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Republic of Uzbekistan: 2006 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Uzbekistan

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2006 Article IV consultation with the Republic of Uzbekistan, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 13, 2006, with the officials of the Republic of Uzbekistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 23, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 12, 2007 discussion of the staff report that concluded the Article IV consultation; and

- a statement by the Executive Director for the Republic of Uzbekistan.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF UZBEKISTAN

Staff Report for the 2006 Article IV Consultation

Prepared by Staff Representatives for the 2006 Consultation with Uzbekistan

Approved by David Owen and Adrienne Cheasty

January 23, 2007

- The Article IV consultation was held in Tashkent during November 30–December 13, 2006. The mission met with the first deputy prime minister, ministers of economy and trade, the governor of the Central Bank of Uzbekistan (CBU), other senior government officials, parliamentarians, and representatives of banking and diplomatic communities. A joint press statement was issued at the end of the visit.
- The mission comprised Mmes. Eken (head), Bacalu (both MCD), Vera Martin (PDR), and Mr. Saker (MCM) and was assisted by Ms. Kostina (IMF office in Tashkent). Mr. Moser, Executive Director, participated in policy meetings.
- Uzbekistan accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement as of October 15, 2003. The de facto exchange rate regime is a conventional peg.
- The 2006 Article IV consultation was streamlined.

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I. Introduction

1. **Uzbekistan has great economic potential that remains to be fully exploited.** It is the most populous country in Central Asia, with a strong agricultural base and abundant natural resources, including hydrocarbons, gold, copper, and uranium. Since the early 2000s, Uzbekistan has benefited from a favorable external environment and undertaken significant macroeconomic adjustment. However, government controls have remained pervasive, stunting the development of the private sector. Although per capita income has increased steadily, about one-quarter of the population is still considered poor.

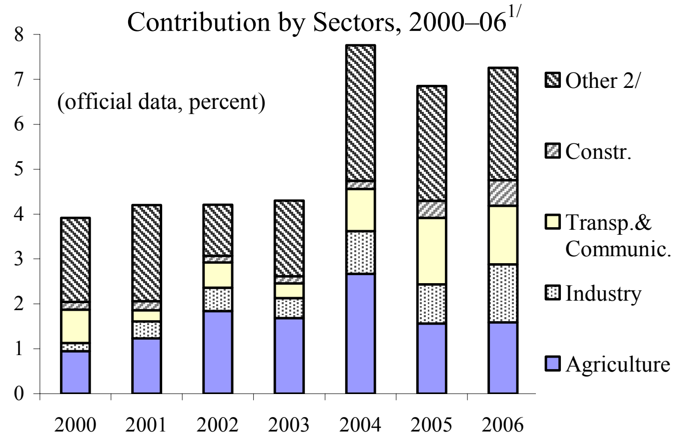
2. **The effectiveness of Fund surveillance in Uzbekistan has been mixed.** While the authorities have adopted more appropriate fiscal and, to some extent, monetary policies, progress toward establishing a market economy and in addressing banking and data issues has been slow. Advice to liberalize international trade has not yet been taken up.

3. **The discussions focused on three main policy issues:** reducing inflation, developing the banking sector, and liberalizing foreign trade.

II. Recent Economic Developments

4. **During 2005–06, GDP growth and the balance of payments were strong, but inflation remained high (Table 1).** According to official statistics, GDP growth of just over 7 percent was driven by agriculture, industry, and transport and communications (Figure 1). On the expenditure side, growth was supported by external demand. The current account registered large surpluses due to favorable commodity prices, growth in non-commodity exports, increased remittances, and restricted imports, although the surplus is likely to be overstated given the large negative errors and omissions item (Figure 2, Table 2). Official reserves increased steadily to 12 months of import cover at end-2006. However, inflation, measured by various price indices, picked up in 2005 and remained high in 2006 (Figure 3).

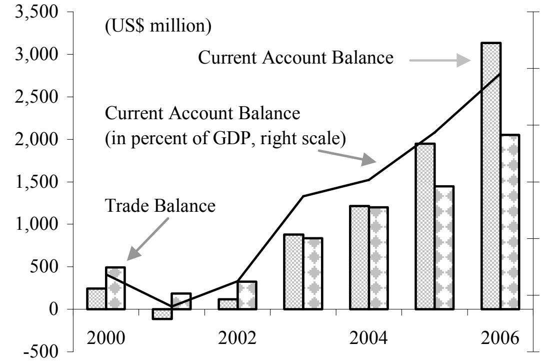
Figure 1. Uzbekistan: GDP Growth Contribution by Sectors, 2000–06[1/]



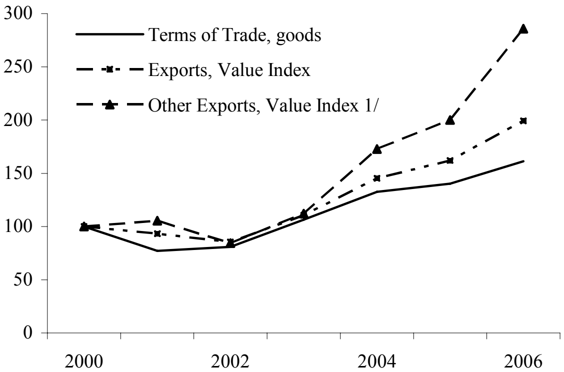
Sources: Uzbek authorities; and Fund staff estimates.
1/ 2006 growth rate is for three quarters.
2/ Trade, services, and net taxes.

Figure 2. Uzbekistan: External Sector Developments, 2000-06

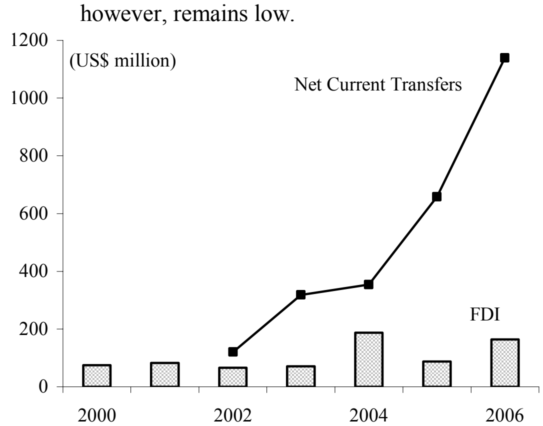
The current account surplus increased significantly in 2006...



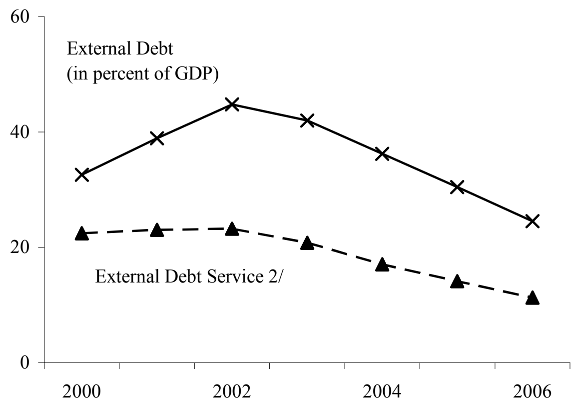
... benefiting from positive terms of trade movements, and strong growth in non-commodity exports,



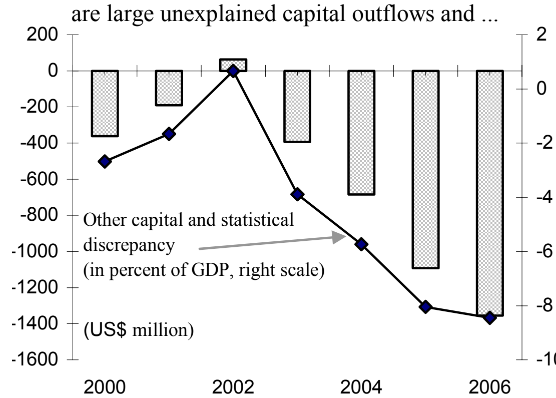
as well as strong remittances growth. FDI, however, remains low.



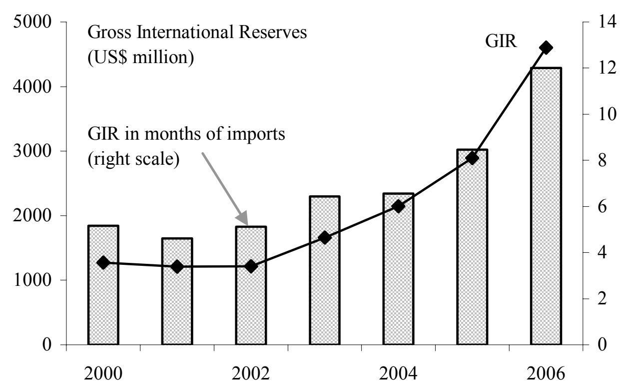
The external debt position has improved.



The counterparts of the strong current account are large unexplained capital outflows and ...



...a large accumulation of gross international reserves.

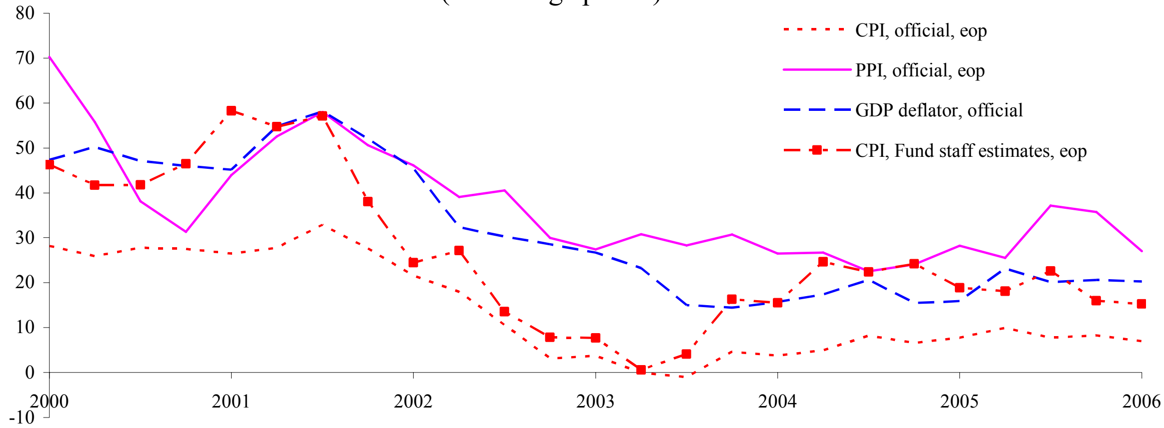


Sources: Uzbek authorities, WEO, and Fund staff estimates.

1/ Other exports exclude main commodity exports (gold, cotton, and energy).

2/ In percent of exports of goods and services.

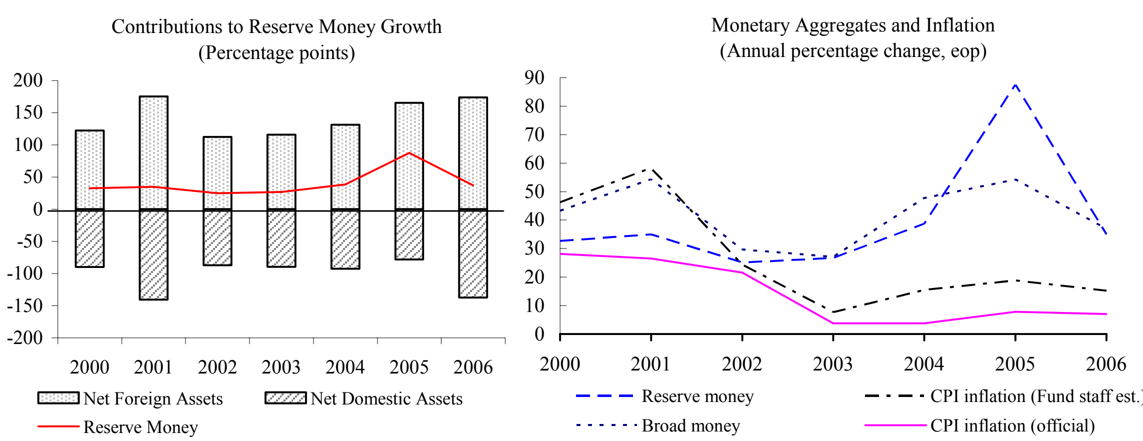
Figure 3. Uzbekistan: Inflation, 2000-06
(Percentage points)



Sources: Uzbek authorities; and Fund staff estimates.

5. **Monetary policy was accommodative in 2005, but tightened in 2006** (Figure 4, Tables 3 and 4). In 2005, the sharp accumulation of NFA by the CBU was only partially sterilized by a decline in NDA, resulting in surging reserve and broad money. In 2006, reserve accumulation accelerated, even though the CBU slowed the rate of nominal depreciation. Nevertheless, the authorities tightened monetary policy significantly via increased deposits from banks, the resumption of the issuance of central bank paper, and the accumulation of government deposits, including through the newly created Fund for Reconstruction and Development (FRD).[1] As a result, growth of monetary aggregates decelerated considerably.

Figure 4. Uzbekistan: Monetary Developments

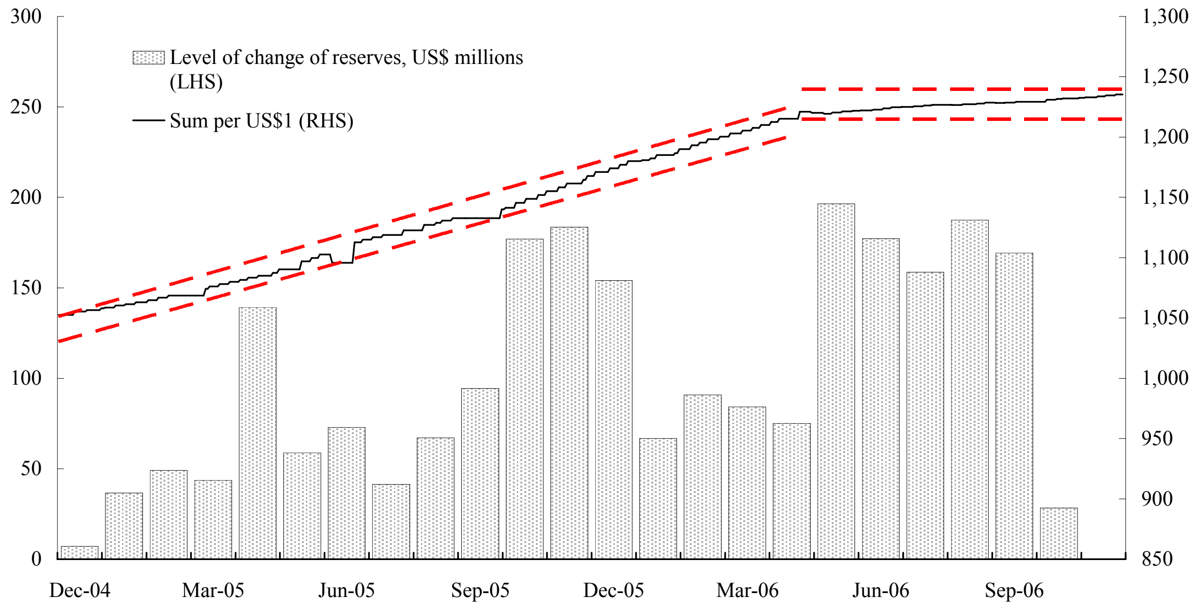


Sources: Uzbek authorities; and Fund staff estimates.

[1] The FRD was created to finance major investment projects with funding from higher-than-budgeted taxes, foreign exchange reserves, and privatization revenues.

6. **The sum was de facto pegged to the dollar during the second half of 2006.** The sum has been stable against the U.S. dollar within a two percent band since mid-2006 while the CBU's one-sided interventions resulted in steady reserve accumulation (Figure 5).

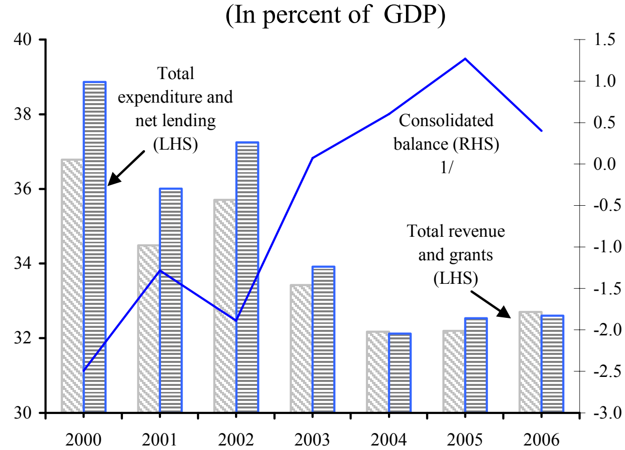
Figure 5. Uzbekistan: Exchange Rate and Intervention, December 2004-November 2006



Source: Uzbek authorities; and Fund staff estimates.
1/ Intervention is measured as the value of changes in reserves, net of valuation changes. The exchange rate is shown with bands of ±1 percent around a regression line from December 1, 2004, through April 25, 2006, and as horizontal bands of ±1 percent around the median thereafter.

7. **Fiscal policy continued to outperform budget projections** (Figure 6, Tables 5 and 6). Budget financing shows a surplus of 1.3 percent of GDP in 2005, while the authorities reported a small deficit compared to a budgeted deficit of over 3 percent of GDP. The implied statistical discrepancy of over 1½ percent of GDP mainly reflects increased deposits in off-budgetary accounts. In 2006, the fiscal accounts continued to overperform and government deposits increased further. Two consecutive 20 percent rises in public sector wages and pensions, and an additional 30 percent wage increase in the health and education sectors were mainly compensated by lower capital expenditures. The 2006 consolidated balance is estimated to have registered a

Figure 6. Uzbekistan: Government Finances
(In percent of GDP)



Sources: Uzbek authorities; and Fund staff estimates.
1/ Based on below- the-line data. FRD is not included.

small surplus, compared to the budgeted deficit of 3 percent of GDP. The overall fiscal surplus, including the FRD, is estimated at 3.1 percent of GDP.

8. **Structural reforms continued at a gradual pace**. Tax reforms continued to improve collections and ease the tax burden, and treasury reforms accelerated to enhance fiscal management. Licensing, inspections, and reporting were streamlined and the restructuring of agricultural enterprises *(shirkats)* into private farms has been mostly completed. Furthermore, restrictions on banks' access to their correspondent accounts at the CBU and cash withdrawals from bank deposits were eased, and a real time gross settlement system was introduced. However, privatization has stalled, a poor investment climate has resulted in low FDI inflows, and the banking system remains underdeveloped.

III. Economic Outlook

9. **Economic growth and the balance of payments are likely to remain strong in the short term**. The authorities project GDP growth to exceed 7½ percent in 2007, supported by strong external demand and driven by industrial production of petrochemicals, machinery, and textiles. The current account surplus is projected to remain very large and official reserves are expected to continue to increase. The authorities target a decline in inflation in 2007 and, to this end, intend to further tighten monetary policy and continue to pursue cautious fiscal policy.

10. **The authorities have ambitious growth objectives over the medium-term.** Their Welfare Improvement Strategy Paper (WISP)[2] envisages annual growth of 8–8½ percent by the end of this decade, with the private sector share in the economy increasing to 55 percent of GDP by 2010, from about 40 percent in 2006, and the poverty level declining 50 percent by 2015. The authorities expect strong external demand to support growth in the short run, while investment will play an increasing role over the medium term. Staff believes that these ambitious growth objectives would materialize only if trade is substantially liberalized, credit to the private sector picks up, confidence in the banking system is enhanced, and the difficult business environment improves. In the absence of a change of gear in these areas, staff projects GDP growth to remain at about 7 percent, supported by external demand.[3] Import growth is projected to remain at about current levels, while export growth is expected to moderate reflecting terms of trade and external demand forecasts. Debt sustainability

[2] Expected to be submitted to the World Bank in mid-2007.

[3] During 2007–11, Uzbekistan's terms of trade (TOT) will improve by 20 percent, outpacing other CIS countries' TOT. A 10 percent decline in the prices of gold and cotton during the same period will narrow the annual current account surplus by about 1¼ percent of GDP on average.

analysis indicates that both external and public debt should remain manageable, even under standard stress tests (Tables 7–10).

IV. Policy Challenges

A. Policies to Reduce Inflation

11. **The authorities are convinced of the need to reduce inflation.** The rapid reserve accumulation and the consequent monetary expansion, combined with an almost doubling of public sector wages and pensions in the past two years, heightened inflationary pressures. Administered price increases—of 35 percent during the past two years—also contributed to, and were considered by the authorities as the main factor behind, inflationary pressures. The authorities intend to limit reserve money growth to about 30 percent in 2007 by sterilizing excess liquidity using indirect monetary instruments and accumulating deposits in the FRD. Coupled with a continuation of declining velocity, this should be consistent with a further reduction in inflation in 2007. Given the strong balance of payments outlook and assuming a stable cash-to-deposit ratio, such a policy stance would allow a small increase in credit to the private sector. The CBU expects the fiscal outturn to be better-than-projected and the cash-to-deposit ratio to decline, creating more room for credit to the economy. The authorities intend to keep the refinance rate at its current level of 14 percent.[4]

12. **Combining proactive use of monetary policy instruments with a flexible exchange rate policy will help combat inflation.** The authorities explained that their current policy aims for small depreciations of the real effective exchange rate (REER), by targeting nominal depreciation of the sum, to maintain competitiveness. This had resulted in rapid monetary expansion and high inflation, and failed to achieve a real depreciation. Staff argued that allowing nominal appreciation by reducing official intervention to build reserves would take some pressure off indirect monetary policy instruments, while creating room for further credit growth to the economy.[5] Moreover, external sector developments suggest the sum could be significantly undervalued and that efforts to resist real appreciation would therefore likely continue to be unsuccessful and inflationary, and would not be desirable (Box 1). Although the authorities are currently targeting a small nominal depreciation during 2007, they would be prepared to consider a more flexible exchange rate policy, if warranted by economic developments, in particular regarding inflation and the balance of payments.

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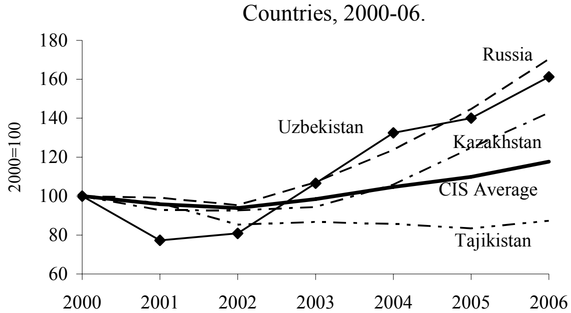
[4] The refinance rate is not an effective policy instrument given the weak transmission mechanism.

[5] According to the authorities, the first-round pass-through of nominal appreciation to inflation is about 15 percent, but exchange rate pass-through to inflation is difficult to assess, mainly because of import restrictions.

Box 1. Uzbekistan: An Assessment of the Exchange Rate Level

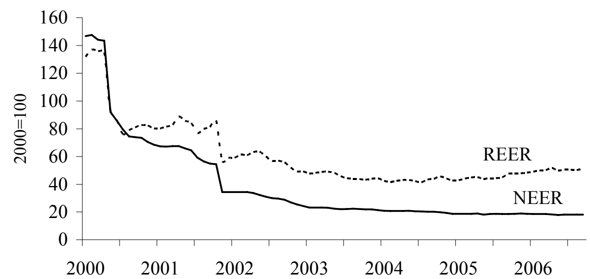
Uzbekistan's current account surplus (at nearly 20 percent of GDP) is expected to be among the largest in the CIS region in 2006. Uzbekistan has benefited from a surge in remittances and one of the strongest TOT improvement in the CIS countries since 2002 (Figure 1). In 2006, non-commodity exports growth (43 percent) outpaced commodity export growth (11 percent). The strong current account performance has resulted in major accumulation of net foreign assets.

Figure 1: Terms of Trade for Selected CIS Countries, 2000-06.



Sources: Uzbek authorities, WEO, and Fund staff estimates.

Figure 2: Uzbekistan: Competitiveness Indicators, 2000-06



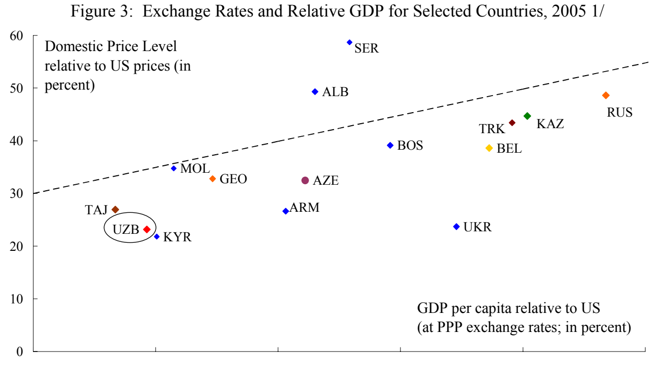
Sources: Uzbek authorities, WEO, and Fund staff estimates.

Despite the strong balance of payments, the REER and the nominal effective exchange rate (NEER) have remained relatively stable since the substantial depreciation during 2001–03 (Figure 2). The moderate appreciation of the REER since 2005, reflecting higher inflation, has not adversely affected export performance.

Analysis of the equilibrium real exchange rate suggests that the real effective exchange rate is undervalued.

- According to the purchasing power parity approach, the real effective exchange rate is undervalued by about 30 percent compared with its predicted level taking into account Uzbekistan's relative income (Figure 3).
- The structural current account balance is estimated at a surplus of about 4 percent of GDP, much lower than the surpluses registered in recent years.[1]

Figure 3: Exchange Rates and Relative GDP for Selected Countries, 2005 1/



Sources: IMF, WEO; and Fund staff calculations.
1/ Line derived from a regression of PPP exchange rates (domestic prices relative to US prices) and real GDP per capita, in PPP terms, for 179 countries, based on 2005 data.

1/ For details on the estimated model, see Chinn, M. and Ito, H. (2005), NBER Working Paper No.11761.

13. **The authorities feel that fiscal policy should support the anti-inflation effort.** Accordingly, the overall government budget (including the FRD) is projected to register a surplus of 2.9 percent of GDP in 2007, despite a reduction in taxes to promote private sector activity. This would imply fiscal loosening of 0.7 percent of GDP, but this estimate may not fully reflect prospects for continued significant over-performance relative to the budget. Given the low level of public debt, lower inflation would provide room over the medium term for small fiscal deficits, implying scope for moderate fiscal loosening to finance higher social and infrastructure expenditures. Meanwhile, the authorities do not favor shifting toward more capital expenditure by refraining from large increases in public sector salaries and pensions. They argued that further income growth is needed to help offset the impact of bringing administered prices closer to market levels. They intend to continue their tax reforms, strengthen fiscal management, and consolidate the FRD's operations into the fiscal reporting in 2007.

B. Reform of the Banking System

14. **The banking sector is undergoing structural changes and the prudential ratios exceed minimum standards** (Tables 11 and 12). Spurred by legal reforms, banks are developing their business in consumer lending, real estate, and SME financing. Consequently, there has been some move to more local currency and longer-term lending to private sector. Banks have also been active in channeling remittances into Uzbekistan. According to official data, banks' risk-weighted capital adequacy ratios are well above the minimum requirement and non-performing loans are declining. Solvency ratios seem robust to exchange rate shocks and a rise in non-performing loans.[6] However, the strength of banks' balance sheets partly reflects the large proportion of government-guaranteed loans, which carry a zero risk weight. With the government no longer issuing guarantees for loans and foreign funding, the banking system will need to manage its balance sheets more conventionally in the future. In this context, the authorities recently increased the minimum capital requirements.

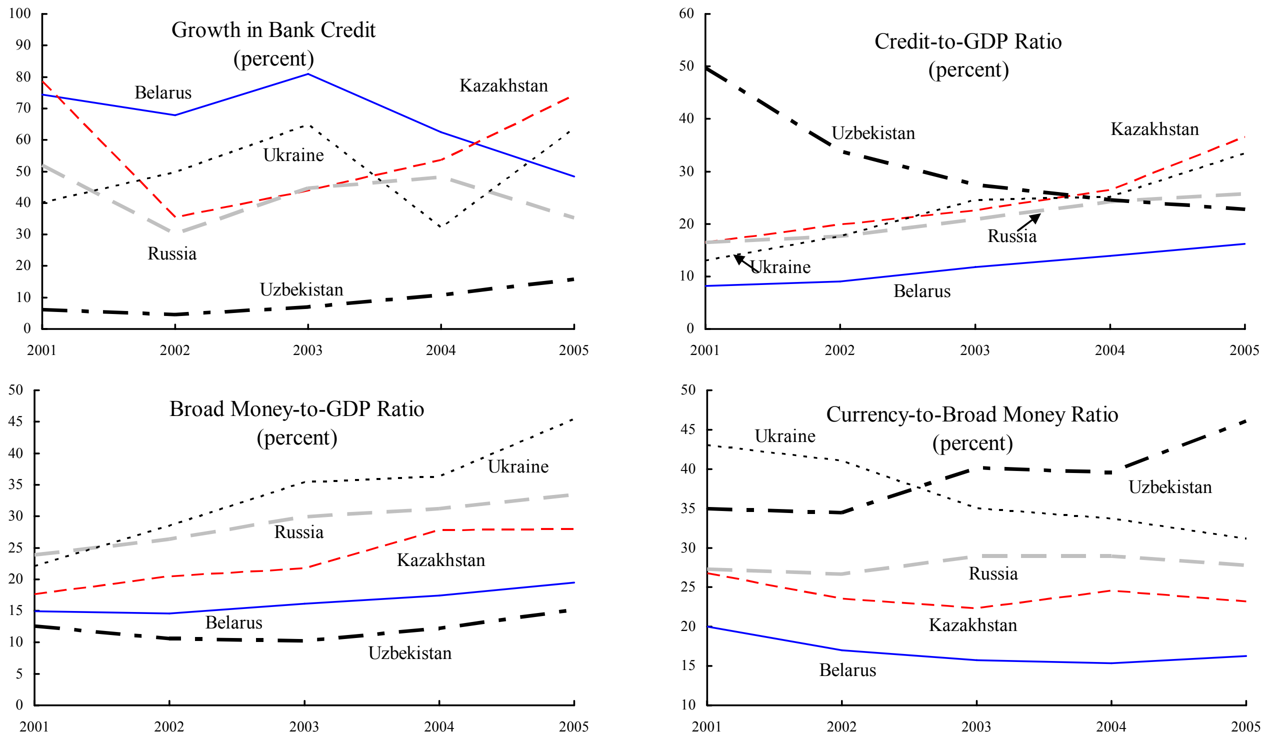
15. **Financial intermediation, however, remains subdued** (Figure 7). Monetization remains low. Growth in cash-in-circulation is faster than that of deposits. Credit growth is low and the credit-to-GDP ratio continues to decline. The banking system's inability to fulfill successfully its intermediation role is due to two main factors:

- Strong growth in net foreign assets has limited the room for credit expansion given the tight monetary framework designed to control the growth of reserve money; and

[6] A 55 percent appreciation of the sum against the dollar and a doubling of non-performing loans would bring the capital adequacy ratio close to the minimum level of 10 percent.

- The low level of confidence in banks discourages deposits, limiting banks' ability to grow.

Figure 7. Selected CIS Country Banking Data



Sources: WEO; Uzbek authorities; and Fund staff estimates.

16. **Market participants associated the low level of confidence in the banking sector mainly with the role of banks in financial oversight and implementing government treasury operations,** including through expenditure and tax collection. They also identified the following constraints to banking sector development: the existence of restrictions on cash withdrawals from banks; the obligation for enterprises to make daily deposits of cash receipts; and the interference by local authorities in the activities of the banking system.

17. **The authorities believe that banks' role in the economy should be enhanced through incentives rather than administrative measures**. They indicated that problems with cash withdrawals from banks no longer existed, but suggested that the adoption of the anti-money laundering legislation, which brought large transactions under inspection, could be discouraging deposits. They intend to relieve banks from non-core activities following the completion of government treasury reforms, expected by end-2007.

C. Trade Liberalization

18. **Uzbekistan's trade regime is protective and complex.** The authorities maintain barriers to trade to shelter domestic production. Import tariffs are among the highest in the region (Text Table 1). In addition, direct and indirect taxes are levied on imported goods and an implicit tax on imports originates from the differentiated application of excise taxes to imported and domestically produced goods. Moreover, the import process is complex and time-consuming.

Text Table 1. Measures of Tariff Dispersion in Selected Countries in 2005

Country name	Simple average rate 1/	Weighted average rate 1/ 2/	Standard deviation 1/	Maximum rate 1/	Number of tariff bands
Azerbaijan	5.7	7.8	6.4	15	6
China	9.8	5.3	7.1	65	...
Kazakhstan	7.4	13.9	6.6	30	10
Kyrgyz Republic	5.0	4.3	5.1	30	10
Mongolia	4.5	4.3	0.7	15	3
Tajikistan	7.5	7.8	4.0	15	4
Uzbekistan	14.8	16.6	11.6	30	4

Sources: WTO database, IMF TPIDB, Uzbek authorities.

1/ In percent.

2/ For the latest year available.

19. **Current trade policies distort resource allocation, reduce competition, contribute to the difficult business environment (Box 2), create opportunities for corruption, and encourage smuggling.** The authorities indicated that the new customs code, to be submitted to the Cabinet of Ministers in early 2007, would consolidate regulations and bring them in compliance with international standards, but would not include measures to liberalize trade. The authorities noted that multilateral trade liberalization would be considered in the context of WTO accession.

V. Other Issues

20. **There are reports by some market participants of restrictions on currency convertibility in the second half of 2006.** Foreign exchange sales for imports of consumer goods have remained relatively constant at a low level since mid-2006, and a small premium appeared in the curb foreign exchange market. The authorities denied the existence of restrictions and argued that given the strong balance of payments and considerable reserves buildup there was no reason for their introduction. They attributed the delays in foreign exchange availability to the implementation of the Anti-Money Laundering Law in mid-2006, which imposed additional reporting requirements on transactions above a certain limit. They indicated that such delays would be eliminated by early 2007, when an automated

information exchange system is expected to be in place. The authorities reiterated their commitment to unrestricted convertibility for current account transactions.

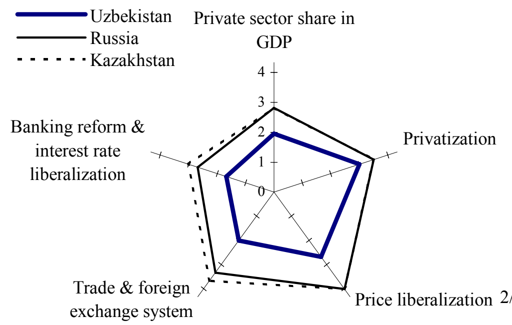
Box 2. Uzbekistan: Business and Trade Environment

Recent surveys point to mixed progress in the business and trade environment areas.

The EBRD Transition Report (2006) characterizes Uzbekistan as a slow reformer, lagging behind in banking sector reforms, trade and foreign exchange liberalization, and privatization (Figure 1).

The World Bank's Doing Business 2007 survey ranks Uzbekistan 147 among 175 countries, with unfavorable scores in trading across borders and getting credit (Table 1). In trade, import contract implementation takes the longest amount of time in Uzbekistan.

Figure 1. Reform Progress, 2006 1/



Source: EBRD Transition Report 2006.
1/ Minimum score is 1 and maximum score is "4+".
2/ According to the EBRD, the share of administered prices in the CPI is over 50 percent, while official data indicate a share of one third.

Table 1. Ease of Doing Business
(Ranking among 175 countries, "1" is the highest rank)

	Ease of Doing Business	Starting a Business	Registering Property	Getting Credit	Paying Taxes	Trading Across Borders	Imports: Documents number	Imports: Time (days)
Uzbekistan	147	70	165	159	155	169	18	139
Kazakhstan	63	40	76	48	66	172	18	87
Latvia	24	25	82	13	52	28	5	12
Russia	96	33	44	159	98	143	8	38
Belarus	129	148	96	117	175	113	7	36
China	93	128	21	101	168	38	10	46

Source: World Bank, Doing Business in 2007.

A joint EBRD-World Bank Business Environment and Enterprise Performance Survey (2006) ranks Uzbekistan favorably compared to other CIS countries in most areas. In addition, it indicates a declining number of firms reporting problems in doing business in 2005 compared to 2002. However, a relatively high and increasing percentage of firms report problems regarding unofficial payments when dealing with taxes, business licensing, and accessing public services.

21. **The authorities recognized the need to enhance the quality of official statistics.** Despite improvements in data availability, weaknesses in economic data significantly hamper surveillance. Large differences among various inflation indicators (CPI, PPI, and GDP deflator) hinder the evaluation of inflationary pressures in the economy. National income accounts, which employ inadequate valuation methods, are inconsistent with the external sector and public finance data. Large errors and omissions in the balance of payments and fiscal accounts point to inadequate coverage and classification issues. To resolve data deficiencies in various sectors, the authorities have requested Fund technical assistance, preferably in the form of a resident advisor.

VI. Staff Appraisal

22. **Macroeconomic performance has been generally strong over the past two years.** Real GDP growth was high, the external current account surplus was large, and official reserves continued to rise. These developments have been supported by a favorable external environment, cautious fiscal policy, and gradual progress in structural reforms. With the tightening of monetary policy in 2006, inflation has recently started coming down, but remains high.

23. **The main macroeconomic challenge in 2007 is to reduce inflation further**. To this end, the staff welcomes the authorities' intention to further tighten monetary policy and continue to maintain a cautious fiscal stance. Given the strength of the balance of payments, the staff recommends a flexible exchange rate policy so as to help take some pressure off indirect policy instruments in slowing money growth and curbing inflation, while creating room for adequate credit expansion to the private sector. Allowing a nominal appreciation of the exchange rate would also be compatible with indications that the sum is undervalued.

24. **The authorities' fiscal stance is appropriate, given their intention to tighten monetary policy and consider exchange rate flexibility to reduce inflation.** Over the medium term, adequate monetary tightening and lower inflation would provide more room to finance social and infrastructure expenditures without compromising fiscal sustainability. The staff commends the authorities for the impressive progress in tax and treasury reforms and encourages them to shift toward more capital expenditure by moderating increases in public sector salaries and pensions, introduce a multi-year budgetary framework, and consolidate the FRD's operations under treasury control.

25. **The authorities' medium-term growth objectives are very ambitious.** These objectives and the underlying higher investments would materialize only if inflation is contained, credit to the private sector picks up, confidence in the banking system is enhanced, and the difficult business environment improves, including through substantial trade liberalization. The favorable external environment provides an excellent opportunity to accelerate reforms in these areas.

26. **Financial deepening is essential to strengthen the monetary transmission mechanism and enhance the banks' role in economic development.** The staff supports the authorities' efforts to strengthen the banking sector. To enhance confidence in the banking sector, the staff recommends that all remaining restrictions on cash withdrawals from banks be completely removed; the role of banks in financial oversight and implementing non-core activities be discontinued; and undue interference in the activities of the banking system be eliminated. The staff also recommends that the authorities request an FSAP to help prioritize banking sector reforms.

27. **Trade liberalization is needed to enhance the business climate and medium-term growth prospects.** A comprehensive move toward trade liberalization will improve productivity and allow Uzbekistan to realize its external trade potential. To these ends, the staff advises the authorities to lower and unify tariffs, eliminate differences in excise taxes on imported and domestic goods, reduce costs related to international trade, streamline customs procedures, and accelerate WTO accession. The staff also urges the authorities to fully adhere to their obligations under Article VIII of the Fund's Articles of Agreement and welcomes the authorities' reiteration of their full commitment to unrestricted currency convertibility for current account transactions.

28. **There is an urgent need to enhance the quality of statistics.** Weaknesses in economic data hamper surveillance significantly. The staff welcomes and strongly supports the authorities' request for technical assistance to address data weaknesses in price indices, national income accounts, and the balance of payments. The staff also urges the authorities to participate in the GDDS and publish economic data.

29. It is proposed that the next Article IV consultation with Uzbekistan takes place on the standard 12-month cycle.

Table 1. Uzbekistan: Selected Economic and Financial Indicators, 2003–07

	2003	2004	2005	2006 Est.	2007 Proj.
National income					
Nominal GDP					
In sum billion	9,838	12,261	15,210	19,616	23,952
In US$ million	10,116	11,941	13,582	16,044	18,776
	(Annual percentage change, unless otherwise specified)				
GDP at current prices	32.0	24.6	24.1	29.0	22.1
GDP at constant prices	4.2	7.7	7.0	7.2	7.7
GDP deflator	26.7	15.7	15.9	20.3	13.4
Consumer price index (eop)					
Official	3.7	3.8	7.8	7.0	5.0-7.0
Alternative	7.7	15.5	18.8	15.2	12.5
Average wage (sums per month, eop)	45,184	73,528	108,610	...	...
Money and credit					
Broad money	27.1	47.8	54.3	37.0	30.0
Net foreign assets	45.6	48.8	44.0	68.9	37.5
Net domestic assets	-87.8	-50.5	-28.4	-127.1	-45.6
Of which : net claims on government	...	-115.8	-87.0	-107.6	-52.3
credit to the economy	6.9	10.8	15.8	2.1	2.6
Income velocity of average broad money (level)	10.5	9.5	8.0	7.2	6.6
External sector					
Exports of goods and services (in millions of US$)	3,775	4,836	5,416	6,610	7,612
Imports of goods and services (in millions of US$)	3,097	3,927	4,101	4,600	5,321
Real effective exchange rate (official rate, alternative CPI; - deprec.)	-19.8	-6.4	5.9	...	...
	(In percent of GDP, unless otherwise specified)				
Consolidated government finance (- = deficit)					
Consolidated revenue and grants	33.4	32.2	32.2	32.7	31.7
Consolidated expenditure and net lending	33.9	32.1	32.5	32.6	32.3
Consolidated budget balance (- = deficit) 1/	0.1	0.6	1.3	0.4	-0.6
Augmented government balance 1/ 2/	0.1	0.6	1.3	3.6	2.9
Public debt (in percent of GDP)	41.6	35.1	29.5	22.6	18.6
External sector					
Current account	8.7	10.2	14.3	19.5	19.6
External debt outstanding	42.0	36.2	30.4	24.5	20.6
External debt service ratio 3/	20.8	17.1	14.1	11.3	9.4
Memorandum items					
Gross official reserves (in millions of US$)	1,659	2,146	2,895	4,604	6,104
Gross official reserves (in months of imports of GNFS)	6.4	6.6	8.5	12.0	13.8
Nominal GDP per capita (in US$)	396	462	519	606	701
Nominal GDP per capita (in US$ on PPP basis)	1,689	1,833	1,920	1,983	2,047
External debt outstanding (in millions of US$)	4,249	4,322	4,133	3,938	3,860
Exchange rates (sums per U.S. dollar; eop)					
Official	979	1,058	1,180	...	...
Curb market	980	1,060	1,220	...	...
Population (in millions)	25.6	25.9	26.2	26.5	26.8

Sources: Uzbek authorities; and Fund staff estimates and projections.

1/ Based on below-the-line financing data.

2/ Includes operations of the Fund for Reconstruction and Development.

3/ In percent of exports of goods and services.

Table 2. Uzbekistan: Balance of Payments, 2003–11
(In millions of U.S. dollars, unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
				Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	881	1,215	1,949	3,136	3,673	4,044	4,587	4,842	5,004
Balance of goods and services	678	909	1,315	2,010	2,291	2,369	2,573	2,425	2,105
Merchandise trade balance	835	1,202	1,446	2,054	2,348	2,468	2,664	2,545	2,251
Exports of goods	3,240	4,263	4,757	5,842	6,791	7,656	8,730	9,636	10,552
Cotton fiber	739	876	1,033	1,009	1,096	1,138	1,238	1,238	1,207
Energy	454	602	623	810	932	1,025	1,127	1,240	1,333
Gold	1,046	1,242	1,315	1,471	1,508	1,587	1,677	1,767	1,812
Other exports of goods	1,001	1,542	1,786	2,552	3,255	3,907	4,688	5,391	6,200
Imports of goods	-2,405	-3,061	-3,310	-3,787	-4,444	-5,188	-6,066	-7,091	-8,301
Foodstuff	-264	-235	-259	-372	-390	-410	-491	-590	-708
Energy products	-80	-81	-104	-268	-280	-302	-382	-484	-616
Machinery and intermediate goods	-1,183	-1,578	-1,593	-1,532	-2,070	-2,588	-3,105	-3,726	-4,471
Other imports of goods	-878	-1,167	-1,355	-1,615	-1,704	-1,889	-2,088	-2,292	-2,505
Balance of services	-157	-293	-131	-44	-57	-99	-90	-120	-146
Credit	535	574	659	769	820	854	952	988	992
Debit 1/	-692	-867	-790	-813	-878	-953	-1,043	-1,108	-1,138
Income (net)	-116	-49	-24	-14	15	34	45	54	64
Of which : Interest (net)	-121	-107	-131	-126	-100	-84	-80	-76	-73
Other income (net)	6	58	107	112	115	119	125	131	137
Transfers (net)	318	354	658	1,139	1,367	1,641	1,969	2,363	2,835
Capital and financial account balance	-414	-702	-1,181	-1,427	-2,173	-2,244	-2,487	-2,742	-2,704
Capital transfers	-48	-132	31	-116	-104	-94	-84	-76	-68
Foreign Direct and Portfolio Investment (net)	70	187	88	164	194	230	271	319	375
Existing public and publicly guaranteed debt (net) 1	-95	-91	-241	-162	-124	-262	-199	-164	-164
Commercial non-guaranteed (net)	52	18	34	42	45	45	50	50	50
Other capital and statistical discrepancy	-394	-684	-1,093	-1,355	-2,244	-2,223	-2,595	-2,951	-2,977
Overall balance	467	512	768	1,709	1,500	1,800	2,100	2,100	2,300
Financing	-467	-512	-768	-1,709	-1,500	-1,800	-2,100	-2,100	-2,300
Gross reserves (- increase)	-444	-487	-748	-1,709	-1,500	-1,800	-2,100	-2,100	-2,300
Use of Fund credit	-23	-25	-20	0	0	0	0	0	0
Memorandum items									
Current account balance									
In percent of GDP (at official rate)	8.7	10.2	14.3	19.5	19.6	18.7	18.2	16.6	14.8
Export growth rate (goods)	29.1	31.6	11.6	22.8	16.3	12.7	14.0	10.4	9.5
Import growth rate (goods)	10.0	27.3	8.2	14.4	17.3	16.8	16.9	16.9	17.1
FDI (in percent of GDP)	0.7	1.6	0.6	1.0	1.0	1.1	1.1	1.1	1.1
Gross official reserves (million U.S. dollars) 2/	1,659	2,146	2,895	4,604	6,104	7,904	10,004	12,104	14,404
In months of imports of goods and services	6.4	6.6	8.5	12.0	13.8	15.4	16.9	17.7	18.3
Total debt service payment (million U.S. dollars)	786	825	764	746	719	650	561	522	519
In percent of exports of goods and services	20.8	17.1	14.1	11.3	9.4	7.6	5.8	4.9	4.5
Outstanding debt (million U.S. dollars) 3/	4,249	4,322	4,133	3,938	3,860	3,643	3,494	3,380	3,266
Of which:									
Public and publicly guaranteed (excl. IMF)	3,915	3,821	3,579	3,343	3,219	2,957	2,758	2,594	2,430
Commercial non-guaranteed	293	483	554	596	641	686	736	786	836
Total outstanding debt (in percent of GDP) 3/	42.0	36.2	30.4	24.5	20.6	16.8	13.9	11.6	9.6
Debt service of next 12 months									
In percent of gross international reserves	49.7	35.6	25.8	15.6	10.7	7.1	5.2	4.3	3.5

Sources: Uzbek authorities; and Fund staff estimates and projections.

1/ State-owned enterprises receive the bulk of the publicly-guaranteed debt; these flows are not recorded in the budget (Table 5).

2/ Through 2002 Q2 includes foreign currency deposits with the National Bank for Foreign Economic Activity (NBFEA) that were not immediately available. Thereafter, all deposits were made liquid through a capital injection by the CBU resulting in a downward adjustment in CBU gross official reserves of $201 million.

3/ This debt stock includes technical credits extended by Russia to Uzbekistan during 1992-94, the settlement of which (a total of US$ 464 million) is still in dispute.

Table 3. Uzbekistan: Summary Accounts of the Central Bank, 2003–07
(In billions of sum, unless otherwise indicated)

	2003	2004	2005	2006					2007
				Mar.	Jun.	Sep.	Oct	Dec. Est.	Proj.
Net int'l reserves (billion U.S. dollars)	1.6	2.1	2.9	3.2	3.6	4.0	4.1	4.6	6.1
Gross int'l reserves (billion U.S. dollars)	1.7	2.1	2.9	3.2	3.6	4.0	4.1	4.6	6.1
Official exchange rate (sum/U.S. dollar, eop)	980	1,058	1,180	1,210	1,225	1,230	1,230	...	...
Net foreign assets	1,584	2,251	3,416	3,860	4,390	4,900	5,072	5,714	7,953
Gold	547	443	583	915	1,441	1,702	1,872	2,200	2,800
Foreign exchange	1,079	1,828	2,833	2,945	2,948	3,007	2,964	2,899	3,655
Fund for Reconstruction & Development	...	...	...	...	...	191	235	614	1,498
Foreign liabilities	-42	-20	0	0	0	0	0	0	0
Net domestic assets	-1,076	-1,546	-2,095	-2,611	-2,940	-3,100	-3,302	-3,904	-5,601
Net domestic credit	-31	-165	-431	-521	-625	-682	-736	-1,280	-2,171
Government, net 1/	-149	-271	-528	-618	-710	-766	-820	-1,364	-2,255
o/w:Fund for Reconstruction & Development	...	...	...	0	0	-191	-235	-614	-1,498
Banks	118	106	98	97	85	84	84	84	84
Rest of the economy	0	0	0	0	0	0	0	0	0
Monetary policy instruments 2/	-179	-284	-388	-614	-719	-515	-452	-174	-930
Other items, net	-866	-1097	-1,276	-1,476	-1,596	-1,904	-2,114	-2,450	-2,500
Reserve money	508	704	1,321	1,248	1,450	1,800	1,770	1,809	2,352
				(Annual Percentage Change)					
Reserve money	26.7	38.7	87.5	59.8	57.4	41.4	27.2	37.0	30.0
Net foreign assets	41.6	42.1	51.8	63.7	68.6	74.0	69.3	67.3	39.2
Net domestic assets	-49.9	-43.7	-35.5	-65.6	-74.8	-101.0	-105.8	-86.3	-43.5
Net credit to government	-377.3	-82.3	-94.9	-109.1	-94.1	-123.5	-118.4	-158.1	-65.4
Net credit to banks	-19.1	-10.2	-8.0	-8.0	-16.9	-16.6	-16.8	-13.9	0.0
Memorandum items									
Money multiplier (ratio)	1.99	2.12	1.74	1.83	1.87	1.57	1.67	1.74	1.74
Fund for Rec. & Dev. (in millions of US$)	...	...	...	...	...	157	191	495	1,150

Sources: Central Bank of Uzbekistan; and Fund staff estimates and projections.

1/ As of 2004, government accounts no longer exclude revaluation changes for exchange rate.
2/ CBU certificates of deposit and special deposits held by commercial banks.

Table 4. Uzbekistan: Monetary Survey, 2003–07
(In billions of sum, unless otherwise indicated)

	2003	2004	2005	2006					2007
				Mar.	Jun.	Sep.	Oct	Dec. Est.	Proj.
Net int'l reserves (billion U.S. dollars)	1.7	2.3	3.0	3.3	3.9	4.3	4.5	4.9	6.4
Official exchange rate (sum/U.S. dollar, eop)	980	1,058	1,180	1,210	1,225	1,230	1,230	1,241	1,303
Net foreign assets	1,662	2,474	3,563	3,969	4,728	5,299	5,602	6,019	8,273
Gold	547	443	583	915	1,442	1,703	1,872	2,200	2,800
Net foreign exchange	1,115	2,031	2,980	3,054	3,286	3,596	3,730	3,205	3,975
Fund for Reconstruction & Development	...	...	...	...	...	191	235	614	1,498
Net domestic assets	-654	-984	-1,263	-1,678	-2,019	-2,472	-2,649	-2,869	-4,178
Domestic credit	2,531	2,584	2,665	2,670	2,767	2,296	2,646	1,830	1,011
Government, net (excluding treasury bills)	-208	-450	-841	-998	-1,081	-1,166	-1,202	-1,746	-2,658
Of which: Fund for Reconstruction & Developme	...	...	...	...	...	-191	235	-614	-1,498
Treasury bills	33	36	33	34	33	32	32	32	32
Rest of economy	2,706	2,998	3,472	3,634	3,815	3,620	3,581	3,544	3,637
Loans in domestic currency	529	720	1,092	1,201	1,483	1,451	1,437	1,550	2,029
Loans in foreign currency	2,177	2,279	2,380	2,433	2,332	2,169	2,144	1,994	1,608
Other items, net	-3,014	-3,418	-3,770	-4,176	-4,613	-4,573	-4,625	-4,500	-4,990
Of which: valuation adjustment	-1,252	-1,431	-1,536	-1,752	-1,837	-1,834	-1,426	-1,500	-1,800
Of which: long-term liabilities	-1,532	-1,678	-1,534	-1,503	-1,456	-1,400	-1,370	-1,350	-1,250
Non-budgetary deposits of bud.org.	-170	-150	-158	-172	-174	-195	-199	-199	-199
Broad Money	1,009	1,491	2,299	2,290	2,708	2,826	2,953	3,150	4,095
Memorandum items:									
Currency ratio (in percent)	40.1	39.6	46.1	45.0	42.5	51.7	49.5	48.3	48.3
Fund for Rec. & Dev. (in millions of US$)	...	...	...	...	...	157	191	495	1,150
				(Annual Percentage Change)					
Broad money	27.1	47.8	54.3	39.1	46.4	28.0	26.9	37.0	30.0
Net foreign assets	45.6	48.8	44.0	52.2	72.2	81.0	77.7	68.9	37.5
Net domestic assets	-87.8	-50.5	-28.4	-74.5	-125.3	-243.7	-220.7	-127.1	-45.6
Domestic bank credit to government 1/	-1,493.0	-115.8	-87.0	-90.1	-53.2	-56.5	-56.0	-107.6	-52.3
Domestic credit to rest of economy	6.9	10.8	15.8	19.3	9.3	-5.5	-2.7	2.1	2.6
Loans in domestic currency	22.1	35.9	51.8	45.3	35.5	7.4	20.3	41.9	30.9
Loans in foreign currency	3.8	4.7	4.5	9.6	-2.6	-12.5	-13.8	-16.2	-19.4
Velocity (in levels) 2/	9.8	8.2	6.6	8.6	7.2	6.9	6.6	6.2	5.8

Sources: Central Bank of Uzbekistan; and Fund staff estimates and projections.

1/ Including net proceeds from sale of treasury bills to banks. Negative number implies a decline in net credit.
2/ Velocity is calculated using end of period nominal GDP over end of period money supply.

Table 5. Uzbekistan: General Government Consolidated Budget, 2003–07
(In billions of sum)

	2003	2004	2005		2006		2007	
			Budget	Act.	Budget	Est.	Budget	Proj.
Consolidated government								
Budget revenue and grants	3,288	3,945	4,729	4,900	5,872	6,406	7,593	7,593
Tax revenue	2,234	2,770	3,176	3,312	3,820	4,118	4,875	4,875
Taxes on incomes and profits	658	776	918	987	1,092	1,294	1,493	1,493
Taxes on property	123	172	196	211	281	289	372	372
Taxes on goods and services	1,367	1,728	1,938	2,005	2,314	2,366	2,821	2,821
Of which: Value-added tax	536	655	749	815	1,017	1,107	1,262	1,262
Excises	694	878	693	638	733	653	888	888
Mining tax	30	56	334	354	466	493	531	531
Customs duties	86	94	123	109	133	170	190	190
Other budget revenue (tax and non-tax)	128	122	161	166	211	316	196	196
Social security contributions (Pension and Empl. Fund)	622	771	1,022	991	1,373	1,364	1,626	1,626
Road Fund and other extrabudgetary revenue	197	186	172	207	215	275	500	500
Education development tax	...	...	123	163	190	270	346	346
Grants	108	96	75	62	62	62	50	50
Budget expenditure and net lending	3,337	3,938	5,216	4,945	6,423	6,403	7,826	7,742
Total expenditure	3,263	3,875	5,055	4,862	6,349	6,331	7,899	7,814
Socio-cultural expenditure (inc. health and education)	913	1,119	1,607	1,581	2,026	2,179	2,840	2,840
Social safety net	806	969	1,280	1,291	1,749	1,711	2,106	2,106
Low-income support (in the budget)	183	219	229	280	370	332	394	394
Pension and Employment Fund	623	749	1,051	1,012	1,379	1,379	1,711	1,711
Pension Fund	598	725	1,030	983	1,354	1,353	1,683	1,683
Employment Fund	25	24	21	29	26	26	28	28
Economy	320	415	515	507	618	571	670	670
Public authorities and administration	59	74	95	97	116	118	157	157
Public investment	432	459	595	474	621	511	698	699
Interest expenditure	52	55	73	66	85	79	80	80
Other expenditure in the budget	479	531	663	627	857	886	976	975
Road Fund	140	139	172	168	215	215	237	237
Extrabudgetary expenditure financed by grants	62	114	55	50	62	62	135	50
Transfer to the Fund for Rec. and Developm.	...	...	...	...	...	...	...	...
Net lending	74	64	161	84	75	73	-73	-73
Statistical discrepancy	56	68	...	244	...	83	...	...
Consolidated budget balance 1/	7	74	-487	199	-552	86	-233	-149
Fund for Reconstruction and Development								
Own revenue	...	...	...	...	...	615	...	971
Expenditure	...	...	...	...		...	...	138
Balance	...	...	...	...	...	615	...	833
Augmented government 1/ 2/								
Revenue and grants	3,288	3,945	4,729	4,900	5,872	7,021	...	8,564
Expenditure and net lending	3,337	3,938	5,216	4,945	6,423	6,403	...	7,880
Balance	7	74	-487	199	...	701	...	684
Financing	-7	-74	487	-199	552	-701	233	-684
Domestic	-101	-165	158	-307	292	-855	125	-792
Domestic banking system 3/	-157	-239	55	-393	132	-905	75	-912
Monetary authorities (net lending)	-83	-122	33	-257	79	-835	63	-891
of which: Fund for Reconstr.&Development	...	...	...	...	...	-615	...	-884
Deposit money banks	-74	-117	22	-136	53	-70	12	-21
Treasury bills outside banks	0	-4	8	6	60	1	1	71
Privatization proceeds	56	78	95	81	100	49	49	49
External	94	91	305	108	259	154	108	108
Memorandum items								
GDP	9,838	12,261	14,737	15,210	18,163	19,616	23,280	23,952
Current expenditure	2,831	3,416	4,460	4,387	5,728	5,820	7,201	7,115
Wages and wage-related expenditure	637	761	989.2	1,098	...	1,514	2,129	2,140

Sources: Uzbek authorities; and Fund staff estimates and projections.

1/ Based on below-the-line data.
2/ Includes consolidated government and Fund for Reconstruction and Development.
3/ Adjusted for valuation changes.

Table 6. Uzbekistan: General Government Consolidated Budget, 2003–07
(In percent of GDP)

	2003	2004	2005		2006		2007	
			Budget	Act.	Budget	Est.	Budget	Proj.
Consolidated government								
Budget revenue and grants	33.4	32.2	32.1	32.2	32.3	32.7	32.6	31.7
Tax revenue	22.7	22.6	21.5	21.8	21.0	21.0	20.9	20.4
Taxes on incomes and profits	6.7	6.3	6.2	6.5	6.0	6.6	6.4	6.2
Taxes on property	1.2	1.4	1.3	1.4	1.5	1.5	1.6	1.6
Taxes on goods and services	13.9	14.1	13.2	13.2	12.7	12.1	12.1	11.8
Of which: Value-added tax	5.4	5.3	5.1	5.4	5.6	5.6	5.4	5.3
Excises	7.1	7.2	4.7	4.2	4.0	3.3	3.8	3.7
Mining tax	0.3	0.5	2.3	2.3	2.6	2.5	2.3	2.2
Customs duties	0.9	0.8	0.8	0.7	0.7	0.9	0.8	0.8
Other budget revenue (tax and non-tax)	1.3	1.0	1.1	1.1	1.2	1.6	0.8	0.8
Social security contributions (Pension and Empl. Fund)	6.3	6.3	6.9	6.5	7.6	7.0	7.0	6.8
Road Fund and other extrabudgetary revenue	2.0	1.5	1.2	1.4	1.2	1.4	2.1	2.1
Education development tax	...	...	0.8	1.1	1.0	1.4	1.5	1.4
Grants	1.1	0.8	0.5	0.4	0.3	0.3	0.2	0.2
Budget expenditure and net lending	33.9	32.1	35.4	32.5	35.4	32.6	33.6	32.3
Total expenditures	33.2	31.6	34.3	32.0	35.0	32.3	33.9	32.6
Socio-cultural expenditure (inc. health and education)	9.3	9.1	9.9	10.4	11.2	11.1	12.2	11.9
Social safety net	8.2	7.9	8.7	8.5	9.6	8.7	9.0	8.8
Low-income support (in the budget)	1.9	1.8	1.6	1.8	2.0	1.7	1.7	1.6
Pension and Employment Fund	6.3	6.1	7.1	6.7	7.6	7.0	7.4	7.1
Pension Fund	6.1	5.9	7.0	6.5	7.5	6.9	7.2	7.0
Employment Fund	0.3	0.2	0.1	0.2	0.1	0.1	0.1	0.1
Economy	3.3	3.4	3.5	3.3	3.4	2.9	2.9	2.8
Public authorities and administration	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7
Public investment	4.4	3.7	4.0	3.1	3.4	2.6	3.0	2.9
Interest expenditure	0.5	0.5	0.5	0.4	0.5	0.4	0.3	0.3
Other expenditures in the budget	4.9	4.3	4.5	4.1	4.7	4.5	4.2	4.1
Road Fund	1.4	1.1	1.2	1.1	1.2	1.1	1.0	1.0
Extrabudgetary expenditure financed by grants	0.6	0.9	0.4	0.3	0.3	0.3	0.6	0.2
Transfer to the Fund for Rec. and Developm.	...	...	...	...	...	...	...	...
Net lending	0.8	0.5	1.1	0.5	0.4	0.4	-0.3	-0.3
Statistical discrepancy	0.6	0.6	0.0	1.6	0.0	0.4	...	0.0
Consolidated budget balance 1/	0.1	0.6	-3.3	1.3	-3.0	0.4	-1.0	-0.6
Fund for Reconstruction and Development								
Own revenue	...	...	...	...	...	3.1	...	4.1
Expenditure	...	...	...	...	...	...	...	0.6
Balance	...	...	...	...	...	3.1	...	3.5
Augmented government 1/ 2/								
Revenue and grants	33.4	32.2	32.1	32.2	32.3	35.8	...	35.8
Expenditure and net lending	33.9	32.1	35.4	32.5	35.4	32.6	...	32.9
Balance 1/	0.1	0.6	-3.3	1.3	...	3.6	...	2.9
Financing	-0.1	-0.6	3.3	-1.3	3.0	-3.6	1.0	-2.9
Domestic	-1.0	-1.3	1.1	-2.0	1.6	-4.4	0.5	-3.3
Domestic banking system 3/	-1.6	-2.0	0.4	-2.6	0.7	-4.6	0.3	-3.8
Monetary authorities (net lending)	-0.8	-1.0	0.2	-1.7	0.4	-4.3	0.3	-3.7
of which: Fund for Reconstr.&Development	...	...		...	...	-3.1	...	-3.7
Deposit money banks	-0.7	-1.0	0.1	-0.9	0.3	-0.4	0.1	-0.1
Treasury bills outside banks	0.0	0.0	0.1	0.0	0.3	0.0	0.0	0.3
Privatization proceeds	0.6	0.6	0.6	0.5	0.6	0.2	0.2	0.2
External	1.0	0.7	2.1	0.7	1.4	0.8	0.5	0.5
Memorandum items								
GDP (in billions of sum)	9,838	12,261	14,737	15,210	18,163	19,616	23,280	23,952
Current expenditure	28.8	27.9	30.3	28.8	31.5	29.7	30.9	29.7
Wages and wage-related expenditure	6.5	6.2	6.7	7.2	...	7.7	9.1	8.9

Sources: Uzbek authorities; and Fund staff estimates and projections.

1/ Based on below-the-line data.
2/ Includes consolidated government and Fund for Reconstruction and Development.
3/ Adjusted for valuation changes.

Table 7. Uzbekistan: External Debt Sustainability Framework, Baseline Scenario, 2003–11 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Est.	Projections					
	2003	2004	2005			2006	2007	2008	2009	2010	2011	2006-11 Average
External debt (nominal) 1/	42.0	36.2	30.4			24.5	20.6	16.8	13.9	11.6	9.6	
o/w public and publicly guaranteed (PPG)	39.0	33.0	27.8			21.1	17.5	13.8	11.0	8.9	7.2	
Change in external debt	-3.8	-5.8	-5.8			-5.9	-4.0	-3.7	-2.9	-2.3	-1.9	
Identified net debt-creating flows	-12.1	-15.7	-18.2			-22.5	-22.3	-21.1	-20.4	-18.5	-16.6	
Non-interest current account deficit	-9.9	-11.1	-15.3	-7.3	5.7	-20.3	-20.1	-19.0	-18.5	-16.8	-15.0	
Deficit in balance of goods and services	-6.7	-7.6	-9.7			-12.5	-12.2	-10.9	-10.2	-8.3	-6.2	
Exports	37.3	40.5	39.9			41.2	40.5	39.3	38.4	36.4	34.1	
Imports	30.6	32.9	30.2			28.7	28.3	28.3	28.2	28.1	27.9	
Net current transfers (negative = inflow)	-3.1	-3.0	-4.8	-2.1	1.9	-7.1	-7.3	-7.6	-7.8	-8.1	-8.4	
Other current account flows (negative = net inflow)	-0.1	-0.5	-0.8			-0.7	-0.6	-0.5	-0.5	-0.4	-0.4	
Net FDI (negative = inflow)	-0.7	-1.6	-0.6	-0.8	0.4	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1	
Endogenous debt dynamics 2/	-1.5	-3.0	-2.3			-1.1	-1.2	-1.0	-0.8	-0.6	-0.5	
Contribution from nominal interest rate	1.2	1.0	1.0			0.8	0.6	0.4	0.3	0.3	0.2	
Contribution from real GDP growth	-1.8	-2.9	-2.3			-2.0	-1.7	-1.4	-1.1	-0.9	-0.7	
Contribution from price and exchange rate changes	-0.9	-1.1	-1.0			…	…	…	…	…	…	
Residual (3-4) 3/	8.4	9.9	12.5			16.6	18.3	17.4	17.4	16.2	14.6	
o/w exceptional financing	0.2	0.2	0.1			0.0	0.0	0.0	0.0	0.0	0.0	
NPV of external debt 4/	...	...	29.6			24.1	19.0	15.7	13.0	10.6	8.4	
In percent of exports	...	...	74.3			58.4	46.9	40.0	33.9	29.2	24.7	
NPV of PPG external debt	...	...	27.0			20.6	16.0	12.7	10.2	7.9	6.0	
In percent of exports	...	...	67.8			50.1	39.5	32.4	26.5	21.8	17.5	
Debt service-to-exports ratio (in percent)	19.5	16.0	13.3			11.0	9.1	7.3	5.5	4.7	4.3	
PPG debt service-to-exports ratio (in percent)	19.3	15.6	12.8			10.6	8.8	7.1	5.3	4.5	4.1	
Total gross financing need (billions of U.S. dollars)	0.0	-0.5	-1.3			-2.5	-3.1	-3.6	-4.2	-4.6	-4.8	
Non-interest current account deficit that stabilizes debt ratio	-6.1	-5.3	-9.5			-14.4	-16.1	-15.3	-15.6	-14.5	-13.1	
Key macroeconomic assumptions												
Real GDP growth (in percent)	4.2	7.7	7.0	5.2	1.7	7.2	7.7	7.5	7.3	7.0	6.8	7.2
GDP deflator in US dollar terms (change in percent)	2.0	2.6	2.8	2.3	0.4	2.8	2.0	2.0	2.0	2.0	2.0	2.1
Effective interest rate (percent) 5/	2.7	2.5	3.0	3.9	1.3	3.0	2.5	2.2	2.2	2.2	2.2	2.4
Growth of exports of G&S (U.S. dollar terms, in percent)	26.4	28.1	12.0	10.6	14.9	22.1	15.1	11.8	13.8	9.7	8.7	13.5
Growth of imports of G&S (U.S. dollar terms, in percent)	8.9	26.8	4.4	8.4	10.7	12.2	15.7	15.4	15.8	15.3	15.1	14.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	11.2	11.2	11.2	11.2	11.2	11.2	11.2
Memorandum item:												
Nominal GDP (billions of U.S. dollars)	10.1	11.9	13.6			16.0	18.8	21.7	25.2	29.2	33.9	

Sources: Uzbek authorities; and Fund staff projections and simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 6 years, subject to data availability.

Table 8. Uzbekistan: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006–11
(In percent)

	Est.	Projections				
	2006	2007	2008	2009	2010	2011
NPV of debt-to-GDP ratio						
Baseline	20.6	16.0	12.7	10.2	7.9	6.0
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2007-11 1/	20.6	31.6	42.7	53.6	62.7	70.2
A2. New public sector loans on less favorable terms in 2007-11 2/	20.6	21.5	22.6	25.4	29.1	33.4
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	20.6	16.0	12.5	9.0	5.7	2.7
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	20.6	22.2	29.5	26.0	22.7	19.8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	20.6	15.4	11.5	8.3	5.3	2.5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-	20.6	23.9	29.0	25.0	21.3	18.0
B5. Combination of B1-B4 using one-half standard deviation shocks	20.6	33.0	52.9	47.6	42.8	38.4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	20.6	21.7	16.2	11.7	7.4	3.6
NPV of debt-to-exports ratio						
Baseline	50.1	39.5	32.4	26.5	21.8	17.5
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2007-11 1/	50.1	77.9	108.6	139.4	172.5	206.1
A2. New public sector loans on less favorable terms in 2007-11 2/	50.1	53.1	57.6	66.2	80.1	98.1
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	50.1	33.1	24.2	16.8	10.6	5.1
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	50.1	66.5	109.1	92.4	80.2	70.1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	50.1	33.1	24.2	16.8	10.6	5.1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-	50.1	51.6	61.4	51.0	43.2	36.5
B5. Combination of B1-B4 using one-half standard deviation shocks	50.1	87.7	154.2	133.6	119.3	107.3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	50.1	33.1	24.2	16.8	10.6	5.1
Debt service ratio						
Baseline	10.6	8.8	7.1	5.3	4.5	4.1
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2007-11 1/	10.6	11.0	11.2	11.1	12.1	13.5
A2. New public sector loans on less favorable terms in 2007-11 2/	10.6	10.2	8.6	7.1	6.7	6.9
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	10.6	9.4	7.6	5.7	4.8	4.2
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	10.6	13.0	14.2	12.5	10.9	9.8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	10.6	9.4	7.6	5.7	4.8	4.2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-	10.6	9.4	8.3	7.1	6.1	5.5
B5. Combination of B1-B4 using one-half standard deviation shocks	10.6	12.0	13.2	12.9	11.3	10.3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	10.6	9.4	7.6	5.7	4.8	4.2
Memorandum item:						
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	9.3	9.3	9.3	9.3	9.3	9.3

Sources: Uzbek authorities; and Fund staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baselin
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 9. Uzbekistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2003–11
(In percent of GDP, unless otherwise indicated)

	Actual					Est.	Projections					
	2003	2004	2005	Historical Average 5/	Standard Deviation 5/	2006	2007	2008	2009	2010	2011	2006–11 Average
Public sector debt 1/	41.7	35.1	29.5			22.6	18.6	14.6	11.7	9.4	7.6	
o/w foreign-currency denominated	39.0	33.0	27.8			21.1	17.5	13.8	11.0	8.9	7.2	
Change in public sector debt	-12.9	-6.5	-5.6			-7.0	-3.9	-4.0	-2.9	-2.2	-1.8	
Identified debt-creating flows	-13.5	-6.9	-5.5			-9.3	-6.3	-2.6	-1.2	-0.1	0.5	
Primary deficit (-=surplus)	-0.6	-1.1	-1.7	0.0	1.4	-4.0	-3.2	0.0	0.8	1.5	1.7	-0.5
Revenue and grants	33.4	32.2	32.2			35.8	35.8	35.7	34.9	34.5	34.3	
of which : grants	1.1	0.8	0.4			0.3	0.2	0.2	0.1	0.1	0.1	
Primary (noninterest) expenditure	32.8	31.1	30.5			31.8	32.6	35.6	35.7	35.9	36.0	
Automatic debt dynamics	-12.3	-5.2	-3.3			-5.1	-2.9	-2.5	-1.9	-1.5	-1.1	
Contribution from interest rate/growth differential	-3.2	-3.7	-2.9			-2.5	-1.8	-1.5	-1.1	-0.8	-0.6	
of which : contribution from average real interest rate	-1.0	-0.8	-0.6			-0.5	-0.2	-0.2	-0.1	0.0	0.0	
of which : contribution from real GDP growth	-2.2	-3.0	-2.3			-2.0	-1.6	-1.3	-1.0	-0.8	-0.6	
Contribution from real exchange rate depreciation	-9.1	-1.5	-0.3			-2.6	-1.1	-1.0	-0.8	-0.6	-0.5	
Other identified debt-creating flows	-0.6	-0.6	-0.5			-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	
Privatization receipts (negative)	-0.6	-0.6	-0.5			-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	
Residual, including asset changes	0.6	0.4	-0.1			2.4	2.3	-1.4	-1.7	-2.2	-2.3	
NPV of public sector debt	...	...	...			22.4	17.5	13.7	10.9	8.5	6.4	
o/w foreign-currency denominated	...	...	...			21.0	16.4	12.8	10.2	7.9	5.9	
o/w external	...	...	...			21.0	16.4	12.8	10.2	7.9	5.9	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...	
Gross financing need 2/	1.5	0.8	-0.2			-2.7	-2.0	1.1	1.8	2.3	2.5	
NPV of public sector debt-to-revenue ratio (in percent) 3/	...	...	...			62.5	48.9	38.4	31.3	24.6	18.7	
o/w external	...	...	...			58.6	45.8	36.0	29.3	23.0	17.3	
Debt service-to-revenue ratio (in percent) 3/ 4/	4.9	4.5	3.8			2.8	2.7	2.6	2.4	2.1	2.0	
Primary deficit that stabilizes the debt-to-GDP ratio	12.3	5.5	3.9			3.0	0.8	4.0	3.7	3.7	3.5	
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	4.2	7.7	7.0	5.2	1.7	7.2	7.7	7.5	7.3	7.0	6.8	7.2
Average nominal interest rate on forex debt (in percent)	1.2	1.3	1.4	1.8	0.8	1.7	1.7	1.8	2.1	2.2	2.5	2.0
Average real interest rate on domestic currency debt (in percent)	-19.3	-11.6	-11.2	-21.1	8.3	-14.7	-9.2	-11.0	-10.2	-9.4	-3.6	-9.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-18.7	-4.2	-1.1	14.1	32.6	-10.1	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	26.7	15.7	15.9	32.7	15.1	20.3	13.4	13.1	12.1	11.1	10.7	13.4
Growth of real primary spending (deflated by GDP deflator, in percent)	-7.6	2.1	4.8	0.3	6.6	11.9	10.2	17.6	7.5	7.6	7.0	10.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	11.2	11.2	11.2	11.2	11.2	11.2	11.2

Sources: Uzbek authorities; and Fund staff estimates and projections.
1/ General government gross debt is used.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are derived over the past 6 years, subject to data availability.

Table 10. Uzbekistan: Sensitivity Analysis for Key Indicators of Public Debt, 2006–11

		Projections				
	2006 Est.	2007	2008	2009	2010	2011
NPV of Debt-to-GDP Ratio						
Baseline	22.4	17.5	13.7	10.9	8.5	6.4
A. Alternative scenarios						
A1. Real GDP growth and primary balance are at historical averages	22.4	21.5	18.2	14.8	10.9	7.1
A2. Primary balance is unchanged from 2006	22.4	16.7	9.0	...	...	...
A3. Permanently lower GDP growth 1/	22.4	17.8	14.5	12.4	10.7	9.5
B. Bound tests						
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	22.4	19.7	19.2	18.7	18.3	18.1
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	22.4	22.6	20.3	17.0	14.0	11.4
B3. Combination of B1-B2 using one half standard deviation shocks	22.4	22.5	20.0	16.5	13.4	10.6
B4. One-time 30 percent real depreciation in 2007	22.4	25.6	20.8	17.1	13.7	10.8
B5. 10 percent of GDP increase in other debt-creating flows in 2007	22.4	27.5	22.9	19.3	16.1	13.3
NPV of Debt-to-Revenue Ratio 2/						
Baseline	62.5	48.9	38.4	31.3	24.6	18.7
A. Alternative scenarios						
A1. Real GDP growth and primary balance are at historical averages	62.5	60.3	51.1	42.4	31.6	20.6
A2. Primary balance is unchanged from 2006	62.5	46.7	25.3	...	...	...
A3. Permanently lower GDP growth 1/	62.5	49.8	40.7	35.4	31.0	27.7
B. Bound tests						
B1. Real GDP growth is at historical average minus one standard deviation in 2007-2008	62.5	55.0	53.7	53.5	53.1	52.8
B2. Primary balance is at historical average minus one standard deviation in 2007-2008	62.5	63.1	57.0	48.7	40.6	33.3
B3. Combination of B1-B2 using one half standard deviation shocks	62.5	62.9	56.0	47.3	38.7	31.0
B4. One-time 30 percent real depreciation in 2007	62.5	71.5	58.2	49.0	39.8	31.5
B5. 10 percent of GDP increase in other debt-creating flows in 2007	62.5	76.8	64.3	55.4	46.8	38.9
Debt Service-to-Revenue Ratio 2/						
Baseline	2.8	2.7	2.6	2.4	2.1	2.0
A. Alternative scenarios						
A1. Real GDP growth and primary balance are at historical averages	2.8	2.8	6.5	4.8	3.0	1.5
A2. Primary balance is unchanged from 2006	2.8	2.7	1.8	...	...	...
A3. Permanently lower GDP growth 1/	2.8	2.7	2.8	3.0	3.1	3.5
B. Bound tests						
B1. Real GDP growth is at historical average minus one standard deviation in 2007-2008	2.8	2.8	4.3	6.4	7.2	7.8
B2. Primary balance is at historical average minus one standard deviation in 2007-2008	2.8	2.7	7.8	6.9	4.5	3.5
B3. Combination of B1-B2 using one half standard deviation shocks	2.8	2.8	7.4	6.0	4.0	3.2
B4. One-time 30 percent real depreciation in 2007	2.8	2.9	3.0	2.8	2.5	2.4
B5. 10 percent of GDP increase in other debt-creating flows in 2007	2.8	2.7	12.8	7.3	4.9	3.9

Sources: Uzbek authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 6 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

Table 11. Uzbekistan: Financial Soundness Indicators for Banking Sector, 2002–06
(In percent unless otherwise indicated)

	2002	2003	2004	2005	Sept-2006
Capital adequacy					
Total regulatory capital/risk-weighted assets	41.9	39.9	28.0	25.0	21.5
Total regulatory capital/total assets	16.5	15.6	13.6	14.4	14.1
Asset quality					
Distribution by risk weight category	100.0	100.0	100.0	100.0	100.0
0 percent	10.7	9.8	10.6	14.3	16.4
20 percent	72.8	67.0	60.0	44.0	35.6
50 percent	0.00	0.00	0.00	0.00	0.0
100 percent	16.5	23.2	29.3	41.7	48.1
Sectoral concentration	100.0	100.0	100.0	100.0	100.0
Manufacturing	58.4	63.3	61.9	59.6	50.7
Agriculture 1/	1.9	2.3	3.0	3.9	14.2
Transportation and communication	13.6	12.9	13.4	15.3	12.4
Building and construction	3.7	5.6	2.4	2.2	2.8
Trade and services	2.4	3.4	3.8	4.0	3.6
Logistics	6.6	4.6	1.0	1.2	1.7
Utilities	0.1	0.5	3.4	2.8	2.7
Others	13.2	7.4	11.1	10.9	11.9
Large exposures/total assets	0.9	1.1	1.4	0.9	0.7
Large exposure/total capital	4.2	5.5	7.8	5.0	3.9
Connected lending/total capital	2.9	4.0	5.2	1.0	2.1
Directed lending/total loans	5.6	4.3	3.4	2.7	2.2
Foreign exchange loans/total loans	80.0	77.0	73.0	65.9	58.5
NPLs/total gross loans (or exposures)	8.5	10.9	9.3	8.9	7.3
Government guarantee/total loans	78.2	75.5	69.5	59.8	52.2
Profitability					
Return on (average) assets	1.5	1.5	1.5	0.9	1.6
Return on (average) equity	7.0	7.3	8.2	5.2	8.3
Interest margin/gross income	21.9	23.2	20.7	20.1	17.9
Expenses/revenues	87.6	87.8	87.3	90.7	78.8
Non-interest expenses/gross income	46.9	47.0	45.9	50.5	49.0
Personnel expenses to noninterest expenses	17.4	26.3	29.9	34.6	44.0
Trading and fee income to total income	37.4	36.0	37.9	35.9	54.0
Liquidity					
Loans to deposits	424.6	334.1	240.4	213.5	156.6
Liquid assets/total assets	17.8	21.3	22.2	19.7	25.5
Liquid assets/short-term liabilities	48.4	59.4	66.5	51.8	64.4
Funding volatility ratio (volatile liab-liquid assets/illiquid assets)	4.9	6.2	4.3	12.1	11.7
Demand deposits/total liabilities	11.6	12.3	11.0	18.4	15.4
Customer deposits to total (non-interbank) loans	23.2	29.3	40.1	42.7	59.7
Foreign exchange liabilities to total liabilities	86.8	84.0	67.9	72.2	65.0

Source: Uzbek authorities.

1/ The sharp increase in 2006 reflects the full channeling of loans to farmers through the banking system.

Table 12. Uzbekistan: Selected Vulnerability Indicators, 2002–06

	2002	2003	2004	2005	2006 1/	Date of latest observation
Key Economic and Market Indicators						
Real GDP growth (in percent)	4.0	4.2	7.7	7.0	7.2	Est.
CPI inflation (official, period average, in percent)	27.3	10.2	1.7	6.5	7.4	Est.
CPI inflation (Fund staff estimate, period average, in percent)	44.3	14.8	8.8	21.0	19.5	Est.
Exchange rate Sum/US$ (end of period)	970.0	979.4	1,058.0	1,180.0	...	Est.
External Sector						
Exchange rate regime			(De-facto conventional peg)			
Current account balance (percent of GDP)	1.2	8.7	10.2	14.3	19.5	Est.
Net FDI inflows (percent of GDP)	0.7	0.7	1.6	0.6	1.0	Est.
Export growth (percentage change of US$ value, GNFS)	-6.7	26.4	28.1	12.0	22.1	Est.
Real effective exchange rate (2000 = 100)	57.3	46.0	43.0	45.5	49.8	Sep-06
Gross official international reserves (GIR) in US$billion	1.2	1.7	2.1	2.9	4.6	Est.
GIR in percent of ST debt on a remaining maturity basis	190	239	353	388	776	Est.
Net international reserves (NIR) of the banking system in US$ billion	1.2	1.7	2.3	3.0	4.9	Est.
Total gross external debt in percent of GDP	55.0	42.0	36.2	30.4	24.5	Est.
Total gross external debt in percent of exports of GNFS	142.7	112.6	89.4	76.3	59.6	Est.
Public Sector 2/						
Augmented government budget balance (percent of GDP) 3/	-1.9	0.1	0.6	1.3	3.6	Est.
Consolidated government balance (percent of GDP)	-1.9	0.1	0.6	1.3	0.4	Est.
Primary balance (percent of GDP) 3/	-1.3	0.6	1.1	1.7	4.0	Est.
Public and publicly guaranteed gross debt (PSGD, in percent of GDP)	54.6	41.6	35.1	29.5	22.6	Est.
Domestic debt linked to foreign currency (in percent of total PSGD)	0.0	0.0	0.0	0.0	0.0	Est.
Public sector net debt (in percent of GDP)	54.4	37.1	29.5	21.6	11.5	Est.
Financial Sector						
Capital adequacy ratio (in percent)	41.9	39.9	28.0	25.0	21.5	Sep-06
NPLs in percent of total loans	8.5	10.9	9.3	8.9	7.3	Sep-06
Return on average assets (in percent)	1.5	1.5	1.5	0.9	1.6	Sep-06
FX loans to residents (in percent of total loans)	80.0	77.0	73.0	65.9	58.5	Sep-06
Memorandum item:						
Nominal GDP in billions of U.S. dollars	9.5	10.1	11.9	13.6	16.0	Est.

Sources: Uzbek authorities; and Fund staff estimates.

1/ Estimates (GDP, CPI inflation, CA, FDI, export growth, overall, primary, debt-stabilizing primary, gross public sector financing requirement) or actual data for period in next column.

2/ Public Sector refers to general government

3/ Includes operations of the Fund for Reconstruction and Development.

INTERNATIONAL MONETARY FUND

REPUBLIC OF UZBEKISTAN

2006 Article IV Consultation
Informational Annex

January 23, 2007

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APPENDIX I: FUND RELATIONS

(As of December 31, 2006)

I. Membership Status:

a. Date of membership: September 21, 1992

b. Status: Article VIII

II. General Resources Account:	SDR million	Percent Quota
Quota	275.60	100.00
Fund holdings of currency	275.60	100.00
Reserve position in the Fund	0.01	0.00

III. SDR Department:	SDR million	Percent Allocation
Holdings	0.01	N/A

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
Stand-by	12/18/95	3/17/97	124.70	65.45

VI. Projected Obligations to the Fund: None

VII. Implementation of HIPC Initiative: Not applicable

VIII Implementation of Multilateral Debt Relief Initiative: Not applicable

IX. Exchange Rate Arrangements: (As of December 31, 2006)

The exchange rate is determined in the interbank foreign exchange market. However, the market has been characterized by one sided intervention by the Central Bank of Uzbekistan leading to exchange rate stability against the U.S. dollar in the second half of 2006 within a two percent band. Consequently, IMF staff has reclassified the de facto exchange rate regime as a “conventional peg” from the previous classification of “managed floating with no pre-determined path for the exchange rate”.

Uzbekistan accepted the obligations of Article VIII Sections 2(a), 3 and 4 of the Fund's Articles of Agreements with effect on October 15, 2003.

X. Article IV Consultation:

The 2005 Article IV consultation was completed by the Executive Board on May 16, 2005 (Staff Report SM/05/146, 05/147). Uzbekistan is on the standard 12-month consultation cycle.

XI. Staff Visits and Policy Discussions (since January 1, 2001):

June 2001: Staff Visit.
July/August 2001: Staff Visit.
December 2001: Article IV Consultation/Discussion of Staff-Monitored Program.
June 2002: Staff Visit.
September 2002: Staff Visit.
February 2003: Article IV Consultation.
June 2003: Staff Visit.
October 2003: Staff Visit.
March 2004: Article IV Consultation.
December 2004: Staff Visit.
February/March 2005: Article IV Consultation.
November/December 2005: Staff Visit.
November/December 2006: Article IV Consultation.

XII. Safeguards Assessment:

The CBU is currently not subject to safeguards assessment policy since Uzbekistan is not expected to have a financial arrangement with the Fund in the near future.

XIII. Technical Assistance:

Technical assistance and training have been provided by the Fund (MAE, FAD, STA, LEG, and INS) to Uzbekistan in a number of areas. Technical assistance is now being provided on budget and treasury reforms and has been requested by the authorities to address data weaknesses in price indices, national income accounts, and balance of payments.

Monetary and exchange affairs:

April 2002 mission: External public debt management (with the participation of a World Bank consultant; the mission was carried out in the framework of a joint IMF-

Swiss regional project for countries in the Swiss constituency, financed by the Government of Switzerland).

In October 2003, a member of MFD participated in a staff visit to review the foreign exchange system, and assist the government in identifying the foreign exchange restrictions and multiple currency practices that needed to be abolished before the authorities accept the obligations of Article VIII, sections 2, 3, and 4, of the IMF's Articles of Agreement.

Fiscal affairs:

October/November 2002 mission: Public expenditure management review.
September 2004 mission: Public expenditure management review.

Statistical issues:

March 2000 mission: Balance of payments statistics.
April 2000 mission: Money and banking statistics.
November 2003 mission: National accounts and price statistics.
August/September 2004 mission: National accounts statistics

Legal issues:

The Fund has provided advice and assistance to the Government and the Central Bank of Uzbekistan on a range of legal issues, especially relating to foreign exchange and banking legislation. In particular, in 2000 and in 2002, a member of LEG conducted a review of the foreign exchange regulations. In October 2003, another member of LEG participated in a staff visit to assist the government in identifying the foreign exchange restrictions and multiple currency practices that needed to be abolished before the authorities accept the obligations of Article VIII, sections 2, 3, and 4, of the IMF's Articles of Agreement.

Training:

Uzbek officials have participated in courses in Washington, at the IMF-Singapore Training Institute, and at the Joint Vienna Institute in the areas of macroeconomic management, financial programming, taxation, public expenditure and treasury management, monetary statistics and policy, and balance of payments analysis. Courses on selected topics were also organized in Tashkent in June 1993, May 1994, and April/May 1998.

XIV. Resident Representative:

The Fund's first Resident Representative, Istvan Szalkai, was in Tashkent from September 1993 to September 1995. His successor, Mark O'Brien, served from November 1995 to December 1997. He was replaced by Christoph Rosenberg who served from January 1998 to April 2001. Currently, the Fund does not have a resident representative in Uzbekistan, but maintains a locally staffed office in Tashkent.

XV. Resident Advisors:

Richard Grzebinski served as an advisor on computerization to the State Tax Committee from January 1994 to January 1995. His successor, Mr. Emmanuel Sigler, served from April to June 1995.

Alexander Agafonoff served as an advisor on monetary policy at the Central Bank of Uzbekistan from November 1994 to December 1995.

Jim Stevenson began his service as an advisor on treasury operations at the Ministry of Finance in September 1996. His assignment was prematurely terminated in July 1998 because of a lack of cooperation by the ministry of finance.

John Zohrab began his service in January 2003 as an advisor to the ministry of finance. He assisted the authorities with the Public Financial Management (PFM) project, including treasury modernization, while visiting Tashkent from Georgia. In November 2006, he was relocated to Tashkent to assist with (i) PFM project implementation, (ii) continuation of treasury reform, and (iii) PFM legal framework strengthening.

APPENDIX II: RELATIONS WITH SELECTED INTERNATIONAL FINANCIAL INSTITUTIONS

The World Bank
(As of January 18, 2007)

1. Uzbekistan became a member of the IBRD and IDA in September 1992, of the IFC in October 1993, and of the MIGA in November 1993. Prior to FY02, Uzbekistan was an IBRD-only borrower. In December 2001, it became a blend country eligible for both IBRD and IDA borrowing but the last lending operation to Uzbekistan, which was approved in September 2004, was an IDA-only credit.

2. As of December 31, 2006, there are two IBRD loans, two blend IBRD-IDA operations and two IDA credits in the active portfolio, namely: Rural Water Supply and Sanitation (US$75 million, approved August 1997); Rural Enterprise Support (US$36.14 million, approved December 2001); Bukhara/Samarkand Water Supply (US$20 million IBRD loan and SDR15.9 million IDA credit, approved March 2002); Drainage, Irrigation and Wetland Management (US$35 million IBRD loan and SDR18.4 million IDA credit, approved June 2003); Health II Credit (SDR26.9 million, approved September 2004), and Basic Education (SDR 10.1 million). The undisbursed balance of the ongoing projects as of end-December 2006 was US$142.8 million and the IBRD and IDA debt outstanding and disbursed as of end-December 2006 was US$316 million.

3. The Bank's non-lending activities in Uzbekistan in recent years have included a country procurement assessment (FY02), a living standards/poverty assessment (FY03), a country economic memorandum (FY03), an investment climate assessment (FY04), a public expenditure review (FY04), a financial accountability assessment (FY04), and a number of policy notes under a programmatic public expenditure review and a programmatic poverty assessment (FY05 – 07). Presently the Bank is continuing economic and advisory work within the framework of technical assistance to the preparation of the government's Welfare Improvement Strategy (PRSP). The areas covered by this technical assistance include microfinancing, housing financing and efficiency of public utilities. The Bank is also currently providing — or administering on behalf of other donors—several grants, including grants for the development of capacity of public sector audit institutions and for wheat flour fortification.

4. The last Country Assistance Strategy (CAS) for Uzbekistan covering FY02–04 expired in July 2004. The World Bank prepared an interim strategy note for Uzbekistan for FY07–08 centering on technical assistance, capacity building and advisory services which was discussed by the Bank's Executive Directors in July 2006. The interim strategy maintains the World Bank's focus on alleviating poverty in Uzbekistan by continuing to engage the authorities on governance and economic recovery, and trying to reach out to civil society.

5. Since Uzbekistan became an IFC member in 1993, the IFC has committed nearly US$68 million of its own funds and has arranged for over US$13 million in syndications. The IFC has focused its activities on supporting SMEs, developing financial markets and leasing and providing TA to improve the business environment. IFC has provided SME credit lines to Asaka Bank, the National Bank of Uzbekistan (NBU), Hamkorbank, and Parvina Bank. In addition, IFC recently approved a second SME credit Line to Hamkorbank coupled with technical assistance to strengthen bank management and operations. IFC is also considering the possibility of starting a new Microfinance Bank in Uzbekistan jointly with EBRD, ADB, KfW and a private microfinance provider. IFC will continue to seek qualified private intermediaries for investment under the IFC Central Asia Leasing Facility, such as UzKDB (Uzbekistan Korea Development Bank) and other institutions for future SME credit lines. IFC is also a significant shareholder in the Central Asia Small Enterprise Fund (CASEF) that provides equity and quasi-equity to local enterprises—CASEF has made three equity investments to date in Uzbekistan and a fourth has been approved and is currently being finalized. Furthermore, the IFC has selectively invested in the real sector which included projects in the pharmaceutical industry, furniture manufacturing, granite processing and cheese production.

6. On the technical assistance side, the IFC has been very active through the Private Enterprise Partnership Central Asia on improving financial intermediation for micro and small business enterprises as well as improvements to the business environment. For example, in 2002 the IFC helped to develop new leasing legislation which improved considerably financing options for SMEs, and in 2005 with IFC support, seven new Presidential decrees were adopted to help improve the business-enabling environment for SMEs. Ongoing TA projects include the SME survey and business environment reform policy project and, the leasing and mortgage development work. The IFC will continue to promote private sector development through dedicated technical assistance aiming to improve the business environment and legislation, as well as continue to support financing to SMEs and micro-enterprises. As of January 2007, the IFC portfolio stood at US$16 million, with 88 percent in financial markets and 12 percent in the real sector. The portfolio is predominantly composed of loans.

The European Bank for Reconstruction and Development (EBRD)
(As of December 31, 2006)

7. Uzbekistan became a member of the EBRD in 1992. The current Country Strategy covering the period 2005-2007 was approved in July 2005. The Strategy noted that although some progress had been achieved on the economic side since 2003, the transition targets set in the intermediary strategy had not been met, and as a result the Country strategy suspended the public sector operations. It mentioned, however, that the Bank would stay engaged in Uzbekistan and focus its activities on private sector investment and entrepreneurship.

8. The EBRD's cumulative commitments of EUR 547 million are concentrated in three main areas: Financial institutions (26 percent), Natural resources and energy (35.5 percent), and Infrastructure (27 percent). Most of the Bank's funding is in the form of debt (98 percent

of the Bank's portfolio in Uzbekistan) with only EUR 5.6 million in equity investment. The current disbursement ratio is 85 percent of total commitments. Overall, EBRD's portfolio is performing well, with the exception of two private sector operations, one in textiles and one in construction materials. With 56 percent of EBRD financing in the private sector, the Bank's operations in Uzbekistan are below the target ratio of 60 percent, reflecting the low level of western FDI, a main source of business volume for the Bank, in the country. In terms of business volume, the limitations of the Strategy and the difficulties in the investment climate brought it down to around US$6 million in 2006, with a target of US$20–30 million in 2007.

9. A new Country Strategy for 2007–09 will be discussed with the Uzbek authorities in mid-2007 and presented to the Board during the second half of the year.

The Asian Development Bank (ADB)
(As of December 31, 2006)

10. Uzbekistan became a member of the ADB in 1995. A new Country Strategy and Program (CSP) for Uzbekistan was endorsed by the ADB Board of Directors in March 2006. The CSP covering 2006–10 aims to continue to support the country's transition to a market-based economy and its integration with the global economy. In line with the country's own strategic priorities, ADB plans to have its operations focus on four key areas: rural development, promotion of private sector development, regional cooperation in transport and customs transit, and improvement of social services with an emphasis on early childhood development and basic education.

11. The CSP envisages, that the ADB provides loans to Uzbekistan of about US$100 million a year over the next three years and about US$2 million a year for technical assistance (TA) grant for support of capacity building and policy and institutional reforms. The authorities and ADB agree to review the CSP from time to time, and update the ADB's operations programs, in line with the country's changing needs and in consultation with development of other development partners' programs. For example, one of the recent inclusions in the ADB's 2007 program is a proposed public finance management reform project to help establish a treasury system.

12. The actual achievement of ADB's operations in Uzbekistan will depend on the progress in the country's implementation capacity, and relevant policy and institutional reforms in the areas of ADB operations.

13. ADB's operational approach has been a constructive engagement in Uzbekistan, with its assistance tailored to the pace and direction of reforms undertaken by the government. ADB's approach to investment lending has taken into account (i) impact on poverty reduction, (ii) contribution to regional cooperation, (iii) contribution to formulation and implementation of the government's reform strategies and policies, and (iv) implementation progress of existing projects in the sector under consideration.

14. As of 31 December 2006, cumulative lending to Uzbekistan totaled US$976.3 million for 23 loans. Of these, 19 loans for US$872.3 million were provided from ADB's ordinary capital resources (OCR) and four for US$102.6 million from the concessional Asian Development Fund (ADF). Of the loans approved, 17 are active, with five in agriculture and natural resources (29 percent) and four in the education (30 percent) sectors accounting for the largest share. The water supply, sanitation and waste management, and transport and communication sectors account for 15 percent and 10 percent, respectively, while loans to the health, nutrition and social protection, finance, industry and trade, and energy sectors represent 16 percent of current portfolio. Since 1996, ADB has provided a total of 70 TA grants to Uzbekistan totaling US$39.6 million as of 31 December 2006, out of which 6 TAs for US$1.65 million were approved in 2006. In addition, there are 13 regional technical assistance projects (RETA) that are currently active and involve Uzbekistan to various extents.

15. At the end of December 2006, the portfolio had 2 projects "at risk." Overall, ADB portfolio performance is rated satisfactory in terms of impact and outcome, and implementation progress. Contract awards in 2006 totaled US$37 million. Disbursements during the year totaled US$59.9 million.

APPENDIX III: STATISTICAL ISSUES

Despite improvements in data availability, weaknesses in economic data significantly hamper surveillance. The authorities have yet to approve publication of a country page in *International Financial Statistics* (IFS) and to participate in the General Data Dissemination System (GDDS).

Real sector

1. In the area of national accounts, the statistical authorities have made some progress in developing statistics following international standards (the *1993 System of National Accounts*). This has been accomplished with technical assistance provided by the OECD and the Fund and following the guidelines of the CIS statistical committee.

2. At the request of the State Statistics Committee (SSC) of Uzbekistan, two real sector missions visited Tashkent—in November 2003 and August 2004. The main objectives of the missions were to assess the quality of the national accounts and to initiate a project to develop quarterly gross domestic product (GDP) estimates. The main recommendations of the missions concerned the gross output valuation. The missions recommended that it be derived using actual transaction prices, rather than accounting prices (costs plus expected profits). Another issue was the adoption by the SSC of international classifications, in which progress has been slow. The other recommendations of the mission included: (i) using value added rather than output as weights in the production indices, whenever possible; (ii) improving the methods to compute the quarterly GDP estimates, and presenting quarterly data as discrete values rather than cumulative through the year; (iii) improving the treatment in the constant price estimates of new industries and products entering the economy, and ensuring that the most detailed industrial breakdown is used in deriving the constant price estimates; (iv) ensuring consistency between the product specification used in the industry statistics and the PPI; (v) adopting appropriate techniques to adjust quarterly values to a revised annual total; (vi) improving coverage of the informal sector; and (vii) developing supply and use tables for years with comprehensive data. In addition, the authorities are not reporting regularly the data on GDP by expenditure in constant prices. When available, these data point to sectoral inconsistencies and need further improvement.

3. The November 2003 STA mission found that developments in price statistics since 1998 had been satisfactory. However, it identified two main issues related to the incorrect treatment of secondary products in the producer price index and the use of variable monthly weights in the new CPI. Regarding the CPI, the mission pointed out that there is a break in the new index between December 2002, which was constructed using the old methodology, and January 2003, when the new methodology was introduced. During the discussions for the 2004 Article IV consultation, staff urged the SSC to consider this weakness and provide staff with the detailed calculations of the new index for 2002-03. During the Article IV mission in February 2005, and a follow-up visit by SSC staff to Washington, technical assistance was provided to the staff of the SSC in applying international standards for treatment of the

seasonal goods in the CPI. The method used to treat seasonal goods was considered to seriously understate overall inflation. A recommendation to change the methodology has not been taken up by the SSC.

4. Regarding data on external trade, exports of cotton and other bulk exports are valued on a c.i.f. basis rather than f.o.b. Some adjustments are made to capture informal cross-border trade and shuttle trade. Also, two parallel systems now exist for compiling trade data—one based on customs declarations and the other based on enterprise surveys. STA has recommended that the customs data be used for compiling merchandise trade statistics and the enterprise reports to collect data on trade in services only.

Government finance

5. Detailed data on revenue and expenditure of the consolidated government budget are compiled by the Ministry of Finance (MoF) on a monthly basis, and are available after a processing time of about four weeks. Data for extra budgetary funds are available quarterly with a longer delay, and include only broad categories of revenue and expenditure of the four largest funds. After reviewing the government finance statistics (GFS) guidelines with the staff, the authorities providing, occasionally, fiscal tables that conform to these guidelines, by including net lending and foreign-financed investment, as well as details on the financing of the deficit.

6. Budget expenditure data are organized according to a largely functional classification. An economic classification is available only annually, but the quality of these data is inadequate. The MoF occasionally provides data on tax arrears. Information on total proceeds from privatization operations and Treasury bills are provided on a quarterly basis, and data on issuance and repayments of Treasury bills are available monthly on request.

7. Following an exploratory FAD mission in October 2002, FAD sent a resident advisor in February 2003 to assist the authorities in developing efficient expenditure management procedures, including budget and treasury reforms. As part of this project, substantial progress has been achieved in developing a new Chart of Accounts, conforming to GFS guidelines, while the Treasury Law was revised and approved by Parliament in August 2004. The authorities have published data on 2005 Budget execution as well as on the 2006 Budget on the official website of the MoF.

8. Uzbekistan does not report GFS to STA.

Money and banking

9. Following the introduction of new charts of accounts for the Central Bank of Uzbekistan (CBU) and for the commercial banks in 1997, a number of monetary and financial statistics missions have assisted the CBU in compiling monetary statistics using data from the new charts of accounts and in accordance with the IMF recommended methodology. With the implementation of major recommendations of these missions,

considerable progress was made in resolving issues linked to the preparation of monetary and financial statistics for eventual inclusion in a proposed Uzbekistan page in *IFS*.

Balance of payments and external debt

10. Uzbekistan does not report any balance of payments data to STA and does not disseminate balance of payments data to the public. An STA mission in March 2000, (a follow-up to the February 1998 mission), reported that the authorities had made considerable progress in the compilation of balance of payments statistics. Progress was noted in the compilation of data on the financial account and external debt. Specific improvements were made in accordance with the recommendations of the February 1998 mission, which include the preparation of quarterly balance of payments data in U.S. dollars, classification closely in line with the recommendations of the IMF *Balance of Payments Manual (BPM5)*, shuttle trade statistics in the recorded international trade data, estimates for migrant transfers, and other adjustments to the exports and imports data. Despite these improvements, problems remained with respect to the large errors and omissions item, reporting of travel data and construction services, and the availability of enterprise-based data on direct, portfolio, and other investment.

11. Data provision on external debt has improved considerably since 2003 and is broadly satisfactory. Data on external government and government-guaranteed debt, including projections of future debt service obligations, are provided by the Ministry of Finance. They are provided in U.S. dollars and also decomposed by currency. Loan-by-loan data are provided in the currency of denomination. The data are submitted on a quarterly frequency, though often with some delay. Aggregate data are broken down into government and government-guaranteed debt and then further classified by type of lender (multilateral, bilateral, and commercial). However, the authorities do not indicate separately the amount of debt extended on concessional terms, or the amount of private debt owed or intermediated by banks. The data include projections of future debt service obligations under existing agreements.

12. Data on external private debt not guaranteed by the government, including projections of future debt service obligations and new loan agreements, are provided by the central bank. Aggregate data are submitted on a quarterly basis. Debt projections should, however, distinguish between the debt service obligations due under existing agreements and those arising from newly-contracted debt.

Uzbekistan: Table of Common Indicators Required for Surveillance
As of December 31, 2006

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	10/31/06	12/02/06	D	M	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/31/06	11/22/06	M	M	NA
Reserve/Base Money	10/31/06	11/22/06	M	M	NA
Broad Money	10/31/06	11/22/06	M	M	NA
Central Bank Balance Sheet	10/31/06	11/22/06	M	M	NA
Consolidated Balance Sheet of the Banking System	10/31/06	11/22/06	M	M	NA
Interest Rates[2]	09/30/06	12/19/06	M	M	NA
Consumer Price Index	11/30/06	12/20/06	M	M	NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	09/30/06	12/02/06	M	M	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	11/30/06	12/07/06	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	09/30/06	12/02/06	M	M	NA
External Current Account Balance	09/30/06	12/02/06	Q	Q	NA
Exports and Imports of Goods and Services	09/30/06	12/02/06	Q	Q	NA
GDP/GNP	09/30/06	10/24/06	Q	Q	NA
Gross External Debt	09/30/06	12/02/06	Q	Q	NA

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (N/A).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
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March 23, 2007

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2006 Article IV Consultation with the Republic of Uzbekistan

On February 9, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Uzbekistan.[1]

Background

Uzbekistan's macroeconomic performance was generally strong in 2005–06, reflecting significant macroeconomic policy adjustment and a favorable external environment. According to official data, real GDP growth was over 7 percent, driven by agriculture, industry, and transport and communications, and supported by buoyant external demand. The external current account registered large surpluses due to favorable commodity prices, strong growth in non-commodity exports, increased remittances, and restricted imports. Official foreign exchange reserves continued to rise and reached 12 months of import cover at end-2006. Inflation, as measured by various price indices, picked up in 2005. With a tightening of monetary policy, it started coming down in 2006, but remains high.

After a gradual depreciation in 2005 and early 2006, the sum was de facto pegged to the U.S. dollar during the second half of 2006. The real effective exchange rate appreciated in the past two years due to higher inflation.

Monetary policy was accommodative in 2005, but was tightened in 2006. In 2005, the sharp accumulation of net foreign assets by the Central Bank of Uzbekistan (CBU) was only partially sterilized by a decline in net domestic assets, resulting in surging reserve and broad money. In 2006, to offset the large build up of reserves, the authorities tightened monetary policy

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

significantly via increased deposits from banks, the accumulation of government deposits, including through the newly created Fund for Reconstruction and Development (FRD), and the resumption of the issuance of central bank paper. As a result, growth of monetary aggregates decelerated considerably by end-2006, with growth in reserve money declining from 88 percent in 2005 to 37 percent in 2006.

The banking sector is undergoing structural changes, with the expansion of business areas and the move to local currency lending. Furthermore, prudential ratios exceed minimum standards and non-performing loans are declining. However, monetization is low, growth of cash-in-circulation is faster than that of deposits, and the ratio of credit-to-GDP continues to decline. The banking system's ability to fulfill its intermediary role has been constrained by the limited room for credit expansion given the strong growth in net foreign assets and the need to control the growth of reserve money as well as banks' involvement in financial oversight and implementing government treasury operations, which affects confidence in the banking sector.

Fiscal policy outperformed budget projections in 2005–06. Despite tax cuts, revenue collection was strong due to ongoing tax reforms. On the expenditure side, large increases in public sector wages and pensions were mainly offset by lower capital expenditures. As a result, the consolidated budget registered a surplus of 1.3 percent of GDP in 2005 and is estimated to have registered a small surplus in 2006, compared to the budgeted deficits of about 3 percent of GDP in both years. The overall fiscal surplus, including the FRD, is estimated at about 3½ percent of GDP in 2006.

Structural reforms continued at a gradual pace. Tax reforms to ease the tax burden led to improved collections, while treasury reforms were effective in enhancing fiscal management. Licensing, inspections, and reporting were streamlined, and the restructuring of agricultural enterprises (shirkats) into private farms was mostly completed. Furthermore, restrictions on banks' access to their correspondent accounts at the CBU and cash withdrawals from bank deposits were eased, and a real time gross settlement system was introduced. However, privatization stalled, a difficult investment climate resulted in low FDI inflows, and the trade regime remains protective and complex. Despite improvements in data availability, weaknesses in economic data remain.

Executive Board Assessment

Executive Directors commended the Uzbek authorities on the strong performance of the economy, which has been supported by a favorable external environment, improvements in macroeconomic policies, and gradual progress in structural reforms.

Directors were of the view that economic prospects are strong in the near term, but emphasized that containing inflation, enhancing financial intermediation and confidence in the banking system, and improving the business climate including through the liberalization of trade and payments would be crucial to achieve the authorities' ambitious growth objectives in the medium term.

Directors considered that the main challenge in 2007 is to reduce inflation and supported the authorities' intention to further tighten monetary policy. They recommended a more flexible exchange rate policy to take some pressure off indirect monetary policy instruments in curbing inflation and creating room for greater credit expansion to the private sector. Allowing some nominal appreciation would be compatible with indications that the sum is undervalued.

Directors recommended continuation of cautious fiscal policies in 2007 to help reduce inflation. They also noted that—given the low level of debt—lower inflation would provide room in the medium term for moderate fiscal loosening and small deficits to finance higher social and infrastructure expenditure. Directors expressed concern that the recent increases in public sector salaries and pensions have limited resources for investment spending, and considered that the income objectives could be better served by well-targeted subsidies to the poor. Directors encouraged the authorities to make further progress in tax and treasury reforms, introduce a multi-year budget framework, and integrate the FRD into the government budget.

Directors stressed the crucial importance of financial deepening to enhance the role of banks in economic development and strengthen the monetary transmission mechanism. To enhance confidence in the banking system and encourage deposits, all remaining restrictions on cash withdrawals should be removed and the role of banks in financial oversight and government treasury functions should be discontinued. A Financial Sector Assessment Program would help prioritize banking sector reforms.

Directors noted that the trade system continues to be protective in Uzbekistan. The authorities should reduce and unify tariffs, eliminate differences in excise taxes on imported and domestic goods, reduce administrative costs related to international trade, streamline customs procedures, and accelerate efforts to join the World Trade Organization.

Directors welcomed the authorities' reiteration of their commitment to current account convertibility amid reports of delays in convertibility in 2006. They hoped that the transitory convertibility problems associated with the implementation of the anti-money laundering law would be resolved in early 2007.

Directors regretted that weaknesses in economic data continue to hamper surveillance. They welcomed the authorities' intention to enhance the quality of statistics, and their request for technical assistance in national accounts, price, and balance of payments statistics. Directors urged the authorities to participate in the General Data Dissemination Standards and publish economic data, including in the IFS.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Uzbekistan: Selected Economic Indicators

	2002	2003	2004	2005	2006 Est
	(Annual percentage change)				
Production and prices					
Real GDP	4.0	4.2	7.7	7.0	7.2
Consumer price index (e.o.p) 1/	21.6	3.7	3.8	7.8	7.0
GDP deflator 1/	45.4	26.7	15.7	15.9	20.3
Producer price index (e.o.p) 1/	46.1	27.4	26.5	28.2	27.0
	(In percent of GDP)				
General government 2/					
Total revenue and grants	35.7	33.4	32.2	32.2	35.8
Total expenditure and net lending	37.2	33.9	32.1	32.5	32.6
Overall balance (-=deficit) 3/	-1.9	0.1	0.6	1.3	3.6
	(Annual percentage change)				
Monetary Indicators					
Reserve money	25.2	26.7	38.7	87.5	37.0
Broad money	29.7	27.1	47.8	54.3	37.0
Velocity of average broad money (level)	10.8	10.5	9.5	8.0	7.2
	(In million of U.S. dollars, unless otherwise specified)				
External sector					
Export of goods	2,510	3,240	4,263	4,757	5,842
Import of goods	2,186	2,405	3,061	3,310	3,787
Current account	117	881	1,215	1,949	3,136
In percent of GDP	1.2	8.7	10.2	14.3	19.5
Gross international reserves	1,215	1,659	2,146	2,895	4,604
In months of imports	5.1	6.4	6.6	8.5	12.0

Sources: Uzbek authorities; and IMF staff estimates.

1/ Official estimates.
2/ Including the Fund for Reconstruction and Development created in 2006.
3/ Based on below-the-line financing data.

Statement by Thomas Moser, Executive Director for Republic of Uzbekistan
February 12, 2007

1. My authorities wish to express their appreciation to the mission team for their extremely constructive approach and the productive policy dialogue. They are fully aware and concur with the staff's assessment that Uzbekistan's great economic potential remains to be fully exploited. They are committed to a continued implementation of their gradual reform agenda. They will give careful consideration to the staff's policy advice, and they consent to the publication of the staff report. They highly value, and put to good use, the technical assistance that is currently provided on budget and treasury reforms, and they hope that the Fund will grant their request for assistance to comprehensively address data issues in price indices, national income accounts, and balance of payments.

2. Since the liberalization of the foreign exchange system, which was undertaken in late 2003 upon advice and with assistance of the IMF, Uzbekistan's macroeconomic performance has been very strong. Supported by prudent macroeconomic policies and gradual progress in structural reforms, annual real GDP growth accelerated to over 7 percent, well above Fund projections, whereby the contribution of capital intensive sectors has been increasing over time. The rapid growth in non-commodity exports, which now account for more than half of Uzbekistan's total exports, also contributed to high GDP growth and strengthened its sustainability. In combination with the authorities' prudent fiscal and external borrowing policy, this good performance led to a continuous decline in Uzbekistan's external debt to the very comfortable level of 24.5 percent of GDP, which will allow Uzbekistan to maintain its very good credit history.

3. My authorities share the staff's view that economic growth and the balance of payments are likely to remain strong. Building on strong macroeconomic fundamentals and continuous structural reforms to be outlined in the authorities' Welfare Improvement Strategy (WISP, the equivalent of a PRSP), the authorities attempt to accelerate annual real GDP growth to 8 percent. They are convinced that the policy of gradual reforms has served Uzbekistan well, making it the first country within the CIS to restore positive economic growth and return to the pre-reform level of output, despite one of the most difficult starting positions. The authorities believe that the state's active role in maintaining stability over the period when key market institutions were just emerging was an important element in this strategy.

Fiscal Policy

4. In 2006, the consolidated budget registered a small surplus, with an overall fiscal surplus of about 3 percent of GDP. The authorities intend to continue their cautious fiscal and borrowing policy in 2007.

5. The authorities have an ambitious reform agenda in the fiscal area. The new Tax Code, which has been submitted to parliament, envisages a further reduction of the tax burden, broadening of the tax base, and streamlining of tax administration. The authorities expect the new Tax Code to contribute to a significant improvement in the business climate, based on their experience with the tax rate reductions in 2005 and 2006, which resulted in an increase in tax revenues.

6. An important part of the authorities' fiscal reforms is the Public Finance Management project, which is well advanced and will bring significant improvements in terms of efficiency and transparency. The project aims at establishing a Treasury Single Account for the general government sector, including local government budgets and extra-budgetary funds, at establishing a modern Treasury Information System, and at bringing budget classification and accounting in line with international standards (GFS 2001 and IPSAS). Moreover, preparations have been made for introducing a Medium Term Budget Framework. The completion of these reforms will enable the authorities to relieve the banking sector from the remaining non-core functions (i.e., financial oversight and treasury operations).

Monetary Policy

7. The Central Bank of Uzbekistan (CBU) is fully aware of the need to keep inflation under control and it is committed to do so. In response to increasing inflationary pressures, the CBU tightened monetary policy considerably during the course of 2006, and it intends to tighten monetary policy further in 2007 to achieve the desired reduction in inflation. The newly established Fund for Reconstruction and Development (FRD) will support the CBU's efforts to sterilize excess money supply. The FRD will finance investment projects only through commercial banks and only for imports of investment goods. Exchange rate policy will continue to aim at limiting real appreciation, but the authorities are prepared to consider a more flexible exchange rate policy, if warranted by economic developments.

8. The Uzbek authorities remain fully committed to currency convertibility for current account transactions, in line with their obligations under Article VIII of the Fund's Articles of Agreement. The comfortable level of official reserves, the considerable increase of the current account surplus, and the tight monetary and fiscal policies obviate the need for any administrative measures on the foreign exchange market. My authorities are aware, however, that some sporadic irregularities in conversion transactions have been reported by market participants. But they would like to highlight that these problems were caused by transitory problems related to the introduction of new anti-money laundering legislation.

Structural Reforms

9. Since the last Article IV consultation, progress in structural reforms and improvements in the environment for the private sector have also continued in other areas than the tax and treasury reforms mentioned above. As noted in the staff report, the

restructuring of agricultural enterprises (*shirkats*) into private farms has been mostly completed. A number of new legislative acts and amendments have been adopted by the Parliament, including laws on mortgage, electronic payments, microfinancing, and collateral.

10. The government has further issued a range of orders aimed at introducing “one-stop” registration procedures based on notification only, drastically reducing licensing requirements, streamlining licensing procedures and eliminating overlap between different agencies and local governments, simplifying and reducing the frequency of reporting requirements for enterprises, and at limiting interferences of regulatory agencies. It has also limited the scope and frequency of inspections by regulatory agencies and local authorities and made most sanctions subject to court decisions. These measures have helped to encourage growth of the SME sector, which in 2006 alone has created 440,000 new jobs and accounts now for about 42 percent of GDP.

11. My authorities recognize the value of the IFC’s “Doing Business” report in supporting member-countries’ reform efforts. However, they would like to point out that this study does not represent a comprehensive assessment of the business or investment climate, but rather assesses specific aspects of the regulatory environment. Moreover, given the shortcomings common for most aggregated indicators and controversies related to the studies’ overall indicator for a range of countries, our authorities believe that the overall rating produced by “Doing Business” should be treated with caution. In this regard, they appreciate the reference in the staff report to the joint World Bank/EBRD survey of enterprises, which ranks favorably Uzbekistan’s business climate on most of the indicators relative to average indicators in the Europe and Central Asia region. Most important, the last survey clearly demonstrates that Uzbekistan has been advancing in all areas covered by the study.

12. The government recently adopted a comprehensive privatization program for 2006-08 that envisages privatization of more than 1500 enterprises, including enterprises in strategic sectors (energy, chemical and transport). Based on this program the authorities privatized in 2006 about 600 enterprises, which led to privatization revenues that were 20 percent higher than in 2005. By the end of 2006 the private sector’s contribution to GDP reached 79.4 percent.

13. My authorities agree with the staff that Uzbekistan needs to advance trade liberalization in order to sustain its economic growth in the long run. To this end, they are completing legal procedures related to joining EurAsEc agreements that will substantially reinforce Uzbekistan’s integration with the neighboring countries, bringing about lower trade barriers and growth of inter-regional trade.

14. Latest household surveys show that the high economic growth translates into better living standards for the population. Preliminary assessments clearly indicate that the share of

poor steadily declined over the last years. My authorities plan to present a full version of their Welfare Improvement Strategy (PRSP) in the course of 2007.