DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

0451

FOR AGENDA

EBS/94/248

CONFIDENTIAL

December 23, 1994

To: Members of the Executive Board

From: The Secretary

Subject: Republic of Uzbekistan - Staff Report for the 1994 Article IV Consultation and Request for a Purchase Under the Systemic Transformation Facility

Attached for consideration by the Executive Directors is the staff report for the 1994 Article IV consultation with Uzbekistan and for a request expected to be received for a purchase under the systemic transformation facility in an amount equivalent to SDR 49.875 million. A draft decision appears on page 21.

This subject, together with the letter of intent of the Government of Uzbekistan and the statement of systemic and macroeconomic policies (EBS/94/243, 12/19/94), is tentatively scheduled for discussion on Wednesday, January 25, 1995.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Bank for Reconstruction and Development (EBRD), the European Commission (EC), and the Organisation for Economic Cooperation and Development (OECD), following its consideration by the Executive Board.

Mr. Hansen (ext. 37186) or Ms. Suss (ext. 34168) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

REPUBLIC OF UZBEKISTAN

Staff Report for the 1994 Article IV Consultation and Request for Purchase Under the Systemic Transformation Facility

Prepared by the European II Department

(In consultation with other departments)

Approved by John Odling-Smee and Susan Schadler

December 22, 1994

Contents

Contents

I. Introduction

Discussions for the 1994 consultation with Uzbekistan under Article IV and Article XIV, and on an economic program that could be supported under the Systemic Transformation Facility, were held in Tashkent from October 25 to November 14, 1994. 1/ The last Article IV consultation with Uzbekistan was concluded on January 21, 1994. 2/ The Uzbek representatives included Deputy Prime Minister and Minister of Finance, Mr. Hamidov, Chairman of the Central Bank of Uzbekistan, Mr. Mulladzhanov, Chairman and First Deputy of the State Committee for Forecasting and Statistics, Messrs. Shalifhadjaev and Golyshev, Deputy Chairman of the Ministry for Foreign Economic Relations, Mr. Shaikhov, and senior officials from these as well as other ministries and institutions. Mr. Kaeser, Executive Director for Uzbekistan, participated in some of the meetings as an observer.

The letter signed by the Deputy Prime Minister and Minister of Finance, the Deputy Prime Minister and Minister for Foreign Economic Relations, and the Chairman of the Central Bank of Uzbekistan, transmitting the Government's economic program, in support of which it intends to request a first purchase of SDR 49.875 million (25 percent of quota) under the STF, is set out in EBS/94/243 (12/19/94). 3/ Tables appended to the policy statement attached to the letter provide details of the prior policy action commitments of the Government, intermediate policy targets and structural benchmarks. The staff will be reporting separately on the implementation of the prior policy actions.

Following approval of the first STF purchase, the World Bank intends to proceed in March 1995 with a rehabilitation loan of US$160 million to support financing of critical imports and structural reforms in the enterprise, financial and trade sectors. Other projects currently under consideration by the World Bank include a cotton sector improvement project, a gas sector project to increase production, a human resource development project (social safety net and health care), an enterprise reform project, and a water-supply and drainage project for the Aral Sea and rural areas. 4/ The EBRD provided a US$60 million loan to support small- and medium-size enterprises and a US$50 million loan to help finance a project to extract gold from solid waste at the end of 1993. The EBRD is currently

---

1/ The mission comprised Mr. Hansen (Head), Ms. Suss and Mr. Owaki (all EUR II), Ms. Calika (PDR), Ms. Hessenius (FAD), and, as assistant, Ms. Roberts (EUR II). Mr. Szalkai (resident representative) assisted the mission.

2/ Further details on Uzbekistan's relations with the Fund are contained in Appendix I.

3/ An assessment of Uzbekistan's eligibility to draw under the STF is contained in Appendix II.

4/ Further details on World Bank activities in Uzbekistan are contained in Appendix III.

considering financing the Fergana oil refinery project and a power plant rehabilitation project (each for about US$50-70 million). A number of smaller loans are also considered for projects to upgrade the textile industry.

II. Policy Developments Since the Last Consultation

On the occasion of the 1993 Article IV consultation with Uzbekistan (EBM/94/4, 1/21/94), Executive Directors observed that Uzbekistan's economic potential was considerable given its position as a major cotton and gold producer, provided that the reforms necessary for the achievement of rapid economic development and transformation of the economy to a market-based system were more actively pursued. Directors welcomed an announced shift in the authorities' policy stance reflected in a statement on economic reform for 1994, announced in December 1993, but noted that the reforms needed to be taken further in many areas; in particular, more coherent and forceful fiscal and monetary policies would need to be in place before the proposed introduction of the national currency, the sum, in July 1994.

Following the issuance of a Presidential decree of January 21, 1994 on measures to speed up economic reforms, the staff held intensive discussions with the Uzbek authorities during the spring of 1994 on a program that could be supported by STF resources and be put in place in connection with the introduction of the sum on July 1. However, since a number of the prior policy actions were not implemented as envisaged, including the failure to raise interest rates significantly, to discontinue maintenance of a highly unrealistic exchange rate and to introduce satisfactory foreign exchange auctions, it was not possible to proceed with the request for use of Fund resources at that time.

In the period since the introduction of the sum at mid-year, the authorities have tightened macroeconomic policies significantly. A number of the key prior policy actions, which had not been implemented before July 1, were taken following a staff visit in September 1994. 1/ Thus, the Central Bank of Uzbekistan (CBU) refinance rate and the deposit rates of the Savings Bank were increased significantly on October 1, and the official and cash exchange rates were unified in early October at a more realistic level. Members of the staff team met with President Islam Karimov, who expressed a strong desire for the Uzbek Government to work more closely with the staff to help establish a productive, long-term relationship with the Fund.

1/ The staff team comprised Mr. Brau (Head), Ms. Suss, Mr. Justice, Mr. Horton, and Mr. Owaki (all EUR II), Ms. Calika (PDR), Ms. Hessenius (FAD) and, as assistant, Ms. Llana (EUR II). Mr. Keller, assistant to the Executive Director for Uzbekistan, attended some of the meetings as an observer.

III. Recent Economic Developments

1. Recent developments 1/

Inflationary pressures remained strong in the first half of 1994, with average monthly price increases of about 22 percent (Chart 1). 2/ As a result of seasonal factors, but also reflecting the tightening of financial policies, price increases were modest (on average 1 1/2 percent per month) during the third quarter. Monthly price increases in the range of 10-12 percent are expected in the fourth quarter as a result of liberalization of a number of prices, adjustment of a number of public utility charges and energy prices 3/ and seasonal factors. Economic activity stabilized in the second half of 1994 with strong performance in the petroleum sector and light industry. In light of this development and a good agricultural harvest, GDP in real terms is expected to decline by only 2 1/2 percent in 1994 (Chart 2). 4/ Thus, the output decline in Uzbekistan continues to be much smaller than in most other countries in the FSU. With the large share of production concentrated in tradeable commodities, Uzbekistan appears to have been able to some extent to escape the impact of the disruption of trade with traditional trading partners. Measured unemployment has remained very low. Average monthly wages, which rose by about 19 percent in real terms during the first three quarters of 1994, are expected to increase by a further 15 percent in real terms during the last quarter of the year as a result of the flat rate allowance granted from October 1, 1994 (see Section 2.a. below). By the fourth quarter of 1994, average monthly wages were the equivalent of about US$22 and the monthly minimum wage about US$10.

The external current account is expected to deteriorate slightly in 1994, to about 9 1/2 percent of GDP, mainly on account of a sharp increase in transportation costs in trade with CIS countries as a result of the switch to payment in convertible currencies for such services (Chart 2). Unlike in 1993 when a trade deficit close to 8 percent of GDP was recorded, a small trade surplus is expected in 1994 mainly due to the sharp increase in world cotton prices but also to some extent to the shift toward world prices in cotton trade with FSU states. Imports are estimated to show a

---

1/ Basic Social Indicators are contained in Appendix IV.

2/ These calculations are based on the retail price index, which is of poor quality. More generally, notwithstanding the efforts that have been made in improving the statistical base, with technical assistance from the Fund and other agencies, macroeconomic statistics remain weak and it is difficult to obtain a full picture of economic trends in Uzbekistan.

3/ For example in October, central heating and hot water charges were increased 14-fold and 6-fold, respectively, while electricity charges were increased 3-fold, coal prices 10-fold, and gasoline prices 4-fold.

4/ Given the weaknesses of the national accounts statistics in Uzbekistan, the output figures are subject to a large margin of error.

decline in absolute terms in 1994 compared with the year before, but would show a slight increase if the lease-buy arrangement for two aircraft by the Uzbekistan Airlines in 1993 was excluded from last year's import data. Imports of energy products and foodstuffs are estimated to decline in 1994 reflecting increases in domestic production as well as a further decline in economic activity. Large net capital inflows--in particular, owing to continuing large commodity credits and a rise in foreign direct investment--are estimated to cover the current account deficit and result in an overall surplus of almost US$190 million. Gross official reserves, including gold, are expected to increase to about US$1.2 billion at the end of 1994, corresponding to about 4 1/2 months of merchandise imports (Table 1). Uzbekistan's outstanding stock of external debt is estimated to rise to about US$1.5 billion at the end of 1994, with about 36 percent attributed to FSU states, mainly Russia. Total debt service is expected to amount to about 17 1/2 percent of exports in 1994.

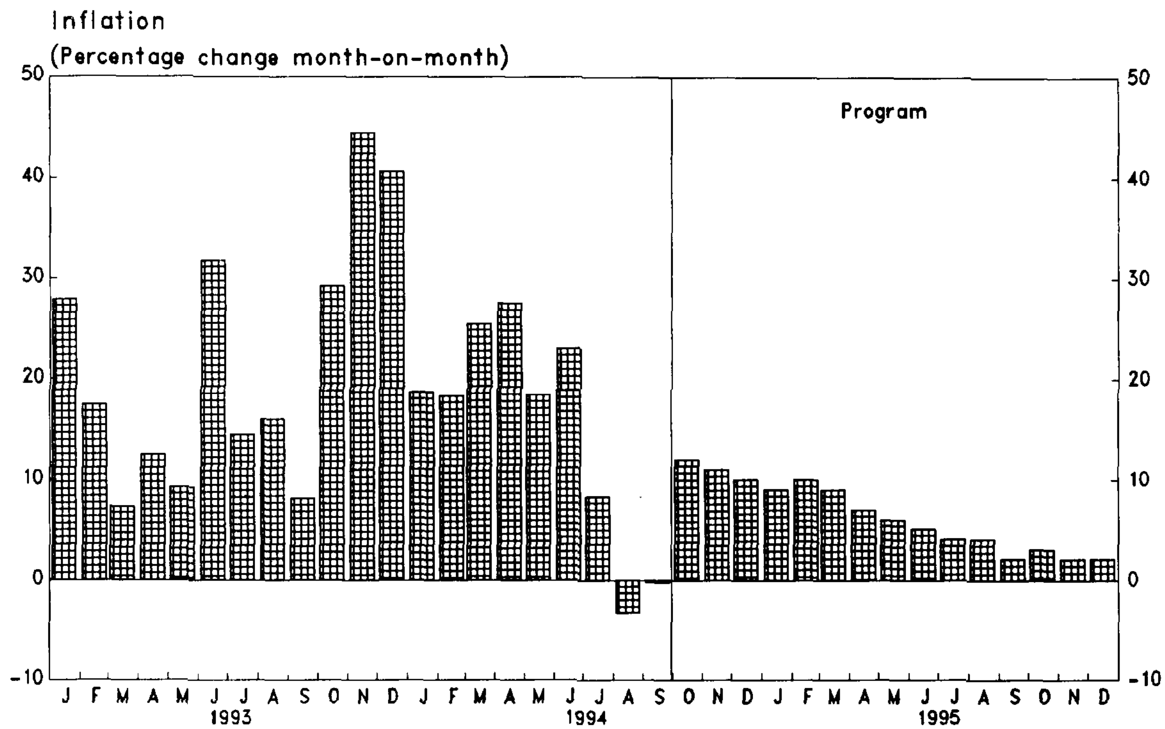
2. Financial policies

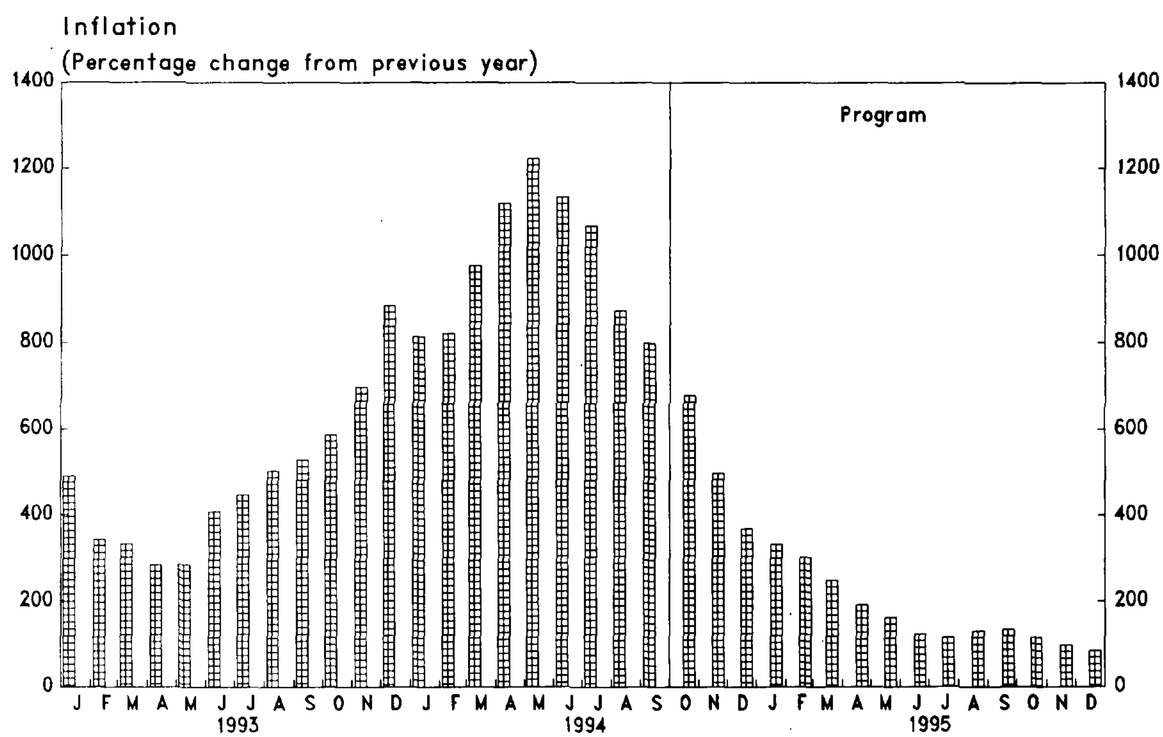
a. Fiscal policy and the social safety net

The consolidated budget deficit for 1994 is expected to be limited to about 3 1/2 percent of GDP--financed virtually in full from the domestic banking system (Table 2). This constitutes a major improvement compared with the 1993 deficit of 12 percent of GDP, which has been brought about in large part by the elimination of net lending activities. Also, all subsidies on foodstuffs were abolished and those on services reduced during 1994. However, as compensation for the resulting price increases, the authorities granted a flat allowance of sum 100 per month from October 1 (increased to sum 150 on November 1) to virtually the entire adult population. Compensation payments for workers in budgetary organizations, students, unemployed, and mothers are made directly from the state budget, while payments for pensioners are made by the Social Insurance Fund. The allowance for workers in non-budgetary organizations is paid by enterprises, but with the possibility for enterprises to deduct from their income tax payment an amount equivalent to 50 percent of the allowance. The budgetary impact of the introduction of the allowance is about 5 1/2 percent of GDP. The additional costs of this measure have been fully offset by several revenue-raising measures.

Much higher revenues are expected from excise taxes on cotton as a result of the removal of the implicit subsidization of foodstuffs through allocation of cotton at below market prices to ministries importing such goods. In addition, excise tax rates have been increased for several goods (including gasoline, diesel, alcoholic beverages, and cigarettes) and imported cigarettes have been subject to excise duty since September 1. On the other hand, revenues from the VAT and the enterprise income tax are

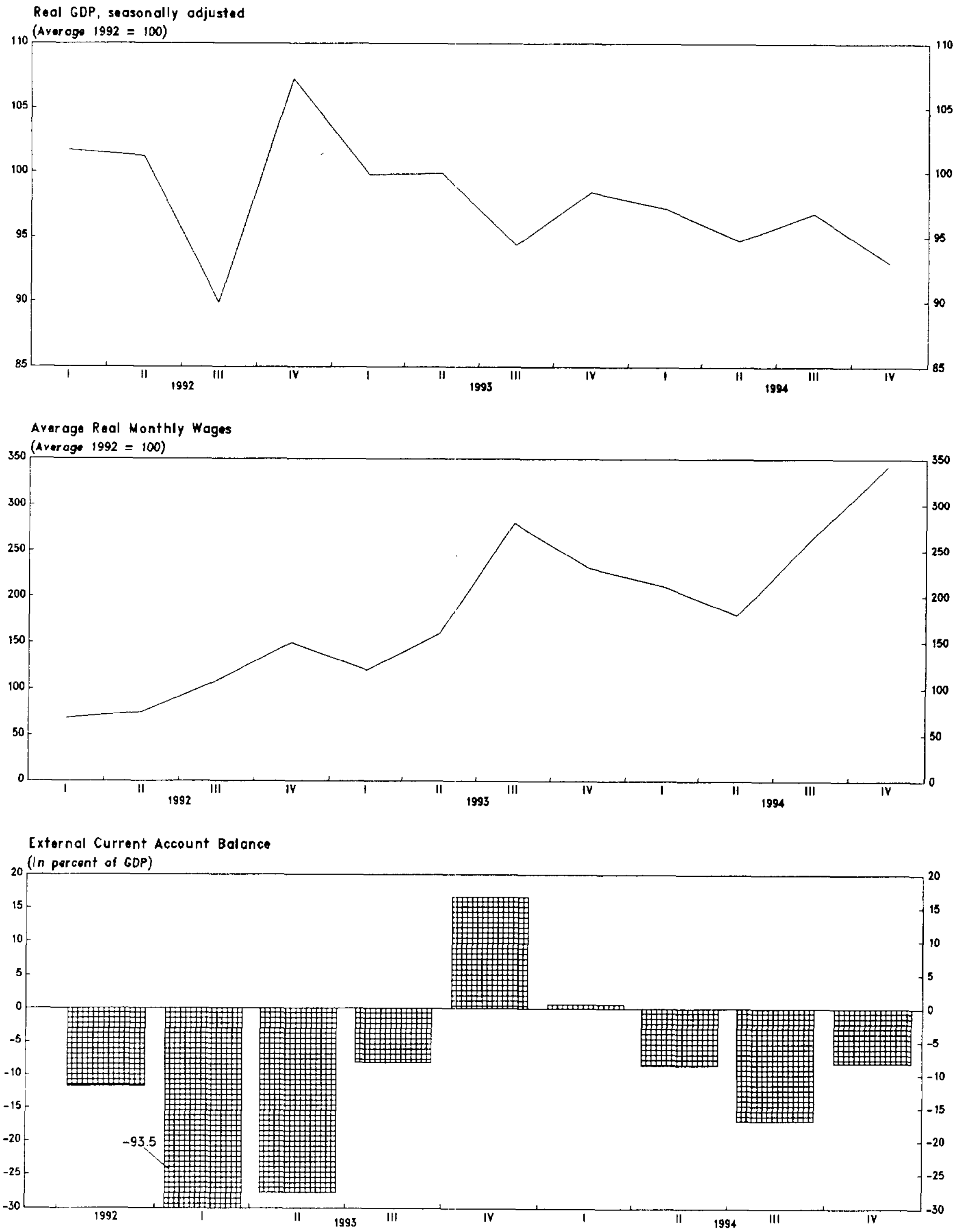
Chart 1
UZBEKISTAN
INFLATION, MONTHLY 1993-95





Source: Data provided by the authorities; and staff estimates.

Chart 2
UZBEKISTAN
MACROECONOMIC INDICATORS 1992-94



Source: Data provided by the authorities; and staff estimates.

expected to be lower than budgeted partly as the result of tax arrears 1/ and, for enterprise income tax, also because of the tax credit for the flat rate allowance referred to above.

Family allowances are being paid by the budget to every family, with the size of the allowance determined by the number of children in the family. In addition, the authorities began a program of allowances for low-income families in the fourth quarter of 1994 as part of their targeted social safety net. Unemployment benefits exist, but the number of registered unemployed receiving benefits is very small. Pensions are calculated as the sum of a minimum pension plus an additional amount determined by past earnings and length of service, with working pensioners having access to such payments as well. For most of 1994, the minimum pension (sum 105 as of August 1) has been close to the minimum wage (sum 100), but on December 1, 1994 the minimum pension was increased to sum 135, or 35 percent above the minimum wage.

b. Monetary policy

Monetary policy has also been tightened since mid-year, and particularly in the fourth quarter of 1994 following the increase in the refinance rate of the CBU from 150 to 225 percent on October 1. At the same time, direct interest subsidies were abolished, but enterprises can in certain instances apply to the Ministry of Finance for compensation for interest costs. There was a sharp increase in velocity following the introduction of the sum (Chart 3). It is estimated that velocity has remained unchanged from the third to the fourth quarter and that reserve money will fall by 20 1/2 percent and broad money by 3 1/2 percent in real terms during the fourth quarter of 1994, but increase by 5 1/2 percent and 24 percent, respectively, in real terms through the full year (Tables 3 and 4). Also, to increase deposits of households and enterprises and to bring interest rates to positive levels in real terms, the Savings Bank introduced 3-, 6- and 12-month term deposits with substantially higher interest rates (e.g., 30 percent quarterly for 3-month deposits) on October 1, 1994.

Inter-bank credit auctions are now held weekly, and the number of participating banks has increased significantly. Until the increase in the CBU refinance rate on October 1, the interest rate determined at the auction was in general significantly above the refinance rate. In late October and early November, the auction-determined rate fell well below the CBU refinance rate, but since mid-November, the CBU refinance rate has been made the minimum rate for the auction, with the CBU being prepared to absorb

---

1/ Also, after having switched to accrual basis for VAT in 1993, the authorities decided to return to cash basis on September 1, 1993. With settlements between enterprises being slow, this is another important factor contributing to the decrease in VAT collections in 1994 compared with the year before.

liquidity from the market, if needed, to maintain this rate, either in the form of purchases from the auction or through issuance of CDs.

c. Exchange rate policy

Following the introduction of the sum coupon in November 1993, the CBU maintained the coupon at par with the new Russian ruble, with considerable divergence between the official rate and the rate in the parallel market. Since April 15, 1994, the authorities began to conduct weekly interbank foreign currency auctions. The auction-determined exchange rate was used for all official transactions. The Government introduced the national currency, the sum, on July 1, 1994, with a conversion rate of 1,000 sum coupons equal to one sum, and a rate of sum 7 per U.S. dollar. The exchange rate in the parallel market appreciated rapidly in the period following the introduction of the sum as enterprises and individuals moved out of sum coupons and access to bank credit and cash deposits was restricted. Until September 1, 1994, utilization of bank accounts by individuals was restricted to non-cash transactions and cash withdrawals were permitted by enterprises and institutions only for the payment of wages.

As the auctions of foreign exchange became regularized on a weekly basis, the official exchange rate stabilized at about sum 11-12 per U.S. dollar during July and August, although the volume of transactions at the auction remained small and the parallel market rate was sum 18-20 per U.S. dollar (Chart 4). On August 1, 1994, the CBU introduced a separate cash rate, based on the parallel market rate, with individuals being granted the right to buy a limited amount of foreign currency. The limit was initially set at US$250 until the end of 1994, but was subsequently increased to US$1,000. It was, however, reduced temporarily (until the end of the year) to US$300 in late November 1994.

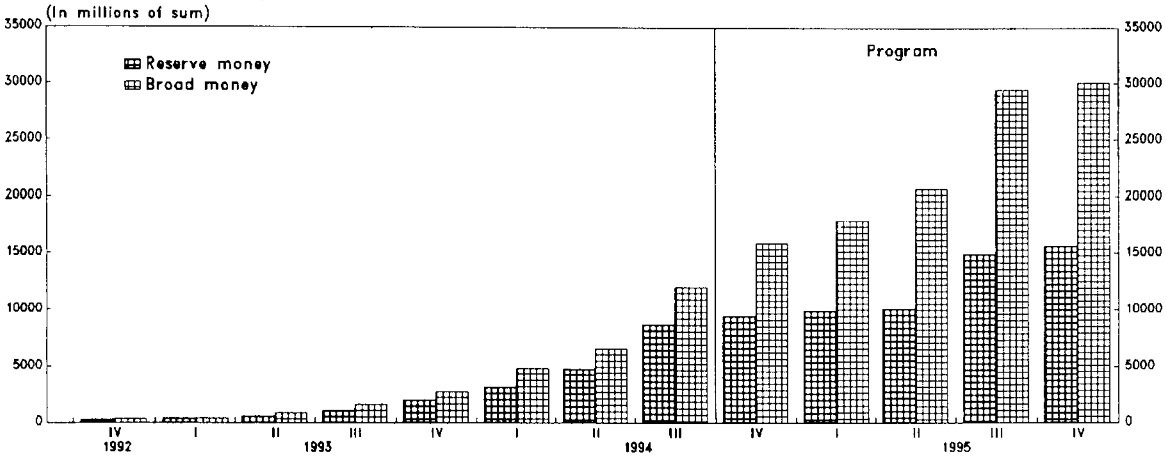
Beginning in September 1994, the CBU began to allow the official exchange rate to depreciate so that the difference between the official, cash, and parallel market exchange rates narrowed. At the same time, the auction procedures were improved and the number of banks authorized to participate in the auction increased. On October 10, 1994, the official and cash exchange rates were unified at sum 22 per U.S. dollar. Shortly after this, and in the aftermath of the currency turmoil in Russia, new regulations were issued on October 15, which made it mandatory that all payments and settlements in Uzbekistan be effected in sum. As a result of the uncertainty about the application of these new rules, the sum depreciated in the parallel market in the second half of October. However, the rate stabilized in the range of sum 30-33 per U.S. dollar in the month of November, while the auction-determined rate had depreciated to sum 25 per U.S. dollar in late November.

d. Structural policies

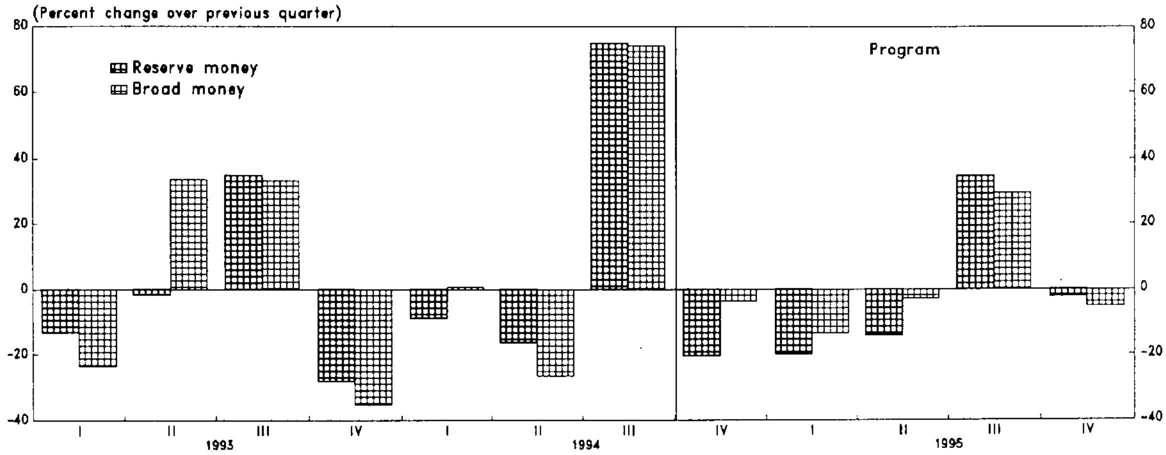
While reforms have so far progressed at a measured pace, the Government has accelerated the effort significantly in a number of areas during 1994.

Chart 3
UZBEKISTAN
MONETARY INDICATORS, 1992-95

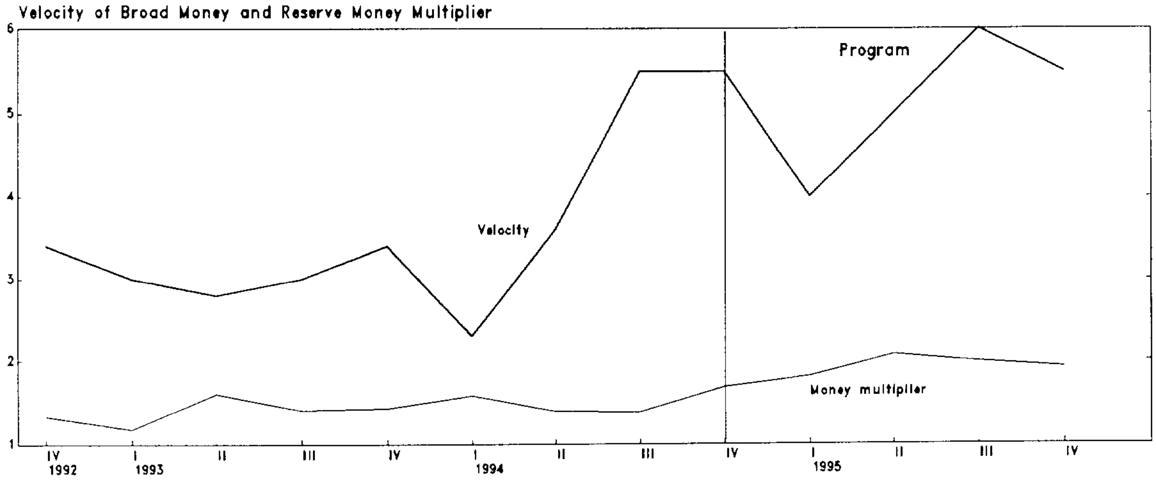
Broad and Reserve Money
(In millions of sum)



Real Change of Broad and Reserve Money
(Percent change over previous quarter)

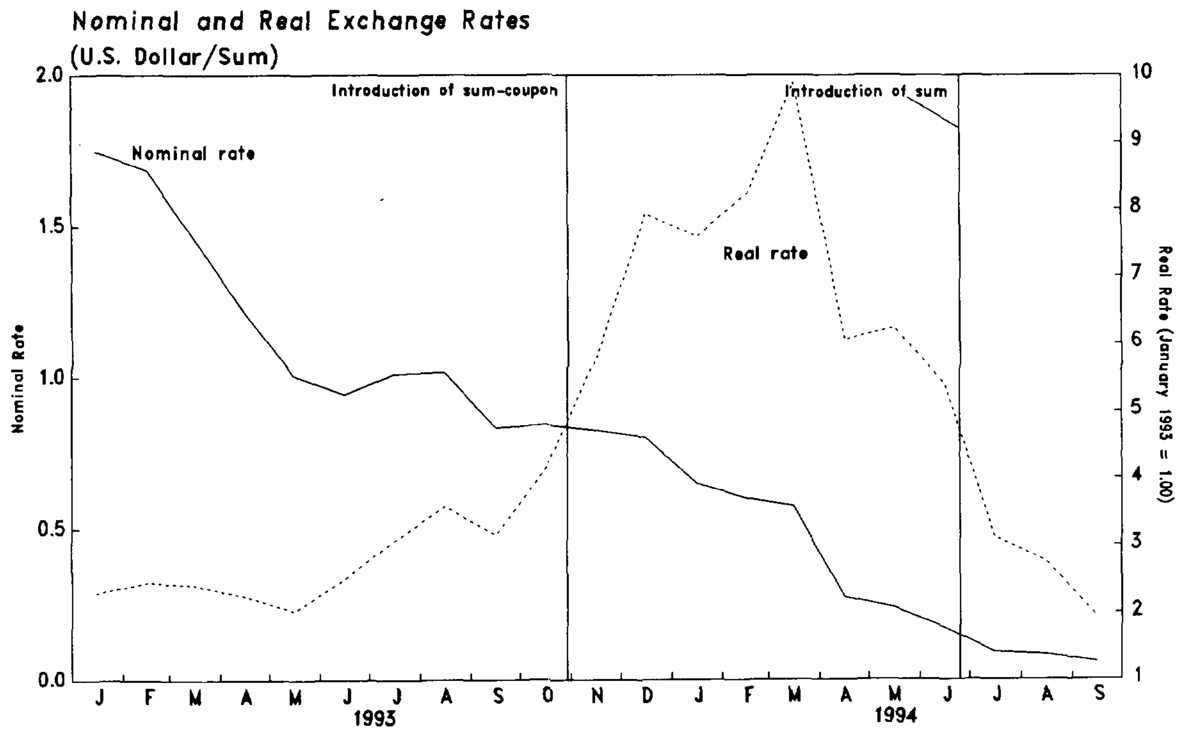


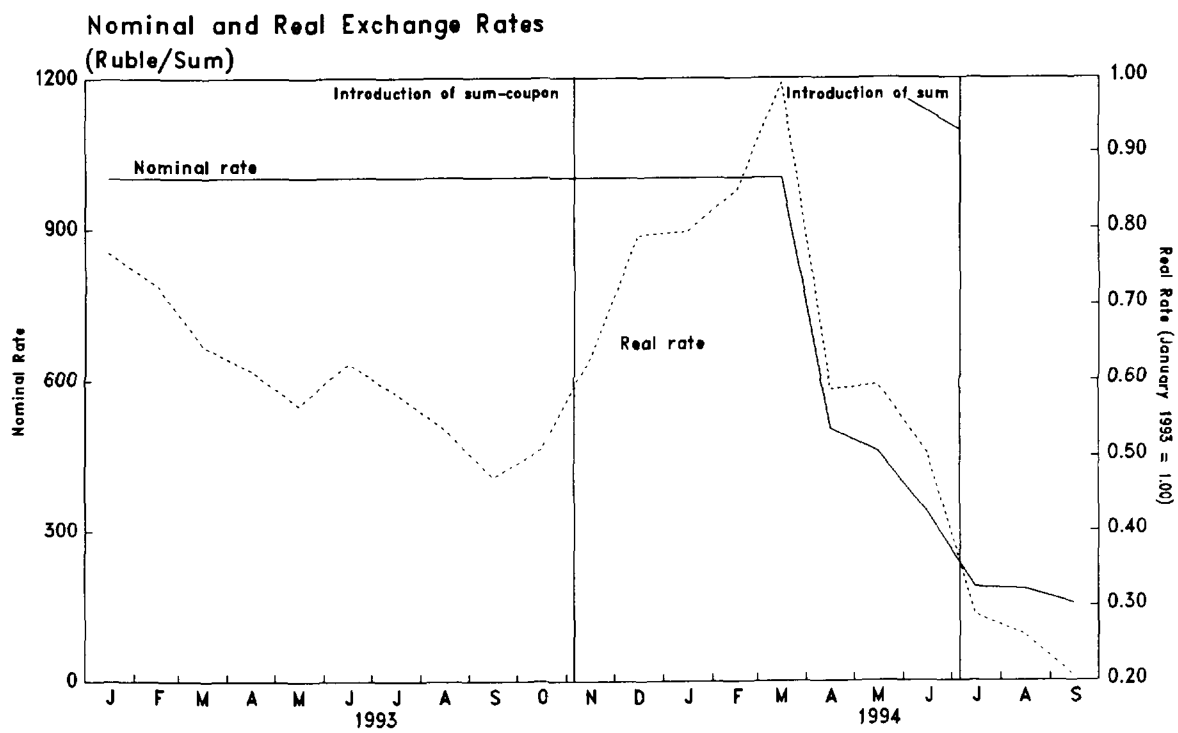
Velocity of Broad Money and Reserve Money Multiplier



Source: Data provided by the authorities; and staff estimates.

Chart 4
UZBEKISTAN
EXCHANGE RATES, 1993-94





Source: Data provided by the authorities; and staff estimates.

Direct consumer subsidies (including for bread and flour) have been eliminated, and retail prices for energy have been increased significantly. State orders have been eliminated for all goods, except cotton, grain, gold, copper and cable wire, and 30 percent of all foreign exchange proceeds (including from centralized trade) are now channelled through the auction.

In the area of privatization, virtually all of the government-owned housing has been transferred or sold to residents and a substantial number of small enterprises have been privatized. New regulations were issued in 1994, which clarified and strengthened the property rights of owners of privatized and individual dwellings, including the right to freely sell or lease dwellings, or to use dwellings as collateral. Also, a real estate market and a stock market were established in 1994. In the agricultural sector, the Government pursued a program of reform during 1992-94, including the transformation of state and livestock farms into collective, cooperative and leased forms of ownership, and privatization of agricultural support enterprises. Further, a new law permitting private ownership and transfer of land for trade and services enterprises was adopted in 1994, and long-term leases of 99 years were permitted for agricultural and industrial land. These leases are transferable and usable as collateral. A new foreign investment law guaranteeing repatriation of dividends and profits or capital was adopted in May 1994.

IV. Policy Discussions and the Program for the Period Ahead 1/

The authorities cooperated fully with the staff in establishing a comprehensive systemic and macroeconomic program for the remainder of 1994 and for 1995, which--if implemented in full--represents an important step forward in the transformation of the Uzbek economy from a centrally-planned to a market-based economy. The staff pointed out to the authorities that their generally measured approach to adjustment and reform entailed certain risks, since such a policy would delay the program results with a potential erosion of public support for the program as a consequence. The authorities took note of this point, but they emphasized that the reform process had been accelerated since the beginning of the year, which in their view had been possible only because of thorough advance preparation and education of the population about the need for such measures. According to the authorities, it would not be feasible politically and institutionally to speed up the process further at this stage. They indicated, however, that

---

1/ The quantitative limits and structural benchmarks for the STF supported program are contained in Table 1, and the main measures to be taken at the outset of the program are set out in Table 2, attached to the statement of systemic and macroeconomic policies (EBS/94/243, 12/19/94). In view of the uncertainty concerning the contracting and utilization of external loans, the limits for the contracting of external debt and the floors for the change in net international reserves were established through June 1995 only.

they wished to reach understandings with the Fund as soon as possible on a comprehensive economic program that could be supported by the Fund through a stand-by arrangement in the upper credit tranches.

The authorities have established a tight financial program for 1995, supported by an incomes policy, aimed at reducing the monthly rate of price increase to 4-5 percent by mid-year and to 2 percent by the end of the year, and to limit the decline in real GDP to 4 percent. Structural and institutional reforms will seek to boost the role of market prices as an allocative mechanism, reduce the role of the state in economic activity, and strengthen the institutional set-up for the conduct of economic policies in the more liberalized environment.

1. Fiscal policy and the social safety net

a. Fiscal policy

Fiscal policy will remain tight in 1995, with a limit for the consolidated deficit of 3 1/2 percent of GDP, of which 2 percent is to be financed from the domestic banking system (Table 2). In addition to the carry-over effect of the measures taken in the last quarter of 1994, a number of new measures are envisaged in the 1995 budget. The sum 150 allowance will continue to be granted in 1995, but it will remain unchanged in absolute terms, and the right of enterprises to claim enterprise income tax credit for half of the costs of the allowance paid to their employees will be abolished from end-March 1995. To further support the budget, the minimum wage (to which wages in budgetary organizations are tied) will stay unchanged until the end of 1994, and it will be adjusted quarterly in 1995 based on the target inflation rate. Despite the increase in revenues and expenditures in relation to GDP in 1995, it is the intention of the authorities to reduce these ratios over the medium-term, mainly through further reduction in budgetary subsidies. However, the reductions may be modest in the immediate future when expenditures relating to improvements in the social safety net and costs of enterprise and bank restructuring are expected to remain high.

Compared with 1994, total revenue is envisaged to increase by about 4 percentage points of GDP. This increase reflects a new tax on mining activities, substantially larger collections on both the land tax (through higher tax rates) and the property tax (through higher rates and a revaluation of assets to take place at end-1994), and a sizable transfer of profits from the CBU. Excise tax collections are also expected to rise because of the full-year impact of higher rates and extension of excise taxes to imports. Revenue from cotton excises will remain a major source of revenue in 1995, despite somewhat lower state orders and planned increases in procurement prices to roughly 40 percent of world market levels. Despite a moderate increase in tax rates, personal income tax collections are projected to decrease somewhat in 1995 as wages are expected to fall in real terms over the year.

Total expenditures are budgeted to increase by about 5 1/2 percentage points of GDP compared with 1994. The main factors contributing to this increase are a new system of child allowances, the full year impact of the continued payment of both the sum 150 allowance and of the transfers to low income families. Other factors are a higher procurement price for gold and an explicit allocation of expenditures for interest rate subsidies to enterprises. It is also assumed in the 1995 budget that the Government will pay the market interest rate on its domestic debt (but that it will receive profits from the CBU in a similar amount.)

Domestic bank financing of the budget will be limited to 2 percent of GDP in 1995. Foreign financing for government expenditures in connection with investment projects in the petroleum sector is expected to amount to about 1 percent of GDP. In addition, the authorities expect to be able to sell government securities to the nonbank domestic sector in an amount corresponding to 1/2 percent of GDP. Initially, such sales will be in the form of lottery bonds, but the authorities hope to develop during 1995, with technical assistance from the Fund, a market in Treasury bills. The staff cautioned the authorities not to expect quick results from this financing source, and expressed skepticism that the budgeted amount would materialize. The authorities, however, felt confident--based on market research they had undertaken--that an even larger amount than that included in the budget estimate could be raised, and it was agreed that expenditures could be increased in the event that this turned out to be the case.

b. Social safety net

The authorities initiated a program of allowances for low-income families in the fourth quarter of 1994 as the main part of their targeted social safety net. For 1995, it is envisaged that these allowances will continue and that every poor family (536,000 out of a total of about 4 million families) will receive monthly transfers equal to two minimum wages, at a cost to the budget of about 1 1/2 percent of GDP. In addition, family allowances, which are linked to the minimum wage, are expected to amount to slightly more than 1 percent of GDP in the 1995 budget.

The Social Insurance Fund is responsible for paying pensions and several other allowances. In 1995, it will receive an additional 3 1/2 percent of the wage bill in social security contributions paid to the central government. Because of this, and under the assumption that the largest part of the compensation payments to pensioners will be paid from the state budget, the Social Insurance Fund is expected to be able to meet its current expenditures out of current revenues in 1995, compared with a deficit of about 1 1/2 percent of GDP in 1994. The Government plans to design a revised system for indexing pensions whereby the minimum pension will be protected and overall pension spending reduced. It is expected that such a scheme will be implemented from mid-1995. The Employment Fund, which receives 2 percent of the wage bill in contributions, is expected to continue to run small surpluses, despite expenditures for job-creation measures in several enterprises.

2. Monetary and exchange rate policies

The authorities will aim during 1995 to maintain broadly the same stance of monetary policy as during the last quarter of 1994. The CBU refinance rate will be maintained at 225 percent until the end of 1994 and will be adjusted monthly based on past and projected inflation from January 1995. 1/ The CBU refinance rate will continue to be the minimum rate for the credit auction. However, as the functioning of the credit auction improves and the interest rate determined at the auction becomes a better indicator of the underlying market conditions, it is the intention of the authorities to let the auction-determined rate become the guide for the CBU refinance rate and other interest rates in the banking system. To improve the functioning of the auction, the CBU intends to channel an increasing share of its refinance credits to banks through the auction. 2/ Thus, in the fourth quarter of 1994, about 40 percent of the increase in net refinance credits will be distributed through the auction, and during the first half of 1995 all new net credits will be distributed through the auction (to increase the share of auctioned credits in the stock of CBU credits to banks to 10 percent by end-1994 and to 50 percent by end-June 1995). Also, the role of the Credit Commission, which was established in May 1994, will be confined to giving advice on structural issues in the financial sector, with the CBU having the sole responsibility for determining monetary policy issues.

The monetary program for 1995 is based on the assumptions that velocity, which rose sharply following the introduction of the sum in mid-1994, will remain unchanged except for seasonal variations between end-1994 and end-1995 and that the reserve money multiplier will increase as banks' excess reserves are drawn down over the year. Taking into account seasonal factors, reserve money and broad money are expected to decline by 31 percent and 16 percent, respectively, in real terms over the first half of the year (Chart 3 and Tables 3 and 4). For the year as a whole, reserve money is expected to decline slightly, but broad money to increase somewhat, in real terms. These targets will be achieved mainly by limiting the amount of credit provided by the CBU to commercial banks; net credit to the Government from the banking system will also be limited. 3/

1/ Based on a formula taking into account recorded inflation in the three months prior to the month in question and the targeted inflation for that month and the following two months.

2/ All licensed banks are now allowed to participate in the credit auctions, but the number of banks actually participating in each auction has been relatively small and the amounts transacted at the auctions have been modest.

3/ The quantitative limits for the program are contained in Table 1 attached to the statement of systemic and macroeconomic policies (EBS/94/243, 12/19/94).

For the time being, the exchange rate for the sum will continue to be determined by the auction, with CBU intervention limited to maintaining orderly conditions. A number of measures were taken during 1994 to improve the functioning of the auction. The number of banks participating in the auction has risen from 6 to 13 by mid-November out of a total of 27 banks. 1/ The surrender requirement has been extended to centralized trade, and from mid-November the full 30 percent foreign exchange surrendered has been channelled to the auction. 2/ This has already resulted in increased amounts of foreign exchange being transacted through the auction, and the rate determined at the auction is now believed to have become a better indicator of the underlying market conditions. From January 1, 1995 all foreign exchange earnings from centralized trade--except for gold--will be channelled through the auction. In connection with a stricter enforcement of rules prohibiting parallel exchange market activities, the foreign exchange allowance for individuals was temporarily reduced at the end of November 1994 to US$300 for 1994. At the same time, it was decided to allow banks to open additional foreign exchange offices and to increase the supply of foreign exchange to such offices. These measures have led to some appreciation of the sum at the parallel market while the auction-determined rate has depreciated to sum 25 per U.S. dollar. The foreign exchange allowance for individuals will be increased by December 31, 1994 to at least US$1,000 for 1995.

Uzbekistan maintains exchange restrictions under Article XIV, which are described in the staff report on the 1994 Article XIV consultation with Uzbekistan included in the 1994 Article XIV omnibus paper. The staff is currently looking to determine whether any other exchange restrictions remain, including Uzbekistan's system of correspondent accounts with other FSU countries, bilateral payments arrangements maintained with other Fund members, and the rules concerning non-resident bank accounts.

3. Incomes policy

In support of the tight fiscal and monetary policies, the authorities have introduced an incomes policy for state enterprises for 1995. Under this policy, the quarterly increase in the wage bill of such enterprises will not be allowed to exceed the targeted increase in prices. Any increase in the wage bill in excess of the established limits will be taxed at steep penalty rates. As a result of this policy, real average wages (including the flat sum 150 allowance) are expected to decline by about 12 percent during 1995, thus bringing them back to the level prevailing in September 1994 before the introduction of the flat allowance.

1/ All the major banks participate in the auction.

2/ Previously, 15 percentage points of the 30 percent surrender requirement were channeled through the auction, while 10 percentage points accrued to the state budget and 5 percentage points to the local authorities.

4. Systemic changes

In continuation of the speeding up of the reform process since the beginning of 1994, the program for 1995 includes a number of systemic and institutional reforms.

a. Price liberalization

The only goods still subject to rationing are sugar, vegetable oils and flour, and the authorities intend to phase out the system of rationing during 1995. At present, retail prices for the rationed quantities of these goods and for loaf bread are being adjusted on the basis of full cost recovery. 1/ All other prices are determined by enterprises, but until the end of 1994 they continue to be subject to profit margin regulations. However, the limits on profit margins on all goods, except the rationed foodstuffs mentioned above and certain medicines, will be eliminated from December 31, 1994, but such regulations will remain in force for monopolies. 2/ It is, however, the intention of the authorities to reorient anti-monopoly activities from price approval and control through administrative mechanisms toward encouraging competition. The Government is currently following a policy of adjusting domestic energy prices to fully cover the cost of supply. It is the intention of the authorities to adjust the wholesale price of petroleum and petroleum products to 75 percent of world market prices by end-March 1995, and to the world market level by October 1, 1995.

The rates charged for some public utilities do not cover the cost of providing these services, with the difference being covered either by budgetary subsidies, or by cross-subsidies from one class of consumer to another. Explicit budget subsidies remain only for central heating, hot water and housing, with such subsidies being limited to 2 1/2 percent of GDP in 1995. For housing, 60 percent of actual operations and maintenance were paid from the budget in 1994, but such subsidies will be reduced by 10 percentage points per year until they are totally eliminated.

1/ Additional quantities of the rationed goods may be bought in private shops or city markets at free prices; flour is presently sold only in state shops. The Government has adopted a price policy whereby retail prices for all rationed goods and for bread should fully cover costs. Vegetable oils are sold with a small retail trade margin; bread, flour and sugar are sold at producer costs, with any retail trade loss to be covered by profit margins on other goods.

2/ Producers or products with a market share in excess of 35 percent are regarded as monopolies. Thus defined, there are currently 611 monopoly enterprises and 1,534 monopoly products in Uzbekistan.

b. Privatization and enterprise reform

In the early stages, the Government's privatization program concentrated on housing and full or partial privatization of small enterprises. The Government is now determined to address the issue of privatization of medium- and large-scale enterprises. Thus, the Government will agree with the World Bank by January 1, 1995, on an action plan specifying the scope, approach and timetable of the privatization program, including a new mass privatization scheme to be adopted by March 31, 1995. In agriculture, 25 percent of all irrigated agricultural land will be leased to private farmers and families by mid-1995 and about 40 percent by the end of the year.

The Government also intends to improve the governance of enterprises remaining under state control. It is the intention of the authorities to subject all such enterprises to hard budget constraints, with financial support for a limited number of essential, but loss-making enterprises, being fully and transparently reflected in the budget. To improve the control of such enterprises, the Government will establish an information system to monitor their financial transactions. The authorities undertook a netting operation of interenterprise arrears in August/September 1994. However, only a very small amount of the outstanding arrears was cleared through this method. There was no bank financing in connection with this operation. Further accumulation of arrears of such enterprises will be avoided by isolating the largest debtors from the commercial banking system, and the access of such enterprises to foreign financing will be strictly limited. The Government is also developing a strategy, in cooperation with the World Bank, to resolve the problem of outstanding arrears of enterprises.

c. Reform of the financial sector and of government finances

In the financial sector, the authorities intend to strengthen the CBU by adopting new central bank legislation with technical assistance from the Fund before mid-1995, which will guarantee a high degree of independence of the CBU. A new chart of accounts, which adapts the CBU's accounting system to the Fund's money and banking statistics methodology, will be adopted by March 31, 1995. Information on the soundness of the banking system is limited. However, audits by internationally recognized firms are currently being conducted of the main commercial banks, and measures to deal with nonperforming assets of these banks will be taken before mid-1995. About one third of the official reserves of Uzbekistan--mainly gold and foreign exchange working balances--has now been transferred to the CBU. However, the Ministry of Finance wishes to retain a certain share of the foreign exchange reserves, which are managed by the National Bank for Foreign Economic Activity, until the CBU has developed the necessary expertise to manage these reserves adequately.

As regards reform of government finances, the program focuses on the consolidation of the extrabudgetary funds into the budget, including the transfer of a number of foreign currency receipts and expenditures from the foreign exchange budget to the general budget. The authorities were not willing to abolish the foreign exchange budget entirely in 1995. The main reason for this is that the Government has major foreign debt repayment obligations in 1995 (about US$600 million), which the authorities wish to retain in the foreign exchange budget together with the revenues from gold sales (about a similar amount as the debt repayments) to ensure the availability of the foreign exchange when the debt repayments fall due. The staff agreed to the retention of the foreign exchange budget for these items as well as for a very limited number of other items (payments for embassies and subscriptions to international organizations) for at most another year, with the understanding that the staff would continue to be given full and transparent information on such transactions. Among other measures planned is the establishment of a Treasury at the Ministry of Finance with technical assistance from the Fund.

d. External sector reform

Structural measures in the external area include the formulation and introduction before end-March 1995, with technical assistance from the Fund, of new foreign currency regulations aimed at clarifying and formalizing the large degree of current account convertibility, which is currently attained through a nontransparent number of different decrees and regulations. It is the Government's policy to gradually eliminate compulsory state orders. Thus, state orders have been eliminated for all industrial goods, except gold, copper and cable wire. State orders for milk, livestock, meat and poultry were eliminated in August 1994, while those for cotton fiber and grain were reduced from 75 to 67 percent of the 1994 crop. As agreed with the World Bank, the Government plans to reduce the state orders further to 60 percent for cotton fiber and to 50 percent for grain for the 1995 crop and to further reduce these in subsequent years with a view to eliminating state orders for grain by 1997 and for cotton by 1998. 1/ Also, the number of goods subject to export quota were to be reduced from 26 to 14 as of December 1, 1994 according to the understanding under the STF supported program. In the event, the authorities decided to reduce the number of goods subject to quota to 11. Nevertheless, a large share of Uzbekistan's exports remains subject to quota restrictions, since natural gas and cotton, which together account for the majority of total exports, continue to be included in the list. 2/ However, a specific mechanism will be established for the automatic granting of cotton export licensing as of January 1, 1995.

1/ The volume of production not subject to state orders can be freely sold to domestic customers, including state procurement organizations, or exported at market prices.

2/ Out of total non-gold exports during the first half of 1994, cotton accounted for 48 percent and natural gas for 10 percent. Of the remaining 42 percent of exports, 6 1/2 percentage points are still subject to quota restriction, compared with 15 percentage points before the recent reduction in the number of goods subject to quota.

V. Balance of Payments and Financing From the Fund

1. The outlook for 1995

The external current account deficit is projected to widen significantly in 1995 as investment in infrastructure is expected to pick up, foreign direct investments begin to be realized, and transportation costs remain high (Tables 5 and 6). The trade balance is projected to turn into a deficit of 3 1/2 percent of GDP from the small surplus in 1994. Cotton exports are expected to increase only slightly in volume terms, but to grow significantly in value as prices to FSU countries are expected to increase to the level of those prevailing in non-FSU states. Gold exports are projected to be the same in volume terms as in 1994, i.e. 50 tons, while other exports are projected to increase in volume by about 3 percent. On the other hand, imports of energy products are projected to decline as domestic production continues to increase. Imports of foodstuffs are anticipated to decline slightly owing to the increase in food prices and the resulting decline in demand. As the result of a significant increase in project financing (mainly for the oil and gas industry), other imports are projected to rise sharply.

Taking into account projected current account developments, the anticipated foreign borrowing 1/ and debt repayments on existing commitments, as well as a modest build-up of reserves which will keep the import cover of gross reserves at about 4 1/2 months, a financing gap of about US$250-275 million is expected for 1995 before financing from the Fund. This gap could be covered by the envisaged STF purchases and the disbursement of the World Bank rehabilitation loan. Consequently, a Consultative Group Meeting to be chaired by the World Bank planned for March 1995 will focus on project financing and technical assistance coordination rather than on balance of payments assistance.

2. The medium-term outlook

The sizable investments in the energy sector, which will contribute to the forecast increase in the current account deficit in 1995, are expected

---

1/ Gross borrowing of US$880 million is expected in 1995, of which US$240 million is trade-related. A large part of the US$640 million investment and project financing is expected to be covered by loans from Japan, but sizable amounts are anticipated also from the EBRD, France, the United States, Germany and Switzerland.

to result in a sharp decline in energy imports over the medium-term. 1/ As domestic food production rises, imports of foodstuffs are projected to grow less than the increase in the population. On the other hand, other imports are projected to grow slightly above the annual real growth rate of GDP, because of the expected sharp growth in imports of capital goods. The resurgence of economic activity, due to the envisaged pick-up in investments, and the expected continued growth in output of natural resources, is assumed to lead to export volume growth in line with the anticipated growth of real GDP. As a result, the current account deficit in relation to GDP is expected to decline gradually from 18 percent in 1995 to about 2 percent by the year 2000 (Table 7). 2/ Uzbekistan is likely to continue to have small financing gaps during 1996-99. Under these circumstances, the stock of outstanding debt in relation to GDP is expected to grow significantly from about 27 percent in 1994 to about 57 percent in 1996 and 1997 and, thereafter, to steadily decline to about 40 percent by the year 2000. Debt service as percent of exports will remain manageable, peaking at about 18 1/2 percent in 1995, before falling to about 11 1/2 percent by the year 2000.

Taking into account two purchases under the STF, Uzbekistan's outstanding obligations to the Fund would remain modest, as measured by such indicators as the ratios to quota, exports or total external debt (Table 8). Thus, over the period 1995-2000, Uzbekistan's outstanding obligations to the Fund would at most amount to about 4 percent of exports, about 11 percent of gross reserves, and about 7 percent of total external debt. Consequently, assuming that the Uzbek authorities will adhere to the stabilization and reform program established for 1995 and build upon these efforts over the medium-term, Uzbekistan is unlikely to face difficulties in making scheduled repurchases to the Fund.

VI. Technical Assistance

The Fund has provided intensive technical assistance to Uzbekistan over the past year. Several missions were mounted, with the priority being given to strengthening the capacity of institutions responsible for monetary and financial policies--the CBU and the Ministry of Finance--and to improving

---

1/ The medium-term balance of payments scenario assumes continuation of consistent stabilization and structural adjustment policies resulting over the period 1996-2000 in the exchange rate remaining constant in real terms (after some real appreciation in 1995), and the real growth and inflation rates each reaching about 5 percent by the year 2000.

2/ As regards the sensitivity of these calculations, for example, a 10 percent reduction in the price of cotton for the period 1995-2000, compared with the assumption in the scenario, would result in a cumulative increase in the current account deficit of about US$1 billion or 4 percent of GDP.

the quality and reliability of economic indicators. 1/ In particular, recent Fund missions have provided assistance to improve the formulation and execution of credit and foreign exchange policy, including payments systems and bank accounting; to strengthen budgetary procedures and expenditure policy, including social safety net issues; to upgrade price, trade, government finance and monetary statistics; and to revise banking legislation and regulations. In addition, the IMF Institute has provided macroeconomic policy training to senior government officials. A special FAD advisor began work on computerization in the Ministry of Finance in January 1994, and a resident MAE advisor took up a position in the CBU in November 1994 for a three-month period. A resident representative from the Fund has been posted in Tashkent since September 1993.

While considerable progress has been made in the implementation of the technical assistance provided by the Fund in the areas referred to above, much work still needs to be done in these as well as other areas. In the future, particular attention will need to be paid to providing assistance on tax reform and tax administration, on the establishment of a Treasury at the Ministry of Finance, on the establishment of a market for Treasury bills, and in the drafting of foreign exchange regulations. Further assistance will also be needed to improve the credit and foreign exchange auctions, to elaborate central bank legislation and to implement the new chart of accounts for the CBU. It will also be necessary to provide assistance to improve the foreign exchange reserve management capabilities of the CBU.

VII. Staff Appraisal

Nearly a year has passed since the previous Article IV consultation--the first with Uzbekistan--at which time the staff emphasized the need to change significantly not only the stance of economic policies, but also the institutional mechanisms for the implementation of such policies. The staff is pleased to note that important steps have been taken since the beginning of 1994 to speed up the process of transforming the Uzbek economy from a centrally-planned to a market-based economic system, and to put in place a comprehensive and coherent macroeconomic program for the period ahead.

The Government rightly regards the reduction of inflation and the consequent stabilization of the sum as the key short-term objective, and economic and financial policies have been tightened significantly since the introduction of the sum in July 1994. It is important that the macroeconomic program for 1995 be underpinned by structural and institutional reforms in order to boost the role of market prices as an allocative mechanism and to reduce the direct involvement of the Government in the economy. While the staff understands the reasons for the relatively cautious approach of the Government to structural reform, it should be borne

1/ A description of the Fund's technical assistance program is given in Appendix I, along with a list of technical assistance missions.

in mind that such a policy of measured change will delay the economic results of the reform efforts with a potential erosion of public support for the strategy. The staff would, therefore, recommend an acceleration and deepening of the reform process to ensure a quick recovery of output and to create the conditions for sustainable growth and a strengthened balance of payments position over the medium-term.

A firm monetary policy is the key to achieving the intended stabilization of prices and the sum, and the tightening of policies since mid-1994 is a welcome development, although the staff is concerned that this was brought about mainly through administrative means. The share of CBU credits extended through direct refinancing must be drastically reduced, with the credit auction becoming the main mechanism for channelling CBU credits to banks. The staff welcomes the increases in early October in bank deposit rates and the CBU refinance rate to positive real levels and the recent decision to make the CBU refinance rate the minimum interest rate for the auction. However, as the functioning of the credit auction improves and the interest rate determined at the auction becomes a better indicator of the underlying market conditions, the auction-determined rate should become the guide for the CBU refinance rate and for other interest rates in the banking system.

Similarly, the staff welcomes the recent unification of the official and the cash exchange rates for the sum, and the scheduling of weekly foreign exchange auctions. Nevertheless, the auction must be widened and deepened so that the exchange rate determined by the auction can become a more meaningful indicator of market conditions. The application of the surrender requirement to centralized trade and the recent decision to channel all the surrendered foreign exchange through the auction are welcome developments. On the other hand, the staff is concerned that the authorities found it impossible, for the time being, to abolish the foreign exchange budget completely and to transfer all the official reserves to the CBU. These important structural measures should be taken as soon as possible and at the latest by the end of 1995.

The monetary goals of the program for 1995 will be very difficult to achieve unless the domestic bank financing of the budget is limited to no more than 2 percent of GDP. This will not be an easy task, given the impact on budget expenditures of the continuation of the payment of the sum 150 monthly allowance throughout the year. There must be no adjustment of this allowance next year and income tax deductions by enterprises for such payments should be abolished at the latest by end-March 1995. To further limit the wage costs in the budget, and to limit cost pressures generally in the economy, the strengthened forward-looking incomes policy must be firmly implemented in 1995 and the tax-based excess wage penalty mechanism applied as needed to ensure compliance. It should be noted, however, that these measures will be effective only if credit growth is limited as intended. While the staff agrees with the decision to channel interest rate support to enterprises through the budget, such subsidies should be carefully targeted and phased out quickly. There must be no blanket bail out of enterprises by the CBU or the Government, in particular not in connection with the clearance of interenterprise arrears. In general, the staff would encourage the authorities to speed up the phasing out of budgetary subsidies and to further improve the targeting of social benefits in order to reduce the high level of budgetary expenditures in relation to GDP and limit the role of the Government in the economy.

Important steps have been taken this year in the area of structural reform, in particular as regards price liberalization and the phasing out of direct budgetary subsidies. There is, however, ample scope for further measures in this as well as in other areas. Thus, the remaining limits on profit margins for enterprises, except in the context of natural monopolies, should be abolished as soon as possible. The dismantling of the system of centralized production and trade should be speeded up through a clear timetable for the privatization of medium- and large-scale enterprises, elimination of barriers to entry and an improvement in the management and monitoring of enterprises that remain under state ownership. Concrete plans will need to be developed as soon as possible to tackle the interenterprise arrears problem and to regularize the payments system. The staff welcomes the phasing out of state orders for cotton and grain over the next few years, but would urge the authorities to move faster than they are currently intending. Moreover, export quotas should be eliminated for all goods except those subject to voluntary restraint under international agreements.

Notwithstanding the efforts that have been made in improving the statistical base in Uzbekistan with technical assistance from the Fund and other agencies, further improvements are urgently needed. Of particular importance is the establishment of a reliable price index. The resolution of the remaining technical problems with the new consumer price index established with technical assistance from the Fund should be given the highest priority and the index published as soon as possible. Other priority areas where improvement is needed are the national accounts, balance of payments and monetary statistics. The staff urges the authorities to devote the necessary efforts and resources to following up on technical assistance provided by the Fund in these as well as in other areas.

The balance of payments situation of Uzbekistan remains quite comfortable, despite the rather large current account deficits estimated this year and projected for 1995. The authorities have managed to attract a rather large amount of foreign financing to cover these deficits. The staff welcomes the change in emphasis of the authorities to rely more on direct investment flows and long-term investment and project credits in 1995 rather than on short-term trade financing, which will allow Uzbekistan to modernize and upgrade its industries through imported technology and know-how. Provided that the authorities implement the reform and stabilization program as envisaged, it is unlikely that Uzbekistan will face financing difficulties in 1995, and the Consultative Group Meeting envisaged by the World Bank in early 1995 will focus on project financing and technical assistance coordination rather than on balance of payments assistance.

The Uzbek authorities have designed a program of stabilization and reform that deserves the support of the international community. Accordingly, the staff recommends approval of Uzbekistan's request for a first purchase under the Systemic Transformation Facility in an amount equivalent to SDR 49.875 million. Given Uzbekistan's relatively comfortable official reserve position and assuming that the authorities will adhere to the stabilization and reform program, the staff does not expect that Uzbekistan will face difficulties in servicing purchases from the Fund under the STF.

The present program is only the first stage in the far-reaching process of reform and stabilization needed in Uzbekistan. If inflation is to be overcome and the conditions laid for resumption of growth, more substantial systemic and stabilization efforts will be required. The staff, therefore, encourages the authorities to add momentum to the systemic reform effort in the areas mentioned above and to strengthen the stabilization policies initiated in the current program with a view to reaching understandings as soon as possible on a comprehensive economic program that could be supported by the Fund through a stand-by arrangement in the upper credit tranches.

It is recommended that the next Article IV consultation with Uzbekistan take place on the standard 12-month cycle.

VIII. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

Request for Purchase Under the Systemic Transformation Facility

1. The Fund has received a request by the Government of Uzbekistan for a purchase equivalent to SDR 49.875 million under the Decision on the Systemic Transformation Facility (Decision No. 10348-(93/61) STF, adopted April 23, 1993, as amended).

2. The Fund approves the purchase in accordance with the request.

Table 1. Uzbekistan: Selected Economic Indicators, 1992–95

(In percentage change over the same period one year earlier, unless otherwise indicated)

	1992	1993	1994 First Half Outcome	1994 Estimate Full year	1995 First Half Program	1995 Program Full year
GDP (in millions of sum)	447	4,428	8,725	46,971	43,766	129,323
Real GDP	−11.1	−2.4	−7.8	−2.6	−4	−4
GDP deflator	717.1	914.7	997.2	989.3	462	187
Exchange rate (in sum per U.S. dollar)						
End–of–period	0.4	1.2	5.9 1/	...	...	...
Period average	0.2	1.0	2.7	...	...	...
Retail prices						
End–of–period	910	885	1,134	368	122	84
Period average	645	534	1,043	723	200	142
Wholesale prices						
End–of–period	8,863	1,919	1,539	1,051	462	84
Period average	3,275	2,545	1,658	1,346	661	249
Minimum wage (sum per month) 2/						
End–of–period	2.0	24.3	70.0	...	...	...
Period average	1.0	9.3	44.2	...	...	...
Average wage (sum per month)						
End–of–period	5.9	89.0	222.3	...	...	...
Period average	2.3	28.7	142.9	...	...	...
Fiscal accounts (in percentage of GDP)						
State budget 3/						
Total revenues and grants	31	41	47	43	57	47
Total expenditures and net lending	43	61	52	45	60	50.5
Balance (deficit (−))	−12	−20	−5	−2	−3	−3.5
Consolidated fiscal balance 4/	−18	−12	−8	−3.6	−3	−3.5
Of which: Domestic bank financing	(...)	(−19)	(−2)	(−3.6)	(−1)	(−2)
Monetary and financial sector 5/						
Banking system credit to the economy	820.4	1,063.6	138.7	395.0	22	68
Broad money	335.8	785.0	142.0	481.5	31	90
Velocity (annualized quarterly GDP/ end–of–period money stock)	3.4	3.4	3.6	5.5	5.0	5.5
Exports (in millions of U.S. dollars)	1,424	2,877	1,554	3,218	1,842	3,502
Imports (in millions of U.S. dollars)	1,660	3,255	1,336	3,178	1,597	3,632
Trade balance (in millions of U.S. dollars)	−236	−378	219	41	245	−130
Consolidated external current account balance (in percent of GDP)	−11.8	−9.0	−3.6	−9.4	−8.7	−18.0
Gross official reserves (in months of imports)	3.8	3.8	4.5	4.5	4.6	4.6

Source: Data provided by the Uzbek authorities; and staff estimates.

1/ The sum was introduced on July 1, 1994 at an exchange rate of sum 7 per U.S. dollar. At the time of the unification of the official and cash exchange rates on October 10, 1994, the rate was sum 22 per U.S. dollar.
2/ The minimum wage was raised to sum 100 on July 1, 1994.
3/ Budgetary operations in domestic currency, including net lending.
4/ Including balance of extra–budgetary funds (net of transfers), gold operations and foreign currency operations.
5/ Percentage change relative to broad money at the beginning of the year.

Table 2. Uzbekistan: Fiscal Operations of the General Government, 1993–1995

	1993	1994		1995				
		QI–QIII	Estimate	Program	QI	QII	QIII	QIV
				(In millions of sum)				
Total revenue	1,836	8,544	20,189	60,713	10,602	14,427	15,449	20,234
Taxes on incomes and profits	523	3,138	5,015	12,296	1,938	3,093	3,498	3,767
Enterprise income tax	382	2,257	3,599	8,938	1,283	2,286	2,585	2,784
Individual income tax	141	881	1,416	3,358	655	807	913	983
Social security contributions	73	310	500	...	...	...	...	...
Taxes on domestic goods and services	761	2,864	10,993	33,836	6,203	8,254	6,565	12,814
Value added tax	473	1,831	3,081	9,946	1,940	2,390	2,703	2,912
Excises	289	1,033	7,912	23,890	4,263	5,864	3,861	9,903
Cotton	244	526	6,384	16,678	2,916	4,205	1,836	7,721
Other	45	508	1,528	7,212	1,346	1,659	2,026	2,182
Property tax	11	73	97	1,938	400	556	498	484
Land tax	...	91	166	3,007	362	637	642	1,366
Mining tax	...	...	...	1,538	154	308	461	615
State duties and local taxes	7	108	187	534	104	128	145	156
Customs duties and export taxes	78	236	394	1,066	208	256	290	312
Profits from the Central Bank	...	...	--	1,750	616	510	345	280
Other taxes and non–tax revenue	384	1,723	2,837	4,747	617	685	3,005	439
Total expenditures	1,975	9,470	21,109	65,248	11,190	15,200	17,211	21,647
National economy	137	618	1,220	4,070	794	978	775	1,524
Socio–cultural projects	728	4,066	7,637	19,667	3,837	4,727	3,742	7,361
Foodstuff consumer subsidies	193	316	341	...	...	...	...	...
Other subsidies and transfers	194	497	2,896	14,105	3,275	3,512	3,635	3,683
Non–food subsidies	24	36	40	...	...	...	...	...
Services	104	275	695	2,159	498	553	563	545
Allowances	29	123	758	3,482	679	837	946	1,019
Public transfers	37	63	1,404	8,464	2,098	2,122	2,126	2,119
Interest rate subsidies	...	...	...	1,000	400	300	200	100
Defense, public order and safety	164	...	...	...	...	...	...	...
State authorities and administration	51	273	481	1,389	271	334	264	520
Investments	113	917	1,915	4,600	636	920	1,571	1,472
Domestic interest payments	...	113	188	1,750	616	510	345	280
Purchase of foreign exchange	...	87	243	...	...	...	...	...
Purchase of gold	219	948	1,264	5,057	...	1,196	2,596	1,264
Other expenditures	178	1,635	4,923	13,610	1,361	2,722	4,083	5,444
Net lending	754	...	...	...	...	...	...	...
Balance (domestic currency budget)	−893	−927	−920	−4,535	−588	−773	−1,761	−1,413
Extrabudgetary funds	−60	−144	−587	--	--	--	--	--
External sector balance	417	−23	−179	--	--	--	--	--
Consolidated balance	−536	−1,094	−1,686	−4,535	−588	−773	−1,761	−1,413
Financing	536	1,094	1,686	4,535	588	773	1,761	1,413
Domestic	857	254	1,686	3,192	588	141	1,050	1,413
Domestic bank borrowing (net)	850	249	1,669	2,545	523	11	856	1,155
Bond sales (net)	7	5	17	647	65	129	194	259
External	−94	...	--	1,344	--	632	712	--
Drawings	560	...	--	1,344	--	632	712	--
Repayments	653	...	--	--	--	--	--	--
Errors and omissions	−228	840	...	...	...	...	...	...
				(In percent of GDP)				
Total revenue	41.5	33.9	43.0	46.9	59.3	55.8	35.0	48.9
Total expenditures	44.6	37.6	44.9	50.5	62.6	58.7	39.0	52.3
Net lending	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (domestic currency budget)	−20.2	−3.7	−2.0	−3.5	−3.3	−3.0	−4.0	−3.4
Extrabudgetary funds	−1.4	−0.6	−1.3	--	--	--	--	--
External sector balance	9.4	−0.1	−0.4	--	--	--	--	--
Consolidated Balance	−12.1	−4.3	−3.6	−3.5	−3.3	−3.0	−4.0	−3.4
Financing	12.1	4.3	3.6	3.5	3.3	3.0	4.0	3.4
Domestic	19.4	1.0	3.6	2.5	3.3	0.5	2.4	3.4
Domestic bank borrowing (net)	19.2	1.0	3.6	2.0	2.9	0.0	1.9	2.8
Bond sales (net)	0.2	--	--	0.5	0.4	0.5	0.4	0.6
External	−2.1	...	--	1.0	--	2.4	1.6	--
Errors and omissions	−5.1	3.3	...	...	...	...	...	...
Memorandum items:								
Cotton revenue (in percent of GDP)	5.5	2.1	13.6	12.9	16.3	16.2	4.2	18.7

Source: Ministry of Finance; and staff estimates.

Table 3: Uzbekistan: Reserve Money and Net Domestic Assets of the Monetary Authorities, 1992–95

(In millions of sum)

	1992	1993	1994				1995			
			Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
						Estimate	Program			
Net international reserves 1/	219	1,275	2,009	6,995	22,065	26,502	29,791	27,371	26,843	27,371
Gold 2/	190	543	599	2,945	8,458	8,892	8,881	8,881	8,881	8,881
Foreign exchange	29	731	1,410	4,049	13,607	17,610	20,910	18,490	17,962	18,490
Net domestic assets	10	620	1,029	−2,278	−13,445	−17,128	−19,981	−17,371	−12,043	−11,801
Domestic credit	271	2,716	3,963	5,704	9,111	11,885	9,032	11,642	16,971	17,213
Government (net)	−10	1,396	1,693	3,052	4,804	6,200	4,793	3,593	5,193	5,293
of which: extrabudgetary funds	...	−18	26	−7	−1	...	...	...	...	...
Banks	280	1,292	2,189	2,558	4,285	5,660	4,204	8,009	11,728	11,855
Economy	1	29	81	94	21	25	35	40	50	65
Other items (net)	−260	−2,079	−2,959	−7,975	−22,555	−29,013	−29,013	−29,013	−29,013	−29,013
Reserve money	230	1,895	3,038	4,717	8,620	9,373	9,810	10,000	14,800	15,570
Currency outside CBU	110	695	1,799	3,402	3,983	4,937	6,597	5,638	7,924	9,692
Deposits of commercial banks	120	1,199	1,239	1,315	4,637	4,437	3,212	4,362	6,876	5,878
Required reserves	11	259	445	748	1,234	...	...	...	...	...
Correspondent accounts (net)	93	775	559	302	2,543	...	...	...	...	...
Ruble deposits	3	41	66	77	96	...	...	...	...	...
Foreign currency deposits 3/	13	125	169	188	764	...	...	...	...	...
Memorandum items:										
Change from end of previous quarter:										
Net foreign assets	...	506	734	4,986	15,070	4,437	3,289	−2,420	−528	528
Net domestic assets	...	381	409	−3,307	−11,167	−3,684	−2,853	2,610	5,329	242
Credit to government (net)	...	671	297	1,359	1,752	1,396	−1,407	−1,200	1,600	100
Credit to banks	...	345	897	369	1,728	1,375	−1,456	3,805	3,719	127
Reserve money										
Percentage change from end of previous quarter	...	88	60	55	83	9	5	2	48	5
Percentage change from end of previous year	857	725	60	149	355	395	5	7	58	66

Sources: Central Bank of Uzbekistan, Ministry of Finance; and staff estimates.

1/ Valued at sum 22 per U.S. dollar for the period beyond September 1994 and at current rates for previous months.

2/ Gold valued at US$390 per ounce.

3/ For the program period, foreign currency deposits are assumed to grow in line with other deposits.

Table 4. Uzbekistan: Broad Money and Net Domestic Assets of the Banking System, 1992–95

(In millions of sum)

	1992	1993	1994				1995			
			Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
						Estimate	Program			
Net foreign assets 1/	259	1,517	2,421	7,925	25,465	30,902	34,202	31,782	31,254	31,782
Foreign exchange	68	974	1,823	4,980	17,007	22,010	25,309	22,889	22,361	22,889
Gold 2/	190	542	598	2,945	8,458	8,892	8,892	8,892	8,892	8,892
Net domestic assets	49	1,209	2,419	−1,330	−13,456	−15,056	−16,314	−11,079	−1,809	−1,679
Domestic credit	443	4,569	6,966	8,542	11,144	17,002	15,745	20,979	30,249	30,379
Government (net)	−32	818	908	1,012	1,067	2,487	3,010	3,021	3,877	5,032
of which: extrabudgetary funds	...	−31	−64	−207	−308	...	...	...	...	...
Economy	475	3,751	6,058	7,530	10,077	14,515	12,735	17,958	26,373	25,347
Other items (net)	−394	−3,360	−4,547	−9,872	−24,600	−32,058	−32,058	−32,058	−32,058	−32,058
Broad money	308	2,725	4,840	6,595	12,009	15,846	17,888	20,703	29,445	30,103
Currency outside banks	97	587	1,691	2,419	3,777	4,687	6,347	5,413	7,634	9,342
Deposits	147	2,001	2,971	3,573	5,561	11,159	11,541	15,290	21,811	20,760
Foreign currency deposits 3/	65	138	178	603	2,671	...	...	...	...	...
Memorandum items:										
Change from end of previous quarter:										
Net foreign assets	...	315	904	5,504	17,540	5,437	3,300	−2,420	−528	528
Net domestic assets	...	807	1,211	−3,749	−12,126	−1,600	−1,257	5,235	9,270	130
Credit to government (net)	...	604	90	104	55	1,420	523	11	856	1,155
Credit to economy	...	1,074	2,307	1,472	2,547	4,438	−1,780	5,224	8,414	−1,025
Broad money										
Percentage change from end of previous quarter	...	70	78	36	82	32	13	16	42	2
Percentage change from end of previous year	468	784	78	142	341	481	13	31	86	90

Sources: Central Bank of Uzbekistan, Ministry of Finance; and staff estimates.

1/ Valued at sum 22 per U.S. dollar for the period beyond September 1994 and at current rates for previous months.

2/ Gold valued at US$390 per ounce.

3/ For the program period, foreign currency deposits are assumed to grow in line with other deposits.

Table 5. Uzbekistan: Consolidated Balance of Payments Summary, 1993–95 1/

(In millions of U.S. dollars)

	1993	1994					1995				
		QI	QII	QIII	QIV	Year Estimate	QI	QII	QIII	QIV	Year Program
Current account	−429	11	−132	−238	−74	−432	107	−227	−335	−215	−670
Merchandise trade balance	−378	252	−33	−169	−9	41	361	−116	−243	−133	−130
Exports	2,877	796	758	584	1,080	3,218	1,043	799	597	1,063	3,502
Cotton fiber	1,172	350	306	315	587	1,559	444	329	332	606	1,711
Gold	559	15	222	138	243	618	96	207	112	192	607
Other	1,146	430	230	131	250	1,041	503	263	153	265	1,184
Imports	−3,255	−544	−792	−752	−1,090	−3,178	−682	−915	−840	−1,195	−3,632
Foodstuff	−625	−113	−194	−135	−127	−568	−187	−164	−98	−95	−544
Energy products	−658	−130	−100	−111	−205	−545	−93	−58	−61	−129	−341
Other	−1,973	−302	−498	−507	−717	−2,024	−403	−692	−681	−971	−2,747
Services, net	−63	−244	−102	−71	−69	−486	−260	−117	−95	−90	−561
Shipment and transportation	−49	−237	−90	−47	−32	−405	−243	−92	−48	−33	−416
Travel	1	−2	1	−6	−2	−9	−2	2	−9	−1	−10
Interest	−19	1	−3	−3	−17	−23	−2	−8	−7	−20	−37
Other	4	−6	−10	−15	−18	−49	−12	−19	−30	−36	−98
Transfers, net	12	3	4	2	4	13	5	6	3	7	21
Capital account	813	27	77	229	199	532	43	77	269	206	595
Direct investment, net											
Loans	48	19	22	26	20	87	62	46	66	74	248
Drawings	548	50	175	321	404	950	102	166	303	309	879
Repayments	−166	−81	−110	−91	−227	−508	−136	−135	−126	−177	−575
Russian state credit	79	9	2	0	--	12	--	--	--	--	--
Correspondent account credits	393	−39	−2	0	--	−40	--	--	--	--	--
Commercial banks	−99	−41	78	−43	--	−5	--	--	--	--	--
Other capital	9	109	−89	15	2	37	15	1	26	1	43
Errors & omissions	103	82	87	125	−205	88	--	--	--	--	--
Overall balance (excluding gold monetization)	487	121	32	117	−81	188	150	−150	−66	−9	−75
Financing (increase −) 2/	−487	−121	−32	−117	81	−188	−150	150	66	9	75
Gross reserves (−increase)	−492	−124	−36	−117	94	−183	−223	110	−49	−24	−185
Use of Fund credit	--	--	--	--	--	--	73	--	73	--	145
Arrears	5	4	4	--	−13	−5	--	--	--	--	--
Financing gap	--	--	--	--	--	--	--	40	42	33	115
Memorandum items:											
Current account balance (in percent of GDP)	−9.0	...	...	...	...	−9.4	...	...	...	...	−18.0
Gross official reserves (in months of imports)	3.8	...	...	...	...	4.5	...	...	...	...	4.6

Sources: Uzbek authorities; and staff estimates.

1/ FSU figures in the consolidated balance obtained by converting quarterly sum data into U.S. dollars.
2/ Excludes the changes in monetary gold holdings stemming from transactions with residents.

Table 6. Uzbekistan: Trade in Goods and Services, 1993-95

	1993	1994 Estimate	1995 Program
		(In millions of U.S. dollars)	
Balance on merchandise trade	-378	41	-130
Exports	2,877	3,218	3,502
Former Soviet Union	1,440	1,391	1,601
Rest of World	1,438	1,828	1,901
Imports	-3,255	-3,178	-3,632
Former Soviet Union	-1,975	-1,331	-1,286
Energy products	-656	-543	-341
Other	-1,319	-788	-946
Rest of World	-1,280	-1,846	-2,346
Non-factor services	-45	-463	-524
Net investment income	-19	-23	-37
Balance on goods and services	-441	-445	-691
Memorandum items:		(In percent change)	
Terms of trade	-4.4	-18.9	-10.5
Former Soviet Union	0.4	-62.5	-49.0
Rest of World	-10.5	19.6	-3.8
Export volume	76.0	-7.4	2.1
Former Soviet Union	68.9	-21.8	7.5
Rest of World	84.2	-0.3	1.5
Import volume	48.2	-52.7	-28.4
Former Soviet Union	76.7	-79.5	-54.1
Rest of World	37.3	35.3	22.3
Cotton exports			
Unit price	27.3	26.3	6.3
Former Soviet Union	166.1	8.7	17.2
Rest of World	-12.3	40.7	0.5

Sources: Uzbek authorities; and staff estimates.

Table 7. Uzbekistan: Medium-Term Balance of Payments Scenario, 1994-2000

(In millions of U.S. dollars)

	1994	1995	1996	1997	1998	1999	2000
Current account	-432	-670	-596	-422	-265	-174	-106
Trade balance	41	-130	-72	151	314	404	463
Exports, of which:	3,218	3,502	3,549	3,793	4,110	4,446	4,733
Cotton	1,559	1,711	1,779	1,957	2,181	2,401	2,585
Imports, of which:	-3,178	-3,632	-3,621	-3,642	-3,796	-4,042	-4,270
Energy products	-545	-341	-175	-62	-16	-2	--
Service, net, of which:	-486	-561	-547	-596	-603	-603	-596
Interest, net	-23	-37	-52	-100	-94	-82	-64
Other	-463	-524	-494	-496	-510	-521	-532
Transfers	13	21	22	24	25	26	27
Capital account	532	595	448	309	210	222	233
Direct investment, net	87	248	299	323	285	305	335
Credits							
Disbursements	950	879	500	390	350	300	250
Repayments	-508	-575	-402	-456	-478	-433	-403
Other capital, net	3	43	51	52	53	50	51
Overall balance	188	-75	-148	-112	-55	49	127
Financing	-188	75	148	112	55	-49	-127
Gross foreign reserves	-183	-185	32	-8	-58	-93	-103
Use of Fund credit	--	145	--	--	--	-6	-24
Other financing	-5	--	--	--	--	--	--
Financing gap	--	115	116	120	112	50	--
Memorandum items:							
Real GDP growth	-2.6	-4.0	0.0	3.5	5.0	5.0	5.0
Current account balance							
(in percent of GDP)	*-9.4*	*-18.0*	*-16.0*	*-10.5*	*-6.1*	*-3.6*	*-2.1*
Gross official foreign reserves							
(in U.S. dollars)	1,205	1,390	1,358	1,366	1,423	1,516	1,619
(in months of imports)	4.5	4.6	4.5	4.5	4.5	4.5	4.5
External debt stock							
(in U.S. dollars)	1,462	2,027	2,241	2,296	2,281	2,191	2,014
(in percent of GDP)	26.9	47.0	57.4	56.7	52.4	47.0	41.0
Debt service							
(in percent of exports)	17.5	18.5	14.3	15.8	15.0	12.8	11.5

Sources: Uzbek authorities; and staff estimates.

Table 8. Uzbekistan: Indicators of Fund Credit, 1995–2000 1/

	1995	1996	1997	1998	1999	2000
			(In percent)			
Outstanding Fund credit in relation to:						
Quota	50.00	50.00	50.00	50.00	47.92	39.58
Exports	4.15	4.10	3.83	3.55	3.15	2.44
Reserves	10.45	10.70	10.65	10.25	9.24	7.15
Total external debt	7.17	6.48	6.33	6.39	6.39	5.74
Fund charges and repurchases in relation to:						
Quota	1.54	2.85	2.84	2.82	4.87	10.78
Exports	0.13	0.23	0.22	0.20	0.32	0.67
Reserves	0.32	0.61	0.60	0.58	0.94	1.95
Total external debt	0.22	0.37	0.36	0.36	0.65	1.57
			(In millions of U.S. dollars)			
Fund purchases	145.24	--	--	--	--	--
Outstanding Fund credit	145.24	145.34	145.44	145.83	140.05	115.69
Total payments to the Fund	4.48	8.27	8.25	8.24	14.24	31.52
Repurchases	--	--	--	--	6.09	24.36
Charges	4.48	8.27	8.25	8.24	8.15	7.17
Memorandum item:						
US$/SDR exchange rate	1.456	1.457	1.458	1.462	1.465	1.465

Source: Staff estimates.

1/ End-of-year; assumes both STF purchases in 1995.

Uzbekistan - Fund Relations
(As of November 30, 1994)

I. Membership status:

(a) Date of membership: September 21, 1992
(b) Status: Article XIV

II. General Resources Account:

	SDR Million	Percent of Quota
Quota	199.50	100.0
Fund holdings of currency	199.50	100.0
Reserve position in the Fund	0.01	0.0

III. SDR Department:

	SDR Million	Percent of Allocation
Holdings	--	--

IV. Outstanding purchases and loans: None

V. Financial arrangements: None

VI. Projected obligations to the Fund: None

VII. Exchange Rate Arrangements:

The authorities issued the national currency, the sum, on July 1, 1994 to replace the transitional sum coupon issued in late-1993, at a conversion rate of 1,000 sum coupons to 1 sum and an initial auction-based official exchange rate of sum 7 per U.S. dollar. The sum coupon was intended to remain in parallel circulation for two months, with the sum initially issued through payment of wages. The official exchange rate continues to be set according to the result of weekly auctions of U.S. dollars. Official exchange rates for 30 other currencies and the SDR are set through U.S. dollar cross rates and are applied to official transactions, including foreign exchange surrendered to the CBU, transactions of the Government's Republican Hard Currency Fund, recording and taxation of trade transactions and debt service. The official rate is also used for accounting purposes by banks.

A second, "commercial" rate was introduced by the CBU on August 1, 1994 and established on a weekly basis for conversion of cash balances of resident and non-resident private individuals. Resident individuals are allowed to purchase up to US$300 at the commercial rate until the end of 1994 at designated exchange offices, at which buying and selling rates are quoted. There are no limits on the sale of foreign currency at this rate. The initial commercial rate was set on the basis of the rate prevailing on the informal market, approximately sum 20 per dollar, as compared with an official rate of sum 11 at that time. In September, the authorities undertook to bring the official and commercial rates together; on October 10, the two rates were unified at 22 sum per U.S. dollar.

Uzbekistan has availed itself of the transitional arrangements under Article XIV. Exchange restrictions under Article XIV have included centralized allocation of foreign exchange for imports, exchange restrictions in the form of limitations of foreign exchange for business, private travel and for payments for current international transactions for invisibles. In January 1994, at the time of the 1993 Article IV consultation discussions and Board consideration, multiple currency practices subject to approval under Article VIII arose from the quotation of different exchange rates by the CBU and commercial banks and from the spread between the buying and selling rates of the commercial banks; these multiple currency practices have been eliminated during 1994.

VIII. Article IV Consultation:

The 1993 Article IV Consultation was discussed by the Executive Board on January 21, 1994 (Staff Report SM/93/259).

IX. Staff visits and policy discussions:

1. December 1991: Staff Visit.
2. March 1992: Pre-Membership Economic Review.
3. May 1992: Use of Fund Resources.
4. January 1993: Use of Fund Resources.
5. March 1993: Use of Fund Resources.
6. April/May 1993: Use of Fund Resources.
7. June/July 1993: Technical Visit.
8. October/November 1993: Article IV Consultation.
9. December 1993: Staff visit (jointly with MAE).
10. February 1994: Technical Visit.
11. March/April 1994: Use of Fund Resources.
12. September 1994: Staff Visit
13. October/November 1994: Use of Fund Resources/Article IV Consultation

X. Technical Assistance:

Technical assistance and training have been provided by the Fund (MAE, FAD, STA, LEG, INS) to Uzbekistan in a number of areas. Other international agencies and governments also have provided considerable technical assistance. 1/

The Fund has intensified its program of technical assistance to Uzbekistan since the conclusion of the last Article IV consultation, with several missions being mounted during April-July 1994. Additional technical assistance is needed in many areas, with immediate priority to be given to strengthening the authority and capacity of the institutions responsible for monetary and financial policies--the CBU and the Ministry of Finance--and to improving the quality and reliability of economic indicators and of the national accounts.

Monetary and Exchange Affairs

1. June 1992 MAE mission: Modernization of Central Bank of Uzbekistan.
2. December 1992 MAE mission: Accounting, central bank organization, monetary statistics, payments systems, monetary operations and foreign exchange operations.
3. May 1993 MAE mission: Banking supervision.
4. December 1993 MAE mission: Introduction of national currency.
5. May 1994 MAE mission: Formulation and execution of credit and foreign exchange policy, payments systems and accounting.

Fiscal Affairs

1. June/July 1992 FAD mission: Tax policy and administration, budget and expenditure control, and social safety net.
2. May 1993 FAD mission: Tax policy and administration.
3. December 1993/January 1994 FAD mission: Tax administration and computerization (expert visits).
4. June/July 1994 FAD mission: Social safety net issues.

1/ These have included the United Nations, the World Bank, the European Union and OECD. Technical experts from a number of countries have accompanied Fund staff on technical assistance missions to Uzbekistan.

Statistical Issues

1. July 1993 STA mission: Multi-topic.
2. January 1994 STA mission: Consumer price statistics.
3. March 1994 STA mission: Trade statistics.
4. April/May 1994 STA mission: Monetary statistics, including accounting procedures.
5. April/May 1994 STA mission: Government finance statistics, including budgetary consolidation.
6. May 1994 STA mission: Balance of payments statistics.
7. May/June 1994 STA mission: Follow-up mission on price statistics.
8. November/December 1994 - Follow-up mission on national accounts.

Legal Issues

The Fund has provided advice and assistance to the Government and the Central Bank of Uzbekistan on a range of legal issues, including various tax laws, banking legislation, foreign exchange regulations, laws on statistics, and legislation concerning various structural issues (e.g., privatization and property). A LEG mission visited in April 1994 to provide assistance in the drafting of banking laws.

Training

Uzbek officials have participated in courses in Washington and at the Vienna Institute in the areas of macroeconomic management, financial programming, taxation, monetary statistics and policy, and balance of payments analysis. The IMF Institute conducted a course on financial programming and policy and macroeconomic policy-making in Tashkent in June/July 1993 and a course on macroeconomic policy-making for senior government and central bank officials in May 1994. Seminars and training sessions also were provided during the July 1993 STA technical assistance mission.

XI. Resident Representative

A Fund resident representative, Mr. Istvan Szalkai, was appointed in September 1993. Mr. Szalkai's term has been extended for a second year at the request of the Uzbek authorities.

XII. Resident Advisors

Mr. Richard Grzebinski has been serving as advisor on computerization to the State Tax Committee since January 1994.

Mr. Alexander Agafonoff began serving as an advisor on monetary policy at the Central Bank of Uzbekistan in November 1994.

Eligibility and Access Under the Systemic Transformation Facility

A member is eligible for assistance under the STF if it is experiencing balance of payments difficulties as a result of severe disruptions of traditional trade and payments arrangements as manifested by (i) a sharp fall of total export receipts due to a shift from significant reliance on trading at nonmarket prices to multilateral, market-based trade, (ii) a substantial and permanent increase in net import costs, due to a shift from significant reliance on trading at nonmarket prices toward world market pricing, particularly for energy products, or (iii) a combination of both. A severe disruption in trade and payments arrangements is defined as amounting to 50 percent of a member's Fund quota. In the case of Uzbekistan, eligibility for the STF can be established in light of the sharp increase in net import costs, owing to increased prices for imported energy products.

Although Uzbekistan is a net exporter of natural gas and electricity, it relies heavily on imports of crude oil, refined petroleum products and coal. As prices of these products have increased toward world levels, Uzbekistan's net import costs have risen substantially. The precise measurement of the increase is subject to some statistical problems associated with the conversion of energy trade denominated in rubles into U.S. dollars. However, estimates indicate that during 1992-93, the unit values of energy products increased by 178 percent for crude oil, 66 percent for gasoline, 22 percent for diesel fuel, and by 1,324 percent for coal. 1/ These increases were partly offset by an increase in the unit values of natural gas of 650 percent and of electricity of 120 percent. Staff estimates of the overall increase in net import costs due to these substantial and permanent increases in energy prices indicate a disruption in trade and payments amounting to SDR 193 million from 1992 to 1993 or approximately 97 percent of Uzbekistan's quota of SDR 199.5 million, well in excess of the threshold required for eligibility (Table 9). The staff is of the view that Uzbekistan continues to experience balance of payments difficulties stemming from systemic disruptions in an amount at least equivalent to 50 percent of quota.

1/ Unit values are converted into U.S. dollars at the period average exchange rates.

Table 9. Uzbekistan: Net Energy Imports from FSU States at Constant 1992 Volumes, 1992–94 1/

(In millions of U.S. dollars, unless otherwise indicated)

	1992	1993	1994 2/
Exports	36.2	168.8	155.6
Gasoline	3.2	14.1	...
Volume ('000 tons)	63.1	63.1	...
Unit price (US$/ton)	50.7	222.9	...
Heating oil	3.2	11.3	7.7
Volume ('000 tons)	83.0	83.0	83.0
Unit price (US$/ton)	38.8	135.7	93.0
Diesal fuel	3.4	15.8	...
Volume ('000 tons)	73.9	73.9	...
Unit price (US$/ton)	46.6	213.8	...
Electricity	11.4	25.2	38.2
Volume (millions of kilowatt–hours)	763.4	763.4	763.4
Unit price (US$/kilowatt hour)	0.015	0.033	0.05
Natural gas	14.1	98.7	98.7
Volume (millions of cubic meters)	3,265	3,265	3,265
Unit price (US$/cubic meter)	0.004	0.030	0.030
Coal	0.9	3.7	11.0
Volume ('000 tons)	310.5	310.5	310.5
Unit price (US$/ton)	2.7	12.0	35.5
Imports	312.9	713.2	779.6
Gasoline	62.8	104.0	108.1
Volume ('000 tons)	635.9	635.9	635.9
Unit price (US$/ton)	98.7	163.6	170.0
Heating oil	41.7	34.8	...
Volume ('000 tons)	905.7	905.7	...
Unit price (US$/ton)	46.1	38.5	...
Diesel fuel	72.7	88.7	113.2
Volume ('000 tons)	677.8	677.8	677.8
Unit price (US$/ton)	107.3	130.9	167.1
Natural gas	2.2	37.6	93.7
Volume (million of cubic meters)	1,535	1,535	1,535
Unit price (US$/cubic meter)	0.001	0.024	0.061
Oil	126.8	352.2	399.6
Volume ('000 tons)	3,996	3,996	3,996
Unit price (US$/ton)	31.7	88.1	100.0
Coal	6.7	95.9	65.0
Volume ('000 tons)	2,320	2,320	2,320
Unit price (US$/ton)	2.9	41.3	28.0
Total net energy imports			
In U.S. dollars	276.7	544.5	624.0
In SDRs	196.5	389.9	437.0
Change relative to 1992			
In U.S. dollars	...	267.7	347.3
In SDRs	...	193.5	240.5
In percent of quota	...	97.0	120.5

Sources: Uzbeks authorities; and staff estimates.

1/ Average exchange rates were used to convert 1992 and 1993 data.
2/ Data from interstate agreements.

Uzbekistan--Relations with the World Bank

Uzbekistan became a member of the IBRD and the IDA in September 1992, of the IFC in October 1993, and of the MIGA in November 1993. The World Bank Group has undertaken work in cooperation with the Government of Uzbekistan in trade policy, social protection, government subsidies, enterprise reform and privatization, private sector development, agriculture, energy, human resources development and institution building.

The primary focus of the Bank's assistance strategy in the short term is to address the most urgent structural and systemic issues and to support the transformation of the economy, with a view to reversing the decline of economic activity and of productivity levels. In this way, the Bank seeks to: (i) promote fiscal discipline through restructuring social expenditures, and reducing subsidies; (ii) reform trade policy to reduce the role of the state; (iii) establish legal and competitive bases for private sector development; (iv) restructure and privatize state-owned enterprises and strengthen anti-monopoly policy; and (v) reform the financial sector. These efforts are intended to help establish the basis for sustainable and significant economic growth in the medium and long terms through creation of an environment that supports self-financing of investments in key sectors (i.e., agriculture, energy).

The Bank has worked with the Government to develop structural reform policies through preparation of a Country Economic Memorandum and development of a proposed US$160 million rehabilitation loan. The rehabilitation loan would support structural reforms in the enterprise and financial sectors and in regard to trade arrangements and the system of social protection, while providing financing for critical imports and for the development of the foreign exchange market. With the recent agreement betwen the Fund and the Goverment on an economic program for 1995 that could be supported by a drawing under the STF, continued negotiations to finalize the rehabilitation loan were held in November 1994; outstanding issues to be resolved relate to, among other things, modalities for introducing automatic cotton export licenses and methodology for the already agreed upon change in indexing pensions to reduce the burden of pensions on the Government's budget while protecting the minimum benefits.

A US$21 million loan was approved in October 1993 to build institutional capacity within the Central Bank, the Ministry of Labor and the Committee for State Property and Privatization. Other Bank projects currently under preparation or consideration include an oil and gas sector project to improve energy efficiency and increase domestic production, a human resources development project to improve the functioning of the social safety net, and a water supply and drainage project for rural areas and the Aral Sea. A cotton sector project is envisaged as being tied to the progress of reform to state orders and export licenses and a corporate governance and enterprise restructuring project could be tied to agreement on a mass privatization program.

Uzbekistan--Basic Data

Social and demographic indicators (1994)

Area	447,400 sq. km.
Population density 1/	49.6 per sq. km.
Population	22.193 million
Rate of population growth 2/	2.2 percent
Life expectancy at birth	69.5 years
Infant mortality rate	32.0 per thousand
Population per hospital bed	91.5

	1991	1992	1993	Est. 1994
Origin of Net Material Product		(In percent)		
Industry	30.9	32.7	34.1	18.6
Agriculture	45.0	41.4	28.1	33.9
Construction	12.3	11.3	11.2	8.4
Transport and communication	3.9	5.5	6.1	4.5
Net taxes 3/	...	...	10.5	12.2
Other	7.9	9.1	10.0	22.4
Ratios to GDP				
Exports				
Non-FSU	1.9	43.2	30.1	39.7
Interrepublican	31.7	27.5	30.4	24.8
Imports				
Non-FSU	3.9	46.2	26.8	40.1
Interrepublican	27.7	36.3	39.2	30.3
Current account				
Non-FSU	-2.0	-3.1	4.1	-2.4
Interrepublican	22.5	-8.7	-10.3	-8.9
Government revenue, including grants 4/	49.1	31.3	41.5	43.0
Government expenditure 5/	52.7	43.4	61.6	44.9
Net transfers from the Union	18.5	--	--	--
Government overall surplus or deficit (-) 4/	-3.6	-12.7	-20.2	-2.0
Total consolidated budget deficit (-) 6/	-4.1	-18.4	-12.1	-3.6
Liabilities of the banking system (end-of-year)	87.8	68.9	61.5	33.7
Change in liabilities of the banking system	...	56.8	54.6	27.9
Annual percentage changes in selected indicators				
Real Gross Domestic Product	-0.9	-11.0	-2.4	-2.6
GDP at current prices	90.2	627.2	890.2	960.7
Retail prices (period average)	...	644.9	534.2	723.1
Government revenue, including grants 4/	106.8	362.9	1,213.5	999.4
Government expenditure 4/ 5/	117.4	498.5	1,307.5	673.4
Broad money	...	470.4	784.7	481.5
Currency in circulation (banking system) 7/	...	150.0	159.1	150.5
Deposits of the banking system 7/	...	322.2	625.6	331.0
Net domestic assets of the banking system	...	-83.3	276.0	61.2
Credit to the Government (net) 7/	...	820.4	1,063.4	395.0
Credit to the economy 7/				

Uzbekistan--Basic Data (Concluded)

	1991	1992	1993	Est. 1994
General Government operations 4/		(In millions of Sum)		
Revenues, including grants	30.2	139.8	1,836.3	20,188.8
Expenditures 5/	32.4	193.9	2,729.4	21,109.3
Overall surplus or deficit (-)	-2.2	-54.1	-893.1	-920.5
Consolidated deficit (-) 6/	-3.0	-82.0	-536.0	1,686.[illegible]
External trade		(In millions of U.S. dollars)		
Foreign balance				
Merchandise exports	677	869	1,438	1,828
Merchandise imports	1,386	929	1,280	1,846
		(In millions of Sum)		
Interrepublican balance				
Merchandise exports	19	123	1,346	11,662
Merchandise imports	17	162	1,735	14,209
GDP at current prices	61.5	447.2	4,428.1	46,971

Source: Uzbek authorities; World Bank (social indicators); Fund staff estimates.

1/ Population density according to oblast ranges from 6.4 persons per sq. km. (Navoi) to 450.8 persons per sq. km. (Andijan).

2/ Annual average population growth rate during 1985-92 was 2.4 percent. Annual average growth rate during 1970-92 was 2.7 percent.

3/ Represents indirect taxes minus subsidies; this has grown rapidly in 1993-94 owing to the introduction of excise taxes in 1993, increased rates and expanded items in 1994, and reduced subsidies in 1994. The bulk of this item comes from the agricultural and industrial sectors, although individual contributions can not be determined.

4/ Sum budget operations only.

5/ Includes net lending.

6/ Includes the balance on the external sector budget and on the extrabudgetary funds.

7/ Change in terms of percentage of broad money at the beginning of the period.