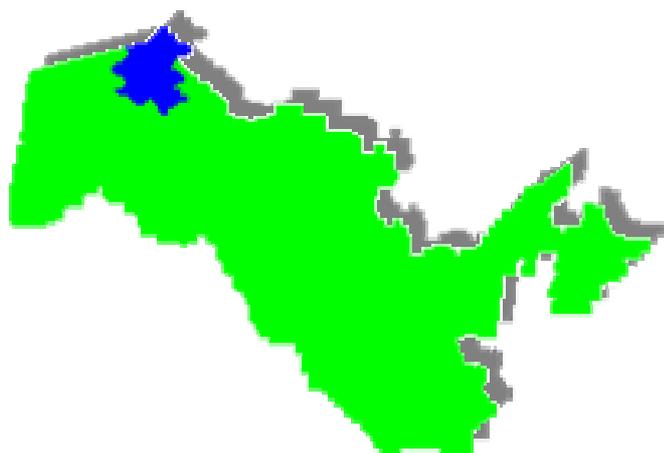


UZBEKISTAN ECONOMY

Statistical and Analytical Review
First half of 2003



No 2

October 2003



EUROPEAID

COOPERATION OFFICE

Published in October 2003

**Copyright Center for Effective Economic Policy (CEEP), Ministry of Economy of Uzbekistan,
All rights reserved.**

**The publication may only be produced, distributed or transmitted, in any form, with permission in writing from the CEEP.
Enquiries concerning reproduction should be addressed to the Information Division, CEEP.
1, Yakhyo Gulom street, 700000 Tashkent, Uzbekistan.**

This report was prepared by CEEP with the assistance of USAID and EuropeAid. The findings, conclusions and interpretations expressed in this document are those of the authors alone and should in no way be taken to reflect the policies or opinions of the government of Uzbekistan, USAID or EuropeAid.

Editorial Board

Mr. Furqat Baratov
Mr. Shukhrat Shukurov

Project Coordinator

Mr. Tursun Akhmedov

Assistant Coordinator

Mr. Sherzod Muminov

Section Coordinators

Mr. Jakhongyr Muinov (Section 1)

Mr. Rinat Yaushev (Section 2)

Mrs. Valentina Baturina (Section 3)

Mr. Farkhod Jurakhanov (Section 4)

Mrs. Dildora Karimova (Section 5)

Mr. Tursun Akhmedov (Section 6)

Advisors

Mr. Adrian Strain (SIPCA Project / EuropeAid)

Mr. Abdul-Khamid Adilov (SIPCA Project / EuropeAid)

Mr. Bakhodir Mardonov (Economic Reform Project / USAID)

For further information please contact:

Mr. Tursun Akhmedov,
Deputy Director,
Center for Effective Economic Policy,
1, Y.Gulyamov street,
Tashkent 700000,
Uzbekistan,
Tel: (+998-71) 1331747, 1361726
Fax: (+998-71) 1362797.

Electronic copy of "Uzbekistan Economy" in
Uzbek, Russian and English can be found at

www.ceep.uz, www.bearingpoint.uz and www.pca.uz

Economic Reform Project / USAID

12, Afrosiyob street, Block II-4,
Tashkent 700031,
Uzbekistan

SIPCA Project / EuropeAid

4, Taras Shevchenko street,
Tashkent 700029,
Uzbekistan

Table of Contents

LIST OF TABLES	2
LIST OF GRAPHS	3
LIST OF ANNEXES	4
LIST OF ABBREVIATIONS	5
CALL FOR PAPERS	6
INTRODUCTION	7
MAIN ECONOMIC EVENTS	8
STATISTICAL REVIEW	13
1. MACROECONOMIC POLICY AND ECONOMIC GROWTH	14
1.1. Economic Growth	14
1.2. Fiscal Policy	15
1.3. Monetary Policy	16
1.4. Foreign Exchange Policy	17
1.5. Prices and Inflation	18
2. INSTITUTIONAL AND MARKET REFORMS	21
2.1. Privatization and Property Types.....	21
2.2. Market Infrastructure.....	23
2.3. Private Sector, Small and Medium Businesses.....	27
3. STRUCTURAL AND INVESTMENT POLICY	33
3.1. Industry	33
3.2. Consumer Goods Market.....	35
3.3. Agrarian Sector.....	37
3.4. Investments.....	39
4. FOREIGN TRADE	46
4.1. Trade Balance, Export and Import.....	46
4.2. Enterprises with Foreign Investment	53
5. LIVING STANDARDS AND LABOR MARKET	59
5.1. Population Income.....	59
5.2. Domestic Trade and Services	60
5.3. Employment and Labor Market	62
6. SOCIO-ECONOMIC DEVELOPMENT OF THE REGIONS	64
ANALYTICAL REVIEW	73
1. WTO ACCESSION	74
2. RESULTS OF 2002: MACROECONOMIC ASPECTS OF DEVELOPMENT	80
3. TENDENCIES IN UZBEKISTAN FARM PRODUCTION	84
4. POVERTY REDUCTION STRATEGY IN TRANSITION COUNTRIES	91
5. RESULTS OF THE SURVEY OF UZBEKISTAN INDUSTRIAL ENTERPRISES	94

List of Tables

Table 1.1.1. Growth and Production Structure of GDP.....	14
Table 1.1.2. Structure of Using GDP (%).....	14
Table 1.2.1. Structure of Revenue Part of State Budget (% to GDP).....	15
Table 1.2.2. Structure of Revenue Part of State Budget (% to total).....	15
Table 1.2.3. Structure of Expenditures of State Budget (% to GDP).....	16
Table 1.3.1. Change in Interest Rates.....	17
Table 1.4.1. Exchange Rate of UZS against US Dollar (average indicators for the period of 1995-2003).....	18
Table 1.5.1. Major Indicators of Inflation in the Republic of Uzbekistan for 1995-2003 (increase of prices in % to corresponding period of previous year).....	19
Table 1.5.3. Level of inflation in the Republic of Uzbekistan for 1st half of 2003 in regional context (%).....	19
Table 1.5.4. Impact of the rise in prices and tariffs on the level of inflation in the Republic of Uzbekistan for 1st half of 2002-2003 (% to total).....	20
Table 2.1.1. Number of enterprises established on privatized property basis (units).....	22
Table 2.1.2. Structure of privatization proceeds distribution (%).....	23
Table 2.2.1. Stock market sales (UZS bn).....	24
Table 2.2.2. Structure of Real Property Sold via RREE (% to total).....	26
Table 2.3.1. Key SME development indicators.....	27
Table 2.3.2. Number of SMEs by economy sectors ('000 units).....	28
Table 2.3.3. Number of operating SMEs by regions ('000 units).....	28
Table 2.3.4. Share of SMEs in output by economy sectors (%).....	29
Table 2.3.5. Share of SMEs in foreign economic activity (%).....	29
Table 3.1.1. Indexes of production volumes and sectoral structure of industry (%).....	33
Table 3.1.2. Indexes of increase in major types of industrial productions (in % to previous year).....	34
Table 3.2.1. Growth in production of consumer goods (% over previous period).....	35
Table 3.2.2. Composition of consumer goods (in %).....	35
Table 3.2.3. Indexes of increase in production of main types of consumer goods in the Republic of Uzbekistan (in % to previous period).....	36
Table 3.3.1. Main indicators of development of agricultural production.....	37
Table 3.3.2. Structural changes in areas under crop.....	37
Table 3.4.1. Dynamics of investments into fixed capital.....	39
Table 3.4.2. Structure of investments into fixed capital by source of financing (%).....	39
Table 3.4.4. Structure of foreign investments into fixed capital by sector of economy (%).....	41
Table 3.4.5. Structure of investments into fixed capital by sector of economy (%).....	41
Table 4.1.1. Key Indicators of Uzbekistan's Foreign Trade.....	46
Table 4.1.2. Export Structure Dynamics (%).....	47
Table 4.1.3. Import Structure Dynamics (%).....	47
Table 4.1.4. Breakdown of exports and imports by countries (%).....	48
Table 4.2.1. Key indicators of EFI operations.....	53
Table 4.2.2. Commodity composition of EFI imports (%).....	53
Table 4.2.3. Breakdown of EFI exports by provinces of Uzbekistan (%).....	54
Table 4.2.4. Commodity composition of EFI exports (%).....	54
Table 4.2.5. Key indicators for large and medium EFIs by investor countries, first half of 2003.....	55
Table 5.2.1. Retail sale and private services.....	60
Table 5.2.2. Monetary income and retail sale per capita in 1st half of 2003.....	61
Table 5.3.1. Dynamics of population of the Republic of Uzbekistan (at the beginning of the year, in thous.).....	63
Table 5.3.2. Share of subsequently employed in registered job-seekers.....	63
Table 3.1. Crop Diversity in Different Types of Farming (average number of crops).....	85
Table 3.2. Yield per hectare in Different Types of Farming (tons/ha).....	87
Table 3.3. Number of Livestock in Different Types of Farming.....	89

List of Graphs

Graph 1.2.1. Structure of Direct Taxes of State Budget (%).....	15
Graph 1.2.2. Structure of Indirect Taxes of State Budget (%).....	16
Graph 1.4.1. Exchange Rate of CBU (CBER), Parallel Exchange Rate (PER) and Rate of Exchange Offices (CER).....	18
Graph 2.1.1. Breakdown into groups of enterprises included in Privatization and Denationalization Program for 2003-2004 (%).....	21
Graph 2.1.2. Number of privatized SOEs (units).....	22
Graph 2.1.3. Privatization proceeds (UZS bn).....	22
Graph 2.2.1. Shares of stock and corporate bonds in total stock market turnover (%).....	24
Graph 2.2.2. IPO segment sales (UZS bn).....	25
Graph 2.2.3. Secondary market sales (UZS bn).....	25
Graph 2.2.4. Number of Real Properties sold at RREE.....	26
Graph 2.2.5. Real Property Sales Proceeds (UZS bn).....	26
Graph 3.3.1. Distribution of gross products of agriculture by forms of management (%).....	38
Graph 3.4.1. Structure of capital investments by source of financing (%).....	39
Graph 3.4.2. Structure of capital investments by sector of economy (%).....	40
Graph 3.4.3. Structure of capital investments by sector of economy (%).....	41
Graph 4.1.1. Key Foreign Trade Indicators (USD mill).....	46
Graph 4.2.1. EFI share in foreign trade (%).....	53
Graph 4.2.2. EFI exports growth dynamics (%).....	54
Graph 5.1.1. Correlation between rise in monetary income of population and prices for consumer goods and services (% to corresponding month of 2002).....	59
Graph 5.1.2. Structure of monetary income of population (%).....	60
Graph 1.1. Soum devaluation and exchange rate spread dynamics.....	80
Graph 2.2. Real exchange rate and export dynamics for 1998-2002 (1997 = 100%).....	81
Graph 2.3. Real Growth in GDP and Capital Investments.....	82
Graph 3.1. Crop Patterns in Different Types of Farming in Sirdarya Province.....	85
Graph 3.2. Crop Patterns in Different Types of Farming in Bukhara Province.....	85
Graph 3.3. Cotton Yields in Different Types of Farming in Uzbekistan, 1991-2000 (tons/ha).....	86
Graph 3.4. Grain Yields in Different Types of Farming in Uzbekistan, 1991-2000 (tons/ha).....	86
Graph 3.5. Vegetable Yields in Different Types of Farming in Uzbekistan, 1991-2000 (tons/ha).....	87
Graph 3.6. Trends in cattle stock (cows) in Uzbekistan by different types of farms 1991-2000 ('000 cattle heads).....	88
Graph 3.7. Tendencies in Cattle Numbers in Uzbekistan by Types of Farming, 1991-2000 ('000 head).....	88
Graph 3.8. Tendencies in Sheep and Goat Numbers in Uzbekistan by Types of Farming, 1991-2000 ('000 head).....	88
Graph 3.9. Tendencies in Number of Horses in Uzbekistan by Types of Farming, 1991-2000 ('000 head).....	89
Graph 3.10. Tendencies in Number of Poultry in Uzbekistan by Types of Farming, 1991- 2000 ('000 head).....	89
Graph 3.11. Tendencies in Livestock Productivity by Types of Farming, 1991-2000 (Milk per Cow, Kg).....	90
Graph 3.12. Tendencies in Livestock Productivity by Types of Farming, 1991- 2000 (Eggs per Hen).....	90
Graph 5.1. Assessment of changes in the economic situation.....	95
Graph 5.2. Assessment of the overall economic situation.....	95
Graph 5.3. Assessment of changes in production in natural terms.....	97
Graph 5.4. Assessment of change in demand, prices and inventory.....	97
Graph 5.5. Assessment of changes in investment and innovation activity of enterprises.....	98
Graph 5.6. Major areas for capital investment.....	98
Graph 5.7. Assessment of changes in production labor force.....	99
Graph 5.8. Assessment of changes in the economic situation, business activity of enterprises and employment.....	99

List of Annexes

Annex 2.1.1. Key SOE privatization indicators.....	30
Annex 2.2.1. Dynamics of Stock Market sales (UZS bn).....	30
Annex 2.2.2. Number and value of property items sold via Republican Real Estate Exchange (units/ UZS mill)	31
Annex 2.3.1. Key indicators of SME sector development.....	32
Annex 2.3.2. SME share in output by economy sectors (%)	32
Annex 2.3.3. SME share in foreign trade	32
Annex 3.1.1. Structure of industrial production (% of total)	42
Annex 3.1.2. Indexes of industrial production (% over previous year)	42
Annex 3.2.1. Indicators of Increase in production of consumer goods by provinces in the first half of 2003 (%)	43
Annex 3.2.2. Indicators of increase in production of most important consumer goods (%)	43
Annex 3.4.1. Dynamics of investments into fixed capital.....	44
Annex 3.4.2. Structure of investments into fixed capital by source of financing (%)	44
Annex 3.4.3. Structure of investments into fixed capital by sector of economy (%).....	45
Annex 3.4.4. Structure of investments into fixed capital by Industrial Branches (%)	45
Annex 4.1.1. Trade Balance (USD million)	49
Annex 4.1.2. Commodity composition of exports (%)	49
Annex 4.1.3. Commodity composition of imports (%).....	50
Annex 4.1.4. Breakdown of exports by countries (%).....	51
Annex 4.1.5. Breakdown of imports by countries (%).....	52
Annex 4.2.1. Commodity composition of EFI exports (%)	56
Annex 4.2.2. Commodity composition of EFI imports (%)	56
Annex 4.2.3. Breakdown of EFI exports by provinces of Uzbekistan (%).....	57
Annex 4.2.4. Breakdown of EFI imports by provinces of Uzbekistan (USD '000)	58
Annex 6.1. The dynamics of the main indicators of socio-economic development of the regions (Growth rate to the previous period in comparable prices in %)	65
Annex 6.2. Differentiation level of socio-economic development of the regions (on per capita basis).....	68

List of Abbreviations

bn.	Billion
CabMin	Cabinet of Ministers
CBU	Central Bank of Uzbekistan
CER	Commercial Exchange Rate
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
EFI	Enterprises with Foreign Investment
ERP	Effective Rate of Protection
FDI	Foreign Direct Investment
FSU	Former Soviet Union
JSC	Joint Stock Company
IFC	International Financial Corporation
IMF	International Monetary Fund
MER	Multiple Exchange Rate
mill.	Million
NBU	National Bank of Uzbekistan
OER	Official Exchange Rate
p.a.	Period Average
p.e.	Period End
PER	Parallel Exchange Rate
REER	Real Effective Exchange Rate
RER	Real Exchange Rate
RMC	Republican Monetary Commission
RREE	Republican Real Estate Exchange
RU	Republic of Uzbekistan
RUR	Russian Ruble
SOE	State Owned Enterprise
SME	Small and Medium Enterprise
T-bills	Treasury Bills
'000	Thousand
OTC	Over-the-counter
VAT	Value Added Tax
URCE	Uzbek Republican Currency Exchange
USD	US Dollar
UZS	Uzbek Soum
UZSE	Uzbekistan Stock Exchange
USSR	Union of Soviet Socialist Republics
yoy	Year-on-year

Call for papers

The “Uzbekistan Economy” quarterly journal is soliciting the submission of original analytical papers in the field of:

1. Macroeconomic policy
2. Institutional and market transformations
3. Structural and investment policy
4. Foreign trade
5. Living Standards and labor market
6. Social and economic development of the regions

Eligibility criteria for proposed articles:

Structure:

- Topicality of the subject in light of recent economic developments occurred;
- Analysis and identification of economic problems;
- Well-grounded proposals for addressing identified problems;
- Total number of pages may not exceed ten.

Style:

- References to legal and regulatory documents as well as other publications shall be made in the source language.

The responding authors should indicate in their cover letter that the submitted article is in response to this special call for papers.

Please contact the Khusan Ganiev by phone 1361726, e-mail: husan_ganiev@lenta.ru for technical specification and further information.

Introduction

The Uzbekistan Economy Review has been developed by the Center for Effective Economic Policy (CEEP) with USAID and EuropeAid financial and technical support.

This review appraises trends in the social and economic development of Uzbekistan in the first six months of 2003, including analyses of major economic events of the period. Subsequent publications are planned to be issued on a quarterly basis.

The brief overview of the Uzbekistan economy covers all the constituent elements of the government's economic policy, and surveys underlying causes, factors and trends in the social and economic development indicators of the country and its regions.

The Macroeconomic Policy Section reviews factors and prerequisites for macroeconomic stability and economic growth, and the trends and outcomes of implemented fiscal, monetary, foreign exchange and pricing policies.

The Institutional and Market Reforms Section focuses on the market transformation processes in the economy, including denationalization and privatization, the establishment of market infrastructure institutions and private sector development.

The Structural and Investment Policies Section presents trends and issues in the development of real sector of the economy and the level of investment activity.

The Foreign Trade Section includes an analytical review of the trade balance status, import and export structure, and the activity of joint ventures with foreign investment.

The Living Standards and Labor Market Section analyzes trends in personal income, domestic trade and services development, and reviews specific issues of employment and the labor market.

The Social and Economic Development in the Regions Section discusses production facilities, territorial allocation rates and ratios, as well as reasons for interregional differentiation in social and economic development.

The publication includes analytical articles on the most vital issues of social and economic development and reform progress in Uzbekistan.

The following national experts contributed to the review drafting: Furqat Baratov, Shukhrat Shukurov, Tursun Akhmedov, Jakhongir Muinov, Rinat Yaushev, Valentina Baturina, Dildora Karimova, Farkhod Jurakhanov and Sherzod Muminov.

The findings and conclusions cited in the review are those of the authors only and should in no way be taken as reflecting the policies or opinions of the government of Uzbekistan, USAID or Europe Aid.

The data published in the review were provided by the State Committee on Statistics, the Ministry of Economy, the Central Bank of Uzbekistan, the Ministry of Finance, the State Committee for Property Management and Privatization, as well as being derived by the authors.

Main Economic Events

Macroeconomic policy

On 30 December 2002 the Cabinet of Ministers passed its Resolution «On the forecasting of major macroeconomic indicators and parameters of the State Budget of the Republic of Uzbekistan for 2003», specifying major fiscal policy development areas for 2003. Primary budget expenditures will be targeted to the social sector (38.3% of total expenditure), centralized investment (12.6%), the economy (11.6%) and social safety net (7.8%).

Among key changes in fiscal policy the following may be highlighted:

- corporate income tax rates were reduced from 24% in 2002 to 20% in 2003;
- the personal income marginal tax rate was reduced from 33% in 2002 to 32% in 2003 with a simultaneous optimization of the tax schedule;
- the amount of mandatory contributions for social insurance from the pay roll fund for legal entities was reduced from 40% in 2002 to 37.2% in 2003;

In the first six months of 2003 "The Program for successive stages of reform in the Uzbekistan banking system for 2003-2004" was passed with the approval of the Republican Banking Board at the meeting of the General Economic Board of the Cabinet of Ministers. The Program envisages:

- further improving the market instruments of monetary policy and facilitating cashless settlements;
- gradually exempting commercial banks from non-banking functions, including responsibilities for gathering, accounting and supervising accounts payable and receivable, and supervising the compliance of businesses with cash-handling procedures;
- setting up a regulatory and legal basis for bank holdings, groups and pawn shops, as well as improving the regulatory base of the taxation and supervision of credit unions;
- implementing uniform exchange rates in the domestic foreign currency market, abolishing restrictions in the foreign currency cash market and introducing Soum convertibility for current foreign transactions; and
- curtailing direct government participation in the charter capitals of commercial banks and others.

On 4 February 2003 the Cabinet of Ministers passed its Resolution "On measures for improving the regulation mechanism of monetary indicators". The Resolution envisages abolishing the mandatory system of forming cash plans and introducing new methods of managing monetary aggregates based on money supply regulation.

In the first half of 2003 the Government's and the Central Bank's efforts to further liberalize the domestic foreign currency market included:

- increasing foreign currency purchase limits by individuals through the exchange offices of authorized banks to USD 3000 for a quarter;
- Implementing uniform formal currency market exchange rates and minimizing the difference between over-the-counter and parallel market rates.
- converting Soum proceeds from sales of imported goods and services (including transportation and communications) into freely convertible currency at the rate of interbank trading sessions as opposed to the previously used foreign cash sale rate;
- Abolishing the requirement for enterprises to submit to the authorized bank information on the uses of earlier purchased foreign currency while applying for regular convertibility of Soum proceeds.

The Government of the Republic of Uzbekistan expressed its intention to undertake necessary measures to achieve national currency convertibility for current foreign transactions. In an effort to accomplish the above, on 27 June 2003 the Government and the Central Bank of Uzbekistan in consultation with IMF mission adopted an appropriate "Action plan for ensuring national currency convertibility for current foreign transactions" ("the Action Plan").

In line with the Action Plan the active foreign currency restrictions and the practice of multiple foreign exchange rates, which contradict the obligations in Section 2(a), 3 and 4 of Article VIII of the Articles of Agreement of the IMF, should be abolished by the end of the year.

The Government and the Central Bank are intending to abolish the following restrictions impeding the introduction of Soum current convertibility:

- regulations prohibiting the purchase of foreign currency by businesses with arrears of payments to the government budget;
- restrictions on foreign currency purchases by trading and intermediary companies;

- the regulation on the preliminary registration of import contracts, which will be replaced by a customs monitoring system;
- restrictions for leveraged foreign currency purchases;
- requirements for presenting foreign bank warranties and depositing an amount in national currency proportionate to the advance payment;
- restrictions, prohibiting payments to the benefit of non-resident third parties for import contracts;
- restrictions on the amounts of interest and other payments while attracting foreign loans;
- restrictions prohibiting advance payments for services to off-shores;
- regulations, establishing the maximum amount of foreign currency cash sale through exchange offices.

In line with the Action Plan, the amended law "On foreign currency regulation" shall be drafted, and submitted for consideration to the Oliy Majlis before the end of 2003.

Institutional Transformations

On 24 January 2003 the Decree by the President of the Republic of Uzbekistan "On measures for the significant increase of the share and importance of the private sector in the Uzbekistan economy" was effected, stipulating the extensive development of private entrepreneurship, and the significant increase of the private sector in the structure of the economy as the top priority of economic reform and market transformations in Uzbekistan. The development of a system of measures was proposed, envisaging procedures for establishing and operating private enterprises, and a system of benefits and preferences, encouraging the priority growth of private property in the area of production and services. To facilitate successful implementation of the above Decree, GKI of Uzbekistan developed and approved Recommendations on Methods for government assets valuation – holdings of shares (stakes) in charter capitals of privatized enterprises and enterprises in general, the Regulation on procedures of the sale of government assets below nominal value and other regulatory and legal acts, including those directed towards improving the corporate management of privatized enterprises.

The Cabinet of Ministers enacted resolutions "On the Program for the Denationalization and Privatization of Enterprises in 2003-2004" on 17 April 2003 and "On measures for improving the corporate management of privatized enterprises" on 19 April 2003. The above legal acts, in addition to increasing the volume of shares offered by the government, envisage concrete measures oriented to increase the attractiveness of investment in shares, including for foreign investors. The most essential ones concern: granting investors rights to purchase blocking and controlling stock of many Joint Stock Companies (JSC); the comprehensive transition to market principles in supplying enterprises with material and technical resources; the improvement of interrelations between business associations and holdings and their member units; a five year tax exemption on personal dividend income received from shares of Joint Stock Companies, established on the basis of privatized enterprises; the abolishment of previous regulatory documents granting special rights to managers of government stock holdings (adopting JSC Supervisory Board decisions only with the vote of the government trustee or proxy manager, the government trustee having the right to suspend the decisions of General shareholders meetings). At present the government representative in JSC has equal rights with other shareholders (their representatives).

The Cabinet of Ministers Resolution "On measures for the further development of the secondary securities market" of 29 April 2003 is targeted at improving the secondary securities market. It envisages transacting the secondary buying and selling of public corporations stock solely on exchanges or organized OTC securities markets. Previously secondary sale of stock took place mainly at non-organized markets, i.e. on the basis of direct contacts between sellers and buyers. This method of stock sales, despite its simplicity, did not allow the establishment of actual market value of shares based on current demand and supply, ensure information disclosure on concluded transactions with shares and their issuers, nor provide access to the trading to a wide spectrum of persons.

In April an Uzbek-Romanian business seminar was held with the participation of managers from about 20 Romanian companies from light industry, food, and furniture manufacturing sectors. Panel meetings with local entrepreneurs were organized to discuss issues of joint venture establishment, trade relations expansion and better information exchange.

In May a Memorandum between the Ministry of Justice of the Republic of Uzbekistan and the International Financial Corporation (IFC) was signed. The document is oriented to further improving the entrepreneurial environment in the country. Cooperation with the IMF in small and medium business development is focused on setting up conditions for private, small and medium entrepreneurship development in the country, specifically providing the private sector with loans.

GKI of the Republic of Uzbekistan on 10 July organized a conference on the topic: «Foreign and domestic investors' opportunities in the privatization of enterprises in Uzbekistan ». The issues of denationalization and privatization of enterprises, the increase of the share and impact of the private sector in the Uzbekistan economy, as well as potential investor awareness of new privatization opportunities were discussed at the conference. The conference was attended by managers and experts from ministries and agencies, banks, holding and other companies, representatives of foreign firms and joint ventures.

Structural and Investment Policies

In January Tashkent played host to an international conference "Economic Reform and Foreign Investment Attraction in countries with transitional economies: past lessons and development perspectives". Leading politicians, economists, businessmen, government officials from Central Asian countries and representatives from international organizations operating in Central Asia, Eastern Europe and China participated in the conference. Specific emphasis at the conference was given to the challenges of facilitating foreign investment inflow and financial infrastructure development (primarily in the banking sector).

In March 2003 Tashkent was the venue of the meeting with General Motors – Daewoo Auto Technology (GM-DAT) where prospects of cooperation with AO UzDawooAuto were negotiated, focusing on resolving the issue of the supply of components, as well as reaching the planned production capacity of the Uzbek motor-vehicle facility.

The international exhibition "Building and interior, heating and ventilation" held in Tashkent in March facilitated obtaining broad information on potential partners and business opportunities.

On 24 March 2003 a Presidential Decree was signed «On major areas of reform progress in agriculture». Actions ensuring timely and quality implementation of the Decree were approved by the Cabinet of Ministers. The ministries and agencies concerned, jointly with the Ministry of Economics, developed draft regulations «On measures for the further improvement of statistical and financial reporting in the agricultural sector», «On changes and amendments to some legal acts of the Republic of Uzbekistan», «On the concept of farms development for 2003-2005» and submitted these to the Cabinet of Ministers. The State Joint Stock Company "Uzagrosugurta" developed "Temporal procedure for the insurance of cash proceeds, allocated from the Foundation for Settlements for Agricultural Produce, procured for state needs".

In April the third international exhibition "Foodstuffs, beverages, packaging and production technologies" – Interfood Uzbekistan – 2003 was held in Tashkent, organized by British ITE Group PIC and its Uzbek partner Itesa - Osiyo. Official sponsors were UzbekexpoCenter at the Agency of economic relations, the Ministry of Agriculture and Water Management, Uzplodoovotshvinprom-holding company and Uzmevasabzavot association. More than 30 companies from 12 countries of the world participated in the exhibition. The exhibition attracted many major industrial producers, trading associations and other consumers, and created favorable prerequisites for further cooperation in the food industry.

On 6 May 2003 a Presidential Decree was effected "On major areas of fostering further economic reform in capital construction", setting up tasks for strengthening contractual relations between investment process participants, for investment program development, taking into account the entire investment cycle, for tightening control over quality and for the timely completion of project and building works.

In May the Cabinet of Ministers Resolution "On additional measures for reinforcing legal protection for foreign direct investment" was passed. In order to ensure legal rights and effective mechanisms of legal protection of foreign investors a Department for the legal protection of foreign investment and enterprises with foreign investment will be established within the Ministry of Justice.

In May the seventh international exhibition "Oil and Gas" occurred in Tashkent, organized by Uzbekneftegaz Company and the Agency for Foreign Economic Relations of Uzbekistan jointly with the British company ITE Group Plc. The international exhibition, which generated interest in the industrial structure the oil and gas field, established prerequisites for successful cooperation with the world community in the oil and gas sector.

In June, the Japanese Organization for the Development of Foreign Trade (JETRO) ran a seminar for Uzbek businessmen on "Corporate management in the process of market economy transition".

Participants were presented materials on specific ways of getting enterprises out of crisis, as well as recommendations for export promotion.

On 20 June 2003 a Presidential Decree was published "On additional measures for stimulating finished consumer goods production by enterprises with foreign investment". The Decree was focused on broadening the range of high quality finished consumer goods, saturating the domestic consumer market with them and establishing favorable conditions for attracting foreign investment. Likewise, enterprises producing garments, knitwear and footwear are exempt from all taxes and charges from 1 July 2003 to 1 January 2005, except VAT, provided they allocate tax savings for asset replacement, the modernization of production lines, launching new finished goods types, working capital replenishment and labor motivation.

In an effort to facilitate trade turnover increase and ensure the comprehensive collection of tax revenues to the government budget, on 30 June 2003 a Presidential Decree was signed "On measures for restructuring taxation in trade and public catering sectors". In line with the Decree, it was resolved to: introduce from 1 July 2003 a gross income tax for wholesale and retail trade, and public catering enterprises (including small businesses and micro firms); set up in accordance with current Cabinet of Ministers procedures differentiated gross income tax rates taking into account areas of business, location and other specific conditions; establish procedures for gross income tax payment instead of a single tax on gross proceeds and a single tax on imputed income; establish procedures for property tax payment in addition to gross income tax payment; authorize wholesale trade enterprises to transact retail trade for cash through their network of stores with mandatory use of cash registers and collection of proceeds in compliance with effective regulations.

Foreign Trade

A workshop on "Uzbekistan entering the World Trade Organization: analysis of the process and implications" was held in Tashkent on 28 February 2003. The workshop organized by SASAKAVA Foundation (Japan), Ministry of Economy of Uzbekistan, and the Center for Effective Economic Policy, discussed organizational and legal aspects of Uzbekistan's membership in WTO, impact of WTO membership on the macroeconomic situation in Uzbekistan, the challenges of adjusting the foreign trade regime of the country and the vulnerability of sectors of the economy in the process of entry. The foreign experience of WTO membership was reviewed and lessons for Uzbekistan derived. The workshop was attended by representatives of academic and business circles of the Republic and international experts.

In May the international conference "Central Asia in XXI century: cooperation, partnership and dialogue", was organized by the Institute of Strategic and Interregional Studies under the President of the Republic of Uzbekistan, the Information and Press Department of NATO and the Friedrich Ebert Foundation (Germany). Challenges of regional interaction in political, economic, social and humanitarian areas were reviewed.

In May Tashkent played host to the fifth meeting of the Uzbek-Iranian inter-government committee on trade-economic and scientific-technological cooperation. The parties considered issues of further partnership developing between business circles of countries, increasing bilateral trade range and volumes and deepening investment cooperation.

For the first time in Uzbekistan and Central Asia the XII Annual Meeting of the EBRD's Board of Governors was held in Tashkent on 4-5 May 2003. Uzbekistan today is one of EBRD partners for loan portfolio distribution in the Central Asian region. EBRD is funding private sector development, SME business project crediting and market infrastructure development necessary for FDI.

On 4 June Tashkent became the venue of the seventh meeting of Committees for economic cooperation between Uzbekistan and Japan. The outlook for mutually beneficial cooperation between Uzbekistan and Japan was discussed. Special emphasis was laid on issues of broadening business partnership, increasing trade turnover and developing cooperation in attracting investment.

In the first half of 2003, "KARLANSER-SAM" Joint Venture with Turkish investment was put into operation in Samarkand. It produces carpets varying in design and shape mainly for export.

The Uzbek-German Joint Venture "CA Paschal Form Ltd" was established in Tashkent, manufacturing concrete forms of "Rastr" for monolithic building. The JV is intending to supply its products to domestic, the Central Asian and the Caucasus markets.

The Uzbek-Swiss joint venture "Olottex" commenced its operations in Bukhara. The JV will annually produce approximately 3 thous. tons of cotton yarn and 6 million running meters of unbleached calico.

Social Sector

To broaden the rights and increase the role of self administration of citizens within public life, on 7 February 2003 the Cabinet of Ministers passed a Regulation on implementing the "Year of Makhallya" program, oriented towards further strengthening the role and status of the makhallya in the social and political life of society; sustaining the financial basis for the makhallya's activities, developing entrepreneurship, services and trade within communities, creating new jobs, developing makhallya social infrastructure, improving neighborhood areas and planting trees, building playgrounds for children and sports facilities; facilitating the targeted material support of low income and newly married families by makhallyas; improving medical and recreation services for makhallya members, and developing child sports.

The Presidential Decree of 26 February 2003 "On Measures for the Further Reform of the Health System" points out the main tasks of the second stage of health system reforms in Uzbekistan taking into account advanced foreign experience in the creation of specialized clinics and medical centers.

In an effort to bolster the targeting of social security measures in the conditions of the liberalization of the economy, on 27 March 2003 the Uzbekistan President signed the Decree "On effecting from 1 April 2003 compensatory payments in substitution of granted benefits in paying for utilities services". In line with the Decree, cash payments compensating earlier granted benefits in paying utility bills were introduced. Amounts of compensatory cash payments for utility services were included in the payroll fund and paid with salaries (pensions). Sources of financing are the government budget and extra-budgetary Pension Fund. Specifically, in line with the Decree by the President of the Republic of Uzbekistan of 2 April 2003 "On increasing wages, pensions, stipends and welfare from 1 May 2003", salaries of public sector employees, all types of pensions and welfare payments, and stipends for students of higher educational and secondary special educational institutions were increased by a factor of 1.2.

Owing to successive education reform, and in order to build the professional capacity of young teachers and researchers, on 2 July 2003 the Decree by the President of the Republic of Uzbekistan was effected "On improving training and internship for young teachers and researchers".

STATISTICAL REVIEW

1. Macroeconomic Policy and Economic Growth

1.1. Economic Growth

The real GDP grew in the first half of 2003 by 3.8% compared to the level of the corresponding period of the previous year (Table 1.1.1).

Table 1.1.1. Growth and Production Structure of GDP

Period	GDP		Production structure of GDP, %				
	In actual prices of corresponding year, UZS bn.	To corresponding period of previous year, % (in comparable prices)	Industry	Agriculture	Construction	Services	Net taxes
1995	302.8	99.1	17.1	28.1	7.1	34.6	13.1
1996	559.1	101.7	17.8	22.4	8.2	37.2	14.4
1997	976.8	105.2	15.6	28.3	7.3	36.4	12.4
1998	1416.2	104.3	14.9	26.8	7.5	36.4	14.4
1999	2128.7	104.3	14.3	29.0	6.7	36.6	13.4
2000	3255.6	103.8	14.2	30.1	6.0	37.2	12.5
2001	4925.3	104.2	14.2	30.2	5.9	37.3	12.4
2002	7469.3	104.2	14.1	30.6	4.9	38.7	11.7
02/I	1162.0	103.1	20.8	11.0	5.0	46.5	16.7
02/I-II	2741.5	104.2	17.8	16.6	5.5	44.3	15.8
02/I-III	4997.4	103.0	15.0	27.6	5.6	37.6	14.2
03/I	1570.8	102.2	20.2	11.4	4.6	46.9	16.9
03/I-II	3633.0	103.8	18.2	16.8	5.3	44.7	15.0

Source: State Statistics Committee of RUz.

Components of GDP growth were the increase in industrial production of 5.5 %, agriculture – 4.5%, construction – 2.0%, investments in basic capital – 2.6%, and exports – 40.9%. The high increase in exports has been due to the increase in the export of machinery and equipment, and the favorable conjuncture of world prices for exports of cotton fiber and non-ferrous metals.

In the production structure of GDP the contribution of individual sectors to GDP growth in the first half of the current year has been due to the increase in the share of industry (from 17.8% to 18.2%) and services (from 44.3% to 44.7%). As a result of the decrease in rates of tax on individual income and profits, the share of net taxes has been reduced (from 15.8% to 15.0%).

Table 1.1.2. Structure of Using GDP (%)

Period	Expenses for final consumption total, %		Gross accumulation, %		Net Exports, %
	Private	State	Gross domestic investments into basic capital	Changes in holdings and others	
1995	50.6	22.3	33.0	-8.8	2.9
1996	55.2	22.1	36.8	-13.8	-0.3
1997	60.8	20.5	33.8	-14.8	-0.2
1998	59.6	20.5	29.7	-8.8	1.0
1999	62.1	20.6	27.2	-10.1	0.5
2000	60.9	19.7	24.0	-4.4	-0.2
2001	60.6	19.4	27.9	-6.8	-1.1
2002	57.6	18.9	21.9	1.0	0.6
02/I	63.1	15.0	27.5	-3.5	-2.1
02/I-II	63.7	18.5	25.9	-5.7	-2.4
02/I-III	59.7	20.2	27.3	-8.6	1.4
03/I	57.3	14.3	23.8	-7.6	12.2
03/I-II	56.8	17.8	23.4	-10.1	12.1

Source: State Statistics Committee of RUz.

1.2. Fiscal Policy

1.2.1. Revenues of State Budget

Revenues of state budget in relation to GDP have increased from 29.7% in the first half of 2002 to 31.0% in the first half of 2003 or by 1.3 percentage points (Table 1.2.1.) This increase has been ensured mainly by the increase in proceeds from indirect taxes from 16.8% in the first half of 2002 to 18.2% in the first half of 2003 (or by 1.4 percentage points). At the same time, proceeds on direct taxes in relation to GDP have decreased from 8.2% for the first half of 2002 to 7.9% for the corresponding period of the current year. The reason for the decrease in proceeds on direct taxes is the decreasing rate of profit tax and income tax from individuals.

Table 1.2.1. Structure of Revenue Part of State Budget (% to GDP)

Indicators	1998	1999	2000	2001	2002	02/I	02/I-II	02/I-III	03/I	03/I-II
Revenues – total	32.4	30.0	28.5	26.0	25.2	30.7	29.7	26.1	28.3	31.0
1. Direct taxes	10.2	8.9	7.5	7.4	6.8	9.2	8.2	7.2	8.2	7.9
2. Indirect taxes	16.6	16.4	16.0	13.5	13.8	16.3	16.8	14.2	15.9	18.2
3. Resource payments and property tax	3.9	3.3	2.8	2.4	1.9	2.4	2.3	2.1	2.3	2.6
4. Social infrastructure development tax	0.4	0.3	0.3	0.3	0.5	0.6	0.6	0.6	0.6	0.5
5. Other revenues	1.3	1.1	1.9	2.4	2.2	2.2	1.8	2.0	1.3	1.8

Source: Ministry of Finance of RUz

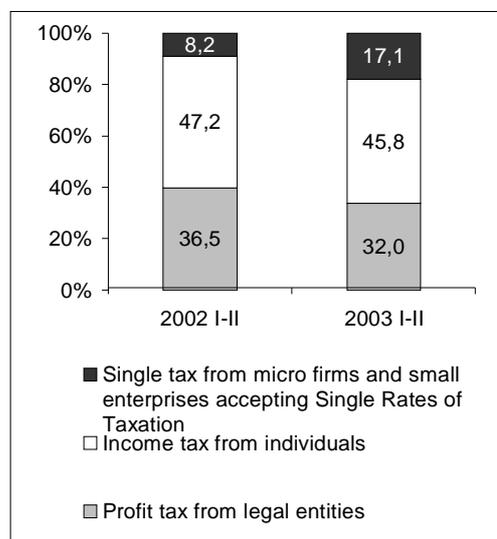
In the structure of revenues of the State Budget, proceeds from indirect taxes make up more than half of all revenues (56.6% in the first half of 2002 and 58.3% in the first half of 2003). The share of direct taxes in total volume has decreased from 27.5% to 25.7% (Table 1.2.2.)

Table 1.2.2. Structure of Revenue Part of State Budget (% to total)

Indicators	1998	1999	2000	2001	2002	02/I	02/I-II	02/I-III	03/I	03/I-II
Revenues – total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1. Direct taxes	31.5	29.3	26.4	28.5	27.2	29.8	27.5	27.7	29.0	25.7
2. Indirect taxes	51.0	53.9	56.0	51.8	54.6	53.5	56.6	54.6	56.3	58.3
3. Resource payments and property tax	11.9	10.9	9.9	9.3	7.5	7.7	7.9	7.9	8.2	8.5
4. Social infrastructure development tax	1.2	1.0	1.1	1.3	2.1	1.9	2.1	2.2	2.0	1.6
5. Other revenues	4.4	4.9	6.6	9.1	8.6	7.1	5.9	7.6	4.5	5.9

Source: Ministry of Finance of RUz.

Graph 1.2.1. Structure of Direct Taxes of State Budget (%)

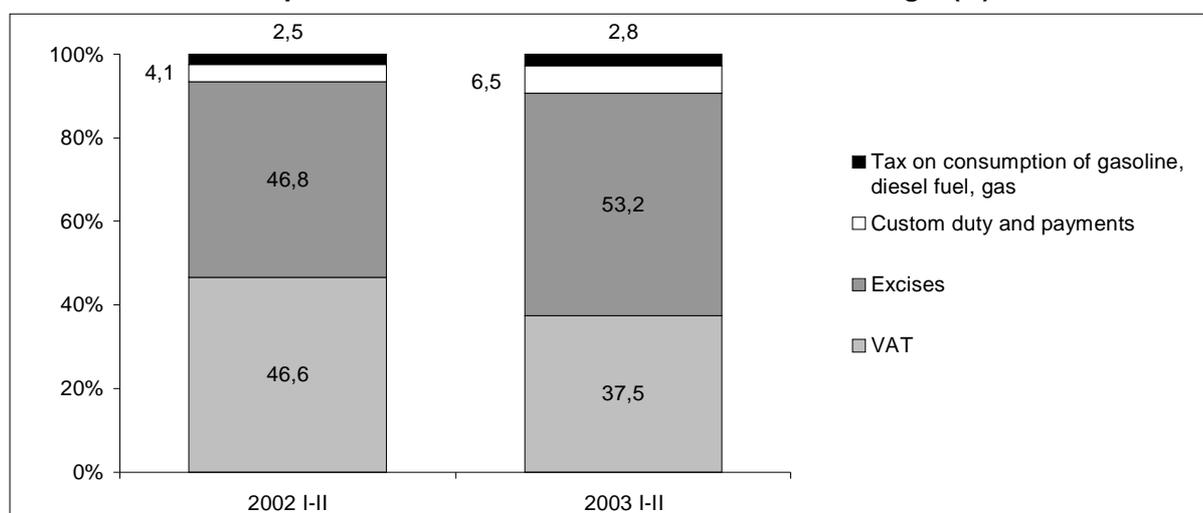


Source: Ministry of Finance of RUz.

There has been an increase in the share of proceeds from resource payments and property tax (from 7.9% for the first half of 2002 to 8.5% for the first half of 2003).

A consequence of reducing rates of income tax from individuals is the decreasing share in the structure of direct taxes both of income tax from individuals (from 47.2% in the first half of 2002 to 45.8% in the first half of the current year) and from the profit tax (from 36.5% to 32.0%) (Graph 1.2.1.)

An analysis of the structure of indirect taxes shows that for the first half of the current year, the share of excises has increased from 46.8% to 53.2% due to the transfer to fixed rates of excise tax and the increasing tax collection from the sale of goods subject to excise such as rice, soap and plant oil (graph 1.2.2.).

Graph 1.2.2. Structure of Indirect Taxes of State Budget (%)


Source: Ministry of Finance of RUz.

1.2.2. Expenditures of State Budget

The expenditures of the State Budget in relation to GDP have decreased from 30.8% in the first half of 2002 to 28.6% in the first half of 2003, i.e. by 2.2 percentage points (table 1.2.3.). This took place mainly because of decreasing expenditures in the social sphere (from 11.6% to 10.3%) and centralized investments (from 6.3% to 4.0%).

Table 1.2.3. Structure of Expenditures of State Budget (% to GDP)

Indicators	1998	1999	2000	2001	2002	02/I	02/I-II	02/I-III	03/I	03/I-II
Expenditures – total	34.5	32.2	29.5	27.0	26.1	30.1	30.8	26.7	27.4	28.6
1.Social sphere	12.3	11.9	10.4	10.2	9.8	12.6	11.6	10.1	10.3	10.3
2.Social protection	3.3	3.0	2.3	2.1	2.0	2.7	2.4	2.1	2.5	2.5
3.Expenditures for economy	4.0	3.7	3.0	2.3	2.3	2.3	2.1	2.2	2.7	3.0
4.Expenditures for financing investments	7.0	6.8	6.0	5.0	4.7	4.5	6.3	5.6	3.2	4.0
5.Maintenance of state power bodies, management and court bodies	0.8	0.8	0.6	0.6	0.5	0.6	0.6	0.5	0.6	0.6
6.Other expenditures	7.1	6.0	7.2	6.8	6.5	7.4	7.6	6.2	8.0	8.1

Source: Ministry of Finance of RUz.

As opposed to the deficit of the state budget in the first half of 2002 (-1.0% to GDP), in the first half of 2003 there was a surplus (2.4% to GDP).

1.3. Monetary Policy

As of 1 July 2003, 32 commercial banks with 805 branches were functioning in Uzbekistan country-wide. The system of commercial banks includes 11 private banks, 5 banks with the participation of foreign capital, 2 state banks, and 14 banks with mixed types of ownership.

Since the beginning of the year certain changes in the system of commercial banks of Uzbekistan have taken place: the affiliate of the Central Asian Bank for Development and Co-operation in Tashkent terminated its activity in Uzbekistan due to the closure of its head bank in Kazakhstan; the Central Bank of Uzbekistan withdrew the licence of the private Karvon bank; and there was a voluntary merger of the private Sogdiana bank with Parvina bank.

In the first half of 2003 the monetary policy of CBU was directed to ensuring the stability of the national currency – Soum, implementing measures for reducing the level of inflation and liberalizing the foreign exchange market.

At present the main instruments of monetary policy are compulsory reserve requirements, deposit and lending operations of CBU with commercial banks, operations with bonds of CBU and others.

As a result of conducting tight monetary policy in the first half of the current year, the level of inflation was reduced, in comparison with December of the previous year, from 14.4% to 4.2%.

The refinancing rate of the Central bank within the first half of 2003 remained unchanged at the level of 2.5% per month (table 1.3.1.).

Total assets of commercial banks in the period in question increased in nominal terms by 6.8% compared with indicators of the corresponding period in 2002.

Table 1.3.1. Change in Interest Rates

Period	Monthly refinancing rate	Refinancing rate per annum	Average weighted rate on loans
1997	3.30	47.64	27.3
1998	2.80	39.29	23.2
1999	3.00	42.58	23.6
2000	2.40	32.30	23.7
2001	2.00	26.80	23.6
2002	2.50	34.50	29.3
02/I	2.50	34.50	29.3
02/II	2.50	34.50	29.8
02/III	2.50	34.50	29.6
02/IV	2.50	34.50	30.6
03/I	2.50	34.50	31.8
03/II	2.50	34.50	31.1

The source: Central Bank of RUz.

During the first half of 2003 the total amount of loans of the banking system in nominal terms increased by 35.6% compared with the first half of 2002.

In a sectoral context the largest share of banking system loans was extended to industry – 56.9%, whereas transport and communication received 13.0%, construction – 4.4%, trade and public catering – 2.6%, agriculture – 2.5%.

As of 1 July 2003 deposits by the population in banks consisted of UZS 190.6 bn. The deposits balance in nominal terms increased by UZS 58.0 bn. or 43.7% compared with the similar period of the previous year.

The total capital of the banking system as of 1 July 2003 in nominal terms increased by 31.9% compared with the similar period in 2002.

1.4. Foreign Exchange Policy

In the first half of the current year the Central Bank of Uzbekistan followed a regime of manageable floating exchange rate and managed exchange rate, taking into account the evening-out of seasonal fluctuations and maintaining forex reserves equivalent to three month's imports.

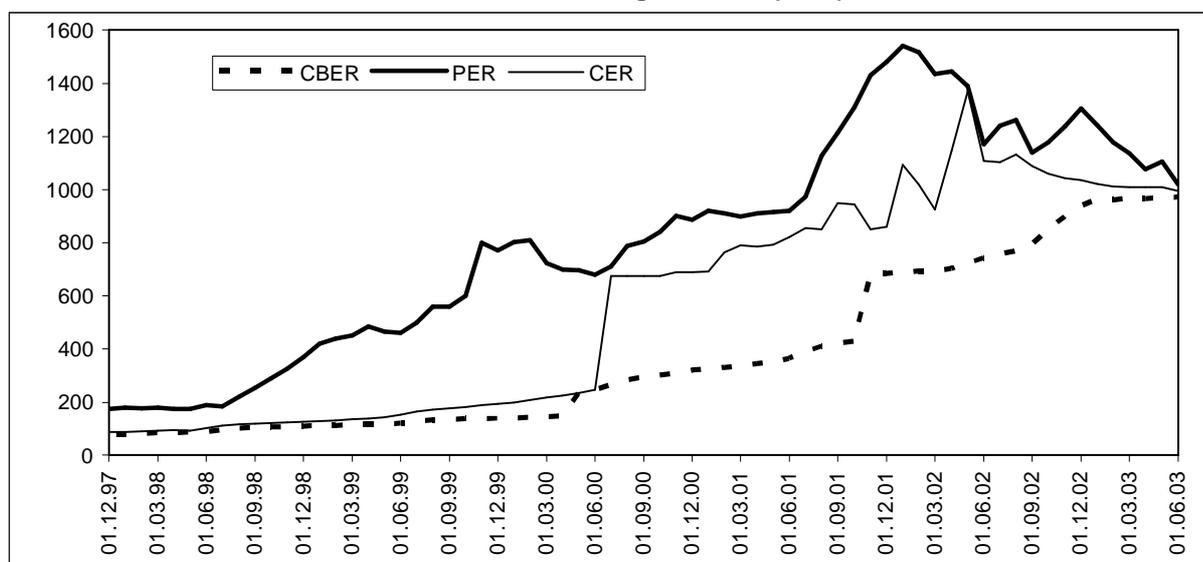
For the time being the major exchange rates in the official forex market are: a) the exchange rate of the Central bank (Rate of CBU), which is defined based on the average weighted rate of trade sessions in Uz RFE and is used for accounting, statistical and other reporting purposes and also for computing customs payments; b) the commercial rate of the exchange offices, which is defined with the participation of authorized banks for operations with cash foreign currency.

The main source of the foreign currency supply in the non-cash foreign market in the period under review was the surrender of proceeds from centralized export to Central Bank and the surrender of 50% of proceeds from decentralized export in the OTC foreign exchange market.

Operations in the OTC foreign exchange market are carried out by 27 commercial banks which are members of the Uzbek Republic Foreign Exchange and participate in its trade sessions. The amount of operations in the foreign currency market varies depending on the amount of import, servicing external debt, profit repatriation, dividends to foreign investors, etc

As a result of implementing measures on further liberalization of the forex market, the difference between the rate of the exchange offices and the parallel exchange rate has been significantly reduced (graph 1.4.1).

In the first half of the current year in the dynamics of nominal exchange rates (average indicators for the period) it is noted that the rate of CBU was devalued by 8.2% and the rate of exchange offices and the parallel exchange rate were strengthened accordingly by 4.1% and 14.4% (table 1.4.1).

Graph 1.4.1. Exchange Rate of CBU (CBER), Parallel Exchange Rate (PER) and Rate of Exchange Offices (CER)


Source: Central Bank of RUz.

**Table 1.4.1. Exchange Rate of UZS against US Dollar
(average indicators for the period of 1995-2003)**

Period	Exchange rate of CBU (UZS / \$)	Change compared with previous period (in %)	Rate of exchange offices (UZS / \$)	Change compared with previous period (in %)	Parallel exchange rate (UZS/\$)	Change compared with previous period (in %)
1997	66.5	64.5	71.9	-	150.6	144.6
1998	94.5	42.4	105.7	47.0	226.9	50.7
1999	124.5	31.8	158.8	50.2	542.5	139.1
2000	236.6	89.9	450.1	183.5	777.7	43.4
2001	422.9	78.8	829.0	84.2	1084.3	39.4
2002	770.8	82.3	1093.8	31.9	1321.7	21.9
02/I	692.7	15.6	1012.7	14.4	1497.6	6.5
02/II	722.3	4.3	1208.4	19.3	1335.1	-10.9
02/III	772.3	6.9	1107.5	-8.4	1213.3	-9.1
02/IV	896.0	16.0	1046.7	-5.5	1240.9	2.3
03/I	965.3	7.7	1014.7	-3.1	1186.1	-4.4
03/II	970.0	0.5	1005.0	-1.0	1068.0	-10.0

Source: Central Bank of RUz.

1.5. Prices and Inflation

For the first half of 2003 the level of inflation in the consumer sector (CPI) was 4.2% which is 10.2 and 5.8 percentage points lower than in 2002 and 2001, respectively. In average monthly terms the level of inflation in 2003 was 0.7% vs 2.3% in 2002 and 1.4% in 2001 (tables 1.5.1., 1.5.2.).

**Table 1.5.1. Major Indicators of Inflation in the Republic of Uzbekistan for 1995-2003
(increase of prices in % to corresponding period of previous year)**

Years	Consumer price index	Food stuff	Non-food stuff	Services
1995	304.6	252.7	185.0	467.6
1996	54.0	99.3	33.5	99.4
1997	58.8	55.2	65.1	71.4
1998	17.9	12.6	18.8	52.6
1999	29.1	25.6	33.7	43.8
2000	24.9	18.9	36.6	47.1
2001	27.4	27.9	21.1	36.9
02/I	28.0	27.2	20.1	37.3
02/II	31.7	34.3	19.3	44.4
02/III	28.6	28.7	18.7	46.0
02/IV	22.5	20.8	19.0	37.7
03/I	19.7	17.3	17.5	38.2
03/II	12.4	8.5	15.6	30.1

Source: State Committee on Statistics of RUz.

Table 1.5.2. Level of inflation for 1 half of 2001-2003 (increase in prices in %)

	Average monthly level			To December of previous year		
	2001	2002	2003	2001	2002	2003
CPI	1.4	2.3	0.7	9.0	14.4	4.2
Including:						
Food stuff s	1.4	2.6	0.4	8.6	16.5	2.5
Non-food stuffs	1.4	1.1	0.8	8.4	6.8	5.0
Services	2.2	2.6	1.8	14.1	16.5	11.4

Source: State Committee on Statistics of RUz.

Table 1.5.3. Level of inflation in the Republic of Uzbekistan for 1st half of 2003 in regional context (%)

Same of the Provinces	Increase in prices for January-June	Average monthly
Republic of Uzbekistan	4.2	0.7
Surkhandarya	2.3	0.4
Khorezm	2.6	0.4
Fergana	3.2	0.5
Bukhara	3.5	0.6
Tashkent	3.5	0.6
Samarkand	4.2	0.7
Andijan	4.2	0.7
Republic of Karakalpakstan	4.4	0.7
Navoi	4.4	0.7
Jizzakh	4.5	0.7
Namangan	5.3	0.9
Kashkadarya	5.4	0.9
Sirdarya	5.5	0.9
Tashkent	6.8	1.1

Source: State Committee on Statistics of RUz.

In a regional context the highest average monthly inflation level (1.1%) is in Tashkent region, the lowest (0.4%) – in Surkhandarya and Khorezm regions (table 1.5.3.).

In the first half of 2003 compared with the similar period of 2002 there was a trend towards the strengthening influence of the rise in tariffs for chargeable services and prices for non-food stuffs on the general level of inflation (table 1.5.4).

If in the first half of 2002 the impact of the rise in tariffs for chargeable services on the general level of inflation was 6.7%, during the same period of 2003 it increased 5.2 times to 34.9%; on non-foodstuffs there was an increase of 1.9 times. The impact of the rise in prices for foodstuffs decreased by half.

Table 1.5.4. Impact of the rise in prices and tariffs on the level of inflation in the Republic of Uzbekistan for 1st half of 2002-2003 (% to total)

	2002	2003
Consumer price index	100.0	100.0
Including:		
Food stuff	79.5	39.4
Non-food stuff	13.8	25.7
Chargeable services to population	6.7	34.9

Source: State Committee on Statistics of RUz.

In the first half of 2003 29.7% of the total increase of prices in the consumer sector (of 4.2%) was caused by the increase in prices of fruits and vegetables (by 12.7%). This is a representative example of the seasonal character of the production of fruits and vegetables.

The largest impact (75.5%) on the increase in prices for fruits and vegetables was the rise in tariffs for goods transportation, the prices of producers for chemical and petrochemical products (53.1%) and energy resources (31.6%).

The change in the CBU exchange rate on which custom payments are computed impacted the rise in prices for imported goods.

2. Institutional and Market Reforms

2.1. Privatization and Property Types

The Denationalization and Privatization Program for 2003-2004 includes 3728 enterprises and facilities broken down into five groups (Graph 2.1.1.) based on their economic value and privatization approach.

The *First Group* is the largest one, embracing 1391 enterprises (37.3%). All of them were earlier privatized, retaining a government-owned stake of 25% or less. In addition, unplaced shares of those enterprises are possessed by the government. At present all those shares will be sold to private investors.

The *Second Group* includes 645 State Owned Enterprises (SOE) and facilities (17.3%), subject to sale into private property.

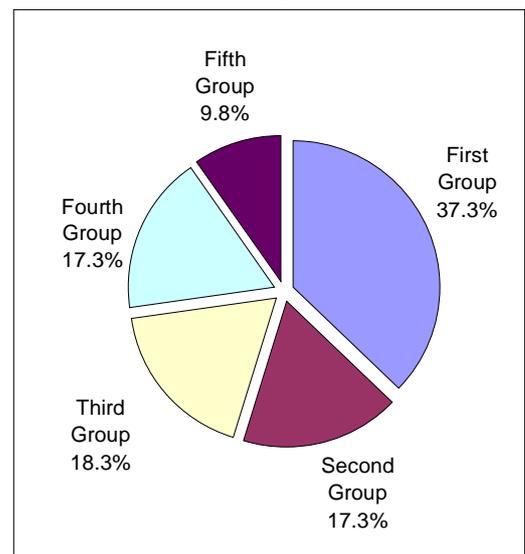
The *Third Group* includes 683 enterprises (18.3%), in which 25 to 50% of shares (stakes in charter funds) will be retained as government property for the next several years. Among those enterprises 308 have between 3 and 74% of unplaced shares due to sale into private property.

The *Fourth Group* is made up of 644 enterprises (17.3%), having strategic importance for the country's economy; therefore 51 and above percent of their shares will be retained as government property. Among these enterprises 165 have from 1.6 to 49.0% of unplaced shares, subject to sale into private property. For this group of enterprises the task of improving corporate management was set.

The *Fifth Group* consists of 365 enterprises (9.8%), with poor financial standing and operation records. If these enterprises are not wholly sold into private property in 2003, then subsequent liquidation is envisaged, with exclusion from the State register and piecemeal sale of assets and land to other businesses.

For the first time the government resolved to sell assets of poorly performing and loss-making SOEs unable to raise funds for restructuring and rehabilitation, at a price below book value. Such a procedure is applicable given the potential buyer's need to underwrite the investment obligations sufficient for re-equipment and production capacity increase, and repayment of outstanding accounts payable.

Graph 2.1.1. Breakdown into groups of enterprises included in Privatization and Denationalization Program for 2003-2004 (%)



Source: GKI data.

2.1.1. Key privatization indicators

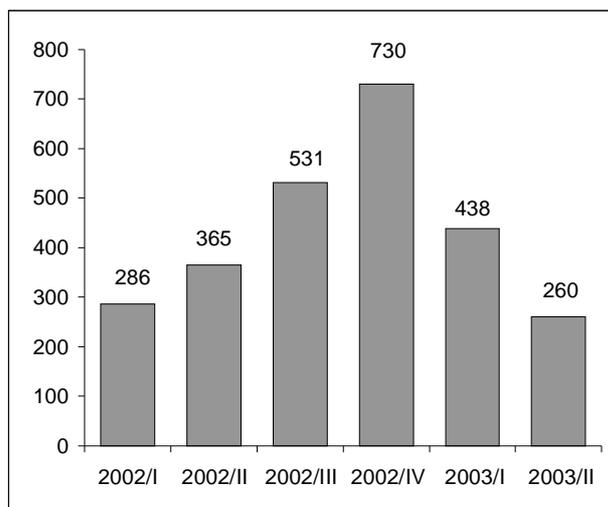
In the first half of 2003 the number of privatized SOEs reached 698, which is 7% higher than for the similar period of the previous year. However only 260 SOEs were privatized in the second quarter (Graph 2.1.2. and Annex 2.1.1.), which is 1.7 times less than in the first quarter of this year and 1.4 times less than in the similar period of the preceding year.

The relatively small number of privatized SOEs in the second quarter of the current year is accounted for by the lead time necessary after the approval of the Denationalization and Privatization Program for 2003-2004 by the Cabinet of Ministers on 15 April 2003.

By economic sectors, in the first quarter of 2003 the largest number of privatized SOEs fell under the share of agriculture and water management (33), oil and gas (25), and railroad transportation (13), while location-wise most privatized SOEs, as in previous periods, were concentrated in Tashkent City (341) and Tashkent province (60).

Based on privatized assets, 643 businesses were set up in 2003, including 301 in the first quarter and 342 in the second (Table 2.1.1.). Most of them are sole proprietorships.

Graph 2.1.2. Number of privatized SOEs (units)



Source: GKI data.

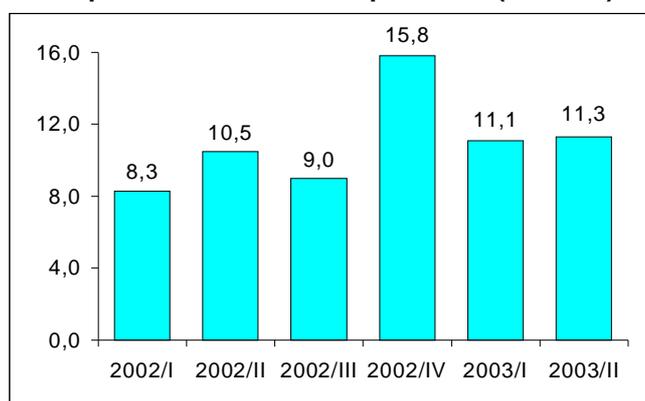
Table 2.1.1. Number of enterprises established on privatized property basis (units)

Time frame	Total set up	including		
		Joint Stock Companies	Private firms	Other
2002/I	268	26	211	31
2002/II	331	45	249	37
2002/III	481	86	287	108
2002/IV	720	66	505	149
2003/I	301	19	255	27
2003/II	342	5	301	36

Source: GKI of Uzbekistan.

The privatization of SOEs generated UZS 22.4 billion in the first half of 2003, including UZS 11.1 bn in the first quarter and UZS 11.3 bn in the second quarter (Graph 2.1.3.). Both these indicators exceed similar data for the preceding year by 1.3 and 1.1 times respectively.

Graph 2.1.3. Privatization proceeds (UZS bn)



Source: GKI of Uzbekistan data

Privatization proceeds are redirected to the Government and local budgets, as well as to the Business Fund for the financial support of SME development, and transferred back to enterprises being privatized to fund equipment upgrades, launches of new product lines and working capital replenishment.

A portion of the privatization proceeds is distributed on the basis of single government resolutions. Likewise "Uzbekenergo", "Uzbekistan Temir Yullari" and other para-state joint stock companies whose rapid restructuring is vitally important for the country economy, received in line with targeted government resolutions 50 or more percent of

the proceeds generated by the privatization of their constituent enterprises.

Table 2.1.2. Structure of privatization proceeds distribution (%)

Area	2002/I	2002/II	2002/III	2002/IV	2003/I	2003/II
The budget of the Republic of Uzbekistan	25.0	28.3	24.4	21.2	38.9	33.3
Local budgets	5.9	8.2	10.0	6.2	6.5	11.9
Business fund	5.9	8.2	10.0	7.1	6.5	11.9
Enterprises under privatization	10.3	9.4	7.8	8.9	10.1	7.1
Business associations, enterprises and organizations according to targeted Government resolutions	52.9	45.9	47.8	56.6	38.0	35.8
Total	100	100	100	100	100	100

Source: GKI of Uzbekistan

In the first half of 2003 some structural shifts occurred in the distribution of privatization proceeds (Table 2.1.2.). As opposed to all quarters of the preceding year, the share of proceeds transferred to the government budget increased, while the share of funds allocated on the basis of targeted government resolutions went down. This basically relates to declining weighted proceeds from the sale of shares of state joint stock companies, whose restructuring finance was the subject of targeted government resolutions.

2.2. Market Infrastructure

In the first half of 2003 a number of regulatory acts were passed, earmarked for ongoing stock market development. These include, primarily, the Decree by the President of the Republic of Uzbekistan of 24 January 2003 "On measures for the radical increase of the share and impact of the private sector in the Uzbekistan economy" and the subsequent Cabinet of Ministers resolutions of 17 April 2003 "On the denationalization and privatization program for 2003 – 2004" and of 19 April 2003 "On measures for corporate management improvement in post-privatized enterprises".

Privatization efforts aimed at private sector role boosting, stipulated in the first two of the above documents, envisage a significant increase of the IPO segment floated on behalf of the Government on the Primary Stock Market and OTC Market. Subsequent growth of secondary stock market sales is anticipated, as shares of fully privatized companies turn into private property.

Recently effected legislative and regulatory documents envisage both an increase of state-owned stock offerings and specific actions targeted to increase the attractiveness of stock for investors, including foreigners.

The most crucial are provisions of the above documents empowering investors to buy blocking or controlling stock of many joint-stock companies; comprehensive transition to market principles of the supply of material and technical inputs for enterprises; improvement of interrelations between business associations and holdings and their member units; five year tax exemption of personal dividend income received on shares of Joint Stock Companies, established on the basis of privatized enterprises; abolishment of earlier passed regulatory documents granting special rights to managers of government stock holdings (adopting JSC Supervisory Board decisions only with the vote of the government trustee or proxy manager, the government trustee having the right to suspend General shareholders meeting decisions). At present the government representative in JSC has equal rights with other shareholders (their representatives).

The Cabinet of Ministers Resolution "On measures for the further development of the secondary stock market" of 29 April 2003 is targeted at the improvement of the secondary securities market. It envisages transacting secondary purchase and sale of public corporations stock solely on exchanges or organized OTC securities markets. Previously secondary sale of stock took place mainly at non-organized markets, i.e. on the basis of direct contacts between sellers and buyers. This method of stock sales, despite its simplicity, did not allow the establishment of the actual market value of shares based on current demand and supply, ensure information disclosure on concluded transactions with shares and their issuers, nor provide trading access to a wide spectrum of persons.

The Resolution also provides for measures focused on increasing Uzbekistan Stock Exchange (UZSE) operations. It is exempt from VAT for a three-year-term, under the condition that tax savings are targeted to developing its trading and information systems and procuring equipment. In order to increase incentives for joint-stock companies to include their shares at top rank listing of the UZSE, their profits are

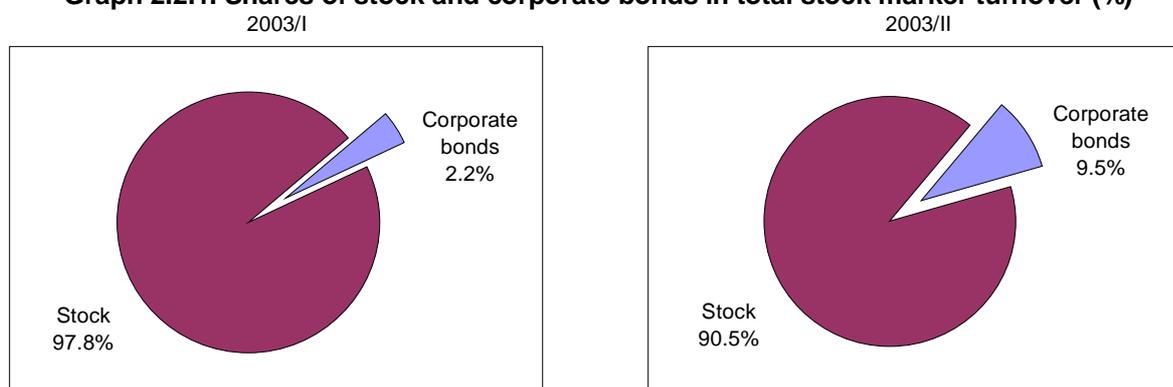
taxed at a rate reduced by 10% so long as the provided tax savings are used for technological re-equipment and production lines upgrade.

In addition, the Resolution sets forth regulations on stock market clearing agencies and on the system of a unified depositors base within the Depository System of Uzbekistan, and assigns the Center for Coordination and Control for Stock Market Functioning under the GKI of Uzbekistan jointly with UZSE the task of developing an information system providing basic data to potential investors on the financial standing and operational records of joint-stock companies, stock prices and paid dividends.

On 29 May 2003 a Cooperation Agreement was signed between Carhill Asset Management Company, an Uzbek subsidiary of Carhill Investment Company Ltd, UK and Aurbach Grayson & Company Inc., USA on cooperation in selling shares of Uzbekistan enterprises to foreign institutional investors.

In the first half of 2003 total stock market turnover amounted to UZS 35.1 billion, which is 2.1 times higher than in the similar period in the preceding year. The current year turnover, as opposed to previous years, includes total corporate bonds sales in addition to total stock sales. Corporate bonds worth UZS 0.4 billion were sold in the first quarter, and worth UZS 1.8 billion in the second quarter, which is 2.2% and 9.5% respectively of the total stock market turnover (Graph 2.2.1.).

Graph 2.2.1. Shares of stock and corporate bonds in total stock market turnover (%)



Source: Data from the Center for Coordination and Control for Stock Market Functioning under GKI of Uzbekistan.

The Presidential Decree "On measures for restraining money supply growth and increasing responsibility for maintaining financial discipline" facilitated the interest of enterprises in floating corporate bonds. The Decree authorized business entities to float their own bonds in amounts not exceeding their charter capital (the previously allowed amount of issue was under 20% of charter capital), facilitated the establishment of new trading floors at UZSE for bonds sale, and envisaged other measures for establishing favorable conditions for issuing bonds by companies with sustainable financial standing and assets with high liquidity.

Total Stock Market sales in the first half of 2003 amounted to UZS 32.9 billion, including UZS 15.8 billion in the first quarter and UZS 17.1 billion in the second quarter (Table 2.2.1.). Compared to the similar period of the preceding year, sales increased by 2.1 and 1.9 times respectively.

Table 2.2.1. Stock market sales (UZS bn)

Period	Primary market		Secondary market		Total	
	Amount	In % of total	Amount	In % of total	Amount	In % of total
2002/I	3.08	40.7	4.49	59.3	7.57	100
2002/II	3.69	40.3	5.56	60.7	9.15	100
2002/III	4.04	57.7	2.96	42.3	7.00	100
2002/IV	5.52	30.8	12.40	69.2	17.92	100
2003/I	10.86	68.8	4.93	31.2	15.79	100
2003/II	5.06	29.6	12.04	70.4	17.10	100

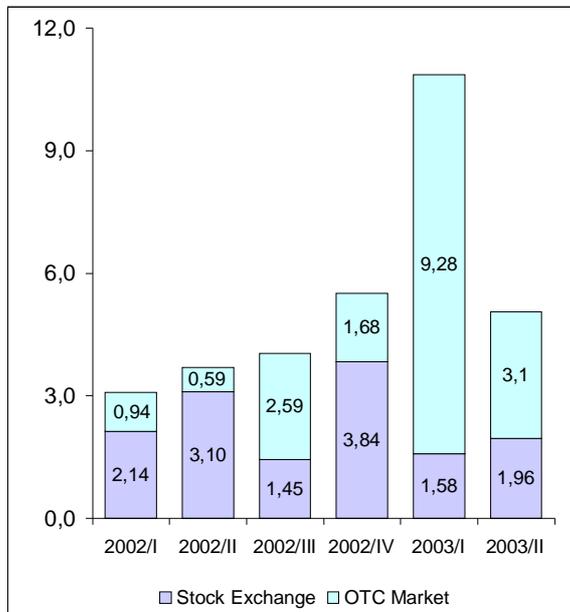
Source: Data from the Center for Coordination and Control of Stock Market Functioning the GKI of Uzbekistan.

Since 1999, or after completing mass privatization the logical trend of a decrease in sales in the IPO segment and a respective increase in secondary market sales has been observed (Annex 2.2.1.). However, in some periods, specifically in the third quarter of 2002 and in the first quarter of 2003, IPO segment turnover exceeded that of the secondary market (Table 2.2.1.). At that time the government offered

large holdings of stock in major privatized companies.

A significant increase of OTC market transactions in the IPO segment as opposed to the Stock Market (Graph 2.2.2.), was caused by the sale in the first half of 2003 of large holdings of "Uzbekiston Temir

Graph 2.2.2. IPO segment sales (UZS bn)



Source: Data from the Center for Coordination and Control of Securities Market Operations under the GKI of Uzbekistan.

turnover made up 54.8% in the first quarter of 2003 and 81.8% in the second quarter.

However, a trend of secondary market sales increase has been observed at the Stock Exchange. Shares worth a total of UZS 2.23 bn and UZS 2.19 bn were sold in the current year in the first and second quarters respectively. These figures are 2.2 and 1.4 times higher, respectively, than in the preceding year, evidencing the efficiency of efforts for improving the secondary market currently being undertaken.

The Republican Real Estate Exchange (RREE) and its regional branches conduct scheduled electronic trading sessions three times a week, as well as ad hoc competitive biddings and auctions, selling various types of real property (privatized enterprises wholly sold into private property, property of bankrupt enterprises and so forth).

In first half of 2003 about 6.2 thous. property items worth UZS 10.4 billion were sold via the RREE. Growth rates compared with similar periods in the preceding year were 82.7 % and 140.5 % respectively. The significant growth of sales proceeds despite a decline in the number of sold properties owed mainly to the average price increase this year.

The relative proportion of Real Estate Exchange and OTC (auction and tender) totaled 33.6 and 66.7% respectively in first half of 2003, and in total sales proceeds 88.6% and 11.4%.

In total number of properties sold during all periods under review, sales of state-owned property dominate (Graph 2.2.4.). Likewise, in 2003 the share of state-owned property in the total amount of property sold totaled: in the first quarter – 64.3% and in the second – 70.6%. However state-owned property sales generated less proceeds than private real property sales (Graph 2.2.5.).

Land plots for private residential development or, rather, inheritable life tenure rights for them account for the largest share in total property sold via RREE. Their weight in total number of property sold in 2003 made up: in the first quarter – 59.6%, and in the second – 64.2% (Table 2.2.2.).

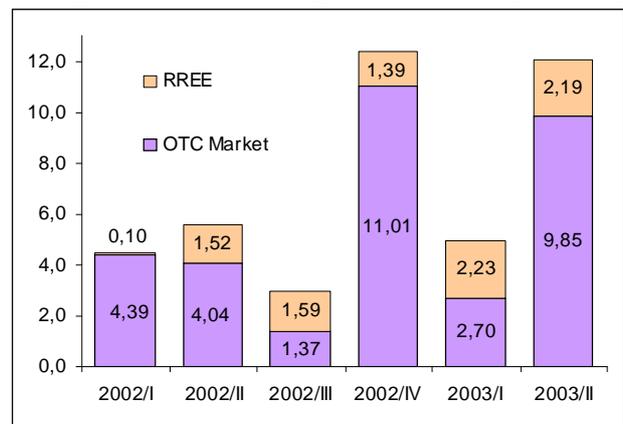
Yullari”, “UzKhimyoSanoat” and other para-state JCSs to foreign investors through a competitive bidding process and direct negotiations, i.e. bypassing the Stock Market. Foreign investors account for 85.7% in total IPO segment turnover in the first half of the current year.

Domestic IPO segment investors include major enterprises and business associations (4.2%), SMEs (4.1%), investment brokers (3.8%), privatization investment funds, investment funds and management companies (0.7%), banks (0.6%), and individuals (0.9%).

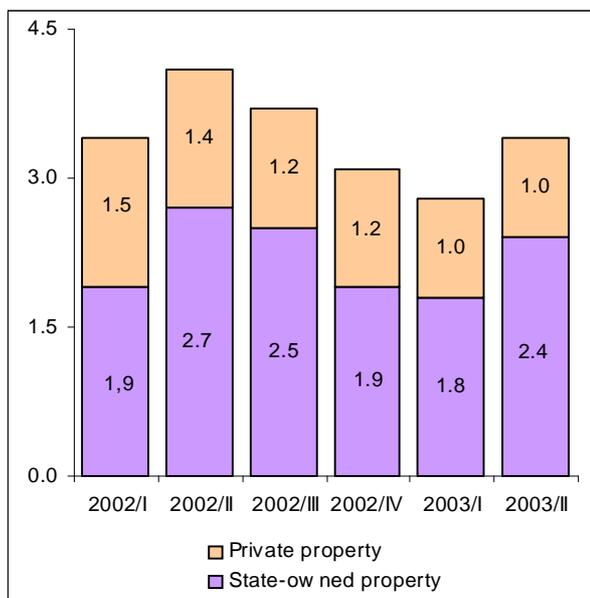
Secondary market sales in the first half of 2003 amounted to approximately UZS 17 bn, including UZS 4.9 bn in the first quarter and UZS 12.0 bn in the second (Table 2.2.1.). Compared to the preceding year, sales increased 1.1 and 2.2 times respectively.

The OTC market accounted for a major portion of secondary stock sale in almost all periods presented in Graph 2.2.3. as well as earlier periods. Weighted OTC sales in total secondary sales

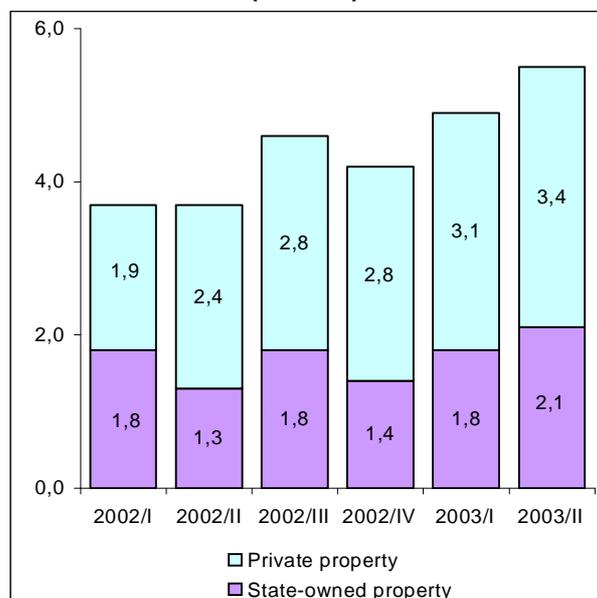
Graph 2.2.3. Secondary market sales (UZS bn)



Source: Data from the Center for Coordination and Control of Securities Market Operations under the GKI of Uzbekistan.

Graph 2.2.4. Number of Real Properties sold at RREE


Source: Republican Real Estate Exchange.

Graph 2.2.5. Real Property Sales Proceeds (UZS bn)


Source: Republican Real Estate Exchange.

In the first half of 2003 inheritable life tenure rights for 3831 land plots were sold, including 1632 in the first quarter and 2199 in the second quarter (Annex 2.2.2.). The last two indicators are lower than similar indicators for the preceding year by 15.1% and 13.2% respectively owing to smaller quotas for land plots provided by local authorities in the current year and the low quality of the land.

Table 2.2.2. Structure of Real Property Sold via RREE (% to total)

Property Type	2002/I	2002/II	2002/III	2002/IV	2003/I	2003/II
Construction in progress						
Number of properties sold	1.0	1.5	1.4	1.2	3.5	3.3
Value of sales	3.0	12.7	4.2	1.5	2.7	3.6
Trading and services facilities:						
Number of properties sold	3.9	2.7	2.3	3.5	7.5	8.2
Value of sales	7.6	6.6	4.5	7.3	10.8	13.6
Property of bankrupt enterprises:						
Number of properties sold	1.9	3.5	0.9	1.4	0.3	0.8
Value of sales	4.6	6.6	3.6	3.4	4.5	2.7
Property sold to cover tax arrears:						
Number of properties sold	18.6	14.1	14.1	16.1	4.4	2.3
Value of sales	9.3	10.1	6.7	9.1	5.7	1.9
Property sold by orders of Economic Court:						
Number of properties sold	2.2	1.9	2.4	3.4	0.9	0.6
Value of sales	1.2	1.0	2.4	2.8	0.4	2.4
Land plots:						
Number of properties sold	50.9	61.3	64.5	55.2	59.6	64.2
Value of sales	2.9	3.6	4.7	2.3	2.2	2.8
Residential buildings and other property:						
Number of properties sold	21.5	15.0	14.4	19.2	23.8	20.6
Value of sales	71.4	59.4	73.9	73.6	73.7	73.0
TOTAL:						
Number of properties sold	100	100	100	100	100	100
Value of sales	100	100	100	100	100	100

Source: RREE data.

Despite the large number of inheritable life tenure rights for land plots sold via RREE, proceeds from their sale account for an insignificant share (from 2.2 to 4.7%) in the total value of RREE turnover (Table 2.2.2.). This is caused by the low selling price of this right. Likewise, the average price of obtaining inheritable life tenure rights for a single land plot amounted to UZS 68.4 thous. in the first half of 2003; in the similar period of the preceding year it amounted to UZS 56.5 thous.

The major part of RREE turnover value is generated by sales of residential premises and other property, including production facilities, filling stations and other property sold by the government and private persons.

In total RREE turnover value, residential premises and other property accounted for 73.7% in the first quarter of 2003, and 73.0% in the second, while their weight in total property sales accounted for 23.8 and 20.6% respectively (Table 2.3.1.). These data indicate that the average sale price of properties included in this category is significantly higher than the average sale price of other property types.

In the first two quarters of 2003 there was substantial growth in the share of trading and services facilities compared to all quarters of preceding year, both in the total number of properties sold and in total RREE value of sales (Table 2.3.1.). The total number of sold properties amounted to 484, worth a total of UZS 1 270 million, which was 2.0 and 2.4 times higher than similar indicators for respective periods of the preceding year.

RREE activities in selling construction in progress increased as well. For the first half of 2003 210 properties were sold, which is 2.2 times higher than data for similar period of 2002. As a result, the number of properties of construction in progress in total RREE turnover increased 3.5 times in the first and 2.2 times in the second quarter compared to similar periods in 2002 (Table 2.3.1.), while proceeds from their sales in total turnover declined from 3.0 and 12.7% in first and second quarters of 2002 respectively to 2.7 and 3.6% for respective quarters in the current year.

In the first half of 2003 the following properties were sold via RREE:

- 34 property lots of bankrupt enterprises worth UZS 370 mill., equivalent to 16.0 and 89.8% respectively of the figures for the similar period in 2002.
- 197 property lots sold in compensation of tax arrears of enterprises worth UZS 380 mill., equivalent to 16.2 and 52.8% respectively of the figures for the similar period in 2002.
- 45 property lots, sold by orders of the Economic Court worth UZS 152 mill. equivalent to 29.6 and 181.0% respectively of the figures for the similar period in 2002.

2.3. Private Sector, Small and Medium Businesses

Small and Medium Enterprise (SME) development is crucial for current sustainable development. SME sector growth rates and business operations will significantly affect the development of the entire Uzbekistan economy in the short term.

An analysis of SME and private entrepreneurship development results for the first halves of 2002 and 2003 identified their increased share in Uzbekistan's GDP and the increase of SME-employed by 432,000 thous. people (Table 2.3.1., Annex 2.3.1.).

Table 2.3.1. Key SME development indicators

indicator	Unit	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
1. SME and private entrepreneurs share in Uzbekistan GDP, total	%	29.1	32.7	33.6	34.6	28.9	33.2
Including:							
SMEs	%	13.8	15.3	15.3	15.7	13.8	15.1
2. Number of employed in SMEs	'000 people	4917.6	4911.8	5247.7	5086.4	5176.9	5344

Source: the State Committee for Statistics of the Republic of Uzbekistan.

Though the share of SME increased from 13.8% in the first quarter of 2002 to 15.1% in the first half of 2003, the rate of growth remains low. In the first half of 2003 it declined slightly in comparison with the first half of 2002, owing to the decrease of the share of medium enterprises in processing agricultural produce, trade turnover and fee-based services. In addition, it was related to inadequate tax legislation for the motivation of SME manufacturing activity. SME development was also hindered by the more than three-fold decline in SME lending by commercial banks from credit lines provided by international financial institutions and by the restrictions still enforced in obtaining long-term loans for operational purposes.

The share of SME employees in total employment in the first half of 2003 increased by 3.1% reaching 57.2% as opposed to 54.1% in the preceding year. Medium enterprises currently employ 68.8 thous. people, small enterprises and micro firms 633.6 thous. people and individual entrepreneurs account for 4641.6 thous. people.

As of 1 July 2003 there were more than 227.000 SMEs operating in Uzbekistan (excluding farms and *dekhkan* farms – 120.000) or 90% of those registered. The absolute number of operating SMEs for the periods analyzed increased by more than 27 thous. (Table 2.3.2.).

Table 2.3.2. Number of SMEs by economy sectors ('000 units)

Indicator	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
Republic of Uzbekistan, total	190.1	200.1	207.7	215.7	227.9	227.8
Including:						
Industry	17.5	18.3	19.0	19.7	21.2	21.0
Agriculture	81.7	89.0	95.3	101.7	111.2	114.8
Transportation and Communications	1.5	1.7	1.7	1.9	2.1	2.0
Construction	10.2	10.6	10.8	11.0	11.6	11.2
Trade and Public Catering	32.1	32.5	32.5	32.6	29.9	31.5

Source: the State Committee for Statistics of the Republic of Uzbekistan.

Of the total number of operating SMEs, the agricultural sector accounts for the largest share, growing from 44.4 % to 50.4 % over comparable periods in 2002 and 2003. The share of operating SMEs engaged in industry and construction sectors remains rather low: 9.2 and 4.9 % respectively. The shares of the trade and public catering sectors declined as well, from 16.8 to 13.8 %. Transportation and communications had the lowest share – 0.9 %.

In first half of 2003 the number of operating medium enterprises declined. In comparison with the similar period in 2002, they fell by 8.4 % in industry, in transportation and communications - 13.8 %, and in building – 8.8 %. Insignificant growth in the number of operating small enterprises was observed in industry (1.0%), while the number of small enterprises in construction and trade declined 8.2 %.

The regional breakdown of operating SMEs did not significantly change for the period analyzed. Based on estimates, among the total number of operating SMEs the proportion in the following regions increased: Bukhara province (from 7.0 to 7.3 %), Jizzakh province (from 6.4 to 7.1 %) and Kashkadarya province (from 8.0 to 11.5 %). In these provinces the increase in the total number of SMEs significantly outpaced the increases in other regions (Table 2.3.3.).

Table 2.3.3. Number of operating SMEs by regions ('000 units)

Region	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
Republic of Uzbekistan	190.1	200.1	207.7	215.7	227.9	227.8
Republic of Karakalpakstan	957	10.2	10.3	10.7	11.8	11.7
Andijan province	19.0	19.7	20.2	20.6	21.3	19.9
Bukhara province	13.5	14.0	14.8	15.5	16.6	16.6
Jizzakh province	11.5	12.7	14.3	15.0	15.9	16.3
Kashkadarya province	15.6	16.0	18.4	21.5	24.6	26.2
Navoi province	8.4	9.2	9.4	9.7	10.1	9.2
Namangan province	12.5	13.2	13.8	14.2	14.4	14.6
Samarkand province	20.4	20.9	21.1	21.5	22.1	21.5
Surkhandarya province	10.5	10.9	11.2	11.4	11.9	12.3
Syrdarya province	7.4	7.8	7.9	8.1	9.2	9.7
Tashkent province	14.8	15.3	15.6	16.1	16.7	17.1
Fergana province	17.2	19.1	19.5	19.9	20.8	20.3
Khorezm province	10.7	11.4	11.4	11.5	12.2	12.3
Tashkent City	18.9	19.4	19.4	20.0	20.1	19.8

Source: the State Committee for Statistics of the Republic of Uzbekistan.

In the first half of 2003, the number of operating SMEs per 1000 of the country's population averaged 9.0 against 8.0 in first half of 2002. This indicator exceeds the average country level in Jizzakh province (16.0), Sirdarya province (14.7), Navoi province (11.5), Kashkadarya province (11.4) and Bukhara province (11.3).

The first half of 2003 is characterized by growth of the SME share in total industrial output as a result of increasing output growth rates among small businesses and micro-firms (Table 2.3.4.).

Table 2.3.4. Share of SMEs in output by economy sectors (%)

Indicator	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
Industry						
SME share in total output	11.9	12.4	13.9	14.1	13.1	14.2
Agriculture						
SME share in total output	91.9	84.2	77.8	76.4	92.2	85.0
Retail Trade						
SME share in total turnover	43.3	44.9	43.7	43.8	41.2	43.6
Fee-based Services						
SME share in total turnover	36.0	37.6	39.7	41.3	40.5	43.2

Source: the State Committee for Statistics of the Republic of Uzbekistan.

The growth of the SME share in agricultural output is due mainly to *dekhkan* farms.

The increase of the SME share in industrial and agricultural output testifies to certain changes in SME breakdown by sector, specifically the advancing growth of manufacturing over trade and intermediary operations. As a result, the domestic market is becoming saturated with home-made goods and services.

The share of SMEs in total turnover of fee-based services for the population has noticeably increased (from 37.6 to 43.2%) mainly owing to the increase in services rendered by small businesses and individual entrepreneurs.

In retail trade the SME share declined in the first half of 2003 to 43.6 from 44.9% in the respective period of the previous year. This was caused by acute recession in individual entrepreneurs' activity in retail trade due to the recently adopted regulation of the import of consumer goods into Uzbekistan.

The foreign economic activity of SMEs in the period under review is marked by the data presented in Table 2.3.5. The current scope and structure of SME foreign trade activity does not adequately reflect its economic potential.

Table 2.3.5. Share of SMEs in foreign economic activity (%)

	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
Export						
Share of SMEs in total exports	8.4	7.7	7.6	7.5	6.2	5.9
Import						
Share of SMEs in total imports	25.0	25.1	24.5	24.9	32.3	31.6
Number of SMEs involved in foreign trade, '000 units	1.2	1.8	2.3	2.7	1.4	2.1

Source: the State Committee for Statistics of the Republic of Uzbekistan.

Since 1999 there has been a trend towards a decline in SME foreign trade turnover (Annex 2.3.3.). The periods under review show a comparable decline in the share of SME exports in total exports, from 7.7% in the first half of 2002 to 5.9% in the corresponding period of 2003.

The share of SMEs engaged in foreign economic activity remains very small (in 2002 – 1.24%, in the first half of 2003 – 0.93%).

The actual decline of SME exports is caused by the backwardness of the clearing and settlements mechanisms, remaining red tape, as well as the low competitive ability of products in terms of price, lack of innovation and high added value.

Meanwhile, the import trend is positive. The share of SME imports in the first half of 2003 reached 31.6% as opposed to 25.1% in the same period of 2002. The breakdown of SME imports was not significantly changed, with continued dominance of machinery and equipment and chemical products.

Annex 2.1.1. Key SOE privatization indicators

1	Indicator	1995	1996	1997	1998	1999	2000	2001	2002	03/I	03/II
1.	Number of privatized SOEs (units)	8537	1915	1231	451	448	374	1449	1912	438	260
2.	Number of non state-owned enterprises established on the basis of privatized property (units) including:	8537	1915	899	266	373	372	1238	1800	271	342
	2.1. Joint Stock Companies	1026	1257	456	110	141	152	227	223	19	5
	2.2. Sole proprietorships	6036	420	260	103	156	103	827	1252	225	301
	2.3. Other types of incorporation	1475	238	183	53	76	117	184	325	27	36
3.	Privatization proceeds (UZS bn)	2.4	5.3	4.4	8.9	9.1	14.3	23.2	43.6	11.1	11.3

Source: GKI Uzbekistan data.

Note: A number of joint stock companies were set up by merging assets of several SOEs or stripping assets of single SOEs.

Likewise, 223 joint stock companies were set up in 2002 based on assets of 112 SOEs, and 19 joint stock companies were set up in the first quarter of 2003 based on assets of 51 SOEs.

Annex 2.2.1. Dynamics of Stock Market sales (UZS bn)

Name of Indicator		1995	1996	1997	1998	1999	2000	2001	2002	03/I	03/II
Total sales of shares in Stock Market		1.74	8.27	8.37	17.92	10.78	17.11	26.13	41.74	15.79	17.10
IPO Segment		1.58	5.94	5.48	9.99	4.51	6.23	12.26	16.33	10.86	5.06
including:	Stock Exchange	1.32	2.78	2.28	3.25	3.13	4.60	6.84	10.53	1.56	1.96
	OTC Market	0.26	3.16	3.18	6.74	1.38	1.63	5.42	5.80	9.28	3.10
Secondary Market		0.16	2.33	2.89	7.93	6.27	10.88	13.87	25.41	4.93	12.04
including:	Stock Exchange	-	0.03	0.02	0.27	0.51	0.63	1.10	4.60	2.23	2.19
	OTC Market	0.16	2.30	2.87	7.66	5.76	10.25	12.77	20.81	2.70	9.85

Sources: data for 1995-1998 - Report by NII Uglubleniya Rynochnykh Reform (Research Institute for Market Reform Progress) under the GKI of Uzbekistan; indicators for 1999 - 2003 - data from the Center for Coordination and Control over Stock Market Functioning under the GKI of Uzbekistan.

Annex 2.2.2. Number and value of property items sold via Republican Real Estate Exchange (units/ UZS mill)

Property Type	1995		1996		1997		1998		1999	
	number	amount	number	amount	number	amount	number	amount	number	amount
Construction in Progress	177	141	646	320	550	369	280	247	257	196
Trade and Services Facilities	880	338	347	94	296	162	232	172	278	198
Property of Bankrupt Enterprises	4	1	40	66	86	98	56	109	315	176
Property sold in compensation of tax arrears	-	-	-	-	-	-	-	-	-	-
Property sold by order of the Economic Court	-	-	-	-	-	-	-	-	-	-
Land Plots	2845	52	7911	143	6456	206	4454	185	4060	158
Housing and other property	2888	333	6556	975	2949	796	1866	1053	1560	1660
Total	6794	864	15500	1598	10337	1631	6888	1766	6470	2388

Source: RREE

Cont. Annex 2.2.1.

Property Type	2000		2001		2002		03/I		03/II	
	number	amount	number	amount	number	amount	number	amount	number	amount
Construction in Progress	296	630	265	559	180	832	96	134	114	200
Trade and Services Facilities	419	450	548	1221	436	1039	205	526	279	744
Property of Bankrupt Enterprises	435	1028	565	1264	289	719	8	220	26	150
Property sold in compensation of tax arrears	-	-	2211	1345	2230	1409	120	278	77	102
Property sold by order of the Economic Court	-	-	496	415	343	312	24	21	21	131
Land Plots	5700	254	8662	504	8335	551	1632	109	2199	152
Housing and other property	2093	3818	2469	7042	2472	11309	652	3605	707	3997
Total	8943	6180	15216	12350	14284	16171	2737	4893	3423	5476

Annex 2.3.1. Key indicators of SME sector development

Indicator	Unit.	1999	2000	2001	2002	02/I	02/I-II	03/I	03/I-II
1. SME share in Uzbekistan GDP, total	%	29.1	31.0	33.8	34.6	29.1	32.7	28.9	33.2
including:									
Small and medium businesses	%	12.6	13.1	14.8	15.7	13.8	15.3	13.8	15.1
Individual entrepreneurs	%	16.5	17.9	19.0	18.9	15.3	17.4	15.1	18.1
2. Number of operating legal entities	'000 units	125.6	149.3	177.7	236.4	190.1	200.1	227.9	227.8
3. Number of SME employees in total employment in economy	'000 people	4152.5	4462.7	4842.5	5086.4	4917.6	4911.8	5176.9	5344.0

Source: the State Committee for Statistics of Uzbekistan

Annex 2.3.2. SME share in output by economy sectors (%)

Indicator	1999	2000	2001	2002	02/I	02/I-II	03/I	03/I-II
Industry								
Share in total output	10.5	11.3	14.1	14.1	11.9	12.4	13.1	14.2
Agriculture								
Share in total output	68.0	72.4	75.6	76.4	91.9	84.2	92.2	85.0
Retail trade								
Share in total turnover	45.6	45.9	45.8	43.8	43.3	44.9	41.2	43.6
Fee-based services								
Share in total turnover	35.9	37.9	39.9	41.3	36.0	37.6	40.5	43.2

Source: the State Committee for Statistics of Uzbekistan

Annex 2.3.3. SME share in foreign trade

Indicator	1999	2000	2001	2002	02/I	02/I-II	03/I	03/I-II
Exports								
Share in total export, %	29.4	10.2	9.0	7.5	8.4	7.7	6.2	5.9
Imports								
Share in total import, %	35.5	27.4	26.9	24.9	25.0	25.1	32.3	31.6
Number of SMEs engaged in foreign trade, items	2381	2832	2452	2690	1.2	1.8	1.4	2.1

Source: the State Committee for Statistics of Uzbekistan

3. Structural and Investment Policy

3.1. Industry

In the first half of 2003 the share of industry in the production structure of GDP increased from 17.8% to 18.2%. The index of industrial production for the first half of 2003 was 105.5% compared with the corresponding period of 2002.

The growth rates of industry were supported by both export-oriented raw materials sectors and by the increase in production of sectors oriented to final domestic demand.

The highest growth rate was achieved in mechanical engineering (119.2%) with its increased share in the total structure of gross industrial production from 10.8% to 13.0%. Major factors of the increased output of mechanical engineering included the implementation of investment programs, the rise in the technical level of enterprises and the introduction of new products. The production of items with high added value has increased: color TVs (35.6 times), cotton pickers (133.3%), tractors (101.4%), and power cable (111.2%). Favorable external economic conditions ensured a high rate of export of domestic aircraft, which significantly affected the general economic dynamics in the mechanical engineering sector.

The implementation of measures to increase production of high quality finished products and to saturate the domestic consumer market affected the dynamics of intra-industry structural shifts in light industry. The rapidly progressing development of knitwear, clothing and shoe sectors ensured high growth rates in light industry (110.5%), increasing its share in the structure of industrial production from 18.9% to 20.3% (table 3.1.1).

Table 3.1.1. Indexes of production volumes and sectoral structure of industry (%)

	Indexes of industrial production (in % to previous year)						Structure of industrial production (in % of total volume)					
	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
Industry including:	106.7	107.2	107.8	108.3	104.0	105.5	100.0	100.0	100.0	100.0	100.0	100.0
Power industry	100.4	101.0	101.2	101.5	100.6	100.9	7.9	7.3	7.6	7.7	8.9	8.6
Fuel industry	100.5	101.1	101.1	102.4	97.5	97.9	14.6	14.0	14.0	13.4	11.6	11.8
Ferrous metallurgy	102.0	102.3	104.1	104.3	104.4	111.5	1.4	1.5	1.5	1.5	1.7	1.9
Non-ferrous metallurgy	108.1	107.2	107.0	105.9	101.1	100.2	10.1	13.5	13.8	13.3	12.5	15.0
Chemical industry	120.0	125.8	125.4	113.8	102.6	104.9	6.0	5.9	5.8	5.9	6.0	6.1
Mechanical engineering	108.4	105.5	102.1	108.8	108.8	119.2	10.6	10.8	10.2	10.3	12.7	13.0
Timber and wood industry	105.5	112.5	110.5	113.2	106.4	100.7	1.0	1.1	1.2	1.3	1.0	0.9
Industry of construction materials	106.0	101.9	105.1	102.2	101.8	99.7	4.0	4.5	5.0	4.6	3.6	4.1
Light industry	106.4	108.1	107.3	109.0	109.3	110.5	21.5	18.9	17.5	19.5	23.9	20.3
Food industry	110.5	112.2	119.7	119.2	103.5	104.8	15.1	14.7	14.6	14.3	12.9	12.9
Others	107.8	107.3	108.0	107.5	104.6	106.7	7.8	7.8	8.8	8.2	5.2	5.4

Source: State Committee on Statistics of RUz.

The index of production in the food industry in the first half of 2003 was 104.8%, which is somewhat lower than the level achieved in the similar period of last year due to the intensification of the restructuring process in the industry.

A positive contribution to the general dynamics of change in the index of industrial production has been made by ferrous metallurgy whose growth rate was 111.5% and whose share in total industrial production increased from 1.5% to 1.9%.

The share of non-ferrous metallurgy in the total structure of industrial production increased from 13.5% in the first half of 2002 to 15.0% in the first half of 2003, maintaining its position in supplying industrial exports for the country.

The share of the fuel and energy complex in the total structure of production decreased from 21.3% to 20.4% because of a reduction in the extraction of coal (by 34%).

An analysis of structural shifts in industry showed that along with positive trends in developing the processing sector, the tendency towards an increasing share for the extracting sectors from 56.2% to 57.0% in gross production continues.

In the first half of 2003 compared with the figures from the similar period of 2002, there was a decreasing index of production of the supply of the following products: motor cars (85.8%), excavators (55.8%), man-made fiber and threads (94.4%), synthetic detergents (58.2%), walling materials (67.3%) and others (table 3.1.2):

**Table 3.1.2. Indexes of increase in major types of industrial productions
(in % to previous year)**

	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
Energy power	103.4	102.2	103.7	103.0	99.96	100.6
Oil	102.9	101.1	102.4	102.5	104.0	106.0
Gas	99.5	102.5	102.7	104.0	98.5	99.8
Coal	110.5	100.1	100.2	100.9	71.6	66.0
Steel	101.6	103.0	102.4	103.6	106.2	108.5
Tractors	54.0	70.5	93.6	107.1	107.6	101.4
Cotton pickers	90.0	15.0	26.9	38.9	133.3	133.3
Excavators	114.3	72.9	77.2	74.1	50.0	55.8
Motor cars	106.2	79.9	83.1	84.7	71.8	85.8
Color TVs	24.2	25.3	65.3	264.4	38.1	35.6 times
Power cable	85.9	93.7	98.8	98.3	106.4	111.2
Mineral fertilizers	119.7	128.3	119.7	111.2	98.9	97.5
Including: nitrogen fertilizers	108.4	119.8	110.9	110.0	109.1	102.3
phosphate fertilizers	188.6	183.7	186.5	116.5	62.7	77.2
Ammonia manufactured	117.7	122.7	112.9	111.4	107.2	101.8
Sulfuric acid	215.8	194.1	159.9	134.4	77.3	94.8
Synthetic gum and plastics	102.3	119.5	122.3	215.9	318.8	372.5
Man-made fiber and threads	94.8	116.2	120.9	112.1	111.7	94.4
Synthetic detergents	85.7	82.1	91.2	92.8	68.4	58.2
Chemical means of protecting plants	590.0	690.0	203.8	229.3	129.5	161.6
Walling materials	83.0	86.8	87.8	89.6	62.1	67.3
Cotton fiber	105.0	107.0	93.9	98.6	98.5	97.9
Cotton yarn	109.8	117.5	116.1	112.4	104.9	102.0

Source: State Committee on Statistics of RUz.

The main reasons for this setback in producing certain products are: decreased orders received due to non-competitive pricing of goods; a lack of working capital at the disposal of enterprises; the low level of utilizing production capacity; the high depreciation level of fixed production assets.

Structural shifts in the product range of investment, innovation and export demand are inadequate. The share of innovated products in total production decreased except for mechanical engineering where it increased from 0.05% to 0.12% for the period analyzed mainly due to the production of new models of cars. The decrease in innovation activity of industrial enterprises of the republic is explained by the low expenditure on the research and development of new technologies.

The trend towards an increasing share for the raw-materials capital-intensive sectors in the structure of the production of gross added value from 54% to 55.9% remains, testifying to the insufficient pace of reforming the science-intensive, high-technology sectors of the processing industry which would be able to supply products with a high level of added value.

3.2. Consumer Goods Market

The development of the consumer goods markets in Uzbekistan takes place within the framework of the current 'Program of measures on the saturation of the domestic market with domestically produced products and services for 2001-2005'.

Light and food industry provide the base of consumer goods production, ensuring the processing of local agricultural raw materials by enterprises from associations, joint-stock companies and SMEs.

The dynamics of consumer goods production is characterized by the increase in production of food and non-food goods. In the first half of 2003 production of consumer goods increased compared with the similar period of 2002 by 4% (table 3.2.1) as a result of the reconstruction and modernization of existing textile enterprises, the increased utilization of existing capacities and also the start-up of new manufacturing, including carpets and carpet products in the Khorezm region – the "Khiva Carpet" joint venture.

Table 3.2.1. Growth in production of consumer goods (% over previous period)

	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
Total	10.5	11.5	11.7	8.4	2.3	4.0
Food stuff	18.5	21.6	22.8	16.1	4.2	5.1
Non-food stuff	3.2	2.0	1.5	3.7	3.2	5.1
Including goods of light industry	11.1	8.7	8.8	5.8	12.0	10.5

Source: State Committee on Statistics of RUz.

In the structure of consumer goods the trend continues towards the greater production of food stuff over that of non-food stuff, with the share of foodstuff, including alcoholic drinks and beer, exceeding 50% of the total production of consumer goods (table 3.2.2).

Table 3.2.2. Composition of consumer goods (in %)

	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
Consumer goods total	100	100	100	100	100	100
Including:						
Food stuff	47.8	47.5	47.2	47.1	44.4	43.2
Alcoholic drinks and beer	7.7	8.2	8.9	8.6	7.5	8.3
Non-food stuff	44.5	44.2	43.9	44.3	48.1	48.4
Including: goods of light industry	10.6	10.2	11.6	11.8	13.7	13.4

Source: State Committee on Statistics of RUz.

The rise in production of consumer goods in the first half of 2003 vs. the similar period of the previous year was observed in all regions of the republic except for the Fergana region (-5.5% due to decreased production of non-food stuff). The most significant increase was in the Tashkent province (8.6%), the lowest – in the Namangan province (2.3%) (Annex 3.2.1).

Of the total production of consumer goods the enterprises of Tashkent City produced 19.5%, of Andijan region 17.2%, of Tashkent region 11.8% and of Samarkand region 9.7%.

The largest production volumes of food stuff in the first half of 2003 were achieved by enterprises of Tashkent City (27.3%), Tashkent region (10.1%), Samarkand region (8.9%), Bukhara region (7.7%) and Kashkadarya region (6.9%), and of non-food stuff - Andijan region (29.9%), Tashkent City (13.1%), Fergana region (11.6%) and Samarkand region (10.4%).

The production of goods of light industry is concentrated mainly in: Bukhara region – 22.4%; Tashkent City – 15.2%; Andijan region – 12.9%; Fergana region– 9.1%; Tashkent region – 8.9%, Namangan region - 7.8% and Khorezm region - 7.6%.

In first half of 2003 food stuff made up 94.7% of total production of consumer goods in Jizzakh region, 75.4% - in Sirdarya, 71.8% - in Surkhandarya region, and 68.8% - in the republic of Karakalpakstan. The lowest share of foodstuff in total production of consumer goods was in the Andijan region - 13.1% and Fergana region - 28.7%.

The highest share of non-food stuff in total production of consumer goods was in Andijan (84.8%), Navoi (64.8%) and Fergana region (61.3%).

The production of the majority of consumer goods in the republic increased (Annex 3.2.2). Among goods of light industry in the first half of 2003 compared with the corresponding period of 2002, the production of carpets and carpet products, cotton fabrics, hose and knitwear, and shoes increased.

The decrease in the production of silk fabrics is connected with the partial reduction of the output of silk-winding businesses in the course of reconstruction being carried out at present.

An increase in production of sugar and vegetable oil in the food industry has been observed (table 3.2.3).

Changes in methods of production accounting have led to the reflection in the statistics of lower comparative indicators for the production of meat, milk, products of their processing and a number of other products of the food industry.

Table 3.2.3. Indexes of increase in production of main types of consumer goods in the Republic of Uzbekistan (in % to previous period)

	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
Cotton fabrics	105.6	108.0	108.3	106.9	100.8	102.6
Silk fabrics	111.7	111.3	107.4	97.4	62.4	78.1
Carpets and carpet products	72.4	87.6	90.5	108.3	173.4	182.7
Hose	80.2	105.1	90.8	77.0	170.3	183.7
Knitwear	107.3	100.6	101.4	82.4	115.2	105.3
Footwear	125.8	110.9	104.8	109.5	101.4	102.6
Meat and meat products	102.7	111.5	116.9	120.6	103.3	104.5
Sausage products and preserved meat	102.6	97.6	97.6	93.0	49.1	101.3
Animal oil	90.2	90.9	95.9	91.5	89.4	93.6
Cheese including brynza	97.5	105.1	109.6	74.3	78.0	88.8
Milk and milk products	102.0	106.2	112.2	115.9	111.3	99.97
Preserves total	103.0	94.5	95.1	101.3	89.0	101.8
Granulated sugar	...	...	...	755.7	106.2	108.2
Flour total	97.6	96.3	92.1	87.1	39.6	44.3
Bread and baked products	108.7	101.8	99.6	99.5	50.3	49.4
Confectionery	95.3	97.5	100.7	97.7	36.5	57.9
Macaroni products	94.8	98.3	94.4	81.0	63.2	60.2
Vegetable oil total	109.9	111.9	96.1	93.8	100.9	102.9
Grape wine total	108.5	113.7	111.5	116.6	99.2	83.7
Champagne	96.3	80.9	86.0	195.6	63.9	86.4
Vodka and liquor products	106.4	102.9	97.1	92.5	91.4	93.6
Cognac	103.6	100.0	101.2	96.6	41.4	62.1
Alcohol free drinks	106.3	104.6	87.1	93.1	58.1	33.4
Cigarettes	93.6	102.4	99.1	101.0	91.0	91.6
Table salt	271.6	318.8	218.6	177.9	39.0	39.6

Source: State Committee on Statistics of RUz.

* Note: data for 2003 shown only on large and average enterprises.

The series of measures on the further development of the production of consumer goods in the republic is connected with the expanded process of attracting investments, including foreign investments, the improvement of technological processes and methods of managing sectors, and the broad implementation of norms of international standards and product certification.

3.3. Agrarian Sector

In the first half of 2003, more agricultural crops of major types were produced compared with the similar period of 2002 (table 3.3.1).

Table 3.3.1. Main indicators of development of agricultural production

	Unit	1995	1996	1997	1998	1999	2000	2001	2002	02/I-II	03/I-II
Crude cotton	'000 tons	3934	3350	3646	3206	3600	3002	3265	3164,8	...	...
Grain	'000 tons	3115	1562	3776	4148	4331	3929	4072	5550,8	3687	2700
Potatoes	'000 tons	440	514	692	691	658	731,1	744	777,2	377,5	404,3
Vegetables	'000 tons	2713	2497	2384	2404	2680	2644.	2778	2935.6	580,7	640,4
Fruits and berries	'000 tons	602	605	548	544	489	791	801	842.9	177.1	180
Grape s	'000 tons	621	478	512	336	344	624.2	573	516.4	6,8	4,2
Melons and gourds	'000 tons	472	470	376	461	518	451,4	466	479.1	21,8	19,2
Meat (live weight)	'000 tons	853	854	801	807	822	842	854	865	399	436,4
Milk	'000 tons	3665	3390	3806	3498	3543	3633	3665	3721.3	1660,8	1834,4
Eggs	Mill.	1232	1057	1075	1165	1240	1254	1288	1368.9	624,1	750,8

Source: State Committee on Statistics of RUz.

In first half of 2003 agricultural enterprises independently decided on the allocation of agricultural crops based on contracted agreements and enjoyed the results of their labor, financial and material resources.

404.3 thous. tons of potatoes (107.1% of the 2002 figures), 640.4 thous. tons of vegetables (110.3%), 19.2 thous. tons of melons and gourds (88.1%), 180 thous. tons of fresh fruits (101.6%) and 4.2 thous. tons of grapes (61.8%) were produced.

The trend of an increasing cattle population and of increasing animal husbandry products continues. In the first half of 2003 436.4 thous. tons of meat (live weight) and 1834.4 thous. tons of milk were produced, which is more than in the similar period of 2002 by 37.4 thous. tons and 173.6 thous. tons respectively.

750.8 mill. eggs were produced which is 126.7 mill. eggs more than in the previous year (120.3%). 8.587 tons of wool were produced.

The total area of land in the first half of 2003 in the republic was 3766.3 thous. hectares or 0.15 hectares per capita.

This year 1.393.3 thous. hectares were sown by cotton, including 266 thous. hectares under plastic sheeting. As of 1 July of 2003 winter grain crops were harvested from 429 thous. hectares, which is 30.9% of total area planted by the crops. At that, productivity of those crops made 42.4 metric centner / hectare. 2466.9 thous. tons of grain were produced.

In the current year, new orchards have been planted on 674 hectares, which is 57 hectares more than in the similar period of 2002; vineyards have been developed on 185 hectares or 256 hectares less than in

Table 3.3.2. Structural changes in areas under crop

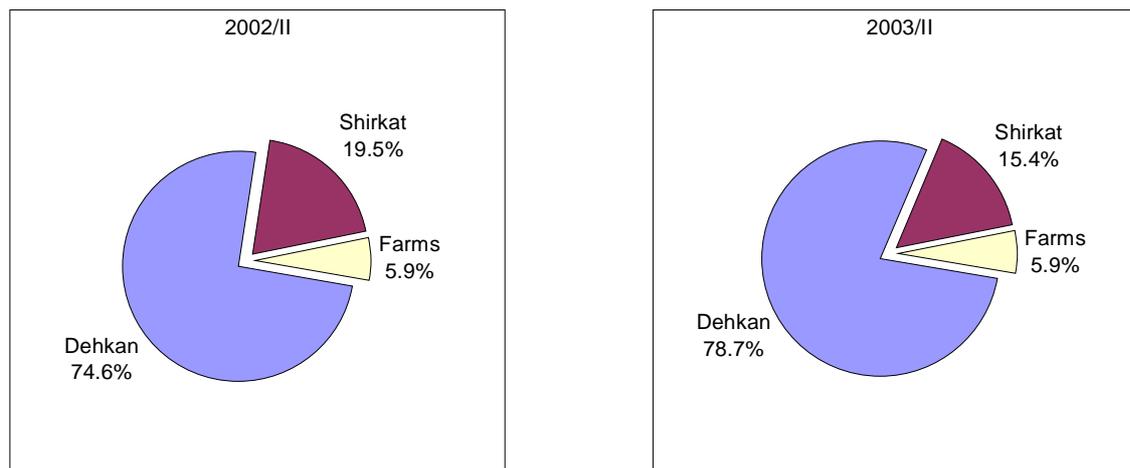
	Thous. hectares		% change over previous period	
	02/I-II	03/I-II	02/I-II	03/I-II
Area under crop, total	3540.8	3766.3	102.8	106.4
Cereal crops, total	1533.4	1780.8	110.0	116.1
Grain crops	1412.5	1616.4	108.5	114.4
Wheat	1282.6	1508.3	105.1	117.6
Rice	64.4	113.6	163.0	176.4
Corn for grain stock	35.1	35.1	90.7	100.0
Industrial crops, total	1462.2	1442.5	97.5	98.6
Cotton	1421.0	1393.3	97.9	98.0
Potato and gourds, total	216.1	233.4	98.5	108.0
Potato	48.9	48.8	96.3	99.9
Vegetables	127.5	142.7	97.2	112.0
Melon and gourds	37.3	40.1	104.8	107.6
Seed stock of gourds	2.4	1.8	141.2	70.8
Feed crop	329.1	309.6	99.4	94.1

Source: State Committee on Statistics of RUz.

the previous year.

In the agrarian sector, three forms of management developed – shirkat, farm and dekhkan. The dominant of these are the dekhkan farms, whose share in gross product of agriculture was 78.7% (in the first half of 2002 – 74.6%). The share of shirkats in gross production of agriculture decreased from 19.5% in the first half of 2002 to 15.4% in the corresponding period of 2003 due to the reform of loss-making shirkats (graph 3.3.1).

Graph 3.3.1. Distribution of gross products of agriculture by forms of management (%)



Source: State Committee on Statistics of RUz.

In the first half of 2003, 84.1 thous. farms were functioning, 16.1% more than in the previous year. These covered 2029.7 thous. hectares of land, or an average of 24.1 hectares per farm.

There were 574.2 thous. people employed on farms, an average of 3.5 hectares per person. The farms produced 703.3 thous. tons of grain, 12 thous. tons of vegetables, 7.9 thous. tons of meat, 37.6 thous. tons of milk, 42.5 mill. eggs and 147.6 tons of wool.

Out of 3.3 mill. personal auxiliary farms about 2.1 mill. farms have been registered as dekhkan farms, including 24 thous. as legal entities. At the current time 553 thous. hectares of irrigated lands belong to dekhkan farms.

Insurance relations are developing in the activity of agricultural producers. 5.589 insurance agreements were concluded in the first half of 2003, including 4.612 by dekhkan farms. The total amount of insurance was UZS 1.828.7 mill.

As of 1 July of 2003, 268 associations of water consumers were established. To record water consumption by farms and dekhkan farms in intra-farm irrigation systems, 100.6 thous. hydra-posts were built. These measures allow maintaining the current reclamation level of irrigated lands and their fertility, which is important under conditions of ageing of reclamation assets.

As of 1 July of current year, 317.3 thous. tons of nitrogen fertilizers (101.1% of the target level), 64.9 thous. tons of phosphate fertilizers (100.2%) and 10.3 thous. tons of potash fertilizers were supplied to the agriculture of the republic.

From the Fund for the Support of Dekhkan Farms and Farms, loans in the amount of UZS 152.8 mill. have been granted, including UZS 118.8 mill. of soft loans and UZS 34 mill. for forming the initial (starting) capital of newly created dekhkan farms and farms.

In first half of 2003 all types of farms delivered 146.0 thous. tons of fresh fruits, vegetables and grapes outside of the republic. Of these, 116.8 thous. tons were vegetables or 108.1% of the quantity of the first half of 2002, melons and gourds -- 2.6 thous. tons (60.4%), fruits -- 21.6 thous. tons (57.2%) and grapes - 5.0 thous. tons (74.5%).

Further reforms in the agricultural sector and strengthening its sustainability are mainly connected with stimulating and supporting farmers; improving the organizational structure of the regulation of the agricultural sector at all levels (national, provincial, regional and firms) with a clear division of their functions, tasks and responsibilities; developing market infrastructure in rural area; forming market mechanisms; and intensifying market research for agricultural producers in order to help them sell their products to the external markets.

3.4. Investments

In accordance with the approved Investment Program in the first half of 2003 formal sources of financing UZS 741.7 bn. of capital investments were made (table 3.4.1). Investment processes have been defined by the dynamics of the amount of internal and external investments, whose growth rates were 2.6% compared to the corresponding period of the previous year.

Table 3.4.1. Dynamics of investments into fixed capital

	2002/I	2002/I-II	2002/I-III	2002/I-IV	2003/I	2003/I-II
Investments into fixed capital, UZS bn.	242.2	619.6	836.0	1442.4	284.1	741.7
Increase over corresponding period of previous year, in %	1.2	2	3.5	3.8	0.3	2.6

Source: State Committee on Statistics of RUz.

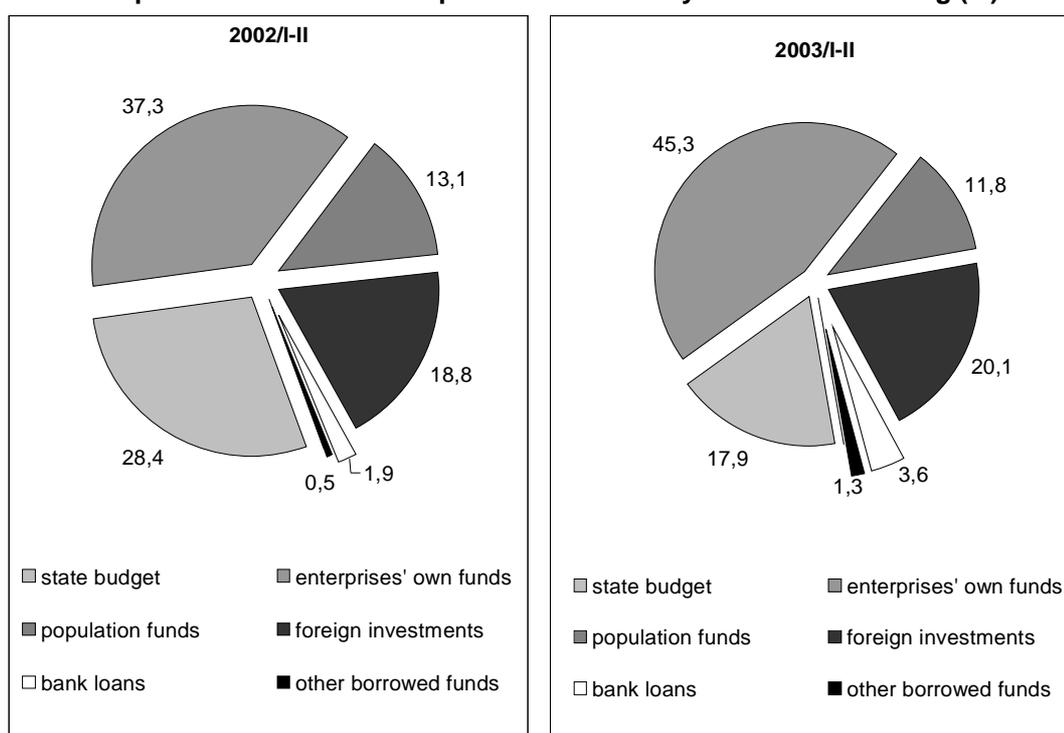
The change in priorities in the investment process and the improvement of market mechanisms facilitated shifts in the structure of financing sources which resulted in a reduction of the state's share in financing the total amount of capital investments from 28.4% to 17.9% (table 3.4.2., graph 3.4.1). The main direction of budgetary capital investments are priority State programs directed towards the realization of socio-economic objectives.

Table 3.4.2. Structure of investments into fixed capital by source of financing (%)

Period	Total	Including:								
		State budget	Enterprises' own funds	Population funds	Foreign investments and loans guaranteed by Government	Direct investments and loans	Centralized loans of banks	Loans of commercial banks	Off-budget funds	Other borrowed funds
02/I-II	100	28.4	37.3	13.1	15.1	3.7	0.2	1.7	0.1	0.4
03/I-II	100	17.9	45.3	11.8	14.2	5.9	-	3.6	0.1	1.2

Source: State Committee on Statistics of RUz.

Graph 3.4.1. Structure of capital investments by source of financing (%)



Source: State Committee on Statistics of RUz.

In first half of 2003 the share of enterprises' own funds in the total volume of capital investments increased by 8%, totalling 45.3%, due to a reduction in the tax burden, an increase in the profit of economic agents and the developing securities market.

In the structure of financing sources, the share of funds of the general population fell 1.3% to 11.8%. The bulk of this share (up to 98%) was directed to the construction of individual housing. The level of attractiveness of banking structures for private depositors remains low. State banks turned out to be the weakest link in accumulating investment resources both long-term and short-term. The lending funds of the Central Bank did not provide lending for capital construction of the real sector of economy. The share of financing through commercial banks in the total structure of capital investments was 3.6%, an increase of 1.9% over the corresponding period of the previous year, a result of the deepening liberalization processes in the banking system.

Table 3.4.3. Structure of investments into fixed capital by sector of economy (%)

	2002/I-II	2003/I-II
Total	100	100
A. Production purpose	58.2	59.5
1. Industry	28.4	29.9
2. Agriculture	6.6	4.1
3. Construction	0.6	0.5
4. Transport and communication	11.5	12.5
5. Trade and public catering	2.3	5.1
6. Other objects of production purpose	8.8	7.4
B. Non-production purpose	41.8	40.5
Housing construction	12.0	12.0

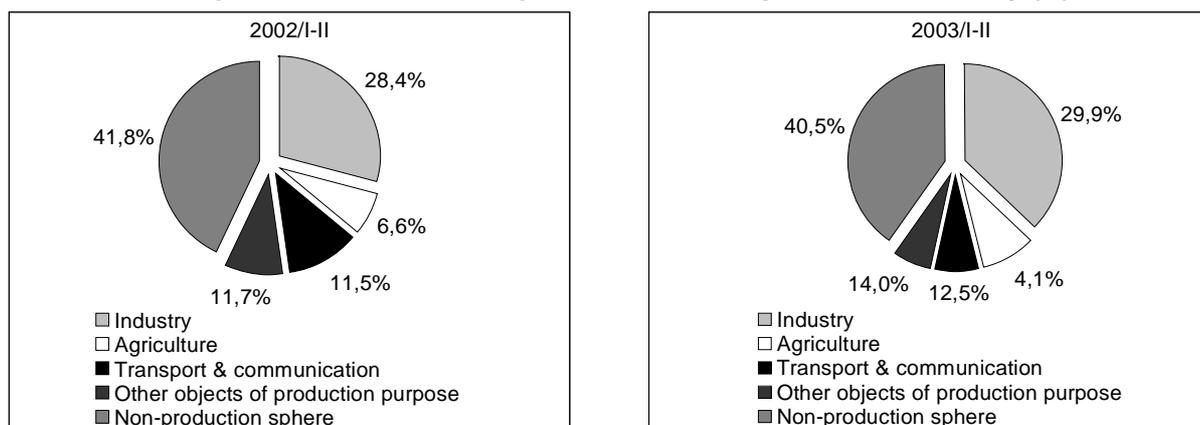
Source: State Committee on Statistics of RUz.

The share of foreign capital in the total volume of capital investments in the first half of 2003 was 20.1% vs. 18.8% in the similar period of 2002. Direct foreign investments increased 1.6 times during the period concerned.

In the sectoral structure of investments into fixed capital, the trend of using capital investments to build up production potential continued. 59.5 % of all capital investments were directed at sectors of production purpose, which is 1.3% more than in the similar period of previous year (table 3.4.3).

The share of capital investments directed to sectors of industry increased by 1.5%, to make 29.9% (graph 3.4.2).

Graph 3.4.2. Structure of capital investments by sector of economy (%)



Source: State Committee on Statistics of RUz.

The share of investments into fixed capital of agriculture in total volume of capital investments decreased from 6.6% to 4.1% of the total volume of capital investments.

9 % of total investments were directed to the development of the transport network in the first half of 2003 vs. 9.9% in the similar period of last year; to the communication complex - 3.5% vs. 1.6%.

In the current half year, a change in the structure of foreign investments into fixed capital has been observed: a reduction of the share of production sectors and an increased share for non-production sectors (table 3.4.4).

In the structure of foreign investments into fixed capital, the share of industry decreased to 58.2% vs. 68.7% in the previous year; increased in agriculture from 4.4% to 5.1% and in transport and communication from 10.7% to 13.5%.

Table 3.4.4. Structure of foreign investments into fixed capital by sector of economy (%)

	2002/I-II	2003/I-II
Total	100	100
A. Production purpose	86.2	79.8
1. Industry	68.7	58.2
2. Agriculture	4.4	5.1
3. Construction	-	0.1
4. Transport and communication	10.7	13.5
5. Trade and public catering	1.3	0.5
6. Other objects of production purpose	1.1	2.4
B. Non-productive purpose	13.8	20.2
Housing construction	-	-

Source: State Committee on Statistics of RUz.

In the structure of foreign investments the largest share consists of export-oriented sectors: light industry - 40.9%, chemical and petrochemical industry - 11.5%, non-ferrous metallurgy - 6.3%, which exceed the levels of the similar period of last year, by: 24.8%, 4.6% and 1.4% respectively. The share of foreign investment in the power industry increased by 8.3 percentage points. Its share in mechanical engineering decreased by 13.2%, which hinders the development of science-intensive businesses and of products competitive in the external market.

The technological structure of capital investments for the periods compared has positively changed. The share of investments in the active part of basic production assets - machinery and equipment – is 36.0%, which is more by 3.6% than last year's level. This demonstrates the increasing role of re-equipment in the investment process.

In general, in the first half of 2003 investments were higher by 2.6% than in the corresponding period of the previous year.

In industry, the share of investments into export-oriented sectors has increased: in non-ferrous metallurgy from 9.3% to 20.7%, chemical and petrochemical industry from 5.5% to 9.7%, and in light industry from 12.8% to 17.0% due to an increase of enterprises' own funds.

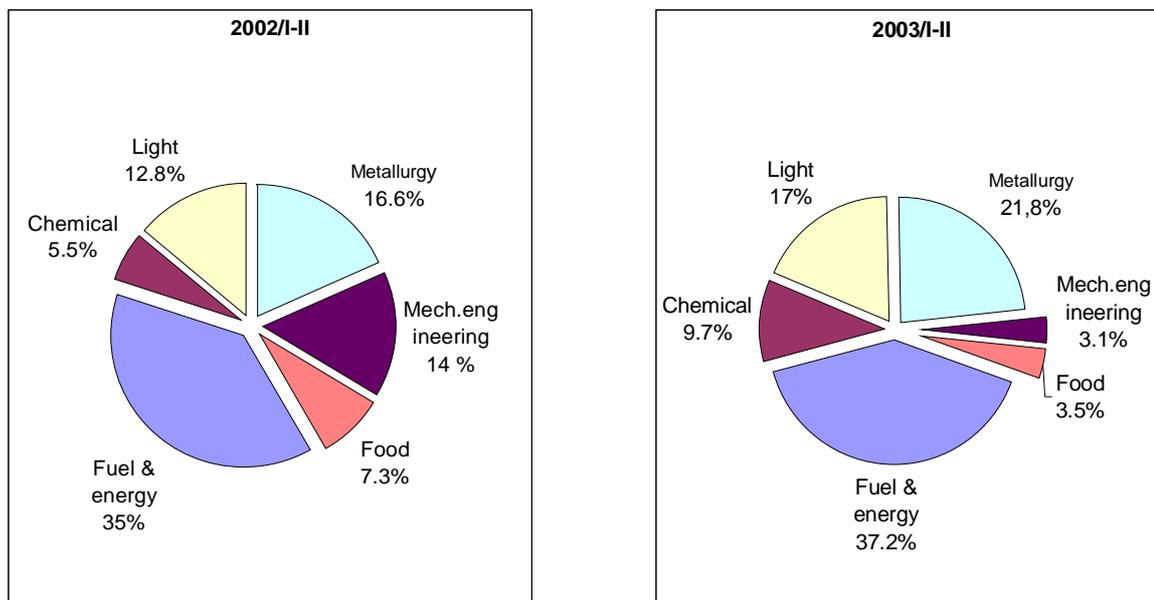
The share of investments has fallen: in mechanical engineering from 14.0% to 3.1% due to a reduced share of state funds, in the food industry from 7.3% to 3.5% due to reduced receipt of external capital. The financing of the fuel industry, construction materials production and other industries remained at the same level (table 3.4.5., graph 3.4.3).

Table 3.4.5. Structure of investments into fixed capital by sector of economy (%)

	2002/I-II	2003/I-II
Industry – total	100	100
1. Fuel and energy industry	35.0	37.2
- power industry	6.4	10.4
- fuel industry	28.6	26.8
2. Metallurgical industry	16.6	21.8
- ferrous	7.3	1.1
- non-ferrous	9.3	20.7
3. Mechanical engineering	14.0	3.1
4. Light industry	12.8	17.0
5. Food industry	7.3	3.5
6. Chemical and petrochemical industry	5.5	9.7
7. Production of construction materials	1.0	1.4
8. Other sectors of industry	7.8	7.0

Source: State Committee on Statistics of RUz.

Graph 3.4.3. Structure of capital investments by sector of economy (%)



Source: State Committee on Statistics of RUz.

Annex 3.1.1. Structure of industrial production (% of total)

Period	Industry	Including:									
		Power industry	Fuel industry	Ferrous metallurgy	Non-ferrous metallurgy	Chemical industry	Mechanical engineering	Production of construction materials	Light industry	Food industry	Others
1995	100.0	14.8	13.7	1.3	10.2	5.4	8.8	6.6	19.9	9.3	10.0
1996	100.0	14.6	16.3	1.5	8.4	5.3	8.2	7.2	20.5	7.6	10.4
1997	100.0	11.6	16.4	1.2	9.2	4.2	7.6	6.0	21.4	10.4	12.0
1998	100.0	9.9	14.9	1.1	9.8	5.0	12.8	5.6	17.9	12.3	10.7
1999	100.0	10.2	13.3	1.0	8.9	5.2	11.7	5.5	17.3	13.6	13.3
2000	100.0	8.5	15.3	1.3	10.2	5.7	9.8	5.4	19.1	13.3	11.0
2001	100.0	8.1	13.2	1.4	10.9	5.6	11.1	5.2	20.0	12.6	11.4
2002	100.0	7.8	13.6	1.5	13.6	5.7	9.9	4.8	19.8	14.2	9.5
02/I	100.0	7.9	14.6	1.4	10.1	6.0	10.6	4.0	21.5	15.1	8.8
02/I-II	100.0	6.7	13.4	1.6	16.6	5.8	11.0	5.0	16.5	14.3	8.9
02/I-III	100.0	8.2	14.0	1.5	14.4	5.6	9.0	6.0	14.7	14.4	10.0
03/I	100.0	8.9	11.6	1.7	12.5	6.0	12.7	3.6	23.9	12.9	6.2
03/I-II	100.0	8.6	11.8	1.9	15.0	6.1	13.0	4.1	20.3	12.9	6.3

Source: State Committee on Statistics of RUz.

Annex 3.1.2. Indexes of industrial production (% over previous year)

Period	Industry	Including:									
		Power industry	Fuel industry	Ferrous metallurgy	Non-ferrous metallurgy	Chemical industry	Mechanical engineering	Production of construction materials	Light industry	Food industry	
1995	100.1	100.4	99.8	88.9	100.3	111.3	118.9	87.3	97.8	98.4	
1996	102.6	95.5	100.5	130.7	105.2	107.6	100.7	103.1	105.4	102.0	
1997	104.1	98.1	104.3	83.5	104.6	99.4	102.2	95.0	102.6	121.0	
1998	103.6	97.2	106.4	96.7	102.3	125.9	103.3	98.2	97.9	109.4	
1999	106.1	99.7	100.9	101.4	100.7	110.0	103.1	101.5	106.7	109.4	
2000	106.4	99.1	100.2	118.7	102.8	108.2	81.5	106.7	116.1	105.4	
2001	108.1	96.8	96.5	110.3	101.3	110.6	126.4	108.2	111.1	110.3	
2002	108.5	101.1	102.4	104.9	107.1	116.0	107.7	105.6	108.2	121.9	
02/I	106.7	100.4	100.5	102.0	108.1	120.0	108.4	106.0	106.4	110.5	
02/I-II	107.2	101.0	101.1	102.3	107.2	125.8	105.5	101.9	108.1	112.2	
02/I-III	107.8	101.2	101.1	104.1	107.0	125.4	102.1	105.1	107.3	119.7	
03/I	104.0	100.6	97.5	104.4	101.1	102.6	108.0	101.8	109.3	103.5	
03/I-II	105.5	100.9	97.9	111.5	100.2	104.9	119.2	99.7	110.5	104.8	

Source: State Committee on Statistics of RUz.

Annex 3.2.1. Indicators of Increase in production of consumer goods by provinces in the first half of 2003 (%)

	Consumer goods – total	Food stuff	Non-food stuff, total	Products of light industry	Alcohol drinks and beer
Republic of Uzbekistan	104.0	105.1	105.1	110.5	93.2
Republic of Karakalpakstan	105.9	105.2	98.4	102.2	126.6
Andijan province	104.3	90.4	106.4	106.2	124.7
Bukhara province	106.8	117.7	100.9	108.3	110.7
Jizzakh province	105.7	115.4	151.9	101.8	63.1
Kashkadarya province	105.8	119.2	100.6	109.0	36.2
Navoi province	104.6	116.1	116.7	95.2	84.0
Namangan province	102.3	120.4	97.6	92.2	113.3
Samarkand province	104.0	107.3	106.6	116.6	79.2
Surkhandarya province	105.0	102.2	100.8	110.0	122.6
Sirdarya province	107.7	109.5	98.7	100.0	106.0
Tashkent province	108.6	117.7	107.4	123.7	98.9
Fergana province	94.5	103.6	89.7	118.4	115.4
Khorezm province	105.4	98.6	149.5	166.8	107.3
Tashkent City	102.9	101.8	116.1	105.5	71.1

Source: State Committee on Statistics of RUz.

Annex 3.2.2. Indicators of increase in production of most important consumer goods (%)

	1996	1997	1998	1999	2000	2001	2002	02/I-II	03/I-II
Cotton fabrics	101.2	92.0	73.0	98.9	107.8	111.9	106.9	108.0	102.6
Silk fabrics	60.0	57.9	34.7	90.9	102.0	98.3	97.4	111.3	78.1
Carpets and carpet products	77.5	77.8	121.3	146.4	71.4	104.8	108.3	87.6	182.7
Hose	105.6	90.9	34.3	86.2	119.9	63.4	77.0	105.1	183.7
Knitwear	143.0	96.0	102.0	99.7	97.6	85.7	82.4	100.6	105.3
Footwear	100.4	94.9	95.9	74.3	111.3	149.1	109.5	110.9	102.6
Meat and meat foods	49.4	149.6	134.0	121.0	103.8	96.2	120.6	111.5	104.5
Sausage products and preserved meats	58.2	67.8	72.9	139.3	106.9	107.2	93.0	97.6	101.3
Animal oil	41.7	63.3	85.0	76.0	104.0	93.7	91.5	90.9	93.6
Cheese including brynza	71.8	92.0	97.4	109.5	89.7	87.2	74.3	105.1	88.8
Milk and milk products	65.7	78.6	76.0	128.3	91.2	102.5	115.9	106.2	99.97
Preserves total	68.4	72.4	109.9	104.1	103.8	97.1	101.3	94.5	101.8
Granulated sugar	...	...	...	200.5	48.6	282.7	755.7	x	108.2
Flour total	102.3	94.6	91.4	108.7	94.0	103.4	87.1	96.3	44.3
Bread and baked products	86.6	112.0	86.5	156.6	106.3	100.4	99.5	101.8	49.4
Confectionery	117.7	115.4	105.5	104.8	113.5	108.7	97.7	97.5	57.9
Macaroni products	242.0	107.2	112.1	122.9	107.7	110.7	81.0	98.3	60.2
Vegetable oil total	79.7	101.7	101.3	81.3	108.0	96.3	93.8	111.9	102.9
Grape wine total	117.4	99.8	81.3	99.7	89.3	118.8	116.6	113.7	83.7
Champagne	161.6	92.3	92.7	95.6	89.4	65.6	195.6	80.9	86.4
Vodka and liquor products	108.0	112.1	111.7	115.9	99.1	92.5	92.5	102.9	93.6
Cognac	100.7	89.6	107.8	41.0	225.9	90.8	96.6	100.0	62.1
Alcohol free drinks	246.0	183.6	98.2	642.3	107.5	77.8	93.1	104.6	33.4
Cigarettes	188.6	168.0	87.3	140.7	72.8	89.8	101.0	102.4	91.6
Table salt	58.3	90.8	31.8	119.3	137.8	123.4	177.9	318.8	39.6

Source: State Committee on Statistics of RUz.

Annex 3.4.1. Dynamics of investments into fixed capital

	Investments into fixed capital, UZS bn.	Increase over corresponding period of previous year, %
1995	88.7	2
1996	176.6	7
1997	276.6	17
1998	396.4	15
1999	537.4	2
2000	744.5	1
2001	1320.9	3.7
2002	1442.4	3.8
02/I	242.2	1.2
02/I-II	619.6	2
02/I-III	1100	2
03/I	284.1	0.3
03/I-II	741.7	2.6

Source: State Committee on Statistics of RUz.

Annex 3.4.2. Structure of investments into fixed capital by source of financing (%)

Period	Total	Including:								
		State budget	Own funds of enterprises	Funds of population	Foreign investments and loans guaranteed by Government	Direct investments and loans	Centralized loans of banks	Loans of commercial banks	Off-budgetary funds	Other borrowed funds
1995	100	22.9	43.6	9.9	14.0	-	9.6	-	-	-
1996	100	24.0	43.2	8.7	16.1	-	7.3	-	-	0.7
1997	100	25.3	40.3	8.9	17.5	-	7.8	-	-	0.2
1998	100	22.8	31.5	18.1	13.3	6.4	6.0	1.2	0.4	0.3
1999	100	28.3	26.6	13.6	19.0	3.7	6.0	1.9	0.7	0.2
2000	100	29.2	27.1	12.0	19.8	3.4	5.2	1.7	1.2	0.4
2001	100	21.5	31.0	10.3	23.2	4.8	5.9	2.2	0.1	1.0
2002	100	25.0	40.0	12.0	15.7	4.7	0.1	1.5	0.3	0.7
02/I	100	24.0	32.7	9.9	25.3	3.0	3.0	1.7	0.1	0.4
02/I-II	100	28.4	37.3	13.1	15.1	3.7	0.2	1.7	0.1	0.4
02/I-III	100	29.0	36.6	13.9	13.8	4.3	0.1	1.7	0.2	0.4
03/I	100	13.2	50.1	9.1	15.5	10.0	-	1.2	0.3	0.6
03/I-II	100	17.9	45.3	11.8	14.2	5.9	-	3.6	0.1	1.2

Source: State Committee on Statistics of RUz.

Annex 3.4.3. Structure of investments into fixed capital by sector of economy (%)

	1995	1996	1997	1998	1999	2000	2001	2002	02/I	02/I-II	02/I-III	03/I	03/I-II
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
A. Production purpose	68.1	67.7	64.5	58.9	57.5	57.5	63.1	57.1	63.9	58.2	54.9	69.4	59.5
1. Industry	45.1	37.9	31.7	28.8	32.6	29.7	38.9	32.4	36.4	28.4	29.3	37.3	29.9
2. Agriculture	8.4	5.9	6.7	6	8.2	5.7	5.5	5.8	7.3	6.6	6.8	4.7	4.1
3. Construction	0.5	0.7	0.6	0.4	0.3	0.5	0.6	0.4	0.2	0.6	0.6	0.4	0.5
4. Transport and communication	7.5	17.7	21	19.6	13	16.7	14	10	14.6	11.5	10.1	11.9	12.5
5. Trade and public catering	5.7	4.7	2.9	3.3	3.1	4.3	1.5	2.6	2.1	2.3	1.6	5.5	5.1
6. Other objects of production purpose	0.9	0.8	1.6	0.8	0.3	0.6	2.6	5.9	3.3	8.8	6.5	9.6	7.4
B. Non-production purpose	31.9	32.3	35.5	41.1	42.5	42.5	36.9	42.9	36.1	41.8	45.1	30.6	40.5
Housing construction	12.3	11.4	11.9	20.5	16.3	13.0	11.2	12.5	10.9	12.0	12.5	9.4	12.0

Source: State Committee on Statistics of RUz.

Annex 3.4.4. Structure of investments into fixed capital by Industrial Branches (%)

	1995	1996	1997	1998	1999	2000	2001	2002	02/I	02/I-II	02/I-III	03/I	03/I-II
Industry – total	100	100	100	100	100	100	100	100	100	100	100	100	100
1. Fuel and energy industry	22.5	46.2	42.4	39.4	29.7	25.5	36.0	35.4	34.4	35.0	38.4	37.8	37.2
- power industry	7.0	10.1	9.3	10.1	7.5	5.3	3.8	6.4	6.8	6.4	6.7	7.6	10.4
- fuel industry	15.5	36.1	33.1	29.3	22.2	20.2	32.2	29.0	27.6	28.6	31.7	30.2	26.8
2. Metallurgical industry	13.9	11.7	12.9	10.2	10.1	9.0	11.4	14.5	14.3	16.6	16.0	21.2	21.8
- ferrous	0.3	0.4	0.3	0.9	0.6	0.4	0.4	0.2	4.5	7.3	7.9	1.2	1.1
- non-ferrous	13.7	11.4	12.5	9.3	9.5	8.6	11.0	14.3	9.8	9.3	8.1	20.0	20.7
3. Mechanical engineering	44.0	7.6	7.9	10.2	8.8	13.8	14.6	10.9	16.7	14.0	11.8	2.3	3.1
4. Light industry	7.1	13.8	6.9	15.1	6.9	7.9	15.9	14.1	18.5	12.8	10.9	16.2	17.0
5. Food industry	3.9	10.1	16.0	11.9	7.5	8.4	5.8	6.0	3.7	7.3	6.5	3.8	3.5
6. Chemical and petrochemical industry	2.0	4.7	8.0	7.2	31.8	26.7	9.9	11.1	5.7	5.5	8.9	12.2	9.7
7. Production of construction materials	1.5	1.5	1.4	2.7	1.6	0.9	1.2	1.2	0.8	1.0	1.1	1.1	1.4
8. Other sectors of industry	5.2	4.5	4.5	3.3	3.5	7.8	5.2	6.8	5.9	7.8	6.4	5.4	6.3

Source: State Committee on Statistics of RUz.

4. Foreign Trade

4.1. Trade Balance, Export and Import

In the first half of 2003 there were several positive changes in foreign trade development.

The foreign trade balance for the country in general was positive and increased significantly compared to the first half of 2002 – by USD 506.0 million (Table 4.1.1., Annex 4.1.1., Graph 4.1.1.). A positive foreign trade balance with non-CIS countries was also attained. Trade with CIS countries resulted in a negative balance, and its amount declined in comparison with the first half of 2002 by USD 7.2 million.

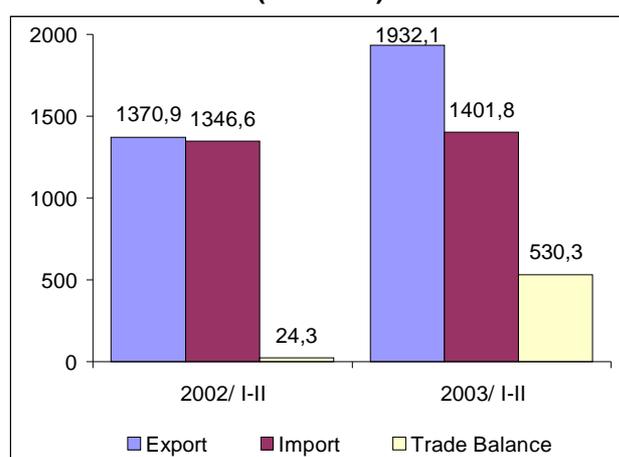
Table 4.1.1. Key Indicators of Uzbekistan's Foreign Trade

Indicator	2002/I-II	2003/I-II	In % of preceding period	
			2002/I-II	2003/I-II
Foreign Trade Turnover, total in USD million	2717.5	3333.9	87.9	122.7
CIS countries	868.2	981.0	78.7	113.0
non-CIS countries	1849.3	2352.9	93.1	127.2
Exports, total in USD million	1370.9	1932.1	86.6	140.9
CIS countries	387.9	447.9	66.1	115.5
non-CIS countries	983.0	1484.2	98.7	151.0
Imports, total in USD million	1346.6	1401.8	89.4	104.1
CIS countries	480.3	533.1	93.0	111.0
non-CIS countries	866.3	868.7	87.5	100.3
Trade balance, total in USD million	24.3	530.3	...	...
CIS countries	-92.4	-85.2	...	...
non-CIS countries	116.7	615.5	...	...
Foreign trade turnover breakdown, in %	100.0	100.0		
CIS countries	31.9	29.4	...	...
non-CIS countries	68.1	70.6	...	...

Source: State Committee for Statistics of the Republic of Uzbekistan.

The positive foreign trade balance was facilitated by trends formed in foreign economic activity in the first half of 2003. Foreign trade turnover increased, reaching 122.7% of the amount of the first half of 2002. Export growth advanced more rapidly than import growth. Compared to the first quarter of 2002, exports increased by 40.9%, while imports by only 4.1%. The list of major exporters, including UzbekNefteGaz, Zarafshan-Newmont JV, Kyzylkum-RedMetZoloto, and Almalyk Mining and Smelting Combine, was complemented by enterprises producing finished products: TAPOICH State JSC, UzAvtoSanoat Association and UzKimyoSanoat. This resulted in the growth of finished goods export by 1.6 times compared to the first half of 2002. Export growth was also facilitated by favorable world market prices for major exported goods of the country.

Graph 4.1.1. Key Foreign Trade Indicators (USD mill)



Source: State Committee for Statistics of the Republic of Uzbekistan

World prices for cotton fiber increased over 2002 on average by 20-25%, and gold prices by 13-15%. This period is also characterized by the introduction of a number of tax benefits aimed at the motivation and support of domestic producers and the entry of new competitive high-quality products, as well as the adoption of specific measures facilitating private sector promotion, and increasing its role in developing export-oriented manufacturing facilities.

Table 4.1.2. Export Structure Dynamics (%)

Commodity group	Share in total exports, %		Change,%
	2002/I-II	2003/I-II	2003/I-II to 2002/I-II
Cotton fiber	23.0	20.6	126.4
Foodstuffs	4.0	2.2	76.6
Chemical products, plastic products	3.3	2.5	106.2
Energy resources	6.9	8.0	162.9
Ferrous and non-ferrous metals	6.9	5.6	114.5
Machinery and equipment	3.9	6.1	221.5
Services	16.9	13.1	109.3
Other	35.1	41.9	168.2
Total	100	100	140.9

Source: State Committee for Statistics of the Republic of Uzbekistan.

The growth of export volumes was observed in all aggregative commodity groups, except foodstuffs (Table 4.1.2., Annex 4.1.2). There were positive shifts in the structure of exports towards an increase of machinery and equipment exports (2.2 times the amount in the first half of 2002), mainly owing to aircraft and motor vehicle sector products. The share of machinery and equipment in exports increased from 3.9% in the first half of 2002 to 6.1% in the first half of 2003, while in 2003 the quarterly growth of this indicator rose from 5.4% in the first quarter to 6.8% in the second. Exports of chemical products increased by 6.2% and services by 9.3%, of which transportation services accounted for 71.6%.

The decline in the export share of foodstuffs from 4.0% in the first half of 2002 to 2.2% in the first half of 2003, was due to the reorientation of goods for better domestic market supply, including such goods as wheat, rice, sugar, canned fruits and vegetables, etc. The import structure also underwent some changes. For the analyzed period, import volumes increased for all commodities, except foodstuffs and chemical products (Table 4.1.3., Annex 4.1.3). The increasing share of machinery and equipment imports targeted at fixed assets renewal and advanced technology implementation may be viewed as a positive tendency. In the geographical structure of foreign economic activity, foreign trade relations with developed countries broadened and strengthened.

For the first half of the current year the share of trade with CIS countries declined from 31.9% in 2002 to 29.4%, while for the non-CIS countries it increased from 68.1% to 70.6%. This evidences the strengthening of the country's position in the world market.

The share of exports to CIS countries declined in the first half of 2003 compared to the respective period in 2002 from 28.3% to 23.2% (Table 4.1.4.). Major export deliveries to CIS countries, as in previous periods consisted of foodstuffs and energy resources. Major export items to non-CIS countries were cotton fiber, non-ferrous and ferrous metals, and chemical products. As in 2002, there was a shift of machinery and equipment exports to non-CIS countries, which received more than 55.8% of total machinery and equipment export volume in the first half of 2003.

The first half of 2003 was marked by the advancing growth in imports from the CIS countries compared to overseas (non-CIS countries). The share of import deliveries from CIS countries increased, amounting to 38.0% vs. 35.7% in the corresponding period of 2002 (Table 4.1.4.). This allows for more efficient management of economic resources due to deliveries of cheaper goods from the CIS countries.

The dominant share of raw materials in exports (more than 50%) increases the dependence of the country's paying capacity on world prices for export commodities. Exports of cotton fiber increased 1.3 times compared to the respective period in 2002; non-ferrous and ferrous metals 1.1 times; energy resources 1.6 times. At the same time share of cotton fiber in exports declined from 23% in the first half of 2002 to 20.6% in the first half of 2003, non-ferrous and ferrous metals from 6.9% to 5.6% respectively, while the share of energy resources increased from 6.9% to 8.0%. The rise of the share of energy resources was basically due to an increase in natural gas deliveries.

The dominant share of raw materials in exports (more than 50%) increases the dependence of the country's paying capacity on world prices for export commodities. Exports of cotton fiber increased 1.3 times compared to the respective period in 2002; non-ferrous and ferrous metals 1.1 times; energy resources 1.6 times. At the same time share of cotton fiber in exports declined from 23% in the first half of 2002 to 20.6% in the first half of 2003, non-ferrous and ferrous metals from 6.9% to 5.6% respectively, while the share of energy resources increased from 6.9% to 8.0%. The rise of the share of energy resources was basically due to an increase in natural gas deliveries.

The dominant share of raw materials in exports (more than 50%) increases the dependence of the country's paying capacity on world prices for export commodities. Exports of cotton fiber increased 1.3 times compared to the respective period in 2002; non-ferrous and ferrous metals 1.1 times; energy resources 1.6 times. At the same time share of cotton fiber in exports declined from 23% in the first half of 2002 to 20.6% in the first half of 2003, non-ferrous and ferrous metals from 6.9% to 5.6% respectively, while the share of energy resources increased from 6.9% to 8.0%. The rise of the share of energy resources was basically due to an increase in natural gas deliveries.

Table 4.1.3. Import Structure Dynamics (%)

Commodity group	Share in total imports,%		Change in volume,%
	2002/I-II	2003/I-II	2003/I-II to 2002/I-II
Foodstuffs	12.0	11.5	99.9
Chemical and plastic products	14.8	12.1	84.8
Energy resources	1.0	1.5	162.9
Non-ferrous and ferrous metals	8.0	7.9	102.6
Machinery and equipment	44.0	44.6	105.5
Services	9.8	10.0	105.7
Other	10.4	12.4	124.5
Total	100	100	104.1

Source: State Committee for Statistics of the Republic of Uzbekistan

The leading export trade partners for the first quarter of 2003 among CIS countries were Russia (8.1% of exports), Ukraine (5.8%), Tajikistan (3.5%), Latvia (2.6%), and Kazakhstan (2.0%); and among non-CIS countries – UK (7.5%), Switzerland (6.6%), Iran (6.2%), India (3.5%), USA (2.7%), and Turkey (2.6%) (Table 4.1.4., Annex 4.1.4). A decline in delivery volumes to Russia, Kazakhstan, Tajikistan, the Netherlands and Turkey and the respective increase to Latvia, Ukraine, Belgium, UK, India, Iran, Korea, USA and Switzerland is observed in comparison with the corresponding periods in 2002. The most notable decline is observed in export trade volumes with the Netherlands (4.2 times) and France (2.0), with a simultaneous increase of export trade with India (7.5 times), Belgium (1.8), USA (1.8), Ukraine (1.7), and Iran (1.7).

The major CIS import trade partners of Uzbekistan remain as follows: Russia (24.0% of imports in the first half of 2003), Kazakhstan (6.4%), and the Ukraine (4.3%); and outside the CIS countries they include Germany (10.4%), USA (8.7%), Korea (6.9%), China (5.9%), and Turkey (5.0%) (Table 4.1.4., Annex 4.1.5). South Korea, which used to be one of the leading suppliers, continues to decrease its imports to Uzbekistan and in the first half of 2003 compared to the first half of 2002 import from Korea declined 1.8 times. Imports from the USA also declined 1.3 times. At the same time, a significant increase of Germany's import share (1.6 times), as well as that of China (1.8), and Japan (2.8) was recorded.

Positive foreign trade balances among non-CIS countries were achieved with UK – USD 110.2 million, Iran - USD 108.9 million, and Switzerland – USD 118.9 million; while negative ones were recorded with Russia – USD 178.7 million and Kazakhstan - USD 52.6 million.

Table 4.1.4. Breakdown of exports and imports by countries (%)

Country	Share in total, %			
	Exports		Imports	
	2002/I-II	2003/I-II	2002/I-II	2003/I-II
Total	100	100	100	100
CIS countries	28.3	23.2	35.7	38.0
Kazakhstan	2.8	2.0	6.3	6.4
Latvia	2.7	2.6	0.7	0.7
Russia	11.6	8.1	21.6	24.0
Tajikistan	3.7	3.5	0.5	0.7
Ukraine	4.8	5.8	4.7	4.3
Other countries	2.7	1.2	1.9	1.9
Non-CIS countries	71.7	76.8	64.3	62.0
Belgium	1.1	1.7	1.1	0.7
UK	8.1	7.5	2.2	2.5
Germany	1.5	0.9	6.7	10.4
India	0.7	3.5	0.6	0.5
Iran	5.1	6.2	1.3	0.8
China	0.4	1.3	3.4	5.9
Korea	2.3	1.7	13.1	6.9
Netherlands	2.1	0.3	0.8	0.9
USA	2.1	2.7	11.5	8.7
Turkey	4.2	2.6	3.4	5.0
France	1.7	0.6	2.1	1.5
Switzerland	7.8	6.6	0.6	0.6
Japan	0.3	0.3	0.6	1.6
Other countries	34.3	40.9	16.9	16.0

Source: State Committee for Statistics of the Republic of Uzbekistan

Annex 4.1.1. Trade Balance (USD million)

Period	Export	Import	Trade Balance
1995	3719.9	2892.7	827.2
1996	4590.2	4721.1	-130.9
1997	4387.5	4523.0	-135.5
1998	3528.2	3288.7	239.5
1999	3235.8	3110.7	125.1
2000	3264.7	2947.4	317.3
2001	3170.4	3136.9	33.5
2002	2988.4	2712.0	276.4
02/I	630.8	625.5	5.3
02/II	740.1	721.1	19.0
02/III	754.7	690.6	64.1
02/IV	862.8	674.8	188.0
03/I	920.3	649.5	270.8
03/II	1011.8	752.3	259.5

Source: Uzbekistan Economic Trends, TACIS, July-September, quarterly issue, 2001; State Committee for Statistics of the Republic of Uzbekistan.

Annex 4.1.2. Commodity composition of exports (%)

Period	Cotton fiber	Foodstuffs	Chemical products and plastic products	Energy resources	Non-ferrous and ferrous metals	Machinery and equipment	Services	Other goods	Total (%)	Total (USD million)
1995	48.4	1.7	2.5	11.7	4.7	2.0	7.7	21.3	100.0	3719.9
1996	38.1	4.5	2.4	6.0	3.5	2.8	8.3	34.4	100.0	4590.2
1997	36.0	3.7	1.7	12.0	4.6	6.3	27.4	8.2	100.0	4387.5
1998	38.6	3.2	1.5	7.9	5.1	4.2	30.8	8.8	100.0	3528.2
1999	27.3	6.4	3.1	11.5	4.3	3.2	34.7	9.5	100.0	3235.8
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
02/I	26.6	3.2	3.5	7.1	6.7	4.2	18.2	30.6	100.0	630.8
02/II	19.9	4.7	3.2	6.8	7.1	3.6	15.8	39.0	100.0	740.1
02/III	6.1	3.0	2.5	9.9	7.0	2.9	14.7	53.9	100.0	754.7
02/IV	35.7	3.3	2.9	8.5	5.0	4.8	15.4	24.4	100.0	862.8
03/I	28.5	2.2	2.6	6.6	5.1	5.4	13.5	36.1	100.0	920.3
03/II	13.5	2.1	2.4	9.3	6.0	6.8	12.8	47.2	100.0	1011.8

Source: Uzbekistan Economic Trends, TACIS, July-September, quarterly issue, 2001; State Committee for Statistics of the Republic of Uzbekistan

Annex 4.1.3. Commodity composition of imports (%)

Period	Foodstuffs	Chemical products and plastic products	Energy resources	Non-ferrous and ferrous metals	Machinery and equipment	Services	Other goods	Total (%)	Total (USD million)
1995	18.2	9.3	1.9	5.7	47.9	5.0	12.0	100.0	2892.7
1996	29.5	12.5	1.1	6.7	35.8	0.2	14.3	100.0	4721.1
1997	19.3	12.5	0.6	7.5	45.9	7.5	6.7	100.0	4523.0
1998	15.6	12.4	0.5	9.2	47.2	5.0	10.1	100.0	3288.7
1999	13.1	11.7	2.1	7.9	44.8	8.7	11.7	100.0	3110.7
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
02/I	15.3	16.1	1.1	9.0	39.8	8.8	10.0	100.0	625.5
02/II	9.1	13.7	0.9	7.2	47.7	10.7	10.8	100.0	721.1
02/III	11.6	18.2	2.5	8.9	39.7	8.7	10.4	100.0	690.6
02/IV	14.6	12.7	0.6	6.9	37.9	13.9	13.3	100.0	674.8
03/I	12.3	11.8	0.6	7.5	46.0	10.2	11.7	100.0	649.5
03/II	10.7	12.3	2.4	8.2	43.4	9.8	13.2	100.0	752.3

Source: Uzbekistan Economic Trends, TACIS, July-September, quarterly issue, 2001; State Committee for Statistics of the Republic of Uzbekistan

Annex 4.1.4. Breakdown of exports by countries (%)

Period	Total (USD million)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Non-CIS countries	Belgium	UK	Iran	Korea	Netherlands	USA	Turkey	Switzerland	Other countries
1995	3719.9	100.0	34.5	6.4	15.7	1.2	11.2	65.5	0.0	6.4	0.0	3.9	4.2	0.3	2.9	11.4	36.4
1996	4590.2	100.0	22.9	2.6	11.6	0.8	7.9	77.1	1.5	8.0	0.5	5.8	2.9	6.2	1.0	7.2	44.0
1997	4387.5	100.0	34.4	4.5	19.1	4.6	6.3	65.6	2.0	5.8	0.3	7.4	3.1	0.9	0.5	10.0	35.7
1998	3528.2	100.0	26.0	3.5	14.9	0.9	6.7	74.0	4.2	10.0	0.9	7.3	1.7	1.8	1.3	10.3	36.5
1999	3235.8	100.0	30.4	4.6	13.4	3.8	8.6	69.6	2.5	9.6	1.2	3.8	3.0	1.4	2.0	9.5	36.5
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	34.7
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	37.9
2002	2988.4	100.0	27.6	2.7	10.6	5.4	8.8	72.4	2.4	7.7	5.8	2.2	1.5	2.6	3.4	6.3	40.5
02/I	630.8	100.0	30.8	2.7	12.5	4.6	11.0	69.2	1.6	8.6	5.5	2.1	1.7	2.8	4.2	7.3	35.5
02/II	740.1	100.0	26.2	2.9	10.8	5.0	7.5	73.8	0.6	7.7	4.8	2.5	2.3	1.5	4.1	8.3	41.9
02/III	754.7	100.0	25.5	3.1	7.7	6.0	8.7	74.5	1.5	7.2	4.4	1.8	1.4	1.9	3.1	2.1	51.1
02/IV	862.8	100.0	28.2	2.3	11.7	5.7	8.4	71.8	5.2	7.4	8.2	2.5	0.8	3.9	2.6	7.6	33.7
03/I	920.3	100.0	21.5	2.1	6.7	4.5	8.2	78.5	1.9	13.2	6.9	1.5	0.4	2.4	2.9	6.4	42.9
03/II	1011.8	100.0	24.7	1.9	9.4	7.0	6.4	75.3	1.0	2.4	5.6	1.8	0.3	3.0	2.3	6.7	52.2

Source: Uzbekistan Economic Trends, TACIS, July-September, quarterly issue, 2001; State Committee for Statistics of the Republic of Uzbekistan

Annex 4.1.5. Breakdown of imports by countries (%)

Period	Total (USD million)	Total (%)	CIS countries	Kazakhstan	Russia	Ukraine	Other countries	Non-CIS countries	UK	Germany	China	Korea	USA	Turkey	France	Japan	Other countries
1995	2892.7	100.0	43.5	7.5	24.9	2.1	9.0	56.5	1.0	13.0	0.8	15.1	1.1	3.1	0.5	1.5	20.4
1996	4721.1	100.0	32.1	4.7	21.0	3.5	2.9	67.9	2.2	12.3	0.7	6.9	9.2	7.6	1.2	1.2	26.6
1997	4523.0	100.0	28.0	4.3	17.1	2.7	4.0	72.0	2.0	9.8	1.8	19.2	7.5	6.6	2.8	0.7	21.6
1998	3288.7	100.0	27.8	4.9	16.0	4.5	2.4	72.2	4.0	8.3	1.5	11.4	9.1	6.0	4.7	2.8	24.4
1999	3110.7	100.0	26.0	4.1	13.9	4.2	3.9	74.0	3.0	10.7	2.0	13.0	7.6	4.8	2.3	5.3	25.3
2000	2947.4	100.0	38.2	7.3	15.8	6.1	9.1	61.8	2.0	8.7	2.5	9.8	8.7	3.3	2.9	1.9	22.2
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	20.4
2002	2712.0	100.0	36.9	6.7	22.0	4.5	3.8	63.1	2.7	7.8	4.2	9.6	12.1	3.2	2.1	0.7	20.8
02/I	625.5	100.0	37.9	7.5	21.7	5.4	3.2	62.1	2.8	7.6	3.1	14.9	8.0	3.8	1.7	0.5	19.6
02/II	721.1	100.0	33.7	5.3	21.4	4.0	3.0	66.3	1.6	6.0	3.6	11.5	14.5	3.1	2.4	0.7	23.0
02/III	690.6	100.0	38.1	7.4	21.7	3.6	5.4	61.9	3.0	9.6	3.3	7.1	14.0	2.3	1.0	0.8	20.8
02/IV	674.8	100.0	38.1	6.7	23.0	5.0	3.4	61.9	3.5	7.9	6.6	4.9	11.4	3.8	3.2	0.9	19.7
03/I	649.5	100.0	38.7	5.8	24.7	6.4	1.9	61.3	2.4	13.8	6.4	6.2	7.2	4.2	1.8	0.7	18.6
03/II	752.3	100.0	37.4	7.0	23.4	2.5	4.5	62.6	2.6	7.4	5.4	7.5	10.0	5.6	1.3	2.4	20.4

Source: Uzbekistan Economic Trends, TACIS, July-September, quarterly issue, 2001; the State Committee for Statistics of the Republic of Uzbekistan

4.2. Enterprises with Foreign Investment

A legal and regulatory framework for the successful development of existing enterprises with foreign investment (EFIs) as well as the creation of new ones has been developed in Uzbekistan. It envisages a coherent system of incentives and benefits facilitating favorable conditions for foreign investment into priority areas of the economy and in industry sectors with high export potential.

Table 4.2.1. Key indicators of EFI operations

	2002/I-II	2003/I-II	2003/I-II in % of 2002/I-II
Total EFI output (in current prices), UZS mill.	512391.5	654056.9	...
Foreign trade turnover of EFIs, USD million, of which:	626	666.9	106.5
Export, USD million	211.8	268.8	126.9
Import, USD million.	414.2	398.1	96.1
Share of export of EFIs' output, in%	29.2	39.8	
Share of EFIs in total foreign trade turnover of Uzbekistan, in%	24.9	20	...
Share of export, in%	15.4	13.9	...
Share of import, in%+	30.8	28.4	...

Source: State Committee for Statistics of the Republic of Uzbekistan.

In the first half of 2003 the volume of EFI imports for the country in general amounted to USD 398.1 million, or 28.4% of total imports. The decrease in EFI import growth rates by 3.9% compared to the respective period in 2002 is viewed as positive trend, as EFIs reduced their import of machinery, equipment and energy resources.

However, at present EFIs remain mainly net importers. The commodity composition of EFI imports is still dominated by machinery and equipment, foodstuffs and chemical products (Table 4.2.2.). In the first half of the current year import volumes for basically all commodity items significantly decreased (except foodstuffs and metallurgical products) as opposed to the

Table 4.2.2. Commodity composition of EFI imports (%)

	Commodity share, in %	
	2002/I-II	2003/I-II
Total	100	100
Cotton fiber	0	0.01
Foodstuffs	13.42	15.85
Chemical products	11.55	11.88
Energy resources	0.61	0.45
Ferrous and non-ferrous metals	3.96	5.61
Machinery and equipment	62.62	54.85
Services	0.77	2.47
Other	7.07	8.88

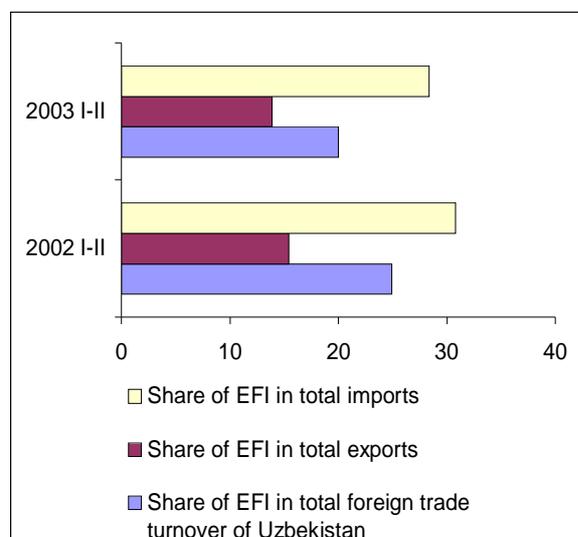
Source: State Committee for Statistics of the Republic of Uzbekistan.

In the first half of 2003 EFIs produced goods, (works and services) worth a total of UZS 654.1 billion (Table 4.2.1.). Among large enterprises producing export oriented goods are UzDaewooAvto Co (motor vehicles manufacturer), Zerafshan-Newmont (gold mining), Kabool-Uzbek Company and Daewoo Textile Company (textiles).

Among sectors the larger share of products, works and services was produced by machine building and metal working, food, light, non-ferrous metals, chemical and petrochemical industries, as well as trade and public catering.

The share of EFIs in foreign trade turnover of Uzbekistan for the analyzed period amounted to 20% (in first half of 2002 – 24.9%) (graph 4.2.1).

Graph 4.2.1. EFI share in foreign trade (%)



Source: State Committee for Statistics of the Republic of Uzbekistan.

respective period of 2002.

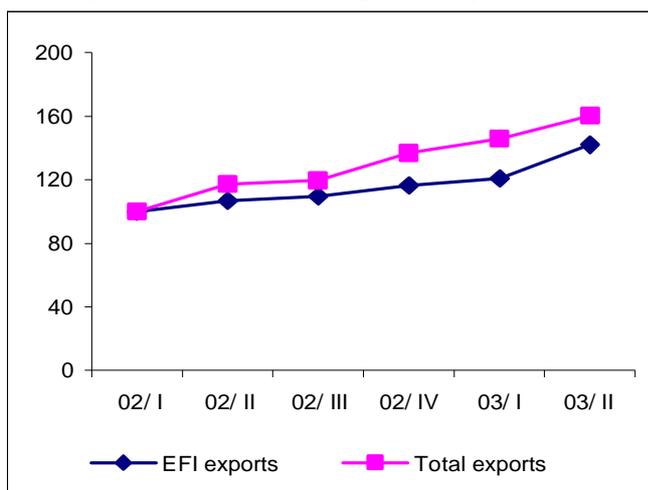
In the first half of 2003 EFI exports for the country in general amounted to USD 268.8 million, or 13.9% of total country exports and 126.9% of the respective level of 2002. In addition, the export share in the total output of goods (works and services) increased by 10.6%age points.

At the same time share of EFI exports in aggregate country exports for the reviewed period declined, owing mainly to more rapid growth rates of overall country export compared to EFI export (Graph 4.2.2.).

A breakdown of EFI exports by province shows that the most significant exporter-provinces are Navoi, Andijan, Fergana and Tashkent provinces as well as Tashkent City (Table 4.2.3.). They account for about 90% of total EFI exports. This is mainly the production of machinery construction, gold mining, light industry products and energy resources.

The Republic of Karakalpakstan, Jizzakh, Surkhandarya, Sirdarya and Khorezm provinces account for an insignificant share in EFI exports. Each of them account for less than one percent of overall EFI exports in the country. A high growth of export volumes as compared to the first half of 2002 was recorded in Bukhara, Kashkadarya and Surkhandarya provinces.

Graph 4.2.2. EFI exports growth dynamics (%)



Source: State Committee for Statistics of the Republic of Uzbekistan.

Table 4.2.3. Breakdown of EFI exports by provinces of Uzbekistan (%)

	Share of EFIs in total exports of the region, %		Share of the region in total EFIs' exports, %	
	2002/I-II	2003/I-II	2002/I-II	2003/I-II
Total	15.4	13.9	100	100
Republic of Karakalpakstan	3.2	2.8	0.2	0.1
Andijan province	54.0	50.6	16.5	16.0
Bukhara province	0.9	11.3	0.2	2.7
Jizzakh province	0.8	0.5	0.1	0.0
Kashkadarya province	3.2	9	0.7	2.5
Navoi province	63.2	64.2	37.4	31.7
Namangan province	17.9	22.1	2.1	2.7
Samarkand province	9.9	13.4	1.6	2.2
Surkhandarya province	0.6	1.9	0.1	0.3
Sirdarya province	6.0	11.9	0.7	0.9
Tashkent province	20.4	21.2	16.4	16.2
Fergana province	34.3	43.6	8.9	13.5
Khorezm province	5.4	10.9	0.5	0.6
Tashkent City	8.0	5.4	14.5	10.7

Source: State Committee for Statistics of the Republic of Uzbekistan.

In commodity composition of EFI exports, machinery and equipment, foodstuffs, cotton fiber, energy resources and services (Table 4.2.4) account for the largest share. Relatively high export growth rates in the first half of 2003 as opposed to the corresponding period of 2002 were observed in such commodity groups as ferrous and non-ferrous metals (11.5 times), and cotton fiber (3.9 times), owing mainly to the rise of world prices for cotton and gold.

At present, major countries investing in the production of goods, works and services in Uzbekistan are Korea, USA, UK, Turkey, Russia, Germany, and Switzerland (Table 4.2.5.). Such global leaders as Mercedes-Benz, Newmont Mining, Technip, Marubeni, BAT, Daewoo, Mitsui, Mitsubishi and others have established a presence in Uzbekistan. Among large and medium enterprises with foreign investments accounting for major output volumes (more than 70%) are UzDaewooAvto Co,

Table 4.2.4. Commodity composition of EFI exports (%)

	Commodity share, in %	
	2002/I-II	2003/I-II
Total	100	100
Cotton fiber	1.10	3.43
Foodstuffs	3.98	4.12
Chemical products	2.40	1.89
Energy resources	2.62	2.93
Ferrous and non-ferrous metals	0.04	0.41
Machinery and equipment	18.81	16.88
Services	3.78	3.63
Other	67.27	66.71

Source: State Committee for Statistics of the Republic of Uzbekistan.

Kabool-Uzbek, Zerafshan Newmont, UzBAT, DAEWOO TEXTIL COMPANI, Coca Cola Ichimligi Uzbekiston Ltd., Roz Trading Ltd., Kokonsoy-Tekmen, Silk Road and SamKochAvto.

Table 4.2.5. Key indicators for large and medium EFIs by investor countries, first half of 2003

	Number of large and medium EFIs, units	Share of goods, works and services, %		Number of large and medium EFIs, units	Share of goods, works and services, %
Total for Uzbekistan	433	100			
Austria – Uzbekistan	4	0.2	Pakistan – Uzbekistan	5	0.1
UK – Uzbekistan	26	5.3	Russia – Uzbekistan	19	1
Germany – Uzbekistan	21	2.1	USA	11	0.7
Israel – Uzbekistan	7	0.9	USA – Uzbekistan	41	28.6
India – Uzbekistan	1	0.3	Turkey	15	0.8
Italy – Uzbekistan	7	0.7	Turkey – Uzbekistan	40	2.8
China – Uzbekistan	10	0.4	Ukraine – Uzbekistan	2	0.1
Korea	4	3.6	Czech Rep. – Uzbekistan	13	0.6
Korea – Uzbekistan	22	35.6	Switzerland – Uzbekistan	12	2.6
Lichtenstein – Uzbekistan	2	0.1	Japan – Uzbekistan	3	0.2
UAE – Uzbekistan	4	1.4	Other	164	12.1

Source: State Committee for Statistics of the Republic of Uzbekistan.

EFI activity in the reviewed period indicates that despite a significant decline in import transactions, most EFIs remain net importers. EFI imports in the first half of 2003 exceeded their exports by 1.5 times.

Remaining impediments for EFI development in Uzbekistan are as follows: bottlenecks in attracting foreign investment into the privatization of large enterprises, an insufficiently developed network of market infrastructure, a lack of professional capacity in EFI development, and the poor level of potential foreign investor awareness (via the Internet).

Annex 4.2.1. Commodity composition of EFI exports (%)¹

	Total (USD thous.)	Total (%)	Cotton fiber	Foodstuffs	Chemical products	Energy resources	Ferrous and non-ferrous metals	Machinery and equipment	Services	Other
1998	342861	100	0	2.2	2.7	0.1	0.3	34.1	4.7	55.9
1999	371514	100	0	8.3	1.4	3.3	0.3	17.8	5.1	63.8
2000	451614	100	4.8	7.4	1.5	3.7	0.3	16.0	3.9	62.4
2001	416907	100	2.4	4.4	2.6	4.7	0.2	21.1	4.4	60.2
2002	442959	100	1.0	4.1	2.1	2.9	0.5	16.5	3.8	69.1
02/I	102320.7	100	2.3	3.8	2.1	1.9	0.0	19.8	3.6	66.4
02/II	109441.8	100	0.0	4.1	2.7	3.3	0.1	17.8	4.0	68.0
02/III	112141.5	100	0.7	3.9	2.0	3.3	1.1	12.1	4.1	72.8
02/IV	119055.1	100	1.1	4.5	1.6	3.0	0.8	16.6	3.5	69.0
03/I	123516.4	100	4.0	4.8	1.6	2.1	0.2	11.0	3.3	73.0
03/II	145314	100	2.9	3.5	2.1	3.7	0.6	21.9	3.9	61.4

Source: State Committee for Statistics of the Republic of Uzbekistan.

Annex 4.2.2. Commodity composition of EFI imports (%)

	Total (USD thous.)	Total (%)	Foodstuffs	Chemical products	Energy resources	Ferrous and non-ferrous metals	Machines and equipment	Services	Other
1998	1116845	100	13.6	13.8	0.4	4.6	57.4	1.3	8.9
1999	1027794	100	11.9	12.4	0.4	5.4	57.9	4.0	8.1
2000	760456.5	100	12.9	20.5	0.8	5.1	47.4	1.1	12.2
2001	937190.6	100	8.8	13.3	0.6	5.9	62.5	1.0	7.9
2002	704755.2	100	15.0	13.2	0.6	4.4	57.5	1.1	8.2
02/I	207877.3	100	13.2	10.8	0.6	4.4	64.6	0.5	5.8
02/II	206322.2	100	13.6	12.3	0.6	3.5	60.6	1.1	8.3
02/III	152485.2	100	15.6	16.5	0.6	5.5	50.9	1.0	10.0
02/IV	138070.5	100	18.8	14.7	0.5	4.6	49.4	2.2	9.8
03/I	185048.8	100	14.2	10.3	0.4	5.0	61.3	1.4	7.4
03/II	213083.2	100	17.3	13.3	0.5	6.1	49.3	3.4	10.2

Source: State Committee for Statistics of the Republic of Uzbekistan.

¹ Statistic data on commodity composition of export and import of EFIs is presented since 1998, and breakdown by regions since 1997.

Annex 4.2.3. Breakdown of EFI exports by provinces of Uzbekistan (%)

	Total (USD thous.)	Total (%)	Republic of Karakalpakstan	Andijan province	Bukhara province	Jizzakh province	Kashkadarya province	Navoi province	Namangan province	Samarkand province	Surkhandarya province	Sirdarya province	Tashkent province	Fergana province	Khorezm province	Tashkent City
1997	399584.9	100	0.0	33.4	0.3	0.0	0.0	38.5	0.1	0.8	0.0	0.0	9.2	2.6	0.4	14.7
1998	342861.0	100	0.0	22.9	0.0	0.0	0.1	31.7	0.6	1.7	0.0	0.4	14.5	7.0	5.2	16.0
1999	371514.0	100	0.0	9.8	0.1	0.0	0.2	40.8	2.2	2.4	0.0	0.0	10.1	9.1	4.5	20.6
2000	451614.0	100	0.0	13.3	0.3	0.1	0.0	31.9	4.2	2.8	0.0	5.1	14.0	7.2	0.2	21.0
2001	416906.8	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	442959.0	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
02/I	102320.7	100	0.1	17.1	0.2	0.1	0.0	32.6	2.4	2.5	0.0	0.7	21.8	7.5	0.4	14.5
02/II	109441.8	100	0.1	16.0	0.3	0.1	1.4	41.9	1.9	0.7	0.2	0.7	11.3	10.3	0.6	14.5
02/III	112141.5	100	0.3	9.1	0.8	0.1	2.6	38.2	1.6	1.7	0.1	1.0	16.2	12.0	0.3	16.0
02/IV	119055.0	100	0.0	13.9	0.2	0.1	2.3	31.1	2.9	2.5	0.2	0.7	20.5	13.9	0.2	11.7
03/I	123516.4	100	0.1	10.3	3.4	0.0	2.6	34.4	2.3	1.6	0.2	0.9	19.3	14.0	0.7	10.2
03/II	145314.0	100	0.0	20.9	2.1	0.0	2.5	29.4	2.9	2.6	0.4	0.9	13.5	13.2	0.6	11.0

Source: State Committee for Statistics of the Republic of Uzbekistan.

Annex 4.2.4. Breakdown of EFI imports by provinces of Uzbekistan (USD '000)

	Total (USD thous.)	Total (%)	Republic of Karakalpakstan	Andijan province	Bukhara province	Jizzakh province	Kashkadarya province	Navoi province	Namangan province	Samar kand province	Surkhandarya province	Sirdarya province	Tashkent province	Fergana province	Khorezm province	Tashkent City
1997	1777943.8	100	0	38.6	0.3	0	0.4	2.1	1.5	2.1	0.1	0.1	2.5	3.2	3.4	45.6
1998	111684.5	100	0.1	23.8	0.4		0.5	3.7	4.4	3.2	0.3	0.2	6.1	3.3	3	51.1
1999	1027793.8	100	0.6	33	0.1	0	0.1	3.9	2.1	3.6	0.5	0.2	6.2	0.7	0.4	48.6
2000	760456.5	100	0.3	28.3	1	1.1	0.3	4.6	1.6	4.3	0.3	0.2	8.4	1.4	0.1	48
2001	937190.6	100	0.2	25.3	1	3.3	5.1	6.5	2.2	2.1	0	0.9	10.3	9.8	1	32.2
2002	704755.2	100	0.4	27.1	2.1	3.8	0.7	4.1	2.1	3.9	0.1	0.3	5.9	5.7	3.8	39.8
02/I	207877.3	100	0.2	38.9	1.1	2.3	0.8	3.8	1.8	1.6	0.1	0.7	6.3	1.5	9.6	31.2
02/II	206322.2	100	0.7	32.1	1.7	9.5	0.6	3.2	2	4.2	0	0.2	5.4	2.7	1.6	36.2
02/III	152485.2	100	0.2	20.2	3.7	0.3	1.1	4.6	3.1	5.5	0.1	0	6.2	9.6	2.2	43.2
02/IV	138070.5	100	0.5	9.6	2.6	1.5	0.2	5.4	1.8	5	0.5	0.1	5.7	12.2	0.2	54.6
03/I	185048.8	100	2.6	38.7	0.3	0	0.1	4.3	1.4	1.8	0.1	0.1	2.9	6.5	0.2	40.9
03/II	213083.2	100	0.9	21.9	1.7	0	0.1	4.9	1.4	4.7	0.2	0.2	2.5	3.9	0.2	57.3

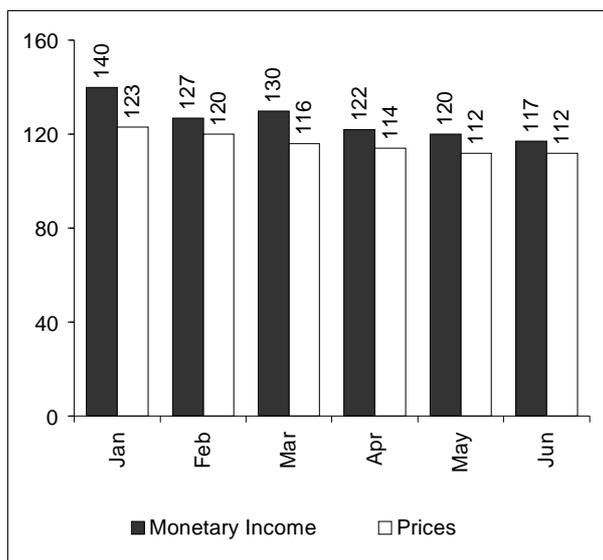
Source: State Committee for Statistics of the Republic of Uzbekistan.

5. Living Standards and Labor Market

5.1. Population Income

Measures taken by the government in the first half of 2003 on tightening monetary policy, increasing the financial discipline of economic agents and developing domestic production contributed to reducing the rate of inflation. On average for the period January – June 2003 the nominal monetary income of the population increased by 25.4%, real income by 8% compared with the first half of 2002 (graph 5.1.1).

Graph 5.1.1. Correlation between rise in monetary income of population and prices for consumer goods and services (% to corresponding month of 2002)



Source: State Committee on Statistics of the RUz.

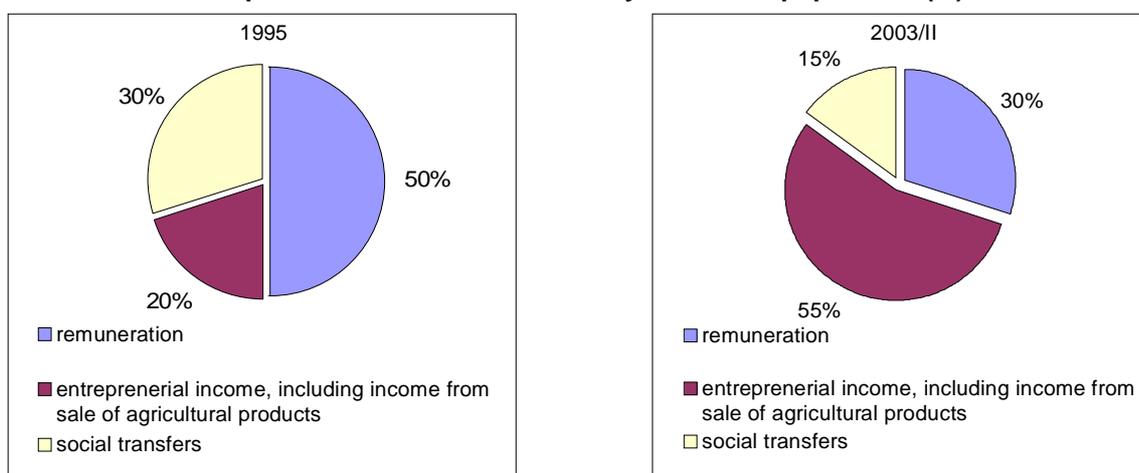
One of the major factors in the rise in monetary income of the population was the increase in wages and salaries. The average nominal salary in the first half of 2003 increased by 44.1% over the similar period of last year. Such a rise occurred thanks to the decision of the government to increase the salary of employees of budgetary institutions and organizations and of all types of pensions, social allowances, and scholarships 1.2 times. In self-supporting enterprises and organizations the salary level increased due both to the increase in the minimum wage and to the release of funds through the reduction, as of 1 January 2003, in the income (profit) tax from 24 % to 20% and in compulsory contributions for state social insurance from 40 % to 37.2% of the wage fund.

In the first half of 2003, an increase in salary in nominal terms was observed in all sectors of the economy, especially in the banking system--67.5% and industry--49.7%. In the health care system salaries increased by 36.5%, in the education system – by 43.6%.

At the same time, the spread between minimum and maximum level of salary in different sectors of the economy was 1:4.2. Such intersectoral differentiation may be considered moderate relative to the criteria accepted in international practice (1:3), taking into account the specifics of a transition economy. Factors of intersectoral differentiation have been defined: differences in the amount and structure of expenses for the workforce of organizations of different sectors of the economy; lack of competition; and underdevelopment of the private sector in the education and healthcare systems.

Differences in the supply of natural resources, and the disproportional allocation of investments, loans and other resources without taking into consideration the needs of individual provinces contributed to the gradual rise in interregional differentiation of salary. In the first half of 2003 the spread between the minimum and maximum amount of salary among the provinces was 1:3.2 vs. 1:2.9 in the similar period of 2002. At the same time, interregional differentiation of monetary income per capita has fallen from 1:4.5 to 1:4 for the same period.

This demonstrates that the development of market relations and the change in the structure of the population's income – the increase in the share of income from the sale of agricultural products and entrepreneurial activity -- are important factors in the increase in monetary income of the population. The share of income from the sale of agricultural products and income from entrepreneurial activity in the structure of monetary income of the population for the period 1995-2003 (first half) more than doubled (graph 5.1.2).

Graph 5.1.2. Structure of monetary income of population (%)

Source: State Committee on Statistics of the RUz.

5.2. Domestic Trade and Services

In the first half of 2003 the amount of retail trade totaled UZS 2028.4 bn., and in comparable prices increased 0.3% over the similar period of last year.

Table 5.2.1. Retail sale and private services

Years, quarters	Retail sale		Chargeable services	
	In current prices, bn Soum	Increase over previous year in comparable prices, %	In current prices, bn Soum	Increase over previous year in comparable prices, %
1995	104.2	-7.8	15.0	-27.0
1996	236.4	21.0	34.0	9.9
1997	493.9	12.7	70.3	21.3
1998	709.3	14.0	114.6	9.5
1999	1148.8	10.5	189.4	12.6
2000	1787.5	7.6	309.9	15.7
2001	2699.9	9.6	472.3	14.7
2002	3772.3	1.7	711.4	8.6
02/I	853.6	10.3	135.2	13.0
02/I-II	1819.8	8.9	311.2	13.8
02/I-III	2750.3	4.0	499.6	11.8
03/I	972.3	-0.2	189.2	2.0
03/I-II	2028.4	0.3	418.8	4.4

Source: State Committee on Statistics of the RUz.

of the population determines a correspondingly high level of consumption of chargeable services in: Tashkent city and Bukhara, Andijan, Navoi and Tashkent provinces. At the same time, a low level of consumption of services was registered in the Republic of Karakalpakstan, and in Sirdarya and Kashkadarya provinces.

However, retail trade turnover per capita during the same period fell by 0.9%.

Volumes of retail trade lower than the average national level have been registered in Sirdarya (57.5%), Jizzakh (58.4%) and Khorezm (61.7%) provinces and the Republic of Karakalpakstan (47.5%) (table 5.2.2.). The low level of development of the consumer market may be indicated as a major reason for the low retail sale volume in these provinces.

In the first half of 2003 the share of non-government commodity turnover increased to 98.4% compared to 97.7% in the similar period of 2002. Turnover in the amount of UZS 1754.4 bn. was provided by private property of the population, a 7.9% increase over the first half of 2002.

The growth rate of provision of chargeable services to the population has slowed somewhat. During the first half of 2003 chargeable services in the amount of UZS 418.8 bn. were provided to the population, and in comparison with the similar period of 2002 chargeable services increased only by 4.4% in comparable prices (table 5.2.2.). This trend is caused by the low quality and small assortment of services as well as by the low disposable income of the population.

A rise in the amount of chargeable services was observed in all provinces of the republic, but the differentiation of per capita consumption of services among provinces remains. Higher monetary income

Table 5.2.2. Monetary income and retail sale per capita in 1st half of 2003

Territories	Monetary income, thous. UZS	In % to average national level	Inflation level (increase in prices for Jan –June, in %)	In % to average national level	Retail sale per capita, thous. UZS	In % to average national level
Republic of Uzbekistan	114.1	100	4.2	100	79.3	100
Republic of Karakalpakstan	65.2	57.1	4.4	104.5	37.7	47.5
Andijan province	124.8	109.4	4.2	100	105.2	132.7
Bukhara province	113	99.0	3.5	83.3	70.9	89.4
Jizzakh province	73.3	64.2	4.5	107.1	46.3	58.4
Kashkadarya province	85.8	75.2	5.4	128.6	58.8	74.1
Navoi province	156.7	137.3	4.4	104.5	66.1	83.4
Namangan province	81.4	71.3	5.3	126.2	61.4	77.4
Samarkand province	81.6	71.5	4.2	100	57.3	72.3
Surkhandarya province	82.2	72.0	2.3	54.8	58.3	73.5
Sirdarya province	75.7	66.3	5.5	130.9	45.6	57.5
Tashkent province	126.1	110.5	6.8	161.9	84.6	106.7
Fergana province	1156	1013	3.2	76.2	90.4	114.0
Khorezm province	72.9	63.9	2.6	61.9	48.9	61.7
Tashkent City	295.7	259.2	3.5	83.3	202.8	255.7

Source: State Committee on Statistics of the RUZ.

The share of non-government services in the amount of chargeable services has increased and comprised UZS 278.4 bn. or 154% of the level of the first half of 2002. This increase was due mainly to enterprises of non-governmental type of ownership and private services provided by the population.

5.2.1. Housing and communal facilities

In the total amount of capital investments in the first half of 2003, expenses for the construction of domestic buildings made up 12.0%. In the structure of chargeable services, housing and communal services take second place after transport services.

As of 1 July 2003 housing resources of the republic comprised 364.4 mill. square meters and increased by 3.4 mill. square meters compared to the first half of last year. From January - June of 2003, 3436 thous. square meters of housing were developed with diverse sources of financing, equivalent to 91% of the corresponding period of 2002. 84.4% of the total amount of the accommodation was located in rural areas.

On average, in the first half of 2003, there were 14.3 square meters of living space per resident of the republic, 0.1 square meters (0.7%) more than in 2002. The level of the housing supply by province is characterized by the territorial aspect of the development of the housing industry, and varies significantly from 9.6 (Andijan province.) to 20.0 square meters (Khorezm province), with a range of deviation of 2.08. Interregional development of housing construction is determined by differences in the amount of construction resources and their price level, the degree of development of housing facilities, demographic and geographic characteristics of the provinces and etc.

The legal base, that is, standard legal documents regulating municipal services, has improved over the past half year. One of the key issues in reforming the sector is forming a flexible tariff policy and ensuring the gradual transition to the cost-recovery level and self-financing of enterprises of the sector, mainly through optimization of the value of services with a simultaneous increase in their quality.

In order to improve targeted orientation in implementing measures on the social protection of the population in the conditions of deepening market reforms and liberalization of the economy, the Decree of the President of the Republic of Uzbekistan was issued on March 27th, 2003 "On the introduction from 1 April 2003 of compensatory monetary payments in place of benefits provided for the payment of housing and communal services". In addition, this decree, probably, will improve the collectibility of payments for using housing and communal services for the recovery of the sector's costs, which is unavoidable under transition to market conditions of management.

In order to regulate the registration of the consumption of natural gas and drinking water work is being

carried out to equip housing with devices for the registration of gas consumption. As of 1 July of 2003, 457.7 thous. devices for registering gas consumption and 292.9 thous. devices for registering water consumption.

5.2.2. Health-care

As of 1 July 2003, 1007 inpatient hospitals, 3658 outpatient clinics, 571 rural outpatient departments, 2068 rural medical posts, and 2994 medical assistant and obstetrician' posts provide medical service to the population of the Republic of Uzbekistan.

During the reporting period work has been carried out on the improvement of reproductive health, forming a healthy family, generating favorable conditions for the birth of healthy children in the family, as well as educational activity warning against closely-related marriages, against childbirth at very young or very advanced ages, and recommending increasing the intervals between births and using preventive measures to prevent unwanted pregnancies and genital diseases.

5.2.3. Education

In accordance with the "National program of staff training" consistent measures on reforming the education system have continued in the republic during the reporting period of 2003.

The process of equipping academic lyceums and specialized colleges with laboratory and special equipment and educational literature, and of retraining and skills development for teachers has continued as well.

In the first half of 2003 40 standard texts of special disciplines were approved and 106 textbooks with a total run of 1.3 mill. copies were issued for the system of secondary special, professional education. 29.8 thous. teachers and training officers are studying at skills development courses in the country and abroad.

In order to develop the skills of promising young teachers and scientific officers the government of the republic made the following decision: to unite the Fund of the President of the RUz "Umid" on supporting the training of talented youth abroad with the Republican Fund "Uztoz" and on this basis to form the Fund of the President of the RUz "Iste'dod" on improving skills of young teachers and scientific manpower; and to accept proposals on sponsor support of the Fund by the Ministry of Higher Education of the RUz, the Center for Secondary Special and Professional Education, the Ministry of Popular Education, the Academy of science, the Center for Science and Technology, etc.

5.3. Employment and Labor Market

5.3.1. Population on 1 July 2003

The population of Uzbekistan as of 1 July 2003 totaled 25.569.5 thous. people. The number of people from 1 January 2002 to 1 January 2003 increased by 312.1 thous. or by 1.2% (Table 5.3.1).

In 1995-2003 the average annual population growth rate declined from 2.0% to 1.2%, in urban areas from 1.1% to 0.6%, and in rural areas from 2.5% to 1.6%. Major underlying factors of such trend are decline of birth rate and persistent negative migration balance of population.

For the first half of 2003 the number of children born increased by 9.1 thous. in comparison with the same period of 2002. The number of new births decreased only in Jizzakh and Khorezm provinces making up only 87.9 % and 88.0%, respectively, of the preceding year's levels.

The mortality rate for the country in general has decreased by 1.9%. While increases in death-rate compared to the similar period of 2002 were recorded in the Republic of Karakalpakstan (by 7.8%), Kashkadarya (6.4%) and Andijan provinces (0.8%).¹

¹ Population of Uzbekistan 1991-2001. Statistical Review. Tashkent 2002. pages 194-195, 229-230.

**Table 5.3.1. Dynamics of population of the Republic of Uzbekistan
(at the beginning of the year, in thous.)**

Year	Total population		Urban		Rural	
	Number	Increase, %	Number	Increase, %	Number	Increase, %
1995	22461.6		8670.9		13790.7	
1996	22906.5	2.0	8768.1	1.1	14138.4	2.5
1997	23348.6	1.9	8878.4	1.3	14470.2	2.3
1998	23772.3	1.8	8993.2	1.3	14779.1	2.1
1999	24135.6	1.5	9086.5	1.0	15049.1	1.8
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

Source: State Committee on Statistics of the RUz.

The trend of more rapid growth of the rural population is continuing. Thus, in the preceding year, out of a total population increase of 312.1 thous. people, 53.8 thous. (17.2%) accounted for cities, and 258.3 thous. people (82.8%) accounted for rural areas. In 1995, these indicators were correspondingly 444.9 thous. people - total, 97.2 thous. people (21.8%) - in urban areas and 347.7 thous. people (78.2%) in rural areas.

5.3.2. Employment

An intensification of structural reforms in employment is taking place. The trend towards increasing of the number of employed in industry, construction, transport and communication is continuing. While agrarian employment is decreasing due to the release of excessive workforce from agriculture. Employment in non-production spheres is significantly increasing due to expansion of small and medium businesses.

Table 5.3.2. Share of subsequently employed in registered job-seekers

Year	Registered as job-seeking	Subsequently Employed	Share, %
1995	246191	153526	62.4
1996	275358	178755	64.9
1997	298829	197439	66.1
1998	313824	207924	66.2
1999	387880	246427	63.5
2000	421377	280601	66.6
2001	462753	318068	68.7
2002	448175	322154	71.9
02/I	109528	75283	68.7
02/II	233354	163883	70.2
02/III	349099	248097	71.1
02/IV	448175	322154	71.9
03/I	108295	77132	71.2
03/II	231606	167051	72..1

Source: Ministry of Labor and Social Protection of the RUz.

The efficiency of employment exchanges activity has increased: while in the first half of 2002 70.2% of those registered as job seekers found jobs, in the first half of 2003 – 72.1% succeeded (Table 5.3.2). The number of unemployed fell by 3.8 thous. people compared to the first half of 2002.

At the same time, there is evident tendency towards the reduction of the scale of the formal labor market. In comparison with the first half of 2002, the number of job-seekers registered at employment exchanges in the first half of 2003 decreased by 1.7 thous. people.

The scale of retraining and skills development for the unemployed remains insufficient. The number of people receiving professional retraining decreased over the corresponding period by 7.2 thous. people. At present 15.6 out of each thous. of applicants receive retraining vs. 18.5 per a thous. in 2002.

The participation of the unemployed in public works has remained practically unchanged – 14.7% of those registered at employment exchanges. The share of the unemployed receiving unemployment allowances has fallen from 9.6% to 8.4% of the number registered.

6. Socio-economic Development of the Regions

Monitoring of the socio-economic development of the regions of Uzbekistan (Republic of Karakalpakstan, provinces and Tashkent City) is based on the following main indicators: Gross Regional Product (GRP), industrial and agricultural production, consumer market, investments into fixed capital, retail turnover and paid services.

In the first half of 2003 some differences in the economic development of the regions of the country were observed. The highest growth figures in the generalizing GRP indicator in the first half year of 2003 in comparison to the corresponding period of 2002 were in Samarkand (106.5%), Bukhara (104.4%) and Jizzakh (104.2%) provinces (Annex 6.1.).

According to this indicator the Republic of Karakalpakstan (98.9%) and Sirdarya (94.6) province experienced a decline, attributable to the reduction in production volume of retail turnover. From the final figures of the first half year these two regions as well as Namangan, Samarkand and Surkhandarya provinces can be considered the least developed territories of the country in terms of the level of socio-economic development (index of per capita production GRP) (Annex 6.2)

For the period under review the indicators of development of Andijan (from 0.834 to 0.717), Kashkadarya (from 0.780 to 0.688), Tashkent (from 1.032 to 0.951) and Fergana (from 0.843 to 0.793) provinces significantly decreased.

There has been a decline in industrial production in the Republic of Karakalpakstan (85.4% of last year's volume) and Khorezm (94.4%) province, and in agricultural production in Namangan (97.1%) and Sirdarya (95.2%) provinces. The decline in industrial production is mostly caused by financial instability, the shortage of working capital, the high level of capital assets depreciation, and the low utilization level of current capacities in a number of industrial enterprises. The decline in agricultural production volume results from unfavorable weather conditions, reduction of fertile lands, and insufficient adaptation of agricultural enterprises to existing market mechanisms.

Typical tendencies of the first half of 2003 are the increase in the number of regions with reduced investment activity as compared to the previous year (in the provinces of Bukhara - 86%, Jizzakh - 80%, Fergana - 95%, and Khorezm - 87%), as well as with reduced volumes of retail turnover (Republic of Karakalpakstan - 96%, provinces of Sirdarya - 85.3%, Fergana - 97.3% and Khorezm - 96.6% and Tashkent City - 93.4%). The main reasons for the existing situation were non-realization of investment programs and disproportions in capital construction.

For the analyzed period according to almost all indicators (except investment and agricultural industry volume) the differentiation of socio-economic development of the regions of the country has grown.

In per capita production of GRP the differentiation between the most and the least developed regions for the first half of 2003 was 5.1 times, in industrial production - 28.1 times, production of consumer goods - 7.1 times, agricultural production - 3.3 times, investments 5.7 times, retail turnover - 5.4 times, and paid services - 11.7 times. Compared to 2002, these indicators are significantly higher except for agriculture.

The growth of the level of socio-economic development differentiation of the regions is a result of inefficient utilization of available natural-economic potential in regions, the high level of centralized regulation of regional economies, the weak implantation of market management mechanisms, the low level of initiative and enterprise at various territorial levels (district, urban and rural settlements) and others. At the same time one should notice that territorial factors are an important component of the stable economic growth of the country.

**Annex 6.1. The dynamics of the main indicators of socio-economic development of the regions
(Growth rate to the previous period in comparable prices in %)**

Gross Regional Product (GRP)

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	98.3	106.9	89.7	98.3	101.6	94.0	98.9
Andijan province	106.0	104.2	102.8	108.9	103.4	100.5	102.3
Bukhara province	110.2	106.2	104.2	103.5	102.7	102.4	104.4
Jizzakh province	107.5	111.7	104.2	106.5	109.5	102.2	104.2
Kashkadarya province	105.9	103.7	99.0	105.0	110.1	103.5	102.9
Navoi province	100.8	107.6	103.2	101.4	104.8	101.0	101.2
Namangan province	100.4	103.4	108.0	104.5	103.7	103.6	101.6
Samarkand province	107.6	107.4	104.6	103.5	107.6	100.2	106.5
Surkhandarya province	109.7	100.1	105.5	108.0	104.0	100.3	103.7
Sirdarya province	106.1	104.4	102.6	102.9	98.3	95.1	94.6
Tashkent province	104.9	101.4	110.9	104.2	103.1	100.1	100.9
Fergana province	97.4	101.7	106.1	99.5	105.1	100.1	100.0
Khorezm province	105.8	104.5	94.8	103.0	102.9	99.4	102.8
Tashkent City	95.6	98.7	104.5	104.3	102.6	99.2	102.8
Republic of Uzbekistan	104.4	104.4	103.8	104.2	104.2	102.2	103.8

Source: Uzbekistan State Committee on Statistics

Continuation of Annex 6.1.

Industrial production

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	106.3	105.0	111.2	95.9	94.9	89.0	85.4
Andijan province	111.0	113.7	90.0	128.1	105.5	101.0	108.4
Bukhara province	135.3	114.2	103.9	107.7	103.3	105.7	110.6
Jizzakh province	125.0	110.4	122.7	119.9	130.3	106.8	115.6
Kashkadarya province	103.7	102.3	101.9	104.4	112.1	120.1	122.5
Navoi province	101.9	109.7	102.2	100.6	106.5	102.7	100.4
Namangan province	107.1	115.1	126.1	118.2	112.5	107.7	112.8
Samarkand province	117.1	130.7	97.3	105.7	106.7	107.8	115.9
Surkhandarya province	106.9	108.3	107.9	104.1	113.1	101.5	117.0
Sirdarya province	102.8	109.5	106.7	101.3	122.4	101.2	100.1
Tashkent province	105.6	100.2	108.8	109.1	108.3	101.0	101.4
Fergana province	104.1	104.8	108.5	101.4	108.7	102.4	100.3
Khorezm province	118.3	100.1	103.5	100.3	103.9	100.2	94.4
Tashkent City	104.1	103.4	113.2	110.5	111.7	105.4	106.9
Republic of Uzbekistan	105.8	106.1	105.9	107.6	108.3	104.0	105.5

Continuation of Annex 6.1.

Consumer goods production

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	105.6	107.5	105.9	113.5	104.3	103.1	105.9
Andijan province	104.3	113.0	92.6	123.7	97.8	96.0	104.3
Bukhara province	137.5	108.9	105.9	107.4	103.3	103.3	106.9
Jizzakh province	1022	136.2	123.6	119.3	159.3	101.2	115.7
Kashkadarya province	116.8	112.6	113.1	112.7	108.5	113.2	105.8
Navoi province	112.2	102.1	115.5	99.98	114.5	125.0	114.6
Namangan province	109.5	114.2	124.3	111.8	118.1	107.7	112.3
Samarkand province	138.2	141.5	92.4	102.6	102.5	104.8	104.0
Surkhandarya province	117.8	120.0	111.9	100.9	114.8	88.7	105.0
Sirdarya province	106.1	125.6	110.1	120.2	103.0	100.6	107.7
Tashkent province	112.4	109.5	112.5	114.1	106.6	104.7	108.6
Fergana province	107.3	110.1	111.3	98.1	106.4	96.7	95.5
Khorezm province	120.3	97.8	107.8	94.0	95.0	115.9	115.4
Tashkent City	98.7	92.0	111.3	101.3	120.2	100.8	102.9
Republic of Uzbekistan	107.2	109.3	106.2	107.6	108.4	102.3	104.0

Continuation of Annex 6.1.

Agricultural production

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	65.6	118.4	65.6	90.5	101.2	97.6	110.5
Andijan province	110.2	107.3	110.2	107.1	1021	101.0	100.3
Bukhara province	106.3	109.3	106.3	102.0	102.6	102.3	109.6
Jizzakh province	100.1	116.8	100.1	106.9	113.8	103.4	104.3
Kashkadarya province	89.4	103.9	89.4	106.9	119.9	103.4	100.6
Navoi province	105.0	109.4	105.0	107.2	106.7	102.0	106.4
Namangan province	111.5	103.2	111.5	101.4	101.5	101.8	97.1
Samarkand province	104.8	107.2	104.8	103.9	112.4	104.2	108.4
Surkhandarya province	106.7	97.4	106.7	110.5	102.8	106.6	102.5
Sirdarya province	101.9	107.5	101.9	105.8	98.9	101.6	95.2
Tashkent province	114.9	100.5	114.9	103.7	102.8	105.3	103.0
Fergana province	113.5	104.1	113.5	100.4	105.7	103.4	100.7
Khorezm province	82.8	108.9	82.8	103.6	106.8	101.3	114.1
Republic of Uzbekistan	104.0	105.9	103.1	104.2	106.1	103.3	103.8

Continuation of Annex 6.1

Investments

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	137.0	102.0	83.0	106.0	114.0	112.0	119.0
Andijan province	119.8	102.0	101.0	118.0	105.0	100.2	104.0
Bukhara province	65.5	98.0	108.0	119.0	103.0	69.0	86.0
Jizzakh province	100.3	105.0	111.0	78.0	112.0	81.0	80.0
Kashkadarya province	114.5	120.0	93.0	130.0	94.0	128.0	114.0
Navoi province	81.8	107.0	116.0	107.0	98.0	122.0	110.0
Namangan province	75.4	100.4	103.0	96.0	100.1	100.2	100.2
Samarkand province	118.8	100.6	104.0	107.0	99.8	115.0	107.0
Surkhandarya province	118.0	103.0	102.0	116.0	101.0	101.0	102.0
Sirdarya province	102.0	109.0	100.2	101.0	84.0	114.0	106.0
Tashkent province	120.1	95.0	106.0	112.0	102.0	98.0	108.0
Fergana province	134.2	108.4	107.0	109.0	108.0	101.0	95.0
Khorezm province	105.0	104.0	102.0	96.0	103.0	81.0	87.0
Tashkent City	107.8	102.0	92.0	106.0	81.0	87.0	108.0
Republic of Uzbekistan	115.0	102.0	101.0	104.0	103.6	100.3	102.6

Continuation of Annex 6.1

Retail turnover

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	92.1	115.9	103.6	117.9	102.6	90.2	96.0
Andijan province	122.4	108.7	106.4	109.3	107.3	110.8	103.8
Bukhara province	105.6	112.8	110.3	114.7	107.1	107.7	103.1
Jizzakh province	102.7	101.4	111.0	125.8	116.2	117.6	104.8
Kashkadarya province	118.9	100.3	109.9	116.5	105.5	111.9	109.1
Navoi province	104.0	111.5	105.4	113.3	105.0	97.2	102.2
Namangan province	102.3	108.5	110.8	118.8	103.9	108.8	102.4
Samarkand province	105.5	105.9	113.6	106.6	100.1	99.6	105.4
Surkhandarya province	130.4	114.0	121.4	113.7	113.3	106.3	111.0
Sirdarya province	100.4	102.1	105.8	102.1	95.4	85.1	85.3
Tashkent province	121.5	110.2	123.3	115.9	101.1	99.2	111.0
Fergana province	115.1	112.1	103.2	103.5	106.2	97.7	97.3
Khorezm province	122.7	115.5	111.8	107.9	101.1	97.9	96.6
Tashkent City	109.7	107.6	100.2	104.7	90.1	88.7	93.4
Republic of Uzbekistan	114.0	110.5	107.6	109.6	101.1	99.8	100.3

Continuation of Annex 6.1

Paid services

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	97.0	110.4	114.2	105.1	112.4	117.0	114.4
Andijan province	124.3	128.2	138.9	113.3	109.3	107.6	109.1
Bukhara province	123.4	116.1	112.6	108.4	117.0	118.1	119.9
Jizzakh province	133.5	121.5	110.4	116.2	114.2	108.8	110.1
Kashkadarya province	111.2	120.4	137.2	114.6	121.9	108.1	109.0
Navoi province	140.8	103.0	116.8	118.7	108.9	112.4	116.9
Namangan province	110.2	110.8	137.0	115.5	110.8	115.4	117.2
Samarkand province	104.1	110.9	118.1	121.8	104.0	118.1	117.5
Surkhandarya province	171.1	129.6	109.6	114.2	114.3	114.7	116.9
Sirdarya province	108.3	108.5	104.8	125.8	109.6	103.5	100.5
Tashkent province	103.6	112.8	111.5	100.2	109.2	105.7	106.8
Fergana province	115.8	121.4	115.5	113.5	110.5	107.2	112.0
Khorezm province	115.1	121.7	107.9	106.4	102.0	100.7	108.7
Tashkent City	108.1	110.2	113.5	117.4	112.8	103.2	104.1
Republic of Uzbekistan	109.5	112.6	115.7	114.7	108.6	102.0	104.4

Annex 6.2. Differentiation level of socio-economic development of the regions (on per capita basis)**Gross Regional Product**

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	0.531	0.617	0.456	0.413	0.392	0.360	0.397
Andijan province	0.797	0.852	0.911	0.935	0.834	0.618	0.717
Bukhara province	0.956	1.180	1.109	1.155	1.101	1.047	1.091
Jizzakh province	0.613	0.686	0.742	0.669	0.666	0.561	0.632
Kashkadarya province	0.797	0.749	0.722	0.724	0.780	0.635	0.688
Navoi province	1.086	1.208	1.039	1.267	1.490	1.687	1.766
Namangan province	0.548	0.599	0.667	0.637	0.599	0.486	0.505
Samarkand province	0.678	0.753	0.709	0.679	0.693	0.525	0.564
Surkhandarya province	0.662	0.674	0.716	0.727	0.760	0.520	0.616
Sirdarya province	0.800	0.950	0.807	0.822	0.776	0.567	0.604
Tashkent province	0.926	0.969	1.040	1.017	1.032	0.990	0.951
Fergana province	0.863	0.950	0.941	0.866	0.843	0.773	0.793
Khorezm province	0.87	0.960	0.832	0.717	0.720	0.682	0.653
Tashkent City	1.580	1.702	1.563	1.665	1.671	2.164	2.021
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of deviation (times)	3.0	2.8	3.4	4.1	4.3	6	5.1

Source: Calculations of the author

Continuation of Annex 6.2

Industrial production

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	0.372	0.339	0.279	0.247	0.201	0.184	0.159
Andijan province	1.105	1.108	0.909	1.071	0.979	0.912	0.953
Bukhara province	1.035	1.026	1.100	1.096	1.133	1.173	1.086
Jizzakh province	0.287	0.239	0.278	0.36	0.380	0.436	0.398
Kashkadarya province	0.925	0.838	0.931	0.953	0.917	0.912	0.893
Navoi province	2.85	2.964	3.144	3.318	4.046	3.737	4.463
Namangan province	0.39	0.422	0.466	0.45	0.396	0.382	0.353
Samarkand province	0.392	0.604	0.515	0.459	0.398	0.352	0.341
Surkhandarya province	0.355	0.367	0.323	0.302	0.283	0.304	0.295
Sirdarya province	0.442	0.511	0.460	0.541	0.427	0.560	0.418
Tashkent province	1.222	1.200	1.368	1.487	1.569	1.502	1.530
Fergana province	1.197	1.063	1.169	1.024	1.072	1.038	0.970
Khorezm province	0.69	0.608	0.507	0.467	0.414	0.454	0.351
Tashkent City	1.749	1.629	1.700	1.744	1.729	1.874	1.918
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of deviation (times)	9.9	12.4	11.3	13.4	20.1	20.3	28.1

Continuation of Annex 6.2

Consumer Goods Production (CGP)

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	0.515	0.531	0.425	0.400	0.341	0.340	0.329
Andijan province	1.916	1.628	1.354	1.616	1.677	1.754	1.918
Bukhara province	1.209	1.253	1.501	1.589	1.550	1.614	1.587
Jizzakh province	0.203	0.245	0.266	0.385	0.573	0.547	0.624
Kashkadarya province	0.628	0.565	0.616	0.656	0.560	0.575	0.548
Navoi province	0.665	0.728	0.616	0.619	0.640	0.653	0.666
Namangan province	0.551	0.617	0.665	0.579	0.571	0.553	0.558
Samarkand province	0.844	1.342	1.226	1.072	1.016	0.927	0.881
Surkhandarya province	0.401	0.461	0.433	0.377	0.364	0.296	0.324
Sirdarya province	0.539	0.762	0.700	0.700	0.659	0.832	0.684
Tashkent province	1.012	0.959	1.071	1.164	1.184	1.195	1.239
Fergana province	1.012	1.007	1.076	1.009	0.934	0.871	0.845
Khorezm province	1.048	0.922	0.787	0.543	0.551	0.737	0.613
Tashkent City	2.168	1.922	2.093	2.004	2.360	2.262	2.310
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of deviation (times)	10.7	7.8	8.2	5.3	6.9	6.6	7.1

Continuation of Annex 6.2

Agricultural production

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	0.557	0.530	0.425	0.354	0.360	0.345	0.470
Andijan province	1.035	1.157	0.169	1.119	1.150	0.818	1.114
Bukhara province	1.146	1.379	1.34	1.375	1.321	1.345	1.534
Jizzakh province	0.084	1.254	1.331	1.211	1.329	1.254	1.366
Kashkadarya province	0.876	0.921	0.831	0.851	0.980	0.703	1.029
Navoi province	1.128	1.099	1.238	1.144	1.149	1.400	1.295
Namangan province	0.783	0.840	1.019	0.996	1.042	0.794	0.756
Samarkand province	0.995	1.064	1.037	1.081	1.110	1.315	1.125
Surkhandarya province	1.243	1.105	1.187	1.353	1.311	1.157	1.375
Sirdarya province	1.190	1.426	1.397	1.501	1.373	1.303	1.340
Tashkent province	1.265	1.218	1.511	1.539	1.268	1.666	1.133
Fergana province	0.800	0.947	0.977	1.024	0.995	0.939	0.948
Khorezm province	1.376	1.603	1.144	1.025	1.072	1.636	1.217
Tashkent City							
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of deviation (times)	2.5	3	3.6	4.2	3.8	4.8	3.3

Continuation of Annex 6.2

Investments

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	1.065	1.028	0.819	0.648	0.832	0.803	0.879
Andijan province	0.753	0.604	0.552	0.505	0.439	0.384	0.456
Bukhara province	0.869	0.792	0.705	0.627	1.063	0.473	0.588
Jizzakh province	0.457	0.526	0.577	1.112	1.155	0.428	0.491
Kashkadarya province	1.045	1.299	1.897	1.931	1.608	2.482	1.962
Navoi province	1.267	0.695	2.014	2.535	2.125	2.598	1.780
Namangan province	0.732	0.526	0.701	0.501	0.476	0.437	0.436
Samarkand province	0.690	0.550	0.523	0.453	0.404	0.518	0.612
Surkhandarya province	0.451	0.468	0.470	0.509	0.451	0.375	0.447
Sirdarya province	0.823	0.884	0.772	0.754	0.713	1.152	0.821
Tashkent province	0.902	0.618	0.747	0.762	0.899	0.803	0.862
Fergana province	0.830	0.676	0.587	0.796	0.931	0.893	0.807
Khorezm province	0.856	0.648	0.630	0.695	0.855	0.562	0.560
Tashkent City	2.784	2.715	2.730	2.272	2.131	2.089	2.498
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of deviation (times)	6.1	5.8	5.8	5.6	5.3	6.7	5.7

Continuation of Annex 6.2

Retail turnover

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	0.456	0.514	0.470	0.485	0.491	0.471	0.475
Andijan province	1.180	1.146	1.272	1.314	1.356	1.389	1.435
Bukhara province	0.718	0.765	0.756	0.841	0.902	0.934	1.008
Jizzakh province	0.449	0.407	0.420	0.530	0.630	0.600	0.584
Kashkadarya province	0.728	0.655	0.662	0.697	0.715	0.728	0.743
Navoi province	0.813	0.803	0.728	0.770	0.808	0.810	0.835
Namangan province	0.735	0.672	0.691	0.747	0.805	0.808	0.777
Samarkand province	0.820	0.841	0.791	0.709	0.707	0.734	0.722
Surkhandarya province	0.466	0.538	0.588	0.594	0.665	0.729	0.736
Sirdarya province	0.786	0.727	0.691	0.665	0.639	0.581	0.575
Tashkent province	0.881	0.902	1.033	1.041	1.038	1.042	1.089
Fergana province	1.204	1.293	1.219	1.145	1.232	1.172	1.141
Khorezm province	0.670	0.697	0.662	0.685	0.668	0.626	0.616
Tashkent City	2.996	2.910	2.854	2.789	2.452	2.431	2.557
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of deviation (times)	6.7	7.1	6.8	5.7	5.0	5.2	5.4

Continuation of Annex 6.2

Paid services

Regions	1998	1999	2000	2001	2002	03/I	03/I-II
Republic of Karakalpakstan	0.437	0.474	0.410	0.340	0.358	0.310	0.372
Andijan province	0.729	0.820	0.870	0.856	0.771	0.554	0.677
Bukhara province	0.937	0.948	0.927	0.856	0.878	0.865	0.866
Jizzakh province	0.500	0.500	0.455	0.441	0.448	0.486	0.476
Kashkadarya province	0.500	0.525	0.463	0.420	0.423	0.432	0.427
Navoi province	0.917	0.837	0.707	0.718	0.663	0.770	0.786
Namangan province	0.542	0.474	0.500	0.479	0.448	0.513	0.506
Samarkand province	0.729	0.666	0.626	0.612	0.606	0.591	0.579
Surkhandarya province	0.458	0.487	0.480	0.441	0.444	0.486	0.469
Sirdarya province	0.437	0.397	0.366	0.361	0.366	0.405	0.396
Tashkent province	0.812	0.782	0.732	0.670	0.616	0.608	0.658
Fergana province	0.604	0.602	0.610	0.553	0.556	0.554	0.549
Khorezm province	0.792	0.833	0.707	0.596	0.581	0.621	0.597
Tashkent City	2.875	3.320	3.455	3.761	4.090	4.473	4.354
Republic of Uzbekistan	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Range of deviation (times)	6.6	8.4	8.4	11.1	11.4	14.4	11.7

ANALYTICAL REVIEW

1. WTO Accession

Dr. George Myrogiannis, Key Expert: SIPCA Project

Introduction

The economic case for an open trading system based upon multilaterally agreed rules is simple enough and rests largely on commercial common sense.

All countries, including the poorest, have assets – human, industrial, natural, financial - which they can employ to produce goods and services for their domestic markets or to compete overseas. “Comparative advantage” means that countries prosper by taking advantage of their assets in order to concentrate on what they can produce best. This happens naturally for firms in the domestic market, but that is only half of the story. The other half involves the world market. Most firms recognize that the bigger the market the greater the potential – in terms of achieving efficient scales of operation and having access to large numbers of customers. In other words, liberal trade policies which allow the unrestricted flow of goods, services and productive inputs multiply the rewards that come with producing the best products, with the best design, and the best price.

But trading success is not a static thing. Competitiveness in particular products can move from company to company when the market changes or new technologies make cheaper and better products possible. History and experience show that whole countries, which have enjoyed an advantage, say, in the cost of labour or natural resources, can also become uncompetitive in some goods or services as their economies develop. However, with the stimulus of an open economy, they move on to become competitive elsewhere. This is, in general, a gradual process. For as much as the trading system is allowed to operate without the constraints of protectionism, firms are encouraged to adapt in an orderly and relatively painless way to focus on new products, finding either a new “niche” in their current area or expanding into new product areas.

The alternative of import protection and perpetual government subsidies may lead to bloated, inefficient companies supplying consumers with outdated, unattractive products. Ultimately, factories close and jobs are lost despite protection and subsidies. When governments pursue such policies overseas, markets contract and world economic activity is reduced. One of the objectives of the WTO is to prevent such a self-defeating and destructive drift into protectionism. WTO is the only international body dealing with the rules of trade between nations. At its head are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground-rules for international commerce. They are essential contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business.¹

1.1. The World Trade Organisation (WTO)

The World Trade Organisation (WTO) is the legal and institutional foundation of the multilateral trading system. It provides the principal contractual obligations determining how governments frame and implement domestic trade legislation and regulations. And it is the platform on which trade relations among countries evolve through collective debate, negotiation and adjudication.²

The WTO was established on January 1995. Governments had concluded the Uruguay Round negotiations on 15 December 1993 and Ministers had given their political backing to the results by signing the Final Act at a meeting in Marrakech, Morocco, in April 1994. The Marrakech Declaration” of 15 April 1994, affirmed that the results of the Uruguay Round would “strengthen the world economy and lead to more trade, investment, employment and income growth through the world”. The WTO is the embodiment of the Uruguay Round results and the successor of the General Agreement on Tariffs and Trade (GATT).

With the entry into force of Marrakech Declaration, the WTO was established as a new international organization. It facilitates the administration of the Agreements in Goods (GATT 1994 and related Agreements), trade in Services (GATS) and Trade Related Intellectual Property Rights (TRIPs) that are

¹ “Trading into the Future. The World Trade Organisation”. WTO Secretariat, 1999.

² “Trading into the Future. The Foundations of the World Trade Organisation”. WTO Secretariat, 1995

annexed to the WTO Agreement. Moreover it administers the Dispute Settlement Understanding and the Trade Policy Review Mechanism, which are also annexed to the Agreement.¹

The Final Act embodying the Results of the Uruguay Round of Multilateral Trade Negotiations (Final Act) includes the Agreement Establishing the World Trade Organization (WTO). Attached to the WTO Agreement are four Annexes incorporating both the amended text of the original General Agreement on Tariffs and Trade adopted in 1947 (GATT 1947) and new Agreements, including those on Services and Intellectual Property Rights.²

- Annex 1 is organized as follows :
 - ⇒ Annex 1A. The Multilateral Agreements on Trade in Goods.
 - ⇒ Annex 1B. The General Agreement on Trade in Services (GATS).
 - ⇒ Annex 1C. The Agreement on Trade - Related Aspects of Intellectual Property Rights (TRIPs).
- Annex 2 contains the Understanding on Rules and Procedures Governing the Settlement of Disputes.
- Annex 3 contains the Trade Policy Review Mechanism.
- Annex 4 contains the Plurilateral Trade Agreements, which are not signed by all WTO members and "... do not create obligations or rights for members that have not accepted them."³ These four agreements are:
 - ⇒ Agreement on Trade in Civil Aircraft.
 - ⇒ Agreement on Government Procurement.
 - ⇒ International Dairy Agreement and
 - ⇒ Arrangement Regarding Bovine Meat.

The agreements listed in the first three Annexes are binding on all members (Multilateral Trade Agreements), while the agreements in the fourth Annex are only binding on the members that have accepted them (Plurilateral Trade Agreements)

Former GATT provisions are included in the WTO's Agreements on Trade in Goods (Annex 1 A). More specifically, Annex 1 A. contains the provisions of GATT 1994 (that means GATT 1947 provisions, as amended before the Uruguay Round) plus specified protocols, decisions, and understandings. Apart from GATT 1994, the following Agreements on Trade in Goods are included in Annex 1A of the WTO Agreement:

- Agreement on Technical Barriers to Trade.
- Agreement on Customs Valuation (Implementation of Article VII of the GATT 1994).
- Agreement on Rules of Origin.
- Agreement on Import Licensing Procedures.
- Agreement on Pre-shipment Inspection.
- Agreement on Safeguards
- Agreement on the Application of Sanitary and Phyto-sanitary measures.
- Agreement on Subsidies and Countervailing Measures.
- Agreement on Anti-Dumping and Countervailing Duties. (Implementation of Article VI of the GATT 1994).
- Agreement on Trade-Related Investment Measures (TRIM's).
- Agreement on Textiles and Clothing.
- Agreement on Agriculture

Not only does the WTO have a potentially larger membership than GATT (this grew from 128 by the end of 1994 to 154 in 2003), it also has a much broader scope in terms of the commercial activity and trade policies to which it applies. The GATT applied only to trade in goods; the WTO covers trade in goods, services and trade in intellectual property rights.

The WTO Secretariat is based in Geneva, Switzerland, and its essential functions are:

¹ Myrogiannis G. "5 Years After Punta del Este. New Negotiations Within Uruguay Round". "North-South Cooperation", sp. is., Athens, Jul. 1992.

² "The WTO. A Manual for Newcomers". Eptalofos ed., 2000, Athens-Greece (Engl., Book).

³ Final Act, paragraph 4.

- Administering and implementing the multilateral and plurilateral trade agreements, which together make up the WTO.
- Acting as a forum for multilateral trade negotiations
- Seeking to resolve trade disputes.
- Overseeing national trade policies and cooperating with other international institutions involved in global economic policy-making.¹

1.2. Principles of the trading system ruling by WTO

The WTO Agreements are lengthy and rather complex, because they are legal texts covering a wide range of activities. However, a number of simple, fundamental principles run throughout all of these documents. These principles are the foundation of the multilateral trading system.

1. Most-favoured-nation clause (MFN): According to MFN clause, each member treats all the other members equally as “most-favoured” trading partners. If a country improves the benefits that it gives to one trading partner, it has to give the same treatments to all the other WTO members so that they all remain “most-favoured”. Some exceptions are allowed. For example, countries within a region can set up a free trade agreement that does not apply to goods from outside the group. Or a country can raise barriers against products from specific countries that are considered to be traded unfairly. And in services, countries are allowed, in limited circumstances, to discriminate. But the agreements only permit these exceptions under strict conditions. In general the MFN clause dominates WTO rules and disciplines.

2. Trade Without Discrimination: A country should not discriminate between its trading partners and it should not discriminate between its own and foreign products, services or nationals.

3. Elimination of Trade Barriers: Progressive reduction of the existing trade barriers through negotiations.

4. Predictable Trade Environment: Foreign companies investors and governments should be confident that trade barriers (including tariffs, non-tariff barriers and other measures), should not be raised arbitrarily; more and more tariff rates and market-opening commitments are “bound” on WTO.

5. Increased Competitiveness: WTO rules discourage “unfair” practices such as export subsidies and dumping.

6. Favourable Provisions for Less Developed Countries (LDCs): By giving them more time to adjust, greater flexibility, and special treatment.

1.3. WTO and Multilateral Trading System

The multilateral trading system is an attempt by governments to provide investors, employers, employees and consumers with a business environment, which encourages trade investment and job creation as well as choice and low prices in the market place. Such an environment needs to be stable and predictable, particularly if business is to invest and thrive.

The existence of secure and predictable market access is largely determined by the use of tariffs, or customs duties. While quotas are generally outlawed, tariffs are legal in the WTO and are commonly used by governments to protect domestic industries and to raise revenues. However, they are subject to disciplines – for instance, that they are not discriminatory among imports – and are largely “bound”. Binding means that a tariff level for a particular product becomes a commitment by WTO member and cannot be increased without compensation negotiations with its main trading partners.² Thus it can be the case that the extension of a customs union can lead to higher tariffs in some areas for which compensation negotiations are necessary.

¹ Myrogiannis G.: “GATT. The Uruguay Round: The Negotiating Role of the E.U and Greece”. Sideris Publications, Athens, 1994.

² Article XXIII of GATT 1994

While tariffs at the border do not exist for trade in services there is a need for predictable conditions. To meet that need, governments undertook an initial set of commitments covering national regulation affecting various service activities. These commitments, like those for tariffs, are contained in binding national schedules and will be extended through further rounds of services negotiation in the future.

The WTO Agreement on Agriculture is designed to provide increased fairness in farm trade. The Agreement on Trade Related Intellectual Property Rights (TRIPS) provides improvements on the conditions of fair competition where ideas and inventions are involved.

Finally there are many other WTO agreements seeking to insure that the conditions of investment and trade are more predictable and transparent in order to make very difficult for member governments to change the rules of trade for their own benefit. The key to predictable trading conditions is often the transparency of domestic legislation, regulations and practices. Many of WTO agreements contain transparency provisions which require disclosure at the national level – for instance through publication in official journals or through enquiry points or, at the multilateral level through the formal notifications to the WTO relevant bodies. The regular surveillance of national trade policies through the Trade Policy Review Mechanism provides a further means of encouraging transparency both domestically and at the multilateral level.

1.4. WTO membership procedures

Membership in the WTO allows countries to design their development strategies and trade policies in a more predictable and stable trading environment. Accession to the WTO must be seen not as an end in itself but as a key element in the pursuit of national development policy objectives; these objectives should be clearly defined before a country begins the accession process, so that the terms of accession, notably the specific concessions and commitments relating to foreign access to markets for goods and services, as well as other commitments under the WTO Agreements (agricultural and industrial subsidies, trade-related investment policies and intellectual property rights, etc.) fall within the parameters of these policies. Accession, if it is to be achieved on balanced terms, should be recognized as a difficult and complicated process, which may be lengthy, requiring high-level preparations and coordination among government agencies and a broad political consensus in order to effectively pursue and defend national interests. It will also require tough negotiations with major WTO members. Such negotiations involve strategic and long-term issues, which could affect the trade and development policies of countries concerned for years to come.

1.5. Doha Development Agenda

Today, trade policy is at the forefront of the development agenda and it is critical element of any strategy to fight poverty. This renewed interest in trade liberalization does not come from dogma but instead is based on a careful assessment of development experience over the last 50 years.

Developing countries that increased their integration into the world economy over the past two decades achieved higher growth in incomes, longer life expectancy, and better schooling. These countries, home to some 3 billion people, enjoyed an average of 5% growth rate in income per capita in 1990s compared to 2% in rich countries. A common thread exists among these developing countries that have been successful at generating greater growth and at lifting people out of poverty. They opened up their economies as part of broader development strategy that builds on two pillars: improving the investment climate for the private sector to generate jobs and empowering poor people, so they can participate in growth.

This approach to development, with trade liberalization as one mechanism of improving the investment climate for private entrepreneurs, has gained wide support among developing and industrial countries. All WTO member countries, including those in the developing world, have reduced their trade tariffs since the Uruguay Round. In its Everything-but-Arms Agreement, the European Union has unilaterally lowered its trade barriers to the least developed countries. The United States adopted the African Growth and Opportunities Act. And in November 2001, in Doha, Qatar, the members of the WTO launched a “Doha Development Agenda”. In doing so, they acknowledged that to make progress in the fight against poverty, rich country’s markets should be more open to the goods of poor countries, and that developing countries should open their markets as well as address a range of institutional issues.

The advance at Doha presents a unique opportunity for development, but it will require substantive participation from all countries to succeed. In particular, each participating developing country will need a thorough understanding of how trade liberalization can contribute to its national objectives of economic growth and poverty reduction. Such strategic understanding will have to be supported by both the trade negotiations and by civil society; at times, the medium-term goal of poverty reduction requires governments to challenge the interests of some particular industries for short-term protection.

In addition, many countries will have to break new ground. Today's trade issues go beyond the traditional mechanisms of tariffs and quotas and include "behind-the-border" issues, such as the role of infrastructure and governance in supporting a well-functioning trading economy. Many poor countries have yet to create intellectual property regimes that make traditional knowledge of cultural products into negotiable and defensible assets; to identify options to upgrade and enforce national product, health, and safety standards; or to strengthen institutions for prudential and pro-competitive regulation of services. Developing countries will have to acquire quickly the needed expertise on these complex issues, so they can negotiate more effectively and ensure that agreements serve their objective of poverty reduction.¹

1.6. Acceding countries in the "Doha Development Agenda"

Paragraph 48 of the Doha Ministerial Declaration (DMD) provides that new negotiations "shall be open to: (i) all Members of the WTO; and (ii) States and separate customs territories currently in the process of accession and those that inform Members, at a regular meeting of the General Council, of their intention to negotiate the terms of their membership and for whom an accession working party is established". The only difference in the terms of participation of members and non-members is that the "decisions on the outcomes of the negotiations shall be taken only by WTO Members".

This modality of participation of acceding countries in the multilateral trade negotiations is almost identical to the similar provision of the Punta del Este Ministerial Declaration that launched the Uruguay Round in 1986. There is also no formal record that any need of further clarification of this provision arose during the Uruguay Round.

1.7. Action at the national level

In order to achieve balanced terms of accession consistent with its trade, financial and development needs and to benefit to the fullest extent from the special provisions mentioned above, acceding countries should elaborate their major negotiating objectives on the basis of a detailed analysis of their basic economic strategies and policies and their conformity with the WTO obligations. This is an important prerequisite for the start of accession. It should also include consideration of the role of foreign trade and major trading partners in the economy and their prospective contribution to development; identification of the internationally competitive sectors of the economy that could increase the country's export potential; and attention to the need to protect socially important sectors and "infant" industries of the acceding country. Political consensus should be built within an acceding country on all issues requiring substantive adaptation of policies and legislation to conform to the WTO requirements.

An acceding country should make full use of its observer status in the WTO in order to better prepare for its accession negotiations. In particular, attending the meetings of Working Parties of other acceding countries will offer first-hand experience of the complexities of such negotiations. The country should also attach priority attention to informal methods of work with the relevant WTO members, which is a customary practice of the WTO.

The accession negotiations require the establishment of structures responsible for their progress. Major efforts should be undertaken to establish an effective governmental machinery to support the accession negotiations, one having an adequate authority to coordinate this process among various governmental agencies, as well as with the legislature and trading enterprises. It is also important to be able to meet purely technical and logistical problems such as the need to process a substantial amount of documentation, including translating relevant legislation into the official WTO languages.

The multiplicity of institutions involved in trade policy makes coordination an important issue. Coordination is necessary not only among governmental agencies but also between them and private-sector stakeholders. In response to this need, virtually all acceding countries have established some form of coordination mechanism for dealing with WTO matters.

¹ "Development, Trade, and the WTO": The World Bank, June, 2002

The active involvement of the private sector in accession matters can be crucial for a number of reasons. The articulation of negotiating interests can benefit from significant private sector inputs, particularly in identification of the sensitive sectors of the economy. Furthermore, efforts to assert WTO rights and comply with obligations hinge on the activities of the private sector. However; the capacity of the private sector in many acceding countries to provide this support remains low.

In adopting the necessary laws, parliaments play a very important role in the process of negotiation. Collaboration with the national parliaments gives legitimacy to the actions of governments aimed at achieving membership in the WTO and underscores the internal transparency of the negotiation process.

Accession negotiations and eventual WTO membership will require considerable strengthening of the national institutional infrastructure in the acceding countries. Many acceding countries have found only after applying for accession that they were poorly equipped in terms of human and financial resources to meet this challenge. A major effort is required on their part with respect to institution-building, upgrading of human resources and improved forms of coordination and management. Acceding countries also need comprehensive and impartial support of the International community in this endeavour. And of course EU, together with other donors, is willing and ready to contribute to the Uzbekistan's efforts for the successful fulfilment of this task, by the provision of policy advice, technical expertise, training and other relevant activities, through CIPCA 2 projects as well as through other relevant projects.

2. Results of 2002: Macroeconomic Aspects of Development

S.V. Chepel, CEEP

2.1. Economic trends and prospects

Economic development in 2002 was characterized by almost the same trends as in the previous two to three years. The GDP growth rate was 4.2% (as in 2001) against the forecasted 5.1%. Such a result was a consequence of lower gross agricultural output rates (4.7%), compared to those forecasted (5.6%), retail trade turnover (1.5% and 7.5% respectively), as well as foreign trade turnover (-5% and 2.5%). Industrial output remained approximately at the previous year's level (7.2% in 2002 and 8.1% in 2001), as did agriculture (4.7 and 4.5% respectively), construction (3.1 and 3.3% respectively) and fee-based services (11.1 and 14.4%). Capital investments increased slightly (4.7% vs. 3.7%).

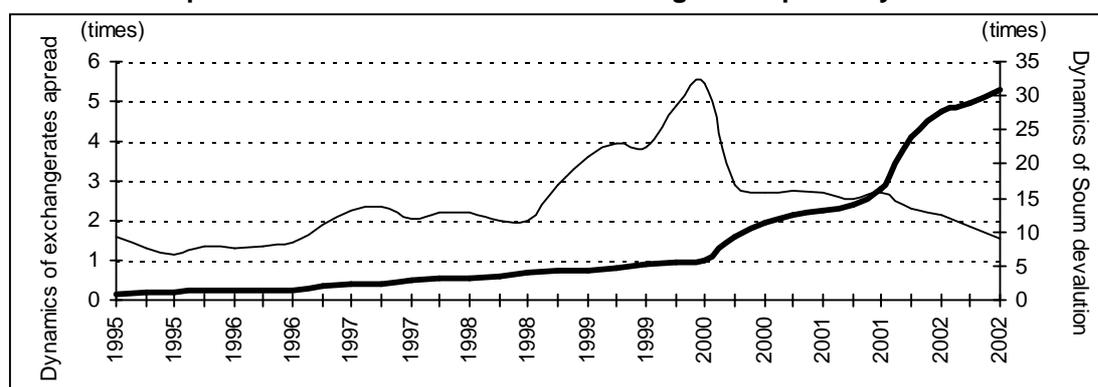
However, all those consolidated indicators fail to disclose all trends and specific features of the functioning of the economy in 2002. Although weather conditions in 2002 were more favorable than in the two preceding drought-affected years, the long-term trend of declining production of one of the major export crops -- cotton -- persisted. About 3200 thous. tons of cotton were harvested vs. 3275 thous. tons in 2001. For other agricultural products output remained at the 2001 level or slightly higher. The exception is grain, whose output increased 1.4 times.

In 2002, it was not possible to overcome the negative trend of a decline in the output of high technology products. For a number of the most important types of such products (TV sets, refrigerators, tractors, etc) the output for the period from 1997-2002 fell by 50 % and more, including a 46% decrease in automobiles. The share of machine building (including metalworking) in industrial output has also substantially declined, amounting to 10.5% in 2001 and 10.0% in 2002. Uzbekistan has significantly lost its major competitive advantages compared with the beginning of the transition period when it was the only country in Central Asia possessing relatively developed machine building.

As in previous years, in 2002 a relative degree of tightness in monetary policy persisted, and in some directions even increased. The monetization ratio varied slightly in the reported period within 12-13 % as opposed to 14% in 2001. Fiscal policy was also focused on strengthening macroeconomic stability. The budget deficit for the last three years did not exceed 1%. As a result, starting from 2000 a trend of lower growth in consumer prices from 29% to 21.6% was observed. Meanwhile, the attained level of macroeconomic stability is still far from the expected results. National currency devaluation rates remain high, reaching 132% in 2000 (according to the official rate), 115% in 2001 and about 40% in 2002.

Efforts undertaken by the Uzbek government in recent years for forex market liberalization have allowed a substantial narrowing of the difference between official and black market exchange rates, which in 1999-2000 reached 5 times and above (see Graph 1.1.).

Graph 1.1. Soum devaluation and exchange rate spread dynamics



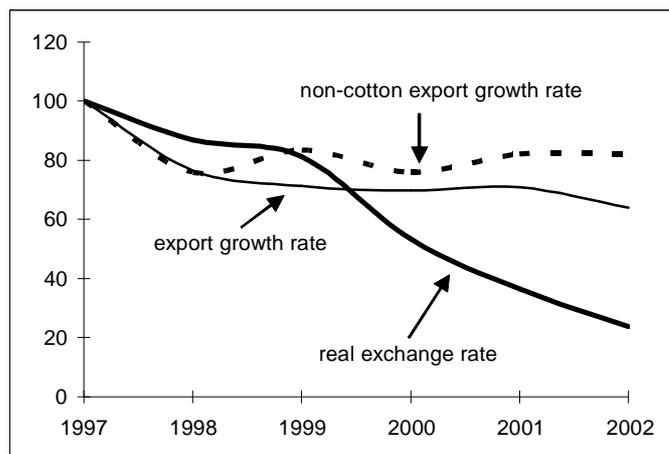
Source: Economic Trends of Uzbekistan

An analysis of the trends of exchange rate and price dynamics for the past years indicates that UZS devaluation ensured favorable conditions for exporters, which is testified to by the decrease in the real UZS exchange rate (see Graph 2.2.). However, despite this, in the reported period the unfavorable trend of declining exports persisted. This was typical not only for cotton exports, which suffered from a noticeable decline in the world prices for cotton, but also for non-cotton exports. This is explained by, first

of all, the low diversification of non-cotton exports, the prevalence within these of centralized export supplies, the insufficient interest of producers of such products and the poor development of marketing services.

The narrowness of the domestic market for modern high-tech consumer products, caused by the low level of the population's income, hinders production growth of modern competitive consumer products. Reflecting the lack of development of the private sector, such income levels limit total demand and the growth of private savings and, hence, the growth of the economy in general.

Graph 2.2. Real exchange rate and export dynamics for 1998-2002 (1997 = 100%)



Note: the CPI, the level of world inflation (3-4 % a year) and rates of UZS devaluation were used for computing the real exchange rate
Source: Economic Trends of Uzbekistan.

An additional negative impact may emerge owing to measures for further currency market, banking and foreign trade liberalization, envisaged for 2003 in line with agreements signed with the IMF¹. The achievement of a positive trade balance is ensured by a number of measures, including some import restrictions as well. Imports play a particular role for Uzbekistan in saturating the non-food portion of the consumer market, and also in developing the real sector of the economy, whose functioning is dependent upon the import of components, materials and technologies. Further squeezing this segment may turn certain sectors of the economy towards a decline in production.

Economic growth prospects are determined also by those factors on which previous economic growth was built. An analysis of the sectoral structure of GDP growth for

1997-2002 indicates that it was achieved mainly due to the growth of services (trade, public catering and other services) and net taxes, whose share made up 50 to 60% of total GDP growth.

In addition, the risks for economic growth in the short and medium term increase proportionally to the growth of the external debt of Uzbekistan, as well as due to the vulnerability of its economy towards external shocks and price changes in the world markets of raw materials and capital. Under these circumstances, taking into account the limited possibility for internal savings and investments (see Graph 2.3.) it is necessary to accelerate the rate of reforms and increase their effectiveness to achieve GDP growth rates of 4-5% for 2003-2004.

2.2. Structural reforms and their impact on the macroeconomic environment

In 2002 Uzbekistan resumed active cooperation with the IMF and other international financial organizations. The Government of the country undertook a number of measures for banking, foreign trade and currency market liberalization. Specifically, restrictions for withdrawing cash from banks accounts were alleviated (pursuant to the Resolution No. 280 of 5 August 2002 «On measures for further curtailment of non-banking cash circulation»). More attractive terms were established for the population on bank deposits, the amount of which increased in 2002 by an amount equal to 1% of the GDP of that year.

Measures directed towards the realization of the Presidential Decree «On measures for money supply growth limitation and increase of responsibility for financial discipline» (of 30 March 2002) contributed to the persistence of tight monetary policy. The following steps have been undertaken:

- Ø the CBU was audited by the recognized firm "Deloitte & Touche";
- Ø the establishment of the Bureau for Bank Privatization under the Ministry of Finance and the sale of a portion of government shares in statutory capital of the National Bank for Foreign Economic Activity and "Asaka" bank to foreign investors was envisaged;

¹ See Plan of actions on ensuring convertibility of national currency on current international operations of Uzbekistan Government and the IMF of 27 June 2003. (BVV newspaper)

- Ø SMEs were exempted from the mandatory surrender of hard currency proceeds from exports of goods (works and services) produced by them and granted permission to export such goods for foreign currency in cash.

As before, budgetary funds (21% of total investments in 2002 and 23% in 2001), and also foreign investments and credits guaranteed by the government (31% and 25% respectively) continue to prevail in the structure of investments. At the same time, funds of the general population made up only 9-11% over recent years, and direct foreign investments did not exceed 8%. This indicates the lack of development of the stock market and, hence, the non-market nature of investment processes, which is one of the main reasons for the low efficiency of the utilization of investment resources.

In the process of liberalization of the foreign exchange market, the system of licensing and quotas for enterprises and organizations which import consumer goods has been terminated. The number of authorized banks allowed to carry out foreign exchange operations, and also of currency exchange offices, has increased.

The maximum amount of foreign currency sold to individuals – residents of Uzbekistan through exchange offices was increased in 2002 from USD 750 to USD 1500. As a result of these measures, the actual exchange rate spread between the OTC exchange rate and the parallel rate fell sharply.

In the process of taxation system improvement, the policy of tax rate decrease and tax base broadening was continued. Specifically, the corporate profit tax rate was decreased from 26 to 24%, as well as the maximum personal income tax rate from 36 to 33%. However, even considering these actions, the tax burden on goods manufacturers and the population remains high.

Further foreign trade liberalization was facilitated by: the Presidential Decree “On regulating consumer goods import to Uzbekistan” (No. PD-3105) with subsequent amendments; and the Cabinet of Ministers Resolution “On measures for the prevention of illegal import and sale of consumer goods” (No.257, No.327). In addition to regulating consumer imports, the above actions caused an adverse impact in the form of a temporary foreign currency outflow to Kazakhstan and Kyrgyzstan, as a part of the consumers re-oriented themselves towards the consumer market of neighboring countries with lower prices for consumer goods.

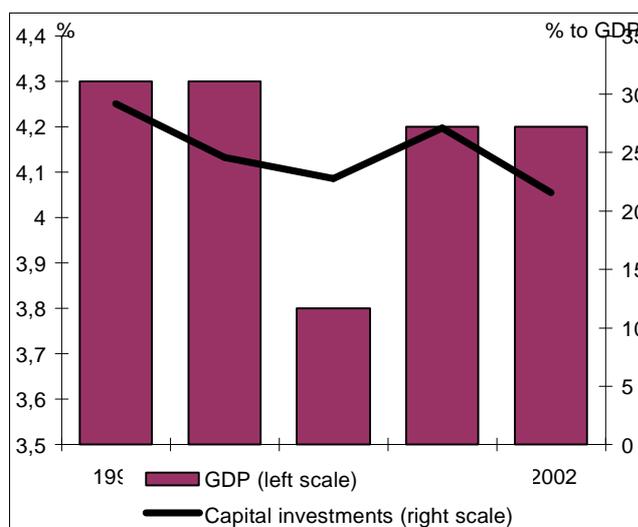
Reforms in the real sector of the economy were connected with the privatization (de-statization) of large and medium-sized enterprises and firms. With this purpose, shares of metallurgical, fuel and energy, chemical, transportation and communication sectors were traded. However, the objectives of such sales were not achieved.

Positive shifts in the agricultural sector were caused by the growth of prices for cotton, procured by the state in line with state orders, the increase of the share of grain remaining at the farmer's disposal, and the simplification of conditions for the establishment and operation of farms, the number of which increased by 35% in 2002, while the area of land used by farmers increased 1.5 times. However, interference of local officials in the routine operations of farmers considerably undermines the effect of agrarian reform. This impedes the accelerated growth of agriculture, which has great potential to become the driving force of the development of the entire economy.

2.3. Economic development and reform progress issues

The results of the economic development of Uzbekistan for the last two to three years allow sufficient grounds for assuming that the development of predominantly import-substituting manufacturing, oriented primarily towards the domestic market has, to a substantial extent, exhausted its potential. This is evidenced by the continuing low level of added value in exports, by the low efficiency of utilizing investments and other resources and by the worsening of the financial state of enterprises in the real

Graph 2.3. Real Growth in GDP and Capital Investments



economy sector. Under such circumstances, the medium and long-term prospects of economic development will be determined to a large extent by the pace of reform progress and economic liberalization.

We believe it would be expedient to focus current macroeconomic policy on the mobilization of available resources towards the development of an export-oriented processing industry with an emphasis on adding high value to domestic agricultural and mineral resources.

The situation in the real economy sector will be mainly determined by the inflow of foreign direct investments and the potential of private savings. This will require restricting the interference of concerns and companies into investment decision-making, eliminating the practice of mandatory-administrative influence on commodity producers and decreasing the role of the government in resource allocation. Success in the privatization of large and medium-sized enterprises will depend on government readiness to increase the attractiveness of their shares, relieve the tax burden, undertake real liberalization in the area of monetary and foreign trade policy, and ensure national currency convertibility.

The further increase of foreign investors' trust in the national economy may be ensured by improving the current regulatory and legal framework of economic activity. Its simplification and adjustment in line with new targets of efficient market development and reform intensification, with a subsequent temporary (two-three years) moratorium on further amendments, would also give new impetus to the development of the private sector of the economy and the growth of employment.

3. Tendencies in Uzbekistan Farm Production

By Sandjar Djalalov, CCEP
Masahiko Gemma, Waseda University

Agriculture plays an important role in the economy of Uzbekistan, employing about 40% of the population and producing one third of GDP. A significant share of agricultural production consists of cotton, making Uzbekistan the fifth largest producer and the third largest exporter of cotton in the world. After achieving independence, government agricultural policy mainly concentrated on two objectives: developing cotton production to support state hard currency earnings through export and achieving self-sufficiency in grain production. In order to fulfill those goals the government has preferred to take a slow "step-by-step" path in reforming agriculture based upon the strong state control of production and marketing of those two "strategic crops".

There are some barriers, however, that restrain production efficiency, lowering the income in the private sector of the economy. The purpose of this paper is to show the impact of new market conditions on agricultural development in Uzbekistan. Unfortunately, statistics and available economic indicators do not sufficiently elaborate current economic reforms and agrarian policy. Microeconomic study of structural changes in agricultural production has been chosen as the methodological approach.

The resulting data are based on field studies of different forms of ownership and organizational units in Uzbekistan agriculture. The survey was conducted in 2002 and covered 1200 farms in two provinces.

3.1. Types of Farming in Agricultural Production

Several Presidential Decrees and Decrees adopted by the Cabinet of Ministers since 1992 have created favorable legislative conditions for different types of farming. From about ten different organizational units and types of ownership, the government has identified the three most appropriate for conditions in Uzbekistan. The main condition limiting land reform and farm reorganization is the prohibition private ownership of land. In addition, it is forbidden to use land as collateral for receiving bank loans or to sell land plots¹. The government as a main reformer assumes that private ownership of land causes fragmentation of the area under cultivation, destroying the irrigation systems, which results in declining cotton and grain production-- an important source of the state budget. In addition, it is presumed that the creation of large land ownership could become a factor of instability and a reason for conflict in society. Therefore three types of farming have been deemed appropriate for reorganizing agriculture in Uzbekistan and are currently operating in the country: Agricultural Cooperatives (*Shirkats*), Dekhkan Farms and Private Farms.

Agricultural Cooperatives (Shirkats) are the legal successors of former *kolkhozes* and *sovkhoses*, dealing mainly with the production of the strategic crops cotton and wheat. This is the biggest production unit: the average size of farms studied in Sirdarya province were 1554 ha and in Bukhara province 896 ha. The agricultural cooperative consists of smaller units called *oilavii pudrat* – family contractors (previously *brigads*). Land is owned by the state and the cooperative receives land for unlimited use for agricultural purposes. There are two types of contract agreements shirkats have with contractors. One is a production contract with a family of contractors for one year. The contract usually includes the production amount of the main crops – cotton and wheat. Shirkats are obliged to guarantee the supply of all necessary material and technical resources. The other is a land rental agreement, which is usually made for a longer term. At the beginning of each year the shirkat administration receives a state order plan from a top-level government organization, which identifies the amount of production and area to be sown. It is prohibited to grow crops different from the state order. The average size of family contractors in Bukhara province was 15.9 ha, while in Sirdarya province it was around 18.2 ha. The labor intensity per unit of arable area also differs by region. In Sirdarya province it is 0.41 worker per ha, while in Bukhara province it is 0.23. The main share of employees in *oilavii pudrat* are family members, with both provinces having about the same share, about 83%.

Private Farms – Fermer Khohajaligi are considered a new market-oriented production unit. Private farms (averaging about 20 hectares nationally) increased in number quickly in the late 1990s (reaching about 63.000 in 2002), accounting for almost 1.2 million hectares in 2002. Private farms received land from the state for a long- term lease of up to 50 years. However, investigations show that in Sirdarya province only 16.9 % of farmers have leased land for 50 years, with 80 % of farmers receiving land for 10 years and only 2.1 % receiving land for 20-30 years. According to the Law on Farms (1992), private farmers are fully independent from local authorities and shirkats in organizing agricultural production. However, studies

¹ Except the case of selling a house with a backyard.

show that private farmers also have to produce state ordered crops, limited not only to cotton and wheat, but also including fruit, vegetables and melons.

Dekhkan Farms – Shirkat employees and private farmers have an additional source of income from personal household plots of less than 0.35 hectare call *tomorka*. Since independence the total area under these smallholdings has increased significantly and has reached 750.000 ha. The *tomorka* are usually located on former shirkat lands and are geared primarily towards agricultural production. According to the law, house construction is prohibited on these lands. Since 2000, the state has encouraged farmers to register their *tomorka* as *dekhkan farms* on the basis of long term (50-year) leasing. The registration helps farmers to receive credit, however at the same time it increases state control on income through taxation; therefore, farmers participate unwillingly in this program. This type of production could be considered as a purely private type because farmers make independent decisions on production and marketing. Limiting factors are the size, location of farm and irrigation.

3.2. Plant Production

Crop pattern and diversity of crops in many cases depend on the level of farming freedom. Therefore the shirkats and private farms have the smallest selection of crops due to the strong state procurement system. In contrast *dekhkan farms* have more diversified production. However, there are also differences on the regional level – the high diversity of crops in Sirdarya province can be explained by the salt tolerance of melons, water melons and some other crops, which are produced in this region (Table 3.1.).

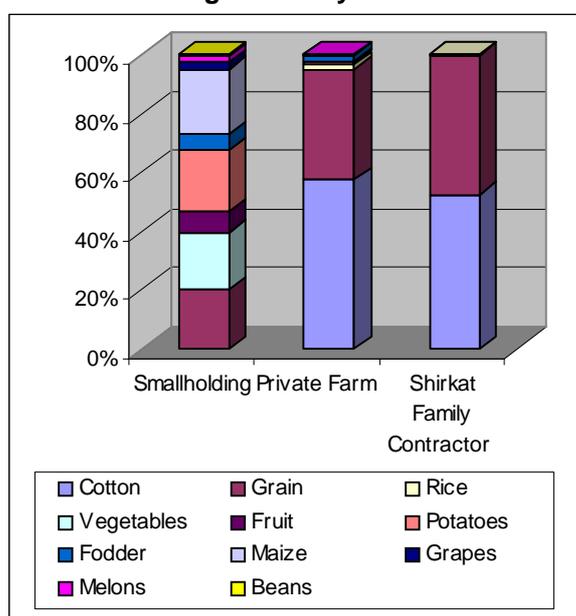
Table 3.1. Crop Diversity in Different Types of Farming (average number of crops)

Provinces	Shirkat Family Contractors	Private Farmers	Dekhkan Farmers
Sirdarya	1.15	1.37	3.24
Bukhara	1.15		1.04

Source: Farm survey 2002.

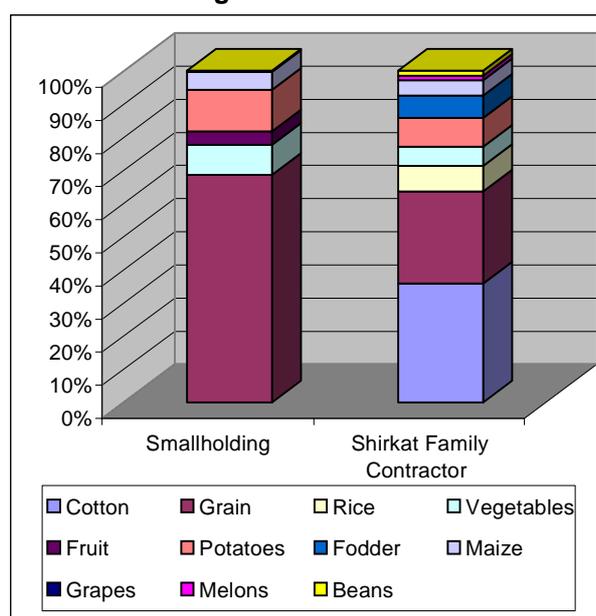
The results from the Farm Survey conducted in Sirdarya and Bukhara provinces in 2002 are presented in Graph 3.1. and Graph 3.2. It is observed that the main share of crops sown by private farmers and shirkat family contractors consists of the strategic crops cotton and grain (mainly wheat). Cotton was not grown in smallholdings but the share of wheat was significant, reaching 68.8% in Bukhara and in Sirdarya three times less. However, in Sirdarya province the share of grain in private farms and shirkat family contractors is much larger than in Bukhara province. Therefore the reason for not growing wheat in smallholdings could be explained by the fact that producers in Sirdarya province usually receive grain as salary due to a lack of cash or delay in payment, which is quite a common situation. In addition, it should be mentioned that shirkat family contractors in Bukhara province were producing much more diversified production than their colleagues in Sirdarya province who were limited mainly to cotton, wheat and rice. In spite of a great demand for animal feed the share of fodder crops was the lowest among other crops in both regions. As a result it has negatively impacted livestock productivity and soil fertility.

Graph 3.1. Crop Patterns in Different Types of Farming in Sirdarya Province



Source: Farm survey 2002.

Graph 3.2. Crop Patterns in Different Types of Farming in Bukhara Province



Source: Farm survey 2002.

Farmers have a limited amount of land, therefore land-use intensity such as second or even third cropping is a very important factor in achieving high efficiency. However, only 3% of smallholdings in Bukhara province used a second crop such as wheat, maize or vegetable production. In contrast, 25% of Sirdarya province smallholders used a second cropping to compensate for the low income received from work for shirkat and state salaries. The largest share in second cropping consisted of wheat – 22.8 % and greens – 21.4 %, the next was fodder –10% and vegetables 5.8 %, and the smallest percentages of field area were devoted to maize for grain – 2.5 % and potatoes - 1.8 %.

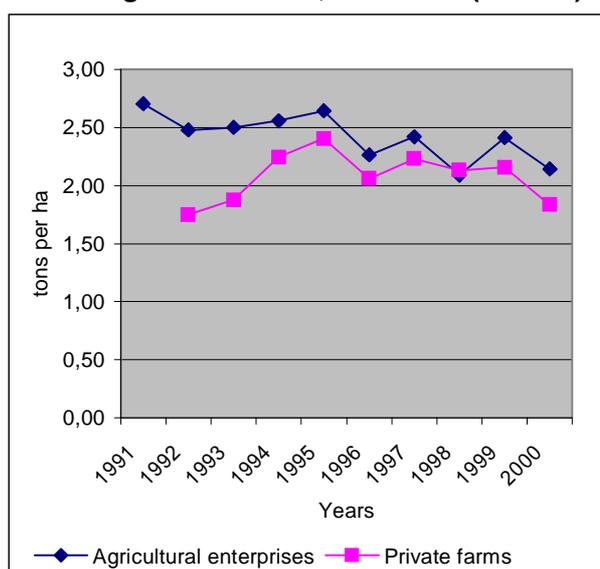
Crop rotation is another factor which has direct impact on soil fertility and yield. Some farms in Uzbekistan have the bad practice of growing the same crop year after year over 20-30 years, which results in the spread of plant diseases and a larger population of pests. Only 16.8 % of respondents from family contractors mentioned that crop rotations took place in agricultural production. According to the recommendations of agricultural research institutions the share of alfalfa should be around 30 % of cotton crop rotation; in fact it occupies less than 7%.

3.3. Productivity

An analysis of statistical data since independence in 1991 indicates a decline in cotton productivity in all types of farms. Graph 3.3. shows some growth in the first half of the 90s and then a significant decline in yields in the second half of the decade in agricultural enterprises and private farms. The gradual fall in yields was caused mainly by soil and water salinization due to incorrect crop rotation and the dismantling of drainage schemes on farm and inter-farm levels.

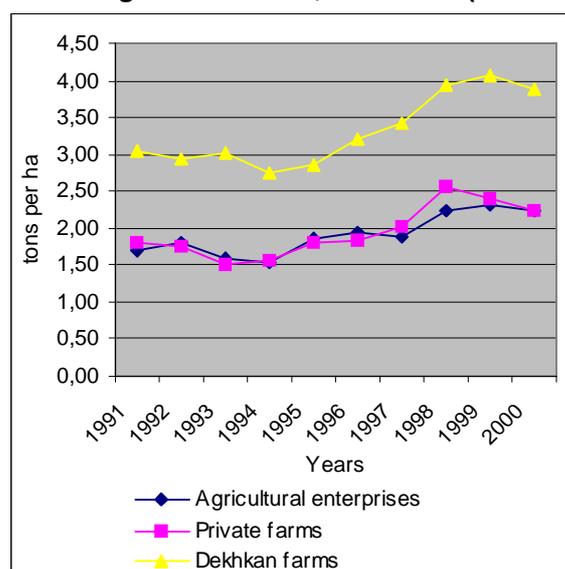
The historical examination of grain yields shows the opposite tendency in comparison with cotton productivity. Significant efforts by the state in achieving self-sufficiency in wheat production encouraged wheat producers to increase productivity (Graph 3.3.). The growth in wheat prices was much higher than for cotton, resulting in a much smaller difference between world prices and farm prices. In Graph 3.4., a large gap of 58% is evident between dekhkan farms and the rest of producers. It should be pointed out that private “market” oriented dekhkan farmers are approaching 4-6 tons/ha a biological optimum of wheat production for arid climatic conditions. Another factor which increases grain productivity is irrigation.

Graph 3.3. Cotton Yields in Different Types of Farming in Uzbekistan, 1991-2000 (tons/ha)



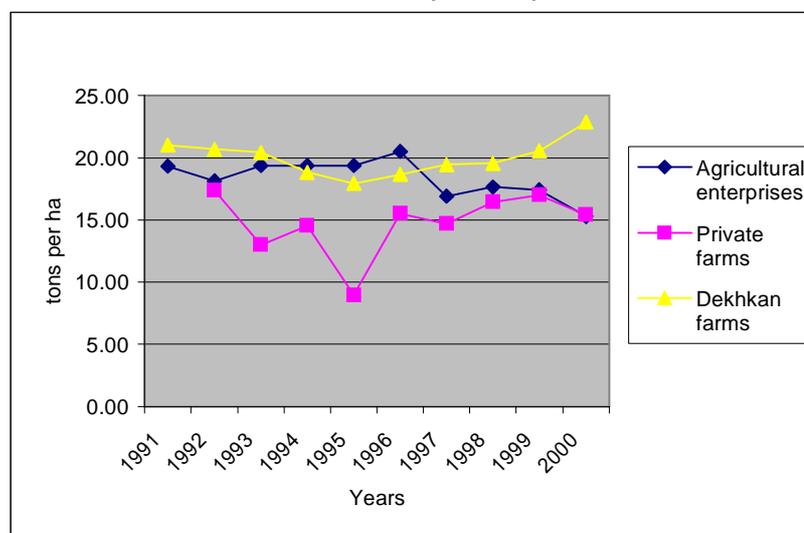
Source: Statistical Department, Uzbekistan Ministry of Macroeconomics and FAO data.

Graph 3.4. Grain Yields in Different Types of Farming in Uzbekistan, 1991-2000 (tons/ha)



Source: Statistical Department, Uzbekistan Ministry of Macroeconomics and FAO data.

Research has shown that the tendencies in yields for “state order” crops are similar for private farmers and agricultural enterprises due to low incentives for producers in selling their products. On the other hand, products such as vegetables and potatoes, which may be sold in the market, are cultivated more intensively, leading to yields much higher than for other crops (Graph 3.5.).

Graph 3.5. Vegetable Yields in Different Types of Farming in Uzbekistan, 1991-2000 (tons/ha)

Source: Statistical Department, Uzbekistan Ministry of Macroeconomics and FAO data.

Even the same crops differ in yield depending on region and type of farming. Cotton yields in 2002 in surveyed sites were greater in Bukhara province in shirkat family contractor production, while in Sirdarya province they were greater in private farms. Cereals had high yields in all types of farming, particularly smallholdings, while in fruit and vegetable production private producers in Bukhara got lower results despite more intensive cultivation (Table 3.2.).

Table 3.2. Yield per hectare in Different Types of Farming (tons/ha)

	Sirdarya region (province)			Bukhara Region (province)		
	Private farm	Smallholding	Shirkat family contractor	Private farm	Smallholding	Shirkat family contractor
Cotton	2.50		1.88	2.64		2.85
Grain	3.09	4.23	2.67	2.81	3.45	3.04
Rice	2.29			3.80	3.13	4.39
Vegetables	20.00	9.25		12.88	14.4	21.88
Potatoes	15.00	8.93		20.00	14.6	21.19
Animal Feed	10.60	11.22		6.83		12.00
Fruit	16.3	13.25		8.00	9.01	12.00
Beans		2.50			5.60	
Maize		8.42			6.65	5.75
Greens		2.35				
Melons		11.42		16.00		

Source: Farm survey 2002.

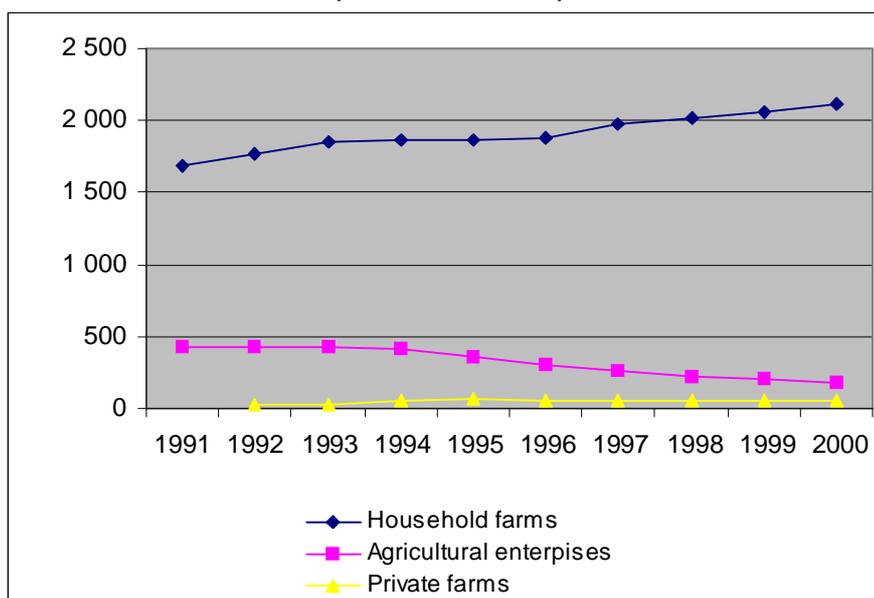
Surveyed farmers encountered several difficulties in plant production in 2002. In both regions farmers noted problems caused by weeds (66%) and land salinization (68%). Those problems resulted from insufficient crop rotation and lack of incentives for water conservation and drainage system maintenance. Farmers of Bukhara province were more likely to mention poor irrigation (72%), while their Sirdarya counterparts were quite satisfied with irrigation (68%). The reason for the water deficit is the high cost of energy, because more than 80 % of irrigation water is obtained by pump in Bukhara province. A relatively smaller number of farmers (38% in Bukhara and 45% in Sirdarya provinces) reported difficulties obtaining access to agrochemicals from the state supply network.

3.4. Livestock Production

Since independence, the number of cattle has increased by 5 % in all types of farming, while the number of sheep and goats has fallen by 12 %. Government policy has mainly been directed to maintaining the number of livestock even with negative effects on productivity. Therefore in comparison with other CIS

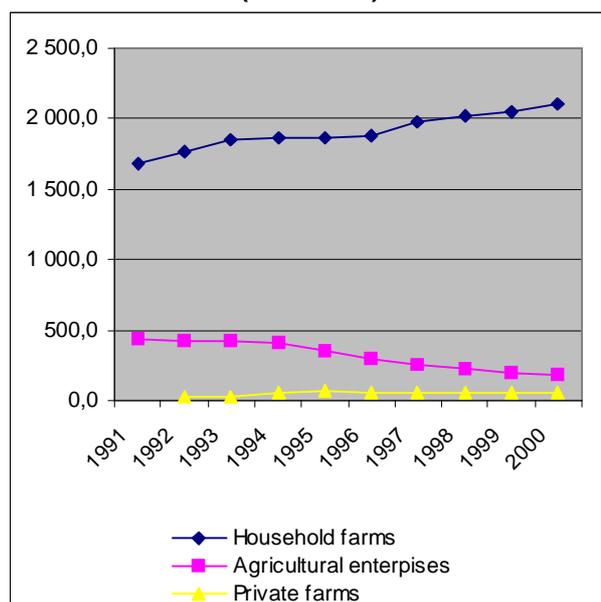
countries Uzbekistan has maintained its quantity of livestock at levels of the pre-reform period. However, since independence significant institutional changes have occurred, which have affected livestock numbers according to farm types. There has been a decline in the number of all types of livestock held by large agricultural enterprises and an increase in the quantity held by household farms, except pigs and poultry (Graphs 3.6. – 3.10.). Poultry production has collapsed in all types of farming due to the lack of specialized feed, medicine and veterinary care. Since 1998, pig production has shown signs of improvement due to the development of the sausage industry, for which pork is a basic ingredient.

Graph 3.6. Trends in cattle stock (cows) in Uzbekistan by different types of farms 1991-2000 ('000 cattle heads)



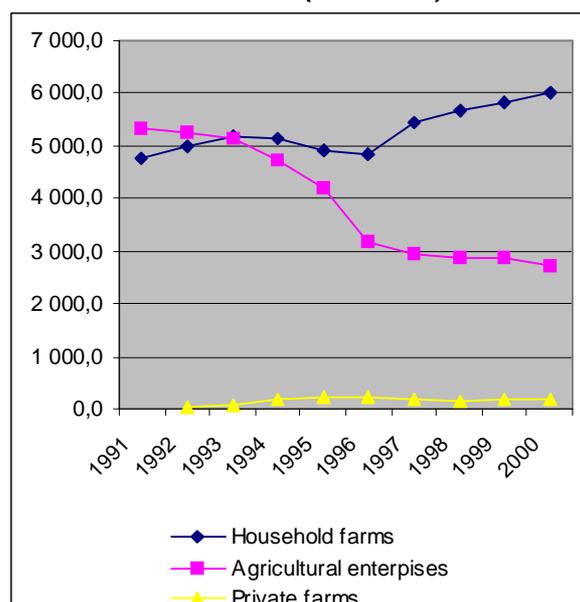
Department of Statistics of the Ministry of Macroeconomics and Statistics of the RUz. 2001 and FAO data

Graph 3.7. Tendencies in Cattle Numbers in Uzbekistan by Types of Farming, 1991–2000 ('000 head)

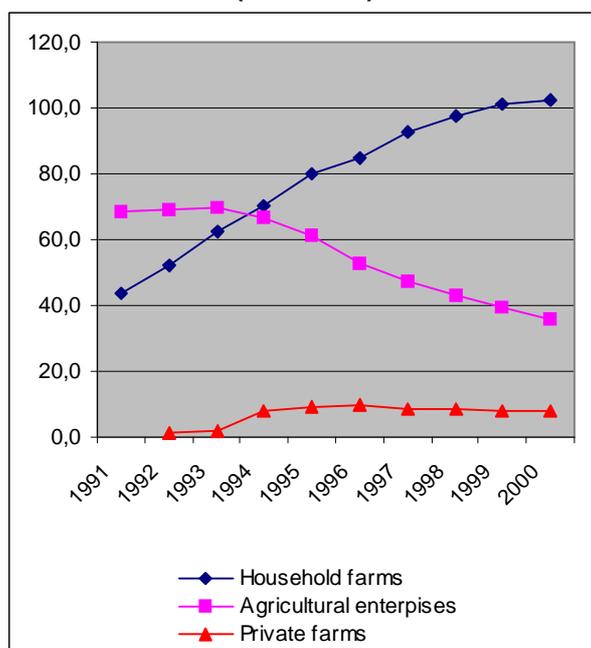


Source: Statistical Department, Uzbekistan Ministry of Macroeconomics and FAO data.

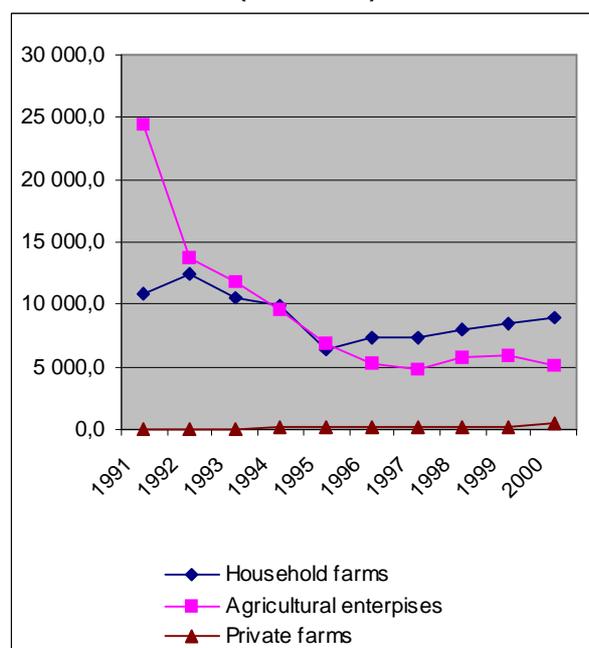
Graph 3.8. Tendencies in Sheep and Goat Numbers in Uzbekistan by Types of Farming, 1991-2000 ('000 head)



Source: Statistical Department, Uzbekistan Ministry of Macroeconomics and FAO data.

Graph 3.9. Tendencies in Number of Horses in Uzbekistan by Types of Farming, 1991-2000 ('000 head)

Source: Statistical Department, Uzbekistan Ministry of Macroeconomics and FAO data.

Graph 3.10. Tendencies in Number of Poultry in Uzbekistan by Types of Farming, 1991-2000 ('000 head)

Source: Statistical Department, Uzbekistan Ministry of Macroeconomics and FAO data.

According to the 2002 survey results most of the dekhkan and private farms in both regions deal with livestock production. Table 3.3. demonstrates that cattle, particularly cows, are the most widespread type of livestock. It should also be mentioned that the average number of livestock owned by private farms is 3-5 times more than in smallholdings. In addition this indicator is much higher in Sirdarya province than in Bukhara province due to more available pastures. The second most frequently owned type of livestock is sheep and goats, of which private farms raise more than 4 times on average than dekhkan farms in both regions. Many smallholdings own horses in Bukhara province, while in Sirdarya province this number is insignificant. A negligible number of private farms raise pigs.

Table 3.3. Number of Livestock in Different Types of Farming

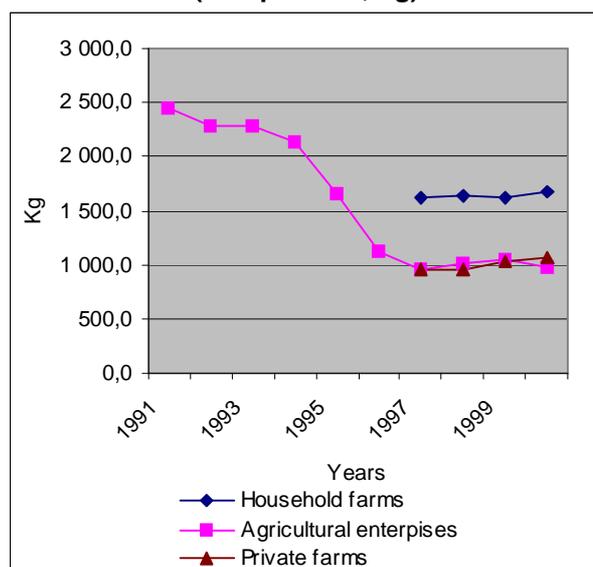
	Sirdarya Province				Bukhara Province			
	Dekhkans		Private Farms		Dekhkans		Private Farms	
	% owning	Average Owned	% owning	Average Owned	% owning	Average Owned	% owning	Average Owned
Bulls	41.0%	2.52	3.5%	10.75			26.0%	3.82
Cows	74.0%	1.74	4.0%	22	84%	4.20	37.0%	4.82
Young bulls	15.5%	1.39	2.5%	6.4	78%	1.67	16.5%	3.86
Young cows	33.5%	1.16	3.5%	9.63	75.5%	1.72	25.5%	5.36
Sheep	18.0%	8.51	3.0 %	35	10.5%	6.77	21%	26.78
Horse	1.5%	5.00	2.0%	3.60	13%	2.30	3.5%	3.2
Poultry			1.5%	155.00			3.5%	129.60
Pigs			0.5%				2.0%	4.00
Donkey			1.0%				2.0%	3.00
Bees			1.0%				2.5%	4.00

Source: Farm survey 2002.

Livestock productivity in Uzbekistan is very low compared to the European level. An analysis of available data for agricultural enterprises indicates a sharp decline (more than 2 times) in milk productivity and eggs per hen. (Graph 3.11. and Graph 3.12.) However since the second half of the 1990s the state has taken serious measures to improve animal vaccination services and provide protein-rich feed. In the

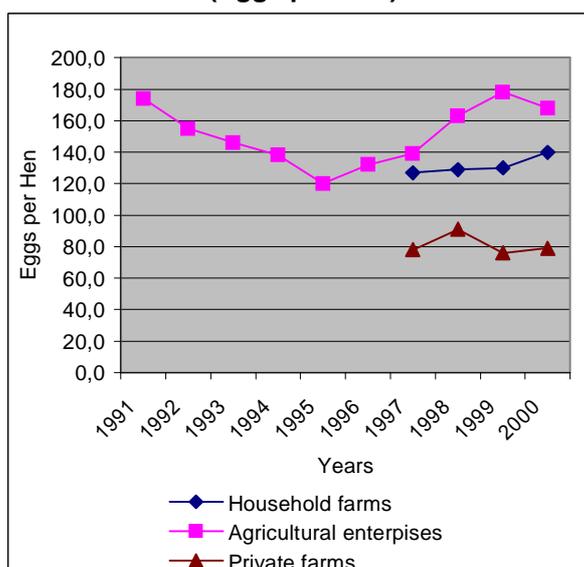
surveyed farms, the average milking in liters per day was 9.6 in summer and 6.7 in winter. In Sirdarya province the yield of milk was about 20% higher than in Bukhara. The average number of eggs laid per hen per month was very low: 10 in winter and 13.2 in summer.

Graph 3.11. Tendencies in Livestock Productivity by Types of Farming, 1991-2000 (Milk per Cow, Kg)



Source: Statistical Department, Uzbekistan Ministry of Macroeconomics and FAO data.

Graph 3.12. Tendencies in Livestock Productivity by Types of Farming, 1991- 2000 (Eggs per Hen)



Source: Statistical Department, Uzbekistan Ministry of Macroeconomics and FAO data.

About 45% of farms used different types of fodder to feed livestock. Regarding fodder and pastures, the survey showed the following results: 37% of farmers reported pasturing their livestock in their own plots, 29.5% responded that they were allowed to graze their livestock on shirkat cropland, 9% pastured in communal pasture and about 12% along roads and canals. The survey also asked about the difficulties farmers faced in livestock production. The most common response in all types of farming was the lack of fodder – 49%, the second-ranked problem is the low availability of pasture, mentioned by 26% of farmers 21% answered disease among animals and 19% mentioned low prices for their products.

3.5. Conclusions

During the first years of independence (1990 – 1996) total farm output declined. However, as land reform and farm restructuring became accelerated in the middle of the 1990s farm output recovered and reached the pre-independence level by the end of the decade. The area under cultivation for strategic crops not only reversed its decline, but the area of wheat actually increased. The fall in productivity of state cotton production is explained by the decline in soil fertility, the absence of crop rotation and the lack of stimulus for farmers. On the other hand, private sector production particularly in dekhkan farms, increased significantly.

Acknowledgements

We would like to express our deep gratitude to the Japan Foundation and JSPS (Japan Society for Promotion of Science) for funding this research. We wish to express our sincere gratitude to the Mike Thurman, whose report, prepared for the World Bank, "Agriculture in Uzbekistan: private, dekhkan and shirkat farms in the pilot districts of the rural enterprise support project" motivated us to write this manuscript.

References:

- (1) Mike Thurman. (2001) World Bank report: Agriculture in Uzbekistan: private, dekhkan and shirkat farms in the pilot districts of the rural enterprise support project. 101pp.
- (2) IMF (March, 2000): Staff Country Report No. 00/36, Republic of Uzbekistan: Recent Economic Developments. 110 pp.
- (3) Wehrheim, P., (2003): Modeling Russia's Economy in Transition. Ashgate Publishers, Aldershot, 200 pp.
- (4) Trushin Eskender. (2000) Uzbekistan: Problems of Development and Reform in the Agrarian Sector. P 259- 291

4. Poverty Reduction Strategy in Transition Countries

D. M. Karimova, CEEP

The Declaration of the International Labor Organization (ILO) adopted back in 1944 stated “poverty anywhere constitutes a danger to prosperity everywhere”. In line with Article 5 para. 2, of the Social Policy (Basic Aims and Standards) Convention, ILO, “In ascertaining the minimum standards of living, account shall be taken of such essential family needs of the workers as food and its nutritive value, housing, clothing, medical care and education”.

Poverty remains a global problem at the current stage of development, and it has been estimated that out of the world population of 6 billion, 2.8 billion people live on less than 2 US dollars a day, while 1.2 billion live on less than one US dollar a day¹. Almost every fifth person in transition countries in the Europe and Central Asia region (ECA), lives on less than USD 2.15 a day. In the same period, 12.7% of the USA population lived on less than USD 11.4 a day (every country establishes its own poverty line, which tends to rise alongside increases in national income)². Based on the World Bank surveys carried out in Uzbekistan in 2000-2001, more than a quarter of the country's population could be referred to as low-income (27.5%)³. Poverty is present in any contemporary society; however it should not be wide-ranging and chronic. Lingering or chronic poverty may entail the deterioration of the quality of human resources, public resentment and social conflicts and an outflow of highly qualified labor, and ultimately affect economic development of the country and constrict possibilities for market reform efficiency.

The problems associated with poverty also include assessing its magnitude. Its dimensions are not limited to the income and consumption of the population, but also include living conditions, cultural and education level indicators, as well as health, demography and the environmental situation. The income dimension of poverty is measured on the basis of a poverty line, reflecting minimal subsistence. Although most of the countries use generally accepted indicators, recommended by international organizations, there are country differences in poverty assessment methodology. For example, a reporting method used in Uzbekistan in order to estimate the number of poor (i.e. in need of government social support), requires that eligible people apply to their Makhallya, which, after reviewing their application by a committee composed of selected members of the same Makhallya, distributes budget funds among low income families.

Countries with transitional economies are distinguished by a specific form of post-socialist poverty. Setting aside differences in transformation models, degree of urbanization, labor market and demographic development peculiarities, and historical and cultural traditions, the causes of poverty are in many ways homogenous for these countries. Research by foreign and Uzbek scientists has identified the following underlying factors affecting the poverty level in the transition countries:

1. The reduction of the real income of the population as a result of:
 - measures of macroeconomic policy, based on the restriction of monetary and budgetary resources coupled with aggressive tax policy in the area of income taxation;
 - the imbalance of prices for consumer goods with prices for labor; and
 - the low efficiency of the social security net.
2. The imbalance of demand and supply on the labor market, labor oversupply and the necessity of layoffs (primarily of young people) as a result of the minimization of production costs in an effort to enhance competitiveness and increase labor productivity.
3. Inter-regional differentiation and trends towards rising disparities in socio-economic development of the regions.
4. Lack of equal opportunities and access for separate population groups to the system of social services such as education and health care.
5. Environmental problems in the areas of pollution management and natural resources preservation.

¹ World Development Report. 2000/2001. Attacking poverty. The World Bank. 2001.

² Pro-poor growth and inequality in Europe and Central Asia. The World Bank. 2001.

³ The World Bank. Uzbekistan. Living Standards Assessment, May, 2003.

In order to eliminate the above problems the transition countries should develop a Poverty Reduction Strategy envisaging ways of achieving the improved welfare of the entire population and primarily for the poor through ensuring sustainable economic growth, efficient management, legal reforms and efficient social policy and strengthening social factors of regional development.

Uzbekistan social policy is effected through a system of social programs such as the targeted integral program for creating jobs in rural areas, the National Program for Personnel Training, the National Program for Health Care Reform, programs for providing the population with natural gas and clean potable water, the Program of Utility Services Reform and so forth. Government social support of the population is rendered in three major ways:

- direct government transfers to individuals and families, both in cash and in kind;
- targeted social payments and benefits;
- compensatory benefits and payments.

At present the social security net covers almost all the needy through 130 types of allowances and benefits provided by the government. In general for the country, more than 2.2 million families (43%) of the total 5.1 million receive one or another type of direct government support. The large share of public sector expenditures and budgetary pressures require better targeting and higher efficiency of social security measures.

Although active efforts at the level of individual countries are crucial for poverty reduction, needless to say, the world community has a powerful impact on these processes. Thus, the World Bank and the International Monetary Fund initiative on broadening assistance for reform processes in five CIS countries (Armenia, Georgia, Kyrgyzstan, Tajikistan and Moldova) experiencing difficulties due to high external debt, as well as for two countries (Uzbekistan and Azerbaijan) requiring the implementation of special programs for public safety nets, was reviewed in 2002 at the Conference held in London with the participation of leading countries and donor agencies.

In continuation of the above conference, a special session was conducted in Washington, DC. dedicated to the development of measures for strengthening macroeconomic stability, deepening structural reforms and enhancing living standards in the aforementioned CIS countries. As a result of the session, a statement was approved calling all leading countries and donor agencies to render additional support for the said seven countries by increasing financial support on favorable terms, providing favorable trade and economic regimes and facilitating foreign investments.

These issues have been discussed at forums devoted to strategies for increasing well-being and alleviating poverty in these seven CIS countries. The major task of these forums was the development of Poverty Reduction Strategy Papers – PRSP, aimed at becoming a practical guide for an integral plan for long-term development, prepared by the countries themselves. This document allows decision-making on the basis of more complete data and the more efficient use of government resources, as well as serving as a basis for international donor assistance coordination. A sound, coherent and financially feasible action plan allows the development of concrete terms for lending to the country and ensures the transparent coordination of donor activities.

A review of PRSP preparation practices in other countries demonstrates that since 1999 ten countries have submitted their finalized PRSPs, while more than 50 countries are currently at the stage of finalizing theirs. Most of the CIS-7 countries are at the stage of the final draft completion. The name, status and character of the document, the process of its preparation, selected strategic guidelines and anticipated outcomes vary in all these countries. For example, the Government Program for Poverty Reduction and Economic Development of Azerbaijan has the status of an integral program of a directive type and has set up a target to reduce the poverty level from 49 to 35% by 2005 through economic growth acceleration, radical improvement of infrastructure and the social security net, institutional transformations and other actions. The National Strategy for Poverty Reduction of Kyrgyzstan, being part of the Complex Development Program of the Republic (CDP), envisages poverty reduction from 52 to 26% by 2010. Whereas the Strategic Program for Poverty Reduction in Armenia has the status of a national program and has a purely advisory character.¹

Despite significant differences in the character and contents of the PRSP, the document has a commonly accepted outline and includes four basic elements: welfare and poverty analysis; goals, targets, result indicators and monitoring systems; government priority actions; and description of the participation of interested parties and donors. PRSP elaborates priority government actions for the medium and long

¹ Papers of the Third ECA Forum on poverty reduction strategies. Almaty, Kazakhstan, December 2002.

term, including: macroeconomic conditions, the government expenditure program, and the matrix of key government measures and the schedule for their implementation.

In most of the countries the preparation and implementation of this document has facilitated:

- refining the process of gathering data and measuring poverty;
- developing targets and corresponding forecast indicators of economic growth through the prism of well-being growth and poverty level reduction;
- strengthening the impact of key economic and political measures on the social factor;
- developing an action plan for the future taking into account respective funding needs which can be met by potential donors; and
- attracting foreign capital on more favorable terms through international financial institutions.

Such experience is useful for our country as it allows us to take into account the specifics of transition and take advantage of the best and most useful practices while avoiding the mistakes of others. In this sense the usefulness of the document for Uzbekistan is that it is based on the principle of integrity, considering the development of all sectors of the economy, and envisages the harmonization of national reform programs and the coherence of social, economic, budgetary and environmental indicators. Such an approach presupposes the formation of a system of indicators to describe the results, implications and impact of the program.

The financial feasibility of the Matrix of Policy Actions, that is, a clear indication of potential funding sources (including government, private and borrowed) and the amount of funding sufficient for achieving established goals, will make the document a practical guide for political decision-making and the coordination of donor assistance (It is precisely the lack of funds and of realism about the availability of financial resources which is one of the major shortcomings in the implementation of current government programs, where sound targets are not achieved due to lack of funding).

In the era of global changes, the aspiration of the government to attain a more transparent management system and to involve the participation of civil society in the reform process may considerably facilitate achieving the key goal – ensuring sustainable growth of the well-being of the population.

5. Results of the Survey of Uzbekistan Industrial Enterprises

A. Rashidov, CEEP

Survey Method

The basic objective of the study is to survey business operations, gathering timely data on the current situation and short-term economic changes, establishing the dynamics over a period of years and forecasting enterprise economic activity for the following quarter. As opposed to traditional statistics, market studies are based on the subjective opinions of business managers.

The methodology of OECD countries was used in questionnaire development, sampling design, the data gathering system organization and processing. Business managers were invited to choose from the following answers to assess the current situation:

- favorable
- satisfactory
- unsatisfactory
- no reply

To evaluate trends, the current and preceding periods were compared by selecting from the following choices:

- increase
- no changes
- decrease

Such questions were also used for assessing the demand for products, the stock of finished products, employment and so forth.

For capacity utilization and factors restraining production growth more than three types of response were offered; for instance, capacity utilizations was assessed by a scale with increments of 10, starting from -20%. For factors restraining production growth respondents were invited to choose one or more of several suggested reasons. In processing responses for qualitative questions the relative frequency of every option was computed in percent. Further, a balance of relative frequencies of positive and negative responses was computed, representing the variability index.

The balance of negative and positive responses in percent is used for questions where one of three responses is selected. Variability indices are shifted both above and below zero level. Thus a positive sign of the index implies economic activity growth, and its distance from zero level indicates the growth measure.

To ensure balanced representation, the sampling grouped enterprises by location, forms of incorporation, sectors and size (number of staff and production volumes). Sampling questions may be split in two major sections:

I – traditional, included in similar foreign questionnaires for inter-country comparison of market study results.

II – related to specific features of Uzbek economic development.

The summary of business operations results was made for the following 10 major sectors of the economy: non-ferrous metallurgy, chemical and petrochemical industry, machine-building, metal processing, building industry, light industry, food and flour industries, publishing industry, timber and paper industry.

The study included the following stages:

1. Designing the plan for the sampling of enterprises.
2. Organizing the dissemination and collection of completed questionnaires and entering the data in an electronic format.
3. Processing electronic data and producing analytical tables.
4. Analyzing analytical tables and drafting reviews of the business situation.

In line with the above, in early 2003 a scheduled study was performed encompassing 488 large industrial enterprises, located in the six regions of their highest concentration. The coverage ratio was more than 53.8%.

Sampling included enterprises with the following dominant forms of incorporation: 265 joint stock companies (JSC), 58 state-owned enterprises (SOE), 102 joint-ventures (JV), 6 cooperative, 23 private,

and 7 NGO enterprises.

Enterprises with fewer than 200 staff dominate among private, collective and NGO businesses. From 91 surveyed major enterprises (above 500 staff) most belong to JSC (61) and JV (140).

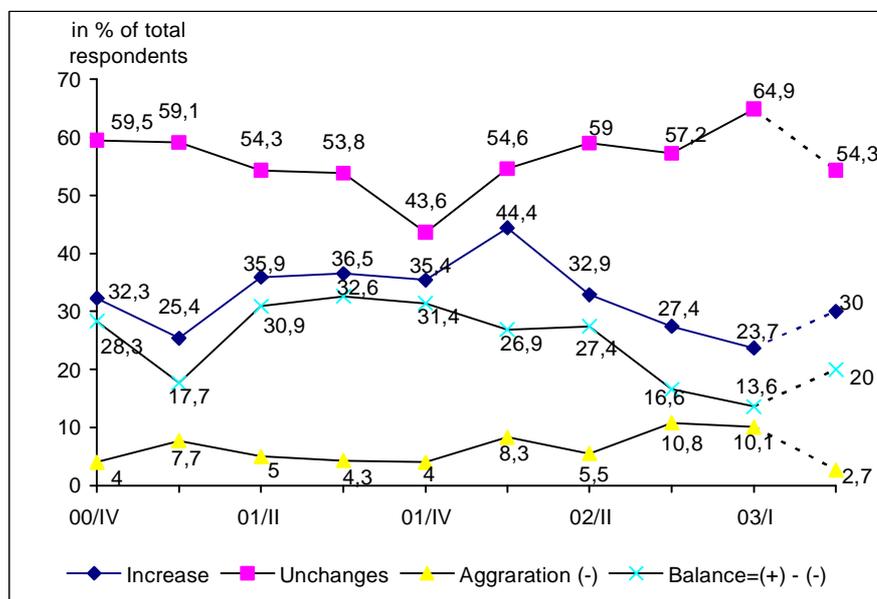
Changes were assessed in the following key areas:

- economic state
- production capacity utilization
- number of staff and forecast for change
- financial activity of enterprises
- factors restraining production growth

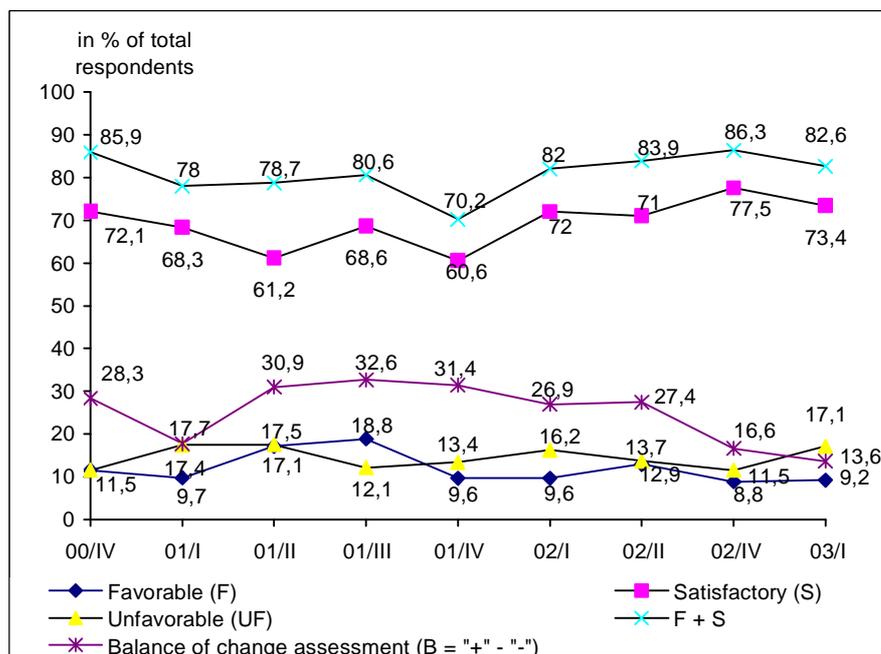
5.1. Economic state of enterprises

In early 2003 the overall situation in industry was generally positive (Graphs 5.1., 5.2.). The number of respondents indicating an improved economic state was 13.6% greater than the number indicating a decline. However, this indicator was lower than in the fourth quarter of 2002, in which the positive/negative balance was 16.6%.

Graph 5.1. Assessment of changes in the economic situation



Graph 5.2. Assessment of the overall economic situation



By industry sector the most favorable situation was in the chemical and petrochemical industry, with a 32.8%, positive balance, followed by the building industry (32.7%), light industry (27.2%), and metal processing (22%).

The situation worsened in the flour-grinding industry, with a 7.9% negative balance.

5.2. Market situation

In early 2003 the number of respondents indicating an increase in orders was 5.1% greater than those indicating a decrease.

The number of orders fell in non-ferrous metallurgy (-1.6%), flour grinding (-21.6%) and publishing (-12.4%). A positive increase in orders was observed in metal processing (21.1%) and chemical and petrochemical industries (20.8%).

The quantity of orders for export has also decreased (3.7% balance of positive over negative quantity vs. 8.4% in the fourth quarter of 2002). It is low in non-ferrous metallurgy and the publishing sector. About 53% of surveyed enterprises completely lack export orders.

All industry sectors have low stocks of finished goods (balance -14.2%), except non-ferrous metallurgy, (balance 94.6%), food (4.5%) and flour grinding (9.9%). A noticeable decline is observed in machine-building (-61%) and publishing sectors (-51.7%).

Inventories of raw materials also decreased (balance -11.6%), specifically in non-ferrous metallurgy (-79.7%), chemical and petrochemical industries (-23.7%).

The trend of increasing costs of raw materials has become a decrease, while prices of outputs have risen marginally (Figure 4). The trend of increasing raw materials costs outpacing the prices of outputs was retained in non-ferrous metallurgy, food, chemical and petrochemical sectors.

5.3. Financial state of enterprises

In early 2003 for industry in general, the number of respondents noting an improved financial state was 9.8% higher than the number of those noting the opposite. However the situation worsened among a considerable number of flour-grinding and food enterprises. Positive changes were observed in many sectors, specifically in the building industry, metal processing, timber and paper industries.

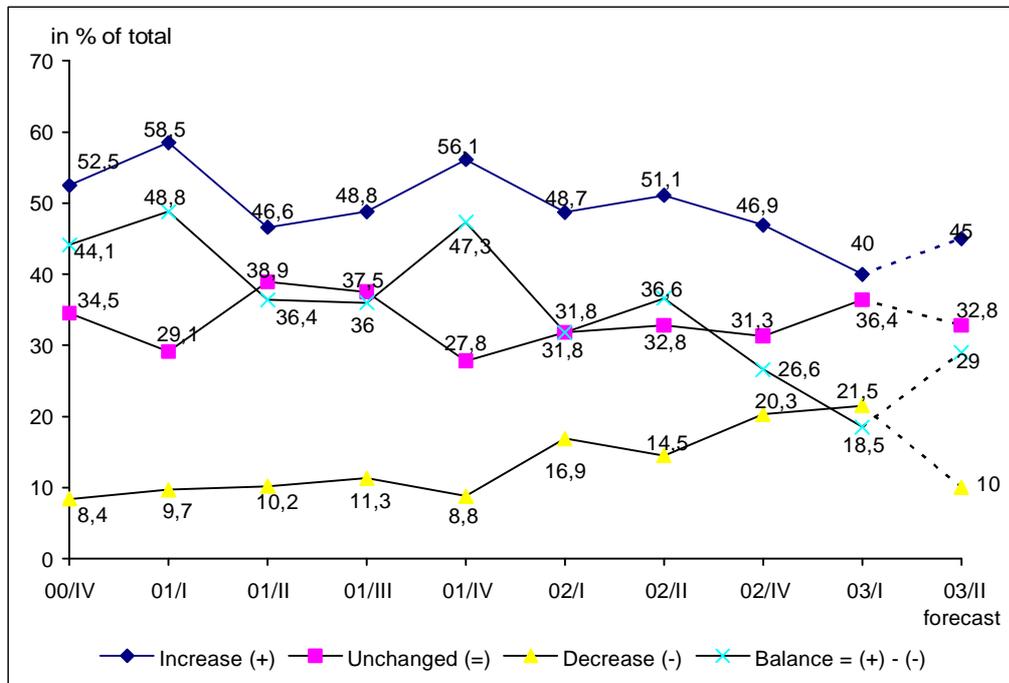
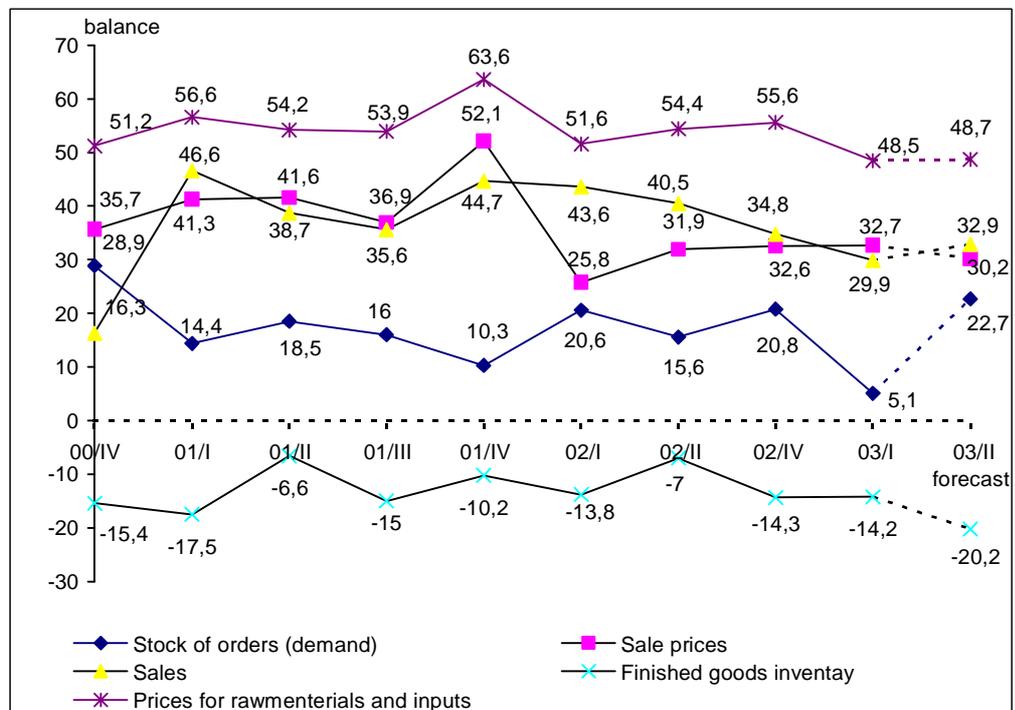
The profitability level in general for the industry sector decreased, with a negative balance. It is particularly low in flour-grinding and machine-building industries.

In general, the amount of net profit for industry was higher than in the fourth quarter of 2002.

Settlements were generally balanced: the number of respondents noting a decrease in total outstanding payments was 30.1% higher than those noting an increase. The share of enterprises with a high level of outstanding payments has decreased, specifically in the chemical and petrochemical industry and metal processing.

5.4. Manufacturing and trading activity

In early 2003 the number of respondents noting an increase in output volume in kind was 18.5% higher than those noting a decrease (Graph 5.3.), however in general this is lower than in the fourth quarter of 2002, in which the balance was 26.6%. Output range increased, with a 13.9% balance and capacity utilization increased with a 10.1% balance. Sales volumes increased with a 29.9% balance, including exports (17.9%). Stocks of outputs decreased (-14.2%) (Graph 5.4.).

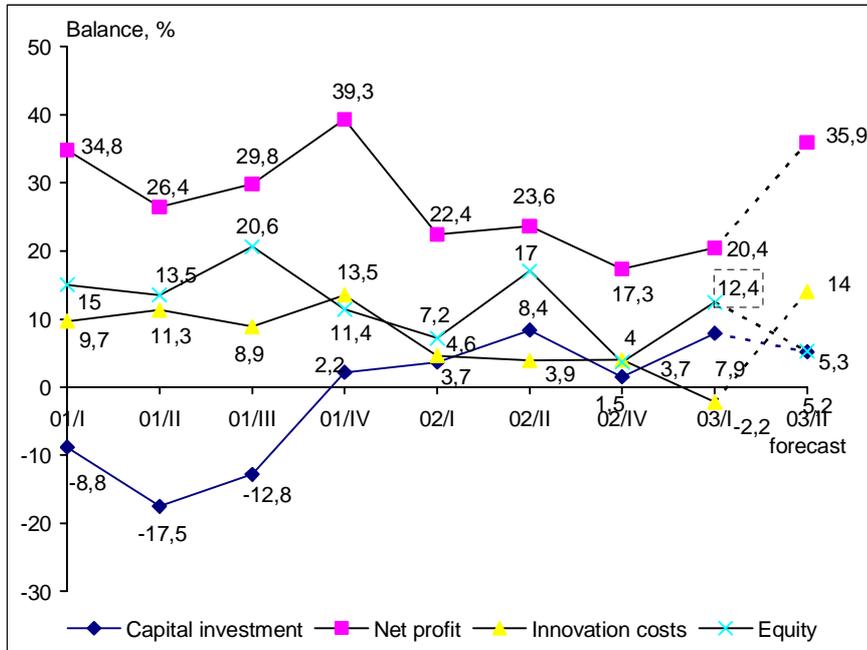
Graph 5.3. Assessment of changes in production in natural terms**Graph 5.4. Assessment of change in demand, prices and inventory**

In the current period the investment activity of enterprises increased. The balance of changes in the assessment of investments is 7.9% vs. 1.5% in the fourth quarter of 2002 (Figure 5.5.).

5.5. Capital investments and innovation activity

Capital was invested in the following priority areas: increasing output quality (positive balance of 22.9%), launching new product lines (20.6%), replacing equipment (1.5%) and purchasing shares and other securities (2.2%) (Graphs 5.5., 5.6.).

Graph 5.5. Assessment of changes in investment and innovation activity of enterprises

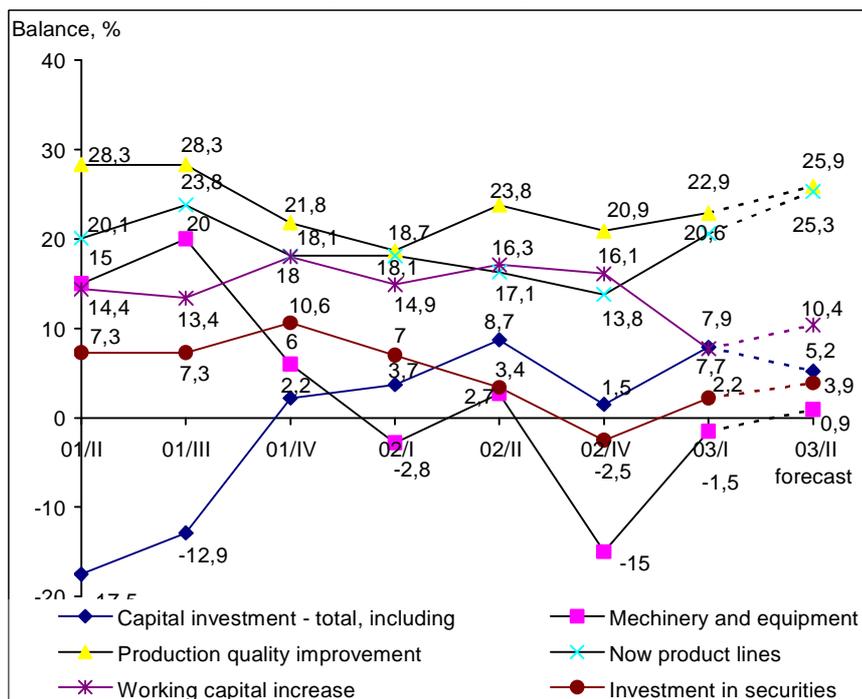


Regretfully, innovation activity growth rates decreased (balance 2.2%) compared to the preceding quarter (4%). Innovation activity was highest in the building industry and metal processing, while a decline was observed in the chemical and petrochemical industries and non-ferrous metallurgy. Investments for purchasing patents, licenses and other intangible assets increased, with a 2.2% balance vs. -2.5% in the fourth quarter of 2002.

Equity remains the major source of capital investments. The number of enterprises borrowing on preferential terms decreased.

The number of respondents noting an increase in capacity utilization was 10.1% higher than those noting a decrease, however this was lower than in the fourth quarter indicator of the preceding year. Noticeable growth was observed in non-ferrous metallurgy and the chemical and petrochemical industries, however it decreased in flour-grinding, machine-building and publishing sectors. The number of enterprises with capacity utilization under 30% was considerably high in the machine-building industry.

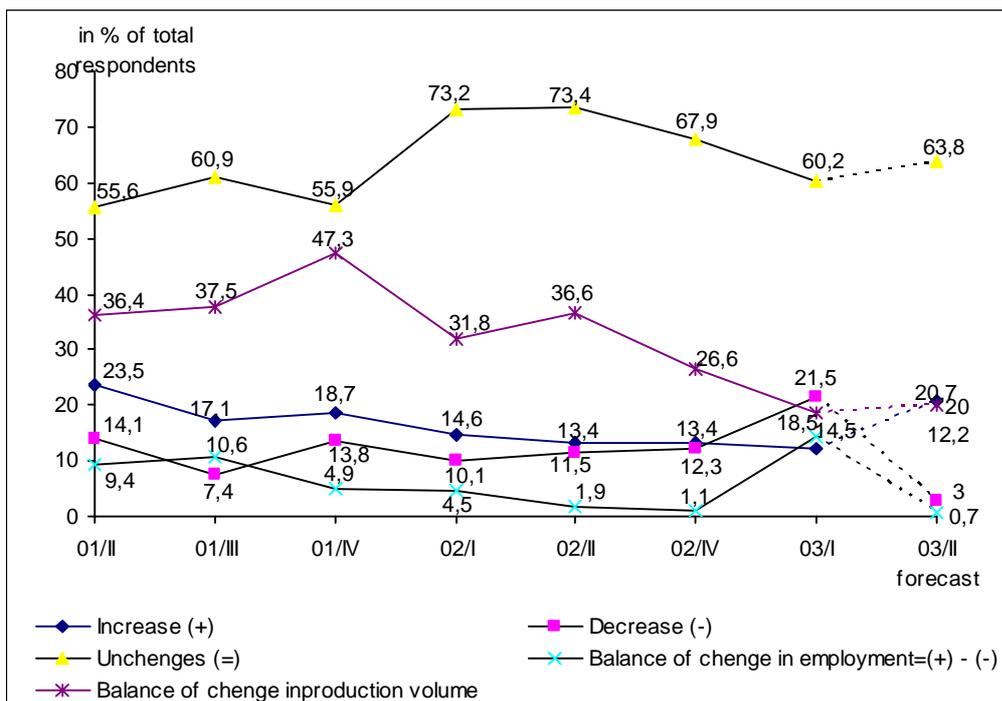
Graph 5.6. Major areas for capital investment



5.6. Employment and wages

For industry in general the number of staff engaged in manufacturing increased, with a positive balance of (14.5%) (Graph 5.7.).

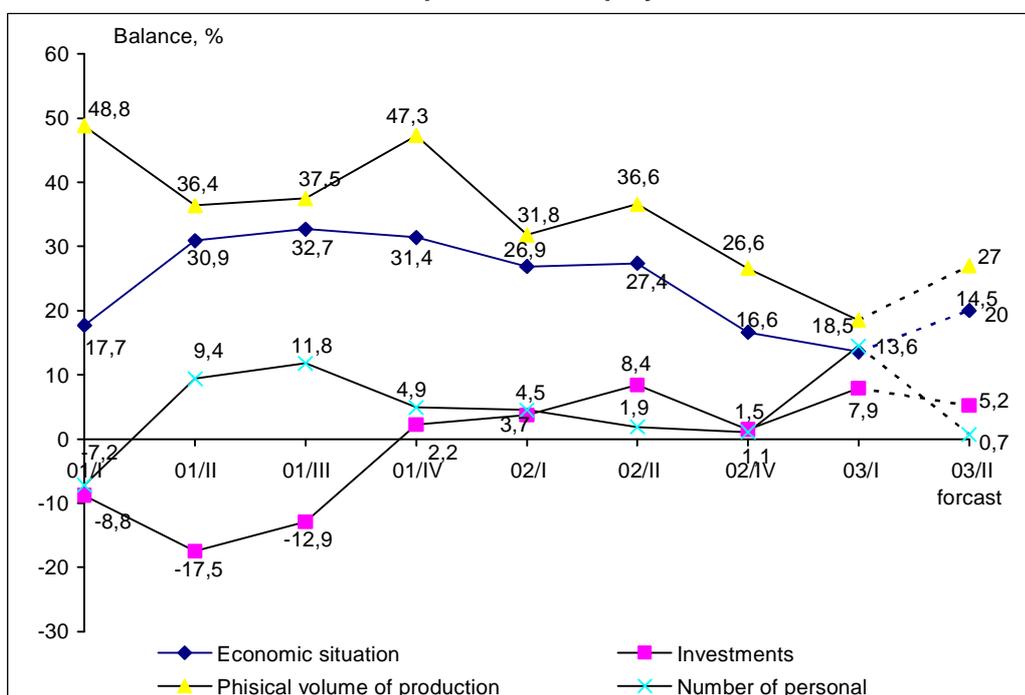
Graph 5.7. Assessment of changes in production labor force



The highest staff turnover was observed in non-ferrous metallurgy. Staff outflow was observed in enterprises of the machine-building, chemical and petrochemical, and flour-grinding sectors, as well as in timber and paper industries.

Staffing with skilled labor stabilized at the level of the preceding quarters (Graph 5.8.).

Graph 5.8. Assessment of changes in the economic situation, business activity of enterprises and employment



In early 2003 the negative dynamics of understaffing with skilled labor in the preceding quarters was overcome, and in industry assessment the balance is generally positive. However, some sectors have a relatively high share of enterprises with unsatisfactory staffing levels, such as the chemical and petrochemical industries, timber and paper industries, light industry and metal processing. This indicates skilled labor outflow from the above-mentioned sectors.

In the Republic in general, there was a decrease in the index of entrepreneurial assertiveness (confidence) computed as the simple average of actual demand, current finished products stock (with reversed sign) and production output in percent.

This figure was 17.3% in December 2002 and in March 2003 it fell to 12.6%, i.e. decreased by 5.3%. This decrease is based on less optimistic managers' assessments of physical output, which, according to respondents, decreased from 26.6% in December to 13.6% in March, and on the insufficient demand level in most industries, which on the whole fell from 20.8% in December to 5.1 % in March 2003.

At the same time, the trend of a decrease in capital investment which was observed in the fourth quarter of 2002 altered towards an increase in the first quarter of 2003, mainly due to an increase in net profits, as the survey indicates. As a result, investments from equity increased, indicating sustainable economic growth stabilization for Uzbekistan in general.

The business activity survey results may be used for characterizing short-term economic changes in industrial enterprises. More detailed description is presented in the overview of business activity of enterprises produced by CEEP under the Ministry of Economy.