

# **“UZBEKISTAN ECONOMY”**

**Statistical and Analytical  
Review for the January – June, 2006**

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## Introduction

The information and analytical review Uzbekistan Economy for January-June, 2006 presents dynamics, trends and specifics of progress in market reform, as well as for the macroeconomic, reproductional, institutional, structural, foreign trade, social and territorial transformations in the Uzbekistan economy.

### Macroeconomics and Economic Growth

In the first half of 2006, the GDP growth rate was 6.6% as opposed to 3.6% in the first quarter of 2006. Major growth factors included increased growth rates of industrial output and retail goods turnover. The amount of capital investment over the January-June 2006 period reached UZS 1624.6 billion and increased by 6.9% versus 5.4% in the first half of 2005. Equity of enterprises remained the main source of capital investment. The overall increase of prices in the consumer sector over the first half of 2006 was 3.5%. Cost inflation and the growth of the money supply had the greatest impact on inflation, at 72.6% and 20.2% respectively. In comparison to the first half of 2005, the dynamics of the key macroeconomic indicators indicated a reinforcement of the positive results achieved earlier, and in selected areas (for instance, growth of investment activity) they demonstrated further improvement.

### Public Finance

Over the first half of 2006, public budget revenues amounted to UZS 2,043.5 billion or 27.6% to GDP, in contrast to 28.2% in the first half of 2005. Despite the alleviation of the tax burden in recent years, budget revenues from taxes and other mandatory payments grew steadily. Public budget expenditure over the first half of 2006 totaled UZS 1954.7 billion or 26.4% to GDP. The social sphere and social support of the population remained the largest expense items of the budget. The most significant actual increases were in expenditures for education – 36.7% and health care – 40%. Spending on the development of science for the reporting period reached UZS 10.7 billion and exceeded the indicator of the respective period of the previous year by 1.6 times. In the first half of 2006, the public budget was executed with a surplus of 1.2% to GDP.

### Financial Market

Over the analyzed period, the discount rate of the Central Bank remained constant at 16%. In the first half of 2006, aggregate assets of commercial banks amounted to UZS 6,829 billion. The volume of credits extended by commercial banks to the real sector reached UZS 1,676 billion.

In the first half of 2006, total stock market turnover was UZS 167.3 billion. Almost the entire stock market turnover (95.2%) was made up of sales of shares of joint stock companies. The share of foreign investors and joint ventures in the total sales of stock of initially privatized companies (IPO) reached 94.2%. Positive trends in economic development and the favorable situation on foreign markets led to a decrease in the yield on the treasury bills market.

### Foreign Exchange Market and Foreign Trade

In the first half of 2006, the nominal exchange rate of UZS to USD was devalued by 3.8 %, and in comparison to the respective period of 2005 – by 9.8%.

As a result, in the first half of 2006, the foreign trade turnover of Uzbekistan, in contrast to the respective period of the previous year, increased by 4.6% and reached USD 5.06 billion. The growth of exports was noticeably higher than that of imports, at 5.2% and 3.6% respectively.

Exports of companies with foreign investment in the first half of 2006 amounted to USD 525.7 million for the entire country – a 25.9% increase over the respective level of 2005, while imports of goods, labor and services accounted for USD 849.6 million. The number of companies with foreign investment grew by 267 to reach 2750 entities.

### Institutional and Market Transformations

In accordance with the approved schedules of denationalization and privatization, 240 enterprises and manufacturing and social sector entities were converted to a non-state form of ownership. The special accounts of the State Property Committee (GKI) received UZS 32.7 billion in proceeds from the sale of various state property objects.

The share of small business in GDP grew to 34.1%, which surpassed the indicator for the respective period of the previous year by 3.2%. Small enterprises provided jobs for 69.1% of the total employed in the country.

**Development of Sectors and Industries of the Economy**

The index of value added in industry was 5.3%, as its share in GDP increased from 24.8% to 26.0%. Among the processing sectors of industry, the highest growth rate was achieved in the food industry (29.2%). The increase in the output of consumer goods amounted to 20.6%, including foodstuffs at 24.6% and non-foodstuffs at 18.7%.

Over the reviewed period, the growth of agricultural output was 107.2%, including crop cultivation – 108.1% and cattle breeding – 106.1%. The total number of operating farms as of 1 June 2006 was 181.7 thousand.

The volume of retail trade turnover in the analyzed period was UZS 3379.1 billion, and paid services – UZS 889.1 billion. At the same time, the volume of retail trade turnover increased by 11.6% and of paid services – by 13.3%.

**Income and Expenses of the Population**

In the first half of 2005, the nominal monetary income of the population increased by 28.4% and the real disposable per capita income – by 16.6%. The major growth factors of the nominal monetary income of the population were the increase in wages and social transfers and the creation of conditions for generating additional income.

**Regions**

In terms of the key development indicator – gross regional product (GRP) – all the regions secured sustainable development indicators. Growth rates above the average national level were registered in Sirdarya region (110.8%), Andijan region (109.5%), Jizzakh region (109.4%), Tashkent city (108.5%), Namangan region (108.2%), Samarkand region (107.7%) and Kashkadarya region (107.3%). Economic growth in these regions was largely due to the dynamics of development of industry and the service sector.

**Analytical Papers**

The analytical review includes papers covering the following issues: (i) trends in forming the economic structure of the regions of Uzbekistan; (ii) macroeconomic conditions and prerequisites for industrial development (iii), and structural processes in investments. The review is based on official data kindly provided by the State Statistics Committee of Uzbekistan, the Central Bank, the Ministry of Finance, and the State Property Committee, and on information from national and foreign publications, as well as estimates, calculations and graphic illustrations.

## Major Economic Events

### April

Within the framework of the preparation of proposals for the draft of the new edition of the Tax Code, the Association of the Banks of Uzbekistan, together with the commercial banks of Uzbekistan, **organized a Round Table to discuss the "Taxation of Commercial Banks"**. The urgency of the topic has arisen from the intensification of the budget and tax reforms in the country. The purpose of the creation of a new Tax Code is to provide a taxation stimulus to improve the profitability of enterprises and to render commercial banks more investment-attractive.

In connection with the Decree of the President of the Republic of Uzbekistan "On the Implementation of Integration Processes and Measures for Increasing the Two-way Trade Turnover with the Republic of Kazakhstan" **a program of measures for the implementation of the agreements achieved in the course of the state visit of the President of Kazakhstan to the Republic of Uzbekistan has been approved**. These measures were aimed at further improvement of the legal base, and at expansion of mutually beneficial bilateral cooperation in trade, investment, financial and other spheres of the economies of both countries.

In accordance with the Decree of the President of the Republic of Uzbekistan dated 21 April 2006 "On Measures for the Improvement of the Financial Situation of Textile Industry Enterprises and Enhancement of the Sale Mechanism of Cotton Fiber", all textile enterprises exporting finished products for foreign currency in the amount of 80% or more of their total output are exempted from the property tax for the period of 1 May 2006 - 1 January 2009.

In accordance with the Decree of the President of the Republic of Uzbekistan, **a program of primary measures for the realization of the agreed and achieved agreements signed with the Republic of Korea** in the course of the Uzbek-Korean summit (28-30 March 2006), **has been approved**, as well as the list of investment projects presented for realization by direct Korean investment.

On 26 April 2006, **the Decree of the President of the Republic of Uzbekistan "On Measures for the Improvement of the Activities of the State Property Committee of the Republic of Uzbekistan" was adopted**. Measures for enhancing privatization processes, strengthening the system of corporate management and developing the securities market were approved. A new edition of the regulations of the State Property Committee and new structures of the Central Apparatus and regional subdivisions of the State Property Committee, as well as for the Center on Coordination and Monitoring of the Securities Market, were also approved.

**The meeting of specialists of several engineering enterprises of Uzbekistan** specializing in the production of agricultural machinery **was held** with the representatives of the Open Joint-Stock Company "Agromash-holding" (Russia) in Tashkent. Within the framework of the meeting a decision was made on the expansion of cooperation on several issues, including not only the supply of modern tractors for the country but also the realization of number of joint projects, aimed at increasing the current potential of domestic producers of agricultural machinery. In particular, the project on the organization of the assembly of caterpillar tractors and grain and harvester combines through the capacities of the Tashkent Tractor Plant was elaborated.

At the Fergana Petroleum Refinery, **the gas fractionation plant has been put into operation**, which is very important from an ecological point of view. This plant will enable additional output of liquefied gas to be obtained from waste gases.

OJSC "Foton" specialists **completed work on the creation and launching into serial production of energy-saving light fixtures**. The development of miniature luminous lamps of different dissipated power with a small built-in voltage adapter will enable users to reduce energy consumption significantly.

In light of the resolution of the President of the Republic of Uzbekistan "On Measures for the Improvement of the Financial Situation of Textile Industry Enterprises and the Enhancement of the Sale Mechanism of Cotton Fiber", which envisages more active involvement of the Commodity and Raw Material Exchange of the Republic of Uzbekistan (UzRTSB) in the process of supplying cotton to textile enterprises/exporters of finished products, **a workshop organized by the UzRTSB took place with the participation of representatives of textile and cotton-processing enterprises**. Within the framework of this workshop, new conditions for the purchase of cotton fiber through UzRTSB were discussed, as well as the efficiency of the proposed payment scheme for cotton purchased at exchange sales.



12 April 2006 the **Law of the Republic of Uzbekistan “On Private Housing Owners’ Associations” was adopted**, with the purpose of coordinating relations in the area of the creation and operation of private housing owners’ associations in apartment houses, as voluntary associations for the mutual management and maintenance of housing resources.

In order to significantly improve the formation process of the real market for services of management and maintenance of housing resources, increase the interest of the people in the maintenance of their apartment houses, and stimulate the organizational and financial independence of such associations as private housing owners’ associations, the **Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated 12 April 2006 “On Further Measures for the Development of Private Housing Owners’ Associations and the Formation of a Real Market of Housing Services” was adopted**.

On 17 April 2006, the **Resolution of the President of the Republic of Uzbekistan “On Measures for the Intensification of the Development of the Service Sector in the Republic of Uzbekistan during 2006-2010” was adopted**, with the purpose of increasing the share of services in the economy, increasing the number of people employed in this sphere and as a consequence the growth of the population’s income, and also saturating the domestic consumers’ market with a variety of high quality updated services.

### **May**

In order to support the realization of projects on the modernization and technical re-equipment of leading, and above all, base sectors of the economy, and to achieve the dynamic and well-balanced social and economic development of the country, as well as to realize an effective structural investment policy, the **Decree of the President of the Republic of Uzbekistan “On the Establishment of a Fund for the Reconstruction and Development of the Republic of Uzbekistan” was issued**.

The **Resolution of the Cabinet of Ministers of the Republic of Uzbekistan (as of 01.05.2006) “On Additional Measures to Increase the Stimulating Role of Benefits for Enterprises with Foreign Investments” was adopted**. Measures for the regulation of tax benefits and other compulsory payment benefits were envisaged in this Resolution. In particular, a mechanism of exemption was introduced not for certain individual companies but for enterprises with foreign investment by sectoral type. At the same time, the principle of perpetuity for fringe benefits on compulsory payments was abolished – they will be given for a specified time only.

In order to understand the problems and capabilities of microcrediting for the development of private business, growth of employment and government support of the vulnerable sections of the population, a **special seminar “Services on Microfinance” was held**. The seminar was organized by the Central Bank of Uzbekistan jointly with the Association of the Banks of Uzbekistan, Chamber of Commerce and Industry of Uzbekistan and Banking and Financial Academy of Uzbekistan.

In order to receive the assistance of international organizations and to attract the attention of investors, commercial banks and public-financial organizations, a **Round Table on the transformation of the financial sector was held in the representative office of the World Bank**.

During the period of 25 - 26 May of the current year the **7<sup>th</sup> meeting of the Council of the Heads of the Authorized Bodies for the Coordination and Control of the Securities Markets under the Integration Committee of EuroAsEC was held** in Almaty (Kazakhstan). The responsible officials representing the Center for Coordination and Control over the Securities Market under the State Property Committee of the Republic of Uzbekistan took part in the meeting in the framework of preparation for accession to the Agreement on Cooperation of the member states of the EuroAsEC.

The Chamber of Commerce and Industry of Uzbekistan jointly with the Association of Business Incubators and Technological Parks **held a seminar on issues of the creation of zones of industrial and technological development in Uzbekistan**. According to the results of the seminar, specific proposals and recommendations were prepared on the creation of fundamentally new structures to stimulate innovations and their industrial application.

The **Resolution of the President of the Republic of Uzbekistan “On the Introduction of a Notification System for the State Registration of Entrepreneurship Subjects” was issued**, in accordance with which a new system of state registration of entrepreneurship subjects will be set up from 1 September 2006.

The **10<sup>th</sup> international exhibition and conference “Oil and Gas of Uzbekistan” (OGU - 2006) was held in “UzExpoCenter”**, where modern oil and gas equipment, as well as the latest technologies for the intensification of oil and gas recovery and processing of hydrocarbon raw materials, were exhibited. More than 120

companies from 16 countries including Germany, Iran, Kazakhstan, China, Russia, USA, Turkey, Ukraine, France, Czechia and Sweden took part in the exhibition. Within the framework of this event there was an international conference: "Silk Road of XXI Century: Role of the Oil-and-Gas Sector in the Integration of the Countries of Central Asia". The participants of this conference discussed the current problems of the industry, and considered the different aspects of cooperation of oil-and-gas companies of the Central-Asian region and the development perspectives of the oil-and-gas sector of Uzbekistan.

**The Resolution of the President of the Republic of Uzbekistan dated 30 May 2006 "On Further Improvement of Management Organization in the Fat-and-Oil and Food Industries" has been issued.** In accordance with this resolution, the Association of the Fat-and-Oil and Food Industry was founded on the base of the merger of the associations "Maslojrtabakprom" and "Pisheprom.". Measures for the improvement of the management structure of the fat-and-oil and food industry were aimed at the acceleration of modernization processes and the technical re-equipment of industrial enterprises, as well as the attraction of foreign investments and the further development of the market sales mechanism.

On 2 May 2006 **the seminar "Development of an Export Strategy for Products of the Fruit-and-Vegetable Industry of Uzbekistan" was held in Tashkent.** Representatives of all sections of the shipment chain – from the producers of raw materials for industry to the companies supplying foreign customers with finished products, took part in this event. This seminar was the second in a series of seminars on "Promotion of Trade in Uzbekistan" held in the framework of the program of the International Trade Center (ITC).

**The third specialized exhibition of the Islamic Republic of Iran was held in "UzExpoCenter",** organized by the Ministry for Foreign Economic Relations, Investments and Trade in cooperation with the Chamber of Commerce and Industry of Uzbekistan. The products and services of 45 companies and firms representing the province Aroq were exhibited; goods made of aluminum, glass, ceramics and plastics, as well as pharmaceuticals and chemicals, heating, cooling and packaging equipment, carpets, building and sanitary engineering materials were demonstrated.

**The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated 17 May 2006 "On the Establishment of a National Center for Rehabilitation and Prosthetics for the Disabled" was adopted,** with the purpose of further improving the system of social protection for the disabled, increasing the efficiency of medical, social and professional rehabilitation, facilitating their integration in society and providing good-quality prosthetics and orthopedic goods, as well as increasing the effectiveness of the services of medical-labor expertise.

**The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated 30 May 2006 "On Additional Measures for the Improvement of the System of Supplying Secondary Schools with Textbooks" was adopted,** providing for the introduction, starting from the 2006-2007 academic year, of a new mechanism for shaping the portfolio of orders for the publishing of textbooks and methodological literature for general secondary schools. The annual predictive quota for the production and sale of textbooks will be determined following the results of the annual specialized books fair, with the participation of teachers and parents, as well as the inventory of the library stocks of the general schools.

**The only enterprise in the entire Central Asian region producing hearing aids for the disabled started its operation** in Fergana.

The President of the Republic of Uzbekistan visited the Navoi region and learned about the activities of a number of enterprises, in particular the Mining and Smelting Enterprise, Navoi airport and others.

## June

The Committee on Foreign Policy jointly with the Committee on the Budget and Economic Reforms of the Senate Olyi Majlis of the Republic of Uzbekistan, with the participation of the Chamber of Commerce and Industry of Uzbekistan, **held a Round Table discussion on "Issues of the Development of Foreign Economic Relations and the Improvement of the Legislative Base of Trade, Economic and Investment Relations of the Republic of Uzbekistan".** The purpose of the Round Table discussion was to identify problems and work out specific proposals in order to attract domestic and foreign capital to the development of the economy of the country.

On 23 June 2006 in Bishkek **the 15th regular meeting of the Council of the Heads of the Central (national) Banks of the member states of EuroAsEC took place.** One of the main issues discussed in the course of the regular meeting of the Council was the signing of the Protocol on the introduction of alterations and amendments to the Agreement of the Council in connection with the accession of the Republic of Uzbekistan to full membership in the Eurasian Economic Community. In addition, the participants discussed

issues concerning the policy of the foreign currency exchange rate and the choice of currency regime in the member states of the EuroAsEC, and considered the following proposals: to implement the main aims of cooperation in terms of banknotes production, to develop the numismatic market, to issue souvenir and collector's coins, to struggle against counterfeit money, to work out a list of common indicators of the status of the financial markets of the EuroAsEC countries and to form a unified information base.

**The business forum of the business circles of Uzbekistan and Finland**, organized by the Chamber of Commerce and Industry of Uzbekistan jointly with the Center for International Marketing Services of Finland, **took place in Tashkent**. A cooperation exchange, aimed at arranging direct partnership between the entrepreneurs of the two countries, was held during this forum. Issues connected with the prospects for mutually beneficial cooperation were also discussed. At the present time, the Uzbek-Finnish joint-venture "Scan-Mix-Samarkand," which produces building materials, and the Representation Office of the "Sandwick Mining Corporation," which specializes in the sphere of marketing and the supply of spare parts for equipment, are functioning successfully in Uzbekistan.

The Chamber of Commerce and Industry of Uzbekistan, jointly with the UN Project Development Program, **held a joint session on improving tax legislation and tax policy for small business and private entrepreneurship**, as well as identifying the most urgent problems in the sphere of creating a business environment, through constructive dialogue between state officials and entrepreneurs.

With the goal of improving the coordination of providing scientific-technological and project support to ongoing structural transformations, as well as high-level preparation and high-quality maintenance of the implementation of large investment projects on the construction, reconstruction and modernization of the enterprises of basic industries, **the Resolution of the President of the Republic of Uzbekistan "On Establishment of the Uzbek State Planning Institute for Power, Oil-and-Gas Refining, Chemical and Heavy Industries" was adopted**.

Scientists of the National University of Uzbekistan named after Mirzo Ulugbek and the Institute of Chemistry and Polymer Physics of the Academy of Sciences of the Republic of Uzbekistan **constructed an electric moisture meter** with heightened sensibility and precision measurement. The meter is designed for humidity control in raw cotton bales.

With the goal of implementing measures for the efficient application of privileged credit from the Government of Korea, provided for the realization of the Informatization Project for the General Secondary Schools of the Republic of Uzbekistan, **the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On Measures for the Foundation of a Center for the Development of Multimedia Programs of General Education under the Ministry of Public Education of the Republic of Uzbekistan" was adopted on 7 June 2006**.

**The Decree of the President of the Republic of Uzbekistan dated 9 June 2006 "On an Increase of Wages, Pensions, Scholarships and Welfare Payments as of 1 July 2006" was issued**. In connection with this, from 1 July 2006, wages for the employees of public institutions and organizations, all types of pension and welfare payments, and scholarships for students of institutions of higher education and students of secondary specialized schools were raised 1.2 times. From July 2006 the minimum amount of payment was set as follows: wages were set at the amount of UZS 10800 per month; retirement pensions – UZS 21395 per month; welfare payments for the congenitally disabled – UZS 21395 per month; welfare payments for aged and disabled citizens lacking the necessary work record – UZS 12960 per month.

The Uzbek-Russian joint venture "2-F Technology group," for the processing of rubber resin and the production of rubber goods, started operations in Kokand.

# INFORMATION AND ANALYTICAL PART

## 1. Economic Growth, Investments and Inflation

### 1.1. Economic Growth

The main feature of the development of the macroeconomic situation in the first half of 2006 was the acceleration of the rate of economic development. According to indicators, the growth rate for GDP amounted to 6.6% (against 3.6% in the first quarter of 2006), for investments – 6.9% (against 4.5%) and for retail trade turnover – 11.6% (against 7.5%). In comparison with the first half of 2005 (Table 1.1.1) the dynamics of the most important macroeconomic indicators (with the exception of export and CPI) demonstrate the confirmation of the positive results reached earlier as well as the improvement of certain directions (for example, growth of investment activity). As for the growth of GDP (106.6%), in the first half of 2006 Uzbekistan surpassed Russia (106.0%), Ukraine (105.0%) and Kyrgyzstan (103.1%), while its growth in industrial production, at 109.7%, surpassed Russia (104.4%), Kazakhstan (105.1%), Ukraine (103.6%) and Kyrgyzstan (93.2%).

**Table 1.1.1. Main Macroeconomic Indicators of Development of the Economy**

	2000	2001	2002	2003	2004	2005	First 6 months to corresponding period of the previous year	
							2005	2006
GDP (produced)	103.8	104.2	104.0	104.2	107.7	107.0	107.2	106.6
Number of population*	101.4	101.3	101.2	101.2	101.2	101.2	101.2	101.1
GDP per capita	102.4	102.9	102.7	103.0	106.2	105.8	105.9	105.4
Industrial production	105.9	107.6	108.3	106.0	109.4	107.2	107.5	109.7
Farm production	103.1	104.2	106.0	107.3	108.9	106.2	107.2	107.2
Export of goods and services (increase, %)	0.9	-2.9	-5.7	24.6	30.3	11.5	16.7	5.2
Investments in basic capital	100.9	104.0	103.8	104.8	107.3	105.7	105.4	106.9
Level of state budget execution (% of GDP)	-1.0	-1.0	-0.8	-0.4	-0.4	0.1	1.2	1.2
CBU refinancing rate (in %)	32.3	26.8	34.5	27.1	18.8	16	16	16
CPI (to corresponding period of the previous year, in %)	24.9	27.4	27.6	10.3	1.6	6.4	5.5	9.4
Unemployment level (end of period, in %)	0.4	0.4	0.4	0.3	0.4	0.3	0.4	0.3

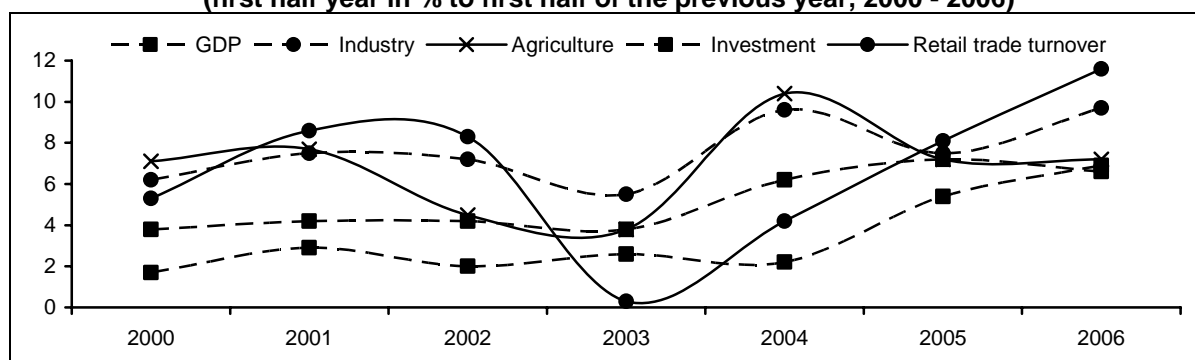
Source: State Statistics Committee of Uzbekistan

\*average population.

Favorable business climate and increase in the growth rates of industrial production and retail trade turnover were the main growth factors in the first half of 2006 (Graph 1.1.1), indicating the increase in the real income of the population. This conclusion is proven by the dynamics of GDP per capita, which has increased since 2004, to 5.5% and more.

The growth in the real income of the population stimulated the increase in trade turnover and created more favorable conditions for the accumulation of savings and investments: up to 106.9% during the first half of 2006 (against 105.4% in 2005).

**Graph 1.1.1. Dynamics of Main Macroeconomic Indicators  
(first half year in % to first half of the previous year, 2000 - 2006)**

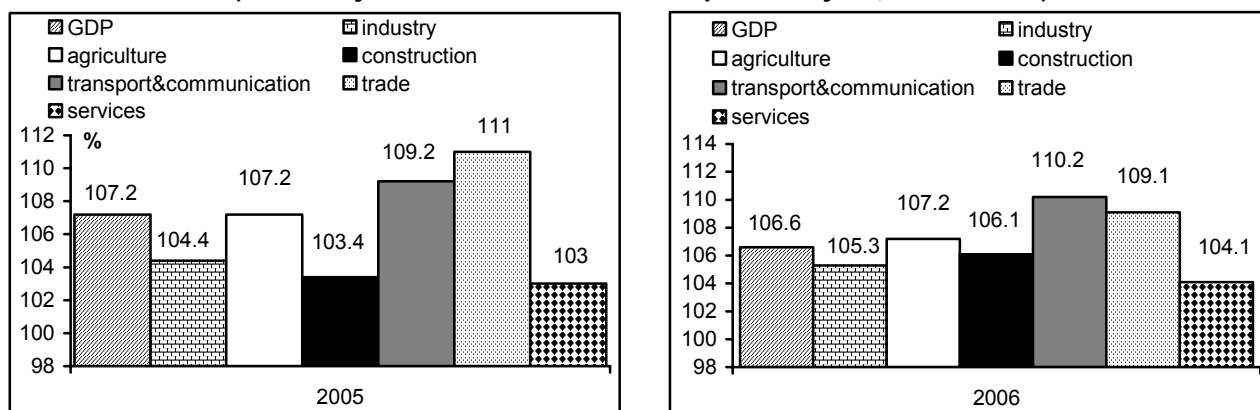


Source: State Statistics Committee of Uzbekistan

The retention of the state budget surplus reached in 2005 (+1.2% of GDP in the first half of 2006), as well as the CBU refinancing rate of 16%, strengthened macroeconomic stability, thereby encouraging more intensive attraction of the savings of the population to the banking sector and their utilization for investment needs.

As in the first half of 2005, the service sector during the reviewed period developed at a rapid pace. The growth rates in value added of transport and communications amounted to 110.2% (Graph.1.1.2), with trade and public catering at 109.1%.

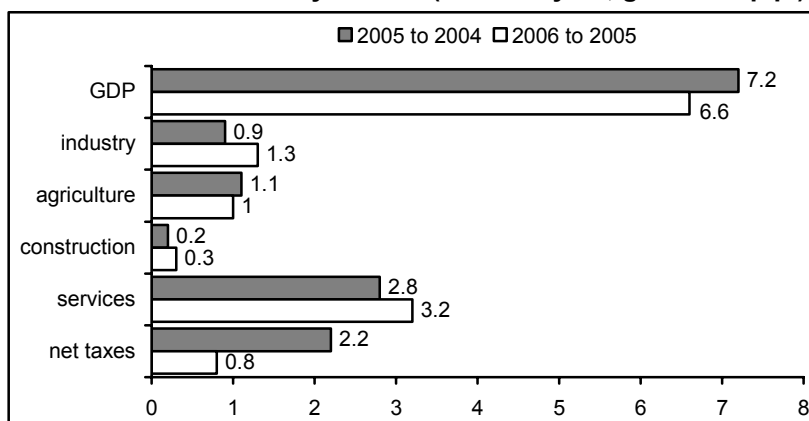
**Graph.1.1.2. Growth in Value Added by Economic Sector  
(first half year in % to first half of the previous year, 2005 – 2006)**



Source: State Statistics Committee of Uzbekistan

The analysis of the sectoral contribution to the growth in GDP showed (Graph.1.1.3) that, as in the first half of 2005, the main contribution to the economy during the reviewed period was made by two industries: industrial production and the service sectors. They made up 4.5 p.p. of total growth in GDP (6.6%). As opposed to the first half of 2005, the contribution of industrial production, as well as transport and communications, increased.

**Graph.1.1.3. Dynamics of Contribution of Certain Industries and Sectors of the Economy to GDP (first half year, growth in p.p.)**



Source: State Statistics Committee of Uzbekistan

The production structure of GDP during the reviewed period has not changed significantly compared to the corresponding period of the previous year (Table 1.1.2). As before, the leading sector of the national economy was the service sector, its share in value added making up 42.1% of GDP, though the share of the service sector in the production structure of GDP fell slightly (by 0.8 p.p.). The share of agriculture decreased by 0.4 p.p. and the share of industrial production increased by 1.2 p.p. and amounted to 26.0%, increasing its contribution to GDP growth (Graph 1.1.3).

**Table 1.1.2. Growth and Production Structure of GDP**

Period	GDP growth to corresponding period of previous year, in % (in comparable prices)	Production structure of GDP, %				
		Industry	Agriculture	Construction	Services	Net taxes
2000	103.8	14.2	30.1	6.0	37.0	12.5
2001	104.2	14.1	30.0	5.8	38.0	11.9
2002	104.0	14.5	30.1	4.9	37.7	12.6
2003	104.2	15.8	28.4	4.5	37.2	13.7
2004	107.7	17.5	26.4	4.8	37.0	14.1
2005	107.0	20.7	25.0	4.9	38.3	11.0
05/I	104.8	28.7	8.9	4.7	44.2	13.3
05/I-II	107.2	24.8	13.5	5.6	42.9	13.0
06/I	103.6	29.4	8.1	4.7	44.7	12.9
06/I-II	106.6	26.0	13.1	5.5	42.1	13.1

Source: State Statistics Committee of Uzbekistan

The dynamics of the final utilization of GDP (Table 1.1.3) indicates a positive trend of growth in the share of private consumption of the population and individual households to 52.8% in the reviewed period.

**Table 1.1.3. Structure of Using GDP (%)**

Period	Expenses for final consumption, %		Gross accumulation, %		Net export, %
	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
04/I	51.8	24.4	24.5	-15.7	15.0
04/I-II	50.8	16.1	22.2	-2.0	12.9
04/I-III	49.6	17.7	24.2	0.1	8.4
I qtr. 2005	490.4	20.1	26.0	-10.8	15.3
05/I-II	52.7	19.0	25.6	-10.4	13.1
05/I-III	50.3	19.4	21.7	1.9	6.7
06/I	49.3	22.1	25.4	-9.2	12.4
06/I-II	52.8	19.2	25.4	-8.4	11.0

Source: State Statistics Committee of Uzbekistan

The elements of final GDP utilization determine the total value of composite demand and have a predominant impact on the dynamics of GDP in both short-term and long-term periods. As the results of compositional analysis of GDP growth rates by element of composite demand – obtained through the econometric approach – demonstrate, the different elements of demand had substantially different impacts on economic growth at different stages of the reviewed period (Table 1.1.4). In the first six months of 2003 and 2004, growth was supported above all by the strong demand of the external sector, as the contribution of exports to GDP growth was 7.8 p.p. and 4.8 p.p. for each period respectively. In the first half of 2005, growth was stimulated by keen demand from the state sector as well as the population and households sector. A similar situation was characteristic of the first half of 2006.

**Table 1.1.4. Contribution of Different Elements of Composite Demand (Final GDP Utilization) to Growth of GDP in the first 6 months of 2001-2006, %**

	2001	2002	2003	2004	2005	2006
GDP Total, including changes in:	4.2	3.9	4.4	6.2	7.2	6.6
Private consumption	0.6	-0.1	-2.0	1.3	4.0	1.8
State expenditures	0.4	5.5	-1.7	1.5	9.8	2.5
Investments in basic capital	0.2	0.1	0.2	0.3	0.3	0.4
Exports	0.1	-2.5	7.8	4.8	3.2	1.0
Stocks and other elements of composite demand	2.9	1.2	-0.5	-1.7	-10.1	0.9

Note: The contribution of private consumption was computed by formula  $\Delta \text{GDP}(\text{Cons}) = \Delta \text{Cons} * \text{Ec}$ , where  $\Delta \text{Cons}$  – increase in private consumption in real terms,  $\text{Ec}$  – ratio of flexibility of GDP to private consumption (=0.27 according to econometric analysis). The rest of the demand elements were computed by a similar algorithm (under the following ratios of elasticity: state expenditures = 0.32, investments = 0.06, exports = 0.19).

Source: Computations were made on the basis of data received from senior staff scientists and Table 1.1.3.

At the same time, for the last three years there was a downward trend in the contribution of exports to economic growth (from 4.8 p.p. in the first half of 2004 to 1.0 p.p. in the reviewed period). This is a natural trend since dramatic growth of exports in 2004 was due to adopting convertibility of soum on current account transactions. A summary of the quarterly statistics for 2000-2006 reveals that, while the average quarterly growth rate of GDP for this period was 105.1% – with growth rates for private consumption at 102.7%, state consumption at about 100% and investments at 105.4% – growth rates for exports were significantly higher (112.6%) than GDP growth rates.

## 1.2. Investment

Measures undertaken by the government to reform priority sectors of the economy in 2006 yielded favorable results in the reporting period, by enhancing the investment environment and facilitating structural transformations and high rates of economic growth.

From January to June 2006, UZS 1624.6 billion were invested in capital assets. As compared to the respective period of the previous year, capital investment increased by 6.9%, as opposed to 5.4% in the first half of 2005 (Annex 1.2.1). The dynamics and formation of demand for investment, against the background of economic growth, were based mainly on the active utilization of competitive capacities and the expansion of the external demand for investment resources as a result of the growth of production efficiency and increase in income of the economy.

Over the first six months of 2006, the active implementation of the Program of Denationalization and Privatization of Enterprises, as well as investment projects in the private sector, resulted in a 5.5% increase in the share of investment channeled to the non-public sector. Thus capital investment in the non-public sector reached 65.2% of the total (Table 1.2.1).

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

	I-II qtr. 2005	I-II qtr. 2006
Capital investment	100	100
Public Property	40.3	34.8
Non-public Property	59.7	65.2

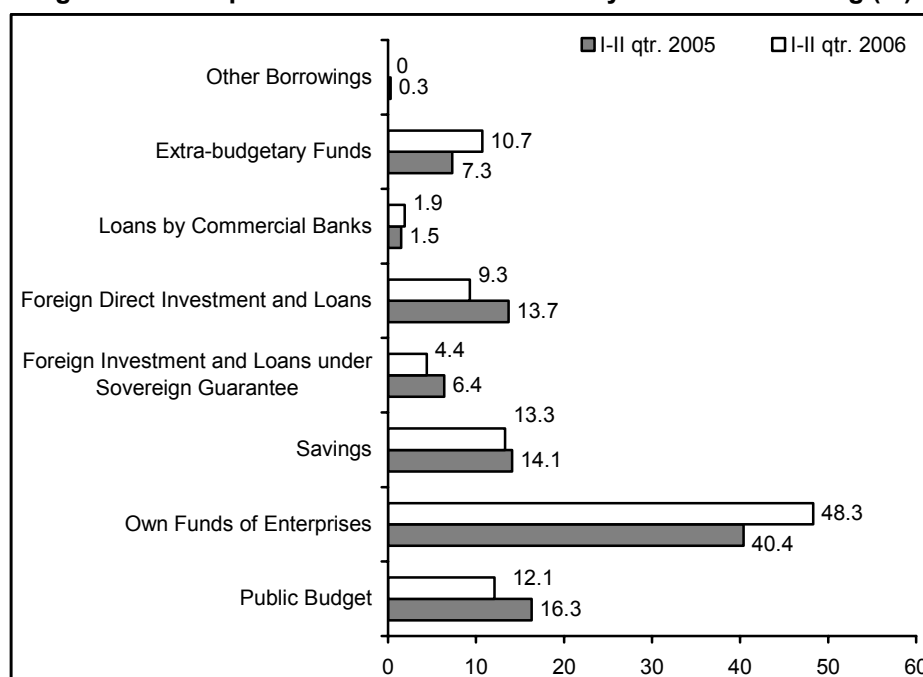
Source: State Statistics Committee of Uzbekistan

foreign loans under sovereign guarantee decreased by 2.0%; these accounted for 12.1 and 4.4 percent respectively of the total capital investment implemented in the first half of 2006. It is worth emphasizing that the state property sector was largely funded from the public budget (96.6%), extra-budgetary funds and foreign investment under sovereign guarantee. Capital assets of non-public entities grew through an increase in the equity of enterprises, bank credits and foreign direct investment.

Equity of enterprises remained a major source of capital investments. The share of own funds increased by 7.9% to reach 48.3% (Figure 1.2.1). The financial sustainability of enterprises was enhanced by government measures on the restructuring of economically unsustainable companies and liquidation of hopeless loss-making companies. Additional sources of funding for local rehabilitation projects in the private sector were established by the President of Uzbekistan in his Decree "On Measures for the Further Promotion of Leasing Operations".

The adoption of legislative acts – namely the Resolutions of the Cabinet of Ministers "On Additional Measures Facilitating an Increase in the Output of Finished Consumer Goods by Enterprises with Foreign Investment", "On Additional Measures for the Enforcement of Legal Protection of Foreign Direct Investment", "On Additional Measures Facilitating the Attraction of Foreign Direct Private Investment" and "On the Improvement of Foreign Trade and the Investment Attraction Management System" – intensified the activity of foreign investors.

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



Source: State Statistics Committee of Uzbekistan

In January-June 2006, foreign capital investment accounted for 13.7% of total capital investment. Videoconferences, presentations of sectoral investment projects and other advertising and promotion efforts contributed to progress in foreign investment. In the structure of foreign capital, the share of foreign direct investment accounted for 67.8%.

The extension of the scope and structure of attracted investment is viewed as a positive trend. The enhancement of the system of economic relations and monetary and credit policy supported growth in the volume of investment funded by bank loans. In addition, the number of internal market-oriented borrowers increased along with the share of mid-term and long-term assets accumulated by the banking system. The share of commercial banks in crediting capital investment in the total volume of investment increased by 0.4% and reached 1.9%.

Extra-budgetary funds (e.g. Republican Road Fund, Fund of Children's Sports and School Education Development, among others) also invigorated their activities and achieved a 3.4% increase in their share, which accounted for 10.7% of the total capital investments. The resources of extra-budgetary funds were largely allotted for the construction and repair of secondary education school facilities (69.5%) and the construction and maintenance of highways and railways (23.2%).

The investment demand in January-June of the current year was formed under the cumulative influence of the changes in the industrial and technological structure of the national economy. Increased demand during this period on the part of the economy's base sectors (industry, transport, communications) led to an increase in the share of investment in the production sector of 63.4% vs. 61.1% in the corresponding period of the previous year. The redistribution of investment flows led to an increase in the share of capital invested to develop agriculture by 1.4% or to 4.7%, and in trade and public catering by 0.6% or to 1.5% (Table 1.2.2). The growth rate of investment allocated to the basic sectors of the economy remains stable, and their share in the structure of capital investment remains at the level of 50.2%, which helps to strengthen the production capacity of the country, increase investment attraction and accelerate the formation of the country's infrastructure.

In addition to governmental decisions, the ministries and associations approved acts that helped greatly to intensify investment activities. The Resolution of the State Property Committee "On the procedure for providing, without competitive bidding, the right to manage a government share to those investors who buy non-controlling stock but invest significantly in modernization and technical re-equipment" increased the interest of foreign investors in the production sector of the Republic of Uzbekistan.

Significant transformations took place in the structure of foreign investment, despite the decrease of the latter in the production sphere by 3.3% or to 87.3% of the total for the period under review of the current year (Table 1.2.3).

Of total foreign capital, the share of foreign investment allocated to the development of transport and communications reached 39.8% and to agriculture – 7.5%, respective increases of 6.1% and 5.7%.

The power and fuel industries, metallurgy, the chemical and petrochemical industry and light industry remain major sectors for investment allocation (Table 1.2.4). The share of investments in the power industry increased to 13.9% of total investments in industry, helping to complete the construction of the "Uzbekistan-skaya" transmission facility. More than 90% of "Uzbek-energo" SJSC's investment decisions were financed from own funds of the enterprise.

Shares of investments in sectors producing investment products have grown: by 2.9% in mechanical engineering (to 5.5%) and by 2.5% in the industry of building materials (4.1%). In January-June 2006, the share of capital investments in light industry fell by 2.2 p.p. to 11.7%, in connection with a period of organization. In the sector, capital investments have not yet begun for 9 projects, included in the investment program of Uzbekistan.

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

	I-II qtr. 2005	I-II qtr. 2006
Total:	100	100
Production, including	61.1	63.4
Industry	28.5	26.9
Agriculture	3.3	4.7
Construction	0.4	1.4
Transport and communications	22.5	23.3
Trade and Public Catering	0.9	1.5
Other	5.5	5.6
Non-production	38.9	36.6

Source: State Statistics Committee of Uzbekistan

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

	I-II qtr. 2005	I-II qtr. 2006
Total:	100	100
Production, including	90.6	87.3
Industry	54.5	38.5
Agriculture	1.8	7.5
Construction	0.3	0.5
Transport and communications	33.7	39.8
Trade and Public Catering	-	0.4
Other	0.3	0.2
Non-production	9.4	12.7

Source: State Statistics Committee of Uzbekistan



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

	I-II qtr. 2005	I-II qtr. 2006
Industry, Total	100	100
Power	8.5	13.9
Fuel	30.6	26.6
Metallurgy	20.2	20.4
Mechanical Engineering	2.6	5.5
Light	13.9	11.7
Food	3.5	4.1
Chemical and Petrochemical	7.4	7.9
Building Materials	1.6	4.1
Other	11.7	5.8

Source: State Statistics Committee of Uzbekistan

Due to the completion of the project on the exploitation of the Shakhpakhti deposit according to a production-sharing agreement with the Russian industry Gazprom, the share of investment in the fuel industry fell by 4 p.p. or to 26.6%.

The structure of investments in the basic capital of industrial sectors changed due to a change in the flow and quality of foreign investments. Approximately 40% of foreign capital was invested in the development of industrial sectors. Foreign capital funded the commencement of industrial drilling under the Production-Sharing Agreement Project implemented jointly with Lukoil at Khauzak-Shadi deposit. The active participation of foreign investors demonstrates their interest: the share of their capital in the development of the fuel industry grew by 1.2 p.p. or to 25.3% of total foreign investments in industry (Table 1.2.5).

Shares of foreign investments have grown to 2.3% in mechanical engineering and to 12.1% in the chemical and petrochemical industry. The considerable increase of foreign investments in these sectors is connected with the establishment of joint-ventures and the implementation of technical re-equipment in accordance with programs for accelerating the development of sectors. The modernization and technical re-equipment of "Uzsel'khoz mash-holding" "Uzavtosanoat" JSC, "Uzeltechsanoat" Association were funded by foreign capital.

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

	I-II qtr. 2005	I-II qtr. 2006
Industry, Total	100	100
Power	3.4	-
Fuel	24.1	25.3
Metallurgy	16.9	7.1
Mechanical Engineering	1.5	2.3
Light	32.4	37.7
Food	2.9	10.9
Chemical and Petrochemical	0.5	12.1
Building Materials	-	0.7
Other	18.3	3.9

Source: State Statistics Committee of Uzbekistan

The establishment of joint enterprises in the light and foodstuffs industries in the regions of Uzbekistan led to an increase in the share of foreign capital in these industries by respectively 5.3 p.p. and 8.0 p.p. or to 37.7% and 10.9%.

As a result of improved financial sustainability and attractiveness for foreign investors, it has become possible to complete several projects in the textile industry – "BF Textile Production" foreign enterprise, "Baytex Tijaret" JSV, the production of glass fiber at "Uzglasszaiden" JSV, and school and children's furniture at "Faiz" JSV.

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

	I-II qtr. 2005	I-II qtr. 2006
Total	100	100
Building and Assembly	54.2	58.1
Machinery, Equipment, Tools	34.0	29.2
Other Costs	11.8	12.7

Source: State Statistics Committee of Uzbekistan.

The completion of considerable activities to develop production and social infrastructure in January-June of this year – related with the implementation of investment projects envisaged by sectoral development programs – has resulted in an increase in the share of building and construction works in the technological structure of capital investments by 3.9 p.p. or to 58.1% (Table 1.2.6). The share of investments in machinery and equipment fell by 4.8 p.p. and accounted for 29.2% of total investments.

### 1.3. Prices and Inflation

An important step that contributed to the rise in investment resources was the establishment of the Fund for Reconstruction and Development of the Republic of Uzbekistan. The main objective of the Fund is to secure completion of projects for the modernization and technical re-equipment of leading economic sectors, to achieve dynamic, sustainable and balanced social and economic development of the country and to conduct an efficient structural and investment policy. The Fund operates through the established Uzbek State Institute for Planning in the Power Industry, Oil-Refining and Gas-Transferring and Chemical and Heavy Industry. The priority area of activity of the Institute will be expert examination and participation in the selection of submitted investment projects and feasibility studies on the construction and modernization of strategically important enterprises of major sectors of the economy.

The total increase in prices for the first half of 2006 did not exceed the forecast level and by December of 2005 it had reached 3.5%. The increase in tariffs for goods and chargeable services realized by monopolists had a significant impact on the growth of inflation. For example, in the period under review, the increase in the price of sugar amounted to 57.2%, tariffs for gas – 37.0%, for electric power – 5.1% and for public trans-

portation services – 4.9%. The price of rice increased 19.4% within the first six months of 2006 (Table 1.3.1, Table 1.3.2).

**Table 1.3.1. Major Indicators of Inflation in the Republic of Uzbekistan for 2001- 2006  
(increase in prices in % to corresponding period of the previous year)**

Years	Consumer price index (CPI) consolidated	Foodstuffs	Non-foodstuffs	Services
2001	27.4	27.9	21.1	36.9
2002	27.6	28.0	19.3	41.3
2003	10.3	5.4	13.9	30.9
2004	1.6	-4.7	6.3	23.6
2005	6.4	4.2	4.9	17.1
05/I	4.2	0.5	4.5	19.2
05/II	6.8	5.0	3.9	18.2
06/I	10.0	9.6	7.3	16.0
06/II.	8.7	7.9	7.6	14.1

Source: The State Statistics Committee of Uzbekistan.

**Table 1.3.2. Level of Inflation for the first 6 months of 2005 and 2006  
(increase in prices in %)**

	Average monthly level		To December of previous year	
	2005	2006	2005	2006
CPI	0.5	0.6	3.3	3.5
Foodstuffs	0.5	0.5	3.2	3.1
Non-foodstuffs	0.2	0.3	1.1	1.9
Services	1.2	1.1	7.2	7.1

Source: The State Statistics Committee of Uzbekistan.

**Graph 1.3.1. Increase in Prices in June of current year compared with June of previous year for 2001- 2006**



Source: State Statistics Committee of Uzbekistan

During the first half of 2006 the increase in prices (tariffs), according to the consolidated index of consumer prices, ranged from 2.3% (in Samarkand region) to 4.7% (in Tashkent region).

This fluctuation was mainly influenced by different rates of price growth in fruit and vegetable products, which have a fairly large share in the consumer basket (8.7%). Thus, whereas in, for example, Tashkent region within the reviewed period prices for fruit and vegetables grew by 0.6%, in Samarkand region the corresponding indicator was minus 10.9%.

**Table 1.3.3. Level of Inflation in the Republic of Uzbekistan for the first 6 months of 2006 in a Regional Context (%)**

Regions	Increase in prices	Average monthly level
Republic of Uzbekistan	3.50	0.58
regions:		
Andijan	3.55	0.58
Namangan	3.87	0.63
Fergana	2.84	0.47
Khorezm	3.38	0.56
Republic of Karakalpakstan	4.59	0.75
Kashkadarya	2.94	0.48
Surkhandarya	3.54	0.58
Bukhara	3.82	0.63
Navoi	3.83	0.63
Samarkand	2.30	0.38
Jizzakh	4.39	0.72
Sirdarya	2.73	0.45
Tashkent	4.73	0.77
Tashkent City	3.40	0.56

Source: The State Statistics Committee of Uzbekistan

An analysis of the inflation processes in the economy of the Republic of Uzbekistan in the period from January to June of 2005 and 2006 showed that during the compared periods the impact of seasonality and production costs on CPI increased, while the influence of other factors decreased. During the first half of 2006 cost-inflation (72.6%) and the increase in the money supply (20.2%) had a certain impact on the inflation rate. The decrease in prices for seasonal goods by 5.6% on average facilitated a decrease in the inflation level of 0.6% (Table 1.3.4).

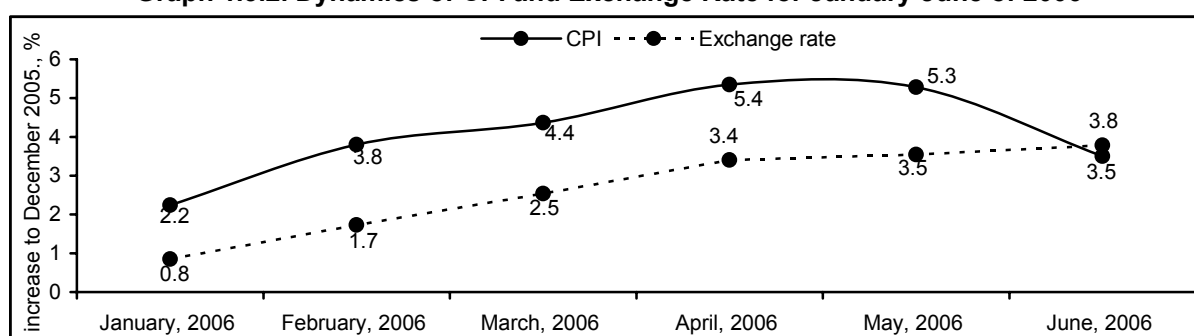
**Table 1.3.4. Factor Analysis of Inflation Processes for the first 6 months of 2005 and 2006**

	Impact on CPI January – June (%)	
	2005	2006
All factors	3.34	3.50
Growth in money supply	0.79	0.71
Cost-push inflation	1.44	2.54
OTC foreign exchange rate	0.07	0.05
Growth in wages	0.16	0.03
Increase (decrease) in prices of seasonal products	1.45	-0.61
Other factors	-0.57	0.78

Source: Ministry of Economy of Uzbekistan

The increase in prices for imported goods resulted from a change in the over-the-counter exchange rate by which customs duties are computed. During the first half of 2006 the over-the-counter exchange rate depreciated by 3.8%.

**Graph 1.3.2. Dynamics of CPI and Exchange Rate for January-June of 2006**



As in previous periods, the growth rates in tariffs for services surpassed significantly the growth rates in prices for goods. While the average growth rate in tariffs for services was 7.1%, the growth rates in tariffs for housing and communal services was 14.4%, which resulted mainly from the increase in payment for network gas by 37.0%. In addition, during the period of January-June 2006, tariffs for services of railway transport increased by 24.3% and for services of air transport – by 12.3%. At the same time tariffs for legal services decreased by 40.9%.

Factor analysis of the increase in prices of producers of industrial products showed that during the first half of 2006, the increase in prices for non-ferrous metallurgy products, which resulted from an upsurge in price for non-ferrous metals in the world market, had the greatest impact (74.3%) on the total growth of producers'

**Table 1.3.5. Factor Analysis of the Growth of Industrial Producers' Price Index (PPI) for January-June of 2006**

Name of Industry	Growth rate, %	Impact on PPI, %	In % to total
Industry - Total	17.3	17.30	100.0
Power Industry	4.1	0.44	2.6
Fuel Industry	5.8	0.74	4.3
including:			
Oil-producing	0.0	0.00	0.0
Oil-refining	12.2	0.74	4.3
Gas	0.0	0.00	0.0
Coal	0.0	0.00	0.0
Metallurgy	0.7	0.02	0.1
Non-ferrous Metallurgy	77.8	12.86	74.3
Chemical Industry	5.9	0.32	1.9
Petrochemical Industry	1.8	0.00	0.0
Machine-Building and Metal-Working Industry	5.6	0.69	4.0
of which mechanical engineering	5.6	0.65	3.8
Timber, Wood-Working and Pulp-and-Paper Industry	1.2	0.0	0.1
Building Materials	15.2	0.60	3.5
Light Industry	1.7	0.33	1.9
including:			
Cotton-cleaning	0.0	0.00	0.0
Cotton Industry	4.5	0.25	1.4
Food Industry	12.2	1.18	6.8
Flour-and-Cereals Industry	0.3	0.01	0.1
Feed Mill Industry	1.4	0.00	0.0
Other	5.4	0.09	0.5
Impact of the increase in prices for non-ferrous metallurgy products on PPI	77.8	12.86	74.3
PPI without taking into account the increase in prices for non-ferrous metallurgy products	5.3	4.44	25.7

prices. The increase in wholesale prices of producers without taking the increase in prices for non-ferrous metallurgy products into account was 5.3%, which was very close to the CPI (3.5%) (Table 1.3.5).

In CIS countries for the first half of 2006, the level of inflation for the CPI ranged from 2.9% in Ukraine to 7.4% in Moldova. In the Central Asian countries, values for this indicator were similar to one another: in Kazakhstan – 4.8%, in Kyrgyzstan – 4.1% and Tajikistan – about 6.6%.

**Table 1.3.6. Level of Inflation in CIS Countries for the first 6 months of 2006 (%)**

Countries	Increase in prices	Monthly average
Azerbaijan	5.6	0.9
Armenia	4.3	0.7
Belarus	3.1	0.5
Georgia	5.6	0.9
Kazakhstan	4.8	0.8
Kyrgyzstan	4.1	0.7
Moldova	7.4	1.2
Russia	6.2	1.0
Tajikistan	6.6	1.1
Uzbekistan	3.5	0.6
Ukraine	2.9	0.5

Source: Statistics Committee of CIS

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

	Capital Investment, UZS billion	Increase to the respective period of the previous year, %
2000	744.5	1
2001	1320.9	4.0
2002	1526.6	3.8
2003	1978.1	4.8
2004	2629.0	7.3
2005	3165.2	5.7
I quarter 2005	502.2	4.2
I-II quarter 2005	1272.8	5.4
I quarter 2006	615.6	4.5
I-II quarter 2006	1624.6	6.9

Source: State Statistics Committee of Uzbekistan

**Annex 1.2.2. Capital Investment by Form of Ownership (%)**

	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qtr. 2005	I qtr. 2006	I-II qtr. 2006
Capital Investment	100	100	100	100	100	100	100	100	100	100
Public Property	63.9	47.0	40.8	36.4	39.7	30.9	32.3	40.3	31	34.8
Non-public Property	36.1	53.0	59.2	63.6	60.3	69.1	67.7	59.7	69	65.2

Source: State Statistics Committee of Uzbekistan

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

	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qtr. 2005	I qtr. 2006	I-II qtr. 2006
Total	100	100	100	100	100	100	100	100	100	100
Public budget	29.2	21.5	23.9	16.4	14.4	12.2	13.6	16.3	9.1	12.1
Funds of Enterprises	27.1	31.1	41.2	42.8	42.9	46.1	45.9	40.4	51.0	48.3
Savings	12.0	10.3	11.4	13.5	11.7	11.4	12.0	14.1	11.2	13.3
Foreign Investment and Loans under Sovereign Guarantee	19.8	23.2	14.8	16.5	14.0	6.8	7.5	6.4	4.8	4.4
Foreign Direct Investment and Loans	3.4	4.8	5.3	7.7	11.1	14.9	12.4	13.7	9.3	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	1.5	2.9	1.9
Extra-budgetary Funds	1.3	0.1	0.2	0.3	1.8	4.8	5.7	7.3	11.7	10.7
Other Borrowings	0.4	0.9	0.8	0.7	0.3	0.3	0.3	0.3	-	0.0

Source: State Statistics Committee of Uzbekistan

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

	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qtr. 2005	I qtr. 2006	I-II qtr. 2006
Total	100	100	100	100	100	100	100	100	100	100
Production, including	57.5	63.1	59.5	63.6	66.0	68.2	67.4	61.1	67.1	63.4
Industry	29.7	38.9	32.9	29.0	29.0	32.6	33.1	28.5	29.8	26.9
Agriculture	5.7	5.5	6.7	5.0	4.3	4.4	2.9	3.3	5.1	4.7
Construction	0.5	0.6	0.7	0.5	0.7	0.9	2.8	0.4	1.3	1.4
Transport and Communication	16.7	14.0	10.4	19.5	23.3	24.1	22.0	22.5	23.0	23.3
Trade and Public Catering	4.3	1.5	1.6	2.1	1.5	1.5	1.3	0.9	2.3	1.5
Other	0.6	2.6	7.2	7.5	7.2	4.7	5.3	5.5	5.6	5.6
Non-production	42.5	36.9	40.5	36.4	34.0	31.8	32.6	38.9	32.9	36.6

Source: State Statistics Committee of Uzbekistan

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

	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qtr. 2005	I qtr. 2006	I-II qtr. 2006
Industry, total	100	100	100	100	100	100	100	100	100	100
Power	5.3	3.8	6.0	9.4	9.5	7.9	9.5	8.5	6.8	13.9
Fuel	20.2	32.3	28.5	18.9	18.5	25.9	23.1	30.6	32.2	26.6
Metallurgy	9.0	11.5	12.4	21.8	14.6	19.6	12.9	20.2	17.7	20.4
Mechanical Engineering	13.8	14.6	10.2	5.5	3.3	4.1	2.3	2.6	7.0	5.5
Light	7.9	15.9	14.3	19.4	20.7	15.2	15.1	13.9	13.8	11.7
Food	8.4	5.8	7.9	5.5	5.4	5.7	3.5	3.5	7.0	4.1
Chemical and Petrochemical	26.7	9.9	11.9	10.5	9.6	6.9	10.5	7.4	7.3	7.9
Building Materials	0.9	1.2	1.6	1.7	2.2	3.5	4.9	1.6	2.6	4.1
Other	7.8	5.0	7.2	7.3	12.2	11.2	18.2	11.7	5.6	5.8

Source: State Statistics Committee of Uzbekistan

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

	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qtr. 2005	I qtr. 2006	I-II qtr. 2006
Total	100	100	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	54.2	54.8	58.1
Machinery, Equipment, Tools	30.6	39.5	38.6	42.1	46.2	38.7	37.7	34.0	30.6	29.2
Other Costs	11.3	12.3	12.0	11.7	10.2	12.6	13.8	11.8	14.6	12.7

Source: State Statistics Committee of Uzbekistan

## 2. Public Finance

In January-June of 2006, the revenue portion of the state budget accounted for UZS 2043.5 bn. A large part of these revenues was obtained through such taxes as corporate income (profit) tax, personal income (profit) tax, excise tax and VAT, which make up 58.7% of revenues. Value added tax alone provided almost a quarter of all proceeds into the budget (24.4% of total revenues). In the period concerned, expenditures from the state budget accounted for UZS 1954.7 bn. According to the results of the first half of 2006, the state budget was executed with a surplus of UZS 88.8 bn or 1.2% of GDP.

**State Budget Revenues.** Trends in the area of budget regulation indicate a consistent reduction of the tax burden on the economy. This facilitates the expansion of opportunities for enterprises to conduct re-equipment and modernization of existing production facilities, as well as the timely implementation of urgent social programs. Indicators from the execution of the revenue portion of the state budget show that revenues of the state budget in percent to GDP declined in the first half of the current year and accounted for 27.6% as opposed to 28.2% in first half of 2005. At the same time, in spite of the reduction of the tax burden over these years it became possible to secure a stable increase in taxes and other mandatory payments, which grew noticeably in the real terms.

**Table 2.1. Execution of the Revenue Portion of the State Budget (in % to GDP)**

Indicator	I-II quarters 2000	I-II quarters 2001	I-II quarters 2002	I-II quarters 2003	I-II quarters 2004	I-II quarters 2005	I-II quarters 2006
Revenues – total	40.9	32.8	28.9	31.0	28.2	28.2	27.6
1. Direct taxes	10.6	9.5	7.5	7.9	7.0	7.6	7.8
2. Indirect taxes	24.6	18.3	17.5	18.2	16.6	13.2	11.6
3. Resource payments and property tax	4.1	3.3	2.3	2.6	3.0	5.5	5.3
4. Social infrastructure development tax	0.3	0.4	0.7	0.5	0.5	0.5	0.6
5. Other revenues	1.5	1.4	1.0	1.8	1.1	1.4	2.2

Source: Ministry of Finance of the Republic of Uzbekistan

According to the results of the first half of 2006, revenues of the state budget from indirect taxation in percentage to GDP fell by 1.6%, making up 11.6% (Table 2.1). The decrease in the share of indirect taxes occurred due to a change in the principles of taxation of some goods subject to excise. As seen from Table 2.2, revenues from excise tax alone fell by 6.3 p.p. in January-June of 2006, compared with January-June of 2005, while the shares of VAT and corporate income (profit) tax increased. One of the reasons for the decline in the share of excise tax was the application of a fixed rate of excise tax to some types of products produced in the country in the period under analysis.

In the period concerned, a decrease in the share of proceeds from personal income tax from 13.2% in the first half of 2005 to 12.7% in the period under analysis was observed (table 2.2.). The reason for this was the reduction of the personal income tax rate. At the same time, it should be noted that the share of other tax proceeds grew significantly.

**Table 2.2. Composition of State Budget Revenues (in % of total)**

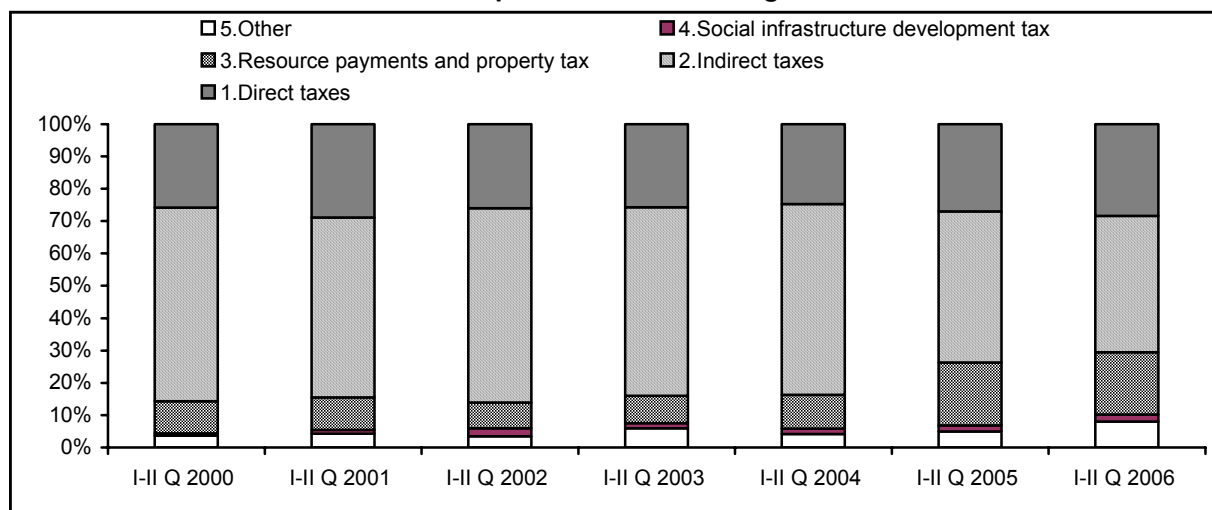
Indicator	I-II quarters 2000	I-II quarters 2001	I-II quarters 2002	I-II quarters 2003	I-II quarters 2004	I-II quarters 2005	I-II quarters 2006
Revenues – total	100	100	100	100	100	100	100
1. Direct taxes	25.9	29.0	26.0	25.7	24.7	27.0	28.4
Corporate income (profit) tax	12.4	11.9	9.3	8.2	7.4	8.0	9.9
Personal income tax	10.3	12.6	12.1	11.8	11.8	13.2	12.7
2. Indirect taxes	59.6	55.2	60.1	58.3	59.0	46.8	42.1
VAT	18.1	20.1	18.3	21.9	23.2	23.6	24.4
Excise	34.1	33.0	32.3	31.0	30.3	18.0	11.7
3. Resource payments and property tax	10.0	10.1	8.0	8.5	10.5	19.5	19.3
4. Social infrastructure development tax	0.7	1.2	2.4	1.6	1.6	1.8	2.2
5. Other revenues	3.7	4.3	3.5	5.9	4.2	5.0	8.0

Source: Ministry of Finance of the Republic of Uzbekistan

In spite of the reduction of income (profit) tax rates and dividends, the share of direct taxes in the total revenues of the budget increased from 27.0 percent in the first half of 2005 to 28.4 percent in the corresponding period of 2006 (table 2.2.). In this way, the reduction of tax rates influenced the increase in budget revenues, as the tax base was expanded through the utilization of the funds released from taxation for expanded production, and stimulated an increase in the number of taxpayers. The reduction of the tax burden on some

taxes left taxpayers with additional resources: UZS 24.7 bn from the corporate income (profit) tax (reduction of rate from 15% to 12%), UZS 3.9 bn from taxes on dividends (reduction of rate from 15% to 10%), and UZS 7.6 bn from the single tax payment (the rate of single tax payment for small enterprises and micro-forms was reduced from 15.2% to 13%). The reduction of the personal income tax rate led to an increase in the real income of the population (in the first half of the year the nominal monetary income of the population grew by 28.4%); the amount of funds released from taxation were calculated at UZS 5.9 bn.

**Chart 2.1. Composition of State Budget Revenues**



Source: Ministry of Finance of the Republic of Uzbekistan

### State Budget Expenditures

State budget expenditures in January-June of 2006 accounted for UZS 1954.7 bn or 26.4% of GDP. The dynamics of budget expenditures compared with January-June of the previous six years was characterized by certain fluctuations for different items (table 2.4. and chart 2.2.).

**Table 2.4. State Budget Expenditures, (in % of GDP)**

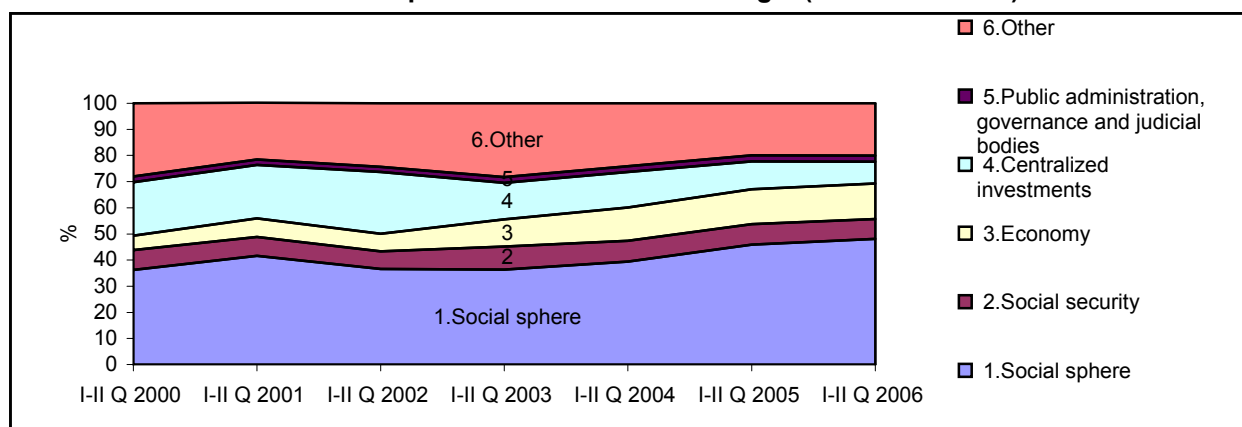
Indicator	I-II quarters 2000	I-II quarters 2001	I-II quarters 2002	I-II quarters 2003	I-II quarters 2004	I-II quarters 2005	I-II quarters 2006
Expenditures – total	38.1	33.4	31.2	28.6	26.6	27.0	26.4
1. Social sphere	13.8	13.9	11.4	10.3	10.5	12.4	12.7
Including:							
Education	9.7	10.0	8.1	7.4	7.8	8.2	8.6
Healthcare	3.2	3.0	2.7	2.5	2.4	2.4	3.0
Culture and sport, mass media	0.5	0.5	0.4	0.4	0.3	0.4	0.5
2. Social security	2.9	2.4	2.1	2.5	2.1	2.1	2.0
3. Economy	2.1	2.4	2.1	3.0	3.4	3.6	3.6
4. Centralized investments	7.8	6.8	7.4	4.0	3.6	2.9	2.2
5. Public administration, governance, and judicial bodies	0.8	0.7	0.6	0.6	0.6	0.6	0.6
6. Other	10.7	7.3	7.6	8.1	6.4	5.3	5.3

Source: Ministry of Finance of the Republic of Uzbekistan

In the composition of the state budget expenditures, expenditures for the social sphere and social support to the population predominated. At the same time, special attention was paid to strengthening the social orientation of budget expenditures and ensuring targeted social support to the population. The most significant real increase was registered in expenditures for education – 36.7 % and healthcare – 40%. In the reporting period, expenditures of the state budget for the development of science made up UZS 10.7 bn, which was 1.6 times greater than in the corresponding period of the previous year.

UZS 131.5 bn was directed for expenditures related with social support for the population and increasing the welfare of the population, of which 96% was assigned to pay social benefits to low-income families.



**Chart 2.2. Expenditures of the State Budget (in % of the total)**

Source: Ministry of Finance of the Republic of Uzbekistan

### State Budget Deficit

**Table 2.3. State Budget Deficit (in % of GDP)**

Indicator	I-II quarters 2000	I-II quarters 2001	I-II quarters 2002	I-II quarters 2003	I-II quarters 2004	I-II quarters 2005	I-II quarters 2006
Deficit (-); Surplus (+)	2.8	-0.6	-1.3	2.4	1.6	1.2	1.2

Source: Ministry of Finance of the Republic of Uzbekistan

Measures to reduce the state budget deficit and the observance of the maximum level of funding the deficit from non-inflationary sources led to the achievement of sustainable development of the economy, and to the implementation of measures for anti-inflationary regulation and management of inflation processes. In the first half of 2006 state budget surplus was 1.2 percent of GDP (table 2.3.).

### 3. Financial Markets

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

**Monetary and Credit Policy of the CBU.** In the first half of 2006, the monetary and credit policy of the CBU was directed primarily at stimulating demand among economic entities and the population through interest rates for loans and at increasing the level of satisfaction of the economy's needs for monetary funds. In the period under review the CBU refinancing rate remained unchanged at 16% (Table 3.1.1). This is explained by such factors as the stability of the macroeconomic situation and the maintenance of inflation within the assigned parameters (in the first half of 2006 the level of inflation was 3.5%).

**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
1 <sup>st</sup> half of 2005	16.0	21.4	10.8	30.5
1 <sup>st</sup> half of 2006	16.0	16.6	8.3	21.0

Source: Central Bank of Uzbekistan and Commercial Banks.

In the period under review a decrease in the interest rates on short-term loans has been observed. This has facilitated the increase in the demand of economic entities and the population for bank loans. In the first half of 2006, the interest rate on fixed-term deposits

of legal entities in UZS decreased by 2.5% compared to the respective period of the previous year, which was a result of the considerable decrease in the interest rates on short-term loans.

The decrease in the rate on short-term loans and the maintenance of inflation at an acceptable level facilitated the formation of positive real interest rates on credits and deposits. The average weighted rate on fixed-term deposits of individuals in foreign currency in the period under review increased by 3%. This tendency may have a certain impact on the amount of deposits in foreign currency from individuals in commercial banks (Table 3.1.2).

**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
1 <sup>st</sup> half of 2005	1.8	1.7
1 <sup>st</sup> half of 2006	2.5	4.7

Source: Central Bank of Uzbekistan and Commercial Banks.

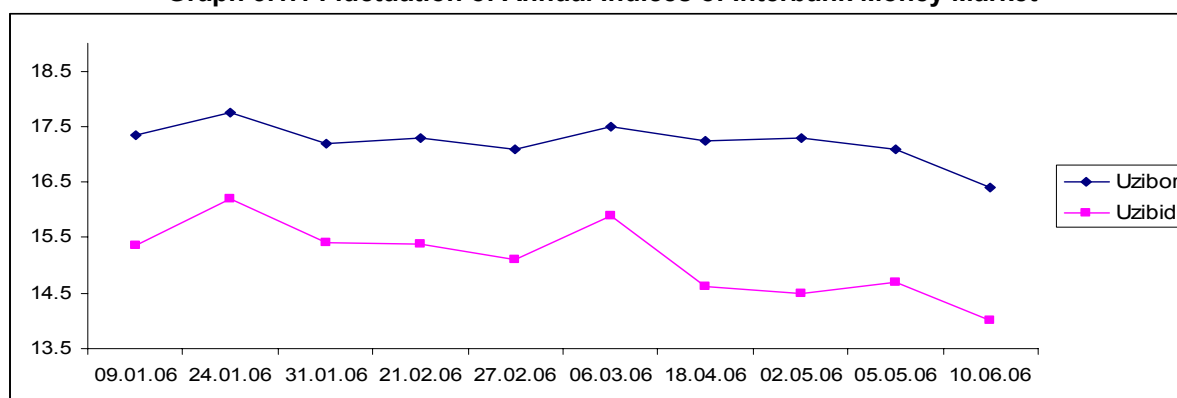
#### **Mandatory Reserve Requirements of the CBU.**

The standards of the mandatory reserve requirements of the CBU in the first half of 2006 remained unchanged: the rate of mandatory reserve deposits of commercial banks in UZS is 15%, and deposits in foreign currency – 8%.

**Interbank Loan Market.** At the present time, 12 commercial banks in Uzbekistan are market participants on the interbank loan market. There was

significant fluctuation of the UZIBID in 2006. This is explained by the instability of the demand for credits of commercial banks, resulting from the reduction of the resource base of commercial banks in the country in the first half of 2006. The reduction of the resource base had an impact on the crediting activity of commercial banks and hence on the interest rates on credits. On the whole, in the first half of 2006, the value of the UZIBOR indicator remained stable, which was linked to the stability of the supply of deposits (Graph 3.1.1).

**Graph 3.1.1 Fluctuation of Annual Indices of Interbank Money Market**

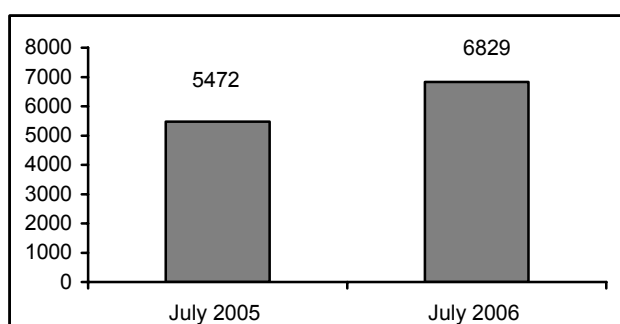


Source: "Bankovskie vedomosti"

**Banking Sector.** As of 1 July 2006, there were a total of 28 commercial banks in the national banking system of Uzbekistan. Of these, there were 3 state banks, 5 banks with foreign participation and 9 private banks. Compared with the respective period of 2005, the number of banks decreased by 1 unit; this is explained by the merger of Uzprivatbank and Uzpromstroibank. In addition, in order to facilitate the access of small and micro business entities to microcrediting, a new bank – Microcreditbank – has been founded on the basis of UzTadbirkorbank by a Decree of the President of Uzbekistan (No.3750 dated 5.05.06). The activity of this bank will facilitate: (1) the development of family businesses and out work; (2) access to microfinancing for a wide range of the population, especially in rural areas.

**Debit Card Transactions.** The growth of debit card transactions has been recently observed. According to the results of the first half of 2006, the number of debit card users has surpassed 3 million people since the beginning of 2006, an increase of 43.3%. The number of users of corporate debit cards has also increased, amounting to 3890 people. Within the first half of 2006, 911 new terminals were installed by 21 commercial banks in commercial and service points of banking services. As a result, their total number reached 12098 as of 1 July of the current year. The monetary turnover on debit cards amounted to UZS 121.36 billion in the national currency; in other words, this indicator has grown by almost 80%.

**Graph 3.1.2 Growth of the Aggregate Assets of Commercial Banks of Uzbekistan in UZS billion**



Source: "Bankovskie vedomosti"

**Assets of Commercial Banks.** As of 1 July 2006 the aggregate assets of commercial banks increased by 24.8% compared to the respective period of 2005 (Graph 3.1.2).

This increase in aggregate assets resulted mainly from the growth of credit deposits of commercial banks. In the first half of 2006 the bulk of credit of commercial banks granted to the real sector amounted to UZS 1 trillion 676 billion, of which 70% were long-term credits. Credits of commercial banks increased by 12.6% compared to the respective period of the previous year.

**Table 3.1.3 Sectoral Structure of the Credits of Commercial Banks of Uzbekistan**

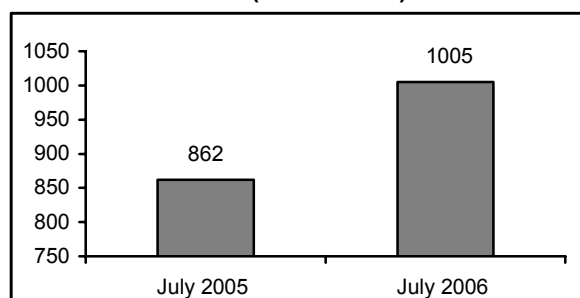
	as of 1 January 2006	as of 1 July 2006
Credits – total, UZS billion	3853.3	4337.8
Sectoral Structure of the Credits, %	100	100
Industry	57.8	50.8
Agriculture	4.1	12.2
Transport and communications	16.3	13.7
Construction	2.4	2.5
Trade	4.2	3.8
Material support	1.3	1.6
Other sectors	13.9	15.4

Source: Central Bank of Uzbekistan.

In the period under review, the majority of the credits of commercial banks were granted to industrial, transport and communications enterprises. This is explained by the relatively high level of financing of the investment outlay in these sectors. The share of credits granted to agriculture remained relatively low, despite the fact that the share of credits in the first half of 2006 increased by 8.1% compared to 2005.

**Deposits of Commercial Banks.** As of 1 July 2006, the aggregate deposits of commercial banks in the country amounted to UZS 849603.4 million in the national currency. The structure of deposits was as follows: transaction deposits – 78.2%; savings deposits – 3.2%; term deposits – 18.6%.

**Graph 3.1.3 Size of the Aggregate Assets of Commercial Banks of the Republic of Uzbekistan (UZS billion)**



Source: Central Bank of Uzbekistan.

**Capitalization of the Banking System.** In the first half of 2006 the level of capitalization of the banks increased by 16.6% (Graph 3.1.3) compared to the respective period of 2005. The size of the aggregate assets of commercial banks amounted to 1005 billion soums by the end of June of 2006. Such relatively high growth was a result of arrangements made to increase the capitalization and paying capacity of the banks of the country.

### 3.2. Stock Market Development

**Corporate Stock Market.** By July 1 2006, The State Stock Register recorded:

- 13480 shares accounting for a total of UZS 3701.1 billion, including 64 issues for UZS 181.1 billion in the first half of 2006;
- 115 issues of corporate bonds from 84 issuers for UZS 63.1 billion, including 3 issues for UZS 0.7 billion in the first half of 2006.

In the first half of 2006 the total circulation of the corporate stock market (total value of shares and corporate stocks) amounted to UZS 167.3 billion, including UZS 80.4 billion in the 2<sup>nd</sup> quarter. The growth rates were 2.1 and 1.6 times higher, respectively, than for the corresponding periods of the previous year. The vast majority of stock circulation (95.2%) was made up of revenues from the sale of shares of joint stock companies. Their total yield was UZS 159.3 billion in the 1<sup>st</sup> half of 2006, including UZS 75.8 billion in the 2<sup>nd</sup> quarter (Table 3.2.1 and Annex 3.2.1), which exceeded the values of the corresponding indicators of the previous year by 2.5 and 1.7 times respectively.

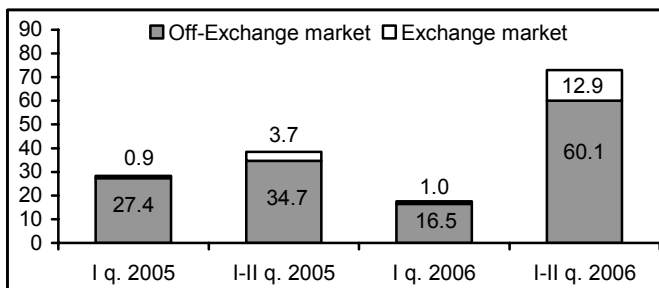
**Table 3.2.1. Total Sale of Shares in the Stock Market (UZS billion)**

Period	Primary Market		Secondary Market		Total	
	Amount	in % to total	Amount	in % to total	Amount	in % to total
05/II	28.3	64.8	15.4	35.2	43.7	100
05/I-II	38.4	59.1	26.6	40.9	65.0	100
06/II	17.5	23.1	58.3	76.9	75.8	100
06/I-II	73.0	45.8	86.3	54.2	159.3	100

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

During the first half of 2006, shares were sold for UZS 12.9 billion on the exchange sector of the primary stock market, and on the off-exchange market for UZS 60.1 billion (Graph 2.2.1). Growth rates compared to the respective period of the previous year were 3.5 and 1.7 times higher, respectively, which resulted from the significant increase in sales volume on both the exchange and off-exchange sectors of the primary stock market in the 1st quarter of the current year. In the 2<sup>nd</sup> quarter, the volume of sales of shares on the exchange market increased by only 11.1%, and on the off-exchange market by 60.2% with respect to the same indicators for the corresponding period of the previous year.

**Graph 2.2.1. Proceeds from Sale of 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

There was a significant decrease in the sales volume on the off-exchange primary market in the 2<sup>nd</sup> quarter of 2006 as a result of the suspension of bidding on the state share holdings of several large-scale enterprises. This was connected with the initial preparation for the new program on privatization for 2006-2008 in April 2006. More details on this new privatization program can be found in Section 5.1 of this Informational and Analytical Bulletin.

Of the total amount of transactions of shares of privatized enterprises concluded in the first half of 2006, the largest share consisted of investment-attractive enterprises such as the joint stock company "Uzozykovkatsanoat" (48.9%), the state joint stock company "Uzbekenergo" (41.3%), and the Ministry of Agriculture and Water Resources (3.7%). In terms of location, most of the enterprises were located in Khorezm region (46.1%), Navoi region (16.6%), Bukhara region (10.1%) and Fergana region (9.6%).

The growing trend of foreign investors' and joint ventures' activity in the primary stock market has been maintained. Their share in the total amount of sales of shares of privatized enterprises accounted for 94.2%, which was 22.8% more than in the corresponding period of the previous year. Foreign investors bought large share holdings of several joint stock companies: "Khorezm shakar" – 99.4%, "Urganch ekskavator" – 74.0%, "Fargona electr tarmoklari" – 44.0%, "Navoi electr tarmoklari" – 47.0% and others.

The share of individual local investors in the purchase of shares of privatized enterprises was as follows: small-scale business entities – 1.4%, large enterprises and business associations – 1.3%, investment dealers – 1.9%, banks – 0.7% and individuals – 0.5%.

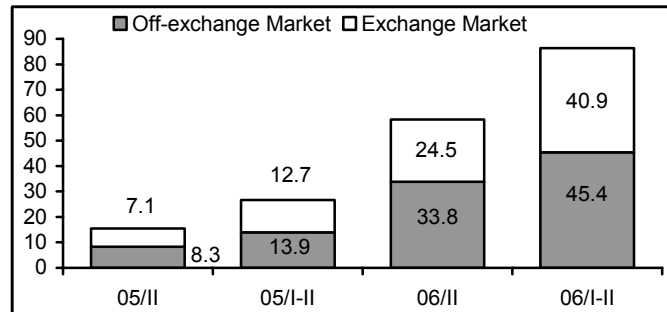
There was little activity in the purchase of shares of privatized enterprises among investment funds created to attract the uncommitted funds of the population into privatization. Their share in the total amount of sales of shares of privatized enterprises accounted merely for 0.03%.

The ongoing large-scale sale of state shares to legal entities and private individuals facilitated the increase in turnover on the secondary security market. In the first half of 2006 the secondary sale of shares amounted to UZS 86.3 billion, including UZS 58.3 billion in the 2<sup>nd</sup> quarter (Table 3.2.1). Growth rates compared to the corresponding periods of the previous year were 3.2 and 3.8 times higher, respectively.

Over the first half of 2006, shares worth UZS 40.9 billion were sold on the exchange segment of the secondary securities market, while on the off-exchange segment, shares were sold for UZS 45.4 billion (Graph 3.2.2). These figures were 3.2 and 3.3 times more than for the corresponding period of the previous year.

As there was practically no difference between the growth rates for sales volume on the exchange and off-exchange segments of the securities market, their proportion in the total turnover of the secondary securities market remained unchanged compared to the first half of the previous year: 47.4% and 52.6%, respectively.

**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

Shares of commercial banks and of such investment-attractive state joint-stock companies as “Uzbekenergo” and “Uzbekengilsanoat,” as well as of the association “Uzqurilishmateriallari,” had the highest share in the total amount of transactions of purchase and sale on the secondary securities market. In terms of location, most of the sold shares belonged to enterprises located in Tashkent city, Tashkent region and Fergana region.

Shares of many joint-stock companies were sold at a significantly higher price than their nominal cost: “Bekabadcement” – 50.9 times higher, “Uzbek kogozi” – 40.2 times, “Kuvasaicement” – 40.1 times, “Bukhoro Yog Ekstraktsiya Zavodi” – 18.1 times, “Besharyk Pakhta Tozalash Zavodi” – 16.7 times, “Surkhanozyk-ovkatsanoat” – 10.3 times and others.

Foreign investors have become more and more active in buying shares on the exchange segment of the secondary securities market. In the first half of 2006 they concluded 359 exchange transactions for the purchase of 9.7 million shares of 39 joint-stock companies for the total amount of USD 18.9 million, including shares of the joint-stock companies: “Bekabadcement” – USD 1.1 million, “Shodlik” – USD 1.0 million and “Bukhorotex” – USD 163.3 thousand.

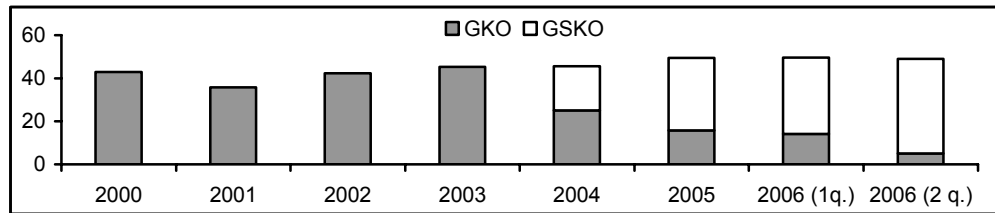
Meanwhile, there was a decline in business activity on the market of another type of securities: the corporate bonds that have been issued by enterprises since 2002 in order to attract additional investments. During the first half of 2006, transactions for the purchase and sale of such bonds amounted to UZS 8.3 billion, which was UZS 5.4 billion or 39.4% less than for the corresponding period of the previous year. At the same time, the amount of transactions on the primary securities market decreased by 3.0 times, amounting to UZS 2.3 billion, while on the secondary securities market they decreased by 11.6%, amounting to UZS 6.0 billion. The decrease in the total number of sales of this type of stock resulted from the fact that a large number of previously issued bonds had been paid off at the beginning of 2006, as well as from the decrease in their issue. During the first half of 2005 there were 11 issues of stocks registered for UZS 5.3 billion, while during the first half of the current year only 3 issues were registered for UZS 0.7 billion.

**State Securities Market.** Within the first half of 2006, the stability of the exchange rate of the UZS and the decrease in the yield of the government bonds and the interbank loan interest rates were secured through positive macroeconomic indicators, the significantly favorable balance of foreign trade and the minimal volume of internal government loans. There was a rise in interest in market operations related to government debt and interbank credits. Quotations on the market of corporate bonds fluctuated, while bidders exhibited a selective demand for certain securities.

Positive trends in the development of the economy and favorable external market conditions facilitated the stability of the state securities market and a decrease in their yield in the first half of 2006. Under conditions of a surplus in the public budget, the Ministry of Finance of the Republic of Uzbekistan maintained a policy aimed at gradually decreasing the amount of domestic debt put into state securities (Graph 3.2.3). During the period under review the size of the market portfolio of GKO (State short-term bonds) and GSKO (State medium-term Treasury Certificates) at face value decreased insignificantly; 8 issues of GKO and 12 issues of GSKO were paid off.

In order to replace instruments which have left the market and to support market solvency, new issues of GSKOs were floated at auctions in moderate volumes with yields similar to the current values of inflation and in some cases even lower. In 2006 there is still no access for nonresidents to the GKO-GSKO market. The market of domestic bonded debt is not dependent on the policies of foreign investors.

**Graph 3.2.3. State Securities in Circulation (UZS billion) by the end of the period**

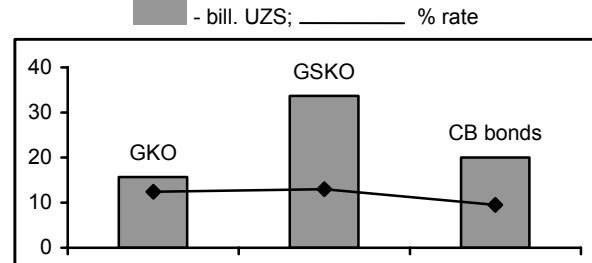


Source: Ministry of Finance, Central Bank of Uzbekistan.

The increase in the solvency of the banking system, the relative stability of the national currency, wise policies on the domestic debt market and the lack of alternative financial instruments facilitated the rise of activity among participants in the GKO-GSKO market. This is mostly true for the secondary market.

The observed decline of the level and the approach towards profitability for the entire spectrum of instruments is an indicator of moderate inflationary expectations (Graph 3.2.4). The restrained policy of the issuer, committed to servicing the domestic debt in full, facilitated the further stabilization of the market.

**Graph 3.2.4. Yield and Volume of Circulating State Securities in 2006 (as of January 2006)**



Source: Data from the Ministry of Finance of Uzbekistan and the Central Bank of Uzbekistan

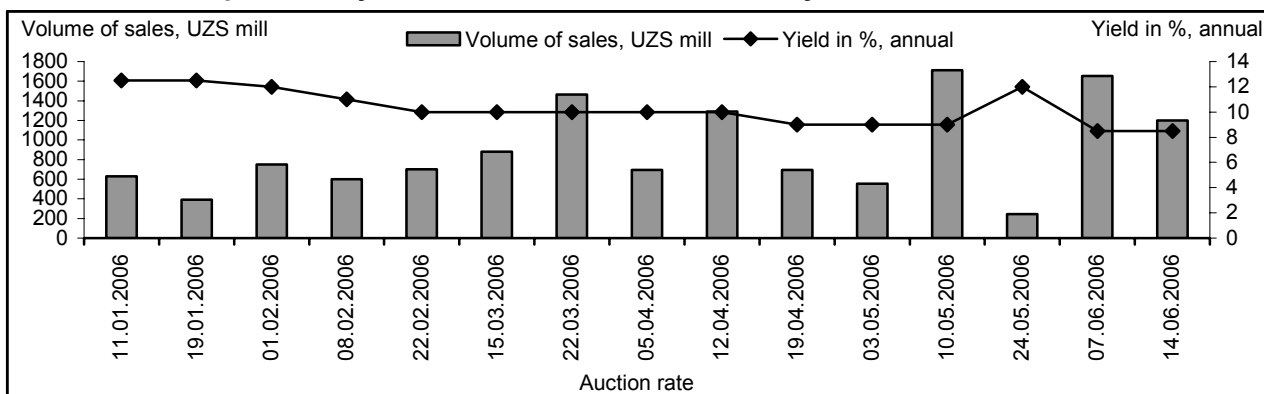
During the 2<sup>nd</sup> quarter of 2006, the state securities market had the following dynamics. The amount of domestic debt put into state securities – State short-term bonds (GKO) and State medium-term Treasury Certificates (GSKO) – by July 1 2006 decreased by 1% compared to January 1 2006. During the first half of 2006 the amount of secondary sales increased significantly (by 50%).

One of the particularities of the policy of the Ministry of Finance during the first half of 2006 was to limit share of transactions for the additional sale of issues of state securities in secondary trading. Significant growth in the demand for UZS assets led to acceptable yields for the issuer even in the course of the primary bond floatation. In 2006, due to the joint efforts of the Ministry of Finance and the Central Bank, the importance of the domestic debt market increased and became considered as an indicator of the profitability of risk-free investments. The stability of rates for state securities was one of the factors in the decrease in the cost of attracting resources to the corporate market.

**State Short-Term Bonds**

The state securities market has existed in Uzbekistan since 1996, when the first issue of state short-term bonds was issued. The development of the GKO market became the basis for the formation of the entire state securities market in Uzbekistan, including its infrastructure, legal base and participants. However, due to the prolongation of domestic state debt, the given segment of the market continues to decline steadily (Graph 3.2.6).

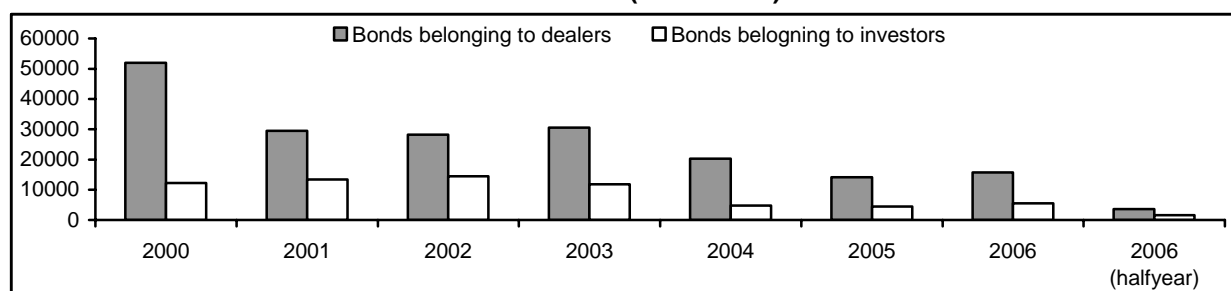
**Graph 3.2.6. Dynamics of Indicators of the Primary GSKO Market in 2006**



Source: Data from the Ministry of Finance of Uzbekistan and the Central Bank of Uzbekistan

During the first half of 2006 there was one auction of GKO with a term of 1 year. 124 secondary auctions were held. The amount of GKOs in circulation by July 1, 2006 was 32.34% of the similar indicator as of January 1, 2006. The share of short-term domestic debt in the total amount of state debt continued to decrease and at the same time the share of medium-term domestic debt continued to increase. By July 1, 2006 this ratio was 10.4% to 89.6%. By January 1, 2006 this ratio was 32% to 68%. Since 1996, throughout the entire period of the GKO market, 293 issues with different terms have been held. These included 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 July 1, 2006 there were 5 issues of GKOs in circulation. Of the total amount of bonds issued, almost 92% were sold at auctions. Within the first six months of 2006, 8 issues of GKOs were paid off.

**Graph 3.2.5. Ratio of GKO Volumes of Dealers and Investors by the beginning of the period, in UZS million (2000- 2006)**



Source: Data from the Ministry of Finance of Uzbekistan and the Central Bank of Uzbekistan

### State medium-term Treasury certificates

State medium-term Treasury certificates (GSKO) have been issued in Uzbekistan since 2004. GSKOs represent securities issued by the Ministry of Finance on behalf of the government in paperless form and floated with banks and legal entities (residents). The money from their sale goes to the budget of the Republic of Uzbekistan.

**Table 3.2.2. Auctions of Medium-Term Treasury Obligations in the II<sup>nd</sup> quarter of 2006**

Auction Date	Number of Issue of Medium-Term Treasury Obligations	Pay-off term (days)	Volume of Issue (UZS million)	Volume of Sale* (UZS million)	Quantity of Bonds (pcs)		Average Weighted Price of satisfied competitive bids in % to nominal value	Stated Interest Rate, annual (%)
					stated	sold		
05.04.2006	25045UMFS	546	2200	693.45	1660479	693449	100.00	10.00
12.04.2006	25046UMFS	546	1800	1291.22	1291221	1291221	100.00	10.00
19.04.2006	25047UMFS	546	1000	693.45	693449	693449	100.00	9.00
03.05.2006	25048UMFS	546	1000	554.61	554609	554609	100.00	9.00
10.05.2006	25049UMFS	546	2100	1712.41	2222894	1712414	100.00	9.00
24.05.2006	25050UMFS	546	300	246.00	691402	234285	105.00	12.00
07.06.2006	25051UMFS	546	2000	1651.86	4053932	1648564	100.20	8.50
14.06.2006	25052UMFS	546	3000	1200.12	3907224	1200000	100.01	8.50

\* 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

The amount of domestic debt put into GSKOs by July 1, 2006 rose by more than 30% compared to January 1, 2006. This sector of the financial market continues to develop; the size of the GSKO market is more than 8 times as large as the GKO market. During the first half of 2006 there were 15 auctions of GSKO issues, with a pay-off term of 546 days (18 months); 112 secondary auctions were held. The amount of secondary sales has increased by 1.5 times. Since 2003, throughout the entire period of the GSKO market, 52 issues have been held. By July 1, 2006 there had been 32 issues of GSKOs. During the first half of 2006, 12 issues were paid off. By July 1, 2006 the ratio of primary to secondary markets was 47% to 53%. During the first quarter, GSKO revenues rose by 30%. Revenues from dealers' issues made up 75% and from investors' issues – 25%.

**Annex 3.2.1. Dynamics of Sales Proceeds of Shares on the Stock Market (UZS billion)**

Indicator	2000	2001	2002	2003	2004	2005	05/II	05/I-II	06/II	06/I-II
Total share yield on the stock market	17.1	26.1	41.7	74.7	115.0	142.5	43.7	65.0	75.8	159.3
In the primary market	6.2	12.2	16.3	53.9	62.1	88.7	28.3	38.4	17.5	73.0
Exchange	4.6	6.8	10.5	19.7	18.5	14.9	0.9	3.7	1.0	12.9
Off-exchange	1.6	5.4	5.8	34.2	43.6	73.8	27.4	34.7	16.5	60.1
In the secondary market	10.9	13.9	25.4	20.8	53.0	53.8	15.4	26.6	58.3	86.3
Exchange	0.6	1.1	4.6	12.4	22.8	26.3	7.1	12.7	24.5	40.9
Off-exchange	10.3	12.8	20.8	8.4	30.2	27.7	8.3	13.9	33.8	45.4

Source: Center for Coordination and Control of the Stock Market.



## 4. Foreign Exchange Market and Foreign Trade

### 4.1. Monetary Policy

The monetary policy conducted by the Central Bank of the Republic of Uzbekistan in the first half of 2006 was aimed at strengthening the purchasing power of the national currency by carrying out an anti-inflation policy and improving the system of payments and accounting. As a result, during the period under review, the level of inflation did not exceed projected parameters, reaching 3.5%, while foreign trade turnover increased by 4.6% in comparison with the first half of 2005.

The Central Bank of the Republic of Uzbekistan undertook measures to further develop the internal currency market and support its stable operation. During the period under review, 25 authorized banks, with licenses from the Central Bank of Uzbekistan, enjoyed the right to conduct currency operations.

The growth of confidence in the national currency, as well as the attraction of saving money in the national currency, is justified by the fact that, during the period under review, deposits of individuals in banks increased by 55.6% in comparison to the first half of 2005. At the same time, the absolute growth of bank savings of individuals in the national currency exceeded the growth of savings in foreign currency.

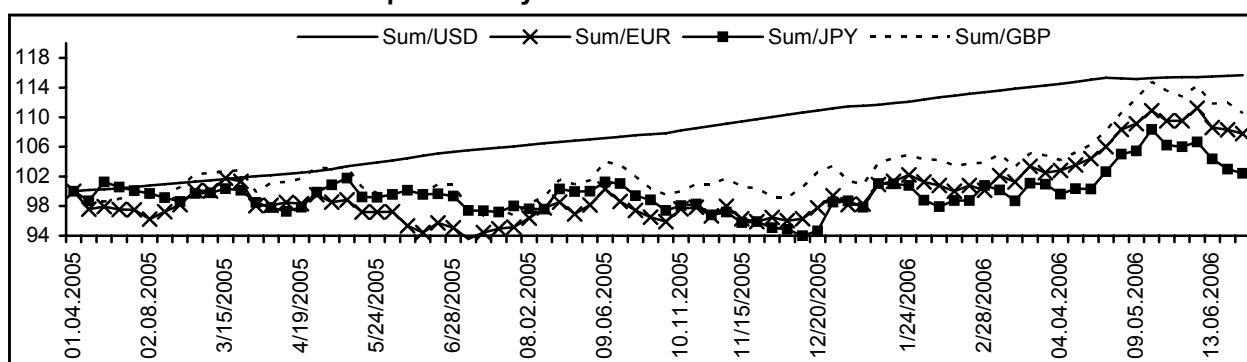
**Nominal exchange rates.** In the first half of 2006 the nominal exchange rate of Uzbek soum to US dollar devalued by 3.8%, and by 9.8% in comparison with the corresponding period of 2005. The foreign currency cash exchange rate decreased by 2.7% and 9.9% respectively. The decline in devaluation rates of the nominal exchange rate and foreign currency cash exchange rate indicate positive expectations of market participants, linked with the decreasing pressure of market demands for foreign currency (Table 4.1.1 and Graph 4.1.1).

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

Period	CBU exchange rate (UZS/USD)	Changes in comparison to the previous period (in %)	Foreign exchange 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
2005/I	1080.0	2.1	1083.5	2.0
2005/II	1115.0	3.2	1118.1	3.2
2006/I	1210.0	2.5	1224.1	2.3
2006/II	1224.6	1.2	1229.5	0.4

Source: Bankovskie vedomosti, the author's calculations.

**Graph 4.1.1. Dynamics of Nominal Rate of UZS**



Source: Bankovskie vedomosti, the author's calculations.

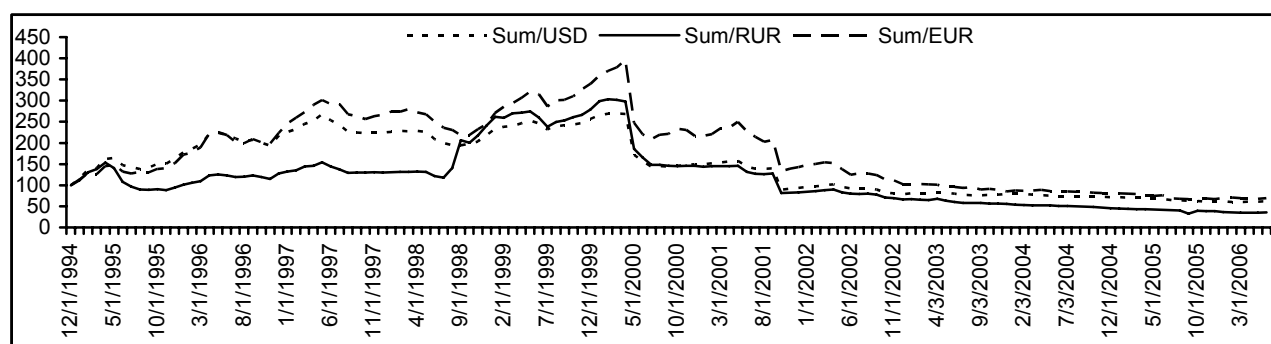
The dynamics of Uzbek soum against other reserve currencies was characterized by the following changes: according to the results of the first half of 2006, Uzbek soum devalued against British pound by 8.95%, against Euro – by 9.8%, and against JPY– by 3.8%. The key factors affecting the exchange rates of the above-mentioned currencies to Uzbek soum remained the conjuncture of international financial markets and the continued weakening of US dollar in the world currency market. In comparison to December 2005, US dollar depreciated by 6.8% against Euro, by 5.6% against the British pound, by 3.2% against Japanese yen, and by 0.9% against Chinese yuan. The slowing of business activities in the US was justified by data on GDP dynamics, which showed a decrease in official growth rates of the economy in the second quarter to 2.5% in annual terms, i.e. more than twice in comparison to the first quarter. At the same time, most of the

indicators indicate further strengthening of inflationary tendencies. Based on expectations of a further increase of interest rates in the Eurozone, Great Britain and Japan, this factor contributed to the strengthening tendency of the US Dollar exchange rate to decline. The devaluation of Uzbek soum against Russian rouble, by the end of the first quarter of 2006, was 10.4%. As a result of the sharp decline of US dollar exchange rate against Euro in the first half of 2006, Russian rouble significantly strengthened against US dollar, with its actual effective rate increasing by 6.7%.

**Real Exchange Rates.** As of the first half of 2006, the exchange rate of the national currency depreciated by 3.6% against US dollar, by 6.1% against Euro, and by 1.96% against Russian rouble.

The main factors that affected the Uzbek soums rate in actual terms included the decrease in inflation rates in Uzbekistan and the continued strengthening of Euro and Russian rouble in the world financial market.

**Graph 4.1.2. Real exchange rates of UZS: UZS/USD, UZS/EUR, UZS/RUR (December 1994=100)**



Sources: International Financial Statistics (IFS), IMF; Bankovskie vedomosti, the authors' calculations.

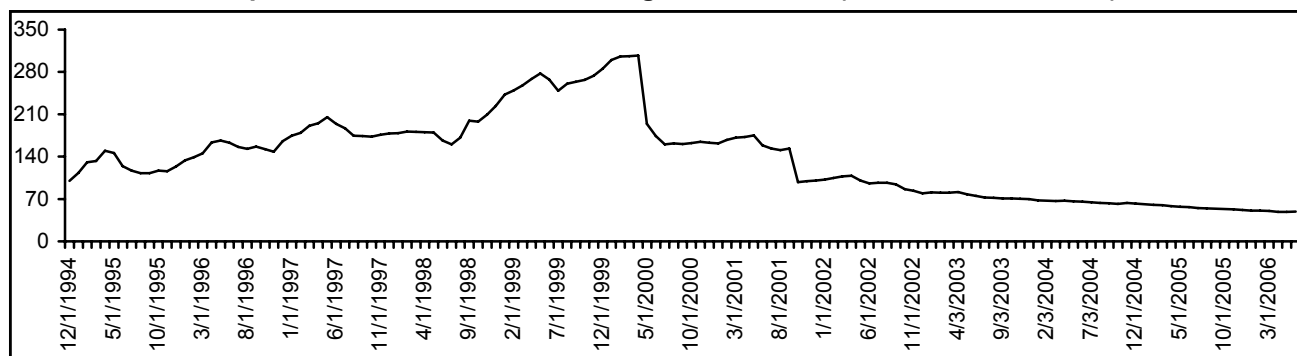
**Real Effective Exchange Rate.** As of the first half of 2006, the real effective exchange rate of Uzbek soum strengthened by 5.4%. The final dynamics of the actual effective exchange rate of Uzbek soum reflected tendencies in the dynamics of the UZS/USD exchange rate in the domestic market as well as the conjuncture of currency markets of the main trading partners of Uzbekistan. The acceleration of the growth of the nominal exchange rate of Uzbek soum in the first quarter of 2006 to 2.5% (against December, 2005) was replaced by its stabilization in the second quarter, in the range of 1.5%. The contribution of certain currencies into the dynamics of the final indicator of the actual effective exchange rate of the Uzbek soum index has changed somewhat. While in the first half of 2005, the accelerated strengthening of the US dollar exchange rate against Euro (by 9.8%) dominated in the international market, with a commensurate decrease of the US dollar exchange rate against CIS currencies (-2.5%), in the same period of 2006, the Euro resumption of its position against US dollar (by 6.2%) was supported by increasing exchange rates of the currencies of CIS and South-East Asian countries against the US dollar by 2.6% and 2.3% respectively (Table 4.1.2).

**Table 4.1.2. Dynamics of Main Components of the Real Effective Exchange Rate (in % of growth to December of previous year)**

	June, 2005	June, 2006
Dynamics of Prices Indexes by Groups of Countries		
EU (19 countries)	1.3	1.7
SEA	0.5	1.3
CIS	4.9	3.5
US	2.2	3.4
Dynamics of Index of Nominal Weighted Exchange Rate of USD Against Currencies of Selected Groups of Countries		
EU (19 countries)	9.8	-6.2
SEA	0.8	-2.3
CIS	-2.5	-2.6

Source: International Financial Statistics (IFS), IMF

The dynamics of differences in prices indexes between Uzbekistan and the rest of the world also became an important factor which influenced the dynamics of the actual effective exchange rate of Uzbek soum. Low growth rates of inflation in Uzbekistan were accompanied by some increase in inflation rates abroad (particularly in the EU, South-East Asia and USD) in comparison with the corresponding period of 2005.

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

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

## 4.2. Trade Balance, Exports and Imports

The distinctive feature of the second quarter of 2006 was the achievement of excellent results in the sphere of foreign trade during that period. For the first time since 2000, foreign trade turnover reached a maximal quarter indicator of USD 2.67 bn., including USD 1.58 bn. in exports and USD 1.09 bn. in imports. During that period, the trade balance reached a record-high level of USD 496 million. As a result, during the 1<sup>st</sup> half of 2006, the foreign trade turnover of the Republic of Uzbekistan increased by 4.6% over the corresponding period of the previous year, and amounted to USD 5.06 bn.. At the same time, 58.7% of the total volume of foreign trade turnover came from exports, while imports accounted for 41.3%. The growth of exports was significantly higher than the growth of imports, by 5.2% and 3.6% respectively.

During the second quarter of 2006, the favorable conjuncture of prices for the main export commodities of Uzbekistan on world markets played a valuable role in the growth of exports. Prices for raw cotton and cotton fiber remained at high levels. On the world market for gold, several fluctuations in price occurred during the 1<sup>st</sup> half of 2006. During the first half of May, prices for gold and silver reached the highest level in 26 years. On May 11, 2006, the price of silver reached USD 15.2 per ounce, while the price for gold reached USD 732 per ounce the very following day. These price indicators were a record high, unmatched since January, 1980. And at the end of the period, on the 30<sup>th</sup> of June, the price of gold on the New York Commodity Exchange once again exceeded the level of USD 600 per ounce. One of the main factors affecting the rise in gold prices was the increase in the price of oil. High oil prices and apprehension about a deficit in the oil supply coinciding with the increasing demand for energy resources spurred investment purchases of gold. The situation with the US dollar played an equally significant role. The dollar fell against the Euro and other leading currencies as a result of expectations that the US Federal Reserve would not further increase the basic discount rate. Financial experts asserted that after the rise of the discount rate to 5.25% on June 19<sup>th</sup>, 2006, inflation process in the US would cease, and, consequently there would be no need for a further increase in the rate by the Federal Reserve<sup>(1)</sup>.

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

Indicator	2005/I-II	2006/I-II	Including		Change in volume, %	
			2005/ II*	2006/II*	2006/I-II in % to 2005/I-II	2006/II in % to 2005/II*
Foreign trade turnover	4838.6	5059.3	2545.3	2672.8	104.6	105.0
CIS countries	1653.9	2013.6	916.2	1119.2	121.7	122.2
Non-CIS countries	3184.7	3045.7	1629.1	1553.6	95.6	95.4
Exports	2823.3	2971.2	1495.4	1584.4	105.2	106.0
CIS countries	828.6	1137.8	486.2	667.7	137.3	137.3
Non-CIS countries	1994.7	1833.4	1009.2	916.7	91.9	90.8
Import	2015.3	2088.1	1049.9	1088.4	103.6	103.7
CIS countries	825.3	875.8	430.0	451.5	106.1	105.0
Non-CIS countries	1190.0	1212.3	619.9	636.9	101.9	102.7
Trade balance	808.0	883.1	445.5	496	109.3	111.3
CIS countries	3.3	262	56.2	216.2	7.9 times	3.8 times
Non-CIS countries	804.7	621.1	389.3	279.8	77.2	71.9
Structure of foreign trade turnover, %	100.0	100.0	100.0	100.0	X	X
CIS countries	34.2	39.8	36.0	41.9	X	X
Non-CIS countries	65.8	60.2	64.0	58.1	X	X

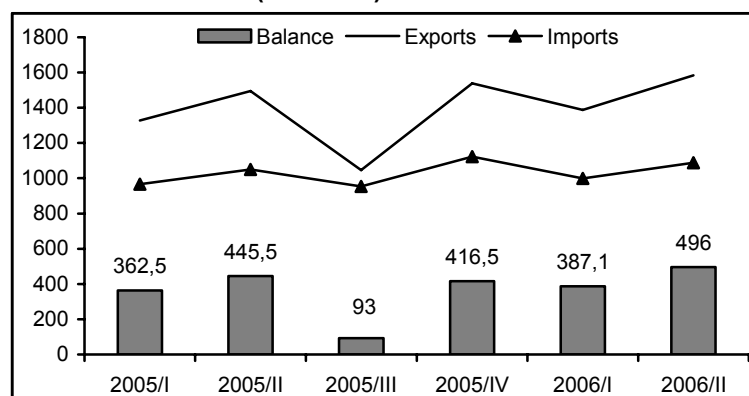
Source: The State Statistics Committee of the Republic of Uzbekistan

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

1 Source: www.quote.ru

According to the results of the 1<sup>st</sup> half of 2006, the export-import ratio equaled 1.42, including 1.3 with the CIS and 1.51 with foreign countries, as opposed to 1.40; 1.0; and 1.68 respectively in the corresponding period of the previous year. As a result, the positive trade balance equaled USD 883.1 mill. (496 mill. USD) and significantly increased in comparison with the 1<sup>st</sup> half of 2005, by USD 75.1 mill. (50.5 mill. USD in comparison with the second quarter of 2005) (Table 4.2.1, Annex 4.2.1, Graph 4.2.1). 70.3% of the positive trade balance, or USD 621.1 mill., was received in the 1<sup>st</sup> half of 2006 from trade with foreign countries. During the same period, the positive trade balance with the CIS significantly increased to reach USD 262 mill., versus USD 3.3 mill. in the corresponding period of the previous year. This very fact shows that the improving partnerships with CIS countries have a positive impact on the foreign trade balance of the country.

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



Source: The State Statistics Committee of the Republic of Uzbekistan

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

In the 1<sup>st</sup> half of 2006, the commodity structure of exports underwent certain changes. Exports grew in a majority of commodity groups. Enterprises of such associations as "Uzeltechprom", "Uzmetcombinat", "Uzmi-asomolprom", and "Uzstroimateriali" increased their export volumes.

A comparison of the growth in exports by commodity group with the results of the 1<sup>st</sup> half of 2005 does not show any significant changes between raw materials exports (1.13-1.5 times) and final product exports (1.03-1.5 times) (Table 4.2.2). Exports of foodstuffs increased by 1.5 times (1.6 times in the second quarter) over the 1<sup>st</sup> half of 2005, and exports of chemical products, plastic and plastic goods increased by 1.3 times (1.1 times in the second quarter). At the same time, the share of

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

Commodity groups	Share in total volume of exports, %				Change in volume, %	
	2005/I-II	2006/I-II	including		2006/I-II in % to 2005/I-II	2006/II in % to 2005II*
			2005/II*	2006/II*		
Cotton fiber	21.2	22.8	15.9	19.4	112.9	129.2
Foodstuffs	3.3	4.7	3.6	5.5	150.4	161.3
Chemical products, plastics and plastic goods	4.1	4.9	4.4	4.6	125.1	111.8
Energy carriers	9.3	13.3	11.3	14.8	150.3	139.0
Non-ferrous and ferrous metals	9.1	11.8	8.5	13.4	137.6	166.6
Machinery and equipment	9.0	8.8	10.1	9.7	103.5	102.1
Services	10.9	12.2	10.7	12.5	117.2	123.9
Others	33.1	21.5	35.6	20.1	68.4	60.0
Total	100.0	100.0	100.0	100.0	105.2	106.0

Source: The State Statistics Committee of the Republic of Uzbekistan

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

exports of foodstuffs accounted for 4.7% (an increase of 1.4 p.p. against the level of the 1<sup>st</sup> half of 2005) and chemical products – 4.9% (0.8 p.p.) (Table 4.2.2, Annex 4.2.2). In the chemicals industry, export volumes of non-organic chemistry, fertilizers, chemicals and chemical fibers continued to grow, while exports of pharmaceutical products decreased, which is explained by a decline in production volumes at enterprises of the "Uzpharmsanoat" company.

Also, in the second quarter of 2006, a decline in exports was observed in certain commodity groups. For example, in the 1<sup>st</sup> quarter of 2005, exports of chemical products increased by 142.6% over the 1<sup>st</sup> quarter of 2005. However, in the second quarter of 2006, growth equaled only 111.8%. A similar situation was observed for such commodity groups as energy carriers (170.5% in the 1<sup>st</sup> quarter and 139.0% in the 2<sup>nd</sup> quarter) and machinery and equipment (105.6% and 102.1% respectively).

During the 1<sup>st</sup> half of 2006, exports of foodstuffs increased at an accelerated pace, where a significant role was played by the reprocessing of fruits and vegetables. In this group, the highest growth against the corresponding period of the previous year was achieved by melons and melon products, 356.5%, followed by vegetables, 233.8%. This testifies to the fact that the country has huge potential for exporting fruits and vegetables. In order to increase the efficiency of using that export potential, it is important to improve organized marketing. Fruits and vegetables produced by dekhkans and farmers often lack proper packaging and

are exported in small volumes. As a result, related expenses are relatively high and sale prices are relatively low. It would be useful to study the experience of foreign countries in developing marketing networks. One example could be the establishment of general trading companies that buy fruits and vegetables from farmers and accurately sort, process, package and export them.

During the 1<sup>st</sup> half of 2006, the commodity group "foodstuffs" recorded the highest growth rate in exports in comparison with the corresponding period of the previous year, at 50.4%. The group of energy carriers was just behind, at 50.3%. Third place in the growth of exports was achieved by the group of non-ferrous and ferrous metals, at 37.6%, which was followed by chemical products (25.1%) and services (17.2%). The group of cotton-fiber continued to lose its position in the ranking, ending up as one of the slow-growing groups, at 12.9%. However, this group continues to occupy the leading position in the share in total exports, at 22.8%.

On the services side, 70.4% of total exports was provided by transportation services. Second place was recorded for other additional transportation services (10.0%). Thus, more than 80% of total exports of services belonged to services related to transportation. It is necessary to improve exports of other services as well.

In the commodity structure of imports, leading positions were held by those types of products necessary for the production cycle of enterprises and the implementation of investment projects, above all through attracted foreign investments. Such products include machinery and equipment, chemical products, non-ferrous and ferrous metals (Table 4.2.3, Annex 4.2.3).

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

Commodity groups	Share in total volume of imports, %				Change in volume, %	
	2005/I-II	2006/I-II	including		2005/I-II	2006/I-II
			2005/ II*	2006/II*		
Foodstuffs	7.0	8.8	7.1	9.1	128.5	132.9
Chemical products, plastics and plastic goods	12.9	15.4	13.9	16.8	123.6	125.4
Energy carriers	2.0	3.3	1.7	2.8	174.0	171.7
Non-ferrous and ferrous metals	10.8	11.0	11.7	9.8	105.6	87.0
Machinery and equipment	45.8	40.9	44.6	40.3	92.5	93.7
Services	9.0	8.3	8.1	7.9	95.8	101.5
Others	12.5	12.3	13.0	13.3	102.5	106.0
Total	100.0	100.0	100.0	100.0	103.6	103.7

Source: The State Statistics Committee of the Republic of Uzbekistan

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

Imports of the leading group, machinery and equipment, decreased by 7.5% against the level of the 1<sup>st</sup> half of 2005, including a decrease of 6.3% in the second quarter. As a result, the share of this commodity group in total imports decreased by 4.9 p.p. and accounted for 40.9% as opposed to 45.8% in the corresponding period of the previous year. On the other hand, imports of chemicals increased by 25.4%, while imports of foodstuffs increased even more, by 32.9%. Consequently, their share in the total volume of imports reached 15.4% (an increase of 2.5 p.p. against the 1<sup>st</sup> half of 2005) and 8.8% (an increase of 1.8 p.p.).

In the territorial structure, in the 1<sup>st</sup> half of 2006, trade turnover with the CIS continued to increase (by 1.22 times), while trade turnover with other foreign countries decreased (by -0.04 times). At the same time, the share of trade turnover with the CIS increased from 34.2% in the 1<sup>st</sup> half of 2005 to 39.8%, while the share with foreign countries decreased from 65.8% to 60.2% (Table 4.2.1). Thus, the trend of further development and strengthening of traditional trade links with CIS countries is being observed.

During the period under review, exports to the CIS increased by 1.37 times in comparison with the corresponding period of 2005, while exports to foreign countries decreased by 0.08 times (Table 4.2.1). At the same time, the share of CIS countries in exports increased from 29.3% to 38.3%, while the share of foreign countries decreased from 70.7% to 61.7% (Table 4.2.4).

During the 1<sup>st</sup> half of 2006, in comparison with the corresponding period of the previous year, imports from the CIS increased at a higher pace (by 1.06 times) than did those from foreign countries (by 1.02 times). Consequently, the share of the CIS in total imports increased from 41.0% to 41.9%, while the share from foreign countries decreased from 59.0% to 58.1% (Tables 4.2.1, 4.2.4). In imports of foodstuffs, machinery and equipment, the shift in favor of the CIS has continued, which in turn expands opportunities for the efficient usage of the country's economic resources, due to supplies of relatively cheaper goods from the CIS.

In the 1<sup>st</sup> half of 2006, the leading export partners of Uzbekistan included such countries as Russia, with 21.4% of total exports (132.2% against the level in the 1<sup>st</sup> half of 2005), Iran – 11.6% (160.5%), Turkey – 8.9% (164.9%), China – 7.5% (by 4.6 times), Ukraine – 5.8% (by more than 4.9 times) and Kazakhstan – 4.6% (123.6%) (Table 4.2.4, Annex 4.2.4).

The majority of imports (67.9%) were from seven countries, including Russia, whose share in total imports equaled 26.2% (107.6% to the results of the 1<sup>st</sup> half of 2005), South Korea - 13.5% (102.3%), Kazakhstan – 7.6% (130.6%), China – 7.5% (144.1%), Germany - 6% (97.5%), USA – 3.6% (110.6%) and Turkey – 3.5% (79.1%) (Table 4.2.4, Annex 4.2.5).

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

Countries	Share in total volume, %							
	Exports				Imports			
	2005/I-II	2006/I-II	Including		2005/I-II	2006/I-II	including	
2005/ II*			2006/II*	2005/ II*			2006/II*	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CIS countries	29.3	38.3	32.5	42.1	41.0	41.9	41.0	41.5
Kazakhstan	3.9	4.6	3.7	4.9	6.0	7.6	5.6	7.2
Russia	17.1	21.4	19.7	23.7	25.2	26.2	25.4	25.7
Tajikistan	2.8	3.2	2.4	2.7	0.3	0.4	0.2	0.6
Ukraine	1.2	5.8	1.1	6.9	6.7	4.9	7.1	5.0
Other countries	4.3	3.2	5.6	3.9	2.8	2.8	2.7	3.0
Foreign countries	70.7	61.7	67.5	57.9	59.0	58.1	59.0	58.5
Belgium	0.9	0.5	0.9	0.4	0.7	0.7	0.7	0.4
Great Britain	7.2	4.2	5.8	3.7	1.5	1.8	1.5	1.8
Germany	1.2	1.2	1.2	1.4	6.4	6	6.0	5.5
India	0.5	0.2	0.4	0.2	0.7	1	0.6	0.9
Iran	7.6	11.6	6.6	12.1	0.7	0.8	0.6	0.9
China	1.7	7.5	1.4	4.9	5.4	7.5	6.8	9.6
South Korea	1.0	0.6	0.8	0.5	13.7	13.5	12.5	12.3
Netherlands	0.6	0.4	0.7	0.4	0.6	0.4	0.7	0.5
USA	2.4	1.6	2.3	2.2	3.4	3.6	3.1	3.8
Turkey	5.7	8.9	4.9	9.3	4.6	3.5	5.0	3.4
France	0.9	0.9	1.3	0.5	1.0	1.1	0.9	1.4
Switzerland	4.7	0.4	3.8	4.5	0.7	0.8	0.9	0.7
Japan	0.5	0.5	0.6	0.6	1.5	1	1.4	0.9
Other countries	35.8	23.2	36.8	17.3	18.1	16.4	18.3	16.3

Source: The State Statistics Committee of the Republic of Uzbekistan

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

The highest positive trade balance was reached with Iran, followed by Turkey, Great Britain, Russia, Tajikistan, Ukraine, and China, while the highest negative trade balance occurred in trade with such countries as South Korea, Germany, and Kazakhstan. In general, during the 1<sup>st</sup> half of 2006, development indicators for foreign trade improved. Qualitative changes continued in the commodity structure of exports and imports. Exports of goods with a high level of reprocessing grew at a more rapid pace. The optimization of the structure of imports continued. Trade relations with partners from the CIS improved, and the positive trade balance increased.

### 4.3. Enterprises with Foreign Investments

During the 1<sup>st</sup> half of 2006, the implementation continued of measures to ensure equal regimes for foreign investors and foreign investments, to stimulate investment activities in the territory of the Republic of Uzbekistan, and to enhance the stimulating role of taxation and customs privileges and preferences. Measures were taken to increase the efficiency of customs and taxation policies, with regard to the decreasing number of taxes. Certain changes were made towards decreasing collections for customs clearance on certain goods and decreasing corporate income taxes for export enterprises, including those with foreign investments.

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan (from May 1, 2006) "On additional measures for increasing the stimulating role of privileges provided for enterprises with foreign investments" foresees measures to regulate the application of tax privileges and other compulsory payments. Specifically, a mechanism for providing privileges throughout sectors where enterprises with foreign investments operate has been introduced, and the principle of indefinite additional privileges on compulsory payments has been repealed.

Favorable conditions for EFI facilitated the inflow of foreign investments and the establishment of new enterprises, as well as the increased efficiency of foreign trade. During the 1<sup>st</sup> half of 2006, the number of enterprises with foreign investments (EFI) increased by 267 units (Table 4.3.1). The increase of foreign trade

turnover in the 1<sup>st</sup> half of 2006, including the second quarter, in comparison to corresponding periods of 2005, amounted to 11.9% and 13.7% respectively. During the period under review the share of EFI in the foreign trade turnover of Uzbekistan increased by 1.8 p.p. and 2.2 p.p. respectively.

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

	Unit	05/ I-II	06/ I-II	05/ II*	06/ II*	Growth rates, %	
						05/ I-II in % to 04/ I-II	05/ II in % to 04/ II
Number of operating enterprises with foreign investments (at the end of period)	units	2483	2750	x	x	110.8	x
Foreign trade turnover	bn. USD	1229.0	1375.3	651.4	740.8	111.9	113.7
Exports	bn. USD	417.7	525.7	211.4	305.1	125.9	144.3
Imports	bn. USD	811.3	849.6	444.0	435.7	104.7	98.1
Share of EFIs in the total trade turnover of Uzbekistan	%	25.4	27.2	25.5	27.7	x	x
Share of EFIs' exports in the total volume of exports of Uzbekistan	%	14.8	17.7	14.1	19.3	x	x
Share of EFIs' imports in the total volume of imports of Uzbekistan	%	40.3	40.7	42.3	40.0	x	x
Ratio of exports to imports	coefficient	0.51	0.62	0.48	0.70	x	x

Source: State Statistics Committee of Uzbekistan

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

In the first half of 2006, **exports** of EFIs throughout the whole Uzbekistan amounted to USD 525.7 mill. showing an increase of 25.9% over the corresponding period of the previous year. The share of EFIs in the total volume of exports was 17.7 %. The share of EFI exports significantly increased in the second quarter of 2006 (by 5.2 p.p.) against the corresponding period of 2005. Leading positions in exports of goods, works, and services were achieved by enterprises in such sectors of the economy as machine-building, metallurgy, light industry, non-ferrous metallurgy, and communications services.

Exports of cotton-fiber increased at accelerated rates – by 4.1 times in the first half of 2006 and by 7.4 times in the second quarter of 2006 (Table 4.3.2). Its share in total exports of EFIs increased accordingly. Such a tendency is explained above all by the fact that, according to the state resolution “On measures for the further improvement of the mechanism of selling cotton-fiber to enterprises with foreign investments”, starting from the harvest of 2005, enterprises founded with the participation of foreign capital are exempt from a number of payments for bank services and services of industrial infrastructure entities, while enjoying discounts on the purchase of cotton-fiber.

**Table 4.3.2. Growth Rates and Commodity Structure of Exports of Enterprises with Foreign Investments**

	growth rates, %		Share in the total volume of exports, %			
	06/ I-II to 05/ I-II	06/ II to 05/ II	2005/ I-II	2006/ I-II	2005/ II*	2006/ II*
Total	125.9	144.3	100	100	100	100
Cotton-fiber	410.1	742.6	1.7	5.5	1.8	9.4
Foodstuffs	99.6	96.8	4.6	3.6	4.7	3.1
Chemical products	71.9	75.8	3.8	2.2	4.3	2.3
Energy carriers	63.9	57.8	4.1	2.1	4.7	1.9
Ferrous and non-ferrous metals	693.4	786.6	0.5	2.8	0.7	3.6
Machinery and equipment	127.3	142.5	43.4	43.9	42.6	42.1
Services	109.2	117.5	4.7	4.1	5.3	4.3
Others	121.2	133.9	37.2	35.8	35.9	33.3

Source: State Statistics Committee of Uzbekistan

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

High growth rates for exports were observed in such commodity groups as “ferrous and non-ferrous metals” (by more than 6.9 times and 7.8 times in the 1<sup>st</sup> half and 2<sup>nd</sup> quarter of 2006 respectively) and “others” (by 1.2 and 1.3 times). The share of exports of goods from the commodity group “machinery and equipment” was the highest, with 43.9% followed by “others”, which accounted for 35.8%.

Exports from the commodity group “others” consisted of textiles, products of light industry, industrial construction materials, wood processing and other sub-sectors of national industries. The main export commodities included finished textile goods and garments, including cotton fabrics, cotton yarn, bed sets, clothes, furniture, precious metals and others. Decreases in exports were observed in the chemicals industry (by 28.1%), energy carriers (36.1%), and foodstuffs (0.4%).

In the territorial composition of exports, such regions as Andijan, Navoi, Tashkent and the city of Tashkent were registered as regions with relatively high levels of EFI exports (their aggregated exports amounted to 83.1% of total EFI exports). These regions play the main role in forming the positive or negative balance of foreign trade turnover of EFIs in the country. Thus, in the 1<sup>st</sup> half of 2006, the negative foreign trade turnover of EFIs in Tashkent city alone equaled USD 315.5 mill.

The Republic of Karakalpakstan, Jizzakh, Sirdarya, and Khorezm regions were noted as regions with a low level of development of enterprises with foreign investments, both by the number of EFIs well as by the volume of exports of those EFIs. The share of exports of each of those regions was less than 1% of the average of total EFI exports (Table 4.3.3).

Other regions, considered as regions with a moderate level of export potential, accounted for 14.7% of EFI exports in the 1<sup>st</sup> half of 2006.

In the 1<sup>st</sup> half of 2006, **imports** of goods, works and services of EFIs throughout the country amounted to USD 849.6 mill. or 40.7% of the total imports of Uzbekistan, including USD 435.7 mill. and 40% in the second quarter of 2006 (Table 4.3.1).

The tendency of moderate growth of imports (by 4.7%) in the 1<sup>st</sup> half and a decrease in the 2<sup>nd</sup> quarter of 2006 resulted in an improved ratio of exports to imports, from 0.51 in the 1<sup>st</sup> half of 2005 to 0.62 in the 1<sup>st</sup> half of 2006 (Table 4.3.1).

Imports of goods in metallurgy and machine-building decreased, which was due to a decrease in demand for investment goods (previous periods were characterized by intensive imports of those goods). Imports of foodstuffs increased at high rates (by 52.4%), followed by chemical products (30.4%) and energy carriers (30.5%). In spite of the increase in production of domestic producers, the growth of import volumes were to some extent affected by the growth of prices for imported goods. In the 2<sup>nd</sup> quarter of 2006, prices for certain consumer goods increased (including prices for such goods as sunflower oil, sugar, flour, detergents, etc.). The increase of prices in the world market had a significant effect. For example, in the 1<sup>st</sup> quarter of 2006, world market prices increased for commodities of the foodstuffs industry (sugar – by 15.6%) and the fuel industry (9.4% on average).

Quarterly changes in exports and imports of EFIs (Graph 4.3.1) show that the positive growth trend of exports in the 2<sup>nd</sup> quarter of 2006 in comparison to the corresponding period of the previous year, as well as the moderate growth of imports during the same period, had a positive impact on the “ratio of exports to imports”. As a result, the negative foreign trade balance decreased in comparison with the previous period.

**Table 4.3.4. Growth rates and territorial structure of imports of Enterprises with Foreign Investments**

	growth rates, %			share in total volume of imports, %			
	06/ I-II to 05/ I-II	06/ II to 05/ II		2005/ I-II	2006/ I-II	2005/ II*	2006/ II*
Total	104.7	98.1		100	100	100	100
Foodstuffs	152.4	163.6		9.7	14.1	9.7	16.1
Chemical products	130.4	121.4		11.5	14.3	12.2	15.1
Energy carriers	130.5	194.2		0.3	0.3	0.2	0.4
Ferrous and non-ferrous metals	88.0	26.6		8.6	7.3	10.2	2.7
Machinery and equipment	94.5	92.5		60.2	54.3	58.3	55.1
Services	107.9	108.7		3.3	3.4	3.2	3.5
Other	102.2	112.1		6.4	6.3	6.2	7.1

Source: State Statistics Committee of Uzbekistan

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

**Table 4.3.3. Growth rates and territorial structure of exports of Enterprises with Foreign Investments**

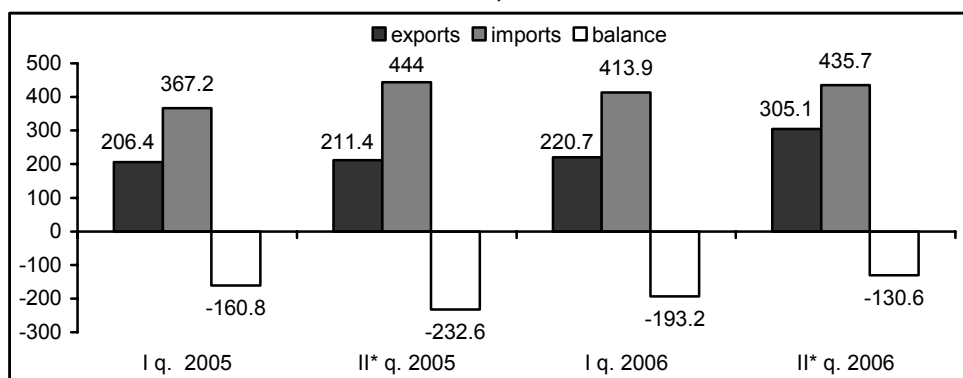
	growth rates, %, 06/ I-II to 05/ I-II	Share of the region in total exports of EFIs of the republic, %	
		05/ I-II	06/ I-II
Total	125.9	100	100
Republic of Karakalpakstan	66.2	0.9	0.5
Oblasts:			
Andijan	129.0	41.9	42.9
Bukhara	104.3	1.4	1.2
Jizzakh	378.2	0.1	0.4
Kashkadarya	220.0	1.0	1.8
Navoi	132.9	18.1	19.2
Namangan	92.8	2.2	1.5
Samarkand	259.3	2.2	4.5
Surkhandarya	392.9	0.3	1.1
Sirdarya	247.4	0.3	0.6
Tashkent	76.4	10.0	6.0
Fergana	72.0	7.9	4.5
Khorezm	470.0	0.2	0.7
City of Tashkent	141.0	13.5	15.1

Source: State Statistics Committee of Uzbekistan

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

0.51 in the 1<sup>st</sup> half of 2005 to 0.62 in the 1<sup>st</sup> half of 2006 (Table 4.3.1).



**Graph 4.3.1. Dynamics of Exports/Imports of Enterprises with Foreign Investments, mil. USD**

Source: State Statistics Committee of Uzbekistan

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

The geographical structure of EFIs' foreign trade was characterized by the fact that growth rates of exports to the CIS were higher than those to foreign countries (by 4.9 p.p.) (Table 4.3.5). In spite of a decrease in imports from CIS, overall growth of foreign trade turnover with CIS countries was higher (13.2%) than for foreign trade turnover with other countries (11.3%).

The trade balance with the CIS was positive. This was mainly due to the continuing tendency of increased demand for the main export commodities of Uzbekistan in CIS markets.

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

	Volume, mill. USD		Share in total volume, %		Growth rates, 06/ I-II to 05/ I-II
	2005/ I-II	2006/ I-II	2005/ I-II	2006/ I-II	
Foreign trade turnover	1229	1375.3	100	100	111.9
Countries of CIS	376.7	426.4	30.7	31.0	113.2
Other foreign countries	852.3	948.9	69.3	69.0	111.3
Exports	417.7	525.7	100	100	125.9
Countries of CIS	220.6	282.7	52.8	53.8	128.2
Other foreign countries	197.1	243	47.2	46.2	123.3
Imports	811.3	849.6	100	100	104.7
Countries of CIS	156.1	143.7	19.2	16.9	92.1
Other foreign countries	655.2	705.9	80.8	83.1	107.7
Trade balance	-393.6	-323.9	x	x	x
Countries of CIS	64.5	139	x	x	x
Other foreign countries	-458.1	-462.9	x	x	x

Source: State Statistics Committee of Uzbekistan

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

The negative foreign trade balance for all EFIs was a result of accelerated growth rates of imports (107.7%) of mainly investment goods from other foreign countries. In trade with foreign countries, the share of imports remained high (83.1%).

Positive results of EFI activities include faster growth of exports in comparison to imports and the increase in the number of enterprises with foreign capital. During the period under review, a number of enterprises with foreign capital began operations. During the same period, the Uzbek-German joint company "UD-Audifion" (Fergana city) launched its operations. The company, the only one of its kind in Central Asia, produces hearing-aids for the disabled. Products of the company are aimed both at domestic consumers and as exports to such neighboring countries as Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan. The joint companies "ToshKayatekstil", for the production of textile linen (stockinet) and final textile goods, and "Margilantex" and "Balikchitex", for the production of cotton yarn, launched operations.

At the same time, in order to further accelerate the attraction of foreign investments into the national economy, it is necessary to continue efforts to improve banking-finance activities and to optimize the taxation system, enhancing the participation of foreign capital in privatization processes.

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

Period	Exports	Imports	Trade Balance
2000	3264.7	2947.4	317.3
2001	3170.4	3136.9	33.5
2002	2988.4	2712.0	276.4
2003	3725.0	2964.2	760.8
2004	4853.0	3816.0	1037.0
2005	5408.8	4091.3	1317.5
2005/I	1327.9	965.4	362.5
2005/II*	1495.4	1049.9	445.5
2006/I	1386.8	999.7	387.1
2006/II*	1584.4	1088.4	496.0

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

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

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

Period	Cotton fiber	Foodstuffs	Chemical products, plastics and plastic goods	Energy carriers	Non-ferrous and ferrous metals	Machinery and equipment	Services	Others	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
2005/I	27.3	2.9	3.7	7.2	9.7	7.7	11.2	30.3	100.0	1327.9
2005/II*	15.9	3.6	4.4	11.3	8.5	10.1	10.7	3.5	100.0	1495.4
2006/I	26.7	3.8	5.1	11.7	10.1	7.7	11.8	23.1	100.0	1386.8
2006/II*	19.4	5.5	4.6	14.8	13.4	9.7	12.5	20.1	100.0	1584.4

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

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

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

Period	Foodstuffs	Chemical products, plastics and plastic goods	Energy carriers	Non-ferrous and ferrous metals	Machinery and equipment	Services	Others	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
2005/I	7.0	11.9	2.3	9.8	47.2	9.9	11.9	100.0	965.4
2005/II*	7.1	13.9	1.7	11.7	44.6	8.1	12.9	100.0	1049.9
2006/I	8.3	13.9	3.9	12.3	41.6	8.7	11.3	100.0	999.7
2006/II*	9.1	16.8	2.8	9.8	40.3	7.9	13.3	100.0	1088.4

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

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

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

Period	Total (mill, USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Foreign countries	Belgium	Great Britain	Iran	South Korea	Netherlands	USA	Turkey	Switzerland	Other countries
2000	3264.7	100.0	35.9	3.1	16.7	4.7	11.4	64.1	1.1	7.2	2.2	3.3	2.6	1.6	3.0	8.3	34.8
2001	3170.4	100.0	34.4	3.7	15.8	4.7	10.2	65.6	1.5	6.3	2.6	4.2	2.4	2.6	2.6	5.6	37.8
2002	2988.4	100.0	27.6	2.7	10.6	5.4	8.9	72.4	2.4	7.7	5.8	2.2	1.5	2.6	3.4	6.3	40.5
2003	3725.0	100.0	26.0	2.7	12.3	3.9	7.1	74.0	1.9	7.5	7.4	1.5	0.4	2.9	3.5	5.4	43.5
2004	4853.0	100.0	31.5	3.8	14.9	2.3	10.5	68.5	1.1	7.9	6.9	1.2	0.5	3.1	4.5	3.1	40.2
2005	5408.8	100.0	31.8	4.6	19.0	1.6	6.6	68.2	0.7	6.2	1.6	1.0	0.7	2.0	6.4	1.6	48.0
2005/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
2005/II*	1495.4	100.0	32.5	3.7	19.7	1.1	8.0	67.5	0.9	5.8	6.6	0.8	0.7	2.3	4.9	3.8	41.7
2006/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	8.4	0.4	38.5
2006/II*	1584.4	100.0	42.1	4.9	23.7	6.9	6.6	57.9	0.4	3.7	12.1	0.5	0.4	2.2	9.3	4.5	24.8

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

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

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

Period	Total (mill, USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Foreign countries	Great Britain	Germany	China	South Korea	USA	Turkey	France	Japan	Other countries
2000	2947.4	100.0	38.2	7.3	15.8	6.1	9.0	61.8	2.0	8.7	2.5	9.8	8.7	3.3	2.9	1.9	22.0
2001	3136.9	100.0	37.2	6.2	19.2	7.1	4.7	62.8	2.5	7.8	2.9	11.1	6.4	3.4	4.0	4.2	20.5
2002	2712.0	100.0	36.9	6.7	22.0	4.5	3.7	63.1	2.7	7.8	4.2	9.5	12.1	3.2	2.1	0.7	20.8
2003	2964.2	100.0	38.3	6.6	23.3	4.6	3.8	61.7	2.6	9.8	5.5	7.9	7.7	4.8	1.6	2.0	19.8
2004	3816.0	100.0	38.6	6.3	24.0	4.5	3.8	61.4	1.8	7.1	7.0	9.2	10.3	4.5	1.2	2.1	18.2
2005	4091.3	100.0	41.1	6.6	25.3	6.0	3.2	58.9	2.3	5.9	6.3	12.5	3.7	4.3	1.1	1.3	21.5
2005/I	965.4	100.0	40.9	6.5	25.1	6.2	3.2	59.1	1.5	6.8	3.9	15.1	3.6	4.2	1.1	1.7	21.2
2005/II*	1049.9	100.0	41.0	5.6	25.4	7.1	2.9	59.0	1.5	6.0	6.8	12.5	3.1	5.0	0.9	1.4	21.8
2006/I	999.7	100.0	42.4	8.0	26.7	4.9	2.8	57.6	1.8	6.6	5.2	14.9	3.4	3.7	0.8	1.1	20.1
2006/II*	1088.4	100.0	41.5	7.2	25.7	5.0	3.6	58.5	1.8	5.5	9.6	12.3	3.8	3.4	1.4	0.9	19.8

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

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

**Annex 4.3.1. Commodity Composition of EFI Exports (%)**

	Total. mill. USD.	Total %	Cotton-fiber	Foodstuffs	Chemical products	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services	Other
2000	451.6	100	4.8	7.4	1.5	3.7	0.3	16.0	3.9	62.4
2001	416.9	100	2.4	4.4	2.6	4.7	0.2	21.1	4.4	60.2
2002	442.9	100	1.0	4.1	2.1	2.9	0.5	16.5	3.8	69.1
2003	564.4	100	3.3	4.2	2.3	3.3	0.8	19.4	4.4	62.3
2004	785.2	100	2.3	3.9	2.6	3.6	0.7	28.4	5.0	53.5
2005	823.1	100	1.0	4.5	4.2	3.5	1.2	43.3	4.9	37.3
2005/I	206.4	100	1.5	4.5	3.3	3.4	0.4	44.1	4.2	38.6
2005/II*	211.4	100	1.8	4.7	4.3	4.7	0.7	42.6	5.3	35.9
2006/I	220.7	100	0.1	4.4	2.1	2.3	1.7	46.3	3.8	39.3
2006/II*	305.1	100	9.4	3.1	2.3	1.9	3.6	42.1	4.3	33.3

Source: State Statistics Committee of Uzbekistan

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

**Annex 4.3.2. Commodity Composition of EFI Imports (%)**

	Total. mill. USD.	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	56.2	4.9	6.9
2005/I	367.2	100	9.7	10.7	0.3	6.8	62.3	3.5	6.7
2005/II*	444.0	100	9.7	12.2	0.2	10.2	58.3	3.2	6.2
2006/I	413.9	100	11.9	13.5	0.3	12.0	53.5	3.4	5.4
2006/II*	435.7	100	16.1	15.1	0.4	2.7	55.1	3.5	7.1

Source: State Statistics Committee of Uzbekistan

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

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

	Total. mill. USD	Total %	R. Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samar-kand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tashkent
2000	451.6	100	0.0	13.3	0.3	0.1	0.0	31.9	4.2	2.8	0.0	5.0	14.0	7.2	0.2	21.0
2001	416.9	100	0.0	18.6	0.1	0.3	0.0	29.0	2.0	2.2	0.0	1.0	18.7	7.4	0.2	20.5
2002	443.0	100	0.2	14.0	0.4	0.1	1.6	35.9	2.2	1.8	0.1	0.8	17.4	11.0	0.4	14.1
2003	564.4	100	0.1	18.4	2.8	0.2	2.3	28.3	2.9	2.4	0.3	0.8	15.7	12.7	0.7	12.4
2004	785.2	100	0.1	26.9	2.1	0.2	1.9	28.0	2.1	2.3	0.3	0.4	11.5	10.7	0.4	13.1
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
2005/I	206.4	100	0.8	43.2	1.2	0.2	1.2	16.9	2.5	2.5	0.4	0.2	10.9	7.8	0.1	12.0
2005/II*	211.4	100	0.9	40.5	1.7	0.1	0.9	19.3	2.0	1.8	0.3	0.4	9.0	7.9	0.3	14.8
2006/I	220.7	100	0.5	44.2	0.5	0.5	1.1	22.5	1.4	1.3	0.5	0.4	4.5	5.6	0.5	16.5
2006/II*	305.1	100	0.5	41.9	1.7	0.3	2.3	16.7	1.8	6.8	1.4	0.8	7.2	3.7	0.9	14.0

Source: State Statistics Committee of Uzbekistan

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

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

	Total. mill. USD	Total %	R. Karakalpakstan	Andijan	Bukhara	Jizzakh	Kashkadarya	Navoi	Namangan	Samar-kand	Surkhandarya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tashkent
2000	760.5	100	0.3	28.3	1.0	1.1	0.3	4.6	1.6	4.3	0.3	0.2	8.4	1.4	0.1	48.1
2001	937.2	100	0.3	25.3	1.0	3.3	5.1	6.5	2.2	2.1	0.0	0.9	10.3	9.8	1.0	32.2
2002	704.8	100	0.4	27.1	2.1	3.8	0.7	4.1	2.2	3.9	0.2	0.3	5.9	5.7	3.8	39.8
2003	858.4	100	1.1	28.2	0.8	0.3	0.8	5.3	1.8	3.8	1.0	0.1	3.8	4.1	0.3	48.6
2004	1165.7	100	1.4	27.1	0.8	0.2	0.4	6.9	2.1	2.6	0.3	1.8	4.7	1.4	1.2	49.1
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
2005/I	367.2	100	0.4	42.6	0.3	0.2	1.0	3.4	1.2	1.5	0.1	0.4	3.7	2.0	0.2	43.0
2005/II*	444.0	100	0.2	31.5	0.3	0.0	3.7	4.8	0.8	2.1	0.1	0.8	3.3	0.8	0.2	51.4
2006/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
2006/II*	435.7	100	0.8	33.4	0.5	0.4	0.8	5.8	1.1	3.7	0.0	0.2	4.0	0.8	0.2	48.3

Source: State Statistics Committee of Uzbekistan

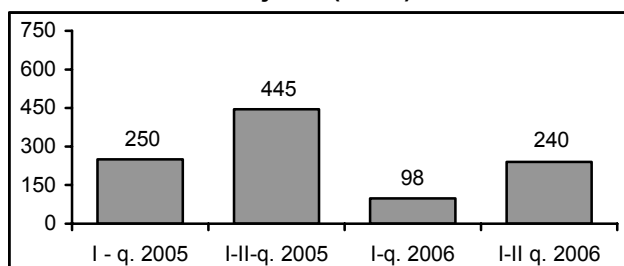
\* the author's calculations based on the data from the State Statistics Committee of Uzbekistan

## 5. Institutional and Market Transformations

### 5.1. Denationalization and Privatization, Property Types

During the first half of 2006, in accordance with the approved schedule for denationalization and privatization, 240 production and social objects of the economy were transferred into non-state-owned property, including 98 objects in the 2<sup>nd</sup> quarter (Graph 5.1.1 and Annex 5.1.1). These figures made up 53.9% and 39.2% respectively of the figures from the corresponding periods of the previous year.

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



Source: State Property Committee of Uzbekistan

The decrease in the number of objects transferred into non-state-owned property was caused by several reasons. First of all, as the privatization process develops, the number of state enterprises subject to transfer into private hands decreases annually. Second, in the context of the development of the new program on privatization in the 2<sup>nd</sup> quarter of the current year, the transfer of a number of objects into private ownership – as stipulated by the previous program – has been suspended due to a review of the forms and methods of their privatization.

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

Period	Total privatized	Including		
		Transformed into:		Sold to private persons
		Joint stock companies	Limited liability companies	
05/II	250	-	29	221
05/I-II.	445	1	40	404
06/II	98	-	4	94
06/I-II	240	1	5	234

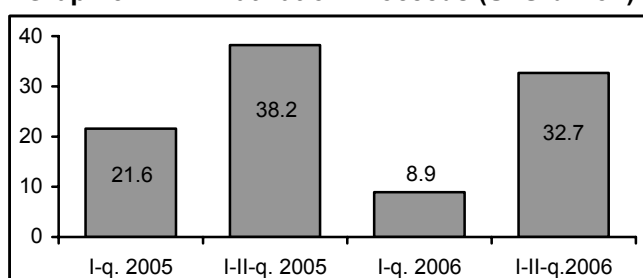
Source: State Property Committee of Uzbekistan

The unified enterprise “Tashkent Plant of Concrete Products” is the largest object privatized in the first half of 2006; it was transformed into an open-type joint stock company. Several limited liability companies were established on the basis of the other 5 privatized enterprises and 234 state objects were sold into full private ownership (Table 5.1.1).

The sale into private ownership continued of both state-owned and unplaced blocks of shares of joint-stock companies and of stakes

in statutory funds of limited liability companies established on the basis of state-owned enterprises. Blocks of shares of 57 joint-stock companies and of stakes in statutory funds of 94 limited liability companies were sold to private legal entities and private individuals, including foreigners, which made up 69.5% and 110.6% respectively of the figures from the corresponding period of the previous year.

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



Source: State Property Committee of Uzbekistan

Over the first half of 2006, proceeds from the sale of state assets deposited in special accounts of the State Property Committee amounted to UZS 32.7 billion, including UZS 8.9 billion in the 2<sup>nd</sup> quarter (Graph 5.1.2); these figures were 85.6% and 41.2% respectively of the proceeds for the corresponding period of the previous year.

Proceeds from sales, deposited in special accounts of the State Property Committee, are distributed in accordance with the established procedure for their utilization.

In the first place, the proceeds of privatization are distributed as specified by special government decisions. For example, 100% of proceeds from the sale of state shares of electric power enterprises, with the deduction of transaction costs, are allocated to restructuring of these enterprises. Other proceeds are distributed in accordance with the norms approved by the government.

During the first half of 2006 the State Property Committee transferred UZS 35.1 billion to various organizations and enterprises (including the undistributed proceeds received at the end of the previous year), which amounted to 99.1% of the figure from the corresponding period of the previous year. UZS 12.9 billion was distributed on the basis of special government decisions, which was 30.8% less than for the respective period of the previous year.

Proceeds directed to the non-tax sector of the state budget increased by 69.8%, while those directed to local budgets to fund projects of social and economic development and to create institutions of market infrastructure increased by 9.1%. The total amount of proceeds transferred to the budgets of different levels amounted to UZS 20.6 billion, including UZS 3.6 billion to local budgets. Since 2005 a portion of the proceeds from the sale of state assets has been transferred to the Uzbekistan Chamber of Commerce and Industry to finance legal support for entrepreneurs. In the first half of 2006 the amount of UZS 0.7 billion, or 2.3 times more than for the corresponding period of the previous year, was transferred to the Uzbekistan Chamber of Commerce and Industry.

In the second half of 2006 several changes were introduced to the mechanism of financial support for privatized enterprises which have a state share in their statutory funds. Previously, these enterprises received part of the proceeds from the sale of their shares by the state, to use for technical re-equipment and modernization of production, whereas now the privatized enterprises are funded through the Fund for the Support of Entrepreneurship and Restructuring of Enterprises of the State Committee of the Republic of Uzbekistan on De-monopolization, Support for Competition and Entrepreneurship (Goskomdemonopolizatsiya), established in 2005. During the first half of 2006 the amount of UZS 0.3 billion was transferred to this Fund.

All of the above has established conditions for significant changes in the structure of distribution of privatization proceeds (Table 5.1.2). During the first half of 2006, the average share of such proceeds in the state budget increased by 23.7%, in local budgets – by 0.9% and in the Chamber of Commerce and Industry – by 1.1% compared to the corresponding period of the previous year. At the same time, the average share of the proceeds distributed on the basis of special government decisions decreased by 25.5%.

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

Directions of Proceeds Distribution	05/II	05/I-II	06/II	06/I-II
State budget	24.3	25.6	26.0	49.3
Local budgets	5.4	9.5	10.1	10.4
Chamber of Commerce and Industry	0.8	0.9	1.9	2.0
Enterprises under Privatization	0.4	1.1	-	-
State De-monopolization Committee	-	-	0.9	0.9
Economic associations, enterprises and organizations by special government decision	69.1	62.9	61.1	37.4
Total	100	100		100

Source: State Property Committee of Uzbekistan

The Program on Privatization was approved by the Resolution of the President of the Republic of Uzbekistan dated 10 July 2006 (No.PP-407) "On Intensification of the Processes of Denationalization and Privatization during 2006-2008" with the aim of enhancing the role of the private sector in the economy of the country through the significant reduction of the state's share in the statutory funds of economic entities and through the active attraction of private investments, including foreign investments, into the development and modernization of production enterprises.

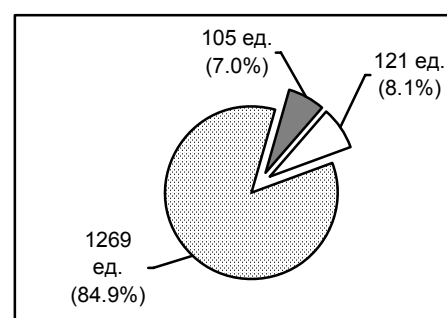
The new program contains 1495 enterprises and objects of the industrial and social sectors of the economy, divided into three groups according to their significance for the economy and approach to the privatization process (Graph 5.1.3).

The largest group is *the first group*, which consists of 1269 enterprises and objects. The majority had been transformed into economic entities with state assets in their statutory funds during the previous stages of privatization. Now all these enterprises and objects are subject to sale into full private ownership.

*The second group* consists of 105 economically unsound enterprises and objects, unable to find any financial resources for restructuring and independent resumption of production. The state assets in the statutory funds of these enterprises and objects are subject to transfer to private legal entities and individuals at a zero redemption value on the condition that the new proprietors assume investment obligations aimed at their financial improvement and resumption of production activity.

*The third group* consists of 121 joint stock companies, including holdings, state joint-stock associations and joint-stock companies. All of them are of strategic importance and therefore the state maintains a predomi-

**Graph 5.1.3. Grouping of Enterprises Included in the Program of Denationalization and Privatization for 2006-2008**



Source: Data from State Property Committee of Uzbekistan

nant share in these companies stipulated at 51%. The remaining as-yet undistributed shares will be sold to private proprietors in accordance with the decision of the State Tender Committee on the condition that the new proprietors not only pay the redemption value of the purchased shares but also assume investment obligations stipulated for direct investment in these enterprises and resumption of their production activity.

Certain revisions and amendments were made to the Law on Privatization in order to enhance the implementation of the new Program. Under the prevailing system of the past two years, objects could be sold for privatization only at the exchange markets, with the exception of objects sold by the decision of the State Tender Committee. Now privatization objects can be sold at sales on a competitive basis and at auctions.

## 5.2. Real Estate Market

Centralized electronic exchange trade has been held at the Republican Real Estate Exchange and its regional branches (hereinafter “the RREE”) regularly, three times a week, and auction trade also takes place on a set schedule. In total, during the first half of 2006, 11.6 thousand real estate objects were sold for UZS 31.2 billion (Annex 5.2.1). The growth rates compared with the corresponding period of the previous year were 5.4% for the number of objects sold and 52.1% for sale proceeds. The advanced growth rate of sale proceeds compared with the growth rate of number of sold objects resulted from an increase in the number of large, highly priced state objects sold.

The trend continued of sales of real estate objects predominating in the total cost turnover on the RREE at the exchange auction. According to these results, transactions were conducted for the purchase and sale of real estate objects at the exchange auction for UZS 23.7 billion and at the off-exchange auction – for UZS 7.5 billion, making up 76.0% and 24.0% of total turnover on the RREE respectively.

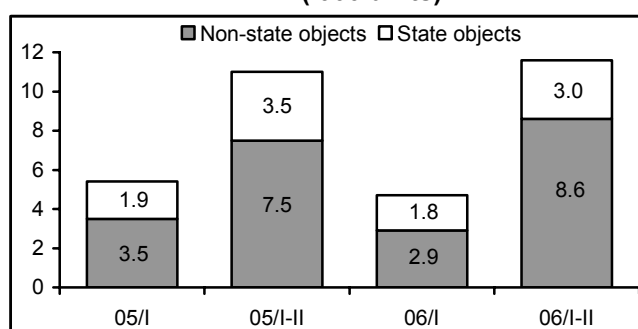
During the first half of 2006, 3.0 thousand state objects were sold for UZS 4.0 billion, including 1.8 thousand in the 2nd quarter for UZS 1.5 billion (Graphs 5.2.1 and 5.2.2). Compared with the similar indicators of the corresponding period of the previous year, these figures made up, respectively: for the number of objects sold – 85.7% and 94.7%; for the sales proceeds – 108.1% and 57.7%.

Despite the fact that the number of state objects offered at auction was higher than in the corresponding periods of the previous year, the number of state objects sold decreased, as a result of inaccurate assessment of the starting sale price, obsolescence and depreciation of a number of production premises and objects of social infrastructure offered for sale, and also the unfavorable geographic location of the objects.

Along with the expansion of private entrepreneurship, there has been a growth in sales on the RREE of real estate objects put up for auction by private legal entities and private individuals. In the first half of 2006, purchase and sale transactions for 8.6 thousand objects were concluded for UZS 27.2 billion (Graphs 5.2.1 and 5.2.2). The growth rates compared with the corresponding period of the previous year were 14.7% and 61.9% respectively. At the same time, the average share of private objects in the total quantity of property sold through the RREE amounted to 74.1%, and for sales proceeds – 87.2%, which exceeded similar indicators of the previous year by 5.9% and 5.2% respectively.

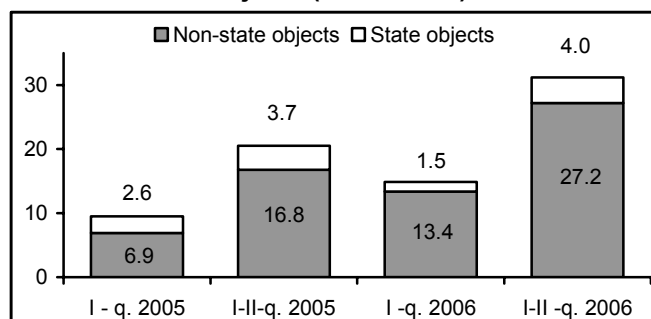
In the quantitative and cost structure of property sold through the RREE, objects of agriculture and the water industry (such as livestock farming premises, poultry farms and others) retained a high share, at respectively 37.3% and 36.2% (Table 5.2.1). During the first half of 2006, 4350 objects were sold for a total of UZS 11.3 billion (Annex 5.2.1), which exceeds similar indicators of the corresponding period of the previous year by

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



Source: Republican Real Estate Exchange.

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



Source: Republican Real Estate Exchange



1.7% and 2.2 times, respectively; almost all of them were put up for auction by private individuals. Advanced growth rates of the sales proceeds occurred due to the increase in the average selling price of one object from UZS 1212 thousand in the first half of the previous year to UZS 2603 thousand in the first half of the current year.

3045 residential buildings, non-residential premises and other units of property were sold in the amount of UZS 11829 million, including 621 units of administrative and production facilities in the amount of UZS 6543 million. The growth rates of sales were respectively: for the number of objects sold – 30.0% and 87.6%; for the sales amount – 32.7% and 32.7%. The average share of all objects of this type in the quantitative structure of property sold through the RREE increased by 4.9 p.p. , while decreasing in the cost structure by 5.5 p.p.

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

Types of Property	05/I	05/I-II	06/II	06/I-II
Construction in Progress:				
Quantity	5.6	4.6	9.1	5.7
Amount	3.2	4.0	4.5	3.8
Commercial and Consumer Services and Social Objects				
Quantity	9.1	9.5	11.8	10.1
Amount	33.8	26.1	14.8	21.4
Objects of Agriculture and Water Industry				
Quantity	33.0	38.7	16.5	37.3
Amount	18.6	25.2	25.6	36.2
Land Plots				
Quantity	27.8	26.0	32.0	20.8
Amount	1.6	1.3	0.6	0.7
Residential Buildings and Non-Residential Premises, Other Property				
Quantity	24.5	21.2	30.6	26.1
Amount	42.8	43.4	54.5	37.9
Total				
Quantity	100	100	100	100
Amount	100	100	100	100

Source: Republican Real Estate Exchange.

Commercial, consumer services and social infrastructure objects made up 10.1% of the total quantity of sold property and 21.4% of the total cost (Table 5.2.1). In the first half of 2006, 1169 units of objects of this type were sold in the amount of UZS 6689 million, which exceeded similar indicators of the previous year by 11.0% and 24.6% respectively.

In the structure of the property sold through the RREE, objects of uncompleted construction retained a relatively low average share in quantitative structure – 5.7%, and in cost structure – 3.8% (Table 5.2.1). In total during the first half of 2006, 667 such objects were sold in the amount of UZS 1201 million, which exceeded similar indicators of the previous year by 31.8% and 47.4% respectively. The vast majority of the objects of uncompleted construction (652 units or 97.7%) was put up for auction by non-state enterprises in the course of restructuring the property complex.

In the first half of 2006, the rights to heritable life tenure of 2418 state-owned land plots meant for individual housing construction were sold in the amount of UZS 207 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 455 units (15.8%) 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 sales volume of other property types, the average share of these land plots in the quantitative structure of property sold through the RREE fell by 5.2 p.p. to reach 20.8%, and in cost structure – by 0.6 p.p., accounting for 0.7% (Table 5.2.1).

Apart from the sale of the abovementioned objects, since 2004 the RREE has been providing services for the sale of shares in statutory funds of limited liability companies offered for auction by the Government and by private legal entities and individuals. During the first half of 2006, shares in statutory funds of 225 limited liability companies worth UZS 1679 million were sold, which amounted to 94.7% and 152.8% respectively compared to the similar indicators of the previous year.

94 transactions for the purchase and sale of government shares were conducted, which was 9 transactions fewer than in the first half of the previous year. However, the sales amount increased by 63.0% to reach UZS

1462 million. The amount of proceeds from the sale of shares offered for auction by private individuals increased by 3.6 times and amounted to UZS 217 million, despite the fact that 15 fewer transactions were conducted for purchase and sale compared to the previous year. These figures show that during the current year, the shares in the statutory funds of limited liabilities companies sold both by the government and by private individuals have mainly been larger.

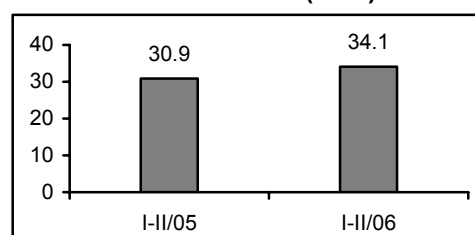
### 5.3. Small Business

The enforcement of legislative and regulatory acts, passed at the end of the last and the beginning of the current year – on the drastic reduction of inspections, the implementation of a judicial mechanism for the application of sanctions and the reduction of statistical and financial reporting – facilitated the creation of a more favorable environment for the development of small business. In addition, alternative taxation was designed to encourage this development. Since 2005 small enterprises and microfirms pay a single tax payment which replaces both the unified tax and contributions to the extra-budgetary fund. Moreover, since 2006 subjects of this single tax payment may also choose to pay VAT with a simultaneous reduction of their single tax payment by the amount of the VAT paid. The creation and operation of the specialized joint-stock bank “MicroCreditBank” has significantly expanded the financial opportunities of entrepreneurs, especially newly established enterprises and microfirms.

As of 1 September 2006 a new, notification-based procedure of state registration of business entities has been effected. Along with this, issues of creating incentives for the participation of small businesses in foreign trade, and of implementing an efficient export strategy, are being addressed. The development of the business environment and private sector is being facilitated through the enhancement of tax legislation and tax policy, as well as by pinpointing the most acute problems in this sphere through constructive dialogue between representatives of the state authorities and businesses.

Measures of Government support and the ranking of small entrepreneurship as one of the high priority areas of economic development had a positive effect on trends in this sector. In the first half of 2006, the share of small businesses in GDP grew to 34.1%, which surpassed the indicator of the respective period of the previous year by 3.2% (Graph 5.3.1, Table 5.3.1). The contribution of microfirms increased considerably, as their share grew by 2.0% in comparison to the respective period of the previous year, reaching 10.1%. A trend of sustainable growth was also registered in small enterprises and individual businesses, with their shares in GDP accounting for 7.0% and 17.0% respectively (Table 5.3.2).

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



Source: State Statistics Committee of Uzbekistan

Dynamic development of small enterprises is also evidenced by increase in public budget revenues from unified tax and single tax payment which accounted for 102.1% of the forecasted target.

**Table 5.3.1. Main Indicators of Development of Small Enterprises (SEs)**

Indicators	Unit	I-II/05	I-II/06
Share of Small Entrepreneurship in the GDP of Uzbekistan	%	30.9	34.1
Number Employed by Small Enterprises	Thous. people	6483.2	7099.5*
Share employed by SEs in the total number of those employed in the economy	%	64.9	69.1*
<b>Number of Employed</b>			
Small Enterprises	Thous. people	274.9	320.7*
Micro-firms	Thous. people	920.3	1104.0*
Number of new jobs in SE	Unit	253498**	274227**
Number of operating SEs per 1000 people	Unit	9.7	12.7

Source: State Statistics Committee of Uzbekistan.

\* Estimate

\*\* Data provided by the Ministry of Labor and Social Protection of the Population

In a regional context, there was also a substantial increase in the share of small businesses in Gross Regional Product compared to the respective period of the previous year in Samarkand region (by 7.5%), Namangan region (9.4%), Surkhandarya region (13.9%) and Khorezm region (11%). This resulted from the drastic growth in the number of new operating enterprises and microfirms manufacturing localized production in accordance with the Program of Localization of the Output of Finished Products, Components and Materials on the Basis of Local Inputs for 2006-2008. In Jizzakh, Bukhara, Fergana regions and Tashkent city, thanks to the growth in the number of operating enterprises as a share of total registered enterprises, this share remained above the average national level (Table 5.3.4). The share of small enterprises in GRP also

tended towards growth in Navoi, Kashkadarya and Tashkent regions – large industrial regions of the country – remaining, however, below the average national level.

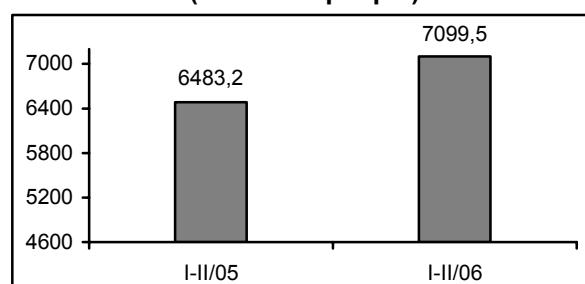
**Table 5.3.2. Share of SEs in GDP and GRP (%)**

Regions	Total		Including:					
			Small Enterprises		Microfirms		Individual Businesses	
	I-II/05	I-II/06	I-II/05	I-II/06	I-II/05	I-II/06	I-II/05	I-II/06
Republic of Uzbekistan	30.9	34.1	6.2	7.0	8.1	10.1	16.6	17.0
Republic of Karakalpakstan	35.5	36.8	8.9	9.1	14.7	13.9	11.9	13.8
Oblasts:								
Andijan	32.6	37.6	4.4	3.1	6.4	9.1	21.8	25.4
Bukhara	36.0	44.1	6.3	8.1	11.7	13.0	18.0	23.0
Jizzakh	56.0	53.3	4.9	4.9	23.4	22.0	27.7	26.4
Kashkadarya	25.7	29.2	3.3	2.8	8.7	10.9	13.7	15.5
Navoi	14.2	15.8	1.8	2.1	4.0	3.9	8.4	9.8
Namangan	46.0	55.4	9.7	9.6	9.3	13.2	27.0	32.6
Samarkand	50.9	58.4	8.2	8.2	10.8	12.6	31.9	37.6
Surkhandarya	40.5	54.4	5.6	7.5	13.5	19.2	21.4	27.7
Sirdarya	52.0	49.5	6.4	7.2	25.5	20.0	20.1	22.3
Tashkent	29.1	30.6	6.6	6.1	7.2	7.9	15.3	16.6
Fergana	35.6	40.8	6.2	7.1	12.1	12.7	17.3	21.0
Khorezm	40.4	51.4	5.8	8.2	10.2	12.2	24.4	31.0
Tashkent City	47.5	47.1	19.1	18.8	11.8	10.9	16.6	17.4

Source: State Statistics Committee of Uzbekistan

The sustainable development of small and private sectors ensured growth in employment within them. In the first half of 2006, employment increased by 616.3 thousand people or by 9.5% over the respective period of the previous year (Graph 5.3.2, Table 5.3.3). As a result of their priority development, small businesses accounted for 69.1% of the employed population of Uzbekistan (1<sup>st</sup> half of 2005 – 64.9%). The highest increases in the number of employed were registered in Khorezm region – 15.0%, in Fergana region – 13.0%, Namangan region – 11.5%, Kashkadarya region – 11.3% and Bukhara region – 11.4%, owing to growth in the number of newly established small businesses. Regions below the average national level were Navoi region – 6.9%, Jizzakh – 6.7%, Sirdarya – 6.3% and Tashkent city – 3.9% (Table 5.3.3), where newly established enterprises accounted for only 9.1% of the total newly established enterprises.

**Graph 5.3.2. Number employed by SEs (thousand people)**



Source: State Statistics Committee of Uzbekistan

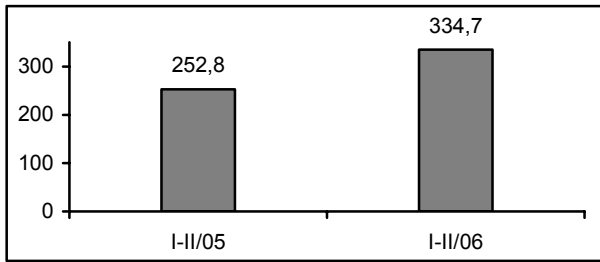
The creation of new enterprises facilitated an increase in the number of new jobs (for the entire country these rose 8.1% compared to the first half of 2005). The highest increases in the number of new jobs compared to the respective period of the previous year were registered in Fergana region – 19.7%, Bukhara region – 14.5%, Samarkand region – 12.1% and in Tashkent city – 47.8%. At the same time there was a slight decrease in the number of new jobs in Jizzakh, Namangan and Tashkent regions.

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

Regions	I-II/05	I-II/06	Growth rate %
Republic of Uzbekistan	6483.2	7099.5	109.5
Republic of Karakalpakstan	348.6	381.8	109.5
Oblasts:			
Andijan	593.2	653.7	110.2
Bukhara	434.0	483.3	111.4
Jizzakh	235.8	251.6	106.7
Kashkadarya	533.2	593.6	111.3
Navoi	190.5	203.6	106.9
Namangan	425.9	474.8	111.5
Samarkand	715.7	774.9	108.3
Surkhandarya	422.1	456.8	108.2
Sirdarya	195.7	208.1	106.3
Tashkent	631.2	681.1	107.9
Fergana	786.9	889.1	113.0
Khorezm	352.5	405.3	115.0
Tashkent city	617.9	641.8	103.9

Source: State Statistics Committee of Uzbekistan

By 1 July 2006 the number of operating SEs reached 334.7 thousand, an increase of almost 82 thousand units compared to the respective period of the previous year. Despite the existing trend towards growth in the number of operating entities, there was no apparent increase of this indicator.

**Graph 5.3.3 Number of Operating SEs (thousand units)**


Source: State Statistics Committee of Uzbekistan

In the first half of 2006, the share of operating SEs in total registered SEs for the country increased by 7.2% compared to the respective period of 2005 and reached 90.1% (Table 5.3.4). This was connected with the creation of a more friendly environment for small business under the Program of Localization and regional programs and with the growth in credits from commercial banks offered to small enterprises, in a total amount of approximately UZS 300 billion (20.4% growth compared to the respective period of the previous year). As a result, the share of operating SEs increased considerably as opposed to the first half of 2005 in Andijan region – to 92.4% as against 68.4%, in Samarkand region – to 93.8% as against 80.4%, and in Fergana region – to 91.5% as against 79.6%. Growth above the national level in the share of operating SEs in the total registered was observed the Republic of Karakalpakstan, Jizzakh region, Navoi region, Namangan region and other regions (Table 5.3.4).

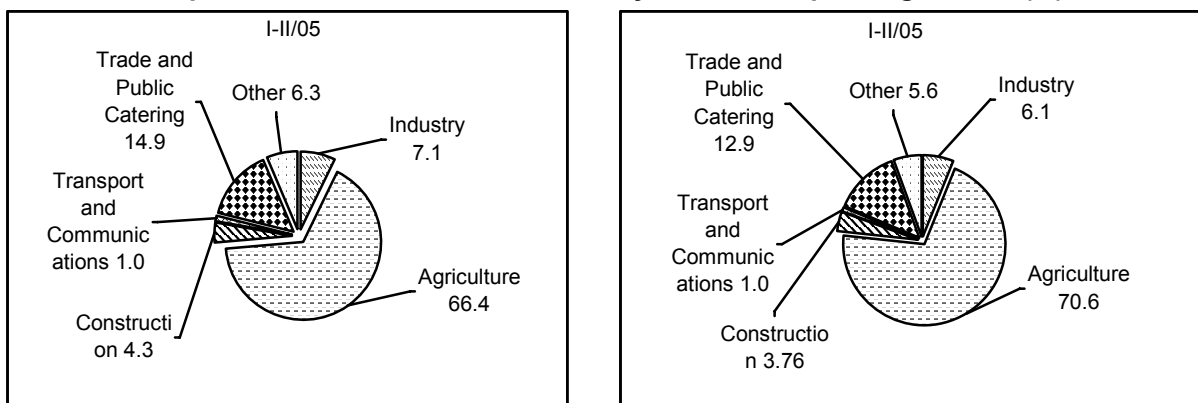
At the same time, in Sirdarya region there was a slight decrease in the share of operating SEs in the total registered (Table 5.3.4).

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

Regions	I-II/2005		I-II/06	
	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	252.8	82.9	334.7	90.1
Republic of Karakalpakstan	13.7	90.9	15.1	92.3
Oblasts:				
Andijan	14.9	68.4	23.2	92.4
Bukhara	19.9	88.2	24.2	89.6
Jizzakh	14.3	76.2	18.5	96.2
Kashkadarya	48.8	93.6	64.1	94.3
Navoi	9.5	87.6	10.6	91.2
Namangan	13.2	74.1	19.3	86.1
Samarkand	18.7	80.4	29.1	93.8
Surkhandarya	13.3	81.2	17.9	85.2
Sirdarya	10.8	88.1	11.5	83.4
Tashkent	18.0	86.3	27.8	91.1
Fergana	20.9	79.6	30.3	91.5
Khorezm	17.9	84.7	22.3	87.4
Tashkent city	18.8	72.9	20.6	77.5

Source: State Statistics Committee of Uzbekistan.

In the first half of 2006 the sectoral structure of small business did not significantly change compared to the respective period of the previous year. At the same time, a considerable increase in the number of SEs in agriculture (140.7% growth rate) entailed a decrease in the shares of construction. The agricultural sector (including dekhkans) accounted for the bulk of SEs (70.6%), while trade and public catering accounted for 12.9% and industry – 6.1% (Graph 5.3.4, Table 5.3.5).

**Graph 5.3.4. Sectoral Structure of SE by number of operating entities (%)**


Source: State Statistics Committee of Uzbekistan

The share of transport and communications remained relatively small (about 1.0%).

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

Indicators	I-II/05	I-II/06
Industry	18.1	20.3
Small enterprises	2.0	2.0
Microfirms	16.0	18.3
Agriculture	168.0	236.4
Small enterprises	3.9	5.7
Microfirms	164.0	230.7
Transport and communications	2.5	3.4
Small enterprises	0.438	0.557
Microfirms	2.0	2.8
Construction	10.8	12.6
Small enterprises	0.887	1.0
Microfirms	9.9	11.6
Trade and public catering	37.7	43.2
Small enterprises	6.7	6.8
Microfirms	31.1	36.4

Source: State Statistics Committee of Uzbekistan.

In the first half of 2006, small businesses produced output worth UZS 575.1 billion, which accounted for 8.4% of total industrial output. The growth rate to the respective period of the previous year was 125.9%, with the largest shares consisting of small enterprises (3.6%) and individual businesses (3.3%), while microfirms accounted for 1.5%. The share of small businesses in the total output of consumer goods is growing rapidly. Over the analyzed period it has grown to 19.8%. The growth rate to the respective period of the previous year was 121.7%. A considerable share of consumer goods was manufactured by individual businesses – 12.0% and small enterprises – 5.8%. The share of microfirms was 2.0% (Table 5.3.6).

An analysis of key performance indicators of agricultural small businesses showed that the development of this sector is crucial for the employment of rural population and the saturation of the market with diversified products. The share of small businesses in total agricultural output reached 93.4% and increased by 5.4% compared to the respective period of the previous year. Peasant farms (dekhkans) accounted for the bulk of agricultural output at 75.4% (Table 5.3.6).

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

Indicators	I-II/05	I-II/06
Industry		
Share of SEs in total volume of industrial output	8.3	8.4
Small enterprises	3.7	3.6
Microfirms	1.5	1.5
Individual entrepreneurs	3.1	3.3
Share of SEs in total volume of consumer goods production	19.8	19.8
Small enterprises	6.3	5.8
Microfirms	2.0	2.0
Individual entrepreneurs	11.5	12.0
Share of SEs in total volume of foodstuffs production	34.6	32.4
Small enterprises	7.4	6.4
Microfirms	2.4	1.7
Individual entrepreneurs	24.8	24.3
Agriculture		
Share of SEs in total output	88.0	93.4
Small enterprises	1.2	1.6
Microfirms	11.7	16.5
Dekhkan farms	75.2	75.4
Retail trade turnover		
Share of SEs in total trade turnover	41.4	43.2
Small enterprises	7.9	9.0
Microfirms	6.5	7.4
Individual entrepreneurs	27.0	26.8
Paid services		
Share of SEs in total volume of paid services	48.1	49.7
Small enterprises	3.7	5.0
Microfirms	2.7	3.1
Individual entrepreneurs	41.7	41.6

Source: State Statistics Committee of Uzbekistan

The implementation of measures for the improvement of the wholesale trade system for consumer goods, (Resolution by the Cabinet of Ministers of Uzbekistan of 27 March 2006) and the expansion of consumer credits facilitated an increased role for small businesses in retail goods turnover, with the growth rate compared to the respective period of the previous year amounting to 114.1%. The share of SEs in total goods

turnover was 43.2%, which exceeded the first half of 2005 by 1.8%. Individual businesses accounted for a substantial share of goods turnover – 26.8%, followed by small enterprises – 9.0% and microfirms – 7.4% (Table 5.3.6).

The quality of various services rendered by SEs testify to the increasing demand for such services and the positive dynamics of their growth in the total volume of fee-based services, which amounted 49.7% and surpassed the respective period of 2005 by 1.6%. The higher growth rates compared to the respective period of the previous year (115.5%) mainly owed to the extensive development of this type of operations in the individual sector, which accounted for 41.6% of the total, while the shares of small enterprises and microfirms were 5.0% and 3.1% respectively.

In the first half of 2006, foreign trade participation indicators for SEs continued to grow. The growth rate of exports compared to the respective period of the previous year was 144.4%. The share in total exports increased by 1.8% and amounted 6.6% (Table 5.3.7). The highest growth in export of goods was achieved by individual businesses – at 1.6%, due to specific measures for the simplification of tax and customs administration and so forth.

The enhanced quality and expanded range and variety of foodstuffs produced by small businesses helped increase their exports by 15.3% to reach a 45.6% share of the total.

In the commodity structure of exports the share of cotton-fiber increased by 4.6% and shares of resource and mining industries decreased, including energy carriers by 4.5%, non-ferrous and ferrous metals by 0.4% and chemical products by 0.2% (Table 5.3.8).

The share of small enterprises in total imports increased by 1.6% and accounted for 33.0%. The growth rate of imports to the respective period of the previous year was 109.1%. Small enterprises and microfirms accounted for a significant share in total imports – 26.3%, and individual businesses – for 6.7%. Two commodity groups prevailed in the structure of imports – “machinery and equipment” with a 36.2% share, and “chemical products” with a 17.8% share, while “other goods” accounted for 22.9% (Table 5.3.8).

In the regional context, the most significant expansion of foreign trade operations by small businesses was achieved in the Republic of Karakalpakstan – by 42.0%, mainly through an increase in exports of knitted and apparel goods and construction materials by private companies. In Navoi region, exports grew by 10.5%, in Surkhandarya region – by 10.0%, and in Samarkand region – by 6.6%. Exports of manufactured goods also grew in Andijan, Bukhara, Khorezm and Tashkent regions (Table 5.3.9). The growth of exports in the first half of the current year owed to the seasonality factor, largely to the extensive yield of agricultural crops produced by dekhkans and farmers, as well as the fulfillment of the export target for locally manufactured construction materials in accordance with the Program of Development of the sector.

**Table 5.3.7. Share of SEs in Foreign Trade (%)**

Indicator	I-II/05	I-II/06
Exports		
Share of SEs in the total volume of exports	4.8	6.6
Small enterprises	2.9	3.1
Microfirms	0.6	0.6
Individual entrepreneurs	1.3	2.9
Imports		
Share of SEs in the total volume of imports	31.4	33.0
Small enterprises	13.6	15.2
microfirms	13.3	11.1
Individual entrepreneurs	4.5	6.7
Number of SEs participating in foreign trade, units	2891	2920

Source: State Statistics Committee of Uzbekistan.

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

	I-II/05	I-II/06
Exports	100.0	100.0
Cotton fiber	18.9	23.5
Foodstuffs	30.3	45.6
Chemical products	1.7	1.5
Energy carriers	10.2	5.7
Non-ferrous and ferrous metals	1.0	0.6
Machinery and equipment	9.9	1.6
Services	12.9	6.9
Others	15.1	14.6
Imports	100.0	100.0
Foodstuffs	11.2	10.7
Chemical products	18.2	17.8
Energy carriers	0.2	0.2
Non-ferrous and ferrous metals	6.2	10.1
Machinery and equipment	43.5	36.2
Services	2.1	2.1
Others	18.6	22.9

Source: State Statistics Committee of Uzbekistan.

**Table 5.3.9. Share of SEs in Foreign Trade, by Region (%)**

Region	Share of SEs in the total exports		Share of SEs in the total imports	
	I-II/05	I-II/2006	I-II/05	I-II/06
Republic of Uzbekistan	4.8	6.6	31.4	33.0
Republic of Karakalpakstan	10.9	52.9	63.4	56.1
Oblasts:				
Andijan	2.1	4.8	4.9	5.7
Bukhara	2.1	3.5	79.3	44.2
Jizzakh	2.1	2.6	58.6	58.6
Kashkadarya	1.7	1.4	66.4	47.3
Navoi	0.2	10.7	3.6	4.4
Namangan	68.4	5.1	50.4	69.0
Samarkand	17.4	24.0	48.5	46.4
Surkhandarya	6.7	16.7	63.1	74.9
Sirdarya	1.8	4.0	63.4	69.1
Tashkent	3.9	5.8	37.2	43.7
Fergana	12.2	8.6	42.2	18.7
Khorezm	1.1	4.7	53.3	74.9
Tashkent City	6.9	5.9	36.0	41.0

Source: State Statistics Committee of Uzbekistan

Despite the positive trends formed in the first half of 2006, the foreign trade activities of small and private businesses remain at a low level. The number of small enterprises participating in export-import transactions increased by 29 units and reached 2920 thousand (Table 5.3.7). The expansion of foreign trade operations of small business is primarily linked with the accelerated creation of favorable business environment and the improved activity of institutions assisting national exporters.

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

Indicator	2000	2001	2002	2003	2004	2005	05/ II	05/I-II	06/II	06/I-II
Number of privatized enterprises	374	1449	1912	1519	1228	980	250	445	98	240
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	29	40	4	5
Objects sold into full private ownership	117	184	325	396	1038	902	221	404	94	234
Privatization proceeds (UZS bn.)	14.3	23.2	43.6	56.1	78.4	80.5	21.6	38.2	8.9	32.7

Source: State Property Committee of Uzbekistan

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

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

Types of Property	2000		2001		2002		2003		2004	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Construction in Progress	296	630	265	559	180	832	586	1176	896	1449
Commercial and Consumer Services Objects	419	450	548	1221	436	1039	954	3203	1768	8892
Objects of Agriculture and Water Industry	602	450	510	367	413	396	904	653	2516	4376
Land Plots	5700	254	8662	504	8335	551	7391	490	6296	618
Residential Housing and Non-Residential Premises, Other Property	1926	4396	5231	9699	4920	13353	4078	17938	3123	12942
Total	8943	6180	15216	12350	14284	16171	13913	23460	14599	28277

**Annex 5.2.1. (continued)**

Types of Property	2005		05/II		05/I-II		06/II		06/I-II	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Construction in Progress	1087	1825	307	306	506	815	435	667	667	1202
Commercial and Consumer Services Objects	2025	16169	492	3203	1053	5369	561	2209	1169	6689
Objects of Agriculture and Water Industry	8164	11359	1794	1767	4278	5183	789	3809	4350	11322
Land Plots	5221	610	1510	155	2873	260	1528	90	2418	207
Residential Housing and Non-Residential Premises, Other Property	4435	14074	1332	4061	2342	8911	1463	8129	3045	11829
Total	20932	44037	5435	9492	11052	20538	4776	14904	11649	31248



**Annex 5.3.1. Major Indicators of Development of SEs**

Indicators	Unit	2000	2001	2002	2003	2004	I/05	I–II/05	2005	I/06	I–II/06
Share of SEs in GDP	%	31.0	33.8	34.6	35.5	35.6	28.2	30.9	38.2	30.1	34.1
Small enterprises and microfirms	%	13.1	14.8	15.7	16.4	18.6	13.7	14.3	21.5	16.3	17.1
Number of operating legal entities	Thous. units	149.3	177.7	215.7	229.6	237.5	245.3	252.8	268.6	295.9	334.7
Number of employed by SE	Thous. people	754.6	786.4	900.3	1062.2	1219.1	1076.3	1195.2	1375.6	1200.9	1424.7

Source: State Statistics Committee of Uzbekistan

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

Area of Activity	2000	2001	2002	2003	2004	I/05	I–II/05	2005	I/06	I–II/06
Industry	14.0	14.1	15.9	10.9	10.1	8.4	8.3	9.8	8.4	8.4
Agriculture	73.6	74.5	74.9	78.1	81.1	93.3	88.0	84.7	94.7	93.4
Retail Turnover	45.3	46.1	43.4	42.4	42.2	40.2	41.4	44.0	42.8	43.2
Paid Services	37.9	40.5	41.3	45.4	47.9	42.8	48.1	52.0	44.9	49.7

Source: State Statistics Committee of Uzbekistan

**Annex 5.3.3. Share of SEs in Foreign Trade Operations of Uzbekistan**

Indicator	Unit	2000	2001	2002	2003	2004	I/05	I–II/05	2005	I/06	I–II/06
Exports	%	10.2	9.3	7.5	6.9	7.3	4.6	4.8	6.0	6.7	6.6
Imports	%	27.4	26.9	24.9	33.0	32.7	29.4	31.4	33.7	29.7	33.0
Number of Entities Participating in Foreign Economic Activity, thousand units	Thous. units	2.8	2.5	2.7	3.2	3.8	2.0	2.9	3.9	2.0	2.92

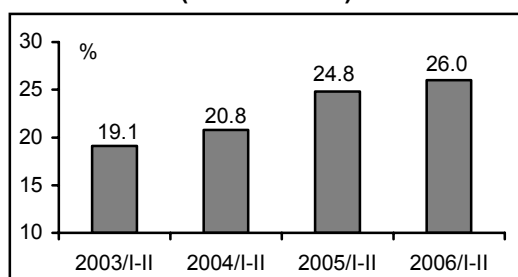
Source: State Statistics Committee of Uzbekistan

## 6. Sectors of Economy

### 6.1. Industry

In the industrial sector, the impact of the factor of domestic growth continued to strengthen. High growth rates in industrial sectors were provided by the enhanced scope of the modernization of production capacities and the maintenance of a relatively favorable entrepreneurial and investment climate. The index of industrial growth in the first half of 2006 reached 109.7%, as compared to 107.5% in the corresponding period of 2005. During the period under review, industrial enterprises produced goods worth 6881.2 bn. UZS.

**Graph 6.1.1. Share of Value Added in GDP (GDP = 100%)**



Source: State Statistics Committee of the Republic of Uzbekistan

The implementation of balanced monetary and fiscal policies in the real sector of the economy facilitated the formation of positive growth dynamics of value added production in industry. Industry's value added index equaled 5.3%, while its share in GDP increased from 24.8% to 26.0% (Graph 6.1.1). The positive results of the operations of the industrial commodity exchange, as well as the adherence to commodity exchange principles based on the usage of market mechanisms of price formation, had an additional impact on the improvement of the financial condition of many enterprises.

During the 1<sup>st</sup> half of 2006, localized production produced goods for more than UZS 675.3 bn., while the calculated effect of import substitution equaled more than USD 562.7 mill. An analysis of the results of priority programs on localization identified a positive tendency of decreasing material expenses for production of main types of industrial products, including goods of the manufacturing industry.

Sector development programs and the Programs for Developing Localized Production continued to play a major role.

During the 1<sup>st</sup> half of 2006, there was a positive tendency in the development of basic industries. The production growth index in the energy complex equaled 2.9%, including 7.6% growth in electric power and 0.1% in the fuel industry (Table 6.1.1).

**Table 6.1.1. Indices of Industrial Production**

	Index of industrial production (in % to previous period)	
	2005/I-II	2006/I-II
Industry	107.5	109.7
Power industry	98.2	107.6
Fuel industry	99.7	100.1
Ferrous metallurgy	126.2	106.8
Non-ferrous metallurgy	96.2	100.8
Chemicals	107.7	116.9
Machine-building	138.1	119.8
Timber, wood-working industry	129.3	118
Building materials	108.3	111.8
Light industry	113.5	111.4
Food industry	105.6	129.2
Others	106.3	121.3

Source: State Statistics Committee of the Republic of Uzbekistan

The growth in the volume of production was supported by increased volumes of production of electric power – by 3.5% and natural gas – by 3.1%. A decrease in the production of oil and condensate was compensated for by an increase in production volumes of liquefied gas – by 5.0% and coal – by 9.0% (Table 6.1.2). Export volumes of energy carriers increased by 50.3%, while the domestic market remained balanced. Measures on energy conservation, implemented in the most energy-consuming branches and sectors of the economy, facilitated an increase in the export potential and stable functioning of the fuel and energy complex.

was one of highest, equaling 37.6%. In commodity exchange, there was a clear dependency of weighted average prices on seasonal demand.

The production growth index in ferrous metallurgy equaled 6.8%, and in non-ferrous metallurgy – 0.8%. During the 1<sup>st</sup> half of 2006, the demand for ferrous and non-ferrous metallurgy remained high in both domestic and external markets. As for exports, the growth index of those products

During the 1<sup>st</sup> half of 2006, chemical-producing enterprises maintained high rates of development. The index of production in the chemical industry increased by 9.2 p.p. over the previous year and equaled 16.9%. At the same time, the growth in cost volumes of production was to a great extent connected with the increase in physical volumes, which ensured relative stability of weighted average prices regardless of increased seasonal demand.

Unlike the production parameters of last year, a tendency of increased physical volumes of production was observed almost in all types of production: fertilizers – by 9.7%, including phosphates – by 13.0%, nitrates – 9.2%, synthetic ammonia – 13.0%, man-made fiber and threads – 52.0%, synthetic resin and plastics –

22.3%, and sulfuric acid – 4.8%. As a result of the increased supply of domestically produced mineral fertilizers to the domestic market, their import decreased significantly, by 40%.

Positive shifts in the development of the chemicals industry resulted mainly from the policy of the steady provision of chemical enterprises with technological raw materials, including by the utilization and reprocessing of domestic raw materials, which in turn resulted in reduced material expenses, savings of hard currency, increased competition on price, and as a result, increased external demand. The export of chemicals increased by 25.1% against the previous year, which resulted in an increased share for the sector in the export income of the country, from 4.1% to 4.9%.

The positive dynamics of development in the building materials industry coincided with the beginning of the active phase of the construction season. The sector's production growth index equaled 11.8%. Increased demand led to expanded production of construction materials. During the 1<sup>st</sup> half of 2006, the production of cement increased by 8.5%, and asbestos cement sheets – by 8.1%. Renewed growth was observed in the case of ceramic tiles production – by 2.2%, along with production of wall panel materials – by 48.5%. One of the factors which ensured growth in the building materials industry, particularly in the production of cement, was the effective usage of commodity exchange mechanisms for marketing goods.

In the manufacturing industry, the highest growth rate was achieved by the foodstuffs production sector. Its growth index significantly surpassed last year's level and reached 29.2%. Sustainable maintenance of such a high growth rate already in the 1<sup>st</sup> quarter was ensured by measures for improving the operations of joint ventures, which in turn were supported by increased domestic demand and a significant expansion in exports of foodstuffs. Exports of foodstuffs increased, while maintaining a high level of saturation of the domestic market with domestically made foodstuffs. At the same time, in spite of existing high potential, a negative trend was observed in exports of reprocessed fruits and vegetables.

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

	Unit	Physical output		Indices of production (in % to previous year)	
		2005/I-II	2006/I-II	2005/I-II	2006/I-II
Power Industry					
Electric Power	Mill. Kwh	24681	25549	98.3	103.5
Fuel Industry					
Oil and Condensate	Thous. tons	2927.7	2615.2	83.2	89.3
Gas	Mill. m <sup>3</sup>	30331.3	31281.8	100.0	103.1
Liquefied Gas	Thous. tons	101.4	106.5	105.7	105.0
Coal	Thous. tons	1494	1628	119.7	109.0
Metallurgy					
Steel	Thous. tons	333.6	338.0	118.8	101.3
Rolled Ferrous Metals	Thous. tons	312.8	314.4	120.4	100.5
Mechanical Engineering					
Tractors	Units	1373	1448	100.1	105.5
Excavators	Units	3	9	16.7	3.0 p.
Passenger Cars	Units	51800	63736	160.6	123.0
Including: Damas	Units	7167	7054	148.0	98.4
Nexia	Units	30414	35171	177.1	115.6
Matiz	Units	13179	21426	148.3	162.6
Color TVs	Units	15775	30246	2.2 times	191.7
Isolated Cable	km	1294	1459	93.8	112.8
Refrigerators and Deep Freezers	Units	310	1670	24.8	5.4 times
Washing Machines	Units	409	530	65.2	129.6
Chemical Industry					
Mineral Fertilizers	Thous. tons	436.1	478.3	98.8	109.7
including: Nitrogen Fertilizers	Thous. tons	380.6	415.6	102.7	109.2
Phosphate Fertilizers	Thous. tons	55.5	62.7	78.2	113.0
Synthetic Ammonia	Thous. tons	519.3	586.8	101.6	113.0
Sulphuric Acid	Thous. tons	389.1	407.7	97.7	104.8
Synthetic Resins and Plastics	tons	55466	67858	99.8	122.3
Chemical Fibers and Threads	tons	3230	4910	71.0	152.0
Synthetic Detergents	tons	94	228	13.2	2.4 times
Building Materials Industry					
Wall Panel Materials	Mill. pieces	9.9	14.7	88.3	148.5
Cement	Thous. tons	2562	2780.2	106.6	108.5
Asbestos Cement Sheets	Mill. tiles	169.6	183.4	125.2	108.1
Ceramic Tiles	Thous. m <sup>2</sup>	41.5	90.3	75.0	2.2 times
Paint-Lacquer Materials	tons	13471	17796	142.6	132.1
Light Industry					
Cotton Fiber	tons	636383	665049	129.6	104.5
Cotton Yarn	tons	73892	67634	87.9	91.5
Raw Silk Threads	tons	215.1	253.4	89.9	117.8

Source: State Statistics Committee of the Republic of Uzbekistan

During the 1<sup>st</sup> half of 2006, the machine-building sector developed at a greater pace than industry as a whole, with a growth rate of 19.8%. A significant contribution to that growth was the ongoing localization in the car manufacturing sector and in the production of a number of electronic appliances. Increasing domestic demand, along with mildly decreasing external demand in comparison with the corresponding period of the previous year, had a major impact on the car manufacturing sector. In general, during the period under review, exports of machinery and equipment increased by 3.5%.

Growth in value terms was mainly provided by increased production of passenger cars, by 23.0%, and cable products (isolated cable) – by 12.8%. A resumption of growth trends was observed in such sectors as production of excavators, tractors and other types of agricultural machinery. Although the decline in production of consumer electronic appliances ceased in comparison with the corresponding period of the previous year, the level of saturation of the domestic market with domestically made home appliances remained low.

In light industry, production output increased by 11.4%, while the cotton processing industry continued to dominate in the volume of total production. During the 1<sup>st</sup> half of 2006 the volume of cotton-fiber production increased by 4.5%. The following industries also recorded growth in volumes of their production: raw silk thread – by 17.8%, silk fabrics – 1.9%, hosiery – by 2.2%. However, this trend was merely a resumption of growth and had no effect on intra-sector shifts in light industry. As a result of declines in production outputs of cotton yarn, by 8.5%, cotton fabrics, by 34.5% and knitwear, by 1.1%, the share of industries with high value added decreased. During the 1<sup>st</sup> half of 2006, export dynamics of production of light industry had an increasing trend.

**Table 6.1.3. Indices of Producers' Prices by Sector of Industry (in % to the corresponding period of previous year)**

	2005/I-II	2006/I-II
Industry	125.5	128.6
Power industry	151.1	116.1
Fuel industry	156.7	140.4
Ferrous metallurgy	107.6	117.3
Non-ferrous metallurgy	138.9	193.7
Chemicals	123.8	110.3
Machine-building	104.1	112
Timber, wood-working industry	100.5	100.1
Building materials	116.5	126.4
Light industry	106.2	109.5
Food industry	116.6	116.7

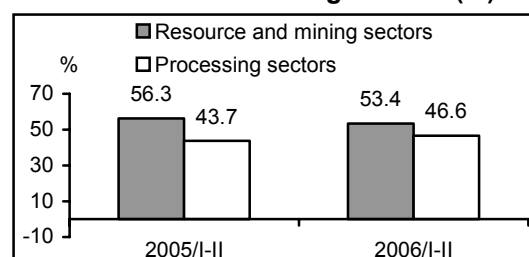
Source: State Statistics Committee of the Republic of Uzbekistan

In general, sector shifts in industrial production, were mainly formed under the pressure of the price factor. Thus, while the main types of raw materials and mining products had relatively low dynamics in production,, the share of the fuel-and-energy and metallurgy complexes increased from 46.3% to 48.9%. The index of price increases in the fuel industry, by 11.8 p.p., and non-ferrous metallurgy, by 65.1 p.p., exceeded the industry average for growth of prices. Also, under the pressure of increasing prices, the share of the building materials sector increased from 3.5% to 3.7%, with a price-growth index of 126.4% against 116.5% in the corresponding period of the previous year (Table 6.1.3). The dynamics of price growth in other industries, despite trends of accelerating growth, remained significantly lower than the industrial average. In the chemicals industry, slowing price growth clearly depended on a significantly increased level of supply. As a result, its share in total industry decreased from 5.3% to 5.0%. The price competitiveness of the domestic furniture industry, which in turn was secured by stable domestic prices, continued to have a significant impact on the dynamics of the development of the timber and wood-working industry. The index growth of producers' prices in the timber and wood-working industry remained very low and equaled 100.1% of the level of the corresponding period of the previous year, which led to increased domestic demand. During the 1<sup>st</sup> half of 2006, the index of production growth equaled 18.0%.

During the 1<sup>st</sup> half of 2006, the share in total industry of the resource and mining industries, including interim consumption products, decreased from 56.3% to 53.4% (Graph 6.1.2). The share of manufacturing industries increased from 43.7% to 46.6% (Table 6.1.4). The increase in the share of the foodstuffs industry, from 7.9% to 8.7%, became a positive factor of development. However, this trend did not have an impact on the overall dynamics of sectoral shifts.

In the system of mechanisms to stimulate higher dynamics of sector shifts in the industrial complex, priority is given to measures to further increase the efficiency of applied instruments which affect the competitiveness of domestic industrial goods, particularly in the manufacturing sector.

**Graph 6.1.2. Ratio of Resource and Mining Sectors to Processing Sectors (%)**



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

Issues of increasing importance include: the further improvement of conditions for industrial enterprises, the effective allocation of investment inflows, and the introduction of a system of widened production which is able to stimulate domestic sources and resources to develop the industrial complex of the country.

## 6.2. Consumer Goods Market

In the first half of 2006, industrial sectors that produce goods for consumer goods market continued to work in a stable manner. The distinctive factors of relatively stable development of consumer sector of the economy included: growth of real income of population, increase in supply of locally-made goods to the domestic market, development of localization and small entrepreneurship as well as services, all in accordance with the Decree of the President of the Republic of Uzbekistan from April 17, 2006.

Stimulating measures have been taken in the country aimed at saturation of the consumer market with domestic goods. Thus, enterprises that are specialized in production pay income taxes with 20 per cent discount. Micro-firms and small enterprises pay single tax from revenue gained from production of consumer goods at a rate, which is 25% lower than the active rate. Revenues gained in result of increased volume of production are exempt of taxes.

Special conditions were created for producers of goods for children, whose production expenses are not lower than that of producers of goods for adults. Thus, revenues, gained from production goods for children are subject to an income tax at a low rate of 7%. The cost of imported goods and materials is deductible from the volume of compulsory exchange of revenues in a foreign currency into the national currency.

Those factors facilitated growth of production of consumer goods (20.6%), including foodstuffs ((24.6%), and non-foodstuffs (18.7%) (Table 6.2.1).

The production of main types of foodstuffs (flour, tea, vegetable oil, sugar, beer, non-alcoholic and alcoholic beverages) is increased. The tendency of accelerated production of foodstuffs in comparison that of non-foodstuffs remained (24.6 per cents against 18.7 per cents). Stimulating impact on growth of production in the light industry was posed by the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "About measures of selling cotton-fiber to enterprises with foreign investments". The share of foodstuffs increased by 1.2. p.p. and the share of non-foodstuffs plunged by 0.9 p.p. (Graph 6.2.1.).

**Table 6.1.4. Structure of Industrial Output (in current prices)**

	2005/I-II	2006/I-II
Industry	100	100
Power industry	11.3	10.5
Fuel industry	16.0	16.5
Ferrous metallurgy	2.6	2.3
Non-ferrous metallurgy	16.4	19.6
Chemicals	5.3	5.0
Machine-building	13.2	12.6
Timber, wood-working industry	0.7	0.7
Building materials	3.5	3.7
Light industry	18.1	16.1
Food industry	7.9	8.7
Other industries	5.0	4.3

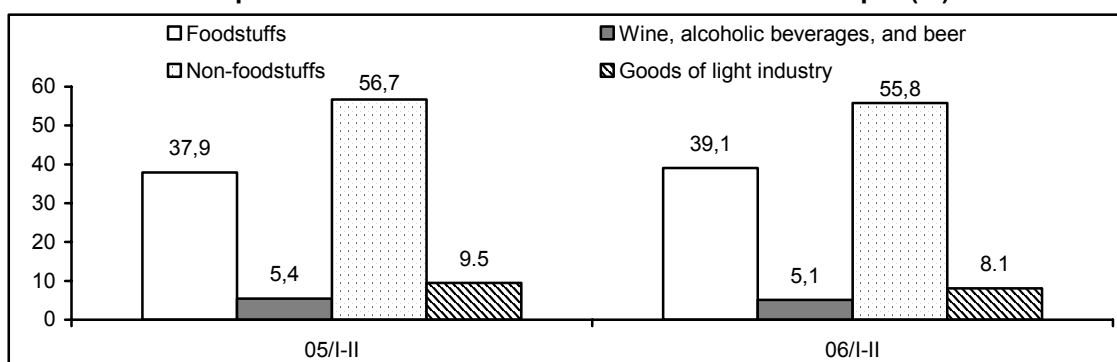
Source: State Statistics Committee of the Republic of Uzbekistan

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

	05/I	05/I-II	06/I	06/I-II
Consumer goods	116.4	117.1	114.2	120.6
Foodstuffs	100.2	107.0	117.2	124.6
Wine, alcoholic beverages, and beer	106.5	101.4	107.1	112.8
Non-foodstuffs	133.6	128.0	112.7	118.7
Light industry goods	98.3	97.2	99.0	103.2

Source: State Statistics Committee of the Republic of Uzbekistan.

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



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

The developed marketing policy, conducted modernization and technical re-equipment of individual enterprises and productions along with timely supply of raw materials had favorable impact on growth of production of the following consumer goods: sugar (156.5%), milk and dairy products (151.7%), filterless and regular cigarettes (137.4%), pasta (125.6%); footwear (115.4%), vegetable oil (114.3%), carpets and carpet goods (113.8%), canned goods (111.6%), grape wine (103.9%), vodka and liquor (103.2%), hosiery (102.2%), silk fabrics (101.9%) (Table 6.2.2., Annex 6.2.2.).

The resumption of demand for granulated sugar was result of measures undertaken by the Government aimed at conduct of constant monitoring on offers of granulated sugar to commodity exchanges and formation of its prices at commodity-exchange and wholesale. As a result, as of June 1, 2006, wholesale prices for sugar, produced by Shakar-Investment Joint Company was reduced by 5.9% and equaled to 978.6 UZS per 1 kg, replacing the old price of 1040 UZS per 1 kg. Besides that, the Government undertook certain measures aimed at increasing the volume of sugar, offered for commodity-exchange and ensuring sustainable supply of sugar to trades at commodity-exchange. Those measures allowed increasing the volume of sugar, offered at commodity-exchange trades by more than 50% of the total volume sold, while, in the 1<sup>st</sup> quarter of 2006, only 9.9% of total sales were sold through commodity-exchange.

The tendency of increase in production of home appliances continued, to some extent, due to growth of consumer demand based on increase in consumer demand, spurred by growth of real income of population. Thus, production of refrigerators increased by 5.3 times, followed by TV-sets (1.8 times) and washing machines (by 1.3 times) (Table 6.2.3.)

The decline in output of cotton fabrics (65.4% of the level of 1st half of 2006) and knitwear (98.9%) is resulted from decrease in production of cotton yarn (91.5%) and continued process of technical re-equipment in number of textile enterprises. The decline to production of bread and baked products (89.9%) as well as that of confectionary products (69.4%) is due to saturation of the market with goods by small and medium enterprises.

During the 1<sup>st</sup> half of 2006 production of consumer goods grew in all regions of the country (Table 6.2.4.). The highest growth rates were observed in Tashkent (148.2%), Sirdarya (135.1%), Samarkand (131.2%), Surkhandarya (126.6%), Andijan (118.7%), Jizzakh (117.5%), Khorezm (115.1%), Fergana (110.9%), Namangan (110.7) regions and in the Republic of Karakalpakstan (114.5%).

It was mainly due to continuance of favorable affect of the measures undertaken to support and protect private sector and small entrepreneurship. The following regions increased their contribution to consumer goods output: Samarkand (from 7.7% in the 1<sup>st</sup> half of 2005 to 8.4% in the 1<sup>st</sup> half of 2006) Surkhandarya (from 2.3% to 2.4%) regions. A significant structural shift, by 3.4 p.p., on this indicator was observed in Tashkent city (from 14.5% to 17.9%) (Table 6.2.5.)

**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	05/I-II	06/I	06/I-II
Cotton fabrics	83.4	76.5	63.7	65.4
Silk fabrics	88.9	81.1	98.0	101.9
Carpet and carpet goods	102.8	94.6	106.3	113.8
Hosiery	157.0	82.0	99.4	102.2
Knitwear goods	102.4	114.8	100.9	98.9
Footwear	105.7	109.7	109.3	115.4
Milk and dairy products	88.6	111.9	102.0	151.7
Canned goods	183.8	151.6	87.8	111.6
Granulated sugar	44.6	58.9	122.3	156.5
Flour	88.7	85.7	107.2	102.4
Bread and baked products	83.9	78.1	93.1	89.8
Confectionary	174.9	148.0	47.9	69.4
Pasta	41.6	70.9	152.6	125.6
Vegetable oil	114.1	123.8	115.3	114.3
Wine	90.3	91.5	102.1	103.9
Vodka and liquor	104.3	92.7	100.0	103.2
Soft drinks	11.1 p	10.9 p	167.8	2.1 p.
Filterless and regular cigarettes	93.9	87.4	129.9	137.4
Salt	68.9	100.2	100.9	100.3

Source: State Statistics Committee of the Republic of Uzbekistan

**Table 6.2.3. Home Appliances Output**

	Units	2005/I-II	2006/I-II	%
Refrigerators	pieces	310	1638	5.3 times
TV-sets	pieces	17875	32024	179.2
Washing machines	pieces	409	530	129.6

Source: State Statistics Committee of the Republic of Uzbekistan

**Table 6.2.4. The Growth of Consumer Goods Output by Region (% to the respective period of the previous year)**

Regions	2005/I	2005/I-II	2006/I	2006/I-II
Republic of Uzbekistan	116.4	117.1	114.2	120.6
Republic of Karakalpakstan	117.1	107.0	111.1	114.5
Oblasts:				
Andijan	180.3	159.6	111.3	118.7
Bukhara	104.7	104.8	108.8	103.1
Jizzakh	120.6	117.7	120.8	117.5
Kashkadarya	107.8	110.7	118.5	109.1
Navoi	98.3	100.6	106.8	105.8
Namangan	112.1	107.0	100.1	110.7
Samarkand	110.1	100.7	124.0	131.2
Surkhandarya	101.8	95.1	136.9	126.6
Sirdarya	109.9	99.1	109.3	135.1
Tashkent	107.7	106.2	109.3	112.6
Fergana	115.8	113.0	109.6	110.9
Khorezm	96.5	106.5	106.2	115.1
City of Tashkent	107.4*	103.7	124.2	148.2

Source: State Statistics Committee of the Republic of Uzbekistan

**Table 6.2.5. Breakdown of Consumer Goods Output by Regions (%)**

Regions	2005/I	2005/I-II	2006/I	2006/I-II
Republic of Uzbekistan	100.0	100.0	100.0	100.0
Republic of Karakalpakstan	1.6	1.6	1.6	1.5
Oblasts:				
Andijan	29.5	29.9	28.6	29.3
Bukhara	7.4	7.6	7.0	6.5
Jizzakh	2.7	2.7	2.9	2.6
Kashkadarya	3.7	3.7	3.9	3.4
Navoi	1.9	2.1	1.8	1.8
Namangan	4.0	4.0	3.5	3.7
Samarkand	8.0	7.7	8.7	8.4
Surkhandarya	2.2	2.3	2.6	2.4
Sirdarya	1.3	1.2	1.3	1.4
Tashkent	9.8	10.3	9.4	9.6
Fergana	9.6	9.7	9.2	9.0
Khorezm	2.4	2.7	2.2	2.5
City of Tashkent	15.9	14.5	17.2	17.9

Source: State Statistics Committee of the Republic of Uzbekistan

Total consumer goods output per capita reached UZS 68.8 thous. in the first half of 2006 against UZS 57.7 thous. in the 1<sup>st</sup> half of 2005. This indicator varies by regions in the range from UZS 223.9 thous. in Andijan to UZS 17.5 thous. in the Republic of Karakalpakstan. It shows that there is a necessity to undertaken additional measures to develop production of consumer goods in those regions, per capita consumer goods output indicators significantly lower than the national average indicator.

The tendency of growth is remained in exports of consumer goods (132.4%), including foodstuffs (181.6%) and non-foodstuffs (120.5%). The main portion of consumer goods' exports consisted of passenger cars, cotton fabrics, canned fruits and vegetables, juice, wines, fresh tomatoes, apricots, vegetable oil, ethyl spirit, tobacco leaves and cigarettes. The main consumer goods' imports were sugar, flour, apparel, footwear, medications, and complex home appliances. (Table 6.2.6., Table 6.2.7).

**Table 6.2.6. Exports and Imports of Consumer Goods (USD mill.)**

	2005/I	2005/I-II	2006/I	2006/I-II
Exports, total	1327.9	2823.3	1386.8	2971.2
Consumer goods	148.7	319.8	174.9	423.6
Food-stuffs	24.3	62.5	36.3	113.6
Alcoholic, non-alcoholic beverages and vinegar	1.1	3.4	0.9	2.7
Non food-stuffs	124.4	257.3	138.5	310.0
Imports, total	965.4	2015.3	999.7	2088.2
Consumer goods	159.7	347.5	162.9	348.3
Food-stuffs	0.3	0.6	0.1	0.1
Alcoholic, non-alcoholic beverages and vinegar	113.7	248.1	113.4	249.9

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

**Table 6.2.7. Exports and Imports of Consumer Goods (in % to previous period)**

	2005/I	2005/I-II	2006/I	2006/I-II
Exports, total	109.7	116.7	104.4	105.2
Consumer goods	169.7	160.0	117.6	132.4
Food-stuffs	102.7	134.8	149.2	181.6
Alcoholic, non-alcoholic beverages and vinegar	171.8	243.0	89.4	79.0
Non food-stuffs	194.6	167.7	111.3	120.5
Imports, total	110.4	116.4	103.6	103.6
Consumer goods	102.9	108.7	102.0	100.2
Food-stuffs	86.7	109.3	107.5	99.1
Alcoholic, non-alcoholic beverages and vinegar	78.7	62.0	15.1	14.9
Exports, total	111.3	108.5	99.7	100.7

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

was 2.9 p.p. increase in supply of the domestic market with domestically produced goods, which reached 87.6%, consisting of 3.8 p.p. and 93% in foodstuffs and 5.7 p.p. and 81.5% in non-foodstuffs.

One of the reserves for further growth of production of consumer goods might be in form of transaction to new forms of organizing the production of consumer goods. For example, in China, large firms (that employ more than 5 thous. people) control the whole technological chain of production, starting with cultivation of cotton up to shipment of the final product to consumers, which is one of the main reasons of success and advantage of textile industry in China. Similar textile clusters are being established in other countries too, including CIS. Increasing competitiveness of consumer goods produced by light industry must be related to production of new, modern fabrics for garment manufacture, renewing production basis on production of wool fabrics and high-quality leather, launch of production of accessories.

Further development of the consumer market and expansion of supply of goods in that market require: decreasing the level of high centralization of refinery, stocking and reproduction of agricultural products; forming a supply in the consumer market with orientation to domestic demand; increasing the level of organization and agreement discipline of providing resource-supply and transport-provision services; developing measures on financial support to domestic producers of goods, which envisage restructure of debts and access to credit sources; expansion of assortment of goods that are offered at commodity exchange, simplification of the system of commodity exchange procedures and deals.

### 6.3. Agrarian Sector

In the first half of 2006 stable growth of agricultural production of observed. Volume of gross production equaled UZS 2860.7 bn. (against UZS 2304.2 bn. in the 1<sup>st</sup> half of 2005). The main factors of relative high growth rates of agricultural production include: priority development of farms; forming a system of market and production infrastructure; creating conditions for organizing operations of agrofirms, which specialize in production and deep reproduction of fruits, vegetables and grapes in the territories of reorganized shirkats.

**Table 6.3.1. Main Indicators of Development of Agriculture (%)**

Indicators	Unit	2005/I-II	2006/ I-II
Share of Gross Production of Agriculture in the GDP	%	13.5	13.1
Growth Rates of Production Output of Agriculture	%	107.2	107.2
- Crop Production	%	108.2	108.1
- Livestock Farming	%	106.1	106.1
Structure of Production by Form of Ownership			
- State-owned	%	0.6	0.3
- Non-State Owned	%	99.4	99.7
Share of Investments in Agriculture in Total Volume of Investments	%	3.3	4.7
Number of Employed in Agrarian Sector	Thous. People	2872.9	2834.6

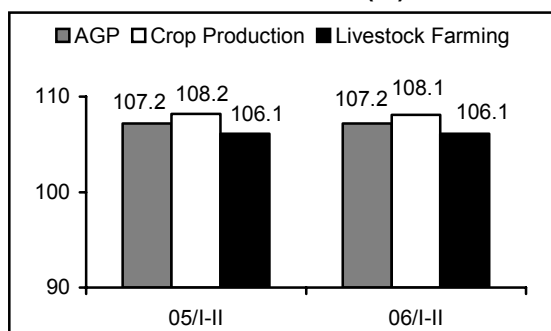
Source: State Statistics Committee of the Republic of Uzbekistan

**Main tendencies.** During the period under review, growth in production of agricultural production equaled 107.2%, including 108.1% in crop production, and 106.1% in livestock farming (Table 6.3.1, Graph 6.3.1).

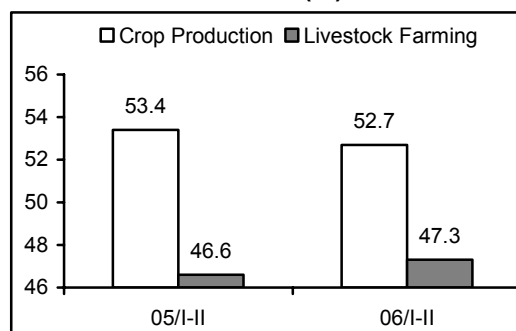
The biggest decline in share of agriculture in GDP (from 13.5% to 13.1%) is explained by accelerated development of manufacturing and services. In

the 1<sup>st</sup> half of 2006, there were no significant changes in the structure of forms of ownership. Non-state sector account for almost all agricultural production (99.7%). Crop production accounted for 52.7% of the total volume of agrarian production, leaving 47.3% to livestock farming, indicating to some structural changes against 53.4% and 46.6% respectively in the 1<sup>st</sup> half of 2005 (Graph 6.3.2).



**Graph 6.3.1. Growth Rates of Gross Agricultural Production(%)**


Source: State Statistics Committee of the Republic of Uzbekistan

**Graph 6.3.2 Structure of Agricultural Production (%)**


Source: State Statistics Committee of the Republic of Uzbekistan

The distinctive feature of the first half of 2006 was the growth of investments into agrarian sector (by more than 1.4p.p.), which first of all were directed into objects of water management infrastructures in Kashkadarya, Jizzakh, and Sirdarya regions. Institutional and market reforms in agrarian sector resulted in withdrawal of workforce. Number of employed in the agrarian sector decreased by 38.3 thousand people against the first half of 2005.

**Crop Production.** As of July 1, 2006, 5046.8 thous. tons of wheat (growth to 125.5% in comparison with indicators of the 1<sup>st</sup> half of 2005), 534.1 thous. tons of potatoes (107.4%), 900.2 thous. tons of vegetables (114.2%), 45.8 thous. tons of melons (141.7%), 325.8 thous. tons of fresh fruits (135.2%), and 10.9 thous. tons of grapes (141.3%) were produced. High growth rates in production of wheat, melons, fruits and grapes can be explained by favorable weather conditions and early ripening (Table 6.3.2).

**Table 6.3.2. Main Indicators of Development of Agricultural Production (thous.tons)**

Product	05/I-II	06/I-II	06/I-II in % to 05/ I-II
Wheat	4021.9	5046.8	125.5
Potatoes	497.2	534.1	107.4
Vegetables	788.3	900.2	114.2
Fruits and Berries	240.9	325.8	135.2
Grapes	7.7	10.9	141.3
Melons	32.3	45.8	141.7

Source: State Statistics Committee of the Republic of Uzbekistan

**Livestock Farming.** In the first half of 2006, 528.9 thous. tons of meat (106.6%), 2184.7 thous. tons of milk (105.6%), 916.2 units of eggs (106.6%), and 20.2 thous. tons of cocoons (125.4%) were produced. (Table 6.3.3.)

**Table 6.3.3. Production of Main Types of Livestock Products**

	Unit	05/I-II	06/I-II	06/I-II in % to 05/ I-II
In all categories				
Meat (live weight)	Thous.tons	496.0	528.9	106.6
Milk	Thous.tons	2068.1	2184.7	105.6
Eggs	Mill. Pieces	859.3	916.2	106.6
Cocoons	Thous.tons	16.1	20.2	125.4
In agrarian enterprises (shirkats)				
Meat (live weight)	Thous.tons	16.7	17.4	104.3
Milk	Thous.tons	26.4	18.2	69.2
Eggs	Mill. Pieces	340.2	366.3	107.7
In farms				
Meat (live weight)	Thous.tons	8.3	9.2	110.9
Milk	Thous.tons	41.6	45.7	109.7
Eggs	Mill. Pieces	29.6	26.5	89.6
In dekhkan farms				
Meat (live weight)	Thous.tons	471.0	502.3	106.7
Milk	Thous.tons	2000.1	2120.8	106.0
Eggs	Mill. Pieces	489.5	523.4	106.9

Source: State Statistics Committee of the Republic of Uzbekistan

In result of implementation of the Program of stimulating the development livestock farming in private, dekhkan farms, and farms, for the period of 2006-2010, as of July, 2006, livestock population equaled 6775.3 thous., indicating to an increase by 4.0% in comparison with January 1, 2006. There 166 auctions were or-

ganized in order to sell racy cattle, where 12157 cattle were sold. In general, 21.9 thous. poor families throughout the nation were provided with cows.

As of July, 2006, 227.1 thous. people engaged in cattle-breeding, where provided with labor-book, 86.1 thous. of whom concluded contracts with the Pension Fund. Micro credits at the amount 11.2 bn. UZS were given to dekhkan farms to buy cattle.

In the structure of operating entities, a tendency towards decrease in the share of agrarian enterprises (shirkats) in the gross agricultural production, crop area, and production of main agricultural products continued, which is due to continuance of reforms and restructuring of low-profit and loss-making shirkats (Table 6.3.4)

Within the framework of adopted measures, 56 thousand farms were created on the basis of 445 reorganized shirkats. As of July 1, 2006, total

number of operating farms equaled to 181.7 thousand, indicating to an increase by 60.1 thousand in comparison with July, 2005. On average, a farm possesses 26.1 ha of land. All of the above-mentioned reforms allowed ensuring growth in volumes of gross production by farms. (Table 6.3.5).

In accordance with the Decree of the President of the Republic of Uzbekistan from January 11, 2006, 219 specialized fruit-and-vegetable and grape-growing agrarian enterprises (shirkats) were totally reorganized into farms. More than 39 thousand farms were organized on the basis of reorganized shirkats. They were provide with 319 ha of land.

1279 farms were provided with additional land, totaling to 320.4 ha. In reorganized shirkats, 83.5

thous. ha of gardens and vineyards were sold via closed auctions. Money, gained from sells of gardens and vineyards amounted to UZS 35.5 bn. Average price per 1ha of garden and vineyard was 450 thousand UZS.

During the 1<sup>st</sup> half of 2006 195 agrarian firms were organized on the basis of reorganized shirkats, founders of whom included more than 35.3 thousand newly organized farms, reproducing enterprises and other entities, voluntarily members of agrarian firms.

There were no significant changes in the development of dekhkan farms, though they remain to be the main producers of agricultural products. In dekhkan farms, significant growth of production volumes is characteristic for production of food-melon and groids, fruits and grapes. (Table-6.3.6)

**Table 6.3.4. Production of Agricultural Products by Agrarian Enterprises (shirkats)**

Product	Unit	05/I-II	06/I-II	06/I-II in % to 05/ I-II
Grain	Thous.tons	1148.6	571.4	49.7
Wheat	Thous.tons	1125.2	565.5	50.3
Potatoes	Thous.tons	1.2	0.3	24.3
Vegetables	Thous.tons	17.9	6.5	36.3
Food-Melons and Gourds	Thous.tons	0.8	0.3	43.0
Fruit and Berries	Thous.tons	22.5	14.9	66.2
Grape	Thous.tons	0.3	0.0	11.0
Cattle	Thous. heads	204.8	133.8	65.3
Cows	Thous. heads	68.0	44.3	65.1
Pigs	Thous. heads	19.2	13.6	70.8
Sheep and Goats	Thous. heads	2987.2	2846.8	95.3
Poultry	Thous. heads	5646.7	5245.1	92.9
Horses	Thous. heads	22.3	17.8	79.8
Meat	Thous.tons	16.7	17.4	104.3
Milk	Thous.tons	26.4	18.2	69.2
Eggs	Mill. Pieces	340.2	366.3	107.7

Source: State Statistics Committee of the Republic of Uzbekistan

**Table 6.3.5. Production of Agricultural Products by Farms**

Product	Unit	05/I-II	06/I-II	06/I-II in % to 05/ I-II
Grain	Thous.tons	2162.1	3745.7	173.3
Wheat	Thous.tons	2129.2	3708.8	174.2
Potatoes	Thous.tons	11.8	16.6	140.5
Vegetables	Thous.tons	31.5	60.2	191.0
Food-Melons and Gourds	Thous.tons	2.8	10.9	3.9 p
Fruit and Berries	Thous.tons	25.3	80.7	3.2 p
Grape	Thous.tons	0.5	1.6	3.5 p
Cattle	Thous. heads	320.7	357.3	111.4
Cows	Thous. heads	101.1	117.6	116.3
Pigs	Thous. heads	15.7	13.5	86.0
Sheep and Goats	Thous. heads	479.0	611.9	127.7
Poultry	Thous. heads	795.8	830.2	104.3
Horses	Thous. heads	10.9	13.5	123.9
Meat	Thous.tons	8.3	9.2	110.9
Milk	Thous.tons	41.6	45.7	109.7
Eggs	Mill. Pieces	29.6	26.5	89.6

Source: State Statistics Committee of the Republic of Uzbekistan

**Table 6.3.6. Production of Agricultural Products by Dekhkan Farms**

Product	Unit	05/I-II	06/I-II	06/I-II in % to 05/ I-II
Grain	Thous.tons	787.5	791.2	100.5
Wheat	Thous.tons	767.5	772.5	100.7
Potatoes	Thous.tons	484.2	517.2	106.8
Vegetables	Thous.tons	738.9	833.5	112.8
Food-Melons and Gourds	Thous.tons	28.7	34.6	120.3
Fruit and Berries	Thous.tons	193.1	230.2	119.2
Grape	Thous.tons	6.9	9.2	132.5
Cattle	Thous. heads	5992.3	6284.2	104.9
Meat	Thous.tons	471.0	502.3	106.7
Milk	Thous.tons	2000.1	2120.8	106.0
Eggs	Mill. Pieces	489.5	523.4	106.9

Source: State Statistics Committee of the Republic of Uzbekistan

In order to stimulate and support agricultural producers privileged credits in the amount of UZS 479.9 bn. were provided to shirkats and farms in the 1<sup>st</sup> half of 2006, UZS 371.5 bn. of which were advance for cotton harvest of 2006 and UZS 108.2 bn. – for grain harvest.

Ensuring stable development of agriculture requires further deepening of market and institutional reforms, priority development of servicing provision and services of market and production infrastructure as well as strengthening legal protection of agricultural producers.

Reforming the agriculture of Uzbekistan is a gradual process. During the period of reforms it was managed to shift from collective (shirkat) forms of organizing agricultural production into farm and dekhkan farm forms. These reforms are giving positive results. One of the results of gradual successes is a record-high harvest of wheat in 2006 and successful completion of cotton-picking in past several years. Productivity indicators of agricultural crops have been increasing gradually. The sector of fruits and vegetables received an additional impulse for development in result of being granted a status of a priority sector, reorganization of vegetable- and grape producing shirkats into farms, creation of favorable conditions for their exports (some countries in the CIS decreased their tariffs for railroad transportation for half for exports of vegetables and fruits from Uzbekistan), and simplification of rules and procedures of customs and sanitary controls.

#### 6.4. Domestic Trade and Services

The increase in domestic demand facilitated steady growth in the sales of goods and services. Total retail trade turnover in the first half of 2006 reached UZS 3379.1 billion, and fee-based services totaled UZS 889.1 billion. The total sales of goods increased by 11.6% (8.1% in the first half of 2005), and fee-based services by 13.3% (11.6% in the first half of 2005) (Table 6.4.1). Among major factors contributing to the growth of retail trade turnover and fee-based services were the moderate level of inflation, the growth of the real income of the population and the increase in the output of consumer goods.

**Table 6.4.1. Retail Trade Turnover and Fee-Based Services**

Period	Retail Trade Turnover		Fee-Based Services	
	In current prices UZS billion	Growth rate to the respective period of the previous year, %	In current prices, UZS billion	Growth rate to the previous year in comparable prices, %
2005/I-II	2600.2	108.1	695.1	111.6
2006/I-II	3379.1	111.6	889.1	113.3

Source: The State Statistics Committee of Uzbekistan

In the first half of 2006, the share of goods in the total sale of goods to the population accounted for 79.2% and of services – 20.8% (Table 6.4.2).

**Retail Trade Turnover.** The growth in retail trade turnover in the first half of 2006 was mainly due to the input of Khorezm (121.8%), Navoi (119.7%) and Surkhandarya (118.9%) regions as well as Tashkent City (116.2%). This was due to their relatively high

**Table 6.4.2. Sales of Goods and Services to the Population**

Period	Total sales of goods and services		Including:			
			Sales of goods		Provision of services	
	UZS billion	%	UZS billion	%	UZS billion	%
2005/I-II	3295.3	100	2600.2	78.9	695.1	21.1
2006/I-II	4268.2	100	3379.1	79.2	889.1	20.8

Source: The State Statistics Committee of Uzbekistan

growth rates of retail trade turnover compared to the average national level (111.6%) (Table 6.4.3).

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

Region	Retail trade turnover, UZS billion			Fee-Based services, UZS billion		
	05/I-II	06/I-II	Growth rate to the previous year in comparable prices, %	05/I-II	06/I-II	Growth rate to the previous year in comparable prices, %
Republic of Karakalpakstan	75.8	92.3	101.0	17.0	22.2	119.1
Oblasts:						
Andijan	251.8	322.5	111.3	49.0	68.0	117.5
Bukhara	138.0	178.8	110.0	39.2	53.3	115.3
Jizzakh	60.9	76.2	106.9	14.4	17.4	109.6
Kashkadarya	172.0	216.3	111.1	27.2	38.9	123.2
Navoi	74.2	103.7	119.7	20.5	26.4	117.9
Namangan	158.1	197.9	108.2	29.4	40.2	113.1
Samarkand	198.2	253.5	108.5	49.9	70.1	127.2
Surkhandarya	145.8	196.7	118.9	22.7	30.3	120.7
Sirdarya	38.4	48.2	108.1	7.7	10.8	124.1
Tashkent	275.1	338.4	105.3	43.4	60.4	120.3
Fergana	284.5	356.6	108.1	49.3	66.4	119.7
Khorezm	97.3	138.7	121.8	28.4	37.1	119.4
Tashkent City	630.1	859.3	116.2	240.3	273.0	102.6
Republic of Uzbekistan	2600.2	3379.1	111.6	695.1	889.1	113.3

Source: The State Statistics Committee of Uzbekistan

The level of interregional differentiation of retail trade turnover per capita tended toward a gradual increase, from 6.1 times to 6.8 times. Retail trade turnover per capita was higher than the average national level only in Andijan and Tashkent regions, as well as in Tashkent City. In 3 regions (Republic of Karakalpakstan, Jizzakh and Sirdarya regions) retail trade turnover per capita was within 60-70% of the average country level.

The index of the physical volume of sales of food stuffs was 109.8%, non-food stuffs – 113.6%. In the structure of retail trade turnover of the country, sales of foodstuffs made up 54.4% (54.1% in the first half of 2005) and non-foodstuffs – 45.6% (45.9% in the first half of 2005).

Positive processes took place in retail trade in rural areas. The share of rural trade in the total sales of the country increased from 25.3% to 38%. There was rapid development of shop trade (14.4%). In the 2nd quarter, the following trade facilities were launched: 248 shops, 94 public catering establishments, and 15 trade and service centers. Of this number, 137 shops, 57 public catering establishments and 5 trade and service centers were opened in rural areas (Table 6.4.4).

**Table 6.4.4. New Trade Enterprises by Region in the 2nd quarter of 2006**

Region	Shops	Public catering establishments	Trade and service centers
Republic of Karakalpakstan	16	7	-
in rural areas	12	3	-
Oblasts:			
Andijan	3	1	-
in rural areas	2	1	-
Bukhara	-	-	-
in rural areas	-	-	-
Jizzakh	17	11	-
in rural areas	11	10	-
Kashkadarya	48	21	3
in rural areas	19	15	2
Navoi	3	2	-
in rural areas	2	1	-
Namangan	14	2	-
in rural areas	13	2	-
Samarkand	35	14	1
in rural areas	28	12	-
Surkhandarya	3	2	1
in rural areas	2	2	1
Sirdarya	9	4	1
in rural areas	5	2	-
Tashkent	76	17	4
in rural areas	39	9	2
Fergana	7	2	-
in rural areas	2	0	-
Khorezm	3	-	-
in rural areas	2	-	-
Tashkent City	14	11	5
Republic of Uzbekistan	248	94	15
in rural areas	137	57	5

Source: Provisional data provided by the Ministry of Economy of Uzbekistan

However, these dynamics are still not sufficient to bring the level of rural trade services to the municipal level. In some regions sales through dekhkan and clothing markets predominate. The sales of goods in dekhkan, clothing and specialized markets increased by 10.5% compared to the first half of 2005 and accounted for 72.3% of the total sales of consumer goods.

**Services.** Per capita fee-based services increased from UZS 26.5 thousand in the first half of 2005 to UZS 33.6 thousand in the reviewed period of 2006. Growth in real income and wages, as well as the expansion of the network of companies rendering fee-based services, had a certain impact on interregional differentiation of average per capita consumption of services in the country. Interregional differentiation of per capita consumption of services continued, declining from 1:10.4 during the first half of 2005 to 1:9.0 in the respective period of 2006 (Table 6.4.5). In all regions of Uzbekistan the physical volume of fee-based services increased at an accelerated rate (from 102.6% in Tashkent City to 127.2% in Samarkand region).

**Table 6.4.5. Income, Retail Trade Turnover and Fee-Based Services by Region**

Region	Cash income per capita UZS '000		Retail trade turnover per capita, UZS '000		Fee-based services per capita, UZS '000	
	05/I-II	06/I-II	05/I-II	06/I-II	05/I-II	06/I-II
Republic of Karakalpakstan	94.9	130.7	48.2	58.6	10.8	14.1
Oblasts:						
Andijan	153.8	204.6	106.8	135.0	20.8	28.5
Bukhara	154.6	211.6	91.0	116.5	25.8	34.7
Jizzakh	99.7	140.6	58.0	71.9	13.8	16.4
Kashkadarya	121.1	159.4	71.9	88.8	11.4	16.0
Navoi	250.9	331.5	91.1	127.0	25.2	32.3
Namangan	117.7	144.6	75.8	93.5	14.1	19.0
Samarkand	110.8	146.0	68.7	86.6	17.3	24.0
Surkhandarya	122.1	172.7	76.5	101.6	11.9	15.7
Sirdarya	124.4	156.3	56.7	70.6	11.4	15.8
Tashkent	165.7	213.6	111.4	136.1	17.6	24.3
Fergana	142.2	177.2	99.4	123.0	17.2	22.9
Khorezm	113.8	157.4	67.6	94.9	19.7	25.4
Tashkent City	602.6	698.5	292.4	397.5	111.5	126.3
Republic of Uzbekistan	171.9	218.3	99.3	127.6	26.5	33.6
Level of interregional differentiation	6.3 times	5.3 times	6.1 times	6.8 times	10.4 times	9.0 times

Source: The State Statistics Committee of Uzbekistan

The decree of the President of Uzbekistan of 17 April 2006, No.325 "On Measures for the Accelerated Development of the Service Sector in the Republic of Uzbekistan in 2006-2010" was one of the determining factors in the development of the service market in the first half of 2006. The crucial task of accelerating the development process of the service market and increasing its share in the gross domestic product (GDP) was determined with regard to international practice in the evaluation of the economic potential of the country. This program is a fundamentally new government document, stipulating the priorities, measures and stimulation of the development process in the service sector.

Certain work has been done since the decree was adopted.

The Ministries and offices have established the following services infrastructure:

- The Association of wholesale enterprises "Uzulgurzhisavdoinvest" has founded 7 specialized wholesale depots at the national level. 24 regional, rayon and inter-rayon wholesale depots were founded in the regions, which is 1 facility more than was envisaged in the forecast.
- 963 mini-banks have been opened in the system of the Central Bank of the Republic of Uzbekistan. An Uzbek-American joint venture for the manufacture of microprocessor plastic cards and trade terminals has been established in the country;
- The Ministry of Labor and Welfare has set up 4 points for the rental of rehabilitation equipment for the disabled;
- A telecommunications network able to cover 99% of the population with the broadcast of the 1<sup>st</sup> UzTV channel was developed in the first half of 2006. The number of economic entities rendering Internet services to the population accounted for almost 600 units. These have provided services to 1.2 million users;
- 1319 associations of water users and 274 permanent trade fairs selling agricultural products to the urban population, as well as 131 veterinary stations, have been established by the Ministry of Agriculture and Water Usage. The created infrastructure will facilitate further development of services rendered to the population by dekhkan and farm entities.

– 26.3 thousand additional job places have been created, of which 15.3 thousand were in rural areas. The largest number of additional job places were created in Andijan (5470 places), Surkhandarya (5565 places) and Namangan (4473 places) regions and Tashkent City (5728 places) (Table 6.4.6).

**Table 6.4.6. Creation of Additional Job Places in the Services Sector (units)**

Region	2006 (objective)	2nd quarter of 2006	
		objective	actual
Republic of Karakalpakstan	569	104	104
in rural areas	74	39	39
Andijan	20736	5428	5470
in rural areas	16516	4322	4350
Bukhara	1669	410	438
in rural areas	660	162	185
Jizzakh	1866	206	232
in rural areas	1604	148	167
Kashkadarya	2380	714	729
in rural areas	1691	508	521
Navoi	2190	529	532
in rural areas	783	148	152
Namangan	8750	4376	4473
in rural areas	7020	3511	3592
Samarkand	1208	189	209
in rural areas	850	134	149
Surkhandarya	21250	5316	5565
in rural areas	17938	4488	4492
Sirdarya	1815	508	538
in rural areas	864	242	232
Tashkent	7619	256	265
in rural areas	3200	150	166
Fergana	1315	309	484
in rural areas	1102	256	407
Khorezm	3174	720	1518
in rural areas	2697	613	845
Tashkent City	18738	4643	5728
Republic of Uzbekistan	93279	23708	26285
in rural areas	54999	14721	15297

Source: Provisional data provided by the Ministry of Economy of Uzbekistan

A system has been created of arrangements and procedures to monitor the implementation of the program and to improve the existing legal base for providing services. Measures for improving the registration and reporting processes are being gradually realized. The state statistical classification of services for all types of activities has been approved.

Legal and economic conditions have been set for the development of certain service markets. The national company “Uzbektourizm” has elaborated the draft law of the Republic of Uzbekistan “On Tourism”. Work on the development of national standards for services rendered to tourists as well as the creation of a State Standard Register of Tourist Resources has been accomplished. In order to shape a modern strategy for the promotion of tourism both in the domestic and foreign markets, the United Tourist Center “Uzbekistan” has been organized. It has united representatives of different tourist enterprises for the promotion of national tourism at international tourist exhibitions and fairs. In the long-range outlook, the establishment of separate regional branches of the “Uzbektourizm” company in Sirdarya and Tashkent regions as well as in Tashkent City is planned.

Tashkent City has the largest share of the service industry in GDP – 60.8%, and Navoi region has the smallest share in GDP – 25%. Some services lag behind in their development: communal services are at only 93.1% of the level of the first half of 2005, sanatoria and health facilities – 90.5%, guided tours – 86.8% and others. In the structure of services, the share of educational, cultural and healthcare services remains low, making up only 2.7% of the total, and other market services – 1.4%.

**Housing and Utilities Services.** The number of acting Associations of Private Housing Owners (AHO) reached 3026 units by 1 July 2006, as opposed to only 2401 units reached by the beginning of the year. The number of houses per 1 AHO decreased from 11 at the beginning of the year to 9 by 1 July of the current year, while the number of apartments decreased from 404 to 305 respectively, improving the quality and level of management of housing resources.

In the context of the Program on Installation of Modern Meters and Resource-Saving Devices in the Housing and Utilities Services during the first half of 2006, 67.2 thousand water meters were installed, increasing the level of equipment availability to 29.1% as opposed to 26.4% at the beginning of the year. By 1 July 2006, 128.8 thousand hot water meters had been installed, which was 21.9 thousand more than at the beginning of the year. In order to decrease tariffs, it is necessary to develop and implement measures to stimulate competition on the regional markets of communal utilities services.

**Social Infrastructure.** The creation and placement of social infrastructure objects such as housing and utilities facilities, as well as facilities in such industries as education, culture, healthcare, transportation, communication and recreation, play a key role in the development of the service sector. In the course of implementation of the Program on Development of the Service Sector, the combination of sectoral and regional approaches in the management of social infrastructure has become essential. The approach from the regional perspective enables better placement and interaction of different objects of social infrastructure as well as their consideration taking into account local needs, resources and conditions.

30.9 thousand apartments with a total area of 3440.3 thous.sq.m. (106.7% of the level in the first half of 2005) were constructed during the first half of 2006, including in rural areas – 3047.2 thous.sq.m. (106.2%). Apartment houses with a total area of 3412.5 thous.sq.m. (99.2% of the total) were built by private construction companies. The funds of enterprises, organizations and sponsors were used to construct a number of secondary schools for 3366 students. Out-patient clinics for 3355 visits per shift, including rural medical stations for 3035 visits per shift, were put into operation (Table 6.4.7). In the area of the construction of community facilities, about 1114.1 km of water supply networks (95.1% of the level of the first half of 2005) and 897.8 km of natural gas mains (51.8%) were put into operation.

**Table 6.4.7. Launch of Social Infrastructure Facilities in the 1st- 2nd quarters of 2006**

	All funding sources	Savings of enterprises and the population	
	put into operation	put into operation	in % to total
Housing, total, thous. sq.m.	3440.3	3437.6	99.9
Including: individual housing, thous. sq.m.	3412.5	3412.5	100.0
in rural areas, thous. sq.m.	3047.2	-	-
Basic secondary schools, students	3366	2526	75.0
Polyclinics, including rural medical stations, thous. visits	3355	1500	44.7
Gas-supply networks, km	897.8	827.9	92.2
Water-supply networks, km	1114.1	993.5	89.2

Source: The State Statistics Committee of Uzbekistan

91.8% of gas mains and 95.9% of water supply networks were put into operation in rural areas. UZS 8.5 billion was allocated for the construction of water supply networks, including public budget funds (50.4% of the total volume), own funds of enterprises and savings of the population (48.3%). Gas networks were put into operation to the sum of UZS 8.5 billion, including public budget funds (25.1% of total volume), own funds of enterprises and savings of the population (74.8%).

**Annex 6.1.1. Structure of Industrial Output (in % to total volume)**

Period	Industry	Including:									
		Power industry	Fuel Industry	Ferrous metal-lurgy	Non-ferrous metallurgy	Chemicals	Machine-building	Building materials	Light industry	Food industry	Other industries*
2000	100.0	8.5	15.3	1.3	10.2	6.0	9.9	5.4	19.1	13.3	11.0
2001	100.0	8.1	13.2	1.4	10.9	6.0	11.2	5.2	20.0	12.6	11.4
2002	100.0	7.7	13.4	1.5	13.3	5.9	10.3	4.6	19.5	14.3	9.4
2003	100.0	9.1	12.2	1.8	15.0	6.1	12.3	4.1	19.7	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	6.2
2005	100.0	11.3	16.2	2.3	17.1	5.2	13.0	3.6	16.6	8.2	6.5
2005/I	100.0	11.3	15.9	2.4	15.6	5.0	12.3	2.9	21.6	7.6	5.4
2005/I-II	100.0	11.3	16.0	2.6	16.4	5.3	13.2	3.5	18.1	7.9	5.7
2006/I	100.0	11.3	17.1	2.1	18.0	4.7	11.5	3.3	19.0	8.1	4.9
2006/I-II	100.0	10.5	16.5	2.3	19.6	5.0	12.6	3.7	16.1	8.7	5.0

\* including timber, wood making industry

Source: State Statistics Committee of the Republic of Uzbekistan.

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

Period	Industry	Including								
		Power industry	Fuel Industry	Ferrous metallurgy	Non-ferrous metallurgy	Chemicals	Machine-building	Building materials	Light industry	Food industry
2000	105.9	101.1	99.7	118.7	102.5	115.8	89.7	104.3	117.0	108.5
2001	107.6	95.8	96.4	110.6	101.8	106.8	124.8	105.9	112.4	109.4
2002	108.3	101.5	102.4	104.3	105.9	113.8	108.8	102.2	109.0	119.2
2003	106.0	98.5	100.5	109.1	98.6	108.1	130.7	99.5	106.4	106.0
2004	109.4	99.1	106.0	131.6	104.9	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
2005/I	108.3	98.2	99.2	127.4	100.7	107.3	149.5	104.4	113.1	100.1
2005/I-II	107.5	98.2	99.7	126.2	96.2	107.7	138.1	108.3	113.5	105.6
2006/I	106.8	109.4	99.4	105.8	99.5	112.1	110.6	117.0	106.8	120.9
2006/I-II	109.7	107.6	100.1	106.8	100.8	116.9	119.8	111.8	111.4	129.2

Source: State Statistics Committee of the Republic of Uzbekistan.

**Annex 6.2.1. Food-stuffs Production Index (in % to previous period)**

Regions	2001	2002	2003	2004	2005	2005/I	2005/I-II	2006/I	2006/I-II
Republic of Uzbekistan	107.6	108.4	108.4	113.5	116.6	116.4	117.1	114.2	120.6
Republic of Karakalpakstan	113.5	104.3	104.7	110.5	114.8	117.1	107.0	111.1	114.5
Andijan	123.7	97.8	120.3	145.9	147.0	180.3	159.6	111.3	118.7
Bukhara	107.4	103.3	106.0	107.9	107.1	104.7	104.8	108.8	103.1
Jizzakh	119.3	159.3	129.0	110.4	116.2	120.6	117.7	120.8	117.5
Kashkadarya	112.7	108.5	108.8	117.2	112.1	107.8	110.7	118.5	109.1
Navoi	99.98	114.5	105.3	96.1	99.5	98.3	100.6	106.8	105.8
Namangan	111.8	118.1	114.0	110.5	104.5	112.1	107.0	100.1	110.7
Samarkand	102.6	102.5	106.8	110.0	103.7	110.1	100.7	124.0	131.2
Surkhandarya	100.9	114.8	106.2	115.2	94.7	101.8	95.1	136.9	126.6
Sirdarya	120.2	103.0	104.2	107.5	98.3	109.9	99.1	109.3	135.1
Tashkent	114.1	106.6	107.1	111.7	109.7	107.7	106.2	109.3	112.6
Fergana	98.1	106.4	101.6	119.2	108.0	115.8	113.0	109.6	110.9
Khorezm	94.0	95.0	114.5	101.4	97.3	96.5	106.5	106.2	115.1
City of Tashkent	101.3	120.2	102.7	103.4*	114.0	107.4*	103.7	124.2	148.2

Source: State Statistics Committee of the Republic 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	2005/I	2005/I-II	2006/I	2006/I-II
Cotton fabrics	111.9	106.9	98.1	80.8	74.8	83.4	76.5	63.7	65.4
Silk fabrics	98.3	97.4	103.8	76.5	67.7	88.9	81.1	98.0	101.9
Carpet and carpet goods	104.8	108.3	4.1 p	134.5	87.1	102.8	94.6	106.3	113.8
Hosiery	63.4	77.0	151.1	103.6	101.1	157.0	82.0	99.4	102.2
Knitwear goods	85.7	82.4	111.7	110.8	96.8	102.4	114.8	100.9	98.9
Footwear	149.1	109.5	94.2	74.4	40.6	105.7	109.7	109.3	115.4
Milk and dairy products	102.5	115.9	118.1	101.0	92.1	88.6	111.9	152.0	151.7
Canned goods	97.1	101.3	113.8	65.3	87.1	183.8	151.6	87.8	111.6
Granulated sugar	282.7	7.6 p	114.2	78.0	75.6	44.6	58.9	122.3	156.5
Flour	103.4	87.1	83.6	133.1	90.6	88.7	85.7	107.2	102.4
Bread and baked products	100.4	99.5	88.4	97.8	91.6	83.9	78.1	93.1	89.8
Confectionary	108.7	97.7	81.2	130.4	70.0	174.9	148.0	47.9	69.4
Pasta	110.7	81.0	60.4	91.8	90.6	41.6	70.9	152.6	125.6
Vegetable oil	96.3	93.8	98.1	101.9	117.4	114.1	123.8	115.3	114.3
Wine	118.8	116.6	74.4	66.5	97.0	90.3	91.5	102.1	103.9
Vodka and liquor	92.5	92.5	106.3	107.1	99.6	104.3	92.7	100.0	103.2
Soft drinks	77.8	93.1	50.4	70.2	157.2	11.1 p	10.9 p	167.8	2.1 p
Filterless and regular cigarettes	89.8	101.0	92.5	94.6	86.7	93.9	87.4	129.9	137.4
Salt	123.4	177.9	56.7	106.7	138.9	68.9	100.2	100.9	100.3

Source: State Statistics Committee of the Republic of Uzbekistan.

\* the data from 2003 are from large and medium enterprises.

### Annex 6.3.1. Key Indicators of Agricultural Production (thous.tons)

	2000	2001	2002	2003	2004	2005	05/I	05/I-II	06/I	06/I-II
Raw cotton	3002	3265	3122.4	2803.3	3535.4	3749.0	-	x	-	x
Wheat	3929	4072	5792.6	6319.2	6017.1	6518.0	-	4098.2	-	5108.3
Potatoes	731.1	744	777.2	834.4	892.7	916.8	-	497.2	-	534.1
Vegetables	2644	2778	2935.6	3301.4	3315.9	3494.7	10.9	788.3	12.1	900.2
Fruit and Berries	791	801	842.9	765.8	846.3	937.7	-	240.9	-	325.8
Grape	624.2	573	516.4	401.5	577.6	635.8	-	7.6	-	10.9
Food-Melon and Grouds	451.4	466	479.1	587.3	571.3	609.4	-	32.3	-	45.8
Meat (live weight)	842	854	865	935.7	996.3	1060.4	218.9	496.0	232.2	528.9
Milk	3633	3665	3721.3	4031.1	4279.8	4554.7	796.4	2068.1	844.4	2184.7
Eggs (mill. Pieces)	1254	1288	1368.9	1632.4	1859.9	1966.4	355.4	859.3	377.8	916.2

Source: State Statistics Committee of the Republic of Uzbekistan

### Annex 6.4.1. Sales of Goods and Services to the Population

Period	Total sales of goods and services		Including:			
			Sales of goods		Provision of services	
	UZS billion	%	UZS billion	%	UZS billion	%
2000	2097.4	100	1787.5	85.2	309.9	14.8
2001	3172.2	100	2699.9	85.1	472.3	14.9
2002	4497.7	100	3786.3	84.2	711.4	15.8
2003	5238.1	100	4289.7	81.9	948.4	18.1
2004	6030.9	100	4787.5	79.4	1243.4	20.6
2005	7187.1	100	5577.4	77.6	1609.7	22.4
05/I	1558.0	100	1241.9	79.7	316.1	20.3
05/I-II	3273.6	100	2779.1	78.8	694.5	21.2
06/I	1971.0	100	1570.2	79.7	400.8	20.3
06/I-II	4268.2	100	3379.1	79.2	889.1	20.8

Source: The State Statistics Committee of Uzbekistan

### Annex 6.4.2. Retail Trade Turnover and Fee-Based Services

Period	Retail trade turnover		Fee-based services	
	In current prices, UZS billion	Growth rate to the previous year in comparable prices, %	In current prices, UZS billion	Growth rate to the previous year in comparable prices, %
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	113.6
2005	5577.4	105.1	1609.7	115.0
05/I	1241.9	108.7	316.6	114.2
05/I-II	2579.1	108.1	694.5	111.6
06/I	1570.2	107.5	400.8	111.8
06/I-II	3379.1	111.6	889.1	113.3

Source: The State Statistics Committee of Uzbekistan

## 7. Employment and the Labor Market

**Population.** Increases in the population of Uzbekistan occur mainly due to natural growth. During the first half of the current year, the population of the country increased by 152,6 thousand people (0.6%) and amounted to 26 465,3 thousand people by the end of the period (Annex 7.1). The urban population increased by 36,0 thousand people (by 0,4%), and the rural – by 116,6 thousand people (0.7%). The share of the urban population amounted to 23,6% of the total increase of the population of Uzbekistan.

During the first half of 2006, in comparison to the respective period of 2005, the population of the country increased by 1,2%, including 0,7% for the urban population and 1.4% for the rural population. As a result of advancing growth rates of the rural population, the average share of the urban population decreased to 36.0% (36.2% in the first half of 2005). There are some regional differences in population growth: the highest population growth rates during this period were registered in Kashkadarya (1.8%), Surkhandarya (1.6%) and Samarkand (1.5%) regions. In Navoi region the population increased merely by 0.5% and in Tashkent City 0,4%.

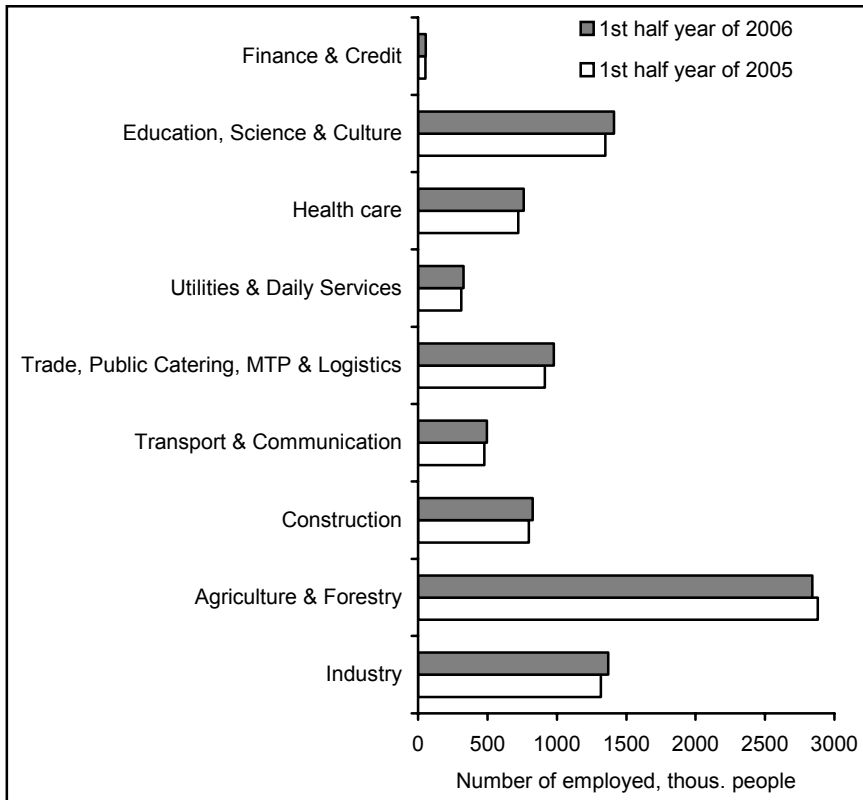
Despite the steady decline of the birth rate within recent years, it remains quite high. During the first half of 2006, 255.8 thousand children were born, which was 7.2 thousand less than in the respective period of the previous year (by 2.7%). The tendency of an absolute decrease in the number of births was found mainly in rural areas. Though the decrease in the number of births in rural areas was 5.7 thousand children (79.1% of the total decrease in newborns), there remained a relatively high number of births, at 69.0% of the total number of newborns. As a result of these processes, the dynamics stabilized at a relative increase in the share of number of urban newborns (from 30.7% in the first half of 2005 to 31.0% in the period under review).

During the first half of 2006, there were 73.5 thousand deaths in the country, which was 1.8 thousand (or by 2.4%) higher than in the respective period of the previous year: in urban areas – by 3.1%, and in rural areas – by 2.3%. The difference in these indicators is linked mainly with the peculiarities of the age structure of the population: the share of elderly people in urban areas is significantly higher than in rural areas. As a result of the correlation of births and deaths in the first half of 2006, the natural increase of the population in the country was 182.3 thousand people, which was 9.1 thousand people or 4.8% less than in the first half of the previous year. An analysis of the tendencies and processes of the natural dynamics of the population, as well as the given data, illustrate certain positive changes in the demographic process. Certain changes took place in the physical movement of the population. After several years of absolute growth in the negative balance of external migration of the population, its value decreased by 14.5 thousand people or by 28.5% in the first half of 2006. It is expected that the tendency of a decrease in migration flow-out will become steady.

**Employment of the Population.** The acceleration of economic reforms, structural transformations and modernization in the economy has had a positive impact on the creation of new jobs and the continuous growth of employment. During the first half of 2006, the number employed in the first half of 2005 increased by 279.3 thousand people or by 2.8% (Annex 7.2). The tendency solidified of advanced growth of employment in the non-manufacturing sector – 104.9%, compared to 101.7% in the manufacturing sector. Thus, employment in the manufacturing sector increased by 162.0 thousand people, or 58.0% of the total growth of employment in the economy, while the share of those employed in the non-manufacturing sector increased from 32.8% to 33.5%.

In the sectoral structure of employment, the positive tendencies of recent years became steady. In the manufacturing sector, the number of industrial workers is growing constantly. It increased by 52.3 thousand people (by 4.0%), which was 44.6% of the total growth of employment in manufacturing sectors. The highest increases in employment were in trade, public catering, procurement and logistics – by 7.0% (absolute growth – 63.8 thousand people), in transportation and communication – by 3.7% and in construction – 3.4% (Graph 7.1). This is linked to a certain extent to the industrialization of the economy of the country. The tendency persisted of an absolute decrease in the number of people employed in agriculture resulted from the transformation of shirkats into farms and the withdrawal of surplus labor force from this sector. During the period under review, 38.6 thousand people (1.3%) were dismissed.

The accelerated growth of employment in non-manufacturing sectors has continued. The highest increases in the number of those employed were registered in utilities and daily services at 5.6%, and in health care, physical education and social welfare – at 5.4%. These sectors provided one third of the total increase in the number of employed in the non-manufacturing sectors of economy.

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


Source: The State Statistics Committee of Uzbekistan

cooperation with large industrial enterprises, while 230 thousand people involved in cattle-breeding obtained pension cards, 86 thousand of whom entered into contracts with the Pension Fund. Altogether more than 200 thousand job places have been created in the sphere of small business and private entrepreneurship, making up 84-85% of the total growth of employment in the economy. As a result of this, the share of those employed in the non-government sector of the economy increased in the first half of 2006 to 77.6% versus 77.4% in the respective period of the previous year.

**Current Labor Market.** In the first half of 2006 the current labor market included 204.5 thousand people registered with labor exchanges as job-seekers (Table 7.1), which was 15.5 thousand people fewer (by 7.0%) than in the respective period of the previous year. This downtrend trend has been in evidence since 2003. The number of people registered with labor exchanges as job-seekers has decreased significantly from year to year: in the first half of 2004 – by 4.5 thousand people, and in the first half of 2005 – by 7.6 thousand people.

The most noticeable decreases took place in Khorezm, Fergana and Namangan regions, which had 69.7% of the total number. This can be explained to some degree by increased opportunities for the independent resolution of employment problems. The number of people registered with labor exchanges as job-seekers in Samarkand, Kashkadarya and Sirdarya regions increased and in Tashkent and Bukhara regions the absolute decrease was insignificant. As for the different regions of the country, the highest number of people registered with labor exchanges as job-seekers was in Fergana (14.0%), Samarkand (12.7%) and Namangan (11.1%) regions.

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

Year	Registered as Job Seeking, thous. people	Employed, thous. people	Share of Employed among Registered, in %	Number of Unemployed by the End of the Reporting Period, thousand people
2005	410.3	325.1	79.2	27.7
05/I	106.2	80.5	75.8	37.0
05/I-II	220.5	171.7	78.0	38.1
06/I	100.2	79.8	79.6	29.5
06/I-II	204.5	165.0	80.7	29.3

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

There was accelerated growth of employment in such socially significant sectors as education, culture, the arts, science and scientific support (104.7%); their share in the total growth of those employed in the non-manufacturing sectors reached 38.8% during the period under review. These data reflect the real positive changes and progressive tendencies in the correlation of the distribution and number of the employed in different sectors of the economy.

The growth of employment of the population in the first half of 2006 resulted mainly from the development of small business, private entrepreneurship and dekhkan and farm entities. New forms of labor appeared in the first half of 2006: an additional 22.4 thousand people were involved in at-home work in

Of the total number of people applying to and registered with labor exchanges during the first half of 2006, 152.1 thousand people or 74.4% were from rural areas. Their share in the respective period of the previous year was 74.9%. This slight decrease was connected, first, to the decrease in the number of people needing employment by 13.0 thousand people (by 7.9%), and second, to the rise in the employment level from 80.0% in the first half of 2005 to 86.7% during the current year. Nevertheless, the significant predominance in the supply of the labor force from rural areas indicates the tenuous employment situation in the rural labor market. This can be explained, primarily, by the fact that the advanced growth of the labor force in rural areas surpasses the growth of new work places.

The share of young people under 30 in the current labor market is 49.0% of the total number of people registered as job-seekers (in the first half of 2005 – 49.2%). Of these, rural youth make up 79.4%, the same as in the first half of 2005 – 79.4%. Despite the decrease in the absolute number of rural youth labor for the period concerned by 8.3 thousand people, the importance of the problem of youth employment, especially for rural youth, remains very large.

Employment among women is a current problem as well. Among those registered as job-seekers, in the first half of 2005 women made up an average of 45.0% (46.3% in the respective period of 2005), and their number decreased for this period by 10.1 thousand people. Among young people, the share of women was slightly higher at 46.7% versus 49.4% in the respective period of 2005.

In the current labor market, the supply of qualified labor force compared to the first half of 2005 decreased from 60.2 to 56.0 thousand people (by 7.0%). At the same time, the average share remained at the same level: 27.3-27.4%. The decrease in the supply of those registered with secondary general and secondary incomplete education was more substantial, by 11.8 thousand people or by 7.4%. This reflected the general tendency of the absolute decrease in the supply of the labor force in the current labor market. Positive changes took place in urban areas, where the supply of non-qualified labor decreased for this period of time from 70.5% to 62.9%.

Despite the general tendency of an absolute decrease in the number of people registered as job-seekers, the status of the current labor market could be characterized as active and the efficiency of the local labor exchanges providing employment assistance as high. In the first half of 2006, the level of employment assistance increased to 80.7% as compared to 78.0% in the first half of 2005, with a decrease in the number of newly employed by 6.7 thousand people (by 3.9%). In urban areas the level of employment assistance decreased from 70.0 to 63.2%, while increasing significantly in rural areas – from 80.0 to 86.7% (Table 7.2).

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

Year	Registered as Job Seeking, thous. people		Employed, thous. people		Level of Employment, in %.	
	Urban	Rural	Urban	Rural	Urban	Rural
2005	105.6	304.7	80.9	244.2	76.6	80.1
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
06/I	25.0	75.2	18.9	60.9	75.6	81.0
06/I-II	52.4	152.1	33.1	131.9	63.2	86.7

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

From a sectoral perspective, labor assistance fluctuated from 64.6% in Khorezm region to 89.4% in Samar-kand region. In six regions the indicator of employment assistance (Andijan, Navoi, Samarkand, Surkhan-darya and Fergana regions) surpassed the average value reached throughout the country.

There was a significant increase in employment assistance in rural areas: from 80.1% in the first half of 2005 to 86.7% at the present time, and the share of young people under 30 increased from 80.8% to 82.7%, respectively. It is noticeable that 77.2% of young people between 16 and 18 are employed and even more young people aged 19 - 30 (82.8%) are employed, which is explained by the fact that the second category of young people is more experienced, which is preferable for an employer. The share of women's employment increased from 74.4% to 76.9%; though the figures are not high, in this case, the positive tendency by itself is very important. Individuals with an incomplete education have the highest level of employment – 86.1%. This figure is explained by the fact that this category of people amounts to only 10.0% of the total labor supply in the current labor market. On the other hand, it proves the fact that there is a relatively high demand for non-qualified labor. There is also a significant demand for individuals with secondary special education – their level of employment in the first half of 2006 amounted to 84.7% versus 81.8% in the respective period of the previous year. Of the total number of those employed by local labor exchanges, 75.3% were sent to the non-government sector of the economy (in the first half of the previous year – 75.8%). The main sectors of the economy were agriculture – 41% and industry – 17.4%. During the first half of 2006 there was an un-

satisfied demand for the labor force in the current labor market, with the number of vacancies at the end of the period at 31.2 thousand. As compared to the respective period of the previous year, this number increased by 3.5 thousand or by 12.7%. These vacancies were mainly concentrated in Tashkent City (31.9%), Navoi (10.4%), Fergana (9.4%), Namangan (8.3%) and Samarkand (7.3%) regions. Certain regions have more vacancies this year as compared to the first half of 2005: Navoi region – 3 times more, Samarkand region – 24.1% and Tashkent City – 21.6% more. The majority of vacancies were concentrated in the industrial sector (26.1%), agriculture (9.0%), and transportation and communications (9.0%). 22.7% of vacancies were in agriculture and 18.3% in industry. Nevertheless, the situation of a surplus of labor over demand continues in the current labor market in Uzbekistan. The number of officially registered unemployed by the end of the first half of 2006 was 29.3 thousand people, which was 8.8 thousand people less or a decrease of 23.1% compared to the respective period of the previous year. At the same time a slight absolute growth took place in Kashkadarya, Jizzakh and Surkhandarya regions as well as in Tashkent City. Of the total number of unemployed, women accounted for 57.3%, their share for the period decreasing by 1.5 percent. At the same time, the number of individuals receiving special training increased to 27.7 thousand people; the increase amounted to 8.2 thousand people (16.3%), which was very important from the perspective of the competitiveness of the labor force and the further formation of a qualified labor market.

Thus, in the first half of 2006, positive tendencies in population development and in the labor market in general continued to develop, as well as noticeable changes resulting from the ongoing structural transformations and modernization of the economy.

**Annex 7.1. Population Dynamics of Uzbekistan (beginning of the period, thousand people.)**

Year	Total Population		Urban		Rural	
	Total	Increase, %	Total	Increase, %	Total	Increase, %
2000	24487.7	1.5	9165.5	0.9	15322.2	1.8
2001	24813.1	1.3	9225.3	0.7	15587.8	1.7
2002	25115.8	1.2	9286.9	0.7	15828.9	1.5
2003	25427.9	1.2	9340.7	0.6	16087.2	1.6
2004	25707.4	1.1	9381.3	0.4	16326.1	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
05/I (by 1.04.05)	26095.0	0.3	9460.7	0.2	16634.3	0.3
05/I-II (by 1.07.05)	26161.8	0.3	9467.5	0.1	16694.3	0.4
06/I (by 1.04.06)	26386.7	0.3	9516.2	0.2	16870.5	0.3
06/I-II (by 1.07.06)	26465.3	0.3	9531.1	0.2	16934.2	0.4

Source: The State Statistics Committee of Uzbekistan.

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

	2005/I-II	Share (%) in Total Employed	2006/I-II *	Share (%) in Total Employed	2006/I-II in % to 2005/I-II
Employed - Total	9996.7	100.0	10276.0	100.0	102.8
including:					
Material production	6717.3	67.2	6834.6	66.5	101.7
including:					
Industry	1317.5	13.2	1369.8	13.3	104.0
Agriculture and forestry	2880.5	28.8	2841.9	27.7	98.7
Transportation and communica- tions	330.6	3.3	342.7	3.3	103.7
Construction	798.0	8.0	825.4	8.0	103.4
Trade, public catering, procure- ment and logistics	913.2	9.1	977.0	9.5	107.0
Other	477.5	4.8	477.8	4.7	100.1
Non-material production	3279.4	32.8	3441.4	33.5	104.9
including:					
Transportation and communica- tions	147.6	1.5	153.6	1.5	104.1
Public utilities and daily services for population	310.4	3.1	327.8	3.2	105.6
Health care, physical culture and social security	721.5	7.2	760.2	7.4	105.4
Education, culture, arts, science, R&D and logistics	1349.0	13.5	1411.9	13.7	104.7
Finances and credit	54.1	0.5	53.1	0.5	98.2
Government and business ad- ministration	200.3	2.0	222.7	2.2	111.2
Other	496.5	5.0	512.1	5.0	103.1
Public sector, %	22.6	X	22.4	X	X
Non-public sector, %	77.4	X	77.6	X	X

\* Estimate.

Source: The State Statistics Committee of Uzbekistan

## 8. Income and Expenditure of the Population

**Income of the population.** In the first half of 2006, the nominal cash income of the population grew by 28.4%, and real cash income per capita – by 16.6%. Major factors in the growth of nominal cash income of the population included the increase in wages, social transfers and the creation of conditions for additional income generation by the population. The growth of cash income of the population was provided mainly by the increase in wages by 37.0% (vs 33.0% in the first half of 2005), social transfers by 34.3% and entrepreneurial income by 22.8%. As a result, the share of wages in the structure of cash income of the population reached 29.4% (vs. 27.6% in 2005), social transfers – 15.9%, and entrepreneurial income – 54.7% (Table 8.1.1). The growth of wages in the structure of cash income of the population was due to the continuing favorable trend towards faster growth of wages compared to other sources of income.

**Table 8.1.1. Structure of Cash Income of the Population (based on balance of monetary income and expenditures of the population)**

Indicator	In % to total		In % to the respective period of the previous year	
	1-2 quarters of 2005	1-2 quarters of 2006	1-2 quarters of 2005	1-2 quarters of 2006
Cash income, total	100	100	130.9	128.4
Including:				
Wages	27.6	29.4	133.0	137.0
Pensions, allowances, and stipends	15.2	15.9	137.4	134.3
Income from entrepreneurial activities, including income from the sale of agricultural products and other income	57.2	54.7	128.3	122.8

Source: The State Statistics Committee of the Republic of Uzbekistan

The following factors contributed to the growth of wages: a) the increase in the number of people employed in the economy, including in the private sector (in the first half of 2006, 312.8 thousand new jobs were created); b) the increase in the wages of teachers and medical staff as a result of the introduction of an

improved labor remuneration system for pedagogical and medical staff (the tariff rate of teachers increased 1.3 times compared with the first half of 2005; for medical staff – 1.4 times); c) the increase in the production of goods and services.

The average wages in the regions of the country were characterized by a narrowing differentiation across the regions. The highest wages in May of 2006 were registered in Navoi region (72.3% above the average national level), Tashkent region (37.2%) and in Tashkent city (35.4%). The interregional differentiation of wages in the first half of 2006 was 1:1.8.

Social transfers increased as a result of the implementation of social programs. In the first half of 2006, the government provided social support to 275.4 thousand needy families with children and 48.7 thousand low income families and social benefits to 71.8 thousand women. 21.9 thousand low income families were provided with livestock on a non-repayable basis. In accordance with the State Program “Year of Charity and Medical Staff,” large enterprises, institutions, and organizations with sustainable financial positions provided support to orphanages, nurseries for the elderly and disabled, and boarding schools.

The current system of social protection and provision of pensions created the necessary conditions and prerequisites for reliable support to vulnerable groups of the population. In the first half of 2006, the pension system served about 12.5% of the population of the country. According to the major indicators which characterize the pension system and indicate its quality, such as the dependence ratio (ratio of the number of pensioners to the number of workers) and the substitution ratio (ratio of the average pension to the average wage), the situation in Uzbekistan is much better than that of many countries with transition economies. In the first half of 2006, the dependence ratio was 0.32 and the substitution ratio was 0.31. This means that in Uzbekistan there were three working persons per pensioner, and the average pension covered 31% of the average wages (with a minimum threshold level of 30%).

Interregional differentiation of monetary income per capita remains at the level of 1:5. Regions with per capita cash income above the average national level include only Navoi region and Tashkent city, which is related with their high economic potential. The gross regional product (GRP) of Navoi region is 2.2 times higher than the average national level, while Tashkent city's is 88.4% (Table 8.1.2). Accordingly, regions with a low GRP (Republic of Karakalpakstan – 40.8% of the average national level, Namangan region – 41.8% and Samarkand – 46.1%) have relatively low incomes (Republic of Karakalpakstan – 59.9%, Namangan region – 66.2% and Samarkand region – 66.9% of the average national level of per capita income). The growth of economic potential and investment attractiveness of the underdeveloped regions will stimulate an increase in wages and per capita income of the population in these regions and help maintain a moderate interregional differentiation of cash income in the country.



**Table 8.1.2 . Gross Regional Product, Cash Income and Expenditures of the Population by Region (in percent to the average national level)**

	1-2 quarters of 2006			
	GRP per capita	Average nominal wages	Monetary income per capita	Consumer expenditures per capita
Republic of Karakalpakstan	40.7	74.7	59.9	46.0
regions:				
Andijan	72.1	80.2	93.7	105.0
Bukhara	100.1	85.1	97.0	95.2
Jizzakh	56.2	82.9	64.4	55.4
Kashkadarya	84.1	86.8	73.0	65.4
Navoi	222.3	174.4	151.8	96.2
Namangan	41.9	71.7	66.2	70.7
Samarkand	46.2	76.7	66.9	70.8
Surkhandarya	52.6	91.5	79.1	73.7
Sirdarya	60.6	88.2	71.6	54.5
Tashkent	99.5	131.8	97.9	99.6
Fergana	72.8	83.8	81.2	92.0
Khorezm	58.0	69.4	72.1	76.3
Tashkent City	187.0	136.1	320.0	334.1
Republican of Uzbekistan	100	100	100	100
Interregional differentiation (times)	4.6	1.8	5.3	7.3

Source: The State Statistics Committee of the Republic of Uzbekistan

The increase in entrepreneurial income of the population was ensured by measures taken by the government to stimulate the further development of small and private business and enhance employment in small entrepreneurship. The implementation of measures to develop various forms of working at home, including in cooperation with large industrial enterprises, helped to create 78.3 thousand jobs – and through this, helped to increase the entrepreneurial income of the population.

**Expenditures of the population.** In the first half of 2006, cash expenditures of the population grew by 27.9%. The dynamics of cash income, expenditures and savings of the population were characterized by an excess of cash income over expenditures (which grew to UZS 116.6 bn as opposed to UZS 71.0 bn in the first half of 2005). The largest excess of cash income over expenditures was registered in Navoi and Kashkadarya regions and in the Republic of Karakalpakstan, while in Tashkent cash expenditures and savings exceeded cash income by UZS 379.3 bn (Table 8.1.3).

In the composition of cash income of the population, the share of expenditures for consumption increased from 72.5% in the first half of 2005 to 73.3% in the period under analysis, while compulsory payments and contributions fell from 7.0% to 6.7% and the savings of the population declined from 18.9% to 18.0% (Table 8.1.4). In the first half of 2006, the largest share of consumer expenditures in cash income was registered in Fergana (83.1%) and Andijan (82.2%) regions, the lowest – in Sirdarya (55.8%) and Navoi (46.5%) regions (Table 8.1.3).

**Table 8.1.3. Monetary Income and Expenditures in Regions (in % to monetary income)**

Regions	Monetary expenditures and savings	Including consumer expenditures	Difference between monetary income and expenditures
Republic of Karakalpakstan	74.4	56.3	25.6
Andijan	96.3	82.2	3.7
Bukhara	92.9	72.0	7.1
Jizzakh	81.0	63.0	19.0
Kashkadarya	77.9	65.7	22.1
Navoi	71.1	46.5	28.9
Namangan	90.7	78.3	9.3
Samarkand	91.5	77.6	8.5
Surkhandarya	82.8	68.3	17.2
Sirdarya	86.5	55.8	13.5
Tashkent	92.3	74.6	7.7
Fergana	95.8	83.1	4.2
Khorezm	94.9	77.6	5.1
Tashkent City	125.3	76.6	-25.3
Republican of Uzbekistan	98.0	73.3	2.0

Source: The State Statistics Committee of the Republic of Uzbekistan

**Table 8.1.4. Structure of Monetary Expenditures of Population (in % to monetary income)**

Year	Monetary income of population	Of which monetary expenditures			Cash balance
		Consumer expenditures	Compulsory payments and contributions	Deposits with banks and purchase of securities and foreign currency	
1-2 quarters of 2005	100	72.5	7.0	18.9	1.6
1-2 quarters of 2006	100	73.3	6.7	18.0	2.0

Source: The State Statistics Committee of the Republic of Uzbekistan

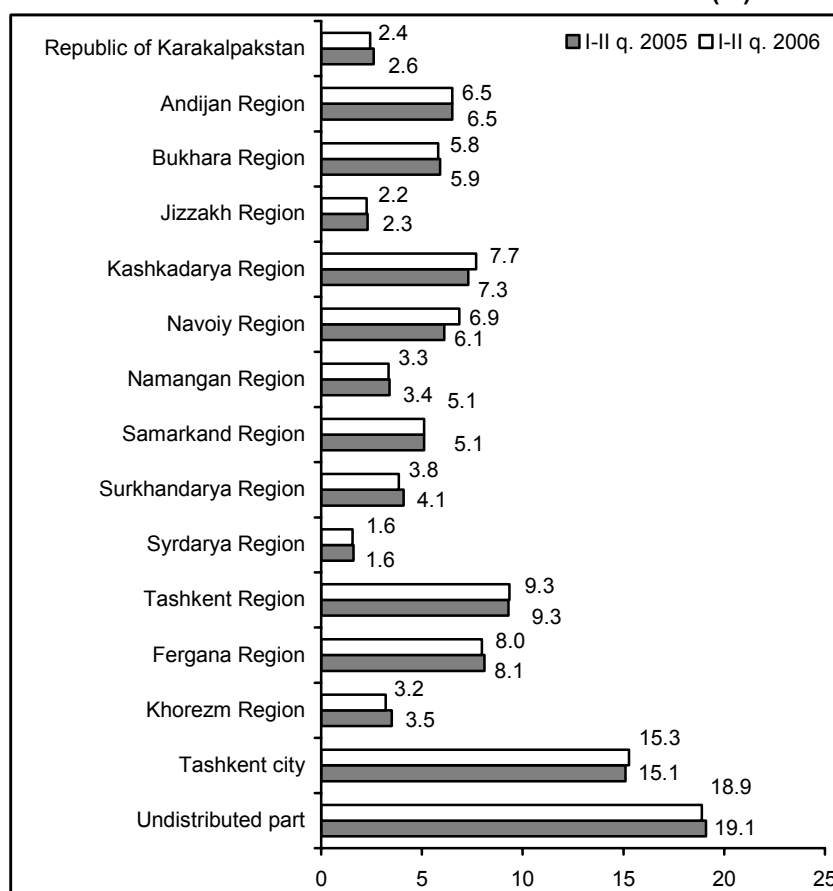
In general, in the first half of 2006, improved income composition helped improve the structure of expenditures and consumption. Savings of the population in the form of deposits with banks and securities has grown. The investment activity of the population has increased. In the structure of investments into basic capital, the resources of population accounted for 13.3%. 3412.5 sq.m. of housing (106.5% more than in the first half of 2005) were constructed with the funds of the population. The current monetary policy facilitated the increase in the deposits of population with banks by 55.7%, as a result of which in the first half of 2006 deposits of the population with banks reached UZS 571 bn. Deposits of individuals in foreign currency as of 1 July 2006 accounted for UZS 89.5 bn in Soum equivalent. In order to increase further savings of the population and their efficient use, mechanisms of micro-lending must be developed.

## 9. Regions

In the first half of 2006, the Republic of Karakalpakstan, 12 regions and Tashkent city had relatively high growth rates for all important macroeconomic indicators in all sectors of the economy.

On the major indicator – **Gross Regional Product (GRP)** – all regions secured sustainable growth rates. While the general rate of GDP growth in the country was 106.6%, rates above this were registered in Sirdarya (110.8%), Andijan (109.5%), Jizzakh (109.4%) regions and in the city of Tashkent (108.5%), as well as in Namangan (108.2%), Samarkand (107.7%) and Kashkadarya (107.3%) regions. The high economic growth in these regions was ensured mainly by the dynamic development of the industrial and services sectors (Annex 9).

**Graph 9.1. The Share of Regions in the GDP of the Republic of Uzbekistan for the 1<sup>st</sup> half of 2005 – 1<sup>st</sup> half of 2006 (%)**



Source: State Statistics Committee of Uzbekistan

In the territorial context the following regions had the highest share of GRP: Tashkent city (15.3%), Tashkent region (9.3%), Fergana (8.0%), Kashkadarya (7.7%), Navoi (6.9%), Andijan (6.5%) and Bukhara (5.8%) regions. GRP was the lowest in Sirdarya (1.6%) and Jizzakh (2.2%) regions and in the Republic of Karakalpakstan (2.4%) (Graph 9.1).

Compared with the first half of 2005, the share of GRP increased in Navoi (from 6.1% to 6.9%) and Kashkadarya (from 7.3% to 7.7%) regions, which was the result of high values of indicators in the branches of the real sector of the economy. In the rest of the regions in the period concerned, the share of GRP mainly decreased.

All the regions experienced an increase in GRP per capita. Index calculations and the classification of regions for this indicator (Table 9.1) show that the group with a high level (index above 1.000) included Navoi region, Tashkent city and Bukhara region.

The second group, with an average development level (index from 0.500 to 1.000), included 8 regions out of 14. The third group, with a low level of development (index below 0.500), included Samarkand and Namangan regions and the Republic of Karakalpakstan.

An increase of indices was observed in this group: in Samarkand (from 0.460 to 0.462). Analysis shows that the GRP per capita was lower than the national average for Uzbekistan in the Republic of Karakalpakstan by 2.5 times, in Namangan region – 2.4 times, in Samarkand – 2.2 times and in Surkhandarya region by 1.9 times.

The growth rates of **industrial output** in the first half of 2006 compared with the first half of 2005 were higher in the majority of the regions. While in general in the country they were 109.7%, in Tashkent city this rate reached 129.5%, in Sirdarya region – 145.6%, in Samarkand – 122.4%. In 8 regions out of 14 the growth rates of industrial output were above the national average level. This was connected with the high values of indicators in the light, food and building materials industries in the abovementioned regions.

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

1 <sup>st</sup> half of 2005	Index	1 <sup>st</sup> half of 2006	Index
I. High level	Above 1.000	I. High level	Above 1,000
Tashkent City	1.830	Navoi region	2.223
Navoi region	1.971	Tashkent City	1.872
		Bukhara region	1.001
II. Average level	From 0.500 to 1.000	II. Average level	From 0.500 to 1.000
Bukhara region	1.027	Tashkent region	0.995
Tashkent region	0.991	Kashkadarya region	0.841
Kashkadarya region	0.801	Fergana region	0.728
Fergana region	0.743	Andijan region	0.721
Andijan region	0.726	Sirdarya region	0.606
Sirdarya region	0.616	Khorezm region	0.580
Khorezm region	0.638	Jizzakh region	0.562
Surkhandarya region	0.563	Surkhandarya region	0.526
III. Low level	Up to 0.500	III. Low level	Up to 0.500
Jizzakh region	0.578	Samarkand region	0.462
Samarkand region	0.460	Namangan region	0.419
Namangan region	0.430	Republic of Karakalpakstan	0.407
Republic of Karakalpakstan	0.426		

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

The per capita industrial output index increased in the first half of 2006 compared with the first half of 2005 in the majority of the regions. This index decreased in Bukhara (from 0.752 to 0.708), Surkhandarya (from 0.228 to 0.204) and Khorezm (from 0.320 to 0.317) regions. Navoi region was the leader in industrial output per capita. This indicator was 24.8 times above the indicator in Surkhandarya region.

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 20.6%, in Tashkent city – by 48.2%, Sirdarya region – by 35.1%, Samarkand – by 31.2%, Surkhandarya – by 26.6% and Jizzakh - by 17.5% (Annex 9.1). High growth rates of consumer goods production in the above-mentioned regions took place due to modernization of production, technical re-equipment and application of high-tech technologies to the industrial production of consumer goods and new competitive products.

The per capita consumer goods production index decreased in 3 regions out of 14. The index increased in Andijan region (from 2.836 to 3.247), Jizzakh (from 0.636 to 0.661), Navoi (from 0.522 to 0.600), Namangan (from 0.440 to 0.463), Samarkand (from 0.664 to 0.760), Surkhandarya (from 0.281 to 0.327), Sirdarya (from 0.475 to 0.530), Tashkent (from 0.924 to 1.025), Fergana (from 0.747 to 0.819) and Khorezm (from 0.426 to 0.458) regions and in Tashkent city (from 1.644 to 2.201).

In 10 regions out of 14, the consumer goods production index was below the national level. The highest index was achieved in Andijan region, the lowest – in the Republic of Karakalpakstan. Per capita consumer goods production in the Republic of Karakalpakstan was 12.7 times less than in Andijan region.

In the first half of 2006, the total growth rate for **agricultural production** in the country was 107.2%. Higher rates were achieved in: Kashkadarya region (114.9%), Jizzakh (113.2%), Navoi (112.3%), Namangan (112.0%), Surkhandarya (108.4%) and Samarkand (107.5%) regions. These results were achieved due to the high output of grain crops. Index calculations of per capita agricultural production indicate that in the first half of 2006, compared with the first half of 2005, it increased in 11 regions out of 14, while falling in Sirdarya and Tashkent regions. In 10 regions, per capita agricultural production exceeded the average national level. Currently the highest level has been achieved in Navoi region (UZS 180.3 thousand) and the lowest in the Republic of Karakalpakstan (UZS 45.3 thousand), a difference of more than 4 times.

In the first half of 2006, the growth rate of **investments** was relatively higher in 11 regions out of 14, with an average national rate of 106.9%. These regions were: the Republic of Karakalpakstan – 176.2%, Samarkand region – 157.1%, Sirdarya – 139.1%, Andijan – 125.5%, Bukhara – 119.1%, Navoi – 113.9%, Khorezm – 111.3%, Tashkent – 109.2%, Namangan – 108.2%, Kashkadarya – 104.2% and Jizzakh – 100.1% regions. This resulted from large capital investments directed to these regions for the development of industrial enterprises (the Republic of Karakalpakstan, Bukhara region), the construction of social infrastructure (Andijan, Samarkand and Sirdarya regions); the modernization of the airport terminal and the establishment of a joint-venture in Samarkand; and the modernization of the railway terminal in Sirdarya region.

In the first half of 2006, growth in investments was not achieved in: Surkhandarya region (99.4%), Fergana (94.3%) and in Tashkent city (97.6%). This was because of the following factors: in Surkhandarya region the major scope of construction works on the railroad were planned for the second half of the current year; in Fergana region large investments had been made the previous year for the reconstruction of the production association "Azot"; and in Tashkent city organizational measures were not implemented on time.

The main reasons for low growth rates of investments in Surkhandarya and Fergana regions were newly built large industrial objects and objects of social infrastructure, which used up large amounts of investment. In Tashkent city the decrease in growth rates of investments was explained by the tardiness of the organizational efforts of investment projects by certain ministries.

Index calculations of per capita investments indicate that in the first half of 2006, compared with the first half of 2005, these increased in 11 regions out of 14. In 9 regions, per capita investments were below the average national level. The highest level was achieved in Tashkent city (UZS 137.1 thousand), the lowest – in Andijan region (UZS 25.4 thousand). The difference is more than 5.5 times.

In the first half of 2006, the growth rate of **retail trade turnover** was quite high in all of the regions. At an average national growth rate of 11.6%, it reached: 21.8% in Khorezm region, in Navoi region – 19.7%, in Surkhandarya region – 18.9% and in the city of Tashkent – 16.2%. 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 all of the regions increased. 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 58.7 thousand), which was 6.8 times less than in Tashkent city (UZS 397.5 thousand). Low per capita turnover was also registered in Sirdarya (UZS 70.6 thousand) and Jizzakh region (UZS 71.9 thousand).

In the first half of 2006 vs. the first half of 2005, the average national growth rate of **fee-based services** was 113.3%. Rates above these were registered in Samarkand region – 127.2%, Sirdarya – 124.1%, Kashkadarya – 123.2%, Surkhandarya – 120.7%, Tashkent – 120.3%, Fergana – 119.7%, Khorezm – 119.4%, the Republic of Karakalpakstan – 119.1%, Navoi – 117.9%, Andijan – 117.5% and Bukhara – 115.3% regions (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.

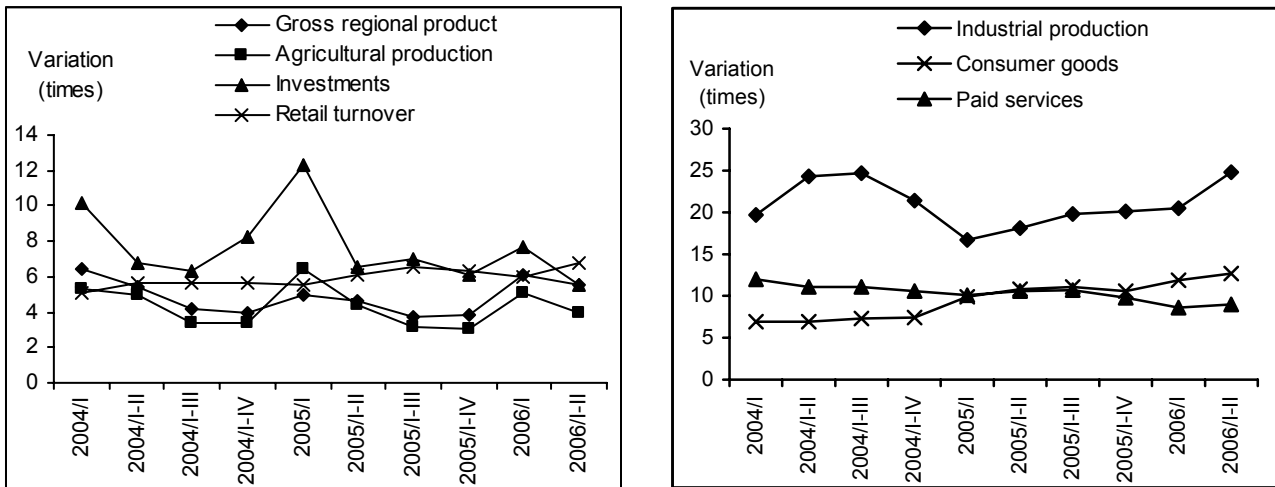
Indexed assessment of per capita fee-based services shows that in most regions the fee-based services index has increased. In 12 regions out of 14 the index of per capita fee-based services was below the average national level. The highest level of per capita fee-based services was provided in Tashkent city – UZS 126.3 thousand, the lowest in the Republic of Karakalpakstan (UZS 14.1 thousand), Surkhandarya region (UZS 15.6 thousand), Kashkadarya and Sirdarya regions (UZS 15.8 thousand each), Jizzakh (UZS 16.4 thousand) and Namangan (UZS 19.0 thousand) regions.

According to the results of the first half of 2006, the interregional range of deviation decreased for the sector of fee-based services (from 10.4 to 9.0 times), for agricultural production (from 4.4 to 4.0 times) and investments (from 6.5 to 5.5 times). The range of interregional differentiation increased for all other indicators: GRP – from 4.7 to 5.5 times, industrial output – from 18.1 to 24.8 times, consumer goods production – from 10.8 to 12.7 times and retail trade turnover – from 6.1 to 6.8 times (Graph 9.2).

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, and Surkhandarya regions. However there still remains a huge gap between the regions, especially for industrial output, consumer goods production and investments.

**Graph 9.2. Dynamics of Changes in the Level of Differentiation of Social and Economic Development of the Regions in 2004-2006.**



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	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	89.7	98.3	100.9	107.5	105.0	106.0	103.0	109.2	106.0	106.1
Regions:										
Andijan	102.8	108.9	102.9	101.9	104.6	108.5	111.0	109.8	105.3	109.5
Bukhara	104.2	103.5	102.0	101.9	107.3	106.9	104.5	106.1	99.7	103.4
Jizzakh	104.2	106.5	110.0	110.2	108.6	107.0	106.5	106.5	106.9	109.4
Kashkadarya	99.0	105.0	109.4	105.7	102.5	106.2	103.8	105.0	104.9	107.3
Navoi	103.2	101.4	104.7	102.0	106.3	100.6	102.0	98.8	102.4	104.2
Namangan	108.0	104.5	103.2	103.7	106.5	106.5	106.9	106.0	103.9	108.2
Samarkand	104.6	103.5	107.9	106.9	105.4	106.4	104.1	103.6	107.4	107.7
Surkhandarya	105.5	108.0	103.7	103.8	105.7	104.5	106.7	103.5	101.6	104.6
Sirdarya	102.6	102.9	97.5	102.4	107.8	111.4	104.6	104.0	107.3	110.8
Tashkent	110.9	104.2	103.4	103.0	109.4	103.0	104.5	103.8	102.8	104.3
Fergana	106.1	99.5	104.8	101.9	103.9	105.6	103.5	103.9	104.4	105.6
Khorezm	94.8	103.0	103.6	103.9	113.3	106.6	104.4	108.1	102.3	103.4
Tashkent city	104.5	104.3	101.5	104.0	106.2	111.4	103.0	107.8	108.7	108.5
Republic of Uzbekistan	103.8	104.2	104.0	104.2	107.4	107.0	104.8	107.2	103.6	106.6

Source: State Statistics Committee of Uzbekistan

**Industrial Output**

Regions	2000	2001	2002	2003	2004	2005	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	111.2	95.9	94.9	104.7	115.6	118.4	141.3	147.2	112.5	114.3
Regions:										
Andijan	90.0	128.1	105.5	120.3	134.7	134.5	153.5	146.9	110.4	118.5
Bukhara	103.9	107.7	103.3	106.0	108.7	102.1	108.5	102.0	100.1	102.0
Jizzakh	122.7	119.9	130.3	129.0	108.6	131.6	120.0	131.5	119.7	119.6
Kashkadarya	101.9	104.4	112.1	108.8	108.3	101.3	103.0	101.5	104.0	105.3
Navoi	102.2	100.6	106.5	105.3	105.6	97.8	100.1	95.0	100.4	101.8
Namangan	126.1	118.2	112.5	114.0	113.0	114.0	112.4	116.8	104.6	113.2
Samarkand	97.3	105.7	106.7	106.8	115.0	108.9	111.6	102.9	118.7	122.4
Surkhandarya	107.9	104.1	113.1	106.2	112.3	104.2	111.7	105.2	103.1	100.0
Sirdarya	106.7	101.3	122.4	104.2	103.8	103.7	111.4	119.3	116.7	145.6
Tashkent	108.8	109.1	108.3	107.7	108.2	100.1	107.8	102.8	100.1	103.3
Fergana	108.5	101.4	108.7	101.6	103.6	105.0	106.3	106.9	106.6	109.8
Khorezm	103.5	100.3	103.9	114.5	107.6	127.0	118.5	141.3	110.0	104.5
Tashkent city	113.2	110.5	111.7	102.7	103.9	116.3	111.4	111.2	123.7	129.5
Republic of Uzbekistan	105.9	107.6	108.3	108.5	109.4	107.2	108.3	107.5	106.8	109.7

Source: State Statistics Committee of Uzbekistan

**Output of Consumer Goods**

Regions	2000	2001	2002	2003	2004	2005	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	105.9	113.5	104.3	104.7	110.5	114.8	117.1	107.0	111.1	114.5
Regions:										
Andijan	92.6	123.7	97.8	120.3	145.9	147.0	180.3	159.6	111.3	118.7
Bukhara	105.9	107.4	103.3	106.0	107.9	107.1	104.7	104.8	108.8	103.1
Jizzakh	123.6	119.3	159.3	129.0	110.4	116.2	120.6	117.7	120.8	117.5
Kashkadarya	113.1	112.7	108.5	108.8	117.2	112.1	107.8	110.7	118.5	109.1
Navoi	115.5	99.98	114.5	105.3	96.1	99.5	98.3	100.6	106.8	105.8
Namangan	124.3	111.8	118.1	114.0	110.5	104.5	112.1	107.0	100.1	110.7
Samarkand	92.4	102.6	102.5	106.8	110.0	103.7	110.1	100.7	124.0	131.2
Surkhandarya	111.9	100.9	114.8	106.2	115.2	94.7	101.8	95.1	136.9	126.6
Sirdarya	110.1	120.2	103.0	104.2	107.5	98.3	109.9	99.1	109.3	135.1
Tashkent	112.5	114.1	106.6	107.7	111.7	109.7	107.7	106.2	109.3	112.6
Fergana	111.3	98.1	106.4	101.6	119.2	108.0	115.8	113.0	109.6	110.9
Khorezm	107.8	94.0	95.0	114.5	101.4	97.3	96.5	106.5	106.2	115.1
Tashkent city	111.3	101.3	120.2	102.7	103.4	114.0	107.4	103.7	124.2	148.2
Republic of Uzbekistan	106.2	107.6	108.4	108.5	113.5	116.6	116.4	117.1	114.2	120.6

Source: State Statistics Committee of Uzbekistan

REGIONS

**Agricultural Produce**

Regions	2000	2001	2002	2003	2004	2005	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	65.6	90.5	101.2	134.3	114.4	103.7	105.8	123.3	103.9	107.2
Regions:										
Andijan	110.2	107.1	102.0	101.7	102.6	105.3	107.7	100.6	103.3	106.7
Bukhara	106.3	102.0	102.6	108.8	109.3	109.7	109.4	110.9	111.7	107.0
Jizzakh	100.1	106.9	113.2	116.6	114.0	106.2	106.8	106.6	105.6	113.2
Kashkadarya	89.4	106.9	119.9	103.1	109.9	109.8	109.0	112.5	108.9	114.9
Navoi	105.0	107.2	106.7	113.7	109.9	104.9	109.7	108.6	107.9	112.3
Namangan	111.5	101.4	101.5	102.2	109.0	103.9	104.7	100.8	104.7	112.0
Samarkand	104.8	103.9	112.4	11.4	105.8	105.9	105.2	103.6	103.0	107.5
Surkhandarya	106.7	110.5	102.8	105.8	106.5	102.0	108.8	102.7	103.2	108.4
Sirdarya	101.9	105.8	98.8	109.4	111.6	113.7	105.8	105.5	109.7	102.7
Tashkent	114.9	103.7	102.4	104.1	110.2	104.2	106.7	110.7	102.4	100.4
Fergana	113.5	100.4	105.2	101.9	108.4	108.6	104.6	110.3	101.7	105.3
Khorezm	82.8	103.6	106.4	114.0	114.3	104.1	104.2	111.1	102.9	101.7
Tashkent city										
Republic of Uzbekistan	103.1	104.2	106.0	107.3	108.9	106.2	106.6	107.2	104.5	107.2

Source: State Statistics Committee of Uzbekistan

**Investments**

Regions	2000	2001	2002	2003	2004	2005	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	83.0	105.8	114.0	115.7	104.1	76.2	45.6	53.6	125.2	176.2
Regions:										
Andijan	101.0	118.4	105.0	108.3	61.9	129.2	74.3	112.7	157.5	125.5
Bukhara	108.0	119.2	103.0	92.3	151.3	120.7	135.1	139.0	147.0	119.1
Jizzakh	111.0	77.5	112.0	63.4	107.7	111.5	125.0	166.1	115.2	100.1
Kashkadarya	93.0	130.2	93.4	112.8	80.9	116.2	125.8	127.9	112.4	104.2
Navoi	116.0	107.4	97.9	113.8	83.2	141.9	102.3	135.6	147.5	113.9
Namangan	103.0	85.5	100.0	101.7	104.5	97.6	102.8	100.0	106.8	108.2
Samarkand	104.0	107.1	99.8	105.4	118.1	110.6	81.6	83.2	137.2	157.1
Surkhandarya	102.0	115.7	101.0	104.0	92.9	136.4	105.7	125.2	91.8	99.4
Sirdarya	100.2	101.3	84.4	102.4	139.7	89.6	166.1	91.7	95.1	139.1
Tashkent	106.0	112.1	102.0	105.5	117.6	112.7	96.6	100.7	87.6	109.2
Fergana	107.0	108.7	107.0	68.4	91.8	119.2	2.4 times	128.8	68.9	94.3
Khorezm	102.0	95.5	103.0	65.8	2.3 times	44.1	94.0	98.4	103.8	111.3
Tashkent city	92.0	106.3	80.9	112.6	121.6	88.4	126.1	117.4	91.5	97.6
Republic of Uzbekistan	101.0	104.0	103.6	104.8	107.3	105.7	104.2	105.4	104.5	106.9

Source: State Statistics Committee of Uzbekistan

**Retail Trade Turnover**

Regions	2000	2001	2002	2003	2004	2005	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	103.6	117.9	101.2	108.5	102.1	95.9	112.4	108.3	100.2	101.0
Regions:										
Andijan	106.4	109.3	107.3	96.4	91.8	95.0	100.1	101.5	102.3	111.3
Bukhara	110.3	114.7	107.0	101.4	104.4	110.1	114.1	114.5	106.6	110.0
Jizzakh	111.0	125.8	116.1	103.7	106.1	95.1	109.5	107.2	105.9	106.9
Kashkadarya	109.9	116.5	106.7	109.4	100.0	101.5	107.7	107.7	107.3	111.1
Navoi	105.4	113.3	103.8	104.7	125.5	105.5	117.8	109.8	116.7	1119.7
Namangan	110.8	118.8	113.5	97.9	99.0	109.4	110.1	112.9	107.0	108.2
Samarkand	113.6	106.6	103.7	107.0	100.8	102.4	107.5	110.2	106.3	108.5
Surkhandarya	121.4	113.7	112.6	108.4	108.3	110.3	109.8	113.1	114.9	118.9
Sirdarya	105.8	102.1	91.1	96.5	101.5	110.0	105.4	101.3	105.9	108.1
Tashkent	123.3	115.9	101.1	108.1	112.6	100.0	106.3	102.9	103.0	105.3
Fergana	103.2	103.5	106.2	98.4	97.0	99.7	102.5	100.8	104.1	108.1
Khorezm	111.8	107.9	101.4	96.3	105.5	116.4	112.2	118.7	115.7	121.8
Tashkent city	100.2	104.7	89.9	110.8	115.2	113.5	114.9	112.2	111.4	116.2
Republic of Uzbekistan	107.6	109.6	102.1	104.2	105.2	105.1	108.7	108.1	107.5	111.6

Source: State Statistics Committee of Uzbekistan



REGIONS

**Fee-Based Services**

Regions	2000	2001	2002	2003	2004	2005	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	114.2	105.1	112.4	113.2	109.2	116.4	129.6	110.0	115.3	119.1
Regions:										
Andijan	138.9	113.3	109.3	121.5	132.7	117.4	123.1	115.9	113.2	117.5
Bukhara	112.6	108.4	117.0	108.8	117.3	117.5	120.3	116.8	115.5	115.3
Jizzakh	110.4	116.2	114.2	114.0	118.5	113.9	129.1	113.7	110.4	109.6
Kashkadarya	137.2	114.6	121.9	110.9	102.6	133.5	117.1	119.9	119.2	123.2
Navoi	116.8	118.7	108.9	118.7	121.8	118.1	125.6	124.6	119.3	117.9
Namangan	137.0	115.5	110.8	127.1	117.4	126.9	116.6	120.1	111.6	113.1
Samarkand	118.1	121.8	104.0	124.0	113.9	124.6	119.0	116.1	122.8	127.2
Surkhandarya	109.6	114.2	114.3	116.6	111.7	113.1	118.2	109.3	116.8	120.7
Sirdarya	104.8	125.8	109.6	103.2	112.5	127.8	127.1	122.7	119.3	124.1
Tashkent	111.5	100.2	109.2	107.1	113.2	113.0	114.3	115.2	122.8	120.3
Fergana	115.5	113.5	110.5	114.5	119.6	122.6	118.9	121.4	120.7	119.7
Khorezm	107.9	106.4	102.0	110.6	119.2	124.8	134.8	121.0	117.1	119.4
Tashkent city	113.5	117.4	112.8	107.5	105.7	108.4	103.5	104.6	104.6	102.6
Republic of Uzbekistan	115.7	114.7	108.6	109.5	113.8	115.0	114.2	111.6	111.8	113.3

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	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	0.456	0.413	0.392	0.400	0.423	0.466	0.412	0.373	0.384	0.407
Regions:										
Andijan	0.911	0.935	0.834	0.764	0.744	0.761	0.685	0.653	0.651	0.720
Bukhara	1.109	1.155	1.101	1.053	1.085	1.064	1.041	0.922	0.958	1.001
Jizzakh	0.742	0.669	0.666	0.702	0.768	0.744	0.558	0.484	0.552	0.563
Kashkadarya	0.722	0.724	0.780	0.782	0.747	0.845	0.820	0.698	0.880	0.838
Navoi	1.039	1.267	1.490	1.685	1.705	1.802	2.060	1.711	2.360	2.226
Namangan	0.667	0.637	0.599	0.543	0.572	0.505	0.441	0.396	0.403	0.418
Samarkand	0.709	0.679	0.693	0.669	0.601	0.596	0.472	0.426	0.427	0.461
Surkhandarya	0.716	0.727	0.760	0.734	0.657	0.603	0.528	0.525	0.492	0.525
Sirdarya	0.807	0.822	0.776	0.754	0.768	0.749	0.555	0.579	0.516	0.607
Tashkent	1.040	1.017	1.032	1.041	1.032	1.020	1.075	0.919	1.041	0.998
Fergana	0.941	0.866	0.843	0.785	0.759	0.724	0.725	0.657	0.691	0.729
Khorezm	0.832	0.717	0.720	0.681	0.669	0.670	0.593	0.532	0.556	0.578
Tashkent city	1.563	1.665	1.671	1.682	1.678	1.750	2.113	1.750	2.165	1.884
Republic of Uzbekistan	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	5.1	4.7	6.1	5.5

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	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	0.279	0.247	0.201	0.193	0.207	0.228	0.255	0.218	0.233	0.227
Regions:										
Andijan	0.909	1.071	0.979	0.960	1.028	1.170	1.161	1.066	1.139	1.223
Bukhara	1.100	1.096	1.133	0.996	0.952	0.807	0.955	0.752	0.806	0.708
Jizzakh	0.278	0.360	0.380	0.418	0.381	0.406	0.439	0.383	0.440	0.417
Kashkadarya	0.931	0.953	0.917	0.967	1.050	1.375	1.398	1.181	1.534	1.419
Navoi	3.144	3.318	4.046	4.490	4.431	4.580	4.251	3.928	4.784	5.059
Namangan	0.466	0.450	0.396	0.377	0.343	0.289	0.311	0.258	0.262	0.259
Samarkand	0.515	0.459	0.398	0.351	0.330	0.304	0.298	0.237	0.302	0.256
Surkhandarya	0.323	0.302	0.283	0.286	0.295	0.261	0.303	0.228	0.252	0.204
Sirdarya	0.460	0.541	0.427	0.429	0.402	0.380	0.474	0.348	0.483	0.468
Tashkent	1.368	1.487	1.569	1.537	1.650	1.528	1.514	1.378	1.477	1.594
Fergana	1.169	1.024	1.072	0.944	0.911	0.818	0.838	0.724	0.795	0.784
Khorezm	0.507	0.467	0.414	0.363	0.319	0.354	0.360	0.320	0.336	0.317
Tashkent city	1.700	1.744	1.729	1.823	1.468	1.336	1.162	1.158	1.142	1.278
Republic of Uzbekistan	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	16.7	18.1	20.5	24.8
Without Navoi region	6.1	7.1	8.6	9.4	8.0	6.7	5.9	6.3	6.6	7.8

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

REGIONS

**Output of Consumer Goods**

Regions	2000	2001	2002	2003	2004	2005	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	0.425	0.400	0.341	0.332	0.307	0.287	0.328	0.264	0.267	0.255
Regions:										
Andijan	1.354	1.616	1.677	1.847	2.259	3.055	3.147	2.836	3.176	3.247
Bukhara	1.501	1.589	1.550	1.458	1.477	1.297	1.380	1.179	1.217	1.117
Jizzakh	0.266	0.385	0.573	0.655	0.723	0.688	0.704	0.636	0.718	0.661
Kashkadarya	0.616	0.656	0.560	0.615	0.470	0.444	0.447	0.394	0.421	0.364
Navoi	0.616	0.619	0.640	0.712	0.707	0.624	0.612	0.522	0.590	0.600
Namangan	0.665	0.579	0.571	0.561	0.573	0.507	0.546	0.440	0.440	0.463
Samarkand	1.226	1.072	1.016	0.884	0.836	0.788	0.799	0.664	0.789	0.760
Surkhandarya	0.433	0.377	0.364	0.356	0.403	0.321	0.317	0.281	0.357	0.327
Sirdarya	0.700	0.700	0.659	0.669	0.677	0.552	0.597	0.475	0.493	0.530
Tashkent	1.071	1.164	1.184	1.252	1.206	1.096	1.007	0.924	0.999	1.025
Fergana	1.076	1.009	0.934	0.844	0.903	0.826	0.830	0.747	0.840	0.819
Khorezm	0.787	0.543	0.551	0.544	0.501	0.426	0.469	0.426	0.395	0.458
Tashkent city	2.093	2.004	2.360	2.396	2.124	1.988	1.797	1.644	2.123	2.201
Republic of Uzbekistan	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	9.9	10.8	11.9	12.7

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	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	0.425	0.354	0.360	0.435	0.480	0.523	0.311	0.336	0.391	0.419
Regions:										
Andijan	1.170	1.119	1.150	1.051	1.042	1.020	0.797	0.979	0.806	1.097
Bukhara	1.340	1.375	1.321	1.376	1.418	1.498	1.245	1.322	1.324	1.639
Jizzakh	1.331	1.211	1.329	1.425	1.497	1.488	1.246	0.892	1.320	1.116
Kashkadarya	0.831	0.851	0.980	1.006	1.003	1.089	0.671	0.778	0.725	0.937
Navoi	1.238	1.144	1.149	1.218	1.218	1.268	1.231	1.289	1.817	1.668
Namangan	1.019	0.996	1.042	0.970	0.968	0.852	0.639	0.660	0.707	0.812
Samarkand	1.037	1.081	1.110	1.154	1.084	1.142	1.283	0.956	0.963	1.078
Surkhandarya	1.187	1.353	1.311	1.279	1.222	1.084	1.222	1.200	1.305	1.267
Sirdarya	1.397	1.501	1.373	1.393	1.636	1.634	1.346	1.473	1.428	1.381
Tashkent	1.511	1.539	1.268	1.255	1.242	1.250	1.996	1.213	1.998	1.189
Fergana	0.977	1.024	0.995	0.931	0.883	0.846	0.984	0.936	0.851	1.038
Khorezm	1.144	1.025	1.072	1.098	1.173	1.193	1.350	0.965	1.376	1.101
Tashkent city										
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of deviation (times)	3.6	4.2	3.8	3.3	3.4	3.1	6.4	4.4	5.1	4.0

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

**Investments**

Regions	2000	2001	2002	2003	2004	2005	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	0.819	0.648	0.832	1.119	1.111	0.722	0.759	0.642	0.929	1.222
Regions:										
Andijan	0.552	0.505	0.439	0.641	0.377	0.401	0.250	0.338	0.353	0.413
Bukhara	0.705	0.627	1.063	0.701	1.174	1.346	1.554	1.265	2.192	1.556
Jizzakh	0.577	1.112	1.155	0.583	0.611	0.601	0.561	0.713	0.573	0.673
Kashkadarya	1.897	1.931	1.608	1.760	1.507	1.583	1.667	1.604	1.719	1.669
Navoi	2.014	2.535	2.125	2.213	1.835	2.294	1.548	1.913	2.133	2.231
Namangan	0.701	0.501	0.476	0.471	0.449	0.453	0.467	0.450	0.465	0.493
Samarkand	0.523	0.453	0.404	0.531	0.505	0.432	0.367	0.400	0.467	0.628
Surkhandarya	0.470	0.509	0.451	0.600	0.641	0.712	0.902	0.814	0.763	0.807
Sirdarya	0.772	0.754	0.713	0.592	0.819	0.618	0.694	0.602	0.619	0.853
Tashkent	0.747	0.762	0.899	0.872	1.085	1.074	1.040	0.897	0.844	0.984
Fergana	0.587	0.796	0.931	0.480	0.396	0.405	0.662	0.506	0.420	0.476
Khorezm	0.630	0.695	0.855	0.437	0.874	0.339	0.405	0.406	0.397	0.459
Tashkent city	2.730	2.272	2.131	2.864	3.088	2.462	3.086	2.209	2.704	2.250
Republic of Uzbekistan	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	12.3	6.5	7.7	5.5
Without Tashkent city	4.3	5.6	5.3	5.1	4.9	5.7	2.1	5.6	6.2	5.4

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	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	0.470	0.485	0.491	0.505	0.503	0.476	0.513	0.430	0.504	0.460
Regions:										
Andijan	1.272	1.314	1.356	1.284	1.077	1.012	1.204	0.966	1.087	1.056
Bukhara	0.756	0.841	0.902	0.855	0.873	0.918	0.922	0.815	0.920	0.913
Jizzakh	0.420	0.530	0.630	0.602	0.617	0.590	0.612	0.506	0.626	0.565
Kashkadarya	0.662	0.697	0.715	0.755	0.768	0.743	0.708	0.653	0.681	0.694
Navoi	0.728	0.770	0.808	0.800	0.965	0.960	0.906	0.813	0.997	0.997
Namangan	0.691	0.747	0.805	0.773	0.720	0.727	0.795	0.675	0.766	0.732
Samarkand	0.791	0.709	0.707	0.744	0.711	0.693	0.706	0.621	0.703	0.678
Surkhandarya	0.588	0.594	0.665	0.700	0.716	0.757	0.729	0.681	0.751	0.794
Sirdarya	0.691	0.665	0.639	0.609	0.595	0.624	0.558	0.506	0.553	0.555
Tashkent	1.033	1.041	1.038	1.112	1.179	1.148	1.091	0.990	1.050	1.070
Fergana	1.219	1.145	1.232	1.153	1.076	0.972	1.011	0.876	0.977	0.965
Khorezm	0.662	0.685	0.668	0.610	0.605	0.694	0.649	0.601	0.731	0.743
Tashkent city	2.854	2.789	2.452	2.550	2.816	3.011	2.831	2.604	3.028	3.135
Republic of Uzbekistan	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	5.5	6.1	6.0	6.8
Without Tashkent city	3.0	2.7	2.8	2.5	2.3	2.4	2.4	2.3	2.2	2.3

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	05/I	05/I-II	06/I	06/I-II
Republic of Karakalpakstan	0.410	0.340	0.358	0.380	0.393	0.398	0.440	0.355	0.444	0.420
Regions:										
Andijan	0.870	0.856	0.771	0.813	0.999	0.975	0.615	0.694	0.641	0.846
Bukhara	0.927	0.856	0.878	0.883	0.894	0.927	0.983	0.863	1.059	1.034
Jizzakh	0.455	0.441	0.448	0.481	0.488	0.477	0.560	0.459	0.534	0.490
Kashkadarya	0.463	0.420	0.423	0.462	0.420	0.470	0.415	0.374	0.461	0.474
Navoi	0.707	0.718	0.663	0.755	0.844	0.949	1.027	0.838	1.076	0.964
Namangan	0.500	0.479	0.448	0.506	0.504	0.575	0.540	0.470	0.567	0.565
Samarkand	0.626	0.612	0.606	0.687	0.666	0.718	0.632	0.574	0.677	0.712
Surkhandarya	0.480	0.441	0.444	0.457	0.469	0.490	0.491	0.396	0.505	0.465
Sirdarya	0.366	0.361	0.366	0.382	0.395	0.453	0.502	0.401	0.541	0.473
Tashkent	0.732	0.670	0.616	0.631	0.653	0.633	0.638	0.590	0.722	0.726
Fergana	0.610	0.553	0.556	0.586	0.631	0.681	0.655	0.574	0.702	0.683
Khorezm	0.707	0.596	0.581	0.602	0.659	0.714	0.833	0.654	0.840	0.755
Tashkent city	3.455	3.761	4.090	4.201	4.156	3.918	4.197	3.749	3.800	3.786
Republic of Uzbekistan	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	10.1	10.6	8.6	9.0
Without Tashkent city	2.5	2.5	2.5	2.3	2.5	2.3	2.4	2.4	2.4	2.5

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

## ANALYTICAL PART

### 1. Main trends in the formation of the structure of the economy of the regions of Uzbekistan

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In conditions of deepening market transformations, the regional aspects of economic development are of great importance for the Uzbek economy, due both to the differing natural and economic conditions of each territory and to the fact that the regional factors to some extent define the nature and direction of market reforms, the rates and proportions of the development of the economy, and the efficiency and productivity of structural transformations. The Gross Regional Product (GRP), commonly applied in international practice, remains the most important aggregate indicator for explaining the final results of the social and economic development of the country's regions. GRP is the regional equivalent of Gross Domestic Product (GDP) and is the most important regional policy evaluation tool, providing a snap-shot of the real state of the social and economic development of a region.

Production of GRP varies greatly across the regions of Uzbekistan, with the city of Tashkent contributing the most – in 2005, its share in GRP accounted for 14.3%; and Sirdarya region contributing the least – its share in GDP was 1.9%. The range of deviation in GRP of the regions stated above is about 7.5 times. To a great extent these contrasts result from the differing economic potential of these regions and the current structure of the economy, which actively impacts the formation of GRP. From 1998-2005, the city of Tashkent contributed the most to total GRP production, with Tashkent region in second place and the Fergana region in third place.

The lowest contributors were the Republic of Karakalpakstan and Sirdarya and Jizzakh regions. The highest per capita GRP has been achieved in Navoi region (UZS 1044.0 thousand) and in the city of Tashkent (UZS 1008.1 thousand), and the lowest in the Republic of Karakalpakstan (UZS 271.2 thousand). In 2005, the interregional differentiation for this indicator was 3.9 times; over recent years there has been a tendency of an increasing gap between the GRPs of developed and developing regions, in this case between Navoi region and the Republic of Karakalpakstan (Table 1).

The share of important sectors of the economy (industry, agriculture, etc.) in GRP is the most commonly applied indicator in the analysis of structural shifts. This indicator is used to characterize the level of industrial or agrarian development of the regions in international comparisons.

The general trend in the sectoral structure of GDP (at the macro level) is the reduction of the share of industry in GDP (from 22.3% in 1993 to 20.7% in 2005), and also of the share of agriculture (from 27.8% to 25.0%). At the same time, there has been an increase in the share of trade and public catering in GDP (from 7.5% to 9.2%) and other sectors, services and taxes (from 28.0% to 28.9%). The analysis of the sectoral structure of GRP by region shows that industry and agriculture form the highest share of GRP.

The highest shares of industry in GRP were registered in 2005 in Navoi (48.5%), Kashkadarya (29.6%) and Tashkent (27.3%) regions; the lowest shares – in Surkhandarya and Sirdarya (7.0% in each), Khorezm (9.0%) and Jizzakh (8.8%) regions and in the Republic of Karakalpakstan (7.9%). In 2000-2005, there was a positive trend of an increase in the share of industry in the majority of the regions, especially in Andijan, Jizzakh and Kashkadarya regions. The share of agriculture has been decreasing noticeably in a majority of the regions.

The share of agriculture in generating GRP is fairly high almost all of the regions, especially in those specializing in agriculture; in Sirdarya and Jizzakh regions agriculture forms more than half of GRP. Regions that make a significant contribution in generating GRP from agriculture also include Namangan, Samarkand, Surkhandarya and Khorezm regions; Navoi region contributes the least. The share of construction in GRP is fairly low and has tended to decline.

The computations of the maximal and minimal shares of sectors in the GRP of the regions demonstrate the sizeable differences in the contribution of the various sectors to GRP in the regions. The contribution of industry to GRP among regions varies more than 6.9 times, agriculture – 3.1 times, construction – 2.5 times, trade and public catering – 3.3 times, and other sectors, services and taxes – 2.7 times. Classification of re-

gions by per capita GRP index has revealed the correlation between this indicator and the contribution of sectors to GRP.

The highest indices (above 1.50) are in Navoi region and the city of Tashkent. While in Navoi region the high indices are formed mainly thanks to the contribution of industry to GRP (48.5%), in the city of Tashkent they result from the contribution of other industries, services and taxes (67.4%).

The second group of regions, with indices within 1.50-1.00 range, includes Bukhara region, whose relatively high indices are formed thanks to the contribution of agriculture (33.4%) and other industries and services (39.2%), and Tashkent region – thanks to the contribution to GRP of industry (27.3%), agriculture (30.5%) and services and taxes (30.6%).

The third group, with the indices within 1.00-0.45 range, includes Sirdarya, Jizzakh and Fergana regions, whose indices have been impacted mainly by the contribution of agriculture and services to GRP. In Fergana region, in addition to these, the contribution of industry to GRP has also been registered. In the fourth group, which is the largest in number, there is a clearly expressed correlation with the indices of agriculture and the services sector. The lower the index, the stronger the correlation, i.e. agrarian regions have a low GRP index and a significantly lower per capita GRP production than the national average level. In this case the increase in the impact of the services sector in forming GRP can be seen as indices lower. The fifth group includes the Republic of Karakalpakstan, with the lowest index, and GRP is formed mainly from agriculture (28.0%) and the services sector (50.2%). The role of services in forming GRP has been growing in recent years in all regions.

The grouping of regions according to the contribution of industry to GRP is as follows: relatively developed industrial regions for this indicator are Andijan, Navoi, Tashkent, Fergana and Kashkadarya regions and the city of Tashkent. Regions with average development include: Namangan, Samarkand and Bukhara regions. The poorly developed regions (35.7%) include the Republic of Karakalpakstan, Jizzakh, Surkhandarya, Sirdarya and Khorezm regions. In order to improve the structure of the economy, the long term target is to increase the share of industry and the services sector and reduce the share of agriculture.

The development of a rational territorial structure for the economy of the regions calls for improving the legal base and the organizational and economic mechanisms for regulating the territorial development of the economy and the social sphere.

The objective of this policy is to ensure relatively equal opportunities for complex social and economic development of the regions based on the efficient use of their natural and economic potential, factors and potential for economic growth, and efficient division of labor. Such a mechanism results, first of all, from a purposeful regional structural policy and implies:

- Improvement of territorial structure of the economy in order to use natural and economic conditions of a region and a district maximally and efficiently, taking their specificity into account as much as possible;
- Elimination of territorial disproportions and evening out the social and economic development of the regions, especially at the level of rural *tumans*;
- State support and stimulation of economically and socially underdeveloped territories, in particular, the Republic of Karakalpakstan, Khorezm, Surkhandarya, Sirdarya and Jizzakh regions;
- Accelerated development of production and market infrastructure in the regions, in order to stimulate placement of new businesses, including those with foreign investments;
- Development of an efficient system of regional specialization, meeting the economic, social and demographic and natural resources potential of the regions;
- Improvement of the legal base for the actual apportionment of functions and tasks of national and local authorities, enhancing the authority and responsibility for solving the social and economic problems of the regions by strengthening and expanding the financial basis of the territories;
- Significant improvement of the investment climate and enhancement of the regions' attractiveness for implementing investment projects with direct foreign investments;
- Efficient use of the natural resources and economic potential of regions, especially their mineral resources, to develop export-oriented and localizing businesses;
- Support for the development of small business and private entrepreneurship in the regions to form a middle class, create new jobs and secure population employment, as well as saturating the domestic market with competitive locally produced goods and services;
- Deepening the economic integration between regions and enhancing their export opportunities;
- Qualitative improvement of the living standards of the regions' population, and development of state support and stimulation of the services sector, especially in rural areas.

The most important condition for implementing the aforementioned conceptual directions is the improvement of the economic mechanism of territorial management based on the transition of the regions to a market economy, with the formation of efficiently functioning structures, the development and strengthening of local authorities and non-government structures and also the increase in efficiency of regulating the economic and social spheres of the regions as per their natural resources and economic potential. The methodology and principles of GRP calculation needs further improvement to be applied in analyzing and forecasting the social and economic development of regions both at the regional and national level. At present many countries of the world, including Uzbekistan, calculate GRP mainly by production method – as the amount of gross value added produced on all sectors of a region's economy; this indicator fully reflects the natural economic specificity of an individual region and depends directly on the factors and priorities of its development.

The methodological problems of assessing GRP are of particular importance, both for the accuracy of measuring this indicator and for the development of regional accounts. Insufficient consideration of this indicator in the statistical turnover disrupts the entire system of national and regional accounts (SRA). This reiterates the importance of GRP and the need to improve the methods of its calculation. The current methods do not work very well due to the following main factors: GRP does not include the results of some activities aimed at fulfilling national functions which do not have a strong territorial link (territorial management, defense, monetary system, foreign trade, etc). This is the so-called undistributed part of GRP that fluctuates in time and with reference to various regions.

As a result, the total GRP of the country is noticeably less than GDP; e.g., the analysis of 1997-2005 showed that the level of the undistributed part of GRP in total GDP ranges from 7.7% to 13.2%.

Therefore, the reduction of the share of GDP undistributed across the regions is a very important problem, calling for improved methodology and methods of GRP calculation. The regional variation in prices for goods and services, especially of imports and exports, affects GRP. The assessment of the shadow or non-observed economy (NOE) is of great importance when calculating GRP in terms of the calculation of major macroeconomic indicators and the development of national accounts. Efforts to assess the non-observed economy and to include it in GRP calculation require further improvement, taking into consideration the recommendations of international organizations, in particular the statistical committee of the UN.

**Annex 1. GRP Production by Region of Uzbekistan (production in current prices, % - in comparable prices)**

Regions	1998			2000			2005		
	% to 1997	Per capita, thousand Soum	Percentage of national average	% to 1999	Per capita, thousand Soum	Percentage of national average	% to2004	Per capita, thousand Soum	Percentage of national average
Republic of Karakalpakstan	98.3	29.9	0.531	88.6	58.7	0.456	106.0	271.2	0.466
Andijan	106	44.7	0.794	103.2	117.3	0.911	108.5	442.1	0.761
Bukhara	110.2	53.8	0.956	104.5	142.8	1.109	106.9	618.2	1.064
Jizzakh	107.5	34.5	0.613	104.0	96.3	0.742	107.0	432.6	0.744
Kashkadarya	105.9	44.6	0.792	100.1	92.9	0.722	106.2	491.4	0.845
Navoi	100.8	61.4	1.091	104.4	159.5	1.239	100.6	1047.7	1.802
Namangan	100.4	30.8	0.547	108.2	85.0	0.667	106.5	293.4	0.505
Samarkand	107.6	38.1	0.677	103.9	91.3	0.709	106.4	346.5	0.596
Surkhandarya	109.7	37.0	0.657	104.8	92.8	0.716	104.5	350.3	0.603
Sirdarya	106.1	45.1	0.801	101.6	111.5	0.807	111.4	435.1	0.749
Tashkent	104.9	52.3	0.929	110.3	133.6	1.040	103.0	593.1	1.020
Fergana	97.4	48.5	0.861	107.1	121.2	0.941	105.6	421.1	0.724
Khorezm	105.8	48.9	0.869	94.7	109.0	0.832	106.6	389.3	0.670
Tashkent city	95.6	89.5	1.590	104.2	192.2	1.563	111.4	1017.0	1.750
Uzbekistan	104.4	56.3	1.000	104.0	129.1	1.000	107.0	581.3	1.000
Range of deviation (times)	-	3.0	3.0	-	3.4	3.4		3.9	

\* Source: calculations based on data from the State Statistics Committee of Uzbekistan

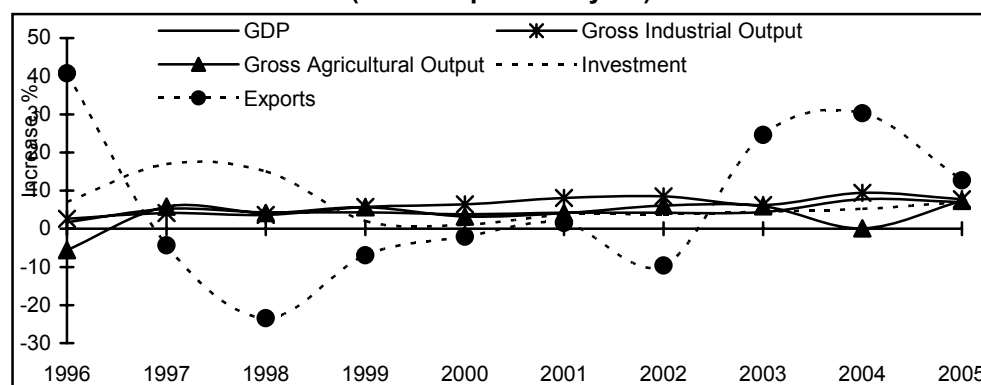
## 2. Macroeconomic conditions and prerequisites for industrial development under conditions of intensifying reforms

By Sergey Chepel, PhD in Economics

Further reinforcement of macroeconomic stability should be viewed as one of the major results achieved in the reporting period. GDP growth in 2005 was 7.0%, (Figure 1). The volume of industrial output increased by 7.3% compared to 2004, while agricultural output increased by 6.2%, retail trade turnover – by 8.2%, and capital investment in real sectors of the economy – by 7.0%.

One of the key outcomes of development over the 2004-2005 period was the fact that as a result of relatively high rates of economic development, *Uzbekistan succeeded in considerably closing the gap which emerged in 2000, 2001 and 2003 between the GDP growth rate and*

**Figure 1. Performance of Economic Activity Indicators over 1996 – 2005 (% to the previous year)**

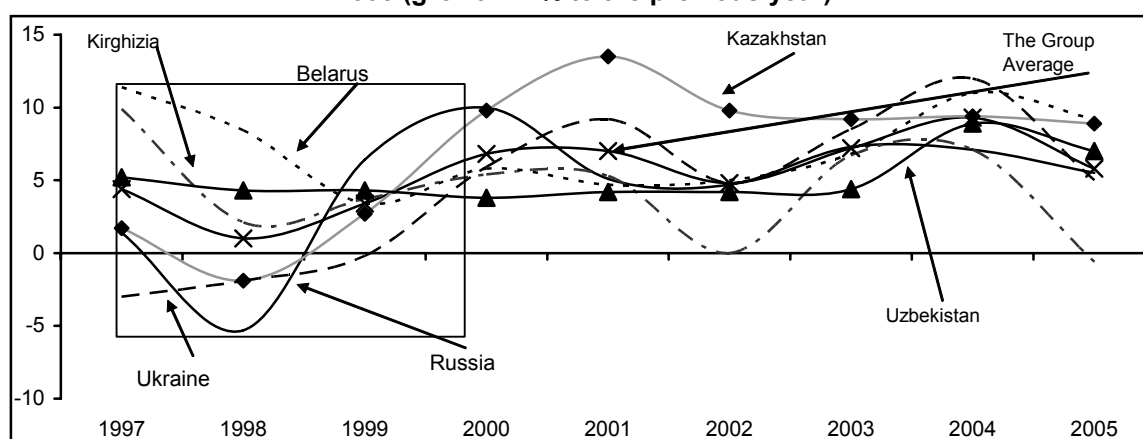


Source: data from the "Economicheskkiye Trendy Uzbekistana" factbook.

*similar indicators in the group of major CIS trade partners of Uzbekistan (Russia, Ukraine, Kazakhstan and others – Figure 2). A similar situation was also characteristic of industrial output growth indicators (7.3% for Uzbekistan in 2005 and 6.2% for the group of analyzed countries), investment (7.0% versus 7.2%) and so forth. This strengthens the country's position on the world market and makes Uzbekistan more attractive for foreign investors.*

The implementation of a moderately tight monetary and credit policy ensured further decrease in inflation. Government budget revenue exceeded expenditure by 0.1%. All these preconditions create a favorable macroeconomic environment for stimulating investment processes and re-supplying the capital-intensive sectors of industry. The increase in the investment growth rate to 7%, coupled with remaining high GDP growth rates and the stable share of investment in GDP, imply certain progress towards the more efficient use of investment resources.

**Figure 2. Dynamics of GDP in Uzbekistan and its Major Trade Partners in the CIS, 1997–2005 (growth in % to the previous year)**



Source: The CIS Statistics Committee.

An essential indicator of economic growth quality is the orientation of shifts in the sectoral structure of GDP. International experience provides convincing evidence that growth in the share of industry is imperative at the stage of creating an economic foundation, as was common for many successfully developing countries. From this standpoint, the growth in the share of industry from 17.5% in 2004 to 20.7% in 2005 implies the creation of better macroeconomic conditions for accelerated development of industry compared to those which existed in 2000-2002, when the share of industry was just above 14%.



The share of 35-40% typical of many successfully developing countries of East Asia could be accepted as a benchmark.

Foreign direct investment plays an important role in attaining these desirable targets. The key form of regulation and promotion of foreign investment in Uzbekistan is the annually developed and adjusted three-year Investment Program. In addition, the government annually passes a number of resolutions aimed towards facilitating the inflow of foreign direct investment. Its share in the structure of sources of investment, however, remains inadequate.

In addition, one of the pressing issues is increasing the efficiency of measures and forms of regulating investment processes. Consequently, modernization of the Uzbekistan economy and the transition to an industrial type of economic growth require considered and focused direct government regulation of investment processes and the adoption of efficient measures to improve the investment climate. These measures should ensure the strengthening of safeguards for protecting private property, the reduction of the tax burden on manufacturers and the elimination of inequality in taxation of various sectors and types of manufacturing, as well as the liberalization of the foreign trade and banking sectors.

Another challenge is securing equilibrium among sectors and types of economic policy. The possibilities of modern balancing and econometric methods (selected results of their application are presented below) help to demonstrate the most efficient options for curbing the gaps between savings and investment, the inequality of access to resources among businesses with different types of incorporation (ownership), the gap between internal and external prices for energy and resources, and so forth. These options and recommendations are relevant because the above factors determine the level of competitiveness of production of the processing industry and the efficiency of utilizing growth factors, including decreasing both resource intensity and power intensity – an area which remains largely untapped.

The substantiation and specification of the above-mentioned recommendations call for a detailed analysis of the interaction of the macroeconomic environment with the growth of industry, its selected sectors and output of major types of production. The flowchart shaped in the process of such an analysis is presented in Annex 1. At the first stage is an analysis of the impact of the macroeconomic environment, detailing the level of monetization of the economy, inflation, and the tax burden and its openness for major industrial sectors and for industry in general. Then, a statistical analysis of the dynamics of output of major types of industrial production and a search for correlations with macroregulators (microlevel) is performed. The obtained results are compared with the results obtained on the macrolevel, with the aim of specifying and assessing their validity.

Factor analysis of trends in the dynamics of the output of the processing industry over the last five years has demonstrated that it is closely linked with the real growth rate of the income of the population. The closest interrelation is observed for food and light industries. These sectors are the foundation of the processing industry and play an exceptionally important role in ensuring sustainable economic growth in the medium-term and long-term perspective. This means that accelerated growth of the processing industry in Uzbekistan requires rapid development of the private sector of the economy, the creation of new jobs and acceleration of integration processes with CIS countries, including Russia, which will encourage the revival of the agricultural machinery sector, electrical industry and selected types of chemical production.

Findings valuable for practical application can be obtained only when the methods of macro-analysis are supplemented by methodological approaches to the analysis of the growth of the real sector of the economy at the micro-level. Calculation, generalization and analysis of the average annual growth rates of output based on the data of the State Statistics Committee of Uzbekistan for the physical output of major types of industrial and agricultural production make it possible to single out groups (aggregates) of commodity positions by growth criteria and sustainability. Four clusters (commodity groups) can be formed: a growth cluster, recession cluster, cluster of instability with regard to output dynamics and cluster of stability.

Special attention should be paid to those new sectors and manufacturing businesses which are oriented towards the output of modern high-tech production (communication facilities, automobiles, home appliances, metering devices and so forth). It is vital to support their sustainable development, and not only because they have a considerable impact on the equilibrium of foreign trade parameters and conditions for economic development. It is crucial to note that these manufacturing businesses, as world experience indicates<sup>(2)</sup>,

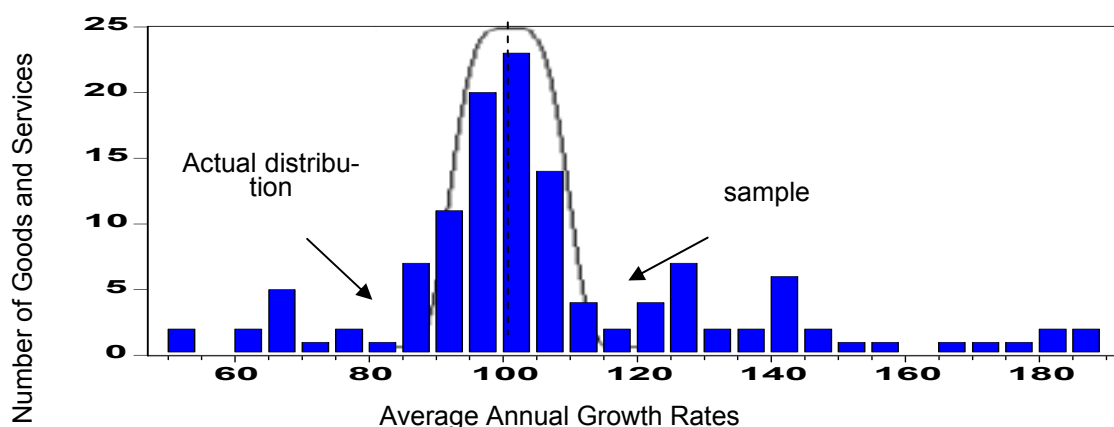
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2 There are many publications summarizing the experience of the East Asian countries, where the output of export-orientated high-tech home and business appliances was the impetus for the development of the entire economy. One of the latest publications on this topic is the paper by N. Sirajitdinov "Economicheskaya Politika v Malaysii Posle Obreteniya Nezavisimosti" in "Economicheskoye Obozrenye" magazine, issue 8, 2003.

may at a certain stage of economic development become an engine for overall economic growth, increasing the efficiency, competitiveness and sustainability of the national economy.

Certain conclusions about the quality of economic growth at the micro-level can be obtained from an analysis of the histogram of the distribution of the major types of goods and services by criteria of their average annual growth rates during the reporting period (Figure 3). The ideal (sample) variation of this histogram should be a curve of normal distribution stretching upward, symmetrical with regard to the vertical line, and passing through the point which corresponds to the average annual output growth rate for the entire aggregate of goods and services in the reporting period (for instance, 115%, if the annual output growth in physical terms is 15% for the overall economy). For the sample variation this implies that the overall number of types of goods and services<sup>3</sup> in the reporting period had growth rates from 100% to 130%. Comparison of actual distribution with the sample one (Figure 3), indicates that the actual distribution is biased (shifted) to the left of the sample and is concentrated around the vertical straight line passing through a point approximating 100% and is more “diffused”. This is explained by the fact that the annual output growth rate for the entire sample was about 100%, while the sample contains a significant number of goods with growth rates considerably deviating from this average assessment both to the maximum and the minimum side.

**Figure 3. Distribution of the Major Types of Goods and Services by the Criterion of “Average Annual Growth Rate during 1998-2005”**



Source: estimates by the authors based on data on physical output.

Correlation analysis is an important element of the methodology of analyzing the impact of the macroeconomic environment on the dynamics of industrial development. Its results allow approximate estimates of the interrelation of industrial output dynamics to be obtained for major types of goods and changes in the macroeconomic environment.

The obtained estimates testify to the limited possibilities for macroeconomic policy to stimulate growth of industrial output. Even for the low threshold value of a correlation coefficient equal to 0.4, the share of goods insensitive to macroeconomic regulators for output dynamics accounted for 61-63% on the average. However, with growth of the threshold value of the correlation coefficient, the average share of such goods in the total sample increases and reaches 90%-95%. Thus, measures aimed at supporting domestic manufacturers by the traditional means of granting privileges for selected industry should be clarified and adjusted.

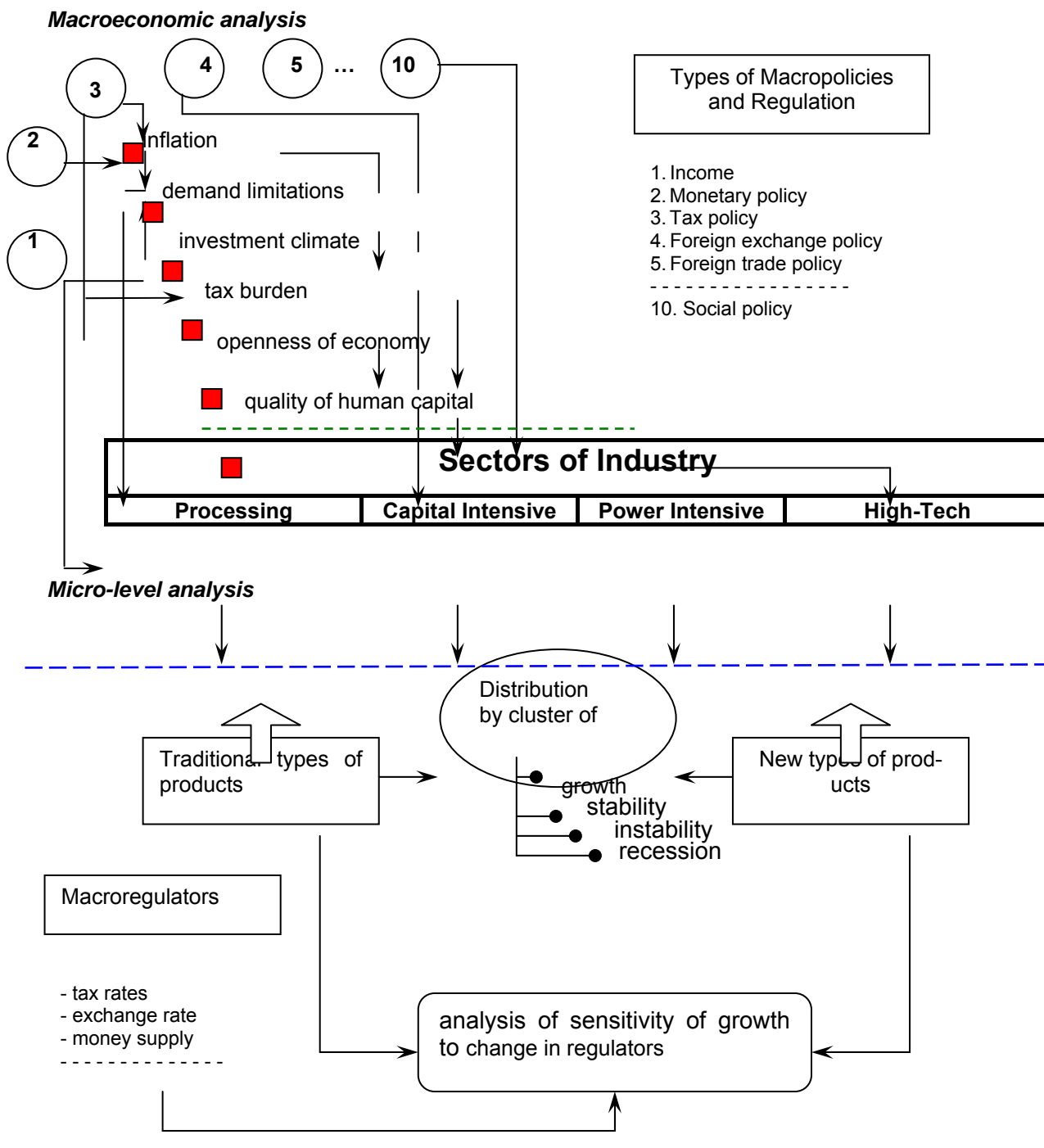
In addition, granting privileges and subsidies to selected companies to the detriment of others entails inequality in their operational conditions and undermines the principle of fair competition. We believe that such support should be predominantly indirect rather than targeted and should be aimed at the creation of necessary conditions and prerequisites for the faster growth of manufacturing and other businesses with the highest potential competitive advantage, with regard to similar sectors of the economy and goods produced in neighboring countries. In addition to decreasing the tax burden, developing the banking sector and other measures reviewed above, this implies facilitating scientific and technological progress and increasing government expenditures for this purpose to the level required for the formation of national leaders among manufacturers: as engines of economic growth.

Considerable public funds should be channeled to enhancing the skill and building the capacity of the workforce, promoting R&D and information services to manufacturers, and increasing the efficiency of ongoing

<sup>3</sup> The share of these goods in the total amount of analyzed goods and services was determined by the relation of the area of the figure restricted from above by the curve and from below by horizontal axis, and from the sides by the range truncated by vertical lines [100 - 115] to the total area defined by this curve (between the curve and horizontal axis).

reforms, including the restructuring of leading industrial enterprises. All these measures call for considerable reallocation of financial flows and enhancing their effectiveness and functioning of certain institutions in the area of property rights guarantee, compliance with the existing legislation, limiting the scope of payment arrears and improving of tax collection level.

**Annex 1. Outline Flowchart of Analysis of Macro- and Micro- Economic Aspects of Industrial Development**



### 3. Structural Shifts in Investment Process.

D. Muinov, V. Svistunova, S. Ubaydullaev

Investment processes in Uzbekistan are aimed at ensuring structural transformations and modernization in the economy. The objective of these transformations is to ensure sustainable GDP growth, enhance the competitiveness of the national economy and ultimately gradually increase the living standards and well-being of the population. After gaining independence, the aim was to establish an institutional system of a market economy, to privatize state enterprises and to create new sectors of industrial production. The fundamental change in the economy predetermined also a respective change in the mechanism of implementation of the country's investment policy.

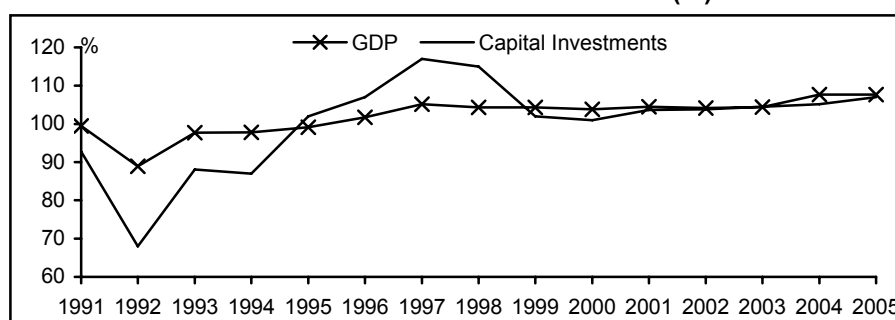
**The 1991-1994 (inclusive) period** was characterized by declines in production, high inflation rates and extreme tension in public finance, and, as a result, a decrease in investments. The share of capital expenditures in GDP over this period fell from 18.7% to 15.5%. Capital investments in 1994 decreased more than twice in comparison with 1991.

**In the second half of 1995**, Uzbekistan entered a phase of economic growth. During this period there was a consistent basis for a new mechanism of investment regulation, and transformations occurred in the sphere of investments. Shifts in the structure of capital investments were noted. The share of government budget funds decreased from 40% to 22.9%. As businesses became more active in industry, transport and communications, positive shifts took place in the structure of capital investments in the sectors of the economy.

**In 2001-2005**, the trend was observed of a high economic growth rate, indicating both the positive changes achieved in the investment arena and favorable prospects for investment activity.

Certain changes have occurred in the structure of foreign investments. Measures taken by the government to improve the investment climate in the country resulted in the dynamic growth of direct foreign investments. The policy of the liberalization of economic reforms has revived the investment activity of the private sector. Non-centralized investments grew more than twice in comparison with 2000 and their share in total capital investments reached 76.1% vs. 45.8%.

**Graph 1. Dynamics of Growth Rates of Real GDP and Capital Investments in Uzbekistan from 1991-2005 (%)**

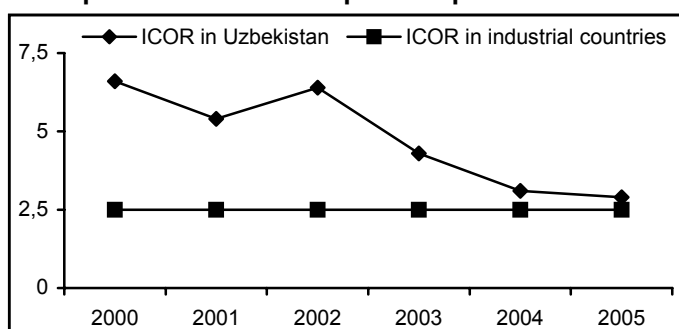


Source: Authors' computations based on data from the State Statistics Committee of Uzbekistan

During the independence period, investment processes focused on key sectors which were undergoing structural transformations (industry, infrastructure and the social sector) which ensured stable GDP growth (Graph 1).

The implementation of measures to ensure structural transformations and the modernization of the economy facilitated a decrease in the Incremental Capital Output Ratio (ICOR)<sup>4</sup>. In 2005, the incremental capital output ratio of GDP was 2.9, while the average of this ratio in the industrial countries is 2.5 (Graph 2).

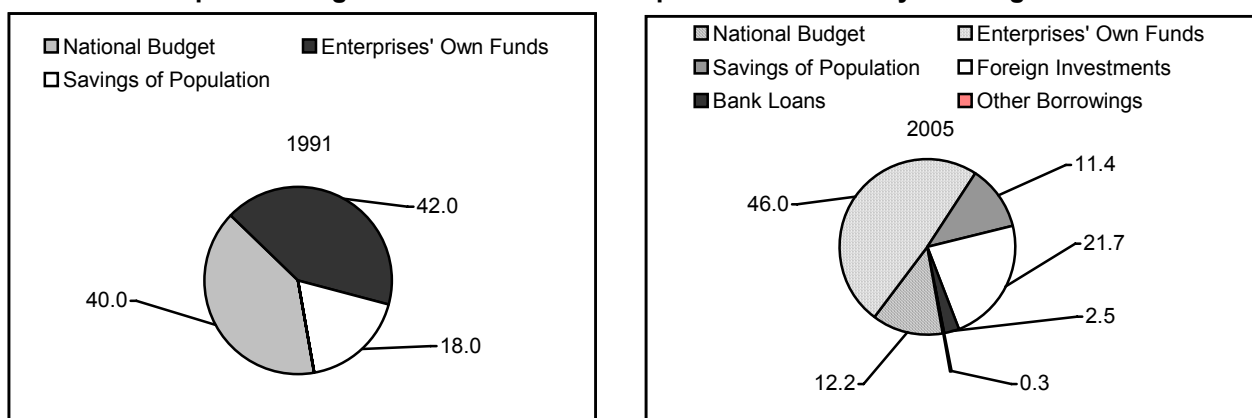
**Graph 2. Incremental Capital Output Ratio of GDP**



With the development of market relations, the structure of capital investment sources has been improving. The share of state budget resources in the structure of capital investments decreased from 40.0% in 1991 to 12.2% in 2005 (Graph 3).

<sup>4</sup> Incremental Capital Output Ratio (ICOR) is broadly used in international practice and is calculated as the ratio of the share of capital investments in GDP to the increase in GDP of the following year. The lower the ratio, the higher the investment efficiency

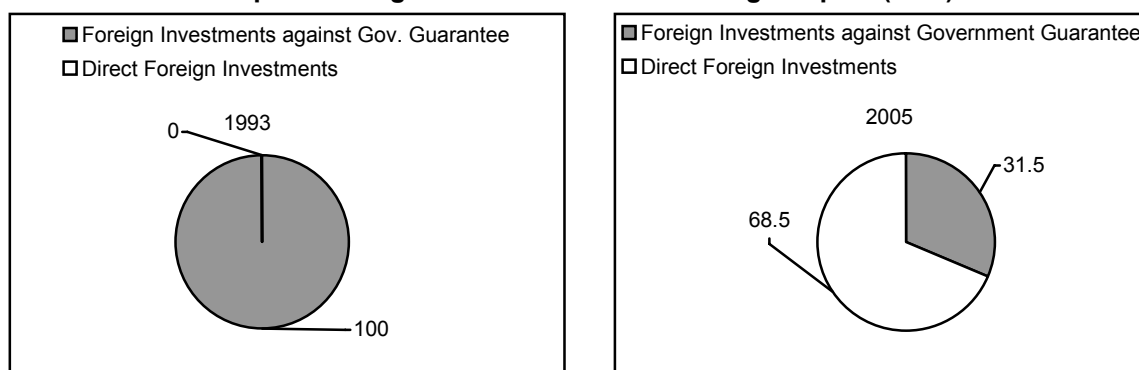
**Graph 3. Changes in the Structure of Capital Investments by Funding Source**



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

In 2005, the share of foreign investments in total capital investments reached 21.7%. Measures taken to establish preferential terms for foreign investors ensured positive changes in the structure of investments. The share of direct foreign investments in total foreign capital grew from 15% in 2000 to 68.5% in 2005 (Graph 4).

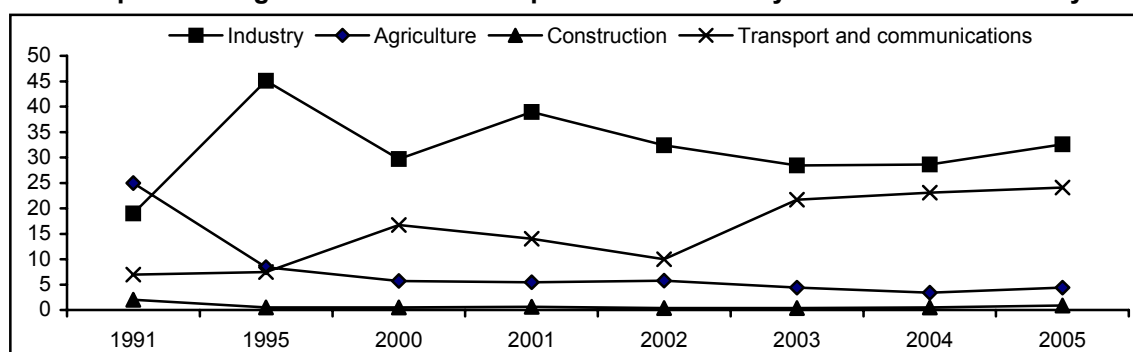
**Graph 4. Changes in the Structure of Foreign Capital (in %)**



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

The structure of investment flows has changed depending on the goals and objectives of each stage of economic development (Graph 5).

**Graph 5. Changes in Structure of Capital Investments by Sector of the Economy**



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

The focus has been on increasing the production potential in such areas as the intensive processing of local raw materials and export-oriented production. About 60.0% of all investments were directed towards the development of priority industries, the purchase of advanced technologies and equipment, and the establishment of joint ventures manufacturing items important for the country.

Over the whole period, the tendency prevailed of a relatively higher share of investments geared toward the development of industrial sectors; in 2005, this share was 32.6%, with foreign investments making up 46.4%

of total investments. This to some extent contributed to the reduction of the share of investments in agriculture from 25% in 1991 to 4.4% in 2005.

Capital investments in the construction sector, where efforts to deepen economic reforms, form a contractors' work market and arrange a market infrastructure were insufficiently effective, remained at a low level (from 0.8% to 2%).

The structural transformations implemented affected the technological structure of capital investments in the economy. In spite of the implementation of government policy aimed at modernization and technological re-equipment, the share of equipment in the general technological structure of capital investments was low (in 2005 – 38.7%) due to the completion of construction of a number of objects and the direction of investment funds towards exploration activities for the fuel and power complex.

Despite the praiseworthy results achieved in the development of investment processes, the following problems awaiting resolution have remained. These are the need to speed up slow investment growth rates, above all in attracting direct foreign investments into the economy, and the implementation of efficient mechanisms and new ways of attracting investment resources. This includes attracting the savings of the population to fund the development of priority hi-tech businesses and the renewal of production facilities. The role of the securities market should be strengthened as well.

In order to ensure the modernization and technical re-equipment of the base sectors of the economy, the dynamic, sustainable and balanced social and economic development of the country, and an efficient structural and investment policy, the Uzbekistan Fund for Reconstruction and Development has been established with authorized capital amounting to USD 1.0 bn. The Regulation on Principles of Forming and Using the Fund has been approved. The Fund will help to rapidly develop the areas, sectors and industries that should become economic growth engines.

It should be noted that the establishment of the Fund was possible due to the strengthening of the economic potential of the country and the creation of conditions for the accumulation of the financial resources necessary and sufficient to implement strategic investment projects. Several normative and legislative acts aimed at enhancing the investment attractiveness of facilities were passed this year. Thus, the passage of the Decree of the President of the Republic of Uzbekistan dated 12.08.2006 "On Deepening Processes of Denationalization and Privatization in 2006-2008" facilitated the participation of foreign investors in institutional transformations in the country. For example, Carlton Group LLC (US) has bought 53 percent of the shares of Kvars JSC. The shares become the property of Carlton Group LLC only once the purchase payment has been made and the investment liabilities have been met as stipulated in the purchase and sale agreement of the government block of shares of Kvars JSC.

A number of measures are needed to intensify investment activity, including:

- the formation of an organizational and legal base to reduce investment risks;
- the improvement of the tax system to ensure return on investments in production;
- the strengthening of forex control and adjustment of the Soum exchange rate in accordance with requirements to support the competitiveness of domestic production;
- government purchases of goods produced domestically, expanding their supply through purchasing capital-intensive equipment of collective use and leasing it out to operating entities;
- clear government policy regarding depreciation charges;
- the achievement of the benchmark on annual incremental growth of production capital investments of least at 10% a year, including investments in high-tech industry and technologies at 20% a year, ensuring at the same time their efficiency and orientation towards modernization of the national economy on the basis of modern new high-tech technologies.

In our view acting upon these recommendations will allow a certain intensification of investment processes and an increase in the effectiveness of the structural transformations in the economy of Uzbekistan