“UZBEKISTAN ECONOMY”

Statistical and Analytical Review for the January – March, 2006

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Content

Introduction

The Uzbekistan Economy informational and analytical review for January-March 2006 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 the period under review was 3.6%. Economic growth was secured mainly through the dynamic development of industry and services. These accounted for 3.5 percentage points of the total 3.6% growth of GDP. Industry (29.4%) and the sphere of services (44.9%) accounted for three quarters of the GDP accumulated in the period under review. Consistent modernization of the economy has ensured the promotion of investment processes. The amount of investments in fixed capital from all funding sources grew by 4.5%. In the consumer sector, prices increased by a total of 10%.

Public finance. In the 1st quarter of 2006 revenues of the state budget with respect to GDP made up 28.5%, with expenditures at 27.6%. According to preliminary data, implementation of the State budget of the Republic of Uzbekistan without targeted funds in the 1st quarter of 2006 equaled: (i) 22.6% on revenues, with respect to confirmed annual parameters of the State budget; (ii) 20.4% on expenditures. The State budget achieved a surplus of 30.6 bn. UZS.

Financial markets. The monetary policy of the CBU in the 1st quarter of 2006 was aimed at ensuring the stability of the national currency, maintaining the liquidity of the banking system, keeping the inflation rate within projected parameters, and ensuring the stability of market interest rates. As of April 1, 2006, the total capital of commercial banks of Uzbekistan equaled 5868.9 bn. UZS, while deposits in commercial banks amounted to 1 722.5 bn. UZS. In the 1st quarter of 2006, total turnover of the corporate securities market equaled 87.1 bn. UZS, which was 57.9 bn. UZS or 3.0 times greater than in the corresponding period of the previous year.

Foreign exchange market and foreign trade. The foreign exchange policy conducted by the Central Bank of Uzbekistan was aimed at developing competition among banks and improving the process of participation of authorized banks in foreign economic activities. According to the results of the 1st quarter of 2006, the nominal exchange rate of the Uzbek Soum was devalued against the US Dollar by 2.5%, against the pound sterling – by 3.4%, against the Euro – by 4.4%, and against the Japanese yen – by 2.2%.

In the 1st quarter of 2006, in comparison to the corresponding period of the previous year, foreign trade turnover of Uzbekistan increased by 4.1% and amounted to 2.38 bn. USD. Exports grew faster (104.4%) than imports did (103.6%). The positive balance of foreign trade turnover amounted to 387.1 bn. USD.

Institutional and market transformations. In the 1st quarter of 2006, in accordance with the program, 142 objects in manufacturing and social spheres of the economy were transformed into non-state-owned types of ownership. During the period under review, state-owned stocks as well as previously not-offered stocks of shares of 41 stock companies were sold for the sum of 42.4 bn. UZS, along with shares in charter funds of 67 companies with limited liabilities for the sum of 1.1 bn. UZS. Activities of small entrepreneurship were characterized by an increase in their share of GDP to 30.1%, which surpassed the level of the corresponding period of the previous year by 1.9 p.p. The number of those employed in SEs increased by more than 523 thousand people, at a growth rate of 108.3%.

Development of sectors and branches of the economy. The index of industrial production equaled 106.8%. The volume of production of added value in industry increased by 3.8%. The favorable situation in the consumer market facilitated the growth of production of consumer goods (14.2%), including foodstuffs (17.2%) and non-foodstuffs (12.7%). The growth of gross production of agriculture equaled 104.5%, including 107.5% in crop production and 104.0% in livestock breeding. The volume of retail trade turnover by the end of March 2006 amounted to 1 570.2 bn. UZS, showing an increase of 7.5%.

Employment and the labor market. The growth of the employed population continued in both absolute and relative terms. It was facilitated by measures to deepen market reforms and structural transformations in the economy. During the period under review, the employed population grew by 319 thousand persons (by 3.3%) as opposed to 339.4 thousand people (3.6%) in the 1st quarter of 2005. There was some increase in the number of employees in trade, public catering, sales and procurement.

Income and expenses of the population. Monetary per capita income increased by 26.3% in nominal and 14.7% in real terms. The main factors of the growth of per capita monetary income included decelerating growth rates of the population, active policy in the labor market, the growth of employment and strengthened state social security of the population. In the structure of consumer expenditures 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. During the period under reveiw, 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 the Republic of Karakalpakstan, Jizzakh, Kashkadarya, Surkhandarya, and Khorezm Regions.

However, major gaps between regions have remained, especially with regard to industrial production, the production of consumer goods and investments. This requires further purposeful regulation of the social and economic development of territories.

Analytical articles. The analytical review includes articles devoted to the assessment of the macroeconomic consequences of Uzbekistan's accession to the WTO, a study of the challenges and opportunities for the food industry and for the sector of reprocessing of agricultural production after the country's accession to the WTO, and also an analysis of the development of scientific methodology for the assessment of economic reforms in Uzbekistan.

The sources of information for the review include official data from the Uzbekistan Statistics Committee, the Central Bank, the 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 Economic Events

January

The meeting of the Cabinet of Ministers of the Republic of Uzbekistan was held in Tashkent. At this meeting the results of social and economic development in 2005 were considered and priorities for the intensification of economic reforms for 2006 were highlighted. The intensification and expansion of structural transformation, the modernization of the economy and the creation of appropriate conditions in order to attract foreign investors were identified as crucial priorities.

On 5 January 2006 **the President of Uzbekistan signed the Decree "On Measures for the Stimulation of Cooperation Expansion for Large-Scale Industrial Enterprises and the Provision of Services Based on the Development of Home-based Work"**. The given decree is aimed at increasing the production activities of large-scale industrial enterprises through the organization of the manufacture of certain types of finished products and services with the use of home-based labor, and in priority order in the spheres of the development of clothing, haberdashery, furniture and electronics industries.

The construction of a new liquefied gas production facility has begun at the unitary daughter enterprise (UDE) "Shurtanneftegaz" in Kashkadarya region. The construction of this facility will proceed in three stages in the period of 2006-2010. The first stage is planned to be completed by the end of 2006, by putting into operation a facility with the productive capacity of 45 tons of liquefied gas per year**.**

On 9 January 2006 **the Decree "On Measures for the Intensification of Economic Reforms in Fruit-and-Vegetable Growing and Viticulture" was adopted**. The given decree of the President identifies the main priorities in the development of this industry: the improvement of the quality of the production, the organization of the complete processing of produce and the creation of the basis required for an increase in exports.

On 12 January at the meeting of the State Tender Committee on the sale of state property to foreign investors, a **resolution on announcing and holding tenders for the sale of shares to foreign investors of the following joint-stock companies was passed:** "Navoiazot" (49.0% of shares), "Takhiatash Thermal Station" (38.9%), "Uzbekiston Pochtasi" (25.4%), "Toshkent Yog-Moy Kombinati "(10.0%) and others.

On 17 January 2006 the **Cabinet of Ministers Resolution** "On Several Issues of the Realization of the Project 'Improvement of the Water Supply System in the cities of Gulistan, Jizzakh and Karshi' with the participation of Asian Development Bank" **was passed**.

The President of the Republic of Uzbekistan Islam Karimov took part in the meeting of the Intergovernmental Council of Heads of the States of EuroAsES Members in Saint-Petersburg. At the summit of this integration community the Republic of Uzbekistan became an official member of this organization, whose strategic objective is the improvement of intergovernmental collaboration in all spheres of social and economic development.

February

On 9 February a Memorandum on Cooperation between the State Central Securities Depositary of Uzbekistan and the National Depositary Centre of the Russian Federation **was signed in Tashkent**. This memorandum identifies the main trends of cooperation for these subjects.

On 9-12 February the Centre on Coordination and Management of Securities Market Operations together with the Republican Stock Exchange "Toshkent" and infrastructural organizations of the stock market **organized the international workshop on "Issues of the Improvement of the Securities Liquidity and their Floatation on Foreign Stock Exchanges"**. A delegation from the Russian Federation and representatives of more than 140 large-scale joint-stock companies of the Republic of Uzbekistan, including commercial banks, participated in this workshop.

On 18 February **an enlarged meeting of the State Property Committee took place.** At this meeting the results of the implementation of the Program on Denationalization and Privatization, and post-privatization measures for the support of enterprises and the improvement of corporate management achieved in 2005, were considered.

At the beginning of February **an agreement on joint exploration of the uranium deposits of Uzbekistan** was reached between Uzbek Navoi Mining and Smelting Enterprise and the Russian open joint-stock company (OAO) "Techsnabexport". The OAO "Techsnabexport" is one of the world biggest companies for uranium fuel supply. The share of this company in the world market for nuclear fuel is estimated at 35%.

A videoconference for foreign investors devoted to the presentation of investment potential and prospective projects in the field of industrial development, building materials and furniture industries of Uzbekistan **took place in the International Business Centre in Tashkent**. .

A presentation of the resource potential of the portion of the Aral Sea belonging to the domestic gas-and-oil producing industry took place in the Ministry for Foreign Economic Activity. During the presentation, information on the established consortium of investors including NHC "Uzbekneftegas", Korea National Oil Corporation (Republic of Korea)), "LUKOIL Overseas" (Russia), «Petronas Carigali» (Malaysia) and CNPC (China) was distributed.

The Laws "On Ratification of the Agreement on the Allied Relationship between the Republic of Uzbekistan and the Russian Federation" and "On Ratification of the Protocol of Accession of the Republic of Uzbekistan to the Agreement on the Foundation of the Eurasian Economic Union as of 10 October 2000" were approved at the regular plenary session of the Oliy Majlis Senate of the Republic of Uzbekistan in Tashkent. It was noted during the session that the accession of the Republic of Uzbekistan to EurAsES will facilitate its further integration in the developing system of the global economy.

March

The 7th International Exhibition "Construction and Interior, Heating and Ventilation" - UzBuild 2006 presenting new technologies in the construction industry opened in the National Exhibition Center "UzExpoCenter". The "International Center for Financial and Economic development – Uzbekistan" (OOO "MTSFER-U"), founded by OOO "MTSFER" (Russia) officially opened in Tashkent. The main objective of the foundation of the "MTSFER-Uzbekistan" is to participate actively in the process of implementation of all large-scale economic and social reforms, to offer a wide spectrum of services and products, and to increase the employment of the population through stimulation and application of their creative and intellectual potential.

The international exhibitions on "Agricultural Products, Equipment and Veterinary - Agro-2006" and on "Food Products, Drinks, Packaging and Food Industry Equipment - World Food-2006" took place in the UzExpoCenter. About 50 companies from almost 20 countries presented their products and equipment at these exhibitions.

The meeting of the Republican Coordination Council on Stimulation of the Development of Small and Private Entrepreneurship took place. During this meeting, issues concerning the implementation of the regional "Programs for the Development of Small and Private Entrepreneurship for 2004-2005" in the Republic of Karakalpakstan and in Khorezm region and "Regional Programs for the Employment of the Population, Support and Development of the Entrepreneurship and Competition for 2006-2007" were considered.

The international specialized exhibition of energy-saving technologies and equipment for energy production based on renewable sources, their transformation and redistribution – "Pure Energy, Energy Saving" **took place** in Tashkent. The latest high technologies for all types of renewable energy sources, small power engineering, energy accumulation and transformation systems, as well as equipment for extracting, processing and obtaining energy from local types of the fuel were presented at this exhibition.

In the context of the state visit of the President of the Republic of Kazakhstan Nursultan Nazarbaev to Uzbekistan **a Business Forum of the Business Circles of the two countries took place in Tashkent**. During the forum it was stressed that it is necessary to raise trade and economic relations to the next level in all areas.

In the course of the state visit of the President of the Republic of Uzbekistan to Korea, **questions of further intensification of Uzbek - South Korean relations** and the development of commercial and economic cooperation and interaction in other spheres of bilateral relationship, as well as urgent regional and international problems of mutual interest **were discussed**. As a result of the negotiations, a number of documents, including a "Joint Declaration on Strategic Partnership," were signed.

A conference dedicated to the results of the study "From De-integration to Re-integration: Eastern Europe and the Countries of the Former Soviet Union in International Trade" **was held in the World Bank Representation Office in Tashkent.** In their research work, the experts of the World Bank studied the questions of the integration and development of foreign trade and gave recommendations for the solution of existing problems for the next 10 years.

In order to create the necessary legal and economic conditions to increase the number of peasant and farmer households occupied with livestock farming, mostly cattle, and thus improve the employment and financial situation of the rural population, **the Resolution of the President of the Republic of Uzbekistan "On Measures for the Stimulation and Increase in Livestock Population in Individual, Peasant and Farmer Households" was passed** on 23 March 2006.

INFORMATION AND ANALYTICAL PART

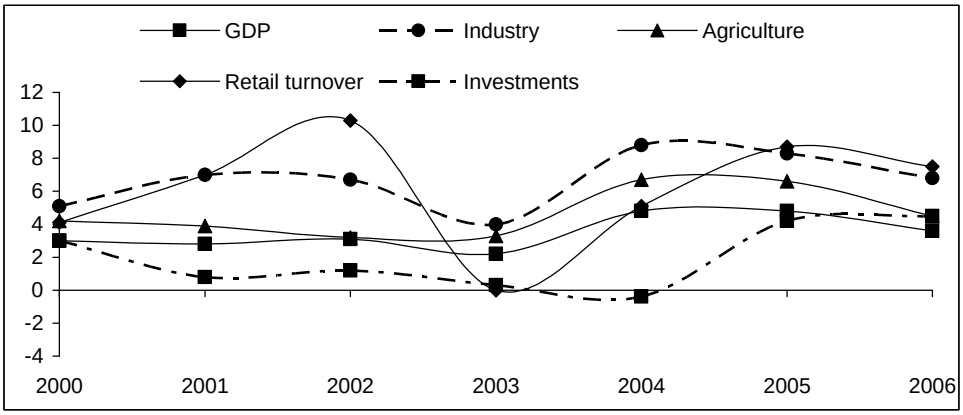
1. Economic Growth, Investments and Inflation

1.1. Economic Growth

In the first quarter of 2006, the **favorable trends** continued of growth in the services sector, production of consumer goods and intensive investment activity. Measures undertaken earlier to speed up small and private business development, strengthen investment direction of monetary policy and reduce the tax burden have played an important role. As a result, despite some reduction in the growth rate of exports, the additional solvent demand on the domestic market stimulated high growth rates for industrial production and services.

The quarterly dynamics of the main macroeconomic indicators in 2000-2006 (Graph 1.1.1) show that in the first quarter of 2006, the majority of these indicators were close to the average range for the past six years, while the dynamics of investments (4.5%) noticeably exceeded the average for 2000-2005 (1.5%).

Graph 1.1.1 Performance of Major Macroeconomic Indicators (% to the previous year)



Source: State Statistics Committee of the Republic of Uzbekistan

The GDP growth rate exceeded the population growth rate by more than 3 times (Table 1.1.1), which created favorable conditions for the development of the domestic consumer market and an increase in savings.

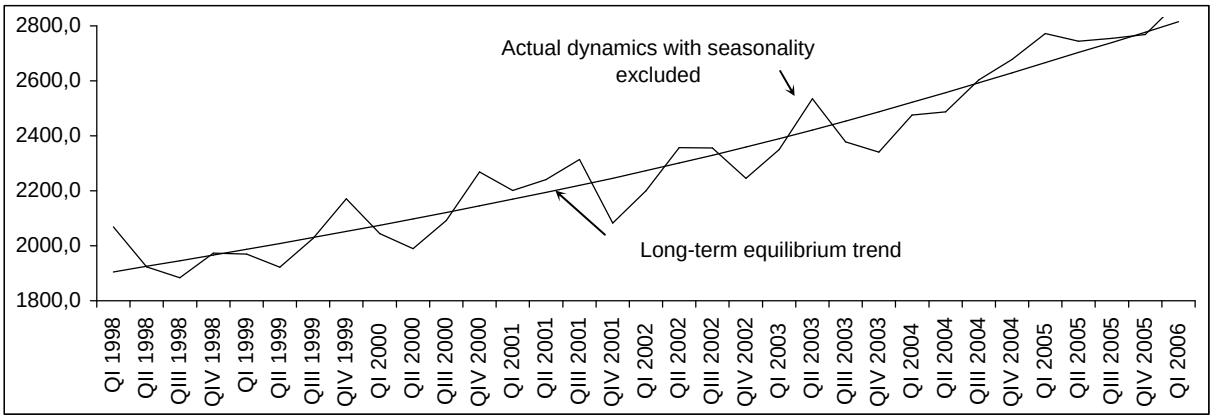
Table 1.1.1 Major Macroeconomic Indicators of Development of the Economy (in %)

	2000	2001	2002	2003	2004	2005	1st quarter 2006 to 1st quarter 2005	
							2005	2006
GDP (produced)	103.8	104.2	104.0	104.2	107.7	107.0	104.8	103.6
Population (permanent, at the end of year)	101.3	101.2	101.2	101.1	101.2	101.1	101.2	101.1
GDP per capita	102.4	102.9	102.7	103.0	106.5	105.8	103.6	102.5
Industrial Output	105.9	107.6	108.3	106.2	109.4	107.3	108.3	106.8
Agricultural Output	103.1	104.2	106.0	107.3	108.9	106.2	106.6	104.5
Exports of Goods and Services (growth rates)	0.9	-2.9	-5.7	24.6	30.3	11.5	9.7	4.4
Capital Investments	101.1	104.0	103.6	104.8	107.2	105.7	104.2	104.5
Status of State Budget Execution (% of GDP)	-1.0	-1.0	-0.8	-0.4	-0.4	0.1	0.5	0.1
Refinancing Rate of the CBU	32.3	26.8	34.5	27.1	18.8	16	16	16
CPI (December to December of the previous year)	28.2	26.6	21.6	3.8	3.7	7.8	2.2	4.2
Unemployment (End of Period - Number of officially registered)	0.4	0.4	0.4	0.3	0.4	0.3	0.3	0.3

Source: State Statistics Committee of the Republic of Uzbekistan

An analysis of the **accumulated GDP quarterly dynamics** for 2000-2006, obtained on the basis of preliminary selection of 'net quarters' from initial statistics (Graph 1.1.2), shows that in spite of some slowing down of GDP growth rates in the first quarter of the current year, the long-term trend of GDP's equilibrium dynamics is stably increasing.

Graph 1.1.2. Accumulated Quarterly Dynamics of the Real GDP (in the average quarterly prices of 2003)

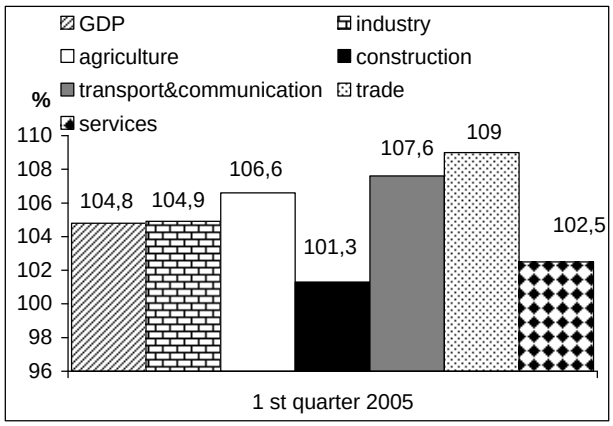


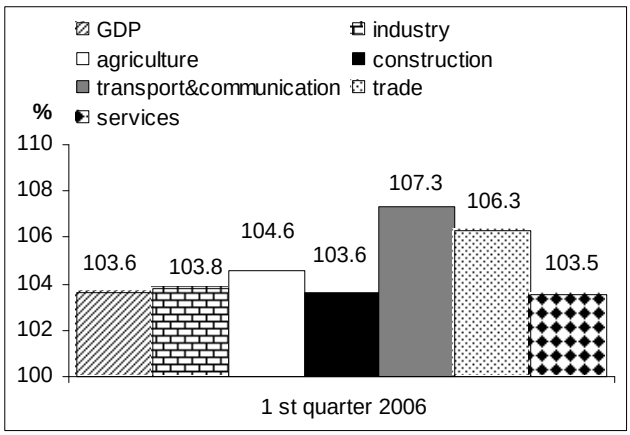
Source: computations by the CSER based on data from State Statistics Committee of the Republic of Uzbekistan

The distinctive feature of the dynamics obtained is also the fact that starting from the 3rd quarter of 2004 the actual dynamics (with seasonality excluded) have been above the equilibrium state, thereby stimulating the acceleration of the growth rates of the GDP's long-term dynamics.

In the first quarter of 2006, the **services sector developed at an advanced rate**. Growth rates of value added for transportation and communications reached 107.3% (Graph 1.1.3) and trade and public catering – 106.3%, whereas the amount of net indirect taxes included in the GDP assessment fell by 6.3 percentage points (from 102.9% to 96.6%). This indicates a continuation of the favorable trend towards a reduction of the tax burden on indirect taxes, which represents a certain risk for price stability and the competitiveness of the processing industry sectors.

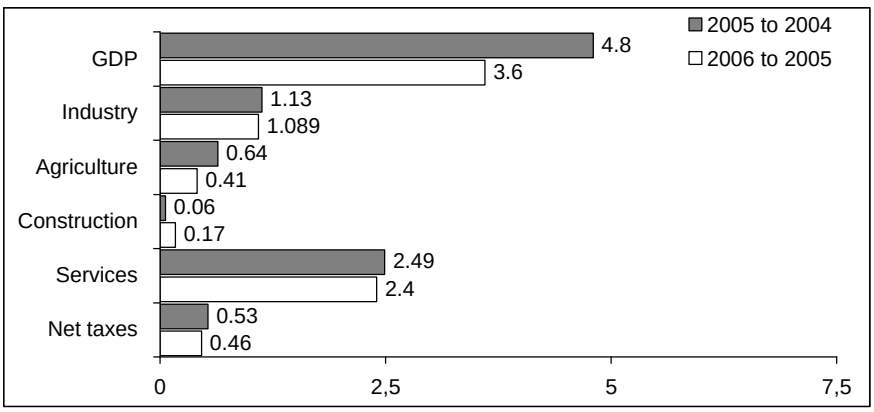
Graph 1.1.3. Growth in Value Added by Economic Sector (%)





Source: State Statistics Committee of the Republic of Uzbekistan

Graph 1.1.4. Dynamics of contribution of industries and sectors of the economy to GDP (first quarter, percentage points of growth)



Source: State Statistics Committee of the Republic of Uzbekistan

An analysis of the **sectoral contribution to GDP growth** showed (Graph 1.1.4) that, as in the first quarter of 2005, two sectors – industry and services – made the greatest contribution to the development of the economy. They made up 3.5% of the total growth in GDP of 3.6%. In the first quarter of 2005, their contribution was about the same, however GDP growth was higher – 4.8%. One of the factors that led to this change was a reduction of the

tax burden, which was expressed in a noticeable decrease in the contribution of net indirect taxes to GDP growth (less than 0.46 percentage points vs. 0.53 percentage points in the first quarter of 2005).

In the first quarter of any year, a distinctive feature of the **production structure of GDP** (Table 1.1.2) is the high share of industry and services and the low share of agriculture, which results from the seasonal nature of agricultural activities. This was not any different in the first quarter of 2006. Industry (29.4%) and services (44.9%) made up ? of GDP generated in the reporting period.

In the **structure of GDP final consumption** (Table 1.1.3), the high share of net exports was maintained, reflecting the sustainable trend of export growth rates exceeding import growth rates and the further rise in the positive trade balance. Taking into account the impact of price factors, the share of expenses for final consumption rose from 69.5% to 71.4%, and of gross accumulation – from 15.2% to 16.4%. To some extent this may be considered as a result of steps undertaken in 2005 aimed at stimulating the income of the employed, which affected domestic demand in a positive way.

At the same time, starting from the 1st quarter of 2005, the position "change of holdings" has been affecting the structure of final consumption of GDP. Such fluctuations reflect changes in construction in progress and unrealized production.

Table 1.1.2. Growth and Production Structure of GDP

Period	GDP real growth rates (in % to corresponding period of previous year)	Production structure of GDP, %					
		Total GDP	Industry	Agriculture	Construction	Services	Net taxes
2000	103.8	100	14.2	30.1	6.0	37.2	12.5
2001	104.2	100	14.1	30.0	5.8	38.2	11.9
2002	104.0	100	14.5	30.1	4.9	37.9	12.6
2003	104.2	100	15.8	28.6	4.5	37.4	13.7
2004	107.7	100	17.5	26.4	4.8	37.2	14.1
2005	107.0	100	20.7	25.0	4.9	38.4	11.0
05/I	104.8	100	28.7	8.9	4.7	44.4	13.3
06/I	103.6	100	29.4	8.1	4.7	44.9	12.9

Source: State Statistics Committee of the Republic of Uzbekistan

Table 1.1.3 Structure of Using GDP (%)

Period	Expenses for final consumption, %		Gross accumulation, %		Net exports, %
	Private	State	Gross domestic investments into capital assets *	Change in holdings	
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
05/I	49.4	20.1	26.0	-10.8	15.3
06/1	49.3	22.1	25.4	-9.2	12.4

Source: State Statistics Committee of the Republic of Uzbekistan

1.2. Investments

Arrangement of the favorable macroeconomic conditions has facilitated the activation of investment processes. In the context of the Investment Program for 2006 the bulk of capital investment for January – March increased by 4.5 percent as compared with the corresponding period of the previous year and amounted to UZS 615.6 billion (Annex 1.2.1).

During the first quarter of 2006 the ratio of the bulk of investment by form of ownership has slightly changed. The share of investment directed to the non-public sector increased by 1.3 percent and reached 69%

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

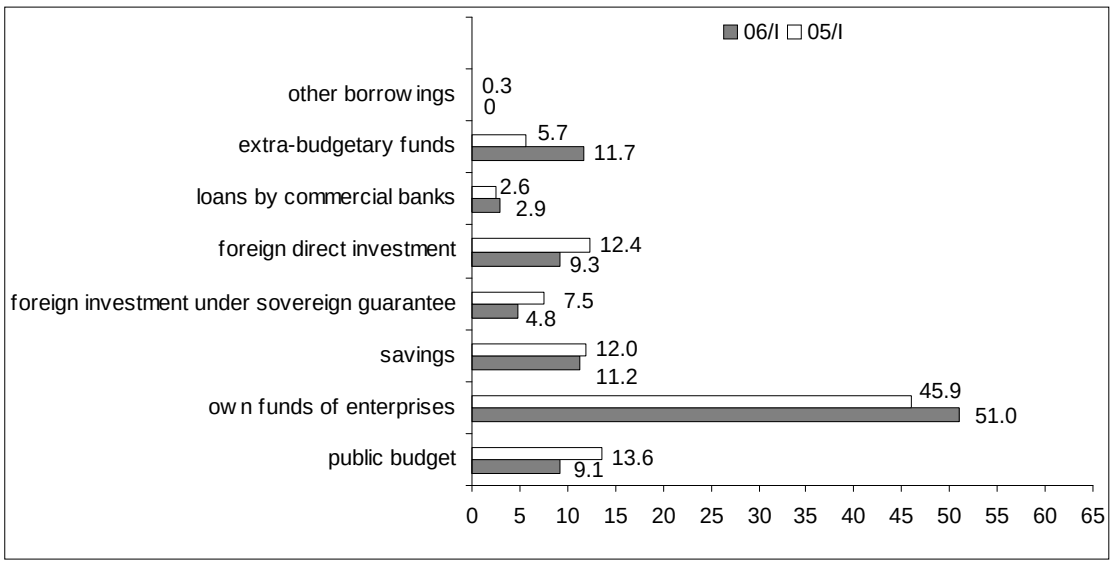
	05/I	06/I
Capital Investment	100	100
Public Property	32.3	31
Non-public Property	67.7	69

Source: The State Statistics Committee of Uzbekistan

of the total; it is linked to the positive dynamics of the implementation of the investment projects in the private sector (Table 1.2.1).

The enhancement of the reforms in all spheres of the economy facilitated the transformation of the capital investment breakdown by source of funding. The own funds of enterprises remain the major sources of funding. Their share in the general structure increased by 5.1 percent and amounted to 51.0% (Figure 1.2.1). The enhancement of the financial sustainability of enterprises was facilitated by activation of the post privatization processes as well as by measures taken by the government in order to decrease the tax burden of the entrepreneurs. The share of fuel-energy complex, chemical and petrochemical industry, metallurgy and mechanical engineering amounted to 58.5% of the total funds of enterprises.

Figure 1.2.1 Capital Investment Breakdown by Source of Funding (%)



Source: The State Statistics Committee of Uzbekistan.

Adoption of the corresponding legal documents facilitating the attraction of private investment has made a positive impact on the growth trend in the bulk of foreign direct investment. The share of foreign direct investment reached 65.7% of total foreign investment.

There were 14.5% of total foreign investment including 8.2% of direct investment made in agriculture and water industries as well as in food processing and consumer goods industries. About 10.3% of total foreign investment was allocated to the development of the enterprises of fuel-energy complex, chemical and petrochemical industry, metallurgy and mechanical engineering. State joint stock company “Uzbekenergo”, national holding company “Uzbekneftegas” и Association “Uzeltechsanoat” used only direct investment in the implementation of their projects.

The expansion of operations on obtaining funds became a critical tendency. The raise of responsibility of the banking structures for monetary policy resulted from liberalization of the whole system facilitated the increase in bulk of investment, financed by commercial banks’ credits. As a result, the share of commercial banks’ crediting for capital construction increased by 0.3 percent and amounted to 2.9% in the total volume of capital investment. Of the total volume of borrowed funds 17.4% in credits was allocated to problem solving in agriculture and water management, agricultural produce processing and consumer goods sectors, mainly in the Ministry of Agriculture and Water Resources system. The share for utilities, transportation, capital construction and building industry amounted to 13.3% of the total borrowed funds, 9.8% of which was allocated to state joint stock railway company “Uzbekiston Temir Yullari”.

The stirring up of activities of extra-budgetary funds (The Republican Road Fund, Children’s Sport Fund, School Funds and other) facilitated the increase of their share by 6.0 percent or to 11.7% in the total structure of capital investment. Funds from extra-budgetary funds were mainly allocated to the construction and repair of roads and railroads, construction and re-construction of academic lyceums and secondary schools.

The decrease of the state’s influence on the development of the investment processes facilitated the reduction of the bulk of centralized funds. The share of public budget funds decreased by 4.5 percent and the share of foreign credits under sovereign guarantee decreased by 2.7 percent, which amounted to 9.1% and 4.8% of the total bulk of investment respectively, realized in the 1st quarter of 2006.

The average weight of population's savings in the structure of the financial sources decreased by 0.8 percent and amounted to 11.2%. Savings were mainly targeted towards the construction of individual housing.

The dynamics of investment demand in January-March of the current year were formed under the cumulative influence of the changes in industrial and technological structure of the national economy. Redistribution of the investment flows facilitated increase of share in the agriculture by 2.2 percent or up to 5.1%; the share of investment in development of trade and public catering increased by 1 percent. Concentration of investment resources in the basic sectors of the economy (industry, transport and communications) ensured a certain share of investment allocated to the production sphere at the level of 67.1%. This indicator reached 67.4% as compared with the respective period of the previous year (Table 1.2.2).

The growth rate of investment allocated to the basic sectors of economy remains stable, their share in the structure of the capital investment remains at the level of 52.8% which facilitates the increase in investment attraction of the national economy and accelerates formation of the infrastructure of the country.

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

	05/I	06/I
Total:	100	100
Production, including	67.4	67.1
Industry	33.1	29.8
Agriculture	2.9	5.1
Construction	2.8	1.3
Transport and communications	22.0	23
Trade and Public Catering	1.3	2.3
Other	5.3	5.6
Non-production	32.6	32.9

Source: The State Statistics Committee of Uzbekistan

Significant transformations took place in the structure of foreign investment while decrease of the latter in the production sphere by 4.1 percent or to 86.5% of the total for the period under review of the current year (Table 1.2.3).

It is remarkable that of the total foreign capital the foreign investment allocated to the development of transport and communications reached 27.0% and to agriculture – 9.6% which means the increase by 5.1 and 7.6 percent respectively.

Table 1.2.3 Foreign Capital Investments by Branches of Economy (%)

	05/I	06/I
Total:	100	100
Production, including	90.6	86.5
Industry	65.3	48.1
Agriculture	2.0	9.6
Construction	0.7	0.5
Transport and communications	21.9	27.0
Trade and Public Catering	-	1.1
Other	0.7	0.2
Non-production	9.4	13.5

Source: The State Statistics Committee of Uzbekistan.

A number of joint-ventures with foreign founders in light industry in the production of cotton yarn, knitted goods and apparel were put into operation. The construction of such large objects as Kungrad soda plant and the new railroad Tashguzar-Baysun-Kumkurgan are progressing. The Agency for Communications and Information is successfully implementing the current stage of the telecom network modernization.

There is a structural shift of investment in industry. Power and fuel industries, metallurgy complex, chemical and petrochemical industry as well as light industry became major sectors for investment allocation. As a result of financial stability improvement and foreign investors attraction it's became possible to set up the production of glass fiber at JV "Uzglasszayden", production of school and children's furniture at JV "Fayz", the construction of mining sulphide plant and creation of several JV's in light and food industries.

The share of investment resources in fuel industry increased up to 32.2% of the total volume of investment allocated to the industry, which enabled the beginning of the works completion on Severnyi Nishan, Kamashi and other oil-and-gas fields' reclamation (Table 1.2.4.).

Taking into account the increase of investment in metallurgy by 4.8 percent, in mechanical engineering by 4.6 percent and in food industry by 3.5 percent, the shares of investment in these industries increased to 17.7%, 7.0% и 7.0% respectively of the total volume of investment allocated to the industry.

Table 1.2.4. Capital Investments by Industry Sector (%)

	05/I	06/I
Industry, Total	100	100
Power	9.5	6.8
Fuel	23.1	32.2
Metallurgy	12.9	17.7
Mechanical Engineering	2.4	7.0
Light	15.1	13.8
Food	3.5	7.0
Chemical and Petrochemical	10.5	7.3
Building Materials	4.9	2.6
Other	18.1	5.6

Source: The State Statistics Committee of Uzbekistan

During January – March the shares in the structure of capital investment decreased: in light industry - by 1.3 percent or reached 13.8%, in building materials industry - by 2.3 or reached 2.6%. The share in chemical and petrochemical industry also decreased from 10.5% to 7.3%. The share of investment in power industry decreased to 6.8% or by 2.7 percent. Modernization of Tashkent thermoelectric power station and relocation of high-voltage transmission lines will stimulate the activation of investment in power industry.

The shift in the structure of capital investment in industry is linked to the shift of foreign investment flows. Geological survey in the water area of Aral Sea and geological exploration of Gadjak deposit is implemented at the expense of foreign capital. The interest of foreign investors in the development of fuel industry and their active participation in the process is illustrated by the growth of the share of foreign capital by 6.2 percent or up to 12.5% of the total foreign investment allocated to the development of the industry (Table 1.2.5.).

Table 1.2.5 Capital Foreign Investments by Industry Sector (%)

	05/I	06/I
Industry, Total	100	100
Power	6.5	-
Fuel	6.2	12.5
Metallurgy	11.4	9.6
Mechanical Engineering	0.1	3.1
Light	31.8	44.8
Food	2.6	16.7
Chemical and Petrochemical	1.2	8.3
Building Materials	8.7	0.3
Other	31.4	4.7

Source: The State Statistics Committee of Uzbekistan

Foreign investment also grew in mechanical engineering to 3.1% and in chemical and petrochemical industry – to 8.3%. The significant growth of foreign investment in these industries was resulted from the set up of JV's and technical re-equipment implemented in accordance with the Program on Acceleration of Industrial Development. Modernization works as well as technical re-equipment of such companies as "Uzselkhozmash Holding", stock company "Uzavtosanoat" and association "Uzeltechsanoat" were done at the expense of foreign capital. The set up of joint ventures in light and food industries in the regions of Uzbekistan facilitated the growth of foreign capital share by 13.0 percent and 14.1 percent respectively or up to 44.8% and 16.7% respectively.

Realization of investment projects, specified by the industrial development programs, as well as implementation of large scope of works on the development of production and social infrastructures within the period of January – March of the current year facilitated the increase of the share in building and assembly works by 6.3 percent or up to 54.8% in technological structure of capital investment (Table 1.2.6). The share of investment allocated to the purchase of the machinery and equipment decreased by 7.1 percent and amounted to 30.6% of the total volume of investment.

Table 1.2.6 Technological Structure of Capital Investment (%)

	05/I	06/I
Total	100	100
Building and Assembly	48.5	54.8
Machinery, Equipment, Tools	37.7	30.6
Other Costs	13.8	14.6

Source: The State Statistics Committee of Uzbekistan

1.3. Prices and Inflation

Consumer price index reached 10.0% as compared with the corresponding period of the previous year (Table 1.3.1).

Table 1.3.1. Major Indicators of Inflation in the Republic of Uzbekistan for 2000-2006 (increase in prices in % to corresponding period of the previous year)

Years	Consumer price index (CPI) consolidated	Foodstuffs	Non-foodstuffs	Services
2000	24.9	18.9	36.6	47.1
2001	27.4	27.9	21.1	36.9
2002	27.6	28.0	19.3	41.3
2003	10.3	5.4	13.9	30.9
2004	1.6	-4.7	6.3	23.6
2005	6.4	4.2	4.9	17.1
04/I	0.7	-6.4	7.2	26.6
05/I	4.2	0.5	4.5	19.2
06/I	10.0	9.6	7.3	16.0

Source: The State Statistics Committee of Uzbekistan.

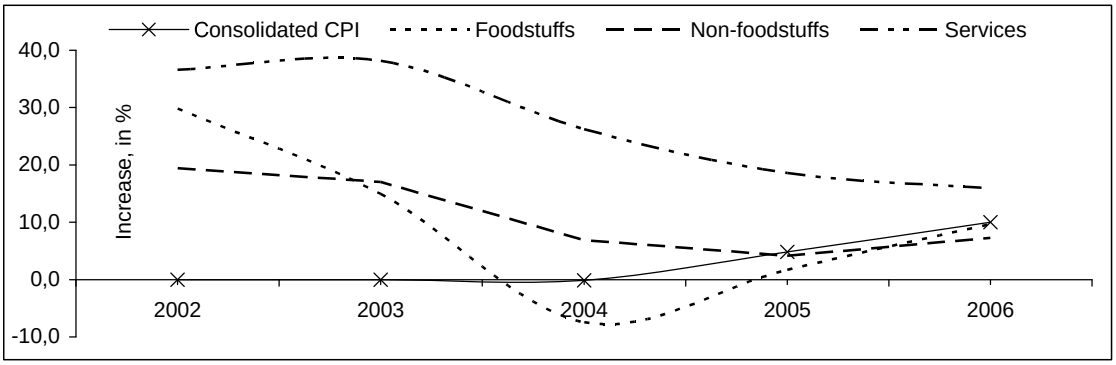
The total increase in prices in the consumer sector during the first quarter of 2006 exceeded the same level of the corresponding period of the previous year by 1.97 percent and amounted to 4.2% (in % to December of the previous year). The increase in prices for foodstuffs (from 2.9% to 5.8%), especially for fruit and vegetable products, had a considerable impact on the total level of inflation; this resulted from the relatively cold winter and the increased price for sugar on the world market. As a result, prices for sugar increased by 39.8% on the internal market during the period concerned (Table 1.3.2, Graph.1.3.1).

Table 1.3.2. Level of Inflation for the 1st quarters of 2005- 2006 (increase in prices in %)

	Average monthly level		To December of previous year	
	2005	2006	2005	2006
CPI	0.7	1.4	2.2	4.2
Foodstuffs	1.0	1.9	2.9	5.8
Non-foodstuffs	0.3	0.4	0.8	1.1
Services	0.5	1.2	1.5	3.7

Source: The State Statistics Committee of Uzbekistan.

Graph 1.3.1 Dynamics of Inflation Level for 2002- 2006 (Increase in prices in March of current year compared with March of previous year in %)



Source: The State Statistics Committee of Uzbekistan.

During the first quarter of 2006 the increase in prices (tariffs) on the consumer price index ranged from 3.1% (in Khorezm region) to 5.4% (in Tashkent city).

Four factors with a fairly large share in the consumer basket were chiefly responsible for the fluctuations within such a range: the increase in prices (tariffs) for fruit and vegetables, for sugar, for housing and communal services and for public transportation services. Thus, while in, for example, Tashkent city within the period concerned prices for fruit and vegetables grew by 34.8% and tariffs for public transportation services – by 1.3%, in Khorezm region the corresponding indicators amounted to 18.6% and 0.6% respectively.

Table 1.3.3. Level of inflation in the Republic of Uzbekistan for the 1st quarter of 2006 in a Regional Context (%)

Regions	Increase in prices	Average monthly level
Republic of Uzbekistan	4.2	1.4
Andijan	3.9	1.3
Namangan	4.0	1.3
Fergana	3.3	1.1
Kashkadarya	3.5	1.2
Samarkand	4.2	1.4
Surkhandarya	4.4	1.4
Tashkent	5.1	1.7
Bukhara	3.7	1.2
Republic of Karakalpakstan	4.5	1.5
Navoi	4.1	1.4
Sirdarya	3.7	1.2
Jizzakh	4.9	1.6
Khorezm	3.1	1.0
Tashkent city	5.4	1.8

Source: The State Statistics Committee of Uzbekistan.

An analysis of the impact of tariff growth on the total level of inflation shows that during the first quarter of 2006 the growth impact of tariffs for paid services increased from 10.4% to 13.8% as compared with the first quarter of 2005, and the growth impact of prices for foodstuffs and non-foodstuffs decreased: from 81.8% to 79.7% and from 7.8% to 6.5% respectively (Table 1.3.4).

Table 1.3.4. Factor Analysis of Inflation Level in the Consumer Sector for 1st quarters of 2005- 2006

	2005	2006
CPI	100.0	100.0
Foodstuffs	81.8	79.7
Non-foodstuffs	7.8	6.5
Services	10.4	13.8

Source: Ministry of Economy of Uzbekistan.

The tendency towards an increase of the supply inflation over demand inflation was observed in the first quarter of 2006: the wholesale prices of producers of industrial products increased in the average monthly calculation by 1.5%, and consumer prices – by 1.4%.

Factor analysis of the increase in prices of industrial products showed that during the first quarter of 2006 in the real sector, the increase in prices for non-ferrous metallurgy products (due to the increase in the world market price for non-ferrous metal – 47.3%); for sugar (15.6%) and for products for the fuel industry (9.4%) had the greatest impact on the inflation rate (Table 1.3.5).

During the first quarter of 2006, the change in the rate of exchange didn't have any significant impact on CPI, because the depreciation of the over-the-counter exchange rate was 2.5%.
As a result of the increase in tariffs for gas for the population (as of 1 January 2006), the tariffs for housing and communal services increased by 5.6% on average around the country.

Table 1.3.5. Factor Analysis of Inflation Level in the Real Sector for the 1st quarter of 2005

	Impact on CPI (%)	In % to total
All factors	4.6	100.0
Increase in prices for non-ferrous metallurgy products	2.2	47.3
Increase in prices in sugar production	0.7	15.6
Increase in prices in oil-refining industry	0.4	9.4
Other factors	1.3	27.7

Source: Ministry of Economy of Uzbekistan.

During the first quarter of 2006, tariffs for other housing and communal services remained the same. Thus, if during the first quarter of 2006 the State budget was executed with a surplus and the money supply increased insignificantly, then the conclusion can be reached that inflation in the consumer sector was mainly of a non-monetary nature and resulted from the increase in prices (tariffs) for seasonal products, sugar and natural gas.

Annex 1.2.1 Dynamics of Capital Investments in Current Prices

	Capital Investment, UZS billion	Increase to the respective period of the previous year, %
2000	744.5	1.0
2001	1320.9	3.7
2002	1526.6	3.6
2003	1978.1	4.8
2004	2629.0	7.3
2005	3165.2	7.5
05/I	502.2	4.2
06/I	615.6	4.5

Source: The State Statistics Committee of Uzbekistan.

Annex 1.2.2 Capital Investments by Form of Ownership (%)

	2000	2001	2002	2003	2004	2005	05/I	06/I
Capital Investment	100	100	100	100	100	100	100	100
Public Property	63.9	47.0	40.8	36.4	39.7	30.9	32.3	31
Non-public Property	36.2	53.0	59.2	63.6	60.3	69.1	67.7	69

Source: The State Statistics Committee of Uzbekistan

Annex 1.2.3 Capital Investment by Source of Funding (%)

	2000	2001	2002	2003	2004	2005	05/I	06/I
Total	100	100	100	100	100	100	100	100
Public budget	29.2	21.5	23.9	16.4	14.4	12.2	13.6	9.1
Funds of Enterprises	27.1	31.1	41.2	42.8	42.9	46.1	45.9	51.0
Savings	12.0	10.3	11.4	13.5	11.7	11.4	12.0	11.2
Foreign Investment under Sovereign Guarantee	19.8	23.2	14.8	16.5	14.0	6.8	7.5	4.8
Foreign Direct Investment and Credits	3.4	4.8	5.3	7.7	11.1	14.9	12.4	9.3
Centralized Bank Loans	5.1	5.9	-	-	-	-	-	-
Loans by Commercial Banks	1.7	2.2	2.4	2.1	3.8	3.5	2.6	2.9
Extra-budgetary Funds	1.3	0.1	0.2	0.4	2.4	4.7	5.7	11.7
Other Borrowings	0.4	0.9	0.8	0.7	0.3	0.3	0.3	-

Source: The State Statistics Committee of Uzbekistan

Annex 1.2.4 Capital Investment by Branches of Economy (%)

	2000	2001	2002	2003	2004	2005	05/I	06/I
Total	100	100	100	100	100	100	100	100
Production, including	57.5	63.1	59.5	63.6	66.0	68.2	67.4	67.1
Industry	29.7	38.9	32.9	29.0	29.0	32.6	33.1	29.8
Agriculture	5.7	5.5	6.7	4.3	4.3	4.4	2.9	5.1
Construction	0.5	0.6	0.7	0.7	0.7	0.9	2.8	1.3
Transport and Communication	16.8	14.1	10.4	23.3	23.3	24.1	22.0	23.0
Trade and Public Catering	2.9	1.5	1.6	1.5	1.5	1.5	1.3	2.3
Other	1.9	2.5	7.2	6.6	4.7	9.9	5.3	5.6
Non-production	42.5	36.9	40.5	34.0	31.8	34.7	32.6	32.9

Source: The State Statistics Committee of Uzbekistan.

Annex 1.2.5 Capital Investments by Industry Sector (%)

	2000	2001	2002	2003	2004	2005	05/I	06/I
Industry, total	100	100	100	100	100	100	100	100
Power	5.3	3.8	6.0	9.4	9.4	9.0	9.5	6.8
Fuel	20.2	32.2	28.5	18.9	18.5	25.9	23.1	32.2
Metallurgy	9.0	11.5	12.4	21.8	14.6	19.6	12.9	17.7
Mechanical Engineering	13.8	14.6	10.2	5.5	3.3	4.1	2.4	7.0
Light	7.9	15.9	14.3	19.4	24.7	15.2	15.1	13.8
Food	8.4	5.8	7.9	5.5	5.4	5.7	3.5	7.0
Chemical and Petrochemical	26.7	9.9	11.9	10.5	9.6	6.9	10.5	7.3
Building Materials	0.9	1.2	1.6	1.7	2.2	3.5	4.9	2.6
Other	7.8	5.0	7.2	7.3	12.2	11.2	18.1	5.6

Source: The State Statistics Committee of Uzbekistan

Annex 1.2.6 Technological Structure of Capital Investment (%)

	2000	2001	2002	2003	2004	2005	05/I	06/I
Total	100	100	100	100	100	100	100	100
Building and Assembly	58.1	48.2	49.4	46.2	43.7	48.7	48.5	54.8
Machinery, Equipment, Tools	30.6	39.5	38.6	42.1	46.2	38.7	37.7	30.6
Other Costs	11.3	12.3	12.0	11.7	10.1	12.6	13.8	14.6

Source: The State Statistics Committee of Uzbekistan

2. State Finance

In the 1st quarter of 2006 the policy of the state budget was aimed at further decreasing the tax burden on the economy, simplifying taxation and improving the system of tax administration.

As of January 1 2006 the following liberalization measures of the tax-budget policy were put in effect:

- To reduce the tax rate on income from 15% to 12% to increase the share of profits left with enterprises;
- To reduce the tax rate on income of legal entities and individuals that is received as dividends and interest from 15 % to 10%;
- To reduce the rate of the single social payment from 31% to 25%, distributing funds among the non-budget Retirement Fund, the State Fund for Assistance to Employment and the Trade – Union Federation Council;
- To abolish the Ecology Tax;
- To set up a mechanism for the transfer of losses. Payers of income tax who had losses in the previous financial year(s) have the right to reduce their taxable income by the amount of those losses;
- To provide to micro firms and small-scale enterprises that are payers of the Single Tax the right to pay VAT and simultaneously to lower the amount of the Single Tax payment equal to the amount of VAT paid;
- To set the highest individual income tax rate at 29% (10 times the minimum wage);
- To enhance the significance, independence and responsibility of the local governmental authorities and to improve the management of incomes and expenditures of local budgets at all levels, as well as to increase the share of local budgets in State budget revenues, by including the following state taxes in local budget income:
  - tax on water resources use;
  - fixed tax on individual types of entrepreneurship for legal entities and individuals;
  -excise on alcoholic products, beer and vegetable oil produced in the country.

According to preliminary data, the State Budget of the Republic of Uzbekistan without targeted funds for the first quarter of 2006 includes:

- revenue of UZS 911.9 billion or 22.6% against the approved annual parameters of the State Budget;

- expenditures of UZS 881.3 billion or 20.4% against the approved annual parameters of the State Budget.

The State Budget was fulfilled with a surplus of UZS 30.6 billion.

Revenues of the State Budget.

Table 2.1 Structure of Revenues of the State Budget (% of GDP)

Indicators	2000	2001	2002	2003	2004	2005	05/I	06/I
Revenues	28.5	26.0	25.2	24.2	22.5	22.6	29.1	28.5
1. Direct taxes	7.5	7.4	6.8	6.4	6.0	6.1	8.0	8.0
2. Indirect taxes	16.0	13.5	13.8	14.0	12.6	10.5	13.9	11.9
3. Resource payments and property tax	2.8	2.4	1.9	2.3	2.6	4.6	5.3	5.6
4. Social infrastructure development tax	0.3	0.3	0.5	0.4	0.4	0.4	0.6	0.6
5. Other revenues	1.9	2.4	2.2	1.1	0.9	1.1	1.4	2.5

Source: Ministry of Finance of the the Republic of Uzbekistan

Figures on the fulfillment of the State Budget show that Revenues of the State Budget as a share of GDP decreased in the first quarter of 2006 compared to the corresponding period of the previous year and made up 28.5% against 29%. This trend was caused by the reduction of the share in indirect taxes (11.9% against 13.9%). Despite the fact that the income tax rate for legal entities was lowered by 3%, the ratio of direct taxes against GDP did not change and amounted to 8.0%. Reduction of revenue tax (profit) made it possible for enterprises to retain UZS 12.0 billion for their own needs.

For the efficient and circumspect use of natural resources of the country, there was an indexation of the resource tax rate and payments. As a result, this tax revenue to the budget made up 5.6% of GDP against 5.3% in the previous year.

Table 2.2 Structure of Revenues of the State Budget (% of total)

Indicators	2000	2001	2002	2003	2004	2005	05/I	06/I
Revenues	100.0	100.0	100.0	100.0	100.0	100	100	100
1. Direct taxes	26.4	28.5	27.2	26.3	26.5	27.0	27.6	28.1
2. Indirect taxes	56.0	51.8	54.6	57.8	56.0	46.4	47.6	41.7
3. Resource payments and property tax	9.9	9.3	7.5	9.5	11.5	20.2	18.1	19.4
4. Social infrastructure development tax	1.1	1.3	2.1	1.7	1.7	1.8	2.1	2.1
5. Other revenues	6.6	9.1	8.6	4.7	4.3	4.7	4.6	8.6

Source: Ministry of Finance of the Republic of Uzbekistan

According to the figures of the 1st quarter of 2006, the structure of the revenues for direct incomes remained unchanged and made up 28.1% of the Total State Budget revenues. Revenues for indirect taxes made up 41.7% in the given time period, which was 5.9% less compared to the corresponding period of the previous year. Despite the fact that as of January 1 2006 the ecology tax was abolished, the share of resource payments in the Structure of Revenues within the expired time period rose from 18.1% to 19.4%. The period assessed shows a significant rise in other income.

Table 2.3 Structure of Direct Taxes

	2000	2001	2002	2003	2004	2005	05/I	06/I
Direct taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Enterprise income tax	49.4	39.7	34.4	34.1	29.9	30.4	30.7	31.8
2. Gross income tax (1)	-	-	-	-	8.5	7.8	8.3	7.5
3. Single tax (2)		7.8	13.1	14.1	10.2	10.0	10.9	10.3
4. Individual income tax	44.5	44.9	45.6	46.7	46.2	46.9	45.5	46.2
5. Fixed tax on income of entrepreneurs (3)	6.1	7.6	6.9	5.1	5.2	4.9	4.6	4.3

Source: Ministry of Finance of the Republic of Uzbekistan

The majority of the structure of direct taxes includes revenues from the individual income tax, which make up more than 46%. Despite the reduction of the rate, the share of enterprise income tax within the structure of direct taxes rose and reached 31.8% against 30.7% in the corresponding of the previous year. It should be noted that the Decree of the President of Republic of Uzbekistan from 20.06.2005 stipulates the imposition of the Unified Tax Payment for micro firms and small enterprises instead of the previously paid Single Tax and compulsory payments to targeted state funds; also, the general tax burden for micro-firms and small enterprises decreased from 15.2% to 13%. Despite all this, revenues for this tax increased but their share in the structure of direct taxes decreased slightly. In spite of the lowering of the maximum individual income tax rate by 1% as of January 1, 2006, this tax increased in both amount and relative share within the assed period.

Table 2.4 Structure of Indirect Taxes

	2000	2001	2002	2003	2004	2005	05/I	06/I
Indirect taxes	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Value added tax	47.3	48.8	43.9	39.6	42.5	51.1	50.6	59.6
2. Excise	48.4	46.3	48.3	51.3	48.2	37.7	38.5	25.5
3. Customs tariffs	2.0	2.7	2.9	3.0	3.6	4.7	4.8	5.6
4. Single customs fee from individuals	2.3	2.2	2.4	3.3	2.5	2.1	2.4	4.6
5. Individual tax on consumption of gasoline (4)	-	-	2.5	2.8	3.2	4.4	4.0	4.7

Source: Ministry of Finance of the Republic of Uzbekistan

Indirect taxes make up more than 41% of the government's revenues from the budget. Value added tax made up the greatest share of indirect taxes, rising from 50.6% to 59.6%. As the potential payers of this tax are consumers of goods and services, one can presume growth of internal and external demand. The rise in the share of value added tax in the structure of indirect taxes to the government budget resulted from a decrease in the share of excise taxes from 38.5% to 25%.

Full names of taxes:
1 Tax on gross income of trading and public catering companies
2 Single tax from micro-firms and small enterprises that use the simplified system of taxation
3Fixed tax on income of entrepreneurs engaged in entrepreneurial activity
4 Individual tax on consumption of gasoline, diesel and natural gas for transportation

Expenditures of the State Budget.

Table 2.5 Expenditures of the State Budget (% of GDP)

Indicators	2000	2001	2002	2003	2004	2005	05/I	06/I
Expenditures	29.5	27.0	26.1	24.6	22.9	22.5	27.2	27.6
1. Social sphere	10.4	10.2	9.8	9.3	9.1	9.5	11.5	12.7
Including:								
Education	6.7	6.9	6.7	6.4	6.3	7.1	8.2	8.7
Health care	2.6	2.6	2.5	2.4	2.4	2.6	2.5	3.4
Culture and Sport, Mass Media	0.5	0.4	0.4	0.3	0.3	0.4	0.4	0.5
2. Social protection	2.3	2.1	2.0	2.1	1.8	1.8	2.0	2.1
3. Expenditures on the Economy	3.0	2.3	2.3	3.0	3.1	3.0	3.1	3.2
4. Expenditures for financing centralized investments	6.0	5.0	4.7	3.3	2.7	2.4	3.7	3.0
5. Maintenance of state management bodies, administration and court bodies	0.6	0.6	0.5	0.5	0.6	0.5	0.6	0.6
6. Other expenditures	7.2	6.8	6.5	6.4	5.6	5.0	6.1	6.0

Source: Ministry of Finance of the Republic of Uzbekistan

Within the structure of expenditures of the State Budget, expenditures on the social sphere and social protection took the largest share; they accounted for 53.6% of total expenditures of the State Budget. For these needs in the given period, the Budget allocated UZS 473.8 billion. Soums, which was 1.4 times more than in the first quarter of 2005.

Expenditures for education, which accounted for 8.7% of GDP and 31.5% of total expenditures of the State Budget. Expenditures for Health Care also rose, from 2.5% to 3.4% of GDP. This rise results from the increase in the funds allocated for wages to Health Care workers, provided according to the Decree of the Cabinet of Ministers of Republic of Uzbekistan dated December 21, 2005 “On the approval of an improved system of salary payments for health care workers”.

Table 2.6 Structure of Expenditures of the State Budget (% of total)

Indicators	2000	2001	2002	2003	2004	2005	05/I	06/I
Expenditures	100	100	100	100	100	100	100	100
1. Social sphere	35.3	37.8	37.9	37.8	39.7	42.2	42.3	46.0
including:								
Education	22.7	25.6	25.7	26.0	27.5	31.6	30.1	31.5
Health Care	8.8	9.6	9.6	9.8	10.5	11.6	9.2	12.3
Culture and sport, mass media	1.7	1.5	1.5	1.2	1.3	1.8	1.5	1.8
2. Social protection	7.8	7.8	8.0	8.5	7.9	8.0	7.4	7.6
3. Expenditures on the economy	10.2	8.5	8.8	12.2	13.5	13.3	11.4	11.6
4. Expenditures for financing centralized investments	20.3	18.5	18.0	13.4	11.8	10.7	13.6	10.9
5. Maintenance of state management bodies, administration and court bodies	2.0	2.2	2.3	2.0	2.6	2.2	2.2	2.2
6. Other expenditures	24.4	25.2	24.9	26.0	24.5	23.6	22.4	21.7

Source: Ministry of Finance of the Republic of Uzbekistan

Deficit of the State Budget.

In the 1st quarter of 2006, the State budget was executed with a surplus of UZS 30.6 billion or 0.9% of GDP.

Table 2.6 Deficit of the State Budget (% of GDP)

Indicators	2000	2001	2002	2003	2004	2005	05/I	06/I
Deficit (-) Surplus (+)	-1.0	-1.0	-0.8	-0.4	-0.4	0.1	1.9	0.9

Source: Ministry of Finance of the Republic of Uzbekistan

3. Financial Markets

3.1. Monetary and Credit Sphere and Banking Sector

Monetary and Credit Policy of the CBU. In the first quarter of 2006, the monetary and credit policy of the CBU was directed at stabilizing the exchange rate against the US dollar, maintaining the liquidity of the banking system, maintaining inflation within predictable parameters (the annual level of inflation in 2006 should not exceed 6-8%) and providing stability to the market interest crediting rates of commercial banks. The CBU refinancing rate during January – March 2006 remained unchanged (Table 3.1.1).

Table 3.1.1 Change in Interest Rates (in %)

Period	Refinancing rate per annum	Average weighted rate on short-term loans	Average weighted rate on fixed-term deposits of legal entities in UZS	Average weighted rate on fixed-term deposits of individuals in UZS
January 2006	16.0	18.4	10.0	30.8
February 2006	16.0	17.2	10.8	30.7
March 2006	16.0	16.7	10.2	24.7

Source: Central Bank of Uzbekistan.

As a result of measures taken by the CBU in the context of refinancing policy, the interest rates on fixed-term deposits of individuals and rates on short-term loans of commercial banks tended to decrease. The decrease in the rate on fixed-term deposits of individuals from 30.8% to 24.7% was the result of a decrease in the interest rate on short-term loans and the ineffective deposit operations of commercial banks. The negative difference between the interest rates on fixed-term deposits of individuals and short-term loans remained. The losses of the banks resulting from this negative difference between interest rates were compensated for by a decrease in the taxable income of commercial banks for the sum of the increase in fixed-term deposits.

The interest rates on fixed-term deposits of legal entities in foreign currency in the period under review tended to increase (Table 3.1.2). This is linked to the increase in demand for foreign currency deposits. This factor should facilitate the increase in fixed-term deposits of legal entities in foreign currency in commercial banks of the country. At the same time, the average level of interest rates on fixed-term deposits of individuals in foreign currency for the period of January-March 2006 remained the same.

Table 3.1.2 Change in Interest Rates on Foreign Currency Loans

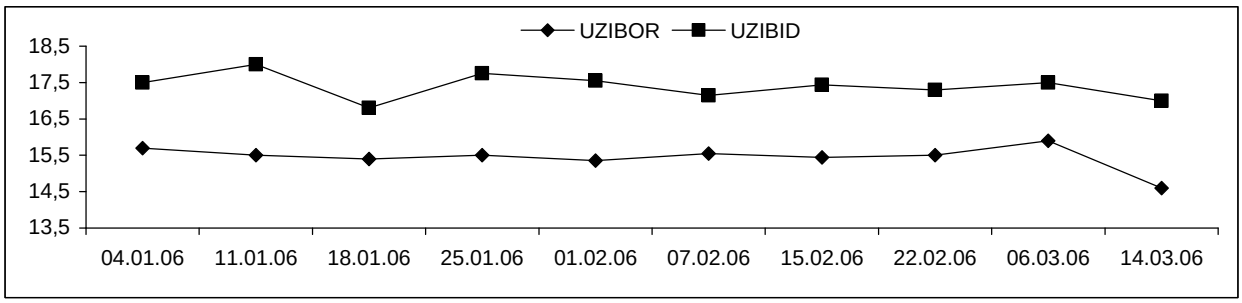
Period	Average weighted rate on fixed-term deposits of legal entities in foreign currency	Average weighted rate on fixed-term deposits of individuals in foreign currency
January 2006	2.5	6.6
February 2006	2.6	5.0
March 2006	5.4	6.6

Source: Central Bank of Uzbekistan.

Mandatory Reserve Requirements of the CBU. The standards of the mandatory reserve requirements of the CBU in the first quarter of 2006 remained the same: the rate of mandatory reserve deposits of commercial banks in UZS is 15%, and deposits in foreign currency – 8%. These rates are relatively high. For example, the rates of mandatory reserve requirements of commercial banks in rouble deposits in the Russian Federation have been set at 3.5% since July 2004.

Interbank Loan Market. There was significant fluctuation of the UZIBID from January to March of 2006 (Graph 3.1.1). This is explained by the instability of the demand for credits of commercial banks. On the whole, the value of the UZIBOR indicator within the first quarter of 2006 remained stable. This is explained by the stability of the demand for deposits. In the first half of March, as a result of the increase in the demand for deposits in the interbank money market, the annual level of UZIBOR decreased significantly.

Graph 3.1.1 Fluctuation of Annual Indices of Interbank Money Market

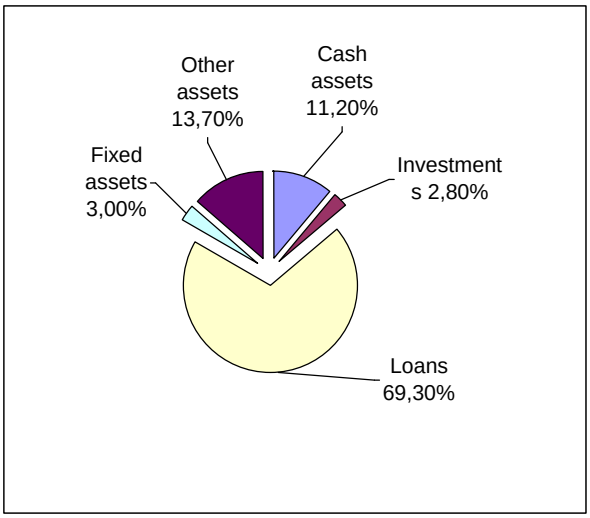


Source: Biznes-vestnik Vostoka

Banking Sector. As of 1 April 2006, the total number of commercial banks in the national banking system of Uzbekistan was 28. Of these there were 3 state banks, 12 joint-stock commercial banks, 9 private banks and 4 banks with foreign participation. The number of commercial bank branches was 788. Compared with the period of 1 January 2006, the number of banks has decreased by 1 unit; this is explained by the merger of Uzprivatbank and Uzpromstroibank.

Assets of Commercial Banks. As of 1 April 2006 the aggregate assets of commercial banks of the country amounted to UZS 5868.9 billion. This was UZS 238.3 million more than as of 1 January 2006. This increase in aggregate assets resulted mainly from the growth of credit deposits of the banks. During the first quarter the assets of commercial banks increased by 15.2% over the respective period of the previous year.

Graph 3.1.2 Structure of the Aggregate Assets of Commercial Banks of Uzbekistan as of 1 April 2006

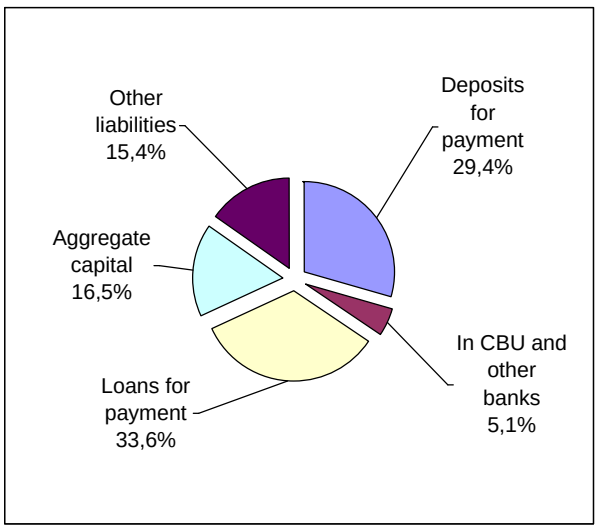


Source: Central Bank of Uzbekistan.

In the structure of aggregate assets of commercial banks of Uzbekistan, loans make up the greatest proportion on average (Graph 3.1.2). This is explained by the facts that: first, crediting is the main type of commercial banks' activity; second, the structural transformations that are taking place in the economy stimulate the demand for banking loans; third, under conditions of a market economy, loans of commercial banks are the most important source for financing current and investment expenses of economic entities. As of 1 April 2006 the total loans of commercial banks of Uzbekistan amounted to UZS 4085.2 billion. Of these, 98.4% were credits provided to the clients of commercial banks; 0.8% were factoring credits; 0.5% were discount credits; and 0.3% were interbank credits.

The bulk of credit deposits of commercial banks for small business, private business, dekhkan entities and farms increased within the first quarter by 24% and amounted to UZS 279.3 billion as of 1 April 2006.

Graph 3.1.3 Structure of the Liabilities of Commercial Banks of Uzbekistan as of 1 April 2006



Source: Central Bank of Uzbekistan.

In the structure of the aggregate assets of commercial banks of Uzbekistan, cash assets also play quite a significant role. This is linked to their support of the liquidity of the commercial banks, as the main part of cash assets are the remains of the cash resources from the correspondent's account "Nostro" of commercial banks. As of 1 April 2006 the average weight of the remains of the correspondent's account "Nostro" amounted to 79.7% of the total bulk of cash assets.

Liabilities of Commercial Banks. As of 1 April 2006 the aggregate deposits of commercial banks amounted to UZS 1722.5 billion. This was 10.7 % more than as of 1 January, 2006. The sum of received interbank credits amounted to UZS 1657.6 billion; 78.9% of the credits are the debt credits of foreign banks and international finance and credit organizations. In the structure of the aggregate liabilities of commercial banks, received interbank loans (33.6%) and clients' deposits (29.4%) had a relatively high average weight. The high average weights of interbank loans led to a decrease in the size of the net interest profit of commercial banks.

In the first quarter of 2006 the remains of the population's deposits in the banks of the country increased by 1.5 times as compared to the respective period of the previous year and reached UZS 493 billion.

Capitalization of Commercial Banks. As of 1 April 2006 the aggregate capital of commercial banks of Uzbekistan amounted to UZS 968.3 billion. This was UZS 37.4 billion more than as of 1 January 2006. The

growth of the aggregate capital was mainly provided from the growth of capital reserves. As of 1 April 2006 the share of capital reserves in the bulk of aggregated capital amounted to 74.6% and as of 1 January 2006 – 57.5%.

3.2. Stock Market

Corporate Stock Market
By March 31 2006, the State Stock Register recorded:

- 13416 issues of shares that accounted for a total of UZS 3520.0 billion, including 30 issues for 113.7 bn. UZS in the 1st quarter of 2006. The largest issues this year were from the National Holding Company "Uzbekneftegaz" (UZS 82.5 billion), the Joint Stock Company "Toshkent Shahkar electr tarmoklar korhonasi" (UZS 13.9 billion), "Angren issiklik electrostanciyasi" (UZS 11.4 billion) and "Kapitalbank"(UZS 2 billion);
- 12 issues of corporate bonds from 81 issuers for UZS 62.4 billion.

In the 1st quarter of 2006 the total circulation of the corporate stock market (total value of shares and corporate stocks) amounted to UZS 87.1 billion, which was UZS 57.9 billion or 3 times more than for the corresponding period of the previous year.

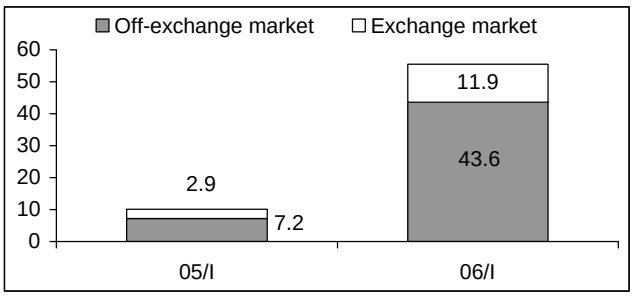
There was a tendency for revenues from share sales to make up the majority of stock circulation (95.9%). Their total yield was UZS 83.5 billion (Table 3.2.1 and Annex 3.2.1), which was 3.9 times more than during the same period of the previous year. At the same time, the amount of shares in the primary markets – whose circulation was made up of revenues that come from the sale of shares of privatized enterprises – rose by 5.5 times and accounted for UZS 55.5 billion.

Table 3.2.1 Total Yield of the Shares in the Stock Market (UZS billion)

Period	Primary Market		Secondary Market		Total	
	Amount	in % to total	Amount	in % to total	Amount	in % to total
05/I	10.1	47.4	11.2	52.6	21.3	100
06/I	55.5	66.5	28.0	33.5	83.5	100

Source: Center for Coordination and Control of the Stock Market under the State Property Committee of Uzbekistan.

Graph 2.2.1. Yield from Shares in the Primary Stock Market (UZS billion)



Source: Center for Coordination and Control of the Stock Market under the State Property Committee of Uzbekistan

On the exchange sector of the primary stock market, shares were sold for UZS 11.9 billion and on the off-exchange market for 43.6 UZS billion. Growth rates compared to the 1st quarter of the previous year were 4.1 and 6.1 times higher, respectively. As a result of the rapid growth of non-exchange trade, which occurs mainly through bidding or straight negotiations with investors, the share of the sector rose in the total amount of the primary yield of shares by 7.7% and accounted for 78.6%.

Of the total amount of transactions for shares of privatized enterprises concluded in the 1st quarter of 2006, the largest share was made up of investment-attractive enterprises such as the "Uzpisheprom" Association (49.8%), the state joint stock company "Uzbekenergo" (42.1%), and the Ministry of Agriculture and Water Resources (3.8%). In terms of location, most of the enterprises were located in Khorezm region (53.6%), Navoi region (19.4%), Bukhara region (11.7%) and Fergana region (10.8%).

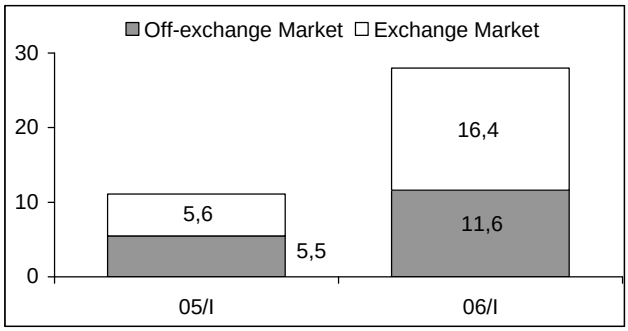
There was an increase in participation among foreign investors and joint ventures in the primary stock market. Their share in the total amount of sales of shares of privatized enterprises accounted for 95.5%, which was 55.3% more than in the corresponding period of the previous year. Foreign investors bought large share holdings of several joint stock companies: "Lhorezm shakarp" – 99.4%, "Urganch ekskavator" – 74.0%, "Fargona electr tarmoklari" – 44.0%, "Navoi electr tarmoclari" – 47.0 % and others.

The share of individual local investors on the primary stock market in the purchase of the shares of privatized enterprises was as follows: small-scale business entities – 2.0%, large enterprises and business associations– 1.3%, investment dealers – 0.6%, banks – 0.3% and individuals – 0.3%.

There was weak activity in the purchase of shares of privatized enterprises among investment funds created to attract the uncommitted funds of the population into privatization. They spent UZS 1.5 million to buy shares of privatized enterprises, which was less than 0.01% of the total amount of shares sold.

On the secondary stock market, shares of 523 Joint Stocks were circulated, including 262 in the exchange sector and 261 in the off-exchange sector. The total amount of share transactions in the 1st quarter of 2006 amounted to UZS 28.0 billion (Table 3.2.1), which was 2.5 times more than in the corresponding period of the previous year. The amount of sales in the exchange sector of the secondary market, where mostly large share holdings are sold, rose by 2.9 times and amounted to UZS 16.4 billion and in the off-exchange sector by 2.1 times, amounting to UZS 11.6 billion (Graph 3.2.2.).

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



Source: Center for Coordination and Control of the Stock Market under the State Property Committee of Uzbekistan

The largest share in the total circulation of the secondary stock market consisted of the shares of commercial banks (14.2%), investment-attractive enterprises of the state joint stock companies “Uzbekenergo” (16.4%) and “Uzbekengilsanoat” (6.0%), and the Association “Uzkurilishmateriallari” (11.5%). In terms of location, the largest number of enterprises operated in the city of Tashkent (54.0%), Fergana region (22.0%) and Tashkent region (10.0%).

Shares of many joint stock companies were sold at a rate that was much higher than their face value: “Bukhora cotton seed oil processing enterprise” at 18.1 times, “Besharik cotton processing factory” at 16.7 times, “Kuva don mahsuloti” at 9.1 times, “Zilola-tekst” – 8.0 times, “Chotcol” – 5.1 times and “Bukhoro-non” – 4.2 times.

For two years there has been a growing trend of foreign investors’ activity in purchasing shares on the exchange sector of the secondary stock market. In the 1st quarter of 2006 they concluded 192 transactions for the purchase of 4793 thousand shares of 23 joint stock companies for USD 7.5 million, including 30 thousand shares of the large joint stock company “Bekabadcement” for USD 1.1 million. The shares were sold at the rate of USD 37.5 per share, which exceeded their face value by a factor of 50.9 at the exchange rate of the Central Bank of Uzbekistan on the date of transaction.

In the 1st quarter of 2006 circulation continued of corporate bonds issued in the last three years by certain investment-attractive joint stock companies and liability limited companies. The total quantity of transactions on this type of stocks accounted for UZS 3.7 billion, which was 53.7% less than in the corresponding period of the previous year. At the same time, the total quantity of transactions on the primary market decreased by 57.8%, and in the secondary – by 50.1%.

A more than two-fold decrease in the total number of sales of this type of stock resulted from a large number of bonds being paid off at the beginning of 2006, as well as from a 2.3-times decrease in their issue in 2005 compared to the previous year and the absence of any issue in the 1st quarter of 2006.

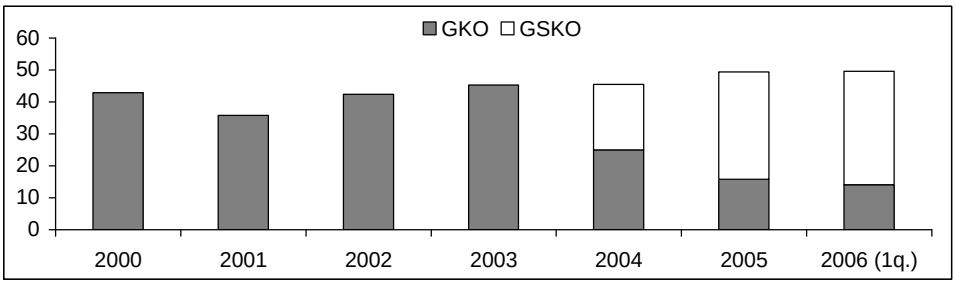
To enhance the competitiveness of the stock market and to improve the transparency of share sales, a strategy for stock market development was drafted and submitted to the Cabinet of Ministers by the Ministry of Finance, State Property Committee and the Center for Coordination and Control for Stock Market under the State Property Committee of Uzbekistan. This strategy pays particular attention to the further development of the secondary shares market.

State Securities Market By April 1st 2006, the amount of domestic debt put into State Securities/State short-term bonds (SSTB) and State medium-term Treasury Certificates (SMTTC) rose by 0.25% compared to January 1st 2006. The turnover of secondary auctions rose slightly, by 0.4%.

State Short-Term Bonds. In the 1st quarter of 2006 the State SSTB market held one auction on the issue of 1-year SSTBs. 62 auctions were held on the secondary market. The value of SSTBs in circulation by 1st April of 2006 amounted to 89.87% compared to 1 January 2006. The share of short-term domestic debt in the total amount of state debt continues to decrease as the share of medium-term debt rises. By April 1 2006 this ratio was 29% to 71%, while in January 1 2006 this ratio had been 32% to 68%.

In total, since the start of the SSTB market in 1996 there have been 293 issues of different circulation terms of SSTBs. These include 36 issues of 3-month terms, 105 issues of 6-month terms, 73 issues of 9-month terms and 79 issues of 12-month terms. By April 1 2006 there were 13 issues of SSTB in circulation. Of the total amount of bonds issued, almost 90% were sold at auctions. Within the first quarter of 2006, two issues of SSTBs were paid off. Circulation in the secondary market compared to the primary one is insignificant.

State Securities in Circulation - UZS billion



Source: Ministry of Finance. Central Bank

State medium-term Treasury certificates (SMTTC) The amount of domestic debt put into SMTTCs by April 1 2006 rose by 5.4% compared to January 1 2006. This sector of the financial market continues to develop. The SMTTC market size is twice as large as the SSTB market. During the 1st quarter of 2006 there were 7 auctions of SMTTC issues, with a pay-off term of 546 days (18 months). 56 secondary auctions were held. The amount of secondary sales rose by 21%.

Since 2003, throughout the entire period of the SMTTC market, 44 issues have been held. By April 1, 2006 there were 29 issues in circulation. During the 1st quarter of 2006 7 issues were paid off. By April 1, 2006 the ratio of primary to secondary markets was 21% to 79%. During the first quarter, SMTTC revenues rose by 5.1%. Revenues from dealers' issues made up 66.8% and from investors' issues – 33.2%.

Annex 3.1.1 Dynamics of Revenues of Shares Sold on the Stock Market (UZS billion)

Indicator	2000	2001	2002	2003	2004	2005	05/I	06/I
Total share yield in the stock market	17.1	26.1	41.7	74.7	115.0	142.5	21.3	83.5
In the primary market	6.2	12.2	16.3	53.9	62.1	88.7	10.1	55.5
Exchange	4.6	6.8	10.5	19.7	18.5	14.9	2.9	11.9
Off-exchange	1.6	5.4	5.8	34.2	43.6	73.8	7.2	43.6
In the secondary market	10.9	13.9	25.4	20.8	53.0	53.8	11.2	28.0
Exchange	0.6	1.1	4.6	12.4	22.8	26.3	5.6	16.4
Off-exchange	10.3	12.8	20.8	8.4	30.2	27.7	5.6	11.6

Source: Center for Coordination and Control for the Stock Market under the State Property Committee of Uzbekistan

Annex 3.2.2 Auctions of Medium-Term Treasury Obligations in the 1st quarter of 2006

Auction Date	Number of Issue of Medium-Term Treasury Obligations	Maturity	Volume of Issue	Volume of Sale*	Quantity of Bonds (pcs)		Average Weighted Price of satisfied competitive bids in % to nominal value	Stated Interest Rate, annual
		(days)	(UZS million)	(UZS million)	stated	sold		(%)
11.01.2006	25038UMFS	546	2000	630.64	630640	630640	100.00	12.50
19.01.2006	25039UMFS F	546	1000	389.97	788420	388420	100.40	12.50
01.02.2006	25040UMFS F	546	1000	750.00	750000	750000	100.00	12.00
08.02.2006	25041UMFS	546	1000	600.00	600000	600000	100.00	11.00
22.02.2006	25042UMFS	546	1000	701.12	701120	701120	100.00	10.00
15.03.2006	25043UMFS	546	1100	880.00	880000	880000	100.00	10.00
22.03.2006	25044UMFS	546	2700	500.05	1464615	500000	100.01	10.00

* This indicator is calculated as the volume of sold obligations multiplied by the average weighted price.
Source: Data from the Ministry of Finance of Uzbekistan and the Central Bank of Uzbekistan

Annex 3.2.3 Auctions of Short-Term Bonds in the 1st quarter of 2006

Auction Date	Number of Issue of Short – Term Bonds	Maturity	Volume of Issue	Volume of Sale*	Quantity of Bonds (pcs)		Average Weighted Price discounted (in % of nominal value)	Income from the Results of Auction, annual
		(days)	(UZS million)	(UZS million)	stated	sold		(%)
18.01.2006	24081UMFS	364	2000	1287.47	1938994	1438994	89.47	11.80

* This indicator is calculated as the volume of sold obligations multiplied by the average weighted price.
Source: Data from the Ministry of Finance and the Central Bank of Uzbekistan

4. Foreign Exchange Market and Foreign Trade

4.1. Monetary Policy

The monetary policy conducted by the CBU during the first quarter of 2006 was aimed at the development of interbank competition, the promotion of participation of authorized banks of the Republic in foreign-economic activity and the attraction of monetary funds for conducting operations on the off-exchange monetary market, broadening the diversity of services rendered to clients.

The Central Bank of Uzbekistan took measures to ensure the stability of the exchange rate, the timely servicing of external debt and the maintenance of international reserves at an acceptable level sufficient for the realization of the monetary, credit and exchange rate policies of Uzbekistan. As is known from international experience, gold and foreign currency reserves should be maintained at the level of the volume of 3-months of imports. In 2006 the monetary and exchange rate policy conducted by the CBU is directed at ensuring the gold and exchange currency reserves at a level of not less than 6 months of import volume.

In the period under review, 26 authorized banks licensed by the CBU had the right to conduct currency transactions. Authorized banks have the right to conduct, within the limit of the open currency position, transactions on the purchase and sale of foreign currency, including with derivative financial instruments indirectly with one another, and with their clients by means of currency exchange and international markets as well.

The limit of the open currency position for any foreign currency by the end of each trading day should not exceed 5 per cent of the authorized bank's internal funds and the limit of the summary open currency position – 20 per cent of its internal funds.

Nominal Exchange Rate. The results of the first quarter of 2006 show that nominal exchange rate of the UZS to USD devalued by 2.5 per cent and by 12.0 per cent in comparison with the similar indicator of 2005. The foreign currency exchange rate for the first quarter of 2006 depreciated by 2.2 per cent and by 12.9 per cent with respect to the first quarter of 2005 (Table 4.1.1 and Figure 4.1.1).

In the first quarter of 2006, rates of devaluation of both nominal UZS and foreign currency cash exchange rates showed the same dynamics as in the corresponding period of the previous year. This is connected to the monetary policy of the CBU aimed at the stability of the national currency.

Table 4.1.1 USD/UZS Exchange Rate (2003–2006)

Period	Exchange Rate CBU (UZS/USD)	Changes in comparison to the previous period (in %)	Foreign currency cash rate (UZS/USD)	Changes in comparison to 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
05/I	1080.0	2.1	1083.5	2.0
06/I	1210.0	2.5	1224.1	2.2

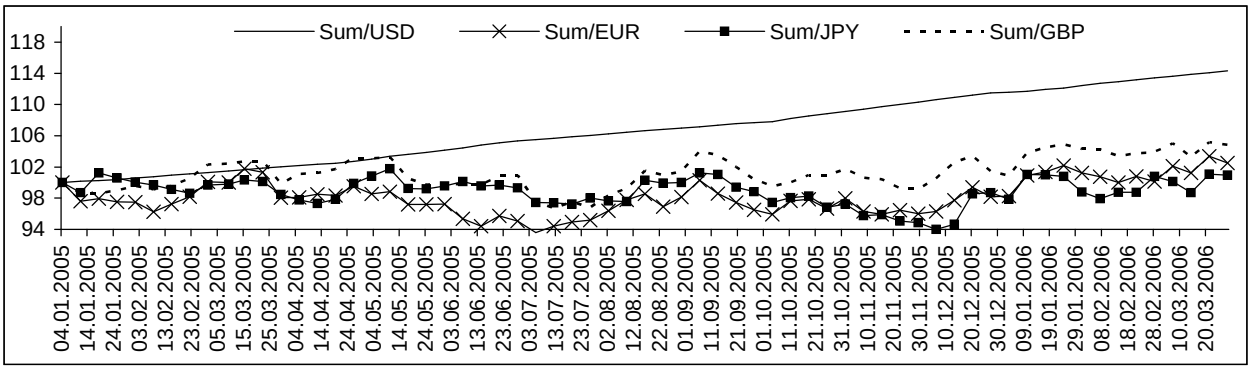
Source: Bankovskie vedomosti, authors'computations.

The dynamics of the UZS rate against other reserve currencies was characterized by the following changes: as of the end of the first quarter of 2006, UZS devaluated by 3.4 per cent against GBP, by 4.4 per cent against EUR and by 2.2 per cent against JPY. UZS depreciation, as well as its high volatility against those currencies, is explained by the dynamics of the world financial market, mainly with the USD depreciation. Forthcoming completion of the US Federal Reserve System's discount rate increase, even at the 5 per cent annual interest rate, continues to put pressure on the USD, which looks weaker in the long-term period because of both the decrease in the differential between the basic interest rates in the USA and Europe and the structural problems of the American economy. Against this background, from the beginning of 2006 the combined foreign currencies strengthened against USD by 2.3 per cent. When, by the end of the first quarter of the current year, USD had its maximum collapse since the fourth quarter of 2004, the EUR reached historical limits while USD went down to a 5-year low. It should be noted as well that the exchange rates of Asian countries' currency are greatly undervalued. As a result, the deprecation of USD rate against JPY is being observed. Japanese participants of the market think that economic growth outlooks in Europe are more favorable than in the USA.

UZS rate deprecation against RUR by the end of the first quarter of 2006 was 5.9 per cent, which was connected with USD depreciation on the Russian currency market. In Russia the USD rate follows the dynamics

of the world market, and although the Russian Central Bank continues to purchase USD actively, its aim is not to support USD, but to prevent sudden fluctuations on the market which negatively affect the national economy.

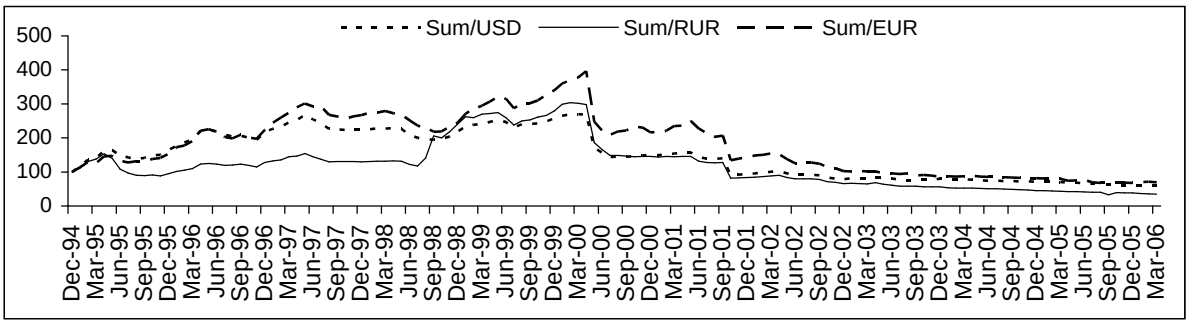
Figure 4.1.1 Dynamics of Nominal Rate of UZS



Source: Bankovskie vedomosti, authors'computations

Actual Exchange Rates. As of the first quarter of 2006, the UZS actual exchange rate against USD depreciated by 0.22 per cent and by 3.2 per cent against RUR. During the period under review there was a slight strengthening of the national currency against EUR by 0.8 percent[1]. This results both from moderate depreciation rates, which nonetheless exceed inflation rates in order to stimulate the cost competitiveness of domestic producers, and from the USD dynamics against other reserve currencies on the world finance market, as mentioned above.

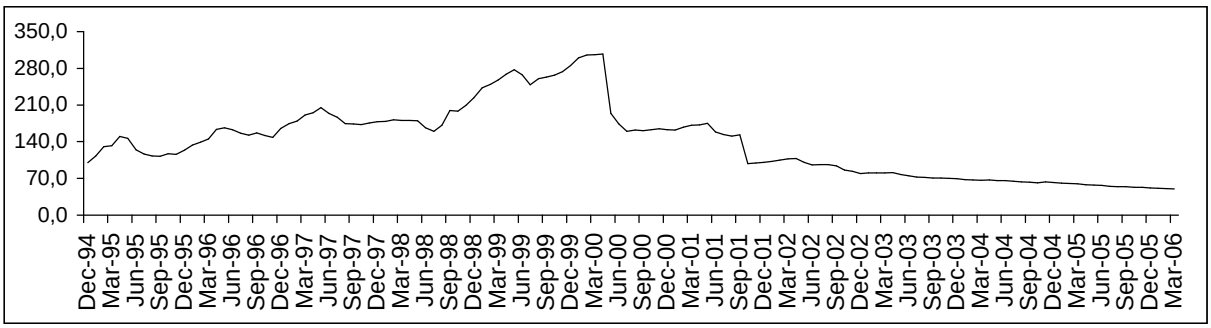
Figure 4.1.2 Actual Exchange Rates of UZS: UZS/USD, UZS/EUR, UZS/RUR (December 1994=100)



Source: International Financial Statistics (IFS). IMF; Bankovskie vedomosti, authors' computations.

Actual Effective Exchange Rate. By the end of the first quarter of 2006, the UZS actual effective exchange rate strengthened by 3.7 per cent. This resulted from both the low dynamics of the UZS actual exchange rate against the currency of major foreign trade partners of Uzbekistan and the monetary policy of the CBU aimed at ensuring the stability of the actual effective exchange rate with the purpose of creating conditions for boosting monetary demand and simultaneously increasing the volume of exports.

Figure 4.1.3 Actual Effective Exchange Rate of UZS (December 1994 =100)



Source: International Financial Statistics (IFS); IMF; Bankovskie vedomosti; authors' computations.

[1] On computation of the actual exchange rate of the UZS against EUR, the official data of European countries which participate significantly in the foreign trade turnover of Uzbekistan serve as original indicators. At the same time, the nominal exchange rate and consumer price index is taken from the data-base of International Financial Statistics (IFS) of the International Monetary Fund for each country separately.

4.2. Trade Balance, Export and Import

In the first quarter of 2006, in comparison with the corresponding period of the previous year, the foreign trade turnover of Uzbekistan increased by 4.1% and amounted to 2.38 bn. USD (Table 4.2.1). At the same time, 58.1% of the total volume of foreign trade turnover consisted of export operations, while imports accounted for 41.9%. Export value increased to 4.4%, import – 3.6%.

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

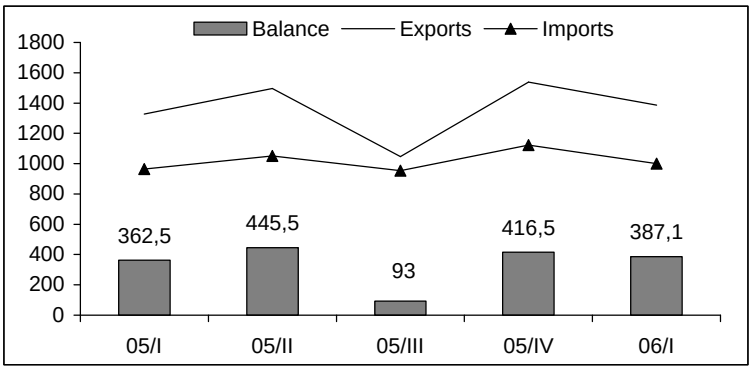
Indicator	05/I	06/I	Change in volume, %
			06/I to 05/I
Foreign trade turnover	2293.3	2386.5	104.1
CIS countries	737.7	894.4	121.2
Non-CIS countries	1555.6	1492.1	95.9
Exports	1327.9	1386.8	104.4
CIS countries	342.4	470.1	137.3
Non-CIS countries	985.5	916.7	93.0
Imports	965.4	999.7	103.6
CIS countries	395.3	424.3	107.3
Non-CIS countries	570.1	575.4	100.9
Trade balance	362.5	387.1	X
CIS countries	-52.9	45.8	X
Non-CIS countries	415.4	341.3	X
Structure of foreign trade turnover, %	100.0	100.0	X
CIS countries	32.2	37.5	X
Non-CIS countries	67.8	62.5	X

Source: State Statistics Committee of Uzbekistan

The favorable conjuncture of the world markets for the main raw-commodity (cotton-fiber, natural gas, gold, and copper) exports of Uzbekistan remained a positive factor in the growth of exports.

During the first quarter of 2006, the ratio of exports to imports was 1.39, including 1.11 with CIS and 1.59 with foreign countries. as opposed to indicators of 1.37, 0.87 and 1.73 respectively in the corresponding period of 2005. As a result, the active trade balance amounted to 387.1 mill. USD, showing an increase of 24.6 mill. USD against the corresponding period of 2005 (Graph 4.2.1). While in the first quarter of the previous year the active trade balance was formed from trade with foreign countries, while trade with CIS resulted in a negative balance (-52.9 mill. USD), during the period under review this indicator resulted in positive balance (45.8 mill. USD).

Graph 4.2.1. Comparison of Exports and Imports of Goods (Services) (mill. USD)*



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

An increase in the volume of exports, in comparison with the first quarter of 2005, was observed in all major groups of commodities (Table 4.2.2) except "others". A significant increase in exports was observed in such commodity groups as energy carriers (70.5%), chemical products and rubber (42.6%), and foodstuffs (35.5%). As a result, their share in total exports accounted for 11.7%, 5.1% and 3.8% respectively (Table 4.2.2, Annex 4.2.2). Enterprises in such associations as "Uzeltechprom", "Uzavtoprom", "Uzbmetcombinat", "UzKTJM", "Uzplodovoshvinpromholding", and the service "Agency on Communications and Information Development" increased their export volumes.

Exports of cotton-fiber increased by 2.1% and of non-ferrous and ferrous metals – by 8.8%. The share of cotton-fiber in total exports decreased by 0.6 p.p. and accounted for 26.7% against 27.3% in the corresponding period of the previous year. The share of non-ferrous and ferrous metals increased by 0.4 p.p. and accounted for 10.1%. Export volumes of services increased by 10.1%, more than 70% of which belonged to transport services, with air transportation services accounting for about 30%.

Table 4.2.2. Commodity Structure of Exports (%)

Commodity groups	Share in total volume of exports, %		Change in volume, %
	05/I	06/I	06/I to 05/I
Cotton fiber	27.3	26.7	102.1
Foodstuffs	2.9	3.8	135.5
Chemical products, plastics, and plastic goods	3.7	5.1	142.6
Energy carriers	7.2	11.7	170.5
Non-ferrous and ferrous metals	9.7	10.1	108.8
Machinery and equipment	7.7	7.7	105.6
Services	11.2	11.8	110.1
Other	30.3	23.1	79.4
Total	100.0	100.0	104.4

Source: State Committee on Statistics of Uzbekistan

In imports, as in previous periods, a growth

in deliveries was observed in the majority of commodity groups. During the period under review, a decrease in import volumes, in comparison with the corresponding period of 2005, was observed in such commodity groups as machinery and equipment, services, and others (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, %
	05/I	06/I	06/I to 05/I
Foodstuffs	7.0	8.3	123.7
Chemical products, plastics and plastic goods	11.9	13.9	121.3
Energy carriers	2.3	3.9	175.9
Ferrous and non-ferrous metals	9.8	12.3	129.6
Machinery and equipment	47.2	41.6	91.2
Services	9.9	8.7	90.7
Other	11.9	11.3	98.3
Total	100.0	100.0	103.6

Source: State Committee on Statistics of Uzbekistan

Significant growth of imports was observed in energy carriers – by 75.9%; non-ferrous and ferrous metals – by 29.6%; foodstuffs – by 23.7% and chemical products – by 21.3%. Accordingly their shares in total imports increased and amounted to 3.9%; 12.3%; 8.3%; and 13.9% respectively. Import supplies of such commodities as goods of ferrous metals, timber, raw sugar, medicines, and automobile tires increased.

On the other hand, imports of foodstuffs, which recorded a 15.1% decrease in the 1st quarter of 2005 against the 1st of 2004, increased by 23.7% in the 1st quarter of 2006 against the similar period of the previous year. The share of this commodity group in the total volume of imports increased by 1.3 p.p. and accounted for 8.3%.

The tendency of strengthening and improving traditional trade relations with CIS countries continued. As a result, in comparison to the first quarter of 2005, trade turnover with CIS countries increased by 1.21 times, while trade turnover with foreign countries decreased by 0.04 times. At the same time, the share of partners from CIS countries in total trade turnover increased from 32.2% in the 1st quarter of 2005, to 37.5% in the period under review, while trade turnover with foreign countries declined from 67.8% to 62.5% (Table 4.2.1). During the period under review, this correlation resulted from the shift of a portion of imports to CIS countries.

Imports from CIS countries grew more rapidly than those from foreign countries (7.3% against 0.9%). Accordingly, the share of imports from CIS countries increased from 40.9% to 42.4%, while the share of imports from foreign countries decreased from 59.1% to 57.6% (Tables 4.2.1 and 4.2.4). Significant shifts were observed in imports of foodstuffs, machinery and equipment from CIS countries.

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

Countries	Share in total volume, %			
	Of Exports		Of Exports	
	05/I	06/I	05/I	06/I
Total	100.0	100,0	100,0	100,0
CIS Countries	25.8	33,9	40,9	42,4
Kazakhstan	4.0	4.2	6.5	8.0
Russia	14,1	18,9	25,1	26,7
Tajikistan	3,1	3,8	0,4	0,1
Ukraine	1,4	4,6	6,2	4,9
Other countries	3.2	2.4	2.7	2.7
Foreign countries	74.2	66.1	59.1	57.6
Belgium	0.9	0.7	0.6	1.0
Great Britain	8.7	4.8	1.5	1.8
Germany	1.2	1.0	6.8	6.6
India	0.6	0.2	0.9	1.1
Iran	8.8	11.1	0.9	0.7
Latvia	2.8	1.0	0.4	0.4
China	2.1	10.4	3.9	5.2
Korea	1.1	0.8	15.1	14.9
Netherlands	0.4	0.4	0.6	0.4
USA	2.4	1.0	3.6	3.4
Turkey	6.6	8.4	4.2	3.7
France	0.5	1.4	1.1	0.8
Switzerland	5.8	0.4	0.5	0.9
Japan	0.4	0.5	1.7	1.1
Other countries	31.9	24.0	17.3	15.6

Source: State Statistics Committee of Uzbekistan

During the period under review, exports to CIS countries increased by 1.37 times in comparison with the corresponding period of the previous year, while exports to foreign countries decreased by 0.07 times. Accordingly, the share of exports to CIS countries in the total volume of exports increased from 25.8% to 33.9%, while exports to foreign countries declined from 74.2% to 66.1% (Tables 4.2.1 and 4.2.4). A decrease in the exports of cotton fiber, foodstuffs, chemical products and energy carriers to foreign countries was observed, while exports of those products to CIS countries increased, which testifies of the resumption of traditional markets.

With regard to exports, such countries as Russia, with a share 18.9% of total exports from Uzbekistan (140.1% to the level of the 1st quarter of 2005), Iran – 11.1% (131.3%), China – 10.4% (527.4%), Turkey –

8.4% (134.2%), Great Britain – 4.8% (57.3%), Ukraine – 4.6% (345.0%), Kazakhstan – 4.2% (107.9%) and Tajikistan – 3.8% (125.7%) became main trading partners of Uzbekistan (Table 4.2.4, Annex 4.2.4). The most significant decline was observed in the case of India (by 60.4%), followed by the USA (by 56.1%). As a result, their shares of total exports declined by 0.4 p.p. and 1.4 p.p. and accounted for 0.2% and 1.0% respectively.

The majority of imports (73.4%) originated in eight countries: Russia, whose share amounted to 26.7% (110.5% of the level in the 1st quarter of 2005), South Korea – 14.9% (102.6%), Kazakhstan – 8.0% (127.6%), Germany – 6.6% (99.8%), China – 5.2% (139.0%), Ukraine – 4.9% (80.7%), Turkey – 3.7% (89.7%) and the USA – 3.4% (96.1%) (Table 4.2.4, Annex 4.2.5). During the period under review, imports from Switzerland increased by 1.8 times and from Belgium – by 1.7 times.

The largest positive trade balance was reached with Turkey, followed by Iran, Latvia, China, Tajikistan and Great Britain, while the negative trade balance was significant in the case of South Korea, Germany, Kazakhstan, and the USA.

Thus, in the first quarter of 2006, foreign trade turnover continued to increase, with an strengthening tendency of growth in the positive trade balance and increased trade with CIS countries.

4.3. Enterprises with Foreign Investments

Supplements and amendments made to the legislative basis for foreign economic activities of the Republic of Uzbekistan testify to the gradual character of ongoing reforms. Starting in early 2006, a number of measures aimed at increasing the efficiency of customs and taxation policies, in terms of decreasing the number of taxes, have been implemented. Also, during the same period, changes were introduced in terms of reducing the taxable basis for the collection of taxes for customs clearance for certain types of products and in reducing the income tax for exporting enterprises, including those with foreign investments, in accordance with the share of exports in the total volume of products sold. The implemented measures facilitated the achievement of positive results in the foreign economic activities of the republic as well as in the activities of enterprises with foreign investments (EFI) at the end of the 1st quarter of 2006.

In the 1st quarter of 2006, the number of registered enterprises with foreign investments increased by 146 units, while the number of operating enterprises with foreign investments increased by 218 units (Table 4.3.1).

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

	Measure	05/I	06/I	Growth rates, 06/I in % to 05/I
Number of registered enterprises with foreign investments	Units	3405	3551	104.3
Number of operating enterprises with foreign investments (at the end of the period)	Units	2447	2665	108.9
Foreign trade turnover	Mill. USD	573.6	634.6	110.6
Exports of EFIs	Mill. USD	206.4	220.7	106.9
Imports of EFIs	Mill. USD	367.2	413.9	112.7
Trade balance	Mill. USD	-160.8	-193.2	x
Share of EFIs in foreign trade turnover	%	25.0	26.6	x
Share of EFIs exports in total exports of Uzbekistan	%	15.5	15.9	x
Share of EFIs imports in total imports of Uzbekistan	%	38.0	41.4	x
Export-import ratio	coefficient	0.56	0.53	x

Source: State Statistics Committee of Uzbekistan

Enterprises with foreign investments accounted for 26.6% of the foreign trade turnover of Uzbekistan, including 15.9% of total exports and 41.4% of total imports of Uzbekistan. The share of foreign trade turnover of EFIs in the foreign trade of Uzbekistan increased by 1.6 p.p. in the period under review.

During the 1st quarter of 2006 exports of EFIs amounted to 220.7 mill. USD, or 106.9% to the level of the 1st quarter of 2005.

During the period under review, an unstable tendency was observed in the commodity structure of EFI exports. The share of cotton fiber, chemical products, energy, and services decreased among exports, while growth rates of foodstuffs (by 2.5 p.p.), ferrous and non-ferrous metals (more than 5 times), machinery building products (by 12.3 p.p.) and products in the commodity group “others” (by 9.1 p.p.) increased. The growth of export volumes was secured by the stable demand in foreign markets for products such as electronic ap-

pliances, cars, non-ferrous metals (copper), tobacco and tobacco products, and others. Such commodity groups as “machinery and equipment” (46.3%), and “others” (39.3%) dominated in total exports of EFIs (Table 4.3.2).

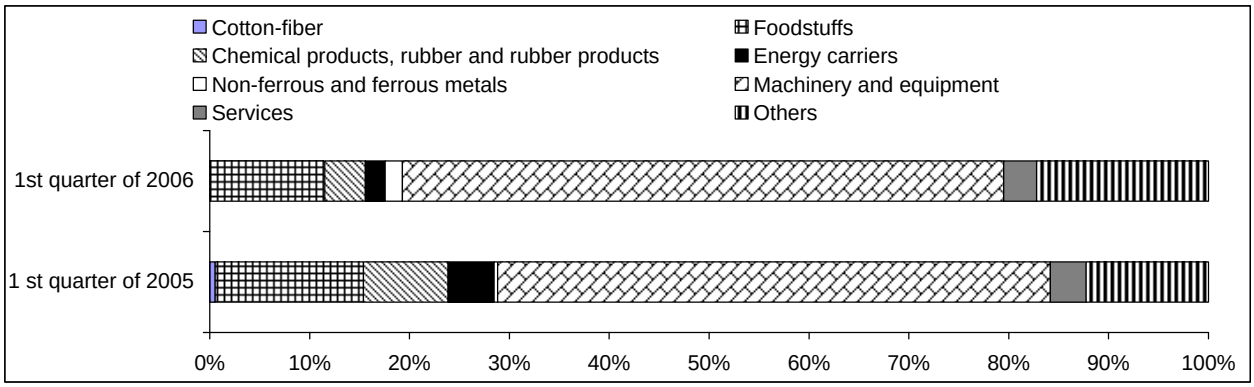
Table 4.3.2. Growth Rates and Commodity Structure of Exports of Enterprises with Foreign Investments, (%)

	Growth rates, 06/I in % to 05/I	Share in the total volume of exports,%	
		05/I	06/I
Total	106.9	100	100
Cotton fiber	4.8	1.5	0.1
Foodstuffs	102.5	4.5	4.4
Chemical products	66.6	3.3	2.1
Energy carriers	72.4	3.4	2.3
Ferrous and non-ferrous metals	515.4	0.4	1.7
Machinery and equipment	112.3	44.1	46.3
Services	98.3	4.2	3.8
Other	109.1	38.6	39.3

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

The share of enterprises with foreign investments in the commodity structure of total exports of the Republic of Uzbekistan has changed based on the above-mentioned trends as well. The share of EFI exports are the highest in the overall commodity group of machinery building, at 94.9%, with an increase of 5 p.p. during the period under review (Graph 4.3.1). In the commodity group “others” the share and increase equaled 27.1% and 7.3 p.p. respectively, in “ferrous and non-ferrous metals” – 2.7% and 2.1 p.p. respectively.

Graph 4.3.1 Share of Enterprises with Foreign Investments in the Commodity Structure of Uzbekistan’s Exports, %



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

In the territorial break-down of EFI exports, significant input was provided by such regions as Andijan, Navoi and Tashkent city. They accounted for 83.2% of total exports of all EFIs in Uzbekistan (Table 4.3.3).

Exports of enterprises with foreign investments in such regions as Jizzakh, Surkhandarya, Sirdarya, and Khorezm increased at high growth rates that were significantly higher the national average, although their shares in the total exports of EFIs did not exceed 0.4-0.5%.

The volume of imports of goods, labor and services of EFIs equaled 413.9 mill. USD, which exceeded the level of the 1st quarter of 2005 by 12.7% (Table 4.3.1).

Table 4.3.3. Growth Rates and Territorial Structure of Exports of Enterprises with Foreign Investments

Regions	Growth rates, 06/I in % to 05/I	Share in total exports, %	
		05/I	06/I
Total	106.9	100	100
Republic of Karakalpakstan	61.1	0.8	0.5
Andijan	109.4	43.2	44.2
Bukhara	43.2	1.2	0.5
Jizzakh	295.2	0.2	0.5
Kashkadarya	101.2	1.2	1.1
Navoi	142.0	16.9	22.5
Namangan	60.0	2.5	1.4
Samarkand	55.0	2.5	1.3
Surkhandarya	190.5	0.4	0.5
Sirdarya	165.0	0.3	0.4
Tashkent	43.7	10.9	4.5
Fergana	76.5	7.8	5.6
Khorezm	473.8	0.1	0.5
Tashkent city	146.8	12.0	16.5

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

Significant shares in the total volume of imports of enterprises with foreign investments were provided by such commodity groups as machinery building (53.5%), chemical products (13.5%), metallurgy (12%) and foodstuffs (11.9%). Imports of the above-mentioned groups, except machinery building, grew at an accelerated pace: chemical products by 42.6%, metallurgy – 99.2%, and foodstuffs – by 39% (Table 4.3.4). Energy carriers and "others" accounted for far less significant shares in the imports of EFIs (0.3% and 5.4% respectively) showing a decrease against the level of the 1st quarter of 2005.

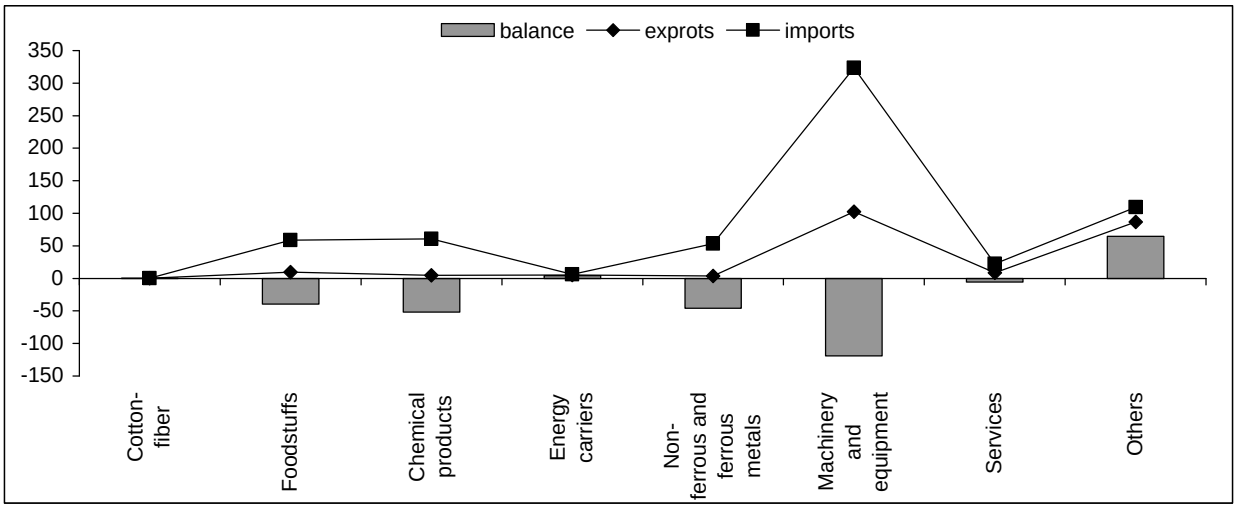
Table 4.3.4. Growth Rates and Commodity Structure of Imports of Enterprises with Foreign Investments

	Growth rates, 06/I in % to 05/I	Share in total imports, %	
		05/I	06/I
Total	112.7	100	100
Foodstuffs	139.0	9.7	11.9
Chemical products	142.6	10.7	13.5
Energy carriers	88.1	0.3	0.3
Ferrous and non-ferrous metals	199.2	6.8	12.0
Machinery and equipment	96.8	62.3	53.5
Services	107.0	3.5	3.4
Other	91.1	6.7	5.4

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

As is shown in Graph 4.3.2, a positive trade balance in the trade turnover of enterprises with foreign investments was achieved in such commodity groups as cotton-fiber, energy carriers, and others. While in the case of the first and second groups the positive trade balance was insignificant, in the case of "others" the trade balance amounted to more than 64.5 mill. USD. The exports of this group of commodities were led by goods made of precious metals, final light industry products, and industrial construction materials. In spite of the declining trend in growth rates of imports during the period under review, the lowest indicator of export-import ratio (0.46) and accordingly the largest negative trade balance (-119.1 mill. USD or about 60% of the total foreign trade balance of EFIs) were observed in the commodity group "machinery and equipment". This was due chiefly to the technical condition of existing and newly established enterprises with foreign investments. A negative trade balance, with imports higher than exports, was observed in the case of such commodity groups as "foodstuffs" (negative balance of 39.7 mill. USD), "chemical products" (negative balance of 51.7 mill. USD) and "non-ferrous and ferrous metals" (negative balance of 45.9 mill. USD.).

Graph 4.3.2. Trade Balance of Enterprises with Foreign Investments by Commodity Group, for 1st Quarter of 2006 (mill. USD)



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

In the 1st quarter of 2006 a tendency of strengthening and expansion of trade with CIS countries was observed, which was true for other countries as well. Foreign trade turnover with the CIS of enterprises with foreign investments increased in the 1st quarter of 2006 by 45.1 mill. USD, while increasing with other foreign countries by 15.9 mill. USD (Table 4.3.5). During the period under review, the growth of foreign trade turnover with the CIS was higher than with foreign countries, including for exports. As a result, a positive balance was achieved in trade with the CIS (39.7 mill. USD), while trade with foreign countries resulted in a negative balance (-232.9 mill. USD).

In spite of a tendency towards decrease, the share of EFI trade turnover with foreign countries remained relatively high, at 67.1%. This in turn is connected with the ability of EFIs to sell major export items at world market prices and receive hard currency, as well as to use stable channels for imports to the domestic market.

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, %		Growth rates, 06/I in % to 05/I
	05/I	06/I	05/I	06/I	
Foreign trade turnover	573.6	634.6	100	100	110.6
CIS	163.8	208.9	28.6	32.9	127.5
Non-CIS	409.8	425.7	71.4	67.1	103.9
Exports	206.4	220.7	100	100	106.9
CIS	109.7	124.3	53.1	56.3	113.3
Non-CIS	96.7	96.4	46.9	43.7	99.7
Imports	367.2	413.9	100	100	112.7
CIS	54.1	84.6	14.7	20.4	156.4
Non-CIS	313.1	329.3	85.3	79.6	105.2
Trade balance	-160.8	-193.2	x	x	x
CIS	55.6	39.7	x	x	x
Non-CIS	-216.4	-232.9	x	x	x

Source: State Statistics Committee of Uzbekistan

An analysis of the results of the 1st quarter of 2006 indicated that in the foreign trade turnover of EFIs, imports remained higher than exports, with the ratio of imports to exports equaling 0.53. At the same time, enterprises with foreign investments in such regions as Navoi, Fergana, Kashkadarya, Surkhandarya, Namangan, and Jizzakh, as well as in the Republic of Karakalpakstan, had positive foreign trade balances, with the total sum exceeding 38 mill. USD. This situation was characterized by the fact that EFIs in Navoi, Jizzakh and Surkhandarya achieved a positive balance due to more accelerated growth of exports, while other regions achieved such a balance due to a sharp decrease in imports in the 1st quarter of 2006 versus the 1st quarter of 2005.

The positive trend of increasing efficiency in the activities of enterprises with foreign investments and the attraction of new foreign investments into the national economy was a result of periodic round-tables, held since the beginning of the year with the participation of ministries, departments, the business community, and heads of enterprises with foreign investments. The main goals of those round-tables were: to make foreign partners aware of investment opportunities in Uzbekistan; to discuss urgent issues in the activities of foreign investors working in the territory of Uzbekistan, including issues and problems in the sphere of taxation and customs procedures; and to draft joint recommendations on improving the investment climate. During these round-tables the participants also discussed implementation of the Program for Attracting Foreign Investments in Labor-intensive Regions of Uzbekistan in 2005-2007 as well as the participation of foreign investors in the process of privatizing enterprises in Uzbekistan.

It is well known that foreign investors (companies) are given the right to participate in the privatization of enterprises, including unprofitable ones, in accordance with a state program. Several positive results were observed in that sphere during the period under review. For example, the company “SEID Handelsgesellschaft GmbH” (Austria) purchased a block of shares of JSC “Khorezm shakar” at a volume of 99.43%. The plant of the JCS was reconstructed at the expense of the foreign investor, which included transformation of a part of the production lines for refining cane sugar, preserving 1300 jobs. Investments of another foreign company, the Russian JSC “Vim-Bill-Dan” at the JSC “Tashkent sut” made possible an increase in the usage of production capacities and expanded the list of produced products, a portion of which are aimed at foreign markets.

The agro–industrial complex of Uzbekistan has the potential to expand the presence of foreign investors. The decree of the President of the Republic of Uzbekistan I.A. Karimov “On measures to deepen economic reforms in fruit-and-vegetable and grape cultivation” is aimed at the formation of agroindustrial firms, based on using flexible, modern technologies in the reprocessing of agricultural products, including with the participation of foreign investors in the process of production. At the same time, privileges and preferences are provided in the sphere of taxation. However, there are certain problems in the activities of enterprises with foreign investments in the sector of foodstuffs production, related to the length of customs clearance of goods, unsatisfactory conditions for storing goods in terminals and others.

In the textiles industry the system of privileges and preferences, adopted earlier, remains in force, the main goal of which was to attract investments and to encourage effective operations of enterprises with foreign investments. According to the Resolution of the Government “On measures to further improve the mechanism of the sale of cotton fiber by enterprises with foreign investments”, beginning with the harvest of 2005, enterprises established with the participation of foreign capital are exempt from a series of payments for ser-

vices of banks and manufacturing infrastructure and are granted a discount on the purchase of cotton fiber. At the same time, certain enterprises, including those with 100% foreign capital, faced such problems as the absence of privileges on import duties for consumer goods (paints, rubber, various types of accessories, etc.), high excise taxes for imported goods, the poor quality of locally made goods and components (including cotton yarn, threads) and their inability to meet particular requirements for world trade.

One of the most important priorities for developing the economy of Uzbekistan in the near future is "...greater large-scale attraction of foreign investments channeled to establishing new joint ventures and modernizing and re-equipping existing production. It is necessary to further strengthen the legal basis, to create clear and transparent mechanisms for applying available privileges and preferences, to expand the introduction of new forms of attracting investments, and to more widely inform foreign business communities and potential partners of investment opportunities in certain sectors of our economy" (2). In order to further stimulate the inflow of foreign investment it is necessary to secure a stable legal regime that meets world standards, to analyze existing problems more deeply and to implement measures to eliminate these problems.

2 "Strengthening achieved results, gradually moving towards new frontiers", from the report of the President of the Republic of Uzbekistan I.A. Karimov at the meeting of the Cabinet of Ministers devoted to the results of social and economic development in 2005 and key priorities for deepening economic reforms in 2006. "Tax and Customs News", N7, page 4.

Annex 4.21. Trade balance (mill. USD)

Period	Export	Import	Trade Balance
2000	3264.7	2947.4	317.3
2001	3170.4	3136.9	33.5
2002	2988.4	2712.0	276.4
2003	3725.0	2964.2	760.8
2004	4853.0	3816.0	1037.0
2005	5408.8	4091.3	1317.5
05/I	1327.9	965.4	362.5
06/I	1386.8	999.7	387.1

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics 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
05/I	27.3	2.9	3.7	7.2	9.7	7.7	11.2	30.3	100.0	1327.9
06/I	26.7	3.8	5.1	11.7	10.1	7.7	11.8	23.1	100	1386.8

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics 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
05/I	7.0	11.9	2.3	9.8	47.2	9.9	11.9	100.0	965.4
06/I	8.3	13.9	3.9	12.3	41.6	8.7	11.3	100.0	999.7

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

Annex 4.2.4. Geographical Structure of Exports (%)

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other coun-tries	Foreign coun-tries	Belgium	Great Britain	Iran	South Korea	Netherlands	USA	Turkey	Switzerland	Other coun-tries
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
05/I	1327..9	100.0	25.8	4.0	14.1	1.4	6.3	74.2	0.9	8.7	8.8	1.1	0.4	2.4	6.6	5.8	39.5
06/I	1386.8	100.0	33.9	4.2	18.9	4.6	6.2	66.1	0.7	4.8	11.1	0.8	0.4	1.0	8.4	0.4	38.5

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

Annex 4.2.5. Geographical Structure of Imports (%)

Period	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Foreign coun-tries	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	3816.0	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
05/I	965.4	100.0	40.9	6.5	25.0	6.2	3.1	59.1	1.5	6.8	3.9	15.1	3.6	4.2	1.1	1.7	21.2
06/I	999.7	100.0	42.4	8.0	26.7	4.9	2.9	57.6	1.8	6.6	5.2	14.9	3.4	3.7	0.8	1.1	20.1

Source: Economic Trends, quarterly issue Uzbekistan. Tacis. July-September, 2001; State Committee on Statistics 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	Machin-ery and equip-ment	Ser-vices	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
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
06/I	220.7	100	0.1	4.4	2.1	2.3	1.7	46.3	3.8	39.3

Source: 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
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
06/I	413.9	100	11.9	13.5	0.3	12.0	53.5	3.4	5.4

Source: 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	Samarkand	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
2005	823.1	100	0.8	41.2	1.1	0.2	0.8	20.1	1.9	2.2	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
06/I	220.7	100	0.5	44.2	0.5	0.5	1.1	22.5	1.4	1.3	0.6	0.4	4.5	5.6	0.5	16.5

Source: State Statistics Committee of Uzbekistan

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

	Total. mill. USD	Total %	Republic of Karakal-pakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samarkand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tashkent
2000	760.5	100	0.3	28.3	1.0	1.1	0.3	4.6	1.6	4.3	0.3	0.2	8.4	1.4	0.1	48.1
2001	937.2	100	0.3	25.3	1.0	3.3	5.1	6.5	2.2	2.1	0.0	0.9	10.3	9.8	1.0	32.2
2002	704.8	100	0.4	27.1	2.1	3.8	0.7	4.1	2.2	3.9	0.2	0.3	5.9	5.7	3.8	39.8
2003	858.4	100	1.1	28.2	0.8	0.3	0.8	5.3	1.8	3.8	1.0	0.1	3.8	4.1	0.3	48.6
2004	1165.7	100	1.4	27.1	0.8	0.2	0.4	6.9	2.1	2.6	0.3	1.8	4.7	1.4	1.2	49.1
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	1.1	3.4	1.2	1.5	0.1	0.4	3.7	2.0	0.2	43.0
06/I	413.9	100	0.1	39.2	0.3	0.3	0.1	5.7	0.6	3.6	0.1	0.4	3.5	1.1	0.4	44.6

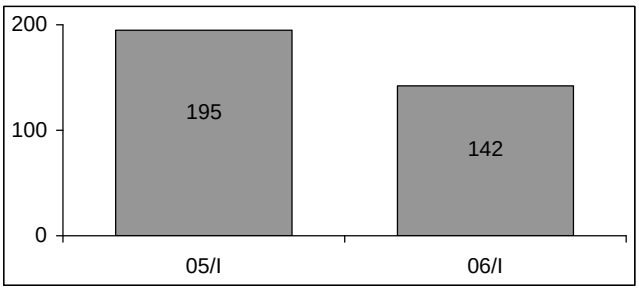
Source: State Statistics Committee of Uzbekistan

5. Institutional and Market Transformations

5.1. Denationalization and Privatization, Property Types

In the first quarter of 2006, in accordance with the approved schedule of implementing the Program for denationalization and privatization for 2005-2006, 142 manufacturing and social objects of the economy were transferred into non-state-owned property (Graph 5.1.1 and Annex 5.1.1), which is 53 units or 27.2% less than in the corresponding period of the previous year. This was due to the reduction of state owned enterprises and stocks.

Graph 5.1.1. Number of Privatized Objects (Units)



Source: State Property Committee of Uzbekistan

In the sectoral context, the largest numbers of privatized enterprises and objects were in the oil and gas industry (32 units), health care (18 units), public education (14 units), agriculture and water industry (6 units) and in "Uzvinporm" Holding Company (5 units), while in the territorial context, the majority were in Tashkent city (25 units), Surkhandarya (18 units), Tashkent (17 units) Fergana (12 units) and Kashkadarya (12 units) regions.

The trend has been maintained of selling privatized facilities predominantly as a whole (140 units) into private ownership (Table 5.1.1). Only two facilities have been privatized by way of reorganizing them into economic associations: state unitary enterprise "Tashkent Plant of Ferroconcrete Items" – into an open-type joint stock company and "Karshisuvkurilish" – into a limited liability company. The small number of economic associations established is explained by the fact that in the first quarter of the current year, mainly small state-owned enterprises were privatized.

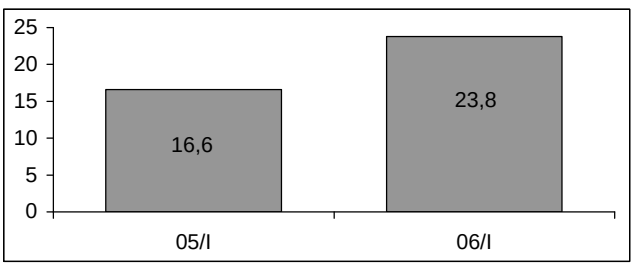
Table 5.1.1. Forms of Privatization of State-Owned Objects (Units)

Period	Total Privatized	Including		
		Transformed into:		Sold intact to private individuals
		Joint Stock Companies	Limited Liability Companies	
05/I	195	1	11	183
06/I	142	1	1	140

Source: State Property Committee of Uzbekistan

The implementation continued of one of the main tasks of the current state of development of the privatization process – the reduction to the minimum possible of the number of joint stock companies and limited liability companies with a state-owned stake in their authorized capital. In the first quarter of 2006, state-owned stakes in 41 joint-stock companies in the amount of UZS 42.4 bn – as well as state-owned shares in the authorized capital of 67 limited liability companies in the amount of UZS 1.1 bn – were sold to private legal entities and individuals, including foreign investors. Under a mechanism foreseeing a step-by-step reduction of the starting price, blocks of state-owned and earlier unplaced shares of 30 joint-stock companies were sold for UZS 12.2.0 billion and 138 real estate objects for UZS 1.9 billion.

Graph 5.1.2. Privatization Proceeds (UZS biion)



Source: State Property Committee of Uzbekistan

In the first quarter of 2006, total proceeds from the privatization of various state-owned facilities in the amount of UZS 23.8 bn. (in Soum terms) were placed in the special accounts of the Goskomimushchestvo (State Property Committee). The growth rate compared with the respective period of the previous year was 43.4% (Graph 5.1.2 and Annex 5.1.1).

The highest amount of sale proceeds (UZS 18.5 bn or 77.7% of the total proceeds) resulted from the sale of shares of privatized enterprises, including proceeds from transactions concluded at the end of the fourth quarter of 2005. This was UZS 6.8 bn or 58.1% more than in the similar period of the previous year. At the same time, proceeds from selling real estate and other property remain almost unchanged, at UZS 4.8 bn and UZS 0.5 bn respectively.

The Goskomimushchestvo transfers monthly the privatization proceeds to the budget and to various organizations and enterprises in accordance with the procedure set for their distribution. In the first quarter of 2006, a total of UZS 16.6 bn was distributed, or 1.5 times more than in the similar period of the previous year. At

the same time, important changes in the distribution structure of these funds have occurred (Table 5.1.2). The share of the national budget in receiving proceeds from the privatization of state-owned property has grown from 28.2% to 74.2%, i.e. by 46.0 p.p. In total, UZS 12.3 bn were directed to replenishing the non-tax revenues of the national budget, which was 4.0 times more than in the first quarter of the previous year.

UZS 1.8 bn were transferred to local budgets to fund projects of social and economic development and form market infrastructure institutions, and UZS 2.0 bn were transferred to various enterprises and organizations based on special governmental resolutions. These figures made up 90.0% and 37.0% of similar indicators for the previous year. As a result of this and of the significant increase in contributions to the state budget, there has been a decrease in the share of privatization proceeds going to local budgets – by 7.9 p.p.; and to various enterprises and organizations receiving these funds on the basis of special governmental resolutions – by 37.0 p.p. (Table 5.1.2).

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

Directions of Proceeds Distribution	05/I	06/I
National Budget	28.2	74,1
Local Budgets	18.7	10,8
Chamber of Commerce and Industry	1.1	2,4
Enterprises under Privatization	2.9	-
State De-Monopolization Committee	-	0,6
Economic Associations, Enterprises and Organizations by Special Governmental Decisions	49.1	12,1
Total	100	100

Source: State Property Committee of Uzbekistan

Starting from 2005, a portion of the funds received from selling state-owned property has been transferred to the Chamber of Commerce and Industry of Uzbekistan to be used for legal support for entrepreneurs. In the first quarter of 2006, this institution received UZS 0.4 bn or 3.0 times more than in same period of the previous year. As a result of this, the share of the Chamber of Commerce and Industry of Uzbekistan in the structure of distribution of privatization proceeds has grown by 1.1 p.p. and accounted for 2.4% (Table 5.1.2).

In the second half of 2005, changes were made in the mechanism of financial support for privatized enterprises in whose authorized funds the state has a stake. While these enterprises previously received a portion of the funds from the government's sale of their shares for purposes of technical re-equipment and modernization of production, at present financial support for privatized enterprises is provided through the Fund for the Support for Entrepreneurship and the Restructuring of Enterprises of the State Committee of the Republic of Uzbekistan for Demonopolization and Support for Competition and Entrepreneurship, established in 2005. In the first quarter of 2006, the State Property Management Committee transferred UZS 0.1 bn to this fund, which was 0.6% of the total distributed funds.

Along with certain achievements there remain several problems in the developing privatization process, which were pointed out by the President of the Republic of Uzbekistan Islam Karimov at the meeting of the Cabinet of Ministers of the Republic of Uzbekistan devoted to the results of social and economic development in 2005 and to the most important priorities of intensifying economic reforms in 2006. These points were also stated in the resolution made at this meeting. The most serious of these problems are the slow pace of selling state-owned assets of large enterprises into private property; the maintenance of an unreasonably high government stake in the authorized funds of many holdings, state-joint-stock and joint-stock companies; and the outdated approaches to the privatization of assets of companies that are the leading monopolists on the Uzbekistan market.

The resolution of the above meeting of the Cabinet of Ministers of the Republic of Uzbekistan ordered the development of a new Privatization Program for 2006-2007 before the State Property Management Committee and other interested organizations, focusing on:

- The inclusion into the Program of enterprises of natural monopolies of no strategic importance;
- The considerable expansion of the list of enterprises and facilities offered for sale at zero redemption value with investors taking on specific investment commitments;
- The introduction of a new efficient system of presale preparation of enterprises and facilities for sale on exchange and off-exchange markets;
- The reduction in the government stake in the authorized funds of holding, state-joint-stock and joint-stock companies.

5.2. Real Estate Market

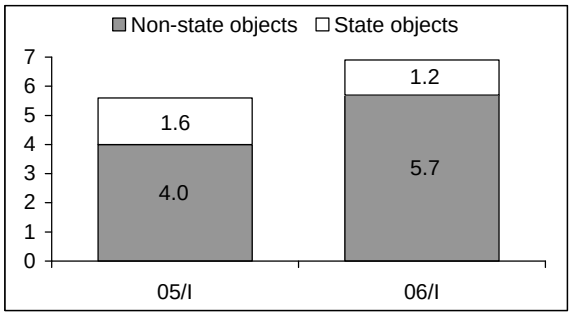
Centralized electronic exchange trade was held at the RREE and its regional branches (hereinafter "the RREE") regularly, three times a week, and auction trade was also held on a set schedule.

In the first quarter of 2006, the percentage of purchase and sale transactions concluded at exchange trade and auction trade made up 36.6% and 63.4% respectively of the total trade turnover of the RREE. At the same time, compared with the similar period of the previous year, the share of exchange trade decreased by 40.7 p.p., with a corresponding increase in the share of auction trade.

In the first quarter of 2006, 6.9 thousand real estate objects were sold for UZS16.3 bn (Graphs 5.2.1, 5.2.2 and Annex 5.2.1). The growth rates compared with the corresponding period of the previous year were 23.2% for the number of objects sold and 46.8% for sale proceeds. The advanced growth rate of sale proceeds resulted from an increase in the sale of large highly priced state objects.

In total, 1.2 thousand units of state-owned real estate objects were sold, which was 75.0% of the indicator for the corresponding period of the previous year. Despite this, the proceeds from the sale of these objects increased 2.3 times to reach UZS 2.5 bn, which is a result of the increase in the average selling price of objects offered for sale by the government: from UZS 688 thousand in the first quarter of the previous year to UZS 2,083 thousand in the first quarter of 2006.

Graph 5.2.1. Number of Objects Sold through the RREE ('000 Units)



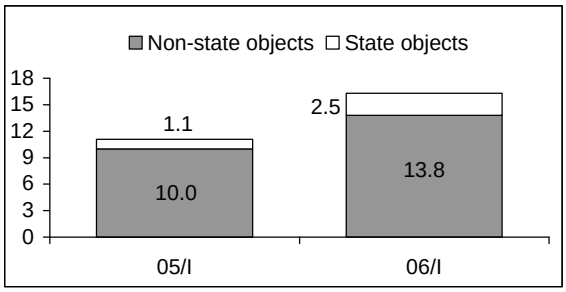
Source: Republican Real Estate Exchange

The trend is being observed of a rise in the sale of real estate offered for sale by private legal entities and individuals. In the first quarter of 2006, 5.7 thousand units of non-government-owned objects were sold for UZS 13.8 million. The growth rates compared with the corresponding period of the previous year were respectively: 42.5% for the number of objects sold, and 38.0% for sale proceeds. As a result, the share of non-state-owned objects in total property sold through the RREE increased by 14.2 p.p. and accounted for 82.6%, and their share in the cost turnover of the exchange increased by 16.9 p.p., reaching 84.5%. This data prove the increasing role of the RREE in developing the country's public sector.

In quantitative and cost structure of property sold through the RREE, agricultural objects (livestock buildings, poultry farms, etc.) had the highest shares – 51.8% and 46.0% respectively (Table 5.2.1), which was 7.6 p.p. and 15.1 p.p. more than in the corresponding period of the previous year. 3561 units were sold, of which only one was offered by the government for auction at UZS 7513 mill. (Annex 5.2.1). Growth rates of sales were 1.4 times and 2.2 times respectively.

In the first quarter of 2006, 608 units of trade, consumer service and social objects, including 540 units offered for sale by private individuals, were sold for UZS 4,480 mill. (Annex 5.2.1). Growth rates compared with the corresponding period of the previous year were 8.4% for the number of the objects sold and 106.8% for sale proceeds. The dramatic growth rate of sale proceeds was related with the increase in the average price of an object from UZS 3861 thousand in the first quarter of 2005 to UZS 7368 thousand in the same period of 2006. Uneven growth rates resulted in a decrease by 1.1 p.p. in the share of trade, consumer services and social objects in the quantity structure of property sold through the RREE and an increase by 7.8 p.p. in the share of these objects in the total value of property sold (Table 5.2.1).

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



Source: Republican Real Estate Exchange

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

Types of Property	05/I		06/I	
	Quantity	Amount	Quantity	Amount
Construction in Progress:	3.5	4.6	3.4	3.3
Commercial and Consumer Services and Social Objects	10.0	19.6	8.9	27.4
Objects of Agriculture and Water Industry	44.2	30.9	51.8	46.0
Land Plots	24.3	1.0	12.9	0.7
Residential Buildings and Non-Residential Premises, Other Property	18.0	43.9	23.0	22.6
Total	100	100	100	100

Source: Republican Real Estate Exchange.

232 units of uncompleted construction objects were sold for UZS 534 mill. Compared with the corresponding period of the previous year, growth rates were 16.6% and 4.9% respectively. Due to the small volume of sales from this category of objects, their share, both in total quantity of property sold through the RREE and proceeds from their sale, remained moderate (3.4% and 3.3%).

In total, rights to heritable life tenure of 890 state-owned land plots meant for house-building were sold in the amount of UZS 117 million. The number of land plots whose right of possession was sold to private individuals decreased compared with the corresponding period of the previous year by 473 units (34.7%), 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, especially agricultural objects, the share of land plots in the total quantity of property sold through the RREE fell by 11.4 % , and in cost volume of sales – by 0.3 p.p., accounting for 0.7% (Table 5.2.1).

In the first quarter of 2006, 1582 units of residential buildings, non-residential premises and other property were sold, which was 1.6 times more than in the corresponding period of the previous year. However, the cost volume for the sale of these objects decreased by UZS 1150 mill. or by 23.7%, due to the reduction in their average selling price from UZS 4,802 thousand to UZS 2,339 thousand. As a result of this and the above-mentioned changes in the sale of other types of real estate, the share of residential buildings and non-residential premises and other objects in the total quantity of property sold through the RREE grew by 5.0 p.p., while the cost volume of their sales fell by 21.3 p.p. (Table 5.2.1).

Apart from the sale of the property types listed in Table 5.2.1, since the 2nd half of 2003 the RREE has been providing services for the sale of shares in statutory funds of limited liability companies offered for auction by the government and individuals. In the first quarter of 2006, shares in statutory funds of 88 limited liability companies worth UZS 1138 million were sold, which exceeded similar indicators for the previous year by 1.2 and 3.0 times respectively.

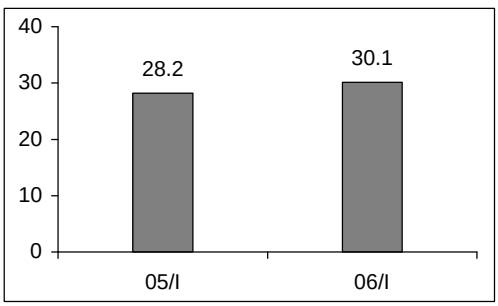
At the same time, the quantity of stakes in the authorized capital of limited liability companies offered for bidding by the government has grown 1.7 times, and their total sales have increased 3.1 times, which testifies to the increasing number of offers of large stakes – making up 25 and more percent of the authorized capital – in the process of the full privatization of limited liability companies.

5.3. Small Entrepreneurship

One of the main priorities for deepening economic reforms in 2006 is the large-scale expansion of the private sector, the strengthening guarantees and the formation of a favorable business environment.

In order to implement this priority, since January 1, 2006, in accordance with the Tax Code of the Republic of Uzbekistan and the Resolution of the President of the Republic of Uzbekistan “On the forecast of key macroeconomic indicators and parameters of the State Budget of the Republic of Uzbekistan for 2006,” changes were introduced to the procedure of taxation of individuals and legal entities. Additional opportunities for expanding entrepreneurship were also provided by the Decree of the President of the Republic of Uzbekistan from January 5, 2006 “On measures to stimulate the expansion of cooperation between large industrial enterprises and the provision of services by developing home-based labor”. Adopted legislative acts serve as a strong mechanism for increasing the level of development of small and private entrepreneurship as well as their share in the economic growth of the country.

Graph 5.3.1. Share of SEs in the GDP of Uzbekistan (in %)



Source: State Statistics Committee of Uzbekistan

In the 1st quarter of 2006, the activities of small enterprises were characterized by an increase in their share in GDP to 30.1%, which surpassed the level of the corresponding period in the previous year by 1.9 p.p. (Graph 5.3.1, Table 5.3.1). Sustainable growth of SE’s share in GDP was facilitated by the increase in the share of small enterprises to 8.5% against 7.2% and the share of micro-firms to 7.8% against 6.5% in the 1st quarter of 2005, which resulted from the increase in the number and volume of products and services they produce. In spite of some reduction in the share of individual entrepreneurs in GDP, (by 0.7 p.p. against the corresponding period of 2005), their role in key indicators of SE activities remained at a relatively high level and accounted for 13.8%.

The tendency of growth in the share of small enterprises and micro-firms in GDP was observed in practically all regions (Table 5.3.2), which was a result of measures of government support within the framework of implementing the "Regional Programs for Developing Small and Private Entrepreneurship."

Table 5.3.1. Main Indicators of Development of Small Enterprises

Indicators	Unit	05/I	06/I
Share of Small Entrepreneurship in the GDP of Uzbekistan	%	28.2	30.1
Number Employed by Small Enterprises	Thous. people	6314.5	6837.3
Share employed by SEs in the total number of those employed in the economy	%	64.8	67.9
Number of Employed			
Small Enterprises	Thous. people	249.5	292.0
Micro-firms	Thous. people	826.8	1028.2
Number of new jobs in SE	Unit	112256	130716
Number of operating SEs per 1000 people	Unit	9.4	11.2

Source: State Statistics Committee of Uzbekistan

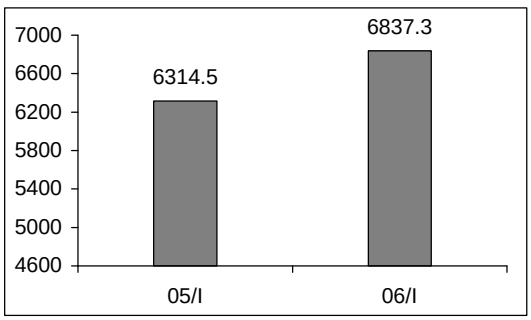
Sustainable growth of the contribution of SEs to gross regional product was observed in Samarkand region, where it registered 52.6%, followed by Namangan (49.0%), Khorezm (46.4%), Jizzakh (45.8%), Surkhandarya (44.5%), Bukhara (38.0%) regions and Tashkent city (47.9%). The national average level was surpassed by the Republic of Karakalpakstan and Fergana region. At the same time this indicator remained low in Kashkadarya (20.1%) and Navoi (13.6%) regions, where large enterprises of mining and reprocessing sectors are better developed (Table 5.3.2).

Table 5.3.2. Share of SEs in GDP and GRP (%)

Regions	Total		Including					
			Small Enterprises		Microfirms		Individual Businesses	
	05/I	06/I	05/I	06/I	05/I	06/I	05/I	06/I
Republic of Uzbekistan	28.2	30.1	7.2	8.5	6.5	7.8	14.5	13.8
Republic of Karakalpakstan	33.2	35.9	7.6	10.4	14.0	13.7	11.6	11.8
Andijan	27.6	31.2	5.5	6.2	5.1	6.9	17.0	18.1
Bukhara	31.5	38.0	6.8	8.0	9.6	12.1	15.1	17.9
Jizzakh	44.2	45.8	7.9	10.2	11.3	10.1	25.0	25.5
Kashkadarya	18.8	20.1	3.5	4.3	5.0	5.0	10.3	10.8
Navoi	12.3	13.6	2.0	2.2	3.1	3.8	7.2	7.6
Namangan	41.4	49.0	9.7	11.7	8.3	10.6	23.4	26.7
Samarkand	47.1	52.6	11.1	12.5	8.0	9.5	28.0	30.6
Surkhandarya	36.7	44.5	7.1	8.9	8.2	10.5	21.4	25.1
Sirdarya	39.9	39.7	10.6	10.0	8.8	8.6	20.5	21.1
Tashkent	26.9	30.1	7.0	7.4	5.7	7.4	14.2	15.3
Fergana	31.9	35.4	7.7	8.9	8.0	9.4	16.2	17.1
Khorezm	38.4	46.4	7.5	10.7	8.2	10.3	22.7	25.4
Tashkent city	44.8	47.9	18.0	19.9	12.8	14.2	14.0	13.8

Source: State Statistics Committee of Uzbekistan

Graph 5.3.2. Number employed by SEs (thousand people)



Source: State Statistics Committee of Uzbekistan

In the 1st quarter of 2006, the number of those employed by SEs increased by more than 522.8 thousand people, for a growth rate of 108.3% (Graph 5.3.2. Table 5.3.3). The share of those employed by SEs in the total number of employed in the economy reached almost 68% (in advanced economies SEs employ up to 90% of the employed). Significant growth in employment was observed in Khorezm – 11.7%, as well as in Kashkadarya – 10.8%, Fergana – 9.7% and Surkhandarya – 9.3% regions. Regions with growth rates lower than the national average included Navoi, Jizzakh, Sirdarya, Tashkent and Tashkent city (Table 5.3.3).

The increase in the number of employed was facilitated by the high growth in new jobs (16.4% against the 1st quarter of 2005), as a result of the establishment of more than 50 thousand newly operating SEs. In the territorial structure, particularly high rates of job establishment were recorded in Kashkadarya region – 152.7%, followed by Navoi – 143.8%, Fergana – 133.5%, Bukhara – 131.8% regions and the Republic of Karakalpakstan (119.8%). A decrease in the number of new jobs against the level of the corresponding period of the previous year was observed in Jizzakh, Namangan regions and Tashkent city.

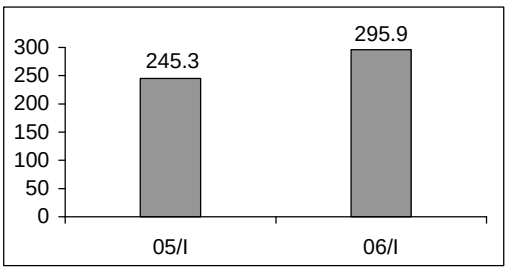
Table 5.3.3. Number of Employed in SEs by Region (thousand people)

Regions	05/I	06/I	Growth rate %
Republic of Uzbekistan	6314.5	6837.3	108.3
Republic of Karakalpakstan	342.2	370.0	108.1
Andijan	599.4	649.5	108.4
Bukhara	421.8	458.7	108.7
Jizzakh	225.4	235.8	104.6
Kashkadarya	529.1	586.4	110.8
Navoi	175.3	181.3	103.4
Namangan	408.8	453.0	110.8
Samarkand	683.8	735.7	107.6
Surkhandarya	422.3	461.5	109.3
Sirdarya	191.9	200.6	104.5
Tashkent	578.5	617.6	106.8
Fergana	788.2	864.7	109.7
Khorezm	359.6	401.6	111.7
Tashkent city	588.2	620.9	105.6

Source: State Statistics Committee of Uzbekistan

In the 1st quarter of 2006, the share of operating SEs in the total number of registered SEs increased by 5.5 p.p. against the corresponding period of 2005 (Table 5.3.4), which was due to an increase in real support by state authorities and agencies in implementing the regional "Program on Developing Small and Private Entrepreneurship", providing them with information and consulting services, and credit resources. As a result, the share of operating SEs significantly increased in Andijan region, to 90.6% against 68.6% in the 1st quarter of 2005, Samarkand region – 91.9% versus 80.9%, and in Fergana region – to 90.6% versus 79.8%. In the Republic of Karakalpakstan, as well as in Khorezm, Navoi and Kashkadarya regions, this indicator increased relative to the national average (88.9%). The share of operating SEs in the total number of registered SEs decreased in Bukhara region as a result of the increase in the number of entities which ceased operations (Table 5.3.4).

Graph 5.3.3. Number of Operating SEs (thousand units)



Source: State Statistics Committee of Uzbekistan

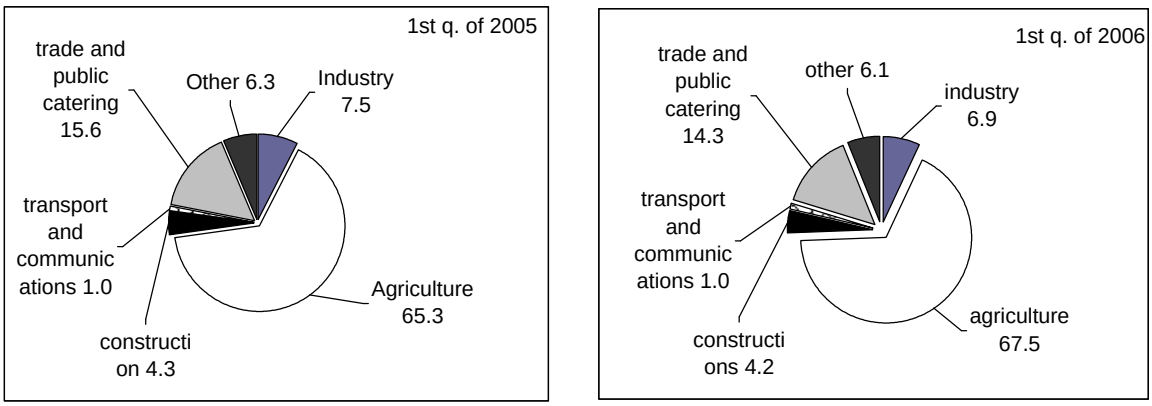
In the 1st quarter of 2006, the structure of SEs did not change in comparison with the corresponding period of the previous year. The majority of SEs (67.5%) belonged to the agro-industrial complex (taking into account dekhkan farms), while their growth equaled 39.7 thousand units. A significant share in the number of operating enterprises belonged to trade and public catering (14.3%), which increased by 4.1 thousand units. An increase in the number of SEs was observed in industry, transport and communications and construction (Graph 5.3.4, Table 5.3.5). However, the transformation in the sector-based structure of SEs towards industrial production is proceeding slowly. The share of operating enterprises in the manufacturing sector accounted for 7.0% against 7.5% in the corresponding period of the previous year. The scarcity of available financial resources, financial instability, the lack of stable connections with large enterprises and the high transaction costs when entering markets do not allow small enterprises to develop their innovational and manufacturing potential.

Table 5.3.4. Number of Operating SEs by Region (thousand units)

Regions	05/I		06/I	
	Operating SEs	Share of operating SEs in total number of registered SEs, %	Operating SEs	Share of operating SEs in total number of registered SEs, %
Republic of Uzbekistan	245.3	83.4	295.9	88.9
Republic of Karakalpakstan	13.4	90.7	14.9	92.9
Andijan	14.6	68.6	19.2	90.6
Bukhara	20.0	90.5	22.8	89.8
Jizzakh	14.4	77.8	16.7	88.3
Kashkadarya	45.4	94.4	58.6	94.3
Navoi	8.9	83.9	9.9	89.7
Namangan	12.9	73.9	15.6	83.2
Samarkand	18.6	80.9	22.6	91.9
Surkhandarya	12.9	81.7	16.2	84.6
Sirdarya	10.9	91.4	10.9	82.8
Tashkent	17.9	87.5	19.8	88.2
Fergana	20.1	79.8	27.1	90.6
Khorezm	16.9	84.9	21.8	88.8
Tashkent city	18.5	73.2	19.9	77.0

Source: State Statistics Committee of Uzbekistan

Graph 5.3.4. Sectoral Structure of SE (in %)



Source: State Statistics Committee of Uzbekistan

Table 5.3.5. Number of Operating SEs by Sector of the Economy (thousand units)

Indicators	05/I	06/I
Industry		
Small enterprises	2.0	2.0
Microfirms	16.3	18.4
Agriculture		
Small enterprises	3.4	5.8
Microfirms	156.7	194.0
Transport and communications		
Small enterprises	0.4	0.5
Microfirms	1.9	2.4
Construction		
Small enterprises	0.9	1.0
Microfirms	9.7	11.4
Trade and public catering		
Small enterprises	6.7	6.6
Microfirms	31.6	35.9

Source: State Statistics Committee of Uzbekistan

Small businesses are poorly developed in the sector of transportation and communications, where the number of operating SEs amounted to 2.9 thousand units, with their share in the structure of SE at about 1.0%.

In the 1st quarter of 2006, the share of SEs in the total volume of industrial goods produced accounted for 8.4%, which was 0.2 p.p. higher than in the corresponding period of the previous year. A contributing factor in this was the formation of market mechanisms that opened access for entrepreneurs, above all small businesses, to material resources, as well as the increased activity in production and sales of consumer goods by all categories of entities (their production rate equaled 119.9%, including 124.1% in non-foodstuffs, and 117.6% in foodstuffs production). The share of SEs in the production of consumer goods reached more than 21.1%, an increase of 1 p.p. in comparison with the corresponding period of the previous year. The share of SEs in the production of foodstuffs is also growing, reaching 33.1% during the period under review, with individual entrepreneurs accounting for the largest share in the total volume of production – 23.6% (Table 5.3.6). As observed, small businesses have begun to dominate in the consumer market by producing a large share of many types of products.

Main indicators of SE activities in the agrarian sector were characterized by an increase in the share of SEs in the total volume of agricultural goods produced by 94.7%, which was 1.3 p.p. higher than the level in the 1st quarter of 2005. The increase in production was achieved by all types of SE; however, its main share, 90.9%, was provided by dekhkan farms (Table 5.3.6).

The significant expansion of economic freedom and the rights of entrepreneurs contributed to the increase in the role of SEs in retail trade turnover, where the growth rate in comparison with the corresponding period of the previous year equaled 112.7%. SEs accounted for 42.8% of total trade turnover, which was 2.0 p.p. higher than the level of the 1st quarter of 2005. During the period under review, the share of small businesses in trade turnover equaled 8.5%, while microfirms accounted for 7.3%. However, individual entrepreneurs made up 27.0% of the share (Table 5.3.6).

The share of SEs in the total volume of paid services increased significantly and reached 44.9%, which was 2.4 p.p. higher than the level in the corresponding period of the previous year. The increase in the share of SEs in this sector was chiefly related to their high growth rate, at 118.2% compared to last year's level. The increase in the volume of paid services rendered by small enterprises equaled 0.9 p.p., and for individual entrepreneurs – 1.4 p.p. High growth rates for paid services (116.1%) were achieved by individual entrepreneurs, whose share accounted for 37.4% of the total volume.

Table 5.3.6. Share of SEs in Production Output by Sector of the Economy (%)

Indicators	05/I	06/I
Industry		
Share of SEs in total volume of industrial output	8.2	8.4
Small enterprises	3.5	3.6
Microfirms	1.6	1.8
Individual entrepreneurs	3.1	3.0
Share of SEs in total volume of consumer goods production	20.1	21.1
Small enterprises	5.7	6.2
Microfirms	2.8	2.9
Individual entrepreneurs	11.6	12.0
Share of SEs in total volume of foodstuffs production	33.0	33.1
Small enterprises	6.5	6.7
Microfirms	2.5	2.8
Individual entrepreneurs	24.0	23.6
Agriculture		
Share of SEs in total output	93.4	94.7
Small enterprises	0.7	0.9
Microfirms	2.5	3.0
Dekhkan farms	90.1	90.9
Retail trade turnover		
Share of SEs in total trade turnover	40.8	42.8
Small enterprises	7.8	8.5
Microfirms	6.5	7.3
Individual entrepreneurs	26.5	27.0
Paid services		
Share of SEs in total volume of paid services	42.5	44.9
Small enterprises	3.7	4.6
Microfirms	2.8	2.9
Individual entrepreneurs	36.0	37.4

Source: State Statistics Committee of Uzbekistan

In the 1st quarter of 2006, foreign trade turnover indicators for SEs, evidencing their integration into world economic relations, had positive trends of growth. Growth rates of exports equaled 153.0% compared to the corresponding period of the previous year. Their share in the total volume of exports increased by 2.1 p.p. and reached 6.7% (Table 5.3.7). This was encouraged by the adoption of a number of measures aimed at stimulating exports of domestic products, the unification of customs payments, the simplification of tax and customs administration and others. The growth of export activities of microfirms equaled 0.6 p.p., and that of individual entrepreneurs – 0.8 p.p. In the structure of exports, shares of foodstuffs, non-ferrous and ferrous metals, and others increased significantly, by 4.4 p.p, 4.5 p.p., and 7.2 p.p. respectively.

Table 5.3.7. Share of SEs in Foreign Economic Activity (%)

Indicators	05/I	06/I
Exports		
Share of SEs in the total volume of exports	4.6	6.7
Small enterprises	3.2	3.9
Microfirms	0.4	1.0
Individual entrepreneurs	1.0	1.8
Imports		
Share of SEs in the total volume of imports	29.4	29.7
Small enterprises	13.7	14.4
microfirms	11.6	8.8
Individual entrepreneurs	4.1	6.5
Number of SEs participating in foreign economic activities, units	2015	1952

Source: State Statistics Committee of Uzbekistan

The share of SEs in the total volume of imports increased by 0.3 p.p. and reached 29.7%. Small enterprises made up a significant share of imports, 14.4%, which was 0.7 p.p. greater than in the corresponding period of the previous year. High growth of imports was observed in the case of individual entrepreneurship, at 161.8%, increasing their share in the total volume of imports by 2.4 p.p. to reach 6.5%. Significant changes in the commodity structure of imports decreased the share of machinery and equipment, almost by 10.0 p.p., and increased the share of non-ferrous and ferrous metals, by 5.4 p.p. (Table 5.3.8).

In the 1st quarter of 2006, the number of SEs participating in export-import operations was approximately 2 thousand (Table 5.3.7). Difficulties remain for SEs entering foreign markets. During his speech at the meet-

ing of the Cabinet of Ministers, the President of the Republic of Uzbekistan noted that not every small enterprise or individual entrepreneur can effectively conduct its own export operations, and this is not only because of a scarcity of material and financial resources, but also because of a lack of simple skills.

Table 5.3.8. Commodity Structure of Export-Import Operations of SEs, (%)

	05/I	06/I
Exports	100.0	100.0
Cotton fiber	26.0	27.0
Foodstuffs	24.5	28.9
Chemical products	1.7	1.5
Energy carriers	8.0	7.0
Non-ferrous and ferrous metals	0.9	5.4
Machinery and equipment	13.7	0.9
Services	10.7	7.6
Others	14.5	21.7
Imports	100.0	100.0
Foodstuffs	12.8	13.3
Chemical products	17.7	17.7
Energy carriers	0.2	0.2
Non-ferrous and ferrous metals	5.1	10.5
Machinery and equipment	43.1	33.5
Services	2.6	2.5
Others	18.5	22.3

Source: State Statistics Committee of Uzbekistan

An increase in exports by SEs was observed in Surkhandarya region, by 10.4 p.p., followed by Bukhara region – 5.8 p.p, Samarkand – 5.4 p.p., Khorezm region – by 3.3 p.p., and in the Republic of Karakalpakstan – 0.7 p.p. (Table 5.3.9).

Table 5.3.9. Share of SEs in Foreign Economic Relations, by Region (%)

Regions	Share of SEs in the total volumes of exports		Share of SEs in the total volume of imports	
	05/I	06/I	05/I	06/I
Republic of Uzbekistan	4.6	6.7	29.4	29.7
Republic of Karakalpakstan	8.9	9.6	74.1	55.8
Andijan	2.1	2.6	5.3	5.9
Bukhara	1.3	7.1	86.8	59.8
Jizzakh	1.7	3.7	46.7	42.1
Kashkadarya	1.4	1.2	35.2	44.1
Navoi	0.2	0.2	3.0	2.1
Namangan	73.9	87.0	39.3	78.4
Namangan	14.8	20.2	41.9	43.9
Surkhandarya	4.5	14.9	33.9	74.4
Sirdarya	2.6	2.3	36.4	97.3
Tashkent	2.0	4.1	34.6	42.0
Fergana	9.2	8.7	35.2	39.8
Khorezm	0.3	3.6	42.6	72.0
Tashkent city	7.0	7.2	35.1	34.5

Source: State Statistics Committee of Uzbekistan

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

Number of privatized enterprises	2000	2001	2002	2003	2004	2005	05/I	06/I
Number of privatized enterprises	374	1449	1912	1519	1228	980	195	142
State-owned enterprises transformed into joint-stock companies	152	227	223	75	28	3	1	1
State-owned enterprises transformed into limited liability companies	103	827	1252	981	162	75	11	1
Objects sold into full private ownership	117	184	325	396	1038	902	183	140
Privatization proceeds (UZS billion)	14.3	23.2	43.6	56.1	78.4	80.5	16.6	23.8

Source: State Property Committee of Uzbekistan

Note: Several joint-stock companies were established in 2000-2003 by merging the assets 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	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Construction in Progress	296	630	265	559	180	832	586	1176
Commercial and Consumer Services Objects	419	450	548	1221	436	1039	954	3203
Objects of Agriculture and Water Industry	602	450	510	367	413	396	904	653
Land Plots	5700	254	8662	504	8335	551	7391	490
Residential Housing and Non-Residential Premises, Other Property	1926	4396	5231	9699	4920	13353	4078	17938
Total	8943	6180	15216	12350	14284	16171	13913	23460

Source: Republican Real Estate Exchange

Annex 5.2.1 Continued

Types of Property	2004		2005		05/I		06/I	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Construction in Progress	896	1449	1087	1825	199	509	232	534
Commercial and Consumer Services Objects	1768	8892	2025	16169	561	2166	608	4480
Objects of Agriculture and Water Industry	2516	4376	8164	11359	2484	3416	3561	7513
Land Plots	6296	618	5221	610	1363	105	890	117
Residential Housing and Non-Residential Premises, Other Property	3123	12942	4435	14074	1010	4850	1582	3700
Total	14599	28277	20932	44037	5617	11046	6873	16344

Source: Republican Real Estate Exchange

Annex 5.3.1. Main Indicators of Level of Development of SEs

Indicators	Units	2000	2001	2002	2003	2004	05/I	2005	06/I
Share of SEs in GDP	%	31.0	33.8	34.6	35.0	35.6	28.2	38.2	30.1
Small enterprises and microfirms	%	13.1	14.8	15.7	16.4	18.6	13.7	21.5	16.3
Number of operating legal entities	Thous. units	149.3	177.7	215.7	229.6	237.5	245.3	268.6	296.0
Number of employed by SE	Thous. people	745.3	801.8	931.2	752.2	1349.0	1076.3	1386.9	1320.2

Source: State Statistics Committee of Uzbekistan

Annex 5.3.2. Share of SEs in Production Output by Sector of the Economy (%)

Areas of Activity	2000	2001	2002	2003	2004	05/I	2005	06/I
Industry	14.0	14.5	15.9	10.9	10.1	8.2	9.8	8.4
Agriculture	73.6	74.5	74.9	78.1	81.1	93.4	84.7	94.7
Retail Turnover	45.3	46.1	43.4	42.4	42.2	40.8	44.0	42.8
Paid Services	37.9	40.5	41.3	45.4	47.9	42.5	52.0	44.9

Source: State Statistics Committee of Uzbekistan

Annex 5.3.3. Share of SEs in Foreign-Trade Operations of the Republic

Indicators	Units	2000	2001	2002	2003	2004	05/I	2005	06/I
Exports	%	10.2	5.1	7.5	6.9	7.3	4.6	6.0	6.7
Imports	%	27.4	24.8	24.9	33.0	32.7	29.4	33.7	29.7
Number of Entities Participating in Foreign Economic Activity, thousand units	Thous. units	2.8	2.5	2.7	3.2	3.8	2.0	3.9	2.0

Source: State Statistics Committee of Uzbekistan

6. Sectors of Economy

6.1. Industry

The enhancement of the impact of internal factors on the dynamic development of industry caused by the high demand for final and intermediate consumer goods, was observed in the 1st quarter of 2006. The index of industrial growth reached 106.8%. The enterprises of the industrial complex produced goods in the amount of UZS 3319.6 billion. The volume of output of the industry's added value increased by 3.8%.

Along with the improvement of macroeconomic conditions, measures for the realization of industrial development programs – including the program for the development of localized production directed at decreasing the dependence of the main industries on imported raw materials and spare parts – played an important part in the system of growth stimulation and diversification of industrial production. According to the results of the 1st quarter of 2006, localized production in the industrial sphere amounted to more than UZS 267.3 billion and the estimated effectiveness of the substitution of imported goods amounted to more than USD 200 million.

The implementation of activities aimed at the development of localized production accelerated the utilization of raw materials in the production process, which had been one of the actual problems for the development of chemical, metallurgy, light processing and building materials industries. The share of local raw materials in the expenses of these industries tended to increase, reaching 80-100% at many industries. The localizing processes also had their positive impact on the dynamics of the introduction of new innovative equipment and utilities. Thus, according to the results of the 1st quarter of 2006, the production of such types of equipment and utilities for agricultural machinery and motorcar construction as the vegetable-and-cotton cultivator OK-4, N-SH gear-type pumps, hydraulic thrusts, oil and water pumps, plows and other equipment was supported. The role of import substitution production in export coverage became more important. The export of industrial commodities produced within localizing projects increased to USD 103.2 million. These tendencies had a certain impact on the increasing development dynamics and structural shifts of the industry as a whole.

The dynamics of industrial development shifted to light, chemical and building materials industries, the share of which was more than 1/3 of the total growth in industrial production. According to the results of the 1st quarter of 2006, the index of growth in the food industry was the highest and amounted to 20.9% (Table. 6.1.1).

Table 6.1.1. Indices of Industrial Production

	Index of Industrial Production (in % to the previous period)	
	05/I	06/I
Industry	108.3	106.8
Power Industry	98.2	109.4
Fuel Industry	99.2	99.4
Ferrous Metallurgy	127.4	105.8
Non-ferrous Metallurgy	100.7	99.5
Chemical Industry	107.3	112.1
Mechanical Engineering	149.5	110.6
Timber, Wood-Working Industry	120.3	116.0
Building Materials	104.4	117.0
Light Industry	113.1	106.8
Food Industry	100.1	120.9
Other	106.1	119.6

Source: The State Statistics Committee of Uzbekistan.

The increase in efficiency of joint operations and the significant increase in the export of food products facilitated the formation of this tendency. The export of food products increased by 35.5% and exceeded the level of the corresponding period of the previous year. As a result of this, the share of the food industry in the structure of national exports increased from 2.9% to 3.8%.

The effectiveness of the planned measures aimed at the improvement of the management structure, rapid development of joint production and introduction of new technologies facilitated the uptrend in the growth rate in the building materials industry. The index of growth in the output of the building materials industry reached 17.0%. The dynamics of growth of construction work has been supported by the expansion of construction productivity. In comparison with the previous period, the physical output of cement production increased by 9.9%, asbestos cement sheets – by 29.2%, ceramic tiles – by 78.1% and wall panel materials by 2.2 times (Table. 6.1.2). At the same time, the competitive advantages of foreign finishing products on the market of building materials remain very high and thus testify to a further priority, which is finding an effective way to raise the competitive capacity of local building products.

The index of growth in chemical industry output surpassed the level of the previous year by 4.8 percent and amounted to 12.1%. A downward trend in the physical output of chemical production was one of the distinctive features of the reviewed period. The production volume of mineral fertilizers increased by 8.3%, including phosphates – by 7.8%, nitrates – by 8.3%, synthetic ammonia– by 7.6%, man-made fiber and threads – by 2.7 times, and synthetic resin and plastics – by 54.6%.

The steady provision of chemical enterprises with processed raw materials, including the reprocessing of local raw materials, facilitated the decrease in material costs, savings of currency, increased price competitiveness and the expansion of the external market. Exports of chemical production increased by 42.6% as compared with the level of the previous year, and as a result of this, the share of the chemical industry in the structure of exports increased from 3.8% to 5.1%.

The dynamics of further development of the chemical industry and the strengthening of its position both in foreign and domestic markets, based on the achievement of a steady high level of product competitiveness, indicate the effectiveness of the measures from the implementation of the “Program on Development and Technical Re-equipment of the State Joint-Stock Company “Uzkimesanoat” Enterprises for 2006-2010,” which supported the reconstruction and technical re-equipment of leading enterprises of the public corporations “Electrocimesanoat,”,“Ferganaazot”, “Navoiazot” and other companies.

The constructive solution to the problem of non-payment by agricultural consumers is the essential factor of growth and increase in financial stability of the industry. With this goal, the creation of an integral structure for the production and sale of mineral fertilizers and chemical pesticides is planned, whose functions will include the design and implementation of an effective mechanism to ensure the timely and complete payment for delivered produce.

The growth rates of machine-building production were higher than the dynamics of the overall industry, though they had a slowing tendency. The index of growth in the machine-building complex amounted to 10.6%. The localization processes continued to influence dramatically the indicators of the industry’s development. According to the results of the 1st quarter of 2006, the share of localizing enterprises of machine-building in the production output of localized production amounted to about 65-70%. In recent years, the growth of business activity of local businessmen in the sphere of import substitution production dramatically changed the situation with the delivery of utilities for motor car construction.

The growth of monetary volumes was provided by the increase in motor car production – by 7.6%, cables (isolated cable) – by 52.0%, tractors – by 5.4%, TV-sets – by 92.5%, washing machines – 62.6%. The tendency towards reconstruction was observed in the production of excavators and of different types of agricultural and electro-technical equipment.

The demand for motor cars in the domestic market was supported by measures which stimulated the sale of motor cars for consumer loans, granted by the commercial banks of Uzbekistan. Today about 30 commercial banks provide loans for cars. The completion of the project on the modernization and expansion of the painting line, which enables more cars of the popular “metallic” color to be produced, will also help increase both the foreign and domestic demand for local cars. In order to stimulate the development of automobile production, there is a program for the establishment of the network of newly equipped compact car sale centers, which will stimulate car sales and render world class service on car maintenance and repair.

Despite the advanced rates of output of the main products in the electro-technical and agricultural machinery branches of industry, the domination of the competitive advantages of imported products and the financial instability of local enterprises remained. The projected program for the modernization and technical re-equipment of production, based on the attraction of foreign investment, will facilitate the stable dynamics of development of these sub-industries. Considering the conditions of severe competition in the market for machine-building products, one of the crucial tendencies for the reorganization of the enterprises is the improvement of the management of the machine-building sector, with regard to the integration of large corporate firms and small innovative businesses, which provide rapid introduction of scientific and technological advances and enhancement of market surveys.

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)	
		05/I	06/I	05/I	06/I
Power Industry					
Electric Power	Mill. Kwh	13267	14038	97.1	105.8
Fuel Industry					
Oil and Condensate	Thous. Tons	1483.5	1283.6	83.5	86.5
Gas	Mill. m^3	15456.1	15569.9	98.4	100.7
Liquefied Gas	Thous. Tons	51.8	56.0	109.8	108.1
Coal	Thous. Tons	762	838	124.3	110.0
Metallurgy					
Steel	Thous. Tons	155.7	158.3	117.3	101.7
Rolled Ferrous Metals	Thous. Tons	149.1	148.1	122.7	99.4
Mechanical Engineering					
Tractors	Units	614	647	94.6	105.4
Excavators	Units	1	2	7.7	2 p.
Cars	Units	26290	28296	197.7	107.6
"Damas"	Units	3825	3055	194.9	79.9
"Lacetti"	Units	-	85	-	-
"Nexia"	Units	14950	17279	2.2 p	115.6
"Matiz"	Units	7515	7877	2.1 p	104.8
Color TVs	Units	8325	17357	122.7	2.1 p.
Isolated Cable	Km	435	661	44.9	152.0
Refrigerators and deep-freezers	Units	116	526	15.6	4.5p.
Washing Machines	Units	286	465	54.4	162.6
Chemical Industry					
Mineral Fertilizers	Thous. tons	210.4	227.8	98.9	108.3
Nitrogen Fertilizers	Thous. tons	186.0	201.5	98.0	108.3
Phosphate Fertilizers	Thous. tons	24.4	26.3	106.2	107.8
Synthetic Ammonia	Thous. tons	257.1	276.7	98.3	107.6
Sulphuric Acid	Thous. tons	218.2	201.2	104.3	92.2
Synthetic Resins and Plastics	Tons	24271	37526	93.6	154.6
Chemical Fibers and Threads	Tons	853	2302	38.8	2.7 p.
Synthetic Detergents	Tons	70	58	12.2	82.9
Paint-and-Lacquer Materials	Tons	5177	6212	117.8	120.0
Building Materials Industry					
Wall panel materials	Mill. pieces.	2.5	5.5	77.3	2.2 p.
Cement	Thous. tons	1048.8	1152.5	106.2	109.9
Asbestos Cement Sheets	Mill. tiles	62.3	80.5	96.9	129.2
Ceramic Tiles	Thous. m^2	26.0	46.3	70.1	178.1
Light Industry					
Cotton Fiber	Thous. tons	412.9	419.4	122.7	101.6
Cotton Yarn	Tons	38193	29215	94.2	76.5
Raw Silk Threads	Tons	117.2	130.3	98.6	111.2

Source: The State Statistics Committee of Uzbekistan.

The production output of light industry increased by 6.8%. The major contributor was the cotton cleaning industry, making up more than 75% of the total volume of production in light industry. In the 1st quarter of 2006 the production output of cotton fiber increased by 1.6%. The networks of regional cotton terminals and joint transport and information systems created recently in accordance with international standards play a major part in the cotton-cleaning industry. The mechanism of the sale and shipment of cotton fiber to cotton processing enterprises has been significantly simplified.

According to the results of the 1st quarter of 2006, the volume of production with high added value increased: knitted goods – by 0.9%, footwear – by 9.3%, raw silk threads – by 11.2%. Nevertheless, this tendency had no impact on the dynamics of the intra-sector shifts in light industry. As a result of the decrease in the physical output of cotton yarn by 23.5% and silk cloth by 2.0%, the share of these sectors in the structure of light industry decreased from 19.6% to 15.1%.

In the 1st quarter of 2006 the dynamics of the development of the resource and mining industries was restrained. The index of growth in fuel industry output amounted to 99.4%, non-ferrous metallurgy – to 99.5%

and ferrous metallurgy – to 105.8%. The development dynamics of these industries was formed under the influence of a decrease in the physical production output of oil and condensate – by 13.5%, and some other types of non-ferrous metals. The acceleration of the increasing rates of provision of these industries with raw materials will facilitate their dynamic growth. The decrease of certain types of products of these industries has been compensated for by growth in the production of natural gas by 0.7%, coal – by 10.0%, liquid gas – by 8.1%. The increase in demand had a great impact on the growth of electric power generation. The index of growth in the output of the power industry reached 9.4%.

In the 1st quarter of 2006 the retention of the tendency of a favorable ratio of foreign/domestic prices for energy carriers and ferrous and non-ferrous metals facilitated the stabilization of the position of these industries in the structure of exports, with their share increasing from 16.9% to 21.8%.

Table 6.1.3 Indices of Prices of Industrial Production Producers (in % to the respective period of the previous year)

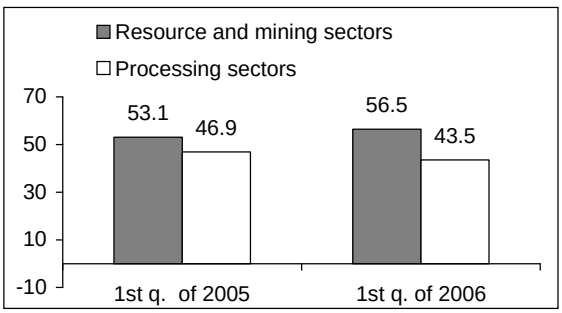
	05/I	06/I
Industry	127.5	124.8
Power Industry	154.8	119.2
Fuel Industry	166.2	139.5
Ferrous Metallurgy	110.6	117.6
Non-Ferrous Metallurgy	143.9	166.2
Chemical Industry	125.3	110.6
Mechanical Engineering	104.9	110.7
Timber, Woodworking Industry	100.9	99.5
Building Materials	116.5	127.5
Light Industry	107.0	109.5
Food Industry	116.0	115.3

Source: The State Statistics Committee of Uzbekistan.

Given pressures from international markets price remained the decisive factor in the development of the fuel and metallurgy complex. The changing dynamics of the price indices for the products of the metallurgy complex tended towards acceleration. The increase in price for non-ferrous metallurgy products amounted to 166.2% against 143.9% in the corresponding period of the previous year, and ferrous metallurgy: 117.6% against 110.6%. The dynamics of prices for the production of the fuel and energy complex slowed down slightly, but still surpassed other industries. The price growth index in the fuel industry surpassed the overall industrial level of increased prices by 14.7 percent and in non-ferrous metallurgy – by 41.4 percent. In conditions of high costs retention in the production of the main types of industrial products, the advancing growth of tariffs for raw materials had a significant impact on the profitability level of production in these industries.

The dynamics of the increase in prices in the processing industries was considerably lower than the level of overall industrial growth, including machine-building, light and food industries. The tendency towards an increase in price competition for domestic furniture products, secured by the restraining of internal prices, had a significant impact on the development dynamics of the woodworking industry. The price growth index of woodworking industry producers amounted to 99.5% of the level of the corresponding period of the previous year, which led to an increase in internal demand. According to the results of the 1st quarter of 2006, the index of growth in this industry output was significant and amounted to 16.0%.

Graph. 6.1.1. Ratio of the Resource and Mining Sectors to Processing Sectors (%)



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

In the 1st quarter of 2006 the factors of increasing prices and fluctuations in the market conditions of foreign and domestic demand continued to shape the dynamics of structural shifts. In the overall structure of industrial production, the share of high liquidity production of the raw materials sector increased from 53.1% to 56.5% (Graph 6.1.1).

The structural shifts in processing industries were influenced by the decrease in the share of machine-building from 12.3% to 11.5% and light industry from 21.6% to 19.0%. The intensive dynamics of the development of the food industry facilitated the increase in its share in the structure of industrial output from 7.6% to 8.1% (Table 6.1.4).

At the present time, measures for an effective impact on the competitive parameters of local industrial products (costs, quality and innovation) are the major trends of further reorganization of the industrial sectors, especially in the processing sectors, aimed at qualitative shifts in the structure of industrial production.

Further reorganization of the tax and accounting systems should also stimulate diversification processes in the structure of the industrial sector of the economy, by increasing the attraction of investments into the processing industries as well as by leveling the conditions of the utilization of investment resources.

Table 6.1.4 Structure of Industrial Output (%)

	05/I	06/I
Industry	100	100
Power Industry	11.3	11.3
Fuel Industry	15.9	17.1
Ferrous Metallurgy	2.4	2.1
Non-ferrous Metallurgy	15.6	18.0
Chemical Industry	5.0	4.7
Mechanical Engineering	12.3	11.5
Timber, Woodworking Industry	0.7	0.7
Building Materials	2.9	3.3
Light Industry	21.6	19.0
Food industry	7.6	8.1
Other	4.7	4.2

Source: The State Statistics Committee of Uzbekistan.

6.2. Consumer Goods Market

The well-being of a modern economy depends directly on the state of the consumer market. If sales start falling in a market economy, this is the first symptom of decelerating economic growth. Recently in Uzbekistan there has been a dramatic increase in the importance of the consumer market, with an ever greater influence on the social and political situation in the country.

In the first quarter of 2006, the rhythmic and stable activity of the industrial sectors producing market-oriented consumer goods was observed. This was ensured thanks to the increase in the real income of the population, the saturation of the domestic market with domestically produced goods and also the development of localizing production and small business. The increase in real income by 14.7% (per capita) was a stimulating factor in the sustainable development of the consumer market.

The favorable situation on the consumer market is encouraged by the positive dynamics of the resource supply. By now, economic conditions for fierce competition have been formed on the consumer market. The policy of restructuring in industry being implemented by joint-stock companies has generated positive results:

out of the total number, state-owned enterprises make up 22.4%, enterprises owned by economic associations – 46 %, private enterprises – 4.3%, and the property of foreign nationals and legal entities – 18.1%;

economic relations have changed and become more profitable;

reorientation for the production of a more liquid range of goods has been accomplished;

short-term investments, such as the purchase of equipment and technology upgrades, have become more frequent.

These measures and steps to support entrepreneurship have contributed to the growth in production of consumer goods (14.2%), including foodstuffs (17.2%) and non-foodstuffs (12.7%) (Table 6.2.1). A tendency is being observed of growth rates for foodstuffs outpacing those for industrial nonfoodstuffs.

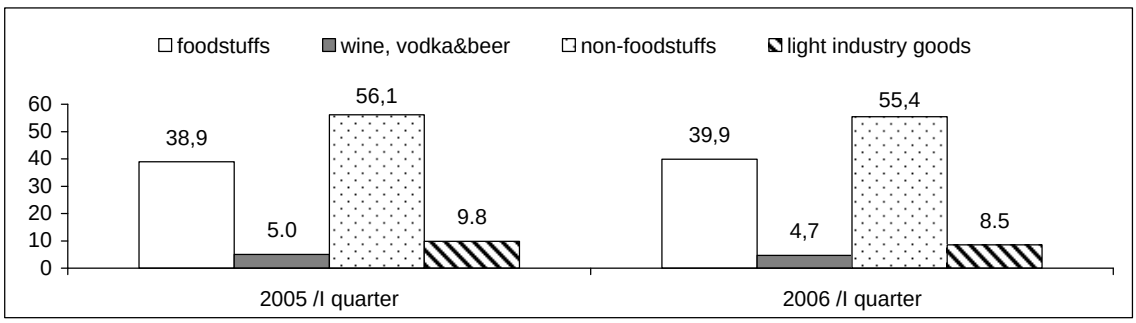
Table 6.2.1. Consumer Goods Output (in % to the respective period of the previous year)

	05/I	06/I
Consumer goods	116.4	114.2
Foodstuffs	100.2	117.2
Wine, alcoholic beverages and beer	106.5	107.1
Non-foodstuffs	133.6	112.7
Light industry goods	98.3	99.0

Source: State Statistics Committee of Uzbekistan

As a result of advancing growth in the production of foodstuffs, their share in total production increased by 1 p.p. to reach 39.9%. The volume and range of foodstuffs produced by joint ventures and enterprises with foreign investments have expanded. However this increase has not significantly affected the trends in the macrostructure of consumer goods output (Graph 6.2.1).

Graph 6.2.1. Macrostructure of Consumer Goods Output (%)



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

The introduction of market mechanisms of management and the modernization and technical re-equipment of production enterprises have encouraged the emergence on the consumer market of new enterprises equipped with modern equipment and technology capable of producing high-quality goods. The establishment of JVs with famous international brands like Nestle, Vimm-Bill-Dann, Coca-Cola, etc. has led to the production of new quality foodstuffs and drinks. Value added by farms and dekhkan farms for famous trademarks such as 'Domik v derevne', 'Vesyoliy molochnik', ' Chudo' and 'Frugurt' has increased. Quality dairy products and local traditional sour-milk drinks – *ayran, tan,* etc – that are in high demand are being produced.

The modernization and technical re-equipment of some businesses, as well as the stabilization in the supply of raw materials, have to some extent contributed to the increase in output of the following consumer goods: milk and dairy (152.0%), vegetable oil (115.3%), grape wine (102.1%), footwear (109.3%), knit-wear goods (100,9%) (Table 6.2.2, Annex 6.2.2).

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

	05/I	06/I
Cotton Fabrics	83.4	63.7
Silk Fabrics	88.9	98.0
Carpet and Carpet Goods	102.8	106.3
Hosiery	157.0	99.4
Knitwear goods	102.4	100.9
Footwear	105.7	109.3
Milk and Dairy Goods	88.6	152.0
Canned Goods	183.8	87.8
Granulated Sugar	44.6	122.3
Flour	88.7	107.2
Bread and Baked Goods	83.9	93.1
Confectionery	174.9	47.9
Pasta	41.6	152.6
Vegetable Oil	114.1	115.3
Wine	90.3	102.1
Vodka and Liquors	104.3	100.0
Soft Drinks	11.1 times	167.8
Cigarettes and Filterless Cigarettes	93.9	129.9
Salt	68.9	100.9

Source: State Statistics Committee of Uzbekistan
*Output by produced SME is not incorporated in the table.

Positive changes are taking place in household appliance production as well, thanks to some extent to the launch of new facilities. Increases in the production of refrigerators (4.5 times), TV sets (1.9 times) and washing machines (by 1.6 times) were stimulated by increased demand for these goods with improved consumer qualities and also by the increase in the real income of population (Table 6.2.3).

The decline in cotton fabric output (to 63.7% for the first quarter of 2005) resulted from a reduction in cotton yarn output due to the modernization of several textile enterprises. The reduction in silk fabric output (98.0%) was caused by the ongoing modernization and reconstruction of some enterprises of the silk-producing industry. As a result, there was a certain mismatch in demand and supply for these commodity groups. In spite of the rise in production of footwear (109.3%) the satisfaction of demand for this item remains low (Table 6.2.4).

Table 6.2.3. Home Appliances Output

	Units	05/01	06/01	%
Refrigerators	Pieces	116	526	4.5 times
TV sets	Pieces	9015	17357	1.9 times
Washing machines	Pieces	286	465	162.6

Source: State Statistics Committee of Uzbekistan

Table 6.2.4. Level of Demand Satisfaction by Commodities Groups

Name	Demand	Produced	Degree of Demand Satisfaction (%)
Cotton fabrics (mill. sq. m.)	140	48.4	34.6
Silk Fabrics (mill. sq. m.)	1.3	0.8	61.5
Footwear (mill. pairs)	2	0.1	5

The quality of canned goods produced does not match that of similar imported production, which has to a certain extent lowered the consumer demand for them and their domestic production (87.8%). The decline in the production of bread and baked goods (93.1%)is related with market saturation and decreased demand for these products. It should be noted that the major demand for bread is satisfied by the private sector (micro-firms and individual entrepreneurs).

In the first quarter of 2006, an increase in consumer goods output was achieved in all regions of the country (Table 6.2.5). The highest growth rates were registered in Surkhandarya (136.9%), Samarkand (124.0), Jizzakh (120.8%), Kashakadarya (118.5%) and Andijan (111.3%) regions, in the Republic of Karakalpakstan (111.1%) and the city of Tashkent (124.2%). This resulted to a certain extent from the implementation of measures to support and protect small business.

The following regions increased their contribution to consumer goods output: Samarkand (from 8.0% in the first quarter of 2005 to 8.7% in the first quarter of 2006), Jizzakh (from 2.7% to 2.9%) and the city of Tashkent (from 15.9% to 17.2%) (Table 6.2.6)

Total consumer goods output per capita reached UZS 31.4 thousand. This indicator varies across the regions and ranges from UZS 99.7 thousand in Andijan region to UZS 8.4 thousand in the Republic of Karakalpakstan. The current situation in the regions indicates a deficit of measures to develop domestic production, provide regional support to small and medium businesses, and manufacture goods affordable for the general population.

A trend of rising exports of consumer goods is being observed (17.6%), including foodstuffs (49.2%) and non-foodstuffs (11.4%). Major exported consumer goods were automobiles, cotton fabrics, canned fruit and vegetables, juice, wines, fresh tomatoes, cabbage, onions, peppers, dried vegetables, grapes and raisins, melons and gourds, apricots, vegetable oil, ethyl alcohol, tobacco leaves and cigarettes. Major imported consumer goods included sugar, flour, apparel, footwear, medications and complex home appliances (Table 6.2.7, Table 6.2.8).

Table 6.2.5. The Growth of Consumer Goods Output by Region (% to the respective period of the previous year)

Regions	05/I	06/I
Republic of Uzbekistan	116.4	114.2
Republic of Karakalpakstan	117.1	111.1
Andijan Region	180.3	111.3
Bukhara Region	104.7	100.8
Jizzakh Region	120.6	120.8
Kashkadarya Region	107.8	118.5
Navoi Region	98.3	106.8
Namangan Region	112.1	100.1
Samarkand Region	110.1	124.0
Surkhandarya Region	101.8	136.9
Sirdarya Region	109.9	109.3
Tashkent Region	107.7	109.3
Fergana Region	115.8	109.6
Khorezm Region	96.5	106.2
Tashkent City	107.4*	124.2

Source: State Statistics Committee of Uzbekistan

One of the main problems of industrial enterprises, preventing them from increasing production and investing in technical re-equipment, applying new technologies, and recovering their finances, is their economic situation: debts and the insufficiency of their own financial means. Funding for the industry by commercial banks remains negligible.

Further constraints on sustainable production development include the inadequate efficiency of the commodity distribution network and the lack of long-term integration to link industry with the wholesale and retail sections, i.e. “production-wholesale-retail trade.”

In general, a positive trend of consumer market development has been maintained, mainly due to the implementation of correction measures to enhance equilibrium in domestic demand by increasing the real income of the population. Modern equipment and technologies, which reduce production costs and improve the quality and range of goods produced, have contributed to the increase in foreign demand for these products.

Table 6.2.6. Breakdown of Consumer Goods Output by Region (%)

Regions	05/I	06/I
Republic of Uzbekistan	100.0	100
Republic of Karakalpakstan	1.6	1.6
Andijan Region	29.5	28.7
Bukhara Region	7.4	7.1
Jizzakh Region	2.7	2.9
Kashkadarya Region	3.7	3.9
Navoi Region	1.9	1.8
Namangan Region	4.0	3.5
Samarkand Region	8.0	8.7
Surkhandarya Region	2.2	2.6
Sirdarya Region	1.3	1.3
Tashkent Region	9.8	9.4
Fergana Region	9.6	9.2
Khorezm Region	2.4	2.2
Tashkent City	15.9	17.2

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

Table 6.2.8. Exports and Imports of Consumer Goods (in % to previous period)

	05/I	06/I
Exports, total	109.7	104.4
Consumer goods	169.6	117.6
Food-stuffs	102.4	149.2
Alcoholic and soft drinks and vinegar	171.8	89.1
Non-foodstuffs	194.6	111.4
Imports, total	110.4	103.6
Consumer goods	102.6	102.0
Food-stuffs	86.7	107.5
Alcoholic and soft drinks and vinegar	78.7	15.1
Non-foodstuffs	111.3	99.7

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

Table 6.2.7. Exports and Imports of Consumer Goods (USD mill.)

	05/I	06/I
Exports, total	1327.9	1386.8
Consumer goods	148.7	174.9
Foodstuffs	24.3	36.3
Alcoholic and soft drinks and vinegar	1.1	0.9
Non-foodstuffs	124.4	138.5
Imports, total	965.4	999.7
Consumer goods	159.7	162.9
Alcoholic and soft drinks and vinegar	0.4	0.1
Non-foodstuffs	113.7	113.4

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

The major outcome of the policy to develop the consumer goods market was the increase in the level of market saturation with domestic production by 0.2 p.p., to reach 89.5%, including by 0.3 p.p. and 94.2% for foodstuffs and 0.3 p.p. and 82.9% for non-foodstuffs.

The consumer market of the country is assessed to be 26% of GDP and the households' final consumption is 49.3% of GDP.

6.3. Agrarian Sector

The results from agricultural production in the 1st quarter of 2006 testify to the stable character of the increase in production. The volume of the gross product was 604.8 mill. UZS. in actual prices. The positive shifts in agricultural production are mainly due to the intensification of market reforms, structural reforms in forms of economic management, with priority given to farm entities, and the formation of infrastructure (market and production) to serve agricultural goods producers.

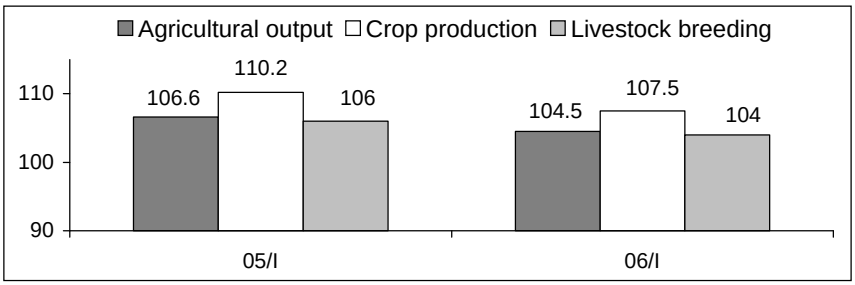
Main tendencies. In the 1st quarter of 2006, gross agricultural production grew by 104.5%, including 107.5% in plant cultivation and 104.0% in livestock breeding (Table 6.3.1. and Graph 6.3.1).

Table 6.3.1. Key Development Indicators of the Agrarian Sector (%)

Indicators	Unit	05/I	06/I	06/I in % to 05/I
Share of agricultural production in GDP	%	8.9	8.1	-
Gross agricultural production	mill. UZS	532.5	604.8	104.5
- crop production	mill. UZS	83.4	95.5	107.5
- livestock farming	mill. UZS	449.1	509.3	104.0
Share of non-state sector in structure of production	%	99.8	99.9	-
Capital Investments	mill. UZS	14665.0	31438.8	
Number of employed in agriculture	Thous. people	2794.3	2776.4	99.4

Source: State Statistics Committee of Uzbekistan

Graph 6.3.1. Development of Agriculture by Sector (%)

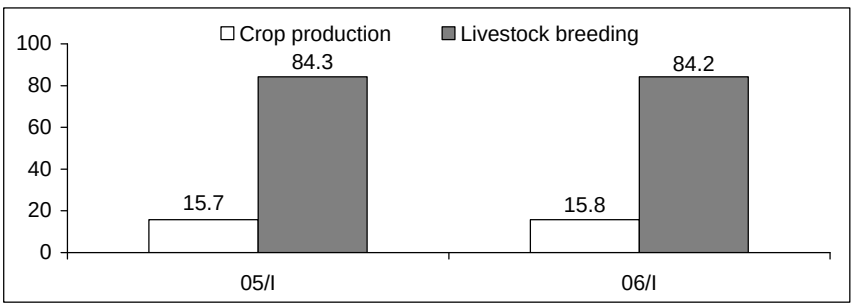


Source: State Statistics Committee of Uzbekistan

Significant shifts did not occur in form of ownership. The non-state sector accounted for almost all agricultural products produced (99.1% in total, including 6.0% by shirkat entities, 3.1% by farms, and 90.9% by dekhkan entities).

A special feature of the 1st quarter of 2006 was the sharp growth (by more than two times) of investments in agriculture, above all in the water infrastructure in Kashkadarya, Jizzakh and Sirdarya regions. Institutional and market reforms in the agrarian sector resulted in a withdrawal of the labor force. The number of those employed in agriculture during the period under review decreased by almost 20 thousand people against the corresponding period of 2005, or by 0.7 p.p.

Graph 6.3.2. Sector-based Structure of Agricultural Production (%)



Source: State Statistics Committee of Uzbekistan

In the sector-based structure of agricultural production, crop production strengthened its position. Crop production accounted for 15.8% of total agricultural production, while livestock breeding accounted for 84.2%, as compared with 15.7% and 84.3% respectively in the 1st quarter of 2005. (Graph 6.3.2)

The government continued its policy of providing support to agricultural producers. A number of measures were adopted to intensify economic reforms in agriculture. Based on the Decree of the President of the Republic of Uzbekistan from November 8, 2005 "On measures for reforming agrarian cooperatives (shirkats) into farms in 2006" 666 shirkats will be reorganized into about 70 thous. farms.

In order to secure the growth of production of vegetables, fruits and grapes and to strengthen the raw-material base of reprocessing enterprises, the Program for the Establishment of Enterprises for Reprocessing Fruit and Vegetable Products and Grapes is being implemented according to the Decree of the President of the Republic of Uzbekistan of January 11, 2006. According to the Program, 190 agro-firms will be established. As of April 1, 2006 farms and enterprises for reprocessing fruit-and-vegetable products had established 153 agro-firms. On March 23, 2006 the Decree of the President of the Republic of Uzbekistan was adopted "On measures to stimulate an increase in the number of cattle in private, dekhkan and farm entities", which foresees complex development of livestock breeding, an increase in the number of cattle and livestock products, improvement of the fodder reserve and an increase in the employment of the rural population. The Government is also implementing measures for the development of leasing of agricultural machinery and providing credits to shirkats and farms. 145.4 bn. UZS of loans have been provided for the cotton harvest and 28.9 bn. UZS for the grain harvest of 2006.

In spite of quite favorable conditions for agriculture, the financial results of operations of agricultural enterprises remain unstable. There is a scarcity of financial assets necessary for the expansion of production and the strengthening of the material and technical base of farm entities.

Crop Production. The growth in crop production (107.5%) was mainly due to the production of early vegetables. In the 1st quarter of 2006 their gross yield equaled 12.1 thous. tons against 10.9 thousand tons in the corresponding period of 2005, indicating an increase of 111.0%. An increase in the cultivated area of 2.2 thousand ha. was observed, without significant changes in structure (Table 6.3.2).

Table 6.3.2. Structure Changes in Cultivated Area in All Categories of Farms (thousand ha)

	05/I	06/I	06/I in %to 05/I
Area under summer crops	178.1	180.3	101.2
Grains	13.9	16.3	117.3
Cereals	10.3	9.8	95.1
Wheat	9.0	8.0	88.8
Maize for seed	1.0	1.1	110
Pulse crops	2.6	5.4	207.7
Industrial crops	82.9	80.0	96.5
Cotton	80.5	78.1	97.0
Potatoes and vine crops	50.1	51.2	102.2
Potatoes	22.6	21.1	93.4
Vegetables	26.3	28.4	108.0
Melons	1.2	1.7	141.7
Fodder crops	31.2	32.8	105.1

Source: State Statistics Committee of Uzbekistan

The structure of cultivated areas were similar to the level in the 1st quarter of 2005: grains (share in the total cultivated area: 9.0%), cotton – 43.3%, and potatoes, vegetable and vine crops – 28.4%. A positive point was the growth of the cultivated area for vegetable and vine crops (from 27.5 thous.ha. to 30.0 thous.ha.) and fodder crops (from 31.2 thous.ha. to 32.8 thous.ha.).

According to data from the Ministry of Agriculture and Water Management, planting was conducted at the appropriate time, chiefly due to favorable weather conditions and more effective organization of labor in the fields.

Livestock Breeding. The production of livestock products in the 1st quarter of 2006 developed in a stable manner. Quarterly growth of production equaled 104.0%. At the same time, the production of meat increased from 218.3 thousand tons to 232.2 thousand tons, milk – from 796.4 thousand tons to 844.4 thousand tons, and eggs from 355.4 mill. units to 377.8 mill. units. (Table 6.3.3).

Table 6.3.3. Production of Main Types of Livestock Products

	Meat (live weight) thous. tons	Milk, thous. tons	Eggs, mill. units	Caracul skins, thous. units
In all categories				
Ist quarter 2005	218.3	796.4	355.4	225.2
Ist quarter 2006	232.2	844.4	377.8	251.2
2006/I in % to 2005/I	106.4	106.0	106.3	111.5
In agrarian enterprises (shirkats)				
Ist quarter 2005	9.6	11.5	160.6	83.2
Ist quarter 2006	8.4	7.3	157.7	81.0
2006/I in % to 2005/I	87.2	63.6	98.1	97.4
In Farms				
Ist quarter 2005	4.2	19.8	14.4	6.3
Ist quarter 2006	4.9	21.6	15.4	7.9
2006/I in % to 2005/I	115.9	109.13	106.9	125.4
In dekhkan farms				
Ist quarter 2005	204.5	795.1	180.4	135.7
Ist quarter 2006	219.0	815.5	204.7	162.3
2006/I in % to 2005/I	107.1	106.6	113.5	119.6

Source: State Statistics Committee of Uzbekistan

Growth in production of livestock products took place mainly due to the increase in the number of cattle. Here the increase in volume of production took place on farms, while in agricultural enterprises production decreased. Interest in livestock breeding is growing in a stable manner, which is also true in regard to the number of cattle in dekhkan farms and farms (Table 6.3.4). This tendency is completely justified, since only with an optimal mix of crop production and livestock breeding can agriculture reach stability.

Considerable part of cattle and poultry in the country are kept by dekhkan farms and farmers. As the number of cattle and poultry on farms and dekhkan farms continues to grow, it decreases in agricultural enterprises (shirkats).

Table 6.3.4. Changes in the Number of Cattle and Fowl (in thousands)

	Cattle	Cows	Pigs	Sheep and goats	Poultry	Horses
In all categories						
Ist quarter 2005	6167.0	2701.0	78.7	11368.8	17915.3	149.8
Ist quarter 2006	6478.2	2825.1	81.3	12118.3	19376.6	155.4
2006/I in % to 2005/I	105.0	104.6	103.3	106.6	108.2	103.7
In agricultural enterprises (shirkats)						
Ist quarter 2005	208.8	68.7	17.8	2863.5	5172.6	22.1
Ist quarter 2006	145.2	46.1	14.2	2779.0	4936.9	18.3
2006/I in % to 2005/I	69.5	67.1	79.8	97.0	95.4	82.8
In Farms						
Ist quarter 2005	312.8	99.2	13.7	443.4	661.1	10.4
Ist quarter 2006	341.3	110.3	13.6	558.0	728.9	12.3
2006/I in % to 2005/I	109.1	111.2	99.3	125.8	110.3	118.3
In dekhkan farms						
Ist quarter 2005	5645.4	2533.1	47.2	8061.9	12081.6	117.3
Ist quarter 2006	5991.7	2668.7	53.5	8781.3	13710.8	124.8
2006/I in % to 2005/I	106.1	105.4	113.3	108.0	113.5	106.4

Source: State Statistics Committee of Uzbekistan

This can be explained by the reorganization of low-profit and unprofitable shirkats into farms as well as by the unfeasibility of breeding cattle on large farms because of high expenses, including transportation costs. The stable development of livestock breeding is hindered by problems in terms of poor fodder reserves, problems in forming pure-strain stock-breeding, and deepening institutional reforms.

Development of Various Forms of Agricultural Entities. Another special feature of the 1st quarter of 2006 was the significant increase in the number of farm entities. Their numbers increased not only in sectors of cotton and grains, but also in the production of fruits, vegetables and grapes. As of April 1, 2006 the total number of operating farms reached 147.5 thousand entities. The number of operating farms increased 126.4% over the 1st quarter of 2005 (Table 6.3.5).

Table 6.3.5. Main Indicators of Activity of Farms

	Measure unit	05/I	06/I	06/I in% to 05/I
Agricultural products	bn.UZS	13.8	18.5	121.2
- crop production	bn.UZS	2.2	4.9	1.9 times
- livestock breeding	bn.UZS	11.6	13.6	107.7
Share of farms in gross production of agriculture	%	2.6	3.1	-
- crop production	%	0.4	0.8	-
- livestock breeding	%	2.2	2.3	-
Number of operating farms	Units	116741	147513	126.4
Area of land assigned to them	thous.ha.	3502.4	4422.4	126.3
Crop area – summer crops	thous.ha.	37.2	80.1	2.2 times
Average size of farms	Ha.	30.0	30.0	100
Number of employees on farms	Thous. people	680.2	840.2	123.5
Average employees per farm	people	5.8	5.7	98.2

Source: State Statistics Committee of Uzbekistan

During the 1st quarter of 2006, the number of people employed on farms increased in a stable manner. During the period under review, that indicator reached more than 840 thousand people, against 680.2 thousand people in the 1st quarter of 2005.

On a competitive basis, 666 shirkats, including 83 entities that belonged to the Holding Company "Uzvinosanoat" were reorganized into 74,222 farms. 1039 ha. of land were assigned to those entities. On average, a cotton or grain farm possesses 31.2 ha. of land.

268 minibanks, 250 stations for fertilizer distribution, 320 fuel stations, 624 alternative machinery-tractor parks, 442 water users associations, 278 stations for the procurement and sale of agricultural products, and 111 networks of information provision and consulting centers were established to service farms.

In the 1st quarter of 2006 the tendency of a decreasing role for shirkats in agricultural production continued for all main indicators (Table 6.3.6). The tendency held for crop production and livestock breeding, where the decrease in production volumes equaled 12.9% and 10.5% respectively.

Table 6.3.6. Activity of Agricultural Enterprises

	Measure unit	05/I	06/I	06/I in% to 05/I
Agricultural products	bn.UZS	38.8	36.5	88.7
- crop production	bn.UZS	13.8	12.6	87.1
- livestock breeding	bn.UZS	25.0	23.9	89.5
Share of agricultural enterprises in gross agricultural production	%	7.3	6.0	-
- crop production	%	2.6	2.1	-
- livestock breeding	%	4.7	3.9	-

Source: State Statistics Committee of Uzbekistan

Positive shifts were observed in the development of dekhkan farms (Table 6.3.7).

Table 6.3.7. Main Indicators of Activity of Dekhkan Farms

	Measure unit	05/I	06/I	06/I in% to 05/I
Agricultural products	bn.UZS	479.9	549.9	105.3
- crop production	bn.UZS	67.4	78.0	108.9
- livestock breeding	bn.UZS	412.5	471.8	104.7
Share of dekhkan farms in gross agricultural production	%	90.1	90.9	-
- crop production	%	12.6	12.9	-
- livestock breeding	%	77.5	78.0	-
Number of dekhkan farms	Units	4542.5	4600.2	101.3
Area assigned to them	thous.ha.	676.6	693.7	102.5
Average size of dekhkan farms	Ha.	0.15	0.15	100

Source: State Statistics Committee of Uzbekistan

In general, securing the stable and sustainable development of agriculture requires further intensification of market and institutional reforms, priority development of servicing enterprises and services of market and production infrastructure, support of farm and dekhan farms, as well as strengthening of the legal protection of agricultural producers and others.

6.4. Domestic Trade and Services

In the 1st quarter of 2006, the share of goods in the total volume of goods and services sold to the population remained at the level of 80%, while services accounted for about 20% (Table 6.4.1).

Table 6.4.1. Volume of Sales of Goods and Services to the Population

Year	Volume of sales of goods and services		Including			
			Goods		Services	
	Bn. UZS	%	Bn. UZS	%	Bn. UZS	%
2005/I	1564.3	100	1247.7	79.8	316.6	20.2
2006/I	1971.0	100	1570.2	79.7	400.8	20.3

Source: State Statistics Committee of Uzbekistan

The volume of retail trade turnover was 1570.2 bn. UZS and increased by 7.5% (8.7% in the 1st quarter of 2005) while the corresponding figures for paid services were 400.8 bn. UZS and 11.8% (14.2% in the 1st quarter of 2005) (Table 6.4.2). The main growth factors included the increase in the production of consumer goods and services, the development of consumer market and the growth in the real income of the population.

Table 6.4.2. Retail Trade Turnover and Paid Services

Year	Retail Trade Turnover		Paid Services	
	In current prices, bn. UZS.	Growth rate against the corresponding period of previous year, in comparable prices, %	In current prices, bn. UZS.	Growth rate against the corresponding period of the previous year, in comparable prices, %
2005/I	1247.7	108.7	316.6	114.2
2006/I	1570.2	107.5	400.8	111.8

Source: State Statistics Committee of Uzbekistan

Retail Trade Turnover. In the 1st quarter of 2006, volumes of retail trade turnover increased in all regions, from the 100.2% increase in the Republic of Karakalpakstan, to the 116.7% increase in Navoiy region. Growth in retail trade turnover was strongest in Andijan, Fergana, Tashkent regions and the city of Tashkent, due to the relatively high levels of monetary income and developed regional consumer markets in those regions. Per capita retail trade turnover increased from 47.7 thous. soums in the 1st quarter of 2005 to 59.1 thous. soums during the period under review.

A minor increase in interregional differentiation in per capita retail trade turnover was observed, from 5.51 times to 6.0 times. In 10 regions (Jizzakh, Kashkadarya, Sirdarya, and the Republic of Karakalpakstan) per capita trade turnover was equal to 60-70% of the national average.

Table 6.4.3. Per Capita Retail Trade Turnover and Paid Services by Regions (thous. soums)

Regions	Per Capita Retail Trade Turnover		Per Capita Paid Services	
	2005/I	2006/I	2005/I	2006/I
Republic of Karakalpakstan	24.6	29.9	5.3	6.7
Andijan	55.3	64.6	7.5	9.7
Bukhara	43.8	54.6	11.9	16.1
Jizzakh	30.2	37.1	6.8	8.1
Kashkadarya	34.1	40.6	5.1	7.0
Navoi	43.2	59.2	12.5	16.3
Namangan	37.5	45.5	6.5	8.6
Samarkand	33.5	41.8	7.6	10.3
Surkhandarya	34.7	44.7	6.0	7.6
Sirdarya	26.7	32.7	6.1	8.2
Tashkent	51.9	62.2	7.7	10.9
Fergana	48.4	58.0	7.9	10.6
Khorezm	31.1	43.4	10.1	12.7
Tashkent city	135.9	178.7	50.5	58.7
Republic of Uzbekistan	47.7	59.4	12.1	15.2
Level of interregional differentiation	5.51 times	6.0 times	9.5 times	8.7 times

Source: State Statistics Committee of Uzbekistan

The previously adopted law "On Consumer Credit" contributed to the increase in the volume of consumer credits. Sales volumes of goods for credit in the 1st quarter of 2006 amounted to 410 bn. soums. The new system of selling goods via checks and plastic cards produced sales volumes of 2.6 bn. soums. Growth in these volumes will facilitate the reduction of unofficial trade. Growth rates of sales at officially registered trade enterprises were lower than those of the informal sector. In the 1st quarter of 2006, the share of official trade accounted for only 25.6% of the total volume of retail trade turnover.

A number of problems occurred in the system of wholesale. Enterprises in retail trading independently find their own sources of goods. More than 41.2% of the total volume of wholesale trade was made up of material-technical products that are not intended for sale. In such a situation, it is necessary to further improve schemes of channeling goods, increasing the role of wholesale.

About 20 thousand units of the retail trade network are operating in rural areas, including 17.5 thousand shops or 37.2% of total shops in the country. The trade network in rural areas is represented by shops for mixed goods (more than 45%, as opposed to 30% in urban trade network). No specialized trade network has developed, which results in simpler assortments of goods for the rural population. The process of organizing trade in rural areas is to some extent hindered by the current taxation system, which does not create comparative advantages for enterprises in retail trade against individual entrepreneurs.

Services. The sphere of services has been developing dynamically as a result of the implementation of a complex of measures foreseen in Decrees of the President of the Republic of Uzbekistan as well as in government resolutions for stimulating the development of small businesses and private entrepreneurship along with adopted programs on reforms and development of certain sectors in the country. New, future-oriented types of services are developing along with traditional types of services. These new varieties include such services as banking and financial services, insurance services and information and communication services.

At the same time, the potential of the services industry to create jobs and address unemployment issues is not being fully implemented. The sphere of services is developing slowly in rural areas. Many types of services, including traditional types, are becoming hard to access or even non-existent in rural areas. In the 1st quarter of 2006, paid services rendered to the rural population accounted for only 22.7% of total paid services rendered to the population throughout the nation.

Per capita rendered paid services increased from 12.1 thousand soums in the 1st quarter of 2005 to 15.2 thousand Soums during the period under review. An increase in the real level of income and wages, along with the expansion of networks of enterprises in the sphere of services, affected interregional differentiation of per capita consumption of services. During the period under review a reduction in interregional differentiation of consumption of services was observed, from 1:9.5 to 1:8.7. The volume of paid services increased at an accelerated pace in all regions (from 104.6% in Tashkent city to 122.8% in Samarkand and Tashkent regions) (Table 6.4.4). The share of passenger transportation increased in the structure of services by 35.5% (against 34.8% in the 1st quarter of 2005), and that of communal services – by 16.2% (16% in the 1st quarter of 2005).

Table 6.4.4. Regional Composition of Retail Trade Turnover and Paid Serives

Regions	Retail Trade Turnover, bn. UZS			Paid Services, bn. UZS		
	2005/I	2006/I	Growth rate in relation to previous year, in comparable prices, %	2005/I	2006/I	Growth rate in relation to previous year, in comparable prices, %
Republic of Karakalpakstan	38.8	47.2	100.2	8.3	10.6	115.3
Andijan	130.1	154.2	102.3	17.5	23.2	113.2
Bukhara	66.5	83.7	106.6	18.0	24.6	115.5
Jizzakh	31.7	39.3	105.9	7.1	8.6	110.4
Kashkadarya	81.4	98.6	107.3	12.3	17.0	119.2
Navoi	35.1	48.3	116.7	10.1	13.3	119.3
Namangan	78.1	96.2	107.0	13.6	18.2	111.6
Samarkand	96.4	122.0	106.3	22.0	30.0	122.8
Surkhandarya	66.1	86.3	114.9	11.3	14.8	116.8
Sirdarya	18.1	22.3	105.9	4.1	5.6	119.3
Tashkent	128.0	154.5	103.0	19.1	27.1	122.8
Fergana	138.4	167.8	104.1	22.6	30.8	120.7
Khorezm	46.1	63.4	115.7	14.5	18.6	117.1
Tashkent city	292.9	386.4	111.4	108.8	126.8	104.6
Republic of Uzbekistan	1247.7	1570.2	107.5	316.6	400.8	111.8

Source: State Statistics Committee of Uzbekistan

In order to create favorable conditions for accelerated development of the sphere of services, increase its share in the economy and expand the number of people employed in this sphere – which will result in the growth of population income as well as filling the domestic market of services with various modern types of quality services – the Program for Developing the Sphere of Services for the Period from 2006-2010 was developed. The Program is aimed at providing: a) high growth rates in the volume of services and a corresponding increase in their share in the Gross Domestic Product to 49% by 2010; b) an increase of 35% in the volume of the share of services rendered to the rural population in total services rendered by 2010; c) an increase in the number of people employed in the sphere of services by 1.6 times during the period from 2005-2010; d) the creation of favorable conditions for the development of new types of services for businesses and the saturation of the domestic consumer market.

Transportation Services. Accelerated growth rates in transport services are related to an increase in volumes of cargo transportation within the country and for export-import operations, taking into account the high growth rates of the economy, and the expansion of the transport potential of Uzbekistan as a new member of the EurAsEC.

In the sphere of telecommunications, the development, modernization and technical reequipping of means of telecommunication on the basis of digital technology are planned, along with the development of modern telecommunication infrastructure and the national segment of the Internet.

Financial and banking services. In order to develop banking services, the government is planning to expand the network of banks, in terms of establishing new branches and mini-banks, as well as special saving banks that will secure better access of the population to banking services; expanding types and volumes of

modern services (factoring, leasing, project financing, distance customer service, phone services, etc.) and significantly expanding types of bank credits, including mortgages and consumer credits; widening systems of banking money transfers, including international and domestic transfers; expanding the system of electronic payments, including by further utilization of plastic cards; and increasing the quality of rendered banking services and the trust of the population in banking institutions.

Leasing services. The Program foresees the promotion of new companies that will specialize in leasing: road-constructing, assembly and construction equipment; equipment for the production of construction materials; reprocessing of agricultural products, other types of equipment for small businesses.

Tourism services. The Program is aimed at developing tourist routes; expanding services rendered to consumers in both domestic and international tourism, including through the introduction of environmental and extreme tourism; expanding historical, educational and other traditional types of tourism; developing new excursion packages; and strengthening the material and technical basis of the infrastructure of services rendered to tourists, including services along the roads on their routes, around historical monuments, in tourist environmental zones, etc.

Communal and housing services. The expansion of communal services is based on the implementation of the adopted Program on reforming the system of communal services and foresees the expansion of the network of consumers of drinking water, sewage disposal and natural gas; the introduction of energy saving technologies and the capital repair of engineering communications and heating aggregates; the completion of the program of total introduction of meters for rendered services; and the privatization of enterprises providing communal services (except for sectors of natural monopolies). The increase in housing services is connected with support for small entrepreneurship, the reduction of tax burdens, the organization of inspections and reduction of illegal interference of state authorities in the operations of enterprises; preferences provided by state authorities for places that provide premises for operations, including at zero cost, based on the business plan of entrepreneurs; and with the priority development of housing services in rural areas.

Education services. In this field, further development of private enterprises in the area of preschool education is planned, as well as the expansion of paid courses, clubs and circles through mahalla committees to organize leisure and after-school activities for children and adolescents; the expansion of distance learning, including by application of modern computer technologies and multimedia; and the introduction and development of competitive financing for educational programs.

Healthcare services. Key directions for the further development of medical services include the improvement and expansion of medical services offered, including first aid, especially in rural areas; completion of a program of measures for improving the material and technical basis and the creation of the necessary conditions for the provision of qualified medical services at rural medical points; the development of recommendations for the introduction of a system of medical insurance; the resumption and expansion of a network of children's summer camps, sanitoriums and resorts and the improvement of their material basis; and the establishment of private enterprises that organize leisure activities for the population.

Social Infrastructure. In the sphere of education, a complex of works is being conducted on the construction, reconstruction, repair and capital repair of general education schools. At the same time, work on the construction and reconstruction of academic lyceums and colleges is being conducted slowly.

Work on reforming communal-housing services continues. The number of operating Unions of House-owners (UHO) increased by 100 units in the 1st quarter and reached 2355 units. The number of apartment blocks handed over to UHOs increased as well. The slow development of communal enterprises and violations of existing legislation result in unjustifiable growth of tariffs for services, low quality of services provided to the population and increases in the population's debt for communal services in certain regions.

The level of availability of key objects of social infrastructure (housing, drinking water, natural gas, healthcare and education institutions) varies from region to region (Table 6.4.6, Annex 6.4.3, Annex 6.4.4). In the 1st quarter of 2006 the most favorable regions with regard to the availability of housing in relation to the national average level were Khorezm and Navoi regions, as well as Tashkent city; on availability of hospital beds – Sirdarya and Namangan regions, Republic of Karakalpakstan and Tashkent city; on policlinics – Bukhara, Sirdarya, Tashkent regions and Tashkent city, on coverage of students in a single shift – Bukhara and Khorezm regions and Tashkent city, on availability of water-supply lines – Sirdarya and Tashkent regions, as well as Tashkent city, on natural gas supply – Khorezm region, Republic of Karakalpakstan and Tashkent city (Table 6.4.6).

Table 6.4.5. Provision of Social Infrastructure Facilities to the Population in Regions in the 1st Quarter of 2006, in Relation to the National Average Level (in %)

	Provision of population with					
	Housing, sq. m. per capita	Hospital beds, per 10 thousand people	Outpatient and policlinic institutions, per 10 thousand people	Students taught during the 1st shift, %	Centralized water-supply, %	Natural gas, %
Republic of Karakalpakstan	106.9	111.2	88.2	91.9	85.6	114.0
Regions:						
Andijan	67.4	110.9	98.3	93.8	106.2	87.3
Bukhara	96.5	86.7	114.8	121.3	75.3	101.9
Jizzakh	90.3	88.6	92.4	104.1	88.9	95.1
Kashkadarya	90.3	94.2	66.8	93.1	96.4	90.2
Navoi	135.4	97.4	107.4	100.3	91.4	98.8
Namangan	91.0	120.0	89.3	101.1	94.2	101.5
Samarkand	97.9	94.0	71.7	93.8	95.2	108.1
Surkhandarya	88.9	80.9	58.7	90.8	102.6	69.6
Sirdarya	103.5	115.7	139.3	104.8	111.7	104.1
Tashkent	97.2	83.5	117.9	101.1	113.7	108.6
Fergana	99.3	89.0	90.4	102.7	107.9	98.5
Khorezm	163.2	93.1	87.4	111.2	84.6	119.9
Tashkent city	121.5	163.1	163.2	109.4	118.6	120.4
Republic of Uzbekistan	100	100	100	100	100	100

Source: State Statistics Committee of Uzbekistan

In general during the period under review, the increase in production volumes of consumer goods and services, the development of the consumer market, and the growth in the real income of the population facilitated an increase in retail trade turnover and sales of services. Interregional differentiation in per capita retail trade turnover increased slightly, while interregional differentiation in consumption of services decreased. As a result of the implemented complex of measures for stimulating the development of small businesses and private entrepreneurship, and adopted programs for reforming and developing certain sectors, the services sector developed dynamically. Along with traditional types of services, new, modern types of services such as banking and financial services, insurance, information and communications services developed at high paces. At the same time, the services sector is developing slowly in rural areas. Many types of services, including traditional types, are becoming barely accessible or inaccessible in rural areas. In order to address existing problems in the sphere of services, the Government has developed and adopted a Program for Developing the Sphere of Services for the Period of 2006-2010.

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

Period	Industry	Including:									
		Power Energy	Fuel Industry	Ferrous Metal-lurgy	Non-Ferrous Metallurgy	Chemical Industry	Mechanical Engi-neering	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	13.4	5.9	10.3	4.6	19.5	14.3	9.4
2003	100.0	9.1	12.2	1.8	15.2	6.1	11.8	4.4	9.7	12.3	7.4
2004	100.0	10.9	13.4	2.6	15.4	5.7	12.2	3.9	19.2	9.5	7.2
2005	100.0	10.9	16.2	2.3	17.1	5.2	13.0	3.6	16.6	8.2	6.5
05/I	100.0	11.3	15.9	2.4	15.6	5.0	12.3	2.9	21.6	7.6	5.4
06/I	100.0	11.3	17.1	2.1	18.0	4.7	11.5	3.3	19.0	8.1	4.9

***** 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 En-ergy	Fuel Indus-try	Ferrous Met-allurgy	Non-Ferrous Metallurgy	Chemical Industry	Mechanical Engineering	Building Materials	Light Indus-try	Food Indus-try
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	106.1	98.5	100.5	109.1	99.0	108.1	130.7	99.5	106.4	106.0
2004	109.4	99.1	106.0	128.5	105.0	103.3	132.1	112.3	106.4	104.4
2005	107.2	97.8	99.1	105.3	97.6	108.1	131.1	110.4	111.9	111.8
05/I	108.3	98.2	99.2	127.4	100.7	107.3	149.5	104.4	113.1	100.1
06/I	106.8	109.4	99.4	105.8	99.5	112.1	110.6	117.0	106.8	120.9

Source: The State Statistics Committee of Uzbekistan.

Annex 6.2.1. Foodstuffs Production Index (in % to previous period)

Regions	2001	2002	2003	2004	2005	05/I	06/I
Republic of Uzbekistan	107.6	108.4	108.5	113.5	116.6	116.4	114.2
Republic of Karakalpakstan	113.5	104.3	108.5	110.5	114.8	117.1	111.1
Andijan Region	123.7	97.8	120.7	145.9	147.0	180.3	111.3
Bukhara Region	107.4	103.3	106.8	107.9	107.1	104.7	108.8
Jizzakh Region	119.3	159.3	128.9	110.4	116.2	120.6	120.8
Kashkadarya Region	112.7	108.5	112.3	117.2	112.1	107.8	118.5
Navoi Region	99.98	114.5	104.4	96.1	99.5	98.3	106.8
Namangan Region	111.8	118.1	115.9	110.5	104.5	112.1	100.1
Samarkand Region	102.6	102.5	102.6	110.0	103.7	110.1	124.0
Surkhandarya Region	100.9	114.8	100.8	114.5	94.7	101.8	136.9
Sirdarya Region	120.2	103.0	103.8	107.4	98.3	109.9	109.3
Tashkent Region	114.1	106.6	103.7	112.4	109.7	107.7	109.3
Fergana Region	98.1	106.4	101.4	119.3	108.9	115.8	109.6
Khorezm Region	94.0	95.0	125.5	98.5	97.3	96.5	106.2
Tashkent City	101.3	120.2	105.2	96.6	114.0	107.4	124.2

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)

	2001	2002	2003*	2004	2005	05/I	06/I
Cotton Fabrics	111.9	106.9	97.8	82.0	73.4	83.4	63.7
Silk Fabrics	98.3	97.4	100.3	91.4	68.6	88.9	98.0
Carpets and Carpet Goods	104.8	108.3	2.8 times	140.2	81.9	102.8	106.3
Hosiery	63.4	77.0	188.4	110.0	100.0	157.0	99.4
Knitwear Goods	85.7	82.4	100.6	95.9	101.4	102.4	100.9
Footwear	149.1	109.5	99.9	81.9	104.4	105.7	109.3
Milk and Dairy Products	102.5	115.9	107.6	183.4	124.1	88.6	152.0
Canned Goods	97.1	101.3	119.8	80.9	90.6	183.8	87.8
Sugar	282.7	755.7	114.2	78.0	75.6	44.6	122.3
Flour	103.4	87.1	73.7	145.6	89.2	88.7	107.2
Bread and baked goods	100.4	99.5	55.2	89.0	77.7	83.9	93.1
Confectionery	108.7	97.7	73.2	2.6	156.7	174.9	47.9
Pasta	110.7	81.0	60.4	110.1	90.5	41.6	152.6
Vegetable Oil	96.3	93.8	97.8	100.5	116.1	114.1	115.3
Wine	118.8	116.6	73.4	59.9	106.2	90.3	102.1
Vodka and Liquor	92.5	92.5	96.6	107.1	100.2	104.3	100.0
Soft Drinks	77.8	93.1	25.3	26.9	8.9 times	11.1 times	167.8
Cigarettes	89.8	101.0	92.5	94.6	85.3	93.9	129.9
Salt	123.4	177.9	50.3	109.4	100.7	68.9	100.9

Source: State Statistics Committee of Uzbekistan
* The data on 2003 is from large and medium enterprises

Annex – 6.3.1. Main Indicators of Agricultural Production

	Units	2000	2001	2002	2003	2004	2005	05/I	06/I
Raw cotton	Thous tons	3002.4	3270.4	3122.4	2803.3	3536,8	3749,0	-	-
Grain	Thous tons	3929	4072	5550.8	6103.1	5868.8	6401.8	-	-
Potatoes	Thous tons	731.1	744.4	777.2	834.4	895,7	924.2	-	-
Vegetables	Thous tons	2644.7	2777.8	2935.6	3301.4	3336.1	3517.5	10,9	12,1
Fruits and Berries	Thous tons	790.9	801	842.9	765.8	851,7	949,3	-	-
Grapes	Thous tons	624.2	573	516.4	401.5	589,1	641,6	-	-
Melons	Thous tons	451.4	466	479.1	587.3	572,5	615,3	-	-
Meat (in live weight)	Thous tons	841.8	853.5	865	936.7	998,3	1061,2	218,9	232,2
Milk	Thous tons	3632.5	3665.2	3721.3	4031.1	4280.5	4554,9	796,4	844,4
Eggs	Mill. pieces	1254.4	1287.8	1368.9	1632.4	1860.3	1966,7	355,4	377,8

Source: State Statistics Committee of Uzbekistan

Annex 6.3.2. Structural Changes of Areas Under Crops (thous.ha.)

	2000	2001	2002	2003	2004	2005	05/ I	06/ I
Sown, total	3778.3	3444.5	3540.8	3790.1	3695.7	3647,5	178,1	180,3
Cereals	1614.0	1393.7	1533.4	1790.9	1667.1	1616,1	13,9	16,3
Wheat	1355.8	1219.8	1282.6	1507.6	1470.4	1439,7	8,9	8,0
Rice	131.8	39.5	64.4	121.0	66.1	**52,5**	**-**	**-**
Maize for seed	49.2	38.7	35.1	34.7	34.8	**33,6**	**1,0**	**1,1**
Industrial crops	1512.5	1500.3	1462.2	1445	1518.5	**1518,4**	**82,9**	**80,0**
Cotton	1444.6	1452.1	1421.0	1393.0	1456.3	**1472,3**	**80,5**	**78,1**
Potatoes	52.2	50.8	48.9	49.2	52.1	**49,8**	**22,6**	**21,1**
Vegetables	129.9	131.2	127.5	145.6	137.6	**137,7**	**26,3**	**28,4**
Melons	36.9	35.6	37.3	41.3	34.7	**33,9**	**1,2**	**1,7**
Fodder crops	429.0	331.2	329.1	316.5	284.2	**290,3**	**31,2**	**32,8**

Source: State Statistics Committee of Uzbekistan

Annex 6.3.3. Cattle and Poultry Livestock in All Categories of Farms (Thous. Heads)

Type of Product	2000	2001	2002	2003	2004	2005	05/ I	06/ I
Cattle	5353.4	5416.1	5477.6	5878.8	6242.7	6571.4	6167,0	**6478,2**
Pig	85.8	81.6	75.4	89.9	86.7	87.9	**78,7**	**81,3**
Sheep and Goats	8932.5	9022.6	9233.9	9928.6	10579.9	11351.9	**11368,8**	**12118,3**
Poultry	14510	14828.7	15354.3	17675.7	18833.7	20540.4	**17915,3**	**19376,6**

Source: State Statistics Committee of Uzbekistan

Annex 6.4.1. Volume of Goods and Services Sold to the Population

Year	Volume of goods and services sold		Including			
			Goods sold		Services provided	
	Bln. UZS	%	Bln. UZS	%	Bln. UZS	%
2000	2097.4	100	1787.5	85.2	309.9	14.8
2001	3172.2	100	2699.9	85.1	472.3	14.9
2002	4497.7	100	3786.3	84.2	711.4	15.8
2003	5238.1	100	4289.7	81.9	948.4	18.1
2004	6030.9	100	4787.5	79.4	1243.4	20.6
2005	7343.5	100	5736.8	78.1	1606.7	21.9
2005/I	1564.3	100	1247.7	79.8	316.6	20.2
2006/I	1971.0	100	1570.2	79.7	400.8	20.3

Source: State Statistics Committee of Uzbekistan

Annex 6.4.2. Retail Trade Turnover and Provision of Paid Services

Year	Retail turnover		Paid services	
	In actual prices, UZS, bln.	Growth rate in relation to pervious year, in comparable prices, %	In actual prices, UZS, bln.	Growth rate in relation to pervious year, in comparable prices, %
2000	1787.5	107.6	309.9	115.7
2001	2699.9	109.6	472.3	114.7
2002	3786.3	102.1	711.4	108.6
2003	4289.7	104.2	948.4	109.5
2004	4787.5	105.2	1243.4	113.2
2005	5736.8	108.2	1609.7	112.6
05/I	1247.7	108.7	316.6	114.2
06/I	1570.2	107.5	400.8	111.8

Source: State Statistics Committee of Uzbekistan

Annex 6.4.3. Provision of Social Infrastructure Facilities to the Population in Regions in the 1st Quarter of 2006

	Provision of population with					
	Housing, sq. m. per capita	Hospital beds, per 10 thousand people	Outpatient and policlinic institutions, per 10 thousand people	Students taught during the 1st shift, %	Centralized water-supply, %	Natural gas, %
Republic of Karakalpakstan	15.4	59.4	144.5	65.6	71.8	92.3
Regions:	9.7	59.2	161.0	67.0	89.1	70.7
Andijan	13.9	46.3	188.1	86.6	63.2	82.5
Bukhara	13.0	47.3	151.4	74.3	74.6	77.0
Jizzakh	13.0	50.3	109.5	66.5	80.9	73.1
Kashkadarya	19.5	52.0	176.0	71.6	76.7	80.0
Navoi	13.1	64.1	146.2	72.2	79.0	82.2
Namangan	14.1	50.2	117.5	67.0	79.9	87.6
Samarkand	12.8	43.2	96.2	64.8	86.1	56.4
Surkhandarya	14.9	61.8	228.2	74.8	93.7	84.3
Sirdarya	14.0	44.6	193.1	72.2	95.4	88.0
Tashkent	14.3	47.5	148.0	73.3	90.5	79.8
Fergana	23.5	49.7	143.2	79.4	71.0	97.1
Khorezm	17.5	87.1	267.3	78.1	99.5	97.5
Tashkent city	14.4	53.4	163.8	71.4	83.9	81.0
Variation range	2.4	2.0	2.1	1.3	1.4	1.7

Source: State Statistics Committee of Uzbekistan

Annex 6.4.4. Provision of Social Infrastructure Facilities to the Population

Year	Provision of population with					
	Housing, sq. m. per capita	Hospital beds, per 10 thousand people	Outpatient and policlinic institutions, per 10 thousand people	Students taught during the 1st shift, %	Centralized water-supply, %	Natural gas, %
2000	13.8	55.9	157.7	73.6	80.4	76.1
2001	14.0	55.8	160.4	73.1	81.4	77.2
2002	14.3	57.8	163.1	71.9	81.6	78.0
2003	14.3	57.4	159.2	71.1	81.8	79.8
2004	14.4	54.9	155.2	71.3	82.2	80.6
2005	14.5	53.6	152.8	71.4	83.8	81.0
05/I	14.3	53.3	149.9	71.3	82.2	80.7
06/I	14.4	53.4	163.8	71.4	83.9	81.0

Source: State Statistics Committee of Uzbekistan

7. Employment and the Labor Market

Population. In the first quarter of 2006, the population of the Republic of Uzbekistan increased by 74.0 thousand people, amounting to 26386.7 thousand people: 9516.2 thousand people (36.1%) in urban areas and 16870.5 thousand people (63.9%) in rural areas (Annex 7.1). Although the share of the urban population did not change (36.1%), its share in the total growth of the population increased to 28.5%.

In comparison with the 1st quarter of 2005, the population increased by 1.1%. However, this indicator varies substantially across the regions of the country. The highest demographic growth was recorded in Kashkadarya region (1.8%), followed by Namangan and Khorezm (1.4%) regions, while in Tashkent city and Navoi region it amounted only to 0.4%. The highest absolute growth was in Kashkadarya region, followed by Samarkand region (14.6% and 14.1% of total growth, respectively). During the period under review the population in Tashkent city increased significantly, by 6.0 thousand people (which was 4.9 thousand people or 0.2% more than in the same period of 2005).

The population of the country continues to grow mainly due to births, regardless to their stable decreasing tendency. In the 1st quarter of 2006 121.8 thousand people where born, as opposed to 128.2 thousand people in the corresponding period of 2005, which indicates a decrease of 6.4 thousand people (or 5.3%). Although this decrease occurred mainly in rural areas (by 5.0 thousand people), more than two-thirds (68.8%) of births and a relatively high birth-rate continued to characterize rural areas. The relative share of cities in these processes evidenced an increase, rising from 30.7% of births in the 1st quarter of 2005 to 31.2% in the period under review. The data on the dynamics of the population and its natural shifts indicate a certain positive change in the demographic situation and the development of urbanization processes.

In the 1st quarter of 2006, there were 37.1 thousand deaths among the population in Uzbekistan, as opposed to 36.2 thousand in the respective period of 2005 – an increase of 0.9 thousand people, the majority from urban areas. In rural areas this indicator remained unchanged. The natural growth of the population, calculated as a difference between births and deaths, amounted to 84.7 thousand people in the period under review, which indicates a decrease of 7.3 thousand people in comparison to the level in the corresponding period of the previous year. A certain shift took place in processes of emigration of the population. The negative balance in external migration of the population remained, though its value significantly decreased in the 1st quarter of 2006 (by 7.5 thousand people or by more than one-third). It is possible that in the future, there will be positive changes in migration, as the decrease in migration outflow develops further. This will occur not only because of decreased emigration potential, but also due to significant shifts in the national economy and continuing social stability.

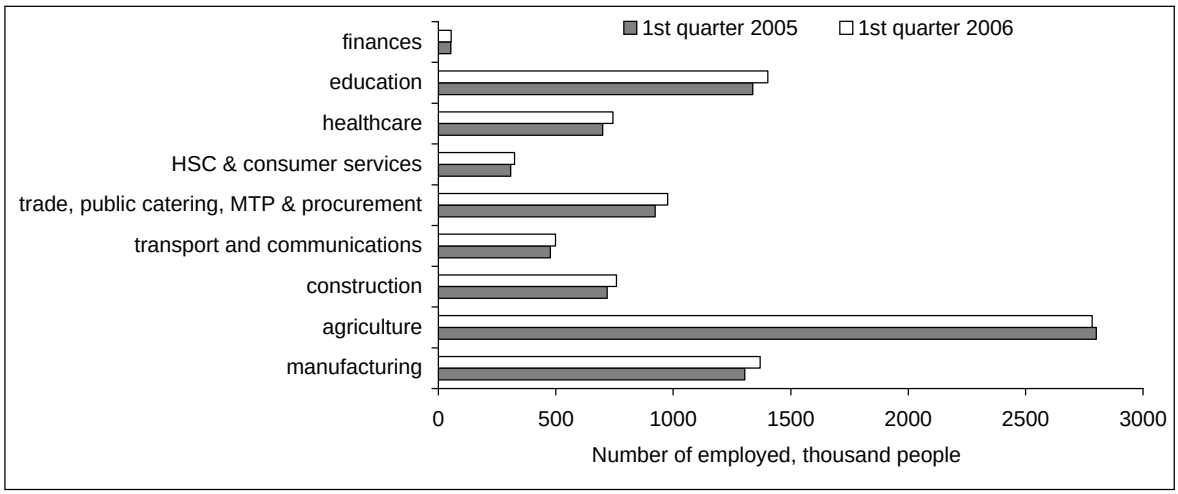
Employment of the Population. In the first quarter of 2006, both absolute and relative growth in the employment of the population continued (Annex 7.2). This was facilitated by measures to deepen market reforms and structural reforms in the economy. In the period under review, the number of those employed in the economy increased by 319 thousand people (3.3%), against 339.4 thousand people (3.6%) in the first quarter of 2005, indicating a decrease of 20.4 thousand people in absolute growth. These dynamics are due to the acceleration of market mechanisms in creating employment and the withdrawal of excessive labor from various sectors, particularly from agriculture.

In the 1st quarter of 2006 the main growth in employment was provided by branches of the real sector. An increase in the number of employees was recorded in practically all branches, except for agriculture. Stable growth in the number of those employed in industry continued, increasing by 64.5 thousand people (or by 4.9%) versus 61.7 thousand people in the respective period of the previous year. Manufacturing sectors accounted for 20.2% of the total growth in the employment of the population. The accelerated growth in industrial employment has become a favorable tendency, encouraged by the step-by-step implementation of the strategy of industrial policy and priority development of labor-intensive production. During the period under review, growth in industrial, housing and road-building types of construction was recorded, which resulted in increased employment in the sector. During the same period, the number of those employed by construction organizations increased by 40.2 thousand people (or by 5.6%). This was the highest growth rate among all branches of the real sector.

A significant increase in employment was observed in trade, public catering, sales and harvesting – by 53.3 thousand people. However, growth rates in employment in this sector decreased by 1.3 times against the level of the corresponding period of 2005. Nevertheless, those areas of the economy ensured 16.7% growth in the employed population. A similar situation occurred in transportation and communications, where employment growth rates decreased while the number of those employed increased (by 22.2 thousand people). Among all the branches of the real sector, an absolute decrease in employment occurred only in agricultural

production. This is actually a positive trend, since this sector remains oversaturated with surplus labor (Graph 7.1).

Graph 7.1. Employment Structure by Sectors



Source: State Statistics Committee of Uzbekistan

New conditions that are favorable for the increase in employment in the sphere of services are being created in the process of economic reform. The number of employed in housing-communal and consumer services increased by 15.7 thousand people (by 5.1%). The trend of increase in employment continued in such socially important sectors as healthcare, physical education and social provision (by 6.3% in the 1st quarter of 2006) and in education, culture, arts, science and scientific services (by 4.7%). The development of those sectors is very significant, since they serve as the main spheres for female labor, which in turn promotes the achievement of gender equality in the labor market.

In the 1st quarter of 2006, employment was created mainly in the non-state sector of the economy. In comparison with the corresponding period of the previous year, its share increased from 77.2% to 77.4%. This process is facilitated by measures aimed at the accelerated development of entrepreneurship, the strengthening of the private sector and the increase in the number of farm entities.

The process of growth in employment within farm entities is increasingly affected by the implementation of market principles and mechanisms, followed by the intensification of production and the withdrawal and redistribution of the labor force within agriculture.

In Uzbekistan, territorial differences are reflected in the formation of employment. In the first quarter of 2006, the highest growth in employment was recorded in Namangan region (4.0%), followed by Kashkadarya region (3.9%), while the lowest levels were recorded in the Republic of Karakalpakstan (2.4%), and Tashkent city (1.6%). Employment growth rates slowed in comparison with the first quarter of 2005 in practically all regions of the country, with the most significant indicators in Sirdarya (from 3.6 to 3.1%), Fergana (from 4.2 to 3.6%), and Andijan (from 3.9 to 3.3%) regions. The highest increase in employment, in absolute terms, was recorded in Samarkand region, at 37 thousand people or 11.6% of the total increase in national employment.

Current Labor Market. In the 1st quarter of 2006, labor exchanges throughout the nation registered 100.2 thousand people, which was 6.0 thousand less than in the corresponding period of the previous year (Table 7.1). The trend towards a decreasing number of applicants to labor exchanges has been observed since 2004. This trend is supported by increased opportunities to find jobs personally on the one hand, and the lack of efficiency of employment services in finding appropriate jobs, especially in rural areas, on the other hand. This situation is partially due to the traditional mistrust of population in the ability of labor exchanges to solve unemployment issues. In the majority of the regions, the supply of the labor force in labor markets has fallen. In Khorezm region it decreased by 1.4 times, in Sirdarya – by 1.2 times, in the Republic of Karakalpakstan, Andijan region, and Tashkent city – by 1.1 times. At the same time, this indicator somewhat increased in such regions as Kashkadarya, Samarkand, Bukhara, and Jizzakh (by 1-3%).

Table 7.1. Basic Current Labor Market Indicators

Year	Registered job-seekers, thousand people	Successful job placements, thousand people	Ratio of placements to registered, %	Number of officially registered unemployed people, by the end of 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
05/I	106.2	80.5	75.8	37.0
06/I	100.2	79.8	79.6	29.5

Source: Computed based on data on the labor market from statistical agencies.

The highest number of officially registered job-seekers was recorded in Samarkand region (13.4% of total registered job-seekers) followed by regions in the Fergana valley. Of these, Fergana region accounts for 14.1%, Namangan – 11.4%, and Andijan – 7.1%. The current labor market is mainly formed from the rural population, which indicates the relatively tense unemployment situation in rural areas. In the 1st quarter of 2006, rural areas accounted for 75.0% of the total number of people registered at labor exchanges. However, this share has stabilized during the period under review, ending a three-year period of continuing growth (73.4% in 2003, 73.7% - 2004, and 75.4% - 2005). The predominance of the rural population is characteristic for all categories of the population that form the labor supply.

The current labor market is mainly formed by rural young people (76.8% of the total young population). The high share of the rural population – including rural youth – seeking jobs at labor exchanges reflects the employment situation in rural areas, which is highly affected by the relatively fast growth of the rural labor force, which exceeds growth in jobs.

Women account for 44.4% of those registered at the labor exchanges. In comparison to the previous year this indicator has somewhat stabilized, but in categories of young job-seekers it is significantly higher: 51.6% in the bracket of 16- to 18-year-olds, and 46.7% in the bracket of 19- to 29-year-olds. This situation proves the importance of job-placement issues among the young female population.

In the 1st quarter of 2006, the supply of qualified workers increased in both relative and absolute terms. In comparison with the 1st quarter of the previous year, the number of people with high and medium specialized levels of education increased from 27.5 to 28.7 thousand people (by 4.4%), and their share in the total number registered increased from 25.9 to 28.6%. At the same time, the unskilled labor force has decreased (by 4.3%): a tendency which has been observed for the past two years. Those changes indicate good-quality development of the current labor market. However, the market is still dominated by citizens with general secondary (64.1%) and incomplete secondary (7.2%) education. People without professions and specialties mainly turned to rural labor exchanges (80.4% of total).

Labor exchanges in Uzbekistan carried out efficient work on job-placement of the population, which indicates a fairly high level of activity in the current labor market (Table 7.2). The job-placement level of people who turned to labor exchanges reached 79.6%, as opposed to 75.8% in the corresponding period of the previous year, and this trend has been evident for some time. It is worth noting that the highest levels of job-placement are achieved for people with secondary-special training (83.6%, including men – 87.3%), and people without professions or specialties (83.9%). To a certain extent, this situation indicates the special features of the current labor market. Job-placement of young people differs by age groups. The youngest group (16-19 year olds) achieved a level of job-placement of 75.7% (74.0% in 2005), while this indicator significantly increased for the age group of 20-29 year olds, at 83.3% (versus 77.1% in the 1st quarter of 2005). The job-placement of the population by gender group indicates the importance of gender issues in the labor market. The level of job-placement of the male population equaled 81.8%, while only 76.8% of female job-seekers were successfully placed at jobs (78.3% and 72.7% respectively, in the corresponding period of the previous year).

As in previous periods, job-placement for the population mainly occurred in non-state structures (72.6%). Among sectors of the economy, agriculture played the largest role in job-placement (41.9% against 39.5% in 2005), followed by the manufacturing sector (17.6%), which partially reflects features of the labor force supply.

Table 7.2. Employment in Urban and Rural Areas

Years	Registered as job-seekers, thousand people		Placed at jobs, thousand people		Level of employment, %	
	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
06/I	25	75.2	18.9	60.9	75.6	81.0

Source: Computed based on data on the labor market from statistical agencies

As the outcome of the existing ratio between work force supply and demand, the total number of unemployed obtaining official status in Uzbekistan in the first quarter of 2006 equaled 29.5 thousand people, a decrease of 7.5 thousand people in comparison to the previous year; in other words. During the period under review, 16.0 thousand people completed vocational training, against 10.5 thousand people in the corresponding period of the previous year. The dynamics of this indicator are very important in forming the market for skilled labor. These positive changes were mainly due to the extended opportunities for vocational trainings in Tashkent city, where 10.3 thousand people completed their training, which was 3.6 times more than in the corresponding period of the previous year.

By the end of the 1st quarter, labor exchanges had vacancies of 27.4 thousand places. The majority of those vacancies were in state enterprises (54.0%). The sector-based structure of those vacancies was as follows: manufacturing sector – 21.5%, enterprises in the system of housing and communal services – 10.6%, agriculture – 8.0% and construction – 8.0%. More than half of available jobs were for unskilled labor (65.0%), and 34.3% of available vacancies were in rural areas.

In general, in the 1st quarter of 2006, the demographic situation of population employment, as well as the development of market relations in the sphere of employment, underwent significant positive changes, which were the results of ongoing structural reforms in the economy, the achievement of stable economic growth and the development of labor motivation among the population.

Annex 7.1. Dynamics in the Permanent Population of the Republic of Uzbekistan (by the beginning of the period, thousand people)

Years	Entire Population		Urban		Rural	
	Number	Growth, %	Number	Growth, %	Number	Growth, %
2000	24487.7	1.5	9165.5	0.9	15322.2	1.8
2001	24813.1	1.3	9225.3	0.7	15587.8	1.7
2002	25115.8	1.2	9286.9	0.7	15828.9	1.5
2003	25427.9	1.2	9340.7	0.6	16087.2	1.6
2004	25707.4	1.1	9381.3	0.4	16326.2	1.5
2005	26021.3	1.2	9441.9	0.6	16579.4	1.6
2006	26312.7	1.1	9495.1	0.6	16817.6	1.4
04/ I(as of 1.04.04.)	25777.2	0.3	9397.2	0.2	16380.0	0.3
05/ I (as of 1.04.05.)	26095.0	0.3	9460.7	0.2	16634.3	0.3
06/ I (as of 1.04.06.)	26386.7	0.3	9516.2	0.2	16870.5	0.3

Source: State Statistics Committee of the Republic of Uzbekistan

Annex 7.2. Employed Population by Sector of the National Economy (period average, thousand people)

	1st quarter of 2005	Ratio in % to total number of employed	1st quarter of 2006 *)	Ratio in % to total number of employed	1st quarter of 2006 in % to 1st quarter of 2005.
Employed - total	9750.2	100.0	10069.2	100.0	103.3
In manufacturing	6545.3	67.1	6702.3	66.5	102.4
represented by:					
Industry	1305.0	13.4	1369.5	13.6	104.9
Agriculture and Forestry	2801.7	28.7	2783.3	27.6	99.3
Transport and Communication	327.1	3.3	340.7	3.4	104.2
Construction	718.7	7.4	758.9	7.5	105.6
Trade, public catering, MTP, procurement	923.6	9.5	976.9	9.7	105.8
Other	469.2	4.8	473.0	4.7	100.8
In Non-Material Production	3204.9	32.9	3366.9	33.4	105.1
Including:					
Transport and communications	148.9	1.5	157.5	1.6	105.8
Housing and Communal Services, and Consumer Services	308.4	3.2	324.1	3.2	105.1
Healthcare, Physical Education, and Social Provision	699.9	7.2	744.0	7.4	106.3
Education, Culture, Art, Sciences, and Scientific Service	1339.2	13.7	1402.1	13.9	104.7
Finance and Credit	53.6	0.6	55.2	0.5	103.0
Management staff	192.4	2.0	227.0	2.3	118.0
Other	462.5	4.7	457.0	4.5	98.8
In the State Sector, %	22.8	x	22.6	x	
In the Non-State Sector, %	77.2	x	77.4	x	

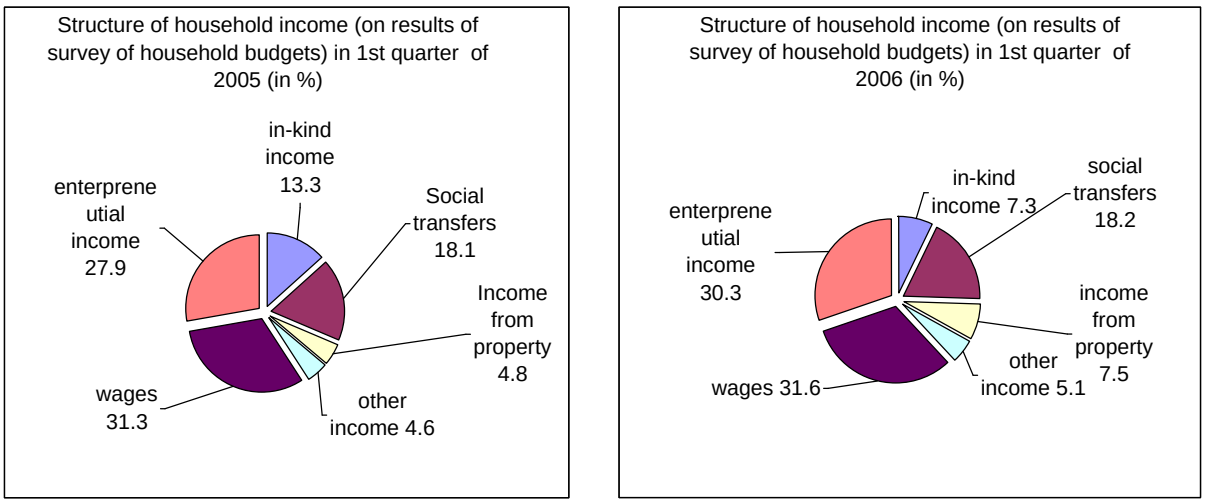
*) Estimation
Source: State Statistics Committee of Uzbekistan

8. Income and Expenditure of the Population

Income of the Population. In the first quarter of 2006, the trend continued of an increase in income of the population. Monetary income per capita in nominal terms grew by 26.4%, and in real terms – by 14.9%. Major factors behind the increase in per capita income of the population were economic growth and demographic trends reflecting the slowing growth rates of the population, the active policy on the labor market, the increase in employment of the population, and the strengthening of government social support for the population.

In the first quarter of 2006, the structure of household income changed towards an increase in its monetary portion and a respective reduction in in-kind income. The share of income from property in monetary income has increased (Figure 8.1.1).

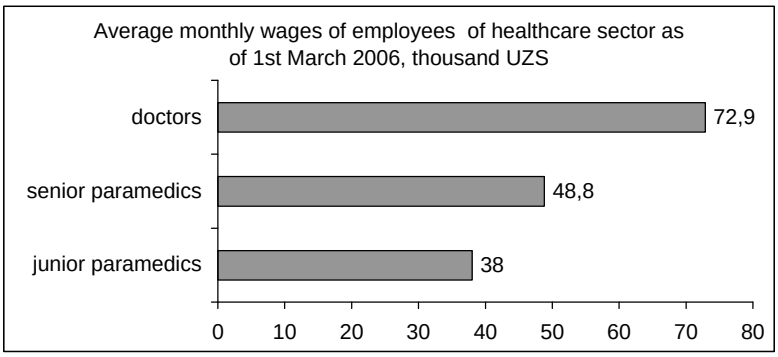
Figure. 8.1.1 Structure of Household Income (%)



Source: State Statistics Committee of Uzbekistan

Wages. In the first quarter of 2006, the share of wages in the total income of households was 27.6%. In March, wages grew by 43.2% (25.6% in the first quarter of 2005) and accounted for UZS 100.6 thousand. The main reason for the rise in average wages was the increase in wages of employees of public education and healthcare sectors (without taking into account the annual indexation) by an average of 30%. Average monthly wages of employees of the healthcare system as of March 1, 2006 were: doctors – UZS 72.9 thousand, senior paramedical personnel – UZS 48.8 thousand and junior paramedical personnel – UZS 38 thousand (Figure 8.1.2).

Figure. 8.1.2. Wages of Healthcare Sector Employees



Source: Ministry of Health of the Republic of Uzbekistan

In order to improve the current evaluation and payment system of medical personnel, as well as to ensure a clear and direct correlation between pay and incentives, on the one hand, and the degree of complexity of a job and the quality of medical assistance provided, on the other, the Cabinet of Ministers of the Republic of Uzbekistan issued a resolution "On approval of an improved system of labor remuneration of medical employees", that was aimed at: a) further improvement of the current system of remuneration of medical and pharmaceutical employees; b) strengthening the relationship between payment and the degree of complexity and intensity of work,and the quality of medical assistance provided; c) the creation of stimuli for continuous skills development of medical employees. In accordance with this resolution from 1st January 2006 a new tariff scale on medical and pharmaceutical employees' labor remuneration and the regulation "On a fund for the financial stimulation and development of medical organizations" were introduced.

There are 11 categories in the approved medical employees' labor remuneration system, with the minimal tariff ratio (1st category) at 2.773 and the maximal tariff ratio (11th category) at 7.390. Intervals between labor remuneration categories are a major mechanism for differentiating labor remuneration of medical employees, depending on the skills of the employee and the volume, complexity and quality of medical services provided.

In accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On measures to improve the payment system and strengthen the financial stimulation of the labor of employees of public education" the following were introduced as of 1st January 2006: a) new basic tariff rates on wages of pedagogical and managerial employees of public education institutions; b) the Regulation "On the wages of public education sector employees"; and c) the regulation "On the director's fund for the stimulation of employees who have shown success in general education institutions".

Entrepreneurial income. To resolve the issue of increasing the entrepreneurial income of the population, a priority role was assigned to the large-scale development of various forms of home-based employment, including in cooperation with large industrial enterprises. Strengthening the cooperation links between large industrial enterprises and home-based workers has solved the important issue of raising families' income, reducing the number of unemployed and including them in production activity. At the same time, the home-based workers' activity has been registered in their labor books, entitling them to pensions and social benefits.

In the first quarter of 2006, 131 thousand jobs were created in the small business and private entrepreneurship sector, of which 11.5 thousand jobs were for home-based workers. This led to an increase in the share of private entrepreneurs in the production of consumer goods and services and a respective rise in entrepreneurial income. In the first quarter of 2006, income from entrepreneurial activity made up 30.3% of total household income.

In accordance with the Decree of the President of Uzbekistan dated 5th January 2006 "On measures to stimulate the expansion of cooperation between large industrial enterprises and the provision of services on the basis of developing home-based labor" the following are considered the main objectives of developing home-based labor: a) the establishment of favorable conditions for the broad involvement of the population in home-based labor through the improvement of labor laws and the guarantee of social protection and protection of home-workers' labor; b) the development of cooperation between industrial enterprises and individuals producing goods and rendering services to fulfill orders at their homes – above all, in apparel, dry goods, silk, processing, furniture, electronic industries, as well as in telecommunications and various service sectors to increase the efficiency of industrial production; c) the establishment of a stable flow of raw materials, materials and half-finished goods for those working at home on orders of enterprises and the provision of guaranteed sale of goods made to order.

Income from property, which includes income from dividends and interest on deposits with banks and securities, depended on the level of savings and accumulations of households. The share of income from property in the structure of household income increased from 4.8% in the first quarter of 2005 to 7.5% in the period concerned. The main reasons for this growth trend were the purchase of real estate and the increase in income from renting property out, as well as the dynamics of the amount of interest on deposits and the payment of dividends. Deposits of the population with banks grew by 47.8% and reached UZS 493 bn.

Social transfers. The share of social transfers (pensions, benefits, and stipends) in the total income of households was 18.2%, of which financial support to low-income families and families with children made up 1.4%. More than 275 thousand needy families with children, and about 49 thousand low-income families, received social support from the government; 72 thousand women were paid allowances for the care of children under 2 years old.

The Decree of the President of the RUz dated 23rd January 2006 "On the Program 'Year of Charity and Medical Staff'" proclaimed the program's main objectives as: a) to implement a program of measures to provide specific financial support and moral support to socially vulnerable strata of the population at all levels – national, regional, city, district and settlement – above all to the disabled, single elderly people, low-income families and orphans; and also to improve conditions of hostels for the elderly and disabled, "Mekhribonlik" hostels and hostels for physically and mentally handicapped children; b) to create a legal base and regulations providing firm guarantees, stimuli, public recognition and support for the unselfish aspirations of good-hearted people willing to donate a part of their funds for charitable purposes, guided by their hearts and minds; to instill in the nation, especially in youth, such vital personal qualities as mercy, generosity and magnanimity.

In-kind income, which represents the non-monetary portion (most often of entrepreneurial income), included production of goods for own consumption and other income. In total income of households the share of in-kind income fell from 13.3% in the first quarter of 2005 to 7.3% in the period concerned. The proportion between monetary and non-monetary income varies considerably for urban and rural households. The impact of self-employment in auxiliary farms for the satisfaction of own needs was greater for the rural population, whereas the majority of the urban population's income was received in the form of wages and transfers from the government.

Expenditures of the population. In the first quarter of 2006, monetary monthly expenditures and savings per capita increased by 24.4% to reach UZS 33170.9. According to surveys of household budgets, the share of consumer expenditures in overall household expenditures decreased from 83.4% in the first quarter of 2005 to 80.9 in the respective period of 2006. A reduction in the share of consumption expenditures and an increase in savings in the structure of household expenditures were observed. In the structure of household expenditures, the share of non-consumer goods increased (from 16,4% to 19,71%) mainly due to increased business expenditures (from 4.6% to 7.5%) (Table 8.1.1).

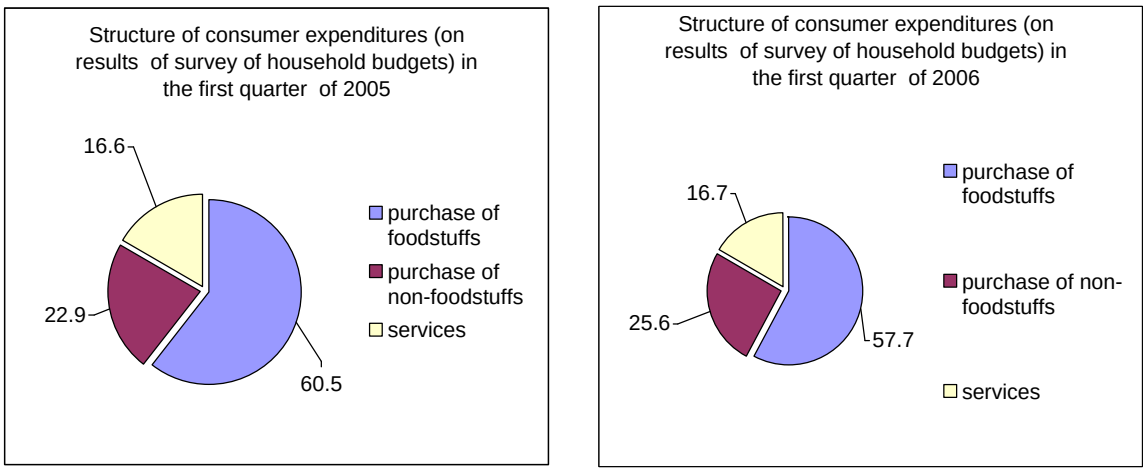
Table 8.1.1. Structure of Households' Expenditures (on Results of Survey of Households' Budgets)

	Expenditure	Consumer expenditure					Non-consumer expenditure		Other
		Foodstuffs	Non-foodstuffs	Services			Taxes and payments	Business expenses	
				Utilities	Consumer services	Other			
05/I	100	50.3	19.2	5.5	1.7	6.7	9.6	4.6	2.4
06/I	100	46.5	20.8	5.7	1.6	6.3	9.6	7.5	2.0

Source: State Statistics Committee of Uzbekistan

In the structure of consumer expenditures, expenditures for the purchase of foodstuffs decreased (from 60.5% to 57.7%), while expenditures for non-foodstuffs increased (from 22.9% to 25.6%) and for services (from 16.6% to 16.7%) (Figure 8.1.3). and

Figure. 8.1.3 Structure of Consumer Expenses (%)



Source: State Statistics Committee of Uzbekistan

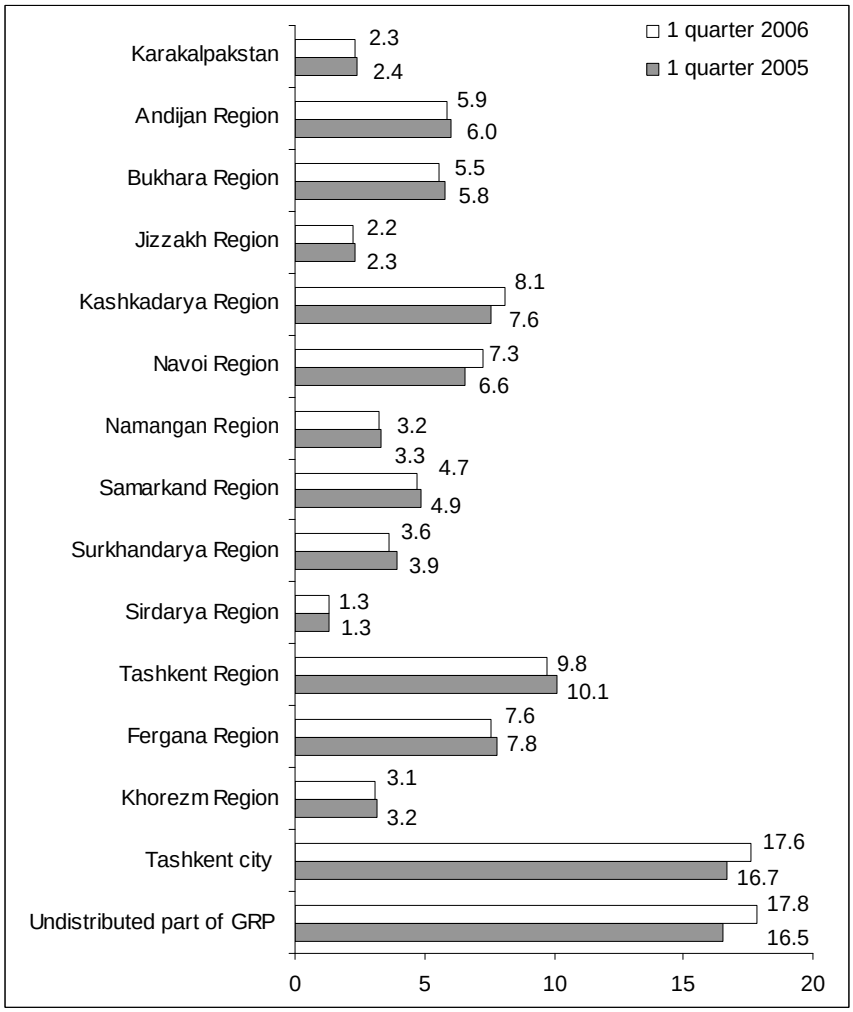
In the first quarter of 2006, the structure of income of the population changed towards an increase in its monetary portion and a respective reduction of in-kind income. The share of income from property in monetary income increased. A rise in the average wage resulted from the increase in wages of public education and healthcare sector employees (without taking into account annual indexations). The positive changes in the structure of household incomes helped to improve the structure of expenditures and consumption. The trend of decreasing expenditures for foodstuffs and increasing expenditures for non-foodstuffs in the structure of consumer expenditures of the population continued. For further optimization of population consumption by increasing consumer budget expenditures on non-foodstuffs, the provision of loans to the population for the purchase of durable consumer goods has been expanded.

9. Regions

In the first quarter of 2006, the Republic of Karakalpakstan, 12 regions and Tashkent city had relatively high growth rates in all sectors of the economy.

On the major indicator – **Gross Regional Product (GRP)** – all regions apart from Bukhara (99.7%) secured sustainable growth rates. While the general rate of GDP growth in the country was 103.6%, rates above this were registered in the city of Tashkent (108.7%), Samarkand (107.4%), Sirdarya (107.3%), Jizzakh (106.9%) regions and in the Republic of Karakalpakstan (106.0%). The high economic growth in these regions was ensured mainly by the dynamic development of the industrial and services sectors. The decrease in economic development of Bukhara region resulted from the reconstruction and renovation of the oil refinery plant (Annex 9.1).

Graph 9.1. The Share of Regions in the GDP of the Republic of Uzbekistan for the 1st quarter of 2005 – 1st quarter of 2006 (%)



Source: State Statistics Committee of Uzbekistan

In the territorial context the following regions had the highest share of GRP: Tashkent city (17.6%), Tashkent region (9.8%), Kashkadarya (8.1%), Fergana (7.6%), Navoi (7.3%), Andijan (5.9%) and Bukhara (5.5%). GRP was the lowest in Sirdarya (1.3%) and Jizzakh (2.2%) regions and in the Republic of Karakalpakstan (2.3%) (Graph 9.1).

Compared with the first quarter of 2005, the share of GRP increased in Tashkent city (from 17.3% to 17.6%), Navoi (from 6.6% to 7.3%) and Kashkadarya (from 7.5% to 8.1%) regions, which was the result of structural transformations in those regions. In the rest of the regions in the period concerned the share of GRP mainly decreased, especially in Khorezm, Fergana, Surkhandarya, Bukhara and Andijan regions.

All the regions experienced an increase in GRP per capita. Index calculations and classification of regions for this indicator (Table 9.1) show that the group with a high level (indices above 1.000) includes Navoi region, Tashkent city and Tashkent region. Compared with the first quarter of 2005, Bukhara region – whose indices fell considerably – is absent from this group. Their indicators decreased somewhat with respect to the republican level in Tashkent region as well (from 1.075 to 1.041).

The second group, with an average development level (index from 0.500 to 1.000), includes 7 regions out of 14. This group also includes Bukhara region from the 1st group, with an index of 0.958. In addition, in all regions of this group indices were lower compared with the 1st quarter of 2005 (with the exception of Kashkadarya region where they went up – from 0.820 to 0.880).
The third group, with a low level of development (index below 0.500), includes Surkhandarya, Samarkand, Namangan regions and the Republic of Karakalpakstan. Index indicators significantly decreased in Surkhandarya region (from 0.528 to 0.492); indices also fell in Samarkand (from 0.472 to 0.427) and Namangan (from 0.441 to 0.403) regions and in the Republic of Karakalpakstan (from 0.412 to 0.384) (Table 9.1).

Analysis showns that the GRP per capita is lower than the National average for Uzbekistan (UZS 121.1 thousand) in the Republic of Karakalpakstan by 2.6 times, in Namangan region – 2.5 times, in Samarkand – 2.3 times and in Surkhandarya region by 2 times.

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

1st quarter of 2005	Index	1st quarter of 2006	Index
I. High level	Above 1.000	I. High level	Above 1.000
Tashkent city	2.113	Navoi region	2.360
Navoi region	2.060	Tashkent city	2.165
Tashkent region	1.075	Tashkent region	1.041
Bukhara region	1.041		
II. Average level	From 0.500 to 1.000	II. Average level	From 0.500 to 1.000
Kashkadarya region	0.820	Bukhara region	0.958
Fergana region	0.725	Kashkadarya region	0.880
Andijan region	0.685	Fergana region	0.691
Khorezm region	0.593	Andijan region	0.651
Jizzakh region	0.558	Khorezm region	0.556
Sirdarya region	0.555	Jizzakh region	0.552
Surkhandarya region	0.528	Sirdarya region	0.516
III. Low level	Up to 0.500	III. Low level	Up to 0.500
Samarkand region	0.472	Surkhandarya region	0.492
Namangan region	0.441	Samarkand region	0.427
Republic Karakalpakstan	0.412	Namangan region	0.403
		Republic Karakalpakstan	0.384

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

The growth rates **of industrial output** in the first quarter of 2006 compared with the first quarter of 2005 were high in the majority of the regions. While in general in the country they were 106.8%, in Tashkent city this rate reached 123.7%, Jizzakh region – 119.7%, Samarkand region – 118.7% and Sirdarya region – 116.7%. In 7 regions out of 14 the growth rates of industrial output were above the national average level.

The per capita industrial output index decreased in the first quarter of 2006 compared with the first quarter of 2005 in the majority of the regions. This index rose in Kashkadarya (from 1.389 to 1.534), Navoi region (from 4.251 to 4.784), Samarkand region (from 0.298 to 0.302) and Sirdarya region (from 0.474 to 0.483). Navoi region is the leader in industrial output per capita (UZS 601.8 thousand). This indicator is 20.5 times above the current level of the Republic of Karakalpakstan.

In the first quarter of 2006 all the regions showed high growth rates of **consumer goods production**. In general in the country, consumer goods production grew by 14.2%, Tashkent city – by 24.2%, Surkhandarya region – by 36.9%, Samarkand – by 24.0% and Jizzakh region – by 20.8% (Annex 9.1).

The per capita index of consumer goods production decreased in 9 regions out of 14. The index increased in Andijan region (from 3.147 to 3.176), Jizzakh region (from 0.704 to 0.718), Surkhandarya (from 0.317 to 0.357), Fergana (from 0.830 to 0.840) and Tashkent city (from 1.797 to 2.123). In 11 regions out of 14, the consumer goods production index was below the national level. The highest index was achieved in Tashkent city, the lowest – in the Republic of Karakalpakstan. Per capita consumer goods production in the Republic of Karakalpakstan amounted to UZS 8.4 thousand, which was 8 times less than in Tashkent city.

In the first quarter of 2006, the total growth rate for **agricultural production** in the country was 104.5%. Higher rates were achieved in: Bukhara region (111.7%), Sirdarya region (109.8%), Kashkadarya region (108.9%) and Navoi region (107.9%).

Index calculations of per capita agricultural production indicate that in the first quarter of 2006, compared with the first quarter of 2005, it increased in 11 regions out of 14 and fell in Samarkand and Fergana regions. In 7 regions, per capita agricultural production exceeds the average national level. Currently the highest level has been achieved in Navoiy region (UZS 41.6 thousand), the lowest – in the Republic of Karakalpakstan (UZS 9.0 thousand), a difference of 4 times.

In the first quarter of 2006, the growth rate of **investments** was relatively higher in 9 regions out of 14, with an average national rate of 104.5%. These regions were: Andijan region, with 157.5%, Navoi region – 147.5%, Bukhara region – 147.0%, Samarkand region – 137.2%, Jizzakh region – 115.2%, Kashkadarya region – 112.4% and the Republic of Karakalpakstan – 125.2%. In the first quarter of 2006, growth in in-

vestments was not achieved in: Surkhandarya region (91.8%), Sirdarya region (95.1%), Tashkent region (87.6%), Fergana region (68.9%) and in the city of Tashkent (91.5%).

The main reason for low growth rates of investments in the above regions is delays in the provision of funding for projects due to postponed bids.

In the first quarter of 2006, the growth rate of **retail trade turnover** was quite high in all of the regions. At an average national growth rate of 7.5% it reached: 16.7 % in Navoi region, 17.7 in Khorezm region, 14.9 % in Surkhandarya region and 11.4 % in the city of Tashkent. High growth rates of retail trade turnover in those regions were achieved thanks to the expansion of the services sector through the active involvement of the private sector and small entrepreneurship. In the first quarter of 2006, the indices of per capita retail trade turnover in most regions decreased, while they rose in Jizzakh region (from 0.612 to 0.626), Navoi region (from 0.906 to 0.997), Surkhandarya region (from 0.729 to 0.751), Khorezm region (from 0.649 to 0.731) and in the city of Tashkent (from 2.831 to 3.028). In 11 regions out of 14, per capita retail trade turnover was lower than the national level. The lowest level was registered in the Republic of Karakalpakstan (UZS 29.9 thousand), which was 6 times less than in Tashkent city (UZS 178.7 thousand). Low per capita turnover was also registered in Sirdarya (UZS 32.7 thousand) and Jizzakh region (UZS 37.1 thousand).

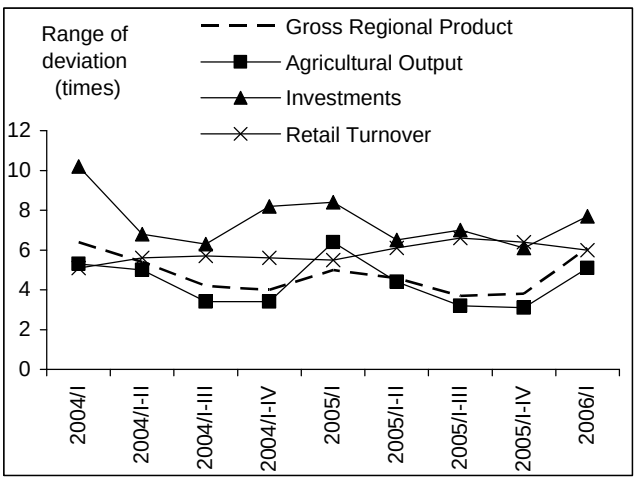
In the first quarter of 2006 vs. the first quarter of 2005, the average national growth rate of **fee-based services** was 111.8%. Rates above these were registered in Samarkand and Tashkent regions (122.8% in both), 120.7% in Fergana region, over 119.0% in Kashkadarya and Navoi regions, 116.8% in Surkhadarya region, 115.5% in Bukhara region, 115.3% in the Republic of Karakalpakstan, 113.2% in Andijan region, 110.4% in Jizzakh region and 117.1% in Khorezm region (Annex 9.1).

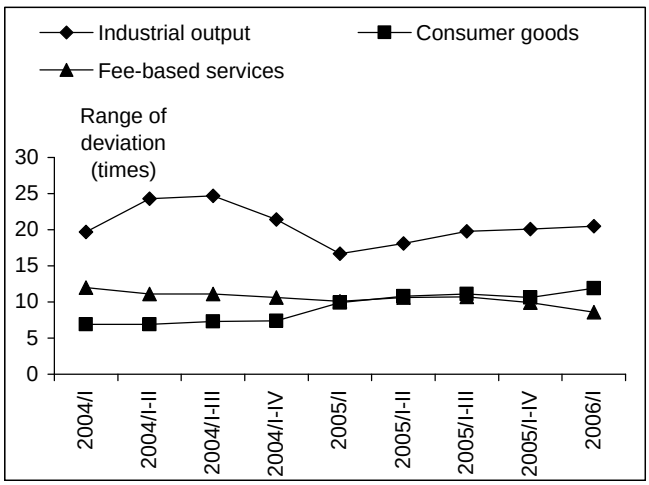
High growth rates resulted from the considerable development in the regions of such fee-based services as education, health care and passenger transportation, as well as the growth in communication and Internet services.

Indexed assessment of per capita fee-based services shows that in most regions the fee-based services index has increased with respect to the national level. This indicator decreased in Jizzakh region (from 0.560 to 0.534) and in the city of Tashkent (from 4.197 to 3.800). In 11 regions out of 14 the index of per capita fee-based services was below the average national level. The highest level of per capita fee-based services was provided in Tashkent city – UZS 57.7 thousand, the lowest in the Republic of Karakalpakstan (UZS 6.7 thousand), Kashkadarya region (UZS 7.0 thousand), Surkhandarya region (UZS 7.7 thousand), and slightly more than UZS 8 thousand in Jizzakh and Sirdarya regions.

According to the results of the first quarter of 2006, the interregional range of deviation decreased for agricultural production (from 6.4 to 5.1 times) and investments (from 12.3 to 7.7 times). The range of interregional differentiation increased for all other indicators: GRP – from 5.1 to 6.1 times, industrial output – from 16.7 to 20.5 times, retail trade turnover – from 5.5 to 6.0 times, and consumer goods production – from 9.9 to 11.9 times. For fee-based services, the deviation range remained at the level of the first quarter of 2005 – 2.4 times (Graph 9.2).

Graph 9.2 Tracking Changes in the Level of Differentiation of Social And Economic Development of the Regions in 1st quarter of 2005 and 1st quarter of 2006





Navoi region (for GRP and industry) and Tashkent city (for all other indicators) contributed most to the deviation range, as these have significant economic potential.

It is important to note that high growth rates for the indicators of the real sector of the economy were observed in such underdeveloped regions as the Republic of Karakalpakstan, Jizzakh, Kashkadarya, Surkhandarya and Khorezm regions. However there still remains a huge gap between the regions, especially for industrial output, consumer goods production and investments.

One of the major priorities for sustainable social and economic development of the regions is the development of the private sector of the economy and the accelerated development of small business, farms and entrepreneurship. Also important is the further implementation of administrative reform and qualitative changes in the functions of management of territorial structures.

Annex 9.1 Dynamics of 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	06/I
Republic Karakal-pakstan	89.7	98.3	100.9	107.5	108.7	106.0	103.5	107.1	108.1	103.0	109.2	111.0	106.0
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	105.3
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	99.7
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	106.9
Kashkadarya Re-gion	99.0	105.0	109.4	105.7	105.7	106.2	103.2	104.5	109.6	103.8	105.0	106.5	104.9
Navoi Region	103.2	101.4	104.7	102.0	107.6	100.6	102.5	106.5	108.9	102.0	98.8	100.0	102.4
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	103.9
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	107.4
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	101.6
Sirdaya 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	107.3
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	102.8
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	104.4
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	102.3
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	108.7
Republic 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	103.6

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	06/I
Republic Karakalpak-stan	111.2	95.9	94.9	98.4	115.6	118.4	117.7	125.2	128.8	141.3	147.2	141.6	112.5
Andijan Region	90.0	128.1	105.5	118.1	134.5	134.5	126.9	127.2	131.9	153.5	146.9	143.4	110.4
Bukhara Region	103.9	107.7	103.3	102.5	108.7	102.1	108.4	106.6	109.7	108.5	102.0	101.5	100.1
Jizzakh Region	122.7	119.9	130.3	115.1	108.6	131.6	114.3	120.9	116.1	120.0	131.5	136.6	119.7
Kashkadarya Region	101.9	104.4	112.1	114.0	108.3	101.3	111.4	110.8	109.9	103.0	101.5	101.7	104.0
Navoi Region	102.2	100.6	106.5	99.4	105.6	97.8	101.4	107.0	107.7	100.1	95.0	96.6	100.4
Namangan Region	126.1	118.2	112.5	113.3	113.0	114.0	109.0	106.0	114.1	112.4	116.8	113.9	104.6
Samarkand Region	97.3	105.7	106.7	110.6	115.0	108.9	115.0	111.2	115.7	111.6	102.9	107.2	118.7
Surkhandarya Region	107.9	104.1	113.1	104.3	112.3	104.2	106.4	110.1	121.8	111.7	105.2	103.1	103.1
Sirdaya Region	106.7	101.3	122.4	98.9	103.8	103.7	103.2	109.8	115.5	111.4	119.3	121.1	116.7
Tashkent Region	108.8	109.1	108.3	101.4	108.2	100.1	107.2	108.2	109.2	107.8	102.8	105.4	100.1
Fergana Region	108.5	101.4	108.7	101.8	103.6	105.0	103.6	103.7	105.8	106.3	106.9	105.5	106.6
Khorezm Region	103.5	100.3	103.9	101.0	107.6	127.0	100.1	100.2	108.1	118.5	141.3	139.5	110.0
Tashkent city	113.2	110.5	111.7	111.9	103.9	116.3	115.2	110.1	105.1	111.4	111.2	119.4	123.7
Republic Uzbekistan	105.9	107.6	108.3	106.1	109.4	107.2	108.8	112.6	110.2	108.3	107.5	107.7	106.8

Source: State Statistics Committee of Uzbekistan

Output of Consumer Goods

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III	06/I
Republic Karakalpakstan	105.9	113.5	104.3	108.5	110.5	114.8	119.0	122.8	119.4	117.1	107.0	111.3	111.1
Andijan Region	92.6	123.7	97.8	120.7	145.9	147.0	133.3	136.4	136.0	180.3	159.6	157.5	111.3
Bukhara Region	105.9	107.4	103.3	106.8	107.9	107.1	107.8	107.6	108.9	104.7	104.8	100.5	108.8
Jizzakh Region	123.6	119.3	159.3	128.9	110.4	116.2	113.0	117.8	120.5	120.6	117.7	113.5	120.8
Kashkadarya Region	113.1	112.7	108.5	112.3	117.2	112.1	127.0	124.7	115.2	107.8	110.7	110.8	118.5
Navoi Region	115.5	99.98	114.5	104.4	96.1	99.5	107.3	106.4	101.4	98.3	100.6	100.4	106.8
Namangan Region	124.3	111.8	118.1	115.9	110.5	104.5	124.7	116.1	116.2	112.1	107.0	109.7	100.1
Samarkand Region	92.4	102.6	102.5	102.6	110.0	103.7	100.3	102.0	112.4	110.1	100.7	104.2	124.0
Surkhandarya Region	111.9	100.9	114.8	100.8	114.5	94.7	129.5	124.1	132.6	101.8	95.1	91.1	136.9
Sirdaya Region	110.1	120.2	103.0	103.8	107.4	98.3	108.0	115.3	114.9	109.9	99.1	100.0	109.3
Tashkent Region	112.5	114.1	106.6	103.2	112.4	109.7	106.6	111.1	112.9	107.7	106.2	115.7	109.3
Fergana Region	111.3	98.1	106.4	101.4	119.3	108.0	113.2	122.4	119.5	115.8	113.0	108.6	109.6
Khorezm Region	107.8	94.0	95.0	125.5	98.5	97.3	96.6	102.5	101.5	96.5	106.5	105.9	106.2
Tashkent city	111.3	101.3	120.2	109.0	96.6	114.0	115.7	101.5	93.5	107.4	103.7	121.0	124.2
Republic Uzbekistan	106.2	107.6	108.4	108.5	113.5	116.6	114.9	114.4	113.3	116.4	117.1	119.4	114.2

Source: State Statistics Committee of Uzbekistan

Agricultural Production

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III	06/I
Republic Karakalpakstan	65.6	90.5	101.2	134.3	114.4	103.7	109.1	124.0	117.4	105.8	123.3	123.7	103.9
Andijan Region	110.2	107.1	102.1	101.7	102.6	105.3	106.9	100.8	105.4	107.7	100.6	100.0	103.3
Bukhara Region	106.3	102.0	102.6	108.8	109.3	109.7	104.5	112.8	120.6	109.4	110.9	122.5	111.7
Jizzakh Region	100.1	106.9	113.8	116.6	114.0	106.2	108.9	121.1	117.5	106.8	106.6	113.1	105.6
Kashkadarya Region	89.4	106.9	119.9	103.1	109.9	109.8	107.7	106.1	119.6	109.0	112.5	110.6	108.9
Navoi Region	105.0	107.2	106.7	113.7	109.9	104.9	108.8	109.4	114.7	109.7	108.6	109.2	107.9
Namangan Region	111.5	101.4	101.5	102.2	109.0	103.9	104.0	113.6	115.8	104.7	100.8	100.9	104.7
Samarkand Region	104.8	103.9	112.4	111.4	105.8	105.9	107.6	111.8	112.8	105.2	103.6	101.0	103.0
Surkhandarya Region	106.7	110.5	102.8	105.8	106.5	102.0	106.0	106.2	116.2	108.8	102.7	100.3	103.2
Sirdaya Region	101.9	105.8	98.9	109.4	101.6	113.7	107.1	129.4	117.5	105.8	105.5	119.1	109.7
Tashkent Region	114.9	103.7	102.8	104.1	110.2	104.2	106.7	116.9	111.7	106.7	110.7	106.5	102.4
Fergana Region	113.5	100.4	105.7	101.9	108.4	108.6	106.4	104.1	110.6	104.6	110.3	102.5	101.7
Khorezm Region	82.8	103.6	106.8	114.0	114.3	104.1	106.3	113.2	117.8	104.2	111.1	112.8	102.9
Tashkent city													
Republic 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	104.5

Source: State Statistics Committee of Uzbekistan

Investment

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III	06/I
Republic Karakalpakstan	83.0	105.8	114.0	115.7	104.1	76.2	2.3 times	150.5	122.6	45.6	53.6	74.8	125.2
Andijan Region	101.0	118.4	105.0	108.3	61.9	129.2	100.1	65.6	64.3	74.3	112.7	113.6	157.5
Bukhara Region	108.0	119.2	103.0	92.3	151.3	120.7	2.1 times	186.8	131.6	135.1	139.0	139.0	147.0
Jizzakh Region	111.0	77.5	112.0	63.4	107.7	111.5	92.6	101.8	100.9	125.0	166.1	142.6	115.2
Kashkadarya Region	93.0	130.2	93.4	112.8	80.9	116.2	56.5	77.1	79.4	125.8	127.9	127.2	112.4
Navoi Region	116.0	107.4	97.9	113.8	83.2	141.9	66.1	101.3	106.2	102.3	135.6	135.0	147.5
Namangan Region	103.0	85.5	100.0	111.7	104.5	97.6	107.2	108.9	100.1	102.8	100.0	98.5	106.8
Samarkand Region	104.0	107.1	99.8	105.4	118.1	110.6	104.8	108.5	104.5	81.6	83.2	90.2	137.2
Surkhandarya Region	102.0	115.7	101.0	104.0	92.9	136.4	2.3 times	156.1	121.0	105.7	125.2	133.4	91.8
Sirdaya Region	100.2	101.3	84.4	102.4	139.7	89.6	45.5	103.7	159.3	166.1	91.7	73.3	95.1
Tashkent Region	106.0	112.1	102.0	105.5	117.6	112.7	147.2	123.1	119.9	96.6	100.7	108.6	87.6
Fergana Region	107.0	108.7	107.0	68.4	91.8	119.2	31.2	73.4	80.8	2.4 times	128.8	123.3	68.9
Khorezm Region	102.0	95.5	103.0	65.8	2.0 times	44.1	97.4	101.0	124.7	94.0	98.4	79.2	103.8
Tashkent city	92.0	106.3	80.9	112.6	121.6	88.4	130.3	95.7	100.4	126.1	117.4	122.6	91.5
Republic Uzbekistan	101.0	104.0	103.6	104.8	107.3	105.7	99.6	102.2	103.0	104.2	105.4	106.9	104.5

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	06/I
Republic Karakalpakstan	103.6	117.9	101.2	108.5	102.1	100.3	103.5	100.7	100.1	112.4	108.3	101.0	100.2
Andijan Region	106.4	109.3	107.3	98.6	91.8	100.1	102.0	93.7	88.1	100.1	101.5	102.1	102.3
Bukhara Region	110.3	114.7	107.0	101.4	104.4	112.8	100.2	101.4	103.5	114.1	114.5	113.4	106.6
Jizzakh Region	111.0	125.8	116.1	103.7	106.1	102.1	103.3	101.2	100.8	109.5	107.2	102.7	105.9
Kashkadarya Region	109.9	116.5	106.7	109.4	100.0	108.5	100.1	100.4	100.3	107.7	107.7	109.1	107.3
Navoi Region	105.4	113.3	103.8	104.7	125.5	106.8	109.1	111.2	120.4	117.8	109.8	107.7	116.7
Namangan Region	110.8	118.8	113.5	97.9	99.0	112.6	105.6	101.1	101.0	110.1	112.9	114.4	107.0
Samarkand Region	113.6	106.6	103.7	107.0	100.8	106.0	104.8	104.3	103.4	107.5	110.2	107.0	106.3
Surkhandarya Region	121.4	113.7	111.6	108.4	108.3	113.2	105.1	105.5	104.0	109.8	113.1	113.3	114.9
Sirdaya Region	105.8	102.1	91.1	96.5	101.5	115.6	101.1	101.8	106.1	105.4	101.3	107.3	105.9
Tashkent Region	123.3	115.9	101.1	108.1	111.5	104.2	110.9	111.9	109.5	106.3	102.9	103.5	103.0
Fergana Region	103.2	103.5	106.2	98.4	97.0	102.2	100.8	101.6	97.9	102.5	100.8	101.2	104.1
Khorezm Region	111.8	107.9	101.4	96.3	103.5	118.1	104.5	101.5	101.7	112.2	118.7	119.5	115.7
Tashkent city	100.2	104.7	89.9	110.8	115.2	113.6	109.2	110.1	109.9	114.9	112.2	114.4	111.4
Republic Uzbekistan	107.6	109.6	102.1	104.2	105.2	105.1	105.1	104.2	103.1	108.7	108.1	108.6	107.5

Source: State Statistics Committee of Uzbekistan

Fee-Based Services

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III	06/I
Republic Karakal-pakstan	114.2	105.1	112.4	111.3	109.2	116.4	120.4	115.4	109.2	129.6	110.0	114.1	115.3
Andijan Region	138.9	113.3	109.3	120.1	132.7	117.4	113.6	125.9	133.5	123.1	115.9	114.3	113.2
Bukhara Region	112.6	108.4	117.0	109.3	117.3	117.5	120.3	122.2	118.0	120.3	116.8	116.3	115.5
Jizzakh Region	110.4	116.2	114.2	114.1	118.5	113.9	116.4	124.6	117.7	129.1	113.7	113.7	110.4
Kashkadarya Re-gion	137.2	114.6	121.9	108.2	102.6	133.5	105.6	104.9	104.6	117.1	119.9	122.6	119.2
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	119.3
Namangan Region	137.0	115.5	110.8	122.6	117.4	126.9	118.6	116.1	116.9	116.6	120.1	127.3	111.6
Samarkand Region	118.1	121.8	104.0	124.5	113.9	124.6	119.0	116.0	115.7	119.0	116.1	123.0	122.8
Surkhandarya Re-gion	109.6	114.2	114.3	112.6	111.7	113.1	113.4	112.0	112.0	118.2	109.3	109.0	116.8
Sirdaya Region	104.8	125.8	109.6	103.1	112.5	127.8	116.3	106.5	107.5	127.1	122.7	127.0	119.3
Tashkent Region	111.5	100.2	109.2	105.5	113.2	113.0	107.8	112.8	114.9	114.3	115.2	115.9	122.8
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	120.7
Khorezm Region	107.9	106.4	102.0	107.0	119.2	124.8	127.0	123.1	122.9	134.8	121.0	123.1	117.1
Tashkent city	113.5	117.4	112.8	105.3	105.7	108.4	105.5	103.3	104.9	103.5	104.6	107.9	104.6
Republic Uzbekistan	115.7	114.7	108.6	107.9	113.8	115.0	112.5	113.5	113.9	114.2	111.6	114.5	111.8

Source: State Statistics Committee of Uzbekistan

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

Gross Regional Product

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III	06/I
Republic Karakal-pakstan	0.456	0.413	0.392	0.400	0.423	0.466	0.352	0.364	0.407	0.412	0.373	0.475	0.384
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	0.651
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	0.958
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	0.552
Kashkadarya Re-gion	0.722	0.724	0.780	0.782	0.747	0.845	0.666	0.656	0.722	0.820	0.698	0.794	0.880
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	2.360
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	0.403
Samarkand Re-gion	0.709	0.679	0.693	0.669	0.601	0.596	0.457	0.494	0.645	0.472	0.426	0.578	0.427
Surkhandarya Re-gion	0.716	0.727	0.760	0.734	0.657	0.603	0.473	0.606	0.679	0.528	0.525	0.641	0.492
Sirdaya 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	0.516
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	1.041
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	0.691
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	0.556
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	2.165
Republic 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	1.000
Range of deviation (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	6.1
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	6.1

Source: Estimates by the author based on the data by the 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	06/I
Republic Karakal-pakstan	0.279	0.247	0.201	0.193	0.207	0.228	0.207	0.184	0.184	0.255	0.218	0.235	0.233
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	1.139
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	0.806
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	0.440
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	1.534
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	4.784
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	0.262
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	0.302
Surkhandarya Re-gion	0.323	0.302	0.283	0.286	0.295	0.261	0.294	0.297	0.276	0.303	0.228	0.232	0.252
Sirdaya 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	0.483
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	1.477
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	0.795
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	0.336
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	1.142
Republic of Uzbeki-stan	1.000	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 deviation (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	20.5
Without Navoi re-gion	6.1	7.1	8.6	9.4	8.0	6.7	7.7	9.2	9.3	5.9	6.3	6.8	6.6

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

Production of Consumer Goods

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III	06/I
Republic Karakal-pakstan	0.425	0.400	0.341	0.332	0.307	0.287	0.344	0.321	0.299	0.328	0.264	0.281	0.267
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	3.176
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	1.217
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	0.718
Kashkadarya Re-gion	0.616	0.656	0.560	0.615	0.470	0.444	0.507	0.458	0.440	0.447	0.394	0.405	0.421
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	0.590
Namangan Re-gion	0.665	0.579	0.571	0.561	0.573	0.507	0.609	0.611	0.613	0.546	0.440	0.495	0.440
Samarkand Re-gion	1.226	1.072	1.016	0.884	0.836	0.788	0.789	0.793	0.837	0.799	0.664	0.789	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	0.357
Sirdaya 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	0.493
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	0.999
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	0.840
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	0.395
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	2.123
Republic Uzbeki-stan	1.000	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 deviation (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	11.9
Without Tash-kent 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	11.9

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

Agricultural Produce

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III	06/I
Republic Karakal-pakstan	0.425	0.354	0.360	0.435	0.480	0.523	0.361	0.329	0.439	0.311	0.336	0.562	0.391
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	0.806
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	1.324
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	1.320
Kashkadarya Re-gion	0.831	0.851	0.980	1.006	1.003	1.089	0.560	0.796	0.992	0.671	0.778	0.984	0.725
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	1.817
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	0.707
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	0.963
Surkhandarya Re-gion	1.187	1.353	1.311	1.279	1.222	1.084	1.204	1.388	1.320	1.222	1.200	1.240	1.305
Sirdaya 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	1.428
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	1.998
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	0.851
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	1.376
Tashkent city													
Republic Uzbeki-stan	1.000	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 deviation (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	5.1

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

Investment

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III	06/I
Republic Karakal-pakstan	0.819	0.648	0.832	1.119	1.111	0.722	1.878	1.451	1.314	0.759	0.642	0.786	0.929
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	0.353
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	2.192
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	0.573
Kashkadarya Re-gion	1.897	1.931	1.608	1.760	1.507	1.583	1.374	1.497	1.503	1.667	1.604	1.745	1.719
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	2.133
Namangan Re-gion	0.701	0.501	0.476	0.471	0.449	0.453	0.457	0.504	0.518	0.467	0.450	0.510	0.465
Samarkand Re-gion	0.523	0.453	0.404	0.531	0.505	0.432	0.537	0.640	0.589	0.367	0.400	0.467	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	0.763
Sirdaya 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	0.619
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	0.844
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	0.420
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	0.397
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	2.704
Republic Uzbeki-stan	1.000	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 deviation (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	7.7
Without Tash-kent 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	6.2

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

Retail Trade Turnover

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III	06/I
Republic 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	0.504
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	1.087
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	0.920
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	0.626
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	0.681
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	0.997
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	0.766
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	0.703
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	0.751
Sirdaya 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	0.553
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	1.050
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	0.977
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	0.731
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	3.028
Republic 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	1.000
Range of deviation (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	6.0
Without Tazshkent 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	2.2

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

Fee-Based Services

Regions	2000	2001	2002	2003	2004	2005	04/I	04/I-II	04/I-III	05/I	05/I-II	05/I-III	06/I
Republic 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	0.444
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	0.641
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	1.059
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	0.534
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	0.461
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	1.076
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	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	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	0.505
Sirdaya 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	0.541
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	0.722
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	0.702
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	0.840
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	3.800
Republic 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	1.000
Range of deviation (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	8.6
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	2.4

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

ANALYTICAL PART

1. ASSESSING THE IMPACT OF UZBEKISTAN'S ACCESSION TO THE WTO AND DEVELOPING PRACTICAL RECOMMENDATIONS

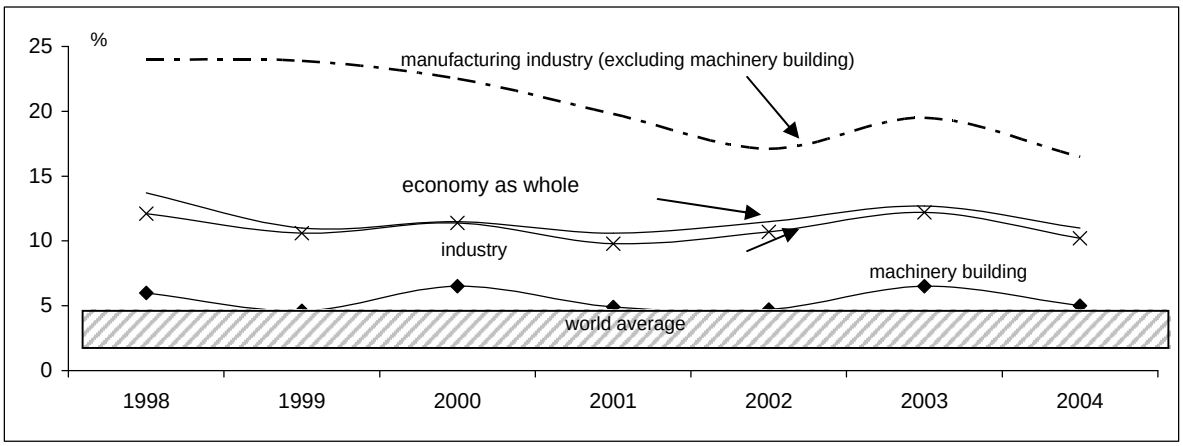
The present article is a brief summary of the main results of a research project conducted by a group of authors with the financial support of the USAID's Economic Policy Reform Project in Uzbekistan. The group consisted of S.V. Chepel, doctor of economics (head of the research group), V.V. Baturina, PhD, J. Fattakhova, PhD, Sh. Shokhazamiy, PhD. Project coordinator: E. Trushin, PhD. The study covers the whole economy as a complex of industry and the financial sector, with detailed analysis of some of their segments (banking sector, stock exchange, chemical products), and links to the macro level (all major sectors of the economy and key macro indicators). Methodical unity and analysis of links among sectors of the economy are provided by using a base of new information in terms of an input-output table (that includes 35 sectors and branches of the economy).

Developing a rational strategy for Uzbekistan's accession to the WTO and liberalization of foreign trade policy is impossible without quantitative assessments of the costs and benefits for certain sectors, and the economy as whole. These are conditioned by a variety of possible impacts of such measures on the economy. On the one hand, one may anticipate an acceleration of foreign trade turnover, an increased inflow of foreign investments and a decrease in barriers against the export of domestic products to world markets. On the other hand, there is a possibility of the loss of several production enterprises and branches of the processing sector of the economy, an increase in the level of unemployment, worsening of financial instability and limitations on the government's abilities to conduct an active industrial policy.

Based on the above-mentioned point, the authors of the project focus their study on the hypothesis of the existence a strategy of liberalization of foreign trade and accession to the WTO which would provide a positive balance in terms of costs and benefits in the medium term, both for the economy and for its key sectors. Achieving this goal required: conducting detailed calculations of assessments of Uzbekistan's accession to the WTO (for various alternative scenarios) for the whole economy and for certain sectors of the economy; and, based on achieved results, developing practical recommendations on forming a rational strategy for Uzbekistan's accession to the WTO and limiting risks of macroeconomic instability that could occur in the process of Uzbekistan's accession to the world economy.

As is evident in the character of the changes in the level of tariff rates in Uzbekistan over the past several years (Graph 1), in order to compromise with WTO requirements on tariff levels (up to 4-5% throughout the economy) the value of this indicator in the whole economy should be reduced significantly, by 6-7 percentage points. Certain sectors will require even more reduction. For example the chemicals industry – by 18 p.p. of its original level (from 22% to 4%), light industry – by 25 p.p. (from 31% to 6%), food industry – by 16 p.p. (from 23% to 7%), manufacturing of construction materials – from 24% to 4%, agriculture – from 40% to 6%, and flour and groats production – from 22% to 5%.

Graph.1 Changes in level of tariff protection for the years 1998-2004 (share of import payments to total imports, %)



Source – the author's calculations based on provided tables.

These parameters define *the first, the most radical scenario of Uzbekistan's accession to the WTO.* Together with the acceleration of existing competition this scenario also takes into account other negative affects that occur in the framework of correlation among: *increase in foreign competition → decrease in production→ decrease in private and government revenues → increase in budget deficit and deficit of balance of pay-*

ments → increase in the level of prices and decrease in real revenues of the population. This scenario totally excludes any positive effects of foreign trade liberalization, since these may occur only after the beginning, the most difficult stage of Uzbekistan's accession to the WTO.

Scenario # 2 is based on the possibility of achieving an agreement on a more moderate reduction of tariff protection levels (down to 7-8%), taking into consideration only all the negative impacts and factors of decreases in output i.e. while preconditions of the previous scenario are kept. This would ease the pressure of the foreign sector on the most vulnerable sectors of the national economy, providing more moderate reduction of tariffs on light and food industries (by 2-3 p.p.) and the chemicals industry (by 3-4 p.p.) by shifting emphasis to those sectors that are more sustainable in conditions of increasing foreign competition (fuel and energy complex, metallurgy, glass and porcelain, construction materials).

Scenario # 3, unlike the previous two scenarios is more long-term oriented (2-3 years), since it is based on the preconditions of scenario #2 and takes into account *positive impacts* of foreign trade liberalization on certain sectors and branches of the economy (growth of non-raw-material exports under the devaluation of the soum, growth of output in conditions of growth of non-competing imports and reduction of prices for imported spare parts and materials). In this scheme, the scenarios are arranged by level of reduction of potential expenses and risks of instability.

The assessment of the consequences of accepting and realizing these alternative scenarios was conducted using the developed *input-output model* **(I-O)**. The functional capacities that were inserted into the model provide short-term estimations of impacts on the macro level (changes in gross output, GDP, employment, budget deficit) and on the sectoral level (35 branches of the real sector and the sector of financial services) when import tariffs are changed. The model has a developed block of foreign trade, which is tied to indicators of production and to macro indicators.

The foreign trade block in the model is based on using coefficients of elasticity of imports according to sector-based import duties, and elasticity of output on imports that reflect the vulnerability of production to changes in import tariffs in various sectors of the economy. These coefficients are formed initially on a macroeconomic (product) level, and later they are brought into the sector level in accordance with identified weights.

Based on the generally accepted practice of calculating this type of coefficients we used statistical and economic methods and the expert estimations of sector specialists, and compared the results determined with the average estimations for a group of developing countries, making appropriate corrections. In order to increase the reliability and validity of estimations of those coefficients, those time intervals which were characterized by the stability of the exchange rate and foreign trade legislation were emphasized in the quarterly changes in the timelines (indicators of import and tax duties, volumes of imports and output by key products that compete with imports, 2000-2005).

Elasticity calculations were conducted for those integrated sectors which may potentially bear major losses as a result of increased foreign competition. In the national economy, such sectors include the industry of chemical products, machinery building, light industry and industry of foodstuffs production. In the structure of imports those sectors accounted for 68% of the total volume of imports in 2004.

Estimations of the elasticity of imports with relation to import tariffs, calculated using the above-mentioned method, show that the greatest elasticity belongs to the industry of foodstuffs production, -0.7 (against -0.21 in the chemical products industry). All of them are negative, and their values in absolute terms equal less than 1, which fully agrees with the average estimations gathered on the basis of world experience of developing countries (from -0.5 to -1.5).

Similar approaches were used in the calculations of coefficients of elasticity of output in relation to imports. As in the previous case, the closest correlation was identified in the case of the foodstuffs industry: a one-per-cent growth of imports in this sector would bring a decrease in growth rates of production on average of 1.13 p.p. against 0.16-0.18 p.p. in light industry, machinery building and chemicals.

The first calculation in the series was aimed at a *detailed analysis of the reaction of the economy as expected in the case of a reduction of tariff protection for one of the integrated branches of the real sector that was exposed to the pressure of increasing foreign competition.* **The foodstuffs industry** was chosen as an example. According to calculations of elasticity coefficients, food industry production was found to be the most vulnerable among four vulnerable sectors to changes in tariffs. For example, if tariff rates are reduced by 10 p.p. (in other words, the level of tariff protection decreases from 23% to 13%), this results in a decrease in the growth rate of foodstuffs production by 10*(-0.7)*(-1.13) ≈ **7.9** p.p. (coefficient of elasticity of

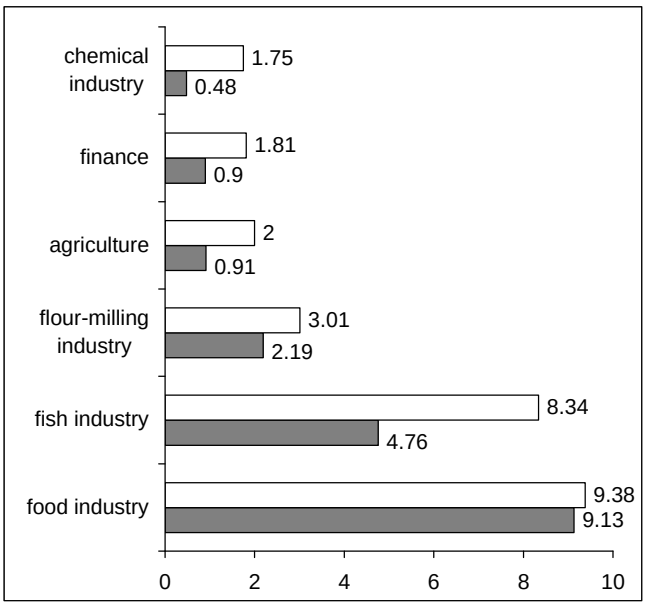
imports to tariff rates is equal to -0.7, and elasticity of output to imports equals -1.13). The similar reduction of rates for the chemicals industry reduces production growth rates by **0.3** p.p. only (-0.21 and -0.16), in machinery building – approximately by **0.5** p.p. (-0.33 and -0.16) and in light industry – by **0.6** p.p. (-0.41 and -0.15).

This figure of a reduction in foodstuffs production by 7.9 p.p. (or by 118.9 bln. Soums, at 2003 prices) reflects the *direct effect* of the growth of competition by foreign producers of foodstuffs in the case of their increased imports in Uzbekistan. However, the foodstuffs industry, using energy and financial resources and processing raw materials and agricultural products, generates demand for products of other sectors that are technologically linked to it in the supply of raw materials and intermediate products. That is why a decrease in the production of foodstuffs will inevitably result in a decrease of production in other sectors that supply their products to this sector. As is shown in Graph 2, if relative measurements are used (p.p. of growth, in Graph 2a), then the biggest losses would be witnessed in: fishery (8.3 p.p.), flour and groats industry (3.0 p.p.), glass and porcelain industry (2.9 p.p.), forestry (2 p.p.) and so on. In absolute terms (bn. soums in Graph 2b), the biggest losses, besides the food industry itself (141 bn. soums) would be witnessed in: agriculture (61 bn. Soums), flour and groats industry (11 bn. soums), gas industry (11 bn. Soums), electricity production (10 bn. Soums), chemicals industry (9 bn. Soums). At the same time, the full impact that will occur after few repetitions of the calculations (associated with production cycles) significantly exceeds the direct impact (after one calculation – Graph 2a), including for the food industry – by 1.19 times, fishery – by 1.8 times, agriculture – by 1.7 times, chemicals industry – by 3.6 times, electricity production – by 5.3 times, gas industry – by 22.1 times and so on. This shows the importance and absolute necessity of including in such calculations the *technological factor,* which determines not only the intensity of inter-sector correlations, but also the efficiency of production.

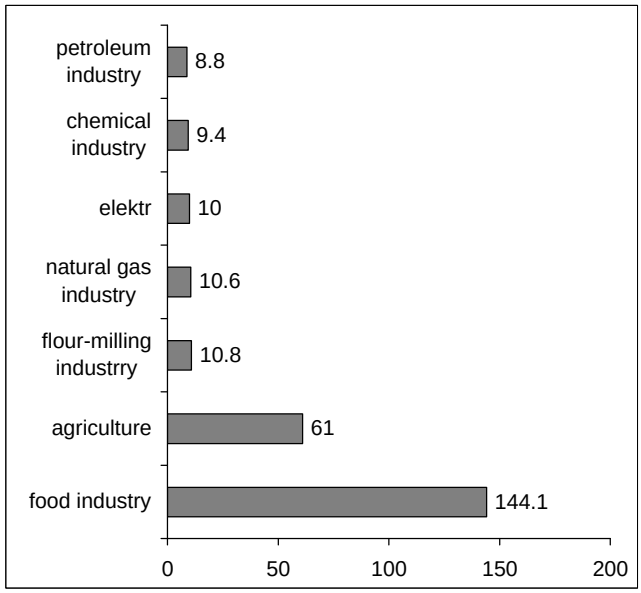
In general, losses of the economy in terms of GDP equal almost 120 bn. soums or 1.3% of its base level. For gross output, losses are even greater and equal nearly 300 bn. soums (in 2003 prices). If this estimation is compared to the initial reduction of production in food industry, which is estimated to be about 120 bn. soums, then one can conclude that *full losses from the reduction of import tariffs for the food industry are 2.5 times larger than direct impacts. This confirms the conclusion on limiting the narrow-sector approach (calculations on certain commodity groups or certain sectors) in the analysis of the consequences of accession to the WTO, since inter-sector and macroeconomic issues are of paramount concern.*

Graph 2. Assessment of losses in production for branches of the manufacturing sector in the case of reduced import tariffs in the food industry by 10 p.p. (from 23% to 13%).

a) Reduction in growth rates (p.p.)



b) Reduction in output volume (bn. soums)



Source: calculations, based on **I-O** model ■ - direct (initial) impact of level of tariff protection in food industry, □ – full impact (includes various technological and production cycles, modeled in the form of interaction procedures for solving appropriate system of linear equations).

The second set of calculations was aimed at determining the sectors most vulnerable to foreign competition, where the fall in production is accompanied by the most significant losses for the whole economy. Those branches and sectors of the economy shall have priority in receiving protection from foreign competition in the initial stage of Uzbekistan's accession to the WTO.

Calculations were conducted in four branches of the manufacturing sector: chemistry, machinery, light, and food industry. According to the experience of developing countries in acceding to the WTO, supplemented by an analysis of the product composition of key types of imported products and those produced in Uzbekistan, those branches are the ones that may bear the most significant losses in the initial stage of adaptation to new import tariff rates.

Analysis of the achieved results show that the same level of reduction of tariff protection, by 10 percentage points, has a significantly different impact on the whole economy. The GDP volume falls by 1.8 bn. soums (in 2003 prices, or by 0.03% of the original level) if a 10 p.p. decrease in tariff rates occurs in the group of "chemical products", and by almost 120 bn. soums (1.3% of GDP in 2003), if such a reduction occurs in the food industry.

An analogous reaction of the economy can be expected in the output indicators of the economy as a whole. At the same time, in all four analyzed sector, the rates of reduction of GDP exceed the rates of reduction in output. Consequently, changes in the sectoral structure of the economy, caused by foreign trade liberalization in the initial stage of acceding to the WTO, will accelerate the raw-materials orientation of the whole economy, since the risks of the most significant losses are characteristic for the manufacturing branches of industry. This conclusion is similar to the result calculated by economists of the World Bank in estimation of Russia's accession to the WTO, based on the **CGE** model (7).

Some negative changes in the structure of the economy are possible, as evidenced by changes in the manufacturing sector's share in GDP, which will fall in all sectors, except for the chemicals industry.

Tax revenue reduction is characteristic for all sectors. However, in the case of some sectors, foreign trade liberalization does not pose significant risks to the budget, since the maximal reduction of budget revenues will not exceed 1.0% of its base level (the reduction of imports tariffs in the food industry), which is explained by the increase in the budget deficit by 0.3% of GDP.

Thus, the most significant macroeconomic losses caused by the growth of foreign competition should be expected from the decrease of tariff protection for the food industry. Consequently, *the most important element of an effective strategy for Uzbekistan's accession to the WTO, is the retention (or moderate reduction) of the level of tariff protection on imports of finished foodstuffs production,* and domestic producers of those products should have the first priority when issues on acceptable levels of concessions are addressed in the process of bringing the national foreign economic legislation in accordance with requirements and terms of the WTO.

The final set of projection calculations was aimed at *studying the macroeconomic consequences of accepting the above-mentioned scenarios of foreign trade liberalization* for certain sectors and the economy as whole. The first of these (annex 1) shows the reaction of the economy to implementing the *scenario of a rapid and radical reduction of import tariffs down to the level which meets the requirements of the WTO* (Scenario 1). The assessments show the *limits of maximal losses* which are possible in the initial stage of Uzbekistan's accession process to the WTO. This is conditioned on the one hand by a maximal reduction of tariff rates down to the required level and on the other hand by the second precondition of Scenario 1, which states that the positive impacts are possible only beyond the initial stage of the accession to the WTO. In other words, Scenario 1 is based on taking into account only the negative impacts of the increase in foreign competition.

According to the results, the radical reduction of import tariffs from the existing 11-12% throughout the economy down to 5% is associated with a fall in GDP of approximately 2.5% and in output – of 2.2%. The structure of the economy will change negatively. The share of the processing sector will decrease by 0.8 p.p. The most significant losses will be witnessed in the food industry (225 bn. soums in output or 15% of the basic value) and agriculture (117 bn. soums, or 13.4%). Almost 60% of total losses throughout the economy will be borne by those two sectors. Significant losses are expected in case of enterprises of light industry (42 bn. Soums), chemicals production (22 bn. soums or a fall in production of 4.2%), flour and groat industry (4.9%) and the glass and porcelain industry (4.7%). Losses in other sectors in the initial stage of adaptation to new levels of tariff protection are less significant.

The level of unemployment will increase significantly (by 130 thousand people). The main share of job-losses is expected in agriculture, food and light industry (up to 84-85% of the total growth of unemployment).

7 The influence of the liberalization of barriers to direct foreign investment in the services sector: the case of Russia's accession to the World Trade Organization. Jasper Jensen, Copenhagen Economics, Thomas Rutherford, University of Colorado and David Tarr, World Bank. 6 June 2004.

Budget losses may reach 60 bn. soums, which is equal to a rise in the budget deficit of 0.6 p.p. Imports will grow significantly, by 0.7 bn. doll. In conditions of this scenario, when exports in relation to the basic level do not change, this will result in a significant increase in the deficit of balance of payments, a reduction of official reserves, an increase in foreign debt and a devaluation of the national currency.

In general, these and other estimations calculated within the framework of Scenario 1 confirm *its unacceptability, and the necessity of requesting a transition period (experience of China), during which import tariff rates for the majority of imported products must be held at the existing level or decreased slowly and slightly.*

This condition is met by **Scenario 2.** According to the estimations obtained, a more moderate reduction of customs duties – by 5 p.p. in chemicals, light and food industries, with a shift of the focus to metallurgy, construction materials and other sectors (a more moderate reduction of tariff protection rates throughout the whole economy – from 12% to 8%), significantly reduces losses for the economy as whole. The decrease in GDP growth rate will not exceed one percentage point (0.8 p.p. against 2.5 p.p. in case of Scenario 1). Significantly less reduction should be expected in certain sectors most vulnerable to foreign competition and sectors that are technologically correlated with them, including the food industry – by 4.7 p.p. (against 15 p.p.), flour-groat industry – by 1.5 p.p. (5 p.p.), chemicals industry – by 1.5 p.p. (4.2 p.p.), and so on.

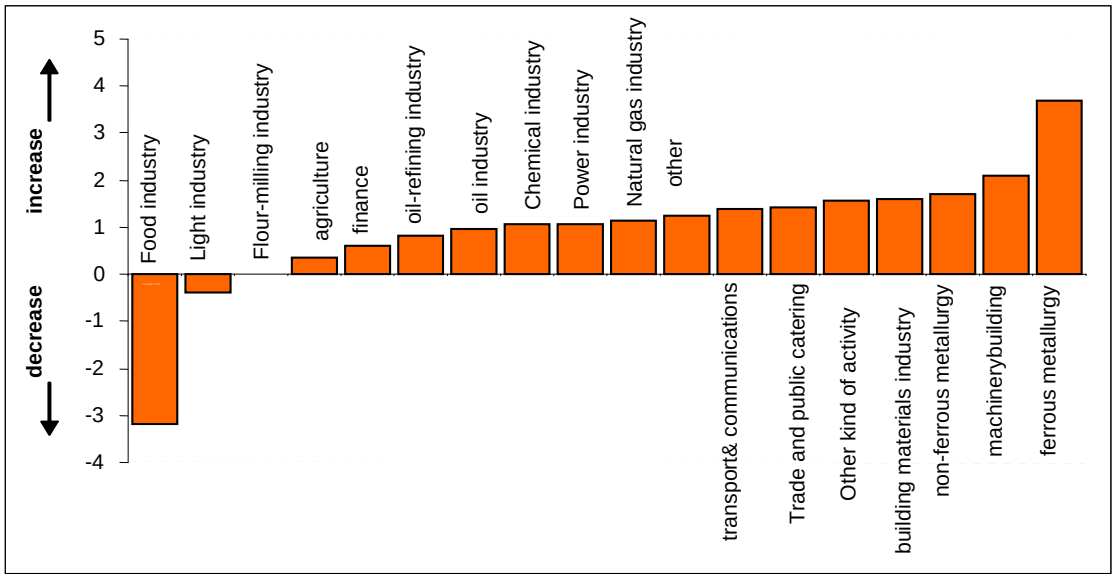
The growth in unemployment levels should be expected to be significantly less (38-40 thousand people against 130-132 thousand people in Scenario 1). These and other estimations lead *to the conclusion that such a scenario of adaptation of the national economy to the requirements of the WTO is acceptable and should be applied to the creation of an effective strategy for Uzbekistan's accession to this organization.*

The above conclusion receives additional support when considering not only the negative, but also the positive affects of foreign trade liberalization, which are summarized in the conditions of **Scenario 3.** According to the results of the econometric analysis, the growth of imports (by 0.7 USD bn. in Scenario 1 and by 0.57 USD bn. in Scenario 2), caused by the reduction of tariff rates, results in the devaluation of the soum, a decrease of the real exchange rate of the soum – and an increase in non-cotton exports. Statistically significant correlations among those indicators, obtained in the process of econometric analysis, allowed corresponding elasticity values to be estimated, which equaled: + (0.6-0.7) between growth rates of imports and growth rates of devaluation of the real conditionally balanced exchange rate of the soum; and +(0.3-1.0, or by +0.65 in average) between non-cotton exports and growth rates of devaluation of the real conditionally balanced exchange rate of the soum. Thus, along with negative consequences for certain producers, the growth of imports will stimulate growth of production in those sectors where the share of non-cotton exports is higher than the average level in the economy.

The use of these results in the program of estimating macro-economic and sector-based consequences of foreign trade liberalization has determined that in conditions of Scenario 3, where both positive and negative effects of foreign trade liberalization are taken into account, the resumption or even some growth of GDP (around 1 p.p., see Table 4) might be expected in the period beyond the initial period of adaptation (half year to a year) to reduced customs tariffs. This is related to the fact that a growth in imports of 18% (Scenario 2) results in a devaluation of the real exchange rate of the soum by approximately 10-12%, and as a result – in the growth of non-cotton exports by 8%. The growth in demand from the foreign sector stimulates the growth of production in the chemicals industry (additional growth of output, conditioned by this effect, will equal to 2.3%), machinery building (2.5%), ferrous and non-ferrous metallurgy (2-4%), electricity production and the food industry (1.6% each). Additional stimulation will be provided as well to other sectors that are technologically correlated to them in supply of their products (agriculture, glass industry, flour-groats, etc.). Additional growth of production in the whole economy will equal about 1.5 p.p.

Summing the positive and negative affects allow the production and sectors of the economy to be assessed according to the various consequences of implementing *Scenario 3* (see Graph 3). As was mentioned above, in the whole economy the situation will improve in practically all macroeconomic indicators already in the medium-term perspective, as compared to the assessments of Scenario 2, and especially Scenario 1 (GDP – growth by 0.8 p.p., output – 0.7 p.p., tax revenues – by 1.1 p.p., etc.). With growth of exports, the deficit of balance of payments will decrease as well. At the same time, in certain sectors in conditions of this more favorable scenario, a decline in production is expected. This applies to food and light industries. However, the value of the decrease in those sectors is expected to be about 1.5 times less than in that of in the previous scenario, and significantly less than in the radical Scenario 1. On the other hand, foreign trade liberalization will allow acceleration in developing sectors that have export potential. Such sectors include machinery building, non-ferrous metallurgy, gas industry, transportation, electricity production and production of construction materials. Those sectors may have additional growth in production within the range from 1 to 4 p.p. Other sectors will either maintain existing dynamics of production or improve them slightly.

Graph 3. Assessment of losses and benefits in dynamics of production in branches of manufacturing sector in Scenario # 3 (change in output, in p.p.)



Source: the authors' calculations based on the developed I-O model

The main conclusion, which follows from these and other results of the study, is that they *confirm the validity of the hypothesis under review on the possibility of a rational strategy for Uzbekistan's accession to the WTO that minimizes risks and expenses in the initial, most difficult stage of adaptation of the national economy to the rules and conditions of the WTO.* At the same time, the issue of foreign trade liberalization itself is so complicated and insufficiently studied in transition economies that the results obtained are just the first approach to real macroeconomic assessments and consequences that should be expected already in the near future. The clarification and development of these results will require the creation of more improved methodic and instrumental means that are based on modern economic theory and oriented for the use of more reliable and better quality statistical data.

Annex 1. Assessment of economy's reaction to Scenario 1

Conditions: 1. Reducing import tariffs:
Chemicals industry – by 18 p.p. of the original level (from 22% to 4%),
Light industry – by 25 p.p. (from 31% to 6%),
Food industry – by 16 p.p. (from 23% to 7%)
Other manufacturing sectors – by 10-15 p.p. (including: in construction materials production from 24% to 4%, agriculture – from 40% to 6%, flour and groats production – from 22% to 5%), which results in **overall reduction throughout the economy from 12% to 5%.**

2. Maintaining the existing tariffs in machinery building and metal refinery (5%),

3. Counting only the negative affects of the growth of foreign competition.

Changes in output indicators, structure of economy and efficiency of used resources		
Indicators and sectors	Bn. Soums	%
I. Macro indicators		
GDP	-220.7	-2.5
Output in the whole economy	-556.1	-2.2
Share of energy uses (p.p.)	0.3	
Share of manufacturing sector (p.p.)	-0.8	
Tax revenues	-58.6	-2.1
Change in the share of taxes in GDP (change in budget deficit, p.p.)	-0.6	
Number of employed (thousand people)	-131.3	-1.7
Total imports, USD bn.	+704.6	+23.3
Including of competing products	+10.3	
II. Change of output by sectors:		
a) sectors with most significant decrease in production, in bn. soums		
Food industry	-225.8	
Agriculture	-117.5	
Light industry	-42.1	
Chemicals industry	-22.3	
Gas industry	-20.6	
Electricity production	-20.3	
Flour-groats industry	-17.6	
Oil refinery industry	-16.6	
b) sectors with most significant decrease in production, in p.p. of growth		
Food industry		-15.0
Fishery		-13.4
Flour-groats industry		-4.9
Glass and porcelain industry		-4.7
Chemicals industry		-4.2
Forestry, paper industry		-3.6
Finance, credit, insurance and pensions		-3.2
Agriculture		-3.0

Source: the authors' calculations based on the developed I-O model

2. The accession of Uzbekistan to the world trade organization: challenges and opportunities for the food processing industry

The present article is based on the research paper "Uzbekistan's Accession to the World Trade Organization: Challenges and Opportunities for the Food Processing Industry" conducted by the Economics Department of the National University of Uzbekistan with the financial support of the USAID's Economic Policy Reform Project in Uzbekistan. The authors of the research work are A. V. Vakhabov – professor, doctor of economic science (head of the research team), N. G. Muminov – candidate of economic science, F. A. Djurakhanov and A. A. Karimov. The coordinator of the research work was K. T. Akhmetov. The complete version of the present research is available at the project site: www.bearingpoint.uz

Introduction

Uzbekistan possesses huge resources of raw materials for the development of food processing industry and great potential for agricultural produce processing. The natural and climatic conditions of the country provide ample opportunities for the development of fruit and vegetable production (*for example: the average sugar content of grapes worldwide amounts to 12%, but in Uzbekistan it is 18%).* Further integration of the economy of Uzbekistan into the world economy and its accession to the World Trade Organization requires in-depth study of the methodical and practical issues of the country's strategy for achieving a smooth accession to the WTO, taking into consideration world experience. The main goal of this study is to provide a complex analysis of the qualitative and quantitative consequences for the food processing industry resulting from the accession of Uzbekistan to the WTO.

Despite the decrease in the growth rate of production, the food industry still plays a key role in the economy of the country. According to our calculations for the period of 2000-2004, the weight of the food industry in the structure of GDP, gross industrial output, and the total volume of exported and imported produce has decreased. For example, if the gross output of the food industry in 2000 amounted to UZS 250.3 billion, or 1.9 % of the country's GDP, employing 117.4 thousand people, then in 2004 the gross output of food processing industry reached UZS 774.9 billion or 1.6% of GDP, and employed 95.6 thousand people (Table 1.). At the same time, the number of economic entities operating in the food industry is growing steadily. In 2002 there were 3352 enterprises operating in the food industry, and in 2004 this indicator reached 3646 units.

Table 1. Status, Structure and Dynamics of Food Industry Development

The share of the food industry in the structure of GDP, industry, employment and commodity composition of exports and imports of Uzbekistan (in %)

	2000	2001	2002	2003	2004
GDP	1.9	1.8	2.1	1.9	1.6
Industry	13.3	12.6	14.3	11.7	9.6
Employment	1.3	1.3	1.2	1.1	1
Exports	5.4	3.9	3.5	2.7	3.8
Imports	12.3	10.8	12.5	9.9	6.8

Source: The State Statistics Committee of Uzbekistan.

From 2000-2004 the weight of the food processing industry in the total structure of industrial enterprises increased from 24.9% in 2000 to 25.9% in 2004 (Table 3).

Table 2. Share of Enterprises of Industries of the Republic of Uzbekistan (in % to total)

	2000	2001	2002	2003	2004
Industry, Total	100	100	100	100	100
Power	0.5	0.6	0.5	0.5	0.4
Fuel	0.2	0.2	0.3	0.3	0.3
Metallurgy	0.6	0.7	0.7	0.6	0.6
Mechanical Engineering	24.2	24.2	23.3	22.6	22.3
Light	12.6	13.7	15.5	16.1	15.6
Food Processing	24.9	24.1	24.8	24.5	25.9
Chemical and Petrochemical	2.7	3	3	3.4	3.9
Building Materials	14.9	14.6	19.3	13.6	13.1
Other	19.4	18.9	12.6	18.4	17.9

Source: The State Statistics Committee of Uzbekistan.

One of the main indicators of food processing enterprises' successful operation is capacity utilization ratio. In 2004 the capacity utilization at the following enterprises of the food processing industry were as follows: non-alcoholic beverages – 16%, macaroni – 35,6%, grape wines – 37,7%, margarine – 38,2%, processed fruits

and vegetables – 40,2% (table 3). This indicates the existence of a large growth potential of the food processing industry in future.

Table 3. Capacity Utilization at food processing enterprises (%)

	1995	2004
Processed fruits and vegetables	58,3	40,2
Confectionary	16,1	50,3
Macaroni	20,3	35,6
Grape wines	53,8	37,7
Margarine	47,3	38,2
Vodka and alcoholic beverages	48,9	76,8
Non-alcoholic beverages	16,2	16,0
Flour	59,1	53,5

* Source: The State Statistics Committee of Uzbekistan

Dynamics of Domestic Production, Imports and Exports of Food Processing Industry Commodities. An analysis of the physical volume of food industry production showed that there was a slowing down in some branches of production (data for the period of 2000-2004). The greatest decrease in production volume occurred in canned fish production (decrease of 73% versus the physical volume of production in 2000), cheese, including brynza (43%), dried, non-fat milk (51%), canned fruit (56%), fruit juices (45%), vegetable juices (95%), dried fruit (54%), cereals (74%), rice (75%), macaroni (pasta) (40%), ethyl alcohol (58%), cognac (58%), champagne (50%), nonalcoholic drinks (74%) and soda waters (54%). These decreases can also be explained by the fact that some of the abovementioned commodities are produced by individual entrepreneurs, who do not submit production data to the statistics body. Hence, the official data can exclude the data on production growth of some individual producers.

However, there were steady growth trends in certain branches of production of the food industry. For example, sugar production in 2004 increased 19 times as compared to the physical volume of production in 2000. There was also a increase in the physical volume of production of meat and meat products (139% over the year 2000), dried vegetables (198%), chocolate and chocolate products (164%), mayonnaise (257%), beer (159%), mineral water (140%), natural tea (6.4 times) and packed fruit juices (Tetrapak) (168%). The production growth of these commodities was provided by the growth of external demand for these products (juices, dried vegetables, mineral water), as well as by the high level of protection against imported commodities in the form of customs duties and excise taxes (meat and meat products, mayonnaise, beer, mineral water).
Analysis of the dynamics of the import and export of food products showed that during the period of 2000-2004, the import volume of food products surpassed the export volume. At the same time, the worst negative trade balance was registered in 2002, when it reached USD 174 million. Furthermore, the volume of the foreign trade balance has tendency to decrease. In 2004 the total export volume of food products amounted to USD 193 million, and the total import volume was set at the level of USD 260 million.

Sectoral analysis

Uzbekistan's accession to the World Trade Organization will be accompanied by a decrease of tariff barriers and a gradual elimination of non-tariff barriers, which is the condition of the provision of access to local markets for foreign producers. Real profits for producers in Uzbekistan will depend on the price and quality competition of their products.

Analysis of Price Competitiveness: As is well known, the price factor of export goods is one of the most important conditions for the conquest of international markets. Together with quality, it determines the success on the international market, as well as the further conquest of new markets and customers. For the sake of research on the price competitiveness of the agrarian and food products of Uzbekistan, we compared the prices of several local products to the prices set by the international markets. For this analysis the U.N. database on food and agriculture was used (FAO). An analysis of the competitive advantages of the agrarian produce and food products of Uzbekistan showed the following (table 4):

Group I. Commodities with High Competitive Advantages. The produce category "fruit and vegetables" from Uzbekistan stands out for its high competitiveness, which is confirmed by the low internal-external price ratio, formed on the international market. For example, the export price of one ton of raisins from Uzbekistan is only 410, and this is the lowest price indicator among the top twenty raisin exporters in the world. The export prices of one ton of raisins from other countries were set at the following level: Iran – USD 618, Turkey – USD 918, Holland – USD 1205, USA – USD1414 and France – USD 2000.

Our price analysis also states that grapes and apricots have the same competitive advantages, with calculated ratios of 0.60 and 0.51 respectively. Thus, one ton of apricots are exported from Uzbekistan at the price of USD 701, while the export prices for apricots in other countries are the following: Kazakhstan – USD 401, Tajikistan – USD 532, Holland – USD 1179, Austria – USD 1871 and UK – USD 3885. Grapes are also exported from Uzbekistan at a more competitive price – USD 631 per ton, while the export prices for grapes from other countries are the following: Turkey – USD 517, Tajikistan – USD 529, Greece – USD 1365, Germany – USD 1735 and UK – USD 2126.

Table4. Comparative Analysis of the Agricultural Production of Uzbekistan

№	Commodity Position	Internal –External Price Ratio		Position of Uzbekistan among 20 Top Global Exporters*
		Foreign Countries	CIS Countries	
	Commodity group I			
1	Raisins	0.41	0.99	1
2	Fresh vegetables	0.41	-	2
3	Tobacco leaf	0.17	1.06	2
4	Nonalcoholic drinks	0.50	1.12	3
5	Milk (full cream)	0.52	1.18	3
6	Grapes	0.60	1.19	3
7	Cottonseed oil	0.83	1.09	4
8	Apricots	0.51	1.50	4
	Commodity group II			
9	Fruit juices	0.88	0.90	5
10	Alcoholic drinks	0.48	0.90	5
11	Ice cream	0.67	1.69	5
12	Beer	0.63	1.67	6
13	Flour (wheat)	0.88	1.37	6
	Commodity group III			
14	Chocolate goods	0.92	1.80	9
15	Beef	0.93	2.01	10
16	Rice	2.29	-	16
17	Poultry	1.80	1.43	17

*This indicator represents the ordinal place of Uzbekistan among twenty top producers-exporters, ranked in accordance with their price indicators. (It does not mean that Uzbekistan is one of the twenty top exporters of the specified produce). The closer the ordinal number to 1, the lower the price of the commodity produced in Uzbekistan compared to the other twenty producers and the more favorable the competitive advantages of the country on the international food market.

Among twenty top global exporters the cost of fresh vegetables from Uzbekistan is one of the lowest (USD 310 per ton), being above only Malaysia (USD 201 per ton). The export cost of fresh vegetables from Thailand is USD 1203 per ton, Bangladesh. – USD 1523, UK – USD 763 and Germany – USD 1223.

The countries of Central Asia have significant competitive advantages in raw tobacco production. For example, the export cost of 1 ton of tobacco from Tajikistan is USD 468, and Kyrgyzstan – USD 873. The cost of 1 ton of tobacco leaves exported from Uzbekistan is USD 711, while the export price of this product from the USA is USD 6631, Greece – USD 3834 and Germany – USD 3657. In accordance with the price factor, Uzbekistan comes in second place after Tajikistan among twenty top global exporters.

According to the purchasing prices of the main local producers of dairy products, the price for milk in Uzbekistan is USD 220 per ton. Among CIS countries, Belarus and Kyrgyzstan have the lowest cost for milk, which they export at the price of USD 177 and USD 196 per ton respectively. The cost of 1 ton of whole milk in EC countries is as follows: Holland – USD 389, Austria – USD 415, Germany – USD 421 and Denmark – USD 567. The highest export costs for 1 ton of milk are in China and Thailand: USD 673 and USD 830 per ton respectively.

Uzbekistan is one of the most competitive producers of cottonseed oil; the export cost of 1 ton of this oil is USD 500. Among the other CIS countries, Azerbaijan and Kazakhstan are the most competitive oil producers; they export cottonseed oil at the price of USD 391 and USD 531 per ton respectively. Singapore and South Korea export cottonseed oil at the price of USD 917 and USD 1176 respectively, which are the highest indicators among twenty top global exporters of the given product.

The analysis of the market of nonalcoholic drinks includes local soft drinks of different producers as well as producers of mineral water. Thus, as of 1 September 2005, 1 ton of soft drinks in Uzbekistan cost USD 325

(*author's calculations*). Other CIS countries had the following prices for 1 ton of soft drinks: Kyrgyzstan – USD 252, Kazakhstan – USD 254, Russia – USD 361. The highest price for 1 ton of soft drinks was in the UK at USD 717.

Based on the preliminary results of the analysis and in order to obtain access to the markets of the developed and developing countries, it is advisable, during negotiations on accession to the WTO, to accept a decrease in import duties and an adjustment of excise taxes in accordance with the rates of local producers for the following groups of commodities: ready dairy products (yogurt, kefir, cheese, curds), apples, pears, quince, vegetables, some edible roots, edible fruit and nuts, melon rinds, as well as products of processed vegetables, fruits, nuts and other parts of plants; water, including natural or artificial, mineral, carbonated, with or without additives, cottonseed oil and its derivatives.

Group II. Commodities with Specific Competitive Advantages. The group of commodities with specific competitive advantages consists of: fruit juices, alcoholic drinks, ice cream, beer and wheat flour.

The geographic position of the Republic of Uzbekistan, as well as its natural climate, imparts a particular flavor to all fruit and fruit products. Thus, Uzbekistan ranks in 5th place among the twenty top global exporters of fruit juices, ranked by price indicator. The price of one ton of fruit juice on the internal market is USD 800. Tajikistan produces the cheapest fruit juice, which is exported at the price of USD 207 per ton. The highest export cost for fruit juice is in European countries: particularly in Denmark, Holland and Austria, where the export costs of one ton of fruit juice are USD 2188, USD 2315 and USD 2930 respectively.

Having studied the list and prices of alcohol drinks sold wholesale in Uzbekistan, we calculated the wholesale cost of one ton of local alcoholic production, which is USD 325. At the same time, the export cost of alcoholic beverages in Kyrgyzstan and Kazakhstan are USD 252 and USD 254 per ton respectively, rendering them the cheapest producers of this product. The export cost of alcoholic production of Russia is USD 361 per ton. The most expensive producers of alcoholic beverages are the UK, Slovenia, Ireland and Thailand; these countries export this produce at the price of USD 717, USD 667, USD 665 and USD 664 per ton respectively.

Ice cream of local production is also competitive by price indicator with that produced in developed countries. Thus, one ton of locally made ice-cream is sold on the internal market at the price of USD 1600 (*author's calculations*). Poland, Ireland and Hungary export their ice cream at the price of USD 1772, USD 1955 and USD 2032 per ton respectively. Producers from Kyrgyzstan and Russia export their ice cream at the price of USD 868 and USD 1020 per ton respectively.

Analysis of the prices for beer in other countries revealed a relatively high cost for beer on the internal market of Uzbekistan, at USD 520 per ton. The cost of one ton of beer produced in CIS countries and then exported to other countries in Russia is USD 283, Ukraine – USD 304, Kazakhstan – USD 340. Other effective exporters are the Czech Republic (export cost of one ton of beer is USD 449), China (USD 503), and Germany (USD 777).

When considering accession to the WTO it is advisable to decrease import duties and excise taxes for the abovementioned products within 2-3 years to enable local producers to adapt themselves to the higher level of competition. In the short-term period, a certain decline of local production of these products, as well as an increase in unemployment, is expected. However, in the medium-term period, the increase in the intensity of competition will provide positive results (decrease in price and increase in quality).

Group III. Uncompetitive Commodities. The cost of beef in Uzbekistan is USD 2800 per ton. According to this indicator Uzbekistan ranks in 10th place among the top global exporters of beef, ranked by price indicator. Ukraine and Belarus export their beef at the price of USD 1360 and USD 1429 per ton respectively. The highest export cost for beef is in the EC countries Belgium and Holland, where the price for one ton of meat is USD 3853 and USD 4382 respectively. The government of Uzbekistan is taking appropriate steps for the development of livestock breeding in Uzbekistan, which should help in the future to decrease the price of meat in the country.

Poultry produced in Uzbekistan is uncompetitive by price indicator. One ton of local poultry meat is sold in Uzbekistan at the price of USD 1900 (*author's calculations*). With regards to the price factor, Uzbekistan ranks in 17th place among the top twenty global exporters of poultry. The USA and Argentina produce the cheapest poultry, which they export at the price of USD 620 and USD 803 per ton respectively. Among CIS countries, the most effective producer of poultry is Belarus, which exports poultry at the price of USD 1327 per ton.

The price for rice grown in Uzbekistan is not competitive by price factor with world prices. The wholesale price of one ton of rice on the internal market of Uzbekistan is USD 700. The most effective producers of rice are such countries as Guyana (with an export price for one ton of rice of USD 221), USA (USD 242), Surinam (USD 250) and China (USD 256).

Chocolate and chocolate goods of local production are also not competitive by price factor. One ton of local chocolate goods cost USD 3000 on the internal market. The export cost of one ton of chocolate from the Ukraine is USD 1000.

The third group of commodities is the most vulnerable to trade liberalization and the elimination of customs duties and other non-tariff barriers. Therefore, the elimination of trade barriers for import products of this group is to be phased in over a longer period (4-5 years). This requires a more thorough approach to this group of commodities during the negotiations on accession to the WTO.

Quantitative assessments of the consequences of Uzbekistan's accession to the World Trade Organization for the food processing industry

In this section the researchers of the scientific study attempted to make quantitative assessments of the effect of Uzbekistan's accession to the World Trade Organization on the food industry and processing of agricultural products. Quantitative assessments refer to possible changes in the dynamics of the revenue portion of the state budget and non-budgetary funds caused by the increase/decrease of local production and by changes in the dynamics of imports and exports of foodstuffs and agricultural products.

Given that it is impossible to extrapolate the share of tax payments of economic entities in the foodstuffs and agricultural processing industries in the structure of state revenues in the state budget, we used another method of calculating tax payments. For this purpose we used a statistical database on natural indicators of foodstuffs production in Uzbekistan for the period of 2000-2004, which was provided by the State Statistics Committee of the Republic of Uzbekistan. We also used official statistics in USD for exports and imports of foodstuffs for the period of 2000-2004. Since production volumes and monetary volumes of exports and imports did not have constant dynamics, we used average values (the calculated median of the indicators). Using the national indicators of production volumes, we gathered data on prices for foodstuffs in the domestic market. Here, we used price lists and factory prices of major producers of foodstuffs (for example, "Sharobmarkazsavdo", JSC "Uzspirit", Tashkent oil and fat company, and others) as well as medium producers ("Tegen", JV "Greenworld", and others). With official data in hand on production volumes of foodstuffs and average prices, we built a table with calculated profit from sales of products. Using the share of small enterprises in the production of foodstuffs *(36.4%, Uzbekistan Economy, 2005),* we calculated VAT and the single tax, which is paid from the indicated profit on sales as well as payments to the road fund. We also calculated revenues on excise taxes in accordance with excise tax rates, approved in accordance with the Law of the Republic of Uzbekistan "On Changes in the Tax Code of the Republic of Uzbekistan" from December 1, 2005. Another category of tax payments – corporate income tax – was calculated taking into account the average profitability of companies in the food industry *(22%, according to data of Industry in the Republic of Uzbekistan in 2003, State Statistics Committee of Uzbekistan)* and the share of small enterprises in the total structure of production of foodstuffs (36.4%).

Using the database on imports of foodstuffs, we also calculated revenues to the state budget through such means as excise taxes, customs duties, and VAT. Here, since the dynamics of export and import volumes was prone to fluctuations, we converted price indicators into average values (arithmetic average, since fluctuations were not large). Calculations on customs duties were conducted taking into account current rates of customs duties. All of those calculations allowed the approximate volume of revenues into the state budget to be identified. Having built such a database, we were able to create models of various scenarios of domestic production and trade suppliers (imports and exports) of imports.

Simultaneously, we divided goods into three groups (domestic production, exports, and imports) according to vulnerability to an increase in imports (decrease in vulnerable goods) and to provision of access to international markets (widening exports of competitive goods). In calculations we used three scenarios of possible developments:

The results of the modeling showed the following: in the optimistic scenario, which is based on achieving more favorable conditions as a result of the negotiations process in acceding to the WTO, one may expect an increase of revenues into the state budget by 132 bln. soums. Mainly, an increase in tax payments will be related to the expansion of domestic production and exports as a result of gained access to foreign markets, as well as expanded imports into the domestic market. In the inertial scenario, which is based on more standard terms of accession (short transition period for reducing trade barriers), revenues in the state budget may also increase by 72 bln. soums. Such an increase will be related to expanded domestic production, an

expanded taxable base and the inflow of tax payments as a result of increased imports. In the pessimistic scenario, which is based on less favorable terms of accession to the WTO (rapid reduction of trade barriers, no transition period for domestic producers, impossibility for domestic enterprises to rapidly adapt to terms of tough competition from imports, rapid expansion of imports) one may expect a decrease in the inflow of revenues into the state budget. In such a scenario, revenues of the state budget from the food industry may decrease by 83,6 bln. soums. All of these calculations indicate that a possible decrease in the volume of production and the results of the impact on revenues of the state budget are insignificant, taking into account the assumptions in the table above.

Table 5. Modeling the dynamics of production and trade flows of foodstuffs in the Republic of Uzbekistan, (%)

		Optimistic scenario	Inertial scenario	Pessimistic scenario
1	Domestic production			
2	Competitive goods	+20%	+10%	-20%
3	Goods with certain competitive advantage	+10%	+5%	-10%
4	Non-competitive goods	+0%	-10%	-20%
5	Imports			
6	Competitive goods	0%	+5%	+8%
7	Goods with certain competitive advantage	+5%	+10%	+15%
	Non-competitive goods	+10%	+15%	+25%

Conclusions and recommendations

1. The given study has revealed that the export structure of agricultural and food production has been shaped in accordance with the competitive advantages based on the favorable geographic position and climatic conditions of Uzbekistan. At the same time, the major exports of food products from Uzbekistan consist of labor-intensive produce such as onions, grapes, tomato paste, some fruit and vegetables, wheat, flour and raw tobacco. Uzbekistan mainly imports capital-intensive products with high added value, such as processed meat products, including sausages, fish products, dairy products including butter, flour and vegetable oil (not cottonseed oil) and margarine. For the purpose of further increasing the competitiveness of this industry it is necessary to transfer to the production and export of products with high added value by: (i) the application of high technology and the improvement of the quality control system; (ii) the development and design of products which take into account the preferences of customers on the world market.
2. The given study has revealed three groups of products classified by their vulnerability to trade liberalization. It is recommended that the following schedule for the decrease of customs duties and excise taxes during the period of accession to WTO be adopted, to be accompanied by a decrease in tariff barriers:

Table 6 Schedule for Reduction of Customs Duties

Denomination of Commodity	1st year	2nd year	3rd year	4th year	5th year	General Decrease
1st group commodities	100%*					100%
2nd group commodities	30%	30%	40%			100%
3rd group commodities	10%	15%	25%	25%	25%	100%

*% of the fixed rate.

3. The inefficient system of gathering agricultural products from households and farms leads to a certain loss of such produce. This requires that agricultural enterprises and households be encouraged to improve the process of collection. It is worth extending to other types of products the right of processing industries to pay private households in cash for whole milk.
4. *The absence of any direct connections between scientific-research institutions, farms and representatives of the food industry leads to the lack of transfer of new technologies, to purely scientific research of an academic nature (not applied and not commercial), to the lack of participation of the representatives of the real sector of the economy in this research and to the waste of resources.* This requires the creation of certain mechanisms for the quick transfer of new technologies to the regions via an extensive network of research institutions with a central scientific-research institute at the national level and subsidiaries with test centers and laboratories all over the country.
5. The application of state-of-the-art capabilities of biotechnology in Uzbekistan has great potential and should be encouraged among enterprises.
6. Foreign trade liberalization in the area of foodstuffs will not bring about large reduction of tax revenues under optimistic scenario.
7. In the long term, the most effective measures of economic policy which can improve the food security of the country and provide food sufficiency in the country must be investments in agricultural production in general and in new scientific developments in particular.

3. Developing a Methodology to Calculate an Index of Economic Reforms.

The present article has been prepared on the basis of the study "Development of a Methodology to Calculate the Economic Reforms Progress Index," conducted by the Center of Investment and Financial Analysts with the financial support of the USAID's Economic Policy Reform Project in Uzbekistan. The authors of the given paper are A. Grigoryeva, V. Ivonin, and D.Trostyanskiy. The group of authors thanks employees of the USAID's Economic Policy Reform Project in Uzbekistan for developing an idea of composing such an index and providing extensive materials on the foreign experience of building various economic indexes. The coordinator of the research work is K.T. Akhmedov.

A certain historical period has passed since the start of the reform process in the newly independent states. And that is why it is natural that a number of research centers and individual foreign scientists have been attempting to evaluate the process of economic transformation. Evaluation studies are being conducted on the basis of various theoretical postulates and instruments that include statistical, mathematical or combined methods. The index method, because of its universality, is quite compatible with techniques of evaluation. We would like to emphasize that we believe that an index of economic reforms can be used to: (i) identify possible obstacles in the process of reforms; (ii) monitor the process of individual stages of reform on the national level as well as broken down by region, and identify the factors that reduce the impact of reforms for administrative decision-making purposes.

Evaluation

Experience with economic transformations indicates that the process of market transformation develops, at a minimum, according to two schemes: the bourgeois model of the liberal economy, and the model of market socialism. Of course, one should not exclude the model of the authoritarian market, a concept which is practically not in use as a scientific term.

The second well-known mistake is based on the idea that economic reforms of a liberal type should develop identically, and, to a large extent, recall the East-European or Russian examples. However, Uzbekistan's experience, like the experience of all other CIS countries, testifies that, although ongoing reforms have similar forms of implementation based on a number of important signs (level of privatization of the economy, application of state regulation and social guarantees for the population and others), they nonetheless have important significant differences in the content of measures applied.

Among determining factors in the formation of models of economic reforms which have an impact on effectiveness and have been implemented in some countries, the following factors are particularly important:

- Territorial identification and demography (small, medium and large states, national composition and population) – the scale of an economy, undergoing reforms;
- Type of reforms – bourgeois-liberal, authoritarian, market socialism;
- Starting conditions of reforms – with enough resource potential and institutions of market regulation or without those factors (or having some of them);(8).
- Method of conducting reforms – radical-liberal (shock therapy) or evolutionary (gradualism);
- Level of state regulation of the market – minimal, significant or dominant;
- Historical characteristics – belonging to European or Asian civilization, availability or absence of long-term experience of independent statehood, level of orientation to other countries, attitude towards processes of integration and globalization; mentality of the population, and so on.

Uzbekistan's model is identified as its "own way of renewal and progress", although it does not have a clear classification so far (some scientists refer to it as the Central Asian type of liberal model of a gradualist type, while Korean and Japanese economists refer to it as the Chinese model of market socialism).

It should be noted that a number of scientists are quite skeptical of evaluating the reform models of certain countries, calling it a method of "trial and error". Many schemes of transformation were fully determined by the proposals of leaders of ruling parties (as ideologists of one or another type of reforms). That is why it is clear that the evaluation component of the effectiveness of economic transformations remains rather problematic. A number of scientists tend to identify it based on the level of impact on the current social life of a country, while others use exclusively quantitative parameters, such as growth rates of key macroeconomic parameters. Still others base their assessment on the current and prospective characteristics of the quality of life…

In a number of studies, the effectiveness of reforms is based on references to the creation of the basics of a market infrastructure – a multi-structure economy with market mechanisms in its various sectors. At the

8 V. Popov. Shock Therapy versus Gradualism: The End of the Discussion /http://www.ieras.ru/report

same time, practically everywhere researchers bypass the issue of to what extent market self-regulation mechanisms secure balance and increase the effectiveness of an economy in current conditions and in comparison with the period before reforms. Dodging these questions, they evaluate the effectiveness and development of the private sector (the expansion of which is presumed to help in overcoming a long economic crisis and in furthering economic growth). At the same time, they forget that one of the priority tasks is to develop manufacturing.

Evaluation criteria of the effectiveness of ongoing market reforms include both quantitative macroeconomic indicators of dynamics as well as qualitative indicators (subjective indicators based on the results of sociological studies) of achieved results, which may be unified in an aggregate form or presented as a system of indicators.

Lists of quantitative indicators often differ, but the following are used in the most compact alternative: indicators of population dynamics, dynamics of production volumes of goods and services, level of dynamics of the population's real income, employment and inflation. This minimal set is usually supplemented by indicators of the financial condition of the economy (balance of the state budget and its share in GDP, indebtedness, profitability and efficiency of enterprises), stability (of purchasing power) of national currencies in the domestic market and changes in currency exchange rates in foreign economic operations.

The majority of foreign researchers use the method of dynamic comparison of a series of indicators, mainly of a macroeconomic character, to evaluate the effectiveness of ongoing economic reforms. Such an approach is totally logical; however we believe that here one should differentiate between shortened and expanded notations. By comparing various countries, even grouping them, one cannot indicate today's priorities or the urgency of implementing certain directions of economic modernization. According to J. Stiglitz "ten years since the start of transformation processes in Eastern Europe and the former Soviet republics and twenty years since the start of those processes in China, the picture is rather ambiguous". Each of those countries has its own history and its own spiritual and material capabilities.

Taking into account the fact that the goal of economic reforms is development and the launch of a new trajectory of the functioning of society provided by these transformations, we assume that evaluation criteria of efficiency should be, above all, in the form of parameters for achieving the priorities of a particular stage.

The index method as an evaluation instrument

In overall the index should be constructed following steps below. The above-stated theoretical elaborations lead to the following conclusions:
1. The index method, formalized in the form of a compound index, can be used in the evaluation of the efficiency of stages of reform, since it allows the achievements of particular priorities to be analyzed in the context of considering both subjective and objective components of transition processes.
2. The formation of compound indexes can be productive enough, under conditions of the decomposition of efficiency of a certain stage of economic reform and a high level of sociological instruments. The principal position in building the index was that the index must: reflect correlation among major factors in forming the final results of the stage under review, comprehensively and clearly reflect the process of reforms in a stage, make it possible to monitor factors that affect the efficiency of reforms, serve as an analytical tool for administrational decision-making, and be built on available empirical material.

A compound index in the present study foresees the unification of objective and subjective indicators for the evaluation of economic development, and is an expression of an heuristic approach to the evaluation of economic phenomenon.

Objective indicators include indicators of official statistics, which are systemized by major blocks of components of economic policy based on the analysis of a possible base of indicators that reflect the meaning of a particular stage of economic reform. Thus, such a block may include: macroeconomic policy, institutional transformations, structure-investment policy, foreign economic relations, population welfare and the labor market, social policy and state administration. Subjective (survey) indicators are grouped in a similar way, according to the methodic approach for constructing them, which is well-known in sociological research. Such indexes use factors that usually are not detected by official evaluation instruments. It should be noted that the main problem in the present sample is the proof of their effect on achieving the goals of the stage being evaluated.

The issue of proportionality of various indicators is solved trivially, with a weighted ranking of a quantitative indicator, since interim qualitative indexes (formed on the same blocks of economic policy) are usually expressed by the same ranking form and dimension. Usually, the above-mentioned methods are used in qualimetrics.

Other qualitative indexes (survey indicators) are formed on the basis of sociological studies and in essence conclude each block of indicators of official statistics. They help in introducing the factor of public opinion and in evaluating, according to statistical parameters, the development of the corresponding process of reforms by the public or by a group of highly qualified experts.

In overall the calculation of the compound index should be carried out following the steps below:

Step 1. A sample of quantitative (objective) indicators of a stage is selected on the basis of the context of reform priorities and their forming factors, as well as the possibility of obtaining official information.

Step 2. Interim statistical indexes for a particular priority of reforms are additionally evaluated by experts using a certain scale, depending on the given optimal values for them. Then, they are integrated into separate block indexes as an arithmetically average value.
Step 3. As for the qualitative criteria of economic reforms, here, as mentioned above, a system of indexes, similar to the statistical system of indexes, is needed, including both block and system indexes. Each of them is developed from the list of qualitative indexes, based on the priorities of the stage being evaluated. Any index is calculated on the basis of a survey of a sample of respondents, who feel economic changes more strongly and can clearly express their own ideas on ongoing changes.
Step 4. Qualitative indexes are integrated into separate block indexes in terms of their average arithmetic values.
Step 5. A compound index of economic reforms is calculated on a certain stage of reforms in terms of the average arithmetic sum of the block of quantitative and qualitative indexes.

In conclusion we would like to note that developing a methodology is just the beginning stage of the work, the result of which should be a method of calculating an index of economic reforms. The authors are grateful to scientists and experts for their constructive recommendations on the issue.

ANNOUNCEMENT

Attention all authors wishing to publish analytical articles!

The quarterly review Uzbekistan Economy is accepting analytical articles on the following topics:

- Macroeconomic policy and economic growth;
- Public finance;
- Structural-investment policy;
- Institutional and market reforms;
- Monetary policy and the banking sector;
- Foreign trade and enterprises with foreign investments;
- Population welfare and the labor market;
- Socio-economic development in the regions.

Articles published in the quarterly review Uzbekistan Economy are aimed at a wide range of readers, including government officials, scientists, managers of enterprises and organizations, specialists, foreign specialists, entrepreneurs, students and others. Submitted articles will be reviewed by the Editorial Board, which consists of representatives of the Center for Social and Economic Research as well as consultants from the USAIDs' Economic Policy Reforms Project in Uzbekistan. Selection criteria consist of the following components:

– Relevancy of the topic to events that took place within the previous half year;
– Analysis and disclosure of disproportions or imbalances;
– Justified means of addressing the disproportions and imbalances revealed;
– No more than 7 pages in size (according to the format in which Uzbekistan Economy is published).

Technical parameters of selection: Page layout (margins): upper – 2 cm; lower – 2 cm; left – 2 cm; right – 2 cm.

Text format: Arial 10; interval between lines – single; without space on the right; blank line between paragraphs; format Microsoft Word.

Tables and graphs: Arial 8; interval between lines – single; graphs and diagrams – two-dimensional; format Microsoft Excel.

Stylistics: names of normative and legal documents, referred to in articles, shall be cited in original language.

Submit all articles that comply with the above-mentioned criteria to the following addresses: komilahmetov@bearingpoint.uz or mirfozil@bearingpoint.uz. For any organizational and technical questions, please contact Komil Akhmetov or Mirfozil Mirzakhmedov at: 152-14-60 or 152-54-14.