

Uzbekistan Economy

**Statistical and Analytical
Review for January-September, 2005**

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Introduction

The informational and analytical review describes dynamics, trends and specific characteristics of the Uzbekistan economy on such aspects as macroeconomic policy, institutional and market transformations, structural and investment shifts, foreign trade, the social sphere and territorial development.

Economic growth and the macroeconomic situation. In the first nine months of 2005, the real gross domestic product of the country increased 7.2%. The increase in GDP per capita was 5.4%, as opposed to 5.1% in the first nine months of 2004. Economic growth was ensured mainly through the further development of the basic industries of the economy, and the increase in investments and exports. A favorable macroeconomic climate was established thanks to the low inflation rate (3.1%), the state budget surplus (0.5% of GDP), the lowering of the Central Bank refinancing rate (to 16%) and the consistent depreciation of the nominal exchange rate UZS/USD (9.6%).

Institutional transformations and the intensification of market reforms. The processes of denationalization and privatization were implemented according to the Program approved for 2005-2006. 729 objects were transferred into non-state-owned type of property in the first nine months of 2005. The volume of the government assets sold totaled UZS 56.2 bn. Total turnover on the securities market grew by 6.0% and accounted for UZS 115.1 bn. In the exchange segment of the secondary securities market, shares worth UZS 19.4 bn. were sold and in over-the-counter segment – UZS 24.6 bn., exceeding the sale volume in the corresponding period of 2004 by 19.0% and 9.8% respectively. The steps taken to strengthen support for small entrepreneurship enabled its share in GDP to increase from 32.4% to 34.3%. The number of operating small enterprises reached 261 thousand units vs. 239 thousand units in the first nine months of 2004; the number of those employed in small business increased by 9.8%, reaching 6.6 mill. persons.

Structural and investment transformations. The favorable macroeconomic environment facilitated the sustainable development of the real sector of the economy. Industrial production increased 107.7%, agriculture – 107.3% and consumer goods – 119.4%. Investment activity intensified and growth in investments reached 106.9%. Structural shifts in the agrarian sector due to substantial increase in the number of farms and the volume of their production (149.0%) should be noted.

Foreign trade. In the first nine months of 2005, foreign trade turnover grew by 9.8%, with the share of exports constituting 56.6%, and imports 43.4%. The volume of exports grew by 9.7%. The trend of exports and imports to CIS countries surpassing trade with other foreign countries was observed, as was an increase in exports of finished products. The favorable price situation for the country's major export goods had a certain impact on the growth of exports. Sustainable development was registered for enterprises with foreign investments. Increase in their foreign trade turnover reached 27.8%, exports 8.9% and imports 41.1%.

Welfare of the population and the labor market. The nominal monetary income of the population grew by 26.1%. The trend was observed of an increase in the share of monetary income in the structure of total income of the population, as well as a reduction in the share of in-kind income and of expenses for consumption and an increase in the population's savings. Retail turnover grew by 8.6% and consumer services by 14.5%. The number of the employed population increased by 1.8%. The official unemployment level was 0.3%.

Development of territories. Over the period concerned all regions developed at relatively sustainable rates. The least developed regions surpassed the average national indicators on the level of economic development (in the Republic of Karakalpakstan the growth in gross regional product reached 11.0%, Jizzakh – 112.0% and Khorezm region – 11.9%). A reduction in interregional differentiation among the indicators of gross regional product, volume of industrial and agricultural production and consumer services was observed.

The analytical review includes articles dealing with coverage of the dynamics of priority sectors of industry and improvement of the system of taxation.

The informational basis is the official data of the State Statistics Committee of Uzbekistan, Central Bank, Ministry of Finance of Uzbekistan, State Property Committee of Uzbekistan, and also elaborations, estimates, computations and illustrations of the authors.

Major Economic Events

July

New Joint Venture with the participation of the Swiss company Riter to manufacture export-oriented textile goods was launched in the Andijan region.

JSC "BukharaKarakul" forwarded the first shipment of astrakhan pelts worth USD 35 thousands to Tyumen Fur Factory (Russia). The contract between Uzbek and Russian partners is worth USD 500 thousands.

The President of the Republic of Uzbekistan signed a Decree "On Improvement of Management System of the Foreign Trade and Attraction of Foreign Investment" aimed at promotion of foreign economic relations.

Aiming to enhance investment activity the Central Bank passed a Resolution "On Approval of the Regulation on the Procedure of Syndicated Crediting of Large Investment Projects by the Commercial Banks".

In accordance with the Presidential Decree "On Improvement of Management System of the Foreign Trade and Attraction of Foreign Investment" of 21 July 2005, the Agency for Foreign Relations has become the Ministry for Foreign Economic Relations, Investment and Trade. The Decree was addressing the development and strengthening of foreign trade, facilitation of foreign investment and ensuring safeguards for foreign investors, as well as liberalization of foreign trade, and formation of long-term partnerships between domestic manufacturers and foreign companies.

Within the framework of ensuring social security for Army servicemen, the President has signed a Decree dated 30 June 2005 "On Additional Measures for Social Protection of Army Servicemen" that from 1 July 2005 onwards entitles servicemen to the specified amount (for Tashkent city up to 4 minimum wages, for Nukus City and centers of the regions up to 3 minimum wages and in other towns and settlements of Uzbekistan up to 2 minimum wages) of monthly cash allowance as compensation for rental payments for those who do not have their own housing (excluding utility payments).

In order to improve the organization and quality of medical staff the President signed a Decree dated 19 July 2005 "On Establishment of Tashkent Medical Academy" – the leader in capacity building in the healthcare system of Uzbekistan.

On 19 July 2005 the Cabinet of Ministers convened to discuss the outcomes of the social and economic development of the country for the first half of 2005. The agenda covered the efficacy and efficiency of the measures being enforced on progress in the economy liberalization as well as the role and responsibility of government agencies in the implementation of new strategic goals towards the reform of the country.

August

The negotiations with the ADB mission took place in the GKI where the ADB proposed projects for the next 3-5 years addressing privatization of the state property, development of the stock market and capacity building in corporate management.

The panel meetings were held with potential strategic investors, including representatives of the key world mobile operators, "China Mobile Communications Corporation" (China), interested in participating in the privatization of "UzbekTelecom" JSC; Kaskol Group of Companies (Russia), intending to bid for a stake in "Tashkent Aircraft Works Named After Valery Chkalov"; and Evrodrip Company (Greece) willing to buy out state-owned holding in "JizzakhPlastmass" JSC.

The President has signed a Decree "On Ensuring Trouble-Proof Withdrawal of Cash from Bank Accounts" canceling restrictions on withdrawal of cash for the retail trade business entities. In addition, the Decree canceled restrictions for the selected industrial enterprises, as well as for trade and service companies, including public catering, to the amount of cash for settling pressing payments and payments to the third parties (purchasing of foodstuffs, fuel and lubricants, accessories, parts and other inputs).

Two textile joint-ventures were put into operation in Tashkent and Karakalpakstan producing export-oriented high-quality goods.

The Senate of the Republic of Uzbekistan approved laws "On Amending the Tax Code of the Republic of Uzbekistan" and "On Guarantees and Safeguards for the Rights of Foreign Investors".

Three silk processing joint ventures with partners from the USA, the UAE and China were launched with total foreign direct investment amounting to more than USD3 million. Two of the three companies are located in Tashkent and one – in the Navoi region. The fully Chinese-owned silk winding mill worth USD 1 million would process more than 120 tons of raw silk annually.

On the occasion of 14th anniversary of Independence the light industry expanded by a number of new enterprises with foreign investors. The largest one, "BayTex Tijaret" was created in Tashkent by the Turkish companies "Ultash Entegre Textil" and "Baha Textil". The list also included: joint Uzbek-American enterprise "TurtkulTex" in the Republic of Karakalpakstan; "Demir Textil" in Tashkent Region; joint venture "TashTextil" with participation of the "Schults" company from Germany; a new garment factory in Tashkent, founded by a Swiss company. In addition, the specialized training center on the basis of the Tashkent Institute of Textile and Light Industry was organized by the State JSC "UzbekYengilSanoat" in cooperation with the German company "Saurer Group"; and the joint training center of the Swiss company Riter was opened in the office premises of "UzbekYengilSanoat" Industrial Association equipped with special hands-on training facilities as well as the necessary literature and materials for enhancing professional skills of the sector's cadres.

September

The Unified System of informing investors about the available joint stock companies built under the framework of the World Bank project "Development of the Securities Market" implementation was launched on trial in the Center for Coordination and Control over the Securities Market.

The President signed a Decree "On Reducing the Number and Simplification of the Permits for Entrepreneurial Activity" aimed at creation of more favorable, transparent and clear conditions for business. The Decree canceled the number of permits which were previously required for certain types of entrepreneurial activity. This document also envisages extending the duration of licenses for various types of operations, and even granting unlimited duration for licenses for specific types of activity.

The laws of the Republic of Uzbekistan dated 16 (No 6), 22 (No 7) and 23 (No 8) September 2005 enforced tax privilege-related amendments to the Tax Code. They set forth preferential terms for the definition of the taxable base of the corporate income (profit) tax for companies with foreign investment and expanded the list of the VAT-related privileges. In addition the preferential taxation of accumulative pension payments of individuals and the income received from obligations on the accumulative pension payments has been established.

In his Ok Saroy Residence President Islam Karimov has received Alexey Miller, Chairman of the Board of GasProm (Russia). The discussion was focused on development and implementation of the new projects under the signed agreement on the strategic partnership in the natural gas sector, envisaging participation of Russian companies in the development of gas fields in Uzbekistan and building appropriate infrastructure for transportation of the natural gas across the territory of Uzbekistan.

The Second Uzbek AutoMotorShow 2005 was organized by ITE Group Plc (UK) and ITE Uzbekistan. More than 30 companies from Germany, Israel, Poland, Russia, Turkey, Ukraine, Finland and Uzbekistan participated in this event. The AutoMotorShow 2005 included the following sections: vehicles, buses, special vehicles, trailers and devices, engines and components and so forth.

The exhibition of goods exported by the domestic producers was held in the UzExpoCenter. The export potential of Uzbekistan was represented by numerous consumer goods ranging from vehicles, kitchen furniture, home appliances (TV sets, air conditioners, refrigerators, freezers) to plastic goods by "SovPlastItal", and so forth.

The President visited the Republic of Karakalpakstan on 21 September 2005 with the purpose of reviewing the regional level efforts in the framework of large scale transformation of the agricultural sector as well as the pace of social and economic reform.

The exhibition for promotion of domestically made building materials took place in Tashkent. The exhibition also offered a possibility to participate in the privatization of the operating companies and created new ones for the potential investors.

The Second Indian Trade Exhibition was organized by the Chamber of Commerce and Industry India-CIS with the support of the Indian Embassy in Tashkent and the Uzbekistan Embassy in India, as well as the Chamber of Commerce and Industry of Uzbekistan. The purpose of the exhibition was the development of exports, assistance in marketing and technology transfer, creation of joint ventures and sharing best practices of India in the development of small and medium entrepreneurship, and development of cooperation in pharmaceutical, IT and other sectors.

The factory producing home appliances was inaugurated in Khanabad. The founders were Uzbek-Chinese JV "Honbugda". The output would include seven types of home appliances including refrigerators, vacuum-cleaners and washing machines.

The President signed a Decree dated 14 September 2005 increasing the amounts of wages, pensions, tuition and welfare from 1 October 2005. In accordance with the Decree, wages of the public sector employees, all kinds of pensions and welfare, tuition/stipends for students of higher educational institutions, secondary special and vocational schools were increased 1.2 times. The minimum wage was established at a rate of UZS 9400.

With the purpose of social protection of the population and non-admission of unjustified growth of the tariffs, as well as support of the utility companies, the President signed a Decree dated 23 September 2005 "On Measures for Social Protection of the Population and Support of the Utility Companies" specifying systemic measures to be implemented towards the formation of a competitive utility services market, entry to this market, and introduction of advanced energy and resource saving technologies by installation of meters/gauges for water and energy carriers.

The Cabinet of Ministers Resolution dated 28 September 2005 "On Measures for Further Reform of the System of Financing the Public Health Care Facilities" addressed progress in the public health reform and expansion of the new mechanism of funding based on standard cost per person for all rural first aid institutions and its pilot introduction in selected urban first aid facilities.

President Islam Karimov has signed a Decree dated 28 September 2005 "On Establishment of Public Educational Information Network of the Republic of Uzbekistan" prescribing the ministries, agencies and public associations to promote IT development in the area of education, culture and moral upbringing of the youth.

INFORMATION AND ANALYTICAL SECTION

1. Macroeconomic Policy

1.1. Economic Growth

Steps taken on the further development and reform of the country's economy have enabled it to realize positive shifts in the areas of liberalizing foreign trade and foreign exchange regulation, attracting foreign investments, developing private business and reforming agriculture and industry. This has stimulated business and investment activity in the country. The trend of rising foreign demand for Uzbek exports, increasing investment activity and the stable operation of the real sector of the economy have remained the main driving forces in the growth of the economy.

GDP in nominal terms totaled UZS 10216.2 bn. for the first nine months of 2005. Growth in real GDP for the same period reached 7.2%. Growth in GDP per capita was 5.4% as opposed to 5.1% for the first nine months of 2004. This was ensured by the continuing trend toward growth in the basic industries of the economy (7.2%), increased investments in basic capital (6.9%), the increase in exports (9.7%), and the creation of new jobs and resultant improved employment situation (Table 1.1.1.).

Table 1.1.1. Dynamics of Main Macroeconomic Indicators of Development of Economy in the first nine months of 2004-2005 (in %)

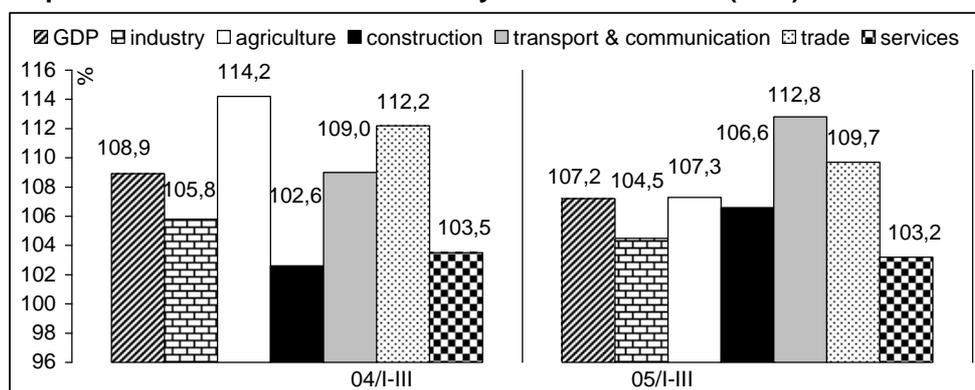
	2004	2005
GDP (produced)	108.9	107.2
Number of Population	101.1	101.2
Growth rate of GDP per capita	7.6	5.4
Production output by basic industries of economy (industry, agriculture, construction, transport and communication)	9.6	7.2
Industrial production	110.7	107.7
Exports	134.6	109.7
Investments in basic capital	103.0	106.9
Inflation (September 2005 to December 2004)	0.3	3.1
Level of State budget execution (% of GDP)	1.3	0.5
Foreign exchange rate (in % compared with previous period)	2.2	9.6
Unemployment level (in %)	0.4	0.3

Source: State Statistics Committee of Uzbekistan, the author's computations.

The favorable macroeconomic climate – a low inflation rate (3.1%) and the execution of the State Budget with a surplus (0.5% of GDP) – have played an important role in accelerating GDP growth rates. One sign of the improvement in macroeconomic stability was the lowering of the refinancing rate by the CBU to 16% for the first nine months of 2005 (in average annual terms) vs. 18.8% in 2004 and 27.1% in 2003, which stimulated business activity. Continued implementation of foreign exchange policy aimed at a gradual drop in the nominal rate of UZS against US dollar (9.6%) impacted favorably on the stock of orders of enterprises producing export-oriented products.

Factors stimulating the production of goods and services (rates of tax on legal entities' income were reduced from 18% in 2004 to 15% in the first nine months of 2005, and investments in basic capital rose from 3% to 6.9%) resulted in an increase in real value added in industry of 4.5% in comparison with the first nine months of 2004, and for agriculture 7.3%, construction 6.6%, transport and communication 12.8%, trade and public catering 9.7%, and other sectors including non-production services 3.2% (Graph 1.1.1).

Graph 1.1.1. Growth in Value Added by Economic Sector (in %)



Source: State Statistics Committee of Uzbekistan

In the production structure of GDP a positive trend of an increasing share for industry (from 17.1% to 20.2%) was achieved as a result of an increase in industrial production of 7.7% (Table 1.1.2). This was made possible by the start of operation of new production facilities and the increase in export-oriented and localized production in machine-building and metal-working, non-ferrous metals, chemical and petrochemical industries, construction materials, light and food industry, etc.

Table 1.1.2. Growth and Production Structure of GDP

Period	GDP		Production structure of GDP, %				
	In actual prices of corresponding year, UZS bn.	To corresponding period of previous year, % (in comparable prices)	Industry	Agriculture	Construction	Services	Net taxes
2000	3255.6	103.8	14.2	30.1	6.0	37.2	12.5
2001	4925.3	104.2	14.1	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
04/I-III	8316.0	108.9	17.1	25.4	4.9	38.4	14.2
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
05/I-III	10216.2	107.2	20.2	23.4	5.1	40.0	11.3

Source: State Statistics Committee of Uzbekistan

In the structure of GDP utilization, thanks to steps taken to intensify investment activity and increase the efficiency of investment resources utilization, investments grew by 6.9%. This is 3.9 p.p. more than in the first nine months of 2004. This resulted in an increase in the share of investments in GDP from 20.4% to 21.7% (Table 1.1.4).

The trend of high demand for export goods continued during the first nine months of 2005, resulting mainly from a favorable situation on the foreign market and a growing demand from major trade partners of the country due to observed economic activity in those countries. The impact of the price factor lessened somewhat in comparison to previous periods due to the evident trend of a slowing rate of increase in prices for traditional Uzbek exports. Steps taken to stimulate the development of the private sector and the liberalization of foreign trade resulted in increased efficiency of operations of export-oriented industries of the real sector, and as a consequence exports grew by 9.7%, and the share of net exports in GDP - by 6.7%.

The increase in the share of gross accumulation and net exports has led to a reduction in the share of expenditures for final consumption from 70.5% to 69.7%. This in turn has led to a change in the share of expenditures for final consumption of households (from 52.2% to 50.3%) and a slight increase in the share of expenses for maintenance of state management bodies (from 18.3% to 19.4%).

It is expected that before the end of 2005, steps taken to intensify institutional reforms, stimulate development of private entrepreneurship, increase the inflow of foreign investments into the country's economy, liberalize financial and foreign activity, deepen reforms in the agrarian sector and develop priority sectors of industry will impact positively on the dynamics of further GDP growth.

Table 1.1.3. Structure of Using GDP (%)

Period	Expenses for final consumption, %		Gross accumulation, %		Net exports, %
	Private	State	Gross domestic investments into capital assets *	Change in holdings 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
04/I-III	52.2	18.3	20.4	-0.1	8.4
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
05/I-III	50.3	19.4	21.7	1.9	6.7

Source: State Statistics Committee of Uzbekistan

* including net acquired valuables

1.2. Fiscal Policy

In the period January-September 2005, the forecast parameters of the state budget were fulfilled by 102.2%. The revenue part of the state budget increased by 20.5% compared with the corresponding period of the previous year. The shares of the State Tax Committee and State Customs Committee in forming revenues of the state budget were 85.3% and 14.7% respectively.

State budget revenues made up 24.2% of GDP, which was 0.7 p.p. less than in the corresponding period of the previous year (Table 1.2.1). This situation can be explained by the decreased share of indirect taxes (from 14.4% to 11.2%) in total tax proceeds.

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

Indicators	2000	2001	2002	2003	2004	04/I	04/ I-II	04/ I-III	05/I*	05/ I-II	05/ I-III
Revenues	28.5	26.0	25.2	24.2	23.7	30.2	28.2	24.9	29.1	28.2	24.2
Direct taxes	7.5	7.4	6.8	6.4	6.0	7.4	7.0	6.3	8.0	7.6	6.6
Indirect taxes	16.0	13.5	13.8	14.0	13.8	18.3	16.6	14.4	13.9	13.2	11.2
Resource payments and property tax	2.8	2.4	1.9	2.3	2.6	2.9	3.0	2.7	5.3	5.5	4.8
Social infrastructure development tax	0.3	0.3	0.5	0.4	0.4	0.5	0.5	0.4	0.6	0.5	0.4
Other revenues	1.9	2.4	2.2	1.1	0.9	1.1	1.1	1.1	1.3	1.4	1.2

Source: Ministry of Finance of the Republic of Uzbekistan * preliminary data

In the period concerned the share of direct taxes grew from 6.3% to 6.6%, and the share of resource payments and property tax increased from 2.7% to 4.8%. As a result of the increase of the rates for the tax on water resources utilization and the property tax (by 30% on average), and for the tax for mineral resources (mainly natural gas and oil), the share of resources payments increased. The purpose of increasing these tax rates is not only to ensure growth in tax proceeds, but also to utilize more efficiently the natural resources, which are the country's national wealth.

Lowering the rate of tax on income (profit) of legal entities (from 18% to 15%) stimulated business activity in the country and enabled the tax base to be increased. This in its turn led to an increase in the share of income tax from legal entities in direct taxes (from 29.5% to 30.6%). A 1% reduction of the personal income tax rate and the direction of this amount to the accumulative Pension fund did not impact the share of personal income tax, which grew from 46.3% to 46.4% (Table 1.2.2).

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

Indicators	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III*
Direct taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Enterprise income taxes	49.4	39.7	34.4	34.1	29.9	28.0	28.4	29.5	30.7	39.7	30.6
Tax on gross income of trading and public catering companies	-	-	-	-	8.5	8.6	8.7	8.6	8.3	8.1	7.9
Single tax from micro-firms and small enterprises that use simplified system of taxation (SST)	-	7.8	13.1	14.1	10.2	10.6	10.2	10.3	10.9	10.1	10.0
Personal income tax	44.5	44.9	45.6	46.7	46.2	47.8	47.8	46.3	45.5	47.1	46.4
Fixed tax on income of entrepreneurs engaged in entrepreneurial activity	6.1	7.6	6.9	5.1	5.2	5.0	5.2	5.2	4.6	4.9	5.0

Source: Ministry of Finance of Uzbekistan * preliminary data

Compared with the corresponding period of the previous year, the share of single tax from micro-firms and small enterprises applying the unified taxation system decreased by 0.3 p.p. in the structure of direct taxes. This is related with the enforcement of the Decree of the President of the Republic of Uzbekistan dated 20.06.2005 # UP-3620 envisaging a reduction of the tax rate for micro-firms and small enterprises applying the unified taxation system by 2.2 p.p. on average (including for agricultural enterprises, except for agricultural commodity producers which pay the single land tax – by 3.2 p.p., enterprises obtaining income from organizing mass shows through attracting legal entities and individuals – by 8.2 p.p., etc)¹. The reduction of the tax burden is one of the factors impacting the rise in the investment activity of entrepreneurs and the corresponding broadening of the tax base.

¹ Decree of the President of the Republic of Uzbekistan dated 20.06.2005 # UP-3620 "On additional measures for the stimulation of the development of micro-firms and small enterprises."

Indirect taxes are an important source of revenue for the state budget (during the first nine months of 2005 their share in the state budget was 46.1%). During the first nine months of 2005, as opposed to the corresponding period of 2004, the share of the following taxes in the structure of indirect taxes has grown: VAT (from 40.1% to 51.9%), customs duty (from 3.4% to 4.8%), and tax from individuals for consumption of gasoline, diesel and gas for transportation (from 3.0% to 4.6%). The share of excise tax decreased (from 50.9% to 36.7%) as did the share of single customs payments from individuals (from 2.8% to 2.4%) (Table 1.2.3).

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

Indicator	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III*
Indirect taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Value added tax	47.3	48.8	43.9	39.6	39.1	37.4	39.4	40.1	50.6	50.2	51.9
Excise tax	48.4	46.3	48.3	51.3	52.3	53.7	51.5	50.9	38.2	38.7	36.7
Customs tariffs	2.0	2.7	2.9	3.0	3.3	3.5	3.4	3.4	4.8	4.8	4.8
Single customs fee from individuals	2.3	2.2	2.4	3.3	2.3	2.8	2.8	2.8	2.4	2.4	2.4
Individual tax on consumption of gasoline, diesel, and natural gas for transportation	-	-	2.5	2.8	3.0	2.6	2.7	3.0	4.0	4.2	4.6

Source: Ministry of Finance of Uzbekistan * preliminary data

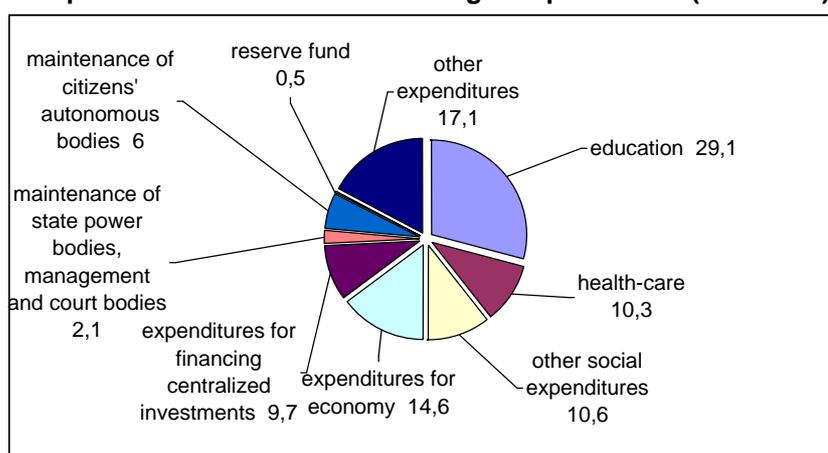
Expenditures of the state budget during the first nine months of 2005 made up 23.7% of GDP and increased by 0.1 p.p. over the corresponding period of 2004 (Table 1.2.4).

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

Indicators	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III*
Expenditures	29.5	27.0	25.8	24.6	24.6	26.2	26.6	23.6	27.2	27.0	23.7
Social sphere	10.4	10.2	9.8	9.3	9.3	9.2	10.5	11.5	11.5	11.7	10.2
Social protection	2.3	2.1	2.0	2.1	1.8	2.2	2.1	1.7	2.0	2.1	1.7
Expenditures on the economy	3.0	2.3	2.3	3.0	3.1	3.4	3.4	3.3	3.2	3.8	3.5
Expenditures for financing centralized investments	6.0	5.0	4.7	3.3	2.7	4.0	3.6	2.9	3.7	3.0	2.3
Maintenance of state power bodies, management and court bodies	0.6	0.6	0.5	0.5	0.5	0.5	0.6	0.5	0.7	0.7	0.5
Other expenditures	7.2	6.8	6.5	6.4	7.2	6.9	6.4	4.1	6.1	5.7	5.5

Source: Ministry of Finance of Uzbekistan * preliminary data

The share of expenditures for the economy increased (from 3.3% to 3.5%), while decreases were observed in the share of expenditures for the social sphere (from 11.5% to 10.2%) and the share of expenditures for funding centralized investments (from 2.9% to 2.3%). Expenditures in the social sphere for social support to the population made up 50.0% of total expenditures of the state budget, of which 29.1% were directed to education and 10.3% to health care (Graph 1.2.1).

Graph 1.2.1. Structure of State Budget Expenditures (% of GDP)


Source: Ministry of Finance of Uzbekistan

In the first nine months of 2005 the state budget was fulfilled with a surplus, which accounted for 0.5% of GDP (Table 1.2.5).

Table 1.2.5 Level of State Budget Fulfillment (% of GDP)

Indicators	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III*
Deficit (-).	-1.0	-1.0	-0.8	-0.4	-0.4	4.0	2.0	0.5	1.9	1.2	0.5
Surplus (+).											

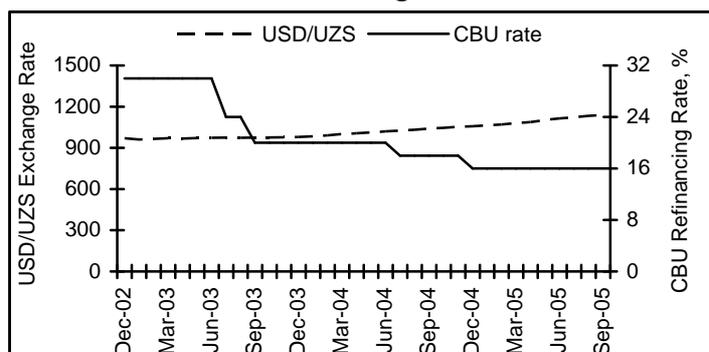
Source: the Ministry of Finance of Uzbekistan, *preliminary data

1.3. Monetary Policy

Monetary Policy of the CBU. In the 3rd quarter of 2005 the CBU was implementing a moderately tight monetary policy. The actions of the CBU were predominantly aimed at solving social and economic issues, particularly the continuous satisfaction of the economy's needs for monetary funds².

In addition, the CBU has maintained a succession of main benchmarks of monetary policy set in 2004 and aimed chiefly at maintaining inflation at an acceptable level, stabilizing the exchange rate against the US dollar and reducing interest rates on the money market. In the 3rd quarter of 2005 the CBU kept its refinancing rate intact at the previous level of 16% per annum. The last time the CBU changed its refinancing rate was in December 2004 (having reduced it from 18% to 16%). Thus the CBU refinancing rate in the 3rd quarter of 2005 was 2 p.p. (or 200 basis points) lower than in the corresponding period of the previous year. The dynamics of the exchange rate has also remained under CBU control. The exchange rate of the dollar in the 3rd quarter grew by UZS 25, reaching UZS 1140 per dollar (Graph 1.3.1).

Graph 1.3.1. (USD/UZS Exchange Rate and the CBU Refinancing Rate

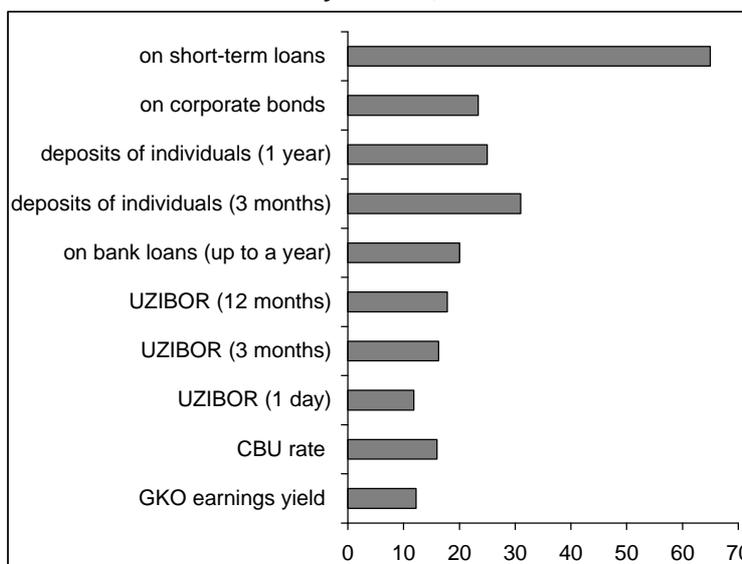


Source: Central Bank of Uzbekistan

Interest Rate Structure. In the third quarter of 2005, interest rates on the money market of the country did not change considerably and, as before, their structure remains fairly segmented (Graph 1.3.2). The profitability range of various interest rates varies significantly: the highest rates on borrowed funds are offered on the money market by credit unions (65%), and the lowest are set by banks on one-day resources on the interbank loan market (12%). Differences in interest rates on the national money market are explained by such factors as risk, lending period, amount of loan, taxation and limitations in conditions of competition on the market.

Refinancing Rate. Main interest rates in the 3rd quarter of 2005 did not change greatly. Only rates on fixed-term deposits by individuals decreased slightly (Table 1.3.1).

Graph 1.3.2. Structure of Interest Rates on Money Market, 01.10.05



Source: Bankovskie vedomosti

Table 1.3.1. Change in Interest Rates (%)

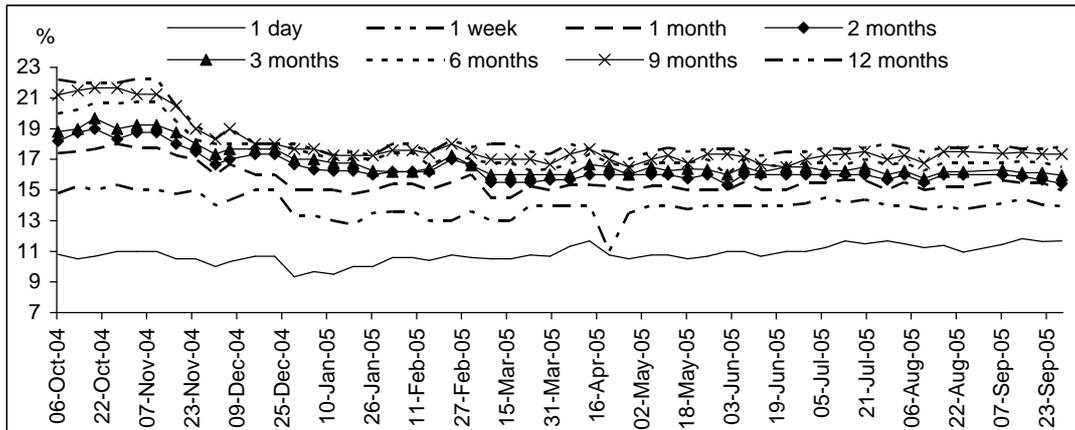
Period	Refinancing rate per annum	Average weighted rate on short-term loans in UZS	Average weighted rate on fixed-term deposits of legal entities in UZS	Average weighted rate on fixed-term deposits of individuals in UZS
2000	32.3	25.7	12.9	32.2
2001	26.8	28.0	16.0	38.1
2002	34.5	32.2	19.2	40.2
2003	27.1	28.1	17.1	36.2
2004	18.8	21.2	11.3	34.5
04/I	20.0	19.8	13.0	33.9
05/I	16.0*	21.0*	11.0*	31.0*
05/II	16.0*	21.0*	11.0*	30.0*
05/III	16.0*	21.0*	11.0*	28.0*

Source: Central Bank of Uzbekistan *author's computations

2 On 11th August 2005 the Resolution of the President of the Republic of Uzbekistan "On guarantees of continuous cash payments from deposit accounts with banks" came into effect.

Interbank Interest Rates. In the 3rd quarter of the current year, the dynamics of UZIBOR rates on the Uzbekistan interbank loan market was characterized by volatility within the range established earlier (Graph 1.3.3). One-day rates, which continue to gradually approach other rates, were the only exception.

Graph 1.3.3. UZIBOR Dynamics on Interbank Loan Market



Source: Biznes-vestnik Vostoka

Development of the Banking System. As of 1st October 2005, the total number of commercial banks was 29. Of these there were 3 state banks, 5 banks with foreign participation, 11 joint-stock and 10 private banks. Compared with the similar period of the previous year, the number of banks fell from 32 to 29. Two banks merged with other banks, and the license of one bank was withdrawn (Table 1.3.2).

Table 1.3.2. Structure of the Banking Sector by Type of Ownership as of 01.10.2005

State banks	Joint-stock commercial banks	Private joint-stock banks	Banks with participation of foreign capital
National Bank for Foreign Economic Activity of Uzbekistan	Pakhta Bank	Kapitalbank	ABN AMRO BANK NB Uzbekistan AO
Asaka Bank	Uzpromstroibank	Parvinabank	UZ DAEWOO Bank
Narodniy Bank	Ipoteka-bank	Alp Jamol Bank	UT-bank
	Gallabank	Ravnaqbank	Uzprivatbank
	Aloqabank	Davrbank	Bank Saderat
	Trastbank	Samarkand bank	
	Bank Turon	Bank Turkiston	
	Bank Savdogar	Bank Universal	
	Bank Tadbirkor	Bank Kredit Standart	
	Bank Ipak Yuli	Uktambank	
	Khamkorkbank		

Source: MRK "Akhborating"

An increase in total assets was observed in the banking sector of the country (Table 1.3.3). As of 1st October 2005, total assets of banks accounted for UZS 5 trillion 615 bn vs. UZS 4 trillion 897 bn. as of 1st October 2004.

Table 1.3.3. Main Indicators of Banking Sector Development (UZS bn.)

	01.10.2004	01.01.2005	01.10.2005
Total assets of banks	4897	5004	5615
Deposits of population	298	323	391.2
Loans to small business entities	269.5	354	333.1
Total assets of banks	865	824	No data

Source: Bankovskie vedomosti

However, despite the increase of banking sector assets in absolute terms, growth rates slowed. While in the period from 1st October 2003 to 1st October 2004 assets increased by 15.7%, from 1st October 2004 to 1st October 2005 the increase was only 14.7%.

The trend continued of the population making increased monetary deposits with commercial banks (Graph 1.3.4, 1.3.5). As of 1st October 2005, balances on deposits of the population reached UZS 391.2 bn., which exceeded the similar indicator as of 1st October 2004 by 31% (UZS 298 bn.). The increase mainly resulted from the increasing income of the population and the fact that interest rates on fixed-term deposits by individuals were considerably higher than rates on deposits in foreign currency. This year the Government of the Republic of Uzbekistan increased twice the nominal salary and pensions of the population (by 20% in each

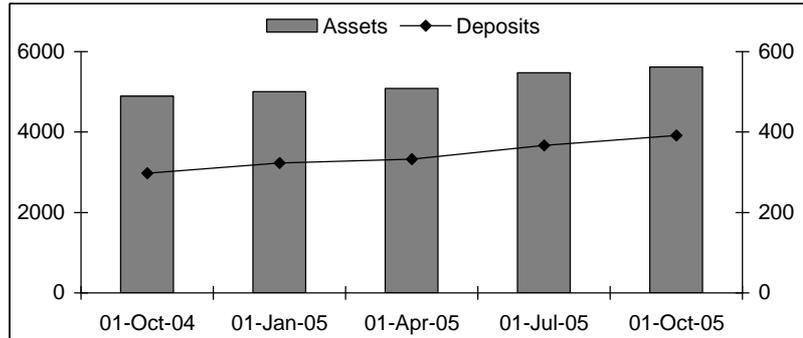
case). The trend of growing income of population will continue in 2006 as well, as shown by the State Budget of the Republic of Uzbekistan developed for 2006. From 1st January 2006, the rate of income (profit) tax from legal entities has been reduced from 15% to 12%, the rate of income tax from dividends and interest paid to legal entities and individuals – from 15% to 10%, the rate of income tax from individuals reduced by 1%, and the rate of the single social payment from the wage fund – from 31% to 25%.

In the first nine months of 2005 banks granted loans to small business entities and private entrepreneurs in the amount of UZS 333.1 bn., which was 23.6% more than in the corresponding period of the previous year.

1.4. Foreign Exchange Policy

In the third quarter of 2005, the Central Bank of Uzbekistan (CBU) continued to follow the same foreign exchange policy formulated in the previous periods. This policy was aimed at maintaining the stability of the exchange rate of the national currency. The CBU worked towards consistent depreciation of the UZS in relation to the USD, taking into account the inflation rate and changes in monetary indicators.

Graph 1.3.4. Total Assets of Banking Sector and Balances on Deposits of Population (UZS bn.)



Source: Central Bank of Uzbekistan

Table 1.4.1. UZS/USD Exchange Rate (2003-2005)

Period	Exchange rate of CBU (UZS/USD)	Change compared with previous period (%)	Exchange rate in exchange offices (UZS/USD)	Change compared with previous period (%)
2003	979.39	26.0	995.1	-9.0
2004	1058.0	8.0	1062.5	6.8
04/I	1000.0	3.1	1006.9	-9.2
04/II	1020.0	4.7	1024.6	2.9
04/III	1040.0	6.7	1041.7	6.2
05/I	1080.0	8.0	1083.5	9.0
05/II	1115.0	9.3	1118.1	10.4
05/III	1140.0	9.6	1155.36	11.6

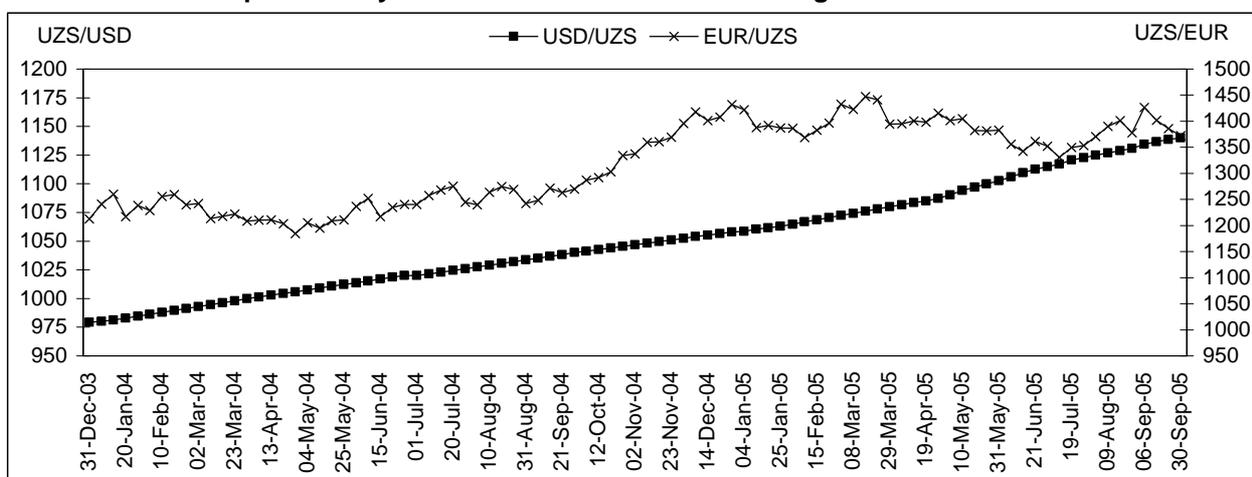
Source: Central Bank of Uzbekistan

In general, the CBU implemented a more flexible exchange rate policy in 2005. This is demonstrated by the dynamics of the exchange rate of the UZS in 2005 compared with the corresponding periods of 2004. As shown in Table 1.4.1, during the first nine months of 2005, UZS exchange rate depreciation fluctuated within the range of 8-10% to the corresponding period of the previous year. In addition, during the fiscal year, the exchange rate changed more and more frequently. While in the first quarter of 2005 the average exchange rate of UZS in relation to USD depreciated by 8% compared with the corresponding period of the previous year, in the second and in the third quarters of 2005 the exchange rate depreciated by 9.3% and 9.6% respectively compared with the second and the third quarters of the previous year. The exchange rate of foreign currency cash in the exchange offices in the same period (01.10.2004-01.10.2005) depreciated by 11.6% (Table 1.4.1.).

The dynamics of the UZS against USD during 2005 were influenced by both internal and external factors. The internal factors include the inflation rate and inflationary expectations, changes in monetary aggregates, etc. Accelerated depreciation of the exchange rate partially resulted from an increase in the demand of market players for foreign currency through intensified activity of economic entities in the economy. The prevailing external factors during this period were the state of the current foreign economic situation and the trend of a strengthening exchange rate for the USD on international markets, which has generally remained unchanged since the end of 2004.

As seen from Graph 1.4.1, the UZS/USD exchange rate tended toward continuous increase, i.e. the UZS has gradually depreciated. At the same time, there is another picture in the dynamics of UZS/EUR exchange rate. During the third quarter and the first nine months of 2005 the UZS/EUR exchange rate was characterized by greater volatility, though by the end of September 2005 it returned to about the level of the beginning of the year. This is explained by the current situation on the international financial markets and the volatility of the exchange rate USD/EUR which was observed during the whole fiscal year.

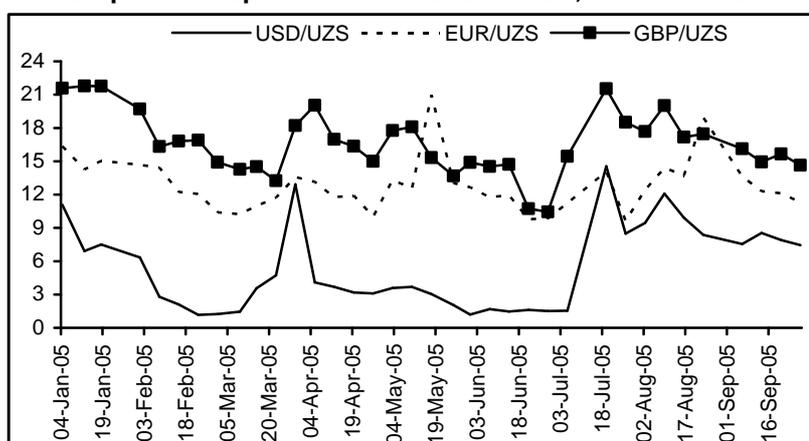
Graph 1.4.1. Dynamics of Nominal Rate of UZS against USD and EUR



The consistent depreciation of the exchange rate impacted positively on the foreign trade balance of Uzbekistan. While according to the results of 2004 the positive foreign trade balance of the country exceeded USD 1 bn. for the first time ever, the IMF estimates that for 2005 even higher results are expected. The gold and foreign currency reserves of the CBU also continue to grow. For 2005, according to estimates of economists from the IMF mission, the gold and foreign currency reserves of the CBU will account for about 10.4% of GDP.

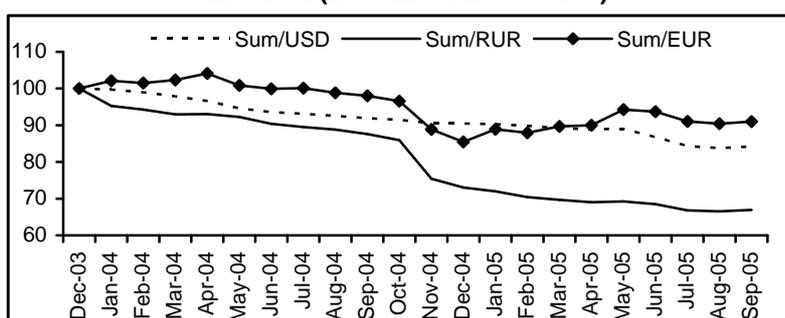
The dynamics of the exchange rates of cash foreign currency in the exchange offices of the authorized banks in 2005 was more volatile compared with the previous year. Special “peaks” in deviations from the CBU rate in 2005 were registered three times: at the beginning of the year, in March and in the last three months (Graph 1.4.2). The dynamics of changes in the spread resulted from, firstly, fluctuations of the CBU exchange rate and secondly, fluctuations caused by the pressure of market demand for foreign currency from

Graph 1.4.2. Spread of cash UZS to USD, GBP and EUR



the business activity of economic entities. Moreover, current, to some extent seasonal, changes in the exchange rate have also impacted the dynamics. Usually during fall and winter the appreciation of the dollar at higher rates is observed. The dynamics evident in 2005 of spreads between buying and selling major currencies (USD, EUR and GBR) in the exchange offices of commercial banks are tending to shrink. The smallest spread was registered on the exchange rate of UZS to USD, and the largest – to GBP.

Graph 1.4.3. Real Exchange Rates of UZS, UZS/USD, UZS/EUR, UZS/RUR (December 2003 = 100)



Source: International Financial Statistics (IFS), IMF; Central Bank of Uzbekistan, the author’s computations

Real Exchange Rates. According to the results for the first nine months of 2005, a drop in the real exchange rate (RER) of the national currency was registered. The index of UZS in relation to USD decreased by 8.3%, EUR – by 7.1% and RUR – 23.6% compared with the corresponding period of the previous year (Graph 1.4.3). Total depreciation of UZS against main currencies is explained by the fact that the price levels for consumer goods (CPI) in the countries analyzed, expressed in national currency, grow at slower rates compared with the price level for consumer goods (CPI) within the national economy. At the same time, as

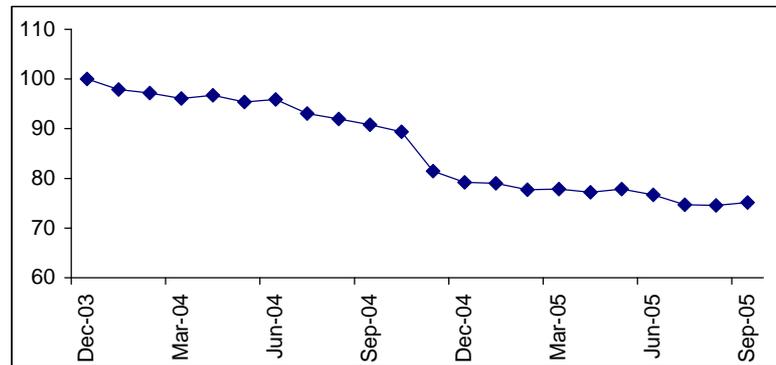
shown in Graph 1.4.3., the national currency depreciated most against RUR, which was caused in its turn by the strengthening of RUR against USD.

The depreciation of the real exchange rate of the national currency improves the competitive position of the country on the international market: exports become cheaper and their scale grows – as opposed to imports, which become more expensive and less numerous. This is proved by the latest statistics on the main indicators of the positive trade balance of the country, which has been growing continuously over recent years.

The index of the real effective exchange rate (REER) represents the average weighted change in the exchange rate of UZS against a basket of currencies from about 20 countries – the main trade partners of Uzbekistan (including 6 CIS countries – Russia, Ukraine, Kazakhstan, Kyrgyzstan, Turkmenistan and Tajikistan) adjusted for changes in relative prices.

Depreciation of the real effective exchange rate of UZS continued in the third quarter of 2005 as well. The index of the real exchange rate in the third quarter of the current year decreased compared with the third quarter of the previous year by 17.3% (Graph 1.4.4). The depreciation of the effective real exchange rate of UZS was caused, first of all, by depreciation of the UZS exchange rate. UZS depreciation shows that the UZS depreciated in real terms in relation to the basket of currencies of the countries that Uzbekistan trades with, which means that, other conditions being equal, domestic producers enjoy more favorable competitive conditions on domestic and international markets.

**Graph 1.4.4. Real Effective Exchange Rate of UZS
(December 2003 = 100)**



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

1.5. Prices and Inflation

The total increase in prices in the consumer sector in January-September 2005 did not exceed their forecast level; in September 2005 prices had increased 3.1% over December of the previous year. The increase in tariffs for chargeable services continued to impact significantly on inflation growth. At the same time, a relative deceleration of growth rates for this indicator was registered – from 15.5% in January-September 2004 to 10.3% in January-September 2005 – in the context of an increase in prices for foodstuffs (from -4.4% to 1.2%) and a slowing increase in prices for non-foodstuff goods (from 3.6% to 3.5%) (Table 1.5.1, Table 1.5.2).

**Table 1.5.1. Major Indicators of Inflation in the Republic of Uzbekistan for 2000-2005
(increase in prices in % to corresponding period of the previous year)**

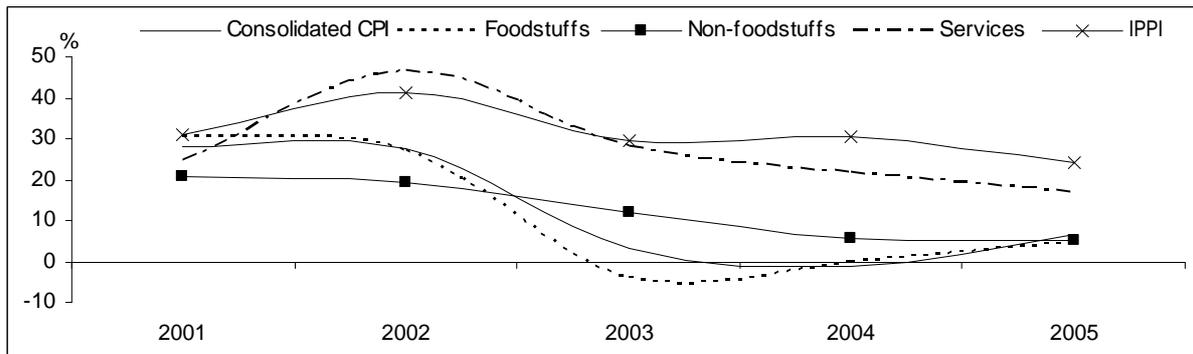
Years	Consumer price index (CPU) consolidated	Foodstuffs	Non-foodstuffs	Services
2000	24.9	18.9	36.6	47.1
2001	27.4	27.9	21.1	36.9
2002	27.6	28.0	19.3	41.3
2003	10.3	5.4	13.9	30.9
2004	1.6	-4.7	6.3	23.6
04/I	0.7	-6.4	7.2	26.6
04/II	-1.3	-9.1	6.6	25.6
04/III	2.6	-2.6	5.8	20.4
05/I	4.2	0.5	4.5	19.2
05/II	6.8	5.0	3.9	18.2
05/III	7.2	5.8	4.4	17.4

Source: State Statistics Committee of Uzbekistan

Table 1.5.2. Level of Inflation for the first nine months of 2004 and 2005 (increase in prices in %)

	Average monthly level		To December of previous year	
	2004	2005	2004	2005
CPI	0.03	0.3	0.3	3.1
Foodstuffs	-0.5	0.1	-4.4	1.2
Non-foodstuffs	0.4	0.4	3.6	3.5
Services	1.6	1.1	15.5	10.3

Source: State Statistics Committee of Uzbekistan

Graph 1.5.1. Increase in Prices in September of current year compared with September of previous year for 2001-2005


Source: State Statistics Committee of Uzbekistan

During the first nine months of 2005 the increase in prices (tariffs) on the consumer price index ranged from 1.13% (in Andijan region) to 4.64% (in Khorezm region).

Two factors with a fairly large share in the consumer basket were chiefly responsible for the fluctuations within such a range: the increase in prices for bakery products (weight – 17.0%) and for meat products (weight–13.0%). Thus, while in, for example, Khorezm region within the period concerned prices for bakery products grew by 16.1% and for meat products by 23.1%, in the Andijan region the corresponding indicators amounted to 9.0% and 12.5% respectively.

Table 1.5.3. Level of Inflation in the Republic of Uzbekistan for the first nine months of 2005 in Regional Context (%)

Regions	Increase in prices	Average monthly level
Republic of Uzbekistan	3.10	0.34
Andijan	1.13	0.12
Namangan	1.49	0.16
Kashkadarya	2.20	0.24
Fergana	2.57	0.28
Surkhandarya	2.74	0.30
Sirdarya	2.79	0.31
Navoi	2.85	0.31
Tashkent	2.92	0.32
Jizzakh	2.97	0.33
Republic of Karakalpakstan	3.24	0.35
Samarkand	3.76	0.41
Tashkent city	3.85	0.42
Bukhara	3.95	0.43
Khorezm	4.64	0.51

Source: State Statistics Committee of Uzbekistan

An analysis of the inflation processes in the economy of the Republic of Uzbekistan in the first nine months of 2005 shows that during the period concerned, the increase in the money supply (46.9%), wage increases (9.9%) and inflationary expectations (8.9%) had the greatest impact on the inflation rate (Table 1.5.4).

Table 1.5.4. Factor Analysis of Inflation Processes for the first nine months of 2005

	Impact on CPI, in p.p.	In % of total
All factors	3.1	100.0
Inflationary expectations	0.3	8.9
Growth in money supply	1.5	46.9
OTC foreign exchange rate	0.1	2.7
Wages	0.3	9.9
Other factors	1.0	31.6

Source: Ministry of Economy of Uzbekistan

Factor analysis of the increase in wholesale prices of producers of industrial products showed that from January – September 2005 in the real sector, the increase in prices for energy carriers (56.7%), wage increases (11.1%) and the increase in transportation expenses (11.4%) had the greatest impact on the inflation rate (Table 1.5.5).

In Uzbekistan, the typical examples of seasonal goods are fruit and vegetables; a seasonal increase in prices is observed during the fall and winter period, with price reductions during the summer months. In January-September 2005 price reductions of 48.7% on average were observed for fruit and vegetables, while in the corresponding period of the previous year prices decreased by 35.6%. In the 4th quarter of 2005 (October-December), as in previous years, price increases for fruit and vegetables were expected.

An increase in prices for imported goods resulted from a change in the over-the-counter exchange rate, by which customs duties are computed. From January-September 2005, the over-the-counter exchange rate depreciated by 7.7%.

In accordance with the program of economic reforms, subsidies to the municipal economy have been gradually reduced, which led to an increase in tariffs for: heating – by 25.5%, network gas – 18.0%, hot water supply – 21.0%, and electric power – 27.1%.

In the CIS countries from January-September 2005 the level of inflation for the CPI ranged from -3.6% in Armenia to 8.6% in Russia. In the Central Asian countries this indicator ranged as follows: Kazakhstan – 5.2%, Kyrgyzstan – 3.0% and Tajikistan – 5.5%.

Table 1.5.5. Factor Analysis of Inflation Processes in Real Sector for the first nine months of 2005

	Impact on WPI (%)	In % to total
All factors	15.5	100.0
Tariffs for energy carriers	8.8	56.7
OTC foreign exchange rate	1.6	10.0
Wages	1.7	11.1
Transportation expenses	1.8	11.4
Other factors	1.7	10.8

Source: Ministry of Economy of Uzbekistan

Table 1.5.6. Level of Inflation in CIS Countries for the first nine months of 2005 (%)

Countries	Increase in prices	Monthly average
Azerbaijan	3.41	0.37
Armenia	-3.61	-0.41
Belarus	4.69	0.51
Georgia	1.23	0.14
Kazakhstan	5.22	0.57
Kyrgyzstan	2.99	0.33
Moldova	5.07	0.55
Russia	8.59	0.92
Tajikistan	5.52	0.60
Uzbekistan	3.09	0.34
Ukraine	7.10	0.77

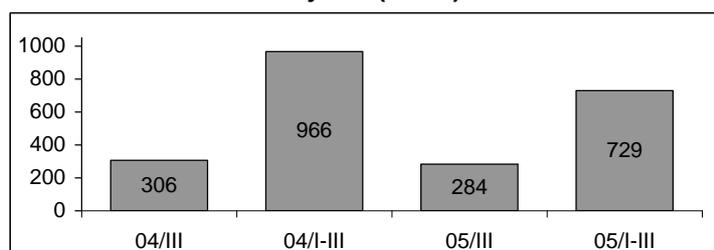
Source: Statistics Committee of CIS and authors' computations

2. Institutional and Market Transformations

2.1. Denationalization and Privatization, Property Types

During the first nine months of 2005, in accordance with the approved schedule for denationalization and privatization, 729 production and social objects of the economy were transferred into non-state-owned property, including 284 objects in the 3rd quarter (Graph 2.1.1. and Annex 2.1.1.). These figures made up 75.4% and 92.8% respectively of the figures from the corresponding periods of the previous year.

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



Source: State Property Committee of Uzbekistan

In the sectoral context, the largest number of privatized objects was in the oil and gas industry (93 units), public education (77 units), health care (74 units), municipal economy (24 units) and cotton-ginning industry (17 units); in the territorial context – the majority were in Tashkent city (102 units), the Republic of Karakalpakstan (85 units) and Tashkent (79 units), Navoi (61 units) and Surkhandarya (61 units) regions.

Over the first nine months of 2005, 2 joint-stock companies and 68 limited liability companies were established on the basis of state-owned enterprises privatized earlier. Other state-owned objects (659 units) were transferred to private legal entities and private individuals, including the property complex of the Samarkand tea packing factory to “All Americas International Inc” (USA), and the exploratory wells of the National Holding Company on the Shege site to “Lukoil” company (Russian Federation).

In accordance with the Decree of the President of the Republic of Uzbekistan dated 24th January 2003 “On measures for a radical increase in the share and importance of the private sector in the economy of Uzbekistan” the sale into private ownership continued of both state-owned and unplaced blocks of shares of joint-stock companies and of stakes in statutory funds of limited liability companies established on the basis of state-owned enterprises. Over the first nine months of 2005, shares of 130 joint-stock companies and stakes in statutory funds of 180 limited liability companies were sold.

Table 2.1.1. Forms of Privatization of State-Owned Objects (Units)

Period	Total privatized	Including		
		Transformed in:		Sold to private persons
		Joint stock companies	Limited liability companies	
04/III	306	7	34	265
04/I-III	966	20	136	810
05/III	284	1	28	255
05/I-III	729	2	68	659

Source: State Property Committee of Uzbekistan

Under a flexible mechanism for the sale of state-owned assets – foreseeing a step-by-step reduction of the starting price – blocks of shares of 79 joint-stock companies were sold for UZS 3.0 bn. and 326 real estate objects for UZS 2.2 bn. and USD 557.2 thousand.

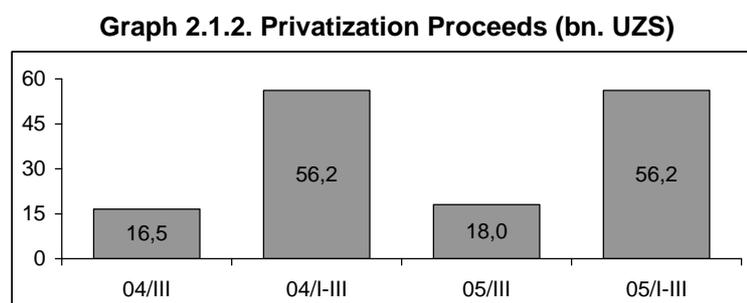
The Resolution of the President of the Republic of Uzbekistan dated 14th March 2003 “On a program of denationalization and privatization of enterprises for 2005-2006” foresees the transfer into private ownership of 115 low-profit, unprofitable and economically unsound enterprises and objects on a competitive basis at a zero redemption value in 2005, on the condition that the new proprietors assume investment obligations aimed at the financial improvement and resumption of production activity. As of 1st October 2005, 99 enterprises and objects with a total amount of investment obligations of UZS 13.0 bn. – which exceeds the minimum amount of these obligations set by the State Tender Committee – were transferred to private individuals.

Despite positive results of the privatization process throughout the country as a whole, one can still observe the lagging of privatization rates behind the intended forecast parameters in Samarkand, Namangan, Andijan and Tashkent regions, and in a sectoral context at the enterprises of the State Joint Stock Companies “Uzqurilishmateriallari”, “Uzbengilsanoat”, “Uzbeksavdo”, the association “Yogmoitamakisanoat” and some other economic associations.

A number of factors hinder the acceleration of the privatization process, including: the low investment attractiveness of a significant number of enterprises, especially of large ones, due to the high level of deterioration of production equipment and the large scale of overdue accounts payable; the high starting sale price of

several objects as a result of inaccurate evaluation; the insufficient attention from the heads of a number of territorial departments of the State Property Committee and economic associations towards the search for potential investors; and so on.

Over the first nine months of 2005, proceeds from the sale of state assets deposited in special accounts of the State Property Committee amounted to UZS 56.2 bn., including UZS 18.0 bn. (Graph 2.1.2. and Annex 2.1.1.). As compared to the corresponding periods of the previous year, these indicators reached respectively 100.0% and 109.1%.



Source: State Property Committee of Uzbekistan

Of total proceeds from sales in exchange and off-exchange markets, shares were as follows: shares of privatized enterprises – UZS 27.8 bn. (49.5%), real estate – UZS 25.9 bn. (46.1%), stakes in statutory funds of limited liability companies – UZS 2.5 bn. (4.4%).

In accordance with current procedure, privatization proceeds are directed quarterly to state and local budgets to fund projects of social and economic development and create institutions of market infrastructure; they are transferred to enterprises being privatized themselves for the purposes of technical re-equipment and modernization of production on the basis of their applications, and also are distributed on the basis of special governmental decisions. Thus, enterprises of basic industries (power industry, railway transport etc.), whose accelerated restructuring is of great importance for the development of the country's economy as a whole, are given all proceeds from the primary sale of their shares less operational expenses.

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

Directions of Proceeds Distribution	04/III	04/I-III	05/III	05/I-III
State budget	50.5	50.0	31.3	27.5
Local budgets	25.0	23.3	11.1	10.1
Chamber of Commerce and Industry	-	-	6.9	1.4
Enterprises under Privatization	3.1	3.7	2.1	1.5
State De-monopolization Committee	-	-	-	0.2
Economic associations, enterprises and organizations by special governmental decisions	21.4	23.0	48.6	59.3
Total	100	100	100	100

Source: State Property Committee of Uzbekistan

In 2004, the Uzbekistan Chamber of Commerce and Industry and in 2005 the State Committee of the Republic of Uzbekistan on De-Monopolization, Support for Competition and Entrepreneurship were established. They have also been included in the list of organizations that receive monthly proceeds from the privatization of state-owned property in addition to those proceeds distributed on the basis of special governmental decisions. The Chamber of Commerce and Industry receives 5% of funds with the special assignment to spend them exclusively to provide legal support to entrepreneurs, while the State Committee of the Republic of Uzbekistan on De-Monopolization, Support for Competition and Entrepreneurship receives 2% to form the Fund for the Support of Entrepreneurship and Restructuring of Enterprises.

Over the first nine months of 2005 the State Property Committee transferred UZS 49.7 bn. to the consolidated budget and various organizations and enterprises, including UZS 28.9 bn. on the basis of special governmental decisions, which is 2.4 times more than in the corresponding period of the previous year. As a result of a considerable increase in funds transferred to enterprises and organizations on the basis of special governmental decisions, their share in the total volume of distributed privatization proceeds grew by 36.3 p.p., reaching 59.3% (Table 2.1.2). At the same time, the share of state and local budgets and privatized enterprises declined in the structure of distributed funds.

2.2. Market Infrastructure

The following entries were made to the State Registry of Securities as of October 1st 2005:

- 13716 share issues with a total volume of UZS 3335.8 bn, including 157 issues in the amount of UZS 216.7 bn during the first nine months of 2005;
- 107 issues of corporate bonds of 77 issuers in the amount of UZS 58.9 bn, including 18 issues in the amount of UZS 7.9 bn. during the first nine months of 2005.

During the first nine months of 2005, total turnover on the securities market (total sales of shares and corporate bonds) was UZS 115.1 bn, which is UZS 6.5 bn. or 6.0% more than in the corresponding period of the previous year. At the same time, the trend continued of the majority of this turnover resulting from sales of shares (83.1%). During the first nine months their total sale accounted for UZS 95.7 bn., including UZS 51.7 bn. on the primary market and UZS 44.0 bn. on the secondary market (Table 2.2.1). Growth rates of sales were respectively 9.2%, 5.7% and 13.7%.

On the primary securities market the trend strengthened of the majority of privatized enterprises, especially large blocks of shares, being sold on the off-exchange segment of this market by means of investment tender biddings and direct negotiations with investors (Graph 2.2.1). The advantage of these forms of sale is the possibility of choosing strategic investors interested in raising the efficiency of operating privatized enterprises who are ready to take up obligations to invest additional funds in production development apart from payment for the shares they purchase.

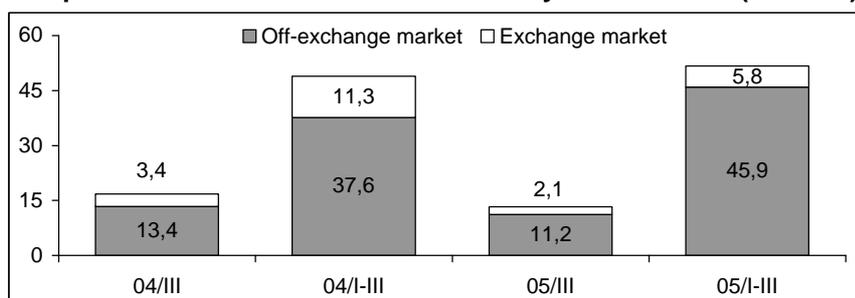
Table 2.2.1. Volume of Sale of Shares on Securities Market (bn. UZS)

Period	Primary market		Secondary market		Total	
	Amount	In % to total	Amount	In % to total	Amount	In % to total
04/III	16.8	47.7	18.4	52.3	35.2	100
04/I-III	48.9	55.8	38.7	44.2	87.6	100
05/VIII	13.3	43.3	17.4	56.7	30.7	100
05/I-III	51.7	54.0	44.0	46.0	95.7	100

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

Over the first nine months of 2005, shares worth UZS 5.8 bn. were sold on the exchange segment of the primary securities market, including worth UZS 2.1 bn. in 3rd quarter, which is 1.9 times and 1.6 times less, respectively, than in the corresponding periods of the previous year. As a result, over the first nine months of 2005 the share of the exchange segment in the formation of total turnover of the primary securities market fell from 23.1% to 11.2%, with a corresponding rise in the share of the off-exchange segment.

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



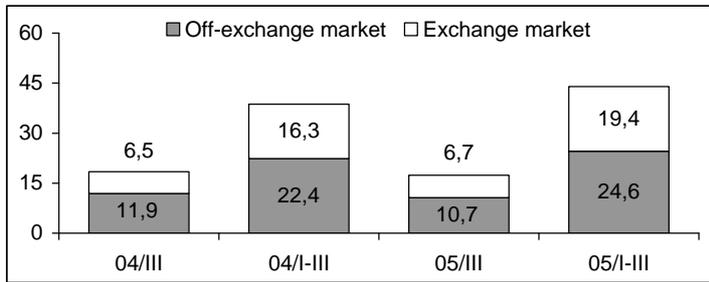
Source: Center for Coordination and Control of the Securities Market at the State Property Committee of Uzbekistan

The main reasons behind the reduction in sales on the primary exchange market, formed almost completely by sales of shares of privatized enterprises, are: the reduction in state shares resources subject to sale into private ownership, as a result of the transformation of small joint-stock companies into commercial organizations of other organizational/legal forms; the shortcomings in the mechanism of step-by-step reduction of starting sale price of shares being applied; and also the lack of transparency of stock market information, due to which investors often face difficulties when attempting to obtain the detailed information about joint-stock companies necessary for making decisions on buying shares.

Shares of the following privatized enterprises had the highest share in the total volume of transactions of purchase and sale made on the primary market: "Uzqurilishmateriallari" joint-stock company (49.2%), Ministry of agriculture and water industry (8.3%), association "Uzeltexsanoat" (6.5%) and the state joint-stock company "Uzbekenergo" (6.2%).

Foreign investors were most active in buying shares of privatized enterprises on the exchange and off-exchange segments of the primary securities market. Their share in the total volume of transactions of purchase and sale of shares being placed for the first time was 69.9%, which was 19.9 p.p. more than in the corresponding period of the previous year. This was facilitated in many aspects by the passage of the Decree of the President of the Republic of Uzbekistan dated 11th April 2005 "On additional measures for the stimulation of attracting direct private investments".

The shares of some categories of local investors in the total volume of the primary sale of shares constituted: large enterprises, holdings and associations – 9.4%, investment intermediaries – 9.2%, small enterprises – 8.6%, private persons – 2.4%, commercial banks – 0.3%, investment funds – 0.2%.

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


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

During the first nine months of 2005, shares of 429 joint-stock companies were sold on the exchange segment of the securities secondary market in the amount of UZS 19.4 bn., and on the off-exchange segment, shares of 592 joint-stock companies in the amount of UZS 24.6 bn were sold (Graph 2.2.2). Sales grew over the corresponding period of the previous year by 19.0% on the exchange segment 9.8% on the off-exchange segment.

As a result of the advanced growth of the exchange trade, its share increased in the total turnover of the secondary securities market vs. the previous period from 42.1% to 44.1%, while the share of off-exchange trade fell correspondingly from 57.9% to 55.9%. It is forecasted that, with the increased offer to exchange bids of larger blocks of shares of investment-attractive joint-stock companies, the share of the stock exchange in the total turnover of the secondary securities market will increase further.

In the total turnover of the secondary securities market, the following constituted the highest share in transactions of purchase and sale: commercial banks (36.0%), enterprises of the construction materials industry (15.6%), the storing and bakery industry (3.7%), agricultural service (3.2%), light industry (3.0%). In the territorial context the largest volume of transactions on the secondary sale of shares of joint-stock companies was registered in Tashkent city (61.0%) and in Tashkent (17.0%) and Andijan (7.5%) regions.

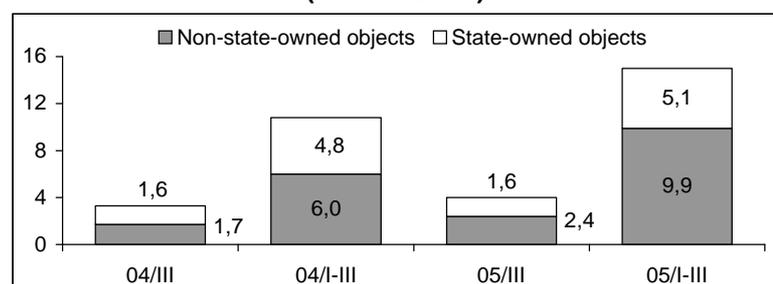
A deficit in the offer of shares of large, financially stable, highly liquid, investment-attractive companies has been registered on the secondary market. This is explained by the fact that shares of the majority of potential so-called "blue chips" of the country ("Uzbektelecom" joint-stock company, "Almaliq Ore Mining Enterprise" joint-stock company, "Uzmetkombinat," etc.) are almost fully in state ownership or sold to strategic investors on tender bids. In this connection these shares are accessible to a broader range of investors and are not a resource for the securities secondary market.

Another type of security that has been traded on the stock market for the past three years is corporate bonds issued by enterprises in order to attract additional investments. During the first nine months of 2005 transactions on the purchase and sale of corporate bonds were conducted in the amount of UZS 19.3 bn., including on the exchange market for UZS 331.0 mill, and on the off-exchange market for UZS 19.3 bn., of which UZS 8.4 bn. were conducted on the secondary market of corporate securities.

During the first nine months of 2005, at the Republican Real Estate Exchange and its branches (hereinafter – the RREE) 15.0 thousand real estate objects worth UZS 31.2 bn., including 4.0 thousand objects worth UZS 10.7 bn in the 3rd quarter were sold through exchange and off-exchange trades (auctions and competition biddings) (Graphs 2.2.3. and 2.2.4.). Growth rates compared with the corresponding periods of the previous year were respectively: for the number of objects sold – 38.9% and 21.2%, for sales amounts – 57.6% and 114.0%.

A tendency continued of the predominant share of total turnover on the RREE consisting of sales of real estate objects at exchange auction. During the first nine months of 2005, transactions were conducted on the purchase and sale of real estate objects at the exchange auction – for UZS 25.3 bn. (81.1%), and on the off-exchange auction – for UZS 5.9 bn. (18.9%).

Of the total number of objects sold during the first nine months of 2005, 9.9 thousand units (66.0%) were offered at auction by private legal entities and private individuals. Their sales amounted to UZS 21.9 bn. or 70.2% of the total sales of real estate objects. Sales growth rates compared with the corresponding period of the previous year were: for the number of objects sold – 65.0%, for the sales amount – 242.0%.

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


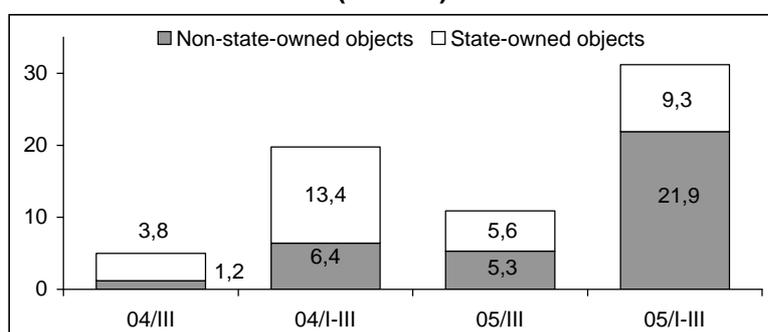
Source: Republican Real Estate Exchange

Advanced growth rates of the cost indicator of sale compared with the quantitative indicator occurred due to the increase in the average selling price of real estate objects. While over the period concerned of the previous year the average selling price of an object was UZS 1067 thousand, in 2005 it increased more than 2 times, reaching UZS 2212 thousand. These data prove the increased role of the RREE in the purchase and sale of large and expensive production and social objects by private legal entities and private individuals.

During the first nine months of 2005, 5.1 thousand units of state real estate objects – or 6.3% more than in the corresponding period of the previous year – were sold through the RREE. At the same time, proceeds from their sale decreased by 30.6%, accounting for UZS 9.3 bn., which was caused by the decrease in the average selling price due to the fact that mostly small commercial, consumer services and social infrastructure objects were offered at auction.

In the total number of real estate property sold through the RREE, agricultural and water industry objects made up the largest share (livestock farming premises, poultry farms etc.). In total during the first nine months of 2005, 5247 units of such objects were sold in the amount of UZ 6882 mill., which exceeded the sales volume in the corresponding period of the previous year by 3.2 and 2.1 times respectively (Annex 2.2.2). As a result, the share of agricultural and water industry objects increased in the total quantity of property sold through the RREE by 19.8 p.p., and in the cost volume of sales – by 5.4 p.p. (Table 2.2.2).

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



Source: Republican Real Estate Exchange

During the first nine months of 2005, 1429 commercial, consumer services and social infrastructure objects were sold in the amount of UZS 10171 mill., which exceeded those indicators in the corresponding period of the previous year by 1.2 and 1.4 times respectively. At the same time, the share of these types of real estate in the total quantity of property sold through the RREE fell by 1.8 p.p., and in the cost volume of sales – by 3.4 p.p. (Table 2.2.2) due to advanced growth rates of the sale of agricultural and water industry objects, production and residential premises.

The largest share of cost turnover of the RREE (39.6%) consisted of proceeds from the sale of production, administrative and residential premises, including other property. During the first nine of 2005, 3454 units of such objects were sold in the amount of UZS 12372 mill. (Annex 2.2.2). Growth rates compared with the corresponding period of the previous year were 1.6 and 1.7 times respectively.

During the first nine months of 2005, 1429 commercial, consumer services and social infrastructure objects were

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

Types of Property	2004/III	2004/I-III	2005/III	2005/I-III
Construction in Progress:				
Quantity	7.7	6.2	7.4	5.3
Amount	5.3	4.4	5.4	4.5
Commercial and Consumer Services Objects:				
Quantity	12.4	11.3	9.5	9.5
Amount	38.7	36.0	45.0	32.6
Objects of Agriculture and Water Industry				
Quantity	14.1	15.2	24.7	35.0
Amount	21.1	16.6	15.9	22.0
Land Plots:				
Quantity	42.5	46.8	30.1	27.1
Amount	3.0	2.6	1.3	1.3
Residential Buildings and Non-Residential Premises, Other Property				
Quantity	23.3	20.0	28.3	23.1
Amount	31.9	40.0	32.4	39.6
Total:				
Quantity	100	100	100	100
Amount	100	100	100	100

Source: Republican Real Estate Exchange

798 construction-in-progress objects were sold for the amount of UZS 1394 mill., which exceeded the levels of the previous year by 18.4% and 58.2% respectively. The share of these objects in the total quantity of objects and cost volume of sales of objects sold through the RREE remained at a low level – 5.3% and 4.5% respectively.

The sale of the right to heritable life tenure of land plots through the RREE intended for individual housing construction continued. In total, rights to heritable life tenure of 4054 land plots were sold in the amount of UZS 401 mill., which was less than indicators of the previous year by 19.7% and 21.5% respectively, due to the offering at auction of a smaller number of land plots by local authorities. As a result of this and also of growth in the sales volume of other property types, the share of land plots in the total quantity of property sold through the RREE fell by 19.7 p.p., and in cost volume of sales – by 1.3 p.p. (Table 2.2.2).

Apart from the sale of the property types listed in Table 3.2.2, since the 2nd half of 2003 the RREE has been providing services for the sale of shares in statutory funds of limited liability companies offered for auction by the government and by private legal entities and individuals. During the first nine months of 2005, shares in statutory funds of 370 limited liability companies worth UZS 3134 mill. were sold, which exceeded similar indicators of the previous year by 3.9% and 17.7% respectively.

The rise in the sale indicators resulted from the establishment of new limited liability companies and the transformation of many small joint-stock companies into this ownership type and also from the considerable surge in activity among private persons to put up for auction shares they own in statutory funds of these companies. In total through the RREE 190 shares of private persons worth UZS 676 mill. were sold. Compared with the corresponding period of the previous year growth rates were 3.1 and 3.3 times respectively.

The percentage of shares of private individuals in the total quantity of property objects sold grew from 17.4% to 51.4% (by 34.0 p.p.), and in cost volume of sale – from 7.5% to 21.6% (by 14.1 p.p.). The considerable discrepancy of the high quantity indicator of the number of shares sold vs. the comparatively low cost indicator is related with the smaller size of shares (10 -15% and less of the statutory fund) being put up for auction by private individuals.

During the first nine months of 2005, 114 government shares or 38.8% less than in the corresponding period of the previous year were sold through the RREE. However due to the fact that larger shares of limited liability companies (25 and more percent) subject to full privatization were put up for auction, the total proceeds from their sale accounted for UZS 2458 mill., which corresponds to this indicator in the similar period of the previous year. As a result, the government's share in the total proceeds from the sale of these objects remained at a high level (78.4%).

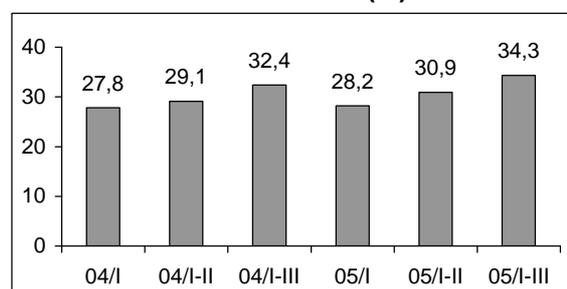
2.3. Small Business

The development of the private sector and small business remains the highest priority for the progress of market reforms in Uzbekistan. Over a period of nine months in 2005 new, constructive government decisions were enforced aimed at the improvement of the legal and regulatory base for development of entrepreneurship, the strengthening of its legal safeguards, decrease of the tax burden, simplification of tax compliance and reporting, smooth withdrawal of cash from the bank accounts of small businesses and simplification of permissible procedures for entrepreneurial activity. The above measures contributed to the creation of favorable trends in the development of small business (SB).

Over nine months of 2005 the number of operating small businesses increased by 9.2% or 21.9 thousand entities compared to the respective period of 2004. The share of small businesses in GDP increased the level of the respective period of the previous year by 1.9 percent to 34.3%. (Figure 2.3.1, Annex 2.3.1). The entrepreneurs of the Sirdarya, Jizzakh, Samarkand and Namangan regions as well as Tashkent City made a significant contribution to the share of small business in GDP. Individual entrepreneurship accounted for the highest share in GDP (16.6%).

The growth in number of those employed in small business, including individual entrepreneurship amounted to 109.8% or 594.5 thousand people compared to the respective period of 2004. Total employment in small business was over 6.6 million people or 65.6% of the total employed in the economy. Growth in the number

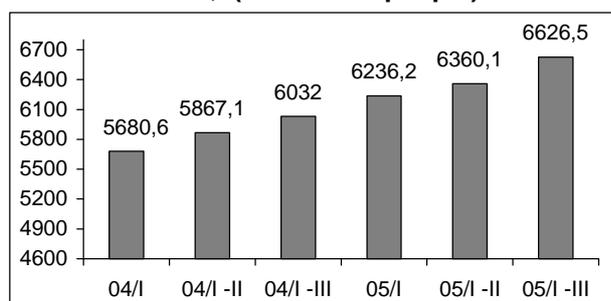
Graph 2.3.1. Share of Small Business in GDP of Uzbekistan (%)



Source: The State Statistics Committee of Uzbekistan

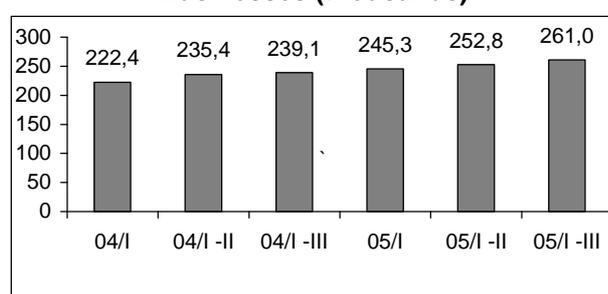
of small businesses facilitated the creation of new jobs which totaled more than 350 thousand. The Kashkadarya, Andijan, Fergana and Samarkand regions accounted for the bulk of the newly created jobs. The upward trend in growth of the number of employed in small business benefits the labor market situation, and alleviates tension in densely populated regions.

Figure 2.3.2. Number of Employed in Small Business, (thousands people)



Source: The State Statistics Committee of Uzbekistan

Figure 2.3.3. Number of Operating Small Businesses (thousands)



Source: The State Statistics Committee of Uzbekistan

and Tashkent (87.1%) regions (Table 2.3.1). These regions implemented dynamic restructuring of inefficient and loss-making *shirkats* into farms.

Table 2.3.1. Number of Operating Small Businesses by Region, (thousands)

	04/I -III		05/I -III	
	Operating SBs	Share of Operating SBs in the Total Registered SBs, %	Operating SBs	Share of Operating SBs in the Total Registered SBs, %
Republic of Uzbekistan	239.1	86.9	261.0	84.0
Republic of Karakalpakstan	12.3	90.7	13.9	91.4
Andijan Region	19.3	87.9	15.7	71.8
Bukhara Region	18.6	91.6	20.5	88.4
Jizzakh Region	16.1	88.0	15.2	80.8
Kashkadarya Region	40.6	94.4	51.7	93.8
Navoi Region	9.5	91.9	9.6	86.7
Namangan Region	12.0	73.8	13.4	77.7
Samarkand Region	20.5	88.4	18.9	81.1
Surkhandarya Region	12.0	83.9	13.7	81.7
Sirdarya Region	10.5	93.9	11.0	88.1
Tashkent Region	17.1	87.3	18.2	87.1
Fergana Region	19.4	86.9	21.8	80.8
Khorezm Region	13.0	84.2	18.5	85.5
Tashkent City	18.0	72.0	18.9	72.7

Source: The State Statistics Committee of Uzbekistan

The decrease in the share of operating small businesses was reported in the Andijan (by 3.6 thousand), Samarkand (by 1.6 thousand) and Jizzakh (by 0.9 thousand) regions due to the high level of bankruptcy and financial vulnerability of small businesses and the lack of measures aimed at the de-nationalization and privatization of public property in the above regions.

Table 2.3.2. Number of Operating Small Businesses by Sector of Economy, (thousands)

Indicator	04/I	04/I -II	04/I -III	05/I	05/I -II	05/I -III
Uzbekistan – Total	222.4	235.4	239.1	245.3	252.8	261.0
Industry	21.1	21.0	21.0	18.3	18.1	18.9
Agriculture	130.0	141.4	144.6	160.1	167.9	172.8
Transportation and Communication	2.1	2.2	2.3	2.4	2.5	2.6
Construction	11.2	11.3	11.4	10.6	10.8	11.3
Trade and Public Catering	42.7	42.9	43.2	39.4	37.7	39.1

Source: The State Statistics Committee of Uzbekistan

From the sectoral perspective, the leaders in growth of the number of operating small businesses included agriculture (19.5%), transportation and communication (13.0%), (Table 2.3.2), mainly due to growth in the number of micro-firms. The upward trend in the growth of the number of small businesses was also traced, however in the transportation sector their total number remained at a low level.

Among the issues in the development of small business is rather moderate growth of operating small businesses in the manufacturing sector and specifically in the innovations sector. During the first nine months of 2005 the number of operating small businesses in industry only increased by 0.5 percent due to the growth in the number of micro-firms, however it is still not up to the level of the respective period of the previous year. The decline in the number of operating small businesses in construction was attributed to the cessation of operations of a number of micro-firms in the sector. In trade and public catering their number decreased by 9.5% (Table 2.3.2). This was caused by administrative barriers, the abuse of power by supervisory agencies, forced outage during the inspections and so forth. The surveys and polling of businessmen performed by the International Finance Corporation/World Bank evidenced the existence of these barriers in the development of small business.

Table 2.3.3. Share of Small Business in Economic Output by Sector, (%)

Indicator	04/I	04/I -II	04/I -III	05/I	05/I -II	05/I -III
Industry						
Share of small business in the total output	9.1	8.7	9.5	8.4	8.3	9.1
Including individual entrepreneurship	3.3	3.3	3.5	3.0	3.1	3.2
Agriculture						
Share of small business in the total output	93.3	86.7	81.0	93.6	88.0	85.5
Including peasant (dekhkan) farms	90.0	74.7	65.7	90.4	75.2	63.2
Retail Trade Turnover						
Share of small business in the total	40.2	41.0	42.1	40.5	41.4	42.9
Including individual entrepreneurship	27.3	27.8	28.3	26.6	27.0	27.3
Fee-Based Services						
Share of small businesses in the total	42.3	46.0	47.6	42.1	48.1	50.9
Including individual entrepreneurship	35.9	39.9	41.7	36.0	41.7	44.2

Source: The State Statistics Committee of Uzbekistan

The share of small businesses in the total industrial output accounted only for 9.1%, which is 0.4 percent lower than in the respective period of the previous year (Table 2.3.3.). Poor representation of small businesses in the industrial sector may be explained by inadequate demand for their produce from the large manufacturers, lack of cooperation and links between them, high output costs, forced outage due to untimely delivery of inputs and so forth.

At the same time, over the period of nine months in 2005 the share of small businesses in the industrial output increased by 0.7 percent due to a boost in production in micro-firms where the increase was up to 53.3% and small businesses where it was 19.4%. The growth rate in the share of small businesses in the total output of non-foodstuffs and foodstuffs continued to be high: up to 126.7% and 112.4% respectively during the first three quarters of 2005. Small businesses accounted for the bulk of the output of non-foodstuffs while individual entrepreneurs supplied the bulk of foodstuffs.

Small businesses produced 85.5% of the total agricultural output, i.e. 4.4 percent more than in the respective period of the previous year. The growth was affected by the increase in the share of the output produced by peasants (dekhkans) and farmers.

During the first nine months of 2005 the activities of small businesses in the retail trade accounted for the largest share (42.9%) in the structure of small businesses' operations. In the total retail trade turnover it increased by 0.8 percent compared to the respective period of 2004. (Table 2.3.3). The biggest contribution was made by individual entrepreneurs.

The share of small businesses in the sector of fee-based services has grown considerably, and accounted for 50.9%, which is 3.3 percent higher than in the respective period of the previous year. Growth in the share of small businesses in this sector was primarily attributed to increasing activity of private small business accounting for the bulk of fee-based services rendered to the population.

Gradual elimination of the barriers hindering foreign trade entry for small businesses facilitated growth of export transactions by 1.2 percent and import transactions by 3.0 percent during the first three quarters of 2005 and an increase in the number of small businesses engaged in foreign trade by 172.2% (Table 2.3.4.). However the performance indicators of small businesses in export transactions remained at a low level as compared to the respective period of the previous year.

During the first nine months of 2005 the structure of exports altered drastically compared to the respective period of the previous year. The exports of cotton-fiber plummeted (by 20.1 percent) due to the seasonal character of this crop, i.e. beginning of the new harvest of raw cotton. In addition, efforts are being undertaken to add more value to this commodity domestically. As a result of current structural transformations in the industry focused on development of the processing sectors, the exports of finished goods, including the ones with high added value, for instance, foodstuffs, machinery and equipment and energy carriers increased by 18.5, 1.5 and 2.5 percent respectively (Table 2.3.5.).

Table 2.3.4. Share of Small Business in Foreign Trade, (%)

	04/I	04/I -II	04/I -III	05/I	05/I -II	05/I -III
Exports						
Share of Small Business in Total Exports	8.7	5.1	7.1	4.6	4.8	5.8
Individual Entrepreneurship	1.2	1.2	1.4	1.0	1.3	2.0
Imports						
Share of Small Business in Total Imports	29.4	30.9	31.6	29.4	31.4	32.4
Individual Entrepreneurship	5.2	5.2	4.8	4.1	4.5	4.7
Number of Small Businesses Participating in Foreign Trade, units	1807	2626	3218	2016	2892	3472

Source: The State Statistics Committee of Uzbekistan

Table 2.3.5. Commodity Structure of Export-Import Operations of Small Business, (%)

	04/I -III	05/I -III
Exports	100	100
Cotton Fiber	32.5	12.4
Foodstuffs	19.4	37.9
Chemical Products	3.1	1.6
Energy Carriers	7.6	10.1
Ferrous and Non-Ferrous Metals	0.6	1.0
Machinery and Equipment	8.2	9.7
Services	10.6	11.2
Others	17.9	16.1
Imports	100	100
Foodstuffs	9.2	11.0
Chemical Products	17.6	18.7
Energy Carriers	0.2	0.2
Ferrous and Non-Ferrous Metals	8.6	6.9
Machinery and Equipment	43.1	41.9
Services	3.5	1.8
Others	17.7	19.5

Source: The State Statistics Committee of Uzbekistan.

has become a crucial move in the process of building of market relations. The Decree canceled the entire range of permits previously required for opening businesses and increased validity terms of licenses required for various types of operations. This may lift administrative barriers which impeded business development and ensure future enhancement of the business environment in the country. It is vitally important at present to enforce all the decisions made and design effective mechanisms for implementation of the measures developed for an increase of the role of small business in the economy while optimally balancing the public and private interests.

The share of small businesses in total imports compared to the respective period of the previous year has increased by 0.8 percent due to expanding imports of foodstuffs by 1.8 percent and products of chemical industry by 1.1 percent (Table 2.3.5.).

During the first nine months of 2005 the share of ferrous and non-ferrous metals, machinery and equipment and services in imports decreased by 1.7, 1.2 and 1.7 percent respectively which was evidence of sustainable development of the respective domestic sectors. Machinery and equipment account for the largest share in the imports (41.9%), due to the reconstruction of industrial facilities aimed at enhancing competitive ability of domestic output and its promotion to external markets.

In general, in the reviewed period there were tangible shifts towards the creation of a favorable legal and economic environment for entrepreneurial activity and further facilitation of dynamic development of small businesses. The Presidential Decree "On Reduction of the Number of Permits and Simplification of the Procedures for Access to Entrepreneurial Operations" has

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

Indicator	2000	2001	2002	2003	2004	04/I-III	05/I-III
Number of privatized enterprises	374	1449	1912	1519	1228	966	729
State-owned enterprises transformed into joint-stock companies	152	227	223	75	28	20	2
State-owned enterprises transformed into limited liability companies	103	827	1252	981	162	136	68
Objects sold to full private ownership	117	184	325	396	1038	810	659
Privatization proceeds (bn. UZS)	14.3	23.2	43.6	56.1	78.4	56.2	56.2

Source: State Property Committee of Uzbekistan

Note: A number of joint-stock companies were founded in 2000-2003 by means of pooling the property of several state-owned enterprises

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

Indicator	2000	2001	2002	2003	2004	04/I-III	05/I-III
Total shares sold on securities market	17.11	26.13	41.74	74.7	115.0	87.6	95.7
On Primary Market	6.23	12.26	16.33	53.9	62.1	48.9	51.7
On Exchange Market	4.60	6.84	10.53	19.7	18.5	11.3	5.8
On Off-Exchange Market	1.63	5.42	5.80	34.2	43.6	37.6	45.9
On Secondary Market	10.88	13.87	25.41	20.8	53.0	38.7	44.0
On Exchange Market	0.63	1.10	4.60	12.4	22.8	16.3	19.4
On Off-Exchange Market	10.25	12.77	20.81	8.4	30.2	22.4	24.6

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. UZS)

Types of Property	2000		2001		2002		2003		2004		04/I-III		05/I-III	
	Quantity	Amount												
Construction in progress	296	630	265	559	180	832	586	1176	896	1449	674	881	798	1394
Commercial and Consumer Services Objects	419	450	548	1221	436	1039	954	3203	1423	7232	1224	7147	1429	10171
Property of Bankrupt Enterprises	435	1028	565	1264	289	719	372	1559	23	524	23	524	-	-
Property Sold to Cover Debts to State Budgets	-	-	2211	1345	2230	1409	209	388	3	1	3	1	-	-
Property Sold by Orders of Economic Courts	-	-	496	415	343	312	147	391	26	149	26	149	-	-
Objects of Agriculture and Water Industry	602	450	510	367	413	396	904	653	2516	4376	1655	3294	5247	6882
Land Plots	5700	254	8662	504	8335	551	7391	490	6296	618	5048	511	4054	401
Residential Housing and Non-Residential Premises, Other Property	1491	3368	1959	6675	2058	10913	3350	15600	3416	13928	2167	7341	3452	12372
Total	8943	6180	15216	12350	14284	16171	13913	23460	14599	28277	10820	19848	14976	31220

Source: Republican Real Estate Exchange

Annex 2.3.1. Major Indicators of Small Business Development

Indicator	Unit	2000	2001	2002	2003	2004	04/I	04/I -II	04/I - III	05/I	05/I -II	05/I - III
Weight of Small Business in GDP	%	31.0	33.8	34.6	35.0	35.6	27.8	29.1	32.4	28.2	30.9	34.3
Including small businesses and micro-firms	%	13.1	14.8	15.7	16.5	18.6	13.4	13.9	15.4	13.7	14.3	17.7
Number of Operating Legal Entities	'000 entities	149.3	177.7	236.4	229.6	237.5	222.4	235.4	239.1	245.3	252.8	261.0
Number of Employed in Small Businesses	'000 people	745.3	801.8	900.3	1062.2	1349.0	1041.5	1127.4	1236.2	1258.3	1276.2	1347

Source: The State Statistics Committee of Uzbekistan

Annex 2.3.2. Share of Small Business in the Output by Sector of Economy (%)

Sector	2000	2001	2002	2003	2004	04/I	04/I -II	04/I - III	05/I	05/I -II	05/I - III
Industry	11.3	14.1	14.1	10.9	10.7	9.1	8.7	9.5	8.4	8.3	9.1
Agriculture	72.4	75.6	76.4	78.1	80.9	93.3	86.7	81.0	93.6	88.0	85.5
Retail Trade Turnover	45.9	45.8	43.8	42.4	41.8	40.2	41.0	42.1	40.5	41.4	42.9
Fee-Based Services	37.9	39.9	41.3	45.4	47.4	42.3	46.0	47.6	42.1	48.1	50.9

Source: The State Statistics Committee of Uzbekistan

Annex 2.3.3. Share of Small Business in Foreign Trade of Uzbekistan

Indicator	2000	2001	2002	2003	2004	04/I	04/I -II	04/I - III	05/I	05/I -II	05/I - III
Exports, %	10.2	9.0	7.5	6.9	7.3	8.7	5.1	7.1	4.6	4.8	5.8
Imports, %	27.4	26.9	24.9	33.0	32.7	29.4	30.9	31.6	29.4	31.4	32.4
Number of SBs Participating in Foreign Trade, thousands	2.8	2.5	2.7	3.2	3.8	1.8	2.6	3.2	2.0	2.9	3.5

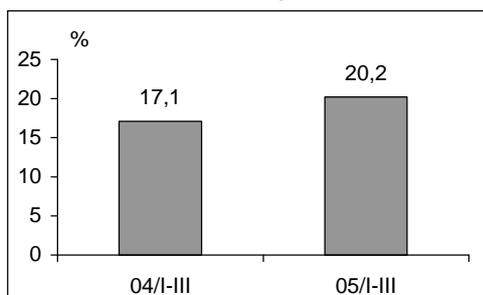
Source: The State Statistics Committee of Uzbekistan

3. Structural –investment policy

3.1. Industry

In the first nine months of 2005 industrial enterprises produced output worth UZS 7690.4 billion. The index of industrial growth reached 107.7%. Efforts were focused on attraction of foreign investment and optimization of the tax system facilitating continuation of the positive trend in added value growth due to the increase in profits.

Figure 3.1.1. Growth of the Added Value of the Industry in GDP



The index of growth of the added value accounted for 4.5%, and the share of industry in GDP increased from 17.1% to 20.2% (Figure 3.1.1.).

Industrial growth was supported by the favorable situation on the global market and the expansion of the internal demand. Approximately 40% of the increase in industrial output was due to internal factors, including growth of the capital investments and income of the population.

The dynamics of the industrial output was largely affected by the higher growth rates in the final demand sectors. Physical output in the mechanical engineering increased by 34.5%

compared to the respective period of the previous year (Table 3.1.1.). The automotive sector was the major contributor to the growth. The output of vehicles increased by 57.8%. The factors contributing to the intensive growth included enhancement of the attribute characteristics and decrease of output costs of the vehicles due to relatively high efficiency of a number of the implemented localization projects. The estimated benefits from implementation of the localization program for the automotive sector accounted for more than USD 459.4 million. The broad introduction of the system of consumer credits by the commercial banks has become an additional growth factor.

Table 3.1.1 Indices of Industrial Production

	Index of Industrial Production (in % to the previous period)	
	04/I-III	05/I-III
Industry	110.2	107.7
Power Industry	101.4	96.6
Fuel Industry	106.4	99.1
Ferrous Metallurgy	123.6	119.7
Non-Ferrous Metallurgy	106.0	97.2
Chemical Industry	102.9	108.1
Mechanical Engineering	132.2	134.5
Timber, Wood-Working Industry	118.5	123.5
Building Materials	111.3	110.2
Light Industry	108.2	112.9
Food Industry	100.6	113.1
Other	132.3	110.8

Source: The State Statistics Committee of Uzbekistan

The development of the electrical industry was determined by 13.9% increase in physical output of cable, 96.7% increase in the output of TV sets and 51.0% increase in the physical output of air-conditioners. The downward trend in the output of agricultural machinery (tractors, cotton harvesters) constrained growth in the sector.

In light industry growth was facilitated by the implementation of measures on capacity building in the sector management and the increase of the role of new joint ventures and small businesses, among other factors. The index of growth in the light industry output has reached 12.9%. The cotton ginning sector, which in nine months of 2005 achieved sustainability in the supply of primary inputs, was the key contributor. The output of cotton fiber has increased by 30.6%, surpassing the respective rate of the previous year by 27 percentage points. The increment of the solvent demand in

the domestic market acted as a growth factor in the output of the following finished products: knitted – by 105%, hosiery – by 0.6%, apparel – by 6.1%. Meanwhile, the impact of many processing industries on the profile of light industry development continued to decline. There was a decrease in the output of cotton yarn, raw silk threads and silk fabrics (Table 3.1.2.).

The food industry maintained its position in the domestic consumer market which is viewed as a positive performance outcome. The growth index of the food industry production amounted 13.1%. In aggregate, the light, food and mechanical engineering sectors provided for approximately 4/5 of the total growth of the industrial output.

The impact of resource and mining sectors on the overall dynamics of growth has tended to wane. The growth indices of production in the fuel and non-ferrous metals industries amounted 99.1% and 97.2% respectively. In contrast, the ferrous metallurgy sector retained positive trends in the growth due to implemen-

tation of efficient management methods and enhanced delivery of inputs. The index of increase in growth of the ferrous metallurgy output was 19.7%. The output of rolled ferrous metals increased by 12.2% and that of steel by 9.8%. The export of ferrous metals and products made of ferrous metals has increased by 4.8%.

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

	Unit	Physical Output		Indices of production (in % the previous period)	
		04/I-III	05/I-III	04/I-III	05/I-III
Power Industry					
Electric Power	Mill. K.W.H	36906	35808	103.1	97.0
Fuel Industry					
Oil and Condensate	Thous. tons	5048.6	4191.2	94.1	83.0
Gas	Mill.m ³	44385.1	44187.2	105.0	99.6
Coal	Thous. tons	2052	2267	151.3	110.5
Metallurgy					
Steel	Thous. tons	438.7	481.7	116.4	109.8
Rolled Ferrous Metals	Thous. tons	402.4	451.4	116.9	112.2
Machine-Building					
Tractors	Units	2210	1947	100.3	88.1
Cars	Units	48262	76162	166.6	157.8
"Damas"	Units	6127	10647	116.5	173.8
"Tiko"	Units	1133	-	31.8	-
"Nexia"	Units	26987	46414	144.3	172.0
"Matiz"	Units	13525	17299	5.2 times	127.9
"Lacetti"	Units	490	1802	3.3 times	3.7 times
Color TVs	Units	28580	56220	2.6	196.7
Isolated Cable	Km	1794	2043	2.2 times	113.9
Air-Conditioners	Units	1905	2876	132.4	151.0
Washing Machines	Units	873	660	129.5	75.6
Chemical Industry					
Mineral Fertilizers	Thous. tons	669.5	651.3	109.3	97.3
Nitrogen Fertilizers	Thous. tons	570.5	576.0	108.6	101.0
Phosphate Fertilizers	Thous. tons	99.0	75.3	113.5	76.1
Synthetic Ammonia	Thous. tons	789.3	800.8	106.7	101.5
Sulphuric Acid	Thous. tons	606.1	576.7	93.7	95.1
Synthetic Resins and Plastics	Tons	80787	89240	156.9	110.5
Chemical Fibers and Threads	Tons	5947	4166	53.0	70.1
Chemical Pesticides and Insecticides	Tons	4477	2494	133.6	55.7
Paint-and-Lacquer Materials	Tons	18549	24012	111.5	129.5
Construction Materials Industry					
Walling	Mill. pieces	30.3	26.5	87.0	87.5
Cement	Thous. tons	3859.5	4069.7	122.6	105.4
Asbestos Cement Sheets	Mill. tiles	244.7	289.1	108.0	118.1
Ceramic Tiles	Thous. m ²	364.6	318.8	82.7	87.4
Light Industry					
Cotton Fiber	Thous. tons	594.2	776.1	103.6	130.6
Cotton yarn	Thous. tons	125.05	106.4	101.2	85.1
Raw Silk Threads	Tons	498.5	397.4	111.4	79.7

Source: The State Statistics Committee of Uzbekistan

In the chemical industry there was a trend of increasing influence of price factors on the character and dynamics of the development. The index of growth in the cost of output has reached 108.1% while the physical output of the major commodities declined as follows: mineral fertilizers by 2.7%, sulphuric acid by 4.9%, chemical fibers and threads by 29.9%. The auspicious conditions at the global market of chemical products contributed to favorable dynamics in growth of export revenues of the sector by 26.4%.

The positive tendency in development of the chemical industry was the increase of the physical output of synthetic resins and plastics by 10.5%, the synthetic ammonia by 1.5%, and paint-and-lacquer materials by 29.5%.

The dynamics of building materials sector was affected by high rates of construction of housing and social facilities. The increase in growth of the sector output reached 10.2%. Over a period of nine months in

2005 more than 60 investment projects were implemented. The ongoing process of privatization of large enterprises is aimed at consequent de-monopolization of the construction materials market. The said growth in the output was facilitated by the increase in the output of cement – 5.4% and asbestos-cement sheets – 18.1%. The implementation of the designated programmatic measures for acceleration of the development and promotion of pro-market reforms in the building materials sector may facilitate the increase of competitive advantages of the local output and further strengthening of positions of the domestic manufacturers in the internal market.

Price remained the decisive factor in the structural transformations in the industrial output, where in the resource and mining sectors the tendency to significantly exceed the price index with regard to the industry average remained. The share of fuel and power sectors in industrial output has increased from 24.8% to 27.6%, including the power sector from 11.1% to 11.5% and fuel sector from 13.7% to 16.1% (Table 3.1.3.). The price factor also affected the growth in share of non-ferrous metallurgy from 16.1% to 16.8%.

The restrained dynamics of producers' prices for output of the light and food industries caused the decline in shares of these sectors in the industry structure from 27.5% to 24.2%. The share of chemical and building materials industries also decreased from 10.1% to 9.4%. The increase in the share of mechanical engineering from 11.9% to 13.1% (Figure 3.1.2) has become a positive factor in formation of the dynamics of the structural transformations.

The necessity to increase efficiency of the structural transformations in the industrial sector calls for acceleration of implementation of the designated programmatic measures on pro-market reform in the sector. The outcomes of institutional and structural transformations in the industrial sector are closely interrelated with the optimization of the tax system, facilitation of attraction of foreign direct investments and promotion of denationalization and privatization of enterprises.

3.2. Consumer Market

Consumer market development in Uzbekistan is formed by consistent growth of income of the population, liberalization of banking and financial systems, implementation of targeted programs for saturation of the internal market by domestically-made goods, and localization of their manufacturing on the basis of locally available resources. Sustainable growth in the share of small and private businesses' contribution to the output of consumer goods is another crucial factor.

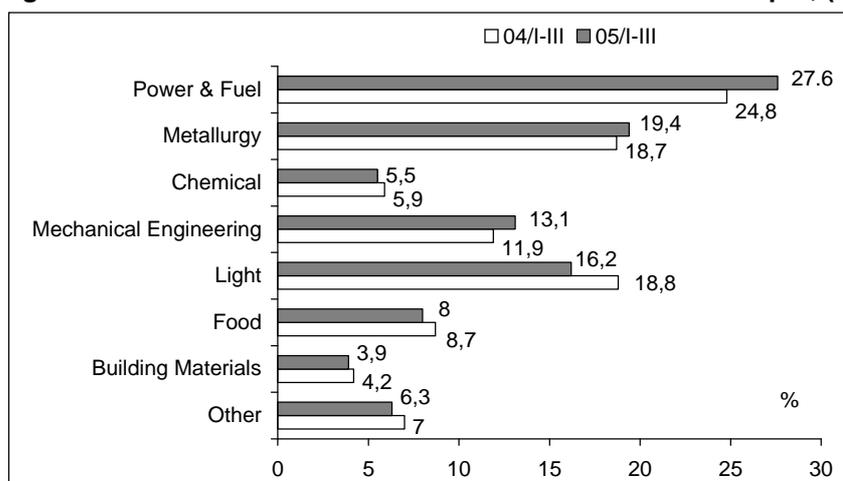
Over a period of nine months of 2005 consumer goods worth UZS2.08 trillion were produced, and the growth rate amounted to 119.4% compared to 116.1% in the respective period of 2004 (Figure 3.2.1).

Table 3.1.3 Structural Transformations in the Industrial Output (current prices), %

	04/I-III	05/I-III
Industry, including	100	100
Power	11.1	11.5
Fuel	13.7	16.1
Ferrous Metallurgy	2.6	2.6
Non-Ferrous Metallurgy	16.1	16.8
Chemical	5.9	5.5
Mechanical Engineering	11.9	13.1
Timber, Wood-Working	0.9	0.8
Building Materials	4.2	3.9
Light	18.8	16.2
Food	8.7	8.0
Other	6.1	5.5

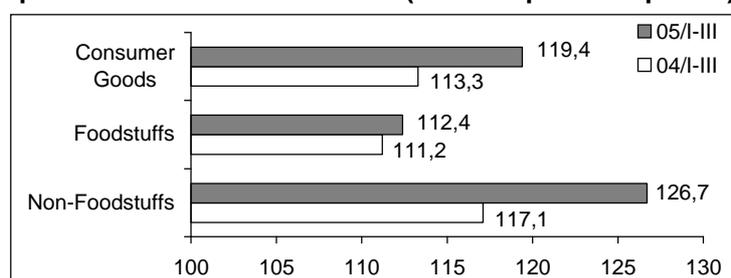
Source: The State Statistics Committee of Uzbekistan

Figure 3.1.2. Structural Transformations in the Industrial Output, (%)



Source: The State Statistics Committee of Uzbekistan

Figure 3.2.1. The Growth Rates in Consumer Goods Output Over Nine Months of 2005 (% of the previous period)



Source: The State Statistics Committee of Uzbekistan

Non-foodstuffs accounted for the highest growth rate of 126.7% (Table 3.2.1) due to an increase in the output of high-quality electric home appliances, including TV sets – 2.1 times, as well as vehicles – 1.5 times, including new model “Lacetti” – 3.7 times, compared to the respective period of the previous year. Furniture manufacturing achieved the remarkable growth rate of 188.7%.

Table 3.2.1. Consumer Goods Output (% of the respective period of the previous year)

	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Consumer Goods	114.9	114.4	113.3	116.4	117.1	119.4
Foodstuffs	117.6	112.8	111.2	100.2	107.0	112.4
Wine, Alcoholic beverages and Beer	101.7	104.5	100.2	106.5	101.4	105.2
Non-Foodstuffs	114.2	117.3	117.1	133.6	128.0	126.7
Light Industry Goods	101.8	105.5	103.5	98.3	97.2	98.7

Source: The State Statistics Committee of Uzbekistan.

The increment of the output of expensive consumer goods was attributed to growth of the better-off section of the population and the increase in the solvent demand to the promotion of various types of consumer credits.

Although the share of domestically-made non-foodstuffs accounts for the largest value in the overall market resources (for instance, refrigerators and freezers – approximately 13%, washing machines – from 4 to 5%, air-conditioners – more than 12%), it continues to grow. For instance, the share of domestically-made TV sets in the total market resources is already over 75%, and that of vehicles over 40%.

The implementation of the Program of Saturation of the Internal Consumer Market with Domestically-Made Goods, the gradual expansion of the production capacity by re-construction of the operating facilities and the building of new ones ensured the growth in the consumer goods output in the light industry, including knitwear, apparel and footwear (Table 3.2.2).

The growth facilitated by targeted tax privileges was observed both at the state-owned companies under the UzbekYengilSanoat JSC and in the private sector.

Table 3.2.2. Output of Major Types of Consumer Goods 1

Goods	Unit	Physical Output		Growth Rates (% of the previous period)	
		04/I-III	05/I-III	04/I-III	05/I-III
Cotton Fabrics	'000 sq.m.	273851	198035	85.6	72.3
Silk Fabrics	'000 sq.m.	3584	2521	91.9	70.3
Carpets and Carpet Goods	'000 sq.m.	5704	4730	155.4	82.9
Hosiery	'000 pairs	11576	11645	101.0	100.6
Knitwear Goods	'000 units	23466	24802	84.5	105.7
Footwear	'000 pairs	489	514	73.8	102.3
Apparel	UZS million	13330	14146	101.3	106.1
Milk and Dairy Products	tons	6682	8297	188.4	124.2
Canned Goods	cans	136094	131398	77.8	96.5
Sugar	tons	117388	116848	72.4	99.5
Flour	tons	1119781	966131	182.0	86.3
Bread and Baked Goods	tons	45840	35039	85.3	76.4
Pasta	tons	15153	12331	109.2	81.4
Vegetable Oil	tons	120308	147161	88.6	122.3
Grape Wine	'000 decalitres	1654	1755	62.8	106.1
Vodka and Liquors	'000 decalitres	4337	4215	108.0	97.2
Soft Drinks	'000 decalitres	262	3330	13.5	12.7 p
Cigarettes	Million units	4632	4025	95.9	86.9
Furniture	UZS million	2314.1	4365.6	81.1	188.7

Source: The State Statistics Committee of Uzbekistan

1. Compiled on the basis of the output data by the large and medium enterprises

The share of these types of domestically-produced consumer goods in the overall market resources has a tendency to growth and reached 90% on average.

Meanwhile the output growth rate in light industry plummeted by 4.7% compared to the respective period of the previous year. There was a decline in the output of cotton and silk fabrics, woolen cloth, textile haberdashery, carpet and carpet goods caused by the decrease in the output of cotton and wool yarn and silk

threads. This was due to continuing reconstruction and re-equipment of the existing facilities, as well as creation of new facilities for processing of cotton fiber, wool and raw silk. The degree of saturation of the domestic market with these goods, however, remained at a high level. For instance, for cotton fabrics it accounted for more than 95%, for apparel – 68.3%, for hosiery – 93.4%, for knitwear almost 100% and for carpets and carpet goods – 70%.

Over three quarters of 2005 the country produced foodstuffs worth more than UZS 803.6 billion and the output growth rate accounted for 112.4% or increased by 1.2% compared to the respective period of 2004. Such relatively high growth rates were supported by the increase in processing of agricultural produce, as well as an augmented share of the small businesses engaged in food processing, which reached 36.5% of the total output of foodstuffs.

Significant increment in the output was attained for milk and dairy products (24.2%) and vegetable oil (22.3%). The output of grape wine and soft drinks increased as well. Besides, there was a noticeable growth in the output of canned food and sugar compared to the previous year. In addition to the increase in the amount of output, efforts were undertaken to expand the range of canned fruits and vegetables, including fruit juices in Tetra-Pak packaging. The quality and price competitiveness of these domestic products has considerably improved and their share in the internal market resources approximated 98%.

At the same time the output of bread and baked products declined by 8.9% and of pasta by 27.8% due to decreasing production by large enterprises. The limited variety and poor quality of these goods failed to induce the consumer demand which was catered for by the increasing number of the private businesses and households baking traditional kinds of bread.

In the three quarters of 2005 the output of flour and cigarettes also declined by 13.7% and 13.1% respectively compared to the previous year. The growth of internal prices hinders solvent demand at the market and adds to decline in the output of such goods.

**Table 3.2.3. The Growth of Consumer Goods Output by the Region
(% of the respective period of the previous year)**

	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Uzbekistan	114.9	114.4	113.3	116.4	117.1	119.4
Karakalpakstan	119.0	122.8	119.4	117.1	107.0	111.3
Andijan	133.3	136.4	136.0	180.3	159.6	157.5
Bukhara	107.8	107.6	108.9	104.7	104.8	100.5
Jizzakh	113.0	117.8	120.5	120.6	117.7	113.5
Kashkadarya	127.0	124.7	115.2	107.8	110.7	110.8
Navoi	107.3	106.4	101.4	98.3	100.6	100.4
Namangan	124.7	116.1	116.2	112.1	107.0	109.7
Samarkand	100.3	102.0	112.4	110.1	100.7	104.2
Surkhandarya	129.5	124.1	132.6	101.8	95.1	91.1
Sirdarya	108.0	115.3	114.9	109.9	99.1	100.0
Tashkent	106.6	111.1	112.9	107.7	106.2	115.7
Fergana	113.2	122.4	119.5	115.8	113.0	108.6
Khorezm	96.6	102.5	101.5	96.5	106.5	105.9
Tashkent City	115.7	101.5	103.1	107.4*	103.7	121.0

Source: The State Statistics Committee of Uzbekistan

In the reviewed period of 2005 the highest growth in the output of consumer goods was registered in the Andijan region (57.5%), largely due to stable growth in the non-foodstuffs output accounting for 162.9%, owing to sustainable growth in the automotive sector. The share of the Andijan region in the territorial structure of consumer goods output increased by 8.2% compared to the respective period of 2004 and reached 28.0%.

The above national growth rate in consumer goods output was observed in Tashkent City – 121.0%, where the higher growth rates were achieved in the foodstuffs sector – 123.1% and light industry – 121.2% (Table 3.2.3). Substantial increment in consumer goods output was generated in the Tashkent (15.7%), the Jizzakh (13.5%), the Kashkadarya (10.8%), the Namangan (9.7%), and the Fergana (8.6%) regions as well in the Republic of Karakalpakstan (11.3%). In the Khorezm region the growth in the output of consumer goods was 4.4%.

In the Bukhara and the Navoi regions the decrease in the growth rates of consumer goods output was attributed mainly to decline in the output of non-foodstuffs, in the Surkhandarya due to decline in the output of foodstuffs and in the Sirdarya region due to decline in the output of light industry goods and alcohol beverages.

In the territorial structure of consumer goods output the Andijan, Tashkent, Fergana, Samarkand and Bukhara regions as well as Tashkent City retained the leading positions (Table 3.2.4), due to creation of the large number of new small businesses, including in the sector of consumer goods.

Table 3.2.4. Breakdown of the Consumer Goods Output by Regions (%)

	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Uzbekistan	100.0	100.0	100.0	100.0	100.0	100.0
Karakalpakstan	2.0	1.9	1.2	2.0	1.8	1.7
Andijan	18.3	19.9	19.8	28.3	28.9	28.0
Bukhara	8.9	9.3	9.1	8.0	7.7	7.2
Jizzakh	2.7	2.5	2.4	2.8	2.9	2.7
Kashkadarya	4.4	4.2	4.0	4.1	4.1	3.7
Navoi	2.7	2.1	2.1	1.9	1.8	1.8
Namangan	4.5	4.9	4.9	4.4	4.0	4.0
Samarkand	9.3	8.7	9.2	8.8	8.3	8.7
Surkhandarya	2.7	2.8	2.9	2.3	2.3	2.1
Sirdarya	1.6	1.8	1.7	1.5	1.4	1.3
Tashkent	10.3	11.4	11.8	9.5	9.8	10.7
Fergana	9.1	10.0	10.3	9.7	9.2	9.2
Khorezm	3.1	2.8	2.7	2.6	2.7	2.3
Tashkent City	20.9	17.6	17.3	14.7	15.2	16.4

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

In general, the development of the consumer market has a sustainable background related to growth in demand both at domestic and foreign markets. In this framework the following priorities should be addressed: the enhancement of price and quality-wise competitiveness, as well as expansion of the range of goods, specifically in the non-foodstuffs sector. This calls for design and implementation of the systematic measures aimed at support and facilitation of the enterprises producing consumer goods.

3.3. Agrarian Sector

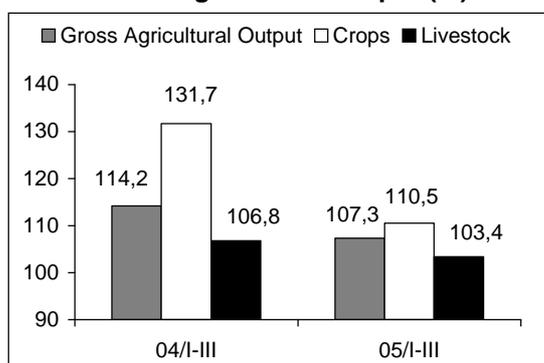
The implemented measures aimed at the reform and development of the agrarian sector contributed to growth in agricultural output, chiefly in crop cultivation.

Over the first three quarters of 2005, the growth rate of gross agricultural output totaled 7.3% (compared to 14.2% in the respective period of 2004), while the share of agricultural produce in the GDP of Uzbekistan plummeted to 23.3%, compared to 26.7% in the respective period of 2004. Despite this relative decline in growth rates, they remain adequately sustainable. The decline was mainly caused by the following factors: (i) higher growth rates in agricultural output over the first nine months of 2004 compared to the respective period in 2003, (ii) declining growth rates in crop cultivation from 31.7% (in 2004) to 10.5%, and (iii) declining growth rates in cattle breeding from 6.8% to 3.4%. As a result of this, the share of crop cultivation in gross agricultural output increased from 54.1% to 56.3%, while that of cattle breeding declined from 45.9% to 43.7% or by 2.2% respectively (Table 3.3.1, Figures 3.3.1, 3.3.2).

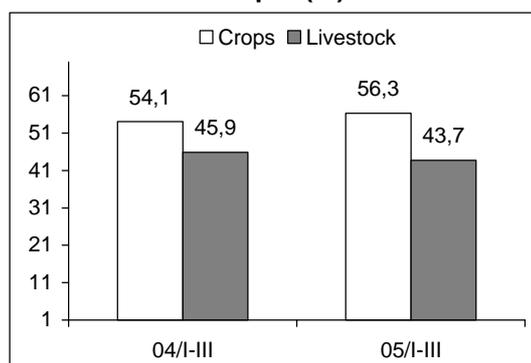
Table 3.3.1. Key Indicators of the Development of Agriculture (%)

Indicators	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Share of Gross Agricultural Output in GDP	9.7	14.5	26.7	9.1	14.1	23.3
Growth Rates of Agricultural Output	106.7	110.4	114.2	106.6	107.2	107.3
- Crop Production	106.2	114.9	131.7	110.2	108.2	110.5
- Livestock Farming	106.8	106.1	106.8	106.0	106.1	103.4
Structure of Production by Form of Ownership						
- State-Owned	0.9	0.6	0.7	0.2	0.6	0.4
- Non-State-Owned	99.1	99.4	99.3	99.8	99.4	99.6
Share of Investment in Agriculture in Total Investments	5.0	3.0	3.0	2.9	3.3	3.4

Source: The State Statistics Committee of Uzbekistan

Figure 3.3.1. Growth Rates of Gross Agricultural Output (%)


Source: The State Statistics Committee of Uzbekistan

Figure 3.3.2 Structure of Agricultural Output (%)


Source: The State Statistics Committee of Uzbekistan

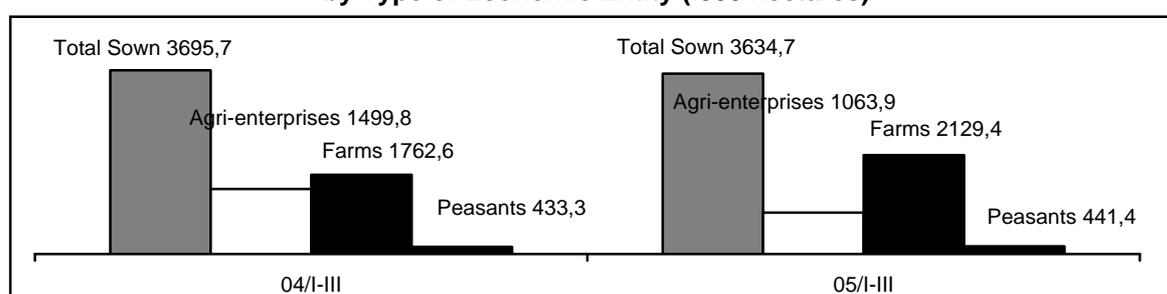
From January to September 2005 the total sown area was 3634.7 thousand hectares, compared to 3695.7 thousand hectares in the respective period in 2004. This could be attributed to delayed allocation of land to farmers and *dekhkan* (peasant) entities. The area under cotton in 2005 reached 1473.8 thousand hectares (17.5 thousand hectares more than in 2004). Meanwhile there was a favorable transformation in the cropping pattern towards the decrease of sown area under grain crops (by 35.5 thousand hectares compared to the respective period of 2004) and the increase of land under fodder crops (by 3.6 thousand hectares) (Table 3.3.2).

Table 3.3.2. Structural Transformations of Cropping Patterns

	Unit	04/I-III	05/I-III	05/I-III, % of 04/I-III
Total Cultivated Area	'000 hectares	3695.7	3634.7	98.3
Grain Crops	'000 hectares	1667.1	1605.5	96.3
Cotton	'000 hectares	1456.3	1473.8	101.2
Potatoes	'000 hectares	52.1	49.8	95.6
Vegetables	'000 hectares	137.6	137.0	99.6
Melons and Gourds	'000 hectares	34.7	33.1	95.4
Fodder Crops	'000 hectares	284.2	287.8	101.3

Source: The State Statistics Committee of Uzbekistan

Due to the restructuring of inefficient *shirkats* (agri-enterprises) into farms, the share of the former in the structure of sown area decreased from 40.6% to 29.3% while the share of farms increased from 47.7% in the respective period of 2004 to 58.6%. There was a slight increase in the share of *dekhkan* (peasant) entities from 11.7% to 12.1% respectively or by 0.4% (Figure 3.3.3).

Figure 3.3.3. Structural Transformations in Cultivated Areas by Type of Economic Entity ('000 hectares)


Source: The State Statistics Committee of Uzbekistan

Over the first nine months of 2005, the grain harvest amounted to 6238.8 thousand tons or 580.3 thousand tons more than the 5658.5 thousand tons harvested in the respective period of 2004 (growth reached 110.2%). The average crop capacity was 38.8 centners per hectare (in 2004 – 33.9 centners per hectare). The overall size of the State Order for raw cotton as of 1 October 2005 was 2797.3 thousand tons, i.e. 747.4 thousand tons greater than in the respective period of 2004. In addition, there was growth in the output of all major types of crops. Namely, the output of potatoes increased by 44.5 thousand tons, the output of horticulture and fruit increased by 14.5 thousand tons, the output of vegetables increased by 134.2 thousand tons, the output of grapes increased by 13.1 thousand tons (Table 3.3.3).

Table 3.3.3. Major Indicators of Agricultural Production

Product	Unit	04/I-III	05/I-III	05/I-III, % of 04/I-III
Grain	'000 tons	5658.5	6238.8	110.2
Potatoes	'000 tons	725.9	770.4	106.1
Vegetables	'000 tons	2441.2	2575.4	105.5
Fruit and Berries	'000 tons	573.1	587.6	102.5
Grapes	'000 tons	349.8	362.9	103.7
Food-Melons and Gourds	'000 tons	391.0	421.9	107.9
Meat (Live Weight)	'000 tons	721.0	764.6	106.4
Milk	'000 tons	3104.4	3288.9	105.9
Eggs	million units	1439.0	1402.6	97.4
Astrakhan Pelts	'000 units	634.8	620.9	97.8
Wool	'000 tons	15.5	16.1	103.9
Silk Cocoons	'000 tons	16.9	16.2	95.9
Cattle	'000 heads	6212.2	6496.6	104.6
Cows	'000 heads	2694.1	2802.9	104.0
Pigs	'000 heads	81.0	83.8	103.5
Sheep and Goats	'000 heads	11021.7	11537.2	104.7
Poultry	'000 heads	19445.0	20678.4	106.3
Horses	'000 heads	149.7	153.7	102.7

Source: The State Statistics Committee of Uzbekistan

The output of meat attained a growth of 6.4%, the output of milk increased by 5.9%, and the output of wool grew by 3.8%. The production of silk cocoons, however, was less successful compared to the previous year, due to unfavorable weather conditions during the season of silkworm fattening and cuts in distribution of the larva, caused by low availability of fodder and the threat of mulberry disease. In addition, the scarcity and increasing expense of fodder affected the output of eggs, which declined by 36.4 million units. A similar trend was observed in the output of astrakhan pelts, which decreased by 13.9 thousand units. Meanwhile, the role of the private sector expanded in cattle breeding, however, accounting for the bulk of meat (95%) and milk (98.6%) output (Table 3.3.3).

Over the first nine months of 2005 the population of all kinds of livestock increased. The population of cattle increased by 4.6% compared to the respective period of 2004 (in 2004 by 6.5%), the population of cows increased by 4.0% (6.2%), pigs by 3.5% (9.9%), sheep and goats by 4.7% (5.3%), poultry by 6.3% (7.0%) and horses by 2.7% (1.4%) (Table 3.3.3). The increase in livestock production was achieved due to the increase in its population and the productivity of farms and dekhkan entities. The export of vegetables and fruit expanded considerably. All types of agricultural economic entities shipped 369.9 thousand tons of fresh fruit, vegetables and grapes, including: vegetables – 227.6 thousand tons (209.8 thousand tons in 2004 or 108.5% growth), melons -- 50.2 thousand tons (41.3 thousand tons, i.e. 121.7% growth), fruit – 49.9 thousand tons (35.2 thousand tons, or 141.7% growth) and grapes – 42.1 thousand tons (30.9 thousand tons, i.e. 136.1% growth).

In accordance with the Order of the President of the Republic of Uzbekistan of 4 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 shirkats were liquidated and 24.3 farms were created on their basis, with 758.0 thousand hectares of land assigned to them, including 490.7 thousand hectares under cultivation.

The number of farms as of September 2005 was 123.8 thousand (in 2004 – 109.5 thousand), with 3.7 million hectares of land assigned to them (in 2004 – 2.8 million hectares), of which 15724 farms with 583.1 thousand hectares of land specialized in cotton and grain cultivation (on average 37 hectares per farm), 1335 farms specialized in the production of vegetables, 6210 - in gardening and grape cultivation, and the remainder 1754 specialized in other areas. Over the first nine months of 2005, the sown area assigned to farms increased to 2129.4 from 1762.6 thousand hectares as of September 2004 or by 366.8 thousand hectares. The share of farms in the total cultivated area was 58.6% (42.7% in 2004).

In 2005 the average land area per farm was 29.9 hectares (27.5 hectares in 2004). The number of those employed on farms increased by 195.9 thousand people (Tables 3.3.4., 3.3.5).

Table 3.3.4. Key Performance Indicators of Farms

Indicator	Unit	04/I-III	05/I-III
Agricultural Output	UZS billion	565.0	901.2
- Crops	UZS billion	529.7	832.3
- Livestock	UZS billion	35.3	38.9
Number of Farms Entities	units	10952	123871
The Total Area, including	'000 hectares	2808.2	3708.6
- Cultivated Area	'000 hectares	1762.6	2129.4
Average Land Plot per Farm	hectares	27.5	29.9
Total Employed on Farms	'000 people	800.9	996.8
Average Staff per Farm	people	8	8
Share of Farms in Gross Agricultural Output	%	16.0	22.1
- Crops	%	28.1	37.5
- Livestock	%	2.0	2.2
Growth Rate of the Output	%	184.5	149.3
- Crops	%	192.0	152.3
- Livestock	%	121.0	105.2

Source: The State Statistics Committee of Uzbekistan

Table 3.3.5. Contribution of Farms to Agricultural Output

Product	Unit	04/ I	04/ I-II	04/I-III	05/ I	05/ I-II	05/I-III	05/ I-III, % of 04/ I-III
Grain	'000 tons	-	1637.6	2625.4	-	2162.1	3467.6	132.1
Wheat	'000 tons	-	1621.0	2559.3	-	2129.2	3314.2	129.5
Potatoes	'000 tons	-	9.0	27.0	-	11.8	31.6	117.0
Vegetables	'000 tons	0.5	26.6	254.3	0.7	31.5	287.8	113.2
Food-Melons and Gourds	'000 tons	-	1.7	105.7	-	2.8	124.6	117.9
Fruit and Berries	'000 tons	-	19.2	64.6	-	25.3	93.7	145.0
Grapes	'000 tons	-	0.2	28.9	-	0.5	48.4	167.5
Meat	'000 tons	3.6	7.9	12.6	4.2	8.3	12.7	101.0
Milk	'000 units	17.6	37.4	59.8	19.8	41.6	64.1	108.4
Eggs	'000 units	14.5	30.2	53.5	14.4	29.6	50.8	95.0
Astrakhan Pelts	'000 units	5.4	17.1	-	6.3	22.2	-	-
Wool	tons	3	213	-	4	318	-	-
Silk Cocoons	'000 tons	-	4.1	-	-	6.8	-	-
Cattle	'000 heads	297.2	298.8	303.2	312.8	320.7	323.6	106.7
Cows	'000 heads	94.6	93.9	96.4	99.2	101.1	102.5	108.4
Pigs	'000 heads	13.5	15.1	14.7	13.7	15.7	15.3	104.1
Sheep and Goat	'000 heads	334.4	353.5	412.3	443.4	479.0	478.2	116.0
Poultry	'000 heads	680.4	715.1	727.7	661.1	795.8	740	101.7
Horses	'000 heads	9.7	10.3	10.5	11.4	10.9	11.1	105.7

Source: The State Statistics Committee of Uzbekistan

The growth rate of the output of farms was 149% compared to 184% in the respective period of 2004. In crop cultivation, growth rates fell from 192.0% to 152.3% and in livestock breeding they decreased from 121.0% to 105.2%. The share of farms in gross agricultural output grew from 16.0% in 2004 to 22.1% in 2005 or by 6.1%, including in crop cultivation from 28.1% to 37.5% or by 9.4% respectively, and in livestock breeding from 2.0% to 2.25% (Table 3.3.4).

Over the reviewed period, farms produced 29.5% more wheat (total 3314.2 thousand tons), 17% more potatoes (31.6 thousand tons), vegetables – 13.2% (287.8 thousand tons), fruit and berries – 45% (93.7 thousand tons), grapes 67.5% (48.4 thousand tons) and melons and gourds – 17.9% (124.6 thousand tons). In addition, the output of meat increased by 1% (12.7 thousand tons) and milk by 8.4% (64.1 thousand tons), while the output of eggs decreased by 5%. During the first three quarters of 2005 the population of cattle and poultry in farms increased due to the creation of farms specializing in livestock breeding (Table 3.3.5).

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), 322 outlets for the supply of fuel and lubricants (236), 176 outlets for the supply of mineral fertilizers (206), 410 alternative *MTP* - machine and tractor fleets (275), 376 Associations of Water Users (235), and 134 (74) outlets for the procurement and sale of agricultural produce, which also provide extension services to newly established farms on a contractual basis.

As of 1 October 2005 there were 894 voluntary Associations of Water Users comprising 80549 farms. The Associations rendered contract-based services worth UZS 5.1 billion, including water supply, farm-irrigation services and so forth.

The development of dekhkan (peasant) entities was not as prominent as that of farms. Ad interim dekhkan entities remain the major producers of agricultural output, accounting for 63.2% (65.7% in 2004) of the total. Output growth rates

in dekhkan entities decreased from 7.6% over the first nine months of 2004 to 5.3%, or by 2.1% in the respective period of 2005. Dekhkan entities use 12.1% of the total sown area for agricultural crops (11.7% in 2004) and their average area was 0.10 hectares (0.15 hectares in 2004) (Table 3.3.6).

Table 3.3.6. Key Performance Indicators of Dekhkan (Peasant) Entities

Indicator	Unit	04/I-III	05/I-III
Agricultural Output	UZS billion	2313.4	2577.0
- Crops	UZS billion	805.8	916.8
- Livestock	UZS billion	1507.6	1660.2
Number of Dekhkan Entities	'000 units	4478.8	4544.6
Total Area, including	'000 hectares	676.2	688.2
- Cultivated Area	'000 hectares	433.3	441.4
Share of Dekhkan Entities in Gross Agricultural Output	%	65.7	63.2
- Crops	%	41.7	39.9
- Livestock	%	91.8	93.3
Growth Rate of Output	%	107.6	105.3
- Crops	%	109.3	105.8
- Livestock	%	106.8	105.1
Average Size of Dekhkan Entity	hectares	0.15	0.10

Source: The State Statistics Committee of Uzbekistan

Table 3.3.7. Contribution of Dekhkan (Peasant) Entities to Agricultural Output

Product	Unit	04/ I	04/ I-II	04/ I-III	05/ I	05/ I-II	05/ I-III	05/ I-III, % of 04/ I-III
Grain	'000 tons	-	698.5	923.6	-	787.5	1045.8	113.2
Wheat	'000 tons	-	679.8	802.7	-	767.5	908.8	113.2
Potatoes	'000 tons	-	450.5	681.0	-	484.2	727.8	106.9
Vegetables	'000 tons	6.4	666.7	1981.8	8.1	738.9	2123.7	107.2
Food-Melons and Gourds	'000 tons	-	22.9	264.0	-	28.7	283.3	107.3
Fruit and Berries	'000 tons	-	176.5	413.1	-	193.1	441.8	106.9
Grapes	'000 tons	-	6.2	213.2	-	6.9	228.4	102.7
Meat	'000 tons	191.9	437.9	679.3	204.5	471.0	723.8	106.6
Milk	'000 tons	720.0	1872.2	2994.2	765.1	2000.1	3183.9	106.3
Eggs	million units	159.1	430.0	715.5	180.4	489.5	843.2	117.8
Cattle	'000 heads	5246.1	5648.9	5662.4	5645.4	5992.3	5973.5	105.5
Cows	'000 heads	2365.9	2531.5	2517.9	2533.1	2638.7	2633.7	104.6
Pigs	'000 heads	44.0	45.0	45.1	47.2	47.8	48.5	107.5
Sheep and Goats	'000 heads	7398.5	7808.7	7999.7	8061.9	8353.8	8375.9	104.7
Poultry	'000 heads	10799.9	12112.2	13161.4	12081.6	13627.7	14547.8	110.5
Horses	'000 heads	110.9	114.1	114.5	117.3	120.8	120.9	105.6

Source: The State Statistics Committee of Uzbekistan

Their continuing leading role in livestock breeding is related to the fact that the overwhelming majority of the livestock and poultry population is located on dekhkan entities (Table 3.3.7)

The tendency was maintained of a decreasing share of shirkats (agri-enterprises) in gross agricultural output, area under cultivation, production of major agricultural crops and in the total structure of the livestock and poultry population. This is related to the ongoing reform and restructuring of low-profitable and loss-making shirkats. Over the first nine months of 2005, the total number of shirkats reorganized into farms reached 445. The share of shirkats in gross agricultural output decreased from 18.3% in the first three quarters of 2004 to 14.7% in the respective period of 2005, or by 3.6% (Tables 3.3.8 and 3.3.9)

Table 3.3.8. The Key Performance Indicators of Shirkats (Agri-Enterprises)

Indicator	Unit	04/I-III	05/I-III
Agricultural Output	UZS billion	699.2	598.4
- Crops	UZS billion	599.0	517.4
- Livestock	UZS billion	100.2	81.0
The Share in Gross Agricultural Output	%	18.3	14.7
- Crops	%	31.0	22.5
- Livestock	%	6.1	4.6
Growth Rate of the Output	%	105.1	79.7
- Crops	%	105.5	80.0
- Livestock	%	103.4	78.3
Cultivated Area	'000 hectares	1499.8	1063.9

Source: The State Statistics Committee of Uzbekistan

Significant changes in the logistical support for agriculture occurred over the period concerned. Over the first nine months of 2005, 1449 tilling and transport tractors were supplied to the sector (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 acquired.

Table 3.3.9. Contribution of Shirkats (Agri-Enterprises) to the Agricultural Output

Product	Unit '000	04/ I	04/ I-II	04/ I-III	05/ I	05/ I-II	05/ I-III	05/ I-III, % to 04/ I-III
Grain	tons	-	1553.8	2109.5	-	1148.6	1725.4	81.8
Wheat	tons	-	1538.8	2063.3	-	1125.2	1672.6	81.1
Potatoes	tons	-	2.4	17.9	-	1.2	11.0	61.5
Vegetables	tons	2.7	21.8	205.1	2.0	17.9	163.9	79.9
Food-Melons and Gourds	tons	-	0.4	21.3	-	0.8	14.0	65.7
Fruit and Berries	tons	-	12.5	95.4	-	22.5	52.1	54.6
Grapes	tons	-	0.5	107.7	-	0.3	86.1	79.9
Meat	tons	9.2	18.2	29.1	9.6	16.7	28.1	96.6
Milk	tons	15.1	32.9	50.4	11.5	26.4	40.9	81.2
Eggs	units	172.9	350.1	670.0	160.6	340.2	508.6	75.9
Cattle	heads	263.1	255.4	246.6	208.8	204.8	199.5	80.9
Cows	heads	85.8	83.4	81.6	68.7	68.0	66.7	81.7
Pigs	heads	26.0	20.8	21.2	17.8	19.2	20.0	94.3
Sheep and Goats	heads	2901.6	3019.7	2609.7	2863.5	2987.2	2683.1	102.8
Poultry	heads	5263.1	5994.3	5555.9	5172.6	5646.7	5396	92.0
Horses	heads	24.8	25.0	24.7	22.1	22.3	21.7	87.9

Source: The State Statistics Committee of Uzbekistan

Further institutional and structural transformations in the agricultural sector should address the maintenance and restoration of land fertility and the optimization of the cropping pattern in line with the domestic and foreign market situation and terms of zonal specialization. In addition to efforts towards the increase of crop capacity and cultivation efficiency of cotton and grain, it is advisable to build up the efficiency of horticulture, fruit and vegetable cultivation as well as livestock breeding.

3.4. Investment

Against the background of sustainable development of the economy, the investment processes have become more dynamic. The implementation of the Investment Program for 2005 resulted in capital investments amounting in total to US\$ 2023.0 billion during nine months of the current year, which is 6.9 percent higher than in the respective period of the previous year (Annex 3.4.1.).

In January-September of 2005 the following crucial facilities were put into operation: the power-generating unit of the Talimarjan heat power station, sections of the gas-main pipelines Kagan-Gazli and Mubarek-Gallyaara, 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.

The growth in total capital investment was accompanied by a shift in its breakdown by form of ownership. The share of investment in the non-public sector increased by 3.0 percent and reached 60.2 percent of the total (Table 3.4.1).

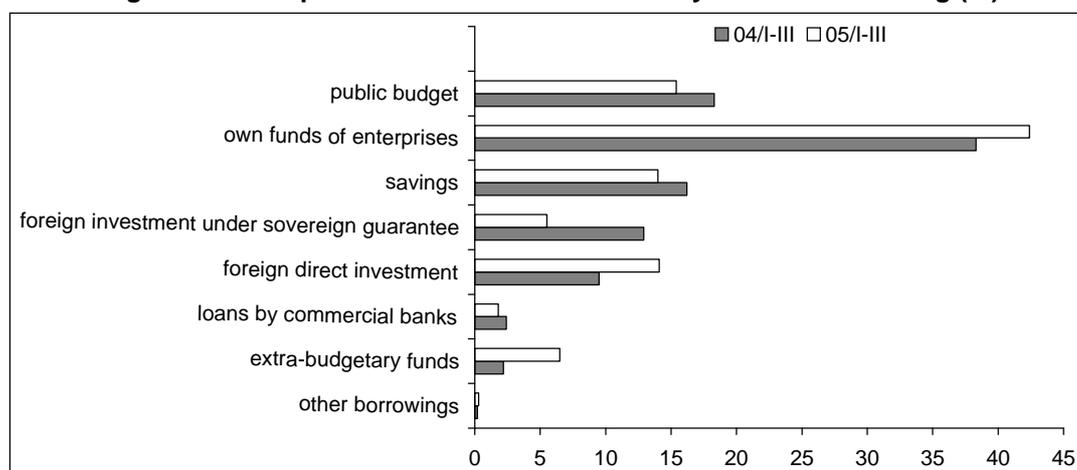
Table 3.4.1. Capital Investment Breakdown by Form of Ownership (%)

	04/I	04/I-II	04/-III	05/I	05/I-II	05/-III
Capital Investment	100	100	100	100	100	100
Public Property	40.8	45.6	42.8	32.3	40.3	39.8
Non-public Property	59.2	54.4	57.2	67.7	59.7	60.2

Source: The State Statistics Committee of Uzbekistan

Financial stabilization of industrial output facilitated the increase of the share of profit in forming equity of enterprises. The share of equity in total capital investment by source of funding increased by 4.1 percent and reached 42.4%. The enhancement of financial sustainability of enterprises was facilitated by strengthening of legal safeguards of entrepreneurship, decrease of the tax burden, simplification of tax compliance as well as liberalization of financial reporting.

Implementation of additional measures for facilitating attraction of private foreign direct investment has made a positive impact on their total inflow. Foreign investors strengthened their presence in the domestic market. Share of foreign direct investment in the total increased by 4.6% and reached 14.1% (Figure 3.4.1).

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

Source: The State Statistics Committee of Uzbekistan.

By the results of January-September, the slight decrease in efficiency of commercial banks' operation in terms of participation in the investment processes was observed. The share of investments financed by loans from commercial banks decreased by 0.6 percent and accounted for 1.8% of the total capital investment. Financing of investment projects is hindered by the high level of interest rate risk.

There was also a decrease in population activity in funding of capital investment. The share of savings in the total amount of capital investment sloped to 14.0%, which is 2.2 percent below the level of the previous year. Savings were mainly targeted towards the construction of individual housing.

The growth of investments was favorably affected by active attraction of extra-budgetary funds for implementation of investment projects. The share of extra-budgetary funds in the structure of capital investment grew by 4.3 percent, i.e. reached 6.5% of the total. Funds from extra-budgetary funds were mainly allocated to the construction and repair of roads and railways.

Adjustment of priorities of the Investment Program and intensification of liberalization processes in the country positively affected the decrease of the central funding of investments. The share of direct public budget expenditures for capital investment decreased by 2.9 percent, while the share of foreign loans secured by the sovereign guarantee decreased by 7.4 percent, which respectively accounted for 15.4% and 5.5% of the total investment. The bulk of centralized capital investment was assigned to tackling the most relevant government social and economic objectives lacking alternative sources of funding (irrigation and land reclamation, construction and re-construction of academic lycea and secondary schools, reconstruction of specialized national centers of surgery and cardiology and so forth).

In January-September of 2005 the dynamics of demand for investment was determined by aggregate impact of shifts in sectoral and technological structure. The economic upsurge was facilitated by development of industry sectors and infrastructure which is linked with the re-distribution of flows of capital investment. Investment in manufacturing totaled 62.2%, which is 6.0 percent higher than in the respective period of the previous year (Table 3.4.2.).

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

	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Total	100	100	100	100	100	100
Production, including:	63.4	58.1	56.2	67.4	61.1	62.2
Industry	25.8	24.3	26.6	33.1	28.5	30.1
Agriculture	5.0	3.0	3.0	2.9	3.3	3.4
Construction	0.2	0.3	0.5	2.8	0.4	0.5
Transportation and Communications	21.7	19.9	17.1	22.0	22.5	21.6
Trade and Public Catering	1.4	1.3	1.4	1.3	0.9	1.3
Other	9.3	9.3	7.6	5.3	5.5	5.3
Non-production	36.6	41.9	43.8	32.6	38.9	37.8

Source: The State Statistics Committee of Uzbekistan

Dynamics of investment in the manufacturing sector was formed under the influence of the demand for investment in the industry sectors. The share of investment to the industry sectors was estimated at the level of 30.1% of the total implemented capital investment. Its value in January-September of 2005 is 3.5 percent

higher than in the respective period of the previous year. The development of the Kandym group of hydrocarbon fields, the construction of a compressor plant at Gazly PHG and the Dekhkanabad Potash Fertilizer

Plant and reconstruction of 'Quartz' JSC (production of bottles) and the number of joint ventures producing consumer goods are funded by own capital and funds raised for the industry development. The reconstruction of Samarkand Chemical Plant and Kokand Superphosphate Plant is progressing. Efforts to organize production of universal tilling tractors at UzCase -Tractor joint venture and modernization of Tashkent Thermoelectric Station are ongoing.

Structural transformations in the economy were primarily focused on priority development of industrial infrastructure and additional capital investment in the development of the transportation and communication sectors. The share of investments in these sectors increased by 4.5 percent compared to the respective period of the previous year and reached 21.6% of the total. The modernization of the pool of diesel locomotives has commenced, the construction of the new railroad Tashguzar-Baysun-Kumkurgan is progressing as well as re-construction of Navoi-Uchkuduk-Sultanizdag-Hukus railroad and a number of international highways. The Agency for Communications and Information is successfully implementing the current stage of the telecom network modernization.

The implemented measures on reforming the agrarian sector contributed to the 0.4 percent increase in the share of investment allocated to the development of agricultural sector reaching 3.4% of the total. The construction of water management facilities in the Jizzakh and Sirdarya regions, the drainage system in the South Karakalpakstan as well as reconstruction of pump stations of the Amu-Zang canal is continuing.

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

	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Total:	100	100	100	100	100	100
Production, including	81.8	78.7	73.6	90.6	90.6	88.7
Industry	45.1	37.5	39.3	65.3	54.5	57.6
Agriculture	0.2	0.1	0.3	2.0	1.8	1.8
Construction	-	-	-	0.7	0.3	0.3
Transportation and Communications	26.3	32.9	28.7	21.9	33.7	28.8
Trade and Public Catering	-	-	-	-	-	0.1
Other	10.2	8.2	5.3	0.7	0.3	0.1
Non-production	18.2	21.3	26.4	9.4	9.4	11.3

Source: The State Statistics Committee of Uzbekistan.

Against the background of general growth of investment there was increased interest among foreign investors in the economy of Uzbekistan. Share of foreign capital investment in industry reached 88.7% of the total or increased by 15.1 percent compared to the respective period of the previous year. Industry is becoming increasingly attractive to investors, followed by the transportation and communication sectors and agriculture. Foreign investment in these sectors has increased to 57.6%, 28.8% and 1.8%, while their share in the total foreign investment increased by 18.3, 0.1 and 1.5 percent respectively. The construction of the above facilities is mainly financed by foreign investment which affected their growth in industry and agriculture (Table 3.4.3).

There were positive changes in the structure of investment by the industry sector. Despite the dominant demand from the power and fuel as well as metallurgical sectors, the trends towards diversification of investment were observed.

The share of investment resources to the fuel sector increased by 1.6 percent compared to the respective period of 2004 and reached 29.3 percent of the total investment in industry. The increase of investment activity by 6.1 percent in metallurgical sector, by 0.8 percent in mechanical engineering and by 1.1 percent in building materials sector facilitated the growth of the share of capital investment in these sectors to 19.9%, 3.2% and 3.4% of the total investment in the industry respectively (Table 3.4.4).

Table 3.4.4. Capital Investment by Industry Sector (%)

	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Industry, Total	100	100	100	100	100	100
Power	11.5	11.9	11.1	9.5	8.5	7.6
Fuel	13.7	18.2	17.7	23.1	30.6	29.3
Metallurgy	10.6	13.0	13.8	12.9	20.2	19.9
Mechanical Engineering	2.1	2.4	2.4	2.3	2.6	3.2
Light	28.1	21.8	23.8	15.1	13.9	15.7
Food	3.0	4.8	5.5	3.5	3.5	4.3
Chemical and Petrochemical	24.7	16.9	11.0	10.5	7.4	6.5
Building Materials	2.0	2.6	2.3	4.9	1.6	3.4
Other	4.3	8.4	12.4	18.2	11.7	10.1

Source: The State Statistics Committee of Uzbekistan

The share of capital investment in light industry decreased by 8.1 percent, i.e. sloped to 15.7 percent of the total. The implementation of the development program would call for considerable reconstruction of the system of management and marketing in this sector.

There was also a decrease in shares of the chemical and petrochemical sectors to 6.5% (by 4.5 percent), of the power sector to 7.6% (by 3.5 percent) and food sector 4.3% (by 1.2 percent) respectively.

The implementation of the earmarked investment in the modernization of the Tashkent Thermoelectric Station may contribute to increasing investment activity in the power sector, while the promotion of construction of enterprises producing baby food, dairy products, juices and beverages may contribute to an increase in investment in the food industry.

The shift in the structure of capital investment was mainly affected by sectoral spillover of foreign capital. Its share reached 22.8% in the fuel and 15.6% in metallurgical sector. Significant growth of foreign investment in these sectors was caused by the development of new hydrocarbon fields and technical modernization of the existing mining and extracting facilities (Table 3.4.5).

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

	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Industry, Total	100	100	100	100	100	100
Power	8.8	6.8	7.8	6.6	3.4	3.1
Fuel	2.1	2.2	1.3	6.3	24.1	22.8
Metallurgy	0.0	-	-	11.3	16.9	15.6
Mechanical Engineering	0.2	0.5	1.3	0.2	1.5	1.1
Light	55.2	56.2	61.5	31.9	32.4	35.5
Food	0.6	3.3	2.6	2.6	2.9	4.4
Chemical and Petrochemical	32.0	24.7	15.5	1.2	0.5	0.7
Building Materials	-	2.2	1.3	8.7	-	3.9
Other	1.1	4.1	8.7	31.2	18.3	12.9

Source: The State Statistics Committee of Uzbekistan

The share of foreign investment in the sectors producing marketable and non-marketable services increased. This includes the food sector – by 1.8 percent and building materials sector – by 2.6 percent. Their share in January-September has increased to 4.4% and 3.9% respectively of the total foreign investment in industry development. In the light industry sector, foreign investments decreased by 26.0 percent, in chemical and petrochemical by 14.8 percent and in power sector by 4.7 percent.

Table 3.4.6. Technological Structure of Capital Investment (%)

	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Total	100	100	100	100	100	100
Building and Assembly	52.6	53.8	51.1	48.5	54.2	52.6
Machinery, Equipment, Tools	36.1	32.4	37.4	37.7	34.0	34.8
Other CapEx	11.3	13.8	11.5	13.8	11.8	12.6

Source: The State Statistics Committee of Uzbekistan

Implementation of the Investment Program affected the growth of new construction which resulted in changes in the technological structure of the capital investment. The decrease of capital expenses for acquiring machinery and equipment (the active part of assets), and increase of capital expenses for building and assembly works (the passive part) was observed. The share of investment into the purchase of new machinery and equipment decreased by 2.6 percent and accounted for 34.8% of the total investment in the economy (Table 3.4.6.). The trend of sustainable development of the economy coupled with intensification of the investment processes is evidence of the favorable growth perspectives.

Implementation of the Investment Program affected the growth of new construction which resulted in changes in the technological structure of the capital investment. The decrease of capital expenses for acquiring machinery and

Annex 3.1.1. Break-Down of the Industrial Output (% of the total volume)

Period	Industry	Including:									
		Power	Fuel	Ferrous Metallurgy	Non-Ferrous Metallurgy	Chemical	Mechanical Engineering	Building Materials	Light	Food	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	2.0	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
04/I-III	100.0	11.1	13.7	2.6	16.1	5.9	11.9	4.2	18.8	8.7	7.0
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
05/I-III	100.0	11.5	16.1	2.6	16.8	5.5	13.1	3.9	16.2	8.0	6.3

* including timber and wood-working industry

Source: The State Statistics Committee of Uzbekistan

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

Period	Industry	including:								
		Power	Fuel	Ferrous Metallurgy	Non-Ferrous Metallurgy	Chemical	Mechanical Engineering	Building Materials	Light	Food
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
04/I-III	110.2	101.4	106.4	123.6	106	102.9	132.2	111.3	108.2	100.6
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
05/I-III	107.7	96.6	99.1	119.7	97.2	108.1	134.5	110.2	112.9	113.1

Source: The State Statistics Committee of Uzbekistan

Annex 3.2.1. The Growth in Consumer Goods Output (% of the previous period)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Consumer Goods	106.2	107.6	108.4	108.4	113.4	114.9	114.4	113.3	116.4	117.1	119.4
Foodstuffs	110.5	110.2	116.1	106.6	109.9	117.6	112.8	111.2	100.2	107.0	112.4
Wines, Alcoholic Beverages and Beer	108.1	102.6	95.5	98.2	100.9	101.7	104.5	100.2	106.5	101.4	105.2
Non-Foodstuffs	101.7	106.3	103.7	112.1	118.6	114.2	117.3	117.1	133.6	128.0	126.7
Light Industry Goods	117.3	110.7	105.8	112.2	99.4	101.8	105.5	103.5	98.3	97.2	98.7

Source: The State Statistics Committee of Uzbekistan

Annex 3.2.2. The Growth in Output of Key Consumer Goods* (% of the previous period)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Cotton Fabrics	108.1	110.8	106.9	97.8	82.0	86.2	85.2	85.6	83.4	76.5	72.3
Silk Fabrics	102.0	98.3	97.4	100.3	91.4	104.6	93.9	91.9	88.9	81.1	70.3
Carpets and Carpets Goods	69.6	104.8	108.3	2.8 times	140.2	103.6	148.9	155.4	102.8	94.6	82.9
Hosiery	119.0	63.3	77.0	188.4	110.0	104.3	101.4	101.0	157.0	82.0	100.6
Knitted Goods	97.1	85.7	82.4	100.6	95.9	91.3	84.8	84.5	102.4	114.8	105.7
Footwear	111.0	149.1	109.5	99.9	81.9	68.0	76.1	73.8	105.7	109.7	102.3
Milk and Dairy Products	91.3	99.2	115.9	107.6	183.4	2.2 times	167.8	188.4	88.6	111.9	124.2
Canned Goods	101.5	97.1	101.3	119.8	80.9	114.2	110.2	77.8	183.8	151.6	96.5
Sugar	48.6	2.8 times	7.6 times	114.2	78.0	149.8	93.8	72.4	44.6	58.9	99.5
Flour	95.8	103.4	87.1	73.7	145.6	2.3 times	2.1 times	182.0	88.7	85.7	86.3
Bread and Baked Goods	106.7	100.2	99.5	55.2	89.0	75.4	84.7	85.3	83.9	78.1	76.4
Pasta	107.5	110.0	81.0	60.4	110.1	123.3	105.0	109.2	41.6	70.9	81.4
Vegetable Oil	108.0	96.2	93.8	97.8	100.5	86.4	86.7	88.6	114.1	123.8	122.3
Wine	88.4	118.6	116.7	73.4	59.9	74.6	64.0	62.8	90.3	91.5	106.1
Vodka and Liquors	99.1	92.5	92.5	96.6	107.1	99.2	109.1	108.0	104.3	92.7	97.2
Soft Drinks	107.7	76.6	93.1	25.3	26.9	5.5	10.8	13.5	11.1 times	10.9 times	12.7 times
Cigarettes	72.8	89.8	101.0	92.5	94.6	85.0	91.2	95.9	93.9	87.4	86.9

Source: The State Statistics Committee of Uzbekistan * Indicators for 2003-2005 pertain to large enterprises

Annex 3.2.3. The Growth in the Regional Output (% of the previous period)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Uzbekistan	106.2	107.6	108.4	108.4	113.4	114.9	114.4	113.3	116.4	117.1	119.4
Karakalpakstan	105.9	113.5	104.3	104.7	110.3	119.0	122.8	119.4	117.1	107.0	111.3
Andijan	92.6	123.7	97.8	120.3	145.3	133.3	136.4	136.0	180.3	159.6	157.5
Bukhara	105.9	107.4	103.3	106.0	107.8	107.8	107.6	108.9	104.7	104.8	100.5
Jizzakh	123.6	119.3	159.3	129.0	115.2	113.0	117.8	120.5	120.6	117.7	113.5
Kashkadarya	113.1	112.7	108.5	108.8	117.1	127.0	124.7	115.2	107.8	110.7	110.8
Navoi	115.5	99.98	114.5	105.3	97.3	107.3	106.4	101.4	98.3	100.6	100.4
Namangan	124.3	111.8	118.1	114.0	110.4	124.7	116.1	116.2	112.1	107.0	109.7
Samarkand	92.4	102.6	102.5	106.8	109.9	100.3	102.0	112.4	110.1	100.7	104.2
Surkhandarya	111.9	100.9	114.8	106.2	115.2	129.5	124.1	132.6	101.8	95.1	91.1
Sirdarya	110.1	120.2	103.0	104.2	107.5	108.0	115.3	114.9	109.9	99.1	100.0
Tashkent	112.5	114.1	106.6	107.1	111.7	106.6	111.1	112.9	107.7	106.2	115.7
Fergana	111.3	98.1	106.4	101.6	119.2	113.2	122.4	119.5	115.8	113.0	108.6
Khorezm	107.8	94.0	95.0	114.5	101.4	96.6	102.5	101.5	96.5	106.5	105.9
Tashkent City	111.3	101.3	120.2	102.7	103.4**	115.7	101.5	103.1	107.4*	103.7	121.0

Source: The State Statistics Committee of Uzbekistan. *) Excluding Shakar Investment JV and Toshkent Tuqimachilik Kombinati JSC **) Excluding Coca Cola Ishimligi and Shakar Investment JV

Annex 3.2.4. The Growth of Consumer Output by Region in the First Three Quarters of 2005

	Output (% of the previous period)				
	Total Consumer Goods	Foodstuffs	Wine, Liquors and Beer	Non-Foodstuffs	Light Industry Goods
Uzbekistan	119.4	112.4	105.2	126.7	98.7
Karakalpakstan	111.3	124.5	101.9	70.8	65.9
Andijan	157.5	109.4	111.7	162.9	101.9
Bukhara	100.5	107.2	101.6	96.1	94.0
Jizzakh	113.5	114.0	105.2	116.6	105.2
Kashkadarya	110.8	110.0	60.7	125.6	122.0
Navoi	100.4	115.4	100.3	91.4	80.3
Namangan	109.7	112.1	141.9	102.3	100.6
Samarkand	104.2	115.3	104.6	94.8	110.2
Surkhandarya	91.1	87.3	92.4	121.9	143.4
Sirdarya	100.0	104.7	63.4	103.7	94.0
Tashkent	115.7	103.6	118.9	126.2	93.5
Fergana	108.6	106.8	67.8	111.1	93.3
Khorezm	105.9	127.3	71.0	89.4	78.9
Tashkent City	121.0	123.1	100.8	121.9	121.2

Source: The State Statistics Committee of Uzbekistan Non-foodstuffs, including light industry goods.

Annex 3.2.5. Breakdown of Consumer Output by Region in the First Three Quarters of 2005

	Regional Distribution of the Output (%)				
	Total Consumer Goods	Foodstuffs	Wine, Liquors and Beer	Non-Foodstuffs	Light Industry Goods
Uzbekistan	100.0	100.0	100.0	100.0	100.0
Karakalpakstan	1.7	3.2	3.7	0.3	1.4
Andijan	28.0	4.6	2.8	47.1	12.7
Bukhara	7.2	7.6	4.3	7.4	17.2
Jizzakh	2.7	6.4	0.2	0.4	0.9
Kashkadarya	3.7	7.8	1.0	1.2	4.6
Navoi	1.8	2.0	0.8	1.8	2.0
Namangan	4.0	6.7	2.5	2.2	9.8
Samarkand	8.8	10.9	8.0	7.3	5.4
Surkhandarya	2.1	4.3	3.4	0.5	1.1
Sirdarya	1.3	2.8	1.5	0.3	1.1
Tashkent	10.7	8.8	49.4	7.8	12.9
Fergana	9.3	6.9	2.6	11.5	12.5
Khorezm	2.3	3.6	3.0	1.4	5.2
Tashkent City	16.4	24.4	16.8	10.8	13.2

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

Annex 3.3.1. Major Indicators of Agricultural Output Development

	Unit	2000	2001	2002	2003	2004	04/I	04/I- II	04/I-III	05/I	05/I-II	05/I-III
Grain	'000 tons	3929	4072	5792.6	6262.3	6017.1	-	3889.9	5658.5	-	4098.2	6238.8
Potatoes	'000 tons	731.1	744	777.2	827.8	892.7	-	461.9	725.9	-	497.2	770.4
Vegetables	'000 tons	2644	2778	2935.6	3299.2	3315.9	9.5	715.1	2441.2	10.9	788.3	2575.4
Fruit and Berries	'000 tons	791	801	842.9	758.7	846.3	-	208.2	573.1	-	240.9	587.6
Grapes	'000 tons	624.2	573	516.4	401.4	577.6	-	6.9	349.8	-	7.6	362.9
Food-Melons and Gourds	'000 tons	451.4	466	479.1	583.3	571.3	-	25.0	391.0	-	32.3	421.9
Meat (Live weight)	'000 tons	842	854	865	935.5	996.3	204.7	464.0	721.0	218.9	496.0	764.6
Milk	'000 tons	3633	3665	3721.3	4030.3	4279.8	752.7	1942.5	3104.4	796.4	2068.1	3288.9
Eggs	Mill. units	1254	1288	1368.9	1611.4	1859.9	346.5	810.3	1439.0	355.4	859.3	1402.6

Source: The State Statistics Committee of Uzbekistan

Annex 3.3.2. Gross Agricultural Output by Type of Economic Entity (%)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Gross Agricultural Output	100	100	100	100	100	100	100	100	100	100	100
Shirkats	27.8	26.8	25.6	23.5	19.9	7.6	14.6	19.5	7.0	12.2	14.7
Farms	5.5	6.9	10.0	14.1	20.4	2.4	10.5	15.8	2.6	12.6	22.1
Dekhkans	66.7	66.3	64.1	62.4	59.7	90.0	74.9	64.7	90.4	75.2	63.2
Crop Production	100	100	100	100	100	100	100	100	100	100	100
Shirkats	46.4	42.6	42.6	37.8	30.9	2.6	11.4	31.0	2.6	9.7	23.9
Farms	9.7	11.7	17.8	25.3	35.9	0.3	9.5	27.4	0.4	11.5	36.2
Dekhkans	43.9	45.7	39.6	36.9	33.2	10.9	59.6	41.6	12.7	31.8	39.9
Livestock	100	100	100	100	100	100	100	100	100	100	100
Shirkats	9.0	9.3	8.7	8.1	7.2	5.0	3.2	6.1	4.4	2.5	4.5
Farms	1.3	1.6	2.0	2.2	2.3	2.1	2.2	2.2	2.2	1.1	2.2
Dekhkans	89.7	89.1	89.3	89.7	90.5	79.1	91.3	91.7	77.7	43.4	93.3

Source: The State Statistics Committee 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
04/I-III	1537.2	3.0
05/I	502.2	4.2
05/I-II	1272.8	5.4
05/I-III	2023.0	6.9

Source: The State Statistics Committee of Uzbekistan

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

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Capital Investment	100	100	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	42.8	32.3	40.3	39.8
Non-public Property	36.2	53.0	59.2	59.6	58.6	59.2	54.4	57.2	67.7	59.7	6j.2

Source: The 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	04/I-III	05/I	05/I-II	05/I-III
Total	100	100	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	18.3	13.6	16.3	15.4
Enterprises' Equity	27.1	31.1	41.2	41.1	43.2	37.4	38.6	38.3	45.9	40.4	42.4
Savings	12.0	10.3	11.4	13.7	12.4	14.0	13.4	16.2	12.0	14.1	14.0
Foreign Investment under Sovereign Guarantee	19.8	23.2	14.8	17.8	14.5	17.6	14.2	12.9	7.5	6.3	5.5
Foreign Direct Investment	3.4	4.8	5.3	7.0	10.0	10.4	9.5	9.5	12.4	13.8	14.1
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	2.4	2.6	1.5	1.8
Extra-budgetary Funds	1.3	0.1	0.2	0.4	2.4	0.5	2.2	2.2	5.7	7.3	6.5
Other Borrowings	0.4	0.9	0.8	0.8	0.3	0.0	0.2	0.2	0.3	0.3	0.3

Source: The State Statistics Committee of Uzbekistan

Annex 3.4.4. Capital Investment by Economic Sector (%)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Total	100	100	100	100	100	100	100	100	100	100	100
Production	57.5	63.1	59.5	63.0	64.1	63.4	58.1	56.2	67.4	61.1	62.2
Industry	29.7	38.9	32.9	28.0	28.6	25.8	24.3	26.6	33.1	28.5	30.1
Agriculture	5.7	5.4	6.7	4.3	3.4	5.0	3.0	3.0	2.9	3.3	3.4
Construction	0.5	0.6	0.7	0.5	0.5	0.2	0.3	0.5	2.8	0.4	0.5
Transportation & Communications	16.7	14.0	10.4	20.3	23.1	21.7	19.9	17.1	22.0	22.5	21.6
Trade and Public Catering	3.0	1.5	1.6	3.3	1.3	1.4	1.3	1.4	1.3	0.9	1.3
Other Areas	1.9	2.7	7.2	6.6	7.2	9.3	9.3	7.6	5.3	5.5	5.3
Non-production	42.5	36.9	40.5	37.0	35.9	36.6	41.9	43.8	32.6	38.9	37.8

Source: The State Statistics Committee of Uzbekistan

Annex 3.4.5. Capital Investment by Industry Sector (%)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Industry, Total	100	100	100	100	100	100	100	100	100	100	100
Power	5.3	3.8	6.0	9.4	9.5	11.5	11.9	11.1	9.5	8.5	7.6
Fuel	20.2	32.3	28.5	21.3	20.3	13.7	18.2	17.7	23.1	30.6	29.3
Metallurgy	9.0	11.5	12.4	22.3	16.4	10.6	13.0	13.8	12.9	20.2	19.9
Mechanical Engineering	13.8	14.6	10.2	3.7	3.2	2.1	2.4	2.4	2.3	2.6	3.2
Light	7.9	15.9	14.3	21.3	20.7	28.1	21.8	23.8	15.1	13.9	15.7
Food	8.4	5.8	7.9	3.8	5.0	3.0	4.8	5.5	3.5	3.5	4.3
Chemical and Petro-chemical	26.7	9.9	11.9	9.2	7.6	24.7	16.9	11.0	10.5	7.4	6.5
Building Materials	0.9	1.2	1.6	1.6	2.0	2.0	2.6	2.3	4.9	1.6	3.4
Other	7.8	5.0	7.2	7.4	15.3	4.3	8.4	12.4	18.2	11.7	10.1

Source: The State Statistics Committee of Uzbekistan

Annex 3.4.6. Technological Structure of Capital Investment (%)

	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Total	100	100	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	51.1	48.5	54.2	52.6
Machinery, Equipment, Tools	30.6	39.5	38.6	39.7	43.6	36.1	32.4	37.4	37.7	34.0	34.8
Other Costs	11.3	12.3	12.0	11.9	10.8	11.3	13.8	11.5	13.8	11.8	12.6

Source: The State Statistics Committee of Uzbekistan

4. Foreign Trade

4.1. Trade Balance, Export and Import

In the first nine months of 2005 foreign trade turnover increased by 9.6% compared with the corresponding period of 2004, amounting to USD 6.8 bn. At the same time, export transactions made up 56.6% of total foreign trade turnover and import transactions 43.4 %. Exports grew slightly faster than imports, by 9.7% and 9.5% respectively. Declining growth rates of foreign trade over nine months resulted from data from the third quarter, in which exports decreased by 5.5%. The decrease in exports was related mainly to reduced export supplies of cotton fibers, as well as other industrial goods (precious metals and stones, woodwork, paper pulp and cardboard, printing). Import supplies of ferrous metals, machinery and equipment and services also declined.

The favorable market situation regarding prices for main export goods of the country remains a positive factor in export growth. The growth in world prices for cotton fiber continues; over 2005 it resulted from the reduction in the world volume of cotton production and the increase in its consumption. The price for gold had grown by mid-September to USD 459.7 per ounce, which was a record high for the last 17 years. The record increase in the price of gold resulted from such factors as low interest in the US dollar due to concerns about the decline of the American economy in view of the damage caused by hurricane Katrina, high world prices for oil and lack of official sales of gold by the central banks. The banks of EU countries, in a joint agreement, sold off in full the annual volume of gold by July 2005 and agreed not sell further gold reserves until the start of 2006. At the same time, the Central Bank of Argentina has recently become active in buying gold on the market. Prices for copper also reached their all time high. From the start of this year the average price for copper was USD 3469 per ton, which is 41% more than in 2004. The rise was caused by strikes of mine workers in Arizona and Zambia, reduction of commodity stocks on the London Exchange and also by the "Chinese factor" – the revaluation of the Yuan and high growth rates of the country's economy.¹

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

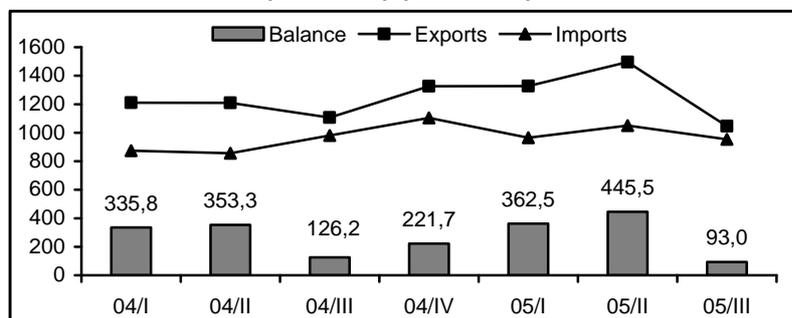
Indicator	04/I-III	05/I-III	Including		Change in volume, %	
			04/III*	05/III*	05/I-III to 04/I-III	05/III to 04/III
Foreign trade turnover	6238.1	6838.0	2087.4	1999.4	109.6	95.8
CIS countries	2145.4	2519.6	814.1	865.7	117.4	106.3
Non-CIS countries	4092.7	4318.4	1273.3	1133.7	105.5	89.9
Exports	3526.7	3869.5	1106.8	1046.2	109.7	94.5
CIS countries	1102.5	1294.8	408.2	466.2	117.4	114.2
Non-CIS countries	2424.2	2574.7	698.6	580.0	106.2	83.0
Imports	2711.4	2968.5	980.6	953.2	109.5	97.2
CIS countries	1042.9	1224.8	405.9	399.5	117.4	98.4
Non-CIS countries	1668.5	1743.7	574.7	553.7	104.5	96.3
Trade balance	815.3	901.0	126.2	93.0	X	X
CIS countries	59.6	70.0	2.3	66.7	X	X
Non-CIS countries	755.7	831.0	123.9	26.3	X	X
Foreign trade turnover structure, %	100.0	100.0	100.0	100.0	X	X
CIS countries	34.4	36.8	39.0	43.3	X	X
Non-CIS countries	65.6	63.2	61.0	56.7	X	X

Source: State Statistics Committee of Uzbekistan

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

According to the results of the first nine months of 2005, the ratio of exports to import was 1.30, including with CIS countries -1.06 and non-CIS countries – 1.48. Analogous figures for the same period in 2004 were 1.30, 1.06 and 1.45 respectively. As a result, the active trade balance reached USD 901.0 mill. and increased by USD 85.7 mill compared with the first nine months of 2004 (Table 4.1.1., Annex 4.1.1., Graph 4.1.1). The increase in the active balance with CIS countries up to 73% (USD 66.7 mill.) and respective reduction to 27% (with non-CIS countries became a distinct feature in the exchange of commodities in the 3rd quarter of 2005. As a result, the share of the active balance with non-CIS countries for the first nine months compared with the 1st half of 2005 fell by 7.0 p.p. and accounted for 92% or USD 831.0 mill., while with CIS countries the positive balance of exchange in commodities reached respectively 8% or USD 70.0 mill.

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

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

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

Further quality changes in the structure of commodity turnover are being observed, which are facilitated to a certain extent by the foreign trade policy of the country aimed above all at the best possible utilization of the export potential of the country and the protection of domestic producers. For example there are several tax benefits in force in the republic for exporters of domestic products (reduction in income and property tax depending on the share of exports in total products sold, exemption from excise tax etc.); preliminary registra-

tion of certain category of export contracts (rolled ferrous metals, scrap-iron and waste products, crude oil and natural gas, cotton fiber and lint etc.), and a ban on exporting 11 types of goods that are essential for the country's economy (grain, flour, cereals, meat and meat by-products, raw leather, scrap and waste products of non-ferrous metals, silk cocoons, raw silk, silk waste products, etc.). Export tariff regulation was canceled in 1997. There is a simplified and unified system of import tariffs in the country. Beginning from 1st January 2004, new rates of custom duties based on the Harmonized System (HS) of Description and Coding of Goods, with changes and additions introduced in the HS on 1st January 2002 by the World Trade Organization, have been in place on the country's territory. Rates of import custom duties are grouped mainly at four levels: 0%, 5%, 10% and 30% of the custom value of goods. In order to protect domestic producers, increased rates of import duties (from 5% to 30%) were introduced to some types of foodstuffs (fish, fats, vegetable and animal oil, meat, sugar, flour, cereals), for which the zero rate had been in force earlier. The zero rate of import duties and the single custom duty were enforced on imported lumber and wood and also on imported machinery, machines and technological equipment, including for the production of construction materials, goods and structures, in order to ensure competitive domestic production.

Table 4.1.2. Commodity Structure of Exports (%)

Commodity groups	Share in total volume of exports, %		Change in volume, %			
	04/I-III	05/I-III	Including		05/I-III to 04/I-III	05/III to 04/III
			04/III*	05/III*		
Cotton fiber	17.6	16.5	7.4	3.5	102.5	44.4
Foodstuffs	3.8	4.0	3.7	5.9	115.4	148.9
Chemical products, plastics and plastic goods	4.6	5.3	5.2	8.5	126.4	154.1
Energy carriers	12.7	11.7	17.1	18.0	100.9	99.8
Non-ferrous and ferrous metals	8.5	9.6	9.9	11.2	124.4	107.5
Machinery and equipment	6.9	9.1	7.2	9.5	145.2	125.3
Services	11.9	12.5	13.8	16.8	115.2	115.2
Others	34.0	31.3	35.7	26.6	101.1	70.2
Total	100.0	100.0	100.0	100.0	109.7	94.5

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

The export structure has changed positively. An increase in the volume of exports for the first nine months of 2005 was observed for all commodity groups. A particular increase was registered for the group of non-raw materials exports (1.2-1.4 times) compared with raw materials products (1.01-1.02 times) (Table 4.1.2.). Compared with the corresponding period of 2004, over the first nine months of 2005, exports of machinery and equipment grew 1.4 times (in the 3rd quarter – 1.2 times) and chemical products - 1.3 times (1.5 times). At the same time, the share of export of machinery and equipment for the first nine months of 2005 was 9.1% (an increase by 2.2 p.p. compared with the first nine months of 2004), chemical products – 5.3 % (by 0.7 p.p.) (Table 4.1.2., Annex 4.1.2.). A significant increase in export supplies in the machine-building sector occurred thanks to the high development rates of the automobile and electrical industry, and the increased volume of export supplies by enterprises of the associations "Uzeltekhprom" and "Uzavtoprom". In order to stimulate sales of UzDAEWOOAuto cars, intensive efforts are being made to build up a dealer network. As of today, 20 dealer agreements have been signed for sales of the cars in Russia, and by the end of the year it is planned to bring their number to 50.² In the chemical industry, the increase in export supplies of fertilizers, plastics, chemical threads and chemical staple fibers has continued; however, as in the 1st half of 2005, a reduction in the export of pharmaceuticals was registered as a result of reduced volumes of industrial output at enterprises of the "Uzfarmsoat" company.

² Information from the Internet (rbcdaily.ru).

A positive trend of increasing exports of foodstuffs is being observed. While in the 2nd quarter of 2005 foodstuff exports increased by 34.3 over the respective period of the previous year, in the 3rd quarter exports increased by 48.9%, mainly due to increased supplies of vegetables, fruit, products of flour-and-cereals industry, oil-bearing seeds and fruit, fats and oils. As a result, for the first nine months of 2005 vs. the analogous period of 2004, exports of foodstuffs grew by 15.4% and their share in the volume of exports was 4.0 %. It should be noted that within the forthcoming 10 years, competition among world exporters of wheat, rice, oil-bearing crops, sugar and livestock production will tighten. This process will occur both in developed and developing countries. This is the main conclusion of research undertaken by the Organization for Economic Cooperation and Development (OECD) that unites 30 leading industrial countries. Therefore producers will have to strive for efficiency.³

Exports of cotton fiber for the first nine months of 2005 grew by 2.5% (with a decrease in the 3rd quarter of 55.6%); energy carriers – by 0.9% (decrease of 0.2%); ferrous and non-ferrous metals – by 24.4% (increase of 7.5%). At the same time, the share of cotton fiber in exports for the first nine months of 2005 decreased by 1.1 p.p. and made up 16.5%; energy carriers – by 1.0 p.p., making up 11.7%; non-ferrous and non-ferrous metals by 1.1 p.p., reaching 9.6%. The reduction in the export of cotton fiber to a great extent was connected with steps undertaken by the Government to attract investments, including foreign investments, in the textile industry of the country on the basis of using local raw materials and ensuring the export of textile goods at a level not lower than 80 percent of the products manufactured.

Exports of services including for the 3rd quarter, grew by 15.2% over the first nine months of 2004 (Table 4.1.2.). Transport services made up about 70% of their total volume as in previous periods.

Over the first nine months of 2005 an increased volume of imports was observed for all aggregative commodity groups except for services (Table 4.1.3., Annex 4.1.3) in the import commodity structure. The volume of imports of the leading investment group – machinery and equipment – grew by 8.3% compared with the first nine months of 2004, but the share of import of this group of commodities in supplies decreased by 0.5 p.p. and made up 44.2% of total imports. The reduction in the share of imports for this group

Table 4.1.3. Commodity Structure of Imports (%)

Commodity groups	Share in total volume of imports , %				Change in volume, %	
	04/I-III	05/I-III	Including		05/I-III to 04/I-III	05/III to 04/III
			04/III*	05/III*		
Cotton fiber	6.7	7.0	4.3	7.0	115.3	159.8
Foodstuffs	13.0	13.4	12.8	14.4	112.6	108.9
Chemical products, plastics and plastic goods	2.0	2.1	1.3	2.3	115.4	166.7
Energy carriers	10.5	10.7	14.1	10.4	111.7	71.5
Non-ferrous and ferrous metals	44.7	44.2	43.3	40.9	108.3	91.9
Machinery and equipment	12.0	9.6	13.0	11.0	87.3	82.7
Services	11.1	13.0	11.2	14.0	128.2	121.5
Others	100.0	100.0	100.0	100.0	109.5	97.2

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

was related mainly with reduced supplies of technological equipment, electrical machinery and devices in the 3rd quarter compared with the corresponding period of the previous year.

Imports of other investment components of the commodity group non-ferrous and ferrous metals increased compared with the first nine months of 2004 by 11.7%, and their share in the total volume of imports – by 0.2%, reaching 10.7%. The decrease in supplies for this group in the 3rd quarter of 2005 by 28.5% vs. the analogous period of the previous year was related mainly with reduced supplies of ferrous metals and their products.

Imports of chemical products rose by 12.6% over the first nine months of 2004, including by 8.9% in the 3rd quarter. Their share in the total volume of imports for the first nine months of 2005 grew by 0.4 p.p. and made up 13.4%. Growth in supplies of organic chemical compounds, pharmaceutical products, fertilizers, perfumery, make-up, detergents and plastics continued.

The specific characteristic of both the 3rd quarter and the 2nd quarter of 2005 was the increase in imports for this group by 59.8% vs. the corresponding period of 2004, unlike in previous quarters when a decrease in supplies of foodstuffs was observed. As a result, over the first nine months of 2005, supplies of foodstuffs grew by 15.3% and their share in total imports was 7.0%. There was growth in supplies of products of the flour-cereals industry, oil-bearing crops, sugar and confectionery (Graph 4.1.2.).

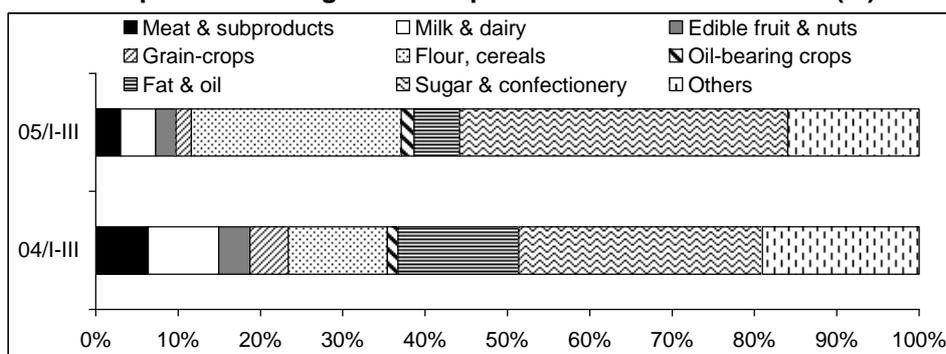
³ Information from the Internet (finance.mail.ru).

In the 3rd quarter of 2005 a considerable rise by 66.7% in imports of energy carriers was registered. As a result, imports of energy carriers grew by 15.4% over the first nine months of 2005 and their share in total imports was respectively 2.1%.

Imports of services over the first nine months of 2005 vs. the corresponding period of 2004 decreased by 12.7% due to a significant reduction in construction works and transport services. As a result their share in total imports decreased by 2.4 p.p. and made up 9.6%.

Imports from the group "others" over the first nine months of 2005 grew by 28.2% over the corresponding period of the previous year and their share in total imports was 13.0%. Growth took place, mainly, due to imports of wood, paper and paper products, stone products, gypsum, asbestos, cement and furniture.

Graph 4.1.2. Change in the Import Structure of Foodstuffs (%)



Source: State Statistics Committee of Uzbekistan

In the geographical context, substantial growth in commodity turnover with CIS countries (1.17 times) continued over the first nine months of 2005 compared with non-CIS countries (1.05 times) thanks to both export and import supplies. At the same time, the share of foreign trade turnover with CIS trade partners in the period concerned increased from 34.4% to 36.8% over the first nine months of 2004 and with non-CIS countries decreased from 65.6% to 63.2% (Table 4.1.1.). Thus, a trend can be seen of a further strengthening of traditional trade relations with CIS partners. This is seen most clearly in the results of the 3rd quarter, where commodity turnover with CIS countries grew 1.06 times and decreased with non-CIS countries by 1.12 times, mainly due to export operations.

Exports to CIS countries increased 1.17 times compared with the first nine months of 2004 and 1.06 times to non-CIS countries (Table 4.1.1.). At the same time, the share of exports supplied to CIS countries grew from 31.3% to 33.5%, and to non-CIS countries decreased from 68.7% to 66.5% (Table 4.1.4.). In the 3rd quarter compared with the corresponding period of the previous year, exports to CIS countries grew 1.14 times, while those to non-CIS countries decreased 1.2 times. Supplies to CIS countries of cotton fiber grew 1.6 times, and of machinery and equipment (mainly cars) 1.8 times. A decrease in exports of the same products to non-CIS countries was registered, i.e. a shift is occurring in export supplies to the traditional markets in the CIS countries.

Over the first nine months of 2005 a substantial increase in imports from CIS countries was observed in comparison with the corresponding period of the previous year – 1.17 times – vs. 1.04 times from non-CIS countries. Respectively the share of import supplies from CIS countries rose from 38.5% to 41.3%, while decreasing from non-CIS countries from 61.5% to 58.7% (Tables 4.1.1., 4.1.4.). The trend has remained of switching to CIS countries for supplies of foodstuffs, machinery and equipment. As supplies of these commodities from non-CIS countries declined over the first nine months of 2005 compared with the corresponding period of 2004, imports from CIS countries of foodstuffs increased 2.1 times, and machinery and equipment – 1.4 times.

The leading trade partners for exports over the first nine months of 2005 were six countries: Russia, with 19.2% of exports (151.9% of the level of the first nine months of 2004), UK – 6.9% (97.1%), Iran – 6.8% (125.6%), Turkey – 6.4% (146.6%), Kazakhstan – 4.6 % (139.9%) and Switzerland– 3.3% (91.5%), (Table 4.1.4., Annex 4.1.4.). Increases in exports compared to the first nine months of 2004 were registered with such developed countries as France (2.3 times), Germany (1.7 times) and the Netherlands (1.6 times), while exports to India fell 3.7times.

Eight countries formed the major share of imports (71.4%): Russia, with a share of 25.8% (114.7% to the level of the first nine months of 2004), South Korea – 13.0% (143.3%), Ukraine – 6.3% (160.9%), Kazakhstan – 6.2% (115.2%), Germany – 6.0% (87.1%), China – 5.5% (76.0%), Turkey – 4.6% (108.1%) and the USA – 4.0% (50.1%) (Table 4.1.4., Annex 4.1.5). A decrease in imports of 3.5 times from Tajikistan was registered compared with the first nine months of 2004.

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

Countries	Share in total volume, %							
	Exports				Imports			
	04/I-III	05/I-III	Including		04/I-III	05/I-III	Including	
			04/III*	05/III*			04/III*	05/III*
Total	100	100.0	100	100.0	100	100.0	100	100.0
CIS countries	31.3	33.5	36.9	44.6	38.5	41.3	41.4	41.9
Kazakhstan	3.6	4.6	4.9	6.7	5.9	6.2	5.4	6.5
Russia	13.9	19.2	17.6	24.9	24.6	25.8	27.6	26.9
Tajikistan	3.0	2.8	2.8	2.8	1.1	0.3	0.9	0.3
Ukraine	1.4	1.4	1.7	1.8	4.3	6.3	4.8	5.6
Other countries	9.4	5.5	9.9	8.4	2.6	2.7	2.7	2.6
Non-CIS countries	68.7	66.5	63.1	55.4	61.5	58.7	58.6	58.1
Belgium	1.4	0.7	0.7	0.1	0.6	0.7	0.4	0.7
UK	7.8	6.9	5.7	6.2	1.7	2.1	1.8	3.3
Germany	1.1	1.6	1.2	2.7	6.2	6.0	9.7	4.9
India	1.9	0.5	0.8	0.5	0.7	0.7	0.7	0.7
Iran	6.0	6.8	5.0	4.8	1.0	0.7	0.9	0.7
China	2.2	1.9	2.1	2.6	7.9	5.5	6.6	5.7
South Korea	1.2	0.9	0.7	0.8	9.9	13.0	11.4	11.4
The Netherlands	0.5	0.8	0.8	1.3	0.9	0.6	1.2	0.6
USA	3.4	2.4	4.3	2.4	8.7	4.0	5.7	5.3
Turkey	4.8	6.4	4.2	8.3	4.6	4.6	3.5	4.5
France	0.6	1.3	0.5	2.3	1.2	0.9	1.4	0.8
Switzerland	4.0	3.3	1.1	-0.6	0.4	0.8	0.5	0.8
Japan	0.5	0.6	0.8	0.7	2.2	1.3	3.1	0.8
Other countries	33.3	32.4	35.2	23.3	15.5	17.8	11.7	17.9

Source: State Statistics Committee of Uzbekistan

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

The largest positive balance in the exchange of commodities was formed with the UK, Iran, Switzerland, Tajikistan and Turkey; the largest negative balance – with South Korea, Ukraine, Germany, and China.

Thus, over the first nine months of 2005, foreign trade development rates have accelerated. Quality changes in commodity turnover have continued to occur; a substantial rise in exports of production with high added value is being registered. Trade relations with CIS partners have strengthened, and commodity turnover with developed European countries has expanded. The active balance of commodity exchange has grown.

4.2. Enterprises with Foreign Investments

The implementation of a number of measures taken in the beginning of the current year has improved the investment climate in Uzbekistan and the attraction of foreign investments over the first nine months of 2005. The Program on attraction of investments in the textile industry for 2005-2008, approved by the Resolution of the Cabinet of Ministers dated 21.01.05, was of great importance in encouraging further attraction of both domestic and foreign investments into the textile industry and the efficient organization of enterprises. Major objectives of the Program were: to organize modern businesses with a complete technological cycle of processing cotton fiber, to produce textile goods which are competitive on the world market and to ensure the export of at least 80% of the textile goods produced.

The Decree of the President of the Republic of Uzbekistan "On additional measures to encourage the attraction of direct private foreign investments" (dated 11.04.2005) is also aimed at improving the investment climate in the country, attracting private direct foreign investments to such priority sectors of the economy as radio electronics, light industry, silk, foodstuffs, chemical and pharmaceutical industries and construction materials, in order to increase the production and export of high quality products. One of the stimuli for this was taking steps towards the considerable reduction of the quantity of taxes for enterprises with foreign investments for a period from three to seven years, depending on the volume of investments and the industrial sector.

The policy of establishing favorable conditions for enterprises with foreign investments (EFIs) and of implementing national programs to establish enterprises with the participation of foreign investors has positively affected the country's economy. During the first nine months of 2005, production, works and services of EFIs accounted for UZS 1816.0 bn., which was 37.5% more than in the corresponding period of the previous year

(Table 4.2.1.). The number of operating enterprises also increased during the first nine months of 2005 by 10.4%; over 2.4 thousand new jobs were generated at these enterprises.

Foreign trade turnover increased for the period concerned, including the 3rd quarter of 2005, by respectively 27.8% and 11.6%. The shares of EFIs in the foreign trade turnover of Uzbekistan increased by 3.8 p.p. and 5.6 p.p. respectively.

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

	Unit	04/ I-III	05/ I-III	04/ III*	05/ III*	05/ I-III in % to 04/ I-III	05/ III in % to 04/ III
Volume of production output, works and services (in comparable prices)	bn. Soum	1320.3	1816.0	x	x	137.5	x
Number of workers (without by-workers) as of end of reporting period	Person	111791	114194	x	x	102.1	x
Number of operating enterprises with foreign investments (EFI)(as of end of period)	Unit	2337	2581	x	x	110.4	x
Foreign Trade Turnover	Mill. USD	1418.8	1813.8	523.9	584.7	127.8	111.6
Exports	Mill. USD	584.1	636.1	208.5	218.3	108.9	104.7
Imports	Mill. USD	834.7	1177.7	315.4	366.4	141.1	116.2
Share of EFI in total foreign trade turnover of the republic	%	22.7	26.5	23.6	29.2	x	x
Share of exports by EFI in total exports of the republic	%	16.6	16.4	17.5	20.9	x	x
Share of imports by EFI in total imports of the republic	%	30.8	39.7	32.2	38.4	x	x

Source: State Statistics Committee of Uzbekistan

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

Total EFI **exports** for the first nine months of 2005 made up USD 636.1 mill., an increase of 8.9% over the corresponding period of 2004. The share of EFI exports in the total volume of exports declined slightly – by 0.2 p.p., reaching 16.4%.

The following industries' exports grew at high rates: chemical complex (by 84.7%), machine-building (by 68.9%), fuel industry (by 26.9%), and foodstuffs industry (by 23.1%) (Table 4.2.2). Fairly high growth rates of exports were achieved mainly due to growth in production volumes of the enterprises of the State Joint-Stock Company (SJSC) "Uzkhimprom", Association "Uzeltekhanoat", JSC "Uzavtosanoa" and Association "Fat-and-oil industry".

Table 4.2.2. Growth Rates and Commodity Structure of Exports of Enterprises with Foreign Investments

	Growth rates, %		Share in total volume of exports, %			
	05/ I-III to 04/ I-III	05/ III* to 04/ III*	04/ I-III	05/ I-III	04/ III*	05/ III*
Total	108.9	104.7	100	100	100	100
Cotton fiber	55.2	25.0	2.6	1.7	2.3	0.6
Foodstuffs	123.1	147.2	3.9	4.6	2.8	3.9
Chemical products	184.7	227.4	2.5	3.8	2.3	4.9
Energy carriers	126.9	86.8	3.0	4.1	3.3	2.8
Ferrous and non-ferrous metals	100.0	822.2	0.7	0.5	0.1	1.0
Machinery and equipment	168.9	133.7	28.0	43.4	34.3	43.8
Services	120.3	93.6	4.7	4.7	6.6	5.9
Others	74.2	80.6	54.6	37.2	48.3	37.1

Source: State Statistics Committee of Uzbekistan

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

A reduction in the export of cotton fiber by 44.8% for the first nine months of 2005 and by 4 times in the 3rd quarter was a positive trend in the operations of EFIs involved in intermediary buying and selling. Their share in the total volume of export of enterprises with participation of foreign capital also fell by 0.9 p.p. and by 1.7 p.p. respectively in the periods concerned. A decrease in export volumes was also registered for the commodity group "Other" (by 25.8%), which includes consumer industrial goods, products of the construction materials industry, etc.

The trend of increasing exports typical for the first nine months of 2005 was also observed in the 3rd quarter of 2005, with the exception of exports from the commodity group "Energy carriers" and "Services", which decreased, as did their share in the total exports by EFIs.

In the commodity structure of exports of enterprises with foreign investments, the following commodity groups had the largest shares for the first nine months and 3rd quarter of 2005: "Machinery and equipment"

(43.4% and 43.8%) and "Other" (37.2% and 37.1%). Growth in exports of machinery produced by EFIs was ensured mainly through automobiles produced by UZDAEWOO Auto JV for foreign markets and related to expansion in their production (during the first nine months of 2005 production of cars increased by 57.8% over the corresponding period of 2004). Demand for production of this enterprise is high on foreign markets, especially in CIS countries.

In spite of a reduction in export volumes, the commodity group category "Other" made up almost half (48.3%) of the total exports of all EFIs. Among exported products were products of cotton fiber processing: finished knitwear and apparel, including cotton fabric, yarn, bed-clothes, T-shirts, sleeveless sports shirts, etc., and also production of the construction materials industry, wood-working industry, other sub-sectors of industry of the country.

There was a surge in EFI exports in the territorial context, registered in such regions as the Republic of Karakalpakstan (20.3 times), Jizzakh (1.8 times), Surkhandarya (1.8 times) and Andijan (1.6 times) (Table 4.2.3).

Table 4.2.3. Growth Rates and Territorial Structure of Exports of Enterprises with Foreign Investments

	Growth rates, %		Share of region in total export of EFI of the republic, %	
	05/ I-III to 04/ I-III	04/ I-III	04/ I-III	05/ I-III
Total	108.9	100	100	100
R. of Karakalpakstan	2026.4	0.0	0.9	0.9
Andijan	164.9	26.5	40.1	40.1
Bukhara	63.7	2.1	1.2	1.2
Jizzakh	181.4	0.1	0.1	0.1
Kashkadarya	51.0	2.0	0.9	0.9
Navoi	73.7	28.4	19.3	19.3
Namangan	103.4	2.1	2.0	2.0
Samarkand	100.1	2.3	2.2	2.2
Surkhandarya	175.3	0.3	0.4	0.4
Sirdarya	108.7	0.3	0.3	0.3
Tashkent	84.5	12.1	9.4	9.4
Fergana	85.7	10.1	7.9	7.9
Khorezm	69.1	0.4	0.3	0.3
Tashkent City	123.1	13.3	15.0	15.0

Source: State Statistics Committee of Uzbekistan

country: in the 3rd quarter 2005 these figures were USD 366.4 mill. and 38.4% respectively. The increases in the volume of imports over the periods concerned was 41.1% and 16.2% respectively. The share of imports by EFIs in the total imports of the country over the first nine months of 2005 increased 8.9 p.p., including 6.2 p.p. in the 3rd quarter (Table 4.2.1).

Table 4.2.4. Growth Rates and Commodity Structure of Imports of Enterprises with Foreign Investments

	Growth rates, %		Share in total volume of imports, %			
	05/ I-III to 04/ I-III	05/ III* to 04/ III*	04/ I-III	05/ I-III	04/ III*	05/ III*
Total	141.1	116.2	100	100	100	100
Cotton fiber	130.2	200.9	10.7	9.9	6.0	10.4
Foodstuffs	120.0	107.7	14.67	12.4	15.5	14.4
Chemical products	81.4	120.2	0.6	0.3	0.5	0.5
Energy carriers	213.6	198.2	6.0	9.1	6.0	10.2
Ferrous and non-ferrous metals	143.7	102.0	57.2	58.2	61.4	53.9
Machinery and equipment	99.6	72.2	4.5	3.2	4.6	2.9
Services	150.9	149.3	6.4	6.8	6.0	7.7

Source: State Statistics Committee of Uzbekistan

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

Enterprises with foreign investments significantly reduced their exports in: Bukhara (by 36.3%), Kashkadarya (49%), Navoi (26.3%), Tashkent (15.5%), Fergana (14.3%) and Khorezm (30.9%) Provinces.

Rises or falls in the volume of exports by EFIs in a territorial context predetermined the same trends in the indicators of a region's share in total exports. Andijan (40.1%), Navoi (19.3%) and Tashkent city (15%) had the largest regional share in total exports of enterprises with foreign investments. Production of the automobile industry, electrical industry, light and food industry and gold mining prevails in exports by EFIs of these regions.

Imports of goods, labor and services of EFIs during the first nine months of 2005 in total in the country made up USD 1177.7mill. or 39.7% of total imports of the

country: in the 3rd quarter 2005 these figures were USD 366.4 mill. and 38.4% respectively. The increases in the volume of imports over the periods concerned was 41.1% and 16.2% respectively. The share of imports by EFIs in the total imports of the country over the first nine months of 2005 increased 8.9 p.p., including 6.2 p.p. in the 3rd quarter (Table 4.2.1).

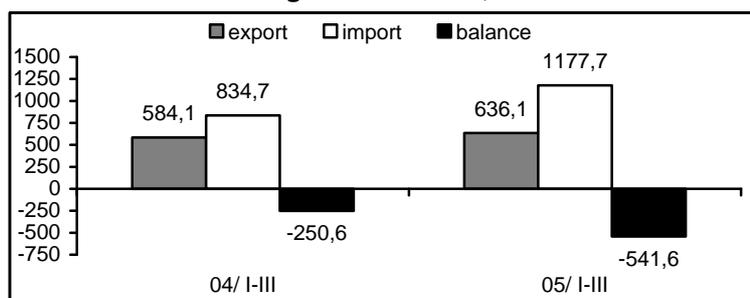
Imports of investment goods of the metallurgic, machine-building and chemical complexes have grown at high speed. Imports of metallurgy production grew 2.1 times, machinery and equipment 1.4 times and chemical production 1.2 times (Table 4.2.4). This resulted mainly from requirements of the production process, the establishment of new enterprises with foreign investments and the favorable trade regime – which is a no less important factor – under which the country's laws have established zero rates of import customs duty on machinery, machines, technological equipment and other investment goods.

The rise in domestic prices for some consumer goods such as vegetable oil, sugar, flour, etc. have impacted noticeably on the increase in imports of foodstuffs – 1.3 times over the first nine months of 2005 and 2 times in the 3rd quarter. As a result of accelerated import rates for these commodities during the first nine months of 2005, the following commodity groups made up the highest shares in the total imports of EFIs: “Machinery and equipment”-58.2%, “Chemical production”-12.4%, “Foodstuffs”-9.9% and “Ferrous and non-ferrous metals” -9.1%.

The extensive growth in imports from the commodity group “Other” (1.5 times over the first nine months of 2005) occurred due to imported production supplies for the construction materials industry, items made of precious metals and stones, clothes, footwear and other consumer industrial goods.

Over the period under analysis, the ratio of EFI exports to imports has fallen (Graph 4.2.1). For the first nine months of 2004 it was 0.70, while for the similar period of 2005 it was 0.54, which is explained mainly by higher growth rates for imports (141.1%) vs. for exports (108.9%). This trend has led to a negative foreign trade balance of –USD 291 mill. (Graph 4.2.1).

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



Source: the author’s computations based on data from the State Statistics Committee of Uzbekistan

At the same time, the policy being implemented in the country to broaden integration with foreign countries, including the attraction of foreign investors, has impacted positively on major EFI activity indicators. As of today those countries listed in Table 4.2.5 constitute over 70% of the total number of EFIs. The number of enterprises from each country/investor varies from 25 (India) to 381 (Russian Federation). According to results from the first nine months of 2005, their share in the total goods, labor and services of EFIs was 85.3%. Enterprises with the participation of investors from the following countries form a large share in total goods, labor and services: South Korea (37.6%), USA (18.4%), UK (7.3%) and Turkey (5.1%).

Assignments to establish joint businesses with foreign investments have been accomplished successfully. During the first nine months of 2005, 68 joint ventures with foreign investments, including enterprises that were planned under “The Program of attracting foreign investments in regions for 2005-2007”, were put into operation. The annual assignment to establish JVs was fulfilled by 109.7% according to the results for the first nine months of 2005.

Steps were taken to eliminate territorial disproportions in operating and establishing export-oriented enterprises with foreign investments: the number of actually established JVs in Karakalpakstan, Kashkadarya, Surkhandarya and Sirdarya considerably exceeded

Table 4.2.5. Number of Enterprises with Foreign Investments and their Share in the Total Volume of Production, Labor and Services by Country/Investor

	Number, units			Share in total volume of production, labor and services of all EFIs, %
	04/ I-III	05/ I-III	Change, in % 05/ I-III to 04/ I-III	
R. of Uzbekistan, total	2337	2581	110.4	100
Afghanistan	44	48	109.1	0.1
UK	143	166	116.1	7.3
Germany	110	111	100.9	2.3
Israel	31	32	103.2	1.7
India	21	25	119.0	0.1
Italy	35	40	114.3	0.4
Kazakhstan	32	55	171.9	0.2
China	78	89	114.1	0.8
South Korea	124	133	107.3	37.6
Russian Federation	337	381	113.1	7.2
USA	293	337	115.0	18.4
Turkey	271	309	114.0	5.1
Ukraine	26	27	103.8	0.3
Switzerland	71	72	101.4	3.9
Others	721	756	104.9	14.7

Source: State Statistics Committee of Uzbekistan

* the author’s computations based on data from the State Statistics Committee of Uzbekistan

their planned number. Such JVs as “Akbar Ali” for the production of cotton yarn, “Ay Demir” for the production of hosiery, men’s trousers and various ready made garments, “Bursel Tashkent” for the production of knitwear, “Khonbugda” for the production of home appliances (refrigerators, vacuum cleaners, washing machines) etc. were established in the country over reporting year. At the same time, along with the positive trends in the development of enterprises with foreign investments, such problems as the low export-import ratio, the underdeveloped system of market infrastructure – including banking and transport services, and the need to increase investment attractiveness of some regions of the country have yet to be addressed.

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
04/III*	1106.8	980.6	126.2
05/I	1327.9	965.4	362.5
05/II*	1495.4	1049.9	445.5
05/III*	1046.2	953.2	93.0

Source: Uzbekistan Economic Trends Quarterly Publication Tacis, June – September 2001;
State Statistics Committee of Uzbekistan

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

Annex 4.1.2. Commodity Structure of Exports (%)

Period	Cotton fiber	Foodstuffs	Chem. products, plastics and plastic goods	Energy carriers	Non-ferrous and 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
04/III*	7.4	3.7	5.2	17.1	9.9	7.2	13.8	35.7	100.0	1106.8
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
05/III*	3.5	5.9	8.5	18.0	11.2	9.5	16.8	26.6	100.0	1046.2

Source: Uzbekistan Economic Trends Quarterly Publication, Tacis, July-September 2001; State Statistics Committee of Uzbekistan
*the author's computations based on data from the State Statistics Committee of Uzbekistan

Annex 4.1.3. Commodity Structure of Imports (%)

Period	Cotton fiber	Foodstuffs	Chem. products, plastics and plastic goods	Energy carriers	Non-ferrous and ferrous metals	Machinery and equipment	Services	Other goods	Total (%)
2000	12.3	13.6	3.8	8.6	35.4	8.5	17.8	100.0	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
04/III*	4.3	12.8	1.3	14.1	43.3	13.0	11.2	100.0	980.6
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
05/III*	7.0	14.4	2.3	10.4	40.9	11.0	14.0	100.0	953.2

Source: Uzbekistan Economic Trends Quarterly Publication, Tacis, July-September 2001; State Statistics Committee of Uzbekistan
* the author's computations based on data from the State Statistics Committee of Uzbekistan

Annex 4.1.4. Geographical Structure of Exports (%)

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Non-CIS countries	Belgium	UK	Iran	South Korea	The 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
04/III*	1106.8	100.0	36.9	4.9	17.6	1.7	12.7	63.1	0.7	5.7	5.0	0.7	0.8	4.3	4.2	1.1	40.6
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
05/III*	1046.2	100.0	44.6	6.7	24.9	1.8	11.2	55.4	0.1	6.2	4.8	0.8	1.3	2.4	8.3	-0.6	32.1

Source: Uzbekistan Economic Trends Quarterly Publication, Tacis, July–September 2001; State Statistics Committee of Uzbekistan

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

Annex 4.1.5. Geographical Structure of Imports (%)

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Non-CIS countries	Belgium	UK	Iran	South Korea	The Netherlands	USA	Turkey	Switzerland	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
04/III*	980.6	100.0	41.4	5.4	27.6	4.8	3.6	58.6	1.8	9.7	6.6	11.4	5.7	3.5	1.4	3.1	15.4
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
05/III*	953.2	100.0	41.9	6.5	26.9	5.6	2.9	58.1	3.3	4.9	5.7	11.4	5.3	4.5	0.8	0.8	21.4

Source: Uzbekistan Economic Trends Quarterly Publication, Tacis, July–September 2001; State Statistics Committee of Uzbekistan

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

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

	Total, mill. USD	Total %	Cotton fiber	Food- stuffs	Chemical products	Energy carriers	Ferrous and non- ferrous metals	Machin- ery and equip- ment	Services	Others
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
04/ III*	208.5	100	2.3	2.8	2.3	3.3	0.1	34.3	6.6	48.2
05/ I	206.4	100	1.5	4.5	3.3	3.4	0.4	44.1	4.2	38.6
05/ II*	211.4	100	1.8	4.7	4.3	4.7	0.7	42.6	5.3	35.9
05/ III*	218.3	100	0.6	3.9	4.9	2.8	1.0	43.8	5.9	37.1

Source: State Statistics Committee of Uzbekistan

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

Annex 4.2.2. Commodity Structure of EFI Imports (%)

	Total, mill. USD	Total %	Cotton fiber	Foodstuffs	Chemical products	Energy carriers	Ferrous and non- ferrous metals	Machinery and equip- ment	Services
2000	760.5	100	12.9	20.5	0.8	5.1	47.4	1.1	12.2
2001	937.2	100	8.8	13.3	0.6	5.9	62.5	1.0	7.9
2002	704.8	100	15.0	13.2	0.6	4.4	57.5	1.1	8.2
2003	858.4	100	15.1	12.4	0.4	5.4	55.4	2.8	8.5
2004	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
04/ III*	315.4	100	6.0	15.5	0.5	6.0	61.4	4.6	6.0
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
05/ III*	366.4	100	10.4	14.4	0.5	10.2	53.9	2.9	7.7

Source: State Statistics Committee of Uzbekistan

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

Annex 4.2.3. Territorial Structure of EFI Exports, (%)

	Total (mill. USD)	Total (%)	R. of Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samarkand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	Tashkent City
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
04/ III*	208.5	100	0.1	32.2	2.1	0.2	2.1	24.9	1.7	1.6	0.4	0.3	11.1	8.5	0.4	14.3
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
05/ III*	218.3	100	0.9	36.8	0.8	0.1	0.7	21.4	1.5	2.1	0.6	0.3	8.3	8.1	0.4	18.0

Source: State Statistics Committee of Uzbekistan

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

Annex 4.2.4. Territorial Structure of EFI Imports, (%)

	Total (mill. USD)	Total (%)	R. of Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samarkand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	Tashkent City
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
04/ III*	315.4	100	2.4	31.7	0.3	0.2	0.4	7.4	1.7	2.2	0.1	5.1	3.6	1.2	2.7	41.0
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
05/ III*	366.4	100	0.1	30.1	0.4	0.2	2.5	5.4	1.1	3.2	0.0	0.0	3.4	1.8	0.5	51.2

Source: State Statistics Committee of Uzbekistan

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

5. Living Standards and the Labor Market

5.1. Income and Expenditure of the Population

According to the balance of cash income and expenses of the population, nominal cash expenses on average for the country have increased by 26.1 percent during the nine months of 2005 (as opposed to 15.6 percent during nine months of 2004). The growth of cash income of the population was mainly due to the increase in wages by 37.7 percent and social transfers by 37.6 percent.

As a result, the share of wages in the structure of cash income of the population reached 28.1% (as opposed to 25.8% during nine months of 2004), and the share of social transfers 14.9% (13.6% in the respective period of the previous year) (Table 5.1.1.).

The growth of wages since 1 May 2005 was mainly facilitated by the Presidential Decree dated 13 April 2005 which set forth a 1.2 times increase in salary rates of civil service employees, pensions, welfare and tuition for university and vocational college students.

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

Indicators	In percentage to the total volume		In percentage to the respective period of the previous year	
	04/I-III	05/I-III	04/I-III	05/I-III
Cash income, total	100	100	115.8	126.1
Wages	25.8	28.1	113.9	137.7
Pensions, allowances, and stipends	13.6	14.9	138.0	137.6
Income from sales of agricultural products	30.4	27.1	114.3	112.6
Income from entrepreneurial activities and other income	30.2	29.9	110.8	124.6

Source: The State Statistics Committee of Uzbekistan

During nine months of 2005 the share of cash income in the aggregate income of the population continued to grow. According to Household Budgetary Surveys the share of cash income in the structure of aggregate income of the population accounted for 85.4% (as opposed to 83.3% during nine months of 2004), while the share of in-kind income accounted for 14.6% (16.7% respectively) (Table 5.1.2.).

Table 5.1.2. Aggregate Income of the Population (on average per a household, in %)

Indicator	04/I-III			05/I-III		
	national	urban	rural	national	urban	rural
Aggregate income	100	100	100	100	100	100
Cash income	83.3	93.7	76.1	85.4	94.6	79.2
Wages	29.1	39.4	21.9	30.6	42.9	22.3
Welfare	15.7	16.8	14.9	17.4	18.4	16.7
Sales of agricultural produce	10.3	1.9	16.1	10.0	1.9	15.6
Rental income	1.1	0.9	1.2	0.8	1.1	0.4
Entrepreneurial income	15.7	22.3	11.2	16.0	20.2	13.2
Other cash income	11.4	12.4	10.8	10.6	10.1	11.0
In-kind income	16.7	6.3	23.9	14.6	5.4	20.8

Source: Household Budgetary Survey. The State Statistics Committee of Uzbekistan

The gap between cash and in-kind income is narrowing for both the rural and urban population. According to the findings of the Household Budgetary Survey in the respective periods of 2004 and 2005 the share of in-kind income among the rural population decreased from 23.9% to 21.2%, while among urban dwellers the indicator decreased from 6.3% to 5.9%. The share of wages in the aggregate income increased for both the urban and rural population. Wages remain the major source of aggregate income for the urban population (42.9%), while in the rural sector the entrepreneurial income prevailed, including income from sales of agricultural produce (28.8%) and in-kind income. In-kind income in rural areas was generated mainly by non-cash income from plots of land which is related to the high level of farm and peasant household development.

Inter-regional differentiation of population income remains at the level of 1:5-6. Among the regions with the per capita cash income exceeding the national level are the Navoi region and Tashkent City. In the Jizzakh, Namangan, Samarkand, Khorezm regions and in the Republic of Karakalpakstan the average per capita income ranged from 60 to 70 percent of the average national level. The increase of the industrial potential and investment attractiveness (possibilities??) of these regions may stimulate growth of wages and average per capita income of the population and facilitate support of a reasonable level of interregional differentiation in the country (2.5 – 3 times).

In the structure of cash expenses of the population, the decrease of the share of expenses for consumption and the increase of savings were observed. The weight of consumer expenses in cash income of the population decreased from 78.2% to 75.5% (Table 5.1.3.).

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

Period	Cash in- come of population	Cash expenses, including:			Cash balance
		Consumer expenses	Mandatory payments and contributions	Bank deposits, pur- chase of securities and foreign exchange	
2004/I-III	100	78.2	8.0	13.8	0.0
2005/I-III	100	75.5	7.3	13.6	3.6

Source: The State Statistics Committee of Uzbekistan

The purchase of foodstuffs decreased in both urban and rural population income structure (from 52.0% to 49.1%), and the expenses for non-foodstuffs increased (from 18.5% to 22.0%). The growth of wages of the rural population was insignificant

(from 10.5% to 11.0%). Non-consumer expenses which, in addition to mandatory payments and savings, include expenses for acquiring property, cattle and poultry, goods for individual entrepreneurial activity, and operational expenses for household farming, have slightly decreased from 15.8% to 15.2% owing to a decline in non-consumer expenses of the urban population from 15.5% during nine months in 2004 to 14.3% in the reviewed period (Table 5.1.4.).

Table 5.1.4. Break-Down of Expenses of the Population, (%)

Period		Expenses of the popula- tion	Consumers expenditures, including				Non- consumer expenses
			Foodstuffs	Other goods	Services	Other ex- penses	
2004/I-III	National	100	52.0	18.5	13.2	0.5	15.8
	Urban	100	50.2	18.3	15.6	0.4	15.5
	Rural	100	54.0	18.8	10.5	0.6	16.1
2005/I-III	National	100	49.1	22.0	13.3	0.4	15.2
	Urban	100	49.1	20.4	15.6	0.6	14.3
	Rural	100	49.1	23.3	11.0	0.5	16.1

Source: Households' Budget Survey. The State Statistics Committee of Uzbekistan

In general during nine months of 2005 the favorable trend in population income continued, and the share of cash income in the structure of aggregate income of the population was also growing accompanied by a decrease in the share of in-kind income. The growth of cash income of the population was largely ensured by an increase in wages and social transfers. Enhancement of the income structure facilitated improvement of the consumption composition. In the structure of expenses of the population the share of expenses for foodstuffs decreased while the share of expenses for non-foodstuffs and services increased. Social safety net measures funded from the public budget were envisaged to prevent unreasonable growth of tariffs and to support utility companies, including compensatory payments to heat and hot water providers in 2006 amounting to 10%. The implementation of the Action Plan for financial and technical restructuring of the centralized heating system and utility companies is envisaged for implementation in 2006 and it is planned to move to full cost recovery of centralized heating and hot water suppliers servicing the population starting from 2007. It was also decided to ensure implementation of systematic measures for the creation of a competitive market of utility services, greater participation of companies in the public utilities sector, and the introduction of contemporary energy- and resource-saving technologies on the basis of comprehensive installation of meters.

5.2. Domestic Trade and Services

Over the period of nine months of 2005 more rapid growth in the sales of services compared to the growth in sales of goods remained. As a result, the share of services in the total sales of goods and services accounted for 21.5% as opposed to 20.3% in the respective period of 2004. (Table 5.2.1.)

Total retail trade turnover reached UZS 4055.4 billion and fee-based services totaled UZS 1111.8 billion. Total sales of goods increased by 8.6% (3.1% during nine months of 2004) and fee-based services by 14.5% (13.9% during nine months of 2004) (Table 5.2.2.). Among major factors contributing to the growth of the retail trade turnover and fee-based services were the moderate level inflation, the growth of real income of the population, and the increase in the output of consumer goods.

Table 5.2.1. Sales of Goods and Services to the Population

Period	Total sales of goods and services		Including:			
			Sales of goods		Rendering of services	
	UZS billion	%	UZS billion	%	UZS billion	%
2004/I-III	4283.2	100	3414.8	79.7	868.4	20.3
2005/I-III	5167.2	100	4055.4	78.5	1111.8	21.5

Source: The State Statistics Committee of Uzbekistan

Table 5.2.2. Retail Trade Turnover and Fee-Based Services

Period	Retail Trade Turnover		Fee-Based Services	
	UZS billion	Growth rate to the respective period of the previous year, %	UZS billion	Growth rate to the respective period of the previous year, %
2004/I-III	3414.8	103.1	868.4	113.9
2005/I-III	4055.4	108.6	1111.8	114.5

Source: The State Statistics Committee of Uzbekistan

Retail Trade Turnover. The growth of the retail trade turnover in the country over nine months of 2005 was largely due to the input of the Andijan, Fergana, and Tashkent regions, as well as Tashkent City. This was due to the relatively (high?) level of cash income and moderate growth

rate of consumer prices in these regions (Table 5.2.3.). Interregional differentiation of the retail trade turnover tended to a gradual decrease from 1: 5.67 to 1:5.5, due to increased efficiency of the market mechanism regulating the flow of goods for saturation of the retail trade network, specifically in the rural areas.

Table 5.2.3. Income, CPI, Retail Trade Turnover and Fee-Based Services by Region

Region	Cash income per capita, UZS '000		Consumer Price Index		Retail trade turnover per capita, UZS '000		Fee-based services per capita, UZS '000	
	04/I-III	05/I-III	04/I-III	05/I-III	04/I-III	05/I-III	04/I-III	05/I-III
R. Karakalpakstan	117.3	143.8	101.9	105.3	64.6	72.0	12.9	16.4
Andijan	199.4	231.5	102.7	105.0	143.3	157.2	30.6	37.7
Bukhara	188.8	240.3	101.1	106.5	116.2	141.6	30.3	39.5
Jizzakh	130.1	151.1	101.2	105.2	79.0	85.8	16.3	20.5
Kashkadarya	160.2	192.6	103.2	106.0	100.2	115.7	13.4	18.2
Navoi	323.7	379.7	99.6	105.5	126.6	148.7	28.0	38.8
Namangan	131.4	177.0	99.9	104.4	98.1	114.6	17.5	24.1
Samarkand	138.9	167.5	100.8	107.4	91.6	106.1	21.2	28.8
Surkhandarya	153.7	190.6	99.6	106.7	96.1	119.0	15.7	19.3
Sirdarya	146.0	191.5	100.1	105.6	81.0	93.5	12.8	18.3
Tashkent	221.5	258.0	99.3	105.5	156.3	175.1	21.0	27.1
Fergana	192.0	218.5	100.8	106.2	142.8	151.6	19.9	28.3
Khorezm	138.2	176.3	102.1	108.1	78.1	106.5	21.1	29.1
Taskhent City	620.3	856.8	100.1	106.3	366.2	468.2	142.3	174.6
R. of Uzbekistan	207.3	258.3	100.6	106.1	131.8	154.6	33.2	42.4
Level of interregional differentiation	5.29 times	5.96 times	-	-	5.67 times	5.50 times	11.03 times	10.65 times

Source: The State Statistics Committee of Uzbekistan

In the structure of retail trade turnover of the country the sales of food stuffs decreased compared to the respective period of the previous year from 57.3% to 55.9% while the sales of non-foodstuffs increased from 42.7% to 44.1%. Specifically there was an increase in sales of the following goods: medications and drugs, vehicles, and building materials (Table 5.2.4.). Such a shift in the structure of trade turnover could be explained by the saturation of the domestic market by the respective trade and the increase of the solvent demand of the population.

Table 5.2.4. Commodity Composition of the Retail Trade Turnover (in % of the total)

Indicator	04/I-III	05/I-III
Total sales of goods	100	100
Including the following foodstuffs:	57.3	55.9
Bread	3.3	3.2
Meat and meat products	14.5	14.1
Milk and dairy products	1.3	1.0
Non-foodstuffs	42.7	44.1
Fabrics	1.6	1.4
Apparel and bed linen	1.8	1.4
Footwear	2.2	1.7
Medications	1.2	1.5
Vehicles	4.1	6.7
Building materials	1.2	1.6

Source: The State Statistics Committee of Uzbekistan

Services. Per capita fee-based services increased from UZS 33.2 thousand during nine months of 2004 to UZS 42.4 thousand during nine months of 2005. Growth in real income and wages in selected regions as well as expansion of the network of companies rendering fee-based services contributed to the decrease of interregional differentiation in per capita consumption of services in the country. Interregional differentiation in per capital consumption of services continued and shrank from 1:11.03 during nine months of 2004 to

1:10.65 in the respective period of 2005. In all regions of Uzbekistan the physical volume of fee-based services was increasing by an accelerated rate (from 107.9% in Tashkent City to 127.3% in Namangan region) (Table 5.2.5.).

Table 5.2.5. Retail Trade Turnover and Fee-Based Services by Region

Region	Retail trade turnover, UZS billion			Fee-based services, UZS billion		
	04/I-III	05/I-III	Growth rate to the previous year in comparable prices, %	04/I-III	05/I-III	Growth rate to the previous year in comparable prices, %
R. Karakalpakstan	101.1	113.1	101.0	20.3	25.9	114.1
Andijan	333.8	371.5	102.1	72.3	89.1	114.3
Bukhara	174.4	215.2	113.4	45.7	60.1	116.3
Jizzakh	82.2	90.2	102.7	17.2	21.5	113.7
Kashkadarya	236.2	277.4	109.1	31.9	43.6	122.6
Navoi	102.5	121.2	107.7	22.8	31.6	123.3
Namangan	202.2	239.6	114.4	35.9	50.4	127.3
Samarkand	261.2	306.7	107.0	60.3	83.1	123.0
Surkhandarya	180.6	227.3	113.3	29.5	36.9	109.0
Sirdarya	54.6	63.3	107.3	8.7	12.3	127.0
Tashkent	383.4	433.0	103.5	55.5	67.0	115.9
Fergana	403.6	434.8	101.2	56.5	81.0	124.5
Khorezm	111.	153.6	119.5	30.3	42.0	123.1
Tashkent City	788.0	1008.5	114.4	307.2	376.1	107.9
R. of Uzbekistan	3414.8	4055.4	108.6	868.4	1111.8	114.5

Source: The State Statistics Committee of Uzbekistan

In the structure of fee-based services the share of public transportation decreased (from 36.1% during nine months of 2004 to 35.5% in the analyzed period), while the share of healthcare and education increased from 1.8% during nine months of 2004 to 2.1% in the respective period of 2005 (Table 5.2.6.). The positive trend in growth of the share of healthcare and education in the structure of fee-based services was linked with the consistent introduction of market relations, the strengthening of the legislative and regulatory base, and the increase in efficiency of the social programs implemented in these areas. For instance, in accordance with the Cabinet of Ministers resolution "On Measures on Further Reform of the Financing System of the Healthcare Facilities of Uzbekistan", the Decree by the President of Uzbekistan "On Government Program of Reforming the Healthcare System of Uzbekistan" and the resolution by the Cabinet of Ministers "On Implementation of the Project of Reforming the Primary Chain of Healthcare in Ferghana Region" within the framework of the "Zdorovie-1" project implementation with the participation of the World Bank in the Ferghana, Sirdarya and Navoi regions as well as in three districts of the Republic of Karakalpakstan and the Khorezm region, the new mechanism of funding of rural first aid facilities was introduced. Under the framework of "Zdorovie-2" and "Improving Health of Women and Children" the Cabinet of Ministers of Uzbekistan stipulated a stage by stage transition of rural first aid facilities to the terms of funding based on standard costs of services per person starting from 1 October 2005 in the Republic of Karakalpakstan and the Khorezm region and from 1 January 2006 in the Andijan, Bukhara, Namangan and Surkhandarya regions, and from 1 January 2007 in the Jizzakh, Kashkadarya, Samarkand and Tashkent regions.

Table 5.2.6. Fee-Based Services Rendered to the Population (in % of the total)

Name	04/I-III	05/I-III
Total Services rendered	100	100
Consumer services	15.3	15.2
Public transportation	36.1	35.5
Communication services	10.9	10.3
Housing and communal services	18.8	18.8
Supply of electricity	6.2	6.7
Water supply	0.9	0.9
Gas supply	5.6	5.1
Central heating	1.2	1.3
Hot- water supply	1.4	1.5
Sewage	0.3	0.3
Sanitary cleaning	0.1	0.4
Cultural and tourism services	1.1	1.1
Physical culture and sports	0.3	0.3
Health care	1.8	2.1
Sanitary and health resorts	0.7	0.7
Services of education system, training of population	5.8	5.9
Legal and banking	1.6	1.5
Other	7.6	8.6

Source: The State Statistics Committee of Uzbekistan

In order to improve organization and enhance the quality of training of highly-skilled medical staff the President of Uzbekistan signed a Decree "On Establishment of Tashkent Medical Academy".

Social Infrastructure. During nine months of 2005 about 5114.3 thousand m² of housing (the indicator decreased by 79.9 thousand m² compared to the respective period of 2004), outpatient clinics for 5610 visits (decrease by 1280 visits), secondary schools for 113492 students (increase by 102027 students), were put into operation. About 2666.0 km of natural gas mains (increase of 266.3 km) and 2074.4 km of water supply

networks (increase of 508.3 km) were built, including in the rural area -- 4620.4 thousand m² of housing (90% of the total), 2580.8 km of natural gas mains (97% of the total) and 1969.6 km (95% of the total) of water supply networks (Table 5.2.7.).

Table 5.2.7. Launch of the Social Infrastructure Facilities

	Unit	04/I-III	05/I-III
Housing, total	thous. sq. m.	5194.2	5114.3
Including: individual housing	thous. sq. m.	5175.5	5087.0
In rural areas	thous. sq. m.	4703.3	4620.4
Polyclinics, including SVPs (rural medical stations)	visits	6890	5610
including in rural areas	visits	6540	5560
Basic secondary schools	students	11465	113492
including in rural areas	students	10921	94820
Gas-supply networks	km	2399.7	2666.0
including in rural areas	km	2316.2	2580.8
Water-supply networks	km	1566.1	2074.4
including in rural areas	km	1419.4	1969.6

Source: The State Statistics Committee of Uzbekistan

signed and on the basis of such passports the state of material and technical base of schools was critically assessed as well as such parameters as sufficient access to potable water and heating, state of sanitary facilities and availability of catering and sports facilities.

In the area of the housing and utilities sector of Uzbekistan, market relations are consistently implemented, the legal and regulatory base is strengthening, the activities of partnerships of house owners aimed at safeguarding the rights of house owners, and the efficient use of revenues received from payments for utilities is facilitated. The targeted efforts aimed at curbing unjustified growth of tariffs for utilities are ongoing, energy saving technologies are being implemented in the sector, and the projects to attract foreign investment for modernization and technical reconstruction of engineering infrastructure are being implemented.

5.3. Employment and Labor Market

Population. As of 1 October 2005 the population of Uzbekistan reached 26,240.5 thousand people and during nine months of this year it increased by 219.2 thousand people (by 0.8%). (Annex 5.3.1).

The highest population growth rates were registered in the Kashkadarya (1.4%), Surkhandarya (1.3%) and Khorezm (1.3%) regions. There was a very slight change in the population of Tashkent city (2135 and 2136 thousand people respectively).

The birth rate was the major factor in the population dynamics. In 2005 it continued to increase. During nine months of 2005 409.6 thousand children were born, which is 4.9 thousand more than in the respective period of 2004. The average birth rate was 20.9 pro mil (per one thousand people). Reproduction indicators vary by territory. The highest birth rate was registered in the Jizzakh (23.6 pro mil) and Kashkadarya (22.8 pro mil) regions, while in Tashkent the stabilized parameter remained at the level of 16.1 pro mil.

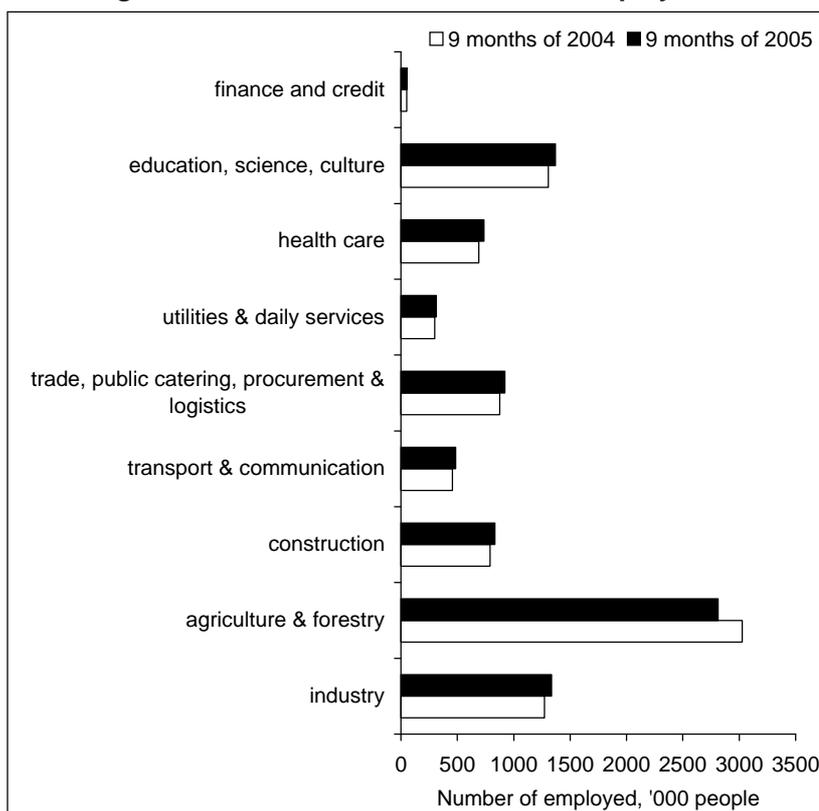
The number of deceased was 104.9 thousand people which is 7.8 thousand people (8.0%) higher than the respective indicator in 2004. The highest death toll increase was registered in the Republic of Karakalpakstan (from 5.3 to 6.0 pro mil), the Tashkent region (from 6.2 to 6.7 pro mil) and in Tashkent city (from 7.9 to 8.6 pro mil). The overall death rate in Uzbekistan during this period increased from 5.0 to 5.3 pro mil. At the same time infant mortality rate continues to decrease: the number of infant deaths under one year of age during nine months of 2005 decreased by 0.4 thousand compared to the respective period of the previous year. As a result of correlation of births and deaths the natural increase of the population was 304.6 thousand people (3.1 thousand people less than in the respective period of 2004), while the rate of natural growth of population was 15.6 pro mil. The negative balance of external migration of the population remained. During nine months of 2005 it was 85.4 thousand people as opposed to 78.6 thousand people in the respective period of the previous year.

Employment of the Population. The acceleration of economic reform and structural transformations in the economy facilitated the creation of new jobs and increase in employment. During nine months of 2005 the number of employed compared to the respective period of the previous year increased by 179.8 thousand people or by 1.8%. However, in this period the growth of employment slowed slightly. During nine months of 2004 these indicators were 344.5 thousand people and 2.7% respectively. This is due to the progress of market reform in the agrarian sector and redeployment of labor surplus in line with the general government

strategy in the area of employment. Among the real sector industries, there was growth of employment in construction (by 5.1%), trade, public catering, logistic support and procurement (5.2%). In recent years the number of employed in the industrial sector continued to increase. During nine months of 2005 the professional capacity of industry increased by 63.6 thousand people (5.0%) and reached 1334.8 thousand people. Employment in agriculture during this period decreased by 214.8 thousand people (7.1%).

In the non-manufacturing sectors employment increased at a higher rate than in the real sector. The increase was registered at the level of 176.1 thousand people or 5.5%. The highest increase in the labor force was in transportation and communication – 7.4%, while in such sectors as finance and credit, education, culture, arts, science, research and development and scientific support the employment grew at a lower rate (Figure 5.3.1). In general, in contrast to all the preceding periods, the sector of non-material production had the highest rates of employment growth and accounted for 97.9% of the total. The number of employed in the real sector during nine months of 2005 increased only by 3.7 thousand people. It is possible that the analyzed period is the beginning of a new trend in an employment distribution pattern characterized by accelerated growth of the employment in the services sector.

Figure 5.3.1. Sectoral Structure of the Employment



Source: The State Statistics Committee of Uzbekistan.

Current Labor Market. The trend of the labor supply decline persists and increases in the current labor market. During nine months of 2005 about 322.6 thousand people applied to the labor exchanges which is 8.5 thousand people less than in the respective period of the previous year and 14.4 thousand people less than in 2003 (Table 5.3.1.). This demonstrates the relative weakness of the current labor market, and the lack of confidence of the population in the opportunity to find a decent job through the labor exchanges, specifically in the regions with the labor deficiency. About three quarters (72.6%) of the labor supply reside in the rural area. This share is increasing annually testifying to a tenuous situation with regards to employment in the rural area.

Table 5.3.1. Major Indicators of the Current Labor Market

Year	Registered as Job Seeking, Thousand people	Employed, Thousand people	Weight of Employed from the Registered, In %	Number of Unemployed by the End of the Reporting Period, Thousand people
2000	421.4	280.6	66.6	35.4
2001	462.8	318.1	68.7	37.5
2002	448.2	322.2	71.9	34.8
2003	430.5	317.4	73.7	32.2
2004	425.0	323.7	76.2	34.8
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	171.7	78.0	38.1
05/I-III	322.6	253.6	78.6	34.1

Source: Estimated based on the data provided by the Ministry of Labor and Welfare.

Young people aged from 16 to 29 accounted for half of the current labor market supply (50.5%), and in the rural area this share is slightly higher – 51.4%. The share of women in the total registered with the labor exchanges increased. During nine months of 2005 it accounted for 50.8%, compared to 46.0% in 2004.

The qualitative indicators of the labor force supply at the current labor market slightly changed. During the analyzed period the number of persons with higher and secondary special education applying to the labor exchanges was 88.5 thousand people as opposed to 96.9 thousand people in the respective period of the previous year. However the number of individuals without professional qualifications decreased from 126.2 to 95.2 thousand people during this period, testifying to the increase of labor supply with professional training.

The system of professional training of employment agencies is not adequately supporting the qualitative growth of labor force supply. From year to year there is an absolute and relative decrease in the number of individuals who received professional training in the process of employment. During nine months of 2005 this indicator was 6.5 thousand people compared to 8.8 thousand people in 2004, a decline of one third.

Social partnership was strengthened at the current labor market in 2005, as were links with employers, resulting in the increase in the employment rate of the population. During nine months of 2005, 78.6 % of the total registered with the labor exchanges as job seeking was employed, as opposed to 76.2% in the respective period of the previous year. More substantial progress in employment was achieved in the rural area compared to the urban area (Table 5.3.2). In recent years the trend of higher level of employment in the rural area has become sustainable and testifies to the highest acuity of the employment issue in the rural area.

Table 5.3.2. The Level of Employment in Urban and Rural Areas

Year	Registered as Job Seeking, '000 people		Employed, Thousand 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	80.0
05/I-III	88.3	234.3	66.6	187.0	75.4	79.8

Source: Estimated based on the data provided by the Ministry of Labor and Welfare.

Women are not sufficiently competitive at the current labor market. During nine months of 2005 they accounted for 50.8% of the registered unemployed and only for 46.8% of the registered employed. As a result the employment rate of women was 72.2%, while the respective indicator for men was 84.6%.

The highest demand for labor force during the reviewed period was observed in agriculture (37.4% of the total employed, including 46.2% in the rural area) and in industry (16.0%). The bulk of labor forces got jobs mainly in the non-public sector of the economy (75.3%), mainly in collective farms, joint stock companies, cooperatives and private companies.

The existing correlation of demand and supply of labor objectively supports the decrease of unemployment. By the end of the period the number of unemployed was 34.1 thousand people and compared to the respective period of the previous year it decreased by 2.5 thousand people. The significant share of unemployed falls to the Republic of Karakalpakstan (16.9%), the Khorezm region (18.7%) and regions of the Ferghana valley (19.2%). The rural population forms the bulk of the unemployed. Compared to the respective period of the previous year their share increased from 73.2 to 73.7%. The share of women in the unemployed increased during the period. As of 1 October 2005 it accounted for 61.5% versus 58.1 in 2004. In general by 1 October 2005 the level of officially registered unemployment, as in the respective period of 2004 was 0.4% of the total labor force.

The trends identified over nine months of 2005 indicate that employment of young people and gender equality remained the major issues in the current labor market in Uzbekistan. Young people prevail among those applying to the labor exchanges and among the officially registered unemployed. Qualitative aspects of labor market structure are still relevant, both in urban and rural areas, specifically development of competitive environment in the system of employment.

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

Years	Total sales of goods and services		Including			
			Goods		Services	
	UZS billion	%	UZS billion	%	UZS billion	%
2000	2097.4	100	1787.5	85.2	309.9	14.8
2001	3172.2	100	2699.9	85.1	472.3	14.9
2002	4497.7	100	3786.3	84.2	711.4	15.8
2003	3259.9	100	4325.1	82.2	934.8	17.8
2004	5991.3	100	4764.7	79.5	1226.6	20.5
04/I-III	4283.2	100	3414.8	79.7	868.4	20.3
05/I-III	5167.2	100	4055.4	78.5	1111.8	21.5

Source: The State Statistics Committee of Uzbekistan

Annex 5.2.2. Retail Trade Turnover and Fee-Based Services

Years	Retail Trade Turnover		Fee-Based Services	
	In current prices, UZ billion	Growth rates to the previous year in comparable prices, %	In current prices, UZ billion	Growth rates to the 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-III	3414.8	103.1	868.4	113.9
05/I-III	4055.4	108.6	1111.8	114.5

Source: The State Statistics Committee of Uzbekistan

Annex 5.3.1. The Population Dynamics of Uzbekistan (beginning of the period, thousand people)

Year	Total Population		Urban		Rural	
	Total	Increase, %	Total	Increase, %	Total	Increase, %
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 1.04.04)	25777.2	0.3	9397.2	0.2	16380.0	0.3
04/ I-II (as of 1.07.04)	25851.8	0.3	9405.3	0.1	16446.5	0.4
04/ I-III (as of 1.10. 04)	25936.4	0.3	9414.0	0.1	16522.5	0.5
05/ I (as of 1.04.05)	26095.0	0.3	9460.7	0.2	16634.3	0.3
05/ I-II (as of 1.07.04)	26161.8	0.3	9467.5	0.1	16694.3	0.4
05/ I-III (as of 1.10. 05)	26240.6	0.3	9472.4	0.1	16768.2	0.4

Source: The State Statistics Committee of Uzbekistan

Annex 5.3.2. Breakdown of Employed by Sector of the Economy (on average over the period, thousand people)

	9 Months of 2004	Share (%) in Total Employed	9 Months of 2005*)	Share (%) in Total Employed	05/I-III in % to 04/I-III
Employed - Total	9914.8	100.0	10094.6	100.0	101.8
Material production	6714.9	67.7	6718.6	66.6	100.1
Industry	1271.2	12.8	1334.8	13.2	105.0
Agriculture and forestry	3027.7	30.5	2812.9	27.9	92.9
Transportation and Communication	316.3	3.2	333.1	3.3	105.3
construction	791.2	8.0	831.6	8.2	105.1
Trade, public catering, procurement and logistics	877.0	8.8	922.6	9.1	105.2
Other	431.5	4.4	483.6	4.8	112.1
In non-material production	3199.9	32.3	3376.0	33.4	105.5
Transportation and Communication	140.8	1.4	151.2	1.5	107.4
Public utilities and daily services for population	298.3	3.0	314.4	3.1	105.4
Health care, physical culture and social security	689.1	7.0	735.5	7.3	106.7
Education, culture, arts, science, R&D and logistics	1305.2	13.2	1369.2	13.6	104.9
Finances and credit	52.3	0.5	54.7	0.5	104.6
Government and business administration	186.7	1.9	185.9	1.8	99.6
Other	527.5	5.3	565.1	5.6	107.1
Public sector, %	22.7	X	22.5	X	X
Non-public sector, %	77.3	X	77.5	x	X

*) Estimate Source: The State Statistics Committee of Uzbekistan.

6. Social and Economic Development of the Regions

In January-September 2005 the administrative subdivisions of the country (the Republic of Karakalpakstan, 12 regions and Tashkent City) were developing at fairly sustainable rates. Uzbekistan's GDP over nine months of 2005 accounted for 107.2%. In about half of the regions the rate exceeded the national one. Specifically high rates were registered in the Sirdarya (114.6%), Jizzakh (112.0%), Khorezm (111.9%), Andijan (111.0%), and Bukhara (111.5%) regions, in the Republic of Karakalpakstan (111.0%) and in Tashkent City (110.5%). Such high growth rates of Gross Regional Product (GRP) in the above regions were facilitated by the structural transformations and the strengthening of economic capacity (Annex 6.1). The favorable sign is that the regions like Karakalpakstan, and the Jizzakh and Khorezm regions joined the list.

The territorial structure of GRP has slightly changed compared to the respective period of 2004. There were increases in GRPs of Tashkent City (from 13.8 to 14.3%), and the Sirdarya (from 1.8 to 2.0%), Navoi (from 5.3 to 5.5%), Kashkadarya (from 6.6 to 7.3%), Jizzakh (from 2.7 to 2.8%), Bukhara (from 6.0 to 8.1%), Andijan (from 6.7 to 8.6%) regions and in Karakalpakstan (from 2.5 to 2.8%).

In the other regions GRP indicators decreased, namely in the Fergana (from 8.4 to 7.7%), Samarkand (from 7.1 to 6.4%), Namangan (from 4.3 to 3.9%) and Surkhandarya (from 4.9 to 4.7%) regions (Figure 6.1).

Grouping regions by per capita GRP (indexed estimate) revealed that in comparison with the nine months of 2004 there were specific changes. The first group of regions with a high level of development (index above 1.000) remained unaltered over the reviewed period and included Tashkent City, and the Navoi, Bukhara and Tashkent regions. The index of these regions as opposed to 2004 has considerably increased.

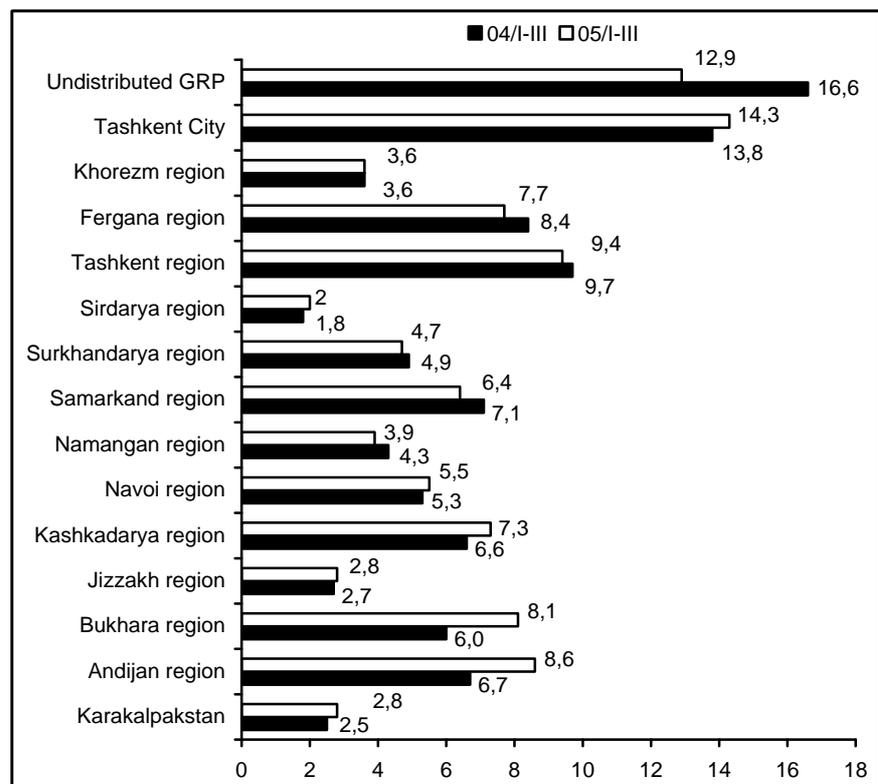
Certain shifts occurred in the second group of regions with the medium level. This group shrank by one region as the

Namangan region moved to the third group due to significant decrease in its index (from 0.545 to 0.491). In contrast, the Andijan, Kashkadarya, Sirdarya, Khorezm, Jizzakh and Samarkand regions have enhanced their indicators. The Republic of Karakalpakstan remained in the third group with a low indicator: despite the slight increase (from 0.407 to 0.475) it continued to be the lowest (Table 6.1).

In January-September 2005 all the regions, except Navoi (96.6%) have demonstrated high growth rates of industrial output compared to the respective period of the previous year. Specifically high growth rates were registered in the Andijan region (143.4%), the Republic of Karakalpakstan (141.6%), the Khorezm (139.5%), Jizzakh (136.6%), and Sirdarya (121.1%) regions and in Tashkent City (119.4%). In 50% of the regions the growth rates of industrial output exceeded the national rate of 107.7%. (Annex 6.1).

High growth rates of the industrial production indicator were achieved due to implementation of new facilities, increase of their load and expansion of investment activity in the regions. A slowing down in growth rate of industrial output in the Navoi region was due to decrease of output at Zarafshan-Newmont JV.

Figure 6.1. Share of the Regions in GDP of the Republic of Uzbekistan over the Period of Nine Months of 2004 and 2005 (%)



Source: The State Statistics Committee of Uzbekistan

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

04/I-III	Index	05/I-III	Index
I. High Level	above 1.000	I. High Level	above 1.000
Navoi Region	1.697	Navoi Region	1.773
Tashkent City	1.665	Tashkent City	1.754
Bukhara Region	1.035	Bukhara Region	1.402
Tashkent Region	1.022	Tashkent Region	1.002
II. Medium Level	from 0.500 to 1.000	II. Medium Level	from 0.500 to 1.000
Fergana Region	0.766	Andijan Region	0.947
Andijan Region	0.749	Kashkadarya Region	0.794
Kashkadarya Region	0.722	Sirdarya Region	0.777
Sirdarya Region	0.711	Fergana Region	0.706
Surkhandarya Region	0.679	Khorezm Region	0.644
Jizzakh Region	0.672	Surkhandarya Region	0.641
Khorezm Region	0.661	Jizzakh Region	0.701
Samarkand Region	0.645	Samarkand Region	0.578
Namangan Region	0.545	III. Low level	to 0.500
III. Low Level	to 0.500	Namangan Region	0.491
Republic of Karakalpakstan	0.407	Republic of Karakalpakstan	0.475

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

In the reviewed period per capita index of industrial production (IP) increased in the Republic of Karakalpakstan (from 0.184 to 0.235), in the Andijan (from 0.999 to 1.201), Jizzakh (from 0.326 to 0.406), Kashkadarya (from 1.036 to 1.302), Navoi (from 4.560 to 4.581) and Khorezm (from 0.282 to 0.335) regions. In the other regions the index declined. The lowest value of the index was registered in the Republic of Karakalpakstan (0.235), and the highest in the Navoi region (4.581) (Annex 6.2).

Growth rates of consumer goods output during nine months of 2005 increased in all the regions, except Surkhandarya Region (91.1%), which was caused by significant decline in output of "Alpomysh" JV due to delays in delivery of inputs. The highest growth rates in consumer goods output were attained in the Andijan (157.5%), Tashkent (115.7%) and Jizzakh (113.5%) regions as well as in Tashkent city (121.0%) (Annex 6.1). The computed index of consumer goods output decreased in 11 out of the 14 regions. This implies that per capita output of consumer goods in the bulk of the regions is under the average national level.

The upsurge of the index occurred in the Andijan (from 2.199 to 3.106) and Jizzakh (from 0.599 to 0.677) regions. The value of the index reached its peak in the Andijan region (3.106), and the undermost value fell at the Republic of Karakalpakstan (0.281) (Annex 6.2).

In terms of agricultural output over nine months of 2005 all the regions achieved high growth rates compared to the respective period of the previous year, namely the Republic of Karakalpakstan (123.7%), and the Bukhara (122.5%), Sirdarya (119.1%), Jizzakh (113.1%) and Khorezm (112.8%) regions; seven regions out of the fourteen attained the growth rates above the average national value of 107.3% (Annex 6.1).

The index of per capita agricultural output in most of the regions exceeded the national level. In the reviewed period the index rose in the Republic of Karakalpakstan (from 0.439 to 0.562), and in the Bukhara (from 1.352 to 1.630), Navoi (from 1.110 to 1.287) and Sirdarya (from 1.503 to 1.778) regions. The maximum value of the index was observed in Sirdarya Region (1.778) and the minimum one in the Republic of Karakalpakstan (0.562) (Annex 6.2).

During nine months of 2005 the investment activity in most of the regions was high, specifically in the Jizzakh (42.6% increase), Bukhara (39.0% increase), Navoi (35.0% increase), Surkhandarya (33.4% increase) and Fergana (23.3% increase) regions and in Tashkent City (22.6% increase).

Namangan, Samarkand, Sirdarya and Khorezm underperformed at a rate of 1.5%, 9.8%, 26.7% and 20.8% respectively. The specifically high performance in the respective period of the previous year was due to considerable capital investment in "As-Shakh" JV in Namangan Region, construction of the sports facilities in Samarkand Region, establishment of "SaihunMedTex" JV in Sirdarya Region and yarn producing "Bogat Bursel" JV in Khorezm Region.

In the reviewed period per capita investment index rose in eight regions out of the fourteen; namely in the Bukhara (from 1.092 to 1.368), Jizzakh (from 0.569 to 0.699), Kashkadarya (from 1.503 to 1.745) and Navoi (from 1.929 to 2.215) regions. The highest value of the index was registered in Tashkent City (2.713) and the lowest in the Andijan region (0.390) (Annex 6.2).

The growth rates in retail trade turnover increased in all the regions over the nine months of 2005. Among the leaders were the Khorezm (119.5%), Namangan (114.4%), Bukhara (113.4%) and Surkhandarya (113.3%) regions as well as Tashkent City (114.6%) (Annex 6.1).

The comparative increase in this index was achieved in the Bukhara (from 0.881 to 0.915) and Khorezm (from 0.591 to 0.686) regions as well as in Tashkent City (from 2.808 to 3.056). In the rest of the regions the value of the index declined, namely in the Republic of Karakalpakstan and the Jizzakh, Navoi, Sirdarya and Fergana regions. The highest value of the index was achieved in Tashkent City (3.056) and the lowest in the Republic of Karakalpakstan (0.466) (Annex 6.2).

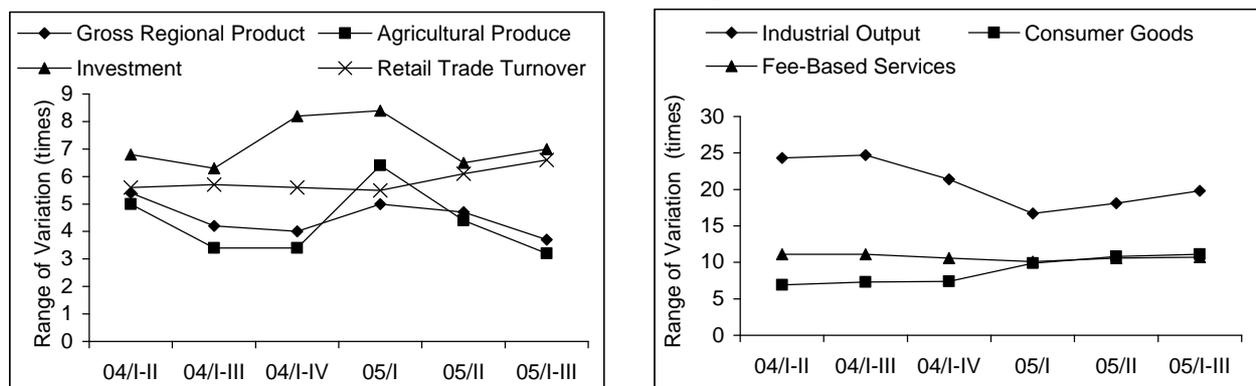
The development of fee-based services in all the regions in the analyzed timeframe succeeded high growth rates compared to the respective period of the previous year; namely in the Namangan (127.3%), Sirdarya (127.0%), Fergana (124.5%), Navoi (123.3%), Khorezm (123.1%) and Samarkand (123.0%) regions. In nine regions out of the fourteen the growth rates of this indicator were above the national average of 114.5% (Annex 6.1).

The computed per capita index for fee-based services in most of the regions increased during the reviewed period; specifically in the Bukhara (from 0.908 to 0.932), Navoi (from 0.841 to 0.917), Samarkand (from 0.630 to 0.677) and Fergana (from 0.597 to 0.666) regions. The peak level of this indicator was registered in Tashkent City (4.157) and the lowest level in the Republic of Karakalpakstan (0.390) (Annex 6.2).

In the reviewed period the interregional differentiation in terms of GRP decreased from 4.2 to 3.7 times, in industrial output from 24.7 to 19.8 times, in agricultural output from 3.4 to 3.2 times and in fee-based services from 11.1 to 10.7 times.

However the interregional differentiation in terms of consumer goods output increased from 7.3 to 11.1 times, in investment from 6.3 to 7.0 times and in retail trade turnover from 5.7 to 6.6 times (Figure 6.2).

Figure 6.2. Tracking Changes in the Level of Differentiation of Social and Economic Development of the Regions in 2004 and 2005



The outcomes of the performed analysis of social and economic development of the regions during nine months of 2005 have indicated the continuation of sustainable economic growth in the key indicators of the real sector of the economy. This is specifically characteristic of the less developed regions like the Republic of Karakalpakstan, as well as the Jizzakh and Khorezm regions. The interregional differentiation in such indicators as GRP, industrial and agricultural output, and fee-based services is decreasing.

The positive trends achieved over nine months of 2005 in the economic development of the regions resulted from economic reform progress on the regional level and implementation of addressed structural transformations, development of industrial capacity in the less developed regions and increase in efficiency of the utilization of natural and economic resources.

However there are still specific negative factors hindering real positive changes in the regions. The considerable disparity between the poorly and strongly industrially developed regions in terms of industrial output and production of consumer goods remains.

The considerable reserve for the further economic growth in the regions and enhancement of living standards of the population is an efficient use of the natural and economic potential of the regions, development of entrepreneurship and private business, strengthening of the infrastructure and financial base of local governments as well as decentralization of public governance on various territorial levels.

Annex 6.1. Tracking Changes in the Main Indicators of Social and 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	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	89.7	98.3	101.6	110.1	108.7	103.5	107.0	108.1	103.0	109.2	111.0
Andijan Region	102.8	108.9	103.4	102.8	106.2	106.1	102.8	104.7	111.0	109.8	111.0
Bukhara Region	104.2	103.5	102.7	101.4	106.1	100.0	104.2	109.2	104.5	106.1	111.5
Jizzakh Region	104.2	106.5	109.5	107.5	107.7	105.1	109.7	110.4	106.5	106.5	112.0
Kashkadarya Region	99.0	105.0	110.1	105.4	105.7	103.2	104.5	109.6	103.8	105.0	106.5
Navoi Region	103.2	101.4	104.8	103.9	107.6	102.5	105.1	108.9	102.0	98.8	100.0
Namangan Region	108.0	104.5	103.7	102.1	107.7	103.2	105.9	109.8	106.9	106.0	106.1
Samarkand Region	104.6	103.5	107.6	106.9	106.5	104.2	107.2	109.5	104.1	103.6	103.0
Surkhandarya Region	105.5	108.0	104.0	105.3	105.9	103.6	105.4	111.5	106.7	103.5	101.8
Sirdarya Region	102.6	102.9	98.3	102.5	108.4	102.8	112.3	112.4	104.6	104.0	114.6
Tashkent Region	110.9	104.2	103.1	102.5	109.0	104.1	107.8	109.0	104.5	103.8	103.4
Fergana Region	106.1	99.5	105.1	100.5	104.9	102.1	102.3	105.2	103.5	103.9	103.4
Khorezm Region	94.8	103.0	102.9	103.8	108.2	102.5	105.0	110.7	104.4	108.1	111.9
Tashkent City	104.5	104.3	102.6	104.4	104.0	105.5	104.4	103.3	103.0	107.8	110.5
R. of Uzbekistan	103.8	104.2	104.2	104.4	107.7	104.8	106.2	108.9	104.8	107.2	107.2

Source: The State Statistics Committee of Uzbekistan.

Industrial Output

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	111.2	95.9	94.9	100.3	123.5	117.7	125.2	128.8	141.3	147.2	141.6
Andijan Region	90.0	128.1	105.5	118.6	135.8	126.9	127.2	131.9	153.5	146.9	143.4
Bukhara Region	103.9	107.7	103.3	102.5	109.1	108.4	106.6	109.7	108.5	102.0	101.5
Jizzakh Region	122.7	119.9	130.3	114.1	112.8	114.3	120.9	116.1	120.0	131.5	136.6
Kashkadarya Region	101.9	104.4	112.1	114.4	110.0	111.4	110.8	109.9	103.0	101.5	101.7
Navoi Region	102.2	100.6	106.5	99.4	106.0	101.4	107.0	107.7	100.1	95.0	96.6
Namangan Region	126.1	118.2	112.5	113.0	109.4	109.0	106.0	114.1	112.4	116.8	113.9
Samarkand Region	97.3	105.7	106.7	111.1	113.4	115.0	111.2	115.7	111.6	102.9	107.2
Surkhandarya Region	107.9	104.1	113.1	104.6	109.2	106.4	110.1	121.8	111.7	105.2	103.1
Sirdarya Region	106.7	101.3	122.4	100.1	107.2	103.2	109.8	115.5	111.4	119.3	121.1
Tashkent Region	108.8	109.1	108.3	102.6	109.6	107.2	108.2	109.2	107.8	102.8	105.4
Fergana Region	108.5	101.4	108.7	102.4	104.3	103.6	103.7	105.8	106.3	106.9	105.5
Khorezm Region	103.5	100.3	103.9	98.9	102.9	100.1	100.2	108.1	118.5	141.3	139.5
Tashkent City	113.2	110.5	111.7	112.5	104.8	115.2	110.1	105.1	111.4	111.2	119.4
R. of Uzbekistan	105.9	107.6	108.3	106.2	109.4	108.8	109.6	110.2	108.3	107.5	107.7

Source: The State Statistics Committee of Uzbekistan.

Output of Consumer Goods

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	105.9	113.5	104.3	104.7	110.3	119.0	122.8	119.4	117.1	107.0	111.3
Andijan Region	92.6	123.7	97.8	120.3	145.3	133.3	136.4	136.0	180.3	159.6	157.5
Bukhara Region	105.9	107.4	103.3	106.0	107.8	107.8	107.6	108.9	104.7	104.8	100.5
Jizzakh Region	123.6	119.3	159.3	129.0	115.2	113.0	117.8	120.5	120.6	117.7	113.5
Kashkadarya Region	113.1	112.7	108.5	108.8	117.1	127.0	124.7	115.2	107.8	110.7	110.8
Navoi Region	115.5	99.98	114.5	105.3	97.3	107.3	106.4	101.4	98.3	100.6	100.4
Namangan Region	124.3	111.8	118.1	114.0	110.4	124.7	116.1	116.2	112.1	107.0	109.7
Samarkand Region	92.4	102.6	102.5	106.8	109.9	100.3	102.0	112.4	110.1	100.7	104.2
Surkhandarya Region	111.9	100.9	114.8	106.2	115.2	129.5	124.1	132.6	101.8	95.1	91.1
Sirdarya Region	110.1	120.2	103.0	104.2	107.5	108.0	115.3	114.9	109.9	99.1	100.0
Tashkent Region	112.5	114.1	106.6	107.1	111.7	106.6	111.1	112.9	107.7	106.2	115.7
Fergana Region	111.3	98.1	106.4	101.6	119.2	113.2	122.4	119.5	115.8	113.0	108.6
Khorezm Region	107.8	94.0	95.0	114.5	101.4	96.6	102.5	101.5	96.5	106.5	105.9
Tashkent City	111.3	101.3	120.2	102.7	103.4	115.7	101.5	93.5	107.4	103.7	121.0
R. of Uzbekistan	106.2	107.6	108.4	108.4	113.4	114.9	114.4	113.3	116.4	117.1	119.4

Source: The State Statistics Committee of Uzbekistan.

Agricultural Produce

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	65.6	90.5	101.2	129.8	112.5	109.1	124.0	117.4	105.8	123.3	123.7
Andijan Region	110.2	107.1	102.1	100.2	107.0	106.9	100.8	105.4	107.7	100.6	100.0
Bukhara Region	106.3	102.0	102.6	106.2	110.5	104.5	112.8	120.6	109.4	110.9	122.5
Jizzakh Region	100.1	106.9	113.8	112.0	111.2	108.9	121.1	117.5	106.8	106.6	113.1
Kashkadarya Region	89.4	106.9	119.9	106.2	109.0	107.7	106.1	119.6	109.0	112.5	110.6
Navoi Region	105.0	107.2	106.7	109.3	108.6	108.8	109.4	114.7	109.7	108.6	109.2
Namangan Region	111.5	101.4	101.5	102.9	112.7	104.0	113.6	115.8	104.7	100.8	100.9
Samarkand Region	104.8	103.9	112.4	110.0	108.4	107.6	111.8	112.8	105.2	103.6	101.0
Surkhandarya Region	106.7	110.5	102.8	106.4	106.7	106.0	106.2	116.2	108.8	102.7	100.3
Sirdarya Region	101.9	105.8	98.9	105.2	111.8	107.1	129.4	117.5	105.8	105.5	119.1
Tashkent Region	114.9	103.7	102.8	102.7	112.8	106.7	116.9	111.7	106.7	110.7	106.5
Fergana Region	113.5	100.4	105.7	100.6	110.0	106.4	104.1	110.6	104.6	110.3	102.5
Khorezm Region	82.8	103.6	106.8	110.5	114.1	106.3	113.2	117.8	104.2	111.1	112.8
Tashkent City					-				-	-	-
R. of Uzbekistan	103.1	104.2	106.1	105.9	110.1	106.7	110.4	114.2	106.6	107.2	107.3

Source: The State Statistics Committee of Uzbekistan.

Investment

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	83.0	106.0	114.0	118.0	98.3	в 2.3 p.	150.5	122.6	45.6	53.6	74.8
Andijan Region	101.0	118.0	105.0	106.9	62.5	100.1	65.6	64.3	74.3	112.7	113.6
Bukhara Region	108.0	119.0	103.0	100.6	168.2	в 2.1 p.	186.8	131.6	135.1	139.0	139.0
Jizzakh Region	111.0	78.0	112.0	83.5	111.0	92.6	101.8	100.9	125.0	166.1	142.6
Kashkadarya Region	93.0	130.0	94.0	111.7	81.4	56.5	77.1	79.4	125.8	127.9	127.1
Navoi Region	116.0	107.0	98.0	109.6	87.8	66.1	101.3	106.2	102.3	135.6	135.0
Namangan Region	103.0	96.0	100.1	101.7	95.5	107.2	108.9	100.1	102.8	100.0	98.5
Samarkand Region	104.0	107.0	99.8	107.9	109.6	104.8	108.5	104.5	81.6	83.2	90.2
Surkhandarya Region	102.0	116.0	101.0	104.0	102.0	в 2.3 p.	156.1	121.0	105.7	125.2	133.4
Sirdarya Region	100.2	101.0	84.0	105.5	150.9	45.5	103.7	159.3	166.1	91.7	73.3
Tashkent Region	106.0	112.0	102.0	108.3	122.0	147.2	123.1	119.9	96.6	100.7	109.0
Fergana Region	107.0	109.0	108.0	95.9	90.4	31.2	73.4	80.8	2.4 p.	128.8	123.3
Khorezm Region	102.0	96.0	103.0	91.6	2.2 p	97.4	101.0	124.7	94.0	98.4	79.2
Tashkent City	92.0	106.0	81.0	106.8	121.6	130.3	95.7	100.4	126.1	117.4	122.6
R. of Uzbekistan	101.0	104.0	103.6	104.5	105.2	99.6	101.8	103.0	104.2	105.4	106.9

Source: The State Statistics Committee of Uzbekistan

Retail Trade Turnover

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	103.6	117.9	102.6	107.9	100.9	103.5	100.7	100.1	112.4	108.3	101.0
Andijan Region	106.4	109.3	107.3	100.0	89.2	102.0	93.7	88.1	100.1	101.5	102.1
Bukhara Region	110.3	114.7	107.1	101.1	102.9	100.2	101.4	103.5	114.1	114.5	113.4
Jizzakh Region	111.0	125.8	116.2	101.8	103.1	103.3	101.2	100.8	109.5	107.2	102.7
Kashkadarya Region	109.9	116.5	105.5	108.3	100.8	100.1	100.4	100.3	107.7	107.7	109.1
Navoi Region	105.4	113.3	105.0	104.3	123.5	109.1	111.2	120.4	117.8	109.8	107.7
Namangan Region	110.8	118.8	103.9	100.9	100.0	105.6	101.1	101.0	110.1	112.9	114.4
Samarkand Region	113.6	106.6	100.1	108.8	101.1	104.8	104.3	103.4	107.5	110.2	107.0
Surkhandarya Region	121.4	113.7	113.3	109.5	107.3	105.1	105.5	104.0	109.8	113.1	113.3
Sirdarya Region	105.8	102.1	95.4	100.3	103.6	101.1	101.8	106.1	105.4	101.3	107.3
Tashkent Region	123.3	115.9	101.1	108.6	111.5	110.9	111.9	109.5	106.3	102.9	103.5
Fergana Region	103.2	103.5	106.2	100.0	100.0	100.8	101.6	97.9	102.5	100.8	101.2
Khorezm Region	111.8	107.9	101.1	96.0	103.4	104.5	101.5	101.7	112.2	118.7	119.5
Tashkent City	100.2	104.7	90.1	110.2	114.2	109.2	110.1	109.9	114.9	112.2	114.4
R. of Uzbekistan	107.6	109.6	101.1	105.1	104.7	105.1	104.2	103.1	108.7	108.1	108.6

Source: The State Statistics Committee of Uzbekistan

Fee-Based Services

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	114.2	105.1	112.4	111.3	109.2	120.4	115.4	109.2	129.6	110.0	114.1
Andijan Region	138.9	113.3	109.3	120.1	132.7	113.6	125.9	133.5	123.1	115.9	114.3
Bukhara Region	112.6	108.4	117.0	109.3	117.3	120.3	122.2	118.0	120.3	116.8	116.3
Jizzakh Region	110.4	116.2	114.2	114.1	118.5	116.4	124.6	117.7	129.1	113.7	113.7
Kashkadarya Region	137.2	114.6	121.9	108.2	102.6	105.6	104.9	104.6	117.1	119.9	122.6
Navoi Region	116.8	118.7	108.9	118.8	121.8	123.6	116.7	119.3	125.6	124.6	123.3
Namangan Region	137.0	115.5	110.8	122.6	117.4	118.6	116.1	116.9	116.6	120.1	127.3
Samarkand Region	118.1	121.8	104.0	124.5	113.9	119.0	116.0	115.7	119.0	116.1	123.0
Surkhandarya R.	109.6	114.2	114.3	112.6	111.7	113.4	112.0	112.0	118.2	109.3	109.0
Sirdarya Region	104.8	125.8	109.6	103.1	112.5	116.3	106.5	107.5	127.1	122.7	127.0
Tashkent Region	111.5	100.2	109.2	105.5	113.2	107.8	112.8	114.9	114.3	115.2	115.9
Fergana Region	115.5	113.5	110.5	112.4	119.6	119.1	118.6	115.3	118.9	121.4	124.5
Khorezm Region	107.9	106.4	102.0	107.0	119.2	127.0	123.1	122.9	134.8	121.0	123.1
Tashkent City	113.5	117.4	112.8	105.3	105.7	105.5	103.3	104.9	103.5	104.6	107.9
R. of Uzbekistan	115.7	114.7	108.6	107.9	113.8	112.5	113.5	113.9	114.2	111.6	114.5

Source: The State Statistics Committee of Uzbekistan

**Annex 6.2. Level of Differentiation of Social and Economic Development of the Regions
(based on per capita index)**

Gross Regional Product

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	0.456	0.413	0.392	0.400	0.423	0.352	0.364	0.407	0.412	0.373	0.475
Andijan Region	0.911	0.935	0.834	0.764	0.744	0.585	0.707	0.749	0.685	0.653	0.947
Bukhara Region	1.109	1.155	1.101	1.053	1.085	0.974	1.092	1.035	1.041	0.922	1.402
Jizzakh Region	0.742	0.669	0.666	0.702	0.768	0.563	0.568	0.672	0.558	0.484	0.701
Kashkadarya R.	0.722	0.724	0.780	0.782	0.747	0.666	0.656	0.722	0.820	0.698	0.794
Navoi Region	1.039	1.267	1.490	1.685	1.705	1.753	1.860	1.697	2.060	1.711	1.773
Namangan Region	0.667	0.637	0.599	0.543	0.572	0.434	0.471	0.545	0.441	0.396	0.491
Samarkand Region	0.709	0.679	0.693	0.669	0.601	0.457	0.494	0.645	0.472	0.426	0.578
Surkhandarya R.	0.716	0.727	0.760	0.734	0.657	0.473	0.606	0.679	0.528	0.525	0.641
Sirdarya Region	0.807	0.822	0.776	0.754	0.768	0.525	0.626	0.711	0.555	0.579	0.777
Tashkent Region	1.040	1.017	1.032	1.041	1.032	1.012	0.989	1.022	1.075	0.919	1.002
Fergana Region	0.941	0.866	0.843	0.785	0.759	0.738	0.744	0.766	0.725	0.657	0.706
Khorezm Region	0.832	0.717	0.720	0.681	0.669	0.595	0.586	0.661	0.593	0.532	0.644
Tashkent City	1.563	1.665	1.671	1.682	1.678	2.257	1.976	1.665	2.113	1.750	1.754
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	3.4	4.1	4.3	4.2	4.0	6.4	5.4	4.2	5.1	4.7	3.7
Without Tashkent c.	2.4	3.1	3.8	4.2	4.0	5.0	5.1	4.2	5.0	4.6	3.7

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

Industrial Output

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	0.279	0.247	0.201	0.193	0.207	0.207	0.184	0.184	0.255	0.218	0.235
Andijan Region	0.909	1.071	0.979	0.960	1.028	0.939	0.988	0.999	1.161	1.066	1.201
Bukhara Region	1.100	1.096	1.133	0.996	0.952	1.083	0.985	0.931	0.955	0.752	0.776
Jizzakh Region	0.278	0.360	0.380	0.418	0.381	0.440	0.389	0.326	0.439	0.383	0.406
Kashkadarya Region	0.931	0.953	0.917	0.967	1.050	1.055	1.048	1.036	1.398	1.181	1.302
Navoi Region	3.144	3.318	4.046	4.490	4.431	4.086	4.461	4.560	4.251	3.928	4.581
Namangan Region	0.466	0.450	0.396	0.377	0.343	0.375	0.331	0.339	0.311	0.258	0.279
Samarkand Region	0.515	0.459	0.398	0.351	0.330	0.315	0.305	0.312	0.298	0.237	0.282
Surkhandarya R.	0.323	0.302	0.283	0.286	0.295	0.294	0.297	0.276	0.303	0.228	0.232
Sirdarya Region	0.460	0.541	0.427	0.429	0.402	0.533	0.396	0.365	0.474	0.348	0.361
Tashkent Region	1.368	1.487	1.569	1.537	1.650	1.604	1.690	1.720	1.514	1.378	1.582
Fergana Region	1.169	1.024	1.072	0.944	0.911	0.928	0.898	0.923	0.838	0.724	0.820
Khorezm Region	0.507	0.467	0.414	0.363	0.319	0.369	0.297	0.282	0.360	0.320	0.335
Tashkent City	1.700	1.744	1.729	1.823	1.468	1.568	1.604	1.519	1.162	1.158	1.358
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	11.3	13.4	20.1	23.3	21.4	19.7	24.3	24.7	16.7	18.1	19.8
Without Navoi R.	6.1	7.1	8.6	9.4	8.0	7.7	9.2	9.3	5.9	6.3	6.8

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

Output of Consumer Goods

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	0.425	0.400	0.341	0.332	0.307	0.344	0.321	0.299	0.328	0.264	0.281
Andijan Region	1.354	1.616	1.677	1.847	2.259	1.998	2.215	2.199	3.147	2.836	3.106
Bukhara Region	1.501	1.589	1.550	1.458	1.477	1.639	1.604	1.576	1.380	1.179	1.246
Jizzakh Region	0.266	0.385	0.573	0.655	0.723	0.618	0.628	0.599	0.704	0.636	0.677
Kashkadarya Region	0.616	0.656	0.560	0.615	0.470	0.507	0.458	0.440	0.447	0.394	0.405
Navoi Region	0.616	0.619	0.640	0.712	0.707	0.721	0.677	0.665	0.612	0.522	0.594
Namangan Region	0.665	0.579	0.571	0.561	0.573	0.609	0.611	0.613	0.546	0.440	0.495
Samarkand Region	1.226	1.072	1.016	0.884	0.836	0.789	0.793	0.837	0.799	0.664	0.789
Surkhandarya Region	0.433	0.377	0.364	0.356	0.403	0.365	0.382	0.395	0.317	0.281	0.293
Sirdarya Region	0.700	0.700	0.659	0.669	0.677	0.723	0.697	0.675	0.597	0.475	0.524
Tashkent Region	1.071	1.164	1.184	1.252	1.206	1.206	1.212	1.252	1.007	0.924	1.140
Fergana Region	1.076	1.009	0.934	0.844	0.903	0.824	0.916	0.948	0.830	0.747	0.839
Khorezm Region	0.787	0.543	0.551	0.544	0.501	0.568	0.515	0.487	0.469	0.426	0.423
Tashkent City	2.093	2.004	2.360	2.396	2.124	2.367	2.128	2.100	1.797	1.644	2.015
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	8.2	5.3	6.9	7.2	7.4	6.9	6.9	7.3	9.9	10.8	11.1
Without Tashkent City	5.6	4.3	4.9	5.6	7.4	5.8	6.9	7.3	9.9	10.8	11.1

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

Agricultural Produce

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	0.425	0.354	0.360	0.435	0.480	0.361	0.329	0.439	0.311	0.336	0.562
Andijan Region	1.170	1.119	1.150	1.051	1.042	0.845	1.342	1.087	0.797	0.979	0.948
Bukhara Region	1.340	1.375	1.321	1.376	1.418	1.242	1.632	1.352	1.245	1.322	1.630
Jizzakh Region	1.331	1.211	1.329	1.425	1.497	1.504	1.165	1.252	1.246	0.892	1.394
Kashkadarya Region	0.831	0.851	0.980	1.006	1.003	0.560	0.796	0.992	0.671	0.778	0.984
Navoi Region	1.238	1.144	1.149	1.218	1.218	1.222	1.491	1.110	1.231	1.289	1.287
Namangan Region	1.019	0.996	1.042	0.970	0.968	0.565	0.767	0.847	0.639	0.660	0.828
Samarkand Region	1.037	1.081	1.110	1.154	1.084	1.225	1.075	1.282	1.283	0.956	1.195
Surkhandarya Region	1.187	1.353	1.311	1.279	1.222	1.204	1.388	1.320	1.222	1.200	1.240
Sirdarya Region	1.397	1.501	1.373	1.393	1.636	1.286	1.519	1.503	1.346	1.473	1.778
Tashkent Region	1.511	1.539	1.268	1.255	1.242	1.916	1.168	1.205	1.996	1.213	1.189
Fergana Region	0.977	1.024	0.995	0.931	0.883	1.058	0.968	0.885	0.984	0.936	0.801
Khorezm Region	1.144	1.025	1.072	1.098	1.173	1.529	1.150	1.243	1.350	0.965	1.201
Tashkent City											
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	3.6	4.2	3.8	3.3	3.4	5.3	5.0	3.4	6.4	4.4	3.2

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

Investment

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	0.819	0.648	0.832	1.119	1.111	1.878	1.451	1.314	0.759	0.642	0.786
Andijan Region	0.552	0.505	0.439	0.641	0.377	0.382	0.352	0.386	0.250	0.338	0.390
Bukhara Region	0.705	0.627	1.063	0.701	1.174	1.144	1.185	1.092	1.554	1.265	1.368
Jizzakh Region	0.577	1.112	1.155	0.583	0.611	0.410	0.527	0.569	0.561	0.713	0.699
Kashkadarya Region	1.897	1.931	1.608	1.760	1.507	1.374	1.497	1.503	1.667	1.604	1.745
Navoi Region	2.014	2.535	2.125	2.213	1.835	1.707	1.779	1.929	1.548	1.913	2.215
Namangan Region	0.701	0.501	0.476	0.471	0.449	0.457	0.504	0.518	0.467	0.450	0.510
Samarkand Region	0.523	0.453	0.404	0.531	0.505	0.537	0.640	0.589	0.367	0.400	0.467
Surkhandarya Region	0.470	0.509	0.451	0.600	0.641	0.854	0.736	0.699	0.902	0.814	0.845
Sirdarya Region	0.772	0.754	0.713	0.592	0.819	0.511	0.849	1.054	0.694	0.602	0.680
Tashkent Region	0.747	0.762	0.899	0.872	1.085	1.235	1.118	1.055	1.040	0.897	1.005
Fergana Region	0.587	0.796	0.931	0.480	0.396	0.275	0.499	0.439	0.662	0.506	0.495
Khorezm Region	0.630	0.695	0.855	0.437	0.874	0.525	0.511	0.589	0.405	0.406	0.426
Tashkent City	2.730	2.272	2.131	2.864	3.088	2.800	2.382	2.426	3.086	2.209	2.713
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	5.8	5.6	5.3	6.5	8.2	10.2	6.8	6.3	12.3	6.5	7.0
Without Tashkent City	4.3	5.6	5.3	5.1	4.9	6.8	5.1	5.0	2.1	5.6	5.7

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

Retail Trade Turnover

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	0.470	0.485	0.491	0.505	0.503	0.489	0.485	0.491	0.513	0.430	0.466
Andijan Region	1.272	1.314	1.356	1.284	1.077	1.349	1.171	1.086	1.204	0.966	1.014
Bukhara Region	0.756	0.841	0.902	0.855	0.873	0.886	0.882	0.881	0.922	0.815	0.915
Jizzakh Region	0.420	0.530	0.630	0.602	0.617	0.623	0.601	0.600	0.612	0.506	0.557
Kashkadarya Region	0.662	0.697	0.715	0.755	0.768	0.735	0.748	0.757	0.708	0.653	0.745
Navoi Region	0.728	0.770	0.808	0.800	0.965	0.841	0.901	0.961	0.906	0.813	0.964
Namangan Region	0.691	0.747	0.805	0.773	0.720	0.801	0.746	0.743	0.795	0.675	0.740
Samarkand Region	0.791	0.709	0.707	0.744	0.711	0.717	0.705	0.694	0.706	0.621	0.685
Surkhandarya Region	0.588	0.594	0.665	0.700	0.716	0.711	0.742	0.727	0.729	0.681	0.767
Sirdarya Region	0.691	0.665	0.639	0.609	0.595	0.576	0.591	0.618	0.558	0.506	0.606
Tashkent Region	1.033	1.041	1.038	1.112	1.179	1.107	1.172	1.190	1.091	0.990	1.137
Fergana Region	1.219	1.145	1.232	1.153	1.076	1.141	1.100	1.084	1.011	0.876	0.980
Khorezm Region	0.662	0.685	0.668	0.610	0.605	0.606	0.594	0.591	0.649	0.601	0.686
Tashkent City	2.854	2.789	2.452	2.550	2.816	2.516	2.718	2.808	2.831	2.604	3.056
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	6.8	5.7	5.0	5.0	5.6	5.1	5.6	5.7	5.5	6.1	6.6
Without Tashkent City	3.0	2.7	2.8	2.5	2.3	2.8	2.4	2.4	2.4	2.3	2.4

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

Fee-Based Services

Regions	2000	2001	2002	2003	2004	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Karakalpakstan	0.410	0.340	0.358	0.380	0.393	0.379	0.406	0.387	0.440	0.355	0.390
Andijan Region	0.870	0.856	0.771	0.813	0.999	0.590	0.800	0.925	0.615	0.694	0.887
Bukhara Region	0.927	0.856	0.878	0.883	0.894	0.928	0.934	0.908	0.983	0.863	0.932
Jizzakh Region	0.455	0.441	0.448	0.481	0.488	0.502	0.522	0.493	0.560	0.459	0.484
Kashkadarya Region	0.463	0.420	0.423	0.462	0.420	0.410	0.400	0.402	0.415	0.374	0.427
Navoi Region	0.707	0.718	0.663	0.755	0.844	0.933	0.845	0.841	1.027	0.838	0.917
Namangan Region	0.500	0.479	0.448	0.506	0.504	0.542	0.506	0.519	0.540	0.470	0.567
Samarkand Region	0.626	0.612	0.606	0.687	0.666	0.620	0.589	0.630	0.632	0.574	0.677
Surkhandarya Region	0.480	0.441	0.444	0.457	0.469	0.475	0.455	0.467	0.491	0.396	0.454
Sirdarya Region	0.366	0.361	0.366	0.382	0.395	0.459	0.407	0.387	0.502	0.401	0.430
Tashkent Region	0.732	0.670	0.616	0.631	0.653	0.652	0.671	0.677	0.638	0.590	0.642
Fergana Region	0.610	0.553	0.556	0.586	0.631	0.600	0.585	0.597	0.655	0.574	0.666
Khorezm Region	0.707	0.596	0.581	0.602	0.659	0.696	0.657	0.634	0.833	0.654	0.684
Tashkent City	3.455	3.761	4.090	4.201	4.156	4.548	4.415	4.304	4.197	3.749	4.157
R. of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of Variation (times)	8.4	11.1	11.4	11.1	10.6	12.0	11.1	11.1	10.1	10.6	10.7
Without Tashkent City	2.5	2.5	2.5	2.3	2.5	2.5	2.3	2.4	2.4	2.4	2.4

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

ANALYTICAL PART

1. Taxation Reform of Small-Scale Entrepreneurship in Uzbekistan

The present article is based on the research conducted in the framework of the "Economic Reforms of Uzbekistan" USAID Project. The authors of the research work are Khaitboy Makhmudov, Mirzo Iskandar Gulamov and Sahjar Fazilov.

Introduction

The purpose of the given article is to evaluate the experience of Uzbekistan and other transition countries with regard to the taxation of small enterprises in order to develop proposals on the reform of the taxation system with the aim of stimulating the development of small enterprise and increasing its contribution to the national economy, improving tax administration, reducing the tax burden with a minimum impact on market mechanisms and accelerating growth in line with the main taxation principles in the country.

Objectives and other issues of taxation of small-scale entrepreneurship in transition countries.

The main objectives of the unified taxation system of small and medium enterprises (SME) in transition countries (particularly, in CIS countries), theoretically as well as practically are to improve the business environment and to unify the tax administration, as well as to control the shadow economy. Research undertaken by international financial institutions, such as the World Bank, International Monetary Fund and other organizations, supports the idea of unified SME taxation to promote the development of small and medium enterprise. The introduction of a unified taxation system will protect SMEs from the necessity to understand and accept complicated, unusual and often ambiguous rules of taxation, as well as from unpredictable and debatable decisions taken by the representatives of tax bodies. It is also believed that the limited powers of the newly-fledged systems of tax administration of transition countries are not able to guarantee full control over payment by tax-payers in the system as a whole. The majority of small-scale enterprises in transition countries are new enterprises, as earlier registered enterprises go out of business. The introduction of a unified taxation system for the majority of small tax-payers reduces the burden of control over tax payments and allows the tax authorities to concentrate on larger and more important tax-payers. Thus, one can distinguish the following purposes and objectives of the specific regulations of SME taxation:

- Reduction of the tax burden for SMEs and stimulation of their development;
- Reduction of the shadow economy and decrease of tax evasion;
- Increase in the base of assessment and tax in payments by including SMEs which operated earlier in the shadow sector;
- Reduction of tax payment charges for SMEs;
- Reduction of the problems of tax administration with regard to control over tax payments by SMEs;
- Intensive involvement of SMEs in accelerating growth and improving the common welfare by means of expanding output and creating additional workplaces.

Major types and methods of the specific regulations of SME taxation applied in transition countries.

The most common types of specific regulations are:

- *Unified taxes* – taxes calculated and levied on the basis of assessment, through simplified forms of accounting and book-keeping. Usually, the indicators of turnover, assets' value and the results of economic activity serve as the basis of assessment for unified taxes;
- *Imputed taxes* – taxes on estimated incomes. As a rule, they are based on the assessment of profitability of production factors. In simple cases (for instance, in the patent form of taxation) this can be an averaged assessment of profitability of a type of entrepreneurial activity not concerned directly with the accounting procedures for specific economic agents.

Unified taxes do not envisage the introduction of complex financial accounting and are quite simple for tax-payers and the tax administration. They partially substitute the taxes paid under general tax regulations. The unified taxation base consists of adjusted assessments of various income indicators or the results of economic activity calculated according to simplified schemes. Criteria which allow the use of the unified taxation regulation, as a rule, include upper limits (thresholds) on taxable indicators and the number of employees. There can also be lower thresholds where the incentive or zero rate of the unified tax (exemption limit) is used. The schedule of the tax rates can be adjusted depending on the magnitude of the indicators used.

For instance, in Lithuania small-scale enterprises with a gross revenue of no more than 100 thousand Lit (US \$26 thousand) per year can use unified tax regulations at their discretion. In Romania, micro-enterprises with

up to 10 employees and gross revenue of 100 thousand Euro per year pay tax from gross revenue at the rate of 1.5%. In Albania the fixed tax rate is applied for micro-enterprises with an annual turnover of up to 2 million Lek (US\$14,000). Small companies with an annual turnover of 2-8 million Lek pay a single tax at the rate of 4% of turnover. In 2002 in Kyrgyzstan the unified taxation system of SMEs fixed the rates of 5% and 10% depending on the gross receipt and type of business. The project of the new Tax Code of Kyrgyzstan provides differentiation of rates from 3% to 10% depending on the type of activity, with a limitation on gross receipts of 5 million Som per year. The unified tax, in particular, replaces organizations' income tax payment, highway use tax, and income tax for individuals.

In Armenia, the tax on small-scale enterprises defines three types of commercial activities: merchants pay 4% of proceeds, suppliers of foodstuffs – 7%, and other types of commercial activity pay 7% – or, on revenue over 30 million Dram, 12%. In Kazakhstan, a unified gross revenue tax is applied at a rate from 4% to 11% for individuals and from 5% to 13% for legal entities. Usually, in systems of unified taxation, no distinction is made between individuals and legal entities. Therefore, the “Specific Tax Regulations, based on unified accounting” that determine not only progressive, but also various tax rates for individuals and legal entities in Kazakhstan, are rather particular¹. In the Ukraine, the *single tax for legal entities* exempts an agent of entrepreneurial activity from the company's income tax, land tax payment and some other payments. Two alternatives are provided for the payment of the single tax:

- 6% of the amount of revenue (without taking into account excise tax) when paying VAT;
- 10% of the revenue (without taking into account excise tax) with an exemption from VAT.

Single tax payers are not released from the responsibility of keeping records of incomes and costs and submitting accounts. At the same time, records and accounting are simplified as much as possible. Book-keeping is submitted only once a quarter.

The main advantages of the unified taxes lie in their comparative simplicity for the tax-payers as well as for the tax administration. Their main disadvantages include the discrepancy in revenue assessments on the basis of the indicators used as opposed to the actual revenues of the tax-payer. Under unified taxation, there is little differentiation of tax-payers according to profitability of their business resulting from the types and sectoral directions of entrepreneurial activity and regional peculiarities. The problem of “thresholds” important for all specific taxation regulations appears to be most critical in the systems of unified taxation. This problem specifically appears in the artificial fragmentation of enterprises in order to qualify for preferential taxation conditions.

Imputed taxes. The majority of imputed taxes are estimated on the basis of the assessments of average profitability of production factors (having low substitution flexibility), or certain types of economic activity. Theoretically, imputed taxes are not optimal taxes for a competitive economy². However, they are widely applied in the taxation of SMEs in many countries. Some research (in which models considered expenses for audits and possibilities of income tax evasion) has concluded that taxes on imputed earnings can be sufficiently effective and can accompany the common taxation system³.

Imputed taxes are levied with the use of two basic methods of determining tax liabilities: the *method of standard assessments and method of approximate (estimated) assessments*, which significantly differ in their range of consideration of individual characteristics of tax-payers. In Bulgaria, in an attempt to take into account various levels of profitability of various types of entrepreneurial activity, some 43 types of activities were distinguished. The resulting system was extremely complex, contradictory and unfair. For instance, tax rates for certain types of activity distinctly varied in different zones and contradicted the “ordinary” ideas of profitability of one or another type of entrepreneurial activity⁴.

In Ukraine, individuals registered as entrepreneurs can select a **single tax for individuals**. The single tax replaces VAT payment (at the discretion of the tax-payer), income tax for individuals, collections for obligatory state retirement and social insurance and a range of other tax payments.

1 Engelschalk, Michael (2003) “Creating a Favorable Tax Environment for Small Business Development in Transition Countries”, *The World Bank*.

2 Myles, G. (1996), *Public Economics* (Cambridge).

3 See, for instance, Marhuenda F., Vasin A., Vasina P. (2003), “Optimal choice of the tax system under tax evasion”, Working paper No.2003/ 040, Moscow, New Economic School, Christian R. Jaramillo H. (2004), “Presumptive Income Taxation and Costly Tax Compliance”, Department of Economics University of Michigan.

4 Engelschalk, Michael (2003) “Creating a Favorable Tax Environment for Small Business Development in Transition Countries”, *The World Bank*.

Experience of application of the specific taxation regulations in the Republic of Uzbekistan.

The main goal of the state support of the small-scale entrepreneurship in Uzbekistan is the stimulation of accelerated development of SMEs and the dramatic increase in their role and share in the economy of the country, i.e. the aggressive involvement of SMEs in accelerating growth and improving the welfare of the population, by means of increasing production and creating additional work-places. Owing to state support, as of the end of the first quarter of 2004, according to the official data of the State Committee of Statistics of the Republic of Uzbekistan, the number of small enterprises made up 256.3 thousand units or 86.6% of the total number of registered enterprises. The activity level of registered SMEs was 86.8% or 222.4 thousand units. As a result, the share of SMEs in the GDP of the Republic increased to 27.8% in 2004, as compared to 26.8% in 2003. SME development helped to create 374.5 thousand new work-places in 2003 alone, an increase of 101.7% over 2002. While the share of those employed in SMEs was 53.5% of the total number of employed in 2002, in 2003 and 2004 the share increased to 57% and 59.4% respectively. All this points to the importance and necessity of SME promotion from the direction of the state, as the statistic data confirm that this sector in particular is the key to the formation of the so-called middle class – a stratum of independent, self-sufficient citizens of the country.

The taxation methods of SME in the Republic of Uzbekistan. Today, unified as well as imputed taxation is applied to small-scale entrepreneurship, in order to promote and stimulate SME in Uzbekistan. The system of payments and tax rates are fixed by The Cabinet of Ministers of the Republic of Uzbekistan.

The unified taxation system is applied in two ways:

- *Single tax;*
- *Single tax payment.*

The single tax provides the payment of a single tax instead of paying a set of national taxes as well as local taxes and collections introduced by local government authorities, with the exception of:

- collections for trading rights, including license collections for the right to deal in certain types of goods;
- collections for the registration of legal entities;
- entitlement payments for pollution and waste disposal in the territory of the Republic of Uzbekistan.

The following are payers of the single tax:

1. Purchasing, supply and sales agencies, brokerage firms, enterprises and organizations rendering services on the basis of commission contracts.
2. Micro-firms and small-scale enterprises with activities on lottery organization, totalizators and other games based on risk-taking.

Single taxation in the first category of enterprises is based on *gross revenue*.

In 2001-2002 the rate of the single tax was 25%; since the year 2003 the rate has been increased to 30%.

The second group of enterprises pays single tax at the rate of 20% of *gross receipts*. The payers of the single tax must also pay deductions to the State's funds-in-trust.

The single tax payment was introduced by the Decree of the President of the Republic of Uzbekistan # UP 3620 "On additional measures for the promotion of the development of micro-firms and small-scale enterprises" dated from 20 June, 2005, according to which since 1st of July 2005 micro-firms and small-scale enterprises should pay a single tax payment instead of paying *the single tax, obligatory deductions to off-budget Pension fund, Republican Road Fund and The Fund of School Education*.

The single tax payment is not applied to micro-firms and small-scale enterprises of the economy's sectors, for which a specific tax regulation on the main type of activity is determined. The subject of single taxation is gross revenue. The rates of the single tax payment on gross receipts are fixed in the range from 6 to 50% depending on the type of activity.

The unified taxation system is applied together with the existing taxation system provided by the Tax Code of the Republic of Uzbekistan. The right of choice of the taxation system is given to micro-firms and small-scale enterprises on a voluntary basis, except for those micro-firms and small-scale enterprises conducting certain types of entrepreneurial activity, on which a specific tax regulation is determined.

Payers of the single tax and single tax payment dealing with several types of activity must keep a separate accounting of the taxation of each type of activity, and they must clarify the single tax and single tax payments resulting from the subject of taxation for a concrete type of activity, as well as the corresponding rate of the single tax and single tax payments.

Imputed (fixed) tax is applied in relation to certain types of entrepreneurial activity carried out by legal entities and individuals. With regard to taxation of legal entities, a clear imputed tax is applied, while taxation of individuals can be considered as a patent form of taxation.

In Uzbekistan, fixed tax is determined by the standard assessment method, using physical indicators of certain types of activity and the amount of the minimum monthly wage as a basis. The rate of the imputed tax differs depending on the location of the enterprise or entrepreneur.

Fixed tax is paid by:

- legal entities for the set of national taxes as well as local taxes and collections;
- individuals for individual income taxes as well as other national taxes, local taxes and collections.

If entrepreneurs/legal entities deal with other types of activity together with the activity on which the fixed tax is paid, then they must keep a separate accounting of other types of activity as well, paying taxes and collections determined by legislation for this category of payers.

Analysis of the existing taxation system for SMEs. As the single tax payment was introduced recently, in this paper the analysis of the activity of small-scale entrepreneurship does not include it. One should note, that during the investigated period, micro-firms and small-scale enterprises which pay the single tax payment had previously paid the single tax. Below is a structural breakdown of the proceeds from direct taxes for the period of 2002-2004.

Structural breakdown of the proceeds from direct taxes (in% to total)

Indicators	2000	2001	2002	2003	2004
Direct taxes, of which:	100	100	100	100	100
Income tax from enterprises	49.4	39.7	34.4	34.1	29.9
Gross revenue tax from trade and public catering enterprises	-	-	-	-	8.5
Single tax from micro-firms and small-scale enterprises using unified taxation system	-	7.8	13.1	14.1	10.2
Income tax from individuals	44.5	44.9	45.6	46.7	46.2
Fixed tax on the incomes of entrepreneurs dealing with entrepreneurial activity	6.1	7.6	6.9	5.1	5.2

Source: Ministry of Finance of the Republic of Uzbekistan

The analysis of tax proceeds from the single tax from micro-firms and small-scale enterprises reveals some instability. Thus, while in 2001 proceeds from the tax made up 7.8% of the total proceeds from direct taxes, in 2002 this indicator increased by more than 5 percentage points and reached 13.1%. In 2003 this indicator was even higher, but in 2004 it decreased by almost 4 percentage points. This resulted from the fact that from the second half of 2002 till the end of the first half of 2003, small-scale enterprises of trade and public catering paid taxes on gross receipts, but from the second half of 2003, they switched to tax payments on gross revenues. Taking this into consideration and comparing periods with equal sources of tax revenue, i.e. for 2001 and 2004, one should note the growth of the single tax share from micro-firms and small-scale enterprises in the structure of direct taxes from 7.8% to 10.2%.

Fixed tax on the incomes of entrepreneurs had the lowest share in the structure of direct taxes for the whole investigated period. The highest indicator was achieved in 2001 (7.6%); however, since that time a stable reduction of that indicator has been observed. In 2004, total tax revenues from SMEs made up 15.4% of the consolidated proceeds on direct taxes. Against the background of the number of small-scale enterprises forming an absolute majority of the total number of registered enterprises (86.6%) and their high index (86.8%), this result is considered as a low indicator.

This result testifies that regardless of their high index, SMEs face not only taxation but also administrative difficulties, which significantly hinder the efficiency of their activity. Thus, according to the survey for 2004 on the complexity of administrative procedures for the representatives of SMEs, 62% of the respondents listed taxation, 78% - import, 61% - licensing, 46% - inspections, and 43% - clearing transactions in banks as "rather problematic" or "very problematic" processes⁵. Thus, regardless of the government's support of SMEs and the application of specific tax regulations and benefits for them, the majority of SME representatives still regard taxation of SMEs as problematic and burdensome.

Certainly, the introduction of the single tax payment sufficiently simplifies taxation and accounting for SMEs and will serve to stimulate their development. But, despite this, the unified taxation, book-keeping and accounting system, though possessing a range of advantages (simplification of book-keeping and accounting, substitution of national and local taxes by a single tax), still contains a number of significant shortcomings:

- Instead of true unification of the taxation, book-keeping and accounting systems for various types of SME activity, regulations on maintaining separate business book-keeping and accounting are anticipated.

⁵ "Report on Human Development, Uzbekistan – 2005", Development Program of the UN, The Center for Economic Research.

- The system does not contain a mechanism for the resolution of VAT payment by enterprises purchasing production from SMEs;
- Under the generally established tax rate on the incomes of legal entities at the rate of 15%, the rate of the single tax payment of 13% can still be considered extremely high, as it is paid not from gross revenue, but from gross receipts, which are usually considerably higher than the gross revenue of an enterprise.

Small-scale enterprises that use the unified taxation system are not profitable partners for other contracting parties. The buyers of SME production are not able to offset the VAT paid by a small-scale enterprise to the supplier, as it is not a VAT payer. Apart from this, SMEs cannot afford to reduce prices for their products in comparison with competitors that pay VAT. Consequently, the product of small-scale enterprises becomes noncompetitive. This is an invisible form of the tax burden for SMEs, and it prevents the cooperation of small-scale enterprises between each other and with large enterprises, which leads to the distortion of market mechanisms, infringes upon the principle of neutrality of the tax system and has an adverse effect on the development of the entrepreneurial environment as a whole.

In addition to this, ascribing VAT to the product's cost price by small-scale enterprise results in yet another concealed tax burden. Firstly, an SME purchases a product with 20% VAT, but is unable to offset this tax and must include it in the value of the given product. Further, at the time of the product's sale, the paid VAT artificially raises the gross receipts of the enterprise, as it is included in the final price of the product. Later, the enterprise must pay 13% of gross receipts, including the VAT already paid earlier to the supplier by the enterprise. As a result, the SME not only cannot reduce its price, but also is subject to double VAT taxation of 20% when purchasing the product, and 13% during its later sale.

Final conclusions and proposals on reforming the taxation system of small-scale entrepreneurship (business) in the Republic of Uzbekistan.

In order to fully realize the potential of small-scale entrepreneurship, it is necessary to create additional conditions for its development. Reduction of the actual tax burden and unification of taxation, book-keeping and accounting systems should become one of the most important steps on the path towards the implementation of the government's policy in the sphere of small-scale entrepreneurship.

In order to achieve this goal, on the basis of our research, two primary proposals are suggested:

1. To allow micro-firms and SMEs to offset VAT paid to suppliers of products, *at their discretion*. In other words, either the *single tax payment* replaces VAT among other taxes, at the request of the micro-firm or SME, or the enterprise remains a VAT payer.
2. To reduce the rate of the single tax payment to 10% for enterprises of all sectors of the economy paying this tax at the rate of 13%.

The adoption of the first proposal will have the following positive effect on the activity of the SME in Uzbekistan:

- The competitiveness of the products of SMEs would grow;
- Possibilities for cooperation of SMEs among each other and with large businesses would improve;
- The concealed tax burden on SMEs would be reduced substantially;
- The distortion of market mechanisms would be prevented;
- The neutrality principle would be provided in the tax system.

The second proposal promotes the provision of the equity principle in the tax system, the stimulation of entrepreneurs' legalization and the growth of profitability. The proposed tax rate is less than the actual rate by 23%. Even according to the most pessimistic forecasts on the further revenue from the single tax payment, and assuming that the given category of payers is the only group of payers of the single tax payment – which is practically impossible – then the expected revenue from this tax, according to the data for 2004, makes up 7.9% of the total proceeds from direct taxes. That is, even the most pessimistic forecast exceeds the proceeds' rate on the single tax for 2001. Moreover, this probable reduction in tax proceeds can be compensated for by the decrease of budget expenditures for unemployment benefits, i.e. some expenditures are substituted by others, while at the same time, expenses leading to the growth of the number of work-places significantly benefit society from a social point of view, as opposed to the pay benefits that were mentioned above.

In addition, innovations in the taxation system of small-scale entrepreneurship should be regularly and broadly covered in the mass media, in order to increase the tax literacy of entrepreneurs as well as the representatives of the tax bodies themselves, and to avoid errors in taxation. According to our forecasts, adoption of those measures will fundamentally improve the economic environment for the development of the SME in Uzbekistan and provide the necessary incentives to increase its importance in the national economy and the acceleration of growth in the country.

2. The Processing Factor in the Assessment of Sectoral Priorities of Industrial Development: Use of the Input-output Balance (IOB) of National Economic Accounting (NEA)

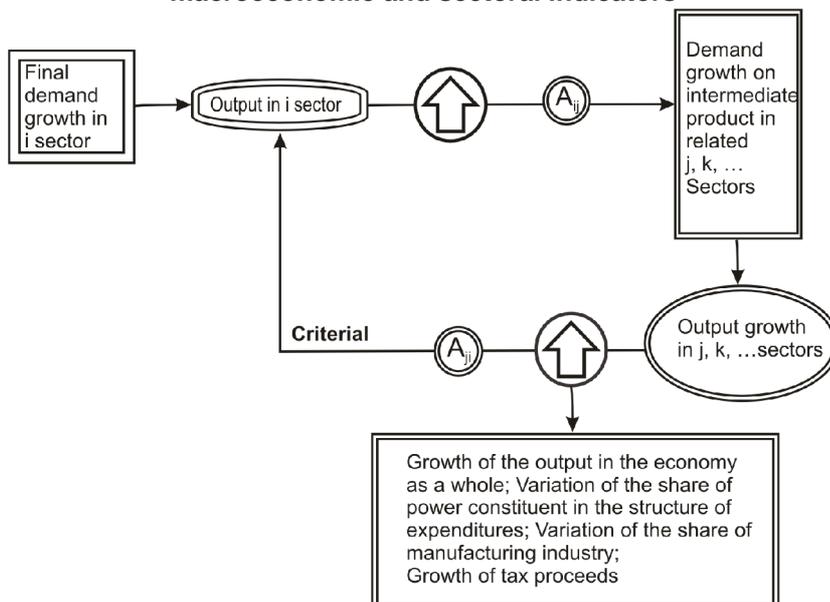
S. Chepel
N. Ibragimova

The competitiveness of the national economy and prospects for its development are defined above all by the level of technological development, the structure of fixed capital, the intensity of its renewal and the efficiency of existing intersectoral relations. Consequently, their consideration and analysis form an important constituent when assessing sectoral priorities and working out a strategy of industrial development.

The principle of input-output balance (IOB), developed within the system of national economic accounting (NEA), provides an opportunity to take this factor into account, since it involves reporting data on the input-output a_{ij} coefficient at the level of the expanded sectors of industry and the economy. These determine the volume of production costs of the i – sector necessary for the output of the product unit of the j – sector (for instance, for a_{41} , where 4 is the number of the gas sector of industry and 1 is electric power, $a_{41} = 0.4$ means that it is necessary to spend 40 Tiyin of the gas industry product for the production of 1 Soum of electric power). In this way, the set of these coefficients as a part of **IOB** in the context of the **NEA** table allows the assessment of not only the materials output ratio of various types of goods and services typical for the dominant technological production mode in the economy, but also the orientation of intersectoral relations on supply and consumption of intermediate production.

The diversity of the technologies reflected in the significant dispersion of a_{ij} coefficients (from 0 to 0.4 – 0.5) used in various economic sectors also defines different effects in the economy arising as a result, for instance, of *the final demand for production in various sectors for the same variable* (for example, for 100 billion Soum). The scheme in Figure 1 demonstrates the causal effects evolved in this case.

Figure 1. Logic chart of the influence of demand growth upon macroeconomic and sectoral indicators



Production growth in these sectors will be the first response of the economy to the growth of the final demand in the i sector. Output expansion will generate extra demand for intermediate goods (components, raw materials, other materials, etc) from sectors j, k and l technologically related to the i sector, with the quantity of the demand for this intermediate production defined by $a_{ij}, a_{ik}, a_{il}, \dots$ coefficients. New demand for intermediate production will increase output in j, k, l, \dots sectors, and cause additional growth in the i sector through their current relations with the i sector (a_{ji}, a_{ki}, \dots coefficients). As a result of a range of iteration cycles, the economy will transform to a new stable condition, with a higher output volume,

increased value of tax proceeds, modified level of processing industries' share and other macro indicators that can serve as criteria in the analysis of the economy's response to the changes in the final demand for the production of various sectors of industry.

The results of variant assessments based on the chart analyzed above, and according to the data of IOB in the context of NEA for 2003¹, are quoted in Table 1. It contains indicators for economic response as a whole (output, tax proceeds, structural indicators) as well as sectoral indicators of output for the first five sectors, where the output alterations are the highest possible. If the final demand for electric power (from the population, state or external sector), grows by 100 billion Soum (a conditional figure, equal for all economic sectors), then this will bring an increase in power production by a factor of 1.23 times higher than the initial demand growth (sectoral multiplier), i.e. by 123.2 billion Soum. Among technologically related sectors in the

¹ IOB within NEA for 2003 has been adjusted by the specialists of the Center taking into consideration statistics of the reporting data of NEA for 2003.

sphere of supply and consumption of intermediate production with the power industry, the highest production growth will take place in the gas industry – by 73.8 billion Soum (utilization of gas in thermoelectric power stations). In their turn, those two sectors will stimulate the production growth of the machine-building sector (production growth – 17.2 billion Soum), petrochemistry (15.2 billion Soum), fundamental chemistry (9.5 billion Soum), and so on. Therefore, if it becomes necessary to increase power production by 11.3% (or by 123.2 billion Soum), then within the current technological relations and intensity of raw materials output, this growth will be possible only in the case of simultaneous production growth in the gas industry of 5.2%, machine-building – of 1.6%, petrochemistry – of 1.6% and fundamental chemistry – of 1.8%.

Similarly, it is possible to estimate the required level of coordination in sectoral development for other sectors of the economy as well. For instance, the growth production of the oil-refining industry (petrol, diesel and other oils, etc) by 11.3% will demand an increase in oil production by 11.5%, gas production – by 2.4%, electric power – by 1.6%, freight services (oil and liquefied gas delivery) – by 1.2%, etc.

At the same time, *equal growth of the final demand of various sectors' products* (by 100 billion Soum) *has a different impact on the economy as a whole*. The use of the standard model of IOB within NEA allowed determination of the output growth in the economy as a whole as a response of the economy to the growth of final demand. As for the power industry, demand growth for its production by 100 billion Soum will increase gross output of the whole economy by 292.1 billion Soum, i.e. the economy's growth multiplier for electric power makes up 2.9, for the oil industry – 2.1, the oil-refining industry – 2.8 and so forth. *The stronger the technological relation of a sector with the whole economy, the higher the multiplier's figure will be, and vice versa.*

Table 1 Fragment of the table revealing the economy's response to a growth in final demand for the production of various sectors of the real sector of 100 billion Soum.

№	Final demand for the product of:	Growth of the output indicators, economy's structure and the efficiency of resources' utilization	
		Names of indicators and sectors	%
1	Power industry	Output within the economy as a whole	1.3
		Share of power inputs (percentage points)	-
		Share of processing industry (percentage points)	-
		Tax proceeds	-
		Output within sectors:	1.5
		Power industry	11.3
		Gas industry	5.2
		Machine-building and metal-working	1.6
		Oil-refining industry	1.6
		Chemical industry	1.8
2	Oil industry	Output within the economy as a whole	1.0
		Share of power inputs (percentage points)	-
		Share of processing industry (percentage points)	-
		Tax proceeds	-
		Output within sectors:	1.7
		Oil industry	20.7
		Transport and communication	1.8
		Machine-building and metal-working	2.1
		Power industry	1.5
		Gas industry.	0.9
17	Other industrial productions	Output within the economy as a whole	1.1
		Share of power inputs (percentage points)	-
		Share of processing industry (percentage points)	-
		Tax proceeds	-
		Output within sectors:	1.0

Source – the authors' computations with the use of the standard model of IOB within NEA.

Figure 2a shows the first five economic sectors, the growth of final demand for the product of which has the highest stimulating influence upon the economy as a whole (*according to the criterion of gross output*). These are: *chemical industry* (3.2), *machine-building and metal-working* (3.0), *medical industry* (2.9), *oil-refining industry* (2.8), *coal* (2.7), and *light industry* (2.7). Thus, if we use final demand as the source of growth increase, then the above-mentioned sectors will have the highest priority, as the increase of demand for the product of those sectors per unit (in absolute terms, for instance, for 1 million Soum), raises gross output within the economy as a whole by a figure from 2.7 to 3.2 units (million Soum).

The objectives of the *reduction of power intensity of GDP (output)*, *improvement of economic structure (for instance, in accordance with the criterion of the share of processing sectors in production volumes within the economy as a whole)*, etc., are issues of great importance for the growth of competitiveness of the national economy. Indeed, the same growth of the final demand in various sectors, owing to the differences in the

use of technological means of production, leads to diverse economic effects on the production indicator. The latter, in its turn, changes the ratio among mining and processing* sectors of industry. For instance, with a growth of final demand for gas of 100 billion Soum, as a result of changes in the structure of production, the share of the processing industry in the structure of economic output as a whole will be reduced from 26.8% to 26.6% or 0.2 percentage points. If final demand for the production of light industry increases (also by 100 billion Soum), then the share of the processing sector will grow by 0.3 percentage points.

Similar evaluations were made for other sectors as well. The results (see Figure 2 b) reveal that the top priority industrial sectors, *with regard to the criterion of the development of the economy's processing sector*, are the machine-building and metal-working industries (which increase the share of the processing sector in the structure of output in the economy as a whole by 0.57 percentage points), timber and paper industry (0.53), building materials industry (0.41), food industry (0.35), light industry (0.33), glass and white ware industry (0.31). From the point of view of the reduction of *aggregate power inputs per unit*, the highest priority should be given to the sectors of machine-building and metal-working (see Figure 2 c), (which decrease the share of the fuel and energy complex sectors in the structure of gross output by 0.17 percentage points), light industry (0.15), flour-and-cereals industry (0.14), food industry (0.11), timber and paper industry (0.08), construction (0.06) and other industrial productions.

If the primary criterion is the *restriction of budget deficit* (see Figure 2 d), then the highest sectoral priorities should be given to the coal industry (which increases tax proceeds by 45.2 billion Soum), trade, public catering and intermediate activities (40.5 billion Soum), oil-refining industry (23.1), transport and communications (22.9), oil industry (19.7 billion Soum) and food industry (19.5 billion Soum) (see Table 1). An analysis of the priorities' development on the *set of the criteria investigated above*, can summarize the considered approaches. If the same sector is included in the five primary sectors for all (or the majority) of the introduced criteria, then this sector can be evaluated as a primary sector (or sectors) in view of the aggregate of criteria related to the requirements of development, competitiveness growth and strengthening of macroeconomic stability.

The analysis of the obtained results show that for Uzbekistan those sectors are primarily **machine-building and metal-working** (the sector has a priority according to the criteria of the growth of gross output in the economy (2nd place), improvement of industrial structure (1) and reduction of the share of power input (1)); **light industry** (according to the criteria of the growth of gross output in the economy (7th place), improvement of the industrial structure (6) and reduction of the share of power input (2)); and the **food industry** (according to the criteria of the improvement of industrial structure (5), reduction of the share of power input (4) and growth of tax proceeds (7)).

The elaborated methodology allows an easy expansion of the number of criteria (for instance, introduction of the criterion "creation of new work-places" into the analysis). The list of additional criteria can include:

- Provision of economic security in the sphere of successful performance of the fuel and energy complex, guaranteeing the needs of other economic sectors;
- Provision of food security with relation to the development of agriculture and processing productions (food and light industries);
- Provision of the development balance of labor-intensive sectors and creation of new work-places;
- Provision of the priority development of industry through the balanced development of objects of infrastructure (transport, communication, informational technologies, etc.);
- Expansion of export-oriented and high-technology productions;
- Provision of a greater contribution of industry to the stable economic development of the country.

Modelling the consequences of the transition to new technologies (with the revision of corresponding a_{ij} coefficients) and obtaining new evaluations on the priorities of industrial development in conformity with advanced technologies and modern ways of industrial engineering can be seen as the further development of this approach.

At the same time, in order to obtain more specific evaluations on specialized sectors of the Republic (cotton-ginning, automobile industry, textile sector, household chemical goods, etc), more detailed reporting data of IOB within NEA must be elaborated, including up to 100 economic sectors. The use of detailed IOB within NEA will allow a considerable strengthening of the analytical abilities of other models that are being developed in CEEP together with the experts of the Consolidation Unit under the Department of Macro-regulation of the Ministry of Economy. All these require an essential acceleration of research on the establishment of the data reporting system of IOB within NEA in the Republic, based on modern methodological principles and approaches.

* Light and food industry, machine-building and metal-working, building materials industry, glass, whitewear and medical industries are included in processing sectors.

3. Improvement of the Benefits System Provided In the Tax Legislation of the Republic Of Uzbekistan

The present paper is based on research conducted by the Center for Economic and Financial Research in the framework of the USAID "Economic Reform Project in Uzbekistan". The authors of this paper are M.T. Kadirov, V.A. Li, Z.R. Menaliev and D.Sh. Sultanov.

Introduction

The given paper is aimed at the study of the tax benefits guaranteed by existing tax legislation. The study was aimed at determining the efficiency and expediency of present tax benefits. Special emphasis was made on evaluating the influence of tax benefits on competition, budget receipts and the development of the economies of the state and business. Benefits are studied for the three types of tax groups: (i) Direct taxes – income (profit) tax of legal entities and income tax of individuals, as well as the single tax payment; (ii) Indirect taxes – VAT, excise and custom duty; (iii) Resource taxes – mineral resources' use tax, water resources' use tax, land –tax and property tax, as well as the single land tax.

ANALYSIS OF THE TAX BENEFITS GUARANTEED ON DIRECT TAXES

Economic efficiency of tax benefits for entrepreneurs on the income (profit) tax for legal entities.

Benefits provided by the Tax Code

1. Exemption from tax payments for enterprises specialized in the production of prosthetic and orthopedic goods and inventory as well as those rendering services for invalids as their primary activity. This initiative intends to provide a financial incentive for the production of prosthetic and orthopedic goods, and has a social character. Eliminating this preference would result in price increases for suppliers and would adversely affect solvent demand. On the other hand, exemption from the income (profit) tax without a corresponding exemption from other taxes and assignments does not bring a price reduction, as indirect taxes and those taxes reflected in the expenses of the period (such as water resources' use tax, land-tax, property tax) substantially impact production price. Consequently, the guaranteed preference is not effective and is unable to provide an accumulation of funds, much less a price reduction, as it is not targeted and does not exceed the effects of other taxes.

2. Exemption from the tax payment for correctional institutions. The purpose of such a preference is to reduce costs for maintenance of correctional institutions through the profits gained by the institutions themselves. The efficiency of tax benefits cannot be provided at a macro-level, as other producers become non-competitive because of the discrepancy in costs for wages. Wages in correctional institutions are substantially lower than in other enterprises. However, one should note that the introduction of this tax category could affect price levels, i.e. correctional institutions will sell at a minimum extra charge in order to avoid income (profit) tax. Thus, exemption from income (profit) tax enables high profits to be obtained by selling goods at market prices.

3. Exemption from tax payment for security units under the bodies of Internal Affairs. The expediency of this preference lies not in the support of security units which render security services, but in the fact that many secured territories or landmarks are funded by the budget, such as the Senate of Oliy Majlis of the Republic of Uzbekistan or Charvak Reservoir. However, this initiative puts other commercial structures rendering security services at a disadvantage, i.e. their prices become uncompetitive, not to mention the list of landmarks that should be guarded by the representatives of the security union "Ohrana." In this way, there are pre-conditions limiting the effectiveness of this tax benefit. In order to promote free competition, all should pay taxes, and the fact that state funds will be going through circulation and coming back to the budget should not be a barrier for this type of competition in any way.

4. Exemptions for newly established enterprises, including enterprises with foreign investments (except those with trade, intermediary, supply and sales and procurement activities) established in the countryside, kishlaks and auls. This benefit is aimed at supporting newly created enterprises in the first years of their activity. One should note that newly established enterprises do not always have profits or high profits, and might not appreciate the effectiveness of such an initiative. Therefore, the efficiency of this benefit remains doubtful.

5. Legal entities are also exempt from income (profit) tax payment on the restoration and rebuilding of historical and cultural monuments. The purpose of this benefit is to reduce the costs of such works, as their payment is made at the expense of budget funds. However, exemption from profit tax will not have considerable results, as under the existing tax rate those funds are not significant. In this connection, this preference can be referred to the category of ineffective benefits.

Benefits guaranteed by Decrees of the Government of the Republic of Uzbekistan.

1. According to the Resolution of the Cabinet of Ministers No.390 from 13.11.2002, "On measures to promote the provision of the market with consumer commodities and the improvement of mutual relations between manufacturers and trading organizations", it is provided that from January 1, 2003 till December 31, 2007, incomes (profits) of manufacturing firms resulting from the growth of physical volumes of consumer commodities production are exempt from the income (profit) tax. This benefit is aimed at increasing the physical volume of consumer commodities (CC), as well as removing CCs from the shadow economy.

2. There is a similar Government Decree No.18 on the localization of production on the basis of local raw materials, dated 14.01.2004: "On supplementary measures for the execution of the program of localization of the production of finished commodities, components and materials on the basis of local raw materials for the period of 2004-2005". This preference is granted to enterprises manufacturing localizable products. However, in reality enterprises diversify their products (by manufacturing several types of heterogeneous products) in order to avoid unprofitability due to the market environment. In this way, enterprises manufacturing multiple types of heterogeneous products become fully exempt from income (profit) payment.

3. The decree of the Cabinet of Ministers No. 195 of 19.05.2000 "On supplementary measures for the promotion of commercial banks' participation in the development of small-scale entrepreneurship" provides for the reduction of the taxable income of commercial banks to the amount of the growth of individuals' fixed deposits, deposits on plastic cards and issuing of saving certificates. This preference is aimed at the promotion of commercial banks' activities aimed at attracting spare cash into the banks in order to avoid a cash deficit in the Central Bank. However, nowadays, this mechanism is not effective, firstly because of the general population's lack of confidence in the banking system, and secondly because they lack the ability to save.

4. The decree of the Cabinet of Ministers of the Republic of Uzbekistan No. 204 of 26.05.2000 "On measures for the development and popularization of golf in the Republic of Uzbekistan" provides golf clubs' funds received from the investments of members, sponsors or founders with partial exemption from tax payment. Thus, members of golf clubs have the right to full deductions and can artificially maintain profitability in compliance with the income tax and social development and improvement tax.

Economic efficiency of tax benefits on the income tax of individuals.**Preferences guaranteed by the Tax Code:**

Income resulting from the management of an owner's private business after tax and other compulsory payments is not included in the taxable income of individuals. Introduction of this norm brought about changes of ownership type for many enterprises and their transition from "Limited Liability Company" to the form of "Private Company", thus allowing them to evade the income tax of individuals. However, today there is no clear mechanism and it is not clearly defined whether the owner of the company should pay the dividend tax, as the amount received by him is regarded as his income. Thus, tax officials interpret this norm in favor of the state budget, and the given preference is not effective nowadays as dividends are not subject to taxation for personal income tax.

Benefits guaranteed in the Decrees of the President of the Republic of Uzbekistan:

According to the Decree of the President of the Republic of Uzbekistan No. 3588 dated from 28.03.2005 "On measures for the further development of national crafts and applied arts", those who have individual labor activity status registered officially in the city administration and tax bodies and who produce homemade pieces of crafts and applied arts are exempt from the payment of income tax. This benefit puts other individuals who also collect revenues from that type of activity in unfair conditions. The effectiveness of this preference is aimed at the development of applied arts and folk crafts. At the same time, one should note that the administration of this type of activity is practically impossible as the evaluation of the incomes gained by this or another individual is equally difficult. It is not certain that even under the introduction of compulsory declaration their actual incomes would be reflected.

Economic efficiency of tax benefits for the agents of entrepreneurship on other direct taxes.**Benefits guaranteed by Decrees of the President of the Republic of Uzbekistan:**

1. In accordance with the Decree of the President of the Republic of Uzbekistan No.2598 of 28.04.2000, "On measures to attract direct foreign investments for the exploration and production of oil and gas", foreign companies conducting searching and exploratory works on oil and gas, as well as foreign contractors and subcontractors attached to them, are fully exempt from the payment of all types of taxes, deductions and other payments acting in the territory of the Republic of Uzbekistan for the period of exploration works. The

advisability of this preference relates to the issue of the lack of energy supply on the territory of the Republic of Uzbekistan. Since today the problems of energy supply remain unresolved, one has no choice but to assume that this preference is not that effective.

2. In line with the Decrees of the President of the Republic of Uzbekistan No.2211 of 01.02.1999 "On the promotion of the International Association of Kurash" and No.3154 of 24.10.2002 "On the establishment of the Fund for Children's Sports Development in Uzbekistan" partial benefits are guaranteed for specific funds, such as "Kurash" and "the Fund for Children Sports Development". These benefits have become necessary because of insufficient financing of those funds directed to the promotion of the development of the youth of the country. On the other hand, the flow of sponsors' uncontrolled funds can lead to the unjustified waste of resources. It would be more effective to assign those funds through the state budget and to control their purposeful use by auditing their accounts.

Benefits guaranteed by the Resolutions of the Government of the Republic of Uzbekistan:

1. According to the Decree of the Cabinet of Ministers No. 18 of 14.01.2004 "On supplementary measures for the implementation of the program of localization of finished commodities, components and materials on the basis of local raw materials for the period of 2004-2005," from January 1, 2004 enterprises with projects approved by the localization program are exempt from the single tax payment. The goal of this benefit is the development of a commodity complex directed toward promoting foreign trade. This benefit anticipates the growth of localized production by accumulating tax liabilities in a certain account and directing them to the development of production, i.e. the growth of physical volume. Given insufficient funds, the fact that production output exceeds the demands of the market and undeveloped capacities, this preference is ineffective, and other enterprises are more attracted to this sector in view of possible tax schemes used in exemption. It would be fair to determine a list of enterprises with export-oriented and import-substituting production. Then this benefit would stimulate the output of this production but not increase the quantity of this production in certain enterprises.

2. According to the Decree of the Cabinet of Ministers No. 159 of 15.04.1998 "On the approval of the procedure for the use of a unified taxation system for micro-firms and small-scale enterprises", the rate of the single tax payment is reduced by 30% for those with an export share from 15% to 30% and by 50% for those whose export share exceeds 30%. This preference is directed to promoting the production and distribution of export-oriented production. However, as mentioned above, if an enterprise manufactures a product that finds a market outside the Republic of Uzbekistan, then it would sell it outside the Republic of Uzbekistan even without additional incentives. On the other hand, prices in world markets can differ from internal prices. In order to face the competition, it is necessary to reduce prices in some cases. In this case the tax benefit is a compensation for price variation.

Summarizing the results of this chapter, one should note that tax benefits on income tax are effective only when the costs added back to the taxation base are also reduced. Tax benefits for newly established enterprises are ineffective, as the rate of tax exemption is not that high. The targeted use of tax benefits is recognized as efficient in cases when those funds allow the renewal of production funds, but at this time their efficiency is also not that high. Tax exemptions for certain enterprises are a typical phenomenon in the conditions of a transitional economy; however, this affects competitiveness.

1) Influence of tax benefits upon the revenues of state budget of the Republic of Uzbekistan:

The influence of tax benefits upon the revenues of the state budget are calculated by the amount of preferences granted to this or another category of tax payers. Taking into account that the State Tax Committee does not constantly monitor the granted tax benefits because of their labor-intensiveness (according to legislation, enterprises enjoy tax benefits without their targeted use and do not submit tax calculations to tax bodies), an estimation of tax benefits' influence on the state budget is defined in the conditions of 2004 and compared to the budget parameters of the results of 2004.

2) Volume of arrears on tax benefits and their influence on the state budget.

3) Full income tax exemption:

According to estimations, preferences granted for the income (profit) tax made up 2.11% in the total tax structure. The highest proportion on the full tax exemption granted by the Tax Code was made up of enterprises with foreign investments carrying out capital investments in projects of the investment program within the first 7 years of their registration – these made up 77.49% of the amount of the granted tax benefits on the full income (profit) tax exemption. However, this share constitutes only 0.15% of the overall tax benefits.

Another appreciable preference for the budget is the benefit granted to newly established enterprises in the form of a reduced income (profit) tax rate. This preference makes up 0.02% of the tax benefits of the budget. On the whole, in accordance with the information submitted by the State Tax Committee on the full exemp-

tion, the volume of the granted tax benefits made up 0.19% of the total tax proceeds to the budget. Benefits granted to medical production workshops under medical institutions made up 0.0001% of total tax proceeds, while the benefit granted to specialized enterprises manufacturing prosthetic-orthopedic products and inventory as well as enterprises specializing in services rendered to disabled people made up 0.0003% the total tax proceeds of the budget – both of which are insufficient.

- 4) The insufficiency of tax benefits results from the small number of such enterprises and the availability of expenditures not deducted from the taxable base on the income (profit) tax.
- 5) *Partial income (profit) tax exemption:*

Benefits granted by the income (profit) tax as partial exemptions in the total benefits' structure on partial exemptions accounted for 8.71%. One of the most significant benefits granted for partial exemption and causing serious losses for the budget is the benefit on the exclusion of amounts for ecological, sanitary and charitable contributions, donations to cultural, educational, popular schooling, health, labor and social protection, and other institutions from the taxation base. These benefits total 53.89% of partial exemptions in the structure of tax benefits, and 0.07% of total tax proceeds. The reduction of budgetary losses is determined by the limitation of deduction rights for this preference.

Other benefits of no less importance are the benefits granted to newly established enterprises with reduced income (profit) tax rates, as well as the decrease of the taxable base by the amount of expenditures directed to investments – 13.16% and 12.22%, respectively, from the total tax revenues of the budget.

According to the Tax Code of the Republic of Uzbekistan, exemptions gained from the restoration and rebuilding of historical and cultural monuments – 0.00003% of the total tax revenues of the budget – cause the least losses for the budget on granted partial exemptions. Above all, this results from the financing of this type of works from the direction of the budget (republican and local); the budget of expenditure is considered very carefully and high profitability is not accepted. This cannot result in high revenues; consequently, it cannot result in high revenue (profit) tax.

Analysis Of The Benefits Granted On Indirect Taxes:

The advisability of granting tax benefits to the agents of taxation and the efficiency of those benefits for commodity (labor and services) consumers.

Economic efficiency of the tax benefits on the value added tax: When discussing benefits on indirect taxes, it is necessary to mention that the benefits as such do have as their main goal to ease or support the economic agents paying those taxes. As is well known, indirect taxes are thus named because they are fixed additionally to the objectively formed costs of the enterprise-producer of the goods and its profitability standard, appearing ultimately in the sale price paid by consumers. Therefore, indirect taxes are also called consumption taxes.

Exemption and "zero rate": As mentioned before, in Uzbekistan there are two types of benefits on VAT: exemption from VAT on sales' returns of commodities (labor and services), as well as the application of a "zero rate" to these returns. In order to be able to talk about the efficiency, and thus the advisability of this or another preference, we will review the main points of their application in the Republic. VAT exemption on the sale returns of commodities (labor and services) means non-inclusion of the VAT amount into the free (agreed) price. At the same time, the tax amount on the obtained material resources (labor and services) meant for the production of VAT-exempt finished commodities is related to production costs, period expenses or the purchase price of commodity. Taking into account this mechanism, it happens that under the VAT exemption for commodities (labor and services), the corresponding "20% reduction" of the price does not occur.

At the same time, the degree of discrepancy in the price of taxable and exempt commodities (labor and services) is in inverse negative relationship with their resource-intensiveness. I.e. the more VAT-paid inventory resources were used in the production of the exempt commodity (labor and services), the less its price will be reduced in comparison with the situation where the exemption did not take place at all. When the variation is more significant, it leads to price distortions for identical commodities (labor and services) distributed by various producers inside the country. Therefore, the efficiency of the benefits on exemption of the following is doubtful:

– commodities (labor and services) of the manufacturing firms owned by Public Unions of the disabled, "Nuroniy Fund" and "Chernobilci Uzbekistana" Association, with total employment of not less than 50% of invalids (p.29 of the article 72 of the Tax Code);

- production of enterprises specializing in prosthetic-orthopedic products, inventory for the disabled, rendering services of orthopedic prosthetics for invalids, and medical production workshops under medical institutions (p. 10 of the article 71 of the Tax Code);
- services of urban passenger vehicles (except for taxi and shuttle services), as well as services on passengers' transportation in suburbs by railway and motor transport for general use (except taxi and shuttle services) (p.15 of the article 71 of the tax Code);
- materials, labor and services supplied by enterprises/residents of the Republic of Uzbekistan to foreign companies conducting prospecting works for oil and gas (No.2598 of 28.04.2000).

From past experience, resolution of the problems of a so-called social character should be realized more effectively not through supplementary tax benefits, but by means of targeted programs and transfers from the state.

Application of the “zero rate” on VAT, like exemptions, provides non-accrual VAT tax on sales returns. But, as opposed to exemptions, enterprises that use the “zero rate” have the right to offset (compensate for) the paid tax amount on the obtained material resources (works and services) meant for the production of finished commodities taxable at the “zero rate”.

Thus, according to article 72 of the Tax Code, the supply of combustive-lubricating materials and chemical fertilizers used by agricultural enterprises to manufacture agricultural needs is taxable at the “zero rate”. The practice of distributing such high-liquid commodities as combustive-lubricating materials (CLM) at various prices as a result of the “zero rate” application leads to abuses concerned with insufficiently controlling cross-flows and embezzlements of CLM and chemical fertilizers sold to various consumers at various prices. Moreover, the application of the “zero rate” results in the necessity of compensating for the negative balance from the budget on VAT for enterprises which manufacture CLM and chemical fertilizers. The rate of compensation for the negative balance from the budget reaches about 60 billion Soum a year. In this case, direct state funding of agricultural production seems to be a more effective and transparent mechanism, which is practically standard for the “zero rate” application in terms of CLM and chemical fertilizers' supplies for agricultural producers.

VAT and the unified taxation system of small-scale business and agricultural producers: Specific taxation procedures are accepted in most countries for small businesses. There are several reasons for that. Above all, small-scale entrepreneurship is an important sphere in the economy. Small-scale enterprises are remarkable for their flexibility and can adapt to the changing market environment more easily than large-scale firms. The promotion of small-scale entrepreneurship increases employment, thereby improving social conditions in society and reducing expenditures for unemployment benefits. In Uzbekistan, the Tax Code provides small businesses and agricultural producers a unified procedure of taxation guaranteeing a single tax payment for the former and a single land-tax for the latter.

VAT exemption breaks the chain of enterprises/tax-payers using the mechanism of “entry” sum set-offs, allowing an even distribution of the tax burden on the whole process of commodity circulation. As a result, a consumer purchasing such an exempt product (labor, service) being a VAT payer, pays “double-duty”. The point is that the application of the simplified system does not provide the payment, and consequently, distinction of VAT in invoices. The distinction of VAT is extremely important for large enterprises paying this tax as it allows the realization of their right to offset “entry” VAT during determination of their own liabilities for VAT to the budget. This leads to the situation where small enterprises become “unwelcome” partners for large enterprises that have to either search for suppliers with a taxation system equal to their own, or acquire necessary components and raw materials abroad (since the VAT amount paid on imports is also offset). Moreover, according to acting regulation, in cases when an enterprise has taxable and exempt turnovers, it should keep separate accounts. It seems that VAT exemption is disadvantageous for the enterprise itself in terms of the relations with other market participants as well as in the organization of book-keeping.

Economic efficiency of tax benefits on customs duties: In the recent customs policy of the Republic of Uzbekistan the following two main directions can be distinguished clearly:

- 1) Continued provision of support for the technological improvement of domestic enterprises;
- 2) Rejection of the practice of granting customs benefits for the import of finished commodities, especially of consumer goods.

Manufacturing equipment imported to the customs territory of the Republic of Uzbekistan is not subject to custom duty taxation (except for collections for customs registration). The initial aim of this regulation was to accelerate the process of technological equipment and modernization of productive capacities in the republic. At the same time, its practical implementation faces serious problems. The problem lies in considering this or another type of commodity as a category of manufacturing equipment with the purpose of exemption

from VAT and customs duties taxation. At present, while the list of manufacturing equipment is regulated by the Resolution of the Cabinet of Ministers No. 4 of 07.01.2004 "On measures for the further improvement of customs-tariff regulations", at the same time, with regard to VAT, the right to declare an imported commodity to be manufacturing equipment is given to the authorized bank of the importer on the basis of the adopted technical and economic assessment (TEA), in the context of which the supply of manufacturing equipment is achieved. In certain cases banks find difficulties in the issuance of corresponding approvals of commodities with no clear technological orientation (for instance, transport equipment, certain industrial plants, etc). As we can see, realization of the same benefit is regulated by two different legal statutory acts.

Once again, let us remember that customs duty is a variation of indirect taxes. Having paid it at the customs border, the importer includes it in the final price of the obtained resource. Thus, exemption of this or another economic agent from the payment of customs duty creates more favorable economic conditions for business in the country. In this way, the prevalent individual exemption for certain participants in Foreign Economic Activity (FEA) not only leads to budget arrears, but also in a number of cases violates the fairness of taxation, by leaving those without benefits in non-competitive conditions. Apart from that, in the conditions of an extremely large benefits system, the system of customs duties does not carry out its main function of regulating state imports.

Influence of tax benefits on indirect taxes upon the revenues of the State budget of the Republic of Uzbekistan.

The volume of arrears on tax benefits and their influence on the State Budget: Evaluating the summary expression of benefits, one should remember that the benefits submitted by the Tax Code are more or less consistent, and are consequently subject to real assessment in a better way. In the total structure of benefits, the benefits granted on VAT make up 82.01%. Thus, the study of the structure of tax benefits on VAT provided by article 71 of the Tax Code says that the highest amounts of benefits result from:

- a) Transactions related to cash deposits, current accounts, payments, transferring, checks and other securities (33.9%);
- b) Housing and operational services rendered to the population (15.7%);
- c) Geological and topographic works (13.0%).

Regarding other tax benefits, for the most part, their figures do not reach a few percent; as a result they were classified into one group where their aggregate unit weight was shown in total volume. The influence of the granted benefits can be distinguished more clearly by comparing their figures with the proceeds on corresponding taxes and customs duties. The results of such comparison reflect the following picture:

According to "internal" taxes, i.e. on the territory of the Republic of Uzbekistan on returns of goods (labor, services) distribution, the granted benefits are of insignificant value compared to the revenues that provide tax proceeds to the budget: about 5 percent on excise tax and 10 percent on VAT. Regarding customs duties, again the fact of the excessive number of benefits available in this sphere – the prevalence of benefits over corresponding proceeds – obviously do not favor the budget. At the same time, having studied the legal basis according to which the benefits on customs payments were granted, one should conclude that depending on the type of customs payment (excise tax, fee, VAT), legislative documents, such as codes and laws act as a basis only in 8-16 % of cases, and in general on customs duties – about 10%. In all other cases benefits on customs duties were submitted by separate Government Resolutions, such as Decrees of the President, Regulations and Instructions of the Cabinet of Ministers.

Economic efficiency of tax benefits in the economic development of the country.

Under the assessment of the economic efficiency of benefits in the economic development of the country, one should know that the situation here is not as simple as with direct taxes. It is well known that indirect taxes are called so because they are fixed in addition to objectively formed expenses of the enterprise producing the goods and the standard of profitability, which are ultimately in the sale price paid by their consumers. Therefore, indirect taxes are also called consumption taxes. However, indirect taxes are shifted to the final consumer depending on the elasticity rate for taxable commodities and services. The less elastic the demand, the greater the part of the tax shifted to the consumer. The less elastic the supply, the less tax is shifted to the consumer, and the more is paid at the expense of profit. In the long-term, the elasticity of supply grows, and more indirect taxes are shifted to the consumer. In the case of high elasticity of supply, an increase in indirect taxes can lead to a reduction in consumption, and under a high elasticity of supply – to a reduction in net profit, which causes a decrease in capital investments or a spillover of capital to other spheres of activity.

Benefits on indirect taxes are granted not in order to ease burdens or stimulate economic agents which pay rather than depositing those taxes in the budget, but to reduce the price of the exempt commodities (labor and services) and ensure their affordability for the consumer. At the same time, an analysis of the benefit on

VAT allows one to conclude that this tax exemption is not always effective in reducing the price of the distributed commodities (labor and services). Moreover, it has negative consequences, such as narrowing the market for production with raw material designation; increasing the tax burden for VAT-paying enterprises which acquire goods (labor or services) exempt from this tax; and distorting prices for identical goods (labor or services) sold inside the country by various producers. Expansion of the turnover list on the distribution of commodities (labor or services) taxable at a "zero rate" on the territory of the Republic of Uzbekistan, leads to the need for assigning supplementary funds from the state budget in order to reimburse the negative balance on VAT.

Exemption from excise tax, with the possible exception of exports, seems absurd, since excise tax in particular is supposed to extract additional funds towards the revenue of the state. In this case, the objective of the state lies in the skillful determination of the list of commodities liable to excise tax. At the same time, taking into account national sectoral peculiarities of the economy, one should analyze the need to expand the commodities list liable to excise tax in addition to the generally recognized and usual products, such as alcohol, tobacco and petroleum products. There is an opinion that the introduction of import duties or excise protects local production by means of price increases for imported goods. Under conditions of widely distributed exemptions, the system of customs duties ceases to exercise government control over imports. In addition, exemptions on customs duties for individual participants of FEA not only produce budget arrears, but also in a number of cases violate the fairness of taxation by placing those without benefits in non-competitive conditions.

Analysis Of Tax Benefits Guaranteed On Resource Taxes

Economic efficiency of tax benefits on the water resource use tax.

Benefits granted by the Tax Code

1. Exemption from the *water resource use tax* for health institutions using mineral groundwater with medical purposes except when such water is sold commercially. In most cases this benefit applies to sanatorium-and-spa institutions that use mineral water for the organization of preventive health care and treatment. This benefit is effective in that it possibly stimulates price reductions for tickets to sanatorium-and-spa institutions.
2. Exemption from the *water resource use tax* for legal entities dealing with pharmaceutical activity and using water for the production of drugs. This benefit is effective in that it reduces the drugs' price by the tax amount, rendering them more affordable for various strata of society.
3. Exemption from the *water resource use tax* for the legal entities listed below:
 - non-profit organizations except for those using water resources for entrepreneurial activity;
 - legal entities under the ownership of public unions of invalids, such as the "Nuroni" Fund and "Chernobilci Uzbekistana" Association, with a total employment of not less than 50% disabled, excluding legal entities with trade, intermediary, supply, sales and storage activities.

These benefits are of great importance for the population as well as for such legal entities. They allow prices for commodities (labor and services) to be reduced, rendering them more affordable for various strata of society, i.e. enabling the unions to distribute high volumes of goods (labor and services) and achieve higher profits. An additional advantage of the aforementioned benefits is that they encourage expanded employment of the most vulnerable strata of society, easing this social problem.

The Decree of the Cabinet of Ministers No. 414 of 03.09.99 "On the improvement of the procedure for financing budgetary organizations" has promoted the expansion of the entrepreneurial activity of budgetary organizations in many respects. This Decree regulates additional financing sources for budgetary organizations with the status of legal entities. These include:

- Production and distribution of goods (labor and services) according to type of activity;
- Leasing of temporarily free premises;
- Sponsorship (charity) aid provided by individuals and companies.

Budgetary organizations with legal entity status are exempt from the payment of all types of taxes and collections to the state budget till the 1st of January 2008 under the condition that all released funds be directed to strengthening the material and technical and social base of budgetary organizations, as well as financial incentives for their employees.

4. Exemption from the *water resource use tax* for legal entities producing agricultural goods as their main type of activity, for the use of water for flushing saline soils. One of the factors affecting the fertility, degradation and destruction of soil is salinization of irrigated areas. For example, seeds of early-ripening and high-yielding varieties of wheat on reclaimed unfavorable saline soils can be sown only after a preliminary flushing of the soil. The effectiveness of this benefit lies in the fact that legal entities with agricultural production must

pay specific attention to high quality preparation of the soil, planning and clearing weeds from the fields, maintaining performance of irrigation, collector and drainage networks, and watering after sowing in order to obtain maximum growth in all planted areas.

Economic effectiveness of tax benefits on the property tax.

Benefits granted by the Tax Code:

1. In the course of calculating the property tax for legal entities, the taxation base is decreased by the cost of vehicles belonging to transport enterprises and organizations dealing with the repair and maintenance of roads. This benefit is not effective for the state as those transport vehicles are used by enterprises and organizations not only for their assigned purposes, but also for commercial purposes for which they do not pay taxes. Because of the expansion of such commercial purposes, the republican budget suffers certain losses.

2. In the course of calculation of property tax for legal entities, the taxation base is decreased by the cost of transport vehicles used during manpower training for the Armed Forces of the Republic of Uzbekistan. This benefit is not effective as the transport vehicles used by the Driving School of "Vatanparvar" Society of Military Assistance cannot be clearly assigned to those people wishing to obtain a driving license. The same situation applies to manpower training for the Armed Forces of the Republic of Uzbekistan, distorting tax amounts. Because of the expansion of these activities, the republican budget suffers certain losses.

Benefits granted by the Resolutions of the Government of the Republic of Uzbekistan:

1. In line with the Decree of the Cabinet of Ministers № 204 of 26.05.2000 "On measures to develop and popularize golf in the Republic of Uzbekistan," the Golf Association of Uzbekistan and golf clubs within its structure are exempt from all types of local taxes (including property tax) for a period of 5 years, with the released funds targeted to the development of golf.

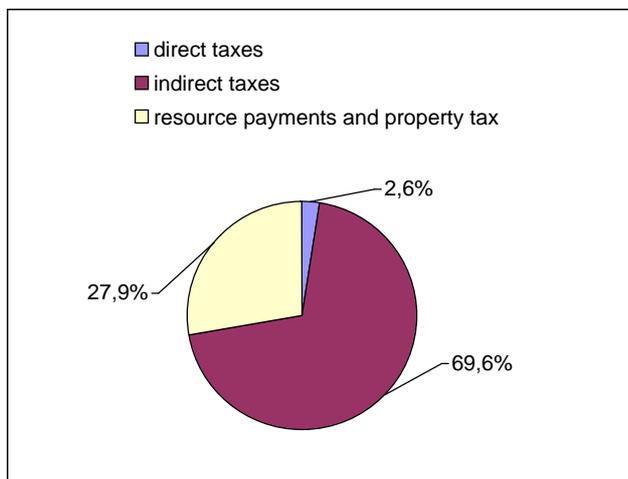
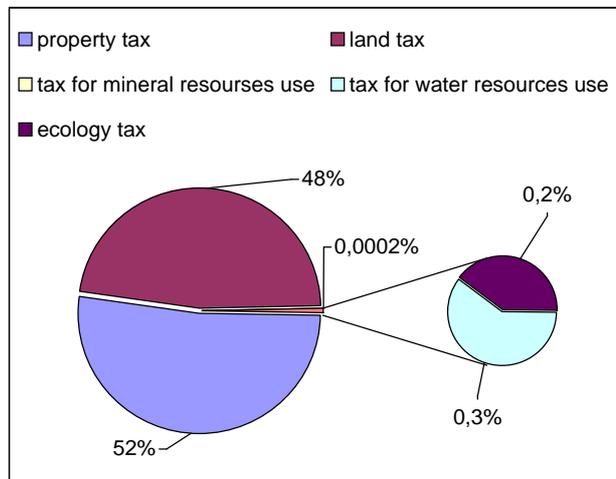
Organizations direct the released funds to attracting various strata of society to golf, strengthening the material and technical basis of golf clubs, and conducting a range of measure to obtain recognition of the Golf Association of Uzbekistan by Asian, World and other Golf Associations. Within the period of the benefit, the Golf Association of Uzbekistan and golf clubs under its structure have the right to acquire necessary equipment free of property tax. The granting of this preference by a separate Resolution of the Government was inappropriate, as the Golf Association is a self-governing, self-financed non-governmental public organization with the rights of a legal entity, carrying out its activity independently, open for all legal entities and individuals. As such, it is exempt from property tax by the Tax Code of the Republic of Uzbekistan as a non-commercial organization.

Influence of resource tax benefits upon the Revenues of the State Budget of the Republic of Uzbekistan.

Volume of arrears on tax benefits and their impact on the State Budget: Revenues of the state budget are formed from taxes, collections, duties and other compulsory payments fixed by legislation, as well as from other revenues and proceeds not forbidden by legislation. The share of resource payments and property tax in the revenues of the State budget for 2004 is 10% of the total amount of tax revenue and 7.3% of the total proceeds of the State budget. Resource payments and property tax are called to play a growing role in forming revenues of the State budget. In the reviewed period the share of tax revenues for land, water, mineral resources, ecology and property in the total tax and collections proceeds for 2004 made up 16%. The increasing importance of resource payments and property taxes is a positive tendency, which will develop in the future as well. The majority of the funds in this source group of the budget was received from the property tax, land tax, mineral resources' use tax and ecology tax. Thus, the share of proceeds in the state budget in 2004 for the property tax was 31.5%, land tax – 22.6%, mineral resources' use tax – 17.7% and ecology tax – 24.7%. The share of those taxes in the budget equals approximately 16%.

The volume of arrears as a result of granting tax benefits on resource payments and property tax amounts to about 28% of the total of all tax benefits provided by the Tax Code of the Republic of Uzbekistan (Figure 1). The majority of the tax expenditures consisted of property and land tax, which were 52% and 47.5%, and correspondingly 14.9 and 13.6% of the volume of arrears on resource payments and property tax (Figure 2).

The majority of arrears on resource payments and the property tax were due to the benefits given to non-commercial organizations, cultural, educational, health, labor institutions, institutions of social protection of the population, the "Nuroni" Fund and "Chernobilci Uzbekistana" Association, organizations of the housing and social-and-cultural sphere and other urban organizations of a civil character, which made up more than 60% of the total tax benefits on resource payments and the property tax.

Figure 1 Arrears volume on tax benefits granted by the tax**Figure 2 Arrears' volume on the tax benefits of resource payments & property tax**

At the same time, the advisability of granting those benefits by the state lies in the allocation of fewer funds for this amount of benefits for the social-and-cultural and housing spheres from the State Budget.

Arrears in the State Budget consist of: the amount of benefits on the property tax for the cost of construction objects of the housing and social-and-cultural sphere – 12% and of the total benefits from resource payments – 6%; for product pipelines, communications (including highways), communication and power lines, as well as facilities for their functional maintenance – 28.6% and 14.4%, respectively; transport vehicles used under manpower training for Armed Forces of the Republic of Uzbekistan – 7.5% and 4% respectively, and others constitute the arrears in the State Budget. .

Optimization of the tax system in the sphere of exemptions: methods and ways of optimizing benefits in the Republic of Uzbekistan.

The optimization of tax benefits in the Republic of Uzbekistan is implemented through the stage-by-stage rejection of ineffective and targeted benefits. From the perspective of relative tax neutrality it is clear that the number of tax benefits should be minimal. Social, structural and other goals that are often resolved through benefits should be achieved through other targeted and more transparent instruments – transfers, subsidies, credits and other direct financial aid. However, as evident from previous sections, in the conditions of a transitional economy, tax benefits are inevitable. Thus it is necessary to determine clearly the goals of the state in granting one or another tax benefit. In the course of tax exemptions, therefore, one should pay attention to the following factors:

- 1) The influence of the granted tax benefit on competition. As may be seen from the classification of tax benefits, those granted for enterprises with foreign investments give them an unfair competitive advantage over economic agents in the market of the Republic without foreign investments;
- 2) VAT exemption should be preserved at the final stages of the goods circle to their final consumers, as well as in certain types of activities with difficulties in tax collections, or where administration costs are inadequate to the proceeds (for instance, some services of banking and financial sectors);
- 3) To cancel or reorganize tax benefits with no expected results from the granted tax exemption or to create alternative versions. For example, newly created enterprises are exempt from property tax for two years from registration. At the same time, this preference does not cover enterprises established on the basis of operating powers. I.e. the tax amount is very low and the second part of the norm creates disputes between tax bodies and tax payers;
- 4) Cancel benefits of a so-called social character, such as exemptions from taxes for the production of prosthetic-orthopedic products and the products of enterprises within the ownership of public unions of invalids and veterans, by substituting them with individual financing or transfers;
- 5) To give small-scale enterprises using the unified taxation system the right of VAT payment. This should allow them to find a market for their production, which is one of the most important conditions for successful business in the competitive conditions of a market economy. Large companies should obtain an invoice with the identified VAT for the entry set-off;
- 6) To cancel tax benefits which create distortions in the market, for instance the “zero rate” for supplies of CLM and chemical fertilizers for agricultural producers, which will reduce possible abuses in the sphere of distribution of high-liquid fuel resources on the side.

Exemptions for the output stimulation of certain types of goods (for instance, the benefit for product localization on the basis of local raw materials) or certain operations (exports) have an effect at some particular period of time, i.e. it is not necessary to exempt the entire period of the enterprise's existence, but for the period necessary for the development of the enterprise. Apart from that, it is necessary to refrain from using specifically targeted tax benefits, for instance, one should not promote the enterprise which manufactures a particular product and happens to fall under the localization program, but on the contrary, one should define a list of products. In this way, this benefit can be shifted from being specific or targeted benefit to being a general benefit; and thereby promote free competition without creating a monopoly.

Concluding the results of this work, one should note that in the period of a transitional economy all countries have used tax benefits and preferences, including individual benefits for the development of economy. Through the promotion of certain sectors by means of individual benefits, the government burdens those who do not fall in this category, as non-payments from some entail increased payments by others.

Conclusions And Recommendations

As the conducted research implies, today not all tax benefits are effective and appropriate. In accordance with the results of this paper, one can make the following conclusions:

1. Tax benefits in the form of full exemptions granted without purposeful use (i.e. without tax charge) leads to price distortions in the market, while exemption from customs payments puts participants of FEA in unfair conditions;
2. «Breaking the chain» of VAT puts enterprises which pay this tax, while acquiring exempted products (labor, services), into a difficult situation (set-off does not work);
3. Not all tax benefits achieve the efficiency that was expected during their introduction, and in some cases they are actually inefficient;
4. Socially-oriented benefits do not always achieve the intended goals;
5. Exemption of enterprises with foreign investments creates pre-conditions for the outflow of local capital to neighboring countries, for their return in the form of direct private foreign investments.

The following measures are necessary to establish free competition, increase the transparency of tax legislation and improve exemptions:

1. A body granting tax benefits should be established, including individual and specific taxes. This measure will allow the regulation of exemptions, especially with taxes of a targeted character.
2. In order to promote competitiveness, exemptions from tax benefits should be based on principles of equity, i.e. enterprises manufacturing identical or similar (homogeneous) products or rendering identical services (labor) should be granted benefits. This will decrease exemptions for individual tax benefits, as exemptions for all are not reasonable, but if the Government wants to promote certain enterprises (in most cases those with a state share in the authorized fund), this would affect pricing, and consequently competitiveness.
3. Enterprises should be exempted from taxes in difficult times through the use of a tax postponement, which will sufficiently reduce budgetary losses.
4. Benefits of a social character should be implemented through other financial instruments, for instance, transfers or subsidies.
5. An enterprise should not be exempted only because it is financed from the budget. It is necessary to put economic agents in equal taxation conditions independently of their form of ownership.
6. The ministries and departments which take decisions on the benefits' expediency should be determined, bearing in mind that other interested ministries and departments should be involved apart from the Ministry of Finance and State Tax Committee.
7. Individually targeted tax benefits which provide targeted benefits only for natural monopolies in the sector's development should not be granted.
8. When the abuse of tax benefits is detected, these benefits should not be abolished but amended, taking these abuses into account and strengthening financial sanctions.
9. Benefits on VAT should be applied only during distribution to the final consumer.
10. Individually targeted benefits on customs duties should be cancelled.
11. Small-scale enterprises using the unified taxation system should be granted the right to VAT payment. This will allow them to find a market for their product, which is one of the main conditions for successful business in the competitive conditions of a market economy. Large companies will receive an invoice with the indicated VAT for the entry set-off.
12. Relatively ineffective benefits should be abolished because of insufficient resources obtained from their application.
13. The exemption on customs duties should be preserved in the form of an exemption only for commodities imported in accordance with the standards of international law, manufacturing equipment and raw material components not produced in the Republic of Uzbekistan.
14. Benefits on customs duties should be granted only in the form of postponements and installments of customs duties' payments.