changes in the structure of consumer expenditures were caused by an increase in incomes as well as by price factors. The increase in the share of housing services and decrease in the share of transportation services were caused by the moderate growth of prices indices for those types of services.

5.2. Domestic Trade and Services

In the first half of 2005, the growth rate of the volume of services rendered continued to surpass the growth of the volume of goods sold. As a result, the share of services in the total volume of sales of goods and services to the population reached 21.2%, as opposed to 20.1% in the first half of 2004 (Table 5.2.1).

The volume of retail turnover equaled 2579.4 bill. UZS, and of paid services – 694.5 bill. UZS. At the same time, trade turnover increased by 8.1%, paid services – by 11.6% (Table 5.2.2). The maintenance of a moderate level of inflation,

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

Years	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
2004/I-II	2734.5	100	2184.7	79.9	549.8	20.1
2005/I	1558.0	100	1241.9	79.7	316.1	20.3
2005/I-II	3273.9	100	2579.4	78.8	694.5	21.2

Source: State Statistics Committee of Uzbekistan

the growth in the monetary income of the population, and the increase in the volume of production of consumer goods were identified as the main factors in the growth of retail turnover and paid services.

Table 5.2.2. Retail Trade Turnover and Paid Services

Periods	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
2004/I-II	2184.7	104.2	549.8	113.5
2005/I	1241.9	108.7	316.1	114.2
2005/I-II	2579.4	108.1	694.5	111.6

Source: State Statistics Committee of Uzbekistan

Retail turnover. The growth of retail trade turnover in the first half of 2005 was achieved mainly by Andijan, Fergana, Tashkent provinces and the city of Tashkent. It was conditioned by the relatively high level of monetary incomes and the moderate level of growth of consumer prices in those regions

(Table 5.2.3). Interregional differentiation of retail turnover had a tendency of gradual growth, from 1:5.6 to 1:6:0, which was caused by the low efficiency of market mechanisms that regulate the flow of goods entering the retail network, especially in rural trading enterprises.

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

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-II	05/ I-II	04/I-II	05/ I-II	04/I-II	05/ I-II	04/I-II	05/ I-II
R. Karakalpakstan	76.1	88.7	101.3	104.4	40.9	47.8	8.6	10.6
Andijan	133.6	149.6	102.2	104.7	98.5	107.7	16.6	20.8
Bukhara	128.2	148.5	100.6	105.7	74.3	90.7	19.8	25.9
Jizzakh	84.7	90.7	100.9	104.5	49.7	56.1	10.9	13.7
Kashkadarya	102.8	118.1	102.3	105.8	64.0	73.0	8.5	11.3
Navoi	206.8	237.8	99.0	105.0	77.2	90.2	17.8	25.1
Namangan	88.0	112.7	99.0	103.7	64.2	75.2	10.8	14.1
Samarkand	90.1	106.6	99.5	106.9	58.4	69.2	13.5	17.2
Surkhandarya	96.9	115.9	98.2	106.3	61.6	76.0	9.7	11.9
Sirdarya	94.6	111.2	99.5	104.8	51.4	56.2	8.7	11.9
Tashkent	142.5	159.8	98.7	104.7	98.8	109.7	13.8	17.6
Fergana	127.1	135.4	99.6	105.8	90.9	97.5	12.2	17.2
Khorezm	89.8	107.7	100.9	107.8	50.4	67.0	14.2	19.7
Taskhent city	375.9	539.4	99.0	105.9	231.0	287.6	93.5	111.5
R. of Uzbekistan	133.0	161.3	99.7	105.5	84.4	98.5	21.3	26.5
Level of interregional differentiation	5.0 times	6.1 times	-	-	5.6 times	6.0 times	11.0 times	10.5 times

Source: State Statistics Committee of Uzbekistan

In the structure of trade turnover, the ratio of foodstuffs to non-foodstuffs has been shifting towards a decrease in foodstuffs (from 57.6% in the first half of 2004 to 55.6% in the period under review) and an increase in non-foodstuffs (from 42.4% to 44.4%). The ratio of foodstuffs to non-foodstuffs in the structure of trade turnover in the first half of 2005 was 55.6% to 44.4% (Table 5.2.4).

Table 5.2.4. Structure of Retail Trade Turnover Per Capita

Regions	Retail trade turnover per capita, UZS thous.		In percent to total volume			
			Foodstuffs		Non-foodstuffs	
	04/I-II	05/ I-II	04/I-II	05/ I-II	04/I-II	05/ I-II
R. Karakalpakstan	40.9	47.8	23.7	26.1	17.2	21.7
Andijan	98.5	107.7	47.8	53.8	50.7	53.9
Bukhara	74.3	90.7	44.9	55.4	29.4	35.3
Jizzakh	49.7	56.1	26.0	27.2	23.7	28.9
Kashkadarya	64.0	73.0	38.8	40.7	25.2	32.3
Navoi	77.2	90.2	40.6	48.5	36.6	41.7
Namangan	64.2	75.2	30.0	36.9	34.2	38.3
Samarkand	58.4	69.2	36.1	42.6	22.3	26.6
Surkhandarya	61.7	76.0	31.0	42.5	30.7	33.5
Sirdarya	51.4	56.2	29.4	31.1	22.0	25.1
Tashkent	98.8	109.7	53.2	53.3	45.6	56.4
Fergana	90.9	97.5	50.2	52.9	40.7	44.6
Khorezm	50.4	67.0	29.3	37.5	21.1	29.5
Taskhent city	231.0	287.6	156.0	176.0	75.0	111.6
R. Uzbekistan	84.4	98.5	48.6	54.8	35.8	43.7
Level of interregional differentiation	5.6 times	6.0 times	6.6 times	6.7 times	4.4 times	5.1 times

Source: State Statistics Committee of Uzbekistan

Services. The volume of paid services rendered per inhabitant of the republic increased from 21.3 thous. UZS in the first half of 2004 to 26.5 thous. UZS in the period under review. The trend towards a decrease in interregional differentiation in average per capita consumption of services has been continuing, from 1:11.0 in the first half of 2004 to 1:10.5 in the first half of 2005. The growth in monetary income and wages in some regions, along with a widened network of enterprises providing paid services, led to a decrease in the interregional differentiation of average per capita consumption of services in the republic. The physical volume of paid services continued to increase at accelerated rates (from 113.7% in Jizzakh to 124.6% in Navoi province) in almost every region of the country. In Tashkent city (104.6%), Surkhandarya province (109.3%) and in the Republic of Karakalpakstan (110.0%) growth rates for paid services were lower than the republican average (111.6%) (Table 5.2.5).

Table 5.2.5. Regional Composition of Retail Trade Turnover and Paid Services

Regions	Retail trade turnover, UZS bn.			Paid services, UZS bn.		
	04/I-II	05/ I-II	Growth rate in relation to previous year, in comparable prices, %	04/I-II	05/ I-II	Growth rate in relation to previous year, in comparable prices, %
R. Karakalpakstan	64.1	75.2	108.3	13.4	16.7	110.0
Andijan	228.8	254.0	101.5	38.6	49.1	115.9
Bukhara	111.3	137.6	114.5	29.6	39.2	116.8
Jizzakh	51.7	58.9	107.2	11.3	14.4	113.7
Kashkadarya	150.5	174.6	107.7	20.0	26.9	119.9
Navoi	62.5	73.5	109.8	14.4	20.4	124.6
Namangan	132.0	157.0	112.9	22.3	29.4	120.1
Samarkand	166.1	199.5	110.2	38.3	49.7	116.1
Surkhandarya	115.6	144.8	113.1	18.1	22.7	109.3
Sirdarya	34.6	38.0	101.3	5.8	8.1	122.7
Tashkent	242.0	271.1	102.9	33.9	43.5	115.2
Fergana	256.4	279.0	100.8	34.5	49.2	121.4
Khorezm	71.4	96.5	118.7	20.2	28.3	121.0
Taskhent city	497.7	619.7	112.2	201.5	240.2	104.6
R. Uzbekistan	2184.7	2579.4	108.1	549.8	694.5	111.6

Source: State Statistics Committee of Uzbekistan

The structure of paid services has changed. In the structure of paid services, the share of communal-housing services increased as did shares of household, healthcare and sanitary and health resorts' services (Table 5.2.6). The share of housing-communal services increased from 17.03% in the first half of 2004 up to 18.0% in the period under review, due to the increased shares of electricity (from 6.4% to 7.1%), central heating (from 1.2% to 1.4%) and hot-water-supply (from 1.5% to 1.7%).

The positive trends in the growth of such services as healthcare (from 1.8% in the first half of 2004 to 2.1% in the period under review) and sanitary-health resorts (from 0.6% in the first half of 2004 to 1.3% in the period under review) in the structure of paid services were encouraged by the implementation

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

	04/I	04/I-II	05/I	05/ I-II
Total services rendered	100	100	100	100
Consumer services	13.9	14.0	13.1	14.3
Public transportation	34.6	36.4	32.9	34.8
Communication services	11.7	10.8	11.0	10.7
Housing and communal services	18.1	17.0	20.9	18.0
Supply of electricity	6.8	6.4	8.0	7.1
Water supply	1.1	1.0	1.1	0.9
Gas supply	6.5	6.4	7.4	6.1
Central heating	1.4	1.2	1.7	1.4
Hot- water supply	1.8	1.5	2.0	1.7
Sewage	0.4	0.3	0.3	0.3
Sanitary cleaning	0.1	0.1	0.4	0.4
Cultural and tourism services	0.6	0.6	0.6	0.4
Physical culture and sports	0.2	0.3	0.2	0.3
Health care	1.8	1.8	2.1	2.1
Sanitary and health resorts	0.5	0.6	0.5	1.3
Services of education system, training of population	6.4	5.6	7.1	5.9
Legal and banking	1.7	1.6	1.6	1.6
Other	7.0	7.7	6.8	8.1

Source: State Statistics Committee of Uzbekistan

of the main tasks and directions of the State program "The Year of Health." This included, above all, the implementation of projects and events for the protection of maternity and childhood; the improvement of meas-

ures for strengthening the health of pensioners and the disabled; the improvement of medical, sanitary-health resort and communal-housing services aimed at them; the realization of measures for the creation of an accessible and high-quality system of healthcare; the strengthening of the material-technical base of medical facilities; their provision with modern diagnostic and medical equipment; the implementation of programs aimed at preserving the environment; the implementation of efforts to attract a wide population to sports and physical education, especially, for children; the organization of competitions and public sports and health-improving events.

Social Infrastructure. In the first half of 2005, 3224.2 thous. sq. m. of houses (89% of which were in rural areas), polyclinics for 2485 visits (98% of which in rural areas), 1734.1 km of gas-supply networks (an increase of 46.1 km), and 1171.7 km of water-supply networks (an increase of 180.5 km) were built. Also, 1682.4 km of gas-supply networks (97% of the total volume) and 1115.3 km of water-supply networks (95% of the total volume) were put into operation in rural areas (Table 5.2.7).

Table 5.2.7. Launch of Objects of Social Infrastructure

	Measure unit	04/I-II	05/I-II
Housing, total	thous. sq. m.	3354.3	3224.2
including individual housing construction	thous. sq. m.	3337.6	3205.5
in rural areas	thous. sq. m.	3017.0	2868.0
Polyclinics, including village medical points	visits	3120	2485
including in rural areas	visits	3070	2435
Schools of general education	student places	5978	9617
Major renovation of schools	student places	-	68584
Professional colleges	student places	8900	5340
including, in rural areas	student places	5350	3240
Gas-supply networks	km	1688.0	1734.1
including, in rural areas	km	1640.1	1682.4
Water-supply networks	km	991.2	1171.7
including in rural areas	km	928.2	1115.3

Source: State Statistics Committee of Uzbekistan

groups were formed in the regions of the Republic. Also, criteria were developed to determine which current schools of general education require major reconstruction, major renovation or regular maintenance. A form of school passport was developed, on the basis of which the condition of the material-technical base, the availability of drinking water and heating, the condition of sanitary facilities, and the availability of cafeterias, sports gyms and stadiums were critically analyzed.

5.3. Employment and the Labor Market

The population. At the end of the first half of 2005, the population of the Republic of Uzbekistan equaled 26161.8 thousand people, an increase of 310.0 thousand people (1.2%) in comparison with the corresponding period of the previous year (Annex 5.3.1). High growth rates were observed in Kashkadarya (1.8%), Surkhandarya (1.7%), and Khorezm (1.6%) provinces. In the periods compared, the population of Tashkent city did not change.

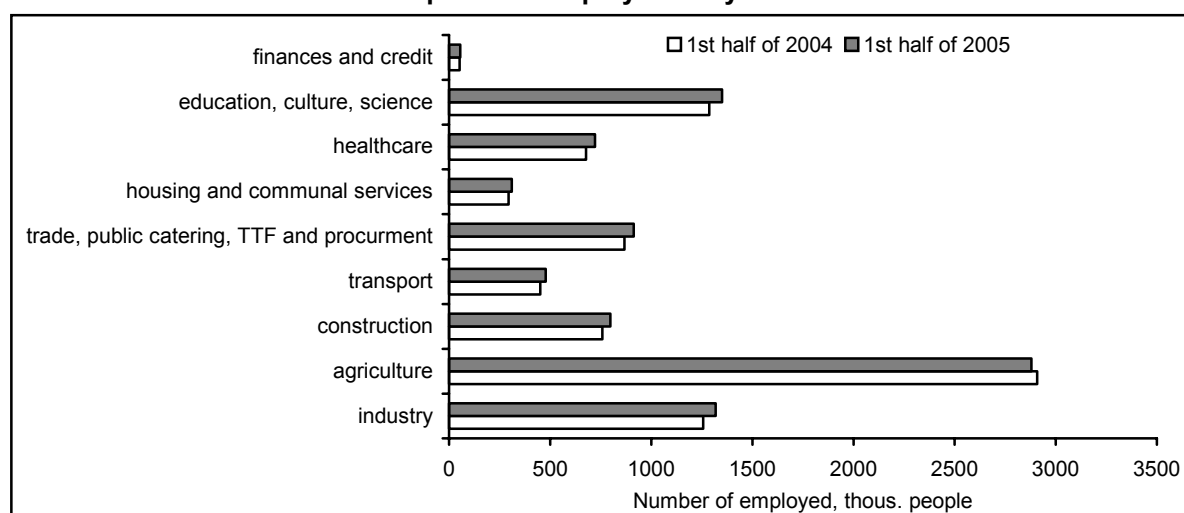
The growth of the population of the Republic took place naturally, through a birth rate higher than the death rate. In the first half of 2005, 263.0 thousand people were born, which was 6.9 thousand more than during the corresponding period of 2004. This ended the trend towards a decrease in births that had been observed for several years. As a result, the general coefficient of birth increased by 19.9 to 20.2 pro mil, i.e. calculated per 1000 people. The regions of Uzbekistan have different patterns of population growth. The highest levels of births were observed in Kashkadarya (22.9 pro mil) and Jizzakh (22.7 pro mil) provinces, while in Tashkent province they declined to 14.8 pro mil.

In the first half of 2005, 71.7 thous. people died in Uzbekistan, and the general coefficient of death equaled 5.4 pro mil. During the same period of 2004 the same indicators had lower values, of 67.0 thousand people and 5.2 pro mil respectively. These dynamics resulted from the relatively higher death level of the population in the Republic of Karakalpakstan (from 5.3 to 5.8 pro mil), Tashkent province (from 6.5 to 6.8 pro mil), and in Tashkent city (from 8.1 to 8.7 pro mil). At the same time, the level of infant mortality continued to decline, with 0.4 thousand fewer infants dying before their first birthday in the first half of 2005 than in the first half of 2004. The birth and death rates together resulted in a net population growth of 191.4 thousand people, which was 2.3 thousand people more than in the first half of 2004.

Employment. The acceleration of economic reforms, and the structural reforms in the economy, had a positive impact on the creation of new jobs and the structure of employment of the population. In the first half of 2005, the number employed in the economy of Uzbekistan increased by 339.0 thousand people, or by 3.5%, in comparison with the same period of 2004. During the period under review, employment grew in absolute as well as in relative terms. In the sector-based dynamics of employment, the trends that had been formed over the past several years continued. Among the branches of the real sector, employment increased in construction (by 5.3%), trade, public catering, material-technical provisions and purchasing (by 5.2%). The level of employment in the manufacturing sector has been constantly rising in the Republic. In the first half of 2005, the highest absolute growth of personnel was observed in industry: 61.5 thousand people (4.9%). In agriculture, the number of employed decreased by 28.4 thousand people or by 1.0% (Annex 5.3.2). The absolute and relative decreases in the agrarian sector were conditioned by the outflow of excess workforce, which was in accordance with the overall state strategy for employment.

The number of employed grew faster in non-production branches than in the real sector, showing a 5.2% increase, including a 6.6% increase in the finance and credit industry. During the period under review, the lowest growth of employment belonged to such branches as education, culture, art, science and scientific services. This trend has been observed in other countries of the CIS as well. This is caused by changes in motivation resulting from the conditions of a transition economy (Graph 5.3.1).

Graph 5.3.1. Employment by Sector



Source: State Statistics Committee of Uzbekistan.

The main growth of population employment took place in the non-governmental sector of the economy. This equaled 282 thousand people or 83.2% of the total value. Such growth was conditioned by the development of individual entrepreneurship, the potential of which increased in the first half of 2005 in comparison with the same period of the previous year by 9.6%. During the period under review, the number employed in the governmental sector of the economy increased at a significantly slower pace than in non-governmental sectors, by 57 thousand people or 2.6%, while non-governmental structures showed a 3.8% increase. The development of those processes and ratios was caused mainly by the liberalization of entrepreneurial spheres and the adoption of a system of privileged credit for small businesses. During the period under review, the number employed in small and micro-enterprises, and in farm entities, increased by 148.8 thousand people (13.2%), and by 16.9 thousand people (1.4%) in dekhkan entities.

New workplaces were created mainly in the entrepreneurial sector. In the first half of 2005, 253 thousand workplaces were created through the development of private entrepreneurship alone.¹

Employment in the non-official sector of the economy is growing at a much greater speed. According to the Ministry of Labor and Social Protection of the Population, in the first half of 2005, in comparison with the corresponding period of the previous year, employment in the official sector increased by 0.9%, while it increased by 6.9% in the non-official sector. In this sphere, especially high growth was observed in the segment of job-seekers traveling abroad, by 15.8%, including women, by 17.5%, and youngsters, by 17.6%. The number of temporary and seasonal employees, as well as those with temporary and irregular work, increased significantly (by 10.1%).

¹ "Narodnoe Slovo", newspaper, July 20, 2005.

Current labor market. In the first half of 2005, the current labor market consisted of 220.5 thousand people, which was 7.6 thous. people fewer than in the corresponding period of 2004 (Table 5.3.1). At the same time, there remained a significant, and strengthening, trend towards a decrease in the number of people contacting job placement centers in search of employment over the last two-three years. Thus, in the first half of 2004, this number decreased by 3.5 thousand people or by 1.5%, while in the same period of 2005, it decreased by 7.6 thousand people or by 3.4%. In 2005, the decrease resulted mainly from strong declines in these indicators in Fergana (5.5 thousand people or by 17.2%) and Andijan (1.7 thousand people or by 10.6%) provinces and in Tashkent city (1.7 thousand people or by 17.1%). This indicates the relative weakness of the current labor market as well as the insignificant reliance of the population on job placement centers in the search for appropriate jobs in such labor-deficit regions as the Fergana valley. Three-fourths (74.9%) of those registered in job placement centers are located in rural areas. At the same time, the share of rural areas in that number has been increasing every year, which testifies to the more difficult employment situation in rural areas.

Table 5.3.1. Main Indicators of the Current Labor Market

Period	Registered job seekers	Successful job placements	Ratio of placements to registered	Number of unemployed by the end of the period
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
03/I	108.3	77.1	71.2	39.2
03/I-II	231.6	167.1	72.1	42.5
03/II-III	337.0	248.0	73.6	38.1
04/I	104.8	76.2	72.8	36.6
04/I-II	228.1	170.5	74.8	41.3
04/I-III	331.1	252.3	76.2	36.6
05/I	106.2	80.5	75.8	37.0
05/I-II	220.5	171.9	78.0	38.1

Source: Calculations based on data from job placement centers.

In the current labor market, the partnership between its main components is growing stronger. As a result, the ratio of placements to registered job seekers is increasing. In the first half of 2005, 78.0% of the total number of those registered in job placement centers were placed successfully, as opposed to 74.8% in the corresponding period of 2004. In some provinces (Samarkand and Surkhandarya) the placement ratio was significantly higher than 80%. The lowest indicators were observed in Khorezm province (54.1%) and the Republic of Karakalpakstan (69.1%). In terms of job placements, rural areas have achieved more progress than urban areas (Table 5.3.2). In recent years, the trend has stabilized of job placements for the rural population outpacing those for the urban population, which indicates not only more effective work among rural job placement centers, but also the fact that employment is becoming a serious issue in rural areas.

Table 5.3.2. Employment in Urban and Rural Areas

Period	Registered as jobseekers, thous. people		Employed, thous. people		Level of employment, in %	
	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
03/I	31.6	76.7	21.3	55.9	67.4	72.8
03/I-II	64.9	166.7	44.0	123.0	67.8	73.8
03/II-III	86.6	249.3	63.6	184.3	73.5	73.9
04/I	27.4	77.3	18.9	57.3	68.9	74.2
04/I-II	59.0	169.0	41.8	128.7	70.7	76.1
04/I-III	85.9	245.3	61.6	190.7	71.8	77.7
05/I	26.1	80.1	19.3	61.2	73.9	76.4
05/I-II	55.4	165.1	38.8	133.1	70.0	80.6

Source: Calculations based on data from job placement centers.

During the first half of 2005, in job placement centers, the number of employees losing their jobs due to job cuts or enterprise closures increased significantly. It consisted of 11.3 thousand people as opposed to 9.8 thousand people in the first half of 2004. At the same time, the processes for firing workers have strengthened in urban areas. The share of the urban population in the total number of those losing their jobs increased from 34.9% in the first half of 2004 to 41.8% in the first half of 2005, accompanied by a relative decrease in the rural population from 65.1 to 58.2%. This category of citizen has the lowest placement ratio: in

the first half of 2005 it equaled only 37.2% (42.6% in the first half of 2004) while the average level was 78%. Reported data indicate the predominance of uncompetitive segments of the population among fired employees.

In the current labor market, a significant share of job seekers still consists of unskilled laborers, 38.9% against 36.6% in the corresponding period of 2004, mostly in the rural workforce (64.9% of the total number). However, the number of qualified specialists contacting job placement centers is increasing. In the first half of 2005, the share of people with high and secondary-vocational education increased from 19.1% to 21.8% in comparison to the corresponding period of 2005, including from 24.5% to 26.6% respectively, in rural areas. At the same time, the highest placement ratio belongs to citizens with secondary-vocational education (81.8%) in urban (89.4%) as well as in rural (79.5%) areas.

Young people, particularly in the age bracket between 16 and 29, predominate (49.2%) among those registered at job placement centers. However, their share significantly decreased in comparison to the previous year, when it fluctuated within the range of 58-60%. In the first half of 2004, the share of young people equaled 54.2% of the total number of those registered at job placement centers. The most significant decrease was observed in the group of secondary school graduates who contacted job placement centers in search of jobs (7.6 thousand people or 23.6% less than in the first half of 2004, including 1.5 times fewer in rural areas).

Approximately half of the total number of people registered at job placement centers (46.3%) are women, whose share slightly increased in comparison with the first half of 2004, when it was 45.1%. However, gender inequality still exists, with women accounting for 46.3% of the total number of those seeking jobs and only 38.3% of those successfully placed, which indicates the insignificant demand for the female workforce and its low competitiveness.

In the first half of 2005, as a result of the established correlation of supply-demand of the work force in the current labor market, the number of unemployed equaled 38.1 thous. people, a decrease of 3.2 thousand people in comparison with the first half of 2004. The decrease in the number of unemployed took place almost in all provinces, except for Namangan (an increase of 0.6 thous. people) and the Republic of Karakalpakstan (an increase of 1.1 thous. people). The highest absolute number of unemployed assigned that status in the first half of 2005, as in 2004, belongs to Khorezm province, with 8.9 thous. unemployed persons or 23.4% of the total number of unemployed in Uzbekistan (in the first half of 2004, it was 9.8 thous. or 23.7%) and to the Republic of Karakalpakstan, 6.5 thous. people (17.1%).

In Uzbekistan, in addition to those unemployed with official status, there is a significant number of people who are not registered in job placement centers but are willing and ready to work. According to the Ministry of Labor and Social Protection of the Population, the number of such unemployed was 6.5 times higher than those officially registered in 2004 and 7.3 times higher in 2005. As a result, the real level of unemployment in Uzbekistan equaled 3.6% and 3.1% respectively. Also, there is a category of the population which does not want to work or does not have the opportunity to start working immediately. In the first half of 2005, that category consisted of approximately one million people and increased by 5.7% during the period under review.

In the first half of 2005, the number of people who underwent vocational training in corresponding infrastructures decreased. This, actually, has become a stable negative trend in the development of the current labor market, which has been continuing over the last several years. In the corresponding periods of 2004 and 2003, there were 21.6 thous. and 36.2 thousand people, respectively, who underwent training. In Surkhandarya, Kashkadarya and Tashkent provinces, the number of people who underwent vocational training was within the range of 300-400 people, which accounts for only about 2-4% of the total number of those registered as unemployed in job placement centers and less than half (11.0% in Kashkadarya province) of the total number of the unemployed. At the same time, the number of available work places (reported vacancies) decreased in job placement centers by 5.4 thousand units nationwide.

The implementation of an active policy in the labor market contributes to the promotion of market reforms in the sphere of employment, to the real application of the principals of free supply and demand in the workforce, and to the intensification of the processes of firing and redirecting people employed in the economy. Nevertheless, the balance between the supply and demand of the workforce remains a serious issue. Trends identified in the first half of 2005 indicate that the younger generation's employment remains the most important issue of the current labor market in Uzbekistan, predominating both among those who have contacted job placement centers as well as among those who have received official unemployed status. The second important issue is gender inequality. The qualitative aspects of the formation of the labor market remain crucial in urban well as in rural areas, including such issues as the formation and development of a competitive environment in the system of employment of the population.

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

Periods	Volume of goods and services sold		Including			
			Goods sold		Services provided	
	UZS bn.	%	UZS bn.	%	UZS bn.	%
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	59913	100	4764.7	79.5	1226.6	20.5
04/I	1311.5	100	1069.6	81.6	241.9	18.4
04/I-II	2734.5	100	2184.7	79.9	549.8	20.1
05/I	1558.0	100	1241.9	79.7	316.1	20.3
05/I-II	3273.9	100	2579.4	78.8	694.5	21.2

Source: State Statistics Committee of Uzbekistan

Annex 5.2.2. Retail Turnover and Paid Services

Periods	Retail Turnover		Paid Services	
	In actual prices, UZS bn.	Growth rate in relation to previous year, in comparable prices, %	In current prices, UZS bn.	Growth rate in relation to previous year, in comparable prices, %
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
04/I-II	2184.7	104.2	549.8	113.5
05/I	1241.9	108.7	316.1	114.2
05/I-II	2579.4	108.1	694.5	111.6

Source: State Statistics Committee of Uzbekistan

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

year	Total 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	16326.2	1.5
2005	26021.3	1.2	9441.9	0.6	16579.4	1.6
04/ I (as of 01.04.04.)	25777.2	0.3	9397.2	0.2	16380.0	0.3
04/ I-II (as of 01.07.04.)	25851.8	0.3	9405.3	0.1	16446.5	0.4
05/ I (as of 01.04.05)	26095.0	0.3	9460.7	0.2	16634.3	0.3
05/ I-II (as of 1.07.05.)*	26161.8	0.3	9467.5	0.1	16694.3	0.4

*) evaluation

Source: State Statistics Committee of Uzbekistan.

**Annex 5.3.2. Distribution of the Employed Population by Sector of the Economy
(period average, thousand people)**

	First half of 2004	Share in total number of the employed, in %	First half of 2005	Share in total number of the employed, in %	First half of 2005 as % to first half of 2004
Employed – total	9657.7	100.0	9996.7	100.0	103.5
In manufacturing	6539.8	67.7	6717.3	67.2	102.7
Industry	1256.0	13.0	1317.5	13.2	104.9
Agriculture and Forestry	2908.9	30.1	2880.5	28.8	99.0
Transport and Communications	314.2	3.3	330.6	3.3	105.2
Construction	757.7	7.8	798.0	8.0	105.3
Trade, Public Catering, MTP, and Procurement	867.8	9.0	913.2	9.1	105.2
Other	435.2	4.5	477.5	4.8	109.7
In Non-Material Production	3117.9	32.3	3279.4	32.8	105.2
Transport and Communications	137.4	1.4	147.6	1.8	107.4
Housing and Communal Services, and Consumer Services	294.6	3.1	310.4	3.1	105.4
Healthcare, Physical Education, and Social Provision	677.0	7.0	721.5	7.2	106.6
Education, Culture, Art, Science, and Scientific Service	1286.5	13.3	1349.0	13.5	104.9
Finances and Credits	51.9	0.5	55.3	0.5	106.6
Bodies of Organizational Administration	185.7	1.9	176.4	1.8	95.0
Other	484.8	5.0	519.2	5.2	107.1
In the State Sector, %	22.6	x	22.4	x	x
In the Non-State Sector, %	77.4	x	77.6	x	x

*) evaluation

Source: State Statistics Committee of Uzbekistan.

6. Socio-Economic Development in the Regions

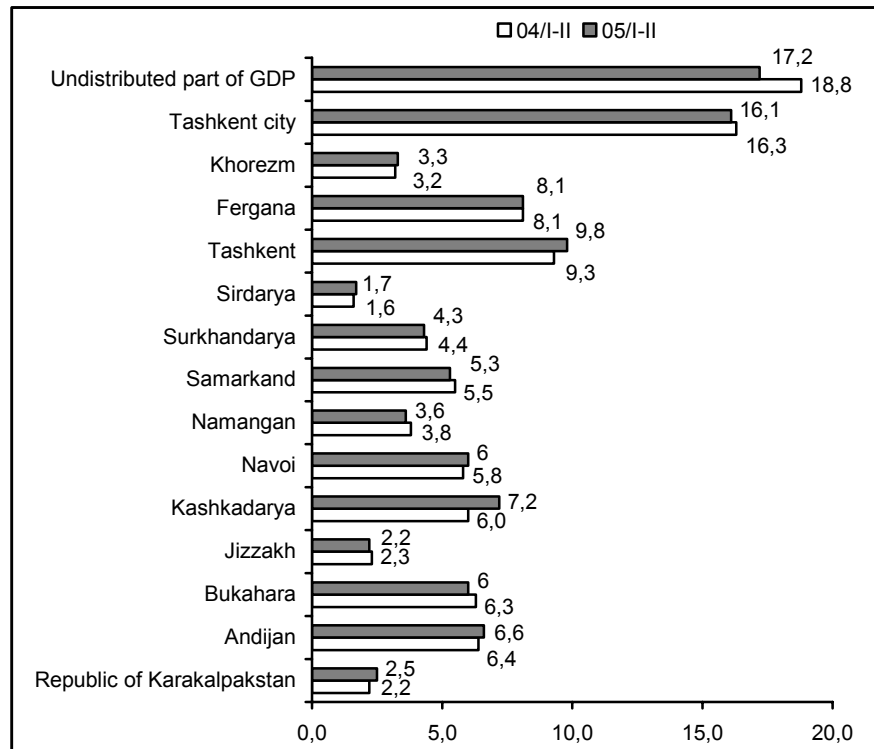
In the first half year of 2005, in comparison with the corresponding period of the previous year, stable growth was observed in the main indicators of the real sector of the economy in the regions.

During the period under review, the GDP of Uzbekistan increased by 7.2%. That level was surpassed by the GRPs of such provinces as Andijan (9.8%), Khorezm (8.1%), the Republic of Karakalpakstan (9.2%), and the city of Tashkent (7.8%). The achievement of a high level of growth in GRP in the above-mentioned and remaining regions was made possible by high rates of development in the real sector of the economy, intensified administrative reforms at various territorial levels, and the productivity of institutional reforms in the agrarian sector.

Navoi province did not achieve growth in GRP (the 2005 indicator was only 98.9% of the 2004 indicator) because of a decrease in the production of industrial goods (Table 6.1).

In the territorial structure of GRP, Tashkent City (16.1%), Tashkent (9.8%), Andijan (6.6%), and Bukhara (6.0%) provinces accounted for the largest share. The gross share of those regions in GRP amounted to about 54%. As compared with the corresponding period of the previous year, some shifts took place in the territorial structure of GRP. The shares of Tashkent city, Khorezm, Tashkent, Sirdarya, Navoi, Kashkadarya and Andijan provinces and the Republic of Karakalpakstan increased. The remaining regions experienced a decreased share of GRP (Graph 6.1).

Graph 6.1. Share of the Regions in GDP of the Republic of Uzbekistan in the First Halves of 2004 and 2005 (%)



Source: State Statistics Committee of Uzbekistan

The GRP index of per capita production within the indicated period decreased in comparison with the corresponding period of 2004 in practically all regions, except for the Republic of Karakalpakstan and Kashkadarya province, where it grew from 0.364 to 0.373 and from 0.656 to 0.698 respectively. This indicates that in 12 regions out of 14, per capita GRP lags behind the republican level (index 1.000) (Table 6.2).

The grouping of the regions on the basis of GRP (per capita) according to the results of the first half of 2005 results in the first group of high indices consisting of such regions as Tashkent city and Navoi province; in the first half of 2004, this group also included Bukhara province. The second group, with a moderate level of indices, consisted of 8 provinces, including Bukhara province. The third group, with a low level of indices, consisted of four provinces, including Jizzakh province, which in the first half of 2004 was in the second group. Thus, during the period under review, such provinces as Bukhara and Jizzakh lost their positions in production of GRP per capita. In the second group, Tashkent, Fergana, Andijan, Surkhandarya, Sirdarya, and Khorezm provinces ended up with lower indicators than before (Annex 6.2).

In the first half of 2005, industrial production grew at high rates in the Republic of Karakalpakstan (147.2%), and Andijan (146.9%), Khorezm (141.3%), Jizzakh (131.5%), Sirdarya (119.3%), Namangan (116.8%) provinces and in Tashkent city (111.2%); in seven provinces out of 14, growth rates for this indicator were higher than the national average (107.5%) (Annex 6.1).

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

04/I-II	Index	05/I-II	Index
I. High level	above 1.000	I. High level	above 1.000
Tashkent City	1.976	Tashkent City	1.750
Navoi Province	1.860	Navoi Province	1.711
Bukhara Province	1.092	II. Medium Level	From 0.500 to 1.000
II. Medium Level	From 0.500 to 1.000	Bukhara Province	0.922
Tashkent Province	0.989	Tashkent Province	0.919
Fergana Province	0.744	Kashkadarya Province	0.698
Andijan Province	0.707	Fergana Province	0.657
Kashkadarya Province	0.656	Andijan Province	0.653
Sirdarya Province	0.626	Sirdarya Province	0.579
Surkhandarya Province	0.606	Khorezm Province	0.532
Khorezm Province	0.586	Surkhandarya Province	0.525
Jizzakh Province	0.568	III. Low Level	to 0.500
III. Low Level	to 0.500	Jizzakh Province	0.484
Samarkand Province	0.494	Samarkand Province	0.426
Namangan Province	0.471	Namangan Province	0.396
Republic of Karakalpakstan	0.364	Republic of Karakalpakstan	0.373

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

High growth rates of industrial production in Andijan province resulted from an increase in production in such sectors as automobile-building (by 67.0%), construction (10.6%), light industry (by 10.6%) and the food industry (by 14.8%); in Jizzakh province, growth resulted from the increase in the volume of industrial production in such districts as Zamin, Zarbdor, Pakhtakor, and Jizzakh. In Khorezm province, industrial production grew due to light industry (cotton-refinery enterprises) and the food industry.

Navoi province could not achieve growth in industrial production in the first half of 2005. This was because of a decrease in production at JV "Zarafshan-Newmont", JSC "NavoiAzot", and JV "Langar-Uz-Rus".

During the period under review, the index of industrial development (per capita) increased in Karakalpakstan Republic (from 0.184 to 0.218), and in such provinces as Andijan (from 0.988 to 1.066), Kashkadarya (from 1.048 to 1.181) and Khorezm (from 0.297 to 0.20). In the remaining regions this index decreased. The lowest index was observed in the Republic of Karakalpakstan (0.218), the highest – in Tashkent city (1.158) (Annex 6.2).

In the production of consumer goods Surkhandarya (95.1% of the 2004 level) and Sirdarya (99.1%) provinces could not achieve growth. In Surkhandarya province this was caused by a decrease in production of industrial goods in enterprises in Termez city and in some districts, mainly because of the poor supply of the raw materials from cotton-refinery enterprises. In Sirdarya this was related as well to the lack of raw materials for production of consumer goods.

High rates of growth in consumer goods were achieved in Andijan (159.6%) and Jizzakh (117.7%) provinces, surpassing the national average (117.1%) (Annex 6.1). High growth rates of consumer goods in the above-mentioned regions took place because of modernization of production, installation of modern equipment and usage of new technologies in the industrial production of consumer goods, as well as the development of new competitive products (Annex 6.1).

The consumer goods index (per capita) during the period under review decreased in the majority of regions. It increased only in Andijan (from 2.215 to 2.836), and in Jizzakh (from 0.628 to 0.636) provinces. The lowest level of this index was observed in the Republic of Karakalpakstan (0.264), the highest – in Tashkent city (1.644) (Annex 6.2).

In the production of agricultural goods, all regions achieved growth in the first half of 2005. Especially high rates were achieved in the Republic of Karakalpakstan (123.3%), Kashkadarya (112.5%), Khorezm (111.1%), Bukhara (110.9%), Tashkent (110.7%) and Fergana (110.3%) provinces. This was mainly due to an increase in the share of farm entities, which made significant contributions to the growth of agricultural production, as well as the increase in agrotechnical requirements and the quality of arable lands.

In comparison to the first half of 2004, the index of agricultural production (per capita) decreased in many regions during the period under review. The index increased in the Republic of Karakalpakstan (from 0.329 to 0.366) and in Tashkent province (from 1.168 to 1.213). While in the first half of 2004, there were nine re-

gions with an index exceeding 1.000, in the corresponding period of this year, the number declined to five. The lowest index was observed in the Republic of Karakalpakstan (0.366), the highest – in Sirdarya province (1.473) (Annex 6.2).

As for investments, the following regions could not secure growth during the period under review: the Republic of Karakalpakstan (53.6%), Samarkand (83.2%), Sirdarya (91.7%) and Khorezm (98.4%) provinces.

This occurred mainly due to the declining number of tenders (Khorezm province), the delayed launch of objects in the social sphere (Samarkand province), and the completion of construction works on a number of industrial and social objects in 2004, with the associated reduction in financing. High growth rates of investments were achieved in Jizzakh (166.1%), Navoi (135.6%), Fergana (128.8%), Kashkadarya (127.9%) and Surkhandarya (125.2%) provinces and in Tashkent city (117.4%).

Those growth rates were made possible by significant capital investments, targeted at those provinces, in order to achieve: the development of industrial enterprises and the improvement of social infrastructure, especially, in rural areas (Jizzakh province); the development of the energy supply, the construction of the railroad Toshguzar-Baysun-Kumkurgan and the creation of social infrastructure (Kashkadarya province); the development of telecommunications and the reconstruction of the airport (Navoi province); the creation of objects for environmental protection, the establishment of JVs and the development of SMEs (Navoi province); and the construction of Tupalang Hydro-Electric Station and the creation of social infrastructure (Surkhandarya and Fergana provinces).

Per capita indices (according to index calculations) decreased in many regions while increasing in certain provinces, including Bukhara (from 1.185 to 1.265), Jizzakh (from 0.527 to 0.713), Kashkadarya (from 1.497 to 1.604), Navoi (from 1.779 to 1.913), Surkhandarya (from 0.736 to 0.814) and Fergana (from 0.499 to 0.506). The lowest level was observed in Andijan region (0.338), while the highest was recorded in Tashkent city (2.209).

On retail trade turnover, all regions achieved growth in the first half of 2005, in comparison with the first half of 2004. The following regions achieved levels above the republican average of 108.1%: Khorezm (118.7%), Bukhara (114.5%), Surkhandarya (113.1%), Namangan (112.9%), Samarkand (110.2%) and Navoi (109.8%) provinces and the Republic of Karakalpakstan (108.3%) and Tashkent city (112.2%). This was a result of the launch of new trade objects and improved quality of services, especially in rural areas (Annex 6.1). With regard to per capita (on index calculation) all provinces (except Tashkent city) are lagging behind the national average, and the indices declined in all provinces (except Khorezm province) in the first half of 2005. The lowest index for that indicator was observed in the Republic of Karakalpakstan (0.430), the highest – in Tashkent city (2.604). (Annex 6.2).

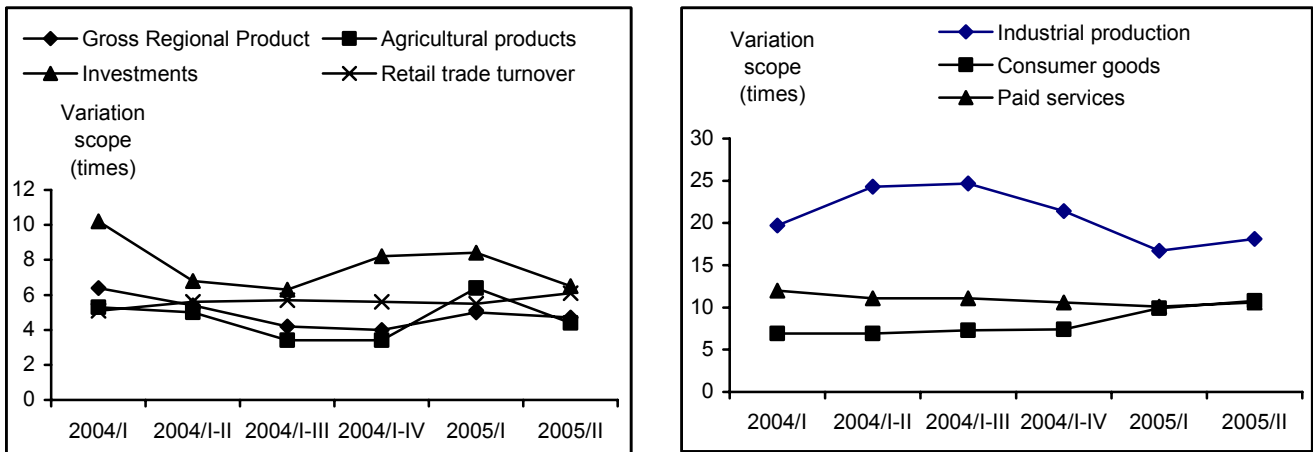
In the first half of 2005, the majority of regions achieved high growth rates for paid services. In 11 out of 14 this indicator was higher than the national average (111.6%). Growth rates were especially high in Navoi (124.6%), Sirdarya (122.7%), Fergana (121.4%) and Khorezm (121.0%) provinces. This was caused by the improved quality and types of services provided to the population, the construction of new objects and the increase in the number of paid communal services (especially in healthcare, transportation services and so on) (Annex 6.1).

All regions (except for Tashkent city) continue to lag significantly behind the national average in providing paid services to the population on a per capita basis (on index calculations), and a trend towards further decrease of this indicator was observed in all regions. The lowest index for paid services was observed in the Republic of Karakalpakstan (0.355), the highest – in Tashkent city (3.741) (Annex 6.2).

An analysis of development in the regions in the first half of 2005 showed some decrease in interregional differences: in GRP (from 5.4 to 4.7 times), industrial production (from 24.3 to 18.1 times), production of agricultural products (from 5.0 to 4.7 times), investments (from 6.8 to 6.5 times) and services (11.1 times to 10.6). This positive trend testifies to the easing of regional differences with regard to the main indicators of development in the real sector of the economy. However, the growth of differentiation during the period under review strengthened in the categories of consumer goods production (from 6.9 times to 10.8 times) and retail trade (from 5.6 times to 6.1 times) (Graph 6.2.) – in other words, in the regional consumer market that chiefly determines the living standards of the population.

In the formation of interregional differentiations, Navoi province had a major influence on GRP, industrial production and trade turnover, while Tashkent city influenced paid services. Both provinces have huge economic potential in comparison with the Republic of Karakalpakstan.

Graph 6.2. Dynamics of Differentiation of Socio-Economic Development of the Regions for the First Halves of 2004 and 2005



However, even after taking these circumstances into account, interregional differentiation still remains high, especially in the social sphere. With regard to the results of the first half of 2005, the existence of high and sustainable growth rates of GRP, which is the main promising indicator in such underdeveloped regions as the Republic of Karakalpakstan, Jizzakh, Kashkadarya, Sirdarya and Khorezm provinces, was a positive trend in the development of the regions. This was based on the increase in investment activity in those regions.

**Annex 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	04/I-II	05/I	05/I-II
R. of Karakalpakstan	89.7	98.3	101.6	110.1	108.7	103.5	107.0	103.0	109.2
Andijan Province	102.8	108.9	103.4	102.8	106.2	106.1	102.8	111.0	109.8
Bukhara Province	104.2	103.5	102.7	101.4	106.1	100.0	104.2	104.5	106.1
Jizzakh Province	104.2	106.5	109.5	107.5	107.7	105.1	109.7	106.5	106.5
Kashkadarya Province	99.0	105.0	110.1	105.4	105.7	103.2	104.5	103.8	105.0
Navoi Province	103.2	101.4	104.8	103.9	107.6	102.5	105.1	102.0	98.8
Namangan Province	108.0	104.5	103.7	102.1	107.7	103.2	105.9	106.9	106.0
Samarkand Province	104.6	103.5	107.6	106.9	106.5	104.2	107.2	104.1	103.6
Surkhandarya Province	105.5	108.0	104.0	105.3	105.9	103.6	105.4	106.7	103.5
Sirdarya Province	102.6	102.9	98.3	102.5	108.4	102.8	112.3	104.6	104.0
Tashkent Province	110.9	104.2	103.1	102.5	109.0	104.1	107.8	104.5	103.8
Fergana Province	106.1	99.5	105.1	100.5	104.9	102.1	102.3	103.5	103.9
Khorezm Province	94.8	103.0	102.9	103.8	108.2	102.5	105.0	104.4	108.1
Tashkent City	104.5	104.3	102.6	104.4	104.0	105.5	104.4	103.0	107.8
R. of Uzbekistan	103.8	104.2	104.2	104.4	107.7	104.8	106.2	104.8	107.2

Source: State Statistics Committee of Uzbekistan

Industrial production

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	111.2	95.9	94.9	100.3	123.5	117.7	125.2	141.3	147.2
Andijan Province	90.0	128.1	105.5	118.6	135.8	126.9	127.2	153.5	146.9
Bukhara Province	103.9	107.7	103.3	102.5	109.1	108.4	106.6	108.5	102.0
Jizzakh Province	122.7	119.9	130.3	114.1	112.8	114.3	120.9	120.0	131.5
Kashkadarya Province	101.9	104.4	112.1	114.4	110.0	111.4	110.8	103.0	101.5
Navoi Province	102.2	100.6	106.5	99.4	106.0	101.4	107.0	100.1	95.0
Namangan Province	126.1	118.2	112.5	113.0	109.4	109.0	106.0	112.4	116.8
Samarkand Province	97.3	105.7	106.7	111.1	113.4	115.0	111.2	111.6	102.9
Surkhandarya Province	107.9	104.1	113.1	104.6	109.2	106.4	110.1	111.7	105.2
Sirdarya Province	106.7	101.3	122.4	100.1	107.2	103.2	109.8	111.4	119.3
Tashkent Province	108.8	109.1	108.3	102.6	109.6	107.2	108.2	107.8	102.8
Fergana Province	108.5	101.4	108.7	102.4	104.3	103.6	103.7	106.3	106.9
Khorezm Province	103.5	100.3	103.9	98.9	102.9	100.1	100.2	118.5	141.3
Tashkent City	113.2	110.5	111.7	112.5	104.8	115.2	110.1	111.4	111.2
R. of Uzbekistan	105.9	107.6	108.3	106.2	109.4	108.8	109.6	108.3	107.5

Source: State Statistics Committee of Uzbekistan

Consumer Goods Production

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	105.9	113.5	104.3	104.7	110.3	119.0	122.8	117.1	107.0
Andijan Province	92.6	123.7	97.8	120.3	145.3	133.3	136.4	180.3	159.6
Bukhara Province	105.9	107.4	103.3	106.0	107.8	107.8	107.6	104.7	104.8
Jizzakh Province	123.6	119.3	159.3	129.0	115.2	113.0	117.8	120.6	117.7
Kashkadarya Province	113.1	112.7	108.5	108.8	117.1	127.0	124.7	107.8	110.7
Navoi Province	115.5	99.98	114.5	105.3	97.3	107.3	106.4	98.3	100.6
Namangan Province	124.3	111.8	118.1	114.0	110.4	124.7	116.1	112.1	107.0
Samarkand Province	92.4	102.6	102.5	106.8	109.9	100.3	102.0	110.1	100.7
Surkhandarya Province	111.9	100.9	114.8	106.2	115.2	129.5	124.1	101.8	95.1
Sirdarya Province	110.1	120.2	103.0	104.2	107.5	108.0	115.3	109.9	99.1
Tashkent Province	112.5	114.1	106.6	107.1	111.7	106.6	111.1	107.7	106.2
Fergana Province	111.3	98.1	106.4	101.6	119.2	113.2	122.4	115.8	113.0
Khorezm Province	107.8	94.0	95.0	114.5	101.4	96.6	102.5	96.5	106.5
Tashkent City	111.3	101.3	120.2	102.7	103.4	115.7	101.5	107.4	103.7
R. of Uzbekistan	106.2	107.6	108.4	108.4	113.4	114.9	114.4	116.4	117.1

Source: State Statistics Committee of Uzbekistan

Agricultural Production

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	65.6	90.5	101.2	129.8	112.5	109.1	124.0	105.8	123.3
Andijan Province	110.2	107.1	102.1	100.2	107.0	106.9	100.8	107.7	100.6
Bukhara Province	106.3	102.0	102.6	106.2	110.5	104.5	112.8	109.4	110.9
Jizzakh Province	100.1	106.9	113.8	112.0	111.2	108.9	121.1	106.8	106.6
Kashkadarya Province	89.4	106.9	119.9	106.2	109.0	107.7	106.1	109.0	112.5
Navoi Province	105.0	107.2	106.7	109.3	108.6	108.8	109.4	109.7	108.6
Namangan Province	111.5	101.4	101.5	102.9	112.7	104.0	113.6	104.7	100.8
Samarkand Province	104.8	103.9	112.4	110.0	108.4	107.6	111.8	105.2	103.6
Surkhandarya Province	106.7	110.5	102.8	106.4	106.7	106.0	106.2	108.8	102.7
Sirdarya Province	101.9	105.8	98.9	105.2	111.8	107.1	129.4	105.8	105.5
Tashkent Province	114.9	103.7	102.8	102.7	112.8	106.7	116.9	106.7	110.7
Fergana Province	113.5	100.4	105.7	100.6	110.0	106.4	104.1	104.6	110.3
Khorezm Province	82.8	103.6	106.8	110.5	114.1	106.3	113.2	104.2	111.1
Tashkent City					-			-	-
R. of Uzbekistan	103.1	104.2	106.1	105.9	110.1	106.7	110.4	106.6	107.2

Source: State Statistics Committee of Uzbekistan

Investments

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	83.0	106.0	114.0	118.0	98.3	в 2.3 p.	150.5	45.6	53.6
Andijan province	101.0	118.0	105.0	106.9	62.5	100.1	65.6	74.3	112.7
Bukhara province	108.0	119.0	103.0	100.6	168.2	в 2.1 p.	186.8	135.1	139.0
Jizzakh province	111.0	78.0	112.0	83.5	111.0	92.6	101.8	125.0	166.1
Kashkadarya province	93.0	130.0	94.0	111.7	81.4	56.5	77.1	125.8	127.9
Navoi province	116.0	107.0	98.0	109.6	87.8	66.1	101.3	102.3	135.6
Namangan province	103.0	96.0	100.1	101.7	95.5	107.2	108.9	102.8	100.0
Samarkand province	104.0	107.0	99.8	107.9	109.6	104.8	108.5	81.6	83.2
Surkhandarya province	102.0	116.0	101.0	104.0	102.0	в 2.3 p.	156.1	105.7	125.2
Sirdarya province	100.2	101.0	84.0	105.5	150.9	45.5	103.7	166.1	91.7
Tashkent province	106.0	112.0	102.0	108.3	122.0	147.2	123.1	96.6	100.7
Fergana province	107.0	109.0	108.0	95.9	90.4	31.2	73.4	2.4 p.	128.8
Khorezm province	102.0	96.0	103.0	91.6	2.2 p	97.4	101.0	94.0	98.4
Tashkent city	92.0	106.0	81.0	106.8	121.6	130.3	95.7	126.1	117.4
R. of Uzbekistan	101.0	104.0	103.6	104.5	105.2	99.6	101.8	104.2	105.4

Source: State Statistics Committee of Uzbekistan

Retail Trade Turnover

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	103.6	117.9	102.6	107.9	100.9	103.5	100.7	112.4	108.3
Andijan province	106.4	109.3	107.3	100.0	89.2	102.0	93.7	100.1	101.5
Bukhara province	110.3	114.7	107.1	101.1	102.9	100.2	101.4	114.1	114.5
Jizzakh province	111.0	125.8	116.2	101.8	103.1	103.3	101.2	109.5	107.2
Kashkadarya province	109.9	116.5	105.5	108.3	100.8	100.1	100.4	107.7	107.7
Navoi province	105.4	113.3	105.0	104.3	123.5	109.1	111.2	117.8	109.8
Namangan province	110.8	118.8	103.9	100.9	100.0	105.6	101.1	110.1	112.9
Samarkand province	113.6	106.6	100.1	108.8	101.1	104.8	104.3	107.5	110.2
Surkhandarya province	121.4	113.7	113.3	109.5	107.3	105.1	105.5	109.8	113.1
Sirdarya province	105.8	102.1	95.4	100.3	103.6	101.1	101.8	105.4	101.3
Tashkent province	123.3	115.9	101.1	108.6	111.5	110.9	111.9	106.3	102.9
Fergana province	103.2	103.5	106.2	100.0	100.0	100.8	101.6	102.5	100.8
Khorezm province	111.8	107.9	101.1	96.0	103.4	104.5	101.5	112.2	118.7
Tashkent city	100.2	104.7	90.1	110.2	114.2	109.2	110.1	114.9	112.2
R. of Uzbekistan	107.6	109.6	101.1	105.1	104.7	105.1	104.2	108.7	108.1

Source: State Statistics Committee of Uzbekistan

Paid Services

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	114.2	105.1	112.4	111.3	109.2	120.4	115.4	129.6	110.0
Andijan province	138.9	113.3	109.3	120.1	132.7	113.6	125.9	123.1	115.9
Bukhara province	112.6	108.4	117.0	109.3	117.3	120.3	122.2	120.3	116.8
Jizzakh province	110.4	116.2	114.2	114.1	118.5	116.4	124.6	129.1	113.7
Kashkadarya province	137.2	114.6	121.9	108.2	102.6	105.6	104.9	117.1	119.9
Navoi province	116.8	118.7	108.9	118.8	121.8	123.6	116.7	125.6	124.6
Namangan province	137.0	115.5	110.8	122.6	117.4	118.6	116.1	116.6	120.1
Samarkand province	118.1	121.8	104.0	124.5	113.9	119.0	116.0	119.0	116.1
Surkhandarya province	109.6	114.2	114.3	112.6	111.7	113.4	112.0	118.2	109.3
Sirdarya province	104.8	125.8	109.6	103.1	112.5	116.3	106.5	127.1	122.7
Tashkent province	111.5	100.2	109.2	105.5	113.2	107.8	112.8	114.3	115.2
Fergana province	115.5	113.5	110.5	112.4	119.6	119.1	118.6	118.9	121.4
Khorezm province	107.9	106.4	102.0	107.0	119.2	127.0	123.1	134.8	121.0
Tashkent city	113.5	117.4	112.8	105.3	105.7	105.5	103.3	103.5	104.6
Republic of Uzbekistan	115.7	114.7	108.6	107.9	113.8	112.5	113.5	114.2	111.6

Source: State Statistics Committee of Uzbekistan

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

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	0.456	0.413	0.392	0.400	0.423	0.352	0.364	0.412	0.373
Andijan province	0.911	0.935	0.834	0.764	0.744	0.585	0.707	0.685	0.653
Bukhara province	1.109	1.155	1.101	1.053	1.085	0.974	1.092	1.041	0.922
Jizzakh province	0.742	0.669	0.666	0.702	0.768	0.563	0.568	0.558	0.484
Kashkadarya province	0.722	0.724	0.780	0.782	0.747	0.666	0.656	0.820	0.698
Navoi province	1.039	1.267	1.490	1.685	1.705	1.753	1.860	2.060	1.711
Namangan province	0.667	0.637	0.599	0.543	0.572	0.434	0.471	0.441	0.396
Samarkand province	0.709	0.679	0.693	0.669	0.601	0.457	0.494	0.472	0.426
Surkhandarya province	0.716	0.727	0.760	0.734	0.657	0.473	0.606	0.528	0.525
Sirdarya province	0.807	0.822	0.776	0.754	0.768	0.525	0.626	0.555	0.579
Tashkent province	1.040	1.017	1.032	1.041	1.032	1.012	0.989	1.075	0.919
Fergana province	0.941	0.866	0.843	0.785	0.759	0.738	0.744	0.725	0.657
Khorezm province	0.832	0.717	0.720	0.681	0.669	0.595	0.586	0.593	0.532
Tashkent city	1.563	1.665	1.671	1.682	1.678	2.257	1.976	2.113	1.750
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	3.4	4.1	4.3	4.2	4.0	6.4	5.4	5.1	4.7
without Tashkent city	2.4	3.1	3.8	4.2	4.0	5.0	5.1	5.0	4.6

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

Industrial Production

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	0.279	0.247	0.201	0.193	0.207	0.207	0.184	0.255	0.218
Andijan province	0.909	1.071	0.979	0.960	1.028	0.939	0.988	1.161	1.066
Bukhara province	1.100	1.096	1.133	0.996	0.952	1.083	0.985	0.955	0.752
Jizzakh province	0.278	0.360	0.380	0.418	0.381	0.440	0.389	0.439	0.383
Kashkadarya province	0.931	0.953	0.917	0.967	1.050	1.055	1.048	1.398	1.181
Navoi province	3.144	3.318	4.046	4.490	4.431	4.086	4.461	4.251	3.928
Namangan province	0.466	0.450	0.396	0.377	0.343	0.375	0.331	0.311	0.258
Samarkand province	0.515	0.459	0.398	0.351	0.330	0.315	0.305	0.298	0.237
Surkhandarya province	0.323	0.302	0.283	0.286	0.295	0.294	0.297	0.303	0.228
Sirdarya province	0.460	0.541	0.427	0.429	0.402	0.533	0.396	0.474	0.348
Tashkent province	1.368	1.487	1.569	1.537	1.650	1.604	1.690	1.514	1.378
Fergana province	1.169	1.024	1.072	0.944	0.911	0.928	0.898	0.838	0.724
Khorezm province	0.507	0.467	0.414	0.363	0.319	0.369	0.297	0.360	0.320
Tashkent city	1.700	1.744	1.729	1.823	1.468	1.568	1.604	1.162	1.158
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	11.3	13.4	20.1	23.3	21.4	19.7	24.3	16.7	18.1
without Navoi province	6.1	7.1	8.6	9.4	8.0	7.7	9.2	5.9	6.3

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

Consumer Goods Production

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	0.425	0.400	0.341	0.332	0.307	0.344	0.321	0.328	0.264
Andijan province	1.354	1.616	1.677	1.847	2.259	1.998	2.215	3.147	2.836
Bukhara province	1.501	1.589	1.550	1.458	1.477	1.639	1.604	1.380	1.179
Jizzakh province	0.266	0.385	0.573	0.655	0.723	0.618	0.628	0.704	0.636
Kashkadarya province	0.616	0.656	0.560	0.615	0.470	0.507	0.458	0.447	0.394
Navoi province	0.616	0.619	0.640	0.712	0.707	0.721	0.677	0.612	0.522
Namangan province	0.665	0.579	0.571	0.561	0.573	0.609	0.611	0.546	0.440
Samarkand province	1.226	1.072	1.016	0.884	0.836	0.789	0.793	0.799	0.664
Surkhandarya province	0.433	0.377	0.364	0.356	0.403	0.365	0.382	0.317	0.281
Sirdarya province	0.700	0.700	0.659	0.669	0.677	0.723	0.697	0.597	0.475
Tashkent province	1.071	1.164	1.184	1.252	1.206	1.206	1.212	1.007	0.924
Fergana province	1.076	1.009	0.934	0.844	0.903	0.824	0.916	0.830	0.747
Khorezm province	0.787	0.543	0.551	0.544	0.501	0.568	0.515	0.469	0.426
Tashkent city	2.093	2.004	2.360	2.396	2.124	2.367	2.128	1.797	1.644
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	8.2	5.3	6.9	7.2	7.4	6.9	6.9	9.9	10.8
without Tashkent city	5.6	4.3	4.9	5.6	7.4	5.8	6.9	9.9	10.8

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

Agricultural Production

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	0.425	0.354	0.360	0.435	0.480	0.361	0.329	0.311	0.336
Andijan province	1.170	1.119	1.150	1.051	1.042	0.845	1.342	0.797	0.979
Bukhara province	1.340	1.375	1.321	1.376	1.418	1.242	1.632	1.245	1.322
Jizzakh province	1.331	1.211	1.329	1.425	1.497	1.504	1.165	1.246	0.892
Kashkadarya province	0.831	0.851	0.980	1.006	1.003	0.560	0.796	0.671	0.778
Navoi province	1.238	1.144	1.149	1.218	1.218	1.222	1.491	1.231	1.289
Namangan province	1.019	0.996	1.042	0.970	0.968	0.565	0.767	0.639	0.660
Samarkand province	1.037	1.081	1.110	1.154	1.084	1.225	1.075	1.283	0.956
Surkhandarya province	1.187	1.353	1.311	1.279	1.222	1.204	1.388	1.222	1.200
Sirdarya province	1.397	1.501	1.373	1.393	1.636	1.286	1.519	1.346	1.473
Tashkent province	1.511	1.539	1.268	1.255	1.242	1.916	1.168	1.996	1.213
Fergana province	0.977	1.024	0.995	0.931	0.883	1.058	0.968	0.984	0.936
Khorezm province	1.144	1.025	1.072	1.098	1.173	1.529	1.150	1.350	0.965
Tashkent city									
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	3.6	4.2	3.8	3.3	3.4	5.3	5.0	6.4	4.4

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

Investments

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	0.819	0.648	0.832	1.119	1.111	1.878	1.451	0.759	0.642
Andijan province	0.552	0.505	0.439	0.641	0.377	0.382	0.352	0.250	0.338
Bukhara province	0.705	0.627	1.063	0.701	1.174	1.144	1.185	1.554	1.265
Jizzakh province	0.577	1.112	1.155	0.583	0.611	0.410	0.527	0.561	0.713
Kashkadarya province	1.897	1.931	1.608	1.760	1.507	1.374	1.497	1.667	1.604
Navoi province	2.014	2.535	2.125	2.213	1.835	1.707	1.779	1.548	1.913
Namangan province	0.701	0.501	0.476	0.471	0.449	0.457	0.504	0.467	0.450
Samarkand province	0.523	0.453	0.404	0.531	0.505	0.537	0.640	0.367	0.400
Surkhandarya province	0.470	0.509	0.451	0.600	0.641	0.854	0.736	0.902	0.814
Sirdarya province	0.772	0.754	0.713	0.592	0.819	0.511	0.849	0.694	0.602
Tashkent province	0.747	0.762	0.899	0.872	1.085	1.235	1.118	1.040	0.897
Fergana province	0.587	0.796	0.931	0.480	0.396	0.275	0.499	0.662	0.506
Khorezm province	0.630	0.695	0.855	0.437	0.874	0.525	0.511	0.405	0.406
Tashkent city	2.730	2.272	2.131	2.864	3.088	2.800	2.382	3.086	2.209
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	5.8	5.6	5.3	6.5	8.2	10.2	6.8	12.3	6.5
without Tashkent city	4.3	5.6	5.3	5.1	4.9	6.8	5.1	2.1	5.6

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

Retail Turnover

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	0.470	0.485	0.491	0.505	0.503	0.489	0.485	0.513	0.430
Andijan province	1.272	1.314	1.356	1.284	1.077	1.349	1.171	1.204	0.966
Bukhara province	0.756	0.841	0.902	0.855	0.873	0.886	0.882	0.922	0.815
Jizzakh province	0.420	0.530	0.630	0.602	0.617	0.623	0.601	0.612	0.506
Kashkadarya province	0.662	0.697	0.715	0.755	0.768	0.735	0.748	0.708	0.653
Navoi province	0.728	0.770	0.808	0.800	0.965	0.841	0.901	0.906	0.813
Namangan province	0.691	0.747	0.805	0.773	0.720	0.801	0.746	0.795	0.675
Samarkand province	0.791	0.709	0.707	0.744	0.711	0.717	0.705	0.706	0.621
Surkhandarya province	0.588	0.594	0.665	0.700	0.716	0.711	0.742	0.729	0.681
Sirdarya province	0.691	0.665	0.639	0.609	0.595	0.576	0.591	0.558	0.506
Tashkent province	1.033	1.041	1.038	1.112	1.179	1.107	1.172	1.091	0.990
Fergana province	1.219	1.145	1.232	1.153	1.076	1.141	1.100	1.011	0.876
Khorezm province	0.662	0.685	0.668	0.610	0.605	0.606	0.594	0.649	0.601
Tashkent city	2.854	2.789	2.452	2.550	2.816	2.516	2.718	2.831	2.604
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	6.8	5.7	5.0	5.0	5.6	5.1	5.6	5.5	6.1
without Tashkent city	3.0	2.7	2.8	2.5	2.3	2.8	2.4	2.4	2.3

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

Paid Services

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	05/I	05/I-II
R. of Karakalpakstan	0.410	0.340	0.358	0.380	0.393	0.379	0.406	0.440	0.355
Andijan province	0.870	0.856	0.771	0.813	0.999	0.590	0.800	0.615	0.694
Bukhara province	0.927	0.856	0.878	0.883	0.894	0.928	0.934	0.983	0.863
Jizzakh province	0.455	0.441	0.448	0.481	0.488	0.502	0.522	0.560	0.459
Kashkadarya province	0.463	0.420	0.423	0.462	0.420	0.410	0.400	0.415	0.374
Navoi province	0.707	0.718	0.663	0.755	0.844	0.933	0.845	1.027	0.838
Namangan province	0.500	0.479	0.448	0.506	0.504	0.542	0.506	0.540	0.470
Samarkand province	0.626	0.612	0.606	0.687	0.666	0.620	0.589	0.632	0.574
Surkhandarya province	0.480	0.441	0.444	0.457	0.469	0.475	0.455	0.491	0.396
Sirdarya province	0.366	0.361	0.366	0.382	0.395	0.459	0.407	0.502	0.401
Tashkent province	0.732	0.670	0.616	0.631	0.653	0.652	0.671	0.638	0.590
Fergana province	0.610	0.553	0.556	0.586	0.631	0.600	0.585	0.655	0.574
Khorezm province	0.707	0.596	0.581	0.602	0.659	0.696	0.657	0.833	0.654
Tashkent city	3.455	3.761	4.090	4.201	4.156	4.548	4.415	4.197	3.749
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	8.4	11.1	11.4	11.1	10.6	12.0	11.1	10.1	10.6
without Tashkent city	2.5	2.5	2.5	2.3	2.5	2.5	2.3	2.4	2.4

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

ANALYTICAL PART

1. ISSUES OF IMPROVING THE POLICY OF STIMULATING DOMESTIC EXPORTERS

The present article is based on research by Tashkent State Economic University under the USAID Uzbekistan Economic Reform Project. The authors of the study are S.S. Gulyamov, S.V. Kim, D.K. Akhmedov, Sh.Z. Shukurov, N. Sirojiddinov, A.Yuldashev, G.I. Malashina, G. Zakhidov and M. Makhmudov.

Introduction

In the context of the current economic reforms in Uzbekistan, it is important to follow an export policy which would take maximum advantage of globalization while minimizing its negative impacts. This, in turn, can encourage producers to increase the quantity of exports and the export potential of the country. In order to achieve these objectives, it is necessary to study international experience in the area of encouraging exports and to apply the most efficient tools of export policy, as well as to study the large number of existing alternatives and the introduction of the foreign trade practices of the generally accepted standards established by the World Trade Organization (WTO).

The International Experience of Export Stimulation

Both in developed and developing countries, the policy of encouraging exports has been conducted at various stages of their development, which has altered and widened approaches and tools for export stimulation. It is not the case that there is a single policy of export stimulation that has been equally successful in most countries. Each country has applied various approaches, which have depended on the economic situation, the stage of the country's development and the political and economic situation in the world.

Based on international experience, countries stimulate exports through both state interference and, to a greater extent, reliance on market mechanisms. Encouraging exports by means of government interference has provided positive outcomes, especially in the development of non-traditional exports or exports of modern technically complex goods, which demand considerable capital investments for the organization of production and promotion to international markets. In this case, the financial support of the government and its efforts to mobilize private capital and establish infrastructure were very important and ensured the improvement of the export structure within relatively short periods of time.¹

On the other hand, the example of other countries (Malaysia, Singapore, Thailand, and Taiwan) reflects a greater emphasis on market mechanisms. In the majority of the export-oriented countries from the NIC (Taiwan, Thailand, Malaysia), the governments practically did not interfere in export issues.² Other countries, however, also applied special forms of state support for exports along with establishing favorable macroeconomic conditions for exporters.

The conducted review shows that the major means of stimulating exports are: establishing a favorable macroeconomic climate and creating incentives for producers to export their products. Steps to encourage exports are taken both at the central government level and at the regional level. Major tools for encouraging exports may be: export subsidies and loans; tax and custom benefits; providing grants and soft loans; establishing and controlling the foreign exchange rate; establishing special state funds and institutions; and establishing centers in the country and in foreign countries for promoting exports.

Export subsidies are financial benefits provided by the government or authorized institutions to exporting enterprises for the export of certain goods. In many cases not only exports are subsidized, but also the production of goods in general, which indicates the creation of implicit protection barriers. Subsidies are especially common with regard to exports of agricultural production and certain finished goods, including capital-intensive products. In 2001, the government of South Korea issued subsidies to support the export of agricultural goods in the amount of 25.95 billion KRW. These subsidies cover such goods as fruit, flowers, vegetables, kimchi, ginseng and cattle.³

Export credits cover mainly finished commodities and include both long-term and short-term credits. Lending consists of payments from special funds, refinancing, subsidizing or insurance, and is provided through banks and inter-government bank organizations, or the establishment of special lending funds.⁴

1 www.budgetrf.nsu.ru

2 www.budgetrf.nsu.ru

3 WTO Secretariat, "Trade Policy Review: South Korea", 2000, in www.wto.org/english/tratop_e/tp_r_e/tp_rep_e.htm#bycountry

4 www.budgetrf.nsu.ru

The insurance of exports is carried out by providing government guarantees on export credits. Guarantees are given to banks providing export credits. Insurance covers not only traditional commercial but also political risks. At present it covers a wide range of goods and countries, with variable insurance periods. Insurance is provided through special institutions such as Export-Import Bank (USA), Export Credit Guarantees Department (UK) or through private insurance companies which having state funds available for these purposes (Germany, Belgium).

For instance, export financing, insurance and guarantees in Brazil are carried out under the Program PROEX, which issues credits to Brazilian exporters of large quantities of goods such as agricultural machines, machinery, durable goods and services.⁵ In Malaysia, short-term financing with a fixed interest rate is regulated and provided by the Export-Import Bank (EIB) of Malaysia through commercial banks.⁶ Short-term financing is provided to industrial producers, trade companies and indirect exporters (suppliers to direct export producers). In South Korea, the EIB provides export credits and insures the risk of default on them.⁷ The EIB also stimulates exports by insuring political and commercial risks. In 2002 the maximum coverage for the medium and long-term period of export insurance was increased from 95% to 100% of the contract value.⁸ Major recipients of credits for 2002 were exporters of capital goods (industrial production, machine-building and shipbuilding). In those sectors, the level of exports grew by 13% to 42 trillion KRW (almost 1/5 of total exports), of which 80% were covered by short-term insurance.⁹

Tax and custom benefits are provided by exempting exporters from direct or indirect taxes. It is possible to reduce taxes for firms establishing overseas subsidiaries, to exempt from taxation those expenses for research which leads to the establishment of sales subsidiaries abroad, to offer exemption from taxation of components and materials used in the production of export goods, to establish funds free of tax for developing exports, and to reduce and return custom duties.

In South Korea imported raw materials intensively used in export production are freed from custom duties.¹⁰ In Malaysia, the import of machinery, equipment, raw materials, and components of industrial production of exports are freed from custom duties and taxes. If imported goods used in the production of exports are exported within 12 months, then 90% of custom duties and the full sales tax are subject to return to the producers.¹¹ In Singapore, tax benefits are provided by the government to companies involved in international trade. In the USA, in order to get tax discounts, exporters should open an overseas subsidiary for the sale of goods abroad. If an American firm exports goods through an overseas subsidiary, then according to US laws a portion of income is freed from taxes. Each year American exporters save about 1.5 billion USD¹² by taking advantage of the priorities of the tax discount system.

The foreign exchange rate is extremely important from the viewpoint of ensuring the competitiveness of national producers. Many countries which have successfully developed their exports (Chile, Columbia, Mexico, Taiwan, China, South Korea, and Indonesia)¹³ resort to supporting artificially understated exchange rates of their currencies in order to encourage exports. One example is a program of progressive devaluation of the national currency, sometimes by way of the "crawling anchor" (a system under which the level of the exchange rate is fixed with a regular certain adjustment); another is to carry out drastic devaluations of their currency. The rise in exports at such times was a major criterion of the necessary degree of devaluation and at the same time the efficiency of such a policy.

From the viewpoint of organizational forms, a government can establish special state funds for supporting exporters or establish special institutions and centers within the country and abroad for promoting the exports of domestic producers. These organizations are mainly state organizations providing domestic exporters with commercial information, marketing research, services of foreign buyers and providing consultations on shipment, transporting and packing methods. Some of these institutions have developed programs for encouraging and training exporters, while at the same time providing export licenses and helping to stimulate investments. For instance, American exports are encouraged in the USA through the establishment of special institutions focused on export stimulation. One such organization is the Overseas Private Investment Corporation (OPIC) - a corporation for private foreign investments that was established in 1969. This is a major fund through which exports are encouraged, partially financed by the government and by the private

5 WTO Secretariat, "Trade Policy Review: Brazil", 2000, in www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm#bycountry

6 WTO Secretariat, "Trade Policy Review: Malaysia", 2001, in www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm#bycountry

7 WTO Secretariat, "Trade Policy Review: South Korea", 2000, in www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm#bycountry

8 www.koreaexim.go.kr

9 WTO Secretariat, "Trade Policy Review: South Korea", 2000, in www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm#bycountry

10 WTO Secretariat, "Trade Policy Review: South Korea", 2001, in www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm#bycountry

11 WTO Secretariat, "Trade Policy Review: Malaysia", 2001, in www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm#bycountry

12 www.fkpi.ru/index.php?page=analytics_06

13 www.budgetrf.nsu.ru

sector. Since 1971, the total investments funded through the OPIC have reached 138 billion USD.¹⁴ The implementation of investment projects through the OPIC has contributed to a rise in exports in the USA of 63 billion USD and facilitated the creation of 250 thousand new jobs. As the corporation finances usually only a part of investment projects, the actual scope of capital investments made with its help is much wider.¹⁵ Another example is the UK, where the government established the Agency for International Trade (AIT) under the Foreign Office and the Ministry of Trade and Industry. It should coordinate the activity of interested ministries and associations, chambers of commerce, associations of business, and above all the Confederation of British Industry and Council on Invisible Export, as well as the commercial departments of British Diplomatic Missions abroad.¹⁶

Countries can resort to quite complex schemes for stimulating exports.

South Korea in the period of 1961-1973 carried out an aggressive policy of facilitating exports with the simultaneous protection of imports. Tight control over trade and the exchange rate was combined with a consistent financial and industrial policy. Trade policy was firmly directed to stimulating exports while remaining neutral towards export composition. Exporters were supported through multiple exchange rates, direct financial injections, the permission to spend earned foreign currency for the import of necessary goods, and the possibility of obtaining credits in foreign currency.¹⁷ At the same time, Korean exporters enjoyed a substantial easing of import controls and also tariff benefits. Support was also provided by the banking system, controlled by the government. The government defined the types of activity or industrial sectors needing bank loans, which were often soft loans. Export activity was a means of ensuring the borrowers' solvency.

On the other hand, Singapore relied on a free trade policy. Even at periods of Asian crisis Singapore did not show any signs of sticking to a policy of protectionism. Singaporean authorities agree with the opinion that a free trade policy and a policy of encouraging investments are the main determinants of successful participation in the world arena. Thereby, a free trade policy along with its stable economic base ensured Singapore the highest GDP in the world¹⁸, allowing it to recover rapidly from the Asian crisis.

All the above steps for stimulating exports are applied to a greater or lesser extent in modern practice by various countries. But the importance of each of these steps within individual periods of time or in the practice of individual countries at various stages of development is far from being of equal value. This is conditioned by the fact that at present, the importance of earlier applied tools of stimulating exports is decreasing as a result of globalization and the consistent change in international trade conditions. Thus, in modern practice the insurance of export credits is widely used, whereas several decades ago, the credit subsidizing of exports was no less important.

In the framework of the WTO, a concept of subsidies was developed, defining their forms and steps for their reduction. The WTO bans export subsidies for countries with a GDP per capita above 1,000 USD, due to which many countries face big losses. Only countries with a GDP per capita under 1,000 are eligible to apply this tool. In the event that a country achieves this level of GDP per capita, however, it should refrain from applying this tool within the next eight years.¹⁹ The major argument against the application of export subsidies is that that government artificially understates the real value of goods and services by supporting domestic producers.

In the framework of the GATS agreement, the WTO applies quantitative restrictions on exports, which negatively affect the participation of many countries in international trade.²⁰

Special attention should be given to the issue of stimulating the export of agricultural production, which is one of the most disputed issues with regard to entering the international market. Negotiations of WTO member countries held in Cancun (Mexico) in September 2003 on the issue of trade of agricultural goods ended in failure – due to disagreements between the rich and the poor countries regarding export subsidies.²¹

In the course of the round of talks in Doha (Qatar, June 2004), the issue of export subsidies for agricultural production was raised once again. The developing countries were particularly indignant at the continued ap-

14 www.fkpi.ru/index.php?page=analytics_06

15 www.fkpi.ru/index.php?page=analytics_06

16 www.economy.gov.ru/webcontent/economy/www.economy.gov.ru/merit/svti/korinf/grbritain/3-3.html

17 Kihwan, K., 1985, "The Korean Economy: Past Performance, Current Reforms and Future Prospects", Korean Development Institute.

18 WTO Secretariat, "Trade Policy Review: Singapore", 2000, in www.wto.org/english/tratop_e/tp_r_e/tp_rep_e.htm#bycountry

19 Hoekman, Bernard, and Michel M. Kostecki, 2001. *The Political Economy of the World Trading System: The WTO and Beyond*. 2d ed. New York: Oxford University Press.

20 Joseph Stiglitz and David Elderman, "Bridges through the abyss: Macro-and Microstrategy for Russia", World Bank [/www.ptpu.ru/issues/5_00/3_5_00.htm](http://www.ptpu.ru/issues/5_00/3_5_00.htm)

21 Bloomberg, January 11, 2005.

plication of export subsidies amounting to 300 billion USD²² annually by the developed countries, to protect their own agricultural producers from cheap imports. According to the World Bank, Japan, EU and the USA spend 184 billion USD annually to support their farmers: subsidizing prices for cotton, wheat, rice and other crops, and thereby artificially pressuring the competition and denying the poorest countries the possibility to trade.²³ According to the participants of the negotiations,²⁴ the most complex issues were the procedure for reducing subsidies, the specific scale of reducing duties and the issue of support for cotton producers.

As a consequence, an urgent need arose for the further revision of the structure of WTO measures and rules for stimulating the export of agricultural production. Agreements were achieved in the area of agriculture, with regard to steps taken on trade liberalization. Especially important is the WTO requirement to reduce the level of state support for measures for domestic exporters that distort trade. The issue was raised of excluding all forms of export subsidies in agriculture. For example, an agreement was signed on the exclusion of: export subsidies, export credits, guarantees and insurance programs with a repayment period of more than 180 days.²⁵ In the same manner, steps were undertaken to change market access for developed and developing countries, where the main requirement of the WTO was to reduce substantially the tariffs in the importing countries. Special attention was paid to the least developed countries. Thus, the developed and the developing members of the WTO should guarantee market access free from duties and quotas to the goods from the least developed countries.

On the whole, the last WTO round revealed the trend of trade liberalization by reducing government interference in the issues of both export regulation and trade stimulation. In this way, attention was focused on decreasing export subsidies which distort and artificially reduce international prices for goods and services, scaling down protectionist policies and ensuring conditions for unhampered access to the market. Some skeptics such as Arvind Panagarya, a professor of Columbian University²⁶, have stated that the least developed countries, being net importers of foodstuffs and having duty-free access to markets in the developed countries, will lose more from the liberalization of agricultural goods. This reform will lead to a rise in prices for imported foodstuffs, whereas the significance of the system of preferences will be destroyed. To this the World Bank²⁷ responded that even if some countries experience losses as a result of reforms concerning agricultural support, the net effect will be positive, as liberalization means, for developing countries, the opportunity of free access to the international market and the realization of their export potential.

The Improvement of Uzbekistan's Policy of Export Stimulation

Further liberalization of the export regime is connected with the following: a further rise in the efficiency of the export operations of the country, as part of the policy of stimulating exports²⁸ and taking maximum advantage of the international division of labor, and an increase in the comparative advantage of the country in those sectors with high added value.

An important direction in the area of export liberalization is the reduction of the list of goods banned for export. At present, with free conversion of the Soum introduced for current operations accounts, the cancellation of the ban on the majority of goods from that list can become an important factor in raising the exports and export potential of the county and improving foreign trade efficiency.

No less important in export liberalization is the improvement of measures for the preliminary registration of certain categories of export contracts in the AFER of Uzbekistan. In our opinion, the replacement of the preliminary registration of export contracts with a more efficient system of customs clearance of exported goods will encourage an increase in exports and in the export potential of the country.

Stimulating exports and increasing their efficiency in many respects is related with the improvement of the system of foreign trade settlements and the cancellation of various previously existing limitations. In particular, the implementation of the following measures could significantly encourage the development of domestic firms' exports:

22 Xinhua, December 26, 2004.

23 "Interfax", 19.07.2004.

24 "Interfax", 19.07.2004.

25 www.wto.org//579

26 Financial Times, January 11, 2005.

27 Financial Times, January 11, 2005.

28Turning to the policy of stimulating exports assumes also easing import protectionism, deepening administrative reforms, adjusting monetary and fiscal policies, reforming the banking sector, deepening reforms in the agrarian sector etc. All these reforms are the most important conditions for encouraging savings and investments, establishing a competitive environment in the economy, decreasing the transactional costs of business and eliminating the price distortions which are typical for export stimulation policy. Only a comprehensive approach to solving the problem can lead to rising competitiveness of national producers and foreign trade efficiency, which is the most important condition for accelerated development growth rates. However these issues are beyond the present analysis and require separate research.

- Exemption from value added tax for all exports and not only for that portion sold for hard currency;
- Cancellation of the broadly applied practice of 100 percent advance payment for exported goods, which seriously limits the export opportunities of enterprises, and the implementation of modern mechanisms for settlements²⁹; the expansion of the application of export credits, the insurance of export credits or the provision of counter banking guarantees for exporters;
- In order to strengthen trust in the national currency in the process of liberalization of foreign trade policy, provisions allowing the acceptance of foreign currency to pay for goods and services on the territory of the republic³⁰ should be revised, and measures should be taken to broaden the scope of export-import operations settled in the national currency;³¹
- Continuation of efforts to reduce the administrative allocation of material and technical resources and the establishment of their free market also can become a most important factor in strengthening the competitiveness of producers-exporters and encouraging the development of exports.

A most critical factor in strengthening the competitiveness of national producers in external markets and increasing the efficiency of exports is the development of a market infrastructure serving exporters. The republic possesses a huge potential with regard to the production and export of small enterprises, especially of agriculture and its processed products. But due to the lack of an effective purchasing, processing, storage and selling system for this production, especially for export, agricultural producers often are not able even to recover production and transportation costs at harvesting period. A great part of harvested production at these periods is simply lost.

There is fierce competition on international markets. The sale of any product abroad requires conducting marketing research, studying the demand for a product, advertising the product, using appropriate expensive means of transportation, signing contracts for delivery and, if necessary, the legal protection of interests.

All over the world, some are involved in the process of production while others are involved in its export. This provides the maximum advantage of the division of labor, as intermediary firms specialized in export can solve problems more professionally and efficiently. Favorable conditions are therefore required for those procuring organizations and intermediary firms which make purchases from producers, especially from small and medium enterprises (including dekhkan farms and farms), and which export production. Such organizations and farms should be provided with the same privileged conditions that exist for producers-exporters.

In our opinion, the introduction of an excise tax on exports by intermediary individuals and legal entities should be canceled at present. Not only would producers of exported goods benefit from the cancellation of these taxes, along with spread of existing tax privileges for producers-exporters to intermediary organizations and firms as a result of increased demand and the respective rise in prices for their production, but also the economy as a whole – as a result of both the rise in exports and the rise in efficiency of export operations.

Sales in external markets at present are complicated by the transportation of goods through the territory of bordering countries. There are problems of high transit fees in these countries and delays caused by administrative limitations while in transit. The efficient resolution of these problems is connected with the development of regional integration in Central Asia.

The development of regional integration processes can play an important role in the development of exports and the export potential of the country, as well as the acceleration of the integration of the Uzbekistan economy into the world economy. The development of regional integration, although it requires a partial relinquishing of sovereignty in conducting economic policy, has a number of advantages, of which the most important are:

- The possibility to use united and, as a consequence, larger resources and markets for the formation of new industries, taking advantage of co-operation and intraregional specialization for the development of large-scale production and gaining from the economy of scale;

29 This is quite a disputed issue, as in all developed countries it is hard to purchase /import goods with no 100% advance payment. The risk of fraud needs to be always considered. Uzbekistan experienced such cases, which in the end encouraged the adoption of 100% advance payment.

30 Such permissions are envisaged by paragraph 4 of the Decree of the President of the Republic of Uzbekistan # UP -1979 dated 20 March 1998 "On measures for regulating the import of foreign currency cash by individuals" (regarding payment for air fares and railroad freight); paragraph 3 of the Decree of the President of the Republic of Uzbekistan # UP-2286 dated 15 April 1999 "On the state program for developing tourism in Uzbekistan for the period till 2005" (regarding provision of tourist services); and by the Resolution of the Cabinet of Ministers # 103 dated 24 March 2000 "On additional steps for the development of over-the-counter foreign exchange" (regarding provision of other services to non-residents).

31 Again, it should be noted that trust in the national currency will hardly rise by applying such a method. The question arises: whose trust - the population's or foreign importers'? It should be also taken into account that export for many developing countries (including Uzbekistan also) is a major source of foreign currency.

- The access of consumers to larger markets and a wider assortment of goods;
- The development of intraregional competition and the increasing competitiveness of goods and services in global markets;
- The expansion of possibilities for a broader scientific and technical exchange and the concentration of joint efforts in the development of science and technologies;
- The establishment of a more balanced infrastructure, e.g., transport, banking, communication etc.;
- The ability to take a stronger stand for joint interests in relations with other countries, transnational corporations and at the level of international economic organizations, and also to ensure the economic security of not only a region but of each individual country.

As international experience shows, the unification of countries in trade and economic blocks accelerates the rates of their economic growth, due to the expansion of trade possibilities, the significant expansion of market capacity, the increased inflow of foreign investments, the tightening of competition and the achievement of economy of scale.

It is also important that over the period of existence of the CIS a noticeable relaxation of the integrity of the economic space of the former USSR has occurred, as many countries started to direct their efforts towards distant foreign countries rather than towards traditional markets. As a consequence, the loss of a substantial share in the CIS market took place, though the goods of these countries, especially of Central Asian countries, are less competitive in the markets of the distant foreign countries due both to high transport costs per unit and the low quality of finished products, while the technical standards of quality are high in the markets of countries with developed economies. At the same time, the price factor of competitiveness in the CIS countries' markets is more important than in the markets of countries with developed economies. Hence, in the near future, a substantial increase in the export of finished products and agricultural products is possible only in the CIS countries' market, which assumes the development of regional integration.

A turning point in the development of regional cooperation was the recent decision of leaders of Central Asian countries in the framework of the Central Asian Cooperation Organization (CACO) on the creation of water, energy and food consortiums. On the initiative of the President of the Republic of Uzbekistan a decision was taken on forming a single common market in the region. Including Russia – a major trade and economic partner of all Central Asian countries – in this organization was of great importance for the further development of cooperation in the context of this organization. All this, no doubt, will open new broader prospects for trade, economic cooperation and the acceleration of economic growth rates in these countries, while at the same time encouraging them to a more decisive liberalization of foreign trade.

The adjustment of the foreign exchange rate may become a most important factor in encouraging exports and the export potential of the country. The current exchange rate of the national currency is the equilibrium for the current situation when import policy is characterized by a high level of protectionism. However, import liberalization and the development of regional integration may lead to a significant rise in the demand for imports, a fall in the competitiveness of domestic producers in the domestic market and a deficit in the balance of payments. The support of the low level of the real exchange rate of the national currency will not only increase the competitiveness of domestic producers in the domestic market due to a rise in the process of imports, but will also encourage export development. This may happen either as result of rising export revenues proportionally to the devalued real exchange rate of the national currency³², or as a result of increased demand from foreigners for domestic goods, as the latter will cost them less.

In our opinion, in the current situation in the area of exchange policy, it is optimal to devalue the exchange rate of the national currency at a rate higher than the inflation rate. Such an approach enables the real exchange rate of the national currency to be devalued without sharp (shock) changes of its level in the process of import liberalization and the development of regional integration processes.

In order to improve the information supply for exporters it is expedient to establish a special help-desk system, based on electronic technologies, that ensures the transfer of information on tenders and bids held abroad directly from overseas branches to interested Uzbek enterprises. It also seems expedient to establish a free information web-site where information will be published on commodity producers and their goods and services, and the situation in overseas markets and conditions for trade there.

The implementation of the above measures will, in our opinion, considerably increase the level of openness of the economy, encourage the development of exports and export potential of the country and accelerate growth rates of the economy and of people's well-being.

³² Mainly raw material resources prices for which in international market are formed in hard currency.

2. Trends in Forming the Structure of Investment Sources in Uzbekistan

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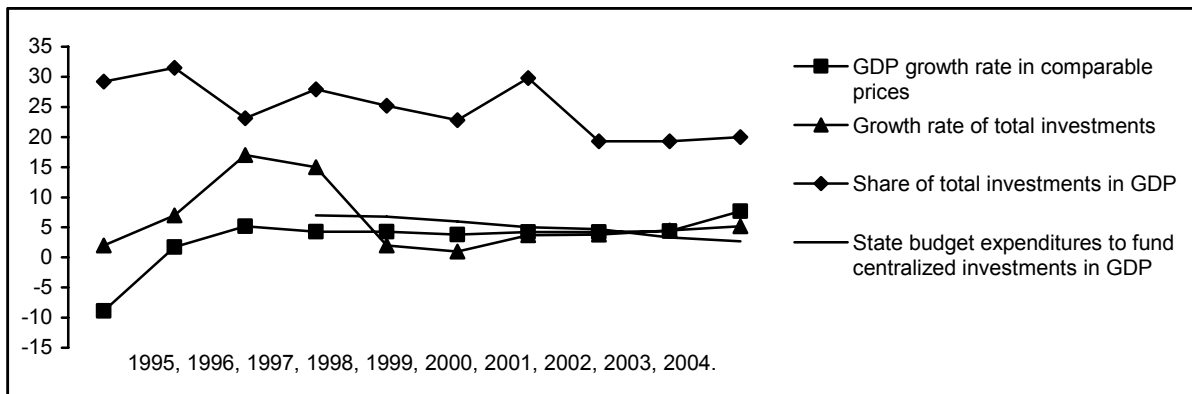
Investments represent one of the most important factors of economic development. In countries with developing economies, the importance of investments is much higher, as they face large-scale tasks in solving such issues as the structural reorganization of the economy and the modernization of its production capacity.

In this context, the most important objective for the economies of developing countries and countries with transition economies is the more efficient utilization of the opportunities and advantages of the domestic private sector and the global market of international investments. At the same time, government investments should no doubt play an important role. Let us consider the major trends and objectives in improving the structure of investment sources in Uzbekistan.

Changes in Sources of Investment Funding

In recent years, a tendency has been observed of growing investments into the country's economy; their share in the Gross Domestic Product has stabilized (Figure 1). Official data on investments indicate a positive trend of increase in the economy. In 2004, the rate of investments grew by 0.7 percentage points, exceeding the level of 2003 and reaching 5.2%.

Figure 1. Dynamics of Investments in the Uzbekistan Economy (%)



The trend of a decreasing share of investments from the state budget can be considered as a positive one. In 2004 their share fell to 14.9% of the total capital invested, which is related to the tightening of requirements for investment projects funded from the state budget. The trend of a decreasing share of state investments may also be explained by the intensified activity of non-governmental structures: joint-stock and private enterprises have begun to invest much more in their development, and the volumes of direct foreign investments and investments made by the country's population have risen.

As the total volume of investments has increased, their structure by type of ownership has changed. In general, both a fall in the volume of capital in the state sector and an increase in investments into non-state properties were observed over recent years. In 1995, the share of investments into the state sector accounted for 55.1%, and into the non-state sector – 44.9%, while in 2000 these figures were 63.8% and 36.2%, and in 2004 – 41.4% and 58.6% respectively.

Certain shifts have occurred in the structure of investments by source of funding. The reduction of risk and the increase in the attractiveness of investment subjects have facilitated a growing interest among foreign investors in investing capital into individual sectors of industry, transport and communication. An increase in the share of foreign investments and loans secured by government guarantees was observed until 2001, when 23% of centralized investments were made by foreign investors.

It can be said that there is a trend towards an increase in investments by private foreign investors in the country's economy. The share of Direct Foreign Investments (DFI) and foreign loans in the total volume of investments has grown over the past five years by nearly three times (Table 1).

Table 1. Structure of Investments in Fixed Capital by Funding Sources (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total	100	100	100	100	100	100	100	100	100	100
Centralized Investments	36.9	40.1	42.8	36.5	48.0	50.3	45.2	41.1	35.6	31.8
- state budget	22.9	24.0	25.3	22.8	28.3	29.2	21.5	25.0	17.4	14.9
- off-budgetary funds	-	-	-	0.4	0.7	1.3	0.5	0.3	0.4	2.4
- foreign investments and loans secured by government guarantees	14.0	16.1	17.5	13.3	19.0	19.8	23.2	15.8	17.8	14.5
Non-centralized investments	63.1	59.9	57.2	63.5	52.0	49.7	54.8	58.9	64.4	68.2
Funds of enterprises	43.6	43.2	40.3	31.5	26.6	27.1	31.0	40.0	41.1	43.2
Loans of commercial banks	9.6	7.3	7.8	7.2	7.9	6.9	8.1	1.6	1.8	2.3
Direct foreign investments and loans	-	-	-	6.4	3.7	3.4	4.8	4.7	7.1	10.0
Funds of the population	9.9	8.7	8.9	18.1	13.6	12.0	10.3	12.0	13.7	12.4
Other borrowed funds	-	0.7	0.2	0.3	0.2	0.3	0.6	0.6	0.7	0.3

Source: Uzbekistan Economy. Analytical Review for 2003 and 2004 – T.: CEEP, 2004, #4, p. 57, # 8, p. 62.

Investments by the population are rising. Just over the past two years they comprised about 600 billion Soum. The majority of these funds were directed to the construction of individual housing. Banks increased the issuing of investment credits from their own funds, and the activity of off-budgetary funds intensified. However, enterprises remain the largest investors. Beginning in 2001, the share of enterprises' and organizations' own funds dominated in the structure of funding sources of investments in fixed capital; it continued noticeably rising each year. In 2004, the share of enterprises' investments reached 43.2%.

In the structure of capital accumulation, the share of construction and assembling operations decreased and the share of purchasing new equipment and technology grew. In 1995, 55% of the total volume of investments consisted of construction and assembling operations and 35% - of purchasing new equipment and technology; in 2000 the proportions were 58.1% and 30.6%, and in 2004 – 45.6% and 43.6% respectively. Considerable investments are now being made into non-material facilities. These are investments into measures to develop market institutions, including implementing reforms in administrative and financial areas, developing small and private business, undertaking R&D and implementing scientific and technical developments.

The international tendency of growing investments in the service sector may be seen in Uzbekistan as well. Structural transformations in the economy, as well as the outflow of a portion of labor resources from industrial sectors to the service sector, increase the importance of the service sector in national production. Already no one in the country is impressed by the latest communications technology, computer technologies or the Internet; traditional types of services are growing rapidly. At the same time, their volumes are growing in part due not to expanding types and increasing quality of services but due to the price factor. Both domestic and foreign investors have appreciated the available demand, making significant investments in these sectors of the economy.

Investment Program for 2005

Capital investments in 2005 totaling more than 2.8 trillion Soum are envisaged, of which centralized investments are forecast to make up 30% of the total volume of funds. For comparison, in 2000 the share of centralized investments was 50.2%, and in 2003 - 37.3%.

State investments are noticeably decreasing – their share accounts for just 12% of the total volume of investments. At the same time, the share of enterprises' and population's funds in funding investments is growing (48%). Evidently, the reduction in government participation in investment processes should be accompanied by active investments also in the international sector of the national economy. It is expected that in the structure of centralized investments, foreign investments and loans secured by government guarantees should make up the highest share (44.4%). At the same time, the government intends to try to attract DFI. In the recent past, three-four times more foreign investments secured by government guarantees, were attracted into the country's economy than DFI. In the previous year their volumes almost matched, and a further increase in the volume of DFI in 2005 is planned.

It is forecasted that DFI should make up 60% of the total volume of foreign investments. Recently DFI without government guarantees considerably increased. In 2003, DFI was almost 2 times greater than in 2002, and in 2004 the volume of such investments grew 1.5 times. It is planned to increase this indicator by more than 2.5 times in the current year.

Off-budgetary special funds are resolving their own particular issues. In 2005, investments from the Republican Road Fund are to be significantly increased, in order to develop transport communications. Major programs for establishing conditions for the comprehensive development of children and teenagers are also planned, using funds for the development of children's sport and school education.

State funds are directed to solving issues of public development. The majority (69%) should be invested in the construction and reconstruction of facilities defined in the National Program of Staff Training and also in the development of infrastructure. A great deal of attention is paid also to the improvement of the healthcare system and improving housing and communal services for the population.

In the area of production, the largest amount of funds from the state budget is allocated to the agroindustrial complex, in order to conduct irrigation and reclamation work and to increase the security and reliability of the exploitation of especially important water facilities. Capital investments in this sector will be made by attracting foreign loans also secured by government guarantees. Foreign investments and loans for the development of the social complex are attracted with government guarantees. With the participation of the ADB, KfW Bank, Japanese Bank for International Cooperation, and the governments of Poland, Belgium and the Republic of Korea, specialized secondary education will be further developed. Of particular note are the credit lines for small business development being issued by international financial organizations – EBRD and ADB – to banks in our country.

Altogether the target program envisages the implementation of 52 investment projects in 2005, of which 21 projects are being initiated, and 8 projects are at their completion stage.

In the sphere of industry the completion of construction of a plant for the production of glass containers is planned. The loan issued by the French bank "Société Générale" for the construction of a mining enterprise that started last year on the base of the sulfide ore of the Kokpatas and Daugiztau deposits continued to be utilized. Funds from Turkish, German and Japanese corporations and the Japanese Bank for International Cooperation will be used for establishing several joint ventures on textile production.

Under the category of decentralized investments, the State Investment Program defines investment projects implemented with the attraction of foreign investments and loans. The total amount of foreign investments and loans is estimated at more than 2 billion USD, which should make up a quarter of total investments in 2005. The largest funds are invested in machine-building, metallurgy, chemical, fuel industries, extraction, the production of consumer goods and trade.

A considerable share of investments is attracted by enterprises of the National Holding Company "Uzbekneftgaz". The Russian "Lukoil Overseas Uzbekistan Ltd" company and the French "Sofregaz" make large investments. Chinese companies will implement new investment projects. In the area of consumer goods priority is given to light industry. The company "Uzbekengilsanoat" has attracted the funds of German, Turkish, Swiss, American and Bulgarian investors to implement 10 projects on the production of cotton yarn and knitwear and apparel products. Significant investments have been made by the German firm "Sachinler Holding" to establish a joint venture in Samarkand. The well-known Swiss Company "Nestle" will continue investments in the joint venture "Nestle - Uzbekistan" for the production of infant food. It is necessary to point out that joint ventures are being established in all regions of the country.

Direct foreign investments will be directed to the further development of the information technologies sector. The joint venture "Coscom", a daughter company of "Unitel," plans to expand and develop its current network. A joint venture with Japanese capital is planned for the production of fiber-optic communication cables.

Banks of Uzbekistan are given credit lines by banks from Germany, USA, Italy, Iran, Turkey and international financial organizations – IFC, EBRD – for special lending to small businesses and purchasing imported technologies and equipment.

Apart from the investments that are being made in the country's economy, the Investment Program presents a summary list of priority investment offers. This includes projects which are of special importance for the national economy, feasibility studies for which are being developed or have been developed. At present the Ministry of the Economy, the State Committee on Property, and the Agency for Foreign Economic Relations of the Republic of Uzbekistan jointly with ministries, associations, corporations and companies – initiators of projects – are searching for potential investors for implementing projects on a competitive basis.

Steps taken by the government in recent years towards the establishment of more favorable conditions for the functioning of production and the attraction of investments have increased the interest of both domestic entrepreneurs and foreign investors in projects for developing the economy of Uzbekistan.

3. The Competitive Advantages of Uzbek Agricultural Produce on the International Market

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Introduction

Agriculture plays a crucial role in Uzbekistan's economy. It supplies 70 percent of domestic commodity turnover and accounts for a considerable share of the foreign currency proceeds of the country and more than 30 percent of the GDP. In addition, 44 percent of the country's labor force is employed in the sector. Since gaining independence, Uzbekistan has made efforts to expand its trade transactions towards a shift of its export and import markets from the former USSR countries to the non-CIS countries. From 1993 to 1996 the share of traditional trade partners for exports among the countries of the former Soviet Union fell almost by one half and then began to increase in 1997 (due to exports of motor vehicles, natural gas and cotton). Their share dropped again later, however, due to the economic crisis of 1998. The structure of imports also changed to the benefit of the East Asian and European countries. The structure of exports is being transformed as well. While at the time independence was achieved, exports were dominated by cotton (60 percent in 1992), in recent years considerable exports of such items as gold and oil have emerged, resulting in the reduction of the share of foreign currency proceeds from the sale of cotton (to 30 percent in 1998).

Until 1996, general economic policy was mainly focused on lifting trade restrictions. A number of Government resolutions gradually cancelled licensing and tariffs on imports and exports. By the middle of 1996, no foreign trade tariffs remained and only certain types of commodities were subject to licensing. In June 1996, in response to low export revenues from cotton, which directly affected financial policy, new import and export duties were introduced by resolutions of the Cabinet of Ministers. In addition, subsidies and other export-facilitating measures were implemented. Despite the lack of fertilizers on the domestic market, efforts were undertaken to stimulate the production of mineral fertilizers by means of tax privileges, which helped maintain export of this commodity at the same level. The average level of import tariffs for agricultural inputs and foodstuffs in Uzbekistan is lower than in some WTO member-countries with transition and developing economies. In 2003 the average-weighted level of tariffs for agricultural commodities was approximately 15 percent.

At the present stage, trade policy is focused on self-sufficiency (export substitution) in foodstuffs and fuel. This is done to save foreign currency, the deficit in which is growing due to continuous overvaluation of the Uzbek Soum (UZS). The orientation of trade policy towards exports becomes a logical continuation of this task; therefore, the first stages of the process of lifting foreign trade barriers were aimed at the development of exports. However, recently introduced and more serious barriers have put exporters in an extremely difficult position. Meanwhile, a policy of grain self-sufficiency through import substitution has been developed and implemented in Uzbekistan. Considerable progress has been achieved in decreasing the import of grain. This was made possible by the dramatic increase of the area under grain cultivation.

The successful development of any country largely depends on determining the basic directions for agrarian and trade policy. Both economists and decision-makers have always been interested in the results of a quantitative assessment of the policies of import substitution and export orientation of agriculture. Therefore, in this paper we attempt to identify the comparative advantages of the country in the production of agricultural goods which are competitive on the world market.

Main Section

1. Methodology

The assessment of the comparative advantages of Uzbek agricultural production has been performed using the Domestic Resource Cost (DRC) method described in detail by Price Gittinger (1). The method assesses the efficiency of using natural resources (irrigated lands); i.e. it answers the question: "What is more beneficial, domestic production or the import of an agricultural product?"

Based on DRC methodology, all material and technical resources are divided into marketable (sellable) and non-marketable (unsellable). Marketable resources include all types of material and technical resources available on the market, including such agricultural commodities as fertilizers, seeds, fuel and lubricants and chemicals. Non-marketable resources include expenses for supplying water, rental fees for land, labor costs and the lease of equipment. The Domestic Resources Cost formula is the following:

$$\text{DRC} = \frac{\text{Non-marketable}}{\text{World Prices} - \text{Marketable}}$$

If $DRC > 1$, it is more cost effective to import a product, and if $DRC < 1$, a country has comparative advantages, it is saving hard currency, and it is more beneficial to produce domestically and export to the world market.

The major problem in the calculation of comparative advantages is that all financial indicators of production factors from accounting reports of enterprises are considered to be distorted, as all sellable resources (fertilizers, seeds, fuel, lubricants and chemicals) are subsidized by the government. Therefore, for the correct estimate of DRC, it is necessary to use world prices for material and technical resources. In this paper, with the aim of determining the dynamic changes of DRC under current conditions and in an open economy, estimates were made for three categories: 1) using financial indicators and local prices; 2) using technological standards and world prices; and 3) using potential crop capacity and world prices. (The mechanism of calculating the DRC of agricultural production per hectare of irrigated land in USD (financial indicators) is presented in Table 1.)

2. Commodities and Non-commodities

The analysis of prices existing in agriculture indicate that, despite government subsidies, prices for material and technical resources, excluding seeds, are approaching the world level. The wear-and-tear and scarcity of agricultural machinery leads to a decrease in the mechanized processing of land and an increase in manual labor. As a result, the actual use of fuel and lubricants is 4-6 times lower than recommended by standards.¹

Non-marketable resources include water, lease of land, labor and leased equipment. The need to rehabilitate irrigation and drainage systems, under conditions of reduced government subsidies, on average results in a two-fold increase in expenses for water management services. In an open economy, water expenses stabilize at 5-10 percent of the production cost. For production under state order, the cost of leasing land is limited by the unified land tax to the amount of UZS 10–30 thousand, while farmers sublet part of their lands (from UZS200 thousand to 500 thousand, depending on the quality and water supply) for the cultivation of produce oriented for domestic and external markets. Under the liberalization of the economy, the cost of leasing land will most likely stabilize at the level of UZS 200 thousand.

The main comparative advantage of Uzbek agricultural production is the cheap labor force on the domestic market. The cost of labor in cotton cultivation is twice as low and in fruit cultivation is ten times lower than world costs. The high cost of mechanized services,² on the one hand, leads to an increase in the share of service costs, and on the other hand, compels farmers to use the services of private tractor owners.

3. Domestic Resource Cost Estimates

The degree of market freedom or “production system liberalization” has various impacts on DRC. A contemporary production system with considerable government intervention, in terms of low purchasing prices and weak purchasing power of the population, indicates high profits compared to world market equivalents.

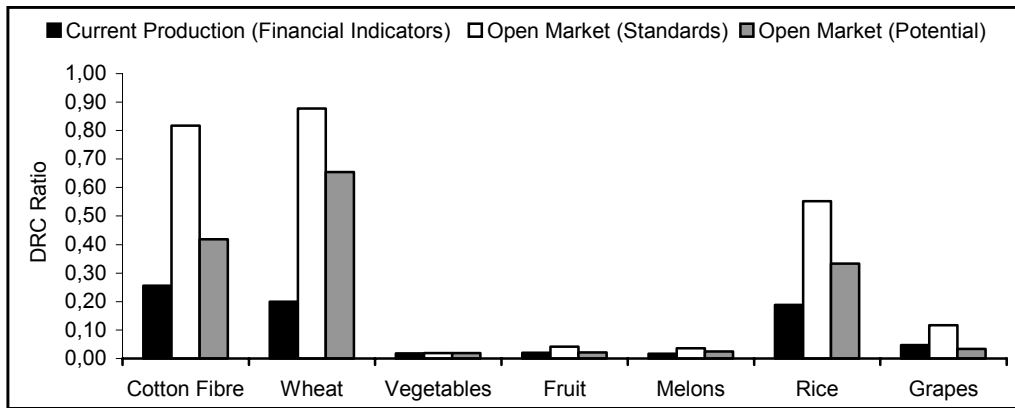
The estimates based on world prices have indicated (Figures 1 and 2) that under the current level of efficiency, an open market economy leads to a decrease in the comparative advantage of Uzbek agriculture. The basic cause of the poor competitiveness of the production system is its low efficiency, due to a lack of incentives for increasing crop capacity. For instance, the crop capacity of cotton – at 20.7 centners per hectare in 2003 – amounted to only 60 percent of the potential crop capacity for similar natural and climatic conditions. For fruit this figure was 50 percent, and for grapes, sunflower and sesame approximately one third.

Despite tough competition on the global market, an increase in the productivity of irrigated lands to the maximum would lead to an increase in the comparative advantage of agricultural produce.

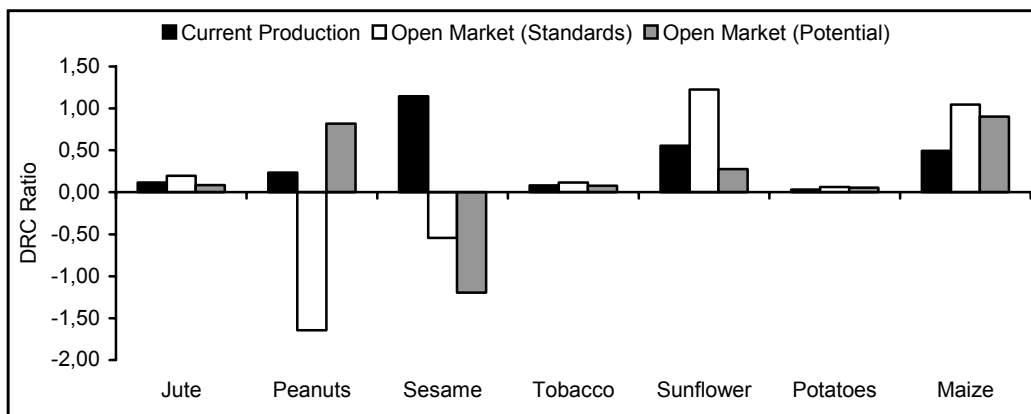
1 Standard technological charts for production of basic agricultural crops from 1999 – 2005.

2 The price for plowing 1 hectare of land with “Case” tractors reached UZS 45 thousand in 2004.

DRC for Major Crops Grown in Uzbekistan



DRC for the Other Crops Grown in Uzbekistan



The major agricultural crops produced in Uzbekistan can be divided into three groups based on their DRC comparative advantage:

First Group with high competitive advantage (DRC = 0.02 – 0.08) includes exported crops (vegetables, fruit, melons and grapes) as well as technical (jute and tobacco).

Second Group with moderate competitive advantage (DRC = 0.2 – 0.8) includes cotton, wheat, rice and maize. As the major crops, they account for more than 85 percent of irrigated land.

Third Group with low and negative competitive advantage (DRC = 1.2 – (-1.22)) includes oilseed crops such as peanuts, sesame and sunflower. The negative value is caused by the high cost of inputs and low efficiency.

4. The Comparative Advantages of Production under State Order

Under the current production system with low purchasing prices, the DRC of cotton (0.26) is higher than that of wheat (0.20). This means that wheat had a comparative advantage over cotton in cultivation on irrigated lands in 2003, which economically justifies the profitability of domestic production of grain in the country. However, under the open economy and market, the comparative advantages of cotton increase considerably *only in comparison to wheat! Otherwise it's worse*. The estimates of DRC under the liberalization of prices and the increase of crop capacity up to the highest possible level demonstrated that DRC for cotton may reach 0.42 and for wheat – 0.65 respectively.

The key factors which affected the lower comparative advantages of cotton over wheat under current conditions were the following:

- The absence of competition in the system of sales in the presence of monopsony on the domestic cotton fiber market. In contrast, agricultural producers can sell a portion of wheat yield at the market;
- The increase in the share of manual labor in cotton cultivation due to the lack of equipment and machinery, in contrast to the relatively new supply of machinery for grain cultivation; and
- The lack of incentives for intensifying cotton cultivation due to low purchasing prices, which are not sufficient to cover output costs (increasing prices for fuel and lubricants, spare parts, pesticides and mineral fertilizers).

The DRC method does not take into account the quality of produce. The wheat grown on the irrigated lands of Uzbekistan is mainly of soft varieties used as forage for cattle. Hard wheat used for baking bread is produced on non-irrigated (*boghara*) lands. Domestically grown hard wheat accounted for 12 percent of the total amount produced.

The DRC in 2003 for all the analyzed crops (excluding maize) was lower than in 1998. This means that the comparative advantages for Uzbek produce on the world market are increasing. The cost of non-marketable resources such as water, labor, lease of land and equipment has grown, indicating a relative increase of local resource indicators.

With regard to the Uzbek policy of grain import substitution we would like to note that many countries have rejected the policy of import substitution due to its high implementation costs. In addition, the loss of export revenues and the re-allocation from other sectors limit opportunities for the import of other foodstuffs, resources, spare parts and new technologies.

The World Experience of Countries which are Developing Comparative Advantages in their Agrarian Sectors

The following trends of countries which are developing comparative advantages in their agrarian sectors could be of use for Uzbekistan:

1. Diversification of agricultural exports: it is not reasonable to focus on one or two crops or to depend on the low cost of labor. The experience of developing countries indicates that they can compete with developed ones, both in costs and quality. Their success is based on the introduction of advanced foreign technologies and the effective design of local education, infrastructure and research capacity. It takes about ten years from entry to the global market for many developing economies to achieve success.

2. Success in exports diversification depends on the priority of the parallel development of the domestic market. No country has developed a comparative advantage solely based on the production of exports. The government and donor agencies (ADB and the World Bank) should diversify exports on the basis of both the existing foreign market and investments into domestic market development.

3. The government and donor agencies should create conditions to facilitate entry for foreign investors and international transfers into production and processing technologies. This implies the acceleration of the procedure for attracting foreign investors and the reduction of tariff and other barriers for the import of seeds, irrigation and processing equipment and other resources for agricultural business.

4. The establishment of favorable macroeconomic conditions and the implementation of appropriate policy will ensure incentives for new investment and trade expansion and the expansion of the major commodity systems. Also important are: the establishment of one's own niche in the global market (trade establishment) and the sustainable production of agricultural goods, depending on a combination of, first, microeconomic development (joint ventures, vertical integration, investment facilitating programs and so forth) and, second, investment in human capital and supporting structures (infrastructure and research).

5. The development of market infrastructure servicing the agrarian sector. Profitable and sustainable trade requires transportation and telecommunications facilities and legal support. In all developing countries, public services are provided by the government and include research and development, training, quality control and marketing and information services.

6. International experience demonstrates that the commercial production, processing and promotion of marketable, export-oriented goods with high DRC should be transferred to the private sector. When government agencies participate in trade they impose requirements for a particular choice of agricultural crops, and they cannot be market-oriented or flexible in management. Entities controlled by the government are not efficient in the marketing of domestic agricultural produce on competitive markets. In contrast, the private sector (including trade cooperatives) has shown the ability to respond to shifts in demand and supply on the market, being far more innovative in the development of trade-facilitating integrational ties.

Conclusion

Key Factors for Increasing the Comparative Advantages of Uzbek Agricultural Production

- Decrease costs for the production and processing of agricultural produce with the aim of ensuring price competitiveness on the global market;
- Comply with international standards for quality and appropriate packaging;
- Create macroeconomic conditions which facilitate the development of agricultural cooperatives and farms capable of producing export-oriented output at the lowest costs and of the highest quality;
- Focus the economic policy of foreign trade regulation towards liberalization; and
- Enforce ownership rights for the output produced and the means of production. Adhere to and protect the right to lease land.

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Table 1. Calculating DRC for Agricultural Production per Hectare of Irrigated Land in USD (Financial Indicators)

	Marketable Resources				Total	Non-marketable resources				Total	Total	Income From 1 Hectare in Local Prices	Crop Capacity From 1 Hectare in Tons	World Prices Per 1 Ton	Income from 1 Hectare in World Prices	DRC
	Fertilizers	Seeds	Fuel & Lubricants	Pesticides & Insecticides		Water	Lease of Land	Labor	Mechanized Services							
Cotton fiber	69	35	42	34	180	29	20	179	63	292	473	443	0.68	1950	1320	0.26
Wheat	51	46	18	14	128	13	20	28	53	115	243	245	3.52	200	704	0.20
Vegetables	43	51	25	40	158	49	200	110	41	400	558	700	20.90	1100	22990	0.02
Potatoes	47	37	26	51	162	49	200	119	56	423	585	1431	15.20	900	13680	0.03
Maize	20	6	14	7	47	25	200	26	23	274	321	393	4.03	150	605	0.49
Fruit	2	12	2	3	19	19	200	7	5	231	250	143	5.25	2200	11550	0.02
Melons	22	4	13	14	53	17	200	23	31	271	324	381	14.10	1120	15792	0.02
Rice	70	65	31	20	186	75	200	36	81	392	578	412	3.02	750	2265	0.19
Grapes	4	1	4	2	11	34	200	18	6	258	269	235	4.08	1350	5508	0.05
Jute	15	12	10	8	44	26	200	117	22	365	409	534	8.3	390	3237	0.11
Peanut	5	5	2	7	19	27	200	18	25	270	289	283	0.97	1200	1164	0.24
Sesame	1	3	5	2	11	24	200	2	8	234	245	7	0.20	1100	216	1.14
Tobacco	4	1	29	4	38	25	200	408	67	700	738	617	2.41	3500	8435	0.08
Sun flower	20	42	15	7	85	30	200	28	21	278	363	39	0.45	1300	588	0.55