

“UZBEKISTAN ECONOMY”

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

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Introduction

The informational and analytical review "Uzbekistan Economy" describes the dynamics, trends and specific characteristics of the Uzbekistan economy on such aspects as macroeconomic policy, institutional and market transformations, structural and investment shifts, foreign trade, the social sphere and territorial development within the period of January – September of 2006.

Economic growth and the macroeconomic situation

In the first 9 months of 2006, the growth rate of GDP amounted to 7.3%. A significant increase in GDP was ensured mainly through the growth of investment activity and the increase in demand on the domestic market. UZS 2606.1 billion of capital investments were made from all sources of finance. The growth rate of capital investments was 110.0%. The Consumer Price Index in September 2006 was within 3.7%.

Government finance

State budget revenues made up 23.4% of GDP and expenditures made up 22.4% of GDP. The state budget was fulfilled with a surplus of 1.0% to GDP. In the structure of expenditures of the state budget, expenditures for the social sphere and social protection of the population amounted to 51.2 %.

Financial markets

The Central Bank refinancing rate was lowered since 15 July 2006 by 2 p.p. and set at 14% of annual interest. As of 1 October 2006, the aggregate assets of commercial banks were UZS 7120 billion. Deposits of the population in the banks of Uzbekistan increased by 42.5%.

The turnover of corporate stocks (total value of sales of shares and corporate stocks) amounted to UZS 277.2 billion. Shares worth UZS 267.3 billion were sold in the first 9 months of 2006. The volume of shares sold on the secondary securities market totaled UZS 182.1 billion.

Foreign exchange market and foreign trade

The nominal exchange rate of the UZS to USD devalued by 4.2%, and in comparison to the respective period of 2005 – by 7.9%. The devaluation of the real exchange rate of the national currency with regard to the USD amounted to 3.5%. The real effective exchange rate of UZS stabilized at 1.5%. The foreign trade turnover of Uzbekistan grew by 10.5% as compared to the respective period of the previous year and amounted to USD 7.56 billion. The trade surplus was USD 1186.3 million. Exports of enterprises with foreign investments in general throughout the country amounted to USD 794.1 million and increased by 24.9%. Imports of production, works and services of enterprises with foreign investments amounted to USD 1307.0 million.

Institutional transformations and the intensification of market reforms

374 objects from the manufacturing and social spheres of the economy were transferred into non-state-owned types of property in the first 9 months of 2006. The volume of government assets sold totaled UZS 46.0 billion, which went to the special accounts of the State Property Committee. 13.6 thousand objects were sold through the Republican Real Estate Exchange and its affiliated branches for the amount of UZS 39.1 billion.

The share of small entrepreneurship in the GDP of the country reached 39.0%. The number of operating small enterprises reached 339.8 thousand units. The total amount of loans of commercial banks to small enterprises amounted to more than UZS 469 billion.

Development of the sectors of the economy

The index of industrial production amounted to 110.2%. The output of industrial enterprises reached the amount of UZS 10414.1 billion. The increase in production of consumer goods was 20.9%, including foodstuffs – 20.5%, and non-foodstuffs – 22.2%. The increase in the gross product of agriculture amounted to 7.1%. Retail trade turnover reached the level of UZS 5327.2 billion, and fee-based services – UZS 1455.8 billion.

Employment and the labor market

The number of employed in the economy increased by 258.7 thousand people or by 2.6% compared to the respective period of 2005. The average share of those employed in non-material production increased from 32.8% to 33.1%, with a respective decrease in employment in material production from 67.2% to 66.9%.

Income and expenses of the population

The nominal monetary income of the population grew by 31.9% and actual monetary income per capita – by 20.1%. There was a trend towards a decrease in interregional differentiation of monetary income per capita.

Regions

In the first 9 months of 2006, the Republic of Karakalpakstan, 12 regions and Tashkent City enjoyed high rates of economic growth. The growth of GDP as a whole throughout the country amounted to 107.3%, while the growth rates of certain regions were higher: Andijan (110.1%), Samarkand (109.1%), Sirdarya (109.6%), Surkhandarya (108.9%), Jizzakh (107.8%), Kashkadarya (107.7%) regions and Tashkent City (108.1%).

The analytical review: The analytical review includes articles on the following items (i) accession of Uzbekistan to the World Trade Organization and its impact on agriculture; (ii) general analysis of the dynamics of tax proceeds before and after introduction of VAT for different types of simplified taxation; and (iii) tax compliance costs for the enterprises of Uzbekistan. The informational basis includes the official data of the State Statistics Committee of Uzbekistan, the Central Bank, the Ministry of Finance of Uzbekistan, the State Property Committee of Uzbekistan, and information from the foreign and domestic press, as well as elaborations, estimates, computations and illustrations by the authors.

Major Economic Events

July

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan was issued on 21st July, approving the new edition of the Regulation “On the procedure for denationalization and privatization of state-owned facilities”. It specifies the terms and conditions for the privatization of enterprises and facilities, together with the land plots on which they are located, and improves the mechanism of after-sale preparation and sale of privatization facilities.

On 21st July the Resolution of the President of the Republic of Uzbekistan was issued “On staff and issues of organization of activities of some republican committees and councils” that approved the new edition of the Regulation “On the State Committee on conducting tender auctions when selling state-owned property to foreign investors”. This provides for the simplification of the procedure for selling state-owned assets to strategic investors, strengthening the role and importance of the pre-sale preparation of objects.

In order to ensure full provision for 9th grade graduates in academic lyceums and vocational colleges, and the optimal development and placement of institutions of specialized secondary and vocational education by strengthening their logistical base, the **Resolution of the President of the Republic of Uzbekistan dated 27 July 2006** “On measures for the further expansion of education for graduates” **was issued**, as well as “On measures for the further expansion of education for general school graduates in academic lyceums and vocational colleges”. It was established that starting from the 2007-2008 school year in Tashkent city and in regions where all graduates of the 9th grade are provided further study in academic lyceums and vocational colleges, the enrolment of pupils in the 10th grade will be stopped.

In Navoi region, an **investment project has been implemented pursuant to the governmental resolution** “On measures to arrange domestic production of liquid chlorine, chlorine products and hydrate of sodium in the Republic of Uzbekistan”. Earlier, these were imported annually for about 9 million USD.

Company Spentex Industries LTD (India) has bought the state-owned spinning company Toshkent Toytepa-Textil’ LC in Uzbekistan. This deal was the largest purchase in the textile industry.

5 grant contracts were signed in Tashkent under the program of gratis aid from the Government of Japan to small-scale social projects. The grant contracts on the project “Provision of modern medical equipment” were signed between three medical institutions of Uzbekistan and the Government of Japan. The First and the Central hospitals of Surkhandarya regions will receive equipment in the amount of 85.6 and 63.8 thousand USD, respectively. The Tashkent perinatal center No.1 will be equipped in the amount of 76.3 thousand USD.

In the realization of Russian-Uzbek agreements in the oil and gas sector, **Lukoil Overseas has started production drilling** at Dengizkul gas deposit in South-West Uzbekistan.

In order to further deepen the processes of denationalization and privatization of leading sectors of the economy, increasing the role of private property and attracting direct foreign investments to develop and modernize industrial enterprises, **the Resolution of the President of the Republic of Uzbekistan was issued** on 10.07.06 “On deepening the processes of denationalization and privatization in 2006-2008”.

August

The State Property Committee of Uzbekistan announced a tender to select international consulting companies to assess the value of 51% of the shares of the second largest bank of the country – Asaka bank, which is an important step towards the realization of the state program of privatization and denationalization for 2006-2008, foreseeing the privatization of Asaka bank with the help of tender auctions.

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan “On measures to regulate fermentation of tobacco raw materials and production of tobacco products” **was issued**, providing for the introduction on the territory of Uzbekistan of licensing for activities related to the fermentation of tobacco raw materials and production of tobacco products.

The meeting of the club of the national association “Investment Institutions” was held. The major issue was the consideration of the possibility of attracting foreign investors to the securities and real estate markets. The businessmen stated current problems and made proposals to eliminate them.

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated August 10, 2006 was issued: “On making changes and additions to the Regulation on the procedure for the development, examination and approval of documentation of investment projects. The need to make changes and additions to the Regulation on the procedure for the development, examination and approval of documentation of investment projects results from the creation of the Fund for Reconstruction and Development of the Republic

of Uzbekistan and the Uzbek State Institute for Design in electrical engineering, oil and gas processing, chemical and heavy industry.

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan was issued “On the sale of state-owned packages of shares of Kvarts JSC to foreign investors”. 53% of the shares of Kvarts JSC, purchased by Carlton Group LLC (USA), become the property of the latter only upon receipt of the payment and fulfillment of investment liabilities as stated in the agreement of sale and purchase of the state-owned package of shares of Kvarts JSC.

In order to strengthen the role of science in the social and economic development of country, to liberalize the management of scientific and technical progress, to raise the level, quality and topicality of scientific research, to promote technological and engineering developments, and to establish conditions for their efficient use, **the Resolution of the President of the Republic of Uzbekistan was issued on 7th August of 2006** “On measures to improve the coordination and management of science and technology development”. The Committee for the coordination of development of science and technology was established under the Cabinet of Ministers of the Republic of Uzbekistan, its main objectives were defined and its staffing approved. The main mechanism for the organization and funding of fundamental, applied research and innovation works was specified.

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan on 7th August 2006 **approved the State program of training and retraining mass media personnel** in order to satisfy more fully the needs of society and the government for highly skilled journalists and to introduce democratic standards in the country’s mass media, to meet international standards, and also to fulfill priority tasks on democratization and the renewal of society, and the reform and modernization of the country.

In accordance with the Resolution of the President of the Republic of Uzbekistan dated 8th August “On measures to improve the organization of the Uztransgas joint-stock company” and of 17th August 2006 “On measures to improve the activity of the Uzbek Agency Uzkommunkhizmat and the financial rehabilitation of enterprises of the municipal economy” **the main objectives of the Uzbek Agency Uzkommunkhizmat, and the mechanisms for the financial rehabilitation of heat and water supply enterprises of the country were determined** (their exemption from annually conducted reassessment of fixed assets, the write-off of penalty and fine amounts and the use of funds released for current and major repairs of network and equipment in the municipal system).

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan of 8th August 2006 approves the **Program of installing cold and hot water meters**, providing for the completion of the installation of hot and cold water meters by 1st July of 2008.

The UzBelDiesel JV, producing diesel engines, was established in Uzbekistan, jointly by the “Tashkent tractor plant” JSC on the Uzbek side and “Motorniy zavod” JSC. The Uzbek and foreign partners from Belarus and Russia – UA “Minsk tractor plant” and “Nogiski plant of fuel fittings” JSC participate in the JV on an equal footing. As soon as in the medium term, it is planned to bring the capacity of the enterprise to 20 thousand engines a year.

The Uzbek-Swiss “Bakht textil” JV, specializing in yarn production, **was established** in Navoi region. Upon reaching full capacity, the joint venture will be able to produce up to 12 thousand tons of yarn annually.

In order to form a single policy in the area of building and maintaining gas-distributing networks, to establish an efficient system for managing the transportation and sale of natural gas to domestic consumers and to use natural gas efficiently and strengthen payment discipline, **the Resolution of the President of the Republic of Uzbekistan was issued** on 08.08.2006 “On measures to improve the organization of activity of Uztransgas Joint-stock company”.

The Kungrad soda plant was commissioned in the Republic of Karakalpakstan with a planned production capacity of 100 thousand tons of soda ash a year. Design and “turn-key” construction of the technological part of the plant was carried out by Citic Pacific Ltd (China) on a contract with Uzkhimprom State Joint-Stock Company. Launch of the plant will not only address the problem of the full satisfaction of the domestic demand for soda ash but also increase its export considerably.

In order to form an efficient system of management of the oil and gas complex and to accelerate exploration works, **the Resolution of the President of the Republic of Uzbekistan was issued** on 21.08.2006 “On measures to improve organization of the activity of the National holding company Uzbekneftegas”. One of the objectives of the structural reorganization being carried out by Uzbekneftegas NHC is to ensure a single technical policy in the industry and large-scale attraction of foreign investments.

September

The Resolution of the Cabinet of Ministers of the Republic of Uzbekistan “On issues of licensing activity for the production of jewelry made of precious metals and stones” **was issued**. The main objective of this is to define the procedure for licensing activity for the production of jewelry made of precious metals and stones.

A new leasing company “Asaka – Trans – Leasing” was established in accordance with the **Resolution of the Government of the Republic of Uzbekistan** “On the sale into private property of state-owned packages of shares of the enterprises of “Tashavtobustrans” JSC” issued on 7th June 2006.

The Association of lessors held the first international conference in the hotel “Dedeman Silk Road Tashkent” on “Leasing in Central Asia”. The conference was arranged in order to cover trends in the leasing services market, share experience and attract foreign investments into the promising leasing market of the country.

On 25th September during the state visit of the Prime Minister of the Republic of Korea to Uzbekistan, a **Memorandum of understanding and cooperation was signed** between the State Property Committee of the Republic of Uzbekistan and the Ministry of Commerce, Industry and Energy of the Republic of Korea.

On 27th September the Resolution of the President of the Republic of Uzbekistan “On measures for the further development of the securities market” **approved the Program of development of the securities market for 2006-2007**. It contains a set of measures aimed at further stock market development, improvement of its infrastructure and strengthening its logistics base and improvement of corporate governance in joint stock companies as well.

On 29th September an international conference was held in Tashkent covering “Uzbekistan and the Central Asian securities market: opportunities for issuers and investors”. Specialists from Russia, Kazakhstan, Kyrgyzstan and Tajikistan shared experience regarding the formation of the securities market in these countries, and discussed problems and directions for the further development of this market.

The Resolution of the President of the Republic of Uzbekistan of 7th September 2006 **approved the Program of measures for further strengthening the targeted nature of social protection and social servicing** of the elderly, pensioners and disabled living alone in 2007-2010, providing for: a) further improvement of the system of social servicing of the disabled and elderly living alone; b) broader coverage and better quality of treatment and prophylactic services; c) strengthening the logistics base of Sakhovat and Muruvvat nursing homes and sanatoriums; d) the introduction of new forms, methods and technologies of social services.

The Law of the Republic of Uzbekistan of 15th September of 2006 “On micro-financing” **regulated relations in the area of the developing market of micro-financial services**, to satisfy the needs of citizens and entrepreneurs for financial resources and services to increase their business activity.

On 21st September of 2006 **the Law “On tax consulting” was passed**, providing the main concepts and principles of tax consulting, covering mandatory terms and conditions of signing an agreement on rendering tax consulting services, defining an authorized state body in the area of tax consulting, and describing the rights and responsibilities of tax consultant organizations, as well as the qualifying requirements and conditions for termination of qualification certificate, etc.

REKA-MEDFARM JV with limited liability was established in Sirdarya region. Co-founders are “S.Rakhimov” and “Maftun Guzali”, the Russian firm “VIPS-MED” and the British company “SKYLINE INDUSTRIES UP”. The JV plans to produce infusion solutions, glucose and sodium chloride (1200 bottles / hour of various solutions).

“Ekosan” international fund held an international meeting in Tashkent “The problem of Aral and the Aral sea area – the imperative for international cooperation” with the participation of scientists-specialists from Central Asian countries and international organizations.

The Government of the Republic of Uzbekistan and the Consortium of investors signed an Agreement on the division of production in the area of exploration works with further development of newly opened deposits of hydrocarbons in the Uzbek section of the Aral sea. The Consortium includes Uzbekneftegaz NHC, LUKOIL Overseas Holding, Petronas Carigali Overseas (Malaysia), CNPC International (China) and Korea National Oil Corporation.

“SamKOCAuto” JV signed a contract with a new investor – the Japanese company “ITOCU Corporation” on the production of modern trucks and buses on a Japanese Isuzu chassis. The contracts for the supply of the first auto componentry have come into force.

INFORMATION AND ANALYTICAL PART

1. Economic Growth, Investments and Inflation

1.1. Economic growth

The results for the first 9 months of 2006 indicate a positive trend toward acceleration of the rate of economic development (see Table 1.1.1). According to the GDP indicator, the growth rate amounted to 7.3% (against 6.6% in the first half of 2006 and 3.6% in the 1st qtr of 2006). Continuation of this trend will provide (for the yearly results) continuation of the high growth rates for GDP reached earlier, for a total, according to our estimates, of 107.2%-107.4%. As for the growth of GDP, during the first 9 months of 2006 Uzbekistan (107.3%) surpassed Russia (105.7%) and Ukraine (106.2%), while its growth in industrial production, at 110.2% surpassed Russia (104.2%), Kazakhstan (106.8%) and the Ukraine (105.5%).

The following factors contributed significantly to the improvement of GDP dynamics: growth of investment activity and the increase in demand on the domestic market. The increase in investments in capital assets amounted to 10.0% (against 6.9% in the first half of 2006), and retail trade turnover – 12.2% (against 11.6%).

The advanced growth rate of investments (10.0%) compared to GDP growth rate (7.3%) became a positive trend, which, to a great extent, corresponds to the world experience for those developing countries with the highest and the most stable rates of economic growth for the last three decades. The same conclusion is also true for exports, the growth rate of which exceeded GDP growth rate by 6 basis points. The quite high and stable demand for Uzbek export goods continues to play an important role supporting the high growth rates of GDP that have been reached within the last three years.

**Table 1.1.1. Main Macroeconomic Indicators of Economic Development
(in % to the corresponding period of the previous year)**

	2000	2001	2002	2003	2004	2005	I-III quarters to corresponding period of the previous year	
							2005	2006
GDP (produced)	103.8	104.2	104.0	104.2	107.4	107.0	107.2	107.3
Population*	101.4	101.3	101.2	101.2	101.2	101.2	101.2	101.2
GDP per capita	102.4	102.9	102.7	103.0	106.2	105.8	105.9	106.0
Industrial production	105.9	107.6	108.3	106.0	109.4	107.2	107.7	110.2
Agricultural production	103.1	104.2	106.0	107.3	108.9	105.4	107.3	107.1
Export of goods and services (increase, %)	0.9	-2.9	-5.7	24.6	30.3	11.5	9.7	13.0
Investments in capital assets	101.0	104.0	103.6	104.5	107.3	105.7	106.9	110.0
Level of state budget execution (% of GDP)	-1.0	-1.0	-0.8	-0.4	-0.4	0.1	0.5	1.0
CBU refinancing rate (in %)	32.3	26.8	34.5	27.1	18.8	16	16	14
CPI (to corresponding period of the previous year, in %)	24.9	27.4	27.6	10.3	1.6	6.4	6.1	9.4
Unemployment level (end of period, in %)	0.4	0.4	0.4	0.3	0.4	0.3	0.3	0.3

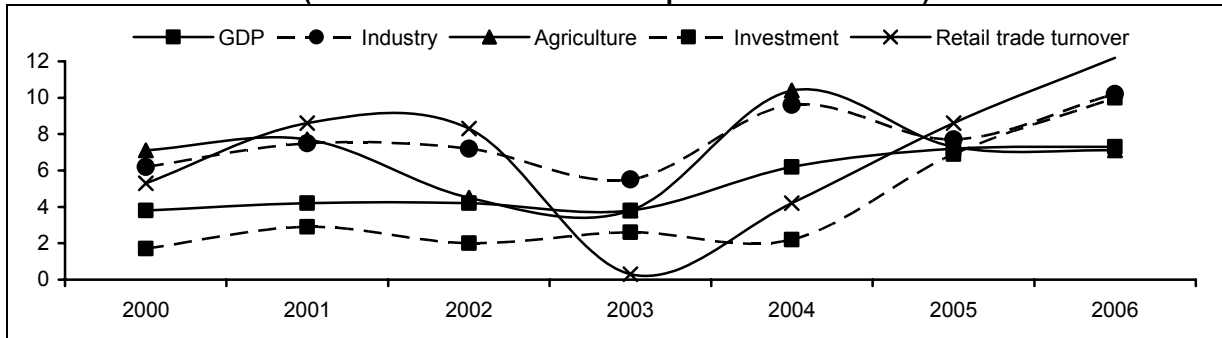
Source: State Statistics Committee of Uzbekistan

*Average constant number of population

Among all industries of the real sector which determine the aggregate supply, industrial production developed at the highest rate (110.2% against 107.7% in the corresponding period of 2005). This was facilitated by the increase in the real income of the population, the enhancement of integration processes, the favorable business climate for producers and investors, and by the lowering of the CBU refinancing rate from 16% to 14%, which on the whole improved the dynamics of investments in fixed capital (see Graph 1.1.1). High growth rates for agriculture were also retained (107.1%).

The retention of a well-balanced execution of the state budget(+1.0% of GDP), as well as the lowering of the CBU refinancing rate to 14%, strengthened macroeconomic stability, which gave an additional push to the more intensive attraction of the savings of the population to the banking sector and their utilization for investment needs. The accelerated growth of investments also facilitated the restriction in the growth of consumer prices. The value of the CPI was 3.7% (September to December).

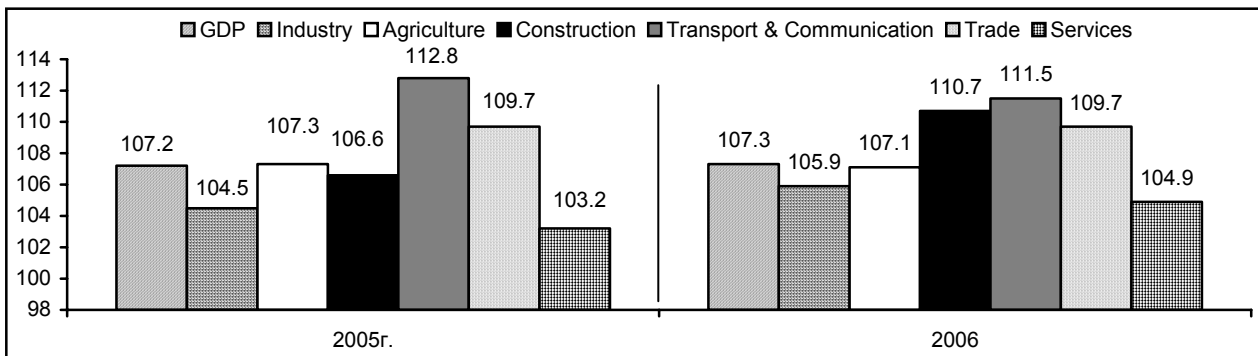
**Graph 1.1.1. Dynamics of Main Macroeconomic Indicators
(first 9 months in % to same period of 2000- 2006)**



Source: State Statistics Committee of Uzbekistan

The analysis of the dynamics of added value of the branches and sectors of the economy (in real terms) showed that such service industries as transport and communications, as well as trade, including public catering (see Graph 1.1.2) have been developing at advanced rates. Growth rates of added value for these industries amounted to 111.5% and 109.7% respectively.

**Graph.1.1.2. Growth in Value Added by Economic Sector
(first 9 months in % to same period of 2005 - 2006)**

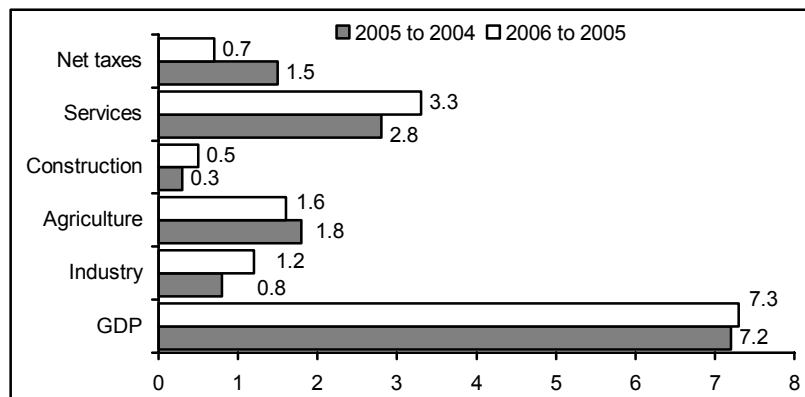


Source: State Statistics Committee of Uzbekistan

The analysis of the sectoral contribution to GDP growth showed (Graph.1.1.3) that, as for the first 9 months of 2005, the main contribution to the economy was made by two industries: agriculture and the service sector. They made up 4.9 p.p. of total growth in GDP (7.3%). As opposed to the first 9 months of 2005, the contribution of industry increased (by 0.4 p.p.), as well as that of the service sector (by 0.5 p.p.). This more than compensated for the decrease in the contribution of net indirect taxes (by 0.8 p.p.), which had a certain impact on the continuing decrease in the tax burden for commodity producers and those participating in foreign economic activity.

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 38.5% of GDP, though the share of the service sector in the production structure of GDP fell slightly (by 0.9 p.p.). The share of agriculture decreased by 0.6 p.p. and the share of industrial production increased by 0.9 p.p. and amounted to 21.8%, increasing its contribution to GDP growth (Graph 1.1.3).

Graph.1.1.3. Dynamics of Contribution of Certain Industries and Sectors of the Economy to GDP (9 months growth, in p.p.)



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 by 0.9 p.p. from 48.6% for the first 9 months

of 2005 to 49.5% in the reviewed period. On the one hand, this process reflects the growth of the real income of the population, and on the other hand it indicates the increase in the contribution of private consumption as an element of the composite demand in the dynamics of GDP.

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	4.7	37.2	13.7
2004	107.4	17.5	26.4	4.8	37.0	14.1
2005	107.0	20.7	25.0	4.9	38.3	11.0
I qtr. 2005	104.8	28.7	8.9	4.7	44.2	13.3
I-II qtr. 2005	107.2	24.8	13.5	5.6	42.9	13.0
I-III qtr. 2005	107.2	20.9	23.0	5.1	39.4	11.4
I qtr. 2006	103.6	29.4	8.1	4.7	44.7	12.9
I-II qtr. 2006	106.6	26.0	13.1	5.5	42.1	13.1
I-III qtr. 2006	107.3	21.8	22.4	5.3	38.5	11.7

Source: State Statistics Committee of Uzbekistan

Table 1.1.3. Structure of Using GDP (%)

Period	Expenses for final consumption, %		Gross accumulation, %		Net exports, %
	Private	State	Gross domestic investments into capital assets*	Change in holdings	
2000	61.9	18.7	24.0	-4.4	-0.2
2001	61.5	18.5	27.9	-6.8	-1.1
2002	60.2	18.0	22.1	-0.9	0.6
2003	55.6	17.4	21.5	-0.7	6.2
2004	51.9	16.2	23.5	1.0	7.4
2005	50.9	16.4	23.1	-0.1	9.7
I qtr. 2005	49.4	20.1	26.0	-10.8	15.3
I-II qtr. 2005	52.7	19.0	25.6	-10.4	13.1
I-III qtr. 2005	48.6	16.9	22.3	4.5	7.7
I qtr. 2006	49.3	22.1	25.4	-9.2	12.4
I-II qtr. 2006	52.8	19.2	25.4	-8.4	11.0
I-III qtr. 2006	49.5	16.6	22.2	3.6	8.1

Source: State Statistics Committee of Uzbekistan

Another element of composite demand that increased its contribution to GDP dynamics is the category of net exports. Its share in the structure of final GDP utilization increased from 7.7% to 8.1%. These changes reflected the growth of the export potential of the country, the improvement of the export structure, and more intensive involvement of the subjects of small and private business in the sphere of the foreign economic activity. 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.

1.2. Investments

Successive implementation of the key priorities for 2006, bolstering the results achieved in the previous periods and ensuring the sustainable development of the economy, facilitated the advancement of investment processes. The implementation of projects under the Investment Program for 2006, as well as sectoral development programs, made possible the investment of UZS 2606.1 bln. in capital assets from all sources of funding over the first 9 months of 2006, which exceeded the corresponding period of 2005 by 3.1%. The growth in capital investment was 110.0% compared to the respective period of 2005 (Annex 1.2.1). Over January-September of 2006 the following facilities were put into operation:

- part of Tashguzar-Boisun-Kumkurgan railroad;
- Kungrad Soda Plant;
- Sections of gas mains and power grids;
- Joint ventures with foreign founders in light industry for the production of cotton yarn, knitted goods and apparel;
- Joint ventures with foreign founders in the food industry for the production of juices, baby food and others.

Earth moving equipment was purchased for the improvement of the soil in Bukhara, Navoi and Kashkadarya regions. With the broadening of institutional transformations, the structure of capital investment by form of ownership in Uzbekistan has changed. The share of investment in the non-public sector increased by 5.2% to reach 65.4% of the total (Table 1.2.1).

Table 1.2.1. Capital Investment Breakdown by Form of Ownership, %

	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Capital Investment	100	100	100	100	100.0	100.0
Public Property	32.3	40.3	39.8	31	34.8	34.6
Non-public Property	67.7	59.7	60.2	69	65.2	65.4

Source: State Statistics Committee of Uzbekistan

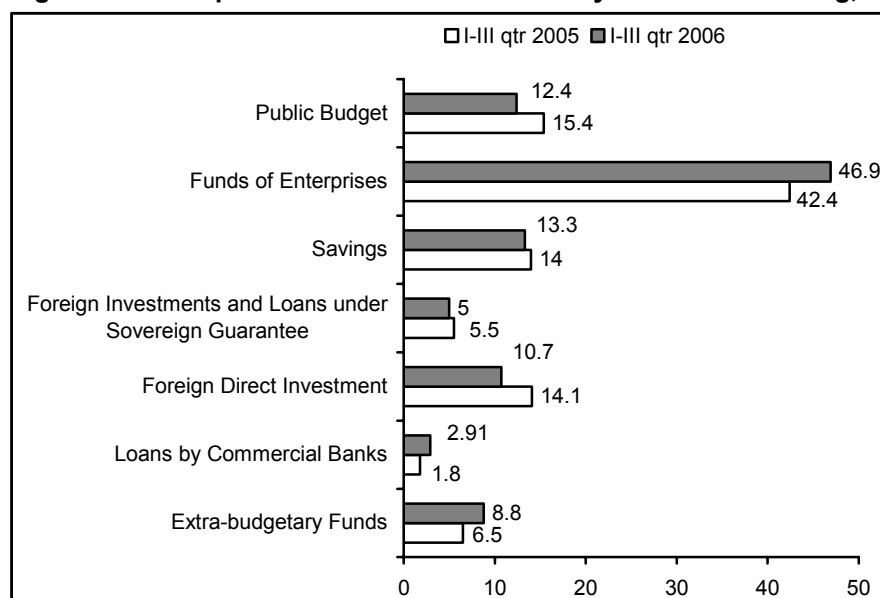
decentralization of capital investment continued. The share of centralized investment decreased to 26.2% or by 1.2% over the first 9 months of this year compared to the respective period of 2005. The share of the public budget decreased by 3.0%, and the share of foreign loans and investments under sovereign guarantee – by 0.5%, accounting for 12.4% and 5.0% of the total respectively (Figure 1.2.1).

Centralized capital investments were allocated with the aim of fulfilling vital government objectives for social and economic development which lack alternative sources of funding (irrigation and land-improvement in the agricultural sector, construction and reconstruction of academic lyceum and general education schools, specialized health care centers and so forth).

The active attraction of extra-budgetary funds for the implementation of investment projects had a positive impact on the growth in the volume of capital investment. The share of extra-budgetary funds in the structure of capital investment increased by 2.3%, i.e. to 8.8% of the total. Resources from extra-budgetary funds – namely, the Republican Road Fund, the Fund for School Education and the Fund for the Development of Children's Sports – were directed to the reconstruction of highways and railroads across the country, as well as to the construction and overhaul of educational and sports facilities.

As a consequence of the increasing enhancement of conditions for the involvement of non-centralized capital in investment processes and the development of private entrepreneurship, the share of the private sector increased. The measures prescribed in the following government resolutions played an overarching role in this process:

- Resolution of the Cabinet of Ministers of the Republic of Uzbekistan “On Measures for the Improvement of the Mechanism of Approval and Monitoring of Implementation of Investment Projects, Accounting and Control of Humanitarian Assistance Shipments and Means of Technical Assistance” of 15 November 2005; and
- Resolution of the State Property Committee (GKI) “On the Enactment of the Regulation on the Procedure of Granting to Investors, Buying Non-controlling Interest (Shares), but Investing Large Funds in the Modernization and Technical Reconstruction of Enterprises, and the Right to Manage the State-owned Interest without Holding a Competitive Tender” of 8 July 2005.

Figure 1.2.1. Capital Investment Breakdown by Source of Funding, %

Source: State Statistics Committee of Uzbekistan

ment efforts to promote small business development, the share of savings in capital investment reached 13.3% over January-September 2006.

The implementation of provisions for granting foreign investors and investments equal treatment, and the boost of investment activity on the territory of Uzbekistan, strengthening the incentive role of tax and cus-

The measures undertaken to accelerate institutional and structural transformations of the economy affected the structure of investment by source of funding. The process of

The share of non-centralized investment in total capital investment reached 73.8%. The major sources of funding of non-centralized investment were enterprises' equity, savings, loans of commercial banks and foreign direct investment and loans.

Measures undertaken by the government to enhance the tax system contributed to financial stabilization in industrial production, and consequently, to an increase in profits and their role in forming equity. The share of own funds of enterprises (equity) amounted to 46.9%, i.e. increased by 4.5% compared to the respective period of 2005. As a result of govern-

toms privileges and preferences granted to enterprises with foreign investment in accordance with the Resolution of the Cabinet of Ministers "On Additional Measures for Increasing the Incentive Role of Privileges Granted to Enterprises with Foreign Investment" of 1 May 2006, resulted in the share of foreign direct investment in total capital investment at the rate of 10.7%.

The reform and liberalization of the banking system ensured an increase in its capitalization, and according to the results of the first 9 months of 2006, the role of commercial banks in investment processes increased and their share in the total structure of capital investment reached 2.9%, i.e. grew by 1.1%.

Over the first 9 months of this year, the dynamics of demand for investment were influenced by the implementation of the priorities and structural transformations of the economy. The surge in investment was also backed by the sustainable operations of base industry sectors and the development of infrastructure, which ensured re-distribution of investment flows into fixed assets. Investment in production totaled 64.1%, which was 1.9% more than in the respective period of the previous year (Table 1.2.2).

Table 1.2.2. Capital Investment by Sector of the Economy, %

	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Total:	100	100	100	100	100	100
Production, including	67.4	61.1	62.2	67.1	63.4	64.1
Industry	33.1	28.5	30.1	29.8	26.9	28.5
Agriculture	2.9	3.3	3.4	5.1	4.8	5.1
Construction	2.8	0.4	0.5	1.3	1.4	1.2
Transport and communications	22.0	22.5	21.6	23	23.3	21.7
Trade and Public Catering	1.3	0.9	1.3	2.3	1.5	1.5
Other	5.3	5.5	5.3	5.6	5.5	6.1
Non-production	32.6	38.9	37.8	32.9	36.6	35.9

Source: State Statistics Committee of Uzbekistan.

of 28.5% of the total capital investment in the economy. This indicator over the first 9 months of 2006 was 1.6% lower than in the respective period of 2005 due to a backlog in the implementation of selected investment projects in individual organizations, issues related to the availability of investors and shortcomings in the formulation of sectoral development programs.

The measures undertaken for reforming the agrarian sector, including fostering private ownership rights, have intensified investment activity in agriculture. The share of capital investment in the development of agriculture increased by 1.7% compared to the first nine months of 2005, to reach 5.1% of the total.

Over the first 9 months of 2006, the share of capital investment in construction increased by 0.7%, which shows its increasing significance in investment processes.

Table 1.2.3. Foreign Capital Investment by Economic Sector, %

	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Total:	100	100	100	100	100	100
Production, including	90.6	90.6	88.7	86.5	87.3	83.0
Industry	65.3	54.5	57.6	48.1	38.9	32.4
Agriculture	2.0	1.8	1.8	9.6	7.5	7.2
Construction	0.7	0.3	0.3	0.5	0.5	0.2
Transport and communications	21.9	33.7	28.8	27.0	39.8	41.7
Trade and Public Catering	0.0	0.0	0.1	1.1	0.5	1.3
Other	0.7	0.3	0.1	0.2	0.1	0.2
Non-production	9.4	9.4	11.3	13.5	12.7	17.0

Source: State Statistics Committee of Uzbekistan

for investment were agricultural, transportation and communication facilities. Investments in these sectors of the economy increased to 7.2% and 41.7%, and their shares in the structure of foreign investment increased by 5.4% and 12.9% respectively (Table 1.2.3).

Foreign investments are funding the implementation of the drainage project in South Karakalpakstan, the reconstruction of pump stations of the Amu-Zang canal, the procurement of machinery for land-improvement in the Republic of Karakalpakstan and Khorezm region, and the modernization of air traffic control at Tashkent airport.

The dynamics of investment in production were affected by the demand for investment in priority sectors of the economy at this stage of development. The share of investment in sectors of industry was recorded at a level

The background of overall investment growth stimulated continued interest among foreign investors in Uzbekistan's economy. The share of foreign investment in fixed assets of the production sector reached 83.0% of total foreign investment. The most lu-

There were also changes in the structure of investment in the sectors of industry. Despite the continued dominance of demand for investment in the fuel and power sector, we may notice diversification of investments within this sector.

The share of investment resources in the development of the power industry increased by 6.4% or up to 14%, and in the fuel industry – by 2.5% compared to the respective period to reach 31.8% of the total investment into industry. Greater demand for investment in the power sector is explained by the seasonality factor, i.e. geological exploration (less capital intensive) for the development of the power sector.

In January–September 2006, investment activity in mechanical engineering increased by 1.7%, and in the building materials sector – by 0.8%, with shares in total capital investment in industry increasing to 4.9% and 4.2% respectively. This shows the increasing demand on the internal market in the manufacturing of investment production (Table 1.2.4). In addition, the following effective Programs are positively stimulating the intensification of investment processes:

- The localization of the production of finished products, components and materials on the basis of local resources; and
- The deepening of economic reforms and acceleration of development of the building materials industry.

Table 1.2.4. Capital Investment by Industry Sector, %

	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Industry, Total	100	100	100	100	100	100
Power	9.5	8.5	7.6	6.8	13.9	14
Fuel	23.1	30.6	29.3	32.2	26.6	31.8
Metallurgy	12.9	20.2	19.9	17.7	20.4	17.7
Mechanical Engineering	2.4	2.6	3.2	7.0	5.5	4.9
Light	15.1	13.9	15.7	13.8	11.7	11.3
Food	3.5	3.5	4.3	7.0	4.1	3.8
Chemical and Petrochemical	10.5	7.4	6.5	7.3	7.9	6.2
Building Materials	4.9	1.6	3.4	2.6	4.1	4.2
Other	18.1	11.7	10.1	5.6	5.8	6.1

Source: State Statistics Committee of Uzbekistan

Sectoral spillover of foreign capital was a crucial factor affecting changes in the structure of capital investment in industry. The share of foreign capital in the fuel industry increased by 1.5% to reach 24.2%. One of the growth factors was fulfillment of their obligations by Lukoil (Russia), Zeromax (Switzerland), KNOC (Korea) and Pertonas Charigali Overseas (Malaysia) (Table 1.2.5).

Table 1.2.5. Foreign Capital Investment by Industry Sector, %

	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Industry, Total	100	100	100	100	100	100
Power	6.5	3.5	3.2	-	-	-
Fuel	6.3	24.1	22.7	12.5	25.3	24.2
Metallurgy	11.4	16.9	15.6	9.8	7.1	9.1
Mechanical Engineering	0.1	1.5	1.1	3.1	2.3	1.4
Light	31.8	32.5	35.5	44.8	37.7	43.7
Food	2.6	3.0	4.4	16.7	10.9	8.4
Chemical and Petrochemical	1.2	0.5	0.8	8.3	12.1	6.2
Building Materials	8.7	-	3.9	0.3	0.7	1.1
Other	31.4	18.0	12.8	4.5	3.9	5.9

Source: State Statistics Committee of Uzbekistan

The share of foreign investment in the consumer goods sectors also increased, including by 8.2% in light industry and 4.0% in the food industry. Their shares over the first 9 months of 2006 increased to 43.7% and 8.4% of total foreign investment in industry respectively.

Foreign investment funded the second stage of Baytex Tijaret Project, BF Textile Production, Ramel Textil, Romstar JV, Marokand Silk JV and Nestle-Uzbekistan JV.

In the chemical and petrochemical sectors, foreign investment grew by 5.4% to reach 6.2%. Investment of foreign capital was also registered in the development of ferrous metallurgy, namely, under the technical reconstruction of Almalyk Mining and Smelting Combine (AGMK). The share of foreign investment over the first 9 months of 2006 amounted to 4.2% of the total investment into industry. In mechanical engineering, foreign direct investment provided funding for projects for the manufacture of plastic and resin goods in TTZ-Technoplastic JV, and steering columns in Uz Sozon JV. The foreign investor Carlton Group, LLC, USA purchased on bids the state-owned interest in Quartz JSC of UzKurilishMateriallari, undertaking obligations for the repayment of redemption payments and subsequent investment.

In the technological structure of capital investment, the share of machinery and equipment, i.e. the active portion of fixed assets, decreased by 2.5% or to 32.3%. The share of building and assembly, i.e. the passive portion, increased with the growth of new construction caused by the implementation of sectoral development programs, the formation of modern systems of infrastructure and the fulfillment of social tasks (in the education and health care sectors) (Table 1.2.6).

Table 1.2.6. Technological Structure of Capital Investment, %

	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Total	100	100	100	100	100	100
Building and Assembly	48.5	54.2	52.6	54.8	58.1	55.7
Machinery, Equipment, Tools	37.7	34.0	34.8	30.6	29.2	32.3
Other Costs	13.8	11.8	12.6	14.6	12.7	12.0

Source: State Statistics Committee of Uzbekistan

The measures undertaken by the government through the following acts show positive perspectives of growth in the attraction of local and external capital and private investments:

- Decree of the President of Uzbekistan “On the Creation of a Fund for Reconstruction and Development in the Republic of Uzbekistan” of 12 May 2006;
- Resolutions by the President of the Republic of Uzbekistan:

“On the Creation of a Bureau for Examination of Major Investment Projects under the Cabinet of Ministers of the Republic of Uzbekistan” of 3 April 2006;

“On Measures for the Further Development of the Stock Market” of 27 September 2006;

- Resolutions of the Cabinet of Ministers:

“On the Enactment of Regulations on the Procedure of Examination and Preparation of Recommendations on Targeted Programs, Concepts and Investment Projects in the Bureau for Examination of Major Investment Projects under the Cabinet of Ministers of the Republic of Uzbekistan” of 22 May 2006; and

“On Changing and Amending the Regulations on the Procedure of Development, Examination and Approval of Documents for Investment Projects” of 11 August 2006.

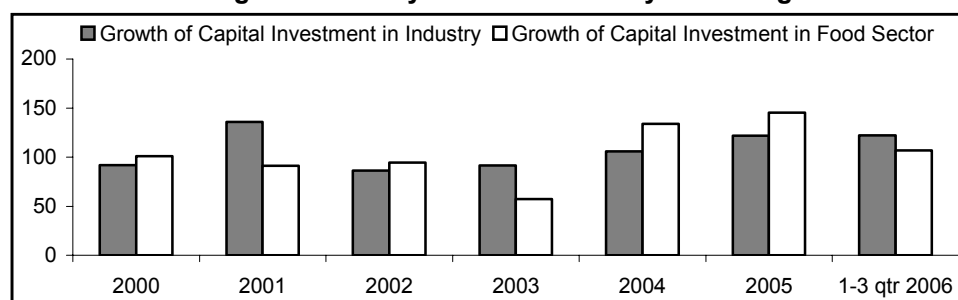
Investments in the Food Industry

The condition and development of the processing industries to great extent affect the equilibrium of the consumption market. The food industry is the key sector of the economy of Uzbekistan. Successful development of this sector, which ensures the food security of the country, to a large extent depends on investment in its capital assets. Since the achievement of independence of Uzbekistan, the average annual growth of capital investment in the development of the food industry (107.4%) exceeded the growth in industry as a whole (104.9%). The average annual share of capital investment in the development of the sector was around 8.0%.

Over the first nine months of 2006, the growth of capital investment in the development of the food sector amounted to 107.8%, as opposed to the respective period of the previous year (Diagram 1.2.7).

Foreign investment remains the major source of funding of capital investment in the food sector. Its share in total investment accounts for 58.7%. The largest injection was a syndicated loan from Citibank, USA and KVF Bank, Germany, extended under sovereign guarantee for the organization of an investment project for baby food production. In addition to loans, the sector is funded by foreign direct investment. Nestle, Switzerland, funded JV ‘Nestle – Uzbekistan’ for the production of baby food. As a result of measures undertaken to enhance the investment climate, foreign investors – from Germany and France in particular – have become more active.

The construction and modernization of capacities with the participation of foreign companies in the fruit and vegetable, wine, meat and dairy, flour and cereals sectors has helped to expand the processing of raw food resources and improve the supply of the population with domestically produced foodstuffs. Small enterprises with foreign partners are established in immediate proximity to sources of labor resources and inputs, mainly in rural areas.

Diagram 1.2.7. Dynamics of Industry Financing

The construction and modernization of capacities with the participation of foreign companies in the fruit and vegetable, wine, meat and dairy, flour and cereals sectors has helped to expand the processing of raw food resources and improve the supply of the population with domestically produced foodstuffs. Small enterprises with foreign partners are established in immediate proximity to sources of labor resources and inputs, mainly in rural areas.

Food industry production is repaid quickly and the profits form equity (own funds) of enterprises. The share of equity in the structure of capital investment is in the range of 32-36%. The equity of enterprises funds their partial reconstruction and technical re-equipment.

The capital intensity of growth in value added in the food sector exceeds the capital intensity of growth of value added in industry by more than 4 times (Diagram 1.2.8).

Since 2001 the capital intensity of growth in value added in the food industry has been increasing, due to growth in the utilization of production capacities (Diagram 1.2.9).

The sector has sufficient production capacities available, however technological equipment in the bulk of enterprises is both physically and morally obsolete. The production capacities in almost all the sub-sectors of the food industry are underutilized and operate at less than 50%.

Over the years of independence, major investment projects have been implemented, including a sugar plant in Khorezm region and capacities for baby food, tomato paste, fruit and vegetable preserves and juices, ketchup, ice cream, non-alcoholic beverages, vegetable oil production and the packaging of tea. The food industry of Uzbekistan enjoys enormous untapped production potential and a rich resource base, which should facilitate its prospective development.

1.3. Prices and Inflation

The consumer price index for the period from December 2005 to September 2006 was under 3.7%, which was 0.3 p.p. below the forecast parameters. The increase in prices (tariffs) for goods and services produced and sold by monopolists was greatly affected by the rise in inflation within the period concerned. For instance, in January–September 2006, prices (tariffs) for sugar increased by 57.8%, network gas - 57.6%, electric energy – 10.2% and public transport services – 7.5% (Table 1.3.1, Table 1.3.2).

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

Year	Aggregate Consumer Price Index (CPI)	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
I qtr 2005	4.2	0.5	4.5	19.2
II qtr 2005	6.8	5.0	3.9	18.2
III qtr 2005	7.2	5.8	4.2	17.4
I qtr 2006	10.0	9.6	7.3	16.0
II qtr 2006	8.7	7.9	7.6	14.1
III qtr 2006	9.4	8.0	9.5	14.1

Source: State Statistics Committee of Uzbekistan

Among the main factors contributing to inflation, the increase in the price for rice, which makes up 3.7% of the consumer basket, should be mentioned. About ¼ of the current inflation rate over the first 9 months of 2006 resulted from increased prices for rice (by 24.5%).

Diagram 1.2.8. Capital Intensity of Growth in Value Added

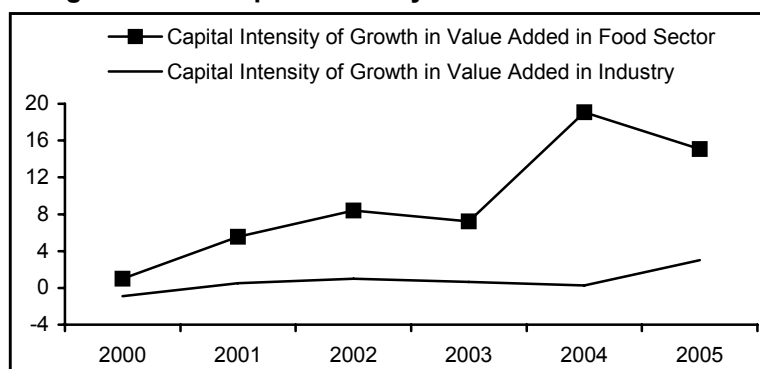


Diagram 1.2.9. Capital Productivity of Growth in Value Added

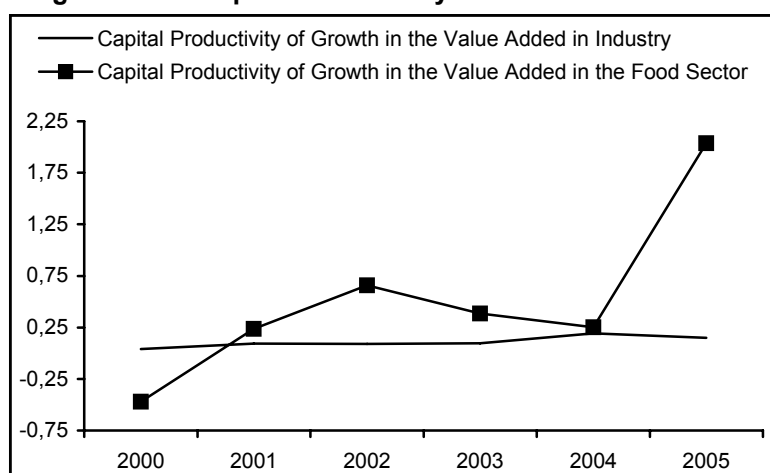
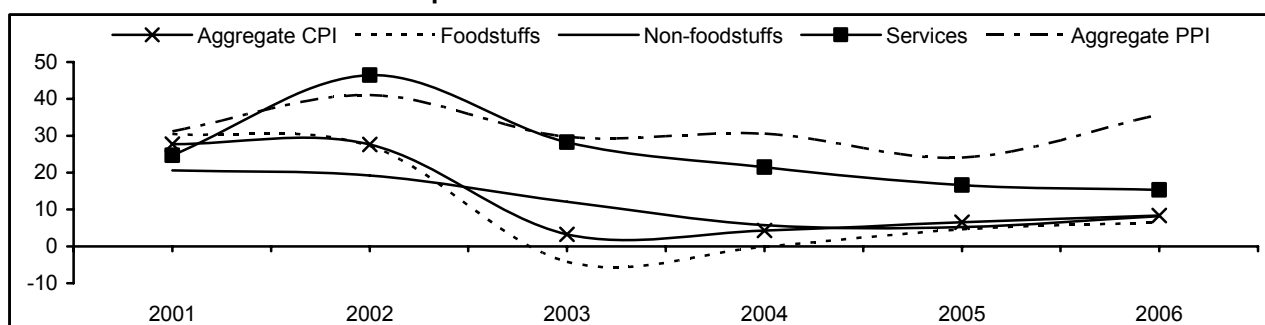


Table 1.3.2. Inflation Rate in January – September 2005-2006 (increase in prices in %)

	Average level		To December of previous year	
	2005	2006	2005	2006
CPI	0.3	0.4	3.1	3.7
Foodstuffs	0.1	0.1	1.2	1.0
Non-foodstuffs	0.4	0.5	3.5	4.7
Services	1.1	1.3	10.3	12.1

Source: State Statistics Committee of Uzbekistan

Graph 1.3.1. Increase in Prices in September of Current Year Compared with Previous Year in 2001-2006


Source: State Statistics Committee of Uzbekistan

Over January-September of 2006, the increase in prices (tariffs) for the consumer price index ranged from 2.5% (in Samarkand region) to 4.9% (in Bukhara region).

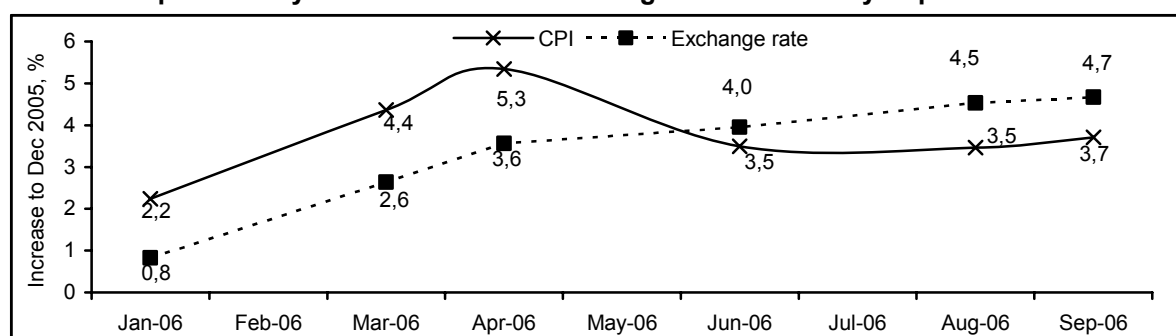
Varying growth rates of prices for rice and meat products – making up a fairly large part of the consumer basket (3.7% and 11.7% respectively) – were the reason for this discrepancy. For example, while in Samarkand region prices for rice increased by 17.7% and for meat by 7.1% over the period concerned, in Bukhara region these figures were 25.2% and 13.7% respectively.

The change in the over-the-counter exchange rate used for calculating customs payments contributed to an increase in prices for commodities of foreign origin, which make up more than 15% of the consumer basket. Over the first nine months of 2006, the over-the-counter exchange rate was devalued by 4.7%.

Table 1.3.3. Inflation Rate in the Republic of Uzbekistan in January – September 2006 by Region (%)

Regions	Price growth	Monthly price increase
R. Uzbekistan	3.72	0.41
Andijan	3.67	0.40
Namangan	2.95	0.32
Fergana	2.87	0.32
Khorezm	4.48	0.49
R. Karakalpakstan	4.25	0.46
Kashkadarya	3.88	0.42
Surkhandarya	4.33	0.47
Bukhara	4.91	0.53
Navoi	2.62	0.29
Samarkand	2.51	0.28
Jizzakh	3.66	0.40
Syrdarya	3.25	0.36
Tashkent	4.13	0.45
Tashkent city	3.91	0.43

Source: State Statistics Committee of Uzbekistan

Graph 1.3.2. Dynamics of CPI and Exchange Rate in January-September 2006


Source: State Statistics Committee of Uzbekistan

The exchange rate devaluation calculation involved computing the arithmetic average of the monthly exchange rate.

As in previous periods, growth rates of tariffs for services surpassed growth rates of prices for goods. While the average growth in tariffs for services was 12.1%, the increase in tariffs for services of the communal and housing sector was 23.3%. This increase resulted mainly from an increase in the cost of natural gas from the mains by 57.6%. In addition, over January-September 2006, tariffs for long-distance railroad services grew by 32.7% and those for air transport by 12.8%.

Factor analysis of the increase in producer prices showed that over the period concerned, the increase in prices for non-ferrous metallurgy production – related with a sharp increase in prices for non-ferrous metals – contributed most to the total increase in producer prices (60.9%). The increase in producer prices without taking into account the increase in prices for non-ferrous metallurgy production amounted to only 10.5% (Table 1.3.4).

In CIS countries over January-September 2006, the inflation rate of CPI ranged from 2.3% in Armenia to 9.1% in Moldova. In Central Asian countries this was: 5.8% in Kazakhstan, 2.5% in Kyrgyzstan and about 9.0% in Tajikistan.

Table 1.3.4. Factor Analysis of Increase in Producer Prices in January –September of 2006

Sector	Growth rate, %	Impact on CPI, %	In % of total
Industry – total	22.4	22.40	100.0
Power industry	9.0	0.98	4.4
Fuel industry	13.7	1.75	7.8
Oil-extracting industry	0.6	0.00	0.0
Oil-processing industry	28.8	1.75	7.8
Gas industry	0.0	0.00	0.0
Coal industry	0.0	0.00	0.0
Ferrous metallurgy	0.8	0.02	0.1
Non-ferrous metallurgy	82.5	13.64	60.9
Chemical industry	6.4	0.35	1.6
Petrochemical industry	1.8	0.00	0.0
Machine-building and metal working	13.1	1.62	7.2
machine-building	13.6	1.58	7.1
Timber, wood-working and pulp and paper industries	1.6	0.02	0.1
Industry of construction materials	32.0	1.26	5.6
Light industry	2.7	0.52	2.3
Ginning industry	0.0	0.00	0.0
Cotton industry	6.8	0.37	1.7
Food industry	17.5	1.70	7.6
Flour-and-cereals industry	10.4	0.39	1.7
Feed mill industry	7.7	0.00	0.0
Other industry	10.1	0.16	0.7
Impact on CPI of prices for non-ferrous metallurgy production	82.5	13.64	60.9
CPI without taking into account the increase in prices for non-ferrous metallurgy production	10.5	8.76	39.1

The main factor behind the rise in inflation in the CIS countries was the rise in prices (tariffs) for energy supply, in particular for network gas. According to the CIS Statistics Committee, in Moldova, tariffs for network gas increased 2.1 times, in Georgia – by 34.9%, in Tajikistan – by 29.4%, in Kazakhstan – by 14.2%, etc.

This trend will apparently continue in 2007 as well.

Table 1.3.5. Inflation Rate in CIS countries in January-September 2006 (%)

Countries	Increase in prices	Average monthly increase
Azerbaijan	6.2	0.7
Armenia	2.3	0.3
Belarus	3.1	0.3
Georgia	6.0	0.6
Kazakhstan	5.9	0.6
Kyrgyzstan	2.5	0.3
Moldova	9.1	1.0
Russia	7.2	0.8
Tajikistan	9.0	1.0
Uzbekistan	3.7	0.4
Ukraine	5.9	0.6

Source: CIS Statistics Committee

Annex 1.2.1. Dynamics of Capital Investment in Current Prices

	Capital Investment, UZS billion	Increase to the Respective Period of the Previous Year, %
1995	88.8	4
1996	176.7	7
1997	276.6	17
1998	396.4	15
1999	537.4	2
2000	744.5	1
2001	1320.9	4
2002	1526.6	3.6
2003	1978.2	4.5
2004	2629.0	7.3
2005	3165.2	5.7
I qtr. 2005	502.2	4.2
I-II qtr. 2005	1272.8	5.4
I-III qtr. 2005	2023.0	6.9
I qtr. 2006	615.6	4.5
I-II qtr. 2006	1624.6	6.9
I-III qtr. 2006	2606.1	10.0

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-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Capital Investment	100	100	100	100	100	100	100	100	100	100	100.0	100.0
Public Property	63.9	47.0	40.8	36.4	39.7	30.9	32.3	40.3	39.8	31	34.8	34.6
Non-public Property	36.1	53.0	59.2	63.6	60.3	69.1	67.7	59.7	60.2	69	65.2	65.4

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-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Total	100	100	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	15.4	9.1	12.1	12.4
Funds of Enterprises	27.1	31.1	41.2	42.8	42.9	46.1	45.9	40.4	42.4	51.0	48.3	46.9
Savings	12.0	10.3	11.4	13.5	11.7	11.4	12.0	14.1	14.0	11.2	13.3	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	5.5	4.8	4.4	5
Foreign Direct Investment and Loans	3.4	4.8	5.3	7.7	11.1	14.9	12.4	13.7	14.1	9.3	9.3	10.7
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	1.8	2.9	1.9	2.91
Extra-budgetary Funds	1.3	0.1	0.2	0.3	1.8	4.8	5.7	7.3	6.5	11.7	10.7	8.8
Other Borrowings	0.4	0.9	0.8	0.7	0.3	0.3	0.3	0.3	0.3	-	0.04	0.001

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-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Total	100	100	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	62.2	67.1	63.4	64.1
Industry	29.7	38.9	32.9	29.0	29.0	32.6	33.1	28.5	30.1	29.8	26.9	28.5
Agriculture	5.7	5.4	6.7	5.0	4.3	4.4	2.9	3.3	3.4	5.1	4.8	5.1
Construction	0.5	0.6	0.7	0.5	0.7	0.9	2.8	0.4	0.5	1.3	1.4	1.2
Transport and Com- munication	16.7	14.0	10.4	19.5	23.3	24.1	22.0	22.5	21.6	23.0	23.3	21.7
Trade and Public Catering	3.0	1.5	1.6	2.1	1.5	1.5	1.3	0.9	1.3	2.3	1.5	1.5
Other	1.9	2.7	7.2	7.5	7.2	4.7	5.3	5.5	5.3	5.6	5.5	6.1
Non-production	42.5	36.9	40.5	36.4	34.0	31.8	32.6	38.9	37.8	32.9	36.6	35.9

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-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Industry, total	100	100	100	100	100	100	100	100	100	100	100	100
Power	5.3	3.8	6.0	9.4	9.5	7.9	9.5	8.5	7.6	6.8	13.9	14
Fuel	20.2	32.3	28.5	18.9	18.5	25.9	23.1	30.6	29.3	32.2	26.6	31.8
Metallurgy	9.0	11.5	12.4	21.7	14.6	19.6	12.9	20.2	19.9	17.7	20.4	17.7
Mechanical En- gineering	13.8	14.6	10.2	5.5	3.3	4.1	2.4	2.6	3.2	7.0	5.5	4.9
Light	7.9	15.9	14.3	19.4	24.7	15.2	15.1	13.9	15.7	13.8	11.7	11.3
Food	8.4	5.8	7.9	5.5	5.4	5.7	3.5	3.5	4.3	7.0	4.1	3.8
Chemical and Petrochemical	26.7	9.9	11.9	10.5	9.6	6.9	10.5	7.4	6.5	7.3	7.9	6.2
Building Materi- als Industry	0.9	1.2	1.6	1.7	2.2	3.5	4.9	1.6	3.4	2.6	4.1	4.2
Other	7.8	5.0	7.2	7.4	12.2	11.2	18.1	11.7	10.1	5.6	5.8	6.1

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-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Total	100	100	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	52.6	54.8	58.1	55.7
Machinery, Equipment, Tools	30.6	39.5	38.6	42.1	46.2	38.7	37.7	34.0	34.8	30.6	29.2	32.3
Other Costs	11.3	12.3	12.0	11.7	10.1	12.6	13.8	11.8	12.6	14.6	12.7	12.0

Source: State Statistics Committee of Uzbekistan

2. Public Finance

According to the results of the first nine months of 2006, state budget revenues made up 23.4% of GDP, as opposed to 24.2% in the corresponding period of 2005. This trend was ensured by the reduction in the shares of direct taxes (6.5% in 2006 vs. 6.6% in 2005) and of indirect taxes (10.3% in 2006 vs. 11.2% in 2005). The following taxes had the largest shares in the structure of revenues: VAT (25.3%), personal income tax (12.9%), excise tax (12.6%), mineral resources tax (11.9%) and corporate income (profit) tax (9.2%). In total, these taxes made up 71.9% of all proceeds of the state budget. At the same time, value added tax constituted about a quarter of all proceeds to the budget. State budget expenditures in the reviewed period accounted for 22.4% vs. 23.7% of GDP in the previous year. According to the results of the first nine months of 2006, the state budget was executed with a surplus of 1.0% of GDP.

State Budget Revenues

In the first nine months of 2006, state budget revenues accounted for 78.0% of the parameters approved by the Oliy Majlis. This indicator in 2003-2005 did not exceed 75.0%. In the reporting period the share of direct taxes in total revenues made up 28.0%.

Table 2.1 Execution of Revenue Part of the State Budget (in % to GDP)

Indicator	I-III qtr 2000	I-III qtr 2001	I-III qtr 2002	I-III qtr 2003	I-III qtr 2004	I-III qtr 2005	I-III qtr 2006
Revenues – total	32.7	27.7	26.1	26.8	24.9	24.2	23.4
1.Direct taxes	8.8	8.4	7.2	7.0	6.3	6.6	6.5
2.Indirect taxes	14.5	14.1	14.2	15.1	14.5	11.2	10.3
3.Resource payments and property tax	3.2	2.8	2.1	2.5	2.7	4.8	4.4
4.Social infrastructure development tax	0.3	0.4	0.6	0.5	0.4	0.4	0.5
5.Other revenues	6.0	2.0	2.0	1.3	1.0	1.2	1.7

Source: The Ministry of Finance of the Republic of Uzbekistan

Thanks to measures taken to reduce tax burden, 30.9% more revenues were added to the state budget compared with the corresponding period of the previous year. The reduction of the rate of **corporate income (profit) tax** from 15% to 12% left some 37 billion Soums at enterprises' disposal from the beginning of 2006, and the reduction of the tax rate on dividends and interest of legal entities from 15% to 10% left another 7.0 billion Soums.

In the reporting period of 2006, proceeds to the state budget from **personal income tax** made up 12.9% of the revenue part of the state budget. The reduction of the rate of this tax in past years – e.g. in 2003, the maximum rate on personal income was lowered from 32% to 29% and the average rate – from 22% to 20% – and the introduction of a procedure for contributions to personal accumulative pension accounts from 2005 onwards impacted positively on state budget revenues. Compared with the corresponding period of 2005, proceeds from this type of revenue increased almost 1.3 times. On the other hand, thanks to the reduction of this tax rate starting from 2006, the real income of the population has grown. In the first nine months of 2006, the additional increase in the income of the population was estimated to be 9.2 billion Soums.

Table 2.2. Execution of the Revenue Part of State Budget (in % of total)

Indicator	I-III qtr 2000	I-III qtr 2001	I-III qtr 2002	I-III qtr 2003	I-III qtr 2004	I-III qtr 2005	I-III qtr 2006
Revenues – total	100	100	100	100	100	100	100
1. Direct taxes	26.8	30.3	27.7	26.5	25.2	27.3	28.0
Including:	0,0	0,0	0,0	0,0	0,0	0,0	5,9
Corporate income (profit) tax	13.5	14.4	13.0	12.8	12.3	13.3	9.2
Personal income tax	13.3	15.9	14.8	13.7	13.0	12.7	12.9
2.Indirect taxes	44.3	51.0	54.6	57.4	58.0	46.1	44.0
Including:	2,3	2,6	3,8	6,6	5,1	5,3	6,1
VAT	24.0	26.0	25.8	22.6	23.1	23.9	25.3
Excise taxes	18.0	22.3	25.0	29.5	29.0	15.2	12.6
3.Resource payments and property tax	9.6	10.2	7.9	9.3	10.7	21.1	18.6
4.Social infrastructure developing tax	1.1	1.3	2.2	1.8	1.6	2.4	2.2
5.Other revenues	18.2	7.3	7.6	5.0	5.5	4.8	7.2

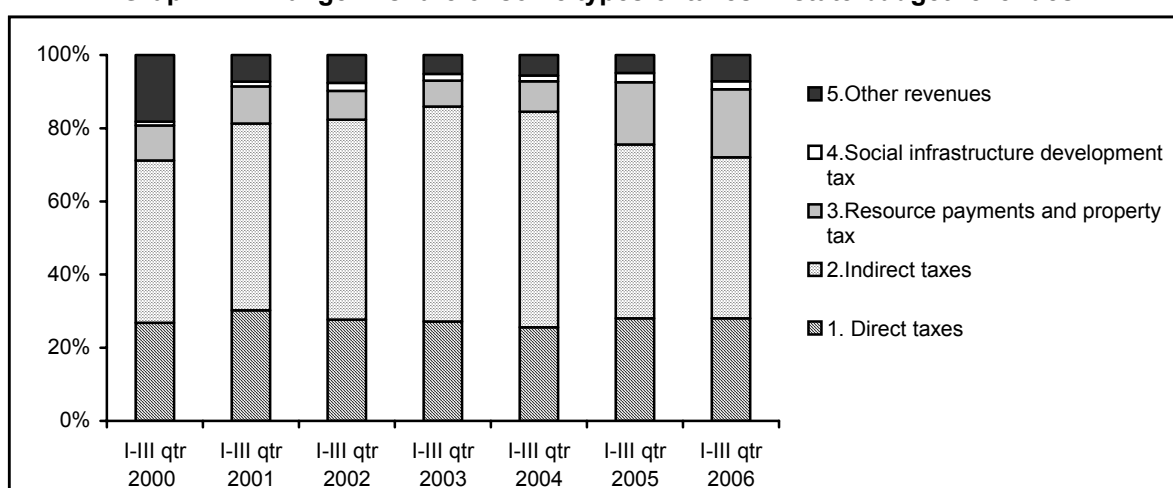
Source: The Ministry of Finance of the Republic of Uzbekistan

State budget revenues from **indirect taxes** grew 21.6% compared with the corresponding period of 2005, which was the result of the cancellation of the environmental tax and the reduction of the rate of the single social payment, which in turn resulted in the expansion of production and led to an increase in commodity turnover.

Proceeds on value added tax grew from 23.9% of total state budget revenues in the first nine months of 2005 to 25.3% in the first nine months of 2006. At the same time, proceeds from value added tax on goods and services produced domestically increased 35.2% compared with the corresponding period of 2005. Taking into account that this tax is collected from added value, which includes contributions to the wage fund and profits of economic entities in the real sector of the economy, the increase in these proceeds indicates positive changes in the production sector.

The increase in the share of resource payments and property tax in total revenues is one of the main directions of tax policy in current and previous years geared toward the use of production resources more effectively and efficiently, which are signs of intensive economic growth. These measures resulted in the increase in the share of resource payments in total proceeds to the budget, which reached 18.6% vs. corresponding period of 2003 (6.9%), 2004 (8.2%) and 2005 (16.6%).

Graph 2.1 Change in share of some types of taxes in state budget revenues



Source: The Ministry of Finance of the Republic of Uzbekistan

State Budget Expenditures

In the first nine months of 2006, state budget revenues made up 22.4% of GDP vs. 23.7% in 2005. At the same time, special attention was given to strengthening the social orientation of budget expenditures and ensuring the targeted nature of social support provided to the population. Full and timely funding of budget expenditures to pay wages, benefits, stipends and other payments to population was ensured as well.

In the structure of state budget revenues, expenditures for the social sector and social support to the population accounted for 51.2%. Expenditures for education made up 60.3% of total expenditures for the social sector and social support to the population in the reporting period, an increase of 36.7% compared with the corresponding period of the previous year. State budget expenditures for healthcare were 22.6% of total expenditures for the social sector and social support to the population. This was 1.4 times more than in the similar period of 2005. More than 6.4% of total expenditures were spent in social support to the population and increasing the welfare of the population.

In the first nine months of 2006, expenditures of the budget for the economy made up 13.9% of total state budget expenditures. In the reporting period, expenditures for the economy grew by 23.8% in real terms compared with the similar period of 2005.

Table 2.3 State Budget Expenditures (in % of GDP)

Indicators	I-III qtr 2000	I-III qtr 2001	I-III qtr 2002	I-III qtr 2003	I-III qtr 2004	I-III qtr 2005	I-III qtr 2006
Expenditures – total	31.2	27.7	26.7	25.5	23.4	23.7	22.4
1.Social sector	10.9	10.1	10.1	9.4	9.3	10.2	11.5
2.Social protection	2.5	2.3	2.1	2.1	1.8	1.9	1.5
3.Expenditures for the economy	2.3	2.2	2.2	2.9	3.2	3.4	3.2
4.Expenditures to fund centralized investments	6.2	5.9	5.6	3.7	2.8	2.2	1.8
5.Public administration, governance and judiciary bodies	0.8	0.6	0.5	0.5	0.6	0.5	0.5
6.Other expenditures	10.6	8.7	6.2	6.9	5.6	5.4	4.9

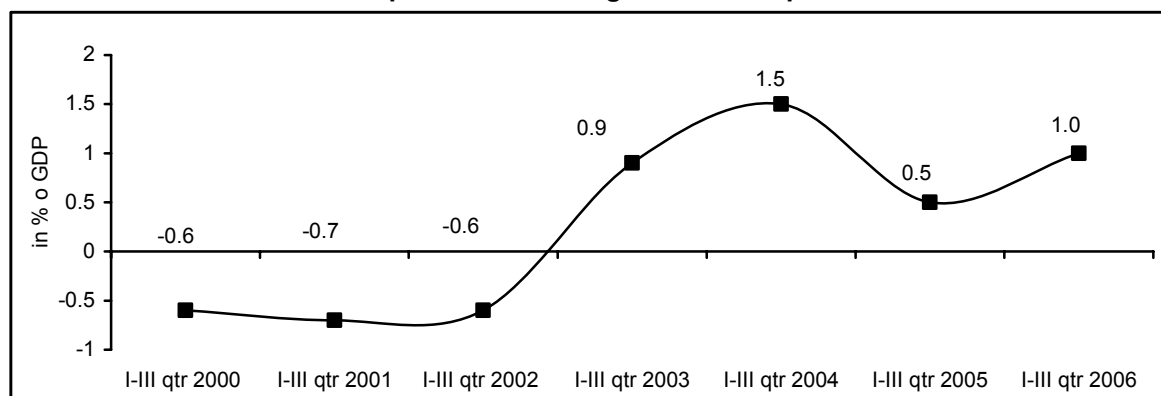
Source: The Ministry of Finance of the Republic of Uzbekistan

State Budget Deficit

Measures taken to reduce state budget revenues and observe the maximum level of funding from non-inflationary sources led to the achievement of sustainable development of the economy, the implementation of measures on anti-inflationary regulation.

As a result, in the first nine months of 2006, the state budget was executed with a surplus of 1.0% of GDP vs. a level of 0.5% in 2005 (graph 2.2.).

Graph 2.2. State Budget Deficit/Surplus



Source: The Ministry of Finance of the Republic of Uzbekistan

3. Financial Markets

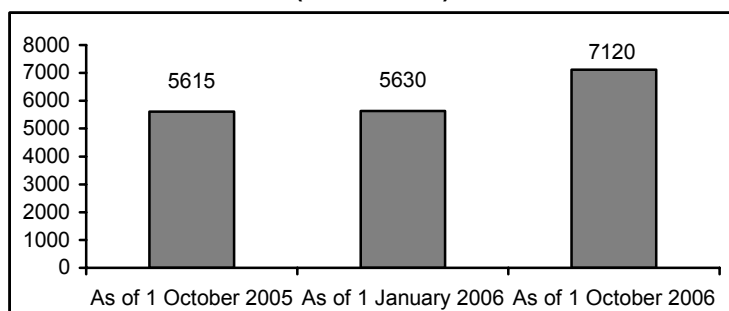
3.1. Monetary and Credit Sphere and Banking Sector

Monetary and Credit Policy. During the first 9 months of 2006, the monetary and credit policy of the CBU was directed at stimulating demand among economic entities and the population through consistently decreasing interest rates for loans, maintaining inflation within predictable parameters and stabilizing the exchange rate against the US dollar. In the period under review, the level of inflation remained within the assigned parameters and amounted to 3.7%. At the same time, the CBU managed to slow the growth rate of devaluation of the national currency. While in 2005 the Uzbek soum declined by 11.5%, during the first 9 months of 2006 the devaluation rate was 4.2%. The CBU refinancing rate decreased since 15 July 2006 by 2 p.p. to reach 14% annually. This facilitated the decrease in interest rates for banking credits and the increase in the solvent demand of economic entities.

Interbank Loan Market. The demand for credits on the interbank loan market was quite unstable. This resulted in a decrease in the rates deposits were offered. Thus, while on 11 July the annual level of UZIBOR was 16.4%, on 8 August it was 15.6%, on 18 September – 14.1%, and on 27 September – 13.8%. On the whole, from 11 July to 27 September 2006 the demand for short-term monetary resources determined the supply of short-term monetary resources.

Assets of Commercial Banks. As of 1 October 2006 the aggregate assets of commercial banks of the country amounted to UZS 7120 billion. This was 26.8% more than in the respective period of the previous year (Graph 3.1.1).

Graph 3.1.1 Aggregate Assets of Commercial Banks (UZS billion)

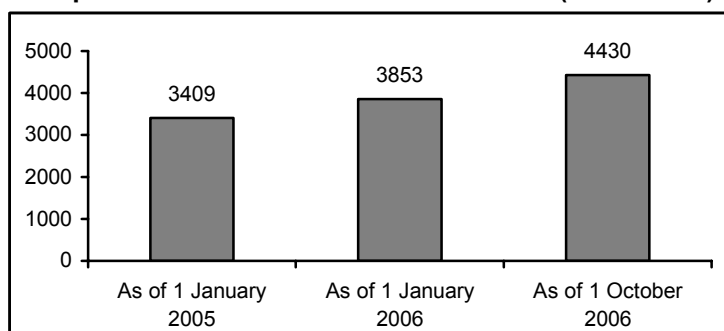


Source: Central Bank of Uzbekistan

The relatively high growth of the aggregate assets of commercial banks of Uzbekistan resulted mainly from the growth of banks loans (Graph 3.1.2).

While in the respective period of the previous year the share of loans in the structure of banks' assets was 60.7%, in the reporting period of 2006 the share of loans increased to 62.2%, which indicates the more rapid growth rates of loans extended over aggregate assets.

Graph 3.1.2 Credits of Commercial Banks (UZS billion)



Source: Central Bank of Uzbekistan

The growth of loans is explained by the following factors:

- The increase in the volume of loans issued by commercial banks for small business, private business, dekhkan entities and farms. As of 1 October 2006 the amount of these credits was UZS 976.1 billion, which was 38.5% more than in the respective period of the previous year;
- The increase in the bulk of micro credits. During the first 9 months of 2006, UZS 46.6 billion in micro credits were allocated to small businesses, which was UZS 17.3 billion (59%) more than in the respective

period of the previous year. As of 1 October 2006, the loans of Microkreditbank increased to UZS 105.0 billion.

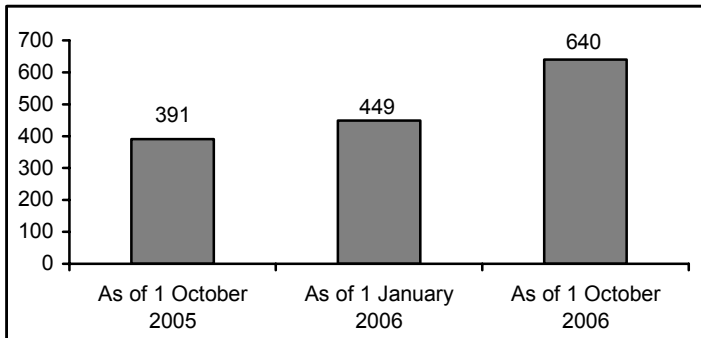
- The increase in the bulk of loans of commercial banks, particularly, in the bulk of deposits of the population in commercial banks (Graph 3.1.3).

The steady growth of deposits of the population in commercial banks is linked in many respects to:

- The relatively high level of the interest rates on fixed-term deposits of the population;
- The introduction of new types of deposits in banking practice, considering the population's demand;

– The increase in the real income of the population. During the first 9 months of 2006, real per capita income increased by 20.1 percent.

Graph 3.1.3 Deposits of the Population in Commercial Banks (UZS billion)



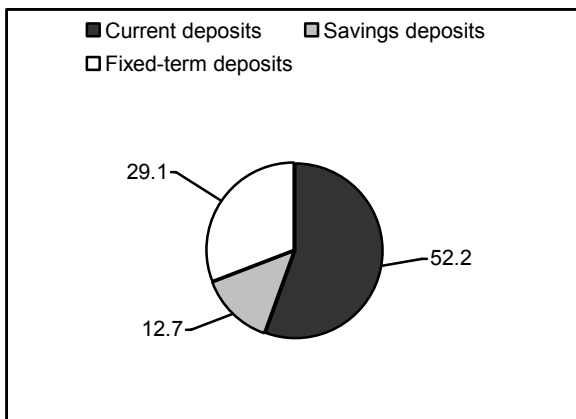
Source: Central Bank of Uzbekistan

During the first 9 months of 2006, the deposits of the population in the banks of the country increased by 42.5%, which indicates the rise in confidence of the population in the local banking system. This is also confirmed by the fact that the growth rates of the population's deposits surpass significantly the growth rates of other specific banking indicators such as aggregate assets, capital and loans.

Current deposits represent a relatively large share in the structure of deposits of the population. This is explained by the increase in current operations with individuals

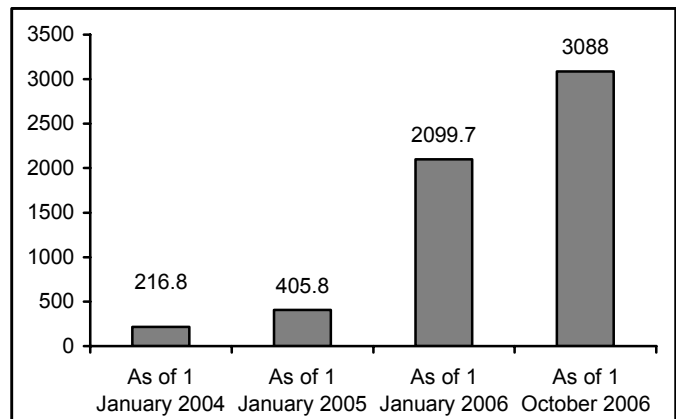
(Graph 3.1.4). The number of debit cards issued during the first 9 months of 2006 increased by 47% (Graph 3.1.5).

Graph 3.1.4 Structure of the Population's Deposits in Commercial Banks (in %)



Source: Central Bank of Uzbekistan

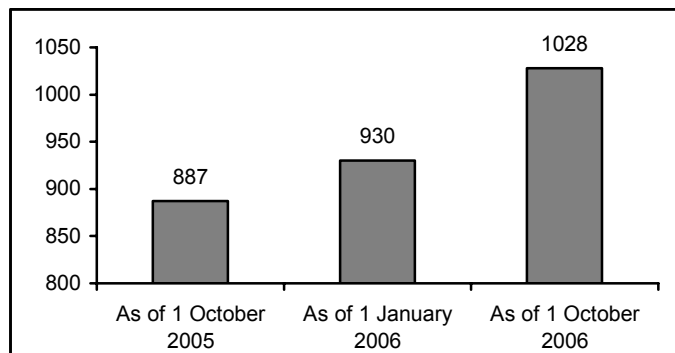
Graph 3.1.5 Number of Issued Debit Cards (thous. pcs)



The given values illustrate the dynamic development of modern means of transactions as well as the popularization of debit cards among the population. This facilitated the attraction of the deposits of the population to banks, through the provision of advantageous terms for savings and the utilization of cash assets.

There is a tendency towards growth for the bulk of the aggregate assets of commercial banks of the country. This is mainly linked to the efforts taken to reform the national banking system of Uzbekistan, in particular, through the enhancement of the capitalization of commercial banks.

Graph 3.1.6 Aggregate Assets of Commercial Banks (UZS billion)



Source: Central Bank of Uzbekistan

3.2. Stock Market Development

Corporate Stock Market

As of 1 October 2006, the State Stock Register recorded:

- 3457 issues of shares with a total value of UZS 3621.8 billion, including 93 issues worth UZS 201.8 billion in the first 9 months of 2006;
- 115 issues of corporate bonds from 84 issuers for UZS 63.1 billion, including 1 issue worth UZS 12.0 million in the first 9 months of 2006.

Over the period of the first 9 months of 2006, the total circulation of the corporate securities market (total value of shares and corporate stocks) amounted to UZS 277.2 billion, including UZS 109.9 billion in the third

quarter. The growth rates were 2.4 and 3.0 times higher, respectively, than for the corresponding periods of the previous year.

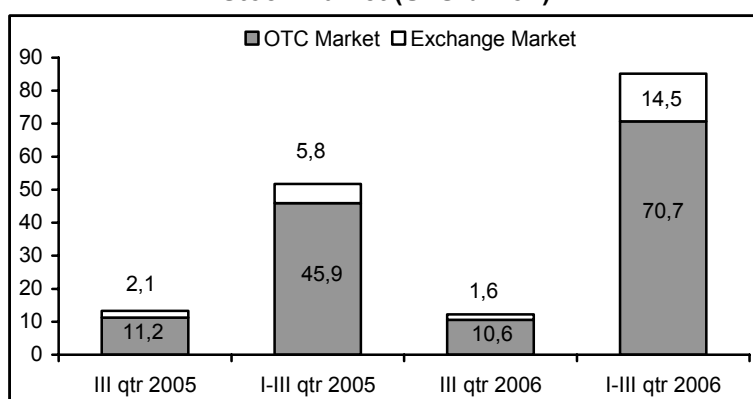
The bulk (96.4%) of corporate stock market turnover continued to be generated by proceeds from sales of shares. Over the first 9 months of 2006, sales reached UZS 267.3 billion, including UZS 108.0 billion in the third quarter (Table 3.2.1 and Annex 3.2.1), which exceeded these indicators in the respective periods of the previous year 2.8 and 3.5 times respectively.

Table 3.2.1. Total Sales 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
III qtr 2005	13.3	43.3	17.4	56.6	30.7	100
I-III qtr 2005	51.7	54.0	44.0	46.0	95.7	100
III qtr 2006	12.2	11.3	95.8	88.7	108.0	100
I-III qtr 2006	85.2	31.9	182.1	68.1	267.3	100

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

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

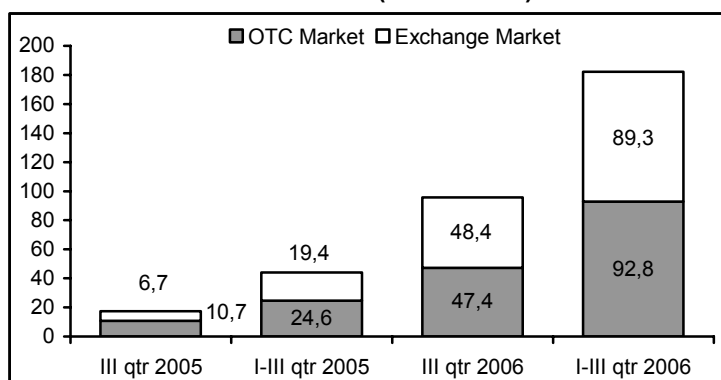


Source: Center for Coordination and Control of the Stock Market under the State Property Committee of Uzbekistan and 1.5 times respectively.

Sales in the primary market, where turnover is largely based on sales of shares of privatized companies, increased 1.6 times and amounted to UZS 85.2 billion over the first 9 months of 2006. At the same time, almost 83.0% of the initial public offering of sales took place on the over-the-counter (OTC) segment of this market, i.e. through competitive tenders and direct negotiations with investors. Total sales of shares on the exchange segment of primary market reached UZS 14.5 billion, and on the OTC segment – UZS 70.7 billion (Graph 3.2.1). Growth rates compared to the corresponding period of the previous year were 2.5

The stock of lucrative, investment attractive enterprises of the Joint Stock Company “UzOziqOvkatSanoat” accounted for the largest share (47.6%) in the total sale of shares of privatized companies over the first 9 months of 2006, followed by “UzbekEnergo” State-Owned Joint Stock Company (40.3%), and the Ministry of Agriculture and Water Management (3.6%). In a regional context, the highest sales were recorded in Khorezm region (51.0%), Navoi region (18.4%), Bukhara region (11.1%) and Fergana region (10.6%).

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



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

There has been a trend in the last three years of foreign investors dominating the purchase of stock of privatized companies on the primary market. The share of stock purchased by foreign investors accounted for 93.6% of the total sales of stock of privatized companies, which was 23.7 percent 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%, “Quartz” – 53.0%, “Fargona Electr Tarmoklari” – 44.0%, “Navoi Electr Tarmoklari” – 47.0% and others.

The shares of selected types of local investors in the purchase of shares of privatized enterprises were as follows: small-scale business entities – 1.5%, large enterprises and business associations – 1.1%, investment dealers – 2.0%, individuals – 1.0%, commercial banks – 0.7% and investment funds – 0.1%.

Sales on the secondary market increased significantly. This was encouraged by the considerable decrease of government participation in the authorized capital of joint stock companies over the 2003-2005 period. In accordance with the new privatization policy of the government, state-owned holdings in many joint stock companies, which were not placed earlier, were sold to the private sector.

Stocks of 1193 joint stock companies were circulating on the secondary market, including 495 on the exchange segment and 698 on the OTC segment. Total sales over the first 9 months of 2006 registered UZS 182.1 billion, including UZS 95.8 billion in the third quarter (Table 3.2.1). Growth rates compared to the corresponding periods of the previous year were 4.1 and 5.5 times respectively.

Sales peaked in the third quarter of 2006, reaching UZS 48.4 billion in the exchange segment of the secondary market and UZS 47.4 billion in the OTC segment (Graph 3.2.2), which surpassed these indicators in the corresponding period of the previous year by 7.2 and 4.4 times respectively.

As a result of the more rapid growth of sales in the exchange segment, its share in total turnover on the secondary stock market grew by 4.9% over the first 9 months of 2006 compared to the corresponding period of the previous year and accounted for 49.0%, including growth of 12% in the third quarter of 2006 with a respective share of 50.5%, surpassing the share of the OTC market. As private shareholders begin to offer large holdings of stock, the role of the stock exchange in the total turnover of the secondary stock market, increases.

Sales of stock of investment-attractive commercial banks (12.1%), power sector enterprises (11.9%), communication and information companies (6.0%) and construction companies (4.0%) accounted for the largest shares in the total turnover of the secondary stock market. In terms of location, most of the sold shares belonged to enterprises located in Tashkent city, Fergana region and Tashkent region.

The largest deal was closed on the secondary stock market for the sale of shares for hard currency. 53.9 thousand shares of "Markaziy Osiyo Trans" joint stock company (Tashkent City) were sold for the equivalent of UZS 4.9 billion (at the Central Bank exchange rate). Major sales of shares for hard currency also included stock of several other investment-attractive (lucrative) companies such as "Issiglikelektrloyha" (Tashkent City), "BekabadCement", "Madad" (Tashkent City), "Iskom" (Tashkent City), Trustbank (Tashkent City) and others.

Shares of many joint-stock companies were sold at a significantly higher price than their par value: "Bekabadcement" – 50.9 times higher, "Uzbek kogozi" – 40.2 times, "Kuvasaicement" – 40.1 times, "Toshkent-donmahsulot" – 25.8 times, "Bukhoro Yog Extraktsiya Zavodi" – 18.1 times, "Okkurgon Pakhta Tozalash Zavodi" – 11.1 times and others.

The market of other type of securities – corporate bonds, issued since 2002 by companies with the aim of attracting additional investment – was characterized by a decrease in business activity which began in 2005. Over the first nine months of 2006, sales of corporate bonds amounted to UZS 9.9 billion, which was UZS 9.4 billion or two times less than in the corresponding period of the previous year. At the same time, the initial placement of corporate bonds decreased 4.6 times and amounted to UZS 2.3 billion, while the volume of their circulation on the secondary market decreased by 13.6% and amounted to UZS 7.6 billion.

The decrease in the volume of circulation in this type of securities was due to the maturity of the large portion of earlier issued bonds by the beginning of 2005, with a simultaneous decrease in their issue. Over the first 9 months of 2004, for instance, 32 issues of bonds were registered, in 2005 – 18 issues, while in 2006 there was only one issue of bonds. Major factors which caused this decrease were poor awareness among business managers about this form of investment and the reduction of the difference between interest rates on corporate bonds and bank loans, which resulted in a preference for bank loans for the implementation of investment projects.

Government Securities Market

The creation and sustainable operation of an efficient government securities market is essential for the implementation of government objectives in the area of public debt management.

The public debt portfolio is usually the largest financial portfolio in a country. Sound public debt management policy is the catalyst for broader and more capacious financial market development. Experience proves that developed internal markets of debt instruments are able to substitute for bank financing in cases as this source becomes depleted, helping countries to overcome financial constraints.

An efficient government securities market equips a government with a mechanism for funding expenditures, decreasing the need to apply to the Central Bank to cover budget deficits. In addition, by facilitating the de-

velopment of a large and liquid government securities market, public administration can decrease debt service costs by decreasing the liquidity risk premium, which is invariably present in the yield of government debt instruments. When government securities have a low credit risk, their yield serves as a benchmark for the quotation of other financial assets, which, in turn, boosts the development of large and liquid money and bonds markets.

Over the first three quarters of 2006, the Ministry of Finance of Uzbekistan was supporting – in line with the established market situation – rates of changes of the market portfolio of GKO/GSKO (short-term treasury bills/medium term treasury bills) in conditions of a favorable macroeconomic situation and high level of banking liquidity. The issuer continued to increase market duration, suspended the issue of GKO, and issued GSKO in larger batches.

Over the reviewed period, the range of yield fluctuations of government bonds on the primary market was 4%. Since the beginning of the year, the yield has been decreasing, and dropped to its minimum value (7% a year) at the end of the third quarter. Therefore, according to the results of the first nine months of 2006, the moderate yield of the portfolio was sustained and the market volume was maintained with a considerable increase in maturity. The key factors for a stable functioning of the market of government securities denominated in the national currency were the high level of bank liquidity and the increase in the nominal exchange rate of the Uzbek Soum (UZS) to the US Dollar. This increased the interest of investors in UZS assets. The GSKO portfolio grew more rapidly than turnover on the secondary market, as well as the high concentration of selected issues in the portfolios of certain conservative investors.

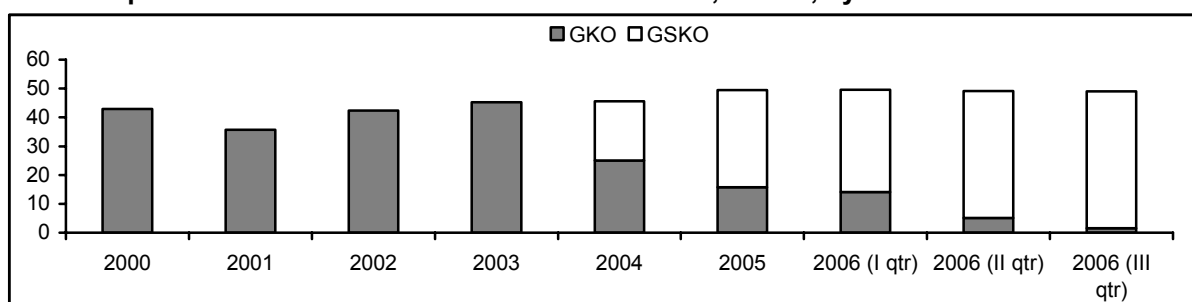
Stability on the internal public debt market and insignificant fluctuations in the yield of government bonds during the first nine months of 2006 contributed to the prolongation of the internal debt on bonds and, in turn, paved the way for the issue of other medium-term instruments. There is a deficiency of instruments on the market because of the demand for government bonds with different rates of maturity. On the primary market, the yield curve continued to decline, reflecting primarily the lack of sustainable inflation expectations in the long-term perspective.

Changes in the structure of GKO-GSKO holders over the analyzed period of 2006 demonstrated diversification among investors. Since the beginning of the year, the share of government bonds in the market portfolios of major banks and non-banking organizations has increased. The share of non-professional market participants has remained rather low. The market is still open for local legal entities.

In virtue of the various multidirectional factors, there was a slight increase in the liquidity risk and interest risk. Overall, transactions on the internal public debt market were remarkable for their low level of risk. As such, the situation on the government securities market continued to be stable throughout the period. The yield of government securities formed over the first nine months of 2006, which was rather low and tending to further decline, facilitated the maintenance of the cost of debt on this segment of the Uzbek financial market at a historically minimal level.

The government securities market over the first nine months of 2006 had the following dynamics: the amount of internal public debt in the form of GKO and GSKO as of 1 October 2006 had not changed compared to the beginning of 2006; and sales in the secondary market over the analyzed period increased considerably (by 65%). Over the period, the par value of the market portfolio of GKO-GSKO remained almost unchanged, and 11 issues of GKO and 17 issues of GSKO were retired (Graph 3.2.3.).

Graph 3.2.3. Government Securities in Circulation, in UZS, by the End of the Period



Source: Ministry of Finance, Central Bank of Uzbekistan.

The policy of the Ministry of Finance was distinguished by a decrease in the number of transactions on the additional sale of issues of government securities on the secondary market in the total volume of attracted funds. There is practically no credit risk in this segment of the Uzbek financial market because the issuer – the Government of the Republic of Uzbekistan – has enjoyed a public budget surplus for the last several

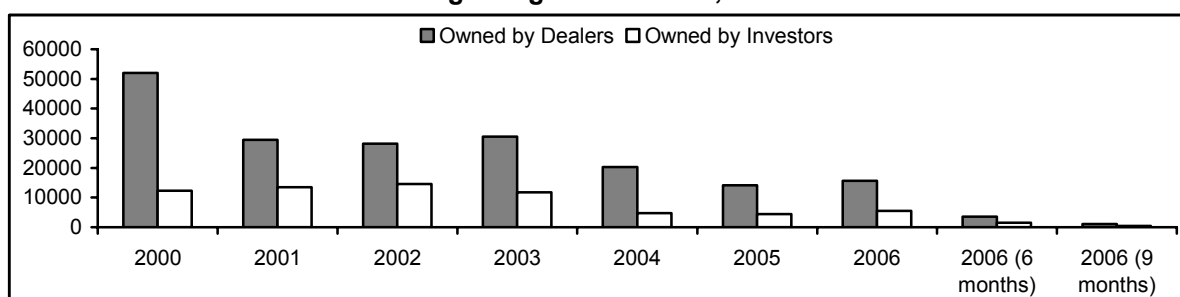
years. The yield of government bonds was the benchmark for interest rates and market risks for corporate instruments.

Government Short-Term Treasury Bonds (T-bills)

The market of government securities has existed in Uzbekistan since 1996 – the first issue of government short-term bonds. The GKO market has become a foundation for the entire market of government securities in Uzbekistan, including its infrastructure, legal basis and participants. However, due to the prolongation of internal public debt, this market segment is steadily declining (Graph 3.2.4.).

Over the first nine months of 2006, one auction for placement of GKO was conducted on the market. In the secondary market, the number of bids reached 208. The total value of GKO in circulation as of 1 October 2006 was only 10.1% of the similar indicator as of 1 January 2006. The share of the short-term internal debt in the total public debt continues to decrease, with a simultaneous increase in the share of medium-term debt. As of 1 October 2006 these shares were 3.4% and 96.6% of the total respectively. As of 1 January 2006 this proportion was 32% to 68%. Over the years of GKO market functioning since 1996, the number of issues with various maturities reached 293. Of these there were 36 issues with 3 months maturity, 105 issues with 6 months maturity, 73 issues with 9 months maturity and 79 issues with 12 months maturity. As of 1 October 2006 there were 3 issues of GKO in circulation. Of the total volume of placed bonds, almost 92% were sold at auctions. During the first nine months of 2006, eleven issues of GKO were repaid.

Graph 3.2.4. Proportion of Volumes of GKO Owned by Investors and Dealers, as of the Beginning of the Period, in UZS million



Source: Ministry of Finance, Central Bank of Uzbekistan

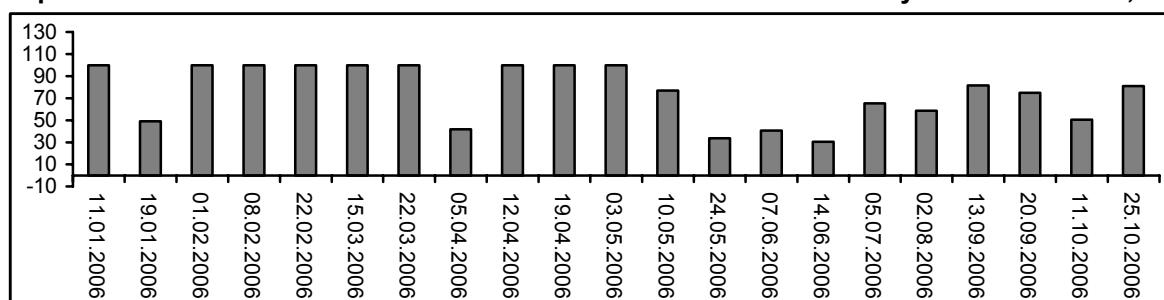
Government Mid-Term Treasury Bonds

GSKOs in Uzbekistan have been issued since the beginning of 2004. GSKOs are securities issued in non-paper form by the Ministry of Finance on behalf of the Government, and are placed among banks and legal entities or residents of Uzbekistan. Proceeds from their placement are accounted to the public budget.

The amount of internal debt in the form of GSKOs by 1 October 2006 grew by more than 40% compared to 1 January 2006. This segment of the financial market continues to develop dynamically, and the volume of the GSKO market is 30 times larger than that of the GKO market. Over the analyzed period, 21 auctions for the placement of GSKOs with 546 days (18 months) maturity were conducted. There were 192 secondary bids on the market. Turnover on the secondary market increased 1.5 times.

There were 58 issues since the start of GSKO market operations in 2003. As of 1 October 2006, the number of GSKO issues in circulation was 32. Over the first ten months of 2006, the number of retired issues of GSKO amounted to 17. The proportion of turnover on the primary and secondary markets as of 1 October of this year was 49% to 51%. Proceeds from sales of GSKO over the first nine months of 2006 grew by 41%. Proceeds from sales to dealers accounted for 70% of the total, while the share of investors was 30%.

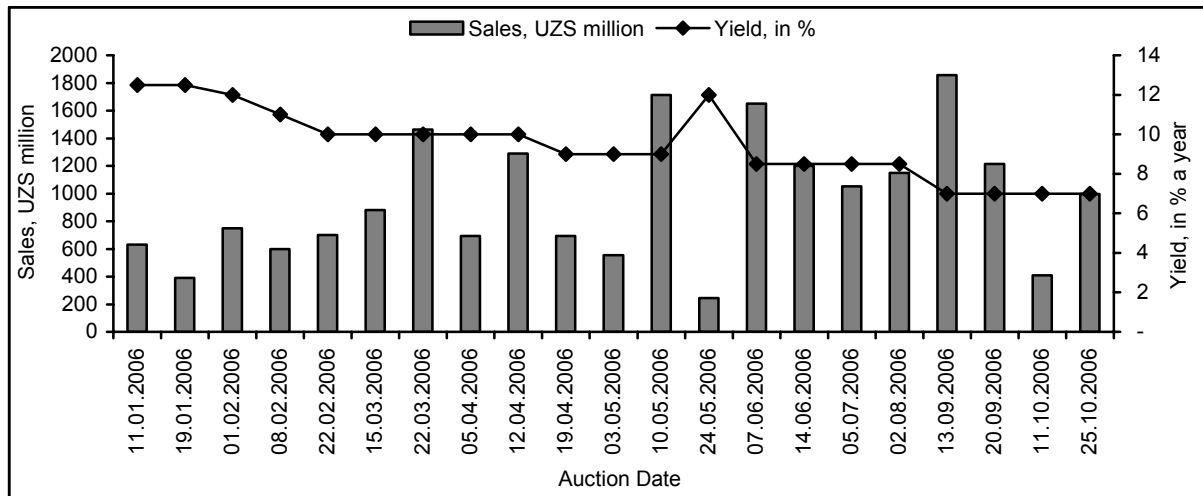
Graph 3.2.5. Share of Satisfied Bids in the Total Submitted at the Primary Market of GSKO, in %



Source: Ministry of Finance, Central Bank of Uzbekistan

The capacity of the primary market of government securities is an indicator reflecting the number of actually placed securities on this market. From the government standpoint, it depends on the size of the public budget deficit and public debt. In accordance with world practice, the share of short term liabilities in total internal public debt does not usually exceed 20 – 25%. The bulk of the internal debt (up to 80%) is covered by medium-term and long-term bonds.

Graph 3.2.2. Dynamics of Indicators of the Primary Market of GSKO in 2006



Source: Ministry of Finance, Central Bank of Uzbekistan

The volumes of primary issue help to regulate the market. In particular, the issuer decreases the cost of debt by narrowing the supply with regard to demand, and this, in turn, creates a favorable environment for a revival in speculative transactions. An increase in the volume of issues up to the level of demand decreases speculative opportunities and the attractiveness of the market (Graph 3.2.5. and 3.2.6.).

Table 3.2.2. Auctions of GSKO in the III quarter of 2006

Date	Number of GSKO issue	Maturity (days)	Total Value of Issue (UZS million)	Total Sales* (UZS million)	Number of GSKOs (units)		Minimal Price of Satisfied Competitive Bids	Stated Interest Rate, Annual (%)
					Stated	Sold		
05 June 06	25053UMFS	546	1400	1052.89	1 612 122	1 052 570	100.03	8.50
02 Aug 06	25054UMFS	546	2000	1148.84	1 903 672	1 116 244	102.92	8.50
13 Sept 06	25056UMFS	546	2100	1857.51	2 240 762	1 828 262	101.60	7.00
20 Sept 06	25057UMFS	546	1700	1213.46	1 590 837	1 190 837	101.90	7.00
11 Oct 06	25058UMFS	546	1000	408.24	791 729	400 000	102.06	7.00
25 Oct 06	25059UMFS	546	1150	996.20	1 209 596	980 996	101.55	7.00

* - this indicator is calculated as a product of the volume of sold bonds by minimal price

Source: Ministry of Finance, Central Bank of Uzbekistan

Government bonds play an increasingly major macroeconomic role. Therefore it is necessary to further develop and enhance this market from both the qualitative and quantitative perspective. The analysis of the GKO-GSKO market indicated that this market has not yet become a financial instrument considerably affecting the economic situation in the country. The Uzbek market of government securities is both small and underutilized. This market should become a channel through which the government will be able to, first of all, direct resources for the expansion of investment in the real sector of the economy and secondly, use it as an instrument of non-inflationary funding of the public budget and adjustment of cash flows.

Annex 3.2.1. Dynamics of Sales of Shares in the Stock Market (UZS billion)

Indicator	2000	2001	2002	2003	2004	2005	III qtr. 2005	I-III qtr. 2005	III qtr. 2006	I-III qtr. 2006
Total sales	17.1	26.1	41.7	74.7	115.0	142.5	30.7	95.7	108.0	267.3
Primary market	6.2	12.2	16.3	53.9	62.1	88.7	13.3	51.7	12.2	85.2
Exchange	4.6	6.8	10.5	19.7	18.5	14.9	2.1	5.8	1.6	14.5
OTC	1.6	5.4	5.8	34.2	43.6	73.8	11.2	45.9	10.6	70.7
Secondary market	10.9	13.9	25.4	20.8	53.0	53.8	17.4	44.0	95.8	182.1
Exchange	0.6	1.1	4.6	12.4	22.8	26.3	6.7	19.4	69.9	89.3
OTC	10.3	12.8	20.8	8.4	30.2	27.7	10.7	24.6	68.2	92.8

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 nine months of 2006 was aimed at strengthening the purchasing power of the national currency by implementing a moderately tight monetary policy and decreasing the impact of monetary factors on inflation. As a result, during the period under review, the growth of consumer prices (inflation rate) did not exceed projected parameters, reaching 3.5%.

Based on the observed dynamics of consumer prices and anticipated inflation tendencies, the Central Bank, decreased the discount rate on 15 July 2006, from 16 to 14% a year. The maintenance of a low inflation rate and the decrease of the discount rate of the Central Bank indicated further growth in the sustainability of the national currency – Uzbek Soum (UZS).

Over the first nine months of 2006, the Central Bank of Uzbekistan undertook measures to further ensure the stable functioning of the internal foreign exchange market. In the period under review, 25 authorized banks were licensed by the Central Bank to transact in foreign currency.

Nominal exchange rates. Over the first nine months of 2006, the nominal exchange rate of UZS to USD was devalued by 4.2%, and by 7.9% compared to the corresponding period of 2005. The exchange rate for foreign currency in cash decreased by 3.4% and 7.2% respectively.

Slightly higher values for devaluation rates of foreign cash over the nominal exchange rate resulted from seasonal fluctuations in the exchange rate (Table 4.1.1 and Graph 4.1.1).

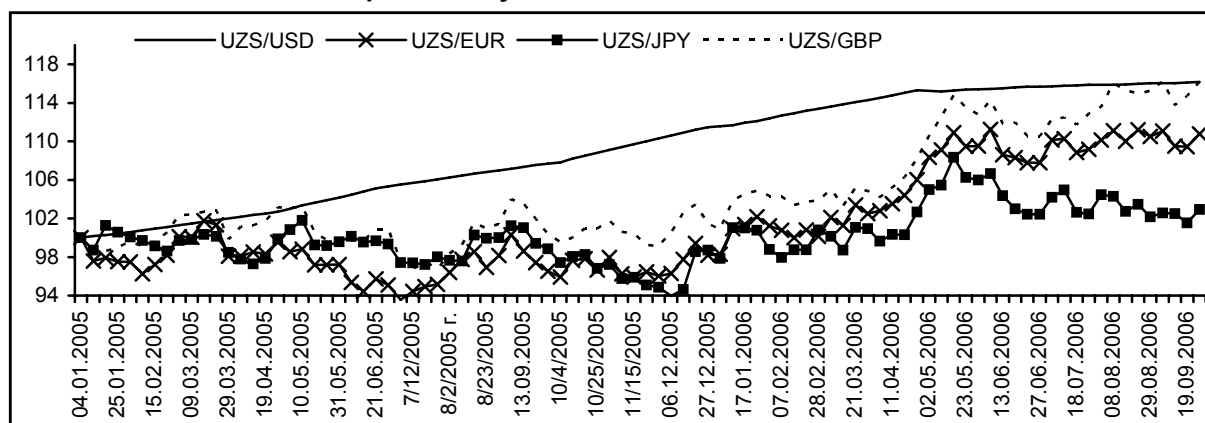
Table 4.1.1. UZS/USD Exchange Rate (2003–2006)

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
I qtr of 2005	1080.0	2.1	1083.5	2.0
II qtr of 2005	1115.0	3.2	1118.1	3.2
III qtr of 2005	1140.0	2.2	1155.4	3.3
I qtr of 2006	1210.0	2.5	1224.1	2.3
II qtr of 2006	1224.6	1.2	1229.5	0.4
III qtr of 2006	1229.79	0.42	1238.84	0.76

Source: Bankovskie Vedomosti, the author's calculations.

The dynamics of UZS against other reserve currencies was characterized by the following changes: according to the results of the first nine months of 2006, UZS devalued against GBP by 14.5%, against EUR – by 12.8%, and against JPY– by 4.27%.

Graph 4.1.1. Dynamics of Nominal Rate of UZS



Source: Bankovskie Vedomosti, the author's calculations.

The key factor affecting the situation on the internal foreign exchange market was foreign exchange trends in the world market. The factor affecting the exchange rate of the US dollar on the international foreign ex-

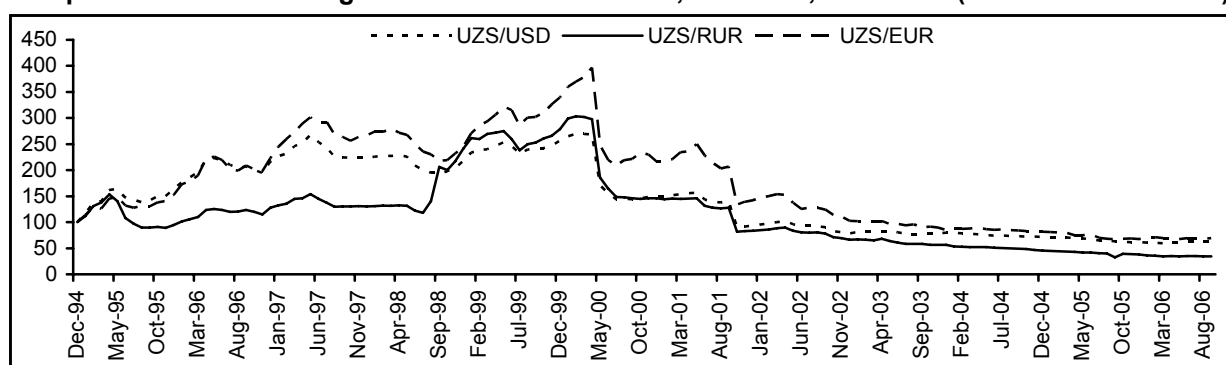
change market over the reviewed period was the growth in Eurozone economy in the third quarter of 2006 by 0.5% compared to the previous quarter and by 2.6 % compared to the corresponding period of the previous year. Thus, the growth rate of the Eurozone economy surpassed the growth rate of the US economy (+1.6 % y/y in the third quarter). At the same time, the economy of Japan grew in July-September 2006 by 0.5% in quarterly terms and by 2.0 % in annual terms.

The devaluation of UZS to RUR over the first nine months of 2006 was 12.46%, due to the strengthening of the RUR to USD exchange rate. Overall, during January-September 2006 the strengthening of the real effective exchange rate of RUR was 8.1% (for the basket of currencies).

Real exchange rates. Over the first nine months of 2006, the real exchange rate of UZS to USD devalued by 3.5%, the UZS to EUR by 2.9% and UZS to RUR by 7.2% respectively.

The decrease of inflation rates in Uzbekistan and exchange rate dynamics on the world market remained major factors influencing the real exchange rate of UZS.

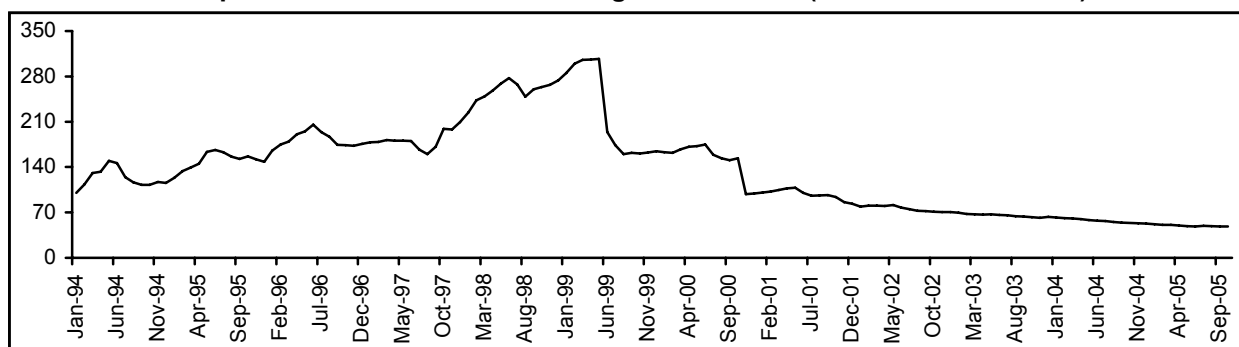
Graph 4.1.2. Real Exchange Rates of UZS: UZS/USD, UZS/EUR, UZS/RUR (December 1994=100)



Source: International Financial Statistics (IFS), IMF; Bankovskie Vedomosti, the author's calculations

Real Effective Exchange Rate. As of the first three quarters of 2006, the real effective exchange rate of UZS strengthened by 1.5%. The dynamics of this indicator was affected by the market situation in internal and external foreign exchange markets and the dynamics of differences in price indices in Uzbekistan and the rest of the world.

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



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

The strengthening of the real effective exchange rate of UZS had a positive impact on the containment of inflation expectations and allowed the average monthly inflation rate to decline over the period from January to September 2006 by approximately 0.2% compared to the first half of the year.

4.2. Trade Balance, Exports and Imports

As a result of the increasing business activities and improved foreign economic activities of the country, high results were achieved in the third quarter of 2006. In comparison with the third quarter of 2005, exports grew by 33.9%, while imports increased by 15.1%. As a result, in the third quarter of 2006, foreign trade turnover increased by 24.9% in comparison with the corresponding period of 2005. Such high growth rates on a quarterly basis resulted in consequently high results for the first 9 months of 2006. During the first 9 months of 2006, the foreign trade turnover of Uzbekistan increased 10.5% in comparison with the corresponding period

of the previous year and reached 7.56 bln. USD. At the same time, 57.8% of the total volume of foreign trade turnover consisted of exports, while 42.2% came from imports. The growth of exports was significantly higher than that of imports, at a rate of 13% versus 7.3% respectively.

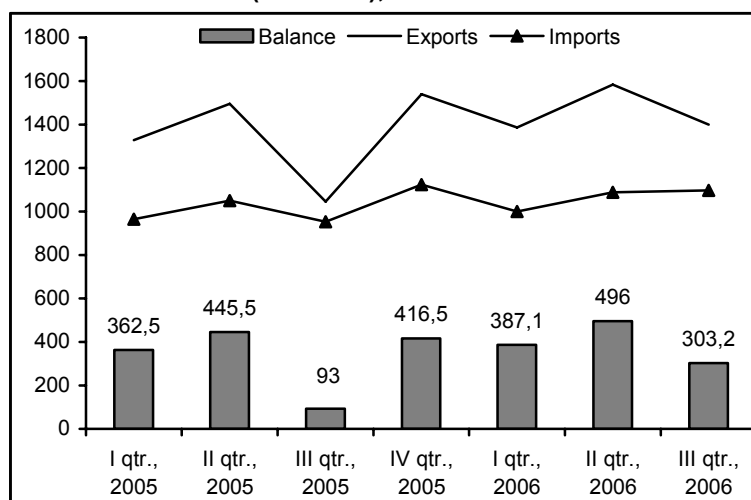
Таблица 4.2.1. Main Indicators of Foreign Economic Activity in Uzbekistan (mill. USD)

Indicators	I-III qtr. 2005	I-III qtr. 2006	Including		Change in volume, %	
			III qtr. 2005*	III qtr. 2006*	I-III qtr. 2006 to I-III qtr. 2005	III qtr. 2006 to III qtr. 2005
Foreign trade turnover	6838.0	7557.1	1999.4	2497.8	110.5	124.9
CIS countries	2519.6	3283.5	865.7	1269.9	130.3	146.7
Non-CIS countries	4318.4	4273.6	1133.7	1227.9	99.0	108.3
Exports	3869.5	4371.7	1046.2	1400.5	113.0	133.9
CIS countries	1294.8	1888.6	466.2	750.8	145.9	161.0
Non-CIS countries	2574.7	2483.1	580.0	649.7	96.4	112.0
Imports	2968.5	3185.4	953.2	1097.3	107.3	115.1
CIS countries	1224.8	1394.9	399.5	519.1	113.9	129.9
Non-CIS countries	1743.7	1790.5	553.7	578.2	102.7	104.4
Trade balance	901.0	1186.3	93.0	303.2	131.7	326.0
CIS countries	70.0	493.7	66.7	231.7	705.3	347.4
Non-CIS countries	831.0	692.6	26.3	71.5	83.3	271.9
Structure of foreign trade turnover, %	100.0	100.0	100.0	100.0	X	X
CIS countries	36.8	43.4	43.3	50.8	X	X
Non-CIS countries	63.2	56.6	56.7	49.2	X	X

Source: State Statistics Committee of Uzbekistan

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

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



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

formed during the 1st and 2nd quarters. During the period under review, there was a significant growth in the positive trade balance with CIS countries – by 705.3% against the corresponding period of the previous year (347.4% in the 3rd quarter of 2006 against the 3rd quarter of 2005). Thus, the positive trade balance with the CIS reached 493.7 mill. USD in the first 9 months of 2006, versus 70 mill. USD in the corresponding period of 2005. This very fact shows that the partnerships that have been developed with CIS countries have had positive results on the foreign trade balance of the country.

During the period under review, the structure of trade turnover underwent qualitative changes. A comparison of the growth of exports by groups of goods with that of the first 9 months of 2005 reveal some differences between groups of non-raw material (by 1,17-2,13 times) and raw material (by 1,19-1,61 times) exports. Some differences were also observed in the III quarter of 2006 against the III quarter of 2005: 1.0-3.05 times for non-raw materials and 1.2-2.16 times for raw material exports (Table 4.2.2).

According to the results of the first 9 months of 2006, the exports-to-imports coefficient equaled 1.37, including 1.35 with CIS countries and 1.39 with non-CIS countries; in comparison, in the corresponding period of the previous year, the indicators were 1.3; 1.06; and 1.48 respectively. As a result, the positive trade balance amounted to 1186.3 mill. USD (303.2 mill. USD in the III quarter), which shows a significant increase from the results of the corresponding period of the previous year, by some 285.3 mill. USD (and by 210 mill. USD against the 3rd quarter of 2005) (Table 4.2.1, Annex 4.2.1, Graph 4.2.1). The results of the first three quarters of 2006 show that 58.4% of the positive trade balance, or 692.6 mill. USD, was gained from trade with non-CIS countries, 89.7% of which was

Exports of foodstuffs increased significantly in the third quarter of 2006, by 305.7%. A significant contribution to this growth was made by fruit and vegetable products. As a result, in comparison with the corresponding period of 2005, during the first 9 months of 2006 exports of foodstuffs increased by 2,1 times, followed by such groups as chemical products – by 1.23 (by 1.2 times in the third quarter). At the same time, the share of foodstuffs in total exports

Table 4.2.2. Commodity Structure of Exports, (%)

Commodity groups	Share in total volume of exports, %				Change in volume, %	
	I-III qtr. 2005	I-III qtr. 2006	including		I-III qtr. 2006 to I-III qtr. 2005	III qtr. 2006 to III qtr. 2005
			III qtr. 2005 *	III qtr. 2006*		
Cotton fiber	16.5	17.3	3.5	5.6	118,8	216.2
Foodstuffs	4.0	7.5	5.9	13.5	212,5	305.7
Chemical products	5.3	5.8	8.5	7.7	123,1	120.4
Energy carriers	11.7	14.2	18.0	16.1	137,6	119.8
Non-ferrous and ferrous metals	9.6	13.7	11.2	17.7	160,8	211.2
Machinery and equipment	9.1	10.0	9.5	12.5	124,1	176.5
Services	12.5	12.9	16.8	14.5	116,5	115.2
Others	31.3	18.6	26.6	12.4	67,0	62.3
Total	100.0	100.0	100.0	100.0	113,0	133.9

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

equaled 7.5% (an increase of 3.5 p.p. in comparison with the first nine months of 2005), and that of chemical products equaled 5.8% (an increase of 0.5 p.p.) (Table 4.2.2, Annex 4.2.2).

During the first nine months of 2006 a decrease in the growth rate of exports was observed in the group of "others". The growth rate of exports was detected in the group of machinery and equipment, by 124.1% increase in this particular group. As for the group of chemical products, after achieving high growth in the I quarter (142%) in comparison with the I quarter of 2005 and a noticeable slowdown of growth rates in the second quarter (growth of 111.8% only) accelerated growth was detected in the third quarter (120.4%). As a result, the growth of exports in this group in the first nine months of 2006 equaled 123.1%. In the group of energy resources, after high growth of exports in the first quarter (170.5%), the slowdown that started in the second quarter continued in the III quarter as well (139.0% in the II qtr. and 119.8% in the III qtr.). However, the growth of exports of the group remained at a high level (137.6% - result of 3 quarters of 2006). In the group of "others" the decrease in growth rates in the III quarter, which had been continuing since the I quarter of 2006, finally slowed (79.4% in the I qtr, 60.0% in the II qtr. and 62.3% in the III qtr.).

In the commodity structure of imports, such groups as machinery and equipment, chemical products, non-ferrous and ferrous metals continue to lead the list. This shows that the highest demand is placed on those imported goods that are necessary for the production chain of enterprises, the implementation of investment projects, and above all, based on the attraction of foreign direct investments. (Table 4.2.3, Annex 4.2.3).

Table 4.2.3. Commodity Structure of Imports (%)

Commodity groups	Share in total volume of exports, %				Change in volume, %	
	I-III qtr. 2005	I-III qtr. 2006			I-III qtr. 2006 to I-III qtr. 2005	III qtr. 2006 to III qtr. 2005
			III qtr. 2005*	III qtr. 2006 *		
Foodstuffs	7.0	8.2	7.0	7.1	124.7	116.5
Chemical products, plastics and plastic goods	13.4	15.4	14.4	15.2	123.1	122.2
Energy resources	2.1	4.1	2.3	5.4	210.1	277.2
Ferrous and non-ferrous metals	10.7	10.6	10.4	9.9	106.9	109.9
Machinery and equipment	44.2	39.6	40.9	37.3	96.2	104.9
Services	9.6	9.5	11.0	11.8	105.8	123.1
Other	13.0	12.6	14.0	13.3	104.6	108.5
Total	100.0	100.0	100.0	100.0	107.3	115.1

Source: State Statistics Committee of Uzbekistan

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

In the third quarter of 2006, imports of the leading group, machinery and equipment, increased by 4.9%. However, as a result of a decrease in that indicator by 6.3% in the 1st half of 2006, including by 7.5% in the second quarter, the results of the first nine months revealed a decrease of 3.8%. As a result, the share of this group in total imports decreased by 4.6 p.p and amounted to 39.6% of total imports against 44.2% in the corresponding period of the previous year. Imports grew in the remaining categories. In growth rates of imports, the leading position belonged to the commodity group "energy resources" (210.1%), which is explained by increased prices for energy carriers on the world markets. As a result, the share of the group in total imports increased by 2 p.p. and accounted for 4.1% against 2.1% in the corresponding period of the previous year. Imports of foodstuffs increased by 24.7%; chemical products – by 23.1%. Their share in total imports accounted for 8.2% (an increase of 1.2 p.p. in comparison with the first nine months of 2005) and 15.4% (increase of 2.0 p.p.) respectively.

In the III quarter of 2006, imports grew in all commodity groups. The leading position belonged to energy resources (277.2%), followed by services (123.1%) and chemical products (122.2%). The lowest growth in the third quarter of 2006 was registered in the group of machinery and equipment (104.9%). However, the share of this group continues to lead the list (37.3% in the III quarter of 2006).

In the territorial structure, during the first nine months of 2006 trade turnover with CIS countries continued to grow (by 1.3 times), while trade turnover with non-CIS countries continued to drop (-0.01times) in both exports and imports. The share of trade turnover with CIS countries continued to grow, reaching 43.4% against 36.8% in the corresponding period of the previous year. At the same time, the share of foreign countries in total trade turnover continued to fall, from 63.2% in the first nine months of 2005 to 56.6% in the period under review (Table 4.2.1). This very tendency shows the relatively higher usage of the existing potential in trade-economic relations with partners from the CIS.

During the period under review, exports to the CIS increased by 1.46 times in comparison with the corresponding period of 2005, while exports to foreign countries decreased by 3.6% (Table 4.2.1). At the same time, the share of exports to the CIS increased from 33.5% to 43.2%, while the share of exports to foreign countries decreased from 66.5% to 56.8% (Table 4.2.4).

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

Countries	Share in total volume, %							
	Of Exports				Of Imports			
	I-III qtr. 2005	I-III qtr. 2006	Including		I-III qtr. 2005	I-III qtr. 2006	including	
			III qtr. 2005 *	III qtr. 2006 *			III qtr. 2005 *	III qtr. 2006 *
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CIS countries	33.5	43.2	44.6	53.6	41.3	43.8	41.9	47.3
Kazakhstan	4.6	5.2	6.7	6.5	6.2	9.1	6.5	11.9
Russia	19.2	26.2	24.9	36.2	25.8	25.8	26.9	24.9
Tajikistan	2.8	2.9	2.8	2.2	0.3	0.4	0.3	0.6
Ukraine	1.4	5.8	1.8	5.7	6.3	5.7	5.6	7.2
Other countries	5.5	3.2	8.4	3.0	2.7	2.8	2.6	2.8
Foreign countries	66.5	56.8	55.4	46.4	58.7	56.2	58.1	52.7
Belgium	0.7	0.4	0.1	0.3	0.7	0.6	0.7	0.3
Great Britain	6.9	3.6	6.2	2.5	2.1	1.8	3.3	1.8
Germany	1.6	1.3	2.7	1.6	6.0	6.0	4.9	5.9
India	0.5	0.2	0.5	0.1	0.7	1.0	0.7	1.1
Iran	6.8	10.6	4.8	8.3	0.7	0.8	0.7	0.6
China	2.0	5.8	2.6	2.1	5.5	7.6	5.7	7.8
South Korea	0.9	0.6	0.8	0.7	13.0	12.0	11.4	9.0
Netherlands	0.8	0.4	1.3	0.4	0.6	0.5	0.6	0.5
USA	2.4	2.5	2.4	4.2	4.0	3.1	5.3	2.2
Turkey	6.4	9.6	8.3	11.0	4.6	3.4	4.5	3.2
France	1.3	0.9	2.3	1.0	0.9	1.1	0.8	1.1
Switzerland	3.3	0.5	0.6	0.5	0.8	0.8	0.8	0.9
Japan	0.6	0.5	0.7	0.5	1.3	1.0	0.8	1.0
Other countries	32.4	19.9	23.3	13.1	17.8	16.5	17.9	17.3

Source: State Statistics Committee of Uzbekistan

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

During the period under review, imports to CIS countries grew faster, by 1.14 times as opposed to 1.03 times for imports from non-CIS countries. Consequently, the share of imports from CIS countries increased from 41.3% to 43.8%, while imports from non-CIS countries decreased from 58.7% to 56.2% (Tables 4.2.1 and 4.2.4). The tendency of a shift in imports of foodstuffs, machinery and equipment to CIS countries has continued, which saves financial resources and increases the efficiency of industrial enterprises that are in the process of modernizing their production capacities.

In the case of exports, the top countries have changed as follows: Russia – 26.2% of exports (154.1% to the level of the first 9 months of 2005), Iran – 10.6% (174.1%), Turkey – 9.6% (169.7%), Ukraine – 5.8 (469.8%), China – 5.8 (333.2%), Kazakhstan – 5.2% (126.2%), Great Britain – 3.6% (59.8%), Tajikistan – 2.9% (117.8%) and USA – 2.5% (116.5%) (Table 4.2.4, Annex 4.2.4). The highest growth of exports was registered in exports to the Ukraine (by 4.7 times), followed by China (3.3 times). At the same time, the largest decrease in exports was registered in exports to Switzerland (6.3 times), followed by India (2.5 times).

The majority of imports (72.6%) came from the following eight countries: Russia, whose share in total imports equaled 25.8% (107.2% to the level of the first 9 months of 2005), South Korea – 12.0% (99.2%), Kazakhstan – 9.1% (157.6%), China – 7.6% (148.6%), Germany – 6.0% (107.9%), Ukraine – 5.7% (96.8%), Turkey – 3.4% (80.1%), USA – 3.1% (83.8%) (Table 4.2.4., Annex 4.2.5).

The largest positive trade balance was achieved in trade with Iran, followed by Russia, Turkey, Tajikistan, Great Britain, and the Ukraine. The largest negative trade balance was registered in trade with South Korea, followed by Germany, and Kazakhstan. Thus, during the first 9 months of 2006, exports continued to grow, demonstrating further exploration of CIS markets; exports of final goods exceeded exports of raw materials; and the structure of imports underwent further optimization processes. The active trade balance has increased.

4.3. Enterprises with Foreign Investments

Favorable conditions for economic activities and the attraction of investments into the national economy facilitated the creation of new enterprises with foreign investments (EFIs). During the first 9 months of 2006, the number of such enterprises increased by 267 units (Table 4.3.1). Those enterprises include such joint ventures as the Uzbek-Russian-Britain JV “Reka-med farm” for the production of medical equipment, Uzbek-Swiss JV “Bakht textile” for the production of cotton yarn, Uzbek-Russian JV “UchkuprikRos” for the reprocessing of fruits and vegetables, and others.

According to the results of the first 9 months of 2006, including III quarter, the growth of foreign trade turnover was 15.8%, in comparison with 24.1% achieved in the corresponding period of 2005. The share of EFIs in the foreign trade turnover of Uzbekistan increased by 1.3 p.p. in the period under review.

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

	Units	I-III- qtr., 2005	I-III qtr., 2006	III-qtr., 2005*	III- qtr.,2006*	Growth rates, %	
						I-III- qtr., 2006 in % to I-III- qtr., 2005	III- qtr., 2006 in % to III- qtr., 2005*
Number of operating enterprises with foreign investments (to end of the period)	units	2581	2848	x	x	110.3	x
Foreign trade turnover	Mil. USD	1813.7	2101.1	584.7	725.7	115.8	124.1
Exports of EFIs	Mil. USD	636.0	794.1	218.3	268.4	124.9	123.0
Imports of EFIs	Mil. USD	1177.7	1307.0	366.4	457.3	111.0	124.8
Share of EFIs in the foreign trade turnover	%	26.5	27.8	29.2	29.1	x	x
Share of EFIs exports in total exports of Uzbekistan	%	16.4	18.2	20.9	19.2	x	x
Share of EFIs imports in total imports of Uzbekistan	%	39.7	41.8	38.4	44.1	x	x
Export – import coverage ratio	times	0.54	0.61	0.60	0.59	x	x

Source: State Statistics Committee of Uzbekistan

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

Exports of EFIs in the first 9 months of 2006 amounted to 794.1 mill. USD, and increased by 24.9% over the corresponding period of the previous year. The share of EFIs' exports in total exports of the country increased by 1.8 p.p.

On the inflow of hard currency, such groups as machinery and equipment (49.9% of total export revenues for EFIs) and “others” (30.8%) became leaders according to the results of the first three quarters of 2006. In the III quarter, accelerated growth rates of exports in the machinery building sector (68.7%) secured the highest share (60.2%) in the commodity structure of EFI exports (Table 4.3.2).

Exports of “others” were represented by products of the textile, light, furniture industries and others. The main types of export goods were knitwear and apparel, including cotton fabrics, yarn, bedshets, clothing, furniture, precious metals, and others.

Exports of cotton-fiber increased at an accelerated pace, by 4.2 times in the first 9 months and by 4.4 times in the III quarter of 2006 (Table 4.3.2). Consequently, their share in total exports of EFIs increased as well. One of the stimuli for this trend was the fact, that unlike domestic suppliers of cotton-fiber, EFIs enjoyed certain privileges (discounts in the purchase of cotton-fiber from producers).

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

	Growth rates, %		Share in total volume of exports, %			
	I-III qtr., 2006 in % to I-III qtr., 2005	III qtr., 2006 in % to III qtr., 2005*	I-III qtr., 2005	I-III qtr., 2006	III qtr., 2005*	III qtr., 2006*
Total	124.9	122.9	100.0	100.0	100.0	100.0
Cotton fiber	415.1	444.5	1.3	4.3	0.6	2.0
Foodstuff	100.0	100.9	4.4	3.5	3.9	3.2
Chemical products	52.9	24.9	4.2	1.8	4.9	1.0
Energy carriers	96.2	187.2	3.6	2.8	2.8	4.2
Ferrous and non-ferrous metals	536.4	378.8	0.7	2.8	1.0	3.0
Machinery and equipment	141.6	168.7	43.5	49.4	43.8	60.2
Services	111.5	115.0	5.1	4.6	5.9	5.5
Other	103.4	69.2	37.2	30.8	37.1	20.9

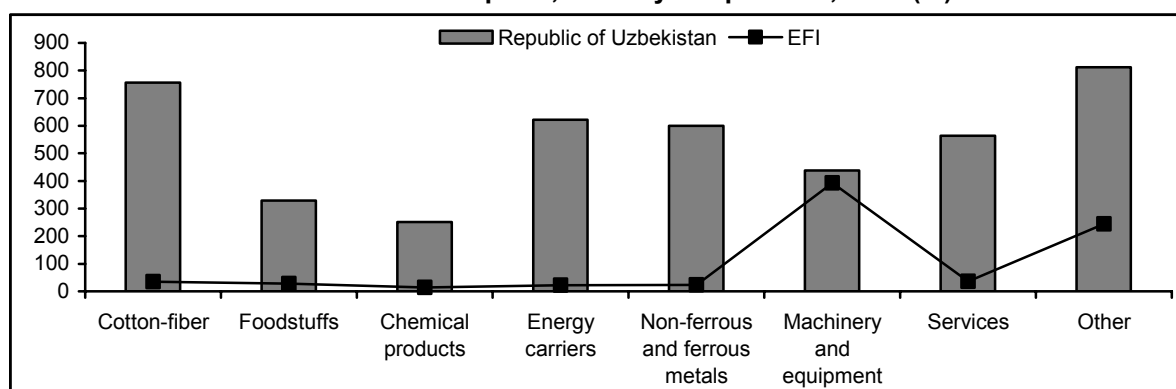
Source: State Statistics Committee of Uzbekistan

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

High growth rates of exports were observed in the commodity group "ferrous and non-ferrous metals" (by 5.4 times in the first 9 months of 2006 and by 3.8 times in the third quarter). These positive shifts were mainly contributed by enterprises in non-ferrous metallurgy, whose products accounted for about 12% of the total volume of EFI production.

In the chemical industry, export volumes decreased by almost two times during the first 9 months. This was explained by the fact that the share of EFIs in the industrial production of "chemical industry" was rather insignificant (0.3% of the total volume of products produced by EFIs) and they had limited opportunities for export.

Graph 4.3.1 shows the share of EFIs in the commodity structure of Uzbekistan's exports. The largest share in exports belonged to the commodity group "machinery and equipment" (89.6%), followed by "others" (30.1%), foodstuffs (8.4%) and services (6.5%). Other groups of commodities where EFIs had exports activities accounted for less than 5% of the total exports of Uzbekistan.

Graph 4.3.1. Share of Enterprises with Foreign Investments in the Commodity Structure of Uzbekistan's Exports, January - September, 2006 (%)

Source: State Statistics Committee of Uzbekistan

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

Although the Government has been taking various measures to address a large differentiation in the social and economic development of the regions, there are regional differences in the number of established and operating EFIs among the regions. This very fact entails quite significant differences among the regions in the volumes of export and import operations. Such regions as Andijan, Navoi and the city of Tashkent compose a group of regions with stable high export potential. Those three regions together make up 80% of total exports of EFIs. This is explained by the fact that large enterprises with foreign investments in such industries as machinery building, metallurgy, and textiles are located in those regions.

At the same time, positive shifts were observed in increasing the export potential in those regions with a small share in total exports. The following regions' export growth rates were higher than the national average: Jizzakh (by 3.5 times), Kashkadarya (1.7 times), Surkhandarya (3.4 times), Sirdarya (2.6 times), and Khorezm (2.8 times). The growth of regions with a share of less than 1% of total exports decreased because of the accelerated growth of exports in Kashkadarya and Surkhandarya regions.

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

Regions	Growth rates, I-III qtr., 2006 in % to I-III qtr., 2005	Share in total exports of EFIs, %	
		I-III qtr., 2005	I-III qtr., 2006
Total	124.9	100.0	100.0
R. Karakalpakstan	60.2	0.9	0.4
Andijan	150.8	40.1	48.5
Bukhara	138.1	1.2	1.3
Jizzakh	349.8	0.1	0.3
Kashkadarya	170.4	0.9	1.3
Navoi	98.1	19.3	15.1
Namangan	111.2	2.0	1.8
Samarkand	211.6	2.2	3.7
Surkhandarya	337.6	0.4	1.2
Sirdarya	255.1	0.3	0.6
Tashkent	55.5	9.4	4.2
Fergana	74.6	7.9	4.7
Khorezm	281.6	0.3	0.5
Tashkent city	136.0	15.0	16.4

Source: State Statistics Committee of Uzbekistan

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

Imports of products, works and services by EFIs amounted to 1307.0 mill. USD – or to 41.8% of total imports of the country – at the end of the first 9 months of 2006, and to 457.3 mill. USD (44.1%) at the end of the third quarter (Table 4.3.1).

The growth of imports of foodstuffs (by 150.3%), chemical products (132.9%) and products of the metallurgy complex (by 125.4%) contributed to the increase of their shares in the total imports of EFIs. During the period under review, imports of such groups as “energy carriers” (by 4.1 p.p.) and “machinery and equipment” (by 2.9 p.p.) decreased.

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

	Growth rates, %		Share in total imports, %			
	I-III qtr., 2006 in % to I-III qtr., 2005	III- qtr., 2006 in % to III qtr., 2005*	I-III qtr., 2005	I-III qtr., 2006	III qtr., 2005*	III qtr., 2006*
Total	111,0	124,8	100,0	100,0	100,0	100,0
Foodstuffs	150,3	146,0	9,9	13,4	10,4	12,2
Chemical products	132,9	137,5	12,4	14,9	14,4	15,8
Energy carriers	95,9	57,8	0,3	0,3	0,5	0,2
Ferrous and non-ferrous metals	125,4	195,6	9,1	10,3	10,2	16,0
Machinery and equipment	97,1	103,3	58,2	50,9	53,9	44,6
Services	121,3	155,7	3,2	3,5	2,9	3,6
Other	109,2	122,1	6,8	6,7	7,7	7,6

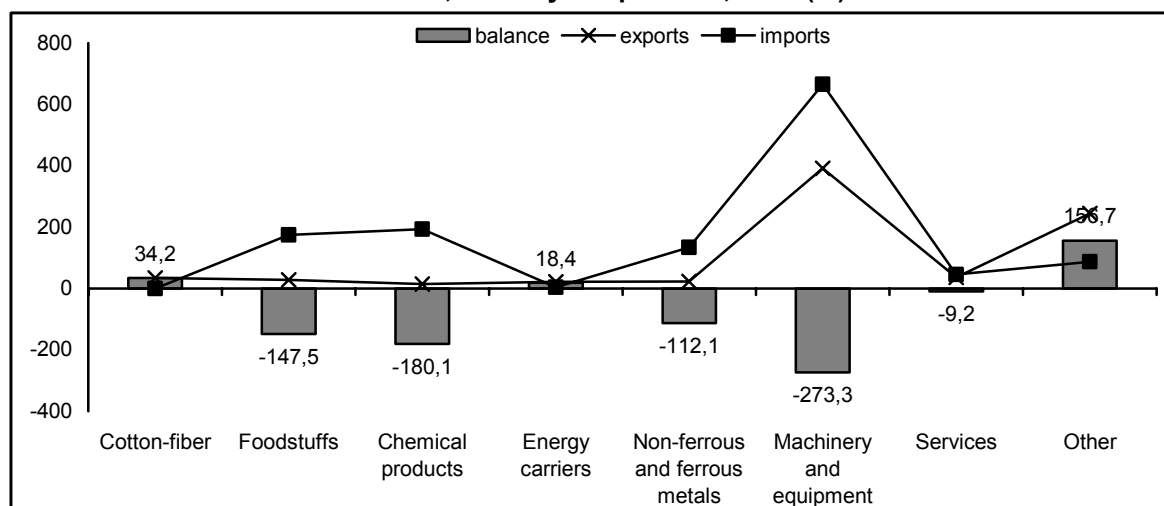
Source: State Statistics Committee of Uzbekistan

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

The share of machinery and equipment remains quite high in the total imports of EFIs (50.9% according to the results of the first 9 months and 44.6% in the third quarter of 2006), although there was a trend towards decline. It must be noted that, thanks to governmental support, in the form of allowing zero tariffs on imports since 2004, EFIs have significantly increased imports of the latest modern technology and equipment. A certain decline in imports of machinery and equipment has been observed since the first quarter: -96.8% in the first quarter, -94.5% in the second quarter and -97.1% in the first nine months, compared to the corresponding period of the previous year, which is explained by a decrease in the demand for investment goods.

The data in Graph 4.3.2 show that in the trade turnover of EFIs, a positive balance (of 209.3 mill. USD) was secured in such commodity groups as cotton-fiber, energy carriers, and “others”. At the same time, the maximal positive balance was achieved in the commodity group of “others” (156.7 mill. USD), where the leading positions were occupied by such commodities as goods made of precious metals, and light industry goods.

According to the results of first 9 months of 2006, a negative trade balance was registered in such commodity groups as “foodstuffs” (-147.5 mill. USD), “chemical products” (-180.1 mill. USD), “non-ferrous and ferrous metals” (-112.1), “machinery and equipment” (-273.3) and “services” (-9.2).

Graph 4.3.2. Trade Balance of Enterprises with Foreign Investments by Commodity Group, bn. USD, January - September, 2006 (%)

Source: State Statistics Committee of Uzbekistan

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

The geography of trade of EFIs during the period under review was characterized by faster growth of foreign trade turnover with CIS countries (by 26.7 p.p.) than with non-CIS countries (Table 4.3.5).

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

	Volume, in USD mill.		Share in total volume, %		Growth rates, I-III qtr., 2006 in % to I-III qtr., 2005
	I-III qtr., 2005	I-III qtr., 2006	I-III qtr., 2005	I-III qtr., 2006	
Foreign trade turnover	1813.7	2101.1	100.0	100.0	115.8
CIS	578.6	775.3	31.9	36.9	134.0
Non-CIS	1235.1	1325.8	68.1	63.1	107.3
Exports	636.0	794.1	100.0	100.0	124.9
CIS	334.0	470.7	52.5	59.3	141.0
Non-CIS	302.0	323.4	47.5	40.7	107.1
Imports	1177.7	1307	100.0	100.0	111.0
CIS	244.6	304.6	20.8	23.3	124.5
Non-CIS	933.1	1002.4	79.2	76.7	107.4
Trade balance	-541.7	-512.9	x	x	x
CIS	89.4	166.1	x	x	x
Non-CIS	-631.1	-679.0	x	x	x

Source: State Statistics Committee of Uzbekistan

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

During the period under review, the trade balance with CIS countries resulted in a positive 166.1 mill. USD. This is explained, above all, by the continuing demand in the markets of the CIS for the main export commodities of EFIs. Export volumes grew by 40.9%.

In the case of trade with non-CIS countries, growth rates of exports as well as imports were significantly lower than the results achieved in trade with CIS countries. At the same time, it is notable that the share of non-CIS countries remains high in imports (which accounted for 76.7% at the end of the first 9 months). This is explained by preferences of EFIs for bringing in machinery and equipment of better quality.

An analytical review of trade of EFIs shows that in spite of the negative trade balance (-512.9 mill. USD), there were such positive shifts as an increase in the number of newly established EFIs, faster growth of export volumes, and improvement in the export-import ratio (from 0.54 to 0.61). At the same time, certain differences remain in customs and taxations systems for domestic producers and enterprises with foreign investments, and others.

It is worth noting that one of the favorable conditions created in the Republic for enterprises with foreign investments, including joint ventures, is the provision of tax and customs privileges for foreign investors. For strategically important joint ventures, such privileges were documented by special resolutions of the Government. At the same time, certain enterprises were granted with privileges for an indefinite period of time. In

May of 2006, the Government decided to abolish all tax and customs privileges provided for an indefinite period of time as of June 1, 2006, and conduct an inventory of joint ventures. In the beginning of the third quarter, tax privileges were abolished for more than 30 large joint ventures, including the Uzbek-American gold mining joint venture "Zarafshan-Newmont", 50% of the shares of which belong to Newmont Mining Corp.; the gold mining joint venture "Amantaytau Goldfields", 50% of the shares of which are held by a British company Oxus Gold; the Uzbek-Swiss joint venture "Nestle-Uzbekistan", which produces foodstuffs, and others. A number of privileges on VAT and payments to the Republican funds were abolished for the Uzbek-American Leasing Company UzCaseagroleasing. The preferences on zero import tariffs for technology and equipment were abolished for "VBD Toshkent" Co. Ltd, which is controlled by the Russian company "Vim-Bil-Dan Foods" (RTC: WBDF), the Uzbek-American JV for the production of lubricants, "Uz-Exaco", and the Uzbek-Korean JV "UzDaewoo Electronics".

It is expected that in the future only projects that are considered to be of priority importance by the legislation of Uzbekistan will enjoy privileges, above all in such fields as geological survey and reprocessing in the petroleum and gas sector. Presently, the Russian firms "Gazprom" and Lukoil are operating in the territory of Uzbekistan with benefits for a specified period.

All of the above-mentioned measures are aimed at ordering the system of preferences and privileges, and eliminating unequal conditions for domestic enterprises and enterprises with foreign investments. The Government has made a decision that in the near future one of the main priorities in investment policy will include a shift from providing special privileges for a limited number of investors towards establishing common rules for all investors. The implemented measures were just another step towards bringing legal regulations in the economy of the country closer to the common rules of the world economy, especially in terms of preparing the economy for accession to the WTO.

Annex 4.2.1. Trade Balance (mill. USD)

Periods	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
I qtr. 2005	1327.9	965.4	362.5
II qtr.2005 *	1495.4	1049.9	445.5
III qtr. 2005 *	1046.2	953.2	93.0
I qtr.2006	1386.8	999.7	387.1
II qtr.2006 *	1584.4	1088.4	496.0
III qtr.2006 *	1400.5	1097.3	303.2

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

Annex 4.2.2. Commodity Composition of Exports (%)

Period	Cotton fiber	Foodstuffs	Chemical products, plastics and plastic goods	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services	Other goods	Total (%)	Total (mill. USD)
2000	27.5	5.4	2.9	10.3	6.6	3.4	13.7	30.2	100.0	3264.7
2001	22.0	3.9	2.7	10.2	7.0	3.9	14.6	35.7	100.0	3170.4
2002	22.4	3.5	3.0	8.1	6.4	3.9	15.9	36.8	100.0	2988.4
2003	19.8	2.7	3.1	9.8	6.4	5.9	14.4	37.9	100.0	3725.0
2004	18.1	3.8	4.7	12.4	8.6	7.4	11.8	33.2	100.0	4853.0
2005	19.1	3.8	5.3	11.5	9.2	8.4	12.2	30.5	100.0	5408.8
I qtr. 2005	27.3	2.9	3.7	7.2	9.7	7.7	11.2	30.3	100.0	1327.9
II qtr.2005 *	15.9	3.6	4.4	11.3	8.5	10.1	10.7	3.5	100.0	1495.4
III qtr. 2005 *	3.5	5.9	8.5	18.0	11.2	9.5	16.8	26.6	100.0	1046.2
I qtr.2006	26.7	3.8	5.1	11.7	10.1	7.7	11.8	23.1	100.0	1386.8
II qtr.2006 *	19.4	5.5	4.6	14.8	13.4	9.7	12.5	20.1	100.0	1584.4
III qtr.2006 *	5.6	13.5	7.7	16.1	17.7	12.5	14.5	12.3	100.0	1400.5

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

Annex 4.2.3. Commodity Composition of Imports (%)

Period	Foodstuffs	Chemical products, rubber and rubber products	Energy carriers	Non-ferrous and ferrous metals	Machinery and equipment	Services	Other	Total (%)	Total (mill. USD)
2000	12.3	13.6	3.8	8.6	35.4	8.5	17.8	100.0	2947.4
2001	10.8	12.7	1.9	10.9	41.2	10.3	12.2	100.0	3136.9
2002	12.5	15.1	1.3	8.0	41.4	10.6	11.1	100.0	2712.0
2003	9.9	12.8	2.7	7.9	44.4	10.2	12.1	100.0	2964.2
2004	6.8	12.5	2.1	10.3	46.0	11.1	11.2	100.0	3816.0
2005	7.0	13.6	2.5	10.3	43.3	10.4	12.9	100.0	4091.3
I qtr. 2005	7.0	11.9	2.3	9.8	47.2	9.9	11.9	100.0	965.4
II qtr.2005 *	7.1	13.9	1.7	11.7	44.6	8.1	12.9	100.0	1049.9
III qtr. 2005 *	7.0	14.4	2.3	10.4	40.9	11.0	14.1	100.0	953.2
I qtr.2006	8.3	13.9	3.9	12.3	41.6	8.7	11.3	100.0	999.7
II qtr.2006 *	9.1	16.8	2.8	9.8	40.3	7.9	13.3	100.0	1088.4
III qtr.2006 *	7.1	15.2	5.4	9.9	37.3	11.8	13.3	100.0	1097.3

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

Annex 4.2.4. Geographical Structure of Exports (%)

Periods	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other CIS members	Non-CIS 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
I qtr. 2005	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
II qtr.2005 *	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
III qtr. 2005 *	1046.2	100.0	44.6	6.7	24.9	1.8	11.2	55.4	0.1	6.2	4.8	0.8	1.3	2.4	8.3	0.6	32.1
I qtr.2006	1386.8	100.0	33.9	4.2	18.9	4.6	6.2	66.1	0.7	4.8	11.1	0.8	0.4	1.0	8.4	0.4	38.5
II qtr.2006 *	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
III qtr.2006 *	1400.5	100.0	53.6	6.5	36.2	5.7	3.3	46.4	0.3	2.5	8.3	0.7	0.4	4.2	11.0	0.5	18.4

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

Annex 4.2.5. Geographical Structure of Imports (%)

Periods	Total (mill. USD)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other CIS members	Non-CIS 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
I qtr. 2005	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
II qtr.2005 *	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
III qtr. 2005 *	953.2	100.0	41.9	6.5	26.9	5.6	2.9	58.1	3.3	4.9	5.7	11.4	5.3	4.5	0.8	0.8	21.4
I qtr.2006	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
II qtr.2006 *	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
III qtr.2006 *	1097.3	100.0	47.3	11.9	24.9	7.2	3.4	52.7	1.8	5.9	7.8	9.0	2.2	3.2	1.1	1.0	20.7

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

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

	Total, USD mill.	Total, %	Cotton-fiber	Food-stuffs	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
I-qtr., 2005	206.4	100	1.5	4.5	3.3	3.4	0.4	44.1	4.2	38.6
II-qtr., 2005*	211.4	100	1.8	4.7	4.3	4.7	0.7	42.6	5.3	35.9
III-qtr., 2005*	218.3	100	0.6	3.9	4.9	2.8	1.0	43.8	5.9	37.1
I-qtr., 2006	220.7	100	0.1	4.4	2.1	2.3	1.7	46.3	3.8	39.3
II-qtr., 2006*	305.1	100	9.4	3.1	2.3	1.9	3.6	42.1	4.3	33.3
III-qtr., 2006*	268.4	100	2.0	3.2	1.0	4.2	3.0	60.2	5.5	20.9

Source: State Statistics Committee of Uzbekistan

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

Annex 4.3.2. Commodity Composition of EFI Imports, %

	Total, USD mill.	Total, %	Foodstuffs	Chemical products	Energy carriers	Ferrous and non-ferrous metals	Machinery and equipment	Services	other
2000	760.5	100	12.9	20.5	0.8	5.1	47.4	1.1	12.2
2001	937.2	100	8.8	13.3	0.6	5.9	62.5	1.0	7.9
2002	704.8	100	15.0	13.2	0.6	4.4	57.5	1.1	8.2
2003	858.4	100	15.1	12.4	0.4	5.4	55.4	2.8	8.5
2004	1165.7	100	12.0	13.9	0.6	6.0	56.3	4.5	6.7
2005	1592.9	100	9.8	12.8	0.4	8.9	56.2	4.9	6.9
I-qtr., 2005	367.2	100	9.7	10.7	0.3	6.8	62.3	3.5	6.7
II-qtr., 2005*	444.0	100	9.7	12.2	0.2	10.2	58.3	3.2	6.2
III-qtr., 2005*	366.4	100	10.4	14.4	0.5	10.2	53.9	2.9	7.7
I-qtr., 2006	413.9	100	11.9	13.5	0.3	12.0	53.5	3.4	5.4
II-qtr., 2006*	435.7	100	16.1	15.1	0.4	2.7	55.1	3.5	7.1
III-qtr., 2006*	457.3	100	12.2	15.8	0.2	16.0	44.6	3.6	7.6

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. Kara- kalpak- stan	Andijan	Bukhara	Jizzakh	Kashka- darya	Navoi	Naman- gan	Samar- kand	Surkhan darya	Sirdarya	Tash- kent	Fergana	Khorez m	City of Tash- kent
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
I-qtr. 2005	206.4	100	0.8	43.2	1.2	0.2	1.2	16.9	2.5	2.5	0.4	0.3	10.9	7.8	0.1	12.0
II-KB.2005 г.*	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
III-KB.2005 г.*	218.3	100	0.9	36.8	0.8	0.1	0.7	21.4	1.5	2.1	0.6	0.3	8.3	8.1	0.4	18.0
I-KB.2006 г.	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
II-KB.2006 г.*	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
III-KB.2006 г.*	268.4	100	0.4	59.4	1.6	0.3	0.2	7.3	2.0	2.0	1.4	0.6	0.5	5.2	0.3	18.8

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. Karakal- pakstan	Andijan	Bukhara	Jizzakh	Kashka- darya	Navoi	Namangan	Samar- kand	Surkhan- darya	Sirdarya	Tashkent	Fergana	Khorezm	City of Tash- kent
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
I-qtr., 2005	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
II-qtr., 2005*	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
III-qtr., 2005*	366.4	100	0.1	30.1	0.4	0.2	2.5	5.4	1.1	3.2	0.0	0.0	3.4	1.8	0.5	51.2
I-qtr., 2006	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
II-qtr., 2006*	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
III-qtr., 2006*	457.3	100	0.1	24.0	0.4	0.3	6.0	3.2	0.7	3.4	0.0	0.1	2.8	0.8	0.2	58.0

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

Resolution of the Cabinet of Ministers of the Republic of Uzbekistan "On measures to further improve mechanisms of trading cotton-fiber to enterprises with foreign investments" from October 19, 2005.

5. Institutional and Market Transformations

5.1. Denationalization and Privatization, Types of Ownership

The Program on Denationalization of Privatization of Enterprises for the period of July of 2006 to December of 2008 approved by the Decree of the President of the Republic of Uzbekistan dated 10 July, is aimed at enhancing the role of private ownership in the economy, significantly reducing the government's stake in the statutory funds of economic entities, and engaging direct investments, including foreign investments, in development and modernization on a large scale.

The new Program includes 1495 enterprises and production and social facilities of the economy that are divided into three groups depending on their importance for the economy and their approach to privatization. The largest is the first group, comprising 1269 enterprises and facilities, the majority of which were reorganized at previous stages of privatization into economic entities retaining state-owned assets in their statutory funds. Now all of these enterprises and facilities are subject to full privatization.

The second group includes 105 economically insolvent enterprises and facilities unable to independently obtain financial resources for restructuring and financial rehabilitation. State-owned assets in the statutory funds of these enterprises and facilities are subject to transfer to private legal entities and individuals at zero redemption value, provided they take on investment liabilities aimed at the financial rehabilitation of these enterprises and facilities.

The third group covers 121 joint-stock companies, including holding, state-owned-and-joint-stock and joint-stock companies. They are all of strategic importance and therefore it is foreseen to retain them as state property, in most cases with 51% state ownership of their shares. The remaining shares not yet placed will be sold into private ownership on the decision of State Tender Committee, with the condition that the investors take up liabilities to make direct investments into production development in addition to paying the redemption value of the shares purchased.

Due to the approval of the new privatization program, preliminary activities have begun to guarantee its implementation, including defining the initial price of the privatized facilities. 20 independent evaluation companies have been invited to do this. Activities also include determining the terms and conditions of tenders and relevant documentation, coordinating with interested organizations and approving the schedule of facilities offered, etc.

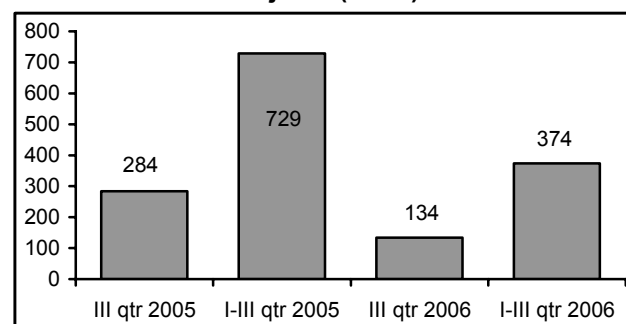
During the period of developing the new privatization program, the sale into private ownership of a number of facilities included in the earlier program was suspended, due to changes in the conditions of their sale. Along with considerable structural and staff-related changes in the State Property Committee in the middle of 2006, this caused a temporary slowdown in activities related to the offering of state-owned facilities and the search for potential investors, which affected state-owned property privatization results.

374 enterprises and production and social objects, including 134 enterprises and objects in the third quarter, were reorganized into non-state-owned types of property (Graph 5.1.1 and Annex 5.1.1), making up 51.3% and 47.2% of the corresponding indicators of the previous year, respectively.

In the sectoral context, the majority of facilities were privatized in the oil and gas industry (34 units), health-care (27 units), education (25 units), agriculture and water industry (22 units), and cotton ginning industry (9 units). In a territorial context, the majority of privatized facilities were located in Tashkent city (34 units), Fergana (28 units), Tashkent (26 units) and Surkhandarya (23 units) regions.

Over the first nine months of 2006, 4 joint-stock companies and 14 limited liability companies were established on the basis of privatized state-owned facilities, and 356 units of state-owned property were sold entirely into private ownership (Table 5.1.1).

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



Source: State Property Committee of Uzbekistan

The sale continued of state-owned and earlier unplaced packages of shares of joint-stock companies and stakes in statutory funds of limited liability companies. During the first nine months of 2006, state-owned shares of 69 joint-stock companies and stakes in the statutory funds of 96 limited liability companies were sold to private legal entities and individuals, including foreign investors, which made up 53.1% and 53.3% respectively of the corresponding indicators of the previous year.

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

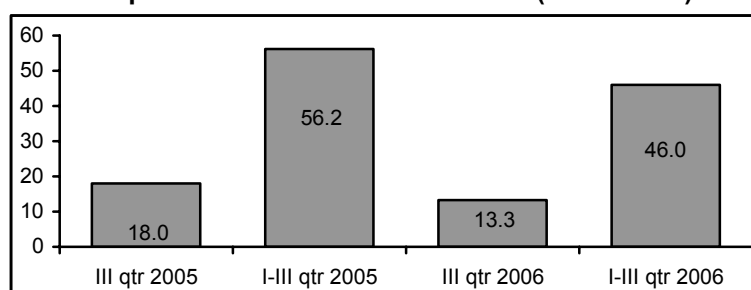
Period	Privatized in total	Including		
		Reorganized into:		Sold entirely to private individuals
		Joint-stock companies	Limited liability companies	
III qtr. 2005	284	1	28	255
I-III qtr. 2005	729	2	68	659
III qtr. 2006	134	3	9	122
I-III qtr. 2006	374	4	14	356

Source: State Property Committee of Uzbekistan

With the application of a flexible mechanism for selling state-owned assets, foreseeing the step-by-step reduction of the initial selling price, packages of shares of 50 joint-stock companies and 276 real estate objects were sold. 34 loss-making, economically insolvent production and social objects were transferred to private individuals on a competitive basis at zero redemption value, on condition that the new owners accept investment liabilities aimed at resuming the activity and financial rehabilitation of these objects. The total amount of accepted investment liabilities was 1.7 billion UZS.

During the first nine months of 2006, proceeds from the sale of state-owned assets to special accounts of the State Property Committee accounted for (in UZS terms) 46.0 billion UZS, including 13.3 billion UZS in the III quarter (Graph 5.1.2 and Annex 5.1.1). Compared with proceeds in the corresponding periods of the previous year, these indicators make up respectively 81.8% and 73.9%. At the same time, proceeds in hard currency from the sale of state-owned assets to foreign investors increased 1.4 times and accounted for 20.2 million USD.

Graph 5.1.2 Privatization Proceeds (billion UZS)



Source: State Property Committee of Uzbekistan

In total funds received, proceeds from the sale at exchange and off-exchange auctions of shares of privatized enterprises made up 26.5 billion UZS (57.6%), real estate 17.5 billion UZS (38.0%), and stakes in the statutory funds of limited liability companies 2.0 billion UZS (4.4%).

Almost half of the funds received, including the undistributed part of proceeds for the 2nd quarter of 2006, were transferred to various organizations and enterprises to fund programs of economic and social development of sectors and regions of the country based on special governmental decisions. For instance, 100% of the proceeds from the sale of state-owned shares of power industry enterprises, less operational expenses, were directed to restructuring these enterprises.

The remaining proceeds were distributed in accordance with the usage norms approved by the government. In the first nine months of 2006, the following were transferred: 21.9 billion UZS to the consolidated budget; 1.1 billion UZS to the Chamber of Commerce and Industry of Uzbekistan for the purpose of legal support for entrepreneurs; and 0.6 billion UZS to the Fund for support of entrepreneurship and restructuring of enterprises of the State Committee of the Republic of Uzbekistan on De-monopolization, Support for Competition and Entrepreneurship.

5.2. Real Estate Market

In the first nine months of 2006, 13.6 thousand real estate objects amounting to 39.1 billion UZS, including 2.0 thousand objects amounting to 7.9 billion UZS in the third quarter (Graphs 5.2.1 and 5.2.2, Annex 5.2.1) were sold on the RREE and its branches (hereinafter – “RREE”) through exchange and off-exchange (competitive bid) auctions. These figures, compared to the corresponding indicators of the previous year, made up, respectively: for the number of objects sold – 90.5% and 49.6 %; for the amount of sale proceeds – 125.3% and 72.4%.

The trend retained of forming the predominant part of the total turnover of the RREE by proceeds from sale of real estate objects at exchange auctions. In the first nine months of current year agreements to buy and sell were signed on the results: of exchange auctions – for 9.8 billion UZS (25.0%), auctions and competitive bids – for 29.3 billion UZS, which respectively makes 25.0% and 75.0% of the RREE turnover.

In the first nine months of 2006, 3.4 thousand objects offered for sale by the government were sold for 4.6 billion UZS (Graphs 5.2.1 and 5.2.2), which makes respectively 66.7% and 49.5% compared with these of the previous year. Reduction in sales of state-owned property resulted from incompleteness of the process of pre-sale preparation on many objects included in the new privatization program. As a result the percentage of state-owned assets in total objects sold through the RREE reduced by 9.0 p.p. and made 25.0%, and the absolute sale figures went down by 18.0 p.p. and made 11.7%.

The trend is being observed of increasing role of the RREE in selling real estate objects offered for sale by private legal entities and individuals. In the first nine months of 2006, 10.2 thousand units of privately-owned objects were sold for 34.5 billion UZS. Growth rates compared with the similar period of the previous year made 3.0% and 57.5% respectively.

Excess by 54.5 p.p. of sale proceeds growth rate over growth rate of objects sold resulted from increase in offering for sales of large, expensive production and social objects by private individuals.

In total number of property sold through the RREE for the first nine months of 2006 (Table 5.2.1), agriculture and water industry objects (livestock premises, poultry farms etc.) offered for sale by almost exclusively private entrepreneurship agents make the highest share (34.6%). In total, 4685 units of this category objects were sold (Annex 5.2.1), which makes 89.3% compared with this indicator in the corresponding period of the previous year. At the same time, sale proceeds grew 1.9 times and made 13216 million UZS. This is related with the increased average selling price. If in the period under analysis of the previous year the average unit selling price of agricultural objects made 1337 thousand UZS, in the current year it reached 2821 thousand UZS, i.e. it grew 2.1 times as a result of offering larger objects for sale.

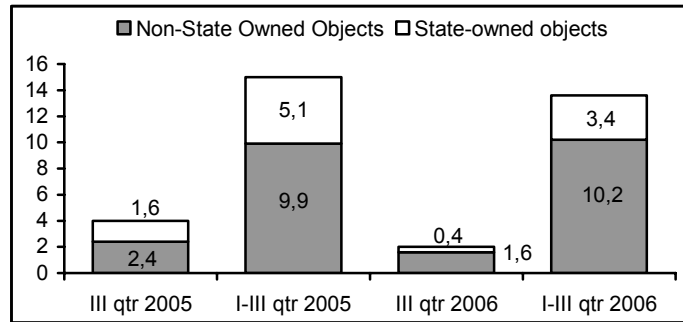
The largest portion of the RREE's turnover (41.9%) was formed by proceeds from the sale of production, administrative and residential buildings, 84.4% of which were offered for sale by private individuals. In the first nine months of 2006, 3772 such objects were sold for 16401 million UZS (Annex 5.2.2). Growth rates compared with the corresponding period of the previous year were 9.3% and 32.6% respectively.

In the first nine months of 2006, 1409 units of trade, consumer services and social infrastructure objects were sold for 7773 million UZS which was below the previous year's figures by respectively 1.4% and 23.6%. At the same time, the share of the category of real estate objects in the structure of property sold through the RREE was: in the quantitative structure – 10.4%, in the cost structure – 19.9 % (Table 5.2.1).

In the first nine months of 2006, 1033 units of construction-in-progress objects were sold for 1470 million UZS, of which 1018 units (98.5%) were offered for sale by private individuals. Growth rates compared with the corresponding period of the previous year were 29.4% and 5.5% respectively. The share of these objects remained at a low level in the quantity and cost structure of property sold through the RREE, at respectively 7.6% and 3.7% (Table 5.2.1) due to the increased sales of objects in other categories.

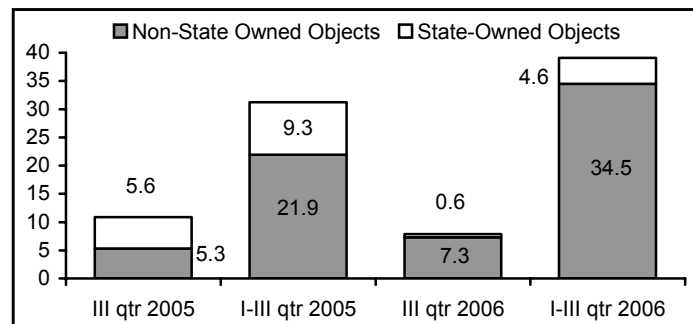
The sale through the RREE of the right to heritable life tenure of land plots intended for individual housing construction continued. In total, rights to heritable life tenure of 2664 land plots were sold in the amount of

Graph 5.2.1. Number of Objects Sold through the RREE (thousand units)



Source: Republican Real Estate Exchange

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



Source: Republican Real Estate Exchange

256 million UZS which was less than the previous year's figures by respectively 34.3% and 36.2%, due to the offering at auction of a smaller number of land plots by local authorities. As a result of this and also of the growth in the sales volume of other property types, the share of land plots in the total quantity of property sold through the RREE fell by 7.5 p.p., and in the cost volume of sales – by 0.6 p.p.

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

Types of Property	III qtr 2005	9 months of 2005	III qtr 2006	9 months of 2006
Construction in progress:				
Quantity	7.4	5.3	18.6	7.6
Amount	5.4	4.5	3.4	3.7
Objects of trade, consumer services and social infrastructure:				
Quantity	9.5	9.5	12.2	10.4
Amount	45.0	32.6	13.8	19.9
Objects of Agriculture and Water Industry				
Quantity	24.7	35.0	17.1	34.6
Amount	15.9	22.0	24.1	33.8
Land Plots:				
Quantity	30.1	27.1	12.5	19.6
Amount	1.3	1.3	0.6	0.7
Residential Buildings and Non-Residential Premises, Other Property:				
Quantity	28.3	23.1	39.6	27.8
Amount	32.4	39.6	58.1	41.9
Total:				
Quantity	100	100	100	100
Amount	100	100	100	100

Source: Republican Real Estate Exchange

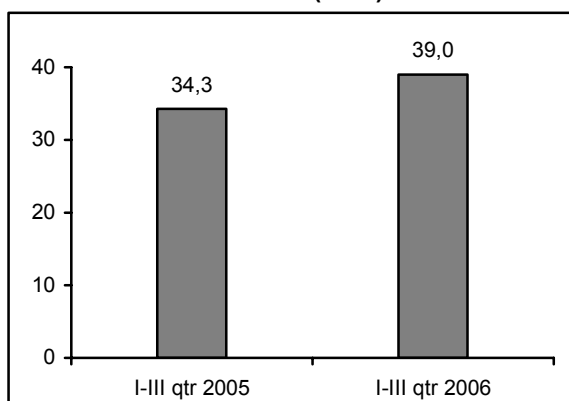
From the second half of 2003, in addition to types of property listed in Table 5.2.1, stakes in the statutory funds of limited liability companies offered for sale by the government and private individuals were sold through the RREE. In the first nine months of 2006, stakes in statutory funds of 259 limited liability companies were sold for 2011 million UZS, which made up 70.0% and 64.2% respectively compared with the corresponding period of the previous year.

Of the total number of stakes sold, 96 units (37.1%) were offered for sale by the government, and 163 units (62.9%) – by private legal entities and individuals. However, in spite of the low level of state-owned stakes, proceeds from their sale reached 1510 million UZS or 75.1% of total sales, whereas proceeds from the sale of stakes offered for sale by private individuals accounted for just 501 million UZS or 24.9%. These data show that the government offered larger, more expensive stakes than private individuals. The average selling price of a government stake was 15.8 million UZS, and of a stake of a private individual, 3.1 million UZS.

5.3. Small Business

The creation of a favorable business environment for small entrepreneurship continues to be one of the priorities of economic reform in Uzbekistan. Over the first nine months of 2006, a series of measures encouraging the development of small business were undertaken in Uzbekistan. The President of Uzbekistan passed decrees and resolutions establishing incentives for the expansion of cooperation among major industrial enterprises and such service providers as individuals working at home, and prescribing a decrease in the number and complexity of permission procedures for conducting entrepreneurial activity. The Council of the Republic of Uzbekistan for Coordination of Activities of Controlling Agencies adopted a decision on the Procedure for Coordinating Inspections of Legal Entities/Enterprises, Conducted by Controlling Agencies. These measures increased the contribution of small businesses to economic growth.

The input of small businesses to the economic growth of the country, as represented by their share in GDP over the first nine months of 2006, reached 39.0% in contrast to 34.3% in the respective period of 2005 (Graph 5.3.1, Table 5.3.1). The augmentation of the share of small business in Gross Domestic Product (by 4.7%) was attained through the increase in the number of small enterprises, whose share increased by 0.5% and microfirms – by 1.9%. Considerable growth was registered in individual businesses – 18.9% as opposed to 16.6% in the respective period of 2005 (Table 5.3.2).

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


Source: State Statistics Committee of Uzbekistan

Significant growth in the share of small business in GRP occurred in Surkhandarya region – by 14.0%, Khorezm region – by 13.3%, Samarkand region – by 12.9% and Bukhara region – by 11.8%. Growth above the national level was reported in the Republic of Karakalpakstan, Andijan region, Jizzakh region, Sirdarya and Fergana regions. At the same time, in Kashkadarya, Navoi and Tashkent region, growth continued to be under the average national level.

The growth of those employed by SEs, including individual businesses, was 109.9%, and the increase amounted to 643 thousand people compared to the respective period of 2005. The number of employed reached more than 7.1 million people and accounted for 69.1% of the total employment in the economy. At the same time, the number of employed in small businesses increased by 366.6 thousand and reached more than 1.6 million people (Table 5.3.1, Graph 5.3.2).

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

Indicator	Unit	I- III qtr 2005	I- III qtr 2006
Share of Small Entrepreneurship in the GDP of Uzbekistan	%	34.3	39.0
Number Employed by Small Enterprises	Thous. people	6515.5	7158.5**
Share employed by SEs in the total number of those employed in the economy	%	64.5	69.1
Number of Employed	Thous. people	1271.7	1638.3
Small Enterprises	Thous. people	266.3	342.4
Micro-firms	Thous. people	1005.4	1295.9
Number of new jobs in SE*	Unit	350843	339532
Number of operating SEs per 1000 people	Unit	10.0	12.9

Source: State Statistics Committee of Uzbekistan

* Estimate

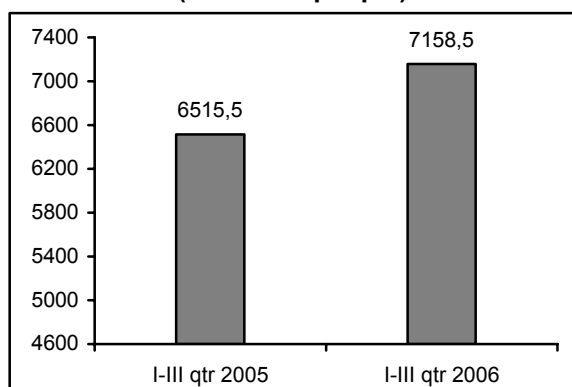
** Data provided by the Ministry of Labor and Social Protection of the Population

Table 5.3.2. Share of SEs in GDP and GRP, %

Regions	Total		including:					
			Small Enterprises		Microfirms		Individual Businesses	
	I- III qtr 2005	I- III qtr 2006	I- III qtr 2005	I- III qtr 2006	I- III qtr 2005	I- III qtr 2006	I- III qtr 2005	I- III qtr 2006
Republic of Uzbekistan	34.3	39.0	5.4	5.9	12.3	14.2	16.6	18.9
Republic of Karakalpakstan	43.6	48.5	7.7	9.4	23.7	22.7	12.2	16.4
Andijan	34.6	41.1	3.7	2.7	7.3	11.7	22.6	26.7
Bukhara	39.6	51.4	7.8	9.6	13.8	17.8	18.0	24.0
Jizzakh	57.2	60.5	2.4	3.1	33.3	29.6	21.5	27.8
Kashkadarya	34.2	38.3	2.0	2.4	17.2	17.9	15.0	18.0
Navoi	18.1	21.5	1.9	2.5	6.9	6.8	9.3	12.2
Namangan	44.3	55.8	7.1	8.0	11.7	15.6	25.5	32.2
Samarkand	49.5	62.4	5.8	5.0	14.8	22.5	28.9	34.9
Surkhandarya	45.7	59.7	4.8	6.3	19.2	25.0	21.7	28.4
Sirdarya	59.8	61.2	3.9	5.3	36.4	32.4	19.5	23.5
Tashkent	31.3	38.5	6.5	6.4	8.6	12.3	16.2	19.8
Fergana	39.1	44.9	4.9	5.6	15.8	17.4	18.4	21.9
Khorezm	46.9	60.2	3.8	5.8	19.6	21.4	23.5	33.0
Tashkent City	46.5	46.3	18.5	18.5	12.1	11.1	15.9	16.7

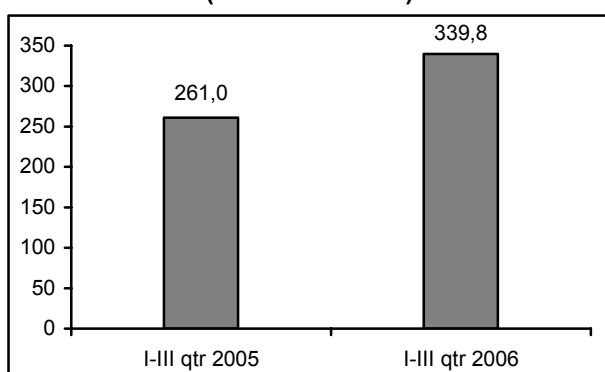
Source: State Statistics Committee of Uzbekistan

Over the first nine months of 2006, the number of operating SEs amounted to 339.8 thousand or increased by 78.8 thousand compared to the respective period of 2005. The share of operating SEs in the total number of registered SEs reached 89.7% or increased by 5.7% (Table 5.3.3). Growth in the number of SEs facilitated the creation of 339.5 thousand new jobs.

Graph 5.3.2. Number employed by SEs (thousand people)


Source: State Statistics Committee of Uzbekistan

of Localization (142 projects are being implemented by small enterprises), regional programs, and a 31.1% increase in lending offered by commercial banks compared to the first nine months of 2005. The total amount of loans extended by commercial banks to SEs exceeded UZS 469 billion.

Graph 5.3.3. Number of Operating SEs (thousand units)


Source: State Statistics Committee of Uzbekistan

tering SEs at 12.6%. Industry accounted for 6.0% of the number of SEs, transportation and communications – 1.1%, and construction – 3.7% (Table 5.3.4, Graph 5.3.4).

The leaders in the number of new jobs were Kashkadarya region – 43 thousand, Andijan region – 33.5 thousand, Samarkand region – 32.7 thousand, Fergana region – 29.8 thousand and Tashkent region – 22.0 thousand. The creation of new jobs has become a key priority in ensuring the employment of the population in these densely populated regions. However, compared to the respective period of the previous year, the rate of creation of new jobs decreased in the Republic of Karakalpakstan, Jizzakh region, Sirdarya and Khorezm regions.

The dynamics of growth in the numbers of employed and operating SEs resulted from the implementation of measures to encourage and support competitive investment projects under the framework of the Program

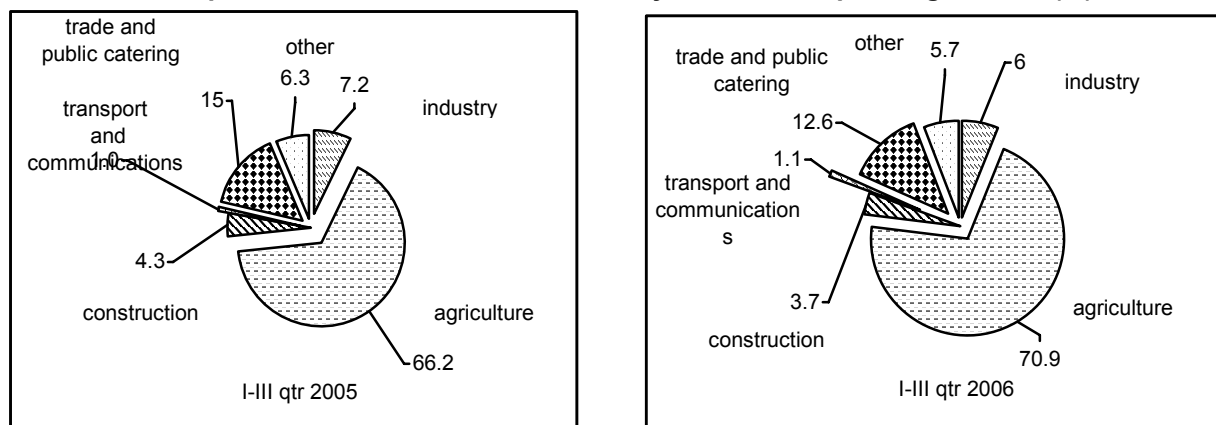
The share of operating SEs in the total registered, over the first nine months of 2006 compared to the respective period of 2005, grew in Andijan region to 92.0% compared to 71.8%, in Samarkand region – to 93.3% as opposed to 81.1%, and in Fergana region – to 91.2% as opposed to 80.8%. The trend towards positive growth was recorded in the Republic of Karakalpakstan, Jizzakh, Navoi, Namangan, Surkhandarya, Tashkent and Khorezm regions (Table 5.3.3). At the same time the share of operating SEs in Sirdarya region decreased by 4.3% compared to the respective period of 2005.

The sectoral structure of small business is dominated by agricultural SEs (including dekhkan farms) at 70.9%, followed by trade and public catering

Table 5.3.3. Number of Operating SEs by Region (thousand units)

Regions	I- III qtr 2005		I- III qtr 2006	
	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	261.0	84.0	339.8	89.7
Republic of Karakalpakstan	13.9	91.4	15.2	92.3
Andijan	15.7	71.8	23.6	92.0
Bukhara	20.5	88.4	24.2	88.4
Jizzakh	15.2	80.8	18.7	96.3
Kashkadarya	51.7	93.8	64.0	93.0
Navoi	9.6	86.7	10.9	91.5
Namangan	13.4	77.7	19.8	86.9
Samarkand	18.9	81.1	29.8	93.3
Surkhandarya	13.7	81.7	18.8	85.1
Sirdarya	11.0	88.1	11.6	83.8
Tashkent	18.2	87.1	28.1	90.5
Fergana	21.8	80.8	31.3	91.2
Khorezm	18.5	85.5	22.8	87.9
Tashkent city	18.9	72.7	21.1	77.2

Source: State Statistics Committee of Uzbekistan

Graph 5.3.4. Sectoral Structure of SE by Number of Operating Entities (%)


Source: State Statistics Committee of Uzbekistan

Table 5.3.4. Number of Operating SEs by Sector of the Economy (thousand units)

Indicators	I- III qtr 2005	I- III qtr 2006
Industry	18,9	20,3
Small enterprises	2,0	2,0
Microfirms	16,9	18,3
Agriculture	172,7	241,0
Small enterprises	3,9	5,7
Microfirms	168,8	235,3
Transport and communications	2,5	3,6
Small enterprises	0,4	0,6
Microfirms	2,1	3,0
Construction	11,3	12,6
Small enterprises	0,9	1,0
Microfirms	10,4	11,6
Trade and public catering	39,1	42,9
Small enterprises	6,8	6,9
Microfirms	32,3	36,0
Paid services	9,0	10,5
Small enterprises	1,6	1,9
Microfirms	7,4	8,6

Source: State Statistics Committee of Uzbekistan

In the sectoral context, a high growth rate in the number of operating SEs was observed in agriculture (139,5%) due to the increase in the number of small businesses by 46,1% and microfirms – by 39,4%. In transportation and communications, construction and the services sectors there was also a trend towards growth with a prevalence in the number of operating microfirms (Table 5.3.4).

In industry, the number of operating enterprises increased by 1.4 thousand. To achieve acceleration of economic growth, decrease territorial differentiation in the level of industrial development and increase the number of new jobs, including in rural areas, it is necessary to focus primarily on the development of new manufacturing small businesses in the industry.

Over the first nine months of 2006, small businesses in industry produced goods and services for the total amount of UZS 967.1

billion, which accounted for 9.3% of total industrial output. The growth rate was 132.4%, and small enterprises and individual businesses accounted for the largest shares – 4.2% and 3.3% respectively. The increase in the share of small business in the output of consumer goods to 21.1% as opposed to 20.8% in the respective period of 2005 became a positive trend. By saturating the internal market with various products, small entrepreneurship accounted for 35.2% of the total output of foodstuffs, and achieved a growth rate of 120%. Individual entrepreneurs and small enterprises accounted for a considerable share in the output of foodstuffs (Table 5.3.5).

Over the first nine months of 2006, SEs produced agricultural output worth UZS 4785.4 billion at a growth rate of 116.0%. Their share in total agricultural output reached 92.6%, an increase of 7.5% compared to the respective period of 2005, with dekhkan farms accounting for the bulk of it (64.0%) (Table 5.3.6). Such high indicators are linked with considerable growth in the number of operating entities in this sector of the economy.

The volume of retail turnover of goods produced by SEs amounted to UZS 2338.9 billion, with growth to the respective period of the previous year equaling 114.4%. The share of SEs in total goods turnover reached 43.9%, which exceeded the indicator of the respective period of 2005 by 0.8%. The bulk of this turnover was consistently represented by individual entrepreneurs – 27.4%, followed by small enterprises – 9.3% and microfirms – 7.2% (Table 5.3.5).

Table 5.3.5. Share of SEs in Production Output by Sector of the Economy (%)

Indicator	I- III qtr 2005	I-III qtr 2006
Industry		
Share of SEs in total volume of industrial output	8.9	9.3
Small enterprises	3.8	4.2
Microfirms	1.6	1.8
Individual entrepreneurs	3.5	3.3
Share of SEs in total volume of consumer goods production	20.8	21.1
Small enterprises	6.9	7.0
Microfirms	2.1	2.3
Individual entrepreneurs	11.8	11.8
Share of SEs in total volume of foodstuffs production	35.4	35.2
Small enterprises	8.4	8.1
Microfirms	2.0	1.9
Individual entrepreneurs	25.0	25.2
Agriculture		
Share of SEs in total output	85.1	92.6
Small enterprises	2.0	2.4
Microfirms	21.0	26.2
Dekhkan farms	62.1	64.0
Retail trade turnover		
Share of SEs in total trade turnover	43.1	43.9
Small enterprises	8.4	9.3
Microfirms	7.3	7.2
Individual entrepreneurs	27.4	27.4
Services		
Share of SEs in total volume of services	51.6	51.7
Small enterprises	4.5	5.7
Microfirms	2.8	3.2
Individual entrepreneurs	44.3	42.8

Source: State Statistics Committee of Uzbekistan

Table 5.3.6. Share of SEs in Foreign Trade (%)

Indicator	I- III qtr 2005	I- III qtr 2006
Exports		
Share of SEs in the total volume of exports	5.8	10.3
Small enterprises	3.0	3.5
Microfirms	0.8	1.0
Individual entrepreneurs	2.0	5.8
Imports		
Share of SEs in the total volume of imports	32.4	32.5
Small enterprises	13.6	14.9
Microfirms	14.1	11.7
Individual entrepreneurs	4.7	5.9
Number of SEs participating in foreign trade, units	3471	3489

Source: State Statistics Committee of Uzbekistan.

Over the first nine months of 2006, the number of SEs in the services sector increased by 2.3% and this affected the growth in the volume of consumer services, which amounted to UZS 753.3 billion, with growth of 116.7% over the respective period of 2005. The share in the total volume of services reached 51.7% and slightly surpassed the level of the respective period of 2005. Small enterprises in the consumer services sector attained high rates of growth (147.8%), accounting for 5.7% of total services. Individual entrepreneurs, however, continued to render the bulk of consumer services (42.8%).

Over the first nine months of 2006, the foreign trade turnover of SEs amounted to USD1484.9 million and the growth rate was 125.0%. The share of small business in total foreign trade turnover reached 19.6%. Exports compared to the respective period of 2005 increased almost two-fold and amounted to USD 450.4 million. The share of small business in total exports accounted for 10.3%, an increase of 4.5%, due to the more active involvement of individual entrepreneurs, whose share increased by 3.8% (Table 5.3.6).

The increase in the output of foodstuffs resulted in an increase in their exports. Foodstuffs accounted for 58.5% of total exports – growth of 20.6% compared to the respective period of 2005. In the commodity structure of exports, the share of cotton fiber decreased by 1.9%, energy carriers – by 4.6%, machinery and equipment – by 6.8% and chemical products – by 0.6% (Table 5.3.7).

Over the period under review, SEs imported goods worth USD 1034.5 million, which accounted for 32.5% of total imports. The growth rate of imports to the respective period of 2005 was 107.5%. Small enterprises and microfirms (in aggregate) accounted for a considerable portion in total imports – 26.6%; the share of individual entrepreneurs was 5.9%. The leading classes of goods in the structure of imports were the following: machines and equipment – 36.8%, chemical products – 18.7% and other goods – 22.0% (Table 5.3.7).

The number of SEs participating in export-import transactions increased and amounted to approximately 3.5 thousand.

Over the first nine months of 2006, considerable expansion of export activity was observed in the Republic of Karakalpakstan, where the share of SEs in the total exports of the region increased by 37.8%. In Surkhandarya this indicator increased by 15.4%, in Fergana – by 5.9% and in Sirdarya – by 6.4%. The share of SEs in total exports has grown in practically all the regions, excluding Namangan region (Table 5.3.9). Growth of exports over the first nine months of this year is linked with the seasonality factor, mainly due to the growth of agricultural production and the increase in its value added through processing.

Table 5.3.7. Commodity Structure of Export-Import of SEs (%)

	I-III qtr 2005	I- III qtr 2006
Exports	100.0	100.0
Cotton fiber	12.4	10.5
Foodstuffs	37.9	58.5
Chemical products	1.6	1.0
Energy carriers	10.1	5.5
Non-ferrous and ferrous metals	1.0	1.4
Machinery and equipment	9.7	2.9
Services	11.2	5.0
Others	16.1	15.2
Imports	100.0	100.0
Foodstuffs	11.0	10.6
Chemical products	18.7	18.7
Energy carriers	0.2	0.2
Non-ferrous and ferrous metals	6.9	9.2
Machinery and equipment	41.9	36.8
Services	1.8	2.5
Others	19.5	22.0

Source: State Statistics Committee of Uzbekistan.

Table 5.3.8. Share of SEs in Foreign Trade, by Region (%)

Region	Share of SEs in the total exports		Share of SEs in the total imports	
	I- III qtr 2005	I- III qtr 2006	I- III qtr 2005	I- III qtr 2006
Republic of Uzbekistan	5.8	10.3	32.4	32.5
Republic of Karakalpakstan	15.4	53.2	69.0	42.5
Andijan	2.3	7.7	4.7	5.5
Bukhara	3.1	5.8	65.5	56.4
Jizzakh	3.0	7.2	65.0	58.9
Kashkadarya	1.8	2.4	67.6	37.6
Navoi	0.2	7.2	2.9	4.0
Namangan	64.6	14.1	51.9	67.4
Samarkand	22.6	37.7	53.9	51.9
Surkhandarya	11.6	27.0	70.9	74.3
Sirdarya	4.2	10.6	64.0	66.7
Tashkent	7.1	9.0	41.8	41.5
Fergana	15.7	21.6	38.2	26.2
Khorezm	2.9	7.0	59.4	73.4
Tashkent City	6.9	9.7	37.1	38.5

Source: State Statistics Committee of Uzbekistan

In view of the above, we would like to conclude that the small business sector over the first nine months of 2006 was characterized by relatively high development dynamics across all its key performance indicators, including exports of its production.

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

Indicator	2000	2001	2002	2003	2004	2005	III quarter of 2005	I-III quarters of 2005	III quarter of 2006	I-III quarters of 2006
Number of privatized objects	374	1449	1912	1519	1228	980	284	729	134	374
State enterprises reorganized into joint-stock companies	152	227	223	75	28	3	1	2	3	4
State enterprises reorganized into limited liability companies	103	827	1252	981	162	75	28	68	9	14
Objects sold entirely into private ownership	117	184	325	396	1038	902	255	659	122	356
Privatization proceeds (billion UZS)	14.3	23.2	43.6	56.1	78.4	80.5	18.0	56.2	13.3	46.0

Source: State Property Committee of Uzbekistan

Note: Several joint stock companies in 2000-2003 were established by putting together assets of several state-owned enterprises

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

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
Trade, consumer services and social infrastructure objects	419	450	548	1221	436	1039	954	3203	1768	8892
Agricultural and water industry objects	602	450	510	367	413	396	904	653	2516	4376
Land plots	5700	254	8662	504	8335	551	7391	490	6296	618
Residential buildings 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		III quarter of 2005		I-III quarters of 2005		III quarter of 2006		I-III quarters of 2006	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Construction-in-progress	1087	1825	292	579	798	1394	366	268	1033	1470
Trade, consumer services and social infrastructure objects	2025	16169	376	4802	1429	10171	240	1084	1409	7773
Agricultural and water industry objects	8164	11359	969	1699	5247	6882	335	1894	4685	13216
Land plots	5221	610	1181	141	4054	401	246	49	2664	256
Residential buildings and non-residential premises, other property	4435	14074	1140	3641	3452	12372	777	4572	3772	16401
Total	20932	44037	3958	10862	14980	31220	1964	7867	13563	39116

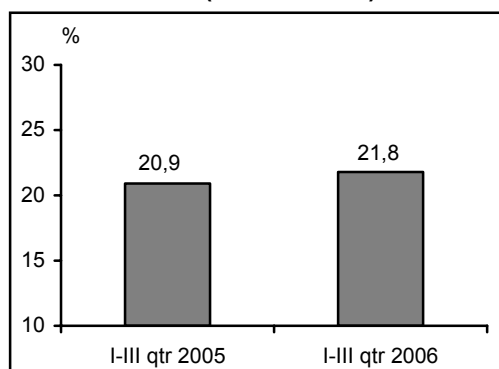
Source: the Republican Real Estate Exchange

6. Sectors of Economy

6.1. Industry

The development of industry, in accordance with the priorities established for 2006, was distinguished by high growth rates. The index of industrial growth over the first 9 months of 2006 reached 110.2% as compared to 107.7% in the corresponding period of 2005. During the period under review, industrial enterprises produced goods worth UZS 10414.1 billion.

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



Source: State Statistics Committee of Uzbekistan

Further implementation of balanced monetary and fiscal policies in the real sector of the economy facilitated the continuation of positive growth dynamics of value added production in industry. The value added growth index for industry equaled 5.9%, while its share in GDP increased from 20.9% to 21.8% (Graph 6.1.1).

The easing of the tax burden on business entities changed the structure of formation of value added, towards an increase in the shares of profit and wages. The positive results of the operations of the industrial commodity exchange, as well as the adherence to commodity exchange principles based on the use of market mechanisms of pricing, had an additional positive impact on the financial condition of many enterprises.

High growth rates in industry were supported by measures to encourage the development of processing and localizing enterprises. Over the first 9 months of 2006, localized output in the industrial sector amounted to more than UZS 1135.8 billion, while the estimated effect of import substitution equaled more than USD 912 million. An analysis of the results of priority programs on localization identified a positive tendency of decreasing material expenses for the manufacture of the main types of industrial production, including that of mechanical engineering. The automotive sector continued to account for the bulk of localized output, making up more than 73% of the total.

Table 6.1.1. Operational Personnel on Payroll, Average, thousand people

	I-III qtr 2005	I-III qtr 2006
Industry	594.6	605.5
Power industry	44.2	45.3
Fuel industry	27.1	28.3
Ferrous metallurgy	8.6	9.1
Non-ferrous metallurgy	62.0	62.7
Chemicals	36.4	38.4
Machine-building	86.6	92.3
Timber, wood-working industry	11.9	12.1
Building materials	43.9	44.2
Light industry	122.3	119.1
Food industry	93.3	92.3
Others	58.3	61.7

Source: State Statistics Committee of Uzbekistan

Measures for the expansion of cooperation among large industrial enterprises and home-based individuals rendering services, and the implementation of projects for the localization of production capacities, had a positive impact on the dynamics of employment in industry. The number of people employed in industry increased by 3.6%. Over the first 9 months of 2006, the number of operational personnel (OP) increased by 10.9 thousand people compared to the respective period of the previous year (Table 6.1.1). The number of jobs created in course of implementation of the Localization Program exceeded 2.0 thousand. In the structure of OP, processing sectors accounted for more than 62%, and the share of OP in the total employees on payroll in mechanical engineering increased from 14.6% to 15.2%.

Over the period under review, the trend towards improvement of the key performance indicators of the energy sectors of industry continued. The index of production in the fuel and power sectors grew by 4.1%, including by 6.3% in the power industry and by 2.8% in the fuel industry – (Table 6.1.2).

The growth in value of production was supported by increases in the physical output of electricity – by 3.9% and natural gas – by 3.8%. The decline in the output of oil and condensate was compensated for by growth in the output of liquefied gas – by 7.5% and coal – by 5.7% (Table 6.1.3). Export volumes of energy resources increased by 37.6%, while the domestic market remained balanced and the share of fuel and industry in revenues from exports increased from 11.7% to 14.2%. Measures for energy saving, implemented in the greatest energy-consuming sectors of the economy, facilitated an increase in the export potential and stable functioning of the fuel and energy complex.

Table 6.1.2. Indices of Industrial Output

	Index of industrial output (in % to previous period)	
	I-III qtr 2005	I-III qtr 2006
Industry	107.7	110.2
Power industry	96.6	106.3
Fuel industry	99.1	102.8
Ferrous metallurgy	119.7	107.4
Non-ferrous metallurgy	97.2	98.4
Chemicals	108.1	119.8
Machine-building	134.5	124.6
Timber, wood-working industry	123.5	121.7
Building materials	110.2	111.8
Light industry	112.9	109.6
Food industry	113.1	129.8
Others	110.8	121.7

Source: State Statistics Committee of Uzbekistan

of production in the chemical industry increased by 11.7% and surpassed the level of the previous year to reach 19.8%. At the same time, growth in the production value to a large extent depended on an increase in physical output, which predetermined relative stability of average weighted prices for chemical production.

Unlike the production parameters of the previous year, a tendency of increased physical output was observed in almost all types of production: fertilizers – by 9.0%, including phosphates – by 24.2% and nitrates – by 7.0%, synthetic ammonia – by 9.7%, synthetic fiber and threads – by 90.8%, synthetic resin and plastics – by 18.9% and sulfuric acid – by 10.3%. The key factor in the sustainable growth of chemical production was the measures undertaken to supply chemical enterprises with input, including local raw resources. The expansion of external demand due to increased price competitiveness was an additional factor of growth. Exports of chemical production increased by 23.1% compared to the respective period of the previous year, and as a result the share of the sector in the structure of export revenues of the country increased from 5.3% to 5.8%.

High indicators of development were achieved in the building materials industry, which is developing under the framework of implementation of the targeted development program. The sector's production growth index equaled 11.8%. The increase in demand was maintained by the expanded production of construction materials. Over the first 9 months of 2006 the production of cement increased by 7.6% and asbestos cement sheets – by 3.4%. In addition, there was a recovery in the growth of production of ceramic tiles – 1.9 times and wall materials – by 29.9%. One of the factors ensuring 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 processing industry, the highest growth rate was maintained in the foodstuffs production sector. Its growth index surpassed last year's level by 16.7% and reached 29.8%. The shift to a sustainable trend in the growth of the foodstuffs production sector 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 2.5 times, while maintaining a high level of saturation of the domestic market with domestically produced foodstuffs.

Mechanical engineering retained its leading position in terms of growth rates. Over the first 9 months of 2006 growth rates in mechanical engineering exceeded the average industry level by 14.4%. The index of growth of production of mechanical engineering amounted to 24.6%. Processes of localization of production capacities in the automotive sector and in some electrical engineering sub-sectors had a considerable impact on development indicators. As of today, 60% of components for Nexia vehicles and 58% for Matiz and Damas are produced locally. Whereas in the previous year 37 new components were launched, over the first 9 months of 2006 the list included 77, while in the sector in general more than 600 specific components were produced locally.

Over the first 9 months of 2006, growth tended to slow in metallurgy. The production growth index in ferrous metallurgy equaled 7.4%. In non-ferrous metallurgy, physical output decreased by 1.6%. During the first 9 months of 2006, despite continuing high demand for ferrous and non-ferrous metals in both domestic and external markets, the physical output of steel grew only by 2.1%, and rolled ferrous metals – by 1.6%. At the same time, the value of the index of growth of exports of ferrous and non-ferrous metals in the export structure of the country was among the highest, amounting to 160.8%, thanks to favorable prices on the world markets.

Over the first 9 months of 2006, enterprises of the chemical industry retained high positions in the growth dynamics of the industrial sector. The index

Table 6.1.3. Indices of Growth of Output of Major Types of Industrial Production

	Unit	Physical Output		Indices of output (in % to the previous year)	
		I-III qtr 2005	I-III qtr 2006	I-III qtr 2005	I-III qtr 2006
Power Industry					
Electric Power	Mill. Kwh	35441	36831	97.0	103.9
Fuel Industry					
Oil and Condensate	Thous. tons	4212.7	3992.1	83.0	94.8
Gas	Mill. m ³	44597.1	46270.6	99.6	103.8
Liquefied Gas	Thous. tons	156.0	167.7	108.3	107.5
Coal	Thous. tons	2265	2393	110.5	105.7
Metallurgy					
Steel	Thous. tons	481.7	491.8	109.8	102.1
Rolled Ferrous Metals	Thous. tons	451.4	458.6	112.2	101.6
Mechanical Engineering					
Tractors	Units	1947	1842	88.1	94.6
Excavators	Units	3	9	12.0	3 times
Passenger Vehicles	Units	76162	101010	157.8	132.6
Including: Damas	Units	10647	11188	173.8	105.1
Nexia	Units	46414	54549	172.0	117.5
Matiz	Units	17299	35188	127.9	2 times
Color TVs	Units	28619	61512	196.7	2.1 times
Isolated Cable	km	2043	2228	113.9	109.1
Refrigerators and Deep Freezers	Units	552	3910	19.0	7.1 times
Washing Machines	Units	660	675	75.6	102.3
Chemical Industry					
Mineral Fertilizers	Thous. tons	651.4	710.0	97.3	109.0
including: Nitrogen Fertilizers	Thous. tons	576.1	616.5	101.0	107.0
Phosphate Fertilizers	Thous. tons	75.3	93.5	76.1	124.2
Synthetic Ammonia	Thous. tons	800.8	878.7	101.5	109.7
Sulphuric Acid	Thous. tons	576.7	636.1	95.1	110.3
Synthetic Resins and Plastics	tons	89240	106065	110.5	118.9
Chemical Fibers and Threads	tons	4166	7948	70.1	190.8
Synthetic Detergents	tons	113	282	12.3	2.5 times
Building Materials Industry					
Wall Panel Materials	Mill. pieces	16.4	21.3	87.5	129.9
Cement	Thous. tons	4069.7	4380.2	105.4	107.6
Asbestos Cement Sheets	Mill. tiles	289.1	298.9	118.1	103.4
Ceramic Tiles	Thous. m ²	77.4	151.8	87.4	196.1
Paint-Lacquer Materials	tons	23658	27181	129.5	114.9
Light Industry					
Cotton Fiber	tons	776046	764650	130.6	98.5
Cotton Yarn	tons	109150	106161	85.1	97.3
Raw Silk Threads	tons	399.4	418.2	79.7	104.7

Source: State Statistics Committee of Uzbekistan.

Over the period under review, the development of mechanical engineering was marked by a tendency towards the increasing impact of external demand against the relative decline of internal demand. Whereas in the first half of 2006, the export of machinery and equipment increased by 3.5%, in the first 9 months of 2006 it increased by 24.1%, resulting in an increase in the share of mechanical engineering in the structure of export revenues of the country from 9.1% to 10.0%. The automotive sector accounted for the bulk of the increase in output of mechanical engineering. The production of vehicles increased by 32.6% and the leading rates were achieved in the production of Matiz (2 times) models. The physical output of isolated cable also increased – by 9.1%, as well as many types of consumer electric appliances: television sets, refrigerators and washing machines. At the same time, the increase in the output of electric appliances had the character of a recovery and evidenced insufficiently efficient utilization of reserves and growth factors. The level of saturation of the domestic market with domestically made home appliances remained low.

Agricultural engineering development continued to slow due to processes of restructuring and modernization of production capacities in the industry. Over the first 9 months of 2006, the physical output of tractors decreased by 5.4% and tractor trailers – by 5.8%.

The output of light industry increased by 9.6%, while the cotton processing industry continued to dominate in total output. The following industries also recorded growth in physical output: raw silk thread – by 4.7% and carpets – by 22.4%. The output of other types of light industry products declined as follows: cotton fiber – by 1.5%, cotton yarn – by 2.7%, cotton fabrics – by 34%, silk fabrics – by 6.6% and knitted goods – by 17.3%. This trend was caused by the insufficient supply of production capacities with raw materials.

The deceleration of growth rates in light industry affected the dynamics of structural shifts in industry. The share of processing sectors decreased from 43.2% to 41.4% (Graph 6.1.2). The positive trend towards an increase in the shares of mechanical engineering from 13.0% to 13.4% and the food industry from 7.9% to 8.5% did not have any significant impact on the proportion of structural shifts (Table 6.1.4). Under the influence of the price factor, the share of resource and mining sectors increased by 1.8% and reached 58.6%.

In contrast to the relatively modest growth in the major types of production of the resource and mining sectors, the share of metallurgy in the structure of value added of industry increased from 26.5% to 28.8%. The share of the fuel and power sectors accounted for 32.3%, while the share of processing sectors in value added decreased from 32.8% to 30.8%.

In the system of mechanisms to stimulate stronger 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 processing sector.

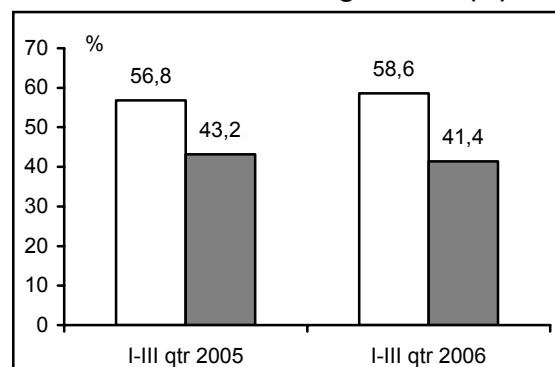
Issues of further progress in the institutional transformation of industry are becoming increasingly important. The efficient implementation of measures under the Program of Denationalization and Privatization of Enterprises and the enhancement of efficiency of corporate governance are factors in the steady development of a mechanism of partnership between the government and private sector in the joint financing of investment projects in the priority sectors of industry, infrastructure and innovations. The creation of favorable conditions for the development of innovations would make it possible to accelerate the processes of modernization of manufacturing capabilities of industrial enterprises and to increase the competitiveness of domestically produced goods.

6.2. Consumer Goods Market

Favorable economic conditions that have formed during the recent past, along with the positive dynamics of key macroeconomic indicators, sustainable growth of real wages and pensions, and the supply of domestic and imported goods to the markets in amounts that meet the solvent demand of the population facilitate further growth of consumer demand of the population and more rapid development of the consumer market. The consumer market continues to play a key role in sustaining the dynamics of the economy at a fairly high level. The consumer market is the fastest developing budget-composing sector of the economy. And it has remained one of the main engines of economic growth in the country.

During the first 9 months of 2006, the growth trend in the production of consumer goods has continued. The main factors in the sustained growth of demand for domestic production included growth in the real income of population, the increased level of saturation of the domestic market by goods of domestic production, and the development of localization and small entrepreneurship.

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 Uzbekistan

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

	I-III qtr 2005	I-III qtr 2006
Industry	100.0	100.0
Power industry	11.6	10.4
Fuel industry	16.0	17.0
Ferrous metallurgy	2.6	2.4
Non-ferrous metallurgy	17.2	19.5
Chemicals	5.4	5.1
Machine-building	13	13.4
Timber, wood-working industry	0.8	0.7
Building materials	4.0	4.2
Light industry	16.1	13.8
Food industry	7.9	8.5
Other industries	5.4	5.0

Source: State Statistics Committee of Uzbekistan

During the first 9 months of 2006, growth in production of consumer goods reached 20.9%, including 20.5% in foodstuffs and 22.2% in non-foodstuffs (Table 6.2.1). During the period under review accelerated growth in production of non-foodstuff goods over foodstuffs was observed (22.2% against 20.5%).

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

	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Consumer goods	116.4	117.1	119.4	114.2	120.6	120.9
Foodstuffs	100.2	107.0	112.4	117.2	124.6	120.5
Wine, alcoholic beverages and beer	106.5	101.4	105.2	107.1	112.8	110.4
Non-foodstuffs	133.6	128.0	126.7	112.7	118.7	122.2
Light industry goods	98.3	97.2	98.7	99.0	103.2	98.7

Source: State Statistics Committee of Uzbekistan

During the first three quarters of 2006, the share of non-foodstuffs increased by 0.6 pp, while share of foodstuffs decreased by 0.1 pp (Graph 6.2.1.).

Graph 6.2.1. Macrostructure of Consumer Goods Output (%)



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

During the period under review, close attention was paid to increasing the quality of produced consumer goods, widening the range of produced goods, introducing innovation technologies, and applying the latest methods and types of packaging. The dynamic increase in production of key types of consumer goods was made possible by the increased solvent demand of the population and the creation of the necessary conditions for attracting domestic and foreign investments.

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)

	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Cotton fabrics	83.4	76.5	72.3	63.7	65.4	66.0
Silk fabrics	88.9	81.1	70.3	98.0	101.9	93.4
Carpets and Carpet goods	102.8	94.6	82.9	106.3	113.8	122.4
Footwear	105.7	109.7	105.1	109.3	115.4	112.1
Milk and Dairy products	88.6	111.9	124.2	152.0	151.7	136.2
Canned goods	183.8	151.6	96.5	87.8	111.6	123.1
Granulated sugar	44.6	58.9	99.5	122.3	156.5	123.2
Flour	88.7	85.7	86.3	107.2	102.4	103.2
Bread and Baked products	83.9	78.1	76.4	93.1	89.8	90.9
Confectionery	174.9	148.0	128.6	47.9	69.4	90.9
Pasta	41.6	70.9	81.4	152.6	125.6	122.1
Vegetable oil	114.1	123.8	122.3	115.3	114.3	112.8
Wine	90.3	91.5	106.1	102.1	103.9	89.9
Vodka and Liquor	104.3	92.7	97.2	100.0	103.2	104.2
Soft drinks	11.1 times	10.9 times	12.7 times	167.8	2.1 times	2.1 times
Cigarettes and Filtered cigarettes	93.9	87.4	86.9	129.9	137.4	138.4
Salt	68.9	100.2	100.0	100.9	100.3	105.8

Source: State Statistics Committee of Uzbekistan

The implementation of measures directed to the formation of orders, the acceleration of the process of modernization and technical re-equipment of individual production, the increase in the financial stability of enterprises, and stabilization in the supply of raw materials had a stimulating impact on increased production of the following types of consumer goods: carpets and carpet goods (production increase of 122.4%), footwear (112.1%), milk and dairy products (136.2%), canned food (123.1%), granulated sugar (123.2%), flour (103.2%), pasta (122.1%), vegetable oil (112.8%), cigars and cigarettes (138.4%), vodka and liquors (104.2%), soft drinks (2.1 times) and salt (105.8%) (Table 6.2.2, Annex 6.2.2).

In the production of home appliances a tendency to growth remained, partly due to an increase in consumer demand spurred by the increased real income of the population, which demanded more refrigerators (an increase of 6.6 times), TV sets (2.0 times) and washing machines (2.3%) (Table 6.2.3).

Table 6.2.3. Home Appliances Output

	Units	I-III qtr. 2005	I- qtr. 2006	%
Refrigerators	pieces	552	3910	6.6 times
TV sets	pieces	31839	63720	2.0 times
Washing machines	pieces	660	675	102.3

Source: State Statistics Committee of Uzbekistan

A reduction in the production of certain types of goods was due to the following factors: in the production of wine – toughened measures for providing licenses to enterprises that produce spirits and alcohol products, in line with quality standards; bread and baked products – limited demand and an increase in the home-based bakery segment; cotton fabrics – modernization and technical re-equipment of a number of textile enterprises.

During the first nine months of 2006, the production of consumer goods increased in all regions of the country (Table 6.2.4). Significant

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

Regions	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic Uzbekistan	116.4	117.1	119.4	114.2	120.6	120.9
Republic Karakalpakstan	117.1	107.0	111.3	111.1	114.5	111.7
Andijan	180.3	159.6	157.5	111.3	118.7	125.4
Bukhara	104.7	104.8	100.5	108.8	103.1	103.9
Jizzakh	120.6	117.7	113.5	120.8	117.5	124.1
Kashkadarya	107.8	110.7	110.8	118.5	109.1	114.1
Navoi	98.3	100.6	100.4	106.8	105.8	107.2
Namangan	112.1	107.0	109.7	100.1	110.7	109.8
Samarkand	110.1	100.7	104.2	124.0	131.2	136.7
Surkhandarya	101.8	95.1	91.1	136.9	126.6	127.3
Sirdarya	109.9	99.1	100.0	109.3	135.1	130.8
Tashkent	107.7	106.2	115.7**	109.3	112.6	107.6
Fergana	115.8	113.0	108.6	109.6	110.9	109.5
Khorezm	96.5	106.5	105.9	106.2	115.1	118.2
Tashkent city	107.4*	103.7	121.0	124.2	148.2	133.4

Source: State Statistics Committee of Uzbekistan

* Shakar Investments Co JV and Toshkent Textile Joint Stock Factory are not included

** JV Uzbek Kabul is not included.

growth rates were recorded in Samarkand (136.7%) region, in Tashkent city (133.4%), in Sirdarya (130.8%), Surkhandarya (127.3%), Andijan (125.4%), Jizzakh (124.1%) and in Khorezm (118.2%) regions. High growth rates were achieved in the Republic of Karakalpakstan (111.7%), in Namangan (109.8%) and in Fergana (109.5%) regions. Those positive growth tendencies in the production of consumer goods in several regions resulted from implemented measures for the stimulation of the development and protection of the private sector and small entrepreneurship, as well as the development of home-based entrepreneurship.

In the territorial structure of production of consumer goods, increased contribution was identified in such regions as Andijan (from 29.2% to 30.3%), Jizzakh (from 2.5% to 2.6%), Samarkand (from 7.6% to 8.6%), Sirdarya (from 1.2% to 1.3%), and the city of Tashkent (from 16.5% to 18.2%) (Table 6.2.5).

The analysis shows that in the production of consumer goods, each region has its own significant potential. However, such regions as Andijan, Fergana, Tashkent and the city of Tashkent remain leaders in the

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

Regions	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic Uzbekistan	100.0	100.0	100.0	100.0	100.0	100
Republic Karakalpakstan	1.6	1.6	1.4	1.6	1.5	1.3
Regions: Andijan	29.5	29.9	29.2	28.6	29.3	30.3
Bukhara	7.4	7.6	7.3	7.1	6.5	6.2
Jizzakh	2.7	2.7	2.5	2.9	2.6	2.6
Kashkadarya	3.7	3.7	3.3	3.9	3.4	3.1
Navoi	1.9	2.1	2.2	1.8	1.8	1.9
Namangan	4.0	4.0	3.8	3.5	3.7	3.5
Samarkand	8.0	7.7	7.6	8.7	8.4	8.6
Surkhandarya	2.2	2.3	2.1	2.6	2.4	2.2
Sirdarya	1.3	1.2	1.2	1.3	1.4	1.3
Tashkent	9.8	10.3	10.8	9.4	9.6	9.6
Fergana	9.6	9.7	9.8	9.2	9.0	8.9
Khorezm	2.4	2.7	2.3	2.2	2.5	2.3
Tashkent city	15.9	14.5	16.5	17.2	17.9	18.2

Source: State Statistics Committee of Uzbekistan.

supply of consumer goods to the domestic market. Altogether they supply more than half of the total volume of goods in the domestic market (67.0% during the first 3 quarters of 2006 against 66.3% in the same period of 2005).

Per capita production of consumer goods remains differentiated among the regions. For example, in the Republic of Karakalpakstan that indicator is some 4.5 times lower than the national average. This situation is explained by objective and subjective economic factors related to production cooperation among regions and the proximity of specific sectors of the industry to sources of raw materials (Table 6.2.6).

Table 6.2.6. Grouping of Regions by Per Capita Output of Consumer Goods

Groups	Number of regions	Regions
Group 1- below 30 thous. soums per capita	1	Republic of Karakalpakstan
Group 2 - 30-60 thous soums	5	Kashkadarya, Namangan, Surkhandarya, Sirdarya, Khorezm
Group 3 -61-100 thous. soums	4	Jizzakh, Samarkand, Fergana, Navoi
Group 4 – above 100 thous. soums	4	Andijan, Bukhara, Tashkent, and Tashkent city

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

During the period under review, exports of consumer goods continued to have a growth trend (163.5%) including foodstuffs (2.5 times) and non-foodstuffs (137.4%) (Table 6.2.7, Table 6.2.8).

As a result of the implemented measures on providing support to domestic producers of consumer goods, the level of saturation of the domestic market increased by 2.9 pp. and reached 87.6%, including a 4.2 pp. increase in the production of foodstuffs, which reached 93.6% and of non-foodstuffs – 5.4 pp. and 81.2%.

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

	I qtr.2005	I-II qtr.2005	I-III qtr. 2005	I qtr.2006	I-II qtr.2006	I-III qtr. 2006
Exports, total	1327.9	2823.3	3869.5	1386.8	2971.2	4371.7
Consumer goods	148.7	319.8	503.2	174.9	423.6	822.9
Foodstuffs	24.3	62.5	118.6	36.3	113.6	294.5
Alcoholic and soft drinks, vinegar	1.1	3.4	4.3	0.9	2.7	4.1
Non-foodstuffs	124.4	257.3	384.6	138.5	310.0	528.3
Imports, total	965.4	2015.3	2968.5	999.7	2088.2	3185.4
Consumer goods	159.7	347.5	524.4	162.9	348.3	547.0
Alcoholic and soft drinks, vinegar	0.3	0.6	0.6	0.1	0.1	0.1
Non-foodstuffs	113.7	248.1	248.9	113.4	249.9	403.4

Source: State Statistics Committee of Uzbekistan

Imports of meat, vegetable oil, cigarettes, carpets, textiles and apparel, footwear, refrigerators, and washing machines declined significantly. As for TV sets, the domestic market was mainly supplied with domestic goods.

In measuring the potential of the domestic market, it is necessary to consider that its further sustainable growth will largely depend on a whole line of mixed industries, such as light and food industry, car manufacturing and timber/wood industry, pharmaceutical and other industries that serve the domestic consumer market. The most significant factor of growth remains access to capital and technologies.

Table 6.2.8. Exports and Imports of Consumer Goods (USD mill.)

	I qtr. 2005	I-II qtr.2005	I-III qtr. 2005	I qtr. 2006	I-II qtr.2006	I-III qtr. 2006
Exports, total	109.7	116.7	109.7	104.4	105.2	113.0
Consumer goods	169.7	160.0	150.5	117.6	132.4	163.5
Foodstuffs	102.4	134.8	156.0	149.4	181.6	2.5 p
Alcoholic and soft drinks, vinegar	171.8	2.4p	2p	89.4	79.0	96.5
Non-foodstuffs	194.6	167.7	148.9	111.4	120.5	137.4
Imports, total	110.4	116.4	109.5	103.6	103.6	107.3
Consumer goods	102.9	108.7	111.5	102.0	100.2	104.1
Alcoholic and soft drinks, vinegar	86.7	109.3	116.7	107.5	99.1	100.1
Non-foodstuffs	78.7	62.0	38.0	15.1	14.9	24.7
Exports, total	111.3	108.5	109.8	99.7	100.7	105.6

Source: State Statistics Committee of Uzbekistan

Additional stimulus for the development of the consumer goods' market: franchising, leasing, factoring

The consumer goods market, along with exports and investments, is one of the major factors of economic growth in Uzbekistan. The growth rates might be even more dynamic if players in the market were able to apply such underused instruments in Uzbekistan as leasing, franchising, and factoring.

Factoring was created as a financial instrument about 100 years ago in the USA and later, in the mid 1920's in Europe. Today, the international factoring industry is developing at a rapid pace. There are about 1000

factoring companies in the world, of which Europe accounts for 66% of turnover, the USA for 22% and Asia for 11%.

Being a non-collateral trade credit, factoring is usually used by big producers in payments with their distributors. The main task of a factoring bank is to ensure that a supplier can provide its clients with a competitive delay of payment without facing a deficit in working capital. This occurs when a bank, having received rights from the supplier to request payment on supply, provides the supplier long-term credit in an amount equal to up to 90% of the supply amount. At the same time, financing is provided on the day, when the invoice for the loaded party of goods is submitted. The remaining amount (10% not including commissions of the bank) is provided to the supplier after receiving payment from the buyer. In other words, a supplier may plan financial flows regardless of the payment discipline of the buyer, since payment is received from the bank immediately upon receipt of documents. Unlike credit, factoring does not require collateral, accumulation and the withdrawal of a certain amount of money from circulation. Payback of the amount is ensured by the buyer, and the financing amount is unlimited and may increase based on the sales volume of the supplier.

Leasing has advantages of both credit, in terms of providing a delay on payment, and rent, in terms of transferring necessary equipment, property or machinery for use by others. A leasing scheme includes the following participants: bank, leasing company, supplier and interested enterprise. Usually a leasing company is a 100% daughter company of a bank, which, using money provided by the bank, buys equipment from the supplier and provides it to the enterprise. Before transferring the equipment, it receives advance payment in an amount equal to 20-30% of the order. After receiving the equipment, the enterprise uses it and pays its cost in monthly installments. After full payout of all necessary payments, including interest and compulsory insurance, the equipment becomes the property of the enterprise. Trade equipment, for example, is leased for 2-3 years, which is usually enough for covering costs. At the same time, the equipment undergoes full amortization during that period, since leasing schemes use an accelerated amortization coefficient. This shows that leasing has certain advantages over commercial credits. The first thing required for obtaining credit is collateral. And in leasing, the leased equipment itself serves as collateral. Moreover, leasing payments are fully reflected in the sole cost of a product and decrease the taxable income base. Furthermore, on a leasing contract, VAT is compensated for from the whole amount of payments, including interest, insurance and transport expenditures.

In addition, leasing companies are interested in building up a clientele. For that reason they may improve the terms of contract, select suppliers, provide transportation, assemble, test-run and insure the equipment. At the same time, insurance bonuses are included in the list of leasing payments. In today's world, the main clients of leasing companies are small and medium enterprises. In developed countries, the share of leasing in investments in main assets reaches up to 40% (25% in Germany and 30% in USA).

There are clear stimuli for developing leasing in Uzbekistan: the necessity to replace worn-out assets, the need for access to money, the increase of efficiency in managing risks. For that reason, a 30-40% annual increase in this sector may even occur in the near future.

Franchising is the fastest growing and the most reliable method of running business in the world. The method is based on a scheme, whereby a large company allows small private entrepreneurs to run the business of the company in accordance with agreed-upon terms (contracts) over a certain period. In the US alone there are more than 1500 franchising systems on 75 types of activities and about 750 thousand operators or franchisees. Germany has 810 systems and 37 thousand franchisees. According to calculations, by 2010 franchising will become the most powerful distribution system in the world. And this seems true, since today alone, 40% of all retail sales in the US (about 1 trillion dollars) are made through franchises. Annually, there are about 20-25 large events (exhibitions, conferences) that are devoted to the development of franchising.

In general, all three forms of accelerating the development of the consumer market have positive perspectives in Uzbekistan and may be used by enterprises that produce consumer goods as well as by trading companies, public catering companies and services.

Supply and Demand of the World Market for Cotton Yarn

For the past few years, there has been a tendency of shifting of cotton fiber production from developed countries to developing countries. This has changed the distribution of power in the production of cotton yarn, which is based mainly in Asia (China, Pakistan, India, Turkey, Indonesia, Thailand, Taiwan and others). The share of the region accounts for 80-82% of cotton yarn production in the world (Table 6.2.9).

Table 6.2.9. World Production of Cotton Yarn by Major Producers, 2004-2005 (mln. tons)

Countries	2004	2005	Change (± %)
China	10.871	12.145	11.7%
India	2.248	2.400	6.8%
Pakistan	2.105	2.244	6.6%
Turkey	1.239	1.290	4.1%
USA	1.345	1.120	-16.7%
Brazil	0.925	0.951	2.8%
Indonesia	0.395	0.407	2.9%
Mexico	0.381	0.375	-1.6%
Thailand	0.356	0.360	0.9%
Russia	0.263	0.262	-0.3%
Taiwan	0.250	0.239	-4.2%
South Korea	0.251	0.235	-6.4%
Iran	0.202	0.207	2.6%
Egypt	0.177	0.187	5.7%
Syria	0.108	0.115	7.0%
Vietnam	0.099	0.107	8.1%
Japan	0.104	0.095	-8.8%
Others	2.296	2.222	-3.2%
Total:	23.614	24.960	5.7%

Source: International Consulting Committee on Cotton

China is the leading producer of cotton yarn in the world, accounting for 50% of world production. The world production of cotton yarn in 2005 increased by 5.7% and reached 25 million tons. Most of this growth was observed in China (by 12%, reaching 12.2 million tons) followed by India (by 7% and 24 mln. tons), Pakistan (by 7% and 2.2 mln. tons), Turkey (by 4% and 1.29 mln. tons) and other Asian countries. In industrially developed countries, the opposite tendency is observed, with production of cotton yarn decreasing, as in the USA (by 17%, reaching 1.12 mln. tons) and European countries (by 6%, reaching 1.24 mln. tons).

According to an analysis provided by the International Federation of Producers of Textiles, during 2004-2005 world production of cotton yarn exceeded world consumption by 1.5%-2%, resulting from the faster growth of spinning capacities than sewing and knitting capacities. According to data from the statistical bureau Com-Trade, the world trade of cotton yarn is equal to 2.25 mln. tons or about 8.6 bln. USD.

The main importers of cotton yarn in the world are China, South Korea, USA, Japan, Turkey, Malaysia, Russia, the EU (France, Belgium, Spain, Germany, Italy, Portugal, and Poland). The main exporters are China, Pakistan, India, USA, Mexico, Turkey, South Korea, Brazil, and the EU (Italy, Greece, Spain, Germany, Belgium).

As a result of the shift in production capacities in the production of yarn and fabrics from the EU to developing countries, taking into account existing raw material bases, it is expected that the production of cotton yarn will decrease along with stable volumes of imports equal to some 325 thous. tons. In the structure of world trade of cotton yarn, the leading position belongs to China, in both imports and exports of cotton yarn. Thus, in 2005, China exported about 464 thousand tons of cotton yarn and imported more than 790 thousand tons of it. This is explained by the fact that imports of cotton yarn (and cotton) are not quoted in China and are subject to 5% import tariffs. In addition, cotton yarn imported to China for use in exports of final goods is exempt from VAT in the amount of 17%. It must be mentioned that China mainly imports cotton yarn of lower numbers and higher quality.

6.3. Agricultural Sector

Further deepening of economic reforms in the agrarian sector was implemented through the emphasis on farms as the main economic entities in rural areas, as well as through the implementation of target programs for the sustainable development of fruit-and-vegetable producers and livestock farming.

Main tendencies. According to the results of the first 9 months of 2006, growth rates of gross agricultural production equaled 7.1% against 7.3% in the corresponding period of the previous year (Table 6.3.1). The share of the agrarian sector in the formation of GDP decreased from 23.0% to 22.4%, which is explained by the more rapid development of industry and services. The special feature of the period under review was the structural shift towards livestock farming. While growth rates of crop cultivation have slowed from 110.5% to

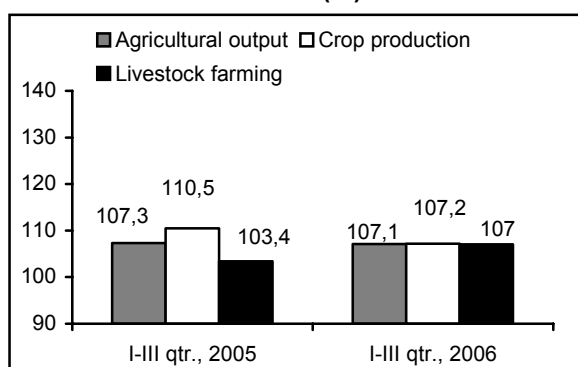
107.2%, growth rates of livestock breeding increased from 103.4% to 107.0%. The share of livestock farming increased in gross agricultural production from 43.5% to 43.9%. (Graphs 6.3.1 and 6.3.2).

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

Indicators	I-III qtr, 2005	I-III qtr., 2006
Share of agricultural production in GDP	23.0	22.4
Growth rates of agricultural production	107.3	107.1
- crop production	110.5	107.2
- livestock farming	103.4	107.0
Structure of production by types of ownership		
- state	0.4	0.3
- non-state	99.6	99.7
Share of agriculture in total investments	3.4	5.1

Source: State Statistics Committee of Uzbekistan

Graph 6.3.1. Development of Agriculture by Sector (%)



Source: State Statistics Committee of Uzbekistan

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



Source: State Statistics Committee of Uzbekistan

During the period under review certain positive shifts were observed on attracting investments into the agrarian sector. The share of agriculture in the total volume of investments increased from 3.4% to 5.1%. Investments were channeled chiefly into construction, reconstruction of water management objects, and procurement of melioration and agricultural machinery.

Crop production. In the production structure of crop production, raw cotton and grains have occupied dominant positions. While the area under cultivation continues to shrink, sustainable growth was observed in the production of almost all types of agricultural products, which resulted in production surpassing projected parameters, as did the targeted volume of government procurement of grains and raw cotton. The production of raw cotton exceeded the previous year's level by 1.8%, while production of grains exceeded it by 0.5%, potatoes – by 9.4%, vegetables – by 14.7%, berries and fruits – by 23.1%, melons – by 19.8%, and grapes – by 30.0% (Table 6.3.2).

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

Products	I-III qtr. 2005	I-III qtr. 2006	I-III qtr. 2006 in % to I-III qtr. 2005
Grains	6082.0	6111.7	100.5
Potatoes	770.4	842.5	109.4
Vegetables	2575.4	2953.7	114.7
Fruits and berries	587.6	723.3	123.1
Grapes	362.9	471.8	130.0
Melons	421.9	505.4	119.8

Source: State Statistics Committee of Uzbekistan

Grain production also showed high growth rates. Productivity in that sector, in all types of ownership, reached 4.3 tons per ha. in cultivated area, while in some regions productivity achieved even higher levels (Andijan – 5.91 t/ha, Bukhara – 5.41 t/ha, Namangan – 5.02 t/ha and Samarkand – 5.06t/ha). The harvest of vegetables was quite high as well (production grew by 378.3 thous. tons), which was a result of intensified economic reforms in the agrarian sector and favorable weather conditions. Exports of fresh fruits, vegetables and grapes increased by almost 1.5 times, in comparison with the corresponding period of 2005. At the end of the first 9 months of 2006, their volume reached 495.9 thousand tons. The favorable conditions created by the agreements between Uzbekistan and the Russian Federation, particularly on accelerated procedures of customs clearance, were also a contributing factor.

During the period under review there were no significant changes observed in the structure of cultivated area. The total cultivated area under agricultural production equaled 3607.0 thous. ha. as opposed to 3647.0 thous. ha. at the end of the III quarter of 2005. The area under technical crops, including cotton, slightly decreased (from 1472.3 thous. ha. to 1445.4 thous. ha.) (Table 6.3.3).

Livestock farming. During the first 9 months of 2006, livestock farming developed at a quite dynamic pace. At the same time, growth rates during the period under review were higher than those achieved in the past few years. For example, the production of meat (live weight) reached 820 thous. tons (an increase of 7.2%), milk – 3514.6 thous. tons (6.9%), and eggs – 1627.3 mln. pieces (16.0%) (Table 6.3.4).

Table 6.3.3. Structure-based Changes in Cultivated Area under Agricultural Production (thous. ha.)

	I-III qtr. 2005	I-III qtr. 2006	I-III qtr. 2006 in % to I-III qtr. 2005
Total area under crops	3645.5	3607.0	98.9
Grain	1616.1	1601.0	99.0
Cotton	1472.3	1445.4	98.2
Potatoes	49.8	52.4	105.2
Vegetables	137.6	151.7	110.2
Melons	34.0	36.9	108.5
Fodder crops	290.3	290.6	100.1

Source: State Statistics Committee of Uzbekistan

Table 6.3.4. Production of Main Types of Livestock Products

	Units	I-III qtr. 2005	I-III qtr. 2006	I-III qtr. 2006 in % to I-III qtr. 2005
In all types of entities				
Meat (live weight)	Thous. tons	764.6	820.0	107.2
Milk	Thous. tons	3289.0	3514.6	106.9
Eggs	Mln. pieces	1402.6	1627.3	116.0
In agrarian enterprises (shirkats)				
Meat (live weight)	Thous. tons	28.1	25.1	89.4
Milk	Thous. tons	41.0	28.3	69.2
Eggs	Mln. pieces	508.6	626.3	123.2
In farms				
Meat (live weight)	Thous. tons	12.7	17.1	134.8
Milk	Thous. tons	64.1	80.7	125.8
Eggs	Mln. pieces	50.8	35.5	69.7
In dekhkan farms				
Meat (live weight)	Thous. tons	723.8	777.8	107.5
Milk	Thous. tons	3183.9	3405.6	107.0
Eggs	Mln. pieces	843.2	965.5	114.5

Source: State Statistics Committee of Uzbekistan

Growth in the production of meat, milk and eggs was due to the increase in the number of livestock and their productivity. It must be noted that interest in livestock farming has increased among dekhkan farms and farms, which increased the number of livestock they hold. The Decree of the President of the Republic of Uzbekistan from March 23, 2006 “On measures to increase the number of livestock in private, dekhkan entities and farms” facilitates the development of livestock farming in Uzbekistan. As a result, during the period under review, the number of livestock increased by 5% and amounted to 6824.2 thousand units (Table 6.3.5).

During the period under review some 28.9 thousand economically vulnerable families were provided with cows on a free-of-charge basis according to a Resolution of the Government. According to the same Resolution, credits in the amount of 27.6 bln. soums were provided for the purchase of cattle, 166 auctions were established, where 15.4 thousand livestock were sold; and 362 veterinary clinics were established.

While the number of livestock continues to increase in dekhkan entities and farms, it continues to decrease in agrarian enterprises (shirkats). This might be explained by the liquidation of unprofitable and prospect-less shirkats. In the production of livestock products, the highest growth rates were achieved in poultry farming. This growth was mainly secured by an increase in the number of poultry (by 9.4%).

Table 6.3.5. Changes in the Number of Cattle and Fowl (in thousands)

	I-III qtr. 2005	I-III qtr. 2006	I-III qtr. 2006 in % to I-III qtr. 2005
In all categories			
Cattle	6496.6	6824.2	105.0
Cows	2802.9	2945.3	105.1
Pigs	83.8	84.2	100.5
Sheep and goats	11537.2	12297.7	106.6
Poultry	20678.4	22625.7	109.4
Horses	153.7	158.4	103.1
In agrarian enterprises (shirkats)			
Cattle	199.5	125.1	62.7
Cows	66.7	41.0	61.5
Pigs	20.0	13.6	68.0
Sheep and goats	2683.1	2571.4	95.8
Poultry	5390.6	5417.7	100.5
Horses	21.7	17.4	80.2
In farms			
Cattle	323.6	362.9	112.1
Cows	102.5	117.4	114.5
Pigs	15.3	14.0	91.5
Ship and goats	478.2	618.7	129.4
Poultry	740.0	848.4	114.6
Horses	11.1	13.9	125.2
In dekhkan farms			
Cattle	5973.5	6336.2	106.1
Cows	2633.7	2786.9	105.8
Pigs	48.5	56.6	116.7
Sheep and goats	8375.9	9107.6	108.7
Poultry	14547.8	16359.6	112.5
Horses	120.9	127.1	105.1

Source: State Statistics Committee of Uzbekistan

Development of Various Forms of Agricultural Entities. Farms became the main type of entity in the agrarian sector. 74030 farms were established on the basis of 666 reorganized shirkats. As of October 1, 2006, total number of operating farms equaled 185.5 thousand. On average, every farm owns 26.3 ha. of cultivated land. The number of employed in the farms increased to 1396.8 thousand people (Table 6.3.6).

Table 6.3.6. Main Indicators of the Activity of Farms

Indicators	Units	I-III qtr. 2005	I-III qtr. 2006
Agricultural products	Bln. Soums	901.2	1464.2
Number of operating farms	Units	123871	185492
Area of land assigned to them	Thousand ha.	3708.6	4881.9
Average size of farms	Ha.	29.9	26.3
Number of employees on farms	Thousand people	996.8	1396.8
Average employees per farm	employees	8.0	7.5
Share of farms in gross production of agriculture	%	22.1	28.3
Production growth rates of farms	%	149.3	141.6

Source: State Statistics Committee of Uzbekistan

The special feature of the period under review was a significant increase in the number of farms. This growth was observed not only in cotton and grain production, but also in fruit-and-vegetable and grape production. In order to implement the Decree of the President of the Republic of Uzbekistan from January 11, 2006, "On organizational measures to reform fruit-and-vegetable and grape production" a special Program has been developed, which is under implementation and devoted to establishing enterprises for the reprocessing of fruits, vegetables and grapes. 39 thousand fruit-and-vegetable and grape farms were established on the basis of 219 reorganized shirkats. They were provided with 319.2 thousand ha. of land. In addition, 199 agro-firms were established, specializing in the reprocessing of fruits, vegetables and grapes.

While operations of farms accelerated sharply and dekhkan entities continue to develop in a sustainable manner, a decrease in indicators of agrarian enterprises (shirkats) is becoming a trend. In general, in spite of existing problems related to land productivity and worn-out water management facilities, economic reforms in

the agrarian sector have been bringing real results, which are expressed by sustainable development of agricultural production. At the same time, in order to increase the quality of growth, it is necessary to further deepen institutional and structural reforms in villages.

6.4. Trade and Services

The increase in domestic demand facilitated steady growth in the sales of goods and services. Total retail trade turnover in January-September 2006 reached UZS 5327.2 billion and fee-based services totaled UZS 1455.8 billion. The total sales of goods increased by 12.2% (8.6% during 9 months of 2005) and fee-based services by 16.4% (14.5%) (Table 6.4.1).

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 respective period of the previous year, %
I-III qtr. 2005	4055.4	108.6	1111.8	114.5
I-III qtr. 2006	5327.2	112.2	1455.8	116.4

Source: The State Statistics Committee of Uzbekistan

As a result, in January-September 2006 the share of goods in the total sale of goods and services to the population accounted for 78.5%, and of services – 21.5% (Table 6.4.2.)

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	%
I-III qtr. 2005	5167.2	100	4055.4	78.5	1111.8	21.5
I-III qtr. 2006	6783.0	100	5327.2	78.5	1455.8	21.5

Source: The State Statistics Committee of Uzbekistan

Among major factors contributing to the growth of retail trade

turnover and fee-based services were economic growth, stimulation of the investment activity, increase in the output of consumer goods, maintenance of a moderate inflation level and the growth in the real income of the population (Table 6.4.3).

Table 6.4.3 GRP, Investments, CPI, Income and Consumption by Regions (thous. UZS)

Regions	I-III qtr. 2006					
	GRP per capita	Investments per capita	CPI	Cash income per capita, UZS '000	Retail trade turnover per capita, UZS '000	Fee-based services per capita, UZS '000
Republic of Karakalpakstan	230.5	107.2	111.0	204.5	91.1	21.8
Regions:						
Andijan	388.1	41.3	109.1	312.0	196.3	52.0
Bukhara	506.3	127.0	110.8	340.0	184.2	53.6
Jizzakh	366.9	63.3	108.6	224.1	111.6	25.8
Kashkadarya	431.1	194.2	108.2	250.7	139.2	26.6
Navoi	1026.6	214.3	107.9	534.4	211.8	48.9
Namangan	234.3	49.3	110.4	225.9	143.9	32.2
Samarkand	287.2	61.1	109.0	228.6	133.9	39.5
Surkhandarya	301.8	78.1	108.2	277.3	161.7	24.8
Sirdarya	358.5	78.1	108.7	264.5	115.9	24.5
Tashkent	563.4	88.3	109.5	346.5	217.7	37.9
Fergana	363.9	44.8	108.9	281.4	193.3	38.1
Khorezm	321.0	52.0	110.5	258.6	153.9	38.8
Tashkent City	888.1	225.6	109.5	1173.6	638.9	206.9
Republic of Uzbekistan	508.6	98.2	109.4	351.8	200.8	54.9
Level of interregional differentiation		5.5	-	5.7	7.1	9.5

Source: The State Statistics Committee of Uzbekistan

Retail Trade Turnover. The growth in retail trade turnover in January-September 2006 was mainly due to the input of Khorezm (122.9%), Navoi (121.4%) and Surkhandarya (120.8%) regions as well as Tashkent City (116.1%). This was due to their relatively high growth rates of retail trade turnover compared to the average national level (112.2%) (Table 6.4.4).

Table 6.4.4. Retail Trade Turnover and Fee-Based Services by Region

Regions	Retail trade turnover, UZS billion			Fee-based services, UZS billion		
	I-III qtr.2005	I-III qtr. 2006	Growth rate to the previous year in comparable prices, %	I-III qtr.2005	I-III qtr. 2006	Growth rate to the previous year in comparable prices, %
Republic of Karakalpakstan	113.1	143.6	103.4	25.9	34.4	121.8
Regions:						
Andijan	371.5	470.2	109.9	89.1	124.5	117.8
Bukhara	215.2	283.2	110.6	60.1	82.4	117.4
Jizzakh	90.2	118.5	109.9	21.5	27.4	116.1
Kashkadarya	277.4	339.7	110.7	43.6	65.0	127.9
Navoi	121.2	173.3	121.4	31.6	40.0	116.3
Namangan	239.6	305.2	109.1	50.4	68.3	112.7
Samarkand	306.7	392.8	109.8	83.1	116.0	129.3
Surkhandarya	227.3	314.0	120.8	36.9	48.2	117.8
Sirdarya	63.3	79.1	108.2	12.3	16.7	125.0
Tashkent	433.0	542.2	105.7	67.0	94.3	124.0
Fergana	434.8	558.5	109.4	81.0	110.7	121.2
Khorezm	153.6	225.3	122.9	42.0	56.9	123.6
Tashkent City	1008.5	1381.6	116.1	376.1	447.5	107.5
Republic of Uzbekistan	4055.4	5327.2	112.2	1111.8	1455.8	116.4

Source: The State Statistics Committee of Uzbekistan

The level of interregional differentiation of retail trade turnover per capita tended toward a gradual increase from 6.6 times to 7.1 times. Retail trade turnover per capita was higher than the average national level (200.8 thous.UZS) only in Navoi (211.8 thous.UZS) and Tashkent (217.7 thous.UZS) regions as well as in Tashkent City (638.9 thous. UZS). In 5 regions retail trade turnover per capita was within 60-70% of the average country level (Republic of Karakalpakstan (91.1 UZS '000), Jizzakh, Sirdarya, Kashkadarya and Samarkand regions).

Among major factors contributing to the relatively low level of retail trade turnover in these regions were the low level of the economic potential, price factors and consequently, corresponding solvent demand. The rates for the Republic of Karakalpakstan, Samarkand and Sirdarya regions with regard to the level of GRP per capita were the lowest in the country.

Further development of the infrastructure of the retail trade turnover occurred during January-September of 2006. 1616 enterprises of retail trade turnover were launched, of which 900 enterprises were opened in rural areas; and 479 public catering establishments; of which 318 were opened in rural areas. 181 public catering establishments attached to schools, lyceums, colleges and institutes were opened, of which 142 enterprises were opened in rural educational institutions. 33 trade and service centers of "Guzar" type were built, 18 of which in rural areas. At the same time, the rural retail trade network is not yet working at its full capacity, which is linked to the high costs of rural trade, the deficiency of working capital and the high tax burden on trade.

More than 70% of trade turnover took place at clothes and fruit-and-vegetables markets, which indicates a relatively high share of the unofficial sector in trade.

Services. The growth rates of fee-based services during January-September 2006 were due mainly to Samarkand (129.3%), Kashkadarya (127.9%), Sirdarya (125.0%) and Tashkent (124.0%) regions, as a result of relatively high growth rates of paid services provision compared to the national level (116.4%) (Table 6.4.4). There was a positive tendency towards decreased interregional differentiation in per capita consumption of services from 10.7 times during the first 9 months of 2005 to 9.5 times in the period under review. Fee-based services per capita in Tashkent City were 3.8 times higher than the average level of the country. The realization of fee-based services per capita in 5 regions (Republic of Karakalpakstan, Jizzakh, Kashkadarya, Surkhandarya, Sirdarya) amounted to 40-50% of the country's level.

The realization of the Program on Development of the Service Sector in the Republic of Uzbekistan in 2006–2010 became a crucial factor in the development of the service market within the first 9 months of 2006. The main results of the implementation of the program in the period under review will be: a) improvement of the methodic-organizational base for the development of services (the system of program implementation monitoring, the development and approval of the State Statistic Service Classifier by type of activity, etc); b)

acceleration of the formation process of new infrastructure for the services (infrastructure of banking institutions, maintenance stations for motor transport, machine-tractor depots, zoo-veterinary stations, etc); c) the allocation of UZS 1689.8 million by the Employment Fund and the creation of more than 102 thousand job places in the service sector, of which 57.9 thousand job places are to be in rural areas, which is significantly higher than the parameters envisaged by the Program for 2006.

The growth in services of 116.4 % during January-September 2006 fulfilled the target benchmark, envisaged by the Program for 2006 (113.2%). Over fulfillment of the target parameters for growth rates of transport services, communication and computerization, tourist services, hotel business, public utilities and maintenance of motor cars and other machinery as well as the other services envisaged by the Program is expected for the results of 2006. The legislative acts on the development of micro financing and mortgage lending adopted in 2006 will provide a steady basis for further expansion of the service sector, especially in rural areas.

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

Period	Industry	Including:									
		Power industry	Fuel Industry	Ferrous metallurgy	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	13.4	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	12.2	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
I qtr 2005	100.0	11.1	15.9	2.4	15.6	5.0	12.3	2.9	21.6	7.6	5.4
I-II qtr 2005	100.0	11.3	16.0	2.6	16.4	5.3	13.2	3.5	18.1	7.9	5.7
I-III qtr 2005	100.0	11.6	16.0	2.6	17.2	5.4	13.0	4.0	16.1	7.9	6.2
I qtr 2006	100.0	11.3	17.1	2.1	18.0	4.7	11.5	3.3	19.0	8.1	5.0
I-II qtr 2006	100.0	10.5	16.5	2.3	19.6	5.0	12.6	3.7	16.1	8.7	4.9
I-III qtr 2006	100.0	10.4	17.0	2.4	19.5	5.1	13.4	4.2	13.8	8.5	5.7

* including timber, wood making industry

Source: State Statistics Committee 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	106.2	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
I qtr 2005	108.3	98.2	99.2	127.4	100.7	107.3	149.5	104.4	113.1	100.1
I-II qtr 2005	107.5	98.2	99.7	126.2	96.2	107.7	138.1	108.3	113.5	105.6
I-III qtr 2005	107.7	96.6	99.1	119.7	97.2	108.1	134.5	110.2	112.9	113.1
I qtr 2006	106.8	109.4	99.4	105.8	99.5	112.1	110.6	117.0	106.8	120.9
I-II qtr 2006	109.7	107.6	100.1	106.8	100.8	116.9	119.8	111.8	111.4	129.2
I-III qtr 2006	110.2	106.3	102.8	107.4	98.4	119.8	124.6	111.8	109.6	129.8

Source: State Statistics Committee of Uzbekistan.

Annex 6.2.1. Indices of Consumer Goods Output by Region (in % to the previous period)

Regions	2001	2002	2003	2004	2005	I qtr. 2005	II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic Uzbekistan	107.6	108.3	108.4	113.5	116.6	116.4	117.1	119.4	114.2	120.6	120.9
Republic of Karakalpakstan	113.5	104.3	104.7	110.5	114.8	117.1	107.0	111.3	111.1	114.5	111.7
Regions: Andijan	123.7	97.8	120.3	145.9	147.0	180.3	159.6	157.5	111.3	118.7	125.4
Bukhara	107.4	103.3	106.0	107.9	107.1	104.7	104.8	100.5	108.8	103.1	103.9
Jizzakh	119.3	159.3	129.0	110.4	116.2	120.6	117.7	113.5	120.8	117.5	124.1
Kashkadarya	112.7	108.5	108.8	117.2	112.1	107.8	110.7	110.8	118.5	109.1	114.1
Navoi	99.98	114.5	105.3	96.1	99.5	98.3	100.6	100.4	106.8	105.8	107.2
Namangan	111.8	118.1	114.0	110.5	104.5	112.1	107.0	109.7	100.1	110.7	109.8
Samarkand	102.6	102.5	106.8	110.0	103.7	110.1	100.7	104.2	124.0	131.2	136.7
Surkhandarya	100.9	114.8	106.2	115.2	94.7	101.8	95.1	91.1	136.9	126.6	127.3
Sirdarya	120.2	103.0	104.2	107.5	98.3	109.9	99.1	100.0	109.3	135.1	130.8
Tashkent	114.1	106.6	107.1	111.7	109.7	107.7	106.2	115.7	109.3	112.6	107.6
Fergana	98.1	106.4	101.6	119.2	108.0	115.8	113.0	108.6	109.6	110.9	109.5
Khorezm	94.0	95.0	114.5	101.4	97.3	96.5	106.5	105.9	106.2	115.1	118.2
Tashkent city	101.3	120.2	102.7	103.4*	114.0	107.4*	103.7	121.0	124.2	148.2	133.4

Source: State Statistics Committee of Uzbekistan.

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

	2001	2002	2003*	2004	2005	I qtr. 2005	II qtr. 2005	I-III qtr. 2005	I qtr. 2006	II qtr. 2006	I-III qtr. 2006
Cotton fabrics	111.9	106.9	98.0	80.8	74.8	83.4	76.5	72.3	63.7	65.4	66.0
Silk fabrics	98.3	97.4	103.8	76.5	67.7	88.9	81.1	70.3	98.0	101.9	93.4
Carpets and Carpet goods	104.8	108.3	4.1p	134.5	87.1	102.8	94.6	82.9	106.3	113.8	122.4
Footwear	149.1	109.5	94,2	74.4	40.6	105.7	109.7	105.1	109.3	115.4	112.1
Milk and Dairy products	102.5	115.9	118,1	101.0	92.1	88.6	111.9	124.2	152.0	151.7	136.2
Canned goods	97.1	101.3	113,8	65.3	87.1	183.8	151.6	96.5	87.8	111.6	123.1
Granulated sugar	2.8p	7.5p	114,2	78.0	75.6	44.6	58.9	99.5	122.3	156.5	123.2
Flour	103.4	87.1	83,6	133.1	90.6	88.7	85.7	86.3	107.2	102.4	103.2
Bread and Baked products	100.4	99.5	88,4	97.8	91.6	83.9	78.1	76.4	93.1	89.8	90.9
Confectionery	108.7	97.7	81,2	130.4	70.0	174.9	148.0	128.6	47.9	69.4	90.9
Pasta	110.7	81.0	72,9	91.8	90.6	41.6	70.9	81.4	152.6	125.6	122.1
Vegetable oil	96.3	93.8	98,1	101.9	117.4	114.1	123.8	122.3	115.3	114.3	112.8
Wine	118.8	116.6	74,4	66.5	97.0	90.3	91.5	106.1	102.1	103.9	89.9
Vodka and Liquor	92.5	92.5	106,3	107.1	99.6	104.3	92.7	97.2	100.0	103.2	104.2
Soft drinks	77.8	93.1	50,4	70.2	157.2	11.1 times	10.9 times	12.7 times	167.8	2.1 times	2.1 times
Cigarettes and Filtered cigarettes	89.8	101.0	92,5	94.6	86.7	93.9	87.4	86.9	129.9	137.4	138.4
Salt	123.4	177.9	56,7	106.7	138.9	68.9	100.2	100.0	100.9	100.3	105.8

Source: State Statistics Committee of Uzbekistan.

* The data for 2003 are from large and medium enterprises.

Annex 6.3.1. Key Indicators of Agricultural Production (thousand tons)

	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr.2006	I-III qtr. 2006
Grains	3620.3	3825.2	5419.9	5792.3	5618.6	6171.3	-	4098.2	6082.0	-	5108.3	6111.7
Potatoes	731.1	744.4	777.2	834.4	895.7	924.2	-	497.2	770.4	-	534.1	842.5
Vegetables	2644.7	2777.8	2935.6	3301.4	3336.1	3517.5	10.9	788.3	2575.4	12.2	900.2	2953.7
Fruits and berries	790.9	801.3	842.9	765.8	851.7	949.3	-	240.9	587.6	-	325.8	723.3
Grapes	624.2	573.1	516.4	401.5	589.1	641.6	-	7.7	362.9	-	10.9	471.8
Melons	451.4	466.1	479.1	587.3	572.5	615.3	-	32.3	421.9	-	45.8	505.4
Meat (live weight)	841.8	853.5	865.1	936.7	998.3	1061.2	218.3	496.0	764.6	232.3	528.9	820.0
Milk	3632.5	3665.2	3721.3	4031.1	4280.6	4554.9	796.4	2068.1	328.9	844.4	2184.7	3514.6
Eggs (mln. pieces)	1254.4	1287.8	1368.9	1632.4	1860.3	1966.7	355.4	859.3	1402.6	377.8	916.2	1627.3

Source: State Statistics Committee of Uzbekistan

Annex 6.4.1. Sales of Goods and Services to the Population

Period	Total sales of goods and services		Including:			
			Sales of goods		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	7205.9	100	5577.4	77.4	1628.5	22.6
I qtr. 2005	1558.0	100	1241.9	79.7	316.1	20.3
I-II qtr. 2005	3273.9	100	2579.4	78.8	694.5	21.2
I-III qtr. 2005	5167.2	100	4055.4	78.5	1111.8	21.5
I qtr. 2006	1971.0	100	1570.2	79.7	400.8	20.3
I-II qtr. 2006	4268.2	100	3379.1	79.2	889.1	20.8
I-III qtr. 2006	6783.0	100	5327.2	78.5	1455.8	21.5

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	113.2
2005	5577.4	105.1	1628.5	115.0
I qtr. 2005	1241.9	108.7	316.1	114.2
I-II qtr. 2005	2579.4	108.1	694.5	111.6
I-III qtr. 2005	4055.4	108.6	1111.8	114.5
I qtr. 2006	1570.2	107.5	400.8	111.8
I-II qtr. 2006	3379.1	111.6	889.1	113.3
I-III qtr. 2006	5327.2	112.2	1455.8	116.4

Source: The State Statistics Committee of Uzbekistan

7. Employment and the Labor Market

Population. As of 1 October 2006, the resident population of the Republic of Uzbekistan reached 26,561.9 thousand people (Annex 7.1) and during the first 9 months of 2006 it increased by 248.5 thousand people or by 0.9% (as compared to 3 qtr last year, when it increased by 321 thousand people and by 1.2% respectively). In 2006 the growth of the population increased slightly. Thus, during the first 9 months of 2006 the population growth amounted to 218.2 thousand people and 0.8%. Such dynamics were caused by new trends in the natural migration of the population.

Of the total increase in the population 56.8 thousand people (22.9%) were in urban areas and 191.7 thousand people (77.1%) in rural areas, i.e. the main increase of the population occurred in rural areas. Nevertheless, in 2006 the urban population began to increase faster than in previous periods. The number of townspeople during grew by 8.8 thousand people more in the first 9 months of 2006 than in the corresponding period of the previous year. With the development of this positive tendency, the decline in the share of the urban population, which has been evident for several years, should cease.

The rates of population growth in certain regions were higher. The average increase in population in the country amounted to 0.9%; in Kashkadarya region population growth was 1.4%, in Surkhandarya – 1.3%, in Namangan and Khorezm regions – 1.1%. The highest absolute increase in population was registered in the region of the Fergana Valley, as well as in Samarkand and Kashkadarya regions. As previously, the lowest population growth rate was registered in Tashkent (during the first 9 months of 2006 the increase was 7.3 thousand people), but here the situation has also changed slightly, as the number of citizens in the capital is growing rapidly. In the corresponding period of 2005 it increased by 1.0 thousand people only, and for the whole year (2005) by 4.1 thousand people, which was 1.8 times less, than for the first three quarters of 2006. These changes should be regarded as positive, as Tashkent city plays an important role in the dynamics of the urbanization process and this in turn is very important for further social, economic and demographic development of the country.

The birth rate remains the major factor in the growth of the population of the Republic. There was little change in this respect in 2006; the number of births had stabilized (409.8 thousand newborns during the first 9 months of 2006 and 409.6 thousand – in the corresponding period of the previous year). Nevertheless, the increase in births by 281 people is not as important as the slow in the steady tendency towards a decrease in births, which occurred both in the cities and in the rural areas of the country. Rural areas accounted for more than two thirds of newborns (69.3%). Certain positive changes also occurred with respect to cities: the share of urban newborns increased from 30.7% to 31.0% as compared to the corresponding period of the previous year.

During the first 9 months of 2006 the number of deaths also stabilized and amounted to 105.0 thousand people, an increase of only 35 people compared to the previous year. Hence a certain decrease is anticipated in the overall death ratio by the results of the year. At the same time, this number in cities slightly decreased (by 588 people), and increased in rural areas (by 623 people). The correlation of births and deaths secured the natural stable increase of the population – 304.9 thousand people versus 304.6 thousand people in the corresponding period of the previous year.

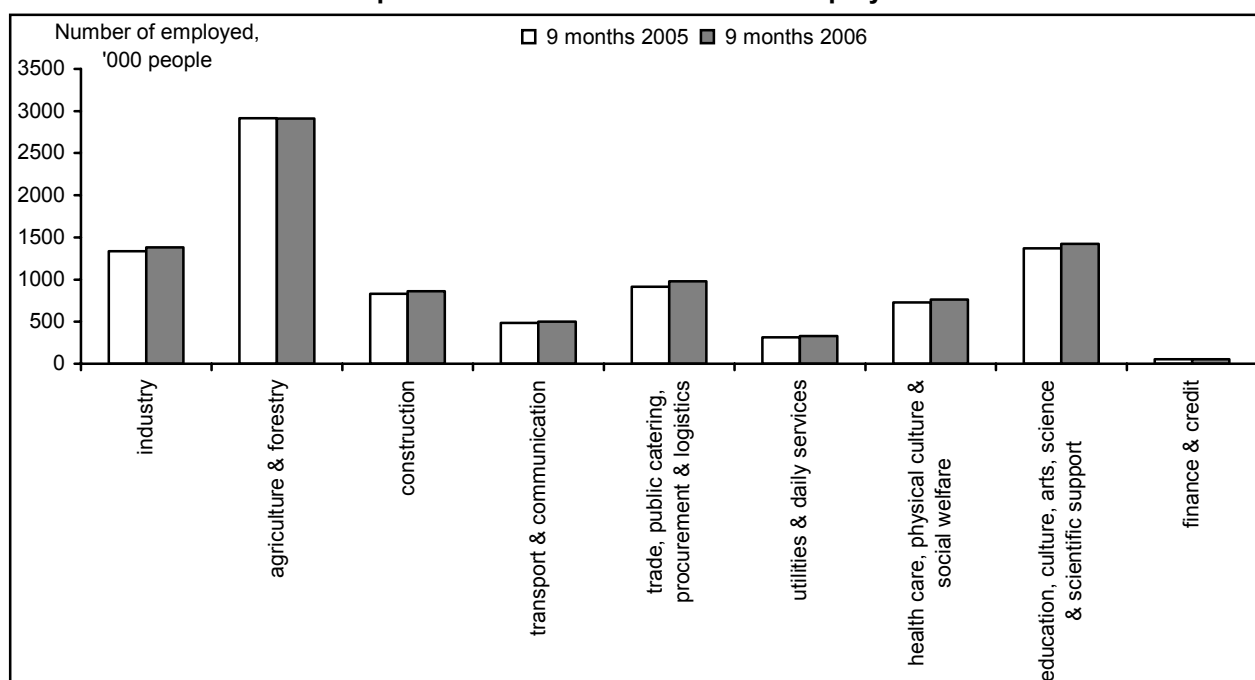
In 2006 the negative balance of external migration of the population remained. Nevertheless, the absolute value of migration outside the country decreased (as compared to the corresponding period of 2005) by 29.4 thousand people or by one and a half times. Against the background of continuous (since 1996) and uninterrupted growth in the absolute value of the negative balance of external migration, such changes in 2006 are very important, as due to this, the outflow of qualified labor power decreased. The “brain drain” is a typical example of external migration with a negative balance. Thus, the noted changes of natural movement and migration of the population indicate a certain improvement of the demographic situation in the country in 2006.

Employment of the Population. The modernization of the economy in the environment of intensification of market reforms and structural transformations has had an immediate effect on the growth of employment. During the first 9 months of 2006, the number employed in the economy compared to the respective period of 2005 increased by 258.7 thousand people or by 2.6% (Annex 7.2). The steady tendency towards accelerated growth in the number of employed in non-material production (103.5%) as compared to the industries of material production (102.1%) became a characteristic feature of the employment development in the country. During this period the number employed in this sphere increased by 117.4 thousand people, i.e. 45.4% of the total growth of the employed in the economy occurred in non-material production. As a result, the average share of the employed in these industries increased from 32.8% to 33.1%, and in material production decreased, respectively, from 67.2% to 66.9%.

Among the real sector industries, the highest rates of employment growth were in trade, public catering, procurement and logistics – by 6.9%, with an absolute increase of 62.8 thousand people. The growth in the number employed in the industrial sector has become a steady tendency. It increased by 3.6% or by 48.1 thousand people, which was 34.0% of total employment growth in material production. As a result, the share of industry in the sectoral structure of employment for the compared periods increased from 13.2% to 13.4% (Graph 7.1). There was also a high growth rate of employment in construction and in transport and communications (103.5% and 103.1% respectively). 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, as a result of the transformation of shirkats into farms and the withdrawal of surplus labor force from this sector. During 9 months of the current year 77.2 job places were created in the farms of the country. Despite the insignificant amount of dismissal - only 1.8 thousand people – the level of the employment in the agrarian sector decreased during the first 9 months of 2006 from 28.9% to 28.1%.

Graph 7.1. Sectoral Structure of the Employment



Source: State Statistics Committee of Uzbekistan

In the non-manufacturing sectors the highest increases in the number of those employed were registered in utilities and daily services (105.1%), as well as in the bodies of state and administrative management (105.6%). Thus, their share in the total number employed in economic sectors increased. The number of employed in health care, physical education and social welfare increased by 4.6% or by 33.6 thousand people. The growth rate of those employed in education, culture, the arts, science and scientific support was quite high (104.0%).

The dynamics of employment and changes in the sectoral breakdown of the employed in non-manufacturing sectors of the economy are the results of the implementation of the structural transformations in the economy and the program on the development of the service sector, which was adopted this year.

Over the first nine months of current year, 433.5 thousand jobs were created, which exceeds the forecast parameters envisaged by the territorial employment programs by 16.2%. In this period, employment was ensured mainly by the development of small business and individual entrepreneurship, where 60.9% of the total number of new jobs were created. Employment has also grown due to the arrangement of out-sourced jobs as well. While in the first nine months of the previous year 64.7 thousand jobs were created (12.7% of the total number of new jobs), in the corresponding period of this year, 114.6 thousand jobs were created (26.2%). Such a significant increase was ensured not only by the development of traditional types of work but also by the creation of new jobs at home, based on cooperation between large industrial enterprises and service providers.

Over the period under review, 40.6 thousand new home-based jobs (35.4% of their total) were created in Uzbekistan. This non-traditional type of home-based work was promoted through the implementation of the

national targeted program adopted this year. The share of new jobs created through the launching of new facilities and reconstruction of existing facilities remained at the level of 13-14% as in the previous period. As noted above, the bulk of new jobs was created in the non-public sector, resulting in an increase in its share of employment to 77.5% (from 77.3% in the respective period of the previous year).

Current Labor Market. Over the first 9 months of 2006, the current labor market included 301.5 thousand people registered with labor exchanges as job-seekers, which was 21.1 thousand people fewer than in the respective period of the previous year (Table 7.1). This downward trend has become sustainable over recent years due to the characteristics of the current labor market. The Fergana region accounted for the largest share of those registered as unemployed (14.2% of the total), followed by Samarkand region (13.1%) and Namangan region (11.3%). The rural unemployed register most frequently at the labor exchanges, and their share is growing from year to year. At the end of the third quarter of 2006, rural registered unemployed accounted for 76.8% of the total in contrast to 72.6% in the respective period of 2005. In several regions of the country the share of rural job-seekers considerably exceeded the national average level, reaching 93.8% in Surkhandarya, 89.0% in Bukhara and 86.5% in Kashkadarya regions.

Table 7.1. Key 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
I qtr 2005	106.2	80.5	75.8	37.0
I-II qtr 2005	220.5	171.7	78.0	38.1
I qtr 2006	100.2	79.8	79.6	29.5
I-II qtr 2006	204.5	165.0	80.7	29.3
I-III qtr 2006	301.5	246.9	81.9	30.6

Source: Estimated based on data provided by the labor exchanges

In 2006 the highest historical level of employment among job-seekers applying to labor exchanges was achieved. As of 1 October 2006 it had reached 81.9%, compared to 78.3% as of 1 October 2005. The positive changes of this indicator, due to increasing demand for labor in sectors of the economy, are essential for both a better equilibrium of the current labor market and for job-seekers who apply to labor exchanges. At the same time, the level of employment in rural areas was noticeably higher than in cities – 83.2% and 77.5% respectively (Table 7.2). The peak value of this indicator was recorded in Tashkent city – 84.5%, due to its developed markets and growing demand for labor.

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
I qtr 2005	26.1	80.1	19.3	61.2	73.9	76.4
I-II qtr 2005	55.4	165.1	38.8	133.1	70.0	80.0
I qtr 2006	25.0	75.2	18.9	60.9	75.6	81.0
I-II qtr 2006	52.4	152.1	33.1	131.9	63.2	86.7
I-III qtr 2006	70.2	231.3	54.4	192.5	77.5	83.2

Source: Estimated based on data provided by the labor exchanges

As of 1 October 2006, the number of unemployed in Uzbekistan amounted to 30.6 thousand, as opposed to 34.2 thousand in the respective period of the previous year. Thus, the unemployed in the country consisted of 0.3% of the work force. At the same time, according to estimates by the Ministry of Labor and Welfare made on the basis of the methodology of the International Labor Organization, the actual level of unemployment in the country is around 3.0%. Of the total officially registered unemployed, the largest portion live in the lower reaches of the Amu-Darya river. The Republic of Karakalpakstan accounted for 15.5% of the total and Khorezm region – for 12.9%. Kashkadarya and Namangan regions also accounted for relatively large shares (11.1% and 10.1% respectively).

The number of vacant positions reported as of 1 October 2006 to the labor agencies under the Ministry of Labor and Welfare decreased compared to the respective period of the previous year (from 31.5 thousand to 30.1 thousand jobs respectively). The largest number of vacancies was in Tashkent city (30.9% of the total in the country), while the largest average number of unemployed per vacant position was in the Republic of Karakalpakstan – 9.7 people vs the national average of 1.0.

The situation on the current labor market demonstrates that it would be advisable to create and strengthen adequate market competition for the employment of the population.

Annex 7.1. The Population Dynamics of Uzbekistan (beginning of the period, thous. 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
I qtr 2005 (as of 1.04.05)	26095.0	0.3	9460.7	0.2	16634.3	0.3
I-II qtr 2005 (as of 1.07.05)	26161.8	0.3	9467.5	0.1	16694.3	0.4
I qtr 2006 (as of 1.04.06)	26386.7	0.3	9516.2	0.2	16870.5	0.3
I-II qtr 2006 (as of 1.07.06)	26465.3	0.3	9531.1	0.2	16934.2	0.4
I-III qtr 2006 (as of 1.10.06)	26561.9	0.4	9546.8	0.2	17015.1	0.5

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)**

	First 9 months of 2005	Share (%) in Total Employed	First 9 months of 2006*	Share (%) in Total Employed	First 9 months of 2006* in % to first 9 months of 2005
Employed - Total	10094.6	100.0	10353.3	100.0	102.6
including:					
In material production	6786.4	67.2	6927.7	66.9	102.1
including:					
Industry	1334.8	13.2	1382.9	13.4	103.6
Agriculture and forestry	2913.9	28.9	2912.1	28.1	99.9
Transportation and Communication	331.1	3.3	343.4	3.3	103.1
Construction	831.6	8.2	860.3	8.3	103.5
Trade, public catering, procurement and logistics	915.2	9.1	978.0	9.4	106.9
Other	457.8	4.5	451.0	4.4	98.5
In non-material production	3308.2	32.8	3425.6	33.1	103.5
including:					
Transportation and Communication	151.2	1.5	157.4	1.5	104.1
Public utilities and daily services for population	314.4	3.1	330.3	3.2	105.1
Health care, physical culture and social welfare	728.5	7.2	762.1	7.4	104.6
Education, culture, arts, science, R&D and logistics	1369.2	13.7	1423.6	13.8	104.0
Finances and credit	54.1	0.5	54.1	0.5	100.0
Government and business administration	206.4	2.0	218.0	2.1	105.6
Other	484.4	4.8	480.1	4.6	99.1
In public sector, %	22.7		22.5		x
In non-public sector, %	77.3		77.5		x

* Estimate

Source: The State Statistics Committee of Uzbekistan

8. Income and Expenditure of the Population

Income of the population. In the first 9 months of 2006, the nominal cash income of the population grew by 31.9%, and the real cash income per capita – by 20.1%. Major factors in the growth of nominal cash income of the population were the increase in wages and social transfers and the creation of conditions for the generation of additional income. The growth in cash income of the population was ensured mainly due to the increases in wages by 39.9%, social transfers – by 30.2% and entrepreneurial income – by 28.5%. As a result, the share of wages in the structure of cash income of the population reached 29.1% (vs. 27.4% in the first nine months of 2005), the share of social transfers – 14.8%, and the share of entrepreneurial income – 56.1% (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 the more rapid 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 % of the total		In % of the respective period of the previous year	
	I-III qtr. 2005	I-III qtr. 2006	I-III qtr. 2005	I-III qtr. 2006
Cash income, total	100	100	131.7	131.9
Wages	27.4	29.0	133.0	139.9
Pensions, allowances, and stipends	15.0	14.8	139.2	130.2
Income from entrepreneurial activities, including income from sale of agricultural products and other income	57.6	56.1	129.2	128.5

Source: State Statistics Committee of Uzbekistan

The following factors contributed to the growth in wages: a) the increase in the number of the employed in the economy (437.7 thous. 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 21 thousand teachers of junior classes increased on average 1.3 times,

of 435 thousand teachers of senior classes – 1.2 times, medical staff –1.4 times); c) the increase in wages of those working in state budget-funded areas by 1.44 times.

The rise in social transfers was ensured by the implementation of social programs and the strengthening of support for vulnerable strata of the population. In the first nine months of 2006, the government provided social support to 1123.5 thousand families in need with children under 18 years old, 292.2 thousand non-working women looking after their children under 2 years of age, and financial assistance to 179.4 thousand low-income families. The average amount of social support and financial assistance has increased by 15%.

As a result of implementing the program “The Year of Charity and Medical Staff”, financial assistance worth 3.4 billion Soums was provided to low-income families and elderly citizens living alone. Large enterprises, institutions and organizations in a sustainable financial position provided support to orphanages, nurseries for the elderly and disabled, and boarding schools. 127.3 million Soums of funds raised through charity efforts were spent to repair the houses and flats of 1.4 thousand elderly people living alone. 23 thousand single pensioners were provided with social services at their homes.

The rise in entrepreneurial income was ensured by measures undertaken by the government to stimulate the further development of small and private business. As a result of the implementation of the Program for Stimulating Further Cooperation between Large Industrial Enterprises and the Services Sector on the basis of developing at-home labor, measures have been taken to develop various forms of at-home labor, including in cooperation with large industrial enterprises. This has facilitated the establishment of 114.6 thousand jobs and a respective increase in entrepreneurial income for the population. Over the first nine months of 2006, resources worth over 6.2 billion soums were disbursed to 10 thousand low-income families for these purposes from the Fund for Facilitating Employment.

The implementation of the Program for stimulating the increase in livestock on personal auxiliary farms, dekhkan farms and farms has resolved problems related to employment and entrepreneurial income and issues of social protection of the population. Those engaged in livestock farming have been classified as employed, and their social protection has been secured. In particular, as of 1st October of 2006, 255.5 thousand people engaged in livestock farming were given labor books, and 99.2 thousand (38.8%) of them have signed agreements with the Pension Fund.

Social support has been provided to low-income families. 28.9 thousand low-income families have been provided with livestock free of charge. A regulation has been developed and is being implemented on terms and conditions for the free provision of livestock to low-income families and families with many children in rural areas, using clear criteria to define families in need – considering their skills, conditions and possibilities to farm the livestock, including providing the animals with suitable fodder.

Table 8.1.2 Gross Regional Product, CPI, Cash Income and Expenses of Population by Regions (in percent of the average national level)

Regions	I-III qtr. 2006		
	GRP per capita	Monetary income per capita	Consumer expenditures per capita
Republic of Karakalpakstan	45.3	58.1	45.2
Regions:			
Andijan	76.2	88.7	100.0
Bukhara	99.5	96.6	94.1
Jizzakh	72.3	63.7	54.3
Kashkadarya	84.6	71.3	65.3
Navoi	201.9	151.9	99.5
Namangan	46.0	64.2	69.9
Samarkand	56.4	65.0	69.8
Surkhadarya	59.3	78.8	74.0
Sirdarya	70.6	75.2	55.8
Tashkent	111.0	98.5	100.2
Fergana	71.6	80.0	91.7
Khorezm	63.0	73.5	77.1
Tashkent City	175.5	333.6	341.9
Republic of Uzbekistan	100.0	100.0	100.0

Source: State Statistics Committee of Uzbekistan

Cash income is relatively low in the Republic of Karakalpakstan, Jizzakh, Kashkadarya, Namangan, Samarkand, and Sirdarya regions resulting in consumer expenses of the population at a level 45 – 70% of the national level (in the Republic of Karakalpakstan – 45.2%, Jizzakh – 54.3%, Kashkadarya – 65.3%, Namangan – 69.9%, Samarkand – 69.8%, and Sirdarya – 55.8%). The enhancement of the economic potential and investment attractiveness of the regions will stimulate an increase in wages and per capita income of the population in these regions, contributing to the further narrowing of inter-regional differentiation of cash income in the country.

Expenses of the population. In January-September of 2006, total cash expenses of the population in the country as a whole grew by 33.2% due to increases in consumer expenses by 32.0%, and deposits with banks and purchases of securities and foreign currency – by 44.7%.

In the structure of expenditure of the population's cash income, consumer expenses made up 72.2%, compulsory payments and contributions – 7.0% and savings – 18.3% (Table 8.1.3). In January-September of 2006, the highest share of consumer expenses in cash income was registered in Fergana (82.7%), Andijan (81.4%), Namangan (78.5%) and Samarkand (77.5%) regions, and the lowest – in Sirdarya (53.6%) and Navoi (47.3%) regions (Table 8.1.3).

Table 8.1.3. Structure of Cash Expenses of Population (in % to cash income)

Year	Monetary income of population	Monetary expenses			Cash balance
		Consumer expenses	Compulsory payments and contributions	Deposits with banks and purchase of securities and foreign currency	
I-III qtr. 2005	100	72.1	7.7	16.8	3.4
I-III qtr. 2006	100	72.2	7.0	18.3	2.5

Source: State Statistics Committee of Uzbekistan

The dynamics of cash income, expenses and savings of the population was characterized by an excess of cash income over expenses. The largest excess of cash income over expenses was registered in Navoi and Kashkadarya regions and in the Republic of Karakalpakstan, whereas in Tashkent city cash expenses and savings exceeded cash income (Table 8.1.4).

**Table 8.1.4 Excess of cash income over expenses in the regions
(in percents, cash income = 100)**

Region	Cash expenses and savings				Excess of cash income over expenses	
	Total		Out of which: consumer expenses			
	I-III qtr. 2005	I-III qtr. 2006	I-III qtr. 2005	I-III qtr. 2006	I-III qtr. 2005	I-III qtr. 2006
Republic of Karakalpakstan	83.0	76.4	59.7	56.1	120.4	130.8
Regions:						
Andijan	98.7	95.9	83.4	81.4	101.3	104.3
Bukhara	93.1	92.2	72.9	70.3	107.4	108.4
Jizzakh	91.1	83.6	67.4	61.6	109.7	119.6
Kashkadarya	82.6	79.5	67.3	66.1	121.1	125.7
Navoi	71.8	72.5	46.2	47.3	139.3	137.9
Namangan	92.6	92.8	75.8	78.5	108.0	107.7
Samarkand	96.5	91.9	77.7	77.5	103.6	108.9
Surkhadarya	86.9	83.3	70.4	67.7	115.1	120.1
Sirdarya	90.0	86.1	54.7	53.6	111.2	116.1
Tashkent	93.3	92.8	75.7	73.4	107.2	107.7
Fergana	96.4	96.1	80.6	82.7	103.8	104.1
Khorezm	95.1	93.9	75.1	75.6	105.2	106.6
Tashkent City	110.3	120.7	70.9	73.9	90.6	82.8
Republic of Uzbekistan	96.6	97.5	72.1	72.2	103.6	102.5

Source: State Statistics Committee of Uzbekistan

On the whole, in the first nine months of 2006, measures taken by the government to raise the wages of government sector employees, and the programs being implemented (localization, development of at-home work, stimulation of increase in the livestock population, etc.) facilitated the increase in entrepreneurial income, particularly of the low-income population, through the development of their entrepreneurial skills. As a result, a trend was developed of reducing the inequality of the population's income, including through decreasing the gap in their inter-regional differentiation.

The increase in household income and the improvement of its structure helped to improve the structure of households' expenses and consumption. Cash savings of the population in the form of deposits and securities have risen. Deposits of the population with banks grew by 42.4% and reached 640 billion soums. The population became more active investment-wise.

In the future, the effectiveness and targeted nature of social protection for the population will be strengthened. The Resolution by the President of the Republic of Uzbekistan has approved a program of measures to further strengthen targeted social protection and social services to the single elderly, pensioners and disabled in 2007-2010, aimed at further improvement of the system of social services to the single disabled and elderly people; strengthening the logistical base of nursing homes and sanatoriums; and the implementation of new forms, methods and technologies of social services.

9. Regions

During the first 9 months of 2006, the Republic of Karakalpakstan, 12 regions and the city of Tashkent experienced high rates of economic growth. While during the period under review GDP growth equaled 107.3%, GRP growth rates were higher than that in the following regions: Andijan (110.1%), Samarkand (109.1%), Sirdarya (109.6%), Surkhandarya (108.9%), Jizzakh (107.8%), Kashkadarya (107.7%) and in Tashkent city (108.1%). Economic growth in the regions was achieved due to the dynamic development of all sectors of the economy, especially such sectors as manufacturing, agriculture and services (Annex 9.1).

In the territorial structure of GRP, certain changes took place in comparison to the corresponding period of 2005. The share of GRP increased in such regions as Kashkadarya (from 7.6 to 7.8%), Navoi (from 5.9 to 6.2%), Andijan (from 6.8 to 6.9), Tashkent (from 9.8 to 10.4%) and Tashkent city (from 14.0 to 14.2). In the remaining regions, the share of GRP decreased. The decrease was noticeable in Bukhara (from 6.0 to 5.8%).

The largest share of GRP belonged to Tashkent city (14.2%), the lowest share belonged to Sirdarya region (1.8%) and the Republic of Karakalpakstan (2.7%) (Graph 9.1).

Per capita GRP grew at a much higher rate than that achieved during the first 9 months of 2005. This indicator was especially high in Navoi (UZS 1026.6 thous.) Tashkent (UZS 563.4 thous.), Bukhara (UZS 506.3 thous.) regions and Tashkent city (UZS 888.1 thous.). The lowest indicator was registered in the Republic of Karakalpakstan (UZS 230.5 thous.).

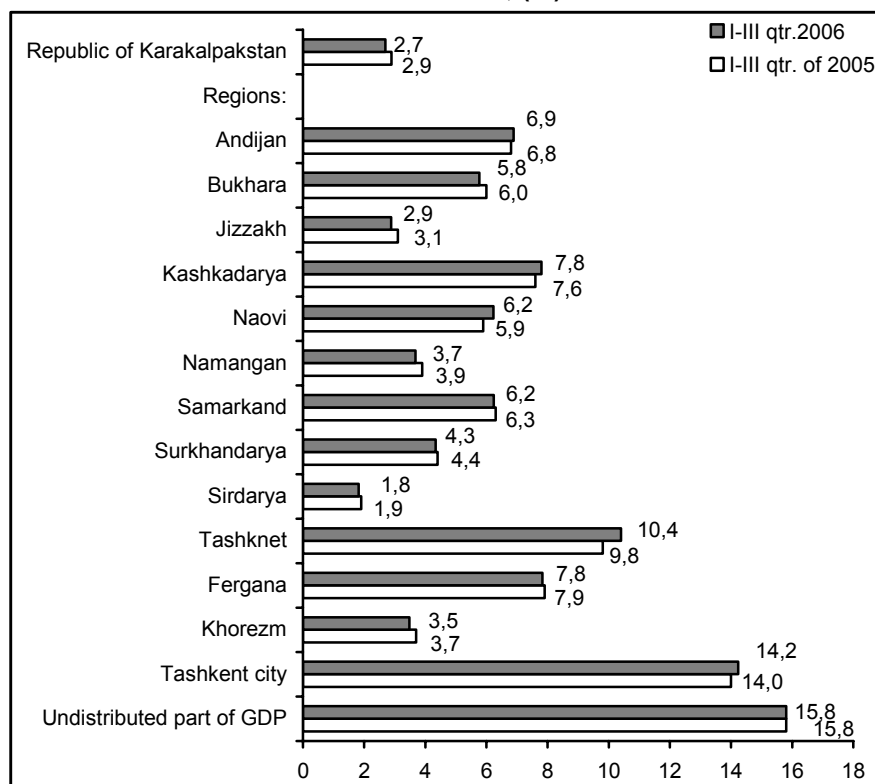
The analysis has shown that per capita GRP was lower than the national average in the following regions: in the Republic of Karakalpakstan and Namangan – 2.2 times lower, in Samarkand – 1.8 times, Surkhandarya – 1.7 times, and Khorezm – 1.6 times.

The level of interregional differentiation on per capita GRP increased from 3.7 times in the III quarter of 2005 to 4.5 times in the period under review, due to a significant gap in production of GRP between Navoi region and the Republic of Karakalpakstan (Annex 9.1).

Index calculations and grouping of regions based on production of per capita GRP (Table 9.1) have shown that the group of regions with an index above 1.000 included such regions as Navoi, Tashkent and the city of Tashkent. In the corresponding period of the previous year the group also included Bukhara region. Per capita GRP production in those regions is higher than the national average.

The second group (with an index between 0.500 and 1.000) was composed of 9 regions out of 14. The regions are Bukhara, Kashkadarya, Andijan, Jizzakh, Fergana, Sirdarya, Khorezm, Surkhandarya and Samarkand, where production of per capita GRP is lower than the national average. Even lower indices were registered in the third group, which includes Namangan region and the Republic of Karakalpakstan, where production of per capita GRP is more than 2 times lower than the national average. During the period under review, the index decreased significantly in such regions as Bukhara (from 1.402 to 0.995), Sirdarya (from 0.777 to 0.706), Khorezm (from 0.644 to 0.630), Surkhandarya (from 0.641 to 0.593), Samarkand (from 0.578 to 0.564), Namangan (from 0.491 to 0.460) and the Republic of Karakalpakstan (from 0.475 to 0.453).

Graph 9.1. Share of the Regions in the GDP of the Republic of Uzbekistan, (%)



Source: State Statistics Committee of Uzbekistan

Table 9.1. Breakdown of Regions by Production of Per Capita GRP (index calculations)

I-III qtr. of 2005	Index	I-III qtr. of 2006	Index
I. High Level	Above 1.000	I. High Level	Above 1.000
Navoi	1.773	Navoi	2.019
Tashkent city	1.754	Tashkent city	1.755
Bukhara	1.402	Tashkent	1.110
Tashkent	1.002		
II. Average Level	from 0.500 to 1.000	II. Average Level	from 0.600 to 1.000
Andijan	0.947	Bukhara	0.995
Kashkadarya	0.794	Kashkadarya	0.846
Sirdarya	0.777	Andijan	0.762
Fergana	0.706	Jizzakh	0.732
Jizzakh	0.701	Fergana	0.716
Khorezm	0.644	Sirdarya	0.706
Surkhandarya	0.641	Khorezm	0.630
Samarkand	0.578	Surkhandarya	0.593
		Samarkand	0.564
III. Low Level	below 0.500	III. Low Level	below 0.500
Namangan	0.491	Namangan	0.460
Republic of Karakalpakstan	0.475	Republic of Karakalpakstan	0.453

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

During the period under review, growth rates of industrial production were high in practically all regions except Navoi (99.6%) due to the failure to reach projected parameters of industrial production at individual industrial enterprises.

While growth rates of industrial production at a national level equaled 110.2%, the following regions achieved even higher results: city of Tashkent – 130.2%, Sirdarya – 135.3%, Samarkand – 126.9%, Andijan – 123.2%, Jizzakh – 115.4%, Namangan – 111.0% and Fergana – 110.3%.

Industrial production was especially high in such regions as Andijan, Navoi, Sirdarya, Tashkent and the city of Tashkent. However, a significant gap remains among the regions for this index. Interregional differentiation for this index increased to 25.2 times in comparison to the III quarter of 2005 (19.8 times). The index of industrial production during the period under review decreased in the majority of regions, while increasing in such regions as Andijan (from 1.201 to 1.295). Kashkadarya (from 1.302 to 1.382), Navoi (from 4.581 to 4.800), Sirdarya (from 0.361 to 0.399) and Tashkent (from 1.582 to 1.692) (Annex 9.2).

On production of consumer goods, all regions secured high and sustainable growth rates in the III quarter of 2006. While the national growth rate for this indicator was 120.9%, the following regions achieved higher results: Samarkand (136.7%), Sirdarya (130.8%), Surkhandarya (127.3%), Andijan (125.4%), Jizzakh (124.1%) and Tashkent city (133.4%) (Annex 9.1). Production of consumer goods increased in all regions. The highest indicator was registered in Andijan, while the lowest belonged to the Republic of Karakalpakstan. The gap between the regions for this indicator increased from 11.7 to 15.2 times.

The index of consumer goods production increased in five regions only: in Andijan (from 3.106 to 3.348), Navoi (from 0.594 to 0.623), Surkhandarya (from 0.293 to 0.303), Sirdarya (from 0.524 to 0.525) and the city of Tashkent (from 2.015 to 2.243). In the remaining regions, this indicator decreased. In 10 regions out of 14, per capita production of consumer goods was lower than the national average (Annex 9.2). With regard to agricultural production, all regions secured high growth rates. While the national indicator equaled 107.1%, the following regions achieved even higher results: Surkhandarya – 111.5%, Tashkent – 109.9%, Navoi – 109.0%, Samarkand – 108.3% and Jizzakh – 108.0% (Annex 9.1).

Per capita production of agricultural products increased during the period under review. The highest growth rate for this indicator was achieved in Sirdarya region, while the lowest belonged to the Republic of Karakalpakstan. During the period under review, the gap among the regions for this indicator decreased significantly, from 3.2 times to 2.6 times.

Index calculations of per capita production of agricultural products have shown that in 8 regions the indicator decreased from the level achieved in the corresponding period of the previous year, while increasing in the following regions: Andijan (from 0.948 to 0.960), Jizzakh (from 1.394 to 1.407), Navoi (from 1.287 to 1.464), Tashkent (from 1.189 to 1.476) and Fergana (from 0.801 to 0.818). In 8 regions out of 13, per capita agricultural production was higher than the national average (Annex 9.2). As for investments, growth rates were relatively high in all regions except the city of Tashkent (93.4%), which is explained by the reduction of centralized investments as well as foreign investments under state guarantee. The national average growth rate for investments was 110.0%. The following regions achieved results that were higher than the national average: the Republic of Karakalpakstan (144.5%), Samarkand (151.9%), Khorezm (136.6%), Sirdarya (132.0%), Kashkadarya (128.2%) and Andijan (125.7%).

Index estimation of per capita investments has shown that in the III quarter of 2006, in comparison with the corresponding period of 2005, the index was lower in the majority of regions, i.e. regions with indices lower than the national average have increased in number. The index has increased in the Republic of Karakalpakstan (from 0.786 to 1.089), Andijan (from 0.390 to 0.420), Kashkadarya (from 1.745 to 1.973), Samarkand (from 0.467 to 0.622), Sirdarya (from 0.680 to 0.797) and Khorezm (from 0.426 to 0.529) regions (Annex 9.2).

During the first 9 months of 2006, the growth rates of retail trade turnover were quite high in all regions. While the national indicator was 112.2%, the following regions achieved higher results: Khorezm – 122.9%, Navoi – 121.4%, Surkhandarya – 120.8% and Tashkent city – 116.1% (Annex 9.1). Per capita retail trade turnover grew significantly as well. The highest indicator for per capita production of trade turnover was registered in Tashkent city, the lowest in the Republic of Karakalpakstan. There is a significant differentiation among regions for this indicator, which increased from 6.6 times to 7.1 times.

During the period under review, retail trade turnover indices have decreased in the majority of regions, while they increased in such regions as Bukhara (from 0.915 to 0.917), Navoi (from 0.964 to 1.055), Surkhandarya (from 0.767 to 0.804), Khorezm (from 0.686 to 0.765) and the city of Tashkent (from 3.056 to 3.198) (Annex 9.2).

Growth rates of paid services remained quite high in all regions during the first 9 months of 2006. The national average for this index was 116.4%, and was exceeded by 10 regions out of 14. Especially high results were achieved in Samarkand – 129.3%, Sirdarya – 125.0%, Tashkent – 124.0%, Khorezm – 123.6%, Fergana – 121.2% regions and the Republic of Karakalpakstan – 121.8% (Annex 9.1).

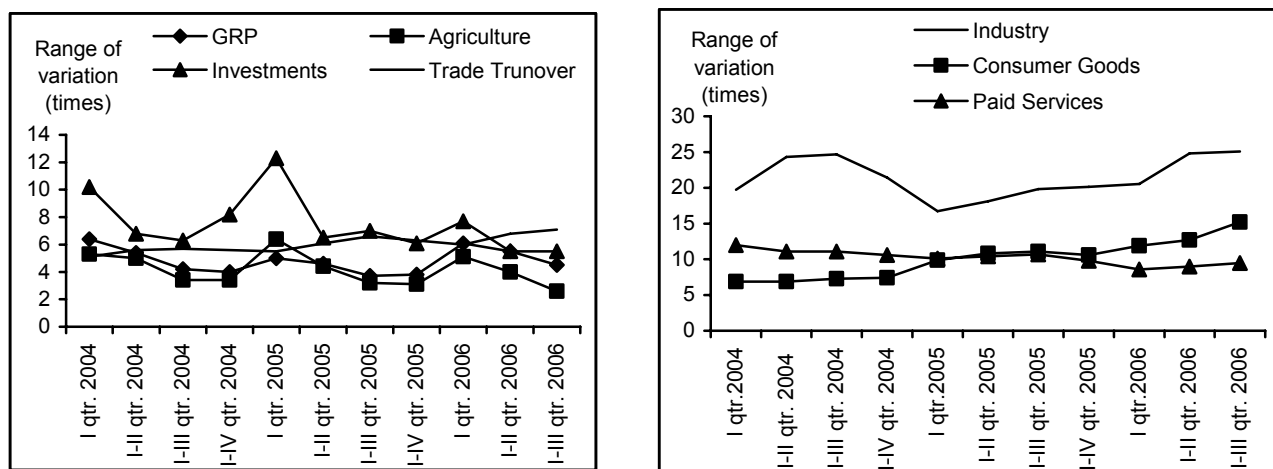
During the period under review, per capita paid services increased in all regions. The highest growth rate was registered in Tashkent city, the lowest in the Republic of Karakalpakstan. The gap between advanced and underdeveloped regions for this indicator has decreased from 10.7 times to 9.5 times.

Indices for paid services have increased in 10 regions out of 14. This shows that in the majority of regions, paid services have grown more rapidly than the national average. However, the indices have decreased in Jizzakh (from 0.484 to 0.471), Navoi (from 0.917 to 0.891) regions and the city of Tashkent (from 4.157 to 3.791) (Annex 9.2).

In general, the results of the first 9 months of 2006 have shown that the regions have been developing at sustainable rates, which was facilitated by structural reforms directed the accelerated development of the manufacturing sector and services.

Interregional differentiation has decreased for agricultural production, investments, and paid services. However, the gap between regions for development of industry and services remains high.

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



Source: State Statistics Committee of Uzbekistan

The Program on the formation of a single complex strategy for development of the territories of Uzbekistan for the period of 2007-2011, which is being developed, is devoted to securing the balanced and complex development of the regions.

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	I qtr. 2005	I-II qt. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	89.7	98.3	100.9	107.5	105.0	106.0	103.0	109.2	111.0	106.0	106.1	104.6
regions:												
Andijan	102.8	108.9	102.9	101.9	104.6	108.5	111.0	109.8	111.0	105.3	109.5	110.1
Bukhara	104.2	103.5	102.0	101.9	107.3	106.9	104.5	106.1	111.5	99.7	103.4	105.6
Jizzakh	104.2	106.5	110.0	110.2	108.6	107.0	106.5	106.5	112.0	106.9	109.4	107.8
Kashkadarya	99.0	105.0	109.4	105.7	102.5	106.2	103.8	105.0	106.5	104.9	107.3	107.7
Navoi	103.2	101.4	104.7	102.0	106.3	100.6	102.0	98.8	100.0	102.4	104.2	105.3
Namanga	108.0	104.5	103.2	103.7	106.5	106.5	106.9	106.0	106.1	103.9	108.2	106.5
Samarkand	104.6	103.5	107.9	106.9	105.4	106.4	104.1	103.6	103.0	107.4	107.7	109.1
Surkhandarya	105.5	108.0	103.7	103.8	105.7	104.5	106.7	103.5	101.8	101.6	104.6	108.9
Sirdarya	102.6	102.9	97.5	102.4	107.8	111.4	104.6	104.0	114.6	107.3	110.8	109.6
Tashkent	110.9	104.2	103.4	103.0	109.4	103.0	104.5	103.8	103.4	102.8	104.3	106.9
Fergana	106.1	99.5	104.8	101.9	103.9	105.6	103.5	103.9	103.4	104.4	105.6	106.8
Khorezm	94.8	103.0	103.6	103.9	113.3	106.6	104.4	108.1	111.9	102.3	103.4	103.6
Tashkent city	104.5	104.3	101.5	104.0	106.2	111.4	103.0	107.8	110.5	108.7	108.5	108.1
Republic of Uzbekistan	103.8	104.2	104.0	104.2	107.4	107.0	104.8	107.2	107.2	103.6	106.6	107.3

Source: State Statistics Committee of Uzbekistan

Industrial Production

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qt. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	111.2	95.9	94.9	98.4	115.6	118.4	141.3	147.2	141.6	112.5	114.3	106.9
regions:												
Andijan	90.0	128.1	105.5	118.1	134.7	134.5	153.5	146.9	143.4	110.4	118.5	123.2
Bukhara	103.9	107.7	103.3	102.5	108.7	102.1	108.5	102.0	101.5	100.1	102.0	103.7
Jizzakh	122.7	119.9	130.3	115.1	108.6	131.6	120.0	131.5	136.6	119.7	119.6	115.4
Kashkadarya	101.9	104.4	112.1	114.0	108.3	101.3	103.0	101.5	101.7	104.0	105.3	105.5
Navoi	102.2	100.6	106.5	99.4	105.6	97.8	100.1	95.0	96.6	100.4	101.8	99.6
Namanga	126.1	118.2	112.5	113.3	113.0	114.0	112.4	116.8	113.9	104.6	113.2	111.0
Samarkand	97.3	105.7	106.7	110.6	115.0	108.9	111.6	102.9	107.2	118.7	122.4	126.9
Surkhandarya	107.9	104.1	113.1	104.3	112.3	104.2	111.7	105.2	103.1	103.1	100.0	108.7
Sirdarya	106.7	101.3	122.4	98.9	103.8	103.7	111.4	119.3	121.1	116.7	145.6	135.3
Tashkent	108.8	109.1	108.3	101.4	108.2	100.1	107.8	102.8	105.4	100.1	103.3	104.1
Fergana	108.5	101.4	108.7	101.8	103.6	105.0	106.3	106.9	105.5	106.6	109.8	110.3
Khorezm	103.5	100.3	103.9	101.0	107.6	127.0	118.5	141.3	139.5	110.0	104.5	106.1
Tashkent city	113.2	110.5	111.7	111.9	103.9	116.3	111.4	111.2	119.4	123.7	129.5	130.2
Republic of Uzbekistan	105.9	107.6	108.3	106.0	109.4	107.2	108.3	107.5	107.7	106.8	109.7	110.2

Source: State Statistics Committee of Uzbekistan

Consumer Goods Production

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qt. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	105.9	113.5	104.3	104.7	110.5	114.8	117.1	107.0	111.3	111.1	114.5	111.7
regions:												
Andijan	92.6	123.7	97.8	120.3	145.9	147.0	180.3	159.6	157.5	111.3	118.7	125.4
Bukhara	105.9	107.4	103.3	106.0	107.9	107.1	104.7	104.8	100.5	108.8	103.1	103.9
Jizzakh	123.6	119.3	159.3	129.0	110.4	116.2	120.6	117.7	113.5	120.8	117.5	124.1
Kashkadarya	113.1	112.7	108.5	108.8	117.2	112.1	107.8	110.7	110.8	118.5	109.1	114.1
Navoi	115.5	99.98	114.5	105.3	96.1	99.5	98.3	100.6	100.4	106.8	105.8	107.2
Namanga	124.3	111.8	118.1	114.0	110.5	104.5	112.1	107.0	109.7	100.1	110.7	109.8
Samarkand	92.4	102.6	102.5	106.8	110.0	103.7	110.1	100.7	104.2	124.0	131.2	136.7
Surkhandarya	111.9	100.9	114.8	106.2	115.2	94.7	101.8	95.1	91.1	136.9	126.6	127.3
Sirdarya	110.1	120.2	103.0	104.2	107.5	98.3	109.9	99.1	100.0	109.3	135.1	130.8
Tashkent	112.5	114.1	106.6	108.4	111.7	109.7	107.7	106.2	115.7	109.3	112.6	107.6
Fergana	111.3	98.1	106.4	101.6	119.2	108.0	115.8	113.0	108.6	109.6	110.9	109.5
Khorezm	107.8	94.0	95.0	114.5	101.4	97.3	96.5	106.5	105.9	106.2	115.1	118.2
Tashkent city	111.3	101.3	120.2	102.7	103.4	114.0	107.4	103.7	121.0	124.2	148.2	133.4
Republic of Uzbekistan	106.2	107.6	108.4	108.5	113.5	116.6	116.4	117.1	119.4	114.2	120.6	120.9

Source: State Statistics Committee of Uzbekistan

Agricultural Production

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	65.6	90.5	101.2	134.3	114.4	104.6	105.8	123.3	123.7	103.9	107.2	103.8
regions:												
Andijan	110.2	107.1	102.0	101.7	102.6	104.7	107.7	100.6	100.0	103.3	106.7	107.4
Bukhara	106.3	102.0	102.6	108.8	109.3	109.2	109.4	110.9	122.5	111.7	107.0	104.3
Jizzakh	100.1	106.9	113.2	116.6	114.0	104.0	106.8	106.6	113.1	105.6	113.2	108.0
Kashkadarya	89.4	106.9	119.9	103.1	109.9	109.6	109.0	112.5	110.6	108.9	114.9	106.2
Navoi	105.0	107.2	106.7	113.7	109.9	107.5	109.7	108.6	109.2	107.9	112.3	109.0
Namanga	111.5	101.4	101.5	102.2	109.0	103.1	104.7	100.8	100.9	104.7	112.0	105.2
Samarkand	104.8	103.9	112.4	11.4	105.8	103.9	105.2	103.6	101.0	103.0	107.5	108.3
Surkhandarya	106.7	110.5	102.8	105.8	106.5	100.5	108.8	102.7	100.3	103.2	108.4	111.5
Sirdarya	101.9	105.8	98.8	109.4	111.6	112.9	105.8	105.5	119.1	109.7	102.7	106.0
Tashkent	114.9	103.7	102.4	104.1	110.2	103.8	106.7	110.7	106.5	102.4	100.4	109.9
Fergana	113.5	100.4	105.2	101.9	108.4	107.2	104.6	110.3	102.5	101.7	105.3	106.0
Khorezm	82.8	103.6	106.4	114.0	114.3	103.2	104.2	111.1	112.8	102.9	101.7	102.3
Tashkent city												
Republic of Uzbekistan	103.1	104.2	106.0	107.3	108.9	105.4	106.6	107.2	107.3	104.5	107.2	107.1

Source: State Statistics Committee of Uzbekistan

REGIONS

Investments

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	83.0	105.8	114.0	115.7	104.1	76.2	45.6	53.6	74.8	125.2	176.2	144.5
regions:												
Andijan	101.0	118.4	105.0	108.3	61.9	129.2	74.3	112.7	113.6	157.5	125.5	125.7
Bukhara	108.0	119.2	103.0	92.3	151.3	120.7	135.1	139.0	139.0	147.0	119.1	105.0
Jizzakh	111.0	77.5	112.0	63.4	107.7	111.5	125.0	166.1	142.6	115.2	100.1	109.8
Kashkadarya	93.0	130.2	93.4	112.8	80.9	116.2	125.8	127.9	127.1	112.4	104.2	128.2
Navoi	116.0	107.4	97.9	113.8	83.2	141.9	102.3	135.6	135.0	147.5	113.9	109.4
Namanga	103.0	85.5	100.0	101.7	104.5	97.1	102.8	100.0	98.5	106.8	108.2	109.5
Samarkand	104.0	107.1	99.8	105.4	118.1	110.6	81.6	83.2	90.2	137.2	157.1	151.9
Surkhandarya	102.0	115.7	101.0	104.0	92.9	136.4	105.7	125.2	133.4	91.8	99.4	106.9
Sirdarya	100.2	101.3	84.4	102.4	139.7	89.6	166.1	91.7	73.3	95.1	139.1	132.0
Tashkent	106.0	112.1	102.0	105.5	117.6	112.7	96.6	100.7	108.6	87.6	109.2	102.1
Fergana	107.0	108.7	107.0	68.4	91.8	119.2	2.4 p.	128.8	123.3	68.9	94.3	105.5
Khorezm	102.0	95.5	103.0	65.8	2.2 p	44.1	94.0	98.4	79.2	103.8	111.3	136.6
Tashkent city	92.0	106.3	80.9	112.6	121.6	88.4	126.1	117.4	122.6	91.5	97.6	93.4
Republic of Uzbekistan	101.0	104.0	103.6	104.8	107.3	105.7	104.2	105.4	106.9	104.5	106.9	110.0

Source: State Statistics Committee of Uzbekistan

Retail Trade Turnover

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	103.6	117.9	101.2	108.5	102.1	95.9	112.4	108.3	101.0	100.2	101.0	103.4
regions:												
Andijan	106.4	109.3	107.3	96.4	91.8	95.0	100.1	101.5	102.1	102.3	111.3	109.9
Bukhara	110.3	114.7	107.0	101.4	104.4	110.1	114.1	114.5	113.4	106.6	110.0	110.6
Jizzakh	111.0	125.8	116.1	103.7	106.1	95.1	109.5	107.2	102.7	105.9	106.9	109.9
Kashkadarya	109.9	116.5	106.7	109.4	100.0	101.5	107.7	107.7	109.1	107.3	111.1	110.7
Navoi	105.4	113.3	103.8	104.7	125.5	105.5	117.8	109.8	107.7	116.7	1119.7	121.4
Namanga	110.8	118.8	113.5	97.9	99.9	109.2	110.1	112.9	114.4	107.0	108.2	109.1
Samarkand	113.6	106.6	103.7	107.0	100.8	102.4	107.5	110.2	107.0	106.3	108.5	109.8
Surkhandarya	121.4	113.7	112.6	108.4	108.3	110.3	109.8	113.1	113.3	114.9	118.9	120.8
Sirdarya	105.8	102.1	91.1	96.5	101.5	110.0	105.4	101.3	107.3	105.9	108.1	108.2
Tashkent	123.3	115.9	101.2	108.1	112.6	100.0	106.3	102.9	103.5	103.0	105.3	105.7
Fergana	103.2	103.5	106.2	98.4	97.0	99.7	102.5	100.8	101.2	104.1	108.1	109.4
Khorezm	111.8	107.9	101.4	96.3	105.5	116.4	112.2	118.7	119.5	115.7	121.8	122.9
Tashkent city	100.2	104.7	89.9	110.8	115.2	113.5	114.9	112.2	114.4	111.4	116.2	116.1
Republic of Uzbekistan	107.6	109.6	102.1	104.2	105.2	105.1	108.7	108.1	108.6	107.5	111.6	112.2

Source: State Statistics Committee of Uzbekistan

Paid Services

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	114.2	105.1	112.4	113.2	109.2	116.4	129.6	110.0	114.1	115.3	119.1	121.8
regions:												
Andijan	138.9	113.3	109.3	121.5	132.7	117.4	123.1	115.9	114.3	113.2	117.5	117.8
Bukhara	112.6	108.4	117.0	108.8	117.3	117.5	120.3	116.8	116.3	115.5	115.3	117.4
Jizzakh	110.4	116.2	114.2	114.0	118.5	113.9	129.1	113.7	113.7	110.4	109.6	116.1
Kashkadarya	137.2	114.6	121.9	110.9	102.6	133.5	117.1	119.9	122.6	119.2	123.2	127.9
Navoi	116.8	118.7	108.9	118.7	121.8	118.1	125.6	124.6	123.3	119.3	117.9	116.3
Namanga	137.0	115.5	110.8	127.1	117.4	126.9	116.6	120.1	127.3	111.6	113.1	112.7
Samarkand	118.1	121.8	104.0	124.0	113.9	124.6	119.0	116.1	123.0	122.8	127.2	129.3
Surkhandarya	109.6	114.2	114.3	116.6	111.7	113.1	118.2	109.3	109.0	116.8	120.7	117.8
Sirdarya	104.8	125.8	109.6	103.2	112.5	127.8	127.1	122.7	127.0	119.3	124.1	125.0
Tashkent	111.5	100.2	109.2	107.1	113.2	113.0	114.3	115.2	115.9	122.8	120.3	124.0
Fergana	115.5	113.5	110.5	114.5	119.6	122.6	118.9	121.4	124.5	120.7	119.7	121.2
Khorezm	107.9	106.4	102.0	110.6	119.2	124.8	134.8	121.0	123.1	117.1	119.4	123.6
Tashkent city	113.5	117.4	112.8	107.5	105.7	108.4	103.5	104.6	107.9	104.6	102.6	107.5
Republic of Uzbekistan	115.7	114.7	108.6	109.5	113.8	115.0	114.2	111.6	114.5	111.8	113.3	116.4

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	I qtr. 2005	I-II qtr. 2005	I-III qtr. 2005	I qtr. 2006	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	0.456	0.413	0.392	0.400	0.423	0.466	0.412	0.373	0.475	0.384	0.407	0.453
regions:												
Andijan	0.911	0.935	0.834	0.764	0.744	0.761	0.685	0.653	0.947	0.651	0.721	0.762
Bukhara	1.109	1.155	1.101	1.053	1.085	1.064	1.041	0.922	1.402	0.958	1.001	0.995
Jizzakh	0.742	0.669	0.666	0.702	0.768	0.744	0.558	0.484	0.701	0.552	0.562	0.732
Kashkadarya	0.722	0.724	0.780	0.782	0.747	0.845	0.820	0.698	0.794	0.880	0.841	0.846
Navoi	1.039	1.267	1.490	1.685	1.705	1.802	2.060	1.711	1.773	2.360	2.223	2.019
Namanga	0.667	0.637	0.599	0.543	0.572	0.505	0.441	0.396	0.491	0.403	0.419	0.460
Samarkand	0.709	0.679	0.693	0.669	0.601	0.596	0.472	0.426	0.578	0.427	0.462	0.564
Surkhandarya	0.716	0.727	0.760	0.734	0.657	0.603	0.528	0.525	0.641	0.492	0.526	0.593
Sirdarya	0.807	0.822	0.776	0.754	0.768	0.749	0.555	0.579	0.777	0.516	0.606	0.706
Tashkent	1.040	1.017	1.032	1.041	1.032	1.020	1.075	0.919	1.002	1.041	0.995	1.110
Fergana	0.941	0.866	0.843	0.785	0.759	0.724	0.725	0.657	0.706	0.691	0.728	0.716
Khorezm	0.832	0.717	0.720	0.681	0.669	0.670	0.593	0.532	0.644	0.556	0.580	0.630
Tashkent city	1.563	1.665	1.671	1.682	1.678	1.750	2.113	1.750	1.754	2.165	1.874	1.755
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Republic of Karakalpakstan	3.4	4.1	4.3	4.2	4.0	3.8	5.1	4.7	3.7	6.1	5.5	4.5

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

Industrial Production

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005 .	I-II qtr. 2005 .	I-III qtr. 2005 .	I qtr. 2006 .	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	0.279	0.247	0.201	0.193	0.207	0.228	0.255	0.218	0.235	0.233	0.227	0.191
regions:												
Andijan	0.909	1.071	0.979	0.960	1.028	1.170	1.161	1.066	1.201	1.139	1.223	1.295
Bukhara	1.100	1.096	1.133	0.996	0.952	0.807	0.955	0.752	0.776	0.806	0.708	0.669
Jizzakh	0.278	0.360	0.380	0.418	0.381	0.406	0.439	0.383	0.406	0.440	0.417	0.356
Kashkadarya	0.931	0.953	0.917	0.967	1.050	1.375	1.398	1.181	1.302	1.534	1.419	1.382
Navoi	3.144	3.318	4.046	4.490	4.431	4.580	4.251	3.928	4.581	4.784	5.059	4.800
Namanga	0.466	0.450	0.396	0.377	0.343	0.289	0.311	0.258	0.279	0.262	0.259	0.231
Samarkand	0.515	0.459	0.398	0.351	0.330	0.304	0.298	0.237	0.282	0.302	0.256	0.263
Surkhandarya	0.323	0.302	0.283	0.286	0.295	0.261	0.303	0.228	0.232	0.252	0.204	0.202
Sirdarya	0.460	0.541	0.427	0.429	0.402	0.380	0.474	0.348	0.361	0.483	0.468	0.399
Tashkent	1.368	1.487	1.569	1.537	1.650	1.528	1.514	1.378	1.582	1.477	1.594	1.692
Fergana	1.169	1.024	1.072	0.944	0.911	0.818	0.838	0.724	0.820	0.795	0.784	0.813
Khorezm	0.507	0.467	0.414	0.363	0.319	0.354	0.360	0.320	0.335	0.336	0.317	0.285
Tashkent city	1.700	1.744	1.729	1.823	1.468	1.336	1.162	1.158	1.358	1.142	1.278	1.355
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Variation range (times)	11.3	13.4	20.1	23.3	21.4	20.1	16.7	18.1	19.8	20.5	24.8	25.2
(Navoi region excluded)	6.1	7.1	8.6	9.4	8.0	6.7	5.9	6.3	6.8	6.6	7.8	8.9

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

Consumer Goods Production

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005 .	I-II qtr. 2005 .	I-III qtr. 2005 .	I qtr. 2006 .	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	0.425	0.400	0.341	0.332	0.307	0.287	0.328	0.264	0.281	0.267	0.255	0.220
regions:												
Andijan	1.354	1.616	1.677	1.847	2.259	3.055	3.147	2.836	3.106	3.176	3.247	3.348
Bukhara	1.501	1.589	1.550	1.458	1.477	1.297	1.380	1.179	1.246	1.217	1.117	1.076
Jizzakh	0.266	0.385	0.573	0.655	0.723	0.688	0.704	0.636	0.677	0.718	0.661	0.645
Kashkadarya	0.616	0.656	0.560	0.615	0.470	0.444	0.447	0.394	0.405	0.421	0.364	0.336
Navoi	0.616	0.619	0.640	0.712	0.707	0.624	0.612	0.522	0.594	0.590	0.600	0.623
Namanga	0.665	0.579	0.571	0.561	0.573	0.507	0.546	0.440	0.495	0.440	0.463	0.434
Samarkand	1.226	1.072	1.016	0.884	0.836	0.788	0.799	0.664	0.789	0.789	0.760	0.776
Surkhandarya	0.433	0.377	0.364	0.356	0.403	0.321	0.317	0.281	0.293	0.357	0.327	0.303
Sirdarya	0.700	0.700	0.659	0.669	0.677	0.552	0.597	0.475	0.524	0.493	0.530	0.525
Tashkent	1.071	1.164	1.184	1.252	1.206	1.096	1.007	0.924	1.140	0.999	1.025	1.026
Fergana	1.076	1.009	0.934	0.844	0.903	0.826	0.830	0.747	0.839	0.840	0.819	0.813
Khorezm	0.787	0.543	0.551	0.544	0.501	0.426	0.469	0.426	0.423	0.395	0.458	0.411
Tashkent city	2.093	2.004	2.360	2.396	2.124	1.988	1.797	1.644	2.015	2.123	2.201	2.243
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Variation range (times)	8.2	5.3	6.9	7.2	7.4	10.6	9.9	10.8	11.1	11.9	12.7	15.2

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

Agricultural Production

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005 .	I-II qtr. 2005 .	I-III qtr. 2005 .	I qtr. 2006 .	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	0.425	0.354	0.360	0.435	0.480	0.523	0.311	0.336	0.562	0.391	0.419	0.561
regions:												
Andijan	1.170	1.119	1.150	1.051	1.042	1.020	0.797	0.979	0.948	0.806	1.097	0.960
Bukhara	1.340	1.375	1.321	1.376	1.418	1.498	1.245	1.322	1.630	1.324	1.639	1.445
Jizzakh	1.331	1.211	1.329	1.425	1.497	1.488	1.246	0.892	1.394	1.320	1.116	1.407
Kashkadarya	0.831	0.851	0.980	1.006	1.003	1.089	0.671	0.778	0.984	0.725	0.937	0.956
Navoi	1.238	1.144	1.149	1.218	1.218	1.268	1.231	1.289	1.287	1.817	1.668	1.464
Namanga	1.019	0.996	1.042	0.970	0.968	0.852	0.639	0.660	0.828	0.707	0.812	0.750
Samarkand	1.037	1.081	1.110	1.154	1.084	1.142	1.283	0.956	1.195	0.963	1.078	1.166
Surkhandarya	1.187	1.353	1.311	1.279	1.222	1.084	1.222	1.200	1.240	1.305	1.267	1.188
Sirdarya	1.397	1.501	1.373	1.393	1.636	1.634	1.346	1.473	1.778	1.428	1.381	1.483
Tashkent	1.511	1.539	1.268	1.255	1.242	1.250	1.996	1.213	1.189	1.998	1.189	1.476
Fergana	0.977	1.024	0.995	0.931	0.883	0.846	0.984	0.936	0.801	0.851	1.038	0.818
Khorezm	1.144	1.025	1.072	1.098	1.173	1.193	1.350	0.965	1.201	1.376	1.101	1.166
Tashkent city												
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Variation range (times)	3.6	4.2	3.8	3.3	3.4	3.1	6.4	4.4	3.2	5.1	4.0	2.6

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

Investments

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005 .	I-II qtr. 2005 .	I-III qtr. 2005 .	I qtr. 2006 .	I-II qtr. 2006	I-III qtr. 2006
Republic of Karakalpakstan	0.819	0.648	0.832	1.119	1.111	0.722	0.759	0.642	0.786	0.929	1.222	1.089
regions:												
Andijan	0.552	0.505	0.439	0.641	0.377	0.401	0.250	0.338	0.390	0.353	0.413	0.420
Bukhara	0.705	0.627	1.063	0.701	1.174	1.346	1.554	1.265	1.368	2.192	1.556	1.292
Jizzakh	0.577	1.112	1.155	0.583	0.611	0.601	0.561	0.713	0.699	0.573	0.673	0.645
Kashkadarya	1.897	1.931	1.608	1.760	1.507	1.583	1.667	1.604	1.745	1.719	1.669	1.973
Navoi	2.014	2.535	2.125	2.213	1.835	2.294	1.548	1.913	2.215	2.133	2.231	2.182
Namanga	0.701	0.501	0.476	0.471	0.449	0.453	0.467	0.450	0.510	0.465	0.493	0.502
Samarkand	0.523	0.453	0.404	0.531	0.505	0.432	0.367	0.400	0.467	0.467	0.628	0.622
Surkhandarya	0.470	0.509	0.451	0.600	0.641	0.712	0.902	0.814	0.845	0.763	0.807	0.794
Sirdarya	0.772	0.754	0.713	0.592	0.819	0.618	0.694	0.602	0.680	0.619	0.853	0.797
Tashkent	0.747	0.762	0.899	0.872	1.085	1.074	1.040	0.897	1.005	0.844	0.984	0.901
Fergana	0.587	0.796	0.931	0.480	0.396	0.405	0.662	0.506	0.495	0.420	0.476	0.456
Khorezm	0.630	0.695	0.855	0.437	0.874	0.339	0.405	0.406	0.426	0.397	0.459	0.529
Tashkent city	2.730	2.272	2.131	2.864	3.088	2.462	3.086	2.209	2.713	2.704	2.250	2.309
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Variation range (times)	5.8	5.6	5.3	6.5	8.2	7.6	12.3	6.5	7.0	7.7	5.5	5.5
excluding Tashkent city	4.3	5.6	5.3	5.1	4.9	5.7	2.1	5.6	5.7	6.2	5.4	5.2

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

REGIONS

Retail Trade Turnover

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005 .	I-II qtr. 2005 .	I-III qtr. 2005 .	I qtr. 2006 .	I-II qtr. 2006 .	I-III qtr. 2006 .
Republic of Karakalpakstan	0.470	0.485	0.491	0.505	0.503	0.476	0.513	0.430	0.466	0.504	0.460	0.453
regions:												
Andijan	1.272	1.314	1.356	1.284	1.077	1.012	1.204	0.966	1.014	1.087	1.056	0.977
Bukhara	0.756	0.841	0.902	0.855	0.873	0.918	0.922	0.815	0.915	0.920	0.913	0.917
Jizzakh	0.420	0.530	0.630	0.602	0.617	0.590	0.612	0.506	0.557	0.626	0.565	0.557
Kashkadarya	0.662	0.697	0.715	0.755	0.768	0.743	0.708	0.653	0.745	0.681	0.694	0.692
Navoi	0.728	0.770	0.808	0.800	0.965	0.960	0.906	0.813	0.964	0.997	0.997	1.055
Namanga	0.691	0.747	0.805	0.773	0.720	0.727	0.795	0.675	0.740	0.766	0.732	0.716
Samarkand	0.791	0.709	0.707	0.744	0.711	0.693	0.706	0.621	0.685	0.703	0.678	0.666
Surkhandarya	0.588	0.594	0.665	0.700	0.716	0.757	0.729	0.681	0.767	0.751	0.794	0.804
Sirdarya	0.691	0.665	0.639	0.609	0.595	0.624	0.558	0.506	0.606	0.553	0.555	0.578
Tashkent	1.033	1.041	1.038	1.112	1.179	1.148	1.091	0.990	1.137	1.050	1.070	1.087
Fergana	1.219	1.145	1.232	1.153	1.076	0.972	1.011	0.876	0.980	0.977	0.965	0.958
Khorezm	0.662	0.685	0.668	0.610	0.605	0.694	0.649	0.601	0.686	0.731	0.743	0.765
Tashkent city	2.854	2.789	2.452	2.550	2.816	3.011	2.831	2.604	3.056	3.028	3.135	3.198
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Variation range (times)	6.8	5.7	5.0	5.0	5.6	6.3	5.5	6.1	6.6	6.0	6.8	7.1
excluding Tashkent city	3.0	2.7	2.8	2.5	2.3	2.4	2.4	2.3	2.4	2.2	2.3	2.4

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

Paid Services

Regions	2000	2001	2002	2003	2004	2005	I qtr. 2005 .	I-II qtr. 2005 .	I-III qtr. 2005 .	I qtr. 2006 .	I-II qtr. 2006 .	I-III qtr. 2006 .
Republic of Karakalpakstan	0.410	0.340	0.358	0.380	0.393	0.398	0.440	0.355	0.390	0.444	0.420	0.397
regions:												
Andijan	0.870	0.856	0.771	0.813	0.999	0.975	0.615	0.694	0.887	0.641	0.846	0.946
Bukhara	0.927	0.856	0.878	0.883	0.894	0.927	0.983	0.863	0.932	1.059	1.034	0.976
Jizzakh	0.455	0.441	0.448	0.481	0.488	0.477	0.560	0.459	0.484	0.534	0.490	0.471
Kashkadarya	0.463	0.420	0.423	0.462	0.420	0.470	0.415	0.374	0.427	0.461	0.474	0.484
Navoi	0.707	0.718	0.663	0.755	0.844	0.949	1.027	0.838	0.917	1.076	0.964	0.891
Namanga	0.500	0.479	0.448	0.506	0.504	0.575	0.540	0.470	0.567	0.567	0.565	0.586
Samarkand	0.626	0.612	0.606	0.687	0.666	0.718	0.632	0.574	0.677	0.677	0.712	0.720
Surkhandarya	0.480	0.441	0.444	0.457	0.469	0.490	0.491	0.396	0.454	0.505	0.465	0.452
Sirdarya	0.366	0.361	0.366	0.382	0.395	0.453	0.502	0.401	0.430	0.541	0.473	0.446
Tashkent	0.732	0.670	0.616	0.631	0.653	0.633	0.638	0.590	0.642	0.722	0.726	0.692
Fergana	0.610	0.553	0.556	0.586	0.631	0.681	0.655	0.574	0.666	0.702	0.683	0.695
Khorezm	0.707	0.596	0.581	0.602	0.659	0.714	0.833	0.654	0.684	0.840	0.755	0.707
Tashkent city	3.455	3.761	4.090	4.201	4.156	3.918	4.197	3.749	4.157	3.800	3.786	3.791
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Variation range (times)	8.4	11.1	11.4	11.1	10.6	9.8	10.1	10.6	10.7	8.6	9.0	9.5
excluding Tashkent city	2.5	2.5	2.5	2.3	2.5	2.3	2.4	2.4	2.4	2.4	2.5	2.5

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

ANALYTICAL PART

1. The Accession of Uzbekistan to the World Trade Organization and Its Impact on Agriculture

The present article is based on the research paper "Accession of Uzbekistan to the World Trade Organization and its Impact on the Agrarian Sector of Uzbekistan.", conducted by the Department of Economics and Water Resources Management of Tashkent Institute of Irrigation and Melioration in the framework of the USAID's "Economic Policy Reforms Project in Uzbekistan". The authors of the research work are S.Ch. Jalalov, doctor of economic science (head of the research team), A. Khamdamov, candidate of economic science, I. Khalmirzaev, candidate of economic science, A. Adizov, candidate of economic science, T. Mirzaev and M. Aminova. The coordinator of the research work was K. T. Akhmetov.

Introduction

Uzbekistan, as a leading cotton exporter as well as a major fruit and vegetable exporter, is interested in the expansion of foreign trade transactions. The accession of Uzbekistan to the World Trade Organization (WTO) offers the challenge of expanding both imports and exports. In this connection, the purpose of the present paper is to assess the consequences of Uzbekistan's membership in the World Trade Organization for agriculture, to develop a strategy for improving the competitiveness of agricultural production and to maximize profits in the agrarian sector of the country. Agriculture is the largest sector in the economy of Uzbekistan and plays an important role in securing the economic and social welfare of the population as well as the equilibrium of the consumer market. Agriculture provides 90% of local production of foodstuffs and 70% of trade turnover, and it is also the most important source of raw materials for other sectors of the economy. The industry of Uzbekistan depends on agriculture to a great extent. This is especially true for the agricultural produce processing industry and also for mechanical engineering and agro-chemistry, which are in many aspects dependent on the local agrarian sector.

Analysis of agricultural trade

One of the main trends of agrarian policy in Uzbekistan is the stimulation of exports of agricultural production and the entry to foreign markets. Uzbekistan is the world's second largest exporter of lint cotton, with an export share of 14%-16% in the world market, and it also has natural competitive advantages in fruit and vegetable production.

Table 1. Dynamics of Foreign Trade in Agricultural Production in 1998-2004 (USD million)

	1998	1999	2000	2001	2002	2003	2004
Exports	3528.2	3235.8	3264.7	3165.9	2988.4	3725	4853
Share of agricultural exports in total volume of exports, %	39.5	29.2	29.8	26.8	25.9	22.5	21.9
Imports	3288.7	3110.7	2947.4	3134.9	2712.0	2964.2	3816
Share of agricultural imports in total volume of imports, %	15.6	13.1	12.3	10.8	12.5	9.9	6.8
Balance	239.5	125.1	317.3	31	276.4	245.8	221.7

Source: Estimates by the author based on data from the Ministry of Economy of Uzbekistan.

In the dynamics of trade in agricultural production within the period of 1996-2004, the share of agricultural production in the total volume of exports decreased from 38.7% in 1996 to 21.9% in 2004, and the share of

agricultural production without lint cotton in the total volume of exports decreased from 4.5% in 1996 to 3.8% in 2004. At the same time, the volume of imports declined. For example, while in 1996 the share of agricultural production in the total volume of imports was 29.5%, by 2004 it had fallen to 6.8%.

Main and potential foreign trade partners. After gaining independence, Uzbekistan made significant efforts to diversify agrarian policy and trade in general. In 2004, exports to the CIS countries compared to 2003 increased 1.58 times versus 1.21 times to foreign countries. The share of exports to CIS countries increased from 26.0% to 31.5%, while decreasing to foreign countries from 74.0% to 68.5%. From the beginning of 2004, a more than two-fold increase in the shipment of foodstuffs to CIS countries was registered. CIS countries are traditional markets for foodstuffs, and foreign countries – for cotton lint, chemical products and non-ferrous metals (1). At the present time, more than 97% of exports of processed fruits and vegetables are sent to CIS countries, of which more than 90% go to the Russian market.

1 Uzbekistan Economy. Analytical Review for 2004. Page 67.

Analysis of the Experience of Accession to the World Trade Organization of Countries with Transition Economies

Experience of China. China had a strong argument at the WTO negotiation with other countries. The argument was that China possessed huge market. Other transition economies are unlikely to join the WTO as a 'developing country'. Instead they will have to join as 'developed country' which implies quicker liberalization of import restrictions.

According to data from the World Bank and Economic Cooperation Organization, China's foreign trade turnover has increased significantly since its accession to the WTO. Thus, while in 2000 the shares of exports and imports in GDP were equal to 26% and 23% respectively, after accession to the WTO in 2004, these indicators became 40.2% and 39% respectively. The accession of the country to the WTO had a great impact on the foreign trade turnover of agricultural production in China. After 2001 the export of agricultural produce began to grow at a rapid pace, but it still lagged behind the growth rates for imports of agricultural products. As a result, the trade deficit of agricultural production began to grow and reached USD 11.4 billion in 2003. Due to specialization and growing competitiveness in China, certain types of export goods are given more attention. After the accession of the country to the WTO, agricultural production per capita in China increased, owing to state support measures agreed in the course of negotiations before accession to the WTO. In order to maintain production at current levels, China had to increase the competitiveness of local producers, to increase investments directed to enhancing product quality, to improve the legal base and to implement a number of measures on increasing production efficiency.

China managed to achieve a success due to the fact that it complemented foreign trade liberalization with reforms designed to liberalization of entrepreneurship and financial operations, improving the legislative base, enhancing private property rights protection especially family farms, providing support to the provision of social welfare for agricultural producers.

Experience of Kyrgyzstan. Kyrgyzstan accessed to the WTO in 1998. Unlike China, Kyrgyzstan had been accepted to the WTO on special terms as a "developing country", depriving it of the possibility of subsidizing agriculture at the current level. The consequences of the accession of Kyrgyzstan to the WTO cannot be assessed as positive. According to the research done, the cause of the negative consequences of the membership of the country in the WTO is the lack of a reasonable strategy of WTO accession. Many sectors of the economy were not ready to absorb the inflow of imported products. After accession to the WTO, exports and imports of agricultural production had unstable dynamics. Thus, as a result of the advanced increase of exports versus imports, the balance of agricultural trade improved significantly and in 2002 it was equal to USD 47.7 million - a four-fold increase over 2000. But in 2003 the trade balance abruptly worsened as a result of an increase in imports of 23% and a decrease in exports of 17%. The main problems faced by local producers were the low competitiveness of agricultural production, insufficient state support and low investment in the given sector.

It must be noted that such agricultural development in Kyrgyzstan was taking place in light of deteriorating general economic environment in the country. Income of population continued to decline and cheap Chinese imports were allowed into the country. Under declining income, population resort to buying cheaper goods. In addition tax revenues declined and this made it even more difficult to support Kyrgyzstan's agriculture. This is in considerable contrast with quick improvement in the quality of institutional environment in China and this makes the comparison of two countries more conditional.

Based on experience of China and Kyrgyzstan factors facilitating successful participation in WTO may be defined as the following: (i) existence of more favorable economic environment for small businesses before the WTO accession; (ii) maintenance of high level in the provision of public welfare in agriculture and this allows to successfully develop export oriented production and enhance agricultural competitiveness; (iii) conducting complementary reforms for provision of agriculture with loans, new technology, knowledge, marketing channels and developing small entrepreneurship.

Comparative Advantages of the Agriculture of Uzbekistan

In developed countries, a Policy Analysis Matrix (PAM) is used to analyze the strategy of agriculture. This methodology defines the competitiveness and comparative advantages of agricultural production. The Matrix is calculated for each crop separately by comparing local and global prices for marketable resources (fertilizers, combustive-lubricating materials, seeds etc.) and other factors of production (land, labor and capital), which are not marketable by their nature. The PAM matrix defines the comparative advantage of the country for certain types of production on the world market. The ratio of Domestic Resource Cost (DRC) is used for this. The value of DRC indicates the degree of economic benefit of internal resources usage. If $DRC > 1$, then to produce goods locally is disadvantageous, and it is better to import the product from the world market. If $DRC < 1$, then the country has comparative advantages, it saves hard currency, and it is advanta-

geous to produce goods locally and export them to the world market. We applied this method to evaluate the competitiveness of the agricultural production of Uzbekistan on the world market.

Interpretation of PAM Results. Profit is the major indicator of efficient agriculture. The calculation of profit in the context of PAM analysis was made in accordance with two categories of price: private prices (local) and social (world) prices (see Table 2). Calculations showed the profitability of cotton and grain production in Uzbekistan. This means that these crops have considerable price advantages. It is necessary to note the relatively small advantage of social prices over private prices for cattle breeding, indicating the approach of internal prices for this production to world prices. Nevertheless, the government of Uzbekistan undertakes vigorous economic measures facilitating the development of cattle breeding in Uzbekistan.

Table 2. PAM for Main Agricultural Products Cultivated in Uzbekistan (2004)

	Sales Proceeds	Tradable inputs	Non-tradable inputs	Profit
Private prices for wheat	458 400	101 571	77 508	202 754
Private prices for milk (100 kg.)	67 507	15 183	7 473	43 083
Social prices for wheat	1 524 180	160 831	371 905	839 184
Social prices for milk (100 kg.)	151 834	95 557	17 767	36 273

Source: Estimates by the author

Table 3. PAM Indicators for Different Agricultural Systems (Uzbekistan, 2004)

Agricultural Products	DRC	NPCo
Cotton	0,74	0,30
Wheat	0,27	0,30
Potatoes	0,29	0,52
Milk (dried)	0,32	0,44
Meat	2	0,67

Source: Estimates by the author

Calculations, done in the context of PAM analysis, show that the cost of internal resources (DRC) is less than one for almost all crops cultivated in Uzbekistan. This means that in the present environment of goods production and internal market prices, absolutely all cultivated crops are competitive on the world market. Potatoes have the lowest DRC among the products of plant cultivation, which means they have the highest competitiveness (0.29). Reviewing agricultural production in Uzbekistan, one may come to the conclusion that agriculture in Uzbekistan on the whole is a profitable industry. Of all types of agricultural crops, cotton production is less protected (0.30) and meat is most protected (0.67).

Table 4. PAM Indicators for Different Versions of Tariffs' Reduction

	DRC	NPCo
Cotton		
Present level	0,74	0,30
Reduction in tariffs by 20%	0,74	0,36
Reduction in tariffs by 35%	0,74	0,48
Reduction in tariffs by 50%	0,74	0,60
Wheat		
Present level	0,27	0,30
Reduction in tariffs by 20%	0,27	0,36
Reduction in tariffs by 35%	0,27	0,54
Reduction in tariffs by 50%	0,27	0,72
Potatoes		
Present level	0,29	0,52
Reduction in tariffs by 20%	0,3	0,62
Reduction in tariffs by 35%	0,29	0,93
Reduction in tariffs by 50%	0,3	1,00
Milk (dried)		
Present level	0,32	0,44
Reduction in tariffs by 20%	0,32	0,55
Reduction in tariffs by 35%	0,32	0,74
Reduction in tariffs by 50%	0,32	1,11
Meat		
Present level	2	0,67
Reduction in tariffs by 20%	2	0,80
Reduction in tariffs by 35%	2	0,87
Reduction in tariffs by 50%	2	0,94

Source: Estimates by the author

Three scenarios have been prepared in order to conduct a quantitative and qualitative assessment of the consequences for the agrarian sector of Uzbekistan after accession to the WTO. These were arranged according to the share of reduction in tariffs by 20%, 35% and 50% for wheat, potatoes, cotton and dried milk. The calculations show that the worsening of PAM indicators may cause difficulties in the agrarian market, which could appear at the radical (50%) level of reduction in tariff-barriers. This scenario may lead to the saturation of the consumer market with competitive imported goods, which will cause financial difficulties for local non-competitive producers. In turn, this could lead to unemployment, a decrease in income for agricultural producers and an increase in public budget spending. In the context of alternative scenarios of the accession of Uzbekistan to the WTO, it is significant to consider moderate versions (20%–35%) of a decrease in tariff protection on imports of agricultural production. The impact of different scenarios of accession to the WTO on the PAM analysis ratio is given in Table 4.

Local Support for Agriculture in Uzbekistan

Different types of state support for agriculture are applied in Uzbekistan, including those classified by WTO regulations as “green basket” measures, i.e. authorized subsidies, and “yellow basket” measures – prohibited subsidies. “Blue basket” measures refer to direct payments and are envisaged as a program of limited production in the EU (decoupled payments) and in the USA (deficiency payments). Apart from these countries, “blue basket” measures are not used.

Table 5. Subsidies to Uzbekistan’s Agriculture accompanying “Green Basket” Measures (in % of total amount of support in the framework of “Green Basket” Measures)

Type of Support	Name and Description with Reference to Criteria of Enclosure No.2 of Agreement on Agriculture	1997	1998	1999
General Services Par. 2 (a) Scientific Research	Financing of 7 Institutes of Agricultural Research	0.03	0.05	0.06
Par. 2 (b). Pest Control	Inspection of health status of plants and animals as well as control of bordering areas and in-country areas	2.15	3.05	3.47
Par. 2 (c) Personnel Training Services	Financing of institutes, offering training in the field of increasing productivity, cattle breeding, veterinary services, melioration, irrigation, and other.	1.86	2.82	3.39
Par. 2 (e) Inspection Services	Inspection Services in cattle breeding, plant cultivation and the food industry; quality control certification centers.	0.27	0.37	0.17
Par. 2 (g). Infrastruc- ture Services	Building of roads, new power lines, telecommunication circuits and water supply lines in rural areas, building and maintenance of water reservoirs and hydrometeorology services for farmers	94.87	92.46	91.70
Par. 8. Natural Disas- ter Compensatory Payment	Compensatory payments to farmers compensating for harvest loss caused by drought			
Par. 12. Environ- mental Protection Program Payments	Testing and assessment of soil degradation performed by Goskompriroda; maintenance and consolidation of rivers' banks	0.82	1.27	1.22
Par. 13. Regional As- sistance Program Payments	Payments to farmers in mountain and dry regions	-	-	-
Total		100.0	100.0	100.0

Prohibited subsidies – “yellow basket” measures. The following “yellow basket” measures, classified by WTO regulations as measures distorting trade, are used in Uzbekistan.

Table 6. Information on Subsidies in Uzbekistan’s Agriculture– “Yellow Basket” Measures (in % of total amount of support)

Type of Support	1997	1998	1999
Subsidizing of fertilizers (exemption from VAT)	5.82	2.11	4.48
Subsidizing of combustive-lubricating materials (GSM) (exemption from VAT)	10.53	3.07	4.20
Compensations for farmers on GSM price increase	0	5.32	18.33
Subsidizing of percentage on lax state credits for farmers	10.23	10.65	0.88
Write-off of major sum of lax state credits for farmers	51.16	53.10	3.92
Subsidizing of services rendered to farmers by Machine and Tractor Stations	0	0.23	1.16
Exemption from VAT on services rendered to farmers by Machine and Tractor Stations	4.63	1.78	4.17
Capital investment in new land reclamation	4.70	1.57	2.1
Exemption from single land tax	0	0.5	0.35
Price support	12.94	21.67	60.42
Total	100	100	100

In the course of the negotiation process of accession to the WTO, it is necessary to achieve a higher level of subsidies, which enables the country to maintain the amount of subsidies for a certain time and then gradually reduce it by small portions during the transition period. It is also necessary to obtain the recognition of Uzbekistan as a developing country. This allows the country to reduce the level of subsidies at slower rates over a longer period.

Assessment of Quantitative Consequences of the Accession of Uzbekistan to the World Trade Organization

Accession to the WTO requires from any country the observance of the following standards concerning the agrarian sphere: the switch from non-tariff technical barriers (quantitative limitation, bans, discriminating licensing of imports) to normal tariffs; reduction of the general level of agrarian tariffs (by groups of developed and developing countries); reduction in tariff quotas; reduction of export subsidies, prohibition of the introduc-

tion of new export subsidies and the possibility to render only “objective” food assistance and “honest” assistance programs for the promotion of goods on foreign markets; and decrease in the general level of support for the agrarian sector. All this has a certain impact on internal consumption, profits of agrarian producers and state budget profits.

In order to conduct the quantitative analysis we performed certain calculations, the information base of which were the current import duties and accounting budget proceeds in accordance with the present tariffs on imports. Of the total volume of import of agricultural production, the natural volume of imports and their cost was extracted. During the application of the current rates of import duties (customs duty, excise tax and value added tax) the indicators of proceeds to the state budget were calculated. Based on the accounting value of proceeds from customs payments, we calculated the reduction in rates of import customs tariffs according to different scenarios and determined the income losses to the state budget. Each scenario consisted of two stages: (i) the concurrent decrease of customs duty to a certain degree; (ii) the gradual further decrease of customs duty within the transition period.

**Table 7. Calculation of Loss in State Budget Revenues due to a Decrease in Tariff Rates
(USD million)**

	Scenario №1			Scenario №2			Scenario №3		
	stage 1	stage 2	Total	stage 1	stage 2	Total	stage 1	stage 2	Total
	Reduction in tariffs by 20%	Additional reduction 10%	30 %	Reduction in tariffs by 35%	Additional reduction 10%	45%	Reduction in tariffs by 50%	Additional reduction 10%	60%
Budget direct losses	3.9	1.6	5.5	6.8	1.3	8.1	9.8	0.9	10.7
In % to the state budget income	0.13	0.05	0.18	0.23	0.04	0.27	0.34	0.03	0.37
In % to GDP			0.04			0.06			0.08
Increase in import volume due to reduction in customs tariffs, %	12.5	5.0	17.5	21.9	4.1	26.0	31.3	3.1	34.4
Additional proceeds to the budget	1.9	0.9	2.8	2.8	0.5	3.3	3.1	0.5	3.6
Total budget losses			2.7			4.8			7.1
In % to the state budget income			0.02			0.04			0.06

Source: Estimates by the author

The analysis conducted in the framework of the present study proves that we can expect the following as a result of a decrease in tariffs on imports of agricultural production: an increase in the volume of imports of poultry, which in turn can negatively affect the financial status of poultry factories. Nevertheless, a decrease in local prices for poultry by 30% will cause a decrease in the Consumer Price Index by 0.07p.p.; a decrease in customs duties will lead to an insignificant increase in the volume of imports of fresh fish products; the volume of imports of rice will increase, which can facilitate the containment of the increase in the Consumer Price Index (a decrease in local prices by 20% will influence a decrease in the Consumer Price Index by 0.74 p.p.).

Based on the calculation set out in the table 7, the authors of the present study have all the reasons to assume that direct losses to the budget resulting from a decrease in the rates of customs duties on imports of agricultural production are insignificant. These losses can be compensated for by the creation of a favorable environment for competitiveness, a reduction in prices and the improvement of the welfare of the population of Uzbekistan. An expansion of imports after the accession of the country to the WTO will require effective measures for the protection of local enterprises processing agricultural products. Agriculture and the processing industry are tied very closely; the worsening of their economic status can have a crucial impact on the activity of agriculture. At the same time, a decrease in tariffs on imports will positively influence on CPI.

Conclusion

In addition to such positive effects as providing access for the agricultural production of Uzbekistan to international markets; satisfying customer demand for high-quality goods on the internal market and increasing the bulk of direct investments, membership in the WTO also has certain shortcomings. The positive or negative effect of the country's accession to the WTO depends on the developmental stage of the country. A country preparing to access the WTO must identify a development strategy for agriculture and adjacent sectors of the economy.

Factors facilitating successful participation in WTO may be defined as the following: (i) existence of more favorable economic environment for small businesses before the WTO accession; (ii) provision of public welfare in agriculture and this allows to successfully develop export oriented production and enhance agricultural competitiveness; (iii) conducting complementary reforms for provision of agriculture with loans, new technology, knowledge, marketing channels and developing small entrepreneurship.

The PAM calculations and expert analysis under various scenarios of tariff reduction indicate that in case of liberalization the competitiveness of Uzbekistan's agricultural system may deteriorate. It is necessary to provide state support for agricultural sectors that have strategic importance for Uzbekistan. The support should also be provided to export oriented products and goods necessary for securing food security in the country.

The enhancement of Uzbekistan's agricultural products competitiveness requires: (i) reduction of production and processing costs in order to achieve price competitiveness in international markets; (ii) production of agricultural products complying with international quality and packaging standards; protection of property rights for agricultural products and factors of production. Main trends and measurements of the agrarian reforms necessary for successful accession to the WTO include:

- Creation of an institutional environment in which private agents can freely react to market prices with decisions regarding production and investment.
- Identification of the most effective forms and methods of production under market conditions;
- Production of agricultural produce meeting the requirements of world standards for quality and appropriate packaging;
- Consistent realization of water management, a meliorative, land treatment, land surveying, agro-chemical, nature-conservative and other measures in optimal scales and proportions.

2. General Analysis of the Tax Proceeds Dynamics before and After the Introduction of Vat for Different Types of Simplified Taxation

Murad Kadyrov and Dilshod Sultanov

The present study is dedicated to the exploration of the impact of modification of the taxation system on state budget revenue from the point of view of enterprises applying the simplified taxation system. Analysis is done on the basis of statistical data acquired from small-scale enterprises within the period of 2004-2005 and the first quarter of 2006. The main types of simplified taxation procedure reviewed in this article are: (i) enterprises of trade and public catering, paying gross income tax; (ii) micro-companies and small-scale enterprises paying the single tax payment; and (iii) micro-companies and small-scale enterprises performing purchasing, supply and sales, brokerage and rendering of services according to the commission's agreement, paying gross income single tax.

Calculation of Tax Proceeds for Trade and Public Catering Enterprises

Current taxation system. The current taxation system envisages the payment of gross income tax, property tax and obligatory deductions to the state funds-in-trust and to the off-budget Basic Education Fund. The distinctive feature of this taxation system is that gross income tax is paid by all trade and public catering enterprises, including legal entities that besides their main activity are also active in the sphere of trade and public catering, regardless of their status as small-scale enterprises. In the conditions of the current taxation system, enterprises involved in the sphere of trade and public catering increased their payment of taxes and other payments to the state budget by 47.5% in 2004. Increases in proceeds to the state budget resulted from the introduction of obligatory deductions to state funds-in-trust and to the off-budget Basic Education Fund in 2005. This means that the increase in budget revenue in 2005, without taking into account the obligatory deductions to the Basic Education Fund, was 16.1%. In particular, in 2005 the proceeds from payments of the gross income tax and property tax increased by 1.7% and 57.6% respectively. In 2005 the volume of commodity turnover increased by 29.5% as compared to 2004. Hence, the increase in budget revenue was provided mainly by the property tax and obligatory deductions to state funds-in-trust and to the off-budget Basic Education Fund. The advanced growth of proceeds from obligatory deductions versus gross income tax resulted from the following factors:

- 1) The introduction of obligatory deductions to the off-budget Basic Education Fund at the rate of 1% of trade turnover;
- 2) Enterprises of other sectors of the economy performing their activities in the sphere of trade and public catering along with their main type of business must pay obligatory deductions at the rate of 1% of trade turnover, while the subject of gross income tax includes the gross income of the enterprise (the difference between value of purchase and value of sales of sold commodity) and other income such as financial revenue;
- 3) Obligatory deductions are also made when trade operations are unprofitable, while gross income tax is paid if there is a taxable base. In addition, the average rate of gross income tax was 17.5% in 2005 versus 20% in 2004. This is explained by the availability of benefits for the use of credit cards and also by the development of trade in rural areas.

Transition to the payment of generally established taxes. The computation of tax proceeds for the budget was made according to the tax legislation enacted in 2005. In this, excise tax is not considered as a specific tax during computation of the average tax burden. In 2006 under the generally established taxation system, the average tax load was 7.4% (during computation of the tax burden, resource taxes were not considered), versus 8.2% in 2005. The decrease in the average tax burden is connected with (1) the decrease in the income (profit) tax rate from 15% to 12%; (2) the abolition of the ecological tax; and (3) the decrease in net proceeds from the sale of commodities, labor and services. In the context of the preparation of tax and budget policy for 2006, the tax burden for 300 enterprises from different sectors of the economy that paid taxes in 2004 in accordance with the generally established taxation system has been studied. The tax burden for these enterprises fluctuated from 12.6% to 48%. Such a wide range of tax burden was due to the fact that taxes are paid when the taxable subject of a particular tax arises. Here, it is necessary to point out that the tax burden for trade and public catering enterprises during their transition to the generally established taxation system increased from 4.7% to 8.1%.

Transition to the system of single tax payment with and without VAT payment. The plan for improvement of the tax policy in 2007 envisages the transition for payers of the gross income tax to single tax payment. Thereafter, they acquire the right to pay VAT voluntarily as is envisaged for single tax payers. An analysis to reveal the optimal tax burden is then done through the application of different rates of single tax payment, and the possibility of applying voluntary VAT payment is also considered. The transition of trade and public catering enterprises to the single tax payment will simplify the tax administration. The introduction of single tax payment for trade and public catering enterprises will decrease the number of mistakes occurring during tax administration.

Version 1. Obligatory VAT payment for single tax payers. It is envisaged in tax legislation that, in the calculation of taxable gross receipts, the amount of value added tax is excluded from this gross receipt for VAT payers. Due to this, the calculation of single tax payment is done using net proceeds (gross receipt minus VAT). When single tax is paid at the rate of 10% (accepted since 2007), as is envisaged for the other sectors

of the economy, the tax burden for trade and public catering enterprises becomes 6.6%, and tax proceeds for the budget increase by 36.1%. If the single tax rate is decreased to 3%, then the tax burden will be 0.8% and proceeds for the budget will decrease by 84.5%.

Version 2. Voluntary payment of VAT with a decrease in the single tax payment by the amount of VAT payment but by no more than 50%. It is envisaged in the statement on the computation and payment of single taxes that single tax payers may pay VAT voluntarily. And, for voluntarily VAT payers the amount of single tax payment is reduced by the amount of VAT payable to the budget, but by no more than 50 percent of the amount of the single tax payment. This version illustrates that at a rate of single tax payment from 5% to 10%, the entire calculated VAT amount is reduced during the single tax payment, as the amount of value added tax payable to the budget is less than 50% of the calculated amount of single tax payment. At a rate of single tax payment of 3%, the amount of VAT exceeds the established amount of reduction of calculated single tax payment. Thereafter, the calculated amount of single tax payment is reduced only by the amount of VAT at the sum of UZS 24.9 billion. Here, in order to prevent state budget losses, the most optimal rate of single tax payment is the rate of 6%, as the tax burden differs by only 0.2% and additional proceeds are UZS 3.3 billion.

Version 3. Transition to the single tax payment with the simplified mechanism of value added tax calculation (the experience of Canada and England). The simplified mechanism of VAT payment assumes that an invoice be issued with a VAT rate set at the amount of 20% and the payment of VAT at the fixed rate. During the sale of goods, customers accept payment of the amount of VAT specified in the invoice, i.e. at the rate of 20%. At that time the "chain" of VAT is not broken. The average tax burden (fixed rate) of value added tax was 2.3% in 2005 and 1.75% in 2006. The introduction of a fixed rate higher than these rates leads to an increase in the tax burden, and fixed rates lower than these values lead to budget losses. We cannot deny the possibility of the future application of simplified calculation of value added tax at the rate of 3% for trade and public catering enterprises with a low level of added value, which is actually equal to the current obligatory deductions to the state funds-in-trust.

Version 4. Transition to the payment of single tax without the right of VAT payment. The introduction of this system can break the "VAT chain", as wholesale enterprises sell inventory holdings mainly to large enterprises which are VAT payers. The optimal rate of single tax payment is 5%, as at this rate the increase in the tax burden is the lowest – from 4.8% to 5%. Here, it is necessary to point out that during the comparison of the versions, the most optimal choice is to introduce a single tax payment at the rate of 6% with the right to pay VAT, or at 5% without the right to pay VAT. However, with the goal of developing the taxation system and providing the optimal value of added taxation, we consider it possible to apply 1 or 2 versions of this research, with a rate of single tax payment of 6%. As for the third version, the general transition of all enterprises to a simplified VAT payment, it is possible to apply a lower VAT rate (2%), but it doesn't seem quite realistic in current conditions and can cause significant budget losses of VAT due to the payment mechanism.

Calculation of Proceeds from the Single Tax Payment and Single Tax

Current taxation system. The current taxation system envisages the payment of the single tax payment and single tax by micro-companies and small-scale enterprises. The peculiarity of this system of simplified taxation is that payers of the single tax payment or single tax have the right to choose their taxation system (the generally established taxation system, envisaging the payment of all taxes and obligatory payments, or the simplified taxation system). According to the statistical report for the first quarter of 2006, the amount of indirect taxes is not revealed and thus the amount of indirect tax is assessed through calculation. During the calculation of the single tax payment, the amount of VAT paid by small-scale enterprises is not calculated. The real rate of single tax payment is 10.8% versus 13%. It is assumed in the present study that all micro-firms and small-scale enterprises pay the single tax payment at the rates envisaged by law, without benefits (for exports, manufacture of localizable products, production of consumer goods). Since 1 August 2005, the newly established micro-firms and small-scale enterprises which pay the single tax payment have the right to postpone that payment for a period of 12 months. This privilege renders the simplified system more attractive. Terms of tax payment which enable enterprises applying the simplified taxation system to save funds are another positive aspect.

Transition to the generally established taxation system. The transition of enterprises to the generally established taxation system envisages their payment of all types of taxes and other obligatory payments on the territory of the Republic of Uzbekistan. Losses or profits of the state budget will be determined in terms of the unified approach to all the information received from the state statistical bodies. In the present circumstances, it is advantageous for micro-firms and small-scale enterprises to pay in accordance with the generally established taxation system, as it has a wider spectrum of tax privileges than the single tax payment. This is a customary international practice, which envisages the use of simplified accounting and the saving of money on tax administration at the initial stage.

Transition of enterprises paying the single tax payment to VAT payment. In the previous section the value added tax was calculated on the basis of the prime cost of the product manufactured by the enterprises paying the single tax payment. However, this method does not completely reflect the actual indicators. For example, in trade enterprises where the share of wages and other expenses in the prime cost of production is not very high, this method of VAT determination is considered to be acceptable. Consider this: it is proposed that the enterprises paying the single tax payment and single tax on gross receipts should accept VAT in an amount equal to 9.0% of trade turnover when applying the simplified system of VAT payment. Furthermore, the following versions of transition to other forms of taxation for enterprises paying the single tax payment and single tax on gross receipts are presented as follows:

Version No. 1. This version envisages the transition of all enterprises paying the single tax payment and single tax on gross receipts to the payment of obligatory VAT. At the same time, the state budget revenue compared to the generally established taxation system decreases to UZS 24.7 billion. In addition, enterprises purchasing production from these enterprises accept in payment an amount equal to UZS 223.8 billion, which is not always accepted in payment nowadays, and pay VAT in the amount of UZS 67.1 billion. **Taking into account that the amount of VAT in the budget was 50% of the amount of the single tax payment, the results of Version 1 and Version 2 are the same.**

Version No. 3. This version envisages payment of the single tax payment gained from net proceeds from sales (trade turnover minus VAT) at the rate of 10%. The rate of 10% is offered on the basis of the tax plan for 2007. In this case, additional tax proceeds in the amount of UZS 20 billion are sent to the budget. Nevertheless, as was mentioned above, there are also losses resulting from VAT payment of the following enterprises in the amount of UZS 223.8 billion. The profits of the state budget are not covered because of VAT losses from the “next in chain” tax payer.

Version No. 4. This version envisages charging VAT at a fixed rate of 9% with the concurrent issue of invoices at the rate of 20%. This measure introduces the simplified form of accounting without breaking the VAT chain. With the reduction of the single tax payment by the entire amount of VAT, the losses to the state budget, as mentioned before, are UZS 24.7 billion.

Version No. 5. This version envisages the payment of simplified VAT and the reduction of the single tax payment by an amount not exceeding 50%. In this case, the profits of the state budget increase by UZS 29 billion. However, the tax burden increases to 14.3% of trade turnover.

Version No. 6. This version envisages the payment of the single tax payment gained from net proceeds from sales (trade turnover minus VAT) at the rate of 10%, applying the simplified charge of VAT at the rate of 9%. Profits for the state budget will be UZS 73.8 billion. Here, we have to consider these versions from the macroeconomic point of view, i.e. the budget losses of “the next payer in the chain” due to the possibility of gaining the amount of VAT in payment.

Conclusion

On completing the analysis of the two types of simplified taxation system – the tax on gross income of trade and public catering as well as the single tax payment for micro-companies and small enterprises, we propose the following ways of improving the taxation system of the Republic of Uzbekistan:

- To abolish all simplified taxation procedures with the exception of the fixed tax and single land tax payments and to apply the payment of generally established taxes for them. This measure eliminates the problem of VAT “chain breaking”, introduces separate accounting in accordance with types of activities, etc. On the other hand, this measure will complicate tax administration. Moreover, these taxpayers will be obliged to hire professional accountants, which entails additional expenses.
- To note that the existing opinion that the simplified taxation system is more advantageous than the generally established one is not justified.
- To transfer enterprises paying the single tax to the payment of the single tax payment. Legislation today does not provide an indisputable answer on the separation by type of activity – intermediary services on commodity sales for commission or trade activity. Thus, it remains unclear what type of tax is to be paid (gross income tax or single tax).
- To introduce a single tax payment instead of all types of simplified tax procedures (with the exception of single land tax and fixed tax) with the following set rates for these taxes:
 - For trade and public catering enterprises – 6 percent of gross receipts with the right of choice of VAT payment;
 - For enterprises of other sectors of the economy – 11 percent of gross receipts with the right of choice of VAT payment.
- The introduction of a simplified procedure of VAT payment is considered to be inexpedient because in the course of its realization a cascading effect will be inevitable.

3. Estimated Costs of Tax Compliance for Enterprises in Uzbekistan

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Introduction

Taxation requires a certain amount of expense on the part of both the state – administrative taxation costs – and the taxpayer – tax compliance costs. From the side of the state, the **administrative** costs cover all expenses connected with the process of tax administration. From the side of the taxpayer¹, tax compliance costs are those expenses that economic entities bear in fulfilling the established requirements of the tax law: expenses connected with the study of the tax laws (training of personnel); tax accounting expenses, preparation and submission of tax accounts (remuneration of workers' labor, purchase of specialized computer software and other expenses); expenses for auditing inspections, consultations and legal services, connected with taxation; and expenses for visits of taxation bodies and other expenses connected with accounting documents and payment of taxes (visits to banks, transaction costs). The purpose of the present research paper is to evaluate the business conditions of small enterprises and micro-companies through the determination of the level of tax compliance costs (TCC) of this category of economic entity in the context of two modes of taxation. The following preliminary hypotheses were used as the basis for the given research:

- Tax compliance costs are burdensome for small business;
- Taxpayers do not accurately assess tax compliance expenses;
- When small enterprises use the services of outside professional accountants, they begin to spend more money for the attraction of internal resources to fulfill obligations while they expand the activities of the company;
- VAT and income (profit) tax are the sources of a large number of expenses for tax compliance;
- Labor and transaction costs make up the largest part of tax compliance costs;
- The ratio of tax compliance costs to corresponding tax proceeds is significant.

Methodology of Research

The determination of tax compliance costs can be divided into two levels: macro and micro level.

Costs at the macro level are defined by the following formula: Tax compliance costs placed by the state on the taxpayers = Direct tax payments + Cost of the time and resources expended in the course of the fulfillment of the obligations – (Administrative benefits to taxpayers + Benefits from tax deduction) – Reduction of tax payments resulting from tax planning.

Costs at the micro level include all the current expenses that economic entities bear during compliance with tax laws: Tax compliance costs placed by the state on taxpayers = Cost of the time and resources spent in the course of the fulfillment of tax obligations. .

Estimation of TCC in Uzbekistan

With a view to the present study, all TCC are divided into the following groups:

- Labor costs: (owner's costs, charge-free assistance and paid (internal) employees, separately paid tax specialist);
- External: paid tax consultants;
- Internal: Non-labor costs (i.e. one-time individual expenses, connected with taxation, accounting or other expenses of the economic entity);
- Transaction costs: resulting from the settlement of disputes with inspection bodies.

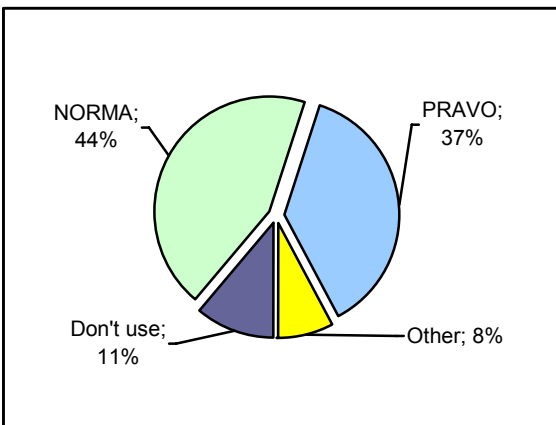
Main Results

The present study led us to conclude that tax accounting is less labor-intensive and time-consuming than accounting documentation. As the study showed, on average, of their time spent on taxes, enterprises spend 26% on tax accounting and 84% on accounting documentation. At the same time, most small enterprises and micro-firms choose the single tax payment, due to the large amount of accounting and time required for the generally established taxation mode. In doing so, enterprises do not perform the necessary calculations that disclose the tax compliance costs of the enterprise in each individual case. The structure and share of costs grouped by their types is as following:

Table 1. Tax compliance costs by cost category

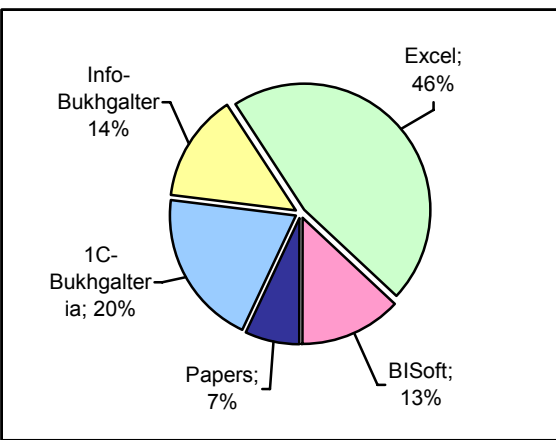
Type of Costs	Share in total amount of costs (%)	
	Under generally established mode	Under simplified mode
Labor Accountants' remuneration costs (salary, training and professional development costs)	30.5	26.9
External Outside organizations' services payments (auditing, legal and consulting services regarding taxation)	42.5	3.6
Internal Accounting computerization costs (computers, office equipment, software and other)	14.2	18.9
Organizational costs (forms, transport costs, paper etc.) and other expenses	1.4	7.8
Other transaction costs	11.4	42.8

Diagram 1. Use of Computerized Systems



Analysis of the results of this research showed that the lower the gross receipts of enterprises, the lower the taxation costs; in other words, the less money the enterprise has, the less money it spends on tax compliance. This has a certain impact on the salaries of accountants and the use of computerized information and specialized systems, as well as on the attraction of specialists from outside organizations (economic activity auditing services, book-keeping and consulting). As may be seen from the diagram #1, 11% of enterprises never use any computerized information systems.

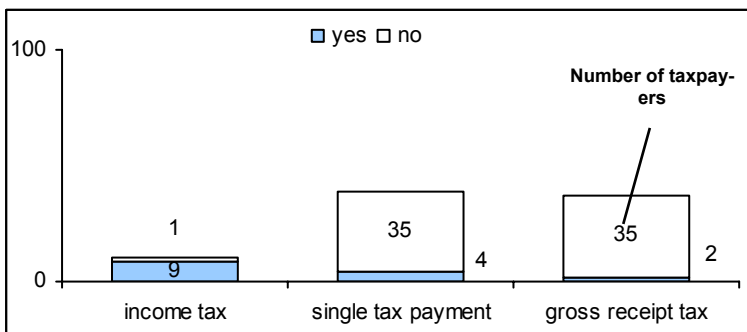
Diagram 2. Use of Specialized Programs



Most of the reviewed enterprises (44%) use the computerized system NORMA, 37% of them use PRAVO, 8% of them use other computerized systems. This can be explained by the fact that the cost of installation and constant upgrade of the NORMA system is lower than the operating costs of the PRAVO system. The operating costs of the Bank-CLIENT system is on average 2.5 minimum wages (m.w.) for installation and 3 m.w. per month in user charges. Thus, during the first year of operation the payment will be less than UZS 300,000. Of all the reviewed enterprises, only 1% use this service. Only 47% of the reviewed enterprises use specialized accounting programs (diagram #2). Most of the enterprises (46%) prefer to use the Excel program. The cost of operating the licensed program 1C-Bukhgalteria starts at UZS 350,000 and depends on the degree of necessary upgrading (if the accountant needs an input of additional functions into the program) and number of installable computers. Nevertheless, many enterprises,

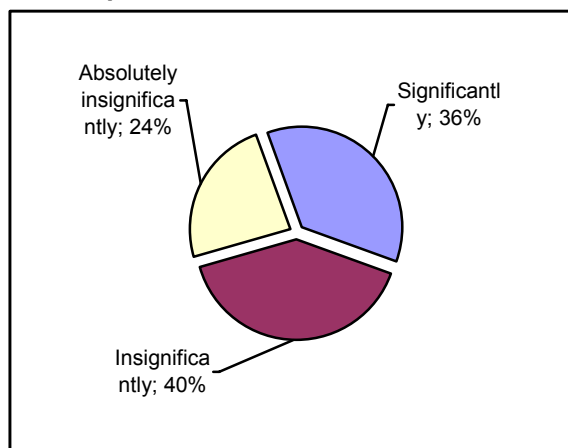
in order to save money, use the pirate version of this program, which may cost from UZS 20,000 to 25,000.

Diagram 3. Survey results.



Most taxpayers don't realize that besides the tax payment itself they also incur additional expenses related to tax calculation and processing. When taxpayers consider such expenses, they think about costs related to the settlement of disputes. As for the question: Do taxpayers consider tax compliance costs? The following data has been received (diagram 3):

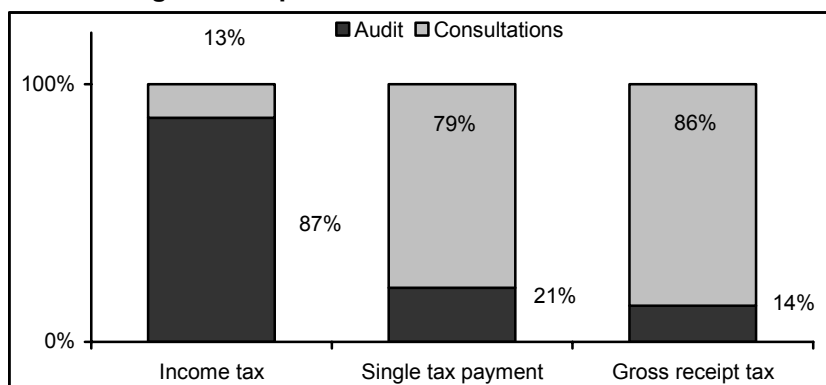
During the estimation of costs related to the settlement of disputes with tax bodies, the following data was obtained (see diagram 4):

Diagram 4 Estimation of Costs Related to Dispute Settlement with Tax Bodies

As may be seen from the data received, the payment for the services of outside organizations according to the generally established system is 42.5% (table 1), which is explained by the complicated process of calculation and payment of the income (profit) tax and VAT paid by legal entities. In particular, the present situation relative to the income (profit) tax of legal entities is formed due to advance payments in accordance with the results of the previous accounting period and the necessity of determining the expenses included in the base of taxable income by reverse order. As for VAT, in most cases the taxable subject is questionable, especially in the case of the performance of different types of activities, and – as a consequence – different book-keeping, and also in the case of economic operations between taxpayers with different VAT rates (20% or 0%). In addition, of all the respondents which are taxpayers under the generally established system, 20% (2

enterprises of 10) are public corporations, for which auditing of their economic activity is an obligatory requirement², and this also explains the significant percent of these services in the total amount of tax compliance costs.

The share in the costs of remuneration of outside organizations' services for taxpayers under the simplified mode is significantly less – 3.6% (table 1), which is a consequence of the fact that most small and trade enterprises do not perform an auditing inspection, but often have oral consultations. Of the total amount of costs of services of outside organizations of each category of taxpayers, the share of expenses for auditing and consulting services is as follows:

Figure 5. Expenses on audit and consultations

At the same time, in consideration of the above, consultations in most cases are directed to settling problems with VAT and income (profit) tax of legal entities.

Comparison of taxation costs of taxpayers under the generally established and simplified modes reveals that of the total costs, the share of remuneration costs for accountants is the largest – 30.5% and 26.9% respectively (table 1). This situation is explained by the natural correlation

between the number of accountants and the cost of their remuneration and the gross receipts of the enterprise, i.e. large industrial enterprises require several accountants including a chief accountant, while at small enterprises and companies with lower gross receipts, book-keeping and accounting is done by one accountant and very often by the director him- or herself. Small enterprises have a lower percent of accountants' remuneration because in some cases one accountant is hired to perform the book-keeping 1-2 days per week.

Translating the abovementioned costs into UZS reveals the following: The average costs that enterprises bear for tax computation, tax accounting and rendering of accounts to taxation and other bodies, is estimated by the respondents on average from UZS 260,000 to 500,000 per month (table 2). This indicator varies depending on two factors: the number of workers and the taxation mode. Small enterprises paying the single tax bear the minimum costs: from UZS 150,000 to 270,000. Costs for enterprises whose trade turnover of products and services exceeds UZS 50 million range from UZS 370,000 to 500,000 per month. It is interesting that despite the fact that taxpayers of gross receipts and single taxes perform different types of activities, their taxation costs are the same. This is explained by the fact that single taxpayers produce more costs from remuneration of outside organizations' services while trade subjects have more expenses for transaction costs in the course of dispute settlement with the corresponding inspection bodies.

² The fourth paragraph of Article 105 of the Law of the Republic of Uzbekistan "On Joint-Stock Companies and Protection of the Stockholders' Rights" No.223-I as of 26.04.96.

Table 2. Tax compliance costs by tax category

Tax Payment	Taxation Costs (UZS)
Income (profit) tax	370,000 – 500,000
Single tax payment	150,000 – 250,000
Gross receipt tax	170,000 – 270,000

The given data is minimal and substantially averaged. This is explained by the unwillingness of the enterprises to disclose their incomes and expenses for objective and subjective reasons. Actual taxation costs of the enterprises exceed the indicated estimated sum by 2 times and more. Significant taxation costs for each enterprise are individual, though on the whole, the aggregate costs increase to the

amount related to dispute settlement.

Conclusions and Proposals

Of six preliminary hypotheses, two were not clearly verified. In particular, due to the abovementioned reasons, the hypothesis of a larger ratio of tax compliance costs to corresponding tax proceeds was not formally verified. Also, due to the fact that the estimation of the tax compliance costs for each separate tax turned out to be very difficult, the aggregate costs on VAT and income (profit) tax of legal entities were not computed. Nonetheless, according to the poll, 60% of the external costs of the questioned enterprises were spent on settling issues of these two types of tax. Proposals on reducing tax compliance costs must lead to the improvement of the tax administration system in the country:

- From the results of the answers to the general questions asked to the directors and accountants of enterprises, it was determined that the tax system must become more stable and exclude constant changes.
- Also, the standards, rules and instructions of tax legislation must become more distinct and well-defined and allow no misinterpretation.

As for the improvement of the tax administration, the proposals are as follows:

- To accelerate the integration of information and computer technologies (ICT) into the accounting system, in order to reduce documentation circulation and carry out data systematization;
- To introduce a system of office checks in order to reduce the number of meetings between taxation bodies and taxpayers and to reduce transaction costs;
- To develop test programs and tutorial aids for the employees of tax bodies. To introduce a social concept “ethics of the tax employee”;

To introduce social polling into the practice of the state taxation bodies, in order to reveal the weak points of the organization of tax administration.