

**“UZBEKISTAN  
ECONOMY”  
Statistical and Analytical  
Review for the year 2005**

“Uzbekistan”  
Tashkent  
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**Authors of the Uzbekistan Economy Review**



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## Introduction

The “Uzbekistan Economy” informational and analytical review for 2005 describes dynamics, trends and details of deepening market reforms in the country, as well as the macroeconomic, industrial, institutional, structural, foreign economic, social and territorial transformations in the Uzbekistan economy.

**Macroeconomics and economic growth.** The real growth in GDP in 2005 was 7%. High economic growth was secured mainly through the dynamic development of industry, agriculture, transportation, communications and services. In the production structure of GDP, a positive trend of a rise in the share of industry was observed. Consistent modernization of the economy has ensured the promotion of investment processes. The amount of investments in basic capital from all funding sources grew by 7%. In the consumer sector, prices increased by a total of 7.8%.

**Public finance.** In 2005 revenues and expenditures of the state budget were evenly balanced. Revenues of the state budget with respect to GDP made up 22.6%, with expenditures at 22.5%. The share of expenditures for the social sphere and social protection of the population increased. Since 2001 there has been a tendency towards a decrease in the state budget deficit, and in 2005 the budget achieved a surplus of 0.1% of GDP.

**Financial markets.** Monetary policy in 2005 was aimed at ensuring the stability of the national currency, inflation rate and interest rates. The refinancing rate remained unchanged throughout 2005 at the level of 16% per annum. In the banking sector, the network of mini-banks has been developing rapidly. The total capital of commercial banks has grown, as well as the population’s deposits in the banks. An increase in the turnover of the corporate securities market has also been observed. The public financial market, in the form of medium-term Treasury Bills, has been actively developing.

**Foreign exchange market and foreign trade.** The Central Bank has taken steps to ensure the sustainability of the exchange rate and to support international reserves. The country’s gold and forex reserves have grown. In foreign trade, exports increased at higher rates than imports. Foreign trade turnover grew by 9.6%, and exports by 11.5%. The positive balance of foreign trade turnover increased to 1.3 billion USD. In 2005, the number of operating enterprises with foreign investments increased considerably.

**Institutional and market transformations.** Transformations into non-state-owned types of ownership have increased. In 2005, 980 production and social facilities were transferred into non-state-owned types of ownership. The sale of state-owned assets has increased. The sale of state property significantly surpassed the indicators of the previous year. Proceeds from the sale of various state-owned assets to special accounts reached 80.5 billion Soum. As a result of institutional changes in 2005, the non-state sector made up more than two thirds of GDP and industry, and almost all of agricultural production. The share of small business in GDP has risen sustainably. The share of small entrepreneurship in GDP reached 38.2%.

**Development of sectors and branches of the economy.** According to the results of 2005, the volume of industrial production grew by 7.3% over the previous year. The expansion of external and domestic demand, the reduction in the tax burden and the unification of fiscal policy affected the growth index of industrial production. The sustainable development of the consumer market helped to improve the market’s saturation with domestically produced foodstuffs and non-foodstuffs. Growth in the production of consumer goods reached 17.7%, including 10.1% for foodstuffs and 25.5% for non-foodstuffs. 2005 was a favorable year for agricultural production. Farms made a significant contribution to ensuring growth in agricultural production, and gross agricultural production increased by 6.2%.

High growth rates of services to the population and retail trade turnover were maintained.

**Employment and the labor market.** The employed population in 2005 grew by 285.7 thousand persons (by 2.9%). Most population growth occurred in rural areas. Sustainable development of the economy ensured a rise in employment, above all in industry and the services sector. The number of unemployed officially registered as such remains fairly low.

**Income and expenses of the population.** As a result of the consistent modernization of the economy and the expansion of small business and private entrepreneurship, the real income of the population has grown. Real monetary per capita income increased by 20.5%. Positive dynamics were observed in the increase in the share of labor remuneration in the structure of the population’s monetary income. In the structure of con-

sumer expenses of the population, the trend remained of a reduction in expenses for food and an increase in expenses for non-foodstuffs and services and in the savings of the population.

**Regions.** In 2005, all regions of the country developed at sustainable rates. Characteristically, there were relatively high growth rates of major macroeconomic indicators in the less developed regions, such as Jizzakh, Sirdarya, Khorezm and the Republic of Karakalpakstan.

Major gaps between regions have remained, especially with regard to industrial production and the services sector – emphasizing the need for further purposeful regulation of the social and economic development of territories.

The analytical review includes articles devoted to the optimization of the corporate income tax, taxation expenses, the formation and development of inter-regional economic integration, and the need to consider the seasonality factor when computing the inflation rate.

The sources of information for the review include official data from the Uzbekistan Statistics Committee, Central Bank, Ministry of Finance and State Property Committee and information from the national and foreign press, as well as elaborations, assessments, experimental computations and graphical illustrations.

## Major Events

### January

7 January 2005. The **Cabinet of Ministers of the Republic of Uzbekistan** passed a Resolution enacting terms and conditions for the operations of VBD Toshkent, LTD in Uzbekistan. This company was created by Vimm Bill Dann, Russia – a major producer of dairy products. In accordance with the Resolution, the company is exempt from income tax for a period of 7 years and from customs duties (excluding customs clearance fees) on imported processing equipment. The company will enjoy tax holidays on the payment of all types of local charges and taxes for a period of 5 years. In addition, the company is permitted to procure milk from farms, peasant entities and individual households for cash.

12 January 2005. The **Cabinet of Ministers of the Republic of Uzbekistan** passed a Resolution “On Measures for Developing the Samarkand Tea-Packing Factory”, aimed at increasing the output of packed tea in the country by the company, which has been acquired by All Americas International Inc, USA. The new foreign company was included in the Investment Program of Uzbekistan for 2005-2006. The company is exempt from all types of customs duties (excluding customs clearance fees) on imported tea, equipment, mechanisms and logistics resources for its own use within the framework of this project for the period of two years from the commencement of its operations, as well as from the payment of VAT on the sales of packed tea of its own production.

The Resolution of 14 January 2005 of the Agency for Foreign Economic Relations, the Ministry of Finance and the State Customs Committee of the Republic of Uzbekistan **included Cyprus, Malta and Slovenia in the list of most favored nations.**

The Resolution by the Cabinet of Ministers of 27 January 2005 **approved the Program of Attraction of Investment into the Textile Industry for 2005-2008**, envisaging the output of highly competitive textile goods with high value added and their export. The Resolution provides for a number of privileges for those enterprises which were included in the Program and exemption from customs duties (except customs clearance fees) for imported manufacturing and auxiliary equipment, spare parts and machine attachments. The Resolution also prescribes that textile enterprises should be primarily deployed in regions with a high concentration of unemployed labor resources.

In the Agency for Foreign Economic Relations an **intergovernmental agreement has been signed on financial cooperation** between the Republic of Uzbekistan and the Federal Republic of Germany. In accordance with this Agreement, the government of Germany grants EUR 2.5 million to Uzbekistan for the implementation of the Tuberculosis Control Project. Since 2000 Germany has already allocated EUR 7.5 million for this purpose within the framework of the DOTS program for the purchase of medical equipment and laboratory units. In addition, the government of Germany will provide credit on preferential terms in the amount of EUR 1.2 million for improving the system of professional training in the information and communication technologies sector of Uzbekistan.

**The electrification of a 30-kilometer section** of the 100 kilometer railroad Tashkent-Angren **has been completed.** Electric train traffic to Kuchluk station has been achieved. According to experts, the use of electric locomotives vs. diesel locomotives saves funds, increases speed and power, and decreases noise and pollution. “Uzbekiston Temir Yullari”, a company in charge of railroad electrification, has planned to convert the main railway to Bukhara to electric power in the nearest future.

The **Resolution of the Cabinet of Ministers** “On the Year of Health Program” of 26 January 2005 set forth the following targets and guidelines: a) implementation of projects and measures on protecting motherhood and childhood; b) improvement of the hygienic education and culture of the population, specifically in rural areas; c) organization of targeted activities against drug abuse, smoking and infectious diseases (including tuberculosis, HIV/AIDS); d) further strengthening of measures on improving the health of pensioners and disabled people; e) implementation of measures on creating an accessible and high-quality system of healthcare; and f) implementation of programs aimed at environment protection, introduction of environmental standards and supplying good quality potable water to every inhabited locality; and others.

### February

**The Resolution of the Cabinet of Ministers** “On Additional Measures for Improving the Performance of Condominium Owners’ Partnerships” of 10 February 2005 **set forth major tasks for the Association of Condominium Owners’ Partnerships**, in particular: a) ensuring interaction among the Condominium Own-

ers' Partnerships (TSJ) and the local government in addressing issues related to the maintenance of apartment houses and the adjacent plots of land in adequate technical and sanitary conditions; b) improving interaction of TSJs with maintenance, emergency repair and servicing companies in the issues of maintaining the technical state of housing, as well as its renovation and routine repairs; c) facilitating the creation of a comprehensive market infrastructure, serving the needs of TSJs; and d) organizing training and re-training of staff and managers of TSJs.

In order to prevent unjustified growth of tariffs and increase consumers' responsibility for prompt and full payment of utilities bills, the **Cabinet of Ministers passed a Resolution** on 11 February 2005, prescribing the following: a) starting from the date of 1 June 2005, operational costs for the maintenance of facilities should be covered by condominium owners and thus such costs should not be included in the operational costs of companies supplying cold water, heat and power; b) professional management companies of the Condominium Owner Partnerships should be eligible for certain tax privileges; c) consumers should be allowed to pay utility bills, at their option and without limitations, through any commercial bank outlet or cash desk for collecting payments; and d) Condominium Owners' Partnerships and companies supplying utilities services should be prohibited from directly collecting cash payments for their services, including payments of operational costs, bypassing cashiers' offices.

With the purposes of filling the need of the population for comfortable housing, accelerating the development of housing construction, especially in small towns and rural areas, and implementing a broad system of long-term mortgage lending for such construction, the **Cabinet of Ministers passed a Resolution** on 16 February 2005 **envisaging the creation of a Joint Stock Commercial "Ipoteka-Bank"**. Mortgage loans will be secured by housing under construction (buildings, facilities and construction in progress) along with the plots of land on which they are located; the term of such mortgage loans should be at least 15 years, with a two-year grace period; loan interest rates should not exceed 5 percent annually; and the initial installment should not exceed 20 percent.

**The conference "Mid-term Strategy of Attracting Foreign Investment" was held in Tashkent.** The conference was organized by the Ministry of Justice of Uzbekistan in cooperation with the Asian Development Bank (ADB). It was reported at the conference that the Ministry of Justice, with the technical assistance provided by the ADB, is implementing the project "Improvement of the Legal and Regulatory Basis and Environment for Attracting Foreign Investment" and that a mid-term strategy has been developed which outlines the tasks for pooling specific activities of various organizations into one integrated system with the aim of creating adequate conditions for potential foreign investors and enhancing legislation.

### March

In order to improve customs tariff regulation of import transactions, further streamlining the import of selected goods in Uzbekistan and forming favorable conditions for growth in the output of domestic competitive goods, the **President signed a Resolution "On Measures for Streamlining Export-Import Transactions"** on 11 March 2005.

**A foreign currency trading pit was opened at the Uzbek Commodity Exchange (UZEX)**, where domestically produced commodities are traded for freely convertible currency on a scheduled basis. Any commodity which can be exported in accordance with the legislation of Uzbekistan, including most liquid goods, could be sold through the foreign currency trading pit.

On 14 March the **President signed the Resolution "On a Program for the De-nationalization and Privatization of Enterprises for 2005-2006"**. The Resolution is aimed towards ensuring a boost in the growth of the private sector through sharply decreasing the public stake in the authorized funds of business entities, increasing their investment attractiveness and developing the stock market.

### April

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

With the aim of further improving the investment climate; increasing the attraction of private direct foreign investment for the implementation of the program of privatization, modernization, technical re-equipment and reconstruction of production; creating new jobs; and also ensuring reliable legal protection and guarantees

for foreign investors, the **Decree “On Additional Measures for Encouraging the Attraction of Direct Private Foreign Investment”** was issued by the President of the Republic of Uzbekistan on 11 April.

In order to reform and liberalize the banking system, ensure its sustainable development, enhance the efficiency of commercial banks' activity, and increase their level of capitalization and broader participation in investment processes, the **Cabinet of Ministers of the Republic of Uzbekistan passed a Resolution “On Measures for Further Reforming and Liberalizing the Banking System”** on 15 April.

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

## May

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

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

**On 4 May the President of Uzbekistan signed a Decree “On Renaming the State Property Committee of Uzbekistan”**, by which the State Committee of Uzbekistan for State Property Management and Support of Entrepreneurship was renamed the State Property Committee (GKI). This was done to facilitate clear demarcation of tasks, functions and authorities between this Committee and the newly established State Committee for De-monopolization and Support of Competition and Entrepreneurship.

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

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

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

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

The Tashkent Aircraft Manufacturing Association named after V.P. Chkalov (GAO “TAPOiCH”) **started production of a new modification of the IL 76 cargo aircraft**. The first aircraft of the newly modified IL -76TD is intended for the Russian air company “Volga-Dnepr”. The new IL-76 has a greater range, with a 23% increase in engine efficiency. The new liner will be piloted by four crew members (half the number needed in previous versions of the IL 76). There is an agreement with Russian consumers to supply 15 aircraft to Rus-

sia. An order for a new IL 76 was also received from Azerbaijan. The first two of the newly modified aircraft should be assembled in 2005, and in 2006 Tashkent Aircraft Manufacturing Association should begin serial production.

In accordance with the Decree of the President of the Republic of Uzbekistan of 14 April 2005, starting from 1 May 2005, **the salaries of civil service employees**, all types of pensions and social allowances and grants to students of higher education institutions and students of specialized secondary education institutions were increased 1.2 times. The minimum salary was fixed at UZS 7,835.

## July

**A new Joint Venture** with the participation of the Swiss company Ritter was launched in the Andijan region to manufacture export-oriented textile goods.

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

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 Commercial Banks".

In accordance with the Presidential Decree "On Improvement of the Management System of Foreign Trade and the Attraction of Foreign Investment" of 21 July 2005, **the Agency for Foreign Relations has become the Ministry for Foreign Economic Relations, Investment and Trade**.

With the aim of ensuring social security for Army servicemen, **the President signed a Decree** dated 30 June 2005 "**On Additional Measures for the Social Protection of Army Servicemen**" that from 1 July 2005 onwards entitles servicemen to a specified amount (for Tashkent city up to 4 minimum wages, for Nukus City and regional centers 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).

On 19 July 2005 the **Cabinet of Ministers convened** to discuss the result 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 towards progress in the liberalization of the economy 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 President signed the Decree "On Ensuring Trouble-Free Withdrawal of Cash from Bank Accounts,"** canceling restrictions on the withdrawal of cash for retail trade business entities. In addition, the Decree canceled restrictions for selected industrial enterprises, as well as for trade and service companies, including public catering, on the amount of cash that can be used to settle pressing payments and payments to third parties (for the purchase of foodstuffs, fuel and lubricants, accessories, parts and other inputs).

On the occasion of 14<sup>th</sup> anniversary of Independence **a number of new enterprises with foreign investment were launched in the regions**. The largest one, "BayTex Tijaret" was created in Tashkent by the Turkish companies "Ultash Entegre Textil" and "Baha Textil". The list also included: the joint Uzbek-American enterprise "TurtkulTex" in the Republic of Karakalpakstan; "Demir Textil" in Tashkent Region; the joint venture "TashTextil" with participation of the "Schultz" company from Germany; and a new garment factory in Tashkent, founded by a Swiss company.

## September

The **Unified System of Informing Investors** about available joint stock companies – implemented under the framework of the World Bank project "Development of the Securities Market" – **was launched on a trial basis** in the Center for Coordination and Control over the Securities Market.

The **President signed the Decree** "On Reducing the Number and Complexity of Permits for Entrepreneurial Activity" aimed at the creation of more favorable, transparent and simplified 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 **enacted 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 VAT-related privileges. In addition, preferential taxation has been established for accumulative pension payments of individuals and the income received from obligations on those payments.

In his **Oqsaroy Residence** President Islam Karimov **received Alexey Miller, Chairman of the Board of Gazprom (Russia)**. The discussion was focused on the development and implementation of new projects under the signed agreement on strategic partnership in the natural gas sector, envisaging the participation of Russian companies in the development of gas fields in Uzbekistan and the construction of appropriate infrastructure for the transportation of 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 categories: vehicles, buses, special vehicles, trailers and devices, engines and components and so forth.

A **factory producing home appliances was inaugurated** in Khanabad, by the Uzbek-Chinese JV "Honbugda". Its output will include seven types of home appliances, including refrigerators, vacuum-cleaners and washing machines.

The **President signed a Decree dated 14 September 2005 increasing 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, and tuition/stipends for students of higher educational institutions, secondary special and vocational schools were increased 1.2 times. The minimum wage was established at the rate of UZS 9400.

With the goal of social protection of the population and rejection of unjustified growth of tariffs, as well as support for the utility companies, the **President signed a Decree dated 23 September 2005 "On Measures for the Social Protection of the Population and Support for 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 energy carriers and water.

The **Cabinet of Ministers Resolution "On Measures for the Further Reform of the System of Financing Public Health Care Facilities" was passed on 28 September 2005** to facilitate progress in public health reform and expand 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.

### October

On October 5 the **President of Uzbekistan signed Decree # 3665 "On Measures for the Further Reduction of the Number of Inspections of Business Entities and Improvement of the System of Inspections"**. In particular, scheduled inspections of the financial and economic activity of micro-firms, small enterprises and farming entities will be performed half as frequently – not more often than once in four years (according to the previous procedure – once in two years), while the frequency of scheduled inspections of other types of business will be reduced 1.5 times – no more often than once in three years (previously once in two years).

### November

With the purposes of further promotion of structural transformations in the economy, intensification of investment activity of enterprises, broad attraction of foreign investment and the achievement of sustainable and dynamic development of the economy, the Cabinet of Ministers of Uzbekistan **passed the Resolution "On the Investment Program of the Republic of Uzbekistan for 2006" of 30 November 2005**.

As a result of the implementation of the Localization Program, "UzSelkhozMashHolding" company **commenced the manufacturing of hydraulic jacks for tractors and agricultural machines, and connecting rods and crankshafts for diesel engines**. Almalyk Mining and Smelting Combine launched the output of black lead and lead-containing materials, Motorny Zavod began manufacturing crankshafts and ElectroMash and Meridian companies – large pressed parts for UzDaewooAvto JV.

With the aim of further improving the system of compensation for teachers, the **President issued the Resolution "On Measures for Further Improving the System of Wages and Incentive Payments for Public Education Employees" of 25 November 2005**. This Resolution envisaged increases in wages in 2006 for the fol-

lowing groups of employees: a) staff of general education schools – 1.3 times on average from all sources of payment (excluding annual indexations); and b) directors, deputy directors of general education schools – 1.4 times.

The Resolution of the State Customs Committee and the Ministry of the Economy of 28 November 2005 **enacted the “Regulation on Procedures of Application of Tax Privileges for Foreign Private Direct Investment”** which covers legal entities attracting investment and enterprises with foreign investment. Newly created enterprises were allowed to carry forward losses from their operations over a certain period.

The **10<sup>th</sup> international exhibition of food industry and agriculture** FoodWeek Uzbekistan 2005 was held in Tashkent. The purpose of the exhibition was to demonstrate achievements in the food industry and agriculture, and equipment and mini-technologies for the processing of agricultural produce. The exhibition provided an international cooperation umbrella for the exchange of experience and new technologies. Representatives of 36 companies from 12 countries participated in the event.

On 23 November the **World Bank organized a Media Tour to Fergana Valley** under the project of supporting and restructuring agricultural enterprises. The objective of this project is to increase profitability and sustainability of agriculture through rendering technical assistance and advisory services on running farming business, developing better access to loans for the private sector, rehabilitating and reconstructing irrigation and drainage infrastructure and so forth.

### **December**

In Moscow, on 14 December, in pursuance of earlier achieved agreements on cooperation and interaction in the area of developing stock market infrastructure, the stock exchanges of Moscow and Tashkent signed a **Memorandum on Cooperation** with the purpose of forming an integrated stock market based on advanced exchange trade technologies. In addition, the parties agreed upon the coordination of activities aimed at mutual access of financial instruments of their countries to circulation on their trading floors.

In order to further improve the current evaluation and compensation of labor of medical personnel and ensure clear and immediate correlation between their wages and incentive mechanisms and the degree of complexity and sophistication of their work and the quality of medical aid, **the President of Uzbekistan signed a Resolution** of 1 December 2005 “On Improving the System of Payment for Medical Personnel”.

The year 2006 was announced the Year of Welfare and Medical Personnel. On 16 December 2005 the **President issued an Order** “On Organizational Measures for Development and Implementation of the Program ‘The Year of Welfare and Medical Personnel’.”

**The President signed a Resolution** of 27 December 2005 “On Forecasting Major Economic Indicators and Parameters of the Public Budget of the Republic of Uzbekistan for 2006”. In accordance with this act, the tax rate for dividend income of individuals was reduced from 15 to 10 percent and the rate of the unified social payment was reduced from 31 to 25 percent.

**The Tax Code of the Republic of Uzbekistan was amended** by provisions reducing from 1 January 2006 the maximum rate of individual income tax from 30 to 29 percent.

# INFORMATION AND ANALYTICAL SECTION

## 1. Economic Growth, Investments and Inflation

### 1.1. Economic Growth

Measures undertaken for the systematic and successive modernization of the country's economy have facilitated the achievement of high growth rates of GDP and favorable shifts in its structure. The key sources and factors determining further economic growth included the stable macroeconomic situation and the growth of domestic and external demand. Economic growth was also encouraged by measures aimed at the promotion of the private sector, including: the liberalization of access to resources and sales of finished goods; the drastic reduction of government intervention in the economic activities of enterprises; and the expansion of economic freedom and the rights of business entities.

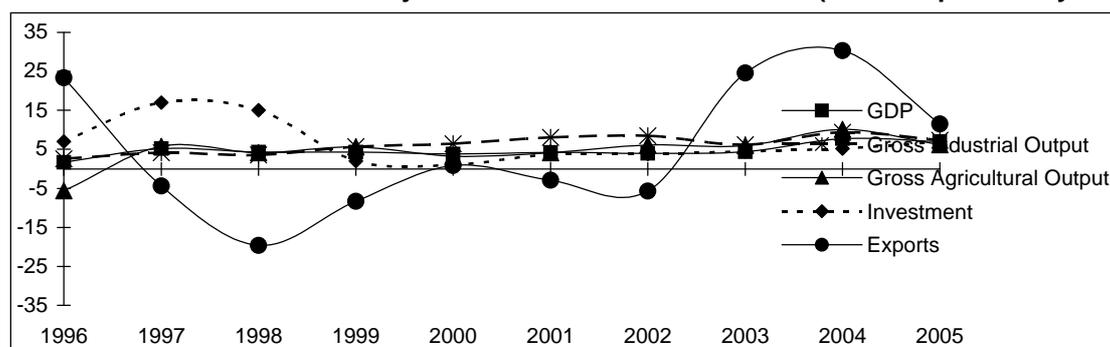
GDP in nominal terms totaled UZS 15210.4 billion in 2005. Growth in real GDP (7.0%) was ensured by the dynamic growth in the basic industries of the economy (6.8%), increased capital investments (7.0%) and the increase in exports (11.5%) (Table 1.1.1, Chart 1.1.1).

**Table 1.1.1. Major Macroeconomic Indicators of Development of the Economy (in %)**

	2000	2001	2002	2003	2004	2005
GDP (Produced)	103.8	104.2	104.0	104.4	107.7	107.0
Industrial Output	105.9	107.6	108.3	106.2	109.4	107.3
Agricultural Output	103.1	104.2	106.0	107.3	108.9	106.2
Capital Investments	100.9	104.0	103.8	104.5	105.2	107.0
Rate of Public Budget Execution (% of GDP)	-1.0	-1.0	-0.8	-0.4	-0.4	0.1
Discount Rate of the CBU (%)	32.3	26.8	34.5	27.1	18.8	16
Inflation (December to December of the Previous Year)	28.2	26.6	21.6	3.8	3.7	7.8
Unemployment (End of Period, %)	0.4	0.4	0.4	0.3	0.4	0.3

Source: State Statistics Committee of the Republic of Uzbekistan

**Chart 1.1.1. Performance of Major Economic Growth Indicators (% to the previous year)**

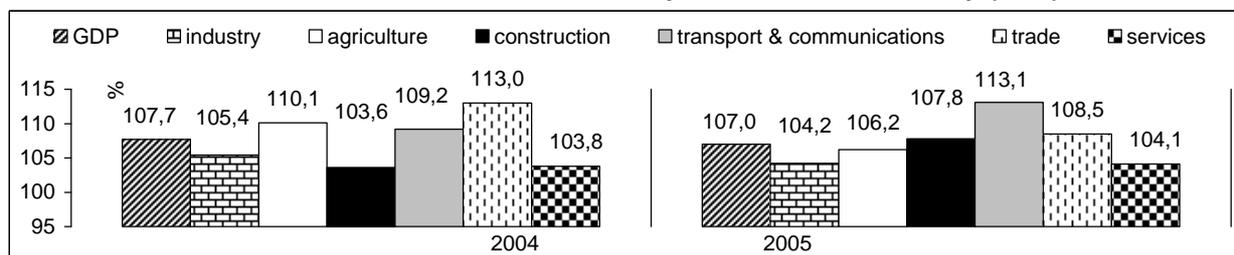


Source: State Statistics Committee of the Republic of Uzbekistan

The relatively high GDP growth rates can also be attributed to the favorable macroeconomic environment, i.e. the acceptable rate of inflation (7.8%), public budget surplus (0.1% of GDP), moderate national currency devaluation (11.5%), and reduction of the CBU discount rate to 16% (in average annual terms) vs. 18.8% in 2004.

To some extent, the economic growth rates owe to the current policy aimed at the promotion of the production of goods and services, by means of improving tax regulation instruments and tax policy. Corporate income tax rates were reduced from 18% in 2004 to 15% in 2005, which provides an opportunity to invest a fair portion of their savings (approximately UZS 40 billion) in the development of their operations. There were also increases in capital investment (from 5.2% to 7%) and real added value compared to 2004 (which accounted for 4.2% in industry, 6.2% in agriculture, 7.8% in construction, 13.1% in transport and communications, 8.5% in trade and public catering and 4.1% in other sectors, including non-manufacturing services) (Chart 1.1.2).

**Chart 1.1.2. Growth in Added Value by Sector of the Economy (in %)**



Source: State Statistics Committee of Uzbekistan

In terms of GDP growth compared to 1991, Uzbekistan remains among the leaders in the CIS, surpassing the indicator for the CIS average by 25.5% (Table 1.1.2).

GDP per capita growth in 2005 amounted to 5.8% due to higher growth in the real GDP (7.0%) compared to the population increase (1.2%). Over the period from 1995 to 2005 the average values of these indicators were 3.0%, 4.2%, and 1.4% respectively (Chart 1.1.3).

**Table 1.1.2. GDP in the CIS Countries (% of 1991)**

	2001	2002	2003	2004	2005
Uzbekistan	102.7	106.8	111.3	119.8	128.2
Azerbaijan	65.2	72.1	80.2	88.3	111.6
Armenia	84.0	95.1	108.3	119.2	135.8
Belarus	93.0	97.7	104.3	115.8	126.4
Georgia	49.8	52.5	58.4	63.3	68.2
Kazakhstan	88.5	97.2	106.3	115.9	126.6
Kyrgyzstan	76.1	76.1	81.2	86.9	86.4
Moldova	45.0	48.2	51.2	55.0	59.6
Russia	74.4	77.9	83.6	89.5	95.3
Tajikistan	44.7	49.0	54.0	59.7	63.7
Ukraine	51.7	54.4	59.5	66.6	68.2
The CIS Average	73.0	77.0	82.0	88.6	102.9

Source: Statistics Committee of the CIS and estimates by the author

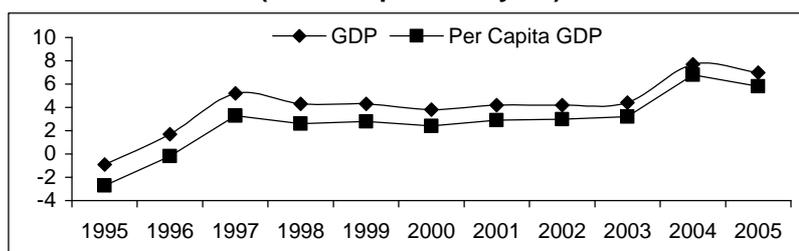
The continuing upward trend in GDP per capita growth (5.8%) is associated with sustainable development in the real sector and the stable demographic situation.

Of the 7.0% GDP growth in 2005 (7.7% in 2004), industry accounted for 0.8% (0.9%), agriculture – 1.7% (2.9%), construction – 0.4% (0.2%), transport and communications – 1.3% (0.9%), trade and public catering 0.8% (1.2%), other sectors and services – 0.7 (0.6%) and net indirect taxes – 1.3% (1.0%) (Chart 1.1.3).

The doubling of the contribution of construction to GDP growth, as well as the 0.4% increase in the input from transport and communications, is linked to some extent to the effectiveness of the structural reform being implemented in these sectors of the economy.

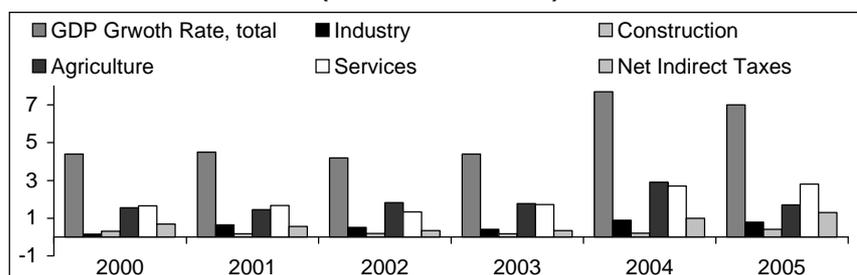
**In the production structure of GDP**, a positive increase in the share of industry (from 17.5% to 20.7%) was ob-

**Chart 1.1.3. GDP and GDP Per Capita Growth (% to the previous year)**



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

**Chart 1.1.3. Contribution to GDP Growth Rates by Sector (% of GDP Growth)**



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

served, resulting to some extent from the continuing trend in the growth of labor productivity, the ongoing modernization of the technical and technological base in the manufacturing sector and the introduction of contemporary management and marketing methods (Table 1.1.3). A favorable structural transformation was achieved due to the growth in industrial output (7.3%) supported by considerable growth in the output of mechanical engineering – 29.7%, construction materials – 11.0%, light industry – 12.0% and the chemical and petrochemical sectors – 9.6%.

**Table 1.1.3. Growth and Production Structure of GDP**

Period	GDP		Production Structure of GDP, %				
	In Current Prices of the Respective Year, UZS billion	To Corresponding Period of the Previous Year, % (in Comparable Prices)	Industry	Agriculture	Construction	Services	Net Taxes
2000	3255.6	103.8	14.2	30.1	6.0	37.2	12.5
2001	4925.3	104.2	14.1	30.2	5.8	38.2	11.9
2002	7450.2	104.0	14.5	30.1	4.9	37.9	12.6
2003	9837.8	104.2	15.8	28.6	4.5	37.4	13.7
2004	12261.0	107.7	17.5	26.4	4.8	37.2	14.1
2005	15210.4	107.0	20.7	25.0	4.9	38.4	11.0
04/I	2029.7	104.8	22.9	9.7	4.9	44.6	17.9
04/I-II	4542.3	106.2	20.7	15.0	5.8	42.0	16.5
04/I-III	8255.6	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

The growth in output of these sectors owed mainly to the increased demand for vehicles and other mechanical engineering products in the external market and to the growth in domestic demand for construction materials and consumer goods, as well as the launch of a number of manufacturing facilities in the textile industry.

**In the structure of GDP utilization,** a significant factor in the transformation in the production structure of GDP was the trend towards the maintenance of high demand for exported goods. This is largely explained by the growth of the world economy and the increase in consumption in trading partners of Uzbekistan. The favorable market situation worldwide, the success of implemented measures and the liberalization of foreign trade facilitated an increase in exports of 11.5% (due mainly to an increase in the export of energy mechanical engineering products – 1.3 times, cotton fiber – 1.2 times and chemical products – 1.2 times). This contributed to an increase in the share in GDP of net exports (from 7.4% to 9.7%).

**Table 1.1.4. Structure of Using GDP (in %)**

Period	Final Consumer Expenditures, %		Gross Savings, %		Net Exports, %
	Private	Public	Gross Domestic Capital Investment*	Change in Inventories	
2000	61.9	18.7	24.0	-4.4	-0.2
2001	61.5	18.5	27.9	-6.8	-1.1
2002	60.2	18.0	22.1	-0.9	0.6
2003	55.6	17.5	21.0	-0.3	6.2
2004	51.9	16.2	23.5	1.0	7.4
2005	50.9	16.4	23.1	-0.1	9.7
04/I	50.0	13.6	21.7	0.0	14.7
04/I-II	50.8	16.1	22.2	-2.0	12.9
04/I-III	49.6	17.7	24.2	0.1	8.4
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

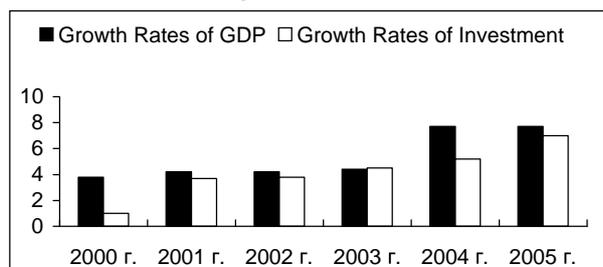
The growth in the share of net exports facilitated a decrease in the share of final consumer expenditures (from 68.1% to 67.3%). This was basically due to a decrease in the share of final consumer expenditures of households (from 51.9% to 50.9%). These structural shifts affected the share of gross domestic capital investment in GDP (from 23.5% to 23.1%) and of inventories (from 1.0% to -0.1%). Consequently, gross savings decreased from 24.5% in 2004 to 23.0% in 2005 (Table 1.1.4). These shifts occurred against a background of growth in gross capital investments (from 5.8% to 7.0%). The average annual rate of investment over the period from 2000 to 2005 amounted to 4.2%.

Factors which ultimately affected the increase in the real income of the population (22%) and the level of anticipation among manufacturers for growth in domestic demand included the following: a sustained favorable macroeconomic environment; continuing external demand for Uzbek exports; a more dynamic inflow of investment; growth in the output of goods and services; and an increase in the business activity of the private sector.

## 1.2. Investments

Successive structural transformations and the modernization of the economy have facilitated the activation of investment processes. The bulk of capital investment from all funding sources amounted to UZS 3012.9 billion in 2005. The growth rate reached 107.0%, which was 1.8% higher than in 2004. The share of investment in GDP was estimated to be 19.8%, as opposed to 20.2% in 2004. The positive dynamics in the sphere of investment have significantly affected economic growth (Graph 1.2.1, Annex 1.2.1).

**Graph 1.2.1. Dynamics of Growth Rates of GDP and Capital Investments.**



Source: The State Statistics Committee of Uzbekistan

During 2005 the following crucial economic 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-Gallyaaral, an installation for the utilization of gas at Kokdumalak field, traffic interchanges of inter-regional crossroads, mobile phone and digital switching stations 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 assigned to the public sector decreased by 5.2% and amounted to 36.2% of the total. Accordingly, the share of investment in the non-public sector increased and reached 63.8%. (Table 1.2.1).

**Table 1.2.1. Capital Investment Breakdown by Form of Ownership (%)**

	04/I	04/I-II	04/-III	2004	05/I	05/I-II	05/-III	2005
Capital investment	100	100	100	100	100	100	100	100
Public property	40.8	43.7	42.8	41.4	32.3	40.3	39.8	36.2
Non-public property	59.2	56.3	57.2	58.6	67.7	59.7	60.2	63.8

Source: The State Statistics Committee of Uzbekistan

The liberalization of all spheres of the economy, as well as the consequential improvement of the tax structure, facilitated the financial stabilization of industrial production, the increase of the share of profits in the formation of enterprises' equity and the buoyancy of investment activities in the private sector. The share of investment funded by enterprises' own funds in the structure of capital investment increased by 5.3% and reached 48.5%.

The necessity of applying modern technologies and of utilizing the experience of foreign entrepreneurs, as well as measures undertaken to improve the investment climate in the country facilitated a dynamic change in the structure of foreign investment in the total volume of capital investments. There has been an activation of foreign direct investment inflow. In 2005 this share amounted to 68.7% of the total volume of foreign investment. USD 356.4 million of foreign direct investment entered the economy of the Republic in 2005, which was 1.5 times greater than in 2004.

The increase in the volume of investment was a result of the construction and acquisition of equipment for such enterprises as JV "Uzdunrobita", DE "Unitel Company", JV "Kokdumalak-Gas", JV "Djarkurgan neftni kayta ishlar", JV "Pharm Glass" and others.

A certain decrease in the population's funding of capital investment was observed. The share of savings in the total amount of capital investment declined to 11.8%, which was 0.6 percent below the level of the previous year. Savings are mainly targeted towards the construction of individual housing; therefore this investment potential is used insignificantly.

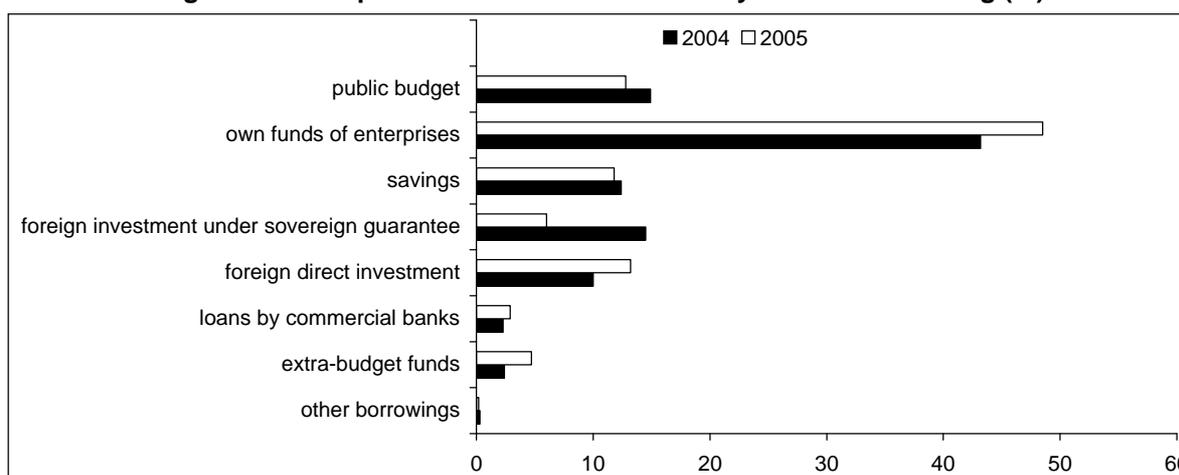
In the current year the growth of investment was favorably affected by the active attraction of extra-budgetary funds for the implementation of investment projects. The share of extra-budgetary funds in the structure of capital investment grew to 4.7% of the total, i.e. by 2.3 percent. Resources from extra-budgetary funds, particularly from the Republic Road Fund, were allocated to the construction and repair of roads and railways.

The measures taken for the reconstruction and liberalization of the banking sector, and the decrease of the average rate on short-term and long-term credits, led to an increase in the share of commercial banks in in-

vestment in the real sector of the economy by 2.9%, which was 0.6 percent higher than in the respective period of the previous year.

The adjustment of priorities of the Investment Program aimed at reducing state participation in investment processes positively affected the decrease in the central funding of investments. In 2005 the bulk of public budget investment was within the limits of 384.2 UZS billion, while the bulk of foreign investment under sovereign guarantee amounted to 180.8 UZS billion. In 2005 the share of direct public budget expenditures for capital investment decreased by 2.2 percent, while the share of foreign loans secured by sovereign guarantee decreased by 8.5 percent – accounting for, respectively, 12.8% and 6.0% of total investment (Figure 1.2.2).

**Figure 1.2.2. Capital Investment Breakdown by Source of Funding (%)**



Source: The State Statistics Committee of Uzbekistan.

In 2005 the economic upsurge was facilitated by the development of industry sectors and infrastructure, which was linked with the redistribution of flows of capital investment. The dynamics of investment demand were formed under the cumulative influence of the changes in industrial and technological structure. In 2005 more than 50.1% of investment was allocated to the development of basic sectors of the economy (industry, transport and communications), concentrating major investment (up to 65.3%) in the industry sector. The total volume of investment in the industry sector amounted to 1968.3 UZS billion (Table 1.2.2).

**Table 1.2.2. Capital Investment by Sector of the Economy (%)**

	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Total	100	100	100	100	100	100	100	100
Production, including	63.4	55.7	56.2	64.1	67.4	61.1	62.2	65.3
Industry	28.1	23.3	26.7	28.5	33.1	28.5	30.1	29.9
Agriculture	5.0	29.0	3.0	3.4	2.9	3.3	3.4	3.2
Construction	0.2	0.3	0.5	0.5	2.8	0.4	0.6	0.8
Transport and Communications	21.7	19.0	17.1	23.1	22.0	23.1	21.6	20.2
Trade and Public Catering	1.5	1.2	1.4	1.3	1.3	0.9	1.3	1.3
Other	6.9	9.0	7.5	7.3	5.3	4.9	5.2	9.9
Non-production	36.6	44.3	43.8	35.9	32.6	38.9	37.8	34.7

Source: The State Statistics Committee of Uzbekistan.

The volume of capital investment in the industry sector increased 2.5%. The share of capital investment amounted to 29.9%, or an increase of 1.4 percent. 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 a number of joint ventures producing consumer goods were funded by own capital and funds raised for industrial development. The reconstruction of Samarkand Chemical Plant and Kokand Superphosphate Plant was progressing. Efforts to organize the production of universal tilling tractors at UzCase -Tractor joint venture and modernization of Tashkent Thermoelectric Station continued.

Structural transformations in the economy facilitated the development of industrial infrastructure and capital investment in the development of the transportation and communication sectors. The share of investments in these sectors amounted to 20.2% of the total. The modernization of the supply of diesel locomotives commenced, and the construction of the new railroad Tashguzar-Baysun-Kumkurgan, as well as reconstruction

of Navoi-Uchkuduk-Sultanizdag-Hukus railroad and a number of international highways, continued. The Agency for Communications and Information was successfully implementing the modernization of the tele-com network.

The investment allocated to the development of the agricultural sector decreased by 0.2 percent, mainly due to a decrease in the volume of investment in infrastructure projects and in the development of grain production. Its share in capital investment amounted to 3.2% of the total. The construction of water management facilities in the Jizzakh and Sirdarya regions and the drainage system in the South Karakalpakstan, as well as the reconstruction of pump stations of the Amu-Zang canal, continued.

There were certain changes in the structure of foreign investment by economic sector. In 2005 the bulk of foreign capital investment amounted to USD 518.2 million. The share of foreign capital investment in industry increased by 3.5 percent or reached 86.2% of the total. Industry is becoming increasingly attractive to investors. Foreign investment in the industry sector and in agriculture has increased by 9.2 percent and 1.7 percent respectively. The transportation and communication sector is also very attractive for foreign investors. The share of foreign investment allocated to development of this sector amounted to 30.2% of the total bulk of foreign investment (Table 1.2.3).

**Table 1.2.3. Foreign Capital Investment by Economic Sector (%)**

	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Total:	100	100	100	100	100	100	100	100
Production, including	81.8	78.7	73.6	82.7	90.6	90.6	88.7	86.2
Industry	45.1	37.5	39.3	39.0	65.3	54.4	57.6	48.2
Agriculture	0.2	0.1	0.3	0.7	2.0	1.8	1.8	2.4
Construction	-	-	-	-	0.7	0.3	0.3	0.2
Transport and Communications	26.3	33.0	28.6	37.9	21.9	33.7	28.8	30.2
Trade and Public Catering	-	-	-	0.3	0.0	0.0	0.1	0.1
Other	10.2	8.1	5.4	4.8	0.7	0.4	0.1	5.0
Non-production	18.2	21.3	26.4	17.3	9.4	9.4	11.3	13.8

Source: The State Statistics Committee of Uzbekistan.

There were positive changes in the structure of investment by industry sector. Despite the dominance of investments in the power and fuel as well as metallurgical sectors, a trend towards diversification of investment was observed (Table 1.2.4).

**Table 1.2.4. Capital Investment by Industry Sector (%)**

	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Industry, Total	100	100	100	100	100	100	100	100
Power	11.4	11.9	11.1	9.5	9.5	8.5	7.6	8.7
Fuel	13.7	18.2	17.7	20.3	23.1	30.6	29.3	28.4
Metallurgy	10.6	13.0	13.8	16.4	12.9	20.2	19.9	21.1
Mechanical Engineering	2.1	2.4	2.4	3.2	2.4	2.6	3.2	3.1
Light	28.1	21.8	23.8	21.0	15.1	13.9	15.7	15.4
Food	2.9	4.8	5.5	5.0	3.5	3.5	4.3	4.4
Chemical and Petrochemical	24.8	16.9	11.0	7.5	10.5	7.4	6.5	6.6
Building Materials	2.0	2.6	2.4	1.9	4.9	1.6	3.4	3.3
Other	4.3	8.4	12.3	15.2	18.1	11.7	10.1	9.0

Source: The State Statistics Committee of Uzbekistan.

The share of investment resources in the fuel sector reached 28.4%, which was 8.1 percent higher than in the respective period of the previous year and defined the new stage of the development of this sector. The share of investment in the power industry decreased by 0.8 percent and reached the level of 8.7%. The share of investment in metallurgy increased significantly by 4.7 percent, reaching 21.1%, mainly due to the development of ferrous metallurgy (an increase of 3.6 percent).

The share of investment in the sectors producing export-oriented products decreased in the following way: in mechanical engineering from 3.2% to 3.1%, in chemical and petrochemical from 7.5% to 6.6%, and in light industry from 21.0% to 15.4%. The share of investment in the developing food sector decreased by 0.6 percent or to 4.4%. The decrease of capital investment in chemical and petrochemical sectors as well as in light industry was related to the decrease of public investment in construction and the decrease in foreign investment caused by its redistribution to other sectors in accordance with the Investment Program.

The shift in the structure of capital investment in industry was mainly affected by sectoral spillover of foreign capital. Its share reached 18.6% in the fuel and 16.7% in the metallurgical sector. Significant growth of foreign investment in these sectors resulted from the development of new hydrocarbon fields and the technical modernization of existing mining and extracting facilities (Table 1.2.5).

The share of foreign investment in sectors producing marketable services increased. This includes the food sector – by 1.9 percent and the building materials sector – by 2.7 percent. Their shares increased to 5.5% and 3.5%, respectively, of total foreign investment in industry development. In the light industry sector, foreign investment decreased by 11.6 percent, in chemical and petrochemical by 8.3 percent and in the power sector by 4.0 percent. The preplanned influx of foreign investments into light industry was not supported by an increase of foreign direct investments from joint ventures in the textile industry, due to technical and administrative problems.

**Table 1.2.5. Capital Foreign Investment by Industry Sector (%)**

	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Industry, Total	100	100	100	100	100	100	100	100
Power	8.7	6.8	7.8	6.6	6.6	3.5	3.2	2.6
Fuel	2.0	2.3	1.3	4.5	6.3	24.1	22.7	18.6
Metallurgy	0.1	0.0	0.0	5.5	11.4	16.9	15.6	16.7
Mechanical Engineering	0.1	0.5	1.3	1.5	0.1	1.5	1.1	1.7
Light	55.2	56.3	61.5	50.1	31.9	32.5	35.5	38.5
Food	0.7	3.3	2.6	3.6	2.6	3.0	4.4	5.5
Chemical and Petrochemical	32.1	24.7	15.5	9.2	1.2	0.5	0.8	0.9
Building Materials	0.0	2.2	1.4	0.8	8.7	-	3.9	3.5
Other	1.1	3.9	8.6	18.2	31.3	18.0	12.8	12.0

Source: The State Statistics Committee of Uzbekistan

The implementation of the Investment Program as a control mechanism of investment processes affected the growth of new construction, which had a negative effect on the technological structure of capital investment. The decrease of capital expenses for acquiring machinery and equipment (the active part of assets) and the increase of capital expenses for building and assembly works (the passive part) was observed. The share of investment in the purchase of new machinery and equipment decreased by 4.8 percent and amounted to 38.8% of the total investment of the economy, which facilitated an increase in the depreciation rate of the active part of assets (Table 1.2.6).

**Table 1.2.6. Technological Structure of Capital Investment (%)**

	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Total	100	100	100	100	100	100	100	100
Building and Assembly	50.4	53.8	50.9	45.6	48.5	54.2	52.6	47.0
Machinery, Equipment, Tools	37.9	32.4	37.6	43.6	37.7	34.0	34.8	38.8
Other Costs	11.7	13.8	11.5	10.8	13.8	11.8	12.6	14.2

Source: The State Statistics Committee of Uzbekistan

The further activation of investment processes was mainly coupled with the realization of stimulation mechanisms and levers as well as the attraction of foreign and domestic investors, above all with direct investment.

### 1.3. Prices and Inflation

The total increase in prices in the consumer sector for 2005 amounted to 7.8%. The total level of inflation was positively affected by a deceleration in the increase in tariffs for chargeable services (from 26.7% in 2003 and 22.1% in 2004 to 13.5% in 2005) (Table 1.3.1, 1.3.2).

For the past two years, a tendency towards the stabilization of inflation according to the GDP deflator was observed at the level of 15-16%.

The prices in the conditions of Uzbekistan are strongly affected by dramatic seasonal fluctuations throughout the year. In Uzbekistan, typical examples of seasonal price fluctuations are prices for fruit and vegetable products. Usually, prices of fruit and vegetables reach their maximum during the winter and spring period, and drop to their minimum during the summer and fall period. In particular, in December 2005 the price of 1 kilo of potatoes reached its maximum - 309 UZS, while in July was only 192 UZS; the maximum price of onions in May was 203 UZS and its minimum price – 117 UZS – was registered in August. In the basket of consumer goods used for calculations of CPI in the Republic of Uzbekistan, fruit and vegetable products account for 8.5%. Because prices during the summer-and-fall period decrease significantly, people try to buy as much fruit and vegetables as possible at this time, in order to store them for later consumption throughout

year. This factor has a great impact on the decrease of the general price level in this period. For more detailed description of the methodology please see the analytical part of the Review.

**Table 1.3.1. Major Indicators of Inflation in the Republic of Uzbekistan for 2001- 2005 (increase in prices in % to corresponding period of the previous year)**

Years	Consumer price index (CPI) consolidated	Foodstuffs	Non-foodstuffs	Services
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
2005	6.4	4.2	4.9	17.1
04/I	0.7	-6.4	7.2	26.6
04/II	-1.3	-9.1	6.6	25.6
04/III	2.6	-2.6	5.8	20.4
04/IV	4.6	0.1	5.6	22.3
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	4.2	17.4
05/IV	7.2	5.6	6.9	14.2

Source: The State Statistics Committee of Uzbekistan.

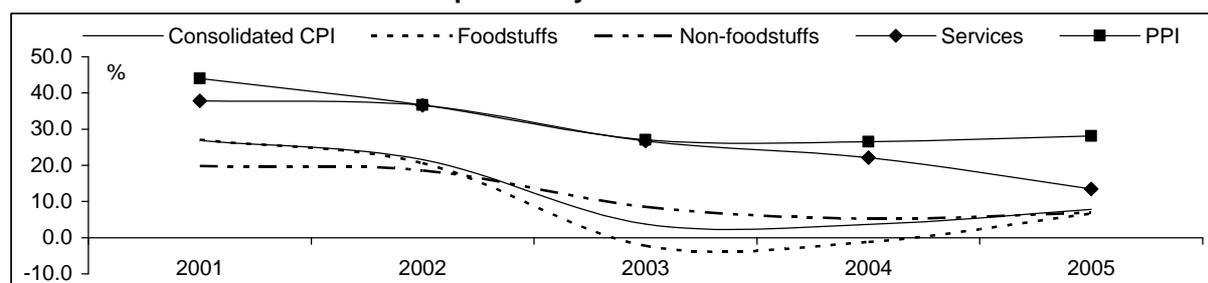
Since 2003 the State Statistics Committee of Uzbekistan has used variable weight in its CPI calculation of fruit and vegetable products. These data are obtained from the budgetary household survey. The IMF recommends using constant weight.

**Table 1.3.2. Level of Inflation for 2004-2005 (increase in prices in %)**

	Average monthly level		To December of previous year	
	2004	2005	2004	2005
CPI	0.3	0.6	3.7	7.8
Foodstuffs	-0.1	0.5	-1.2	6.7
Non-foodstuffs	0.4	0.6	5.3	6.9
Services	1.7	1.1	22.1	13.5

Source: The State Statistics Committee of Uzbekistan.

**Graph 1.3.1. Increase in Prices in December of current year compared with December of previous year for 2001- 2005**



Source: The State Statistics Committee of Uzbekistan.

In a regional analysis, higher growth of the composite index of consumer prices was observed in Khorezm (10.12%), Bukhara (9.16%) and Samarkand (8.29%) regions and in Tashkent (8.47%) (Table 1.3.3). This can be explained by higher growth rates of prices for meat products (32.7%) and dairy products (27.8%) in Khorezm region, by price growth for services (19.5%) in Bukhara region, by price growth for meat products (24.6%) in Samarkand region, and by price growth for meat products (24.8%) in Tashkent. On the whole, the growth of consumer prices ranged from 6.05% to 10.12%.

**Table 1.3.3. Level of Inflation in the Republic of Uzbekistan for 2005 in a Regional Context (%)**

Regions	Increase in prices	Average monthly level
Republic of Uzbekistan	7.76	0.62
Khorezm	10.12	0.81
Bukhara	9.16	0.73
Tashkent city	8.47	0.68
Samarkand	8.29	0.67
Republic of Karakalpakstan	8.73	0.70
Sirdarya	7.61	0.61
Fergana	7.34	0.59
Tashkent	7.14	0.58
Navoi	6.66	0.54
Jizzakh	6.62	0.54
Kashkadarya	6.36	0.51
Surkhandarya	6.14	0.50
Andijan	6.05	0.49

Source: The State Statistics Committee of Uzbekistan

An analysis of the growth structure of prices and tariffs and its impact on the general level of inflation, excluding fruit and vegetable products, indicates that the growth in prices in 2005 was 10.31% over 2004 prices. This was caused by costs inflation (58.6%), the monetary factor (30.8%) and other non-monetary factors (Table 1.3.4).

In 2005, inflation of supply exceeded inflation of demand: the wholesale prices of producers of industrial products increased by 2.1% and consumer prices by 0.6% according to average monthly accounting.

Factor analysis of the increase in prices of producers of industrial products showed that in 2005, in the real sector, the increase in prices for energy carriers (49.9%), devaluation of the foreign exchange rate (8.8%) and wage increases (8.7%) had the greatest impact on the inflation rate (Table 1.3.5).

In accordance with the program of economic reforms, subsidies to the municipal economy have been gradually reduced, which has led to an increase in tariffs for: heating – by 22.8%, electric power – 27.3%, network gas – 18.0% and water supply – 13.0%.

For 2005 the devaluation of the over-the-counter exchange rate amounted to 11.5%, which had an impact on the increase in tariffs for producers of industrial

On the whole, the low level of inflation has been achieved through the implementation of certain measures in the sphere of finance and banking, as well as by the realization of the public budget with a certain surplus (0.1% to GDP).

In 2006 an increase in consumer prices (according to CPI) of 6-8% and GDP deflator of 12% is expected.

In CIS countries for January – November 2005, the level of inflation for the CPI ranged from 0.6% in Armenia to 11.1% in Moldova. In the Central Asian countries this indicator ranged as follows:

**Table 1.3.4. Factor Analysis of Inflation level in Consumer Sector for 2005. (excluding fruit and vegetable products)**

	Impact on CPI (%)	In % to total
All factors	10.3	100.0
Inflationary expectations	0.3	2.8
OTC foreign exchange rate	0.25	2.4
Wages	1.4	13.8
Cost-push inflation	6.0	58.6
Monetary factor	3.2	30.8
Other factors	-0.9	-8.4

Source: Ministry of Economy of Uzbekistan.

**Table 1.3.5. Factor Analysis of Inflation level in the Real Sector for 2005**

	Impact on CPI (%)	In % to total
All factors	28.1	100.0
Increase in tariffs for energy carriers	14.04	49.9
OTC foreign exchange rate	2.48	8.8
Wages	2.45	8.7
Transportation expenses	1.42	5.1
Other factors	7.72	27.5

Source: Ministry of Economy of Uzbekistan.

products by 8.8%.

**Table 1.3.6. Level of Inflation in CIS Countries for January - December of 2005 (%)**

Countries	Increase in prices	Monthly average
Azerbaijan	5.3	0.43
Armenia	-0.6	-0.05
Belarus	7.0	0.56
Georgia	6.8	0.55
Kazakhstan	7.4	0.60
Kyrgyzstan	5.2	0.42
Moldova	11.1	0.88
Russia	10.9	0.87
Tajikistan	6.9	0.56
Uzbekistan	7.8	0.62
Ukraine	9.5	0.76

Source: Statistics Committee of CIS and authors' computations.

Kazakhstan – 7.4%. Kyrgyzstan – 5.2% and Tajikistan – 10.9%.

**Annex 1.2.1. Dynamics of Capital Investment In Current Prices**

	Capital Investment, UZS billion	Increase to the respective period of the previous year, %
2000	744.5	1
2001	1320.9	3.7
2002	1526.6	3.8
2003	1927.0	4.5
2004	2473.2	5.2
2005	3012.9	7.0
04/I	346.8	-0.4
04/I-II	912.0	2.2
04/I-III	1529.6	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 1.2.2. Capital Investment by Form of Ownership (%)**

	2000	2001	2002	2003	2004	2005	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	100
Public Property	63.9	47.0	40.8	36.4	41.4	36.2	40.8	43.7	42.8	32.3	40.3	39.8
Non-public Property	36.1	53.0	59.2	63.6	58.6	63.8	59.2	56.3	57.2	67.7	59.7	60.2

Source: The State Statistics Committee of Uzbekistan.

**Annex 1.2.3. Capital Investment by Source of Funding (%)**

	2000	2001	2002	2003	2004	2005	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	100
Government Budget	29.2	21.5	23.9	16.8	14.9	12.8	19.5	20.2	18.3	13.6	16.3	15.4
Funds of Enterprises	27.1	31.1	41.2	43.9	43.2	48.5	37.4	37.0	38.3	45.9	40.4	42.4
Savings	12.0	10.3	11.4	10.2	12.4	11.8	14.0	17.0	16.2	12.0	14.1	14.0
Foreign Investment under Sovereign Guarantee	19.8	23.2	14.8	18.0	14.5	6.0	17.6	13.6	12.9	7.5	6.4	5.5
Foreign Direct Investment	3.4	4.8	5.3	7.9	10.0	13.1	10.4	9.1	9.5	12.4	13.7	14.1
Centralized Bank Loans	5.1	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-	-	-
Loans by Commercial Banks	1.7	2.2	2.4	2.2	2.3	2.9	0.6	0.8	2.4	2.6	1.5	1.8
Extra-budgetary Funds	1.3	0.1	0.2	0.2	2.4	4.7	0.5	2.1	2.2	5.7	7.3	6.5
Other Borrowings	0.4	0.9	0.8	0.8	0.3	0.2	0.0	0.2	0.2	0.3	0.3	0.3

Source: The State Statistics Committee of Uzbekistan.

**Annex 1.2.4. Capital Investment by Economic Sector (%)**

	2000	2001	2002	2003	2004	2005	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	100
Production	57.5	63.1	59.5	63.6	64.1	65.3	63.4	55.7	56.2	67.4	61.1	62.2
Industry	29.7	38.9	32.9	29.0	29.0	29.9	28.1	23.3	26.7	33.1	28.5	30.1
Agriculture	5.7	5.5	6.7	5.0	3.4	3.2	5.0	2.9	3.0	2.9	3.3	3.4
Construction	0.5	0.6	0.7	0.5	0.7	0.8	0.2	0.3	0.5	2.8	0.4	0.6
Transportation and Communication	16.8	14.1	10.4	19.5	23.1	20.2	21.7	19.0	17.1	22.0	23.1	21.6
Trade and Public Catering	2.9	1.5	1.6	3.3	1.5	1.3	1.5	1.2	1.4	1.3	0.9	1.3
Other	1.9	2.5	7.2	7.5	6.4	9.9	6.9	9.0	7.5	5.3	4.2	5.2
Non-production	42.5	36.9	40.5	36.4	35.9	34.7	36.6	44.3	43.8	32.6	38.9	37.8

Source: The State Statistics Committee of Uzbekistan.

**Annex 1.2.5. Capital Investment by Industry Sector (%)**

	2000	2001	2002	2003	2004	2005	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	100
Power	5.3	3.8	6.0	9.4	9.5	8.7	11.4	11.9	11.1	9.5	8.5	7.6
Fuel	20.2	32.3	28.5	18.9	20.3	28.4	13.7	18.2	17.7	23.1	30.6	29.3
Metallurgy	9.0	11.5	12.4	21.8	16.4	21.1	10.6	13.0	13.8	12.9	20.2	19.9
Mechanical Engineering	13.8	14.6	10.2	5.5	3.2	3.1	2.1	2.4	2.4	2.4	2.6	3.2
Light	7.9	15.9	14.3	19.4	21.0	15.4	28.1	21.7	23.8	15.1	13.9	15.7
Food	8.4	5.8	7.9	5.5	5.0	4.4	2.9	4.8	5.5	3.5	3.5	4.3
Chemical and Petrochemical	26.7	9.9	11.9	10.5	7.5	6.6	24.8	16.9	11.0	10.5	7.4	6.5
Building Materials	0.9	1.2	1.6	1.7	1.9	3.3	2.1	2.6	2.4	4.9	1.6	3.4
Other	7.8	5.0	7.2	7.3	15.2	9.0	4.4	8.4	12.3	18.1	11.7	10.1

Source: The State Statistics Committee of Uzbekistan.

**Annex 1.2.6. Technological Structure of Capital Investment (%)**

	2000	2001	2002	2003	2004	2005	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	100
Building and Assembly	58.1	48.2	49.4	46.2	45.6	47.0	50.4	53.8	50.9	48.5	54.2	52.6
Machinery, Equipment, Tools	30.6	39.5	38.6	42.1	43.6	38.8	37.9	32.4	37.6	37.7	34.0	34.8
Other Costs	11.3	12.3	12.0	11.7	10.8	14.2	11.7	13.8	11.5	13.8	11.8	12.6

Source: The State Statistics Committee of Uzbekistan.

## 2. Public Finance

Public finances are directly linked with ensuring macroeconomic stability and sustainable economic growth, implementation of structural transformations in the economy, liberalization of foreign trade and progressive growth of welfare.

In 2005 the revenue policy was focused on further decrease of the tax burden on the economy, simplification of taxation procedures and improvement of tax administration system.

The major outcomes of the implemented revenue and fiscal reforms were the following:

- Alleviation of the tax burden. The corporate income (profit) tax rate was decreased from 18 to 15%, the rate of the unified social tax was reduced from 33% to 31%. As a result the budget revenue decreased to 22.6% with respect to GDP;
- According to the estimates the reduction of the profit tax rate only saved more than UZS 40 billion to the companies and they may use these funds for investment; and
- Introduction of single tax payment decreased the number of documents submitted by taxpayers to tax inspections by almost 10 times.

### Public Budget Revenues

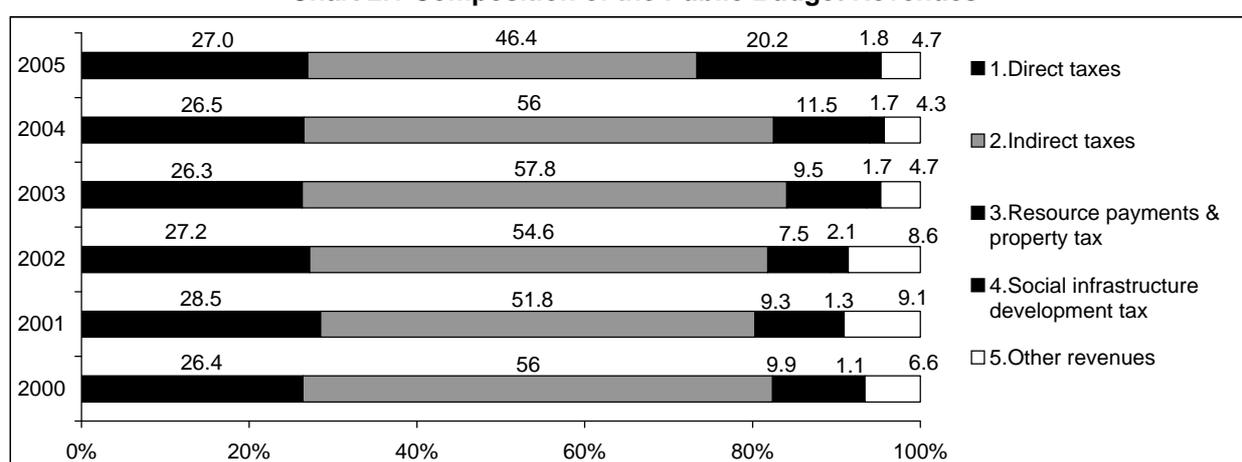
Indicators on execution of the revenue part of the public budget show that this indicator changed very slightly in 2005 compared to 2004. According to the results of 2005 the public budget revenues accounted for 22.6 of GDP as opposed to 22.5% in 2004. This trend was due to decrease in the direct taxes (10.5% in 2005 compared to 12.6 in 2004) and growth in the resource payments. Decrease in the share of indirect taxes owed to decrease in percentage of collection of the excise tax. However, the increase of the property tax rate for legal entities resulted in considerable increase in the share of resource payments and property tax (4.6% in 2005 as opposed to 2.6% in 2004). It is very important to emphasize that the amount public revenues surpassed the forecast by 39% and this was due to an enhancement of the taxable base.

**Table 2.1 Execution of Revenue Part of the Public Budget (% of GDP)**

Indicator	2000	2001	2002	2003	2004	2005
Revenues - Total	28.5	26.0	25.2	24.2	22.5	22.6
1. Direct taxes	7.5	7.4	6.8	6.4	6.0	6.1
2. Indirect taxes	16.0	13.5	13.8	14.0	12.6	10.5
3. Resource payments and property tax	2.8	2.4	1.9	2.3	2.6	4.6
4. Social infrastructure development tax	0.3	0.3	0.5	0.4	0.4	0.4
5. Other revenues	1.9	2.4	2.2	1.1	0.9	1.1

Source: Ministry of Finance of the Republic of Uzbekistan

**Chart 2.1 Composition of the Public Budget Revenues**



Source: Ministry of Finance of the Republic of Uzbekistan

The share of revenues from direct taxes remained unchanged in 2005 and accounted for 27% of the total. Revenues from indirect taxes accounted for 46.4% in 2005 which is 9.6 pct lower than in 2004. The decrease was caused by transfer to fixed rate of excise tax levied per a unit of product. The increase of the property tax rate for legal entities from 3.0% to 3.5% the revenues from resource payments and property tax have increased considerably from 11.5% in 2004 to 20.2% in 2005 (Chart 2.1.).

**Table 2.2 Break-down of Direct Taxes**

	2000	2001	2002	2003	2004	2005
Direct taxes	100.0	100.0	100.0	100.0	100.0	100
1. Corporate profit tax	49.4	39.7	34.4	34.1	29.9	30.4
2. Gross income tax	-	-	-	-	8.5	7.8
3. Unified tax		7.8	13.1	14.1	10.2	10.0
4. Individual income tax	44.5	44.9	45.6	46.7	46.2	46.9
5. Fixed tax on entrepreneurial income	6.1	7.6	6.9	5.1	5.2	4.9

Source: Ministry of Finance of the Republic of Uzbekistan

The revenues from individual income tax represent the bulk of the direct taxes share reaching more than 46.9%. Despite the reduction of the corporate income (profit) tax rate the revenues from this tax in the structure of direct taxes in 2005 have changed very slightly amounting to 30.4%, vs 29.9% in 2004. This could be attributed to cancellation of inefficient privileges for companies.

**Table 2.3 Break-down of Indirect Taxes**

	2000	2001	2002	2003	2004	2005
Indirect taxes	100.0	100.0	100.0	100.0	100.0	100.0
1. VAT	47.3	48.8	43.9	39.6	42.5	51.1
2. Excise tax	48.4	46.3	48.3	51.3	48.2	37.7
3. Customs duties	2.0	2.7	2.9	3.0	3.6	4.7
4. Unifies customs payment on individuals	2.3	2.2	2.4	3.3	2.5	2.1
5. Individual gasoline consumption tax	-	-	2.5	2.8	3.2	4.4

Source: Ministry of Finance of the Republic of Uzbekistan

Indirect taxes generated more than a half of the total government budget revenues in 2005. The VAT accounted for the largest share of 51.1% vs 42.5% in 2004. Such a significant increase in the share of the VAT was caused by decrease in the revenues from the excise tax. In 2005 the revenues from excise tax accounted for 37.7% vs 48.2% in 2004. The decrease was due to introduction of the fixed rate for domestically made alcohol products during the analyzed period, while the rates of the other indirect taxes were adjusted for inflation.

### Public Budget Expenditures

Slight decrease in government expenditures in percent of GDP from 22.9% in 2004 to 22.5% in 2005 was mainly due to decrease in expenditures for centralized investment (from 2.7% in 2004 to 2.4% in 2005 of GDP), other expenditures (from 5.6% in 2004 to 5% in 2005 of GDP). The expenditures for the economy accounted for 3.0% of GDP. There was a slight growth in expenditures for social sphere and social security.

**Table 2.4 Expenditures of the Public Budget, (in % of GDP)**

Indicator	2000	2001	2002	2003	2004	2005
Expenditures – Total	29.5	27.0	26.1	24.6	22.9	22.5
1. Social sphere	10.4	10.2	9.8	9.3	9.1	9.5
2. Social security	2.3	2.1	2.0	2.1	1.8	1.8
3. Economy	3.0	2.3	2.3	3.0	3.1	3.0
4. Centralized capital investment	6.0	5.0	4.7	3.3	2.7	2.4
5. Public administration, governance, and judicial bodies	0.6	0.6	0.5	0.5	0.6	0.5
6. Other	7.2	6.8	6.5	6.4	5.6	5.0

Source: Ministry of Finance of the Republic of Uzbekistan

With the aim of further emphasizing the social focus of government budget expenditures the share of expenditures for social sphere and social security increased from 47.5% in 2004 to 50.8% of the total in 2005 (taking into account expenditures for implementation of the State National Program for Development of School Education). Thus, more than a half of the government expenditures were distributed as follows:

- Adjustment of wages of civil service employees, stipends and welfare allowances at a rate exceeding the inflation in order to further enhance the living standards and social security of the population;
- Implementation of the State National Program for Development of School Education as a key element of the reform package and development of the society envisaging implementation of measures on strengthening financial motivation of teachers.

In addition, taking into account the role of agriculture in the economy, and in accordance with structural transformations being implemented the government funds were also assigned to further progress of economic reform in the agriculture, guaranteed water supply to irrigated lands, development of farms, improvement of market infrastructure, organization and management in the rural areas.

**The Public Budget Deficit.** Since 2001 deficit of the public budget was consistently decreasing.

### Regional Finances

In the six regions of total 14 the expenditures of local governments are exceeding their revenues. Consequently, the gap should be covered by subsidies and targeted subventions. The higher shares of subsidies in total budget expenditures are observed in less economically developed regions.

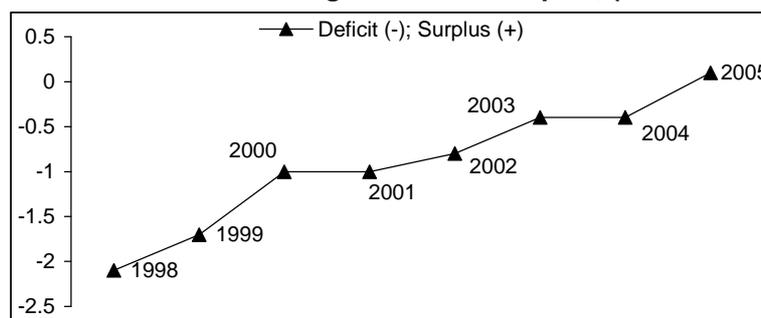
For instance, in the Republic of Karakalpakstan they account for 35.2% of the total, in Jizzakh region – 36.1%, in Surkhandarya region – 19.9%, in Namangan region – 23.5%, in Andijan region – 19.1%, and in Khorezm region – 12.6%. At the same time, in the most economically developed regions local governments' revenues are considerably surpassing their expenditures. For instance, in Tashkent City the revenues three times exceed the expenditures. In Navoi and Bukhara regions the ratio is 2.5 and 2 times respectively. Part of this surplus is transferred to the national budget and then the funds are assigned to the subsidized regions.

Over the last six years the public budget deficit was at the level of 0.6% of GDP on average, and the gap is being gradually bridged by lesser decrease in the revenues compared to the expenditures. For the first time in recent years the public budget surplus was achieved due to over-fulfillment of tasks for revenue collection (1.4 times exceeding the forecast).

The most important objectives for the further improvement of public finance are the following:

- finalize and implement the new version of the Tax Code;
- level tax burden on businesses, further reform systems of taxation and tax administration and introduction of economic incentives for taxpayers;
- implement treasury system of settlements covering both national and local levels of public budget execution;
- increase the role of extra-budgetary sources in funding of government institutions and organizations; and
- increase the role of local governments' budgets, increase their share in the national budget and increase responsibility of local governments for efficient utilization of tax capacity of the regions.

**Chart 2.3 The Public Budget Deficit or Surplus, (in % of GDP)**



Source: Ministry of Finance of the Republic of Uzbekistan

**Annex 2.1 Execution of Revenue Part of the Public Budget (in % of GDP)**

Indicator	2000	2001	2002	2003	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Revenue – Total	28.5	26.0	25.2	24.2	30.2	28.2	24.9	22.5	29.1	28.2	24.2	22.6
1. Direct taxes	7.5	7.4	6.8	6.4	7.4	7.0	6.3	6.0	8.0	7.6	6.6	6.1
2. Indirect taxes	16.0	13.5	13.8	14.0	18.3	16.6	14.5	12.6	13.9	13.2	11.2	10.5
3. Resource payments and property tax	2.8	2.4	1.9	2.3	2.9	3.0	2.7	2.6	5.3	5.5	4.8	4.6
4. Tax for social infrastructure development	0.3	0.3	0.5	0.4	0.5	0.5	0.4	0.4	0.6	0.5	0.4	0.4
5. Other revenues	1.9	2.4	2.2	1.1	1.2	1.1	1.0	0.9	1.4	1.4	1.2	1.1

Source: Ministry of Finance of the Republic of Uzbekistan

**Annex 2.2 Break-down of Direct Taxes**

	2000	2001	2002	2003	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Direct taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100
1. Corporate profit tax	49.4	39.7	34.4	34.1	28.0	28.4	29.5	29.9	30.7	29.7	30.7	30.4
2. Gross income tax <sup>1</sup>	-	-	-	-	8.6	8.7	8.7	8.5	8.3	8.1	7.9	7.8
3. Unified tax <sup>2</sup>		7.8	13.1	14.1	10.6	10.2	10.3	10.2	10.9	10.1	10.0	10.0
4. Individual income tax	44.5	44.9	45.6	46.7	47.8	47.5	46.3	46.2	45.5	47.1	46.4	46.9
5. Fixed tax on entrepreneurial income <sup>3</sup>	6.1	7.6	6.9	5.1	5.0	5.2	5.2	5.2	4.6	4.9	5.0	4.9

Source: Ministry of Finance of the Republic of Uzbekistan

**Annex 2.3. Break-down of Indirect Taxes**

	2000	2001	2002	2003	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Indirect taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. VAT	47.3	48.8	43.9	39.6	37.4	39.4	39.6	42.5	50.6	50.3	51.9	51.1
2. Excise tax	48.4	46.3	48.3	51.3	53.7	51.5	51.6	48.2	38.5	38.6	36.7	37.7
3. Customs duties	2.0	2.7	2.9	3.0	3.5	3.4	3.4	3.6	4.8	4.8	4.8	4.7
4. Unifies customs payment on individuals	2.3	2.2	2.4	3.3	2.8	3.0	2.5	2.5	2.4	2.1	2.0	2.1
5. Individual gasoline consumption tax <sup>4</sup>	-	-	2.5	2.8	2.6	2.7	2.9	3.2	4.0	4.2	4.6	4.4

Source: Ministry of Finance of the Republic of Uzbekistan

**Annex 2.4. Expenditures of the Public Budget, (in % of GDP)**

Indicator	2000	2001	2002	2003	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Expenditures – Total	29.5	27.0	26.1	24.6	26.2	26.6	23.4	22.9	27.2	27.0	23.7	22.5
1. Social sphere	10.4	10.2	9.8	9.3	9.2	10.5	9.3	9.1	11.5	12.4	10.2	9.5
2. Social security	2.3	2.1	2.0	2.1	2.2	2.1	1.8	1.8	2.0	2.1	1.9	1.8
3. Economy	3.0	2.3	2.3	3.0	3.4	3.4	3.2	3.1	3.1	3.6	3.4	3.0
4. Centralized capital investment	6.0	5.0	4.7	3.3	4.0	3.6	2.8	2.7	3.7	2.9	2.2	2.4
5. Public administration, governance, and judicial bodies	0.6	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.5
6. Other	7.2	6.8	6.5	6.4	6.9	6.4	5.6	5.6	6.1	5.3	5.4	5.0

Source: Ministry of Finance of the Republic of Uzbekistan

**Annex 2.5 The Public Budget Deficit/Surplus, (in % of GDP)**

Indicator	2000	2001	2002	2003	04/I	04/I-II	04/I-III	2004	05/I	05/II	05/III	2005
Deficit (-); Surplus (+)	-1.0	-1.0	-0.8	-0.4	4.0	1.6	1.5	-0.4	1.9	1.2	0.5	0.1

Source: Ministry of Finance of the Republic of Uzbekistan

Full names of taxes:

<sup>1</sup> Tax on gross income of trade and public catering enterprises<sup>2</sup> Unified tax on micro-firms and small businesses, practicing the simplified system of taxation<sup>3</sup> Fixed tax on income of legal entities and individuals engaged in entrepreneurial activity<sup>4</sup> Tax on individuals for consumption of gasoline, diesel fuel and natural gas for vehicles

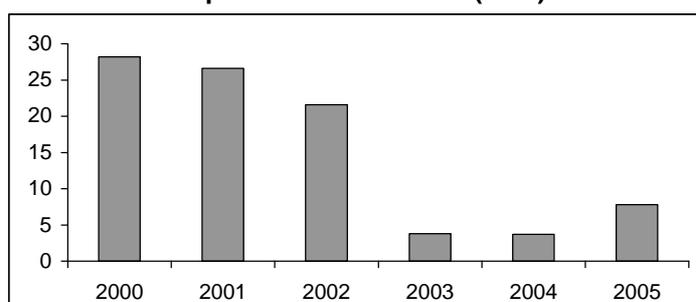
### 3. FINANCIAL MARKETS

#### 3.1. Monetary and Credit Sphere and Banking Sector.

**Monetary Policy of the CBU.** The monetary policy of the CBU in 2005 was aimed mainly at the securing the stability of the national currency, maintaining inflation at an acceptable level (the government of the Republic of Uzbekistan has set for 2005 the lowest rate of inflation at 7% and the highest rate at 8%), securing the stability of interest rates on credits and deposits on the national loan market and establishing favorable conditions for economic growth and complete satisfaction of the economy's needs for monetary funds.

The CBU discount rate during 2005 remained unchanged at 16% per annum. Positive changes in macroeconomic indicators and a decrease in the inflation level enabled the CBU to reduce the discount rate from 20% to 18% per annum as of 5 July 2004, and to 16% per annum as of 21 December 2004. The CBU uses the discount rate to influence the level of interest rates of commercial banks. Fixing the rates of interest higher than the level of inflation secured the real interest rates on credits and deposits. At the same time, the decrease in the discount rate had a positive impact on the activity of economic entities of

**Graph 3.1.1. Annual Level of Inflation in the Republic of Uzbekistan (in %)**



Source: Central Bank of Uzbekistan

**Table 3.1.1. Change in Interest Rates (%)**

Period	Discount 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
2005	16.0	18.8	9.6	27.1

Source: Central Bank of Uzbekistan and commercial banks.

As seen from the given data, interest rates on fixed-term deposits of individuals are considerably higher than interest rates on short-term loans, which may lead to inefficiency in the deposit policy of domestic banks. However, the negative balance between interest rates on fixed-term deposits and short-term loans does not facilitate a decrease in the amount of losses of commercial banks. This is explained by the following: first, in accordance with the Regulations on Computation and Payment of Taxes by Commercial Banks and Credit Unions, approved by the Decree of the Ministry of Finance, the State Taxation Committee and the Central Bank of Uzbekistan, as of 25 April 2005, the taxable income of commercial banks decreased by the amount of increase in fixed-term deposits, plastic card deposits and saving certificates of individuals; and second, the fixed-term deposits of individuals were exempted from mandatory reservation in the Central Bank.

**Table 3.1.2. Change in Interest Rates on Loans in Foreign Currency**

Period	Average Weighted Rate on Fixed-Term Deposits of Legal Entities in Foreign Currency	Average Weighted Rate on Fixed-Term Deposits of Individuals in Foreign Currency
2000	4.1	3.6
2001	1.2	5.6
2002	2.5	8.6
2003	2.5	6.4
2004	2.5	5.6
2005	2.5	4.7

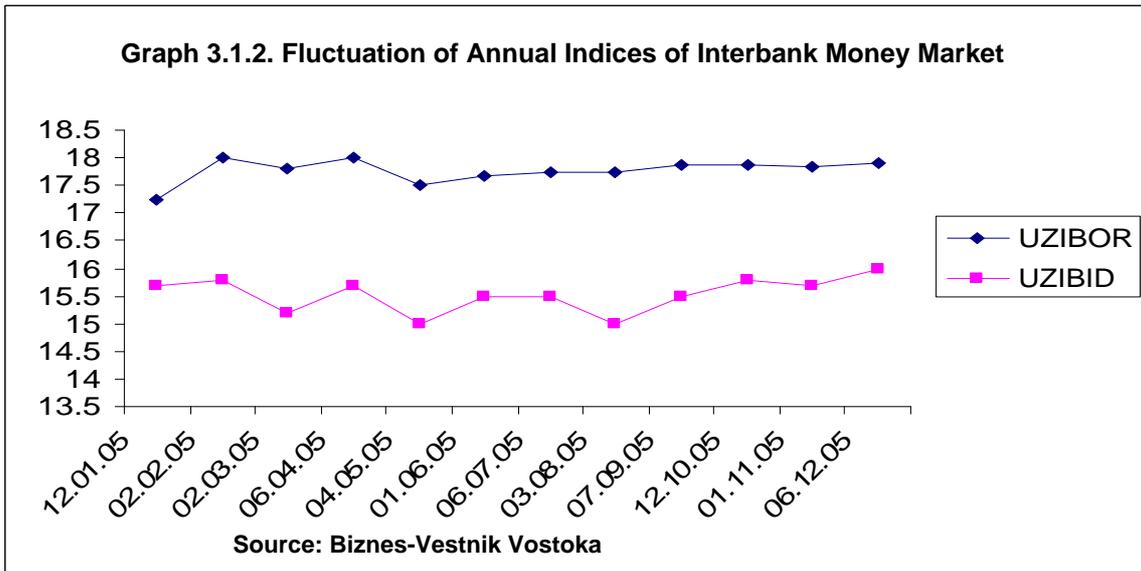
Source: Central Bank of Uzbekistan and commercial banks.

In the last two years, the average weighted rate on fixed-term deposits of legal entities and individuals in foreign currency have not changed.

**Mandatory Reserve Requirements of the CBU.** As of 1 February 2005, in order to enhance the mechanism of mandatory reserves, the CBU decreased the standard on mandatory reserves of deposits in UZS for

commercial banks from 20% to 15% per annum and introduced a standard for mandatory reserves of deposits in foreign currency in the amount of 5%, which became 8% as of 1 October 2005.

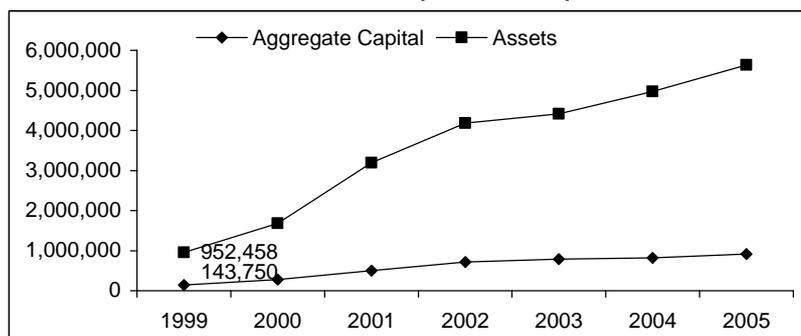
**Interbank Loan Market.** In May 2004 the national interbank loan market began operations. Before 2005 the interbank rate or average market rate on deposits, named UZIBOR (Uzbekistan Interbank Offered Rate) had been formed. At the beginning of 2005 UZIBID (Uzbekistan Interbank Bid Rate) and UZIAR were introduced. UZIBID is the interest rate which banks can use to attract funds into the interbank market of Uzbekistan. In 2005 there were 12 commercial banks of Uzbekistan in the interbank loan market. As of 1 November 2005 the annual level of UZIBOR was 17.75 %, and UZIBID – 16.0 %. At the end of 2005 these rates were 17.75% and 15.75 % respectively.



**Banking Sector.** As of 1 January 2006, the total number of commercial banks in the national banking system was 29. Of these there were 3 state banks, 9 private banks and 5 banks with foreign participation. Compared with the similar period of the previous year, the number of banks decreased by 3 units. This is explained by the merger of Uzjilsberbank and Zamin, the liquidation of Biznes Bank and the takeover of the Capital Bank by Avia Bank. There were 792 bank branches in 2005. The network of mini-banks in 2005 increased by 328 units compared to 2004 and at the end of 2005 the total number was 1450 units.

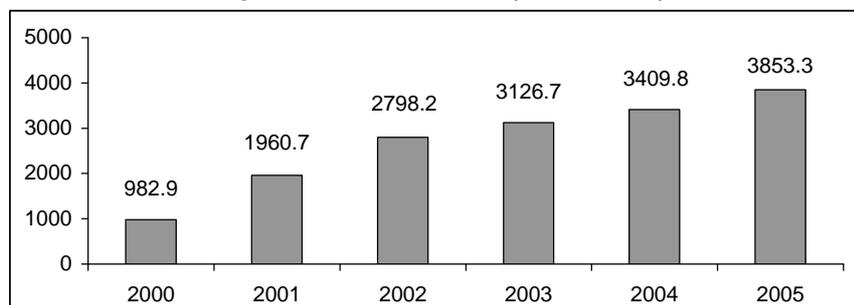
**Assets of Commercial Banks.** As of 1 January 2006, the assets of commercial banks of the country amounted to UZS 5630.6 billion. This was UZS 626.4 billion more than as of 1 January 2005. In recent years dynamic growth in the total assets of commercial banks of Uzbekistan has been observed, both in gross amount and in higher rate increases than for aggregate capital (Graph 3.1.3).

**Graph 3.1.3 Dynamics of Aggregate Capital and Assets of Commercial Bank (UZS billion)**



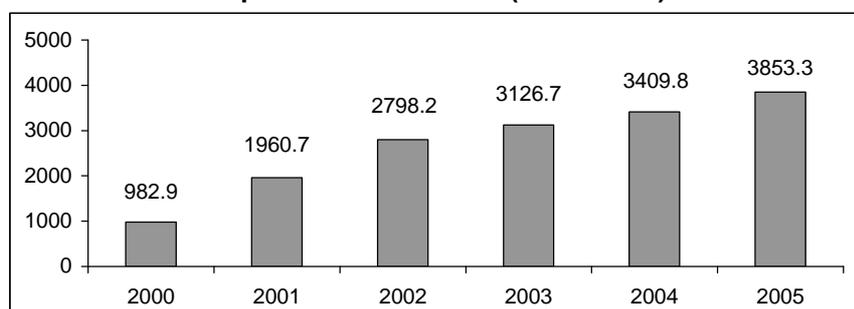
Source: Central Bank of Uzbekistan

Growth in the assets of commercial banks is mainly stimulated by the growth rates of credit deposits in the banks. The amount of credit in banks in 2005 increased by UZS 443.5 billion as compared to 2004. Based on active operations, considerable growth in bank assets in 2005 resulted from the increase in the volume of deposits. Thus, for the period of 2004-2005 the growth in deposits of legal entities and individuals accounted for UZS 339.9 billion, and the growth of aggregate capital accounted for UZS 107.3 billion.

**Graph 3.1.4. Credits of Commercial Banks of the Republic of Uzbekistan (UZS billion)**

Source: Central Bank of Uzbekistan

Of these, UZS 287.4 billion were long-term credits. Thus the growth of credit deposits accounted for 18.6% as compared to 2004, and the share of long-term credits fell to 12.6%. As a result of the repayment of majority of long-term investment credits given to small business entities in 2005, the amount of indebtedness under long-term credits decreased. Therefore, the decrease in the volume of long-term credits out of the total volume of credits given to small business entities is not a negative factor.

**Graph 3.1.5/ Deposits of Commercial Banks of the Republic of Uzbekistan (UZS billion)**

Source: Central Bank of Uzbekistan

Credits play a key role in the structure of assets of commercial banks. During the period of 2001-2005 a tendency towards an increase in the credit deposits in banks was observed. This is explained by the growing demand of economic entities for the credits of commercial banks. During 2005 commercial banks provided credits to small business entities in the amount of UZS 419.9 billion.

Deposits of commercial banks of Uzbekistan are growing dynamically. To some extent, this is explained by the increase in the amount of individual deposits. As of 1 January 2006, deposits of individuals in commercial banks of the country amounted to UZS 449.5 billion, which was 39.2% higher than in 2004.

**Capitalization of the Banking System.** As of 1 January 2006, the aggregate capital of commercial banks of Uzbekistan amounted to UZS 930.9 billion versus UZS 824 billion as of 1 January 2005 – an increase of 13.0%. The measures taken in accordance with the Decree of the President of the Republic of Uzbekistan “On Measures for the Further Reconstruction and Liberalization of the Banking System” facilitated the increase of the capitalization level of the banks.

In the framework of further development of the settlement system, based on plastic cards, the commercial banks have expanded plastic card-based Electronic Funds Transfer. Thus, as of 1 January 2006, 21 banks issued 2 million 99 thousand plastic cards, and the number of terminals for payment by plastic card reached 11016. It would therefore be appropriate to encourage commercial banks to lease point-of-sale terminals on terms of financial leasing, since a certain number of trade entities and organizations cannot afford the purchase of the point-of-sale terminals. These efforts would facilitate the increase in point-of-sale terminals in trade and services facilities.

### 3.2. Securities Market

The following entries were made to the State Registry of Securities as of 31 December 2005:

13386 share issues with a total volume of UZS 3406.2 billion, including in 2005: 214 issues in the amount of UZS 593.3 billion (Joint-Stock Commercial Bank ‘Ipoteka-Bank’, established by the merger of ‘UzJilSber-Bank’ and ‘ZaminBank’ worth UZS 9.3 billion; and Joint stock companies ‘Yangi Angren Issyk Stanciyasi’ worth UZS 30.5 billion, ‘UzExpoMarkaz’ worth UZS 8.4 billion and ‘Dori-Darmon’ worth UZS 2.0 billion, and others); 112 issues of corporate bonds in the amount of UZS 62.4 billion, including in 2005: 21 issues in the amount of UZS 11.5 billion (‘Uzbek Telecom’ JSC worth UZS 2.0 billion, ‘JONI M’ LLC worth UZS 1.0 billion, ‘Alliance Investments’ LLC worth UZS 300.0 million and others).

In 2005 total turnover on the securities market (total sales of shares and corporate bonds) was UZS 166.3 billion, including UZS 51.2 billion in the 4<sup>th</sup> quarter of 2005. Growth rates compared to the corresponding periods of the previous year were 13.7% and 35.8% respectively.

The bulk of the aggregate turnover of the securities market (85.7%) continued to consist of proceeds from sales of shares. The value of the shares sold in 2005 was UZS 142.5 billion, including UZS 46.8 billion in the 4<sup>th</sup> quarter (Table 3.2.1), which exceeded the previous year's indicators by 23.8% and 70.8% respectively. The annual turnover of the primary market where mainly shares of the privatized companies are traded, increased by 42.8% and reached UZS 88.7 billion, while that of the secondary market increased by 1.5% and amounted to UZS 53.8 billion.

**Table 3.2.1. Volume of Sales of Shares on the Securities Market (UZS billion)**

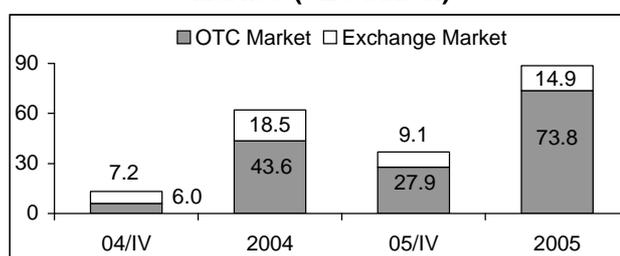
Period	Primary Market		Secondary Market		Total	
	Amount	% of the Total	Amount	% of the Total	Amount	% of the Total
04/IV	13.2	48.2	14.2	51.8	27.4	100
2004	62.1	54.0	53.0	46.0	115.1	100
05/IV	37.0	79.1	9.8	20.9	46.8	100
2005	88.7	62.2	53.8	37.8	142.5	100

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

In the aggregate turnover of the primary market there was a decrease in the exchange segment and an increase in the over the counter (OTC) segment compared to the previous year. The initial public offering of shares through the exchange generated UZS 14.9 billion and sales on the OTC market (tenders and direct negotiations with investors) amounted to UZS 73.8 billion (Graph 3.2.1) which was 80.5% and 169.3% of the respective indicators of the previous year.

Factors resulting in the decrease in annual sales on the exchange segment of the primary securities market included: a reduction by 1.5 times in the number of joint stock companies whose shares were offered for bidding at the exchange; and inadequate methods of establishing the initial price, which resulted in the fact that state-owned blocks of shares were offered for bidding at a price 10-50 times above their nominal value. Moreover, large holdings of shares were offered for bidding without being first broken down into small lots at a reasonable price.

**Graph 3.2.1. Sale of Shares on the Primary Stock Market (UZS billion)**



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

From a sectoral perspective, the largest sales of shares on the primary market (both the exchange and the OTC) were observed from construction materials companies (UZS 10.3 billion), the power industry (UZS 6.6 billion), agriculture and water management (UZS 1.5 billion) and the electrical industry (UZS 1.1 billion), while from a regional perspective the leaders included companies of the Tashkent region (UZS 10.4 billion), the Navoi region (UZS 5.7 billion) and the Bukhara region (UZS 2.2 billion), as well as Tashkent City (UZS 3.4 billion).

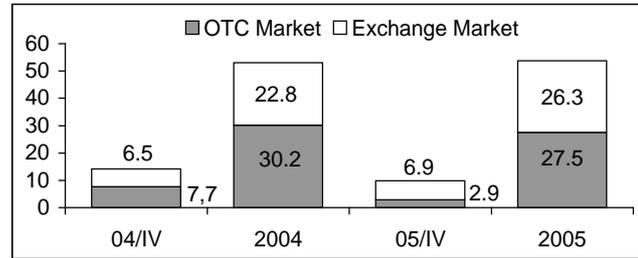
The trend continued towards active participation of foreign investors in the acquisition of shares on the primary stock market. This was facilitated by the measures undertaken by the Government in 2003 aimed at improving corporate governance improvement in privatized companies. The share of foreign investors and joint ventures in the total amount of sales of shares of privatized companies amounted to 74.4% in 2005, exceeding the previous year's indicator by 25.7%. They purchased state-owned holdings of shares in the following joint stock companies: 'Samarkand Elevator Plant' (75%), 'Bukhara Gypsum' (25%), 'AkhangaranCement' (25%), 'Carbonat' (25%) and others.

Shares of various types of local investors in the total sales of shares of privatized companies were as follows: large companies, holdings and associations – 7.6%, investment brokers – 6.4%, small enterprises – 7.8%, individuals – 3.5%, commercial banks – 0.2% and investment funds – 0.1%.

In 2005, shares of 1340 joint-stock companies were sold on the secondary securities market in the amount of UZS 53.8 billion, including shares of 511 joint stock companies in the amount of UZS 26.3 billion on the exchange segment and shares of 829 joint stock companies worth UZS 27.5 on the OTC segment (Graph 3.2.2). While the amount of exchange sales increased by 15.4% compared to the previous year, the amount of sales on the OTC segment decreased by 8.9%. The greatest decline in the amount of OTC sales was registered in the 4<sup>th</sup> quarter. The total value of the shares sold was UZS 2.9 billion, which was 2.6 times less than in the corresponding period of the previous year.

The decrease in the OTC segment of the secondary stock market resulted from the transformation of joint stock companies with authorized capital below the equivalent of USD 50.0 thousand into limited liability companies. This resulted in a decline of resources of small blocks of shares sold, as a rule, outside the exchange by direct negotiations between sellers and buyers. Consequently the share of the OTC segment in the aggregate turnover of the secondary stock market decreased from 57.0% in 2004 to 51.1% in 2005, i.e. by 5.9 p.p. The share of the exchange segment increased correspondingly, testifying to the enhancement of the role of the exchange in the secondary sale of shares.

**Graph 3.2.2. Sales of Shares on the Secondary Stock Market (UZS billion)**



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

Foreign investors actively participated in the purchase of shares in the secondary exchange market in 2005, in contrast to previous years. The number of deals concluded with foreign investors reached 587, and consisted in the purchase of shares from 40 issuers for a total of USD 9.2 million, which accounted for approximately 20.0% of the total secondary securities market turnover in UZS terms. For instance, foreign investors acquired shares of the following companies on the secondary market: 'BekabadCement' JSC, worth USD 1110.6 thousand, 'Tikuvichlik Sanoati Assortiment va Modalar Markas' – USD 96.5 thousand, 'YukTrans' – USD 57.1 thousands and 'Margilon Mechanic Zavodi' – USD 12.0 thousand.

The share of local investors in the total amount of sales of shares on the secondary securities market was the following: legal entities – 65.6% and individuals – 14.4%.

In the total turnover of the secondary securities market, the following constituted the highest share in transactions of purchase and sale: commercial banks (25.0%), enterprises of the construction materials industry (14.9%) and light and food industries (8.6%). 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 the Tashkent (17.2%) and the Andijan (7.1%) regions.

A deficit in the offer of shares of large, financially stable, highly liquid, investment-attractive companies has remained 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, "Almalyk Mining and Smelting Combine" joint-stock company, "Uzmetkombinat," and so forth) are almost fully in state ownership or sold to strategic investors on tender bids. In this connection these shares are not accessible to a broader range of investors and are not a resource for the securities secondary market.

The performance of the corporate bonds market, operating since 2002 with the purpose of attracting additional investment by companies issuing their bonds, was characterized by a decline in business activity. In 2005, 21 issues of bonds worth UZS 11.5 billion were registered, which was 1.1 and 1.4 times less than the respective indicators for 2003 and 1.9 and 2.4 times less than in 2004 respectively.

The reduction in the issue and redemption of a considerable portion of previously issued bonds in 2005, due to their maturity, led to the decline in the turnover of this type of securities, which accounted for UZS 23.8 billion – or UZS 7.4 billion (23.7%) less than in the previous year. The primary placement of corporate bonds decreased 1.9 times and amounted to UZS 11.7 billion, while their total turnover on the secondary market increased by 31.5% and reached UZS 12.1 billion.

The decline in the amount of issues and primary placement of bonds was attributed to poor awareness among many company managers about this form of attracting investment and the decreasing spread between the interest rates of corporate bonds and those of the bank loans offered to companies. Therefore, businesses preferred to seek bank loans to fund the implementation of investment projects.

**Government Securities.** The government securities market has a quite extensive infrastructure and system of primary dealers. The infrastructure of the market consists of the primary and secondary markets of government securities, which function in a separate trading platform of the Republican Stock Exchange. The Ministry of Finance and the Central Bank of Uzbekistan are the market issuers. The Ministry of Finance issues two types of securities – short-term bonds (GKO) with a maturity of 6 months, 9 months or 12 months and medium-term Treasury obligations (GSKO) with an 18-month maturity. The Central Bank also issues short-term bonds and deposit certificates. These segments of the market are equal in volume to the GKO – GSKO market.

**Short Terms Bonds (GKO).** Over 2005, 13 auctions were held on the market of government short-term bonds (GKO). As of 1 January 2006 the amount of GKO in circulation amounted to 60.7% of the respective indicator as of 1 January 2005. The share of short-term internal debt in total national debt continues to decrease while the share of medium-term debt continues to increase. As of 1 January 2006, this ratio was 32% to 68% respectively, while as of 1 January 2005 this ratio was 55% to 45% respectively.

**Medium-term Treasury Obligations.** Over 2005, 17 auctions were held on the market of medium-term treasury obligations (GSKO) with a maturity of 546 days (18 months). As of 1 January 2006 the amount of internal debt in terms of GSKO increased by 62.6% compared to 1 January 2005. This is related to the fact that share of short term internal debt in total national debt continues to decrease while the share of the medium-term debt continues to increase. This segment of the financial market is continuing to develop dynamically; the volume of the GSKO market was more than twice as great as that of the GKO market.

Due to the improvement of the fiscal position, the decrease in the overall volume of securities in relation to GDP is observed. The volume of securities in the primary market surpasses the volume of securities in the secondary market. The market is open to residents and legal entities only. Recently, there has been a tendency towards growth in yield. The majority of the investors in the security market are large enterprises and organizations, joint-stock companies and insurance companies.

In addition to this, the securities market has great potential for further development. This potential is based on such factors as:

- the large number of joint-stock companies of an open type, created during the privatization process;
- the considerable number of prospective enterprises, whose shares are still undervalued;
- the interest of many enterprises in additional issues of securities; and
- the interest of many local authorities in the issue of their own loans (bonds) and others.

Further development of the securities market is related to the necessity of providing:

- Growth in the total turnover of the corporate bonds market;
- Acceleration of growth rates of stock turnover;
- Expansion in the structure of the stock market;
- Increase in the trade turnover of bonds;
- Presence of investment bankers (retirement and insurance companies) on the securities market;
- Increase in the number of traded stock market instruments;
- Presence of new securities issuers.

**Annex 3.2.1. Dynamics of the Volume of the Sale of Shares on the Securities Market (UZS billion)**

Indicator	2000	2001	2002	2003	2004	2005	04 I
Total Shares Sold on Securities Market	17.11	26.13	41.74	74.7	115.1	142.5	30.4
On Primary Market	6.23	12.26	16.33	53.9	62.1	88.7	20.4
On Exchange Market	4.60	6.84	10.53	19.7	18.5	14.9	3.7
On OTC Market	1.63	5.42	5.80	34.2	43.6	73.8	16.7
On Secondary Market	10.88	13.87	25.41	20.8	53.0	53.8	10.0
On Exchange Market	0.63	1.10	4.60	12.4	22.8	26.3	3.5
On OTC Market	10.25	12.77	20.81	8.4	30.2	27.5	6.5

**Annex 3.2.1. Continued**

Indicator	04 II	04 III	04 IV	05 I	05 II	05 III	05 IV
Total Shares Sold on Securities Market	22.0	35.2	27.4	21.3	43.7	30.7	46.8
On Primary Market	11.7	16.8	13.2	10.1	28.3	13.3	37.0
On Exchange Market	4.2	3.4	7.2	2.9	0.9	2.1	9.1
On OTC Market	7.5	13.4	6.0	7.2	27.4	11.2	27.9
On Secondary Market	10.3	18.4	14.2	11.2	15.4	17.4	9.8
On Exchange Market	6.3	6.5	6.5	5.6	7.1	6.7	6.9
On OTC Market	4.0	11.9	7.7	5.6	8.3	10.7	2.9

Source: Center for the Coordination and Control of Operations of the Securities Market under the State Committee on Public Property Management

## 4. Exchange Market and Foreign Trade

### 4.1. Foreign Exchange Policy

In 2005, the Central Bank of Uzbekistan undertook several measures aimed at ensuring the sustainability of the exchange rate and maintaining international reserves at a level sufficient to conduct monetary and exchange policies. As a result, foreign reserves continued to grow and had increased by 1.3 times by the end of the period under review.<sup>5</sup>

Interbank exchange transactions were conducted during special trading sessions held at the Uzbekistan Republican Currency Exchange (URCE) five days a week, i.e. each business day. During the period under review, 28 authorized banks were members of the interbank exchange market, purchasing foreign currency in order to maintain a sufficient level at their currency exchange offices and for their economic needs, as well as for meeting the requirements of their clients and the CBU, through buying and selling assets of the Consolidated Stabilization Fund. The Consolidated Stabilization Fund (CSF) is a special fund formed in foreign currency, which is established by the CBU together with authorized banks in order to serve interbank currency trades. The main source of the supply of foreign currency on the off-exchange currency market is the mandatory sale of currency income from centralized exports to the Central Bank and 50% of income in foreign currency from decentralized exports.

The main exchange rate on the currency market of Uzbekistan is the rate of the CBU, which is determined on the basis of the weighted average rate of interbank trading sessions at the Uzbekistan Republic Currency Exchange. This rate is used for accounting purposes, statistical and other reports as well as for conducting customs payments in the territory of the Republic of Uzbekistan. The US dollar is used as the main reserve currency in determining the exchange rate of the Soum, where the direct quotation is applied. The exchange rate of the Uzbek Soum against other currencies is determined by applying cross-rates. Commercial banks conduct operations on buying and selling foreign currency in cash in four key foreign currencies: the US Dollar, Euro, Pound sterling, and Japanese yen.

**Nominal Exchange Rates.** According to the results of 2005, the nominal exchange rate of the Uzbek Soum to the USD decreased by 11.5% by the end of the year, and by 3.5% as opposed to the previous quarter. The exchange rate to foreign currency in cash during the year 2005 decreased by 12.7%, and by 3.7% against the previous quarter (Table 4.1.1 and Graph 4.1.1).

**Table 4.1.1. The Exchange Rate of the Uzbek Soum to US Dollar, (2003–2005)**

Period	Exchange rate of CBU (Soum/USD)	Change from the previous year (in%)	Exchange rate to foreign currency in cash (Soum/USD)	Change from the previous period (in%)
2003	979.39	26.0	995.1	-9.0
2004	1058.0	8.0	1062.5	6.8
2005	1180.0	11.5	1197.6	12.7
04/I	1000.0	1.0	1006.9	1.1
04/II	1020.0	2.1	1024.6	1.8
04/III	1040.0	2.96	1041.7	1.6
04/IV	1058.0	1.73	1062.5	1.9
05/I	1080.0	2.1	1083.5	2.0
05/II	1115.0	3.2	1118.1	3.2
05/III	1140.0	2.2	1155.4	3.3
05/IV	1180.0	3.5	1197.6	3.7

Source: "Banking news" 2005 (newspaper), the author's calculations.

It is worth noting that during the period under review, unlike in previous years, the inflator component, which is determined by the devaluation of the Soum, significantly decreased, which was explained by the unification of exchange rates and improvements in the system of foreign exchange regulations.

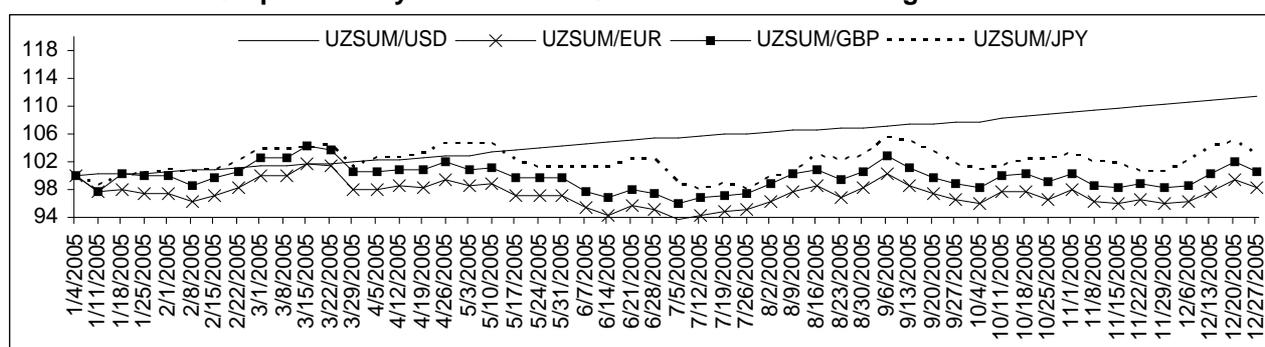
The dynamics of the Soum in relation to other reserve currencies were characterized by the following changes: according to the results of 2005, the Soum in relation to the Pound sterling was devaluated by 1.5%, revaluated in relation to the Euro – by 1.8%, and in relation to the Japanese yen – by 1.3%. The insignificant devaluation of the exchange rate of the Soum in relation to the Pound sterling and revaluation in relation to the Euro and Japanese yen is explained by the strengthening position of the USD on world financial

<sup>5</sup> Source: The Report of the President of the Republic of Uzbekistan, Islam Karimov, at the meeting of the Cabinet of Ministers devoted to results of social and economic development in 2005 and considering important priorities of deepening economic reforms in 2006. *Narodnoye Slovo*, Feb 11, 2006, #29.

markets. The USD rate continued its growth against the Euro and Japanese yen for two years in a row. Fluctuations of the USD rate in the international currency market during 2005 were related to a number of circumstances, including stable and numerous increases of interest rates of the Federal Reserve of the USA and the deterioration of the economic situation in the Eurozone. Other factors that facilitated the decrease of the USD rate in 2005 include reports of an intended decrease of USD reserves in the foreign reserves of several countries (particularly, South Korea, Japan, and India) in order to replace them with Euros.

The devaluation of the Soum's rate in relation to the Russian Ruble equaled 8.6% by the end of 2005, which is explained by the dynamics of the USD in the Russian domestic currency market, which has a tendency to increase the official rate of USD (during the period under review the USD to RUR rate increased by 3.7%). In 2005, the greatest impact on the dynamics of the USD in the Russian currency market was caused by such factors as high prices for key raw-material commodities of Russian exports (primarily oil), thanks to which the country received an inflow of income in foreign currencies; and fluctuations of the USD against other key currencies of the world (above all, against the unified Euro currency).

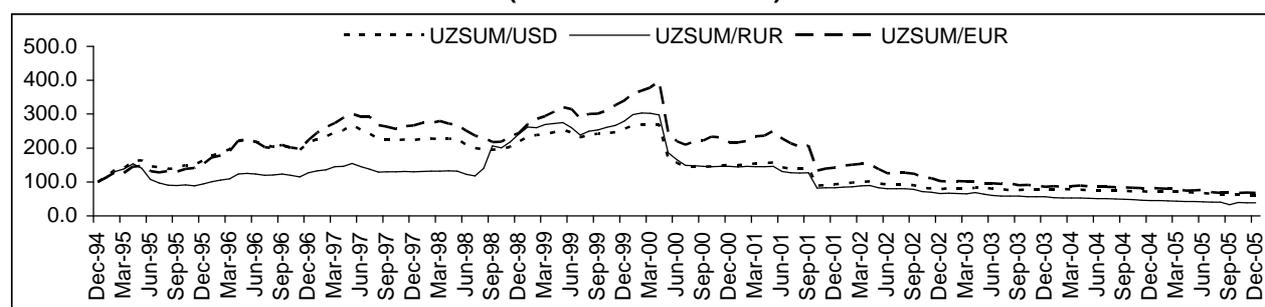
**Graph 4.1.1. Dynamics of the Soum's Nominal Exchange Rate Index**



Source: "Banking news" (newspaper), the author's calculations.

**Real Exchange Rates.** According to the results of 2005, the national currency was revalued by 0.13% in relation to the USD, by 0.91% – in relation to the Euro, and by 1.4% in relation to the Japanese yen. This is explained by the relatively moderate devaluation of the nominal exchange rate of the Soum and the low consumer price index. The real strengthening of the rate of the national currency facilitates the transformation of the population's savings into national currency.

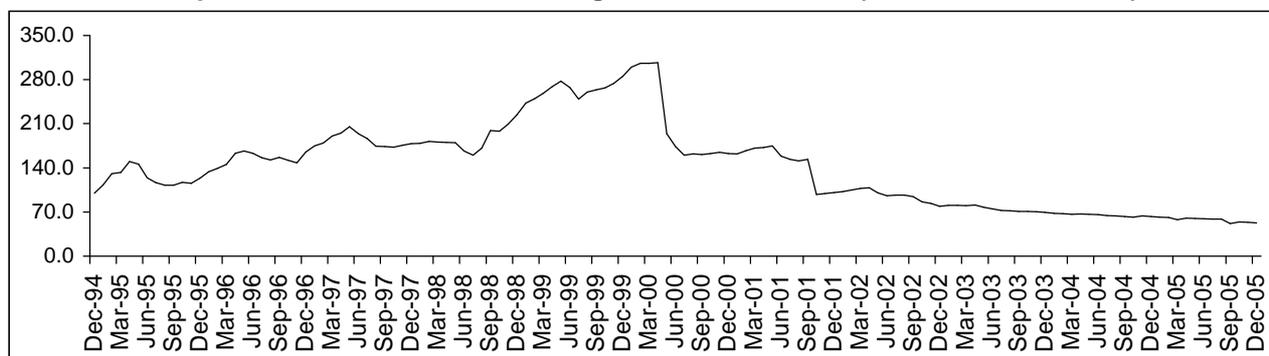
**Graph 4.1.2. Real Exchange Rate of the Soum to US Dollar (Sum/USD) and Euro (Sum/EUR) (December 1994=100)**



Source: International Financial Statistics (IFS), IMF; "Banking news" (newspaper), the author's calculations.

**Real Effective Exchange Rate.** The real effective exchange rate of the Soum is an important indicator in the analysis of foreign trade. Since foreign trade relations are not limited to one partner country, calculations of the Soum's real exchange rate to USD are supplemented by calculations of real exchange rates in relation to currencies of other countries, which indicates changes in the level of domestic prices in Uzbekistan in relation to the weighted average level of prices in countries which are trading partners of Uzbekistan.

The results of 2005 show that during that period, the real effective exchange rate of the Soum was devalued by 1.7%. This tendency was caused by the revaluation of the real exchange rate and low devaluation rates (that in some cases were changed by revaluation) of the Soum in relation to currencies of the main foreign trade partners of Uzbekistan.

**Graph 4.1.3. Real Effective Exchange Rate of the Soum (December 1994 =100)**

Source: International Financial Statistics (IFS), IMF; "Banking news" (newspaper), the author's calculations.

Thus, the CBU's efficient reaction to fluctuations of main world currencies and appropriate measures to lessen the effects of those fluctuations on the effective rate of the Soum – along with the moderate devaluation of the national currency's rate in relation to USD – continued to facilitate the decrease in foreign debts and the stabilization of currency regulations and money circulation within the country.

## 4.2. Trade Balance, Exports and Imports

In the area of foreign trade, 2005 was characterized by the stable growth of exports over imports. During the period, the positive trends in the development of foreign trade that began in 2004 strengthened. Foreign trade turnover increased by 9.6% and equaled USD 9.5 bn. (Table 4.2.1.). At the same time, 56.9% of the total volume of foreign trade turnover consisted of export operations, while imports accounted for 44.0%.

**Table 4.2.1. Main Indicators of Foreign Economic Activity in Uzbekistan (mill. USD)**

Indicator	2004	2005	Including		Change in volume,%	
			04/IV*	05/IV*	2005 to 2004	05/IV to 04/IV
Foreign trade turnover	8669.0	9500.1	2430.9	2662.1	109.6	109.5
CIS countries	3002.6	3403.4	857.2	883.8	113.3	103.1
Non-CIS countries	5666.4	6096.7	1573.7	1778.3	107.6	113.0
Exports	4853.0	5408.8	1326.3	1539.3	111.5	116.1
CIS countries	1528.4	1722.6	425.9	427.8	112.7	100.4
Non-CIS countries	3324.6	3686.2	900.4	1111.5	110.9	123.4
Import	3816.0	4091.3	1104.6	1122.8	107.2	101.6
CIS countries	1474.2	1680.8	431.3	456	114.0	105.7
Non-CIS countries	2341.8	2410.5	673.3	666.8	102.9	99.0
Trade balance	1037.0	1317.5	221.7	416.5	X	X
CIS countries	54.2	41.8	-5.4	-28.2	X	X
Non-CIS countries	982.8	1275.7	227.1	444.7	X	X
Structure of foreign trade turnover, %	100.0	100.0	100.0	100.0	X	X
CIS countries	34.6	35.8	35.3	33.2	X	X
Non-CIS countries	65.4	64.2	64.7	66.8	X	X

Source: State Committee on Statistics of Uzbekistan

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

Exports grew at a higher rate than imports did – by 11.5% versus 7.2% respectively. A slight decrease in the growth rates of foreign trade turnover in general and that of exports in particular, was connected with the results of the third quarter. The growth that had continued during the past three quarters at a level of no less than USD 1.3 bn. ended in the third quarter of 2005 (reaching only USD 1.05 bn). This decrease in the volume of exports in the third quarter was caused by an almost 50 per cent decrease in the volume of exports to foreign countries as compared to the level of the previous quarter (USD 580 bn. against USD 1009.2 bn.). This fact, in turn, was a result of the decrease in export volumes of cotton fiber and other manufactured goods (precious metals and stones, wooden products, bulk paper and cardboard, publishing goods). However, this situation was partially compensated for by the results of the fourth quarter, when volume of exports to foreign countries returned to a level above USD 1 bn., and the volume of total exports surpassed USD 1.5 bn. In the fourth quarter of 2005, exports grew at a higher rate than imports – by 16.1% versus 1.6% respectively.

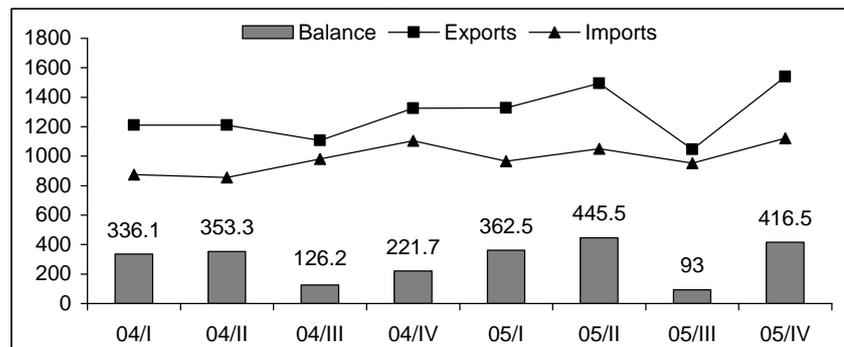
Prices on world markets for the main export commodities of Uzbekistan stayed at favorable levels throughout the year 2005. During the period under review, cotton prices continued to grow, due to the decrease in world production of cotton and increase in its consumption. By mid-December, 2005, gold prices had risen to USD 536.5 per ounce, breaking a 24-year record. This sharp increase in gold prices 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 the lack of official sales of gold by 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 to 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 an 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 revaluation of the Chinese Yuan and the high growth rates of China's economy.<sup>6</sup>

According to the results of 2005, the ratio of exports to imports was 1.32; as a result, the active trade balance reached USD 1317.5 mill., an increase of USD 280.5 mill. compared with the first nine months of 2004 (Table 4.2.1, Annex 4.2.1, Graph 4.2.1). In the fourth quarter of 2005, the volume of the positive balance of the trade turnover, according to calculations, reached USD 416.5 mill. In 2005, 97% of the active balance of trade turnover, in other words USD 1275.5 mill., resulted from trade with non-CIS countries. The positive balance in trade with CIS countries reached USD 41.8 mill, mainly due to the second and third quarters. Trade with CIS countries resulted in a negative balance of USD 52.9 mill. in the first quarter of 2005 and negative USD 28.2 mill. in the fourth quarter.

In 2005 the volume of exports increased by 11.5%. At the same time, the share of final goods and services in the total volume of exports surpassed 47.8%. This provided the highest level of positive trade balance since independence, exceeding USD 1.3 bn. As a result, the foreign reserves of Uzbekistan increased by 1.3 times, which in turn indicates increased sustainability of the economy to changes in foreign markets.

During the period under review, exports grew in all commodity groups. Significant growth was observed in the group of non-raw material exports (by 1.1-1.3 times) compared with raw material products (by 1.0-1.2 times). In the fourth quarter of 2005, compared to the same period of 2004, a decrease in the volume of exports was registered in such commodity groups as foodstuffs and machinery and equipment. During that time frame, the decrease in exports of machinery and equipment was partially due to the extremely

**Graph 4.2.1. 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.

high growth of exports in that group in the fourth quarter of 2004 compared with the same period of 2003 (by two times). In contrast to the group of non-raw material exports, the fourth quarter of 2005 turned out to be lucky for raw material exports, with exports of cotton-fiber especially high (1.6 times growth) compared to the same period of the previous year. Such growth was based on a significant increase in cotton prices by the end of 2005 (Table 4.2.2, Annex 4.2.2).

Export volumes rose for such products as inorganic chemistry, fertilizers, perfumery-cosmetic products, plastics, grains, fruits, and automobiles. Among the products of light industry exports of such products as textile clothes and fabrics also increased. Enterprises under such associations as "Uzeltechprom", "Uzmetkombinat", and such associations as "Uzavtoprom", "Uzkimyosanoat", and "Uzselhozmashkholding" increased their export volumes.

The volume of exports of services increased by 14.9%, over 2004, including by 14.3% in the fourth quarter of 2005. During the period under review transportation services accounted for 68.7% of the total volume of services, including more than 50% of services of railroad and air transportation. The shares of financial services (0.1%), computer and information services (0.1%), legal, accounting, consultative and managerial services (0.2%) were insignificant. Although the share of medical services was insignificant (0.3%), this group nonetheless registered the highest growth rate – by 125%.

<sup>6</sup> Information from the Internet (russian.people.com.cn, gazeta.kz, quote.ru finance.mail.ru)

**Table 4.2.2. Commodity Structure of Exports (%)**

Commodity groups	Share in total volume of exports, %				Change in volume, %	
	2004	2005	including		2005 to 2004	05/IV to 04/IV
			04/IV*	05/IV*		
Cotton fiber	18.1	19.1	19.2	25.8	117.9	155.6
Foodstuffs	3.8	3.8	4.0	3.3	110.3	97.5
Chemical products, plastics, and plastic goods	4.7	5.3	5.2	5.2	123.9	117.8
Energy carriers	12.4	11.5	11.6	11.1	103.6	111.3
Non-ferrous and ferrous metals	8.6	9.2	8.9	8.2	119.5	107.2
Machinery and equipment	7.4	8.4	8.7	6.5	126.6	87.4
Services	11.8	12.2	11.5	11.4	114.9	114.3
Other	33.2	30.5	30.9	28.4	102.5	106.6
Total	100.0	100.0	100.0	100.0	111.5	116.1

Source: State Committee on Statistics of Uzbekistan

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

Certain changes were observed in the commodity structure of imports as well. During the period under review, further optimization of the structure of imports was observed. The volume of imports of products that are not produced in Uzbekistan, but are necessary for the production cycle of enterprises, increased. That includes the growth of imports of machinery and equipment, chemical products, non-ferrous and ferrous metals (Table 4.2.3, Annex 4.2.3).

**Table 4.2.3. Commodity Structure of Imports (%)**

Commodity groups	Share in the total volume of imports, %				Changes in volume, %	
	2004	2005	including		2005 to 2004	05/IV to 04/IV
			04/IV*	05/IV*		
foodstuffs	6.8	7.0	7.2	7.0	110.1	98.2
chemical products, plastics and plastic goods	12.5	13.6	11.3	14.4	116.9	129.2
energy carriers	2.1	2.5	2.5	3.8	127.9	151.8
ferrous and non-ferrous metals	10.3	10.3	9.9	9.1	106.7	93.7
machinery and equipment	46.0	43.3	48.9	40.7	101.0	84.6
services	11.1	10.4	8.8	12.4	100.0	142.8
other	11.2	12.9	11.4	12.7	124.0	113.8
Total	100.0	100.0	100.0	100.0	107.2	101.6

Source: State Statistics Committee of Uzbekistan

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

7.0% respectively. Growth in supplies of organic chemical compounds, pharmaceutical products, fertilizers, perfumery, make-up, detergents and plastics continued.

In 2005, the import volume of services remained unchanged, although in quarter-to-quarter comparison, imports of services increased by 42% in the fourth quarter of 2005, in comparison with the similar period of 2004.

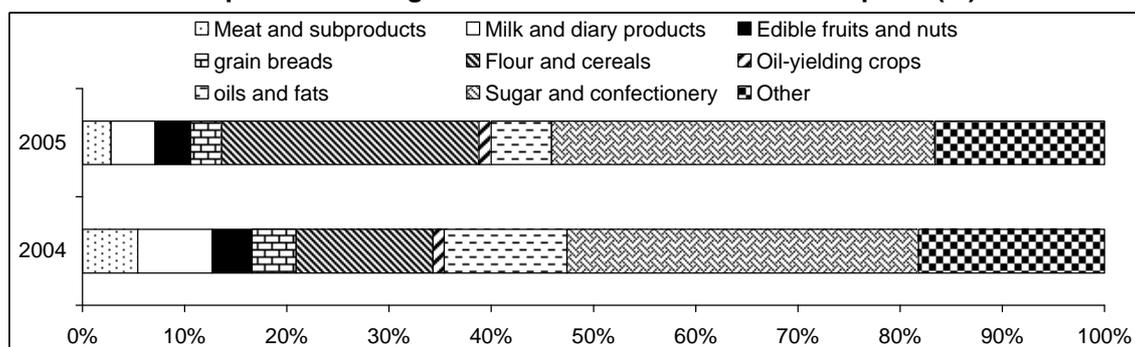
Imports of goods in the commodity group "other" increased by 24.0% and their share in the total volume of imports increased by 12.9%. The increase was mainly due to the increase in imports of wood and wooden products, textile products, paper and paper products, stone products, gypsum, asbestos, cement and furniture.

In the imports of foodstuffs, a significant increase was observed in imports of such products as sugar, confectionery and products of the flour-cereal industry, which also includes malt and starch. This increase might be explained by an increase in the production of foodstuffs using those ingredients (Graph 4.2.2.).

In the territorial structure, trade indicators with CIS countries improved. As a result, trade turnover with CIS countries accounted for USD 3.4 bn. in 2005, showing an increase over the previous year of 1.1 times. During the period under review, trade turnover with foreign countries amounted to USD 6.1 bn., indicating an increase of 1.1 times. Accordingly, the share of trade turnover with partners from the CIS increased from

34.6% in 2004 to 35.8% in 2005. At the same time, the share of trade turnover with foreign countries decreased from 65.4% to 64.2%.

**Graph 4.2.2. Changes in the Structure of Foodstuff Imports (%)**



Source: State Statistics Committee of Uzbekistan

In comparison with 2004, exports to the CIS increased by 1.13 times, as opposed to an increase in exports to foreign countries of 1.1 times. At the same time, the share of exports to the CIS increased from 31.5% to 31.8%, while the share of exports to foreign countries decreased from 68.5% to 68.2% (Table 4.2.4). This trend continued over the whole period under review. Beginning with early 2005, exports to CIS countries increased 1.13 times versus 1.1 times with other foreign countries, in comparison with 2004. At the same time, the share of exports to CIS countries increased from 31.5% to 31.8%, while decreasing from 68.5% to 68.2% with other foreign countries (Table 4.2.4). From the beginning of 2005 exports to the CIS increased in such commodity groups as foodstuffs, machinery and equipment, and non-ferrous metals. At the same time, exports to foreign countries increased in such commodity groups as cotton fiber, chemical products, foodstuffs and non-ferrous metals. However, CIS countries continue to remain the traditional market for exports of foodstuffs, energy carriers, machinery and equipment, while foreign countries continue to be a good market for such exports as cotton fiber, chemical products, and non-ferrous metals.

In 2005 in comparison to the corresponding period of the previous year, there was more rapid growth of imports from CIS countries than from foreign countries – by 1.14 times and 1.03 times respectively. Accordingly, the share of imports from CIS countries increased from 38.6% to 41.1%, while imports from foreign countries decreased from 61.4% to 58.9% (Tables 4.2.1, 4.2.4). CIS countries remained the main suppliers of energy carriers, ferrous and non-ferrous metals, while foreign countries led in imports of foodstuffs, machinery and equipment and services.

The following eight countries became leading trade partners for Uzbekistan's exports in 2005: Russia - 19.0% of total exports (141.6% to the level of 2004), Iran – 8.0% (128.3%), Turkey – 6.4% (160.4%), Great Britain – 6.2% (87.6%), Kazakhstan – 4.6 % (133.7%), China – 4.2% (225.0%), Switzerland – 2.6% (93.3%), Tajikistan – 2.5 % (92.9%), USA – 2.0% (73.6%) (Table 4.2.4, Annex 4.2.4). Significant decreases in exports were observed in the case of India (20.6% to the level of 2004) and Belgium (70.5%).

**Table 4.2.4. Geographical Structure of Exports and Imports, (%)**

Countries	Share in total volume, %			
	Of Exports		Of Imports	
	2004	2005	2004	2005
Total	100.0	100.0	100.0	100.0
CIS countries	31.5	31.8	38.6	41.1
Kazakhstan	3.8	4.6	6.3	6.6
Russia	14.9	19.0	24.0	25.3
Tajikistan	3.0	2.5	1.0	0.5
Ukraine	2.3	1.6	4.5	6.0
Other countries	7.5	4.1	2.8	2.7
Non-CIS countries	68.5	68.2	61.4	58.9
Belgium	1.1	0.7	0.5	0.7
Great Britain	7.9	6.2	1.8	2.3
Germany	1.0	1.6	7.1	5.9
India	2.5	0.5	0.7	0.9
Iran	6.9	8.0	0.9	0.7
China	2.1	4.2	7.0	6.3
South Korea	1.2	1.0	9.2	12.5
Netherlands	0.5	0.7	0.8	0.7
USA	3.1	2.0	10.3	3.7
Turkey	4.5	6.4	4.5	4.3
France	0.7	1.6	1.2	1.1
Switzerland	3.1	2.6	0.4	0.8
Japan	0.4	0.6	2.1	1.3
Other countries	33.5	32.1	14.9	17.7

Source: State Statistics Committee of Uzbekistan

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

The main share of imports (70.6%) consisted of eight countries: Russia, whose share in total imports was 25.3% (112.7% to the level of 2004), South Korea – 12.5% (145.8%), Kazakhstan – 6.6% (111.8%), China – 6.3% (96.8%), Ukraine – 6.0% (144.3%), Germany – 5.9% (89.0%), Turkey – 4.3% (103.1%), and the USA – 3.7% (38.6%) (Table 4.2.4, Annex 4.2.5).

The greatest positive trade turnover was achieved with Iran, Great Britain, Turkey, Tajikistan, and Switzerland; while the greatest negative balance was registered with South Korea, Ukraine, and Germany.

Thus, during 2005 the positive development trends in foreign trade, which began in 2004, strengthened. Qualitative changes in the commodity structure of exports and imports continued. More rapid growth of exports with a high share of value added was observed. The process of optimization in the structure of imports continued. The active balance of trade turnover increased, which, at this time, resulted not only from trade with foreign countries, but also from trade with CIS countries.

Perspectives for the development of foreign trade in 2006 are anticipated to be positive. The main priorities in that direction include such tasks as providing stimuli for exports and for saving foreign exchange resources, while using them efficiently and effectively.

In the sphere of foreign economic relations, the coming year, will first of all be indicated as the year of Eurasian Economic Cooperation (EurAsEC). Uzbekistan's accession to this organization raised the status of the organization to a new level, which will provide significant input in the economic development of member-countries in particular and the economy of the region as whole.

As noted by the President of Uzbekistan, based on Uzbekistan's accession to the Eurasian Economic Cooperation it is necessary to undertake the necessary measures towards unification of customs procedures. The accomplishment of this task will serve as a stimulus for developing trade and economic relations with such countries as Russia, Belarus, Ukraine, Kazakhstan, Tajikistan, and Kyrgyzstan.

### 4.3. Enterprises with Foreign Investments

The policies conducted in Uzbekistan on creating favorable conditions for Enterprises with Foreign Investments (EFI), as well as the realization of national programs on attracting investments, had positive effects on the results of EFI activities in 2005. During the period under review certain measures were undertaken in Uzbekistan, aimed at improving the legislative basis, coordinating the activities of enterprises with foreign investments and improving macroeconomic preconditions for the further attraction of foreign capital and the creation of new joint productions. One of the most important decisions in enhancing the participation of foreign investors in the economy of Uzbekistan was the Decree of the President of the Republic of Uzbekistan (from 11.04.2005) "On additional measures to encourage the attraction of direct private foreign investments". According to the Decree, effective as of July 1, 2005, enterprises with foreign investments became exempt from income (profit) tax (for a period from three to seven years, based on the volume of investments), property tax, social and territorial tax, environment tax, single tax for microfirms and small enterprises and others, conditioned by the fact that those enterprises are located in regions with a surplus labor force.

In 2005, the number of operating EFIs increased by 215 units (Table 4.3.1). The growth of foreign trade turnover in 2005, including in the fourth quarter, amounted to 23.8% and 13.4% respectively. The share of EFIs in the foreign trade turnover of Uzbekistan increased by 2.9 and 0.8 percentage points respectively.

**Table 4.3.1. Main Operational Indicators of Enterprises with Foreign Investments in the Republic of Uzbekistan**

	Measure unit	2004	2005	04/ IV*	05/ IV*	2005 in % to 2004	05 IV in % to 04/ IV
Number of operating enterprises (to year end)	Units	2412	2627	x	x	108.9	x
Foreign trade turnover	Mill. USD	1950.9	2416.0	531.1	602.3	123.8	113.4
Exports	Mill. USD	785.2	823.1	201.1	187.1	104.8	93.0
Imports	Mill. USD	1165.7	1592.9	331	415.2	136.7	125.4
Share of EFIs in total foreign trade turnover of Uzbekistan	%	22.5	25.4	21.8	22.6	x	x
Share of EFI exports in total exports of Uzbekistan	%	16.2	15.2	15.2	12.2	x	x
Share of EFI imports in total imports of Uzbekistan	%	30.5	38.9	29.9	37.0	x	x
Ratio of exports to imports	ratio	0.7	0.5	0.61	0.5	x	x

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

**Exports.** Total EFI exports for 2005 made up USD 823.1 mill. or 15.2% of total exports of Uzbekistan, and 104.8% of the level of 2004. At the same time, EFI exports for the fourth quarter of 2005 decreased by 7% against the level of the corresponding period of 2004. The low growth rate of exports and their tendency to decrease at the end of 2005 resulted in a decrease in the share of EFI exports in the total volume of exports of Uzbekistan by 1.0 p.p.

In the commodity composition of exports a positive tendency was observed in the reduction of exports of EFIs that provide trade-intermediary operations. In particular, exports of cotton fiber by intermediary enterprises fell by more than 2 times during 2005. Its share in the total volume of exports decreased by 1.3 percentage points.

The export volumes of such products as chemical products (by 70.6%), metallurgy (72.6%), machinery building (by 59.7%) and foodstuffs (by 22.8%) increased at an accelerated pace (Table 4.3.2). The high growth rates in export volumes were achieved mainly due to increase in production volumes at enterprises with foreign investments operating within the systems of such associations as "Uzhimprom", "Uzeltechsanoat", and the associations of the oil, fat and foodstuffs industry.

**Table 4.3.2. Growth Rates and Commodity Structure of Exports of Enterprises with Foreign Investments, (%)**

	Growth rates, %		Share in the total volume of exports, %			
	2005 to 2004	05/ IV to 04/ IV	2004	2005	04/ IV*	05/ IV*
Total	104.8	93.0	100	100	100	100
Cotton fiber	47.4	6.4	2.3	1.0	1.4	0.1
Foodstuffs	122.8	122.1	3.9	4.5	3.9	5.2
Chemical products	170.6	136.1	2.6	4.2	2.9	4.3
Energy carriers	103.4	61.0	3.6	3.6	5	3.3
Ferrous and non-ferrous metals	172.6	370.1	0.7	1.2	0.8	3.1
Machinery and equipment	159.7	134.2	28.4	43.3	29.5	42.5
Services	102.3	62.3	5	4.9	6.1	4.1
Other	73.0	69.2	53.5	37.3	50.3	37.5

Source: State Statistics Committee of Uzbekistan

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

Similar tendencies were observed in the fourth quarter of 2005, except the exports of products in the commodity group "energy carriers" and "services", where export volumes of EFIs and their share in total exports decreased.

In the exports of EFIs, the leading positions were occupied by such products as passenger cars, buses, electrical appliances, foodstuffs,

communications services, textile products, products of non-ferrous metallurgy and others.

In the territorial structure of EFI exports, the list of leading exporting regions included Andijan (41.2%), Navoi (20.1%) and Tashkent city (13.9 %) (Table 4.3.3). The exports of those regions included products of machinery building, gold mining, electrical appliances, chemical products, and products of foodstuffs and light industries.

**Table 4.3.3. 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, %
	2005 to 2004	
Total	104.8	100
R. Karakalpakstan	737.1	0,8
Andijan	160.4	41,2
Bukhara	56.5	1,1
Jizzakh	110.1	0,2
Kashkadarya	45.2	0,8
Navoi	74.9	20,1
Namangan	94.9	1,9
Samarkand	100.6	2,3
Surkhandarya	147.6	0,4
Sirdarya	158.6	0,6
Tashkent	79.0	8,6
Fergana	76.8	7,8
Khorezm	82.7	0,3
Tashkent city	110.9	13,9

Source: State Statistics Committee of Uzbekistan

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

The volume of exports of EFIs has grown at accelerated rates in the Republic of Karakalpakstan (by 7.4 times), in the province of Andijan (by 1.6 times), Sirdarya (by 1.6 times) and Surkhandarya (by 1.5 times).

At the same time, half of the regions of the country experienced reduced export volumes. The implementation of the developed program of attracting foreign investments into regions may provide positive results on increasing exporting opportunities of newly established enterprises with the participation of foreign investors during the years 2006 and 2007.

**Imports** of goods, labor and services of EFIs during 2005 in the country made up USD 1592.9 mill. or 38.9% of total imports of the country: in the 4th quarter of 2005 these figures were USD 415.2 mill. and 37.0% respectively (Tables 4.3.1 and 4.3.4). The

growth of import volumes over 2004 and the fourth quarter of 2004 amounted to 36.7% and 25.4% respectively.

The moderate growth (by 12.2%) in the fourth quarter of 2005 and the significant decrease (19.8%) of foodstuffs imports were partially due to the current 5% and 10% tariff rates for certain types of goods aimed at protecting domestic producers. This in turn resulted in the growth of retail prices and the decrease in domestic consumer demand.

In spite of the relatively high growth of imports of energy carriers in the fourth quarter of 2005, the year-end results of 2005 showed a decrease of imports (by 6%), mainly of products of oil refinery.

In 2005, as in the previous year, investment commodities predominated in the commodity composition of imports of enterprises with foreign investments. Imports of such industries as metallurgy increased by 2 times, that of machinery and equipment – by 1.4 times, and chemical products – by 1.3 times. Such growth was mainly due to requirements of the production process and the establishment of new enterprises with foreign investments, as well as the creation of a favorable trade regime, according to which the legislation of the Republic of Uzbekistan has imposed zero tariff rates on machinery, equipment and technological appliances and other investment commodities.

According to the results of 2005, imports in such commodity groups as “services” and “other” grew at rates above the national average. The growth of imports in the commodity group “other” (by 40.8%) resulted from an increase in imports of industrial construction materials, goods made of precious metals and stones, clothes, shoes, and other industrial consumer goods. In imports in the commodity group “services,” construction materials and telecommunication services dominated.

**Table 4.3.4. Growth Rates and Commodity Structure of Imports of Enterprises with Foreign Investments**

	Growth rates, %		Share in the total volume of imports, %			
	2005 to 2004	05/ IV to 04/ IV	2004	2005	04/ IV*	05/ IV*
Total	136.7	125.4	100	100	100	100
Foodstuffs	112.2	80.2	12	9.8	15.2	9.7
Chemical products	125.8	143.2	13.9	12.8	12.3	14.1
Energy carriers	94.0	144.0	0.6	0.4	0.4	0.4
Ferrous and non-ferrous metals	202.2	172.7	6	8.9	5.9	8.1
Machinery and equipment	136.6	117.8	56.3	56.3	54	50.7
Services	148.1	269.2	4.5	4.9	4.5	9.8
Other	140.8	117.6	6.7	6.9	7.7	7.2

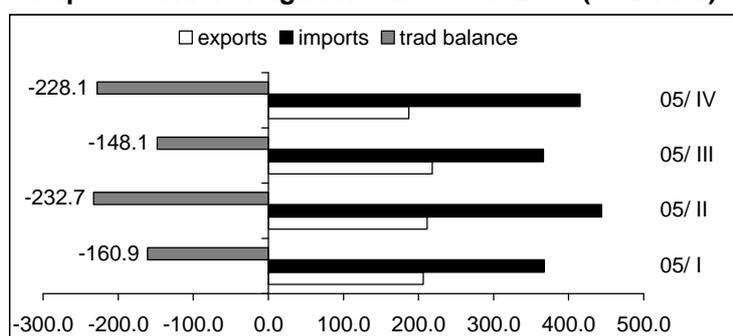
Source: State Statistics Committee of Uzbekistan

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

In 2005 on the whole and in the fourth quarter in particular, two commodity groups, “machinery and equipment” (56.3% and 50.7% respectively) and “chemical products” (12.8% and 14.1% respectively) continued to have high shares in the total volume of EFI imports.

As a result of high growth rates of imports (136.7%) in comparison to exports (104.8%) the EFIs' export-import ratio has decreased. During the period under review the ratio equaled -0.5, while the same ratio was 0.7 in 2004.

**Graph 4.3.1. Quarterly Dynamics of Exports-Imports of Enterprises with Foreign Investments in 2005 (USD mill.)**



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

The quarterly dynamics of exports and imports of EFIs indicated that in the fourth quarter of 2005, imports grew at higher rates (by 25.4%) in comparison with the corresponding period of the previous year, while volume of exports decreased (by 7%) (Graph 4.3.1). Significant growth of imports in the second quarter of 2005 was mainly due to the necessity of obtaining investment commodities for enterprises with foreign investments and the implementation of projects with the participation of foreign capital.

The geographical structure of foreign trade of enterprises with foreign investments has shown that the high growth of EFI exports to the CIS (147.3%) and the decrease in EFI exports to other foreign countries (to 79.1%) were caused by more active trade with CIS countries and the resumption of traditional channels of foreign trade (Table 4.3.5).

During the period under review the share of EFI foreign trade turnover with the CIS increased from 25.5% to 31.6%, including from 37.7% to 53% in exports and from 17.3% to 20.5% in the case of imports. The main trade partners in the CIS were Russia, Kazakhstan, and Tajikistan. The exports-to-imports ratio of EFI trade with CIS countries equaled 133.5% (the positive trade balance was at the level of USD 109.5 mill.).

**Table 4.3.5. Foreign Trade Turnover of Enterprises with Foreign Investments with CIS and other Foreign Countries**

	Volume, in USD mill.		Share in total volume, %	
	2004	2005	2004	2005
Foreign trade turnover	1950.9	2416.0	100	100
CIS	497.2	762.5	25.5	31.6
Non-CIS	1453.7	1653.5	74.5	68.4
Exports	785.2	823.1	100	100
CIS	296.0	436.0	37.7	53.0
Non-CIS	489.2	387.1	62.3	47.0
Imports	1165.7	1592.9	100	100
CIS	201.2	326.5	17.3	20.5
Non-CIS	964.5	1266.4	82.7	79.5
Trade balance	-380.5	-769.8	x	x
CIS	94.8	109.5	x	x
Non-CIS	-475.3	-879.3	x	x

Source: State Statistics Committee of Uzbekistan

The share of trade of enterprises with foreign investments with other foreign countries remained relatively high in 2005, 68.4%, despite the tendency of a decrease in export volumes. In EFI imports from foreign countries, products of machinery building, foodstuffs and the chemical industry had leading positions. In EFI imports from other foreign countries, the leading trade partners remained the USA, Turkey, Germany, South Korea, Great Britain, and Switzerland.

In general, the results of 2005 indicated successful accomplishment of tasks for the establishment of joint productions with foreign investment. During the period under review more than 90 joint ventures with foreign investment were established. Implementation of the program of attracting foreign investments to the regions during the years 2005 to 2007 had positive effects in addressing issues of eliminating the territorial disproportions in the development of enterprises with foreign investments, because of their priority allocation in the Republic of Karakalpakstan, and in the provinces of Kashkadarya, Surkhandarya and Sirdarya.

During 2005 a number of new joint ventures with foreign capital started their operations all over the country. Such enterprises include JV "Akbar Ali" for the production of cotton yarn, JV "Ay Demir" for the production of socks, men's pants and various garments, JV "Bursel Tashkent" for the production of textile products, and JV "Khonbugda" for the production of home appliances such as refrigerators, vacuum cleaners, and washing machines.

During the period under review, cooperation between Uzbekistan and Russia began to develop actively in the sphere of aircraft construction. In particular, the State Joint-Stock Company "Tashkent Air Industry Company Chkalov" in collaboration with the Russian Joint-Stock Company KB Ilyushin developed new samples of aircrafts that were successfully demonstrated at the air-show "MAKS-2005" and are aimed at supplying the domestic market well as the markets of the CIS and Asia.

In 2005, operations of enterprises with foreign investments significantly improved in one of the priority sectors of Uzbekistan's economy, the textiles industry. In this sector of the economy such enterprises with foreign investments as the JVs Burskel Toshkent Tekstil, Aydemir Tekstil, Shayhontohur Tekstil, YaDem Tekstil, and the foreign company Alkim Tekstil successfully accomplished purchase orders from the largest US and European chains and brands such as Fruit of the Loom, Target, JCPenney, Anvil, WalMart, Quelle, Normann, Neckerman, Kik and others.

At this time, the share of joint ventures and foreign companies in the total export volumes of the State Joint-Stock Company "Uzbekengilsanoat" account for 85%<sup>7</sup>. The increase in export volumes of enterprises with foreign investments in this sector was promoted by the State "Program of attracting investments into the textile industry for the period of 2005-2008" that was approved by the Cabinet of Ministers. According to the Program, the Government aims to ensure no less than 80% export of the total production of textiles. The EFI "Alkim Tekstil" may serve as an example, producing goods which were exported to markets of such countries as Germany, Netherlands, Russia, and Turkey. The exports of this EFI accounted for 95% of its production. In 2005 "Alkim Tekstil" exported goods for the total amount of USD 2 mill. The exports of the enterprise include children's clothes, underwear, textile fabrics, etc.

<sup>7</sup> "Economic Review". 2005. Issue 11-12, p. 32.

**Annex 4.2.1. Trade balance (mill. USD)**

Period	Exports	Imports	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
2005	5408.8	4091.3	1317.5
04/I	1210.0	874.2	335.8
04/II*	1209.9	856.6	353.3
04/III*	1106.8	980.6	126.2
04/IV*	1326.3	1104.6	221.7
05/I	1327.9	965.4	362.5
05/II*	1495.4	1049.9	445.5
05/III*	1046.2	953.2	93.0
05/IV*	1539.3	1122.8	416.5

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

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

**Annex 4.2.2. Commodity Composition of Exports (%)**

Period	Cotton fiber	Foodstuffs	Chemical products, plastics and plastic goods	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services	Other goods	Total (%)	Total (mill. USD)
2000	27.5	5.4	2.9	10.3	6.6	3.4	13.7	30.2	100.0	3264.7
2001	22.0	3.9	2.7	10.2	7.0	3.9	14.6	35.7	100.0	3170.4
2002	22.4	3.5	3.0	8.1	6.4	3.9	15.9	36.8	100.0	2988.4
2003	19.8	2.7	3.1	9.8	6.4	5.9	14.4	37.9	100.0	3725.0
2004	18.1	3.8	4.7	12.4	8.6	7.4	11.8	33.2	100.0	4853.0
2005	19.1	3.8	5.3	11.5	9.2	8.4	12.2	30.5	100.0	5408.8
04/I	25.5	4.3	4.1	8.0	7.0	8.4	11.3	31.4	100.0	1210.0
04/II*	9.1	3.3	4.5	13.4	8.8	5.1	10.9	34.9	100.0	1209.9
04/III*	7.4	3.7	5.2	17.1	9.9	7.2	13.8	35.7	100.0	1106.8
04/IV*	19.2	4.0	5.2	11.6	8.9	8.7	11.5	30.9	100.0	1326.3
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
05/IV*	25.8	3.3	5.2	11.1	8.2	6.5	11.4	28.4	100.0	1539.3

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

**Annex 4.2.3. Commodity Composition of Imports (%)**

Period	Foodstuffs	Chemical products, rubber and rubber products	Energy carriers	Non-ferrous and ferrous metals	Machinery and equipment	Services	Other	Total (%)	Total (mill. USD)
2000	12.3	13.6	3.8	8.6	35.4	8.5	17.8	100.0	2947.4
2001	10.8	12.7	1.9	10.9	41.2	10.3	12.2	100.0	3136.9
2002	12.5	15.1	1.3	8.0	41.4	10.6	11.1	100.0	2712.0
2003	9.9	12.8	2.7	7.9	44.4	10.2	12.1	100.0	2964.2
2004	6.8	12.5	2.1	10.3	46.0	11.1	11.2	100.0	3816.0
2005	7.0	13.6	2.5	10.3	43.3	10.4	12.9	100.0	4091.3
04/I	9.1	11.5	2.1	7.5	50.2	9.6	10.0	100.0	874.2
04/II*	7.0	14.8	2.5	9.3	40.9	13.6	11.9	100.0	856.6
04/III*	4.3	12.8	1.3	14.1	43.3	13.0	11.2	100.0	980.6
04/IV*	7.2	11.3	2.5	9.9	48.9	8.8	11.4	100.0	1104.6
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
05/IV*	7.0	14.4	3.8	9.1	40.7	12.4	12.7	100.0	1122.8

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

#### Annex 4.2.4. Geographical Structure of Exports (%)

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Foreign countries	Belgium	Great Britain	Iran	South Korea	Netherlands	USA	Turkey	Switzerland	Other countries
2000	3264.7	100.0	35.9	3.1	16.7	4.7	11.4	64.1	1.1	7.2	2.2	3.3	2.6	1.6	3.0	8.3	34.8
2001	3170.4	100.0	34.4	3.7	15.8	4.7	10.2	65.6	1.5	6.3	2.6	4.2	2.4	2.6	2.6	5.6	37.8
2002	2988.4	100.0	27.6	2.7	10.6	5.4	8.9	72.4	2.4	7.7	5.8	2.2	1.5	2.6	3.4	6.3	40.5
2003	3725.0	100.0	26.0	2.7	12.3	3.9	7.1	74.0	1.9	7.5	7.4	1.5	0.4	2.9	3.5	5.4	43.5
2004	4853.0	100.0	31.5	3.8	14.9	2.3	10.5	68.5	1.1	7.9	6.9	1.2	0.5	3.1	4.5	3.1	40.2
2005	5408.8	100.0	31.8	4.6	19.0	1.6	6.6	68.2	0.7	6.2	8.0	1.0	0.7	2.0	6.4	2.6	40.6

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

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

#### Annex 4.2.5. Geographical Structure of Imports (%)

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Foreign countries	Great Britain	Germany	China	South Korea	USA	Turkey	France	Japan	Other countries
2000	2947.4	100.0	38.2	7.3	15.8	6.1	9.0	61.8	2.0	8.7	2.5	9.8	8.7	3.3	2.9	1.9	22.0
2001	3136.9	100.0	37.2	6.2	19.2	7.1	4.7	62.8	2.5	7.8	2.9	11.1	6.4	3.4	4.0	4.2	20.5
2002	2712.0	100.0	36.9	6.7	22.0	4.5	3.7	63.1	2.7	7.8	4.2	9.5	12.1	3.2	2.1	0.7	20.8
2003	2964.2	100.0	38.3	6.6	23.3	4.6	3.8	61.7	2.6	9.8	5.5	7.9	7.7	4.8	1.6	2.0	19.8
2004	3816.0	100.0	38.6	6.3	24.0	4.5	3.8	61.4	1.8	7.1	7.0	9.2	10.3	4.5	1.2	2.1	18.2
2005	4091.3	100.0	41.1	6.6	25.3	6.0	3.2	58.9	2.3	5.9	6.3	12.5	3.7	4.3	1.1	1.3	21.5

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

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

#### Annex 4.3.1. Commodity Composition of EFI Exports, (%)

	Total, USD mill.	Total, %	Cotton-fiber	Foodstuffs	Chemical products	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services	other
2000	451.6	100	4.8	7.4	1.5	3.7	0.3	16.0	3.9	62.4
2001	416.9	100	2.4	4.4	2.6	4.7	0.2	21.1	4.4	60.2
2002	443.0	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
04/ IV*	201.1	100	1.4	3.9	2.9	5.0	0.8	29.5	6.1	50.3
2005	823.1	100	1.0	4.5	4.2	3.6	1.2	43.3	4.9	37.3
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
05/ IV*	187.1	100	0.1	5.2	4.3	3.3	3.1	42.5	4.1	37.5

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

### Annex 4.3.2. Commodity Composition of EFI Imports, (%)

	Total, USD mill.	Total, %	Foodstuffs	Chemical products	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services	other
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
04/ IV*	331.1	100	15.2	12.3	0.4	5.9	54.0	4.6	7.7
2005	1592.9	100	9.8	12.8	0.4	8.9	56.3	4.9	6.9
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
05/ IV*	1177.7	100	9.7	14.1	0.4	8.1	50.7	9.8	7.2

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

### Annex 4.3.3. Territorial Structure of EFI Exports, (%)

	Total mill. USD	Total %	R. Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samar-kand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tashkent
2000	451.6	100	0.0	13.3	0.3	0.1	0.0	31.9	4.2	2.8	0.0	5.0	14.0	7.2	0.2	21.0
2001	416.9	100	0.0	18.6	0.1	0.3	0.0	29.0	2.0	2.2	0.0	1.0	18.7	7.4	0.2	20.5
2002	443.0	100	0.2	14.0	0.4	0.1	1.6	35.9	2.2	1.8	0.1	0.8	17.4	11.0	0.4	14.1
2003	564.4	100	0.1	18.4	2.8	0.2	2.3	28.3	2.9	2.4	0.3	0.8	15.7	12.7	0.7	12.4
2004	785.2	100	0.1	26.9	2.1	0.2	1.9	28.0	2.1	2.3	0.3	0.4	11.5	10.7	0.4	13.1
04/ I	164.3	100	0.0	21.8	1.3	0.0	2.1	26.8	3.1	3.8	0.1	0.5	13.1	13.4	0.6	13.4
04/ II*	211.3	100	0.0	24.5	2.7	0.0	1.7	33.3	1.7	1.9	0.2	0.2	12.3	9.0	0.2	12.1
04/ III*	208.5	100	0.1	32.2	2.1	0.2	2.1	24.9	1.7	1.6	0.4	0.3	11.1	8.5	0.4	14.3
04/ IV*	201.1	100	0.3	28.2	2.2	0.4	1.7	26.9	2.1	2.1	0.4	0.8	9.6	12.4	0.4	12.7
2005	823.1	100	0.8	41.2	1.1	0.2	0.8	20.1	1.9	2.3	0.4	0.6	8.6	7.8	0.3	13.9
05/ I	206.4	100	0.8	43.2	1.2	0.2	1.2	16.9	2.5	2.5	0.4	0.3	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
05/ IV*	187.1	100	0.6	44.9	0.9	0.3	0.5	22.8	1.6	2.3	0.3	1.8	6.1	7.4	0.5	10.1

Source: State Statistics Committee of Uzbekistan

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

**Annex 4.3.4. Territorial Structure of EFI Imports, (%)**

	Total. mill. USD	Total %	R. Kara- kalpak- stan	Andijan	Bukhara	Jizzakh	Kashka- darya	Navoi	Naman- gan	Samar- kand	Surkhan- darya	Sirdarya	Tash- kent	Fergana	Khorezm	City of Tashkent
2000	760.5	100	0.3	28.3	1.0	1.1	0.3	4.6	1.6	4.3	0.3	0.2	8.4	1.4	0.1	48.1
2001	937.2	100	0.3	25.3	1.0	3.3	5.1	6.5	2.2	2.1	0.0	0.9	10.3	9.8	1.0	32.2
2002	704.8	100	0.4	27.1	2.1	3.8	0.7	4.1	2.2	3.9	0.2	0.3	5.9	5.7	3.8	39.8
2003	858.4	100	1.1	28.2	0.8	0.3	0.8	5.3	1.8	3.8	1.0	0.1	3.8	4.1	0.3	48.6
2004	1165.7	100	1.4	27.1	0.8	0.2	0.4	6.9	2.1	2.6	0.3	1.8	4.7	1.4	1.2	49.1
04/ I	243.9	100	0.2	25.6	0.6	0.0	0.5	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	26.7	0.8	0.4	0.6	8.9	1.7	3.3	0.8	1.6	4.6	1.5	0.8	47.9
04/ III*	315.4	100	2.4	31.7	0.3	0.2	0.4	7.4	1.7	2.2	0.1	5.1	3.6	1.2	2.7	41.0
04/ IV*	331.1	100	2.2	24.1	1.3	0.1	0.3	5.7	1.2	2.2	0.1	0.1	6.2	1.0	0.3	55.2
2005	1592.9	100	1.0	34.4	0.3	0.2	1.9	5.1	0.9	2.8	0.0	0.5	3.5	1.4	0.3	47.7
05/ I	367.2	100	0.4	42.6	0.3	0.2	1.0	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
05/ IV*	1177.7	100	3.1	34.0	0.4	0.4	0.3	6.8	0.8	4.1	0.0	0.5	3.7	1.0	0.2	44.6

Source: State Statistics Committee of Uzbekistan

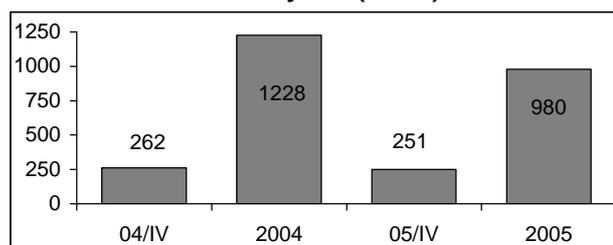
\* the author's computations based on data from the State Statistics Committee of Uzbekistan.

## 5. Institutional and Market Transformations

### 5.1. Denationalization and Privatization, Property Types

In 2005, in accordance with the approved schedule for denationalization and privatization, 980 manufacturing and social objects of the economy were transferred into non-state-owned property, including 251 objects in the 4<sup>th</sup> quarter (Graph 5.1.1 and Annex 5.1.1). These figures made up 79.8% and 95.8% respectively of the figures from the corresponding periods of the previous year.

**Graph 5.1.1. Number of Privatized Enterprises and Objects (Units)**



The trend towards a decrease in the number of state-owned entities transferred to others form of ownership observed during the last three years (Annex 5.1.1) is natural. After the completion of mass privatization by the beginning of 2003, the number of state-owned entities subject to transformation into private forms of ownership is decreasing annually.

Source: State Property Committee of Uzbekistan

In the sectoral context, the largest numbers of privatized objects were in the oil and gas industry (126 units), public education (118 units), water management construction (117) and health care (98 units); while in the territorial context, the majority were in the Republic of Karakalpakstan (156 units), Tashkent city (136 units), and Tashkent (98 units), and Surkhandarya (74 units) regions.

The bulk of state-owned entities (902) were sold to private legal entities and individuals (Table 5.1.1). Three state-owned enterprises ('Yangi Angren Is-syk Stanciyasi', 'Samarkand Chemical Plant' and 'UzExpoMarkaz' trade and exhibition center) were privatized by their transformation into joint stock companies, while 75 enterprises were transformed into limited liability companies.

**Table 5.1.1. Forms of Privatization of State-Owned Entities (Units)**

Period	Total Privatized	Including		
		Transformed into:		Sold to Private Individuals
		Joint Stock Companies	Limited Liability Companies	
04/IV	262	8	26	228
2004	1228	28	162	1038
05/IV	251	1	7	243
2005	980	3	75	902

Source: State Property Committee of Uzbekistan

One of the overarching tasks of the current state of development of the privatization process is the reduction of the number of joint stock companies and limited liability companies with a state-owned stake in their authorized capital, based on the minimal sufficiency principle. In 2005 state-owned stakes in 446 joint-stock companies – as well as state-owned shares in the authorized capital of 365 limited liability companies established earlier on the basis of state-owned enterprises – were sold into full private ownership.

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 116 joint-stock companies were sold for UZS 3.0 billion and 555 real estate objects for UZS 113 billion.

The Privatization Program for 2005 envisaged 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, on the condition that the new proprietors assume investment obligations aimed at their financial improvement and the resumption of production activity. In actual fact, 106 objects with investment obligations totaling UZS 13.0 billion – which exceeds by 2.5 times the minimum amount of these obligations set by the State Tender Committee – were transferred to private individuals. Actual investments in the objects transferred into private ownership at a zero redemption value amounted to UZS 1.8 billion and accounted for 124.0% of the forecast. The remaining 9 objects were put up for competitive bidding at the end of 2005.

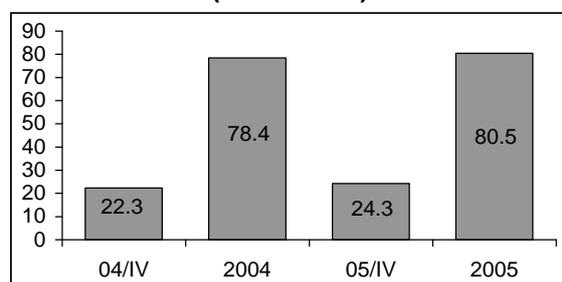
Overall, various methods of privatization of state-owned objects yielded 105.4% of the amount envisaged in the Privatization Program for 2005. However, the Andijan and Tashkent regions are falling behind the designated rates, and from the sectoral angle the stragglers included light industry (UzbekYengilSanoat), the pharmaceutical industry (UzPharmSanoat), trade (UzbekSavdo JSC) and tourism (UzbekTourism National Company).

Shortcomings in the privatization of state-owned property and suggestions for their elimination were emphasized in the Report by Islam Karimov, the President of Uzbekistan at the meeting of the Cabinet of Ministers on 15 February 2005, during which the outcomes of social and economic development in 2005 were summarized and the major priorities for deepening economic reforms in 2006 were established. At the meeting, the Cabinet resolved to develop the new Privatization Program for 2006-2008 with a special focus on the following:

- To include companies which are natural monopolists of no strategic value into the new Privatization Program;
- To considerably expand the list of companies and objects offered for sale at a zero redemption value on the condition that the new proprietors assume investment obligations;
- To implement a new effective system for the presale preparation of each company and object intended for sale at the exchange and the OTC market; and
- To decrease the share of state-owned stakes in the authorized funds of holdings and joint-stock companies.

In addition, the Cabinet of Ministers assigned the appropriate ministries and agencies to review the issue of expanding the range of privatization objects by granting investors and private owners the right to privatize premises and facilities along with the land plots on which they are located, with a market-based assessment of their value. Their proposals should then be submitted to the Cabinet of Ministers.

**Graph 5.1.2. Privatization Proceeds (UZS billion)**



Source: State Property Committee of Uzbekistan

In 2005, proceeds from the sale of various state assets deposited in special accounts of the State Property Committee amounted to UZS 80.5 billion, including UZS 24.3 billion in the 4<sup>th</sup> quarter (Graph 5.1.2 and Annex 5.1.1). As compared to the corresponding periods of the previous year, the growth rates were 2.7% and 9.0% respectively.

The distribution of the total proceeds from privatization was as follows: shares of privatized companies – UZS 49.3 billion (61.2%), real estate objects – UZS 29.3 billion (36.4%) and other property, including rent payments – UZS 1.9 billion (2.4%).

The sales of state-owned property for hard currency amounted to USD 24.2 million, which was 29.4% of the total proceeds and almost equaled the respective indicators of the previous year.

In accordance with current procedure on the use of privatization proceeds, they are primarily transferred to various organizations and enterprises on the basis of special government decisions. Thus, enterprises of basic industries (power industry, railway transport and so forth), whose accelerated restructuring is of great importance for the development of the country's economy as a whole, are given all proceeds from the initial offering of their shares less operational expenses.

Proceeds from privatization remaining after their primary distribution are channeled to the central and local government budgets in accordance with the established standards for funding social and economic development projects and forming market infrastructure institutions; they are transferred to enterprises being privatized which retain government participation in their authorized capital for the purposes of technical re-equipment and modernization of production. Since 2005, privatization proceeds have also been directed to the Chamber of Commerce and Industry of Uzbekistan, on the condition of their targeted use exclusively for the legal support of entrepreneurs, and to the State Committee of the Republic of Uzbekistan on De-Monopolization, Support for Competition and Entrepreneurship (GosComDemonopolization) to form the Fund for the Support of Entrepreneurship and Restructuring of Enterprises. These receive 5% and 2% respectively of the proceeds from privatization remaining after their distribution on the basis of special government decisions.

In 2005 the State Property Committee (GKI) transferred UZS 79.4 billion to central and local government budgets and various organizations and enterprises, including UZS 34.0 billion allocated on the basis of special government decisions. Growth rates compared to the previous year were 9.1% and 40.1% respectively.

The significant increase in the amount of funds transferred to organizations and companies on the basis of special government decisions, coupled with the expansion of the utilization of privatization proceeds, transformed the distribution of these proceeds (Table 5.1.2) in 2005. The shares of funds transferred to organizations and enterprises on the basis of special government decisions and to the central government budget

increased by 5.7% and 3.0% respectively compared to the previous year; in contrast, the shares of funds transferred to the local government budgets and to privatized enterprises decreased by 9.3% and 2.2% respectively.

**Table 5.1.2. Structure of Distribution of Privatization Proceeds (%)**

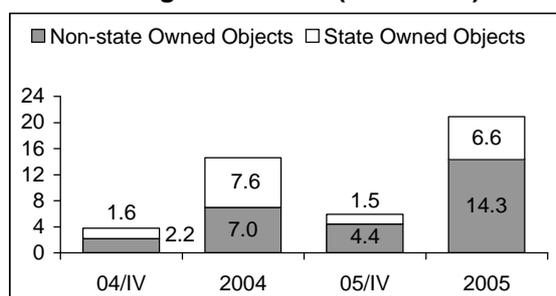
Directions of Proceeds Distribution	04/IV	2004	05/IV	2005
National Budget	17.8	39.7	68.0	42.7
Local Budgets	12.6	19.9	11.8	10.6
Chamber of Commerce and Industry			3.4	2.2
Enterprises under Privatization	2.4	3.3	0.7	1.1
State De-Monopolization Committee			1.0	0.6
Economic Associations, Enterprises and Organizations by Special Governmental Decisions	67.2	37.1	15.1	42.8
Total	100	100	100	100

Source: State Property Committee of Uzbekistan

## 5.2. Real Estate Market

Centralized electronic exchange bids were conducted regularly, three times a week, in 2005, at the Republican Real Estate Exchange (RREE) and its regional branches. In addition, there were scheduled auction and competitive bids (on the OTC market). The trend towards the domination of exchange bidding has remained. The total amount of sales of real estate objects concluded through exchange bids was UZS 34.6 billion (78.6%), while the amount of sales on the OTC market was UZS 9.4 billion (21.4%).

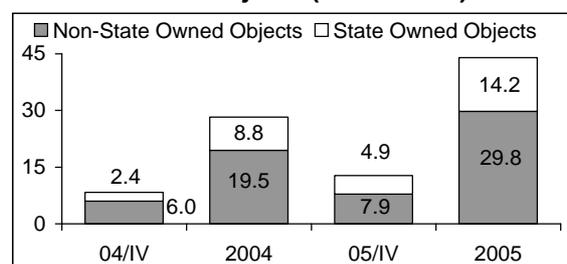
**Graph 5.2.3. Number of Objects Sold through the RREE ('000 Units)**



Source: Republican Real Estate Exchange of Uzbekistan.

by 61.4% and reached UZS 14.2 billion. This was due to the offering of primarily large and high-priced objects. While in 2004 the average selling price of one state-owned object was UZS 1158 thousand, in 2005 it reached UZS 2152 thousand, i.e. an increase of 1.9 times.

**Graph 5.2.2. Proceeds from the Sale of Real Estate Objects (UZS billion)**



Source: Republican Real Estate Exchange of Uzbekistan.

In the total quantity of real estate property sold through the RREE, agricultural and water industry objects (livestock farming premises, poultry farms and so forth) made up the largest share, offered almost entirely by private individuals. In total, during 2005, 8164 units of such objects were sold for UZS 11359 million, which exceeded the indicators for the previous year by 3.2 and 2.6 times respectively. As a result, the share of agricultural and water industry objects increased in the total number of property objects sold through the RREE by 21.8%, and in terms of cost of sales – by 10.3% (Table 5.2.1).

In 2005 the total number of property objects sold on the RREE and the OTC market amounted to 20.9 thousand units worth UZS 44.0 billion, including 5.9 thousand units worth UZS 12.8 billion in the 4<sup>th</sup> quarter of 2005 (Graphs 5.2.1 and 5.2.1). Growth rates compared with the corresponding periods of the previous year were respectively: for the number of objects sold – 43.4% and 57.5% and for the sales amount – 55.7 and 52.1%.

The offering of state-owned objects accounted for almost one third of the property sold through the RREE. Overall, 6.6 thousand state-owned objects were sold (Graph 5.2.1), which was 13.2% less than in the previous year. However, the total proceeds from those sales increased by 61.4% and reached UZS 14.2 billion. This was due to the offering of primarily large and high-priced objects. While in 2004 the average selling price of one state-owned object was UZS 1158 thousand, in 2005 it reached UZS 2152 thousand, i.e. an increase of 1.9 times.

The sales of real estate facilities offered for bidding by private legal entities and individuals have become more dynamic. The number of such objects accounted for 68.4% of the total property sold, while in terms of cost – 67.7% of the turnover. In total, 14.3 thousand private real estate objects were sold for UZS 29.8 billion, which exceeded the similar indicators for the previous year by 2.0 and 1.5 times respectively. The above data testify to the increase of the role of the RREE in the sale of real estate objects by private legal entities and individuals.

The largest share of cost turnover of the RREE (36.7%) consisted of proceeds from the sale of trade, consumer services and social infrastructure objects. 2025 objects worth UZS 16169 million were sold in 2005. Growth rates compared with the corresponding period of the previous year were 14.5% and 81.8% respectively. However, the numerical share of this type of objects in the total property sold through the RREE decreased by 2.4%, while increasing in terms of cost volume by 5.3%, due to a rise in the average selling price of these objects.

**Table 5.2.1. Structural Composition of Property Sold through the RREE (% of the total)**

Types of Property	04/IV	2004	05/IV	2005
Construction in Progress:				
Quantity	5.9	6.2	4.9	5.2
Amount	6.7	5.1	3.4	4.1
Commercial and Consumer Services Objects:				
Quantity	14.4	12.1	10.0	9.7
Amount	30.0	31.4	46.8	36.7
Objects of Agriculture and Water Industry				
Quantity	22.8	17.2	49.0	39.0
Amount	12.8	15.5	34.9	25.8
Land Plots:				
Quantity	33.0	43.1	19.6	24.9
Amount	1.3	2.2	1.6	1.4
Residential Buildings and Non-Residential Premises, Other Property				
Quantity	23.9	21.4	16.5	21.2
Amount	49.2	45.8	13.3	32.0
Total:				
Quantity	100	100	100	100
Amount	100	100	100	100

Source: Republican Real Estate Exchange

In 2005, 4435 commercial, administrative and residential objects were sold, including other property, for UZS 14074 million – which exceeded those indicators for the previous year by 42.0% and 8.8% respectively. However, due to advanced growth rates of the sale of agricultural objects, the share of residential and non-residential premises in the total quantity of property sold through the RREE fell by 0.2% and in the cost volume of sales – by 13.8%.

1087 construction-in-progress objects were sold for a total of UZS 1825 million, which exceeded the levels of the previous year by 21.3% and 25.9% respectively. However the share of these objects in the total number of objects and cost volume of objects sold through the RREE remained at a low level – 5.2% and 4.1% respectively.

The sale through the RREE of the right to heritable life tenure of land plots, intended for individual housing construction, continued. In total, rights to heritable life tenure of 5221 land plots were sold in the amount of UZS 610 million, which was less than the previous year's indicators by 17.1% and 1.3% 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 the 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 18.2%, and in cost volume of sales – by 0.8% (Table 5.2.1).

Apart from the sale of the property types listed in Table 5.2.1, since the 2<sup>nd</sup> 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. In 2005 shares in statutory funds of 492 limited liability companies worth UZS 5550 million were sold, which exceeded similar indicators for the previous year by 13.1% and 44.2% respectively.

Of the total stakes in the authorized capital of limited liability companies sold, 282 units (57.3%) were offered for bidding by the government – which was 83 units or 22.7% less than in the previous year. However, due to rise of the average selling price from UZS 10.2 million to UZS 17.0 million, the total proceeds from the sale of the state-owned stakes increased by 28.7% and reached UZS 4790 million.

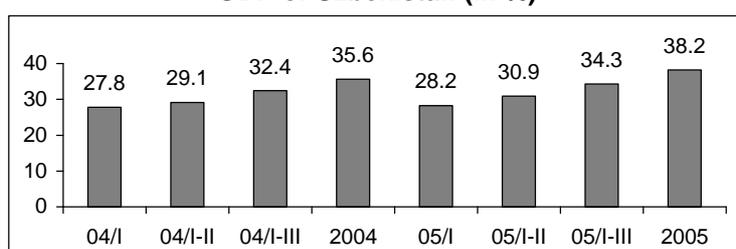
210 transactions of reviewed shares worth UZS 760 million were concluded between private individuals, which exceeded the previous year indicators by 3.0 and 3.3 times respectively. These data demonstrate the increasing demand from private individuals and legal entities for the services of professional participants of

exchange trading – as opposed to direct negotiations – in transactions involving shares in the authorized capital of limited liability companies.

### 5.3. Small Entrepreneurship

In 2005, the development of small entrepreneurship continued, given the gradual structural renewal of the economy and its widening and deepening liberalization, and the increasing role of the private sector. Certain cardinal measures were taken towards a significant strengthening of market mechanisms in order to develop small entrepreneurship, including the following: limitations on cash withdrawals were abolished; small businesses were provided with wide access to basic resources, including those of high liquidity; the legal basis was improved; a system of preferences and privileges was formed; the interference of state and other controlling authorities into the financial and economic activities of enterprises was significantly reduced; and economic freedom and the rights of entrepreneurs were significantly expanded. Of particular significance were measures for the reduction and simplification of types of procedures for obtaining permission to conduct entrepreneurial activity and the improvement of the system of legal protection for entrepreneurs.

**Graph 5.3.1. Share of Small Businesses in the GDP of Uzbekistan (in %)**



Source: State Statistics Committee of Uzbekistan

(Graph 5.3.1., Table 5.3.1.). To a large extent, this was provided by the sustainable growth of the share of small enterprises in GDP, which reached 6.5%. The significant increase in the share of small businesses (by 3.8 pct in comparison to 2004) was caused both by improvements in conditions for purchasing goods and resources on commodity exchanges and by the introduction of a 13% single tax against a gross payment of 15.2%, which allowed significant financial resources to be saved and channeled into production. Those factors facilitated an increase in the contribution of small businesses to the gross regional products of the Republic of Karakalpakstan (by 7.0 pct), Bukhara (by 5.1 pct), Namangan (by 4.7 pct), Sirdarya (by 4.6 pct) and Tashkent (by 4.2 pct) regions and the city of Tashkent (by 12.1 pct) (Table 5.3.2).

The implementation of measures for the creation of a favorable business environment encouraged the increased contribution of small businesses to economic growth, the creation of new jobs, an increase in the number of the employed and quality changes in this priority sector of the economy.

In 2005, the share of entrepreneurship in GDP reached 38.2%, exceeding the previous year's indicator by 2.6 pct

**Table 5.3.1. Development of Small Entrepreneurship**

Indicators	Unit	2004	2005
Share of small entrepreneurship in GDP of Uzbekistan	%	35.6	38.2
Number of employed in small entrepreneurship	'000 people	5974.9	6679.0
Share of the employed in SE in total number of employed in the economy	%	60.3	65.5
Number of employed:			
in small enterprises	'000 people	359.2	303.0
In micro-firms	'000 people	989.8	1083.9
Number of created jobs in SE	unit	392600	434208
Number of operating SE per 1000 people	unit	9.2	10.3

Source: State Statistics Committee of the Republic of Uzbekistan

SE's input to the growth of gross regional product, in comparison to 2004, significantly exceeded the national average in Jizzakh (64.4%), Sirdarya (58.8%), Samarkand (54.5%), Namangan (51.4%), Khorezm (54.2%) regions and in Tashkent city (54.3%).

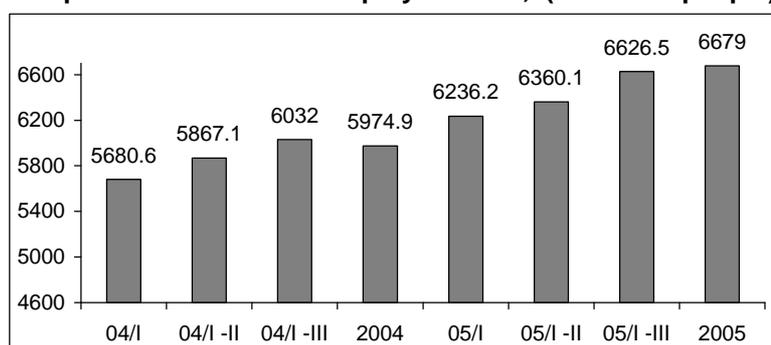
An insignificant decrease in shares of micro-firms and individual entrepreneurs in GDP was observed in 2005. Their shares accounted for 15.0% and 16.7% respectively, indicating a decrease of 0.9 pct and 0.3 pct respectively, in comparison to the results of 2004. This was caused by the decrease in the share of micro-firms in the gross regional products of Surkhandarya (by 3.5 pct), Tashkent (by 2.5 pct), Bukhara (by 1.8 pct), Andijan (by 1.4 pct) and Kashkadarya (by 1.3 pct) regions and Tashkent city (by 13.7 pct) (Table 5.3.2)

**Table 5.3.2. Share of Small Businesses in GDP and GRP, (%)**

	Total		Including:					
			Small Enterprises		Micro-firms		Individual Entrepreneurship	
	2004	2005	2004	2005	2004	2005	2004	2005
Uzbekistan Republic	35.6	38.2	2.7	6.5	15.9	15.0	17.0	16.7
Republic of Karakalpakstan	42.9	48.9	2.4	9.4	27.4	25.6	13.1	13.9
Andijan	37.8	38.7	2.5	5.2	10.9	9.5	24.4	24.0
Bukhara	38.0	44.4	3.2	8.3	18.0	16.2	16.8	19.9
Jizzakh	59.0	64.4	1.5	2.5	33.3	35.8	24.2	26.1
Kashkadarya	37.6	38.4	1.7	2.8	20.1	18.8	15.8	16.8
Navoi	20.8	20.9	1.1	1.5	8.9	9.0	10.8	10.4
Namangan	42.5	51.4	3.9	8.6	16.0	16.7	22.6	26.1
Samarkand	49.3	54.5	3.9	5.3	16.6	17.7	28.8	31.5
Surkhandarya	43.5	45.9	2.8	6.3	20.0	16.5	20.7	23.1
Sirdarya	57.3	58.8	2.4	7.0	33.6	33.6	21.3	18.2
Tashkent	33.8	36.3	3.7	7.9	13.4	10.9	16.7	17.5
Fergana	40.0	43.9	2.3	5.5	18.7	19.5	19.0	18.9
Khorezm	42.5	54.2	2.5	6.7	17.5	23.0	22.5	24.5
Tashkent City	56.1	54.3	7.2	19.3	33.3	19.6	15.6	15.4

Source: State Statistics Committee of the Republic of Uzbekistan

In 2005, a positive trend was observed in the number of employed in small enterprises, which increased by 5.2 pct and exceeded 65% of the total employed in the economy. The increase in those employed in SE totaled 11.8% or 704.1 thousand people. Such growth was partially due to high growth in the sphere of new jobs (10.6% over the results of 2004), the number of which equaled 434.2 thousand. Especially high growth rates in creating jobs were observed in such regions as Kashkadarya (148.9%), Sirdarya (137%), Samarkand (130.2%), Jizzakh (129.7%), and in the Republic of Karakalpakstan (113.8%). At the same time, as a result of high rates of liquidations of SE, a decrease of jobs was observed in the Fergana region – by 16.6%, Tashkent region – by 0.3% and in Tashkent city – by 20.2%.

**Graph 5.3.2. Number of Employed in SE, (thousand people)**


Source: State Statistics Committee of the Republic of Uzbekistan

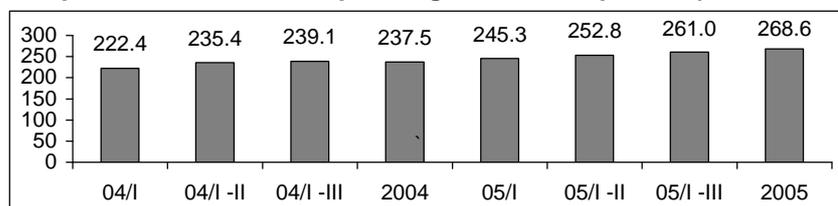
High growth rates in the number of employed in SE were observed in Khorezm, Surkhandarya, Namangan and Kashkadarya regions. Growth rates were lower than the national average in Jizzakh, Sirdarya, Tashkent, Navoi, and Bukhara regions as well as in Tashkent city (Table 5.3.3).

**Table 5.3.3. Number of Employed in SE by Region (thous. people).**

	2004	2005	Growth rate, %
Republic of Uzbekistan	5974.9	6679.0	111.8
Republic of Karakalpakstan	316.1	354.5	112.1
Andijan	552.5	617.7	111.8
Bukhara	394.0	440.0	111.7
Jizzakh	231.1	246.9	106.8
Kashkadarya	484.5	554.0	114.3
Navoi	180.0	192.5	106.9
Namangan	394.9	452.5	114.6
Samarkand	681.8	751.6	110.2
Surkhandarya	355.7	406.7	114.3
Sirdarya	197.5	207.1	104.9
Tashkent	593.5	644.2	108.5
Fergana	706.1	819.9	116.1
Khorezm	293.9	356.4	121.3
Tashkent City	593.3	635.0	107.0

Source: State Statistics Committee of the Republic of Uzbekistan

Various favorable macroeconomic conditions were created, including the strengthening the legal basis and the alleviation of the tax burden. These promoted growth in the number of active enterprises of small businesses by 13.1%, or by 31.1 thousand units in comparison to the results of 2004. The share of active small

**Graph 5.3.3. Number of Operating Small Enterprises, (thousands)**


Source: State Statistics Committee of the Republic of Uzbekistan

enterprises in the total number of registered enterprises accounted for 87.0% against 85.6% in 2004 (Graph 5.3.3, Table 5.3.4). The growth trends facilitated an increase in the number of active small enterprises per 1000 people, which reached an average of 10.3 units throughout the country, an increase of 1.1 pct in comparison to the results of 2004. At the same time, the national average was surpassed in Kashkadarya – 22.9 units, Jizzakh – 15.1 units, Bukhara – 13.4 units and Khorezm – 13.0 units regions. However, this indicator was far below the national average in such regions as Namangan, Andijan, Samarkand, Surkhandarya, and Tashkent. In general, this indicator is still below that of developed and newly developing countries, where it ranges between 35 and 40 units per 1000 people. Thus, the current indicator does not ensure the saturation of the domestic market with local products, nor does it ensure a stable income for the population.

In 2005, the number of active small enterprises increased in many regions of the country. While the national average growth rate was more than 13%, the following regions significantly exceeded that level: Khorezm (45%), Kashkadarya (30.7%), Fergana (26.4%), Namangan (16.7%), Navoi (10.5%) and the Republic of Karakalpakstan (15.4%). Such results were achieved, first of all, as a result of deepened reforms in agricultural sector, and in particular, as a result of accelerated development of farms in rural areas. A decrease in the share of

**Table 5.3.4. Number of Operating Small Enterprises, by Region (thousands)**

	2004		2005	
	Operating SE	Share of operating SE in the total number of registered SE, in %	Operating SE	Share of operating SE in the total number of registered SE, in %
Republic of Uzbekistan	237.5	85.6	268.6	87.0
Republic of Karakalpakstan	12.3	90.0	14.2	92.9
Andijan	18.6	85.2	16.0	79.9
Bukhara	18.9	91.2	20.2	89.1
Jizzakh	15.4	84.1	15.7	83.6
Kashkadarya	41.7	94.1	54.5	94.2
Navoi	8.6	84.0	9.5	89.3
Namangan	12.0	74.8	14.0	82.5
Samarkand	20.8	88.3	20.9	91.9
Surkhandarya	12.3	83.9	14.0	82.5
Sirdarya	10.5	93.4	10.5	83.0
Tashkent	17.3	87.5	18.2	87.9
Fergana	18.2	81.3	23.0	88.2
Khorezm	12.9	81.0	18.7	85.5
Tashkent City	17.9	73.0	19.1	75.3

Source: State Statistics Committee of the Republic of Uzbekistan

operating small enterprises in the total number of registered enterprises was observed in Andijan region, by 2.6 pct, which resulted from the liquidation of a large number of such enterprises in the region because of financial instability (Table 5.3.4).

**Table 5.3.5. Number of Operating Small Businesses by Sector of the Economy, (thous. units)**

Indicators	2004	2005
Industry	20.1	19.5
Small enterprises	2.1	2.1
Micro-firms	17.9	17.4
Agriculture	146.2	176.8
Small enterprises	2.9	3.9
Micro-firms	143.3	172.9
Transportation and communication	2.3	2.7
Small enterprises	0.4	0.4
Micro-firms	1.9	2.2
Construction	10.9	11.7
Small enterprises	0.8	0.9
Micro-firms	10.2	10.8
Trade and public catering	41.9	40.9
Small enterprises	7.4	7.0
Micro-firms	34.5	34.0

Source: State Statistics Committee of the Republic of Uzbekistan

Looking at sectors, the number of operating small enterprises significantly increased in the agricultural sector, where the growth rate almost reached 21%, largely because of a sharp increase in micro-firms (by 20.6%). Positive trends of growth in the number of operating small enterprises were identified in such sectors as transport and communications, and in construction, where they increased by 17.4% and 7.3% respectively, largely because of the increase in the number of micro-firms in operation (Table 5.3.5.).

The continuing unattractiveness of small business development in the manufacturing sector is caused by such factors and conditions as the decrease of capital investments and the unequal conditions for taxpayers, especially in the case of local enterprises in comparison with foreign firms.

The share of SEs in the total volume of industrial manufacturing accounted for 9.8%, showing a 0.3 pct decrease from the previous year's results. This was due to a decrease in production at small enterprises and at individual entrepreneurship entities.

A wider scale of production was observed in the sector of consumer goods, where the growth rate reached 123.2%, including 135.7% in the production of nonfoods and 118.4% in that of foodstuffs. In this sector, the share of SEs in the total volume of production reached 22.0% indicating a 1.7 pct reduction against the results of the previous year. The production of foodstuffs had a tendency of steady growth in practically all categories of SEs (Table 5.3.6).

**Table 5.3.6. The Share of SE in Output by Sector of Economy, (%)**

Indicators	2004	2005
Industry		
Share of small entrepreneurship in total output of manufactured goods	10.1	9.8
Share of individual entrepreneurship entities	3.9	3.5
Share of small entrepreneurship in total output of consumer goods	23.7	22.0
Share of individual entrepreneurship entities	13.0	12.2
Share of small entrepreneurship in total output of foodstuffs	36.5	36.4
Share of individual entrepreneurship entities	26.0	26.4
Agriculture		
Share of small entrepreneurship in total volume of production	80.9	84.7
Dekhkan entities	59.7	60.2
Retail trade turnover		
Share of small entrepreneurship in total volume of trade turnover	41.8	44.0
Share of individual entrepreneurship entities	27.8	27.1
Paid services		
Share of small entrepreneurship in total volume of paid services	47.4	52.0
Share of individual entrepreneurship entities	41.6	44.7

Source: State Statistics Committee of the Republic of Uzbekistan

dekhkan entities, and more than 22% - by micro-firms (Table 5.3.6).

The share of SEs in retail trade turnover increased to 44.0% or by 2.2 pct in comparison to the results of 2004 (Table 5.3.6), which was mainly due to an increase in the share of small entrepreneurship entities – by 1.1 pct and that of micro-firms by 1.1 pct. Despite a slight decrease (by 0.4 pct) in the share of individual entrepreneurship entities in total trade turnover, it remained at a high level – over 27%.

The share of SEs in the total volume of paid services equaled 52.0%, which indicated an increase of 4.6 pct compared to the level of 2004. The growth in the share of SEs in this sector was mainly due to high growth rates of SEs (124.7%) in comparison with the previous year's results. The share of individual entrepreneurship increased, reaching 44.7% of the total volume of paid services to the population.

In 2005, positive changes were observed in the structure of exports of SEs. Exports of cotton-fiber decreased by more than 53% and exports of chemical products decreased by 46.2%, which affected the share of small entrepreneurship entities in the total volume of exports: these accounted for 6.0% against 7.3% in 2004. At the same time, however, a significant increase was observed in exports of competitive final goods: foodstuffs – by 66.5%, and machinery and equipment – by 48.4%. During the period under review, exports of goods and services produced by SEs increased (Tables 5.3.7 and 5.3.8).

**Table 5.3.7. Share of Small Entrepreneurship Entities In Foreign Economic Activities, (%)**

Indicators	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Exports								
Share of small entrepreneurship in the total volume of exports	8.7	5.1	7.1	7.3	4.6	4.8	5.8	6.0
Share of individual entrepreneurship entities	1.1	1.2	1.4	1.5	1.0	1.3	2.0	1.9
Imports								
Share of small entrepreneurship in the total volume of imports	29.4	30.9	31.6	32.7	29.4	31.4	32.4	33.7
Share of individual entrepreneurship entities	5.2	5.2	4.8	4.5	4.2	4.5	4.7	5.2
Number of small business entities participating in foreign economic activities	1806	2625	3217	3781	2015	2891	3472	3890

Source: State Statistics Committee of the Republic of Uzbekistan

The share of SEs in the total volume of imports equaled 33.7% i.e. increased by 1.0 pct in comparison with that in 2004. This was chiefly a result of an increase in imports of foodstuffs by 19.4%, chemical products – by 7.7% and others – by 16.6%. In the commodity structure of imports, decreases were observed in such groups as machinery and equipment – by 7.9%, and ferrous and non-ferrous metals – by 20.3% (Table 5.3.8).

In spite of the support provided for export activities (exports of goods are not subject to customs duties, producers of export goods are provided with several privileges), in 2005, the number of SEs participating in export-import transactions increased by only 2.8%, or slightly more than 100 new participants in comparison with 2004 (Table 5.3.7).

**Table 5.3.8. Commodity Structure of Import-Export Activities of Small Entrepreneurship Entities, (%)**

	2004	2005
Exports	100.0	100.0
Cotton-fiber	35.0	16.2
Foodstuffs	21.2	35.3
Chemical products	2.6	1.4
Energy carriers	7.4	9.0
Non-ferrous and ferrous metals	0.7	0.9
Machinery and equipment	6.2	9.1
Services	10.0	10.5
Other	16.9	17.4
Imports	100.0	100.0
Foodstuffs	9.3	11.1
Chemical products	16.9	18.2
Energy carriers	0.2	0.2
Non-ferrous and ferrous metals	8.4	6.7
Machinery and equipment	44.5	41.0
Services	3.8	3.1
Other	16.9	19.7

Source: State Statistics Committee of the Republic of Uzbekistan

In the territorial structure, exports of SEs entities increased in the Republic of Karakalpakstan by 92.4%, Sirdarya region – by 89.5%, Surkhandarya region – by 84.6%, Namangan region – by 15.8% and in the city of Tashkent – by 10.8%, which was mainly due to the increase in supply of foodstuffs to foreign markets, and above all, that of canned fruits and vegetables, alcohol drinks, vegetable oil, dried fruits, jams, and other products. Significant decreases in the share of SEs in exports were observed in such regions as Samarkand, Tashkent, Fergana, and Khorezm. The share of SEs in total imports increased in the Republic of Karakalpakstan by almost two times, in Kashkadarya region – by more than 3 times, in Samarkand region – by 19.9%, and in the city of Tashkent – by 11.2%. A decrease in SE imports was observed in Andijan, Jizzakh, Namangan, and Fergana regions (Table 5.3.9).

The Government has set itself the goal of increasing the share of small entrepreneurship in GDP by 45% by 2007. Achieving that goal requires a significant increase in the number of actually operating small enterprises and micro-firms, introduction of registration by notification, the development of family businesses and removing bureaucratic barriers.

**Table 5.3.9. Ratio of SE Entities in Foreign Economic Activities by Region (%)**

Regions	Share of SEs in Total Exports		Share of SEs in Total Imports	
	2004	2005	2004	2005
Republic of Uzbekistan	7.3	6.0	32.7	33.7
Republic of Karakalpakstan	6.6	12.7	36.2	71.1
Andijan	4.2	2.2	5.6	5.2
Bukhara	4.1	3.8	61.1	65.0
Jizzakh	4.2	3.5	91.5	57.9
Kashkadarya	2.5	1.4	20.2	65.2
Navoi	0.2	0.3	2.1	3.0
Namangan	64.0	74.1	64.9	57.4
Samarkand	31.7	23.3	41.7	50.0
Surkhandarya	6.5	12.0	82.2	70.5
Sirdarya	1.9	3.6	70.1	71.4
Tashkent	19.4	5.6	42.0	44.0
Fergana	19.0	14.6	42.1	38.2
Khorezm	7.7	2.8	72.5	63.6
Tashkent City	6.5	7.2	34.8	38.7

Source: State Statistics Committee of the Republic of Uzbekistan

However, studies conducted by the IFC show that starting and running an entrepreneurial activity are burdened with problems with regard to registration, licensing, certification and other stages – all of which require significant financial resources, including informal payments. Above all, it is necessary to reduce the high expenses related to fulfilling the administrative procedures demanded by state authorities. The problem of increasing the efficiency of operating enterprises can only be resolved in conjunction with the reduction of expenses and risks, as well as the provision of additional investment into production activities.

### Annex 5.1.1. Main Indicators of Privatization of State-Owned Enterprises (Units)

Indicator	2000	2001	2002	2003	2004	2005	04/I
Number of privatized enterprises	374	1449	1912	1519	1228	980	365
State-owned enterprises transformed into joint-stock companies	152	227	223	75	28	3	13
State-owned enterprises transformed into limited liability companies	103	827	1252	981	162	75	70
Objects sold into full private ownership	117	184	325	396	1038	902	269
Privatization proceeds (UZS billion)	14.3	23.2	43.6	56.1	78.4	80.5	13.8

### Annex 5.1.1. Continued

Indicator	04/II	04/III	04/IV	05/I	05/II	05/III	05/IV
Number of privatized enterprises	295	306	262	195	250	284	251
State-owned enterprises transformed into joint-stock companies	-	7	8	1	-	1	1
State-owned enterprises transformed into limited liability companies	44	34	26	11	29	28	7
Objects sold into full private ownership	251	265	228	183	221	255	243
Privatization proceeds (UZS billion)	25.8	16.5	22.3	16.6	21.6	18.0	24.3

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 5.2.1. Quantity and Value of Property Sold through the Republican Real Estate Exchange (Units/UZS million)

Types of Property	2000		2001		2002		2003		2004		2005		04/I	
	Quantity	Amount												
Construction in Progress	296	630	265	559	180	832	586	1176	896	1449	1087	1825	184	343
Commercial and Consumer Services Objects	419	450	548	1221	436	1039	954	3203	1768	8892	2025	16169	414	3500
Objects of Agriculture and Water Industry	602	450	510	367	413	396	904	653	2516	4376	8164	11359	636	976
Land Plots	5700	254	8662	504	8335	551	7391	490	6296	618	5221	610	2169	159
Residential Housing and Non-Residential Premises, Other Property	1926	4396	5231	9699	4920	13353	4078	17938	3123	12942	4435	14074	469	3584
Total	8943	6180	15216	12350	14284	16171	13913	23460	14599	28277	20932	44037	3872	8562

### Annex 5.2.1. Continued

Types of Property	04/II		04/III		4/IV		05/I		05/II		05/III		05/IV	
	Quantity	Amount												
Construction in Progress	234	271	256	267	222	568	199	509	307	306	292	579	289	431
Commercial and Consumer Services Objects	397	1692	413	1955	544	2526	561	2166	492	3203	376	4802	596	5998
Objects of Agriculture and Water Industry	552	1250	467	1068	861	1082	2484	3416	1794	1767	969	1700	2917	4477
Land Plots	1464	203	1415	149	1248	107	1363	105	1510	155	1181	141	1167	209
Residential Housing and Non-Residential Premises, Other Property	975	2822	775	1609	904	4146	1010	4850	1332	4061	1110	3461	983	1702
Total	3622	6238	3326	5048	3779	8429	5617	11046	5435	9492	3928	10683	5952	12817

Source: Republican Real Estate Exchange of Uzbekistan

### Appendix 5.3.1. Main Indicators of the Development Level of SEs

Indicators	Unit	2000	2001	2002	2003	04/I	04/I - II	04/I - III	2004	05/I	05/I - II	05/I - III	2005
Share of SE in GDP	%	31.0	33.8	34.6	35.5	27.8	29.1	32.4	35.6	28.2	30.9	34.3	38.2
Share of small enterprises and micro-firms	%	13.1	14.8	15.7	16.4	13.4	13.9	15.4	18.6	13.7	14.3	17.7	21.5
Number of operating legal entities	thous	149.3	177.7	215.7	229.6	222.4	235.4	239.1	237.5	245.3	252.8	261.0	268.6
Number of employed in economic entities	thous	745.3	801.8	931.2	1045.1	1041.5	1127.4	1236.2	1349.0	1258.3	1276.2	1347	1386.9

Source: State Statistics Committee of the Republic of Uzbekistan

### Appendix 5.3.2. Ratio of SEs in Production Output by Sector of Economy (%)

Spheres of activity	2000	2001	2002	2003	04/I	04/I - II	04/I - III	2004	05/I	05/I - II	05/I - III	2005
Industry	14.0	14.5	15.9	10.9	9.8	10.6	10.8	10.1	8.4	8.3	9.1	9.8
Agriculture	73.6	74.5	74.9	78.1	93.2	86.7	82.3	81.1	93.6	88.0	85.5	84.7
Retail trade turnover	45.3	45.1	43.4	42.4	41.1	41.8	42.3	42.2	40.5	41.4	42.9	44.0
Paid services	37.9	40.5	41.3	45.4	42.9	45.3	46.9	47.9	42.1	48.1	50.9	52.0

Source: State Statistics Committee of the Republic of Uzbekistan

### Appendix 5.3.3. Ratio of SE Entities in Foreign Trade Activities of Uzbekistan

Indicators	Unit	2000	2001	2002	2003	04/I	04/I - II	04/I - III	2004	05/I	05/I - II	05/I - III	2005
Exports	%	10.2	9.3	7.5	6.9	8.7	5.1	7.1	7.3	4.6	4.8	5.8	6.0
Imports	%	27.4	26.9	24.9	33.0	29.4	30.9	31.6	32.7	29.4	31.4	32.4	33.7
Number of entities participating in foreign economic activities	thousands	2.8	2.5	2.7	3.2	1.8	2.6	3.2	3.8	2.0	3.0	3.5	3.9

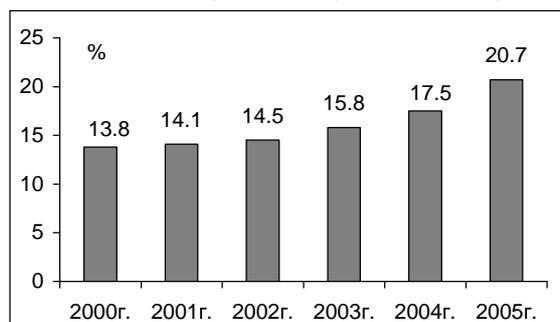
Source: State Statistics Committee of the Republic of Uzbekistan

## 6. Sectors of Economy

### 6.1. Industry

The successive implementation of market transformations – aimed at the creation and enhancement of the regulatory system of the financial and economic activity of the enterprises of the real sector – facilitated the positive dynamics of industrial development. In the final analysis of 2005, industrial output had increased by 7.3% compared to the previous year. Industrial enterprises produced output worth UZS 10913.4 billion. Industrial growth was supported by the favorable situation on the global market and the expansion of internal demand. Approximately 60% of the increase in industrial output was due to internal factors, including the growth of capital investments and the increased income of the population.

**Figure 6.1.1. Growth of the Added Value of the Industry in GDP (GDP = 100%)**



Source: The State Statistics Committee of Uzbekistan 2005.

The targeted policy to decrease the tax burden, the liberalization and unification of budgetary-and-tax policy and the simplification of the taxation system all enabled enterprises to increase profits and stabilize their financial condition. The index of growth in added value of industry accounted for 4.2%, leading to an increase in the share of industry in GDP structure from 17.5% to 20.7% (Figure 6.1.1). The effective promotion of small and private business in the sphere of import-substitution in reprocessing industries and the expansion of demand on the global market for the output of domestic light, food and mechanical engineering industries ensured the growing trend of increased production of finished products, which was a distinctive progressive feature in

Mechanical engineering retains its leading position in the dynamics of sectoral growth rates. The index of industrial growth of the output of mechanical engineering was 29.7% (Table 6.1.1).

**Table 6.1.1. Indices of Industrial Production**

	Index of Industrial Production (in % to the previous period)							
	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Industry	108.8	109.6	110.2	109.4	108.3	107.5	107.7	107.3
Power Industry	103	102.2	101.4	100.3	98.2	98.2	96.6	98.3
Fuel Industry	109.1	108.5	106.4	105.8	99.2	99.7	99.1	98.7
Ferrous Metallurgy	119.1	115.2	123.6	128.5	127.4	126.2	119.7	108.3
Non-ferrous Metallurgy	100.7	105.7	106.0	105.0	100.7	96.2	97.2	97.4
Chemical Industry	96.1	100.1	102.9	104.5	107.3	107.7	108.1	109.6
Mechanical Engineering	135.3	132	132.2	134.5	149.5	138.1	134.5	129.7
Timber, Wood-Working Industry	121.6	108.5	118.5	117.1	120.3	129.3	123.5	123.0
Building Materials	115.0	113.5	111.3	108.2	104.4	108.3	110.2	111.0
Light Industry	105.4	104.7	108.2	105.2	113.1	113.5	112.9	112.0
Food Industry	102.1	101.2	100.6	104.7	100.1	105.6	113.1	111.2
Other	141.0	141.6	132.3	121.7	106.1	106.3	110.8	111.5

Source: The State Statistics Committee of Uzbekistan.

The increase in demand for automobiles was the major contributor to the growth achieved in the mechanical engineering sector. This resulted from the intensive development of the domestic market, made possible by the growth of the population's income and the introduction of the system of consumer credits by commercial banks. The output of motor cars has increased by 44.2% (Table 6.1.2). According to data from 2005 for the joint-stock company "UzDaewooAvto", the share in total sales of automobiles sold through bank loans increased by 50-53%. According to predictive estimates, this indicator will reach 57-60% in 2006. Factors contributing to the intensive growth included the enhancement of vehicle details and characteristics and the decrease of output costs of the vehicles, due to the relatively high efficiency of a number of the implemented localization projects for spare parts production.

**Table 6.1.2. Indices of Growth of Production of Main Types of Industrial Products**

	Unit	Physical Output		Indices of Production (in % to the previous period)	
		2004	2005	2004	2005
Electric Power	Million kwh	49654	47581	101.9	95.8
<b>Fuel Industry</b>					
Oil and Condensate	'000 tons	6580.4	5449.3	92.2	82.8
Gas	Million m <sup>3</sup>	59865.0	59686.0	104.1	99.7
Liquefied Gas	'000 tons	197.2	211.6	122.8	107.3
Coal	'000 tons	2699	3002	141.8	111.2
Motor Gasoline	'000 tons	1359.5	1375.6	96.3	101.2
<b>Metallurgy</b>					
Steel	'000 tons	602.2	607.3	124.0	100.8
Rolled Ferrous Metals	'000 tons	550.7	562.2	123.3	102.1
<b>Mechanical Engineering</b>					
Tractors	Units	2865	2868	102.2	100.1
Excavators	Units	27	16	45.0	59.3
Cars:	Units	70070	101010	173.0	144.2
"Damas"	Units	9495	11917	136.4	125.5
"Tico"	Units	1133	-	18.9	-
"Nexia"	Units	39079	64639	162.8	165.4
"Matiz"	Units	19856	21531	6.1 times	108.4
"Lacetti"	Units	507	2923	164.1	5.8 times
Color TVs	Units	53345	107448	3.6 times	2.0 times
Isolated Cable	'000 tons	1.8	2.7	106.6	145.5
Air-Conditioners	Units	3001	3287	184.3	109.5
Washing Machines	Units	973	660	81.4	67.8
<b>Chemical Industry</b>					
Mineral Fertilizers	'000 tons	876.4	866.2	107.1	98.8
Nitrogen Fertilizers	'000 tons	736.1	765.0	104.6	103.9
Phosphate Fertilizers	'000 tons	140.2	101.5	122.8	72.4
Synthetic Ammonia	'000 tons	1019.1	1064.9	102.6	104.5
Sulphuric Acid	'000 tons	834.3	740.5	104.0	88.8
Synthetic Resins and Plastics	'000 tons	112.0	124.3	151.2	111.0
Chemical Fibers and Threads	Tons	9211	5456	62.0	59.2
Chemical Pesticides and Insecticides	Tons	5243	3175	132.8	60.6
Paint-and-Lacquer Materials	Tons	23405	31718	120.4	135.5
<b>Building Materials Industry</b>					
Walling	Million units	35.1	31.1	87.9	88.6
Cement	'000 tons	4803.7	5067.8	118.2	105.5
Asbestos Cement Sheets	Million tiles	351.4	397.3	111.7	113.1
Ceramic Tiles	'000 m <sup>2</sup>	446.4	470.0	86.5	105.3
<b>Light Industry</b>					
Cotton Fiber	'000 tons	976791	1187555	103.3	121.6
Cotton Yarn	'000 tons	154613	140912	99.6	91.1
Raw Silk Threads	Tons	691.4	564.4	117.9	81.6

Source: The State Statistics Committee of Uzbekistan.

The process of introduction of the credit system had a certain impact on the demand and consequent increase in the output of other products of mechanical engineering. The output of color TV sets doubled, while the output of air-conditioners increased by 9.5%. The further growth of the banks' activity in providing loans to the population for the purchase of consumer products will have a positive impact on curtailing the declining trend in the output of other electric devices such as refrigerators, deep-freezers, washing machines and other home appliances.

High growth rates in mechanical engineering were supported by the increase in physical output of cable products – by 30.2%, due to the efficient management of the industry. The growth of the output of such critical products as centrifugal pumps (by 8.8%), bridge cranes (by 54.5%), and elevators (by 2.3 times) has recovered. The development of the agricultural machinery sector, regarded as a basic solution to the technological problems of the agrarian sector of the economy, was characterized by dramatic fluctuations in the production rates of its main products. 2868 thousand tractors were produced in 2005, which was 0.1% more than in the previous year. At the same time, the production of cotton harvesters decreased. The implementa-

tion of the program on applying new technologies and modern agrarian equipment will have a positive impact on the operations of these industries and will increase their competitiveness, which in turn should strengthen the position of the local mechanical engineering industry in the domestic market.

The qualitative changes in the technology and structure of the production process supported the high growth rates in light industry. The growth index of production in light industry exceeded the level of the previous year by more than 200% and amounted to 12.0%. The production of ginned cotton increased in 2005 by 21.6%, which was a key factor in the improvement of the raw material basis of the reprocessing industries and the increase in income from the export of finished products. In the reviewed period, new manufacturing facilities for the production of 3.0 thousand tons of cotton yarn and 6.1 million running meters (*rm*) per year of cotton fabrics were put into operation. The increase in the solvent demand on the internal market also had a certain impact on the dynamic development of the textile, knitting, apparel and other processing industries. The output of knitted goods increased in 2005 by 1.4% and footwear - by 4.4%. At the same time in 2005 the impact of external factors on the character of the development of light industry continued to increase. This was due to the positive dynamics of external demand and the rise in price for ginned cotton on the global market.

In contrast, the development of the food industry in 2005 was characterized predominantly by factors of internal demand. The growth index of production amounted to 11.2%, which was 6.5% higher than the level of the previous year. The output of the following critical food products increased: vegetable oil by 16.1%, milk and dairy products by 24.1% and wine by 6.2%. The food industry maintained its position in the domestic consumer market, which is viewed as a positive performance outcome. The share of domestically-produced food products in the total volume of food resources grew in 2005 to approximately 94%. At the same time, the export potential of the industry was poorly exploited, especially in the fruit-and-vegetable processing industry. Although the growth of export revenue of the total industry amounted to 10.3% in 2005, the share of the food industry in the structure of exports remained at the level of 2004 and amounted to only 3.8%.

The woodworking industry is one of the dynamically developed industries that produce finished products. The output of furniture increased due to the high development rate of the woodworking industry, with a growth index of 23.0%. The application of new technologies, as well as the increase in output of assembled production based on foreign-made spare parts, had a certain impact on the development of this industry. Encouraging the population to buy domestically-made furniture by providing loans will facilitate further development of the furniture industry.

In general, the positive tendency in the development of the chemical industries in the reviewed period remained. The growth index of the value of output of chemical industry production amounted to 9.6%. The major factor in this growth was the increase in external demand. In 2005 the growth index of the export of chemical products was one of the highest and amounted to 23.9%. As a result of this, the share of chemical industry in the structure of exports increased from 4.7% to 5.3%. The increase in the value of output was provided by an increase in the output of nitrogen fertilizers – by 3.9%, synthetic ammonia – by 4.5%, synthetic resins and plastics – by 11.0% and paint-and-lacquer materials – by 35.5%. At the same time, there is still a downward trend in the supply of raw materials and non-competitiveness of many chemical products, which is the major constraint in the steady development of the chemical industry. Further development of the management system, as well as reform and privatization of the enterprises of the chemical industry, will help to halt the decline in output of such products as phosphate fertilizers, chemical fibers and threads, sulphuric acid, synthetic detergents and others.

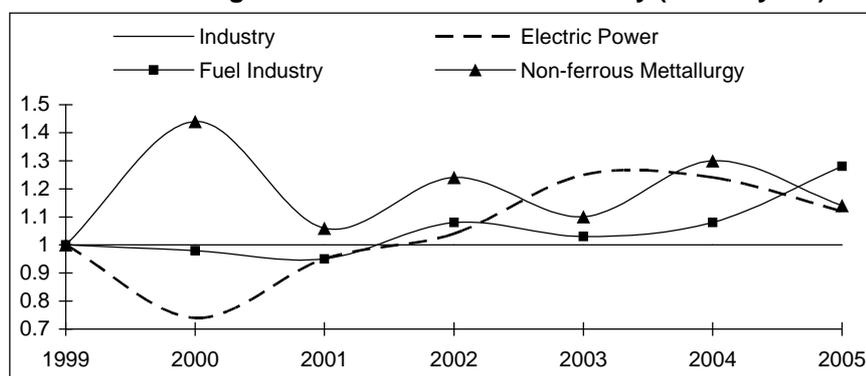
The dynamics of the building materials sector is correlated with the volume of construction. The positive dynamics of the building materials sector was affected by the high rates of construction of housing and social facilities. In 2005 the growth index of building materials production amounted to 11.0%. The technological procurement of production has been accompanied by an increase in the output of the main building materials: cement – by 5.5% and asbestos-cement sheets – by 13.1%. In 2005 due to an increase in their competitiveness, the downward trend in the production of ceramic tiles has been overcome. The production of ceramic tiles has been increased by 5.3%. The expansion of the private sector in the building materials industry has affected the output of building materials. Such large enterprises as the joint-stock company “AkhangaranCement” and the joint-stock company “BukharaGyps” and some others have been privatized.

In 2005 there was a tendency of declining growth rates in the resource and mining industries. The growth index of production in ferrous metallurgy amounted to 8.3%. The production of steel increased by 0.8%, and rolled ferrous metals by 2.1%. Non-ferrous production decreased by 2.6%. However, the favorable change of market-determined prices on the global market for ferrous and non-ferrous metals facilitated the retention of their leading position in the export structure of the country.

There was a downward trend in the value of fuel industry output, which decreased by 1.3%. This was related to the dynamics of the physical output of the main products. According to the results of 2005, there was an increase in the output of coal by 11.2%, liquefied gas by 7.3% and motor gasoline by 1.2%. An insignificant decline in gas output – by 0.3% – with regard to the previous year compensated for the fall in production of oil and condensate. The decline in the output of electric power (by 4.2%) with regard to the previous year resulted from the decrease in internal demand, which was caused by the increase in tariffs for electric power and the consequences of energy-conservation measures. Due to the increased stimulation of investments and the growth in volume of exploratory and recovery operations for oil and gas, as well as the promotion of the economic use of power and fuel resources, the further stable supply of all sectors of the economy with power and fuel is expected to continue.

The transformation of prices in the internal market markedly influenced the income and financial state of the power and fuel industries, as well as the shifts in the structure of industrial production. In 2005 the trend continued of increased prices and tariffs for power products in comparison with producers' prices. The price indices in the power industry surpassed the average prices of industrial producers by 15.2% and in the fuel industry - by 34.6% (Figure 6.1.2). The same tendency occurred in non-ferrous metallurgy, where the price increase amounted to 43.5% versus 25.6% in industry as a whole. The increase in price was supported by the high level of liquidity of the products of the resource industry. Due to this, the profitability level in ferrous metallurgy, non-ferrous metallurgy and the fuel industries was significantly higher than the average overall level in the industrial sector.

**Figure 6.1.2. Dynamics of Power, Fuel and Non-Ferrous Metallurgy Prices with regard to Overall Prices in Industry (Industry = 1)**



Source: The State Statistics Committee of Uzbekistan.

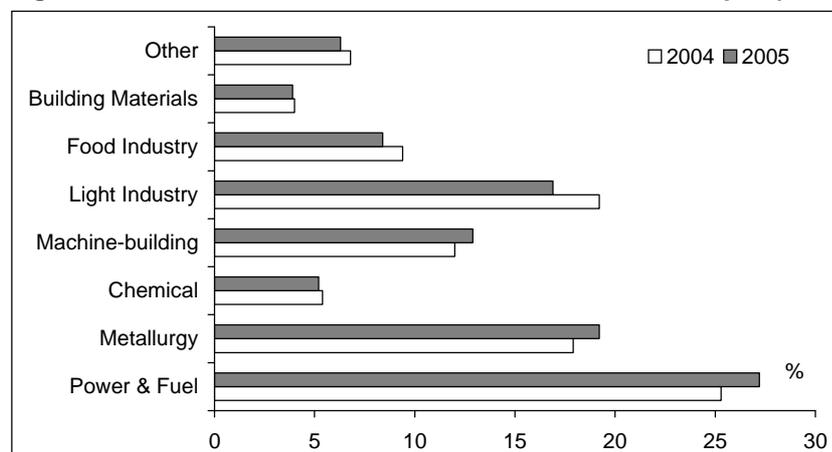
to 107.0%, versus 131.6% in 2004; in the woodworking industry – 100.5% versus 102.7%; in the chemical industry – 120.1% versus 125.2%; and in the building materials industry – 117.9% versus 120.9% respectively. The positive impact of this trend was to facilitate the suppression of the inflation wave triggered by the acceleration of the dynamic growth of prices and tariffs of natural monopolies. At the same time, in conditions of high costs, the advancing growth of tariffs had a significant impact on the decrease of the profitability level of production in these industries by 15-20%.

**Table 6.1.3. Producer Price Indices (PPI) (in % to the respective period of the previous year)**

	2000	2001	2002	2003	2004	2005
Industry	160.9	142.2	148.0	129.9	129.6	125.6
Power Industry	119.8	135.8	148.6	162.1	161.3	140.8
Fuel Industry	158.8	134.7	159.6	133.7	140.1	160.2
Ferrous Metallurgy	150.3	130.7	195.9	146.3	118.2	112.4
Non-Ferrous Metallurgy	232.3	150.6	183.0	142.7	169.4	143.5
Chemical Industry	150.7	142.9	147.8	134.5	125.2	120.1
Mechanical Engineering	175.2	146.0	151.1	108.8	105.5	105.7
Timber, Woodworking Industry	158.3	148.3	130.9	116.5	102.7	100.5
Building Materials	142.1	143.3	146.4	125.2	120.9	117.9
Light Industry	150.9	132.6	130.7	135.8	131.6	107.0
Food Industry	160.1	143.6	138.1	114.6	108.3	113.9

Source: The State Statistics Committee of Uzbekistan

The structural shifts in industry were formed mostly under the influence of the advancing growth of prices for the products of the resource and mining industries. In the reviewed period, the share of the power and fuel industries increased from 25.3% to 27.2% and of the metallurgy industry from 17.9% to 19.2% (Figure 6.1.3).

**Figure 6.1.3 Structural Transformations in Industrial Output (in %)**

Source: The State Statistics Committee of Uzbekistan.

The rise in the share of mechanical engineering from 12.0% to 12.9% became a positive factor for the development of the industry. The restrained dynamics of price increases caused a decline in the share of light industry from 19.2% to 16.9%, and in the food industry from 9.4% to 8.4%. The share of the chemical industry was not more than 5.2%, while building materials made up 3.9% (Table 6.1.4).

The further development of market reforms aimed at enhancing the development of the mechanical engineering and light industries

– primarily the cotton and apparel industries – will be the priority in the structural reconstruction of the industrial sector of the economy in 2006. The anticipated increase in active income of the population in 2006, as well as the enhancement of the system of consumer credits, will facilitate an increase in the output of the consumer goods industries. This, in turn, implies an increase in the contribution of internal demand to industrial growth. At the same time, against the background of the dynamic growth of consumer demand, the improvement of external factors for industrial development – caused by favorable market-determined prices on the global market for the primary industrial export products – is also expected. Appropriate steps taken towards the priority goals of the reconstruction of the economy and the optimization of the tax-and-budgetary, money-and-credit and pricing policies of the country will facilitate qualitative shifts in the development of the industrial sector of the economy. Further reform and structural conversion of industrial enterprises, as well as the introduction of market principles of management, will play an important role in industrial development.

**Table 6.1.4 Structural Transformations in Industrial Output (current prices)**

	04/I	04/I-II	04/I-III	2004	05/I	05/I-II	05/I-III	2005
Industry	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Electric Power	10.4	10.4	11.1	11.9	11.1	11.2	11.5	10.9
Fuel Industry	12.6	13.2	13.7	13.4	15.8	16.0	16.1	16.3
Ferrous Metallurgy	2.0	2.4	2.6	2.5	2.4	2.6	2.6	2.3
Non-Ferrous Metallurgy	14.7	16.1	16.1	15.4	15.6	16.4	16.8	16.9
Chemical Industry	5.2	5.7	5.9	5.4	5.0	5.3	5.5	5.2
Mechanical Engineering	10.8	11.8	11.9	12.0	12.3	13.3	13.1	12.9
Timber, Woodworking Industry	0.9	0.8	0.9	0.9	0.8	0.8	0.8	0.9
Building Materials	3.6	3.9	4.2	4.0	2.9	3.5	3.9	3.9
Light Industry	25.1	21.1	18.8	19.2	21.8	18.3	16.2	16.9
Food Industry	9.2	9.0	8.7	9.4	7.4	7.7	8.0	8.4
Other	5.5	5.6	6.1	5.9	4.9	4.9	5.5	5.4

Source: The State Statistics Committee of Uzbekistan.

The significant expansion of the private property sector, as well as the arrangement of favorable conditions for business in the field of industrial production, are considered to be the major factors for further industrial development.

## 6.2. Consumer Goods Market

In 2005 positive tendencies continued in the consumer goods market of the Republic of Uzbekistan. The market developed under conditions of growth in real money incomes (22%), the implementation of measures aimed at providing the domestic market with goods of national producers, localized production, and support for small businesses.

The sustainable increase of production was ensured by the government's provision of privileges and preferences for national producers on the one hand, and by the implementation of measures aimed at the stimulation of consumer demand, on the other. The development of domestic production was ensured by provision of the following:

- additional privileges for entrepreneurs through the introduction of a single tax at the level of 13% to replace the previously used system of taxation in the form of gross payment at the level of 15.2%.

- stimulating benefits in accordance with Resolution # 390, of the Cabinet of Ministers of the Republic of Uzbekistan from November 13, 2002 "On measures to stimulate the provision of the market with consumer goods and to improve relations between producers and trading entities". In addition, solvent consumer demand was stimulated by the introduction of a system of consumer crediting.

As a result, the growth of consumer goods production reached 17.7%, including 10.1% in foodstuffs production and 25.5% in non-foodstuffs production (Table 6.2.1, Graph 6.2.1).

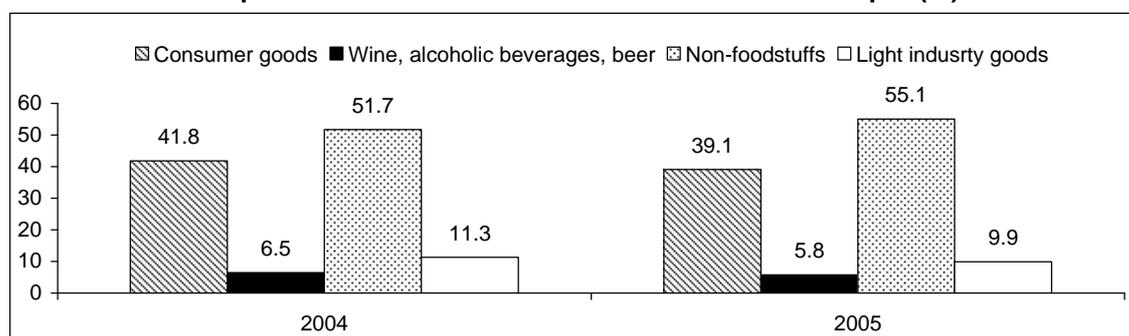
**Table 6.2.1. Consumer Goods Output (% to the respective period of the previous year)**

	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Consumer goods	113.4	117.7	114.9	114.4	113.3	116.4	117.1	119.4
Foodstuffs	109.9	110.1	117.6	112.8	111.2	100.2	107.0	112.4
Wine, Alcoholic beverages, and Beer	100.9	104.1	101.7	104.5	100.2	106.5	101.4	105.2
Non-foodstuffs	118.6	125.5	114.2	117.3	117.1	133.6	128.0	126.7
Light Industry Goods	99.4	103.2	101.8	105.5	103.5	98.3	97.2	98.7

Source: State Statistics Committee of Uzbekistan

As a result of a significant increase in the production of non-foodstuffs, the macrostructure of production changed positively in favor of industrial goods. Their share in the total volume of production in 2005 increased by 3.4% in comparison to the level of 2004 and accounted for 55.1%.

**Graph 6.2.1. Macrostructure of Consumer Goods Output (%)**



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

During the period under review, growth of production was observed in 10 out of 20 kinds of consumer goods recorded by statistics, including non-alcoholic beverages (by 8.9 times mainly due to the growth of production at the "Coca Cola" company in 2004), confectionery (by 1.6 times due to the introduction of market mechanisms for selling raw-material resources at commodity exchange transactions), milk and dairy products (124.1% due to the increase in the number of firms that produce domestically made butter), vegetable oil (by 116.1% due to the decrease in excise taxes and consequent increase in the price compatibility of vegetable oil and products made from it (Table 6.2.2, Annex 6.2.2).

Measures implemented to decrease the level of smuggling of alcoholic products stimulated significant growth of production and sales of that product; while measure implemented to limit the import of unpackaged tea, which previously was sold on the domestic market as a final good, stimulated growth in the domestic production of quality tea by the Samarkand tea-packaging plant and other small enterprises operating in that area. The harvest of raw materials and agricultural reforms have allowed domestic producers more free access to raw-material sources, which positively affects the volume of foodstuff production (cereals, fruit juices, etc.).

Certain types of foodstuffs that are of low quality in comparison to analogous imports reduce consumer demand and consequently the production of those products in the domestic market (cheese, including brynza, canned food) (Table 6.2.2 and Annex 6.2.2). It must be noted that a significant portion of such products is produced by small enterprises, the production volumes of which are not recorded by statistics at the end of the year.

The decline in the production of textile fabrics is due to the reduced production of cotton yarn. Decline in the production of silk fabrics was due to a reduction of production volumes of raw-silk threads. In 2005 there were on-going re-equipment and reconstruction processes in the textile and silk industries.

**Table 6.2.2. Output of Major Types of Consumer Goods by Industrial Enterprises of Uzbekistan (in % to the previous year)**

	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Cotton Fabrics	82.0	73.4	86.2	85.2	85.6	83.4	76.5	72.3
Silk Fabrics	91.4	68.6	104.6	93.9	91.9	88.9	81.1	70.3
Carpets and Carpet Goods	140.2	81.9	103.6	148.9	155.4	102.8	94.6	82.9
Hosiery	110.0	100.0	104.3	101.4	101.0	157.0	82.0	100.6
Knitwear Goods	95.9	101.4	91.3	84.8	84.5	102.4	114.8	105.7
Footwear	81.9	104.4	68.0	76.1	73.8	105.7	109.7	102.3
Milk and Dairy Products	183.4	124.1	2.2 p	167.8	188.4	88.6	111.9	124.2
Canned Goods	80.9	90.6	114.2	110.2	77.8	183.8	151.6	96.5
Sugar	78.0	75.6	149.8	93.8	72.4	44.6	58.9	99.5
Flour	145.6	89.2	2.3 p	2.1p	182.0	88.7	85.7	86.3
Bread and Baked Goods	89.0	77.7	75.4	84.7	85.3	83.9	78.1	76.4
Pasta	110.1	90.5	123.3	105.0	109.2	41.6	70.9	81.4
Vegetable Oil	100.5	116.1	86.4	86.7	88.6	114.1	123.8	122.3
Wine	59.9	106.2	74.6	64.0	62.8	90.3	91.5	106.1
Vodka and Liquors	107.1	100.2	99.2	109.1	108.0	104.3	92.7	97.2
Soft Drinks	26.9	8.9 times	5.5	10.8	13.5	11.1 times	10.9 times	12.7 times
Cigarettes	94.6	85.3	85.0	91.2	95.9	93.9	87.4	86.9

Source: State Statistics Committee of Uzbekistan

In 2005, production of consumer goods increased in almost all regions of the country, except for Surkhandarya region. Especially high growth was observed in Andijan region (147.3%) followed by Jizzakh (119.0%) and Kashkadarya (111.4%) regions, the Republic of Karakalpakstan (112.9%) and Tashkent city (115.1%). The government's implementation of measures to provide support for the development of small businesses played a significant role in those achievements.

**Table 6.2.3. The Growth of Consumer Goods Output by Region (% to the respective period of the previous year)**

	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Uzbekistan	113.4	117.7	114.9	114.4	113.3	116.4	117.1	119.4
Republic of Karakalpakstan	110.3	112.9	119.0	122.8	119.4	117.1	107.0	111.3
Andijan	145.3	147.3	133.3	136.4	136.0	180.3	159.6	157.5
Bukhara	107.8	107.8	107.8	107.6	108.9	104.7	104.8	100.5
Jizzakh	115.2	119.0	113.0	117.8	120.5	120.6	117.7	113.5
Kashkadarya	117.1	111.4	127.0	124.7	115.2	107.8	110.7	110.8
Navoi	97.3	103.9	107.3	106.4	101.4	98.3	100.6	100.4
Namangan	110.4	107.7	124.7	116.1	116.2	112.1	107.0	109.7
Samarkand	109.9	105.5	100.3	102.0	112.4	110.1	100.7	104.2
Surkhandarya	115.2	94.7	129.5	124.1	132.6	101.8	95.1	91.1
Sirdarya	107.5	100.2	108.0	115.3	114.9	109.9	99.1	100.0
Tashkent	111.7	109.9	106.6	111.1	112.9	107.7	106.2	115.7
Fergana	119.2	108.9	113.2	122.4	119.5	115.8	113.0	108.6
Khorezm	101.4	104.1	96.6	102.5	101.5	96.5	106.5	105.9
Tashkent City	103.4*	115.1	115.7	101.5	103.1	107.4*	103.7	121.0

Source: State Statistics Committee of Uzbekistan

In the territorial breakdown of production of consumer goods there were no significant changes in comparison to the previous year. Industrially developed regions such as Tashkent city (16.2%), Andijan region (27.6%), Tashkent (10.3%), Samarkand (8.7%), Fergana (9.0%) and Bukhara (7.5%) regions continued to have a large share in the production of consumer goods.

During the period under review a tendency towards increase in the export of consumer goods was observed (47.1%), including food-stuffs (41.7%), alcoholic and soft drinks (59%), and non-foodstuffs (41.6%). Such commodities as passenger cars, cotton fabrics, canned vegetables, juices, wine, fresh tomatoes, cabbage, onions, pepper, dried vegetables, fresh and dried grapes, melons, apricots, wheat flour, flour and baked goods, vegetable oils, ethyl alcohol, raw tobacco and cigarettes had a major share in exports. Foodstuff imports included such commodities as sugar and flour, while non-foodstuff imports consisted of such commodities as ready garments, footwear, medicine, home appliances and other products that are not produced domestically (Table 6.2.5, Table 6.2.6).

**Table 6.2.4. Breakdown of Consumer Goods Output by Region (%)**

	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
R. of Uzbekistan	100.0	100	100.0	100.0	100.0	100.0	100.0	100.0
R. of Karakalpakstan	1.8	1.7	2.0	2.0	1.8	2.0	1.8	1.7
Andijan Region	22.0	27.6	18.3	21.2	21.3	28.3	28.9	28.1
Bukhara Region	8.2	7.5	8.9	8.6	8.6	8.0	7.7	7.2
Jizzakh Region	2.7	2.8	2.7	2.9	2.8	2.8	2.9	2.7
Kashkadarya Region	4.4	4.1	4.4	4.3	4.0	4.1	4.1	3.7
Navoi Region	9.7	1.9	2.2	2.1	2.2	1.9	1.8	1.8
Namangan Region	4.6	4.1	4.5	4.3	4.3	4.4	4.0	4.0
Samarkand Region	9.2	8.7	9.3	9.7	10.0	8.8	8.3	8.7
Surkhandarya Region	2.9	2.3	2.7	2.9	2.8	2.3	2.3	2.1
Sirdarya Region	1.7	1.4	1.6	1.6	1.6	1.5	1.4	1.3
Tashkent Region	11.0	10.3	10.3	10.8	11.7	9.5	9.8	10.7
Fergana Region	9.8	9.0	9.1	9.6	10.1	9.1	9.2	9.2
Khorezm Region	2.7	2.4	3.1	2.9	2.6	2.6	2.6	2.3
Tashkent City	16.6*	16.2	20.9	17.1	16.2	14.7	15.2	16.4

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

**Table 6.2.5. Exports and Imports of Consumer Goods (USD mill.)**

	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Exports, total	4853.0	5408.8	1210.0	2419.9	3526.7	1327.9	2823.3	3869.5
consumer goods	472.4	669.5	87.6	199.8	333.7	148.6	319.2	502.2
including: food-stuffs	111.3	158.2	23.7	46.3	75.4	24.2	61.9	117.5
Alcoholic and soft drinks and vinegar	3.4	5.4	0.6	1.4	2.1	1.1	3.4	4.3
Non-foodstuffs	361.1	511.2	63.9	153.5	158.4	124.4	257.3	384.6
Imports, total	3816.0	4091.3	8742.0	1730.8	2711.4	965.4	2015.3	2968.5
consumer goods	638.6	733.4	154.7	319.1	470.1	158.7	346.5	524.4
including: food-stuffs	1.9	0.6	0.4	0.9	1.5	0.3	0.6	0.6
Alcoholic and soft drinks and vinegar	472.1	537.1	102.1	228.6	349.3	113.7	248.9	383.5

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

**Table 6.2.6. Exports and Imports of Consumer Goods (in% to previous period)**

	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Exports, total	130.3	111.5	131.5	125.2	134.6	109.7	116.7	109.7
consumer goods	145.9	141.7	140.7	136.9	143.8	169.6	159.8	150.5
including: food-stuffs	132.9	142.1	150.0	137.7	134.8	102.4	133.6	156.0
Alcoholic and soft drinks and vinegar	81.3	159.0	41.6	50.7	64.2	171.8	2.4 p	2 p
Non-foodstuffs	150.5	141.6	137.5	136.6	146.7	194.6	167.7	148.9
Imports, total	128.7	107.2	134.6	123.5	128.8	110.4	116.4	109.5
consumer goods	106.8	114.8	124.3	110.7	110.8	102.6	108.6	111.5
including: food-stuffs	87.4	117.3	107.5	89.8	90.3	85.7	107.9	116.7
Alcoholic and soft drinks and vinegar	130.4	33.2	161.9	154.7	142.8	78.7	62.0	38.0
Exports, total	115.8		135.1	121.9	120.2	111.3	108.9	109.8

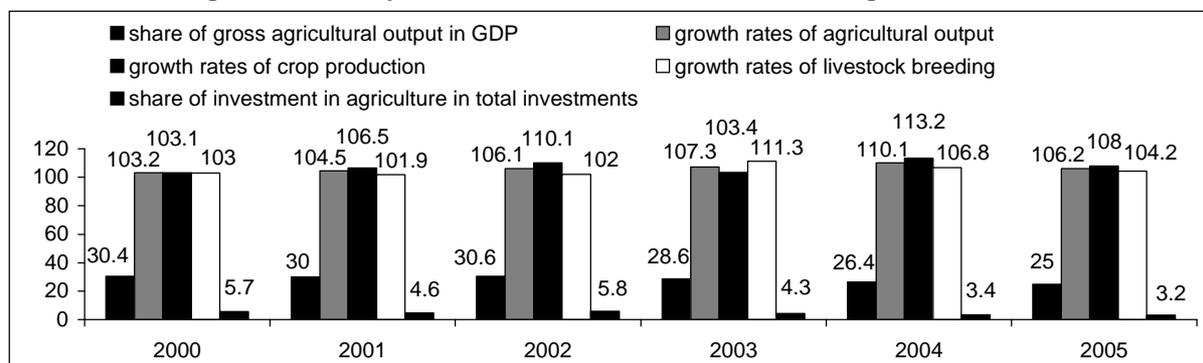
Source: The author's calculations based on data from the State Statistics Committee of Uzbekistan

In general, the maintenance of the tendency of development of the consumer market was closely related to the introduction of stimulating measures aimed at increasing domestic and foreign demand through ensuring the growth of the real income of the population, increasing the compatibility of sectors of the consumer goods complex by reducing expenses, and increasing the quality and variety of produced goods.

As a result, the level of saturation of the market with products of domestically produced foodstuffs amounted to more than 94%, while the same indicators for non-foodstuffs 82.0%.

### 6.3. Agrarian Sector

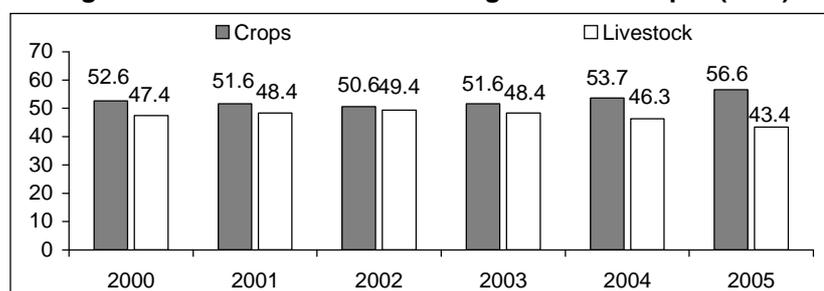
Significant changes in the agrarian sector of the economy have resulted from structural transformations, an increase in the number of farm entities and their preferential crediting, timely financial support and the efficient application of material and technical resources. In 2005 gross agricultural output increased from UZS 4521.8 billion to UZS 5395.5 billion or 6.2% (Figure 6.3.1).

**Figure 6.3.1. Key Macroeconomic Indicators of the Agrarian Sector**

Source: The State Statistics Committee of Uzbekistan

In the structure of gross agricultural output the share of crop cultivation increased from 53.7% to 56.6%, while the share of livestock breeding decreased from 46.3% to 43.4% respectively. This resulted from advanced growth rate of output for crops (an increase of 8.0%) compared to the growth rate of output from livestock breeding (4.2%) (Figure 6.3.2). In recent years the share of agriculture in GDP has decreased from 30% in 2001 to 25% in 2005, which is a natural process linked to the acceleration and promotion of industrial development.

Significant transformations have occurred in the structure of areas under crop. The total sown area has decreased by 48.2 thousand hectares compared to the level of 2004. The sown area under grain crops has decreased by 51.0 thousand hectares, and under rice – by 15.2 thousand hectares. The area under industrial crops has slightly decreased, i.e. by 100 hectares. Meanwhile the sown area under cotton has decreased by 16.0 thousand hectares, and the sown areas under potatoes, vegetables and melons have decreased by 3.1 thousand hectares. There has been a positive shift towards an increase in the sown area under fodder crops – by 6.1 thousand hectares. On the whole, the current transformations in the structure of the sown areas are related mostly to the increase in the number of farming entities.

**Figure 6.3.2. Structure of Gross Agricultural Output (in %)**

Source: The State Statistics Committee of Uzbekistan

**Table 6.3.1. Structural Transformations in Cultivated Areas by Type of Economic Entity for 2004 – 2005 ('000 hectares)**

	2004				2005			
	All Types of Entities	Agri-enterprises	Farming Entities	Dekhkan (Peasant) Farms	All Types of Entities	Agri-enterprises	Farming Entities	Dekhkan (Peasant) Farms
Total Sown Area	3695.7	1499.8	1762.6	433.3	3647.5	1064.9	2140.7	441.9
Grain Crops	1667.1	661.4	805.3	200.0	1616.1	475.9	932.0	208.2
Wheat	1470.4	594.0	715.1	161.3	1439.7	422.8	845.8	171.1
Rice	66.1	22.9	40.0	X	52.5	13.5	35.7	3.3
Grain Corn	34.8	5.8	8.3	20.7	33.6	5.5	8.9	19.2
Industrial Crops	1518.5	691.5	816.6	10.4	1518.4	473.4	1034.9	10.1
Cotton	1456.3	663.1	793.2	X	1472.3	456.9	1015.4	X
Potatoes, Vegetables and Melons	225.9	31.2	36.8	157.9	222.8	22.9	39.5	160.4
Potatoes	52.1	3.7	3.3	45.1	49.8	1.9	2.9	45.0
Vegetables	137.6	21.2	19.0	97.4	137.7	16.6	21.7	99.4
Melons and Gourds	34.7	5.0	14.4	15.3	33.9	3.3	14.8	15.8
Fruit and Berries	203.1	92.8	38.6	66.7	208.2	85.4	54.9	67.9
Grapes	117.1	62.9	16.8	32.4	120.7	62.5	24.3	33.9
Fodder Crops	284.2	115.3	104.0	64.9	290.3	92.8	134.3	63.2

Source: The State Statistics Committee of Uzbekistan

In the context of economic entities the share of shirkats (agri-enterprises) continued to decrease, while the share of farming entities in the total sown area increased dramatically due to the restructuring of low-profitable and loss-making shirkats (agri-enterprises) into farming entities. In 2003 the share of farming entities in the total sown area amounted to 36.9% and in 2005 this indicator increased to 59.3%. Meanwhile the share of dekhkan farms increased from 11.7% (2004) to 12.1% (2005). The share of shirkats (agri-enterprises) dropped sharply from 40.5% in 2004 to 29.2% in 2005.

The year 2005 was quite favorable for agricultural production. The development of farms, favorable weather conditions, and the timely supply of mineral fertilizers, fuel and lubricants and agricultural machinery facilitated the growth of agricultural production and crop capacity. In recent years an increase in the output of raw cotton was observed. In 2005 the harvest of raw cotton amounted to 3749.0 thousand tons, which was 212.2 thousand tons more than in 2004. The State Order for raw cotton was fulfilled by all regions except Surkhandarya region and the average crop capacity was 25.5 centners per hectare. This has been facilitated mainly by the increase in raw cotton production by farming entities.

In 2005 the grain harvest amounted to 6540.9 thousand tons in all types of entities, which was 532.1 thousand tons higher than in the respective period of 2004. In accordance with the State Order, 2613.4 thousand tons of grain were sold to the State which was 172.1 thousand tons higher than in the respective period of the previous year.

In 2005 the output of potatoes increased by 28.5 thousand tons, the output of vegetables increased by 181.4 thousand tons, the output of melons and gourds increased by 42.8 thousand tons, the output of fruit and berries increased by 97.6 thousand tons and the output of grapes increased by 52.5 thousand tons (T. 6.3.2).

**Table 6.3.2. Breakdown of the Gross Yield by Crop and by Type of Entity ('000 tons)**

Product	2004				2005			
	All Types of Entities	Agri-enterprises	Farming Entities	Dekhkan (peasant) Farms	All Types of Entities	Agri-enterprises	Farming Entities	Dekhkan (peasant) Farms
Cotton	3536.8	1711.7	1825.1	X	3749.0	1263.9	2485.1	X
Grain	6000.8	2204.3	2280.5	1023.8	6540.9	1792.2	3625.7	1120.7
Wheat	5507.6	2090.0	2585.8	831.8	5927.8	1641.3	3353.6	932.9
Rice	188.1	54.4	105.7	28.0	165.8	37.7	98.3	29.8
Potatoes	895.7	47.7	44.5	803.5	924.2	27.5	45.9	850.8
Vegetables	3336.1	368.5	389.7	2577.9	3517.5	321.2	480.3	2716.0
Melons and Gourds	572.5	47.1	174.1	351.3	615.3	33.1	202.7	376.5
Fruit and Berries	851.7	220.6	109.9	521.2	949.3	207.3	175.5	566.5
Grapes	589.1	270.0	59.7	259.4	641.6	252.8	89.3	299.5

Source: The State Statistics Committee of Uzbekistan

Favorable weather conditions had a positive impact on the productivity of the major crops of all types of entities. Among all other economic entities, dekhkan farms still have the relatively highest crop capacity (Table 6.3.3).

**Table 6.3.3. Breakdown of Crop Capacity by Type of Entity (centner/hectare)**

Product	2004				2005			
	All Types of Entities	Agri-enterprises	Farming Entities	Dekhkan (peasant) Farms	All Types of Entities	Agri-enterprises	Farming Entities	Dekhkan (peasant) Farms
Raw Cotton	24.5	26.0	23.3	X	25.5	27.7	24.5	X.
Grain	35.4	33.0	33.9	49.4	39.8	37.3	38.3	52.2
Wheat	37.0	34.9	35.8	52.0	41.5	39.6	39.7	54.5
Rice	22.7	24.1	28.1	47.0	31.8	30.4	30.7	47.6
Potatoes	157.5	103.7	120.3	164.4	170.3	109.7	132.5	175.2
Vegetables	203.1	151.8	172.4	219.8	215.8	168.1	181.6	230.7
Fruit-and-Berries	58.2	34.9	45.4	88.7	62.3	36.8	50.5	92.2
Food-Melons and Gourds	157.0	100.6	125.8	200.9	169.1	104.9	134.0	213.4
Grapes	60.8	49.7	47.5	86.8	64.7	50.5	51.0	94.7

Source: The State Statistics Committee of Uzbekistan

The export of vegetables and fruit expanded considerably. During the current year all types of agricultural economic entities shipped 590.3 thousand tons of fresh fruit, vegetables and grapes (farming entities – 47.5 thousand tons, peasant and household farms – 541.7 thousand tons) outside the country, which was 62 thousand tons more than in the respective period of the previous year.

In 2005 the situation in livestock breeding has improved compared to previous years and an increase in all kinds of livestock population and their output was observed. The increase in livestock breeding output amounted to 4.2%. The population of cattle amounted to 6534.9 thousand heads or increased by 4.6% compared to the respective period of the previous year, while the population of sheep and goats amounted to 11248.4 thousand heads (an increase of 6.3%) and the population of poultry amounted to 20670.6 thousand heads (an increase of 9.7%). The increase in livestock breeding output was facilitated by the increase in the output of farming entities and dekhkan farms (Table 6.3.4).

**Table 6.3.4. Breakdown of Livestock and Poultry Population by Type of Entity ('000 heads)**

	2004				2005			
	All Types of Entities	Agri-enterprises	Farming Entities	Dekhkan (peasant) Farms	All Types of Entities	Agri-enterprises	Farming Entities	Dekhkan (peasant) Farms
Cattle	6242.7	232.7	311.9	5698.1	6534.9	177.2	330.2	6027.5
Sheep and Goats	10579.9	2451.7	419.5	7708.7	11248.4	2429.5	499.3	8319.6
Pigs	86.7	22.4	15.1	49.2	87.6	18.5	13.6	55.5
Poultry	18833.7	5224.9	767.8	12841.0	20670.6	5347.6	754.8	14568.2

Source: The State Statistics Committee of Uzbekistan

**Table 6.3.5. Breakdown of Productivity of Livestock Breeding by Type of Entity**

Indicators	Unit	2004			2005		
		Agri-enterprises	Farming Entities	Dekhkan (peasant) Farms	Agri-enterprises	Farming Entities	Dekhkan (peasant) Farms
Milk Yield (per cow)	kg	734	975	1714	667	977	1742
Wool Shear (per animal)	kg	1.7	1.4	2.4	1.5	1.8	2.6

Source: The State Statistics Committee of Uzbekistan

In 2005 agricultural entities produced 1060.4 thousand tons (live weight) of meat, which was 62.1 thousand tons more than in 2004 (an increase of 6.2%), as well as 4554.7 thousand tons of milk (an increase of 6.4%), 1966.4 million units of eggs (an increase of 5.7%) and 20.1 thousand tons of wool (an increase of 5.6%) (Table 6.3.5).

**Table 6.3.6. Breakdown of Main Types of Livestock Produce by Type of Entity**

	Unit	2004				2005			
		All Types of Entities	Agri-enterprises	Farming Entities	Dekhkan Farms	All Types of Entities	Agri-enterprises	Farming Entities	Dekhkan Farms
Meat (live weight)	'000 tons	998.3	37.8	22.6	937.9	1060.4	21.0	22.6	1001.3
Milk	'000 tons	4280.5	64.1	88.8	4127.6	4554.7	50.8	94.8	4409.1
Eggs	million units	1860.3	782.3	77.4	1000.6	1966.4	729.3	71.5	1165.6
Wool	tons	19.0	3.9	0.4	14.7	20.1	3.5	0.6	16.0
Astrakhan Pelts	'000 units	674.8	336.0	16.0	322.8	675.2	259.9	24.8	390.5
Silk Cocoons	tons	16.8	12.6	4.3	X	16.2	9.3	6.9	X

Source: The State Statistics Committee of Uzbekistan

Over the concerned period the export of astrakhan pelts and rough unwashed wool amounted to USD 1519.4 thousand.

1768 veterinary stations and 532 veterinary pharmacies were founded, to improve services. Veterinary services were provided in the amount of more than UZS 615.9 million, and veterinary medications were sold in the amount of UZS 1084.7 million.

The share of farming entities in gross agricultural output increased from 18.6% to 24.5% due to the prioritized development of farmers. As of 1 January 2006 there were 125.7 thousand farming entities operating in the Republic of Uzbekistan, an increase of 21.7 thousand over the previous year. Farming entities were assigned 3775.3 thousand hectares of land, including 2139.7 thousand hectares of cultivated areas. The share of farms in the structure of total cultivated areas was 59.3%. The share of the sown area of farms, divided according to specific type of crops, accounted for: grain crops – 57.7%, industrial crops – 68.1% and fodder crops – 46.3% respectively. Nonetheless the shares of the sown area under potatoes (17.7%) and fruit and berries plantations (26.4%) remains relatively small. On the whole, in recent years there is a tendency towards an increase in the sown areas assigned to farming entities. Along with this, the number of those em-

ployed on farms has increased and this number amounted to 954.2 thousand people over the period concerned. This is 188.9 thousand people more than in the respective period of the previous year. The average land area per farm was 30.0 hectares (Table 6.3.7).

**Table 6.3.7. Key Performance Indicators of Farming Entities**

Indicator	Unit	2004	2005
Number of Farm Entities	units	103921	125668
Assigned Land Area	'000 hectares	2935.4	3775.3
Average Land Plot per Farm	hectares	28.2	30.0
Total Employed on Farms	'000 people	765.3	954.2
Average Staff per Farm	people	7.4	7.6
Share of Farms in Gross Agricultural Output	%	18.6	24.5
- Crops	%	32.9	41.4
- Livestock	%	2.6	2.5
Growth Rate of the Output	%	141.2	131.7
- Crops	%	142.9	133.6
- Livestock	%	118.0	103.0

Source: The State Statistics Committee of Uzbekistan

raw cotton, which was 660 thousand tons more than in the previous year and represented 66.3% of the total crop, and wheat – 3353.6 thousand tons, which was 832.1 thousand tons more than in the previous period. Farming entities produced 56.6% of the total wheat crop.

The following facilities were established on the territory of the reorganized farms: 188 mini-banks (260 in 2004), 226 outlets for the supply of fuel and lubricants (332), 200 outlets for the supply of mineral fertilizers (176), 420 alternative MTPs – machine and tractor fleets (410), 298 Associations of Water Users (235) and 76 (174) outlets for the procurement and sale of agricultural produce, which also provide extension services to newly established farms on a contractual basis.

The development of dekhkan (peasant) farms was not as prominent as that of farming entities; meanwhile they remain the major producers of agricultural output. The share of dekhkan entities in the structure of agricultural produce remained the largest at 60.2% (62.1% in 2004). Dekhkan entities use 12.1% of the total sown area for agricultural crops and their average area is 0.21 hectares.

**Table 6.3.8. Key Performance Indicators of Dekhkan (Peasant) Entities**

Indicators	Unit	2004	2005
Number of Dekhkan Entities	'000 units	4482.0	4544.0
Assigned Land Area	'000 hectares	676.2	988.5
Share of Dekhkan Entities in Gross Agricultural Output	%	62.1	60.2
- Crops	%	35.4	35.5
- Livestock	%	91.8	92.5
Growth Rate of the Output	%	109.4	106.5
- Crops	%	114.2	109.9
- Livestock	%	107.3	105.0
Average Land Plot per Dekhkan Entity	hectares	0.15	0.22

Source: The State Statistics Committee of Uzbekistan

is related to the ongoing reform and restructuring of low-profitable and loss-making shirkats. During 2005, the total number of shirkats reorganized into farms reached 447. The share of shirkats in gross agricultural output decreased from 19.3% in 2004 to 15.3% in 2005.

There are 894 Associations of Water Users in the Republic of Uzbekistan. They render services to maintain 2.5 million hectares of land area. This includes 946.6 thousand hectares under cotton, 692.0 6 thousand hectares under cereal crops and 861.4 6 thousand hectares under other crops. In 2005, in order to satisfy the need for agricultural equipment, 2023 tractors were supplied on a leasing basis.

The growth rate of the output of farming entities is quite stable. It was 131.7% in 2005 versus 141.2% in 2004. In crop cultivation, growth rates fell from 142.9% in 2004 to 133.6% in 2005 and in livestock breeding they decreased from 118.0% to 103.0% respectively. The share of farms in crop cultivation grew to 41.4%, while their share in livestock breeding remained low, only 2.5% (Table 6.3.7).

Over the period concerned, farms produced 2485.1 thousand tons of

The productivity of livestock breeding and the efficiency of the irrigated areas in dekhkan entities is 1.3–1.5 times higher than in shirkats and farming entities. Over the period concerned and over the previous years the crop capacity of all types of crop cultivation, as well as the productivity of livestock breeding, remained the highest in dekhkan entities (Table 6.3.8).

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 population. This

**Table 6.3.9. Key Performance Indicators of Agri-Enterprises (Shirkats)**

Indicators	Unit	2004	2005
Share of Agri-Enterprises in Gross Agricultural Output	%	19.3	15.3
- Crops	%	31.6	23.1
- Livestock	%	5.5	5.0
Growth Rate of the Output	%	91.3	80.7
- Crops	%	89.9	79.2
- Livestock	%	98.4	92.2
Sown Area	'000 hectares	1499.8	1064.7

Source: The State Statistics Committee of Uzbekistan

It is essential in 2006, first, to complete the reorganization of 657 shirkats into farms, including those 447 specialized in cotton-growing and grain-crop cultivation, and the 210 shirkats specialized in fruit and vegetable cultivation. The development and strengthening of farm entities, as well as the implementation of fundamental reforms in rural areas, must be based on the commitment of the farmers, the enhancement of the contractual relationship between the customers and the suppliers and the establishment of efficient cooperation for the processing of agricultural production by the farmers. It is also crucial to encourage an increase in the livestock population (mainly in cattle), in personal subsidiary plots, dekhkan and farm entities;

**Table 6.3.10. Contribution of Agri-Enterprises (Shirkats) to Agricultural Output**

Product	Unit	2004	2005
Grain	'000 tons	2130.4	1732.8
Wheat	'000 tons	2021.9	1641.2
Potatoes	'000 tons	47.7	27.5
Vegetables	'000 tons	368.5	321.2
Melons and Gourds	'000 tons	47.1	33.1
Fruit and Berries	'000 tons	220.6	207.3
Grapes	'000 tons	270.0	252.8
Meat	'000 tons	37.8	36.5
Milk	'000 tons	64.1	50.8
Eggs	'000 tons	782.3	729.3
Cattle	'000 heads	232.7	177.2
Cows	'000 heads	76.2	59.6
Pigs	'000 heads	22.4	18.5
Sheep and Goats	'000 heads	2451.7	2429.5
Poultry	'000 heads	5224.8	5347.6
Horses	'000 heads	22.7	20.1

Source: The State Statistics Committee of Uzbekistan

## 6.4. Trade and Services

During 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 21.9% as opposed to 20.5% in 2004 (Table 6.4.1.)

**Table 6.4.1. 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	6030.9	100	4787.5	79.4	1243.4	20.6
2005	7346.5	100	5736.8	78.1	1609.7	21.9

Source: The State Statistics Committee of Uzbekistan

Total retail trade turnover reached UZS 5736.8 billion and fee-based services totaled UZS 1609.7 billion. Total sales of goods increased by 8.2% (4.7% in 2004), and fee-based services by 15.0% (13.8% in 2004) (Table 6.4.2.). 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 6.4.2. Retail Trade Turnover and Fee-Based Services**

Period	Retail Trade Turnover		Fee-based services	
	In current prices UZS billion	Growth rate to the previous year in comparable prices, %	In current prices UZS billion	Growth rate to the previous year in comparable prices, %
2004	4764.7	104.7	1226.6	113.8
2005	5736.8	108.2	1609.7	115.0

Source: The State Statistics Committee of Uzbekistan

**Retail Trade Turnover.** The growth of the retail trade turnover in the country in 2005 was largely due to the input of Andijan, Fergana, 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 6.4.3.) In five regions (Republic of Karakalpakstan, Jizzakh, Samarkand, Syrdarya and Khorezm) retail trade turnover per capita was 60-70% of the average republic level.

**Table 6.4.3 Income, Retail Trade Turnover and Fee-Based Services by Region**

Region	Cash income per capita, UZS '000		Retail Trade Turnover per capita, UZS '000		Fee-based services per capita, UZS '000	
	2004	2005	2004	2005	2004	2005
Republic of Karakalpakstan	159.6	210.5	92.3	104.1	18.6	24.4
Andijan	289.4	342.7	197.5	221.4	47.2	59.8
Bukhara	278.9	348.9	160.3	200.6	42.2	56.9
Jizzakh	191.9	233.1	113.0	128.7	23.1	29.1
Kashkadarya	228.0	280.4	141.1	162.7	19.9	28.8
Navoi	448.9	552.9	177.1	209.7	39.9	58.2
Namangan	184.4	251.9	133.0	158.9	24.0	35.3
Samarkand	203.7	248.2	130.5	151.4	31.5	44.1
Surkhandarya	220.7	277.5	132.5	165.5	22.4	30.1
Sirdarya	214.1	291.5	109.5	136	18.7	27.7
Tashkent	312.4	372.4	215.9	250.2	30.7	38.7
Fergana	267.8	313.9	197.2	212.2	29.8	41.7
Khorezm	199.4	260.6	111.1	151.9	31.2	43.8
Tashkent City	910.1	1308.1	514.0	657.7	195.3	240.2
Republic Uzbekistan	297.8	381.8	183.6	218.4	47.3	61.3
Level of interregional differentiation	5.7 times	6. times	5.57 times	6.3 times	10.5 times	9.8 times

Source: The State Statistics Committee of Uzbekistan

In the structure of retail trade turnover of the country the sales of food staffs decreased compared to the respective period of the previous year from 54.7% to 53.5% while the sales of non-foodstuffs increased from 45.3% to 46.5%. 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.

**Services.** Per capita fee-based services increased from UZS 47.7 thousand in 2004 to UZS 61.3 thousand in a reviewed period. Growth in real income and wages 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 capita consumption of services continued and shrank from 1:10.5 in 2004 to 1:9.8 in 2005.

**Table 6.4.4 Regional Structure of the Retail Trade Turnover and Fee-Based Services**

Region	Retail Trade Turnover, UZS billion			Fee-based services, UZS billion		
	2004	2005	Growth rate to the previous year in comparable prices, %	2004	2005	Growth rate to the previous year in comparable prices, %
Republic Karakalpakstan	146.5	163.9	100.3	29.5	38.4	116.4
Andijan	474.1	524.0	100.1	109.9	141.6	117.4
Bukhara	244.4	305.1	112.8	64.4	86.5	117.5
Jizzakh	121.3	135.5	102.1	24.3	30.7	113.9
Kashkadarya	330.3	390.9	108.5	46.3	69.3	133.5
Navoi	145.8	170.8	106.8	35.7	47.4	118.1
Namangan	274.1	332.8	112.6	52.0	73.9	126.9
Samarkand	371.5	438.5	106.0	91.9	127.6	124.6
Surkhandarya	251.8	316.8	113.2	44.8	57.6	113.1
Sirdarya	72.3	92.2	115.6	13.0	18.8	127.8
Tashkent	535.4	619.0	104.2	75.4	95.8	113.0
Fergana	541.5	609.5	102.2	85.0	119.8	122.6
Khorezm	161.5	219.6	118.1	45.2	63.4	124.8
Tashkent City	1117.0	1418.2	113.6	422.0	517.9	108.4
Republic Uzbekistan	4787.5	5736.8	108.2	1243.4	1609.7	115.0

Source: The State Statistics Committee of Uzbekistan

**Social Infrastructure.** During 2005 about 6033.2 thousand of sq.m. of housing (the indicator decreased by 145.4 thousand sq.m. compared to the respective period of 2004); outpatient clinics for 13.5 thousand visits

(increase by 895 visits compared to the respective period of 2004) were put into operation. About 3167.7 km of natural gas mains (increase of 336.7 km) and 2400.1 km of water supply networks (increase of 329.5 km) were built, including in the rural area - 5346.6 thousand sq.m. of housing (89% of the total), 3060.4 km of natural gas mains (96.6% of the total) and 2275.6 km (94.8% of the total) of water supply networks (Table 6.4.5.)

**Table 6.4.5 Launch of the Social Infrastructure Facilities**

	Unit	2004	2005
Housing, total	thous. sq. m.	6178.6	6033.2
Including individual housing	thous. sq. m.	6133.5	5984.1
in rural areas	thous. sq. m.	5494.0	5346.6
Polyclinics, including SVPs (rural medical stations)	'000 visits	12.6	13.5
Gas supply networks	km	2831.0	3167.7
Water-supply networks	km	1946.1	2400.1

Source: The State Statistics Committee of Uzbekistan

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 safe-guarding the rights of house owners is facilitated. During 2005 the targeted efforts aimed at curbing unjustified growth of tariffs for utilities were ongoing, energy saving technologies were being implemented in the sector and the projects to attract foreign investment for modernization and technical reconstruction of engineering infrastructure were being implemented.

At the same time there is series of problems related to rendering of services. For example, deficiency in heat, gas and drinking water supply in the housing and utilities sector. Recently created partnerships of house owners (PHO) did not yet become the self-management institutions with the respective authorities and preferences. Accumulating mainly the funds of the house owners, TSJ acts as the united customer using these funds directly for repair works, improvement works and preservation of housing resources. Reorganization of the sphere of housing and utilities services depends on formation of the utilities' service market as well as contractor's and repair works market.

**Table 6.4.6 Provision of the Social Infrastructure Facilities regarding the Average National Level in 2005 (in percent)**

	Provision					
	Housing, sq.m per person	Hospital beds, per 10 000 men	Polyclinics, out-patient stations, per 10 000 men	Basic secondary school (1 <sup>st</sup> shift, %)	Water-supply, %	Natural gas, %
Republic Karakalpakstan	106.2	111.0	94.3	91.7	85.6	114.1
Andijan	67.6	104.7	107.1	93.8	106.6	87.2
Bukhara	95.9	87.3	118.5	121.3	75.2	102.3
Jizzakh	89.7	88.4	99.3	104.1	89.3	93.0
Kashkadarya	90.3	94.6	70.3	93.1	96.5	89.9
Navoi	134.5	97.0	115.2	100.3	91.1	98.6
Namangan	91.0	120.9	95.3	101.1	94.6	99.8
Samarkand	97.9	94.4	86.4	93.8	94.4	108.1
Surkhandarya	89.0	81.5	61.1	90.8	102.5	76.9
Sirdarya	103.4	116.2	150.6	104.8	111.8	104.1
Tashkent	97.2	82.8	124.9	101.1	114.0	108.1
Fergana	99.3	88.8	97.1	103.5	108.0	98.3
Khorezm	162.8	92.5	100.0	111.1	84.8	119.3
Tashkent City	120.7	163.1	187.2	109.4	118.7	120.4
Republic Uzbekistan	100	100	100	100	100	100

Source: The State Statistics Committee of Uzbekistan

The level of provision with the most important social infrastructure facilities, (such as housing, drinking water and gas supply, health care and education facilities) is different by region (Table 6.4.6, Annex 6.4.3, and Annex 6.4.4.). Thus, the most advantageous regions are Tashkent City and Syrdarya region which indicators on housing, in-patient beds, outpatient stations and polyclinics, coverage of the students (1<sup>st</sup> shift) and supply of water and natural gas to the population are higher than average level of the Republic. The most adverse situation is in Kashkadarya region, where all the abovementioned indicators are lower than average level of the Republic.

**Annex 6.1.1. Structure of Industrial Output (% of the total)**

Period	Industry	including:									
		Power Energy	Fuel Industry	Ferrous Metallurgy	Non-Ferrous Metallurgy	Chemical Industry	Mechanical Engineering	Building Materials	Light Industry	Food Industry	Other*
2000	100.0	8.5	15.3	1.3	10.2	6.0	9.9	5.4	19.1	13.3	11.0
2001	100.0	8.1	13.2	1.4	10.9	6.0	11.2	5.2	20.0	12.6	11.4
2002	100.0	7.7	13.4	1.5	13.3	5.9	10.3	4.6	19.5	14.3	9.5
2003	100.0	9.2	12.5	1.8	15.2	5.7	11.8	4.4	20.3	11.7	7.4
2004	100.0	11.9	13.4	2.5	15.4	5.4	12.0	4.0	19.2	9.4	6.8
2005	100.0	10.9	16.3	2.3	16.9	5.2	12.9	3.9	16.9	8.4	6.3
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	9.0	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	5.0	12.3	2.9	21.8	7.4	5.7
05/I-II	100.0	11.2	16.0	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, Woodworking Industry.

Source: The State Statistics Committee of Uzbekistan.

**Annex 6.1.2. Indices of Industrial Output (in % to the previous year)**

Period	Industry	including:								
		Power Energy	Fuel Industry	Ferrous Metallurgy	Non-Ferrous Metallurgy	Chemical Industry	Mechanical Engineering	Building Materials	Light Industry	Food Industry
2000	105.9	101.1	99.7	118.7	102.5	115.8	89.7	104.3	117.0	108.5
2001	107.6	95.8	96.4	110.6	101.8	106.8	124.8	105.9	112.4	109.4
2002	108.3	101.5	102.4	104.3	105.9	113.8	108.8	102.2	109.0	119.2
2003	106.2	101.8	100.6	109.1	99.0	105.2	130.8	104.3	106.2	106.8
2004	109.4	100.3	105.8	128.5	105.0	104.5	134.5	108.2	105.2	104.7
2005	107.3	98.3	98.7	108.3	97.4	109.6	129.7	111.0	112.0	111.2
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 6.2.1. Foodstuffs Production Index (in % to previous period)**

Regions	2000	2001	2002	2003	2004	2005
Republic of Uzbekistan	106.2	107.6	111.8	108.4	113.4	117.7
Republic of Karakalpakstan	105.9	113.5	104.3	104.7	110.3	112.9
Andijan	92.6	123.7	97.8	120.3	145.3	147.3
Bukhara	105.9	107.4	103.3	106.0	107.8	107.8
Jizzakh	123.6	119.3	159.3	129.0	115.2	119.0
Kashkadarya	113.1	112.7	108.5	108.8	117.1	111.4
Navoi	115.5	99.98	114.5	105.3	97.3	103.9
Namangan	124.3	111.8	118.1	114.0	110.4	107.7
Samarkand	92.4	102.6	102.5	106.8	109.9	105.5
Surkhandarya	111.9	100.9	114.8	106.2	115.2	94.7
Sirdarya	110.1	120.2	103.0	104.2	107.5	100.2
Tashkent	112.5	114.1	106.6	107.1	111.7	109.9
Fergana	111.3	98.1	106.4	101.6	119.2	108.9
Khorezm	107.8	94.0	95.0	114.5	101.4	104.1
Tashkent City	111.3	101.3	120.2	102.7	103.4*	115.1

Source: State Statistics Committee of Uzbekistan

**Annex 6.2.2. Index of Output of Major Types of Consumer Goods by Industrial Enterprises of Uzbekistan (in % to the previous period)**

	2000	2001	2002	2003*	2004	2005
Cotton Fabrics	107.8	111.9	106.9	97.8	82.0	73.4
Silk Fabrics	102.0	98.3	97.4	100.3	91.4	68.6
Carpets and Carpet Goods	71.4	104.8	108.3	2.8 times	140.2	81.9
Hosiery	119.9	63.4	77.0	188.4	110.0	100.0
Knitwear Goods	97.6	85.7	82.4	100.6	95.9	101.4
Footwear	111.3	149.1	109.5	99.9	81.9	104.4
Cheese, including brynza	89.7	87.2	74.3	78.4	89.1	76.0
Milk and Dairy Products	91.2	102.5	115.9	107.6	183.4	124.1
Canned Goods	103.8	97.1	101.3	121.9	80.9	90.6
Sugar	48.6	282.7	755.7	114.2	78.0	75.6
Flour	94.0	103.4	87.1	73.7	145.6	89.2
Bread and baked goods	106.3	100.4	99.5	55.2	89.0	77.7
Confectionery	113.5	108.7	97.7	73.2	2.6 times	156.7
Pasta	107.7	110.7	81.0	60.4	110.1	90.5
Vegetable Oil	108.0	96.3	93.8	97.8	100.5	116.1
Wine	89.3	118.8	116.6	73.4	59.9	106.2
Vodka and Liquor	99.1	92.5	92.5	96.6	107.1	100.2
Soft Drinks	107.5	77.8	93.1	25.3	26.9	8.9 times
Cigarettes	72.8	89.8	101.0	92.5	94.6	85.3
Salt	137.8	123.4	177.9	50.3	109.4	100.7

Source: State Statistics Committee of Uzbekistan

\* The data on 2003 is from large and medium enterprises

### Annex 6.3.1. Major Indicators of Agricultural Output

	Unit	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Raw Cotton	'000 tons	3002	3265	3122.4	2803.3	3536.8	3749.0	X	X	X	X	X	X
Grain	'000 tons	3929	4072	5792.6	6319.2	6017.1	6518.0	-	3889.9	5658.5	X	4098.2	6238.8
Potatoes	'000 tons	731.1	744	777.2	834.4	892.7	916.8	-	461.9	725.9	X	497.2	770.4
Vegetables	'000 tons	2644	2778	2935.6	3301.4	3315.9	3494.7	9.5	715.1	2441.2	10.9	788.3	2575.4
Fruit and Berries	'000 tons	791	801	842.9	765.8	846.3	937.7	-	208.2	573.1	X	240.9	587.6
Grapes	'000 tons	624.2	573	516.4	401.5	577.6	635.8	-	6.9	349.8	X	7.6	362.9
Food-Melons and Gourds	'000 tons	451.4	466	479.1	587.3	571.3	609.4	-	25.0	391.0	X	32.3	421.9
Meat (live weight)	'000 tons	842	854	865	935.7	996.3	1060.4	204.7	464.0	721.0	218.9	496.0	764.6
Milk	'000 tons	3633	3665	3721.3	4031.1	4279.8	4554.7	752.7	1942.5	3104.4	796.4	2068.1	3288.9
Eggs	million units	1254	1288	1368.9	1632.4	1859.9	1966.4	346.5	810.3	1439.0	355.4	859.3	1402.6

Source: The State Statistics Committee of Uzbekistan

### Annex 6.3.2. Structural Transformations of Crop Patterns for ('000 hectares)

	2000	2001	2002	2003	2004	2005
Total Sown Area	3778.3	3444.5	3540.8	3790.1	3695.7	3646.0
Grain Crops	1614.0	1393.7	1533.4	1790.9	1666.5	1615.2
Wheat	1355.8	1219.8	1282.6	1507.6	1469.7	1439.1
Rice	131.8	39.5	64.4	121	65.9	50.9
Corn Grain	49.2	38.7	35.1	34.7	34.5	33.5
Industrial Crops	1512.5	1500.3	1462.2	1445	1516.8	1517.7
Cotton	1444.6	1452.1	1421.0	1393	1455.7	1472.0
Potatoes	52.2	50.8	48.9	49.2	52.4	49.6
Vegetables	130	131.2	127.5	145.6	137.6	137.4
Melons and Gourds	37	35.6	37.3	41.3	35.0	33.8
Fodder Crops	429	331.3	329.2	316.5	281.3	290.4

Source: The State Statistics Committee of Uzbekistan

### Annex 6.3.3. Breakdown of Livestock and Poultry Population by Type of Economic Entity ('000 heads)

Product	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Cattle	5353.4	5416.1	5477.6	5477.6	6232.6	6534.9	5806.4	6203.1	6212.2	6167.0	6167.0	6496.6
Pigs	85.8	81.6	75.4	89.9	83.8	87.6	83.5	80.9	81.0	78.7	78.7	83.8
Sheep and Goats	8932.5	9022.6	9233.9	9928.6	10560.3	11248.4	10634.5	11181.9	11021.7	11368.8	11368.8	11537.2
Poultry	14510	14828.7	15555	17676.0	18726.9	20670.6	16743.4	18822.6	19445.0	17915.3	17915.3	20678.4

Source: The State Statistics Committee of Uzbekistan

**Annex 6.3.4. Breakdown of Gross Agricultural Output by Share of Each Economic Entity (%)**

	2000	2001	2002	2003	2004	2005	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	100
Agri-Enterprises	27.8	26.8	25.6	23.5	19.9	15.3	7.6	14.6	19.5	7.0	12.2	14.7
Farms	5.5	6.9	10.0	14.1	20.4	24.5	2.4	10.5	15.8	2.6	12.6	22.1
Dekhkan Entities	66.7	66.3	64.1	62.4	59.7	60.2	90.0	74.9	64.7	90.4	75.2	63.2
Crops	100	100	100	100	100	100	100	100	100	100	100	100
Agri-Enterprises	46.4	42.6	42.6	37.8	30.9	23.1	2.6	11.4	31.0	2.6	9.7	23.9
Farms	9.7	11.7	17.8	25.3	35.9	41.4	0.3	9.5	27.4	0.4	11.5	36.2
Dekhkan Entities	43.9	45.7	39.6	36.9	33.2	35.5	10.9	59.6	41.6	12.7	31.8	39.9
Livestock	100	100	100	100	100	100	100	100	100	100	100	100
Agri-Enterprises	9.0	9.3	8.7	8.1	7.2	5.0	5.0	3.2	6.1	4.4	2.5	4.5
Farms	1.3	1.6	2.0	2.2	2.3	2.5	2.1	2.2	2.2	2.2	1.1	2.2
Dekhkan Entities	89.7	89.1	89.3	89.7	90.5	92.5	79.1	91.3	91.7	77.7	43.4	93.3

Source: The State Statistics Committee of Uzbekistan

**Annex 6.4.1 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	%
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
2005	7343.5	100	5736.8	78.1	1606.7	21.9
04/I	1299.8	100	1057.9	81.4	241.9	18.6
04/I-II	2733.7	100	2184.7	79.9	549.0	20.1
04/I-III	4269.2	100	3400.8	79.6	868.4	20.1
04/IV	1722.0	100	1363.8	79.2	358.2	20.8
05/I	1558	100	1241.9	79.7	316.1	20.3
05/II	3609.2	100	2813.5	78.0	795.7	22.0
05/I-III	5167.2	100	4055.4	78.5	1111.8	21.5
05/IV	2176.3	100	1681.4	77.3	494.9	22.7

Source: The State Statistics Committee of Uzbekistan

**Annex 6.4.2 Retail Trade Turnover and Fee-Based Services**

Period	Retail Trade Turnover		Fee-Based Services	
	Current prices, UZS billion	Growth rate to the previous year in comparable prices, %	Current prices, UZS billion	Growth rate 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	101.7	711.4	108.6
2003	4325.1	105.1	934.8	107.9
2004	4764.7	104.7	1226.6	113.8
2005	5736.8	108.2	1609.7	115
04/I	1069.6	105.1	241.9	111.8
04/I-II	2199.5	104.2	549.0	113.5
04/I-III	3414.8	103.1	868.4	113.9
05/I	1241.9	108.7	316.1	114.2
05/I-II	2579.4	108.1	694.5	111.6
05/I-III	4055.4	108.6	1111.8	114.5

Source: The State Statistics Committee of Uzbekistan

### Annex 6.4.3 Provision of the Social Infrastructure Facilities by Region in 2005

	Provision					
	Housing, sq.m per person	Hospital beds, per 10 000 men	Polyclinics, out-patient stations, per 10 000 men	Basic secondary school (1 <sup>st</sup> shift, %)	Water-supply, %	Natural gas, %
REPUBLIC Karakalpakstan	15.4	59.5	144.1	65.5	71.8	92.4
Andijan	9.8	56.1	163.6	67.0	89.3	70.6
Bukhara	13.9	46.8	181.0	86.6	63.0	82.9
Jizzakh	13.0	47.4	151.7	74.3	74.8	75.3
Kashkadarya	13.1	50.7	107.4	66.5	80.9	72.8
Navoi	19.5	52.0	176.0	71.6	76.3	79.9
Namangan	13.2	64.8	145.6	72.2	79.3	80.8
Samarkand	14.2	50.6	132.0	67.0	79.1	87.6
Surkhandarya	12.9	43.7	93.3	64.8	85.9	62.3
Sirdarya	15.0	62.3	230.1	74.8	93.7	84.3
Tashkent	14.1	44.4	190.8	72.2	95.5	87.6
Fergana	14.4	47.6	148.4	73.9	90.5	79.6
Khorezm	23.6	49.6	152.8	79.3	71.1	96.6
Tashkent City	17.5	87.4	286.0	78.1	99.5	97.5
REPUBLIC Uzbekistan	14.5	53.6	152.8	71.4	83.8	81.0
Level of interregional differentiation, times	2.41	2.00	3.07	1.34	1.58	1.57

Source: The State Statistics Committee of Uzbekistan

### Annex 6.4.4 Provision of the Social Infrastructure Facilities

Period	Provision					
	Housing, sq.m per person	Hospital beds, per 10 000 persons	Polyclinics, out-patient stations, per 10 000 persons	Basic secondary school (1 <sup>st</sup> shift, %)	Water-supply, %	Natural gas, %
2000	13.8	55.9	157.7	73.6	80.4	76.1
2001	14.0	55.8	160.4	73.1	81.4	77.2
2002	14.3	57.8	163.1	71.9	81.6	78.0
2003	14.3	57.4	159.2	71.1	81.8	79.8
2004	14.4	54.9	155.2	71.3	82.2	80.6
2005	14.5	53.6	152.8	71.4	83.8	81.0
04/I	14.3	57.1	151.9	-	-	78.2
04/I-II	14.3	53.9	151.8	-	-	80.0
04/I-III	14.4	53.1	152.5	-	-	80.0
05/I	14.3	53.3	149.9	-	-	80.7
05/I-II	14.4	53.9	154.1	-	-	80.6
05/I-III	14.5	53.6	155.1	-	-	80.5

Source: The State Statistics Committee of Uzbekistan

## 7. Employment and the Labor Market

**Population.** At the beginning of 2005 the population of Uzbekistan had reached 26 312.7 thousand people (Annex 7.1); during the year it increased by 291.4 thousand people (during 2004 – by 300 thousand people). The main increase of the population took place in rural areas (81.7%), and in urban areas it amounted only to 53.2 thousand people (18.3%). As a consequence, the share of the urban population decreased from 36.3 to 36.1%. In 2005 the population of Uzbekistan increased by 1.1%, but in certain regions population growth was higher: in Kashkadarya region – 1.87%, in Surkhandarya 1.6% and Andijan regions – 1.4% and in Khorezm region – 1.5%. The highest increase in population was registered in Kashkadarya and Andijan regions; together they accounted for 21.8% of the total increase of the population of Uzbekistan. The lowest population growth rate was registered in Tashkent (during the year of 2005 – by 4.9 thousand people or by 0.2%).

The birth rate remains the major factor in the growth of the population of the Republic; however, it continues to decrease from year to year and this tendency has become constant. After an insignificant increase in the number of births in 2004 (by 31.9 thousand people) the number of births in 2005 decreased again from 540.4 to 538.0 thousand people. More than two thirds of the newborns (69.1%) were registered in rural areas. The average birth rate (per one thousand people) was 22. pro mil in rural areas and 17.3 pro mil in urban areas.

In 2005 the number of deceased was 140.6 thousand people, which was 10.2 thousand people (8.6%) higher than the respective indicator in 2004. This includes 5.0 thousand deaths in urban areas and 5.2 thousand in rural areas. As a result of the of births and deaths dynamics, the natural increase of the population was 329.9 thousand people, which was 17.1 thousand people less than in 2004 (410.0 thousand people). In 2005 the negative balance of external migration of the population remained.

**Employment of the Population.** The acceleration of economic reforms and structural transformations in the economy has facilitated the creation of new jobs and the continuous growth of employment (Annex 7.2). In 2005 the number of employed increased by 285.7 thousand people (by 2.9%). This growth was caused by the accelerated development of the private sector, where in recent years the major increase in work places has occurred. More than three fourths of all those employed are registered in the non-state sector of the economy (77.1% versus 76.9% in 2004). The growth in business employment has also increased. In 2005 about 85% of new jobs were created in the sphere of small business. As a result of prioritized development, this sphere involved 65.5% of all those employed in the Republic (60.3% in 2004). 954.2 thousand people were employed in farming enterprises. Market mechanisms, accompanied by the intensification of production and the redeployment of the labor surplus, continue to influence the employment creation process. In this connection, the growth of employment slowed slightly in 2005 compared to 2004 (285.7 and 321.6 thousand people respectively).

The majority of the employed are registered in the real sector of the economy. In 2005 these included 6839.8 thousand people or 67.1% of the total employed population. During the year 2005 the development of the real sector facilitated the employment of 129.2 thousand people (45.2% of the total employment growth during the year).

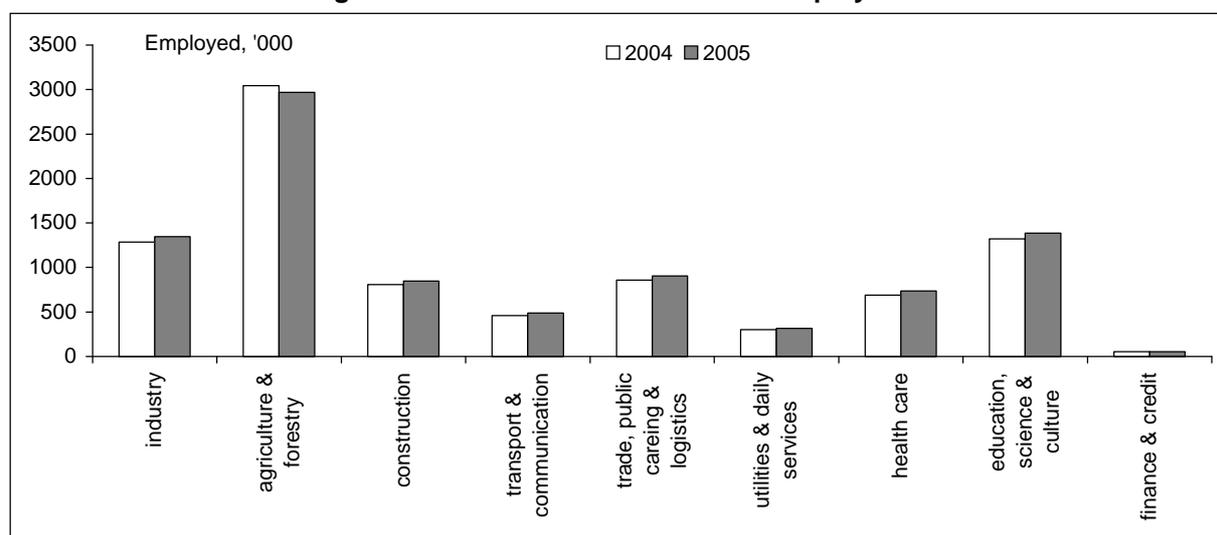
The accelerated growth of the number of employed in the industrial sector has become a steady tendency. The number employed in this sector increased by 63.6 thousand people or by 5.0% during the year. It amounted to 22.3% of total employment growth. As a result, the share of industry in the sectoral structure of employment increased from 13.0 to 13.2%. The steady growth of employment in the industrial sector can be regarded as a positive trend, caused not only by the structural transformations in the economy but by the change in labor priorities of the population as well. There was also a high growth rate of employment in construction, transport and communications – from 5.0-5.2%, and in trade, public catering and procurement – 5.4%. Employment in agriculture continues to decrease, as a result of the intensification of reforms and the successive withdrawal of surplus labor from this sector. During the year 2005 the number of those employed in agriculture decreased by 73.0 thousand people (by 2.4%), and their share in the total number of employed decreased from 30.7% to 29.1%.

The accelerated growth of employees in the services sector has continued. The increase of personnel in the real sector was registered at the level of 101.9%, while the increase of employment in non-manufacturing sectors – at 104.9%. This type of dynamics indicates the increasing potential of the economy in the development of the services sector. Due to this, more than half of total employment growth – 156.5 thousand people or 54.8% – was registered in this sector in 2005 (in 2004 – 46%). In accordance with this, its share in the structure of the employed population increased from 32.3% in 2004 to 32.9% in 2005 (Figure 7.1). During this period, employment in non-manufacturing sectors increased at a higher rate. In 2004 their share of the employed population of the Republic increased by 0.5% and in 2005 by 0.7%.

There is a tendency of accelerated growth of employment in such socially significant sectors as health care, physical education and social welfare (an increase of 6.7% in 2005), as well as in education, culture, the arts, science and scientific support (by 4.9%), and utilities and daily services (by 5.1%). The highest increase in the labor force was in transportation and communication (by 7.3%). This was caused by the accelerated development of social infrastructure, such as the improvement of road conditions, an increase of thoroughfares, and the introduction of modern information and telecommunication technologies in various sectors of the economy. In general, there is a tendency towards a relative reduction of government and business administration personnel, including in republican, local and economic organizations. Nonetheless, in 2005 the number of management personnel increased by 7.8%, and as a consequence their share increased from 1.9 to 2.0%.

In general, positive changes are resulting from the processes of the modernization of the economy, the acceleration of economic growth and the development of the labor motivation of the population.

**Figure 7.1. Sectoral Structure of the Employment**



Source: The State Statistics Committee of Uzbekistan.

**Current Labor Market.** In 2005 the current labor market covered 410.3 thousand people. The Fergana valley plays a key role in the formation of this market. In fact, 14.7% of the total supply of labor is located in Fergana region, 11.6% in Namangan region and 7.4% in Andijan region. Also worth noting is Samarkand region (12.3%).

In recent years the number of people registered with labor exchanges as job-seekers has begun to decrease, and lately this tendency has even strengthened slightly. In 2004 this number decreased by 5.5 thousand people, and in 2005 by 14.6 thousand people. The most noticeable decrease took place in Fergana (by 8.0 thousand people), Navoi (by 3.0 thousand people) and Khorezm (by 2.4 thousand people) regions. Such dynamics demonstrate not only a certain improvement in the situation on the labor markets of these regions, but also the lack of confidence of the population in the opportunity to find a decent job through the labor exchanges, and the absence of any competition in the sphere of employment assistance. At the same time, the number of people applying to labor exchanges in Samarkand and Bukhara regions increases annually. This is related to the tense employment situation in these regions, which has not improved for a long period of time.

In 2005 nearly three fourth of all people applying to labor exchanges (74.3%) were from rural areas, and their share has been increasing steadily (in 2004 – 73.7%, in 2003 – 73.4% etc.). Taking into account that the growth of the labor force surpasses the growth of work places, this tendency reflects certain negative processes in the employment situation in the rural labor market.

In 2005 the current labor market became slightly “older”. The share of young people under 30 decreased noticeably – from 55.3% to 50.8% in the structure of the current labor market, which is very typical for rural areas (59.4% and 52.1% respectively). This was connected to some degree with the relative decrease in the number of young people reaching working age. As before, the share of women in the total registered with labor exchanges accounts for less than half, but in 2005 their share increased from 45.5% to 48.3%.

In the current labor market there was an absolute and relative decrease in the supply of qualified workers. The number of persons with higher and secondary special education decreased from 137.9 to 114.2 thousand people as compared to the number in 2004, and their share declined from 32.4% to 27.9% respectively. Individuals with secondary general (64.6%) and secondary incomplete (7.5%) education dominated. There were a significant number of individuals without special training or professional qualifications. In 2005 these amounted to 122.6 thousand people (9.9% of the total number); however, the share of this category has decreased noticeably (in 2004 it was 38.2%). Individuals without any profession and specialty applied mainly to rural labor exchanges (80.1% of their total number).

The current labor market of Uzbekistan is characterized by a high level of activity, which is illustrated by the growth in the efficiency of labor exchanges in providing employment assistance. Throughout the years of their operation, labor exchanges achieved the highest level of provision of employment assistance in 2005. This amounted to 79.2% of the total number registered as job-seeking, versus 76.2% in 2004 (Table 7.1). The highest level of employment assistance was provided in Samarkand region (89.4%), Surkhandarya (87.7%), Andijan and Fergana regions (82.2%) and in Tashkent City (82.2%), due to the favorable correlation of demand and supply of the labor force in these areas.

**Table 7.1. Major Indicators of the Current Labor Market**

Year	Registered as Job Seeking, '000 people	Employed, '000 people	Share of Employed among Registered, in %	Number of registered 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
2005	410.3	325.1	79.2	27.7
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 data provided by the Ministry of Labor and Welfare.

The majority of workers found jobs mainly in the non-public sector of the economy; the share of the public sector amounted to only 25.0% (in 2004 – 25.2%). Private companies, joint stock companies and projects of other forms of ownership played a significant role in these processes. From a sectoral perspective, employment assistance to the population underwent no crucial changes. In 2005 more than one third (36.2%) of those finding jobs were employed in the agrarian sector (in 2004 – 34.5%), 16.8% in industry (in 2004, 15.8%) and 5.1% in construction (4.5%). Employment assistance slightly decreased in such sectors as transportation, communication, trade, public catering and daily services.

In 2005 some demand for labor remained unsatisfied. At the end of the year the number of vacancies amounted to 26.5 thousand. Compared to 2004 their number increased by 2.6 thousand or by 10.8%. These vacancies were mainly concentrated in Tashkent City and amounted to 41.7% of the total number of vacancies (in 2004 – 37.4%). The majority of vacancies were in Tashkent (9.1%), Fergana (9.0%), Surkhandarya (6.3%) and Samarkand (6.2%) regions. In cities, the vacancies were mainly concentrated in the industrial sector (30.9%), while in rural areas they were in agriculture.

The situation of a surplus of labor over demand remains the same in the current labor market in Uzbekistan. But the number of officially registered unemployed by the end of 2005 was considerably less than in the respective period of the previous year (27.7 versus 34.9 thousand people respectively). An absolute growth of this number occurred only in Namangan region (by 0.5 thousand people). No considerable changes took place in the structure of the unemployed as compared to 2004, which indicates the existence of a stable trend of categorization of the unemployed in the labor exchanges. More than half of the total number of unemployed are women – 58.5% and villagers – 0.5%. At the end of 2005 the largest number of officially registered unemployed was in the Republic of Karakalpakstan (19.9%) and Khorezm region (17.8%).

In 2005, as during the previous 2-3 years, the number of unemployed who received professional training in the process of employment decreased. This accounted for 33.2 thousand people versus 41.9 in 2004, 63.6 thousand people in 2003 and 81.3 thousand people in 2002. In 2005, 42.1% of the officially registered unem-

ployed were involved in professional training versus 47.0% in 2004. The large number of nonqualified unemployed in the labor market has a negative impact on the quality level of the labor force offered to manufacturers and organizations by the labor exchanges. In 2005 the situation deteriorated in almost all regions of Uzbekistan with the exception of Karakalpakstan, where professional training of the unemployed increased 4 times, as well as in Bukhara region (an increase in 18.1%). The regional differentiation is quite evident in the comparison of relative indicators. Thus, only 81 out of 1000 officially registered unemployed individuals in Uzbekistan received professional training in 2005, (in 2004 – 99 individuals, in 2003 – 148). At the same time, in Tashkent City, 520 out of 1000 (in 2004 – 489) received training versus 21 out of 1000 in Kashkadarya region. Both Tashkent and Surkhandarya regions have relatively low indicators. In the Republic of Karakalpakstan this indicator is also low, but compared to 2004 it has increased from 10 to 43 individuals. These data not only illustrate the decline of interest in professional training in current labor market facilities, but also emphasize the necessity of modernization and reorientation of the activities of these training facilities, as well as the need to refine the quality of training, especially in rural areas.

The negative tendency of a decrease in the number of unemployed taking part in public works remains. This decreased from 50.1 to 39.5 thousand people or by 1.3 times as compared to 2004. On the one hand, this situation is caused by an overall decrease in the number of unemployed officially registered during the current period, and on the other hand by the absence of special programs for public works and the lack of activity of the appropriate agencies in resolving this problem.

**Table 7.2. Level of Employment in Urban and Rural Areas**

Year	Registered as Job Seeking, '000 people		Employed, '000 people		Level of Employment, in %.	
	Urban	Rural	Urban	Rural	Urban	Rural
2004	112.0	313.0	94.6	229.1	84.4	73.2
2005	105.6	304.7	80.9	244.2	76.6	80.1
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 data provided by the Ministry of Labor and Welfare.

In general, in 2005 the conditions of the current labor market were as follows:

- Labor force supply: 410.3 thousand people;
- Demand for labor force: 351.6 thousand positions, including 325.1 satisfied (job filled) and 26.5 thousand unsatisfied (vacancies).
- Surplus of labor over demand: 58.7 thousand people.

**Export of Labor Force.** The organized export of labor force from Uzbekistan implemented by the Agency for Foreign Labor Migration under the Ministry of Labor and Welfare is growing constantly. But the demand of the population for employment assistance abroad far exceeds the capabilities of this Agency, and as a consequence the majority of labor migration remains unorganized. According to the official data, the number of labor migrants from Uzbekistan increased by 8.8 thousand people during 2005.

In general, to provide effective employment for the population it is necessary to enhance the following orientations of state policy in the labor market: accelerate the development of family businesses and small private companies; encourage the system of micro-crediting; utilize the opportunities of cooperation of work-from-home forms of labor with large industrial manufacturers and small enterprises; intensify the development of labor-intensive manufacturing, particularly in light and food industry, targeting the use of agricultural and local raw materials to produce finished products; emphasize the development of the services sector and the extension of non-agricultural employment in rural areas; stimulate the work of agencies involved in professional training of the unemployed and to improve the system of public works.

**Annex 7.1. 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
2006	26312.7	1.1	9495.1	0.5	16817.6	1.5
04/ I (by1.04.04 )	25777.2	0.3	9397.2	0.2	16380.0	0.3
04/ I-II (at 1.07.04)	25851.8	0.3	9405.3	0.1	16446.5	0.4
04/ I-III (at 1.10. 04)	25936.4	0.3	9413.9	0.1	16522.5	0.5
05/ I (at 1.04.05 )	26095.0	0.3	9460.7	0.2	16634.3	0.3
05/ I-II (at 1.07.05)	26161.8	0.3	9467.5	0.1	16694.3	0.4
05/ I-III (at 1.10. 05 )	26240.6	0.3	9472.4	0.1	16768.2	0.4

Source: The State Statistics Committee of Uzbekistan.

**Annex 7.2. Breakdown of Employed by Sector of the Economy  
(on average over the period, thousand people)**

	2004	Share (%) in Total Employed	2005 *)	Share (%) in Total Employed	2005 in % to 2004
Employed - Total	9910.6	100.0	10196.3	100.0	102.9
Material production	6710.6	67.7	6839.8	67.1	101.9
including:					
Industry	1283.9	13.0	1347.5	13.2	105.0
Agriculture and forestry	3042.5	30.7	2969.5	29.1	97.6
Transportation and Communica- tion	317.8	3.2	334.4	3.3	105.2
Construction	808.1	8.2	848.5	8.3	105.0
Trade, public catering, procure- ment and logistics	857.6	8.8	903.9	8.9	105.4
Other	400.7	4.0	436.0	4.3	108.8
Non-material production	3200.0	32.3	3356.5	32.9	104.9
including:					
Transportation and Communica- tion	143.2	1.4	153.7	1.5	107.3
Public utilities and daily services for population	301.1	3.0	316.4	3.1	105.1
Health care, physical culture and social security	689.0	7.0	735.5	7.2	106.7
Education, culture, arts, science, R&D and logistics	1321.0	13.3	1385.1	13.6	104.9
Finances and credit	52.8	0.5	54.2	0.5	102.7
Government and business administration	190.9	1.9	205.7	2.0	107.8
Other	502.0	5.1	505.9	5.0	100.8
Public sector, %	23.1	X	22.9	X	X
Non-public sector, %	76.9	X	77.1	x	X

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

## 8. Income and Expenditure of the Population

**Income of the Population.** As a result of consistent modernization of the economy and the expansion of the private sector and entrepreneurship in 2005, nominal per capita cash income of the population grew by 20.5% (Table 8.1.1). The major factors in this growth were the increase in wages and social transfers and the creation of conditions for earning additional income.

**Table 8.1.1. Dynamics of Per Capita Cash Income and Consumer Price Index (CPI) in 2005, by Quarter**

Period	Growth Rate of Per Capita Income	Consumer Price Index
1 Quarter	126.3	104.2
2 Quarter	132.3	106.8
3 Quarter	135.2	107.2
4 Quarter	120.6	107.2

Source: The State Statistics Committee of Uzbekistan

in the structure of cash income of the population reached 29.4% (as opposed to 27.3% in 2004) and the share of social transfers – 14.6% (as opposed to 13.7%).

**Table 8.1.2. Structure of Cash Income of the Population (based on the balance of monetary income and expenditures of the population)**

Indicator	In % of the total		In % of the respective period of the previous year	
	2004	2005	2004	2005
Cash income, total	100	100	118.7	129.7
Wages	27.3	29.4	120.5	139.8
Pensions, allowances, and stipends	13.7	14.6	143.0	137.5
Income from sales of agricultural products	29.2	26.0	116.7	115.5
Income from entrepreneurial activities and other income	29.8	30.0	110.3	130.8

Source: The State Statistics Committee of Uzbekistan

The following factors contributed to the growth of wages: a) annual indexing (as of 1 May and 1 October 2005) of wages of civil service employees, all types of pensions and welfare allowances, and stipends of university and vocational college students; and b) measures for improving the unified schedule of wage rates, including the approval of new wage grades; c) increase in production of goods and services.

The average wage gap across regions reduced somewhat. The highest wages in December 2005 were registered in Bukhara (exceeds the national average wage by 6,9%), в Navoiy (53,2%), Tashkent (30,7%) and Tashkent city (49,0%). The wage gap between the highly paid and lowly paid regions was at 1:2.8 times as of December 2005.

In 2005 the wages of civil service employees and pensions, stipends and allowances increased by 40% on average. The average wage by economic sector was characterized by dynamic growth. In the material production sphere the highest wage level was registered in industry (52.0% above the national average), construction (80.1%) and transport (67.9%). In the non-production sectors the wages of banking and credit institution employees remained high. Although there are trends of gradual growth in wages in the social services sectors such as education and health care, the level of wages is still relatively low. The two-stage increase in the wages of civil service employees is envisaged in 2006. Pensions, allowances, stipends and other social transfers will be adjusted accordingly.

Inter-regional differentiation of per capita cash income of the population remains at the level of 1:6.2 (Table 8.1.3). Only the Navoi region and Tashkent City enjoy per capita cash income exceeding the average national level. Increasing the industrial potential and investment attractiveness of less developed regions may stimulate the growth of wages and average per capita income of the population in such regions and facilitate development of a reasonable level of interregional differentiation in the country.

The development of small business, farming entities and peasant farms, as well as the expansion of self-employment, became essential sources of the growth in income of the population. As a result, in 2005 the share of income from the sale of agricultural produce increased by 15.5%, accounting for 26.0% (as opposed to 29.2%) in the structure of cash income of the population, while the share of income from entrepreneurial activity and other income accounted for 30.0% (as opposed to 29.8%). Enforcement of adopted decrees, government resolutions and targeted integrated programs on: a) the creation of new micro-firms, development of family and small businesses, promotion of the micro-crediting system and use of home-based labor in cooperation with large industrial enterprises; and b) the encouragement of livestock breeding, primarily

cattle, in household and peasant farms and farming entities, will enable the cash income of the population in 2006 to increase by at least 20%.

### Expenditure of the Population.

Cash expenditure of the population in 2005 increased by 28.8%. The dynamics of the cash income, expenditure and savings of the population was characterized by cash income surpassing cash expenditure (195.2 bln. soums against 98.1 bln. soums). The largest surpassing of income over expenditures is observed in Navoiy (UZS125,1 bln.) and Kashkadarya (UZS 124,8 bln). In Tashkent city cash expenditures and savings exceeded cash income by UZS 469,8 bln. (Table 8.1.3.).

In the structure of cash expenditure of the population, a decrease in the share of expenditure for consumption and an increase in

the share of savings were observed. The share of consumer expenditure in cash income of the population decreased from 76.8% to 72.5%, while the share of savings in terms of bank deposits and purchase of securities and foreign exchange increased from 14.2% in 2004 to 18.5% in 2005 (Table 8.1.4).

**Table 8.1.3. monetary income and expenditures in regions (bln. soums)**

Регионы	Cash Income	Cash Expenditures and savings	Difference
R. of Karakalpakstan	330,7	272,5	58,2
Andijan Region	809,2	796,2	13,0
Bukhara Region	529,1	492,4	36,7
Jizzakh Region	244,1	218,1	26,0
Kashkadarya Region	672,6	547,8	124,8
Navoi Region	448,7	323,6	125,1
Namangan Region	526	483,3	42,7
Samarkand Region	716,5	691,4	25,1
Surkhandarya Region	530	455,3	74,7
Sirdarya Region	196,6	174,9	21,7
Tashkent Region	916,2	855,9	60,3
Fergana Region	897,6	857,7	39,9
Khorezm Region	376,2	359,6	16,6
Tashkent City	2796,3	3266,1	-469,8
R. of Uzbekistan	9989,8	9794,6	195,2

Источник: Государственный комитет Республики Узбекистан по статистике

**Table 8.1.4. Structure of Cash Expenditure of the Population (in % to Cash Income)**

Year	Cash Income of the Population	Cash Expenditure, Including:			Closing Cash Balance
		Consumer Expenditure	Mandatory Charges and Contributions	Bank Deposits, Purchase of Securities and Foreign Exchange	
2004	100	76.8	7.7	14.2	1.3
2005	100	72.5	7.0	18.5	2.0

Source: The State Statistics Committee of Uzbekistan

In 2005 the enhancement of the income structure facilitated an improvement in the composition of expenditure and consumption. The cash savings of the population, in the form of bank deposits and investment in securities, increased. In the structure of expenditure of the population, the share of expenses for foodstuffs continued to decrease while the share of expenses for non-foodstuffs and services increased. For the further optimization of consumption by the population through increasing the share of expenditures on the non-food portion of consumer budget, it would be advisable to widely promote the provision of credit to the population, specifically in rural areas, for the purchase of durable goods. In the period under review, the solvent demand of the population facilitated an increase in the magnitude of consumer credit for the purchase of vehicles. It is necessary to expand opportunities for obtaining credit to purchase furniture, TV sets, refrigerators, washing machines and other expensive household and electronic appliances. For these purposes, measures for securing the repayment of extended loans should be considered.

**Table 8.1.5. Regional structure of cash income and expenditures of population (%)**

Regions	Cash Income	Cash Expenditures and Savings	Consumer expenditures
R of Karakalpakstan	100	82,4	61,2
Andijan	100	98,4	84,9
Bukhara	100	93,1	73,9
Jizzakh	100	89,3	68,0
Kashkadarya	100	81,4	68,1
Navoi	100	72,1	46,5
Namangan	100	91,9	77,2
Samarkand	100	96,5	79,9
Surkhandarya	100	85,9	70,7
Sirdarya	100	89,0	56,4
Tashkent	100	93,4	76,4
Fergana	100	95,6	81,1
Khorezm	100	95,6	75,7
Tashkent City	100	116,8	70,0
R. of Uzbekistan	100	98,0	72,5

Source: The State Statistics Committee of Uzbekistan

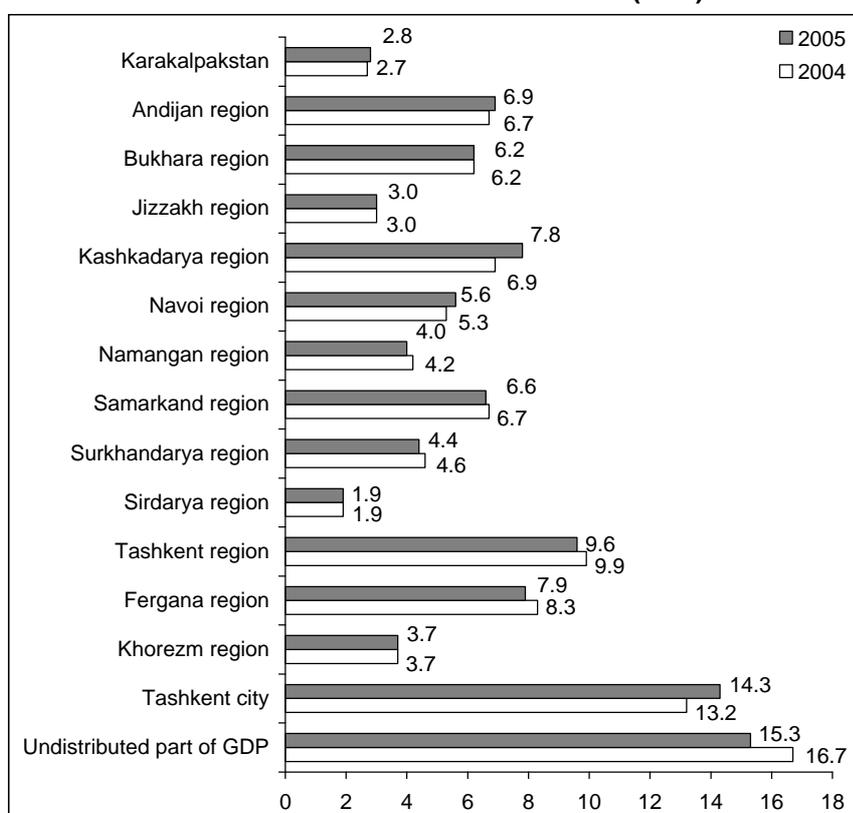
In order to increase the savings of the population and their efficient utilization in investment projects in the economy, mechanisms of micro-crediting and micro-leasing should be developed and the law "On Micro-Financing" should be adopted. Increasing the capitalization of the banks and ensuring their financial sustainability through the attraction of the available funds of the population and economic entities will facilitate increased trust in the banking system from the population and businesses.

## 9. REGIONS

In 2005, the regions of Uzbekistan (the Republic of Karakalpakstan, 12 regions and the city of Tashkent) developed at a sustainable pace, which was based on a gradual territorial policy aimed at providing the necessary conditions for economic growth. During the year under review the government undertook several measures to stimulate development in the regions. Such measures include, above all, the decrees of the President of Uzbekistan "On additional measures to stimulate private direct investments" (from 11.04.2005), "On measures to stimulate the enhancement of cooperation among large industrial enterprises and the production of services based on developing home businesses" (from 05.01.2006) and the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan (from 27.01.05.2005) "Program of attracting investments into the textile industry". A few regions achieved economic growth that was significantly higher than the republican average (107.0%), including Sirdarya region (111.4%), Tashkent city (111.4%), and Andijan region (108.5%) (Annex 9.1).

High growth indicators in the above-mentioned regions were made possible by a sufficient pace of development of regional sectors of the economy and by the development of industry in particular.

**Graph 9.1. The Share of Regions in the GDP of the Republic of Uzbekistan for the Period of 2004-2005 (in %)**



Source: State Statistics Committee of Uzbekistan

ing unchanged in Khorezm, Sirdarya, Jizzakh, and Bukhara regions (Graph 9.1).

During the period under review, per capita production of GRP increased significantly. Index calculations and grouping for that indicator (Table 9.1) show that the first group, with high indices, did not change in comparison to the results of 2004. As before, Navoi region, Tashkent city, Bukhara region, and Tashkent region lead the list of regions, with indicators of per capita GRP above the national average. At the same time, the indices somewhat decreased in Bukhara (from 1.085 to 1.064) and Tashkent (from 1.032 to 1.020) regions.

Significant changes took place in the second group: the majority of regions experienced a significant decrease in indices. The indices increased only in Kashkadarya (from 0.747 to 0.845), Andijan (from 0.744 to 0.761) and Khorezm (from 0.699 to 0.670) regions.

The Republic of Karakalpakstan remained in the third group, with the lowest index of per capita GRP production, 0.466, although it slightly increased against the level of 2004. The Republic of Karakalpakstan's per capita GRP production is 3.9 times less than that of Navoi region, and 3.7 times less than the level of Tashkent city (Table 9.1).

The territorial structure of GRP in 2005 underwent certain changes in comparison to that of 2004. The highest shares of GRP were in Tashkent city (14.3%), Tashkent region (9.6%), Fergana region (7.9%), Kashkadarya region (7.8%), and Andijan region (6.9%).

During the period under review, the share of GRP increased in Tashkent city (from 13.2 to 14.3%) Navoi region (from 5.3 to 5.6%), Kashkadarya (from 6.9 to 7.8%), Andijan (from 6.7 to 6.9%) and in the Republic of Karakalpakstan (from 2.7 to 2.8%).

This resulted from structural changes in those regions, accompanied by an increase in agricultural and industrial potential and an increase in the sector of services.

The share of GRP decreased in Fergana, Tashkent, Surkhandarya, Samarkand, and Namangan regions, while remain-

**Table 9.1. Breakdown of Regions by Production of Per Capita GRP**

2004	Index	2005	Index
I. High Level	above 1,000	I. High Level	above 1,000
Navoi Region	1.705	Navoi Region	1.802
Tashkent city	1.678	Tashkent city	1.750
Bukhara Region	1.085	Bukhara Region	1.064
Tashkent Region	1.032	Tashkent Region	1.020
II. Medium Level	from 0.500 to 1.000	II. Medium Level	From 0.500 to 1.000
Sirdarya Region	0.768	Kashkadarya Region	0.845
Jizzakh Region	0.768	Andijan Region	0.761
Fergana Region	0.759	Sirdarya Region	0.749
Kashkadarya Region	0.747	Jizzakh Region	0.744
Andijan Region	0.744	Fergana Region	0.724
Khorezm Region	0.669	Khorezm Region	0.670
Surkhandarya Region	0.657	Surkhandarya Region	0.603
Samarkand Region	0.601	Samarkand Region	0.596
Namangan Region	0.572	Namangan Region	0.505
III. Low Level	Below 0.500	III. Low Level	below 0.500
Republic of Karakalpakstan	0.423	Republic of Karakalpakstan	0.466

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

In the majority of the regions the growth rates of industrial production were higher in 2005 than in 2004. While the national growth rate of industrial production reached 107.3%, several regions significantly surpassed that level, including Andijan (135.2%), Jizzakh (134.2%) and Khorezm (129.3%) regions, the Republic of Karakalpakstan (128.6%), Tashkent city (118.8%), Sirdarya (112.4%) Samarkand (112.1%) and Namangan (108.9%) regions. In 6 out of 14 regions, growth rates of industrial production were lower than the national average.

During the period under review, Navoi region could not ensure growth of industrial production (97.1%), which is explained by the decrease in growth of industrial production at the JV "ZarafshanNewmont".

In the reviewed period, per capita index of industrial production (IP) increased in the Republic of Karakalpakstan, Andijan, Jizzakh, Kashkadarya, and Khorezm regions. In the other regions the index declined. In such regions as Bukhara (from 0.952 to 0.807), Namangan (from 0.343 to 0.289) and Fergana (from 0.911 to 0.818) the decline was significant. The leading position in per capita industrial production belongs to Navoi region, at 1910.3 thousand Soums. This indicator is more than 20 times higher than that achieved by the Republic of Karakalpakstan (Annex 9.2).

Of the whole volume of industrial production nationwide, non-government forms of ownership account for 78.4%, while in some regions this indicator reaches levels close to 100%.

In production of consumer goods, all regions except Surkhandarya (94.7%) ensured high growth rates in 2005. In the country as a whole the production of consumer goods increased by 17.7%; while in Andijan it increased by 47.3%, in Jizzakh by 19.0%, in Kashkadarya by 11.4% and in Tashkent city by 15.1% (Annex 9.1).

In the case of Surkhandarya region, the deceleration in growth rates of production of consumer goods resulted from a significant decrease (by 76.2%) in production of the JV "Alpomish" in Jarkurgan district (Annex 9.1).

The per capita consumer goods production index declined in all regions, except for Andijan region, where it increased (from 2.259 to 3.055). High indicators for that index were observed in Andijan region, where the value of per capita consumer goods equaled 343.8 thous. Soums, and in Tashkent city, where it was equal to 223.7 thousand Soums. These indicators are higher than those of the Republic of Karakalpakstan by 10.6 and 6.9 times respectively (Annex 9.2).

As in 2004, the per capita production of consumer goods in 2005 was lower than the national average in 10 regions. This is explained by the fact that local authorities do not pay enough attention to supplying the domestic market with domestic goods and to the development of small businesses and the private sector with that aim.

In the production of agricultural products in 2005 all regions attained high growth rates. While the national average growth rate equaled 106.2%, this level was surpassed in Sirdarya (by 13.7%), Bukhara (by 9.7%),

Kashkadarya (by 9.8%) and Fergana (by 8.6%) regions. High growth rates of this indicator were provided mainly through the relatively effective work of farm entities and dekhkan entities (Annex 9.1).

The per capita agricultural output index calculations revealed that in 2005 in comparison to 2004, that index increased in a majority of regions. Decline of the index was observed in Andijan, Jizzakh, Namangan, Surkhandarya and Fergana regions (Annex 9.2).

In 10 regions out of 14, per capita agricultural output was higher than the national average (206.2 thousand Soums). The highest indicator was observed in Sirdarya region (337.0 thous. Soums) and the lowest level in the Republic of Karakalpakstan (107.9 thous. Soums), a difference of more than three times. High indicators of development of the real sector of economy in regions resulted from increased investment activities in those regions.

In 2005, growth rates of investments in the majority of regions were high; in 7 out of 14 regions the growth rates of investments exceeded the national average of 107.0%. High growth rates of investments were observed in Navoi (134.1%), Surkhandarya (116.1%) and Fergana (111.5%) regions (Annex 9.1). Investments in those regions were channeled to establishing new production capacities, developing infrastructure and developing small businesses and private entrepreneurship, as well as to improving the effectiveness of agricultural production.

Investments did not grow in the following five regions: Republic of Karakalpakstan (69.0%), Samarkand (87.9%), Sirdarya (80.8%), Khorezm (40.5%) regions and in Tashkent city (80.4%). This was related to the fact that the majority of the above-mentioned regions completed construction of industrial and other objects by the end of 2004, which required large amounts of capital investments, and by the decrease in the level of financing from the national budget. In other regions investments were quite high.

During the period under review, index indicators of investments (per capita estimate) increased in Andijan, Bukhara, Kashkadarya, Namangan, Surkhandarya, and Fergana regions. In the other regions, the indicators decreased significantly. In the majority of the regions per capita investments were significantly lower than the national average (115.5 thous. Soums) (Annex 9.2).

In the structure of investments in basic capital, the largest share, around 64%, was of non-state ownership. Several regions exceeded that level, including Andijan, Jizzakh, Tashkent, Khorezm regions and Tashkent city. This indicator was especially high in Bukhara region, at 82.5% and Kashkadarya region, at 74.0%.

Funds of enterprises and of the population accounted for a large share of financing sources: more than 60%. This indicator is even higher in the regions of Bukhara – 79.4%; Jizzakh – 69.2%, Kashkadarya – 77.6%, and Surkhandarya – 71.9%.

Relatively lower levels in the funds of enterprises and the population were achieved in the Republic of Karakalpakstan – 44.6% and in Tashkent city – 40.3%.

Foreign investments and credits account for 19.2% of the structure of investments of Uzbekistan. The biggest share in this indicator belongs to Tashkent city – 39.8% followed by Navoi region – 25.5%.

Growth rates of retail trade in 2005 were quite high in the majority of regions. In 7 regions out of 14, those growth rates were higher than the national average of 108.2%. Especially high rates were achieved in such regions as Khorezm (118.1%), Sirdarya (115.6%), Surkhandarya (113.2%), Bukhara (112.8%), Namangan (112.6%) and in Tashkent city (113.6%).

High growth rates of retail trade turnover were achieved thanks to the enhancement of retail trade, household services and public catering services, especially in rural areas (Annex 9.1).

Industrial goods account for 50% of retail trade turnover, with Tashkent city (25.8%) in the leading position. The situation is the same in the case of non-foodstuffs (24.1%).

99.6% of retail trade turnover is from non-state ownership. In the case of Jizzakh and Kashkadarya regions this indicator is equal to 100%. Private ownership accounts for 83.9% of national trade turnover. And in the case of Andijan, Jizzakh, Kashkadarya, Surkhandarya, Tashkent and Fergana regions this indicator exceeds 90%.

Indices of retail trade turnover (per capita estimate) declined in the majority of the regions. However, they increased in such regions as Bukhara (from 0.873 to 0.918), Namangan (from 0.720 to 0.727), Surkhandarya

(from 0.716 to 0.757), Sirdarya (from 0.595 to 0.624) and Khorezm (from 0.605 to 0.694) and in Tashkent city (from 2.816 to 3.011). In 11 regions, per capita indicators are lower than the national level (Annex 9.2).

The highest indicator of per capita retail trade turnover was observed in Tashkent city – 657.7 thous. Soums, while the lowest indicator was from the Republic of Karakalpakstan – 104.1 thous. soums.

In 2005 paid services developed at sustainable high rates. The national average growth rate of paid services equaled 115.0%. At the same time 10 regions exceeded that level, especially Kashkadarya (133.5%), Sirdarya (127.8%), Namangan (126.9%), Khorezm (124.8%) and Samarkand (124.6%) regions (Annex 9.1).

The high growth rates of paid services were encouraged by the significant development of such services as education, healthcare, and public transportation, communications and the Internet.

Per capita paid services increased in a majority of regions, but in some they decreased particularly in Andijan, Jizzakh, Tashkent regions and in Tashkent city (Annex 9.2).

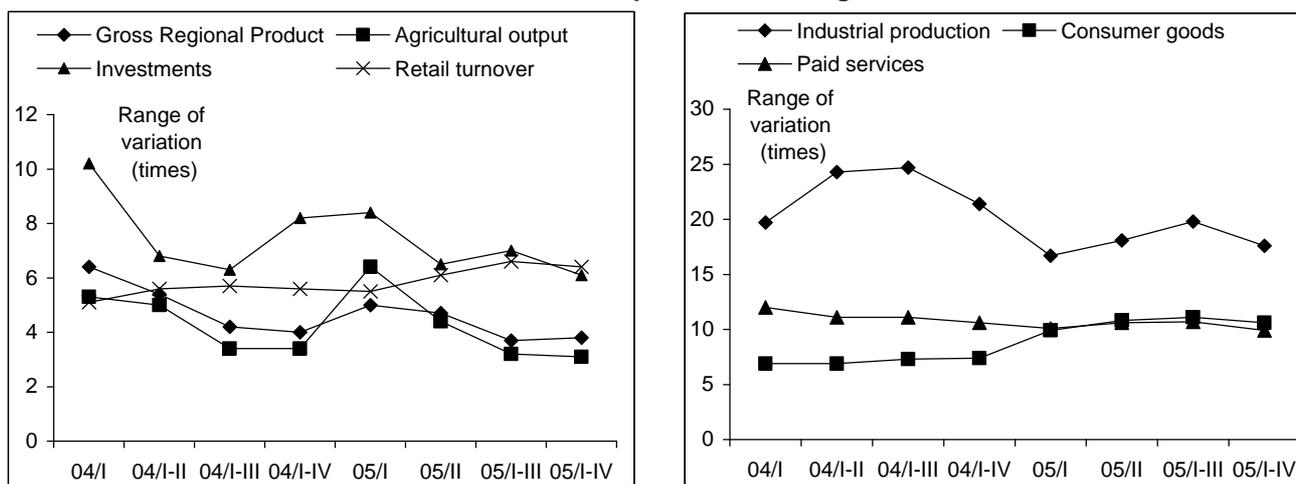
In terms of per capita production of services, the leading position was held by Tashkent city with 240.2 thous. Soums, which was 9.8 times higher than the level in the Republic of Karakalpakstan, where per capita production of services equaled 24.4 thous. Soums (Annex 9.2).

Non-state ownership accounts for 71.7% of paid services. At the same time, several regions surpassed the level of 80%, including Bukhara, Kashkadarya, Namangan, Tashkent, Khorezm and Andijan. In the Republic of Karakalpakstan, state-ownership in this indicator accounts for only 48.9%.

A special feature of the recent social and economic development of the regions (in 2005 as opposed to 2004) lies in the decreasing differentiation among the regions in terms of key indicators, such as GRP (from 4.0 times to 3.8 times), production of industrial products (from 21.4 times to 20.1 times), production of agricultural products (from 3.4 times to 3.1 times), investments (from 8.2 times to 6.1 times) and paid services (from 10.6 times to 9.8 times).

At the same time, interregional differentiation increased in the production of consumer goods (from 7.4 times to 10.6 times) and retail trade turnover (from 5.6 times to 6.3 times), which is explained by the increased gap in 2005 in the production of consumer goods and per capita trade turnover (Graph 9.2).

**Graph 9.2. Tracking Changes in the Level of Differentiation of Social and Economic Development of the Regions**



Source: The computations were made by authors based on the data from the State Statistics Committee of Uzbekistan.

In addition to Tashkent city, interregional differentiation increased with Navoi region, especially in such indicators as GRP and industrial production. These regions hold significant economic and industrial potential.

One of the positive results of the economic development of 2005 was the sustainable development of GRP, along with other macro indicators in a majority of the regions, and especially in such underdeveloped regions as Jizaakh, Surkhandarya, Khorezm, and the Republic of Karakalpakstan. During the period under review interregional differentiation declined in key indicators of development of the real sector of the economy.

However, a major gap still exists among the regions, especially in terms of industrial production and production of consumer goods, which in turn, requires further targeted government policies to regulate social and economic development of the regions, to deepen and enhance the scale of structural reforms and to modernize the economy based on the most effective ways of using the natural and economic potential of the regions.

One of most important directions for the sustainable social and economic development of the regions is to enhance the private sector of the economy while accelerating the development of small businesses, farm entities, and entrepreneurship as a whole. In addition, further administrative reforms and qualitative changes in the functions of the territorial management structures should be implemented, taking into account the clear division of authority between the central government and local authorities.

**Annex 9.1. 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	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	89.7	98.3	100.9	107.5	108.7	106.0	103.5	107.1	108.1	103.0	109.2	111.0
Andijan Region	102.8	108.9	102.9	101.9	106.2	108.5	106.1	102.9	104.7	111.0	109.8	111.0
Bukhara Region	104.2	103.5	102.0	101.9	106.1	106.9	100.0	104.2	109.2	104.5	106.1	111.5
Jizzakh Region	104.2	106.5	110.0	110.2	107.7	107.0	105.1	109.8	110.4	106.5	106.5	112.0
Kashkadarya Region	99.0	105.0	109.4	105.7	105.7	106.2	103.2	105.5	109.6	103.8	105.0	106.5
Navoi Region	103.2	101.4	104.7	101.9	107.6	100.6	102.5	105.1	108.9	102.0	98.8	100.0
Namangan Region	108.0	104.5	103.2	103.7	107.7	106.5	103.2	106.7	109.8	106.9	106.0	106.1
Samarkand Region	104.6	103.5	107.9	106.9	106.5	106.4	104.2	107.2	109.5	104.1	103.6	103.0
Surkhandarya Region	105.5	108.0	103.7	103.8	105.9	104.5	103.6	105.4	111.5	106.7	103.5	101.8
Sirdarya Region	102.6	102.9	97.5	102.4	108.4	111.4	102.8	112.3	112.4	104.6	104.0	114.6
Tashkent Region	110.9	104.2	103.4	103.0	109.0	103.0	104.1	107.8	109.0	104.5	103.8	103.4
Fergana Region	106.1	99.5	104.8	101.9	104.9	105.6	102.1	102.5	105.2	103.5	103.9	103.4
Khorezm Region	94.8	103.0	103.6	103.9	108.2	106.6	102.5	105.1	110.7	104.4	108.1	111.9
Tashkent City	104.5	104.3	101.5	104.0	104.0	111.4	105.5	104.4	103.3	103.0	107.8	110.5
Republic of Uzbekistan	103.8	104.2	104.0	104.2	107.7	107.0	104.8	106.2	108.9	104.8	107.2	107.2

Source: State Statistics Committee of Uzbekistan

**Industrial Output**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	111.2	95.9	94.9	100.3	123.5	128.6	117.7	125.2	128.8	141.3	147.2	141.6
Andijan Region	90.0	128.1	105.5	118.6	135.8	135.2	126.9	127.2	131.9	153.5	146.9	143.4
Bukhara Region	103.9	107.7	103.3	102.5	109.1	106.6	108.4	106.6	109.7	108.5	102.0	101.5
Jizzakh Region	122.7	119.9	130.3	114.1	112.8	134.2	114.3	120.9	116.1	120.0	131.5	136.6
Kashkadarya Region	101.9	104.4	112.1	114.4	110.0	101.4	111.4	110.8	109.9	103.0	101.5	101.7
Navoi Region	102.2	100.6	106.5	99.4	106.0	97.1	101.4	107.0	107.7	100.1	95.0	96.6
Namangan Region	126.1	118.2	112.5	113.0	109.4	108.9	109.0	106.0	114.1	112.4	116.8	113.9
Samarkand Region	97.3	105.7	106.7	111.1	113.4	112.1	115.0	111.2	115.7	111.6	102.9	107.2
Surkhandarya Region	107.9	104.1	113.1	104.6	109.2	105.5	106.4	110.1	121.8	111.7	105.2	103.1
Sirdarya Region	106.7	101.3	122.4	100.1	107.2	112.4	103.2	109.8	115.5	111.4	119.3	121.1
Tashkent Region	108.8	109.1	108.3	102.6	109.6	103.9	107.2	108.2	109.2	107.8	102.8	105.4
Fergana Region	108.5	101.4	108.7	102.4	104.3	105.5	103.6	103.7	105.8	106.3	106.9	105.5
Khorezm Region	103.5	100.3	103.9	98.9	102.9	129.3	100.1	100.2	108.1	118.5	141.3	139.5
Tashkent City	113.2	110.5	111.7	112.5	104.8	118.8	115.2	112.6	105.1	111.4	111.2	119.4
Republic of Uzbekistan	105.9	107.6	108.3	106.2	109.4	107.3	108.8	109.6	110.2	108.3	107.5	107.7

Source: State Statistics Committee of Uzbekistan

REGIONS

**Consumer Goods Production**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	105.9	113.5	104.3	104.7	110.3	112.9	119.0	122.8	119.4	117.1	107.0	111.3
Andijan Region	92.6	123.7	97.8	120.3	145.3	147.3	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	107.8	107.6	108.9	104.7	104.8	100.5
Jizzakh Region	123.6	119.3	159.3	129.0	115.2	119.0	113.0	117.8	120.5	120.6	117.7	113.5
Kashkadarya Region	113.1	112.7	108.5	108.8	117.1	111.4	127.0	124.7	115.2	107.8	110.7	110.8
Navoi Region	115.5	99.98	114.5	105.3	97.3	103.9	107.3	106.4	101.4	98.3	100.6	100.4
Namangan Region	124.3	111.8	118.1	114.0	110.4	107.7	124.7	116.1	116.2	112.1	107.0	109.7
Samarkand Region	92.4	102.6	102.5	106.8	109.9	105.5	100.3	102.0	112.4	110.1	100.7	104.2
Surkhandarya Region	111.9	100.9	114.8	106.2	115.2	94.7	129.5	124.1	132.6	101.8	95.1	91.1
Sirdarya Region	110.1	120.2	103.0	104.2	107.5	100.2	108.0	115.3	114.9	109.9	99.1	100.0
Tashkent Region	112.5	114.1	106.6	107.1	111.7	109.9	106.6	111.1	112.9	107.7	106.2	115.7
Fergana Region	111.3	98.1	106.4	101.6	119.2	108.9	113.2	122.4	119.5	115.8	113.0	108.6
Khorezm Region	107.8	94.0	95.0	114.5	101.4	104.1	96.6	102.5	101.5	96.5	106.5	105.9
Tashkent city	111.3	101.3	120.2	102.7	103.4	115.1	115.7	101.5	103.3	107.4	103.7	121.0
Republic of Uzbekistan	106.2	107.6	108.4	108.4	113.4	117.7	114.9	114.4	113.3	116.4	117.1	119.4

Source: State Statistics Committee of Uzbekistan

**Agricultural Output**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	65.6	90.5	101.2	131,7	112.5	103.7	109.1	124.0	117.4	105.8	123.3	123.7
Andijan Region	110.2	107.1	102.1	101,5	107.0	105.3	106.9	100.8	105.4	107.7	100.6	100.0
Bukhara Region	106.3	102.0	102.6	108,1	110.5	109.7	104.5	112.8	120.6	109.4	110.9	122.5
Jizzakh Region	100.1	106.9	113.8	118,5	111.2	106.2	108.9	121.1	117.5	106.8	106.6	113.1
Kashkadarya Region	89.4	106.9	119.9	106,6	109.0	109.8	107.7	106.1	119.6	109.0	112.5	110.6
Navoi Region	105.0	107.2	106.7	114,0	108.6	104.9	108.8	109.4	114.7	109.7	108.6	109.2
Namangan Region	111.5	101.4	101.5	102,6	112.7	103.9	104.0	113.6	115.8	104.7	100.8	100.9
Samarkand Region	104.8	103.9	112.4	112,7	108.4	105.9	107.6	111.8	112.8	105.2	103.6	101.0
Surkhandarya Region	106.7	110.5	102.8	105,6	106.7	102.0	106.0	106.2	116.2	108.8	102.7	100.3
Sirdarya Region	101.9	105.8	98.9	113,8	111.8	113.7	107.1	129.4	117.5	105.8	105.5	119.1
Tashkent Region	114.9	103.7	102.8	101,0	112.8	104.2	106.7	116.9	111.7	106.7	110.7	106.5
Fergana Region	113.5	100.4	105.7	100,4	110.0	108.6	106.4	104.1	110.6	104.6	110.3	102.5
Khorezm Region	82.8	103.6	106.8	114,4	114.1	104.1	106.3	113.2	117.8	104.2	111.1	112.8
Tashkent City												
Republic of Uzbekistan	103.1	104.2	106.1	107,3	108.9	106.2	106.7	110.4	114.2	106.6	107.2	107.3

Source: State Statistics Committee of Uzbekistan

REGIONS

**Investments**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	83.0	106.0	114.0	115,7	98.3	69.0	в 2.3 p.	150.5	122.6	45.6	53.6	74.8
Andijan Region	101.0	118.0	105.0	108,3	62.5	112.7	100.1	65.6	64.3	74.3	112.7	113.6
Bukhara Region	108.0	119.0	103.0	92,3	168.2	111.3	в 2.1 p.	186.8	131.6	135.1	139.0	139.0
Jizzakh Region	111.0	78.0	112.0	63,4	111.0	108.3	92.6	101.8	100.9	125.0	166.1	142.6
Kashkadarya Region	93.0	130.0	94.0	112,8	81.4	110.6	56.5	77.1	79.4	125.8	127.9	127.0
Navoi Region	116.0	107.0	98.0	113,8	87.8	134.1	66.1	101.3	106.2	102.3	135.6	135.0
Namangan Region	103.0	96.0	100.1	101,7	95.5	105.4	107.2	108.9	100.1	102.8	100.0	98.5
Samarkand Region	104.0	107.0	99.8	105,4	109.6	87.9	104.8	108.5	104.5	81.6	83.2	90.2
Surkhandarya Region	102.0	116.0	101.0	104,0	102.0	116.1	в 2.3 p.	156.1	121.0	105.7	125.2	133.4
Sirdarya Region	100.2	101.0	84.0	102,4	150.9	80.8	45.5	103.7	159.3	166.1	91.7	73.3
Tashkent Region	106.0	112.0	102.0	108,5	122.0	101.4	147.2	123.1	119.9	96.6	100.7	108.0
Fergana Region	107.0	109.0	108.0	68,4	90.4	111.5	31.2	73.4	80.8	2.4 p.	128.8	123.3
Khorezm Region	102.0	96.0	103.0	65,6	2.2 p	40.5	97.4	101.0	124.7	94.0	98.4	79.2
Tashkent City	92.0	106.0	81.0	112,6	121.6	80.4	130.3	95.7	100.4	126.1	117.4	122.6
Republic of Uzbekistan	101.0	104.0	103.6	104,8	105.2	107.0	99.6	102.2	103.0	104.2	105.4	106.9

Source: State Statistics Committee of Uzbekistan

**Retail Trade Turnover**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	103.6	117.9	102.6	107.9	100.9	100.3	103.5	100.7	100.1	112.4	108.3	101.0
Andijan Region	106.4	109.3	107.3	100.0	89.2	100.1	102.0	93.7	88.1	100.1	101.5	102.1
Bukhara Region	110.3	114.7	107.1	101.1	102.9	112.8	100.2	101.4	103.5	114.1	114.5	113.4
Jizzakh Region	111.0	125.8	116.2	101.8	103.1	102.1	103.3	101.2	100.8	109.5	107.2	102.7
Kashkadarya Region	109.9	116.5	105.5	108.3	100.8	108.5	100.1	100.4	100.3	107.7	107.7	109.1
Navoi Region	105.4	113.3	105.0	104.3	123.5	106.8	109.1	111.2	120.4	117.8	109.8	107.7
Namangan Region	110.8	118.8	109.9	100.9	100.0	112.6	105.6	101.1	101.0	110.1	112.9	114.4
Samarkand Region	113.6	106.6	100.1	108.8	101.1	106.0	104.8	104.3	103.4	107.5	110.2	107.0
Surkhandarya Region	121.4	113.7	113.3	109.5	107.3	113.2	105.1	105.5	104.0	109.8	113.1	113.3
Sirdarya Region	105.8	102.1	95.4	100.3	103.6	115.6	101.1	101.8	106.1	105.4	101.3	107.3
Tashkent Region	123.3	115.9	101.1	108.6	111.5	104.2	110.9	111.9	109.5	106.3	102.9	103.5
Fergana Region	103.2	103.5	106.2	100.0	100.0	102.2	100.8	101.6	97.9	102.5	100.8	101.2
Khorezm Region	111.8	107.9	101.1	96.0	103.4	118.1	104.5	101.5	101.7	112.2	118.7	119.5
Tashkent City	100.2	104.7	90.1	110.2	114.2	113.6	109.2	110.1	109.9	114.9	112.2	114.4
Republic of Uzbekistan	107.6	109.6	101.7	105.1	104.7	108.2	105.1	104.2	103.1	108.7	108.1	108.6

Source: State Statistics Committee of Uzbekistan

REGIONS

**Paid Services**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	114.2	105.1	112.4	111.3	109.2	116.4	120,4	115.4	109.2	129.6	110.0	114.1
Andijan Region	138.9	113.3	109.3	120.1	132.7	117.4	113,3	125.9	133.5	123.1	115.9	114.3
Bukhara Region	112.6	108.4	117.0	109.3	117.3	117.5	121,3	122.2	118.0	120.3	116.8	116.3
Jizzakh Region	110.4	116.2	114.2	114.1	118.5	113.9	116,1	124.6	117.7	129.1	113.7	113.7
Kashkadarya Region	137.2	114.6	121.9	108.2	102.6	133.5	104,9	104.9	104.6	117.1	119.9	122.6
Navoi Region	116.8	118.7	108.9	118.8	121.8	118.1	123,6	116.7	119.3	125.6	124.6	123.3
Namangan Region	137.0	115.5	110.8	122.6	117.4	126.9	111,8	116.1	116.9	116.6	120.1	127.3
Samarkand Region	118.1	121.8	104.0	124.5	113.9	124.6	118,9	116.0	115.7	119.0	116.1	123.0
Surkhandarya Region	109.6	114.2	114.3	112.6	111.7	113.1	113,7	112.0	112.0	118.2	109.3	109.0
Sirdarya Region	104.8	125.8	109.6	103.1	112.5	127.8	116,5	106.5	107.5	127.1	122.7	127.0
Tashkent Region	111.5	100.2	109.2	105.5	113.2	113.0	108,0	112.8	114.9	114.3	115.2	115.9
Fergana Region	115.5	113.5	110.5	112.4	119.6	122.6	119,1	118.6	115.3	118.9	121.4	124.5
Khorezm Region	107.9	106.4	102.0	107.0	119.2	124.8	123,9	123.1	122.9	134.8	121.0	123.1
Tashkent City	113.5	117.4	112.8	105.3	105.7	108.4	104,6	103.3	104.9	103.5	104.6	107.9
Republic of Uzbekistan	115.7	114.7	108.6	107.9	113.8	115.0	111,8	113.5	113.9	114.2	111.6	114.5

Source: State Statistics Committee of Uzbekistan

**Annex 9.2. Level of Differentiation of Social and Economic Development of the Regions  
(based on per capita indices)**

**Gross Regional Product**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	0.456	0.413	0.392	0.400	0.423	0.466	0.352	0.364	0.407	0.412	0.373	0.475
Andijan Region	0.911	0.935	0.834	0.764	0.744	0.761	0.585	0.707	0.749	0.685	0.653	0.947
Bukhara Region	1.109	1.155	1.101	1.053	1.085	1.064	0.974	1.092	1.035	1.041	0.922	1.402
Jizzakh Region	0.742	0.669	0.666	0.702	0.768	0.744	0.563	0.568	0.672	0.558	0.484	0.701
Kashkadarya Region	0.722	0.724	0.780	0.782	0.747	0.845	0.666	0.656	0.722	0.820	0.698	0.794
Navoi Region	1.039	1.267	1.490	1.685	1.705	1.802	1.753	1.860	1.697	2.060	1.711	1.773
Namangan Region	0.667	0.637	0.599	0.543	0.572	0.505	0.434	0.471	0.545	0.441	0.396	0.491
Samarkand Region	0.709	0.679	0.693	0.669	0.601	0.596	0.457	0.494	0.645	0.472	0.426	0.578
Surkhandarya Region	0.716	0.727	0.760	0.734	0.657	0.603	0.473	0.606	0.679	0.528	0.525	0.641
Sirdarya Region	0.807	0.822	0.776	0.754	0.768	0.749	0.525	0.626	0.711	0.555	0.579	0.777
Tashkent Region	1.040	1.017	1.032	1.041	1.032	1.020	1.012	0.989	1.022	1.075	0.919	1.002
Fergana Region	0.941	0.866	0.843	0.785	0.759	0.724	0.738	0.744	0.766	0.725	0.657	0.706
Khorezm Region	0.832	0.717	0.720	0.681	0.669	0.670	0.595	0.586	0.661	0.593	0.532	0.644
Tashkent city	1.563	1.665	1.671	1.682	1.678	1.750	2.257	1.976	1.665	2.113	1.750	1.754
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	3.4	4.1	4.3	4.2	4.0	3.8	6.4	5.4	4.2	5.1	4.7	3.7
Without Tashkent City	2.4	3.1	3.8	4.2	4.0	3.8	5.0	5.1	4.2	5.0	4.6	3.7

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

REGIONS

**Industrial Output**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	0.279	0.247	0.201	0.193	0.207	0.228	0.207	0.184	0.184	0.255	0.218	0.235
Andijan Region	0.909	1.071	0.979	0.960	1.028	1.170	0.939	0.988	0.999	1.161	1.066	1.201
Bukhara Region	1.100	1.096	1.133	0.996	0.952	0.807	1.083	0.985	0.931	0.955	0.752	0.776
Jizzakh Region	0.278	0.360	0.380	0.418	0.381	0.406	0.440	0.389	0.326	0.439	0.383	0.406
Kashkadarya Region	0.931	0.953	0.917	0.967	1.050	1.375	1.055	1.048	1.036	1.398	1.181	1.302
Navoi Region	3.144	3.318	4.046	4.490	4.431	4.580	4.086	4.461	4.560	4.251	3.928	4.581
Namangan Region	0.466	0.450	0.396	0.377	0.343	0.289	0.375	0.331	0.339	0.311	0.258	0.279
Samarkand Region	0.515	0.459	0.398	0.351	0.330	0.304	0.315	0.305	0.312	0.298	0.237	0.282
Surkhandarya Region	0.323	0.302	0.283	0.286	0.295	0.261	0.294	0.297	0.276	0.303	0.228	0.232
Sirdarya Region	0.460	0.541	0.427	0.429	0.402	0.380	0.533	0.396	0.365	0.474	0.348	0.361
Tashkent Region	1.368	1.487	1.569	1.537	1.650	1.528	1.604	1.690	1.720	1.514	1.378	1.582
Fergana Region	1.169	1.024	1.072	0.944	0.911	0.818	0.928	0.898	0.923	0.838	0.724	0.820
Khorezm Region	0.507	0.467	0.414	0.363	0.319	0.354	0.369	0.297	0.282	0.360	0.320	0.335
Tashkent City	1.700	1.744	1.729	1.823	1.468	1.336	1.568	1.604	1.519	1.162	1.158	1.358
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	11.3	13.4	20.1	23.3	21.4	20.1	19.7	24.3	24.7	16.7	18.1	19.8
Without Navoi Region	6.1	7.1	8.6	9.4	8.0	6.7	7.7	9.2	9.3	5.9	6.3	6.8

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

**Consumer Goods Production**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	0.425	0.400	0.341	0.332	0.307	0.287	0.344	0.321	0.299	0.328	0.264	0.281
Andijan Region	1.354	1.616	1.677	1.847	2.259	3.055	1.998	2.215	2.199	3.147	2.836	3.106
Bukhara Region	1.501	1.589	1.550	1.458	1.477	1.297	1.639	1.604	1.576	1.380	1.179	1.246
Jizzakh Region	0.266	0.385	0.573	0.655	0.723	0.688	0.618	0.628	0.599	0.704	0.636	0.677
Kashkadarya Region	0.616	0.656	0.560	0.615	0.470	0.444	0.507	0.458	0.440	0.447	0.394	0.405
Navoi Region	0.616	0.619	0.640	0.712	0.707	0.624	0.721	0.677	0.665	0.612	0.522	0.594
Namangan Region	0.665	0.579	0.571	0.561	0.573	0.507	0.609	0.611	0.613	0.546	0.440	0.495
Samarkand Region	1.226	1.072	1.016	0.884	0.836	0.788	0.789	0.793	0.837	0.799	0.664	0.789
Surkhandarya Region	0.433	0.377	0.364	0.356	0.403	0.321	0.365	0.382	0.395	0.317	0.281	0.293
Sirdarya Region	0.700	0.700	0.659	0.669	0.677	0.552	0.723	0.697	0.675	0.597	0.475	0.524
Tashkent Region	1.071	1.164	1.184	1.252	1.206	1.096	1.206	1.212	1.252	1.007	0.924	1.140
Fergana Region	1.076	1.009	0.934	0.844	0.903	0.826	0.824	0.916	0.948	0.830	0.747	0.839
Khorezm Region	0.787	0.543	0.551	0.544	0.501	0.426	0.568	0.515	0.487	0.469	0.426	0.423
Tashkent City	2.093	2.004	2.360	2.396	2.124	1.988	2.367	2.128	2.100	1.797	1.644	2.015
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	8.2	5.3	6.9	7.2	7.4	10.6	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	10.6	5.8	6.9	7.3	9.9	10.8	11.1

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

## Agricultural Output

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	0.425	0.354	0.360	0.435	0.480	0.523	0.361	0.329	0.439	0.311	0.336	0.562
Andijan Region	1.170	1.119	1.150	1.051	1.042	1.020	0.845	1.342	1.087	0.797	0.979	0.948
Bukhara Region	1.340	1.375	1.321	1.376	1.418	1.498	1.242	1.632	1.352	1.245	1.322	1.630
Jizzakh Region	1.331	1.211	1.329	1.425	1.497	1.488	1.504	1.165	1.252	1.246	0.892	1.394
Kashkadarya Region	0.831	0.851	0.980	1.006	1.003	1.089	0.560	0.796	0.992	0.671	0.778	0.984
Navoi Region	1.238	1.144	1.149	1.218	1.218	1.268	1.222	1.491	1.110	1.231	1.289	1.287
Namangan Region	1.019	0.996	1.042	0.970	0.968	0.852	0.565	0.767	0.847	0.639	0.660	0.828
Samarkand Region	1.037	1.081	1.110	1.154	1.084	1.142	1.225	1.075	1.282	1.283	0.956	1.195
Surkhandarya Region	1.187	1.353	1.311	1.279	1.222	1.084	1.204	1.388	1.320	1.222	1.200	1.240
Sirdarya Region	1.397	1.501	1.373	1.393	1.636	1.634	1.286	1.519	1.503	1.346	1.473	1.778
Tashkent Region	1.511	1.539	1.268	1.255	1.242	1.250	1.916	1.168	1.205	1.996	1.213	1.189
Fergana Region	0.977	1.024	0.995	0.931	0.883	0.846	1.058	0.968	0.885	0.984	0.936	0.801
Khorezm Region	1.144	1.025	1.072	1.098	1.173	1.193	1.529	1.150	1.243	1.350	0.965	1.201
Tashkent City												
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	3.6	4.2	3.8	3.3	3.4	3.1	5.3	5.0	3.4	6.4	4.4	3.2

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

## Investments

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	0.819	0.648	0.832	1.119	1.111	0.722	1.878	1.451	1.314	0.759	0.642	0.786
Andijan Region	0.552	0.505	0.439	0.641	0.377	0.401	0.382	0.352	0.386	0.250	0.338	0.390
Bukhara Region	0.705	0.627	1.063	0.701	1.174	1.346	1.144	1.185	1.092	1.554	1.265	1.368
Jizzakh Region	0.577	1.112	1.155	0.583	0.611	0.601	0.410	0.527	0.569	0.561	0.713	0.699
Kashkadarya Region	1.897	1.931	1.608	1.760	1.507	1.583	1.374	1.497	1.503	1.667	1.604	1.745
Navoi Region	2.014	2.535	2.125	2.213	1.835	2.294	1.707	1.779	1.929	1.548	1.913	2.215
Namangan Region	0.701	0.501	0.476	0.471	0.449	0.453	0.457	0.504	0.518	0.467	0.450	0.510
Samarkand Region	0.523	0.453	0.404	0.531	0.505	0.432	0.537	0.640	0.589	0.367	0.400	0.467
Surkhandarya Region	0.470	0.509	0.451	0.600	0.641	0.712	0.854	0.736	0.699	0.902	0.814	0.845
Sirdarya Region	0.772	0.754	0.713	0.592	0.819	0.618	0.511	0.849	1.054	0.694	0.602	0.680
Tashkent Region	0.747	0.762	0.899	0.872	1.085	1.074	1.235	1.118	1.055	1.040	0.897	1.005
Fergana Region	0.587	0.796	0.931	0.480	0.396	0.405	0.275	0.499	0.439	0.662	0.506	0.495
Khorezm Region	0.630	0.695	0.855	0.437	0.874	0.339	0.525	0.511	0.589	0.405	0.406	0.426
Tashkent City	2.730	2.272	2.131	2.864	3.088	2.462	2.800	2.382	2.426	3.086	2.209	2.713
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	5.8	5.6	5.3	6.5	8.2	6.1	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	5.7	6.8	5.1	5.0	2.1	5.6	5.7

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

REGIONS

**Retail Trade Turnover**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	0.470	0.485	0.491	0.505	0.503	0.476	0.489	0.485	0.491	0.513	0.430	0.466
Andijan Region	1.272	1.314	1.356	1.284	1.077	1.012	1.349	1.171	1.086	1.204	0.966	1.014
Bukhara Region	0.756	0.841	0.902	0.855	0.873	0.918	0.886	0.882	0.881	0.922	0.815	0.915
Jizzakh Region	0.420	0.530	0.630	0.602	0.617	0.590	0.623	0.601	0.600	0.612	0.506	0.557
Kashkadarya Region	0.662	0.697	0.715	0.755	0.768	0.743	0.735	0.748	0.757	0.708	0.653	0.745
Navoi Region	0.728	0.770	0.808	0.800	0.965	0.960	0.841	0.901	0.961	0.906	0.813	0.964
Namangan Region	0.691	0.747	0.805	0.773	0.720	0.727	0.801	0.746	0.743	0.795	0.675	0.740
Samarkand Region	0.791	0.709	0.707	0.744	0.711	0.693	0.717	0.705	0.694	0.706	0.621	0.685
Surkhandarya Region	0.588	0.594	0.665	0.700	0.716	0.757	0.711	0.742	0.727	0.729	0.681	0.767
Sirdarya Region	0.691	0.665	0.639	0.609	0.595	0.624	0.576	0.591	0.618	0.558	0.506	0.606
Tashkent Region	1.033	1.041	1.038	1.112	1.179	1.148	1.107	1.172	1.190	1.091	0.990	1.137
Fergana Region	1.219	1.145	1.232	1.153	1.076	0.972	1.141	1.100	1.084	1.011	0.876	0.980
Khorezm Region	0.662	0.685	0.668	0.610	0.605	0.694	0.606	0.594	0.591	0.649	0.601	0.686
Tashkent City	2.854	2.789	2.452	2.550	2.816	3.011	2.516	2.718	2.808	2.831	2.604	3.056
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	6.8	5.7	5.0	5.0	5.6	6.3	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	2.4	2.8	2.4	2.4	2.4	2.3	2.4

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

**Paid Services**

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III
Republic of Karakalpakstan	0.410	0.340	0.358	0.380	0.393	0.398	0.379	0.406	0.387	0.440	0.355	0.390
Andijan Region	0.870	0.856	0.771	0.813	0.999	0.975	0.590	0.800	0.925	0.615	0.694	0.887
Bukhara Region	0.927	0.856	0.878	0.883	0.894	0.927	0.928	0.934	0.908	0.983	0.863	0.932
Jizzakh Region	0.455	0.441	0.448	0.481	0.488	0.477	0.502	0.522	0.493	0.560	0.459	0.484
Kashkadarya Region	0.463	0.420	0.423	0.462	0.420	0.470	0.410	0.400	0.402	0.415	0.374	0.427
Navoi Region	0.707	0.718	0.663	0.755	0.844	0.949	0.933	0.845	0.841	1.027	0.838	0.917
Namangan Region	0.500	0.479	0.448	0.506	0.504	0.575	0.542	0.506	0.519	0.540	0.470	0.567
Samarkand Region	0.626	0.612	0.606	0.687	0.666	0.718	0.620	0.589	0.630	0.632	0.574	0.677
Surkhandarya Region	0.480	0.441	0.444	0.457	0.469	0.490	0.475	0.455	0.467	0.491	0.396	0.454
Sirdarya Region	0.366	0.361	0.366	0.382	0.395	0.453	0.459	0.407	0.387	0.502	0.401	0.430
Tashkent Region	0.732	0.670	0.616	0.631	0.653	0.633	0.652	0.671	0.677	0.638	0.590	0.642
Fergana Region	0.610	0.553	0.556	0.586	0.631	0.681	0.600	0.585	0.597	0.655	0.574	0.666
Khorezm Region	0.707	0.596	0.581	0.602	0.659	0.714	0.696	0.657	0.634	0.833	0.654	0.684
Tashkent City	3.455	3.761	4.090	4.201	4.156	3.918	4.548	4.415	4.304	4.197	3.749	4.157
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of variation (times)	8.4	11.1	11.4	11.1	10.6	9.8	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	2.3	2.5	2.3	2.4	2.4	2.4	2.4

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

## 10. Uzbekistan Economy in 2006

High rate of economic growth achieved in 2004 and 2005 (with GDP growth rates 7.7 and 7.0% respectively), favorable macroeconomic and legal environment established for individual enterprises and small business development, positive institutional and structure transformations in all economic sectors can become a good basis for further intensification of market reforms and ensuring sustainable development of economy in 2006.

The most important priorities of intensification of economic reforms in 2006 were determined by the President I.A. Karimov in his report at the meeting with the Cabinet of Ministers, devoted to results of social-economic development in 2005 and the most important priorities of intensification of economic reforms in 2006.

The following were determined to be most important priorities of intensification of economic reforms:

**First priority** – deepening of budget and tax reforms, unification and simplification of tax structure and decreasing tax burden.

**Second priority** – deepening and expanding the scale of structural reforms and economy modernization. Establishing all necessary conditions for attracting foreign investment.

**Third priority** – significant expanding of private sector, strengthening of guaranties and forming a favorable environment for business.

**Fourth priority** – ensuring employment as an important condition to increase income and living standard of population.

**Fifth priority** – all possible stimulation of export and saving foreign currency resources, rational and effective use of them.

**Sixth priority** – deepening reform in housing and communal sector.

**Seventh priority** – ensuring saving of energy resources, first of all in power intensive industries.

The target benchmark for 2006 is to ensure high sustainable economic growth rate of 7.7% (Table 10.1). Main factors and prerequisites for economic growth will be making favorable macroeconomic environment, co-ordination of monetary and fiscal policy, results of planned institutional and structure transformations. Macroeconomic stability and economic growth are directly connected with such regulators and key factors as inflation, tax and credit.

Central Bank intends to limit inflation rate to 6-8% within a year.

In order to increase the stimulating role of taxes and reduce tax burden from 1 January 2006 income tax rate was reduced from 15 to 12 percent, single social payment from 31 to 25 percent, income tax rate on dividends and interest from 15% to 10%, environmental tax and monthly duty on the right to trade were cancelled.

**Target benchmarks of Uzbekistan economy development in 2006**  
(in % to previous year)

Main index	Actual figures for 2005	Forecast for 2006
GDP	107.0	107.2
Industry	107.3	109.0
Agriculture	106.2	105.2
Investment	107.0	107.5
Trade	108.2	108.5
Services	115.0	113.2
Inflation	107.8	106.0-108.0
State budget deficit (in % to GDP)	0.1	1.5

Source: State Statistics Committee of Uzbekistan. Report of the President of the Republic of Uzbekistan at Cabinet of Ministers meeting on 10 February 2006. "Narodnoe slovo" 11 February 2006 #29

Take into consideration, that banking sector remains to be one of directions of economy development measures for further reforming of banking and financial sector were planned. Mainly, these are increasing population and businessmen's trust to banks, forming a competitive environment on interbank market, improvement of quality and developing new banking services, substantial expansion in issuing micro loans.

For the purposes of accelerated development of micro lending for small business entities and private entrepreneurship it is planned to establish a special bank with regional branches in all republican provinces in I quarter 2006.

Ensuring sustainable economic growth in many respects is connected with real results in intensification of institutional transformations. Major emphasis here is made on large scale development of private property, forming a middle class of owners, advanced development of small business and farms.

Radical steps have been foreseen to speed up privatization of large-enterprises, especially monopolist enterprises (“Uzbekelmash”, “Uzbekenergo”, “Uzbekistan Railways”, “Uzbekneftgas”). For these purposes a new Privatization Program for 2006-2008 will be developed.

In the context of creation of favorable conditions for business, the following were foreseen: improvement of legislation with providing for decreasing penalties imposed on entrepreneurial entities, deepening the court reform aimed at protection legitimate interests and a greater freedom to business, decreasing businesses’ costs related with going through administrative procedures in state authorities and market institutions, reducing the number of licenses issued and permission documents.

The target benchmark of small business development is to bring its share in GDP to 45% by 2007. In 2006 it is planned to end reorganization of shirkats into farms.

Structural transformations and modernization of economy are aimed at ensuring quality structural changes.

It is planned to consistently the share of industry in GDP to 24-26%, services share – 45%-47% by 2010. In industry the priorities are ensuring stable operation of fuel and energy complex and non-ferrous metallurgy, high growth rates in machine building and light industry.

To ensure strong development of services sector a targeted program will be developed and realized for period up to 2010 year. Along with mobilization of internal resources and capabilities the planned structural shifts first of all demand, creation of necessary conditions to attract foreign investment. Stimulation of investment attracting needs improving legal base, efficient use of benefits and preferences given, implementing the new forms of attracting foreign investment, developing investment partnership between state and private structures, providing freedom to financial structures to found and select investment projects, informing foreign partners about country’s investment potential.

Structural changes and economy modernization are directly aimed at primary development of export – oriented productions and export stimulation. The objective is set to develop special foreign trade organizations to promote goods and services to foreign markets, increase the competitiveness level through applying international quality control system; increase efficiency of export goods transportation; develop new draft of Custom Code.

Measures aimed at support and stimulation of regions, especially of rural areas are among important tasks of economic reforms in 2006. Improving development and placement of industry in regions taking into account efficient use their natural and economic potential are envisaged. To solve this problem a special program on developing small enterprises or branches of large enterprises in inhabited localities will be worked out with granting them benefits and preferences.

Active social policy remains the utmost priority. Ensuring rational employment and based on this increase in incomes and well-being of population are brought to the forefront. For these purposes realization of a package of targeted programs to develop out-work, family business, small private enterprises, services, stimulation of micro-lending system and increasing cattle head in farms and dekhans.

Structural reforms and economy modernization are aimed pay rise and establishing conditions to increase income of population.

In 2006 it is planned to conduct two-stage pay rise to government servants with average monthly pay rise of 1.4 times.

Deepening reforms in the housing and communal services envisages development of specific measures to strengthen associations of housing owners, forming market of repair and communal services.

2006 was declared a ‘Year of medical staff and charity’. In this context a special targeted program will be developed. This year implementation of a package of social programs will be continued – development and reforming of housing market, staff training, development of general schools, providing population with drinking water and natural gas, development of child sport etc.

Efficiency of steps and programs planned, achieving targeted benchmarks of sustainable economic growth and consistent increase in well-being of population in 2006 depends in many respects on efficiency of operation of state structures, timely launch of market mechanisms of conducting business.

# ANALYTICAL PART

## 1. Optimizing The Corporate Income (Profit) Tax

This paper was prepared on the basis of the research report "Optimizing the Corporate Income (Profit) Tax as a Factor of Economic Growth and the Facilitation of Investment and Business Activity" developed by the Chamber of Tax Consultants with financial support from the USAID's Economic Policy Reform Project. The authors of this paper are R.K. Karimov, I.A. Indina, Sh.U. Khaidarov, Kh.A. Ortikov, E.I. Ostrogzhskaya, D.O. Musaev, A.V. Mokshin, T.M. Minibaeva, et al.

### Background

Optimizing the corporate income (profit) tax is an essential factor of economic growth and an incentive for investment and business activity. The Government of Uzbekistan annually makes decisions on reducing the income (profit) tax rate. However, for the bulk of enterprises, the reduction of the nominal rate does not lead to an adequate reduction in the withholding of profits, as for the purpose of computing income (profit) tax, the taxable income is assessed based on the economic (accounting) profit adjusted for expenses that – according to the current laws – are not subject to deduction from the taxable base.

**Table 1. Coefficient of Increase of Accounting Profit to Taxable Profit by Sector, 2004**

Agency	Coefficient of Increase	Real Tax Rate, %
UzbekNefteGaz	1.2	21.6
UzbekEnerg	1.7	30.6
UzKhlopkoProm	1.9	34.2
UzDonMakhsulot	1.8	32.4
UzPlodoOvotshVinProm-Holding	2.0	36.0
UzMasloZhirTabakProm	2.8	50.4
UzSelkhozMash-Holding	2.9	52.2
UzEITekhSanoat	2.1	37.8
UzAvtoYul	2.0	36.0
UzCommunKhizmat	1.6	28.8
UzPitsheProm	1.3	23.4
UzStroyMaterialy	1.5	27.0
Total for Uzbekistan	1.5	27.0

Source: Computations were made by authors.

Analysis of the corporate income (profit) tax base showed that the actual average coefficient of increase for taxable profit in 2004 reached 1.5 of the accounting profit, due to its adjustment to the amount of disallowed expenses. At the same time, this ratio varies greatly across sectors, which leads to differences both in tax withholding and the real tax rate.

### Composition of Expenses

An analysis of disallowed expenses was conducted for 350 enterprises from various sectors of the economy, resulting in the following classification of expenses influencing the calculation of the taxable base:

1<sup>st</sup> group of expenses: interest on long-term debt; systemic bonuses, including for long service, as well as respective amounts payable to the social funds; payment for telecom services; expenses incurred in the course of issuing securities; expenses for maintenance and rent of business vehicles and mini-buses for transportation of company employees.

2<sup>nd</sup> group of expenses: for selected economic entities (banks, insurance companies, video rentals, video and audio recording outlets, auctions and mass entertainment facilities), all payroll expenses, including the corresponding contributions to the social funds.

3<sup>rd</sup> group of expenses: those which should be revised, with the purpose of canceling their limits or reviewing their scope (advertising, international and intercity telephone calls, business travel, social sphere and representational expenses).

Expenses for advertising and international and intercity telephone calls are deductible within the prescribed limits or "norms" computed on the basis of gross income. This approach does not reflect objective (actual) expenses for these purposes, and in addition, these expenses may be classified as necessary operational expenses. This primarily relates to advertising being one of the most effective promoters of growth in sales. Therefore we would recommend canceling limits on the deductibility of the abovementioned expenses and rendering them fully deductible given the availability of appropriate proofs of payment.

The current norms for the rent of housing are not adequate to the actual cost of rent, which leads to the fact that actual expenses are considerably higher than the prescribed standards. Particular attention should be paid to business travel expenses, which are currently deductible within the limits of the prescribed norms. An examination of international experience shows that for the purposes of estimating taxable income, business travel costs can be divided into per diem and lodging. The meals and incidentals portion of the per diem should be deductible within established limits, while lodging expenses should be deductible at their actual cost including reservation fees. This procedure for the definition and computation of business trip expenses should be included in the amended version of the Tax Code of Uzbekistan. It is also advisable to review per diem rates for travel within Uzbekistan.

As far as expenses for the social sphere are concerned, we would recommend canceling limits, because in practice, local governments responsible for imposing such limits often approve them at the level of actual expenses. Canceling the procedure of subjecting these expenses to limits on deductibility will considerably simplify the process of tax calculation, including the need to visit various government offices for their approval.

According to preliminary estimates, in the surveyed enterprises the total value of additional business expenses recommended for deduction would amount to UZS 36.8 billion. The proposed deductions would decrease the amount of taxes paid by enterprises by UZS 6.6 billion or 9.3%. Reducing the taxable base by UZS 6.6 billion due to additional deductible expenses is equivalent to decreasing the tax rate by 1.2 percent. This value would be higher for those particular companies which service long-term loans and will provide a tangible opportunity for such companies to increase their own financial resources.

Labor as a factor of production is exempt from taxation. However, the law enforcement practice of Uzbekistan reveals a number of discrepancies which are not resolved by current legislation. The interpretation of "wages" in overall taxation practice and in its particular forms does not comply with the definition used in labor statistics and is ambiguous and subject to constant change. Annex 1 to the Regulation on Composition of Expenses contains a whole series of wage-related payments which, in contradiction to the Tax Code, are included in the taxable income of a business entity. This includes one-off bonuses envisaged by systemic regulations and acting as an incentive. Moreover, in accordance with paragraph 1.28 of the Regulation, the amount of the respective payments to social funds is subject to inclusion in the taxable income. This also contradicts Article 19 of the Tax Code of the Republic of Uzbekistan pursuant to which the amount paid as mandatory insurance contribution charged on wages in accordance with legislation is deductible from gross income when computing taxable income.

A tax system should encourage an employer to increase wages. This leads to growth in the actual purchasing power of the population, and consequently, to growth in internal demand. In addition, this allows a considerable increase in tax revenues from individual income tax and from the unified social payment.

### **Loss Carry Forward**

Loss carry forward is a standard, internationally accepted tool for reducing the tax burden. When this approach is applied, the part of the profit for the reporting period directed to covering the losses of the previous periods is exempt from the profit tax within a specified time frame. Accordingly, the implementation of such a provision is important for both businesses and the government, because it supports the viability of an enterprise and ensures a respective tax revenue inflow for the government.

Practically all transition economies, including the CIS countries, have already enacted this provision. According to a Decree by the President of Uzbekistan dated 11 April 2005 "On Additional Measures for Encouraging the Attraction of Direct Private Foreign Investment", losses from basic operations incurred by newly established enterprises with foreign investment may be carried forward in equal shares for a period of five years, to be covered from taxable income in the years following the reporting period (year) in which the loss was sustained.

For the purpose of taxable income (profit) computation, allowed deductibles are subtracted from gross income (Article 19 of the Tax Code). In many cases, enterprises at the beginning of their operation – due to low gross income – cannot utilize their right to deduct all allowed expenses, i.e. losses are generated. The possibility provided to carry it forward to subsequent periods enables an enterprise to take full advantage of its rights for deduction. At the same time, losses can be incurred also due to non-productive outlays in excess of prescribed limits, for which it would be unreasonable to provide an opportunity to decrease the taxable income of future periods. The opportunity to reduce taxable income by incurring non-productive excessive expenses may encourage enterprises to indulge in such expenses and thereby to evade taxation.

The enactment of loss carry forward provision will be one more step towards the reduction of the tax burden on enterprises, enabling them to compensate for losses that were not covered in the reporting period with the profit of future periods, and aligning the tax system of the Republic of Uzbekistan with international standards.

Article 22 of the Tax Code of the Republic of Uzbekistan provides that losses incurred from the sale of fixed assets used in business activity for less than three years, as well as losses from the sale of securities, are not deductible from gross income. Accordingly, these losses are not considered as losses subject to being carried forward.

Based on the wording of the Decree, it is obvious that application of the loss carry forward provision is limited. Firstly, this privilege is provided only to newly established enterprises with foreign investments, and, secondly, the carried-forward loss is offset against future profits by equal shares over 5 years. Clearly, this rule does not allow sufficiently rapid compensation for losses, but at least it allows the period over which a loss can be carried to be extended. Moreover, the limitation to five years for carrying forward a loss may result in a situation when some losses will never be deducted from taxable profit.

Based on the study of the above issue, it would be advisable to carry forward losses from a reporting period over 5 years by offsetting them against taxable profit of future periods for the entire amount of the loss arisen or for a part of that amount, but not for more than 50 percent of the taxable profit of reporting period. At the same time, this provision should be applied to all taxpayers of the profit tax.

### Optimizing Depreciation Deductions

Based on the experience of foreign countries it is proposed:

For taxation purposes, fixed assets subject to depreciation should be divided into groups with the following depreciation rates.

**Table 3. Proposed Depreciation Rates**

Group	Fixed Assets	Depreciation Rate, %
I	Buildings and Facilities	5
II	Transmission Devices	8
III	Power Machinery and Equipment	8
IV	Working Machinery and Equipment by Type of Activity (except mobile transport)	15
V	Mobile Transport (depending on type)	8-20
VI	Computers, Peripherals, Data Processing Equipment	20
VII	Other Fixed Assets	10-15

For taxation purposes legal entities are permitted to apply the following depreciation methods: For fixed assets included in groups **I, II and III** of depreciable assets (buildings, transmission devices, power equipment) the straight-line depreciation method is applied irrespective of the date of commencement of their service. At the same time, for taxation purposes, depreciation charges for each subgroup are computed by applying the depreciation rate fixed in the accounting policy of the legal entity but no higher than the rate permitted by the Tax Code.

Fixed assets included in groups **IV, V, VI and VII** may be depreciated applying one of the following methods:

- Straight-line method;
- Double-declining balance depreciation method in line with the Tax Code; and
- Units-of-production method, applying depreciation rates for each subgroup prescribed by the Tax Code. If the underutilization of equipment results in lesser depreciation charges than in the case of applying the straight-line method, the difference may not be deducted from the taxable income;

Economic entities exploiting fixed assets intensively and/or using multiple shifts, as well as agribusiness entities (poultry factories, stock-raising and processing enterprises, fur farms, large greenhouse facilities and so forth) are eligible to apply a special coefficient which, may not exceed 2, to the depreciation rates established by the Tax Code;

Economic entities which transferred (received) fixed assets under a leasing agreement are eligible to apply a special coefficient, not exceeding 3, to the depreciation rate established by the Code for a respective subgroup; and

A taxpayer purchasing used fixed assets may determine the depreciation rate for such items, taking into account the period of useful life reduced by the number of years (months) of this item's exploitation by previous owners.

### Conclusion

Based on the results of this research the following recommendations were developed:

1. Investment-oriented tax privileges should be improved by increasing their share in taxable income (profit). We would advise a 50% reduction of taxable income against the amount of investment.
2. In determining the amount of investment eligible for the application of privileges, it is necessary to consider the retirement/transfer of fixed assets, because in practice there are companies which purchase fixed assets for production purposes and after one or two years transfer or sell them to other companies. In order to prevent this we would recommend the following formula for an investment-oriented benefit:

*Investment-oriented privilege = amount of investment – depreciation – residual value of liquidated fixed assets.*

3. The investment-oriented privilege for the leveraged purchase of fixed assets should be applied to the fact of the purchase and not to the repayment of the loan.
4. The current tax privilege for newly established enterprises created in rural settlements and villages should be cancelled. In order to promote the capitalization of funds by newly established enterprises, it would be appropriate to apply the investment-oriented preference without a limitation on the amount of investment.
5. Cancel the provision of tax holidays (from 2 to 7 years), as well as the preferential system of taxation with the simultaneous application of the loss carry forward provision, for those newly established enterprises which pay reduced tax rates with the simultaneous application of the loss carry forward provision.

The optimal combination of fiscal and stimulating functions of the tax system would enable tax levers to be applied without detriment to the economy, creating the pre-conditions for economic growth and the inflow of investment into the production sector – thus ensuring a sound foundation for stable revenues for the government budget.

## 2. An Assessment Of The Costs Of Entrepreneurial Activity Taxation And Ways To Reduce Them

The present research is based on results of the study of the Center for Economic Research and Education "An assessment of the costs of entrepreneurial activity taxation" conducted by the research group consisting of Sh. Mirzadjanov, D.V. Trostyanskiy, O. Namozov, S. Voronin, T. Khayrullaev, O.Gaybullaev and T. Khaidarov with financial support from USAID's Economic Policy Reform Project.

### Introduction

The present study examines key problems of the taxation and tax administration of entrepreneurs in the Republic of Uzbekistan, by means of a selective sociological survey. The survey was conducted among entrepreneurs and employees of the tax authorities in the cities of Tashkent, Namangan, Fergana, Samarkand and Bukhara. A total of 70 entrepreneurs and 30 employees of the State Tax Inspection (STI) were polled.

The poll was aimed at evaluating the state of taxation and tax administration from the point of view of both taxpayers (managers of companies and enterprises) and tax inspectors of the district tax authorities. More than half of the representatives of both groups believe that the tax burden remains extremely high. The majority of respondents from both groups believes that it is necessary to implement comprehensive tax reform.

The results of the poll of entrepreneurs and tax inspectors indicate that the current taxation mechanism is to a great extent burdensome for the private sector and prevents the formalization of its activity. Entrepreneurs find the single tax to be the most burdensome for them (70% of polled entrepreneurs). Also, they believe that contributions to various budgetary and off-budgetary funds (14% of those polled) and value added tax (10%) are problematic. The majority of those polled (87%) do not hide the fact that they evade taxes, which in their opinion is the direct effect of the high tax burden and forced contributions (93%).

The current problems of tax policy hinder not only the development of the private sector, but also any increase in the quality of the tax administration or the taxpayer's culture. The poll showed that 34% of tax inspectors polled believe that the major reason for difficulties in tax administration is the imperfection of current laws.

### Survey Results

The results of the sociological survey show that the majority of entrepreneurs polled (84%) believe that the current taxation system hinders business development (Diag. 1).

About 10% of those polled believe that the current taxation system somewhat hinders, rather than stimulates, business development.

In the course of the poll it was revealed that 93% of respondents face the problem of "hidden" taxes (Diagram 2).

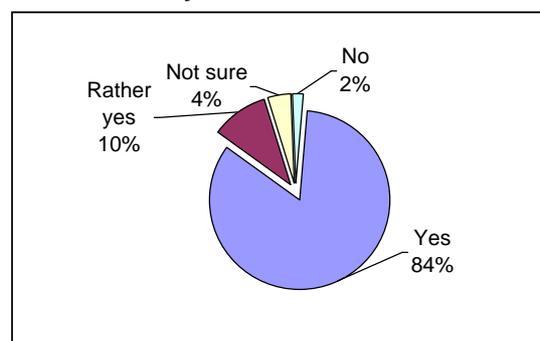
Entrepreneurs noted that they have to regularly assign funds for the reconstruction of medical institutions, public buildings, sports development and other purposes. At the same time, 7% of respondents noted that they have not experienced "hidden" taxes or "forced sponsorship".

The results of the poll of entrepreneurs have also revealed several other aspects of business taxation:

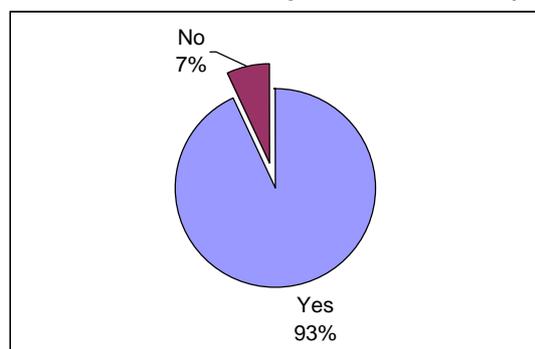
- the majority of entrepreneurs polled expressed the opinion the taxation system requires substantial revision (89%);
- a substantial number of respondents (36% or one third) experience problems with corruption in the course of inspections, about 26% face the problem of illegal actions of inspectors, and 20% have experienced pressure from inspectors;
- an absolute majority of respondents (87%) believe that there is illegal tax evasion among entrepreneurs due to the high tax burden.

Thus, the results of the survey of entrepreneurs prove

**Diagram 1. Do you believe that the current taxation system hinders the development of your business?**



**Diagram 2. Have you faced the problem of "hidden" taxes or "forced sponsorship" (contributions to various public events, etc)?**



the need to improve the taxation system and tax administration. The “unified” taxation system introduced in 1998 and other measures that followed later have not managed to create an efficient tool for stimulating the development of entrepreneurial activity. With this purpose, on 1<sup>st</sup> July 2005, the government took steps aimed at radically improving the taxation system and protecting entrepreneurs’ rights.

**Results of the Survey of Tax Inspectors**

When polling entrepreneurs, one of the major questions was the question about the main problems the entrepreneurs face in the course of inspections by the tax authorities. Needless to say, it was interesting to reveal, in the course of the study, the major problems experienced by tax inspectors when conducting inspections of economic entities. In the opinion of 34% of those polled, the major problem is inaccurate address data for enterprises, making it difficult to find the object of inspection (Diagram 3). 30% of respondents believe that problems between entrepreneurs and tax inspectors arise due to the poor quality of filing systems and relevant documents.

It is interesting that almost every tenth tax inspector notes the interference of third parties in the inspection process as a major problem.

Also interesting was the opinion of representatives of the tax authorities regarding the level of the tax culture and consciousness of domestic entrepreneurs. The majority of those polled (60%) believes that domestic entrepreneurs have yet to be prepared to pay voluntarily all taxes and contributions (Diagram 4). 23% of respondents believe that when taxation is eased, entrepreneurs will voluntarily pay all taxes.

In the course of the study an attempt was made to learn the opinion of tax inspectors on the taxes themselves. The poll among entrepreneurs has shown that there is a firm belief among them that tax rates in Uzbekistan are far too high. Thus the tax inspectors were asked their attitude to the statement: “Tax rates are too high.” 40% of respondents agreed with the statement, 33% did not agree with this, and 27% agreed that some tax rates are too high.

The poll showed that the majority of respondents (87%) believes that there is illegal tax evasion among entrepreneurs (Diagram 5). However, 5% of those polled believe that there is no illegal tax evasion among entrepreneurs.

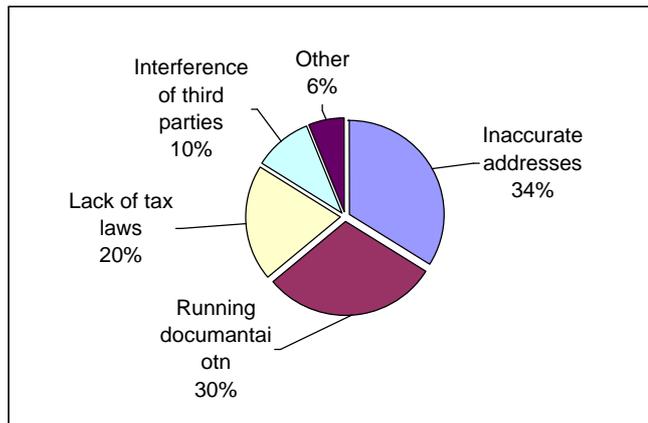
A considerable number of those polled expressed the opinion that entrepreneurs evade taxes due to the high tax burden and the corruptibility of officials.

The survey of tax inspectors also revealed several other problems in the taxation mechanism and tax administration:

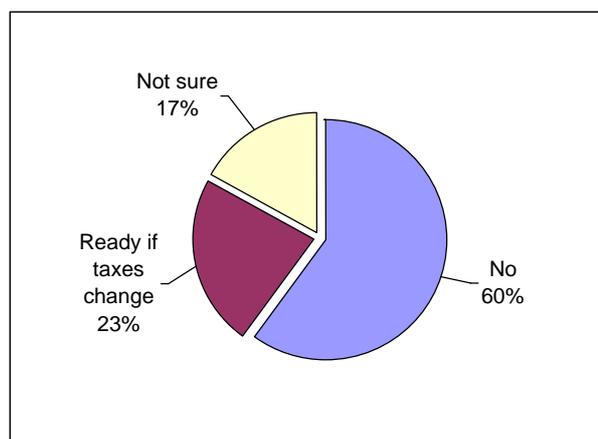
The vast majority of tax inspectors (94%) realizes the need to conduct tax reforms and only 3% believe that reforms are not necessary or they are unsure of their necessity;

35% of polled respondents, i.e. every third, noted the need to ease the tax burden, 26% recognized the advisability of removing irrelevant functions, and 20% noted the need to improve legal protection for tax inspectors;

**Diagram 3. What major problems does the staff of the Tax Committee face when conducting inspections of entrepreneurs’ activity?**



**Diagram 4. In your opinion, how law-abiding are domestic entrepreneurs, and how prepared are they to voluntarily pay all taxes and contributions?**



34% of respondents, or every third polled, consider the main problem to be the imperfection of laws, 20% – the poor skills level of employees and the unwillingness to pay taxes on time; and every tenth polled consider the main problem to be the interference of third parties in the process of inspections. Thus, results of the survey of tax inspectors confirmed the conclusion that the current taxation mechanism and tax administration is too burdensome, prevents small business from developing and creates conditions for breaking the laws.

### Conclusions.

Based on the survey findings the following recommendations were drafted:

**The unification and simplification of tax laws is an important step.** At meetings with entrepreneurs it was remarked that the major characteristics of existing tax legislation include its instability, complexity (inconvenience, ambiguity) and non-transparency (with regard to third-level regulatory acts – procedures, instructions and so forth). In the opinion of many respondents, the laws must be stable, simple and understandable. If a need arises to introduce changes in the laws, the tax and other authorities should submit timely substantiation in each individual case. In practice, unfortunately, there is a tendency to eliminate problems in the laws by introducing new instructions and regulations “on the fly,” without in-depth study of causes and impacts.

**Introduction of the single tax payment (STP) for enterprises must be based on sales volume and not on number of staff.** The number of staff is extremely hard to monitor, while sales are registered in compulsory reports. In this respect, it is advisable to find the optimal level of sales volume which would determine the switch to STP.

**Reduction of the single tax payment with the aim of reduction taxation costs of entrepreneurs.** In addition, the poll of entrepreneurs showed that 67% of respondents consider that an acceptable rate for STP is 10%, and 21% of those polled agree to pay a single tax at the rate of 7% or 8%. The majority of polled entrepreneurs (66%) stated that entrepreneurs would pay taxes in the full amount if the current tax rates were reduced.

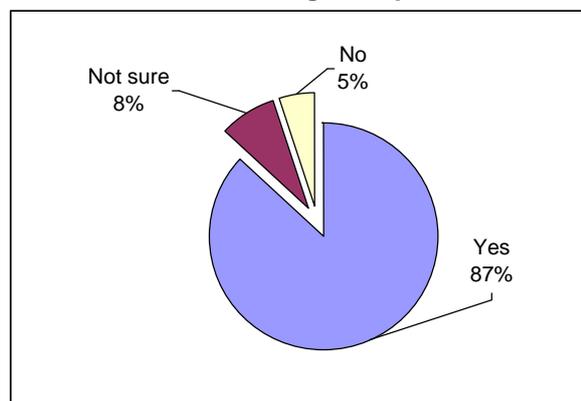
**An important way to improve the taxation of entrepreneurship would be the choice of another tax base for the STP.** According to Article 6 of the Tax Code, the tax base for STP is gross sales. This does not take into account the unequal conditions for economic entities with differing shares of material and equivalent costs. Enterprises with high material costs will pay considerably more than those with low material costs. Thus, small-scale enterprises making technically complicated products with high added value will be put into disadvantageous economic conditions.

The majority of experts and entrepreneurs concur that it is advisable **to carry forward losses of enterprises** when imposing STP. Under current procedure, enterprises selling their goods at a price below actual costs are not allowed to deduct losses from sales. This limits considerably the number of entrepreneurs willing to use the STP.

It is recommended that all tax benefits be **gradually cancelled or terminated and no new tax benefits be introduced**. The tax burden should be even and fair for all individuals and legal entities (including exporters).

The implementation of the proposed measures will allow a certain improvement of the business environment for the development of entrepreneurship. Taking into account that the country is at the stage of accession to the WTO, it is advisable to change the current taxation system so that its mechanisms correspond to international rules and at the same time facilitate strengthened competitiveness of domestic goods production. The system of taxation should create stimuli for the efficient use of resources and hence increased competitiveness of enterprises' activity. At the same time, the tax system should establish equal economic conditions for local commodity-producers in their competition for markets, sources of raw materials and capital.

**Diagram 5. Do you consider that there is illegal tax evasion among entrepreneurs?**



### 3. FORMING A CENTRAL ASIAN COMMON MARKET, TAKING INTO ACCOUNT THE NATIONAL INTERESTS OF UZBEKISTAN

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The objective opportunities and pre-conditions for the creation of a Central Asian common market – a synergy of the regional economies within the framework of the Eurasian Economic Community (EurAsEC) and their development on a common integrated basis – are as follows:

First, a high degree of interaction, resulting from long-term coexistence and ultimately representing a basis for the organization of economic cooperation and partnership in extremely diverse integrative forms;

Second, retention of social and economic stability and interethnic accord; and

Third, the availability of service infrastructure – the formerly common power system, networks of oil and gas pipelines, railroads, highways and telecommunications, as well as a common information field.

A high level of industrial cooperation, a sound resource base and transportation and power networks have determined in the past and will determine in the future the development of the Central Asian countries. The major factors are the following: – The self-sufficiency of the region in all kinds of mineral, power and agricultural primary resources; – An aggregate output capacity which will allow, in a relatively short time and with appropriate cooperation and investment, the organization of manufacturing of competitive goods with a high degree of added value and readiness; – Human resources, characterized by a high skill and education level as well as solid research and development potential; – The relatively low cost of labor; – The possibility of the joint and efficient use of water and other natural resources, the achievement of a safe environment, and so forth.

All the above facilitates the deepening of economic relations among the Central Asian countries. Uzbekistan's participation in the formation of a common market requires a definition of its role and place in Central Asia, primarily taking into account its interests in foreign trade and the national economy.

The **foreign trade** interests include the establishment of inter-country relations enabling the formation of competitive manufacturing and the enhancement of output competitiveness and efficiency. The most relevant issues include the operation of the economy under a regime of expanded production, the increase of innovation and investment activity, and the support of research capacity able to maintain independence in major areas of scientific and technological progress. The purposes and tasks for the creation of a common market should envisage the efficient implementation of export potential. The first steps should be focused on projects of the greatest interest among the countries of the region and the world community.

The **national economic** interests of Uzbekistan, similarly to those of the other Central Asian countries, include legal support for integration processes and the creation of an efficient mechanism to supervise the enforcement of legislation. It is necessary to design and implement measures for maintaining and developing research and manufacturing capacity, and to ensure further gradual movement towards a liberally orientated market economy, with the purpose of maximizing the growth of public and individual wealth. Consequently, the primary tasks should be focused on the elimination of distortions in the economic structure, the development of manufacturing capacities producing goods with high added value and the provision of employment for the population. The crucial factor is the ability of the economy to provide all citizens with adequate conditions and quality of life and the opportunity to realize their creative potential, spiritual needs and material requirements. We believe that the integration of the Central Asian countries in the Euro-Asian direction is an objective and decisive process, guaranteeing the economic growth and well - being of the countries of the region.

The formation of a Central Asian common market is also in the interests of Uzbekistan. Undoubtedly, Central Asia still has many unresolved issues. Nonetheless, in general, it is becoming obvious that the development dynamics have a positive character and there is a sustainable trend towards strengthening of the economy. This, in turn, creates the necessary prerequisites for the development of trade and economic cooperation. Overall, since 2004 it has become possible to overcome the negative trend towards recession in foreign trade and in Uzbekistan's relations with the other Central Asian countries – Kazakhstan, Kyrgyzstan and Tajikistan. For instance, in 2004 the foreign trade turnover with these three countries grew by 130.8% compared to 2003, including exports – 138.5% and imports – 122.1%. In 2005, the positive dynamics in the development of trade and economic cooperation improved even more, creating a very sound base for deepening regional integration. At present it is clear to everyone that urgent and acute regional problems can and should be resolved, primarily on the basis of integration of the Central Asian countries.

The acceleration of the integration process and the formation of a common market are becoming very important for the economic progress of the countries of the region. We would like to emphasize the sustainable trend in growth of foreign trade turnover with Russia – one of the major trade partners of Uzbekistan – over recent years. While in 2003 the bilateral trade turnover increased by 25.8%, in 2004 it increased by 42.9% compared to the previous year and reached USD 1.6 billion. In 2005 trade turnover between Uzbekistan and Russia achieved its peak over the last nine years, exceeding USD 2 billion – and that is not a limit. There were more than 400 joint ventures in Uzbekistan by the end of 2005 compared to 390 in 2004 and representative offices of 85 Russian companies were accredited in the country. There are 267 enterprises (246 in 2004) in various regions of Russia with the participation of residents of Uzbekistan. One of the key tasks is to involve Uzbekistan's and Russia's regions in the processes of developing trade and economic relations, as well as manufacturing and investment relations, by establishing direct contacts between local administrations and regional economic entities of both countries.

Of course, the creation of a full-fledged market may, as the EU experience indicates, take a lot of time. There is no shortage of flaws and apparent imperfections. However, in the interim, one can see the **basic outline of a regional market** (See the Annex below). And now is the time for the conceptual designation of the pre-conditions for the creation of a Central Asian common market, its key priorities and the strategic objectives for its formation, namely:

- To review the dynamics of economic cooperation in the region and identify the positive and negative outcomes of the development of integration processes in Central Asia on the path towards establishing a common market. To perform substantial and thorough analysis of the legal framework for international interaction, and to evaluate the rate of implementation of earlier achieved agreements and the steps undertaken in terms of improvement of the legal and institutional basis for multilateral international cooperation, and their compliance with the contemporary interests of Uzbekistan in the Eurasian area (EurAsEC, Shanghai Cooperation Organization (SCO) and so forth);
- To identify factors, which in future may become a foundation for the formation of a common Central Asian market and to ensure stability and safety in the region. Specifically, to study the synergy of the Central Asian and Russian economies (interests in developing relations on cooperation, transportation and services systems, the creation of free economic zones at frontier territories, the unification of investment regimes and of basic types of taxes and their rates, the elaboration of general issues and procedures for the regulation of prices and tariffs for the output of natural monopolies, the guarantee of mutual convertibility of national currencies and the establishment of a broad network of exchange outlets, the legalization of migration);
- To reflect factors which may have a disintegrative impact on the region and thereby prevent the development of international cooperation (opposing vectors in the partnership priorities of Uzbekistan and other countries of the region, disparities in economic potential, competition for the attraction of foreign capital, monopolistic positions; a lack of mutually agreed solutions for the development of transportation, communications and services infrastructure and the oil and gas sector, as well as the hydropower complex, coupled with the efficient use of water of the trans-border rivers);
- To determine the positions and geo-economic interests of Russia, the USA, China as well as Iran, Turkey, Pakistan, Afghanistan, India, Japan and the EU countries in the context of perspectives for the development of integration processes in the region (including with the attraction of Afghanistan) and technological modernization.

Therefore it is necessary to clearly define the strategic goals and tasks of Uzbekistan in the formation of a common regional market with a breakdown by major area: economic, environmental, research and development, informational and so forth.

In view of the above, key principles should be identified, to be followed by Uzbekistan and the other countries of the region based on their common interest in the further development of relations with Afghanistan (as a country with prevailing imports), China (taking into account its exports), and Russia (as the dominant country in the framework of the EurAsEC).

# Outline for the Creation of a Common Regional Market

## Foundation

- Historical legacy of the recent past and availability of high-capacity internal market;
- Unity of diversity, interrelation and synergy;
- Sustainable trend towards strengthening of stability;
- Factors facilitating the creation of favorable conditions for the development of the integration processes; and
- Use of EU experience, from cooperation and the creation of a free trade zone to customs union and further to the common free market zone (common market).

## Strategic Objectives

Development of single regional policy within the framework of cooperation and partnership in the following areas:

- trade and economic relations;
- use of water and power resources;
- creation of regional transportation system and entry to world communications;
- addressing environmental issues;
- unification of legislation in the area of pricing, tax and customs policy as well as foreign exchange regulation; and
- maintenance of traditional markets and agreement on own niches in the international market.

## Challenges

- Dependence on external investment and globalization challenges, increasing competition; and
- Geographical remoteness from potentially attractive international markets, high transportation costs of imports and exports and non-competitiveness of the member-country economies.

## Solutions

- Institutional enforcement of regional integration of both an international and supra-national character;
- Formation of a legislative and regulatory basis, trade and visa regime liberalization and accession of all member-countries to the WTO;
- Development of the regional transportation, communication and service infrastructure, including along the Great Silk Road with access to Afghanistan; and
- Creation of free economic zones at the frontier territories.

## 4. Seasonality As A Factor In The Computation Of Consumer Price Indices (the example of fruit and vegetables)

A. Nabikhojaev, S. Chepel, E. Tuhtarova

The fruit and vegetables commodity group is one of the leading groups in the basket of goods used for the calculation of the Consumer Price Index (CPI) in Uzbekistan. Its share in the basket of goods accounted for 8-10% in 2001 – 2005, which to a certain extent determined CPI dynamics.

As this group of commodities is affected by seasonality and a range of other factors, it represents one of the least stable elements of the basket. Uzbekistan belongs to a limited number of countries which experience dramatic changes in prices for fruit and vegetables. For instance, in 2004, prices for carrots varied from UZS 86 to 272 over the year (or more than threefold), cucumber prices – from UZS 155 to UZS 1002 (more than six times) and tomato prices – from UZS 128 to UZS 1277 (ten times). A similar situation was observed in 2005.

The consumption pattern of fruit and vegetables is also prone to considerable fluctuations. For instance, household expenditure surveys over 2002-2005 identified that the share of melons (water melons and melons) in the pattern of fruit and vegetable consumption varied from 0.0% in April to 26.8% in August. However, in the reported calculations of the CPI a fixed weight of 12.2% was applied throughout the year. With regard to grapes, the range of fluctuation was between 0.06% in March and 24.2% in May at a fixed weight of 7.5%, while for tomatoes – between 0.05% in February and 14.0% in June, at a fixed weight of 12.8%, and so forth. Under these conditions the use of standard approaches to the calculation of the aggregated index for the overall group (for instance Laspeyres or Paasche methods) may result in a distorted assessment of the CPI both in winter-spring and summer-autumn periods.

In addition, one has to consider the fact that Uzbekistan, given its remoteness from major transportation routes, cannot resort to imports to smooth seasonality in consumption and is mainly oriented to domestic output, which is seasonal due to climatic conditions.

For the purpose of obtaining a more reliable evaluation of the potentialities and specifics of various approaches to the seasonality factor in CPI, we have performed alternate computations of aggregated CPIs for fruit and vegetables on the basis of the actual statistics over 2004 for 16 types of fruit and vegetables and have run their comparative analysis.

From the *computation methodology* perspective, the key *issues* are as follows: which scheme of considering the consumption pattern in the computation of the aggregate price index most adequately reflects the specifics of the fruit and vegetable market of Uzbekistan; what is the most accurate approach for taking the seasonality factor into account and for reflecting the price dynamics throughout the year in the annual index; and how should the compiled price index be formed. The use of standard methods of adjustment for the seasonality factor may not provide the desired outcome, because the supply of fruit and vegetables depends not only on seasonality but also on weather conditions, crop capacity, the volume of exports to neighboring countries, and so forth.

In our analysis we have tested five methods of *estimating aggregated price index* for the fruit and vegetables group of the basket. Each of these methods is underpinned by certain premises and has its own merits and drawbacks.

**The Laspeyres method** is the most widely used in the computation of aggregate price indices and is based on the comparability of monthly indices in the consumption pattern, which is assumed to be fixed-weighted for all months of the reporting year.

The estimates demonstrate that the aggregate price index for fruit and vegetables in 2004 was 0.970. This indicator is notably higher than similar aggregate price indices for 2004, which were computed using other methods. This is explained by the application of a constant weight for the consumption pattern, which does not reflect the aforementioned specifics of the fruit and vegetable market of Uzbekistan.

The second alternative scheme for treatment of fruit and vegetables in the CPI is **using variable weights in accordance with recommendations of the Technical Mission of the IMF**. In 1994 the Laspeyres method for computation of the inflation rate on the basis of CPI was introduced in Uzbekistan's statistical practices. Together with this, IMF experts recommended applying weight variables for fruit and vegetables in the CPI computation. For other commodity groups, the application of fixed weights is recommended.

Taking the above into account, the second method is based on the following computational procedures:

1. Average consumer expenditure in kind for each of the key 16 fruit and vegetables is determined for every month on the basis of household survey data over the last three years;
2. Average national monthly prices for the previous year are estimated for every fruit and vegetable item by weighting regional prices according to the weight of the region in the consumer expenditure of the country;
3. The cost weights of each fruit and vegetable for each month are estimated by multiplying the average national monthly prices by the average national consumer expenditure in kind over the last three years;
4. Average monthly national prices of the previous year for each fruit and vegetable are estimated by dividing the total sum of the cost weights for the given fruit or vegetable by the amount of average consumer expenditure in kind for that fruit or vegetable for each month over the last three years;
5. The basket cost for each month is determined by multiplying the average in kind consumer expenditure of the last three years for each month by the average national prices of the previous year for each fruit and vegetable; and
6. Shares of each fruit and vegetable in the commodity group for each month are estimated by dividing the amount of consumer expenditure for the specified fruit and vegetable for the given month by the amount of consumer expenditure for the entire group of fruit and vegetables for the same month.

The above methodology, however, does not fully reflect the structural shifts which occur in households' consumer expenditure on fruit and vegetables, because all the computations are based on long-term indices (LTR). For instance, the December index (the growth of prices in December of the current year in relation to December of the previous year,  $LTR_{12}$ ), denoting the growth of prices throughout the entire year, is based on the structure of the month of December and therefore this index cannot take into account structural changes taking place throughout the year.

In addition, retrospective analysis of the inflation rates over January-December 2004 has indicated that the CPI values estimated using this method do not correlate with the monetary and credit policy and fiscal policy being implemented in Uzbekistan.

Another limitation of the first two methods is that the dynamics of prices within the year do not affect the annual accumulated  $LTR_{12}$  index. In fact,  $LTR_{12}$  indices are determined by the relation of December prices of the current year for product  $i$  to December prices of the previous year and, consequently, the internal dynamics of prices do not affect the annual price index  $LTR_{12}$ .

In addressing the issue of including price dynamics within the year in the procedure of annual index computation, one may attempt to apply other approaches using special methods of treatment the structural changes in the basket.

This includes an approach based on the **Rothwell method**. In contrast to the method recommended by the IMF, in which monthly weights are used, this method envisages the use of simple arithmetic mean weights derived from two adjacent monthly weights. Such an approach does not reflect the specifics of the seasonal consumption of fruit and vegetables in Uzbekistan, where volumes of consumption in two adjacent months (for instance, March-April for fruit and June-July for melons) may vary significantly. Therefore, it is not surprising that estimates computed using the Rothwell method vary from the Laspeyres fixed basket index only by 0.009.

The application of a modified Rothwell formula, which envisages the use of averaged cumulative weights, results in exactly the same outcome as in the case of applying the Laspeyres method. Despite small variations between the annual results of these two approaches, the results for selected months vary significantly.

Another opportunity for more precise consideration of changes in the consumption pattern is to use the **Tornqvist method**. The key formula is the following:

$$LTR_t = \prod (LTR_t^i)^{\{w(i-1)+wi\}/2}$$

As calculations indicate, the Tornqvist formula is more appropriate for the conditions of Uzbekistan than the Rothwell, since the Tornqvist formula provides more comprehensive coverage of the impact of structural changes ( $LTR_{12}=0,957$ ).

Using a modified Tornqvist formula which envisages the application of averaged cumulative weights allows an even more accurate consideration of structural changes in the basket ( $LTR_{12}^i=0,942$ ).

In addition to the above approaches there is the **variable price method**. This approach, like the Rothwell and Tornqvist formulas (unmodified) does not fully correspond to structural changes which take place throughout the year; however, it allows the index to be broken down into the following factors: (i) net change in prices, and (ii) structural shifts. The interaction among the above three indices is as follows:

$$\text{Variable price index} = \text{Constant price index} * \text{Structural shifts impact index, or: } 0.935 = 1.018 * 0.918.$$

The results allow the *following conclusion* to be drawn: throughout 2004, fruit and vegetable prices, taking into account structural changes, decreased on average by 6.5%, including 8.2% due to structural factors alone. However, changes purely in the prices themselves indicate an increase of 1.8%.

Despite the merit of this approach, which allows changes to be broken down according to price alone and to structural factors, we believe that it also fails to fully capture the structural changes in the course of the year, and is limited to a mere comparison of the consumption pattern in the current December to that of the previous December.

**The method used by the State Statistics Committee of Uzbekistan** since 2004 is based on the recommendations of the Ministry of Economy. It includes the scheme of using chained indices, where each of them takes into account structural changes in each month.

As the results of the calculations indicate, this approach is, in our opinion, the most adequate for taking into account the structural changes which occur throughout the year. The shortcoming of this methodology is the possibility of slight upward and downward drifts. However, the biases are far less significant than in other methods which do not take into account the characteristic sharp changes in the pattern of fruit and vegetable consumption in Uzbekistan.

*In recapitulating the results achieved*, we would like to emphasize that in most of the above methodologies, if one or another variation of the consumption pattern is used to compute the annual accumulated consolidated LTR<sub>12</sub> index, all intermediate information on monthly consumption patterns is lost (W1i, W2i, ..., W11i). In order to mitigate such data loss, i.e. to account for the monthly dynamics of the consumption pattern throughout the year, it is necessary to move towards a different scheme of construction of the accumulated index. In its first stage, the index of the monthly dynamics of the composite index is formed based on the monthly (non-cumulative) dynamics of price indices, and then, the index of cumulative dynamics LTR<sub>t</sub> is formed using derived STR<sub>t</sub> assessments as follows:

$$\text{LTR}^t = \text{LTR}^{t-1} * \text{STR}^t \quad t = 1 \div 12; \quad \text{STR}^{2003,12} = 1$$

As such, the total dynamics of the weights are used:  $W_t^t$   $t = 1 \div 12$ ; while the outcomes for the accumulated index LTR<sup>t</sup> vary notably from the assessments derived using the four previous methods, in particular for the second half of the base period.

The scheme of transition to an accumulated index (variable price index method) expands the analytical capabilities of LTR<sub>t</sub> assessment. In this case, for each month  $t$ , two of its components should be singled out in the consolidated index: the price increase for fruit and vegetables due to the immediate growth in prices for foodstuffs (at an unaltered consumption pattern) and the price change caused by shifts in the consumption pattern. Analysis of these two components indicates that structural shifts had a significant impact on the consolidated accumulated index LTR<sub>12</sub> in the base period, decreasing it by 8.2%. This was due to the decrease in the weights of those vegetables (onion, beet and carrots) in the consumption pattern which had the highest monthly price growth with regard to other fruits and vegetables.

A fifth method of CPI computation – envisaging monthly adjustment of the share of major items in the fruit and vegetables group of the basket of goods, based on actual changes in the consumption pattern and computation of long term indices – is used in statistical practices of Uzbekistan and may be recommended for other countries with similar seasonal fluctuations affecting the consumption pattern.

The performed calculations also indicate that the selection of the price index computation method may significantly affect the assessment of the annual consolidated index. The results of testing methods 1-5 testify to this fact, with index values ranging from 0.475 (5<sup>th</sup> method) to 1.018 (4<sup>th</sup> method, without accounting for structural shifts). From a methodological viewpoint, the most preferable methods are those which use all the internal information on weights and selected price indices and have the greatest analytical possibilities. In this respect, we believe that the 4<sup>th</sup> and 5<sup>th</sup> methods are the most promising, when coupled with an approach which takes into account the internal dynamics of the accumulated consolidated price index. At the same time, as new statistical reporting arrives, it will be necessary to continue relevant research with a wider use of econometric methods of time series analysis.