FOR AGENDA

SM/08/195

June 27, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Uzbekistan—Staff Report for the 2008 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2008 Article IV consultation with the Republic of Uzbekistan, which will be brought to the agenda for discussion on **a date to be announced**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Republic of Uzbekistan indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Ms. Eken (ext. 36511) and Ms. Bacalu (ext. 34816), in MCD.

Unless the Documents 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 WTO Secretariat on Tuesday, July 8, 2008; and to the Asian Development Bank, the European Bank for Reconstruction and Development, the European Commission, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF UZBEKISTAN

Staff Report for the 2008 Article IV Consultation

Prepared by Staff Representatives for the 2008 Consultation with Uzbekistan

Approved by David Owen and Martin Fetherston

June 25, 2008

- The Article IV consultation discussions were held in Tashkent during April 30-May 16, 2008. The mission comprised Ms. Eken (head), Ms. Bacalu, Mr. Ilahi (all MCD), and Ms. Vera Martin (PDR), and was assisted by Ms. Kostina (IMF office in Tashkent). Mr. Moser, Executive Director, participated in policy meetings.

- The mission met with the first deputy prime minister, ministers of economy, investment, and trade, the governor of the Central Bank of Uzbekistan (CBU), other senior officials, parliamentarians, and representatives of banking and diplomatic communities. A joint press statement was issued at the end of the mission.

- Uzbekistan accepted the obligations of Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement as of October 15, 2003. The de jure and de facto exchange rate regimes are crawling peg.

- The quality of data remains weak and significantly hampers surveillance.

- The previous consultation was concluded on February 12, 2007. The staff report and PIN are available at http://www.imf.org/external/pubs/cat/longres.cfm?sk=20617.0.

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EXECUTIVE SUMMARY

The 2008 Article IV consultation discussions with Uzbekistan focused on the appropriate policy mix to reduce inflation, medium-term reforms to sustain high economic growth, and efforts to improve economic statistics.

Background

The economy continued to perform well in 2007. Growth accelerated, the external position strengthened further, the augmented fiscal surplus remained large, and the debt burden continued to decline. Despite the tightening of monetary conditions late in the year, inflation continued to be high, as the sharp increase in net foreign assets was only partially sterilized. Economic prospects remain broadly favorable with limited risks.

Authorities' policies

The authorities intend to reduce inflationary pressures by tightening monetary conditions significantly and maintaining a prudent fiscal stance by saving high commodity revenues. Further significant increases in public sector wages and salaries are envisaged.

The policy of gradual nominal depreciation of the sum will continue. The authorities believe that this policy has served them well and that the sum is not undervalued. However, if inflation remains high, they would consider slowing the rate of nominal depreciation.

On the structural front, the authorities plan to continue with tax reforms, improvements in treasury operations, and financial sector reforms.

Staff recommendations

The envisaged tightening in monetary policy and the continued prudent fiscal stance are essential in the short term to reduce inflationary pressures. However, the current policy mix— involving nominal depreciation and very tight fiscal policy—is not sustainable.

The sum real exchange rate appears to be significantly undervalued and will need to adjust toward equilibrium. Allowing real appreciation to take place through nominal appreciation rather than inflation would create less economic distortions, give the central bank control of money supply, and lower the sterilization burden on fiscal policy.

Strong reforms will be needed to sustain high growth rates. These include enhancing financial intermediation, liberalizing the trade system, phasing out price controls, and improving the business environment. There is also an urgent need to improve the quality of economic statistics.

I. Background

1. **Uzbekistan is a resource rich country with a gradualist approach to reforms.** It has abundant natural resources, including hydrocarbons, gold, copper, and uranium, a strong agricultural base, and a young and educated labor force. Since independence, the authorities have implemented a strategy of achieving self sufficiency through the "localization program", extensive intervention, and state-led industrialization, while cautiously introducing features of an open and market economy.

2. **The Uzbek economy has performed well in recent years.** The favorable external environment and improved macroeconomic policies resulted in high growth rates, large current account surpluses, a significant decline in the debt burden, and a more than quadrupling of foreign exchange reserves from 2003 to 2007 (Table 1). Poverty declined from 27.5 percent in 2001 to 25.8 percent in 2005.[1]

3. **The main policy issues have not changed since the last Article IV consultation.** The key short-term policy challenge is to reduce inflation. For the medium term, the most important challenge is to sustain high economic growth. Accordingly, the discussions focused on the appropriate mix of monetary, exchange rate, and fiscal policies to reduce inflationary pressures, and medium-term reform plans to enhance economic performance, focusing on the financial sector. Data shortcomings and efforts to address them were also discussed.

II. Recent Economic Developments

4. **Growth accelerated in 2007.** Official statistics indicate that GDP grew by 9.5 percent (up from 7.3 percent in 2006), driven by trade, transport and communications, industry, and services. Detailed national accounts data from the expenditure side are unreliable, but available evidence suggests private investment rose as enterprises benefited from lower taxes and moderate improvements in the business environment. Consumption was supported by higher wages and salaries and increased remittance inflows.

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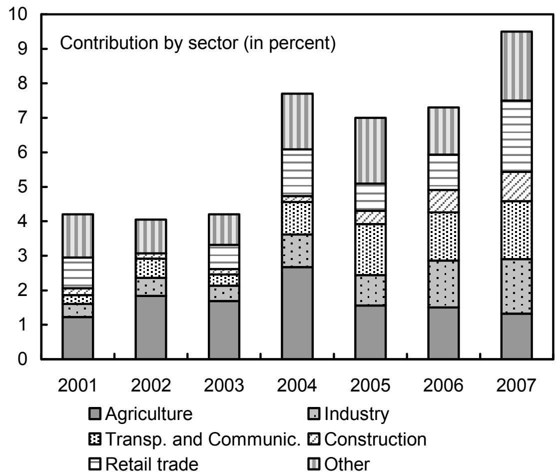
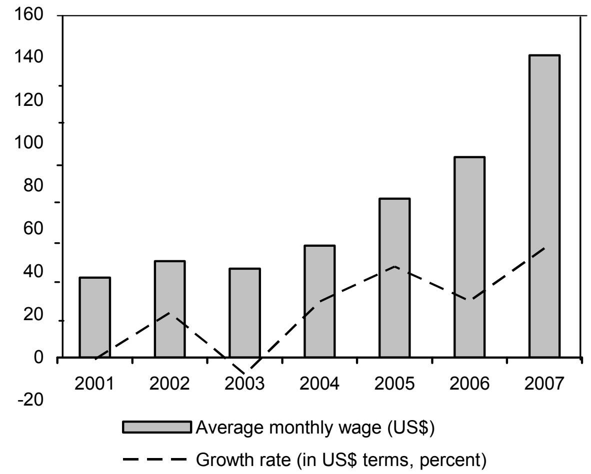
[1] More recent official data are not available to assess the impact of recent high growth rates on poverty.

Growth was broad based.



Wage growth accelerated in 2007.



Sources: Uzbek authorities; and Fund staff estimates.

5. **The external position strengthened further.** The current account surplus rose from 17 percent of GDP in 2006 to 19 percent in 2007, aided by fast-growing remittance inflows, booming prices of commodities (gold, copper, and energy), and buoyant partner demand for Uzbek exports (Table 2).[2] Non-commodity exports grew by more than 40 percent two years in a row. Foreign direct investment (FDI) inflows—mainly for hydrocarbons, textiles, and food processing—picked up, but from a low base. As the central bank continued to intervene to steadily depreciate the sum, the import cover of gross official reserves rose to 10 months by end-2007. External debt (mostly public) fell further to 17½ percent of GDP.

6. **Inflation continued to be high in 2007.** Increases in administered prices pushed up the price index, while the large external surplus and sharp increases in wages and salaries contributed to inflationary pressures. The authorities responded by adopting a tighter-than-budgeted fiscal stance, tightening monetary conditions in late 2007, reducing the pace of nominal depreciation of the sum, and limiting the pass-through of higher international food prices through administrative measures, particularly during the fall of 2007 (Box 1). Fund staff estimates of the CPI (based on the authorities' raw data) indicate a pick up in inflation of only ½ percentage point to 12 percent during 2007.

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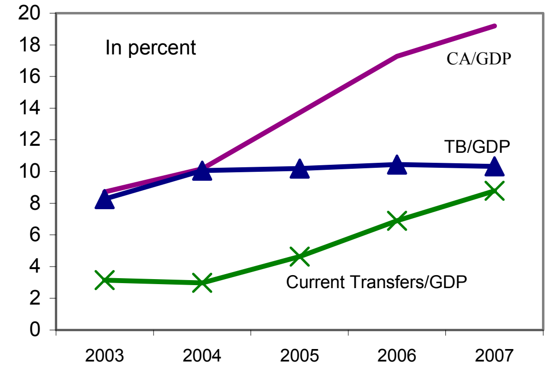
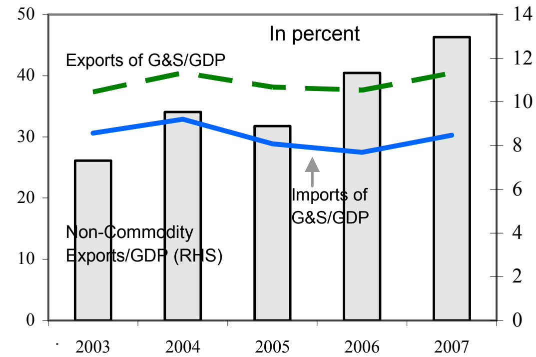
[2] The recorded current account surplus could be overstated, given the large negative errors and omissions term in balance of payments accounts.

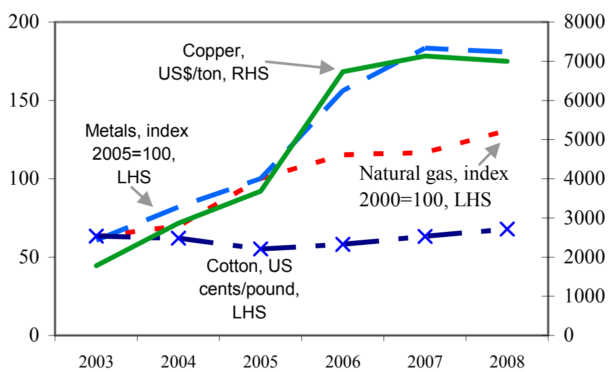
Uzbekistan's large external surplus resulted from higher remittances and large trade balances,



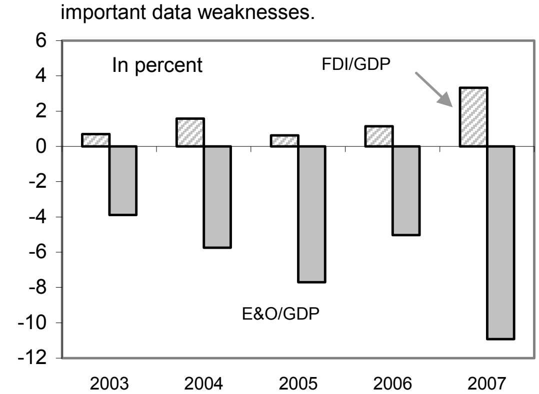
...with relatively stable imports and non-commodity exports playing a bigger role in exports.



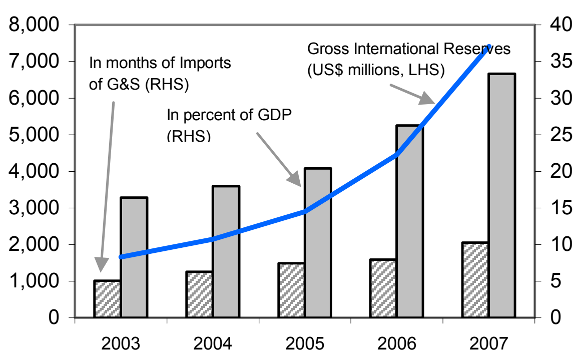
Commodity exports have benefited from positive terms of trade.



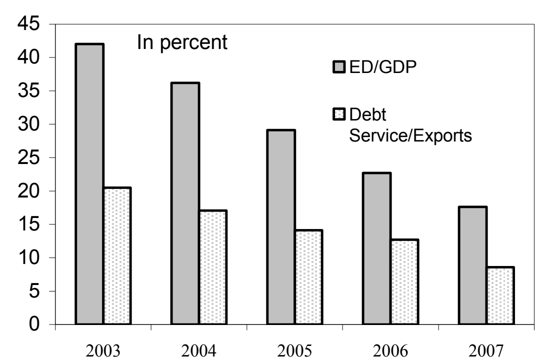
FDI picked up from a low base, while errors and omissions increased significantly, suggesting important data weaknesses.



The strong external performance resulted in large reserve accummulation,

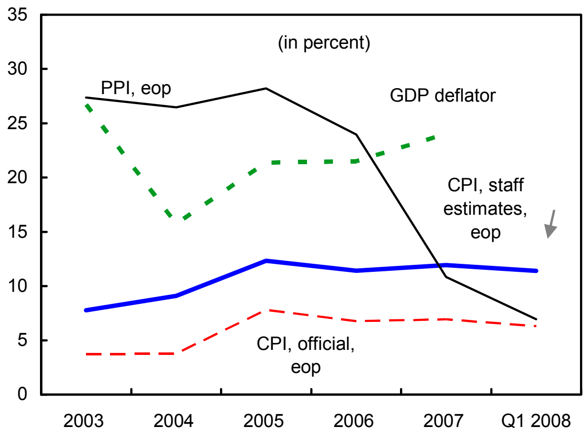


...while external indebtness fell significantly.

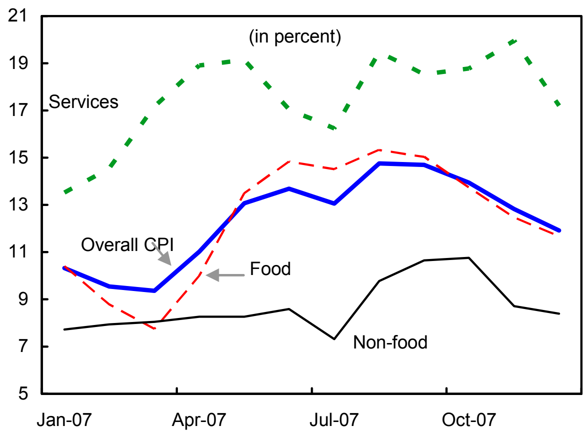


Sources: Uzbek authorities; WEO; and Fund staff estimates.

Inflation remained high...



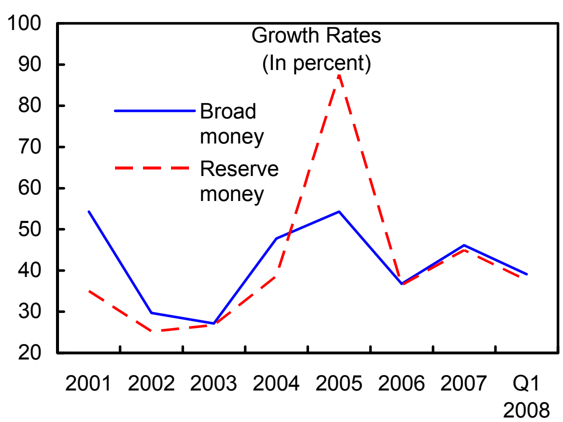
...with service inflation reflecting administrative price increases in transportation and utilities, and food prices rising in mid-year in line with global trend.



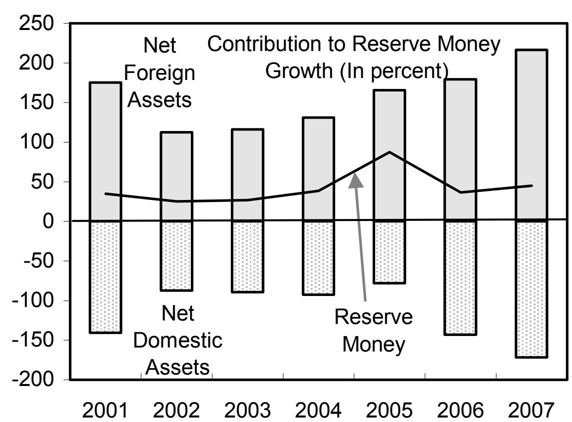
Sources: Uzbek authorities; and Fund staff estimates.

7. **Despite the tightening of monetary conditions late in the year, the monetary stance was accommodative for much of 2007.** The policy of nominal depreciation of the sum in the face of high external inflows complicated the conduct of monetary policy. Broad money growth rose to 46 percent by end–2007, as the sharp increase in net foreign assets was only partially sterilized by the accumulation of deposits in the Fund for Reconstruction and Development (FRD) and the use of monetary policy instruments (Tables 3 and 4). Monetary conditions were tightened aggressively at year-end and broad money growth slowed to 39 percent by March 2008.

Reserve and broad money picked up in 2007 driven by NFA accumulation.



CBU's purchases of foreign exchange were partly sterilized by accumulation of government deposits, including in the FRD.

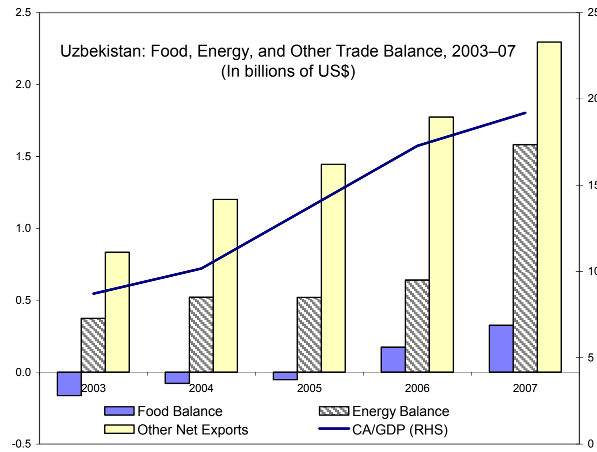


Sources: Uzbek authorities; and Fund staff estimates.

Box 1. Impact of and Policy Response to Higher International Food and Fuel Prices

Self sufficiency, price controls, and trade policies have shielded Uzbekistan from the high international food and fuel prices.

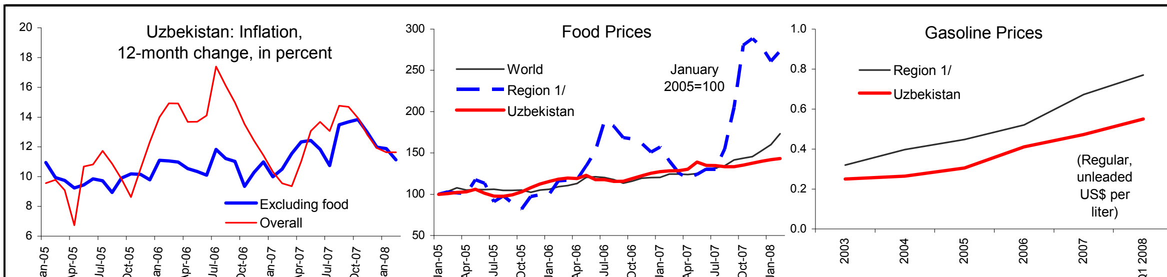
Uzbekistan is a net exporter of food and energy. The country has become a net exporter of food in the last two years, while large energy exports have contributed to the external surplus.



Sources: Uzbek authorities and Fund staff estimates.

Prices of basic food items and energy products are controlled. In 2007, retail prices for flour, bread, and cooking oil were increased by 16½, 17½, and 22½ percent, respectively. At the same time, controls on export of some food items (e.g. wheat, rice, flour, meat, vegetable oil) helped secure supply of low-priced foodstuffs for local markets. Consequently, food inflation was reported at only 11.7 percent at end-2007, contributing about 6.8 percentage points to overall inflation. Domestic prices of petroleum products were increased on average by 21 percent in 2007. However, their contribution to overall inflation was less than 1 percentage point given the low share of energy in the consumption basket. This was subsequently followed by adjustments in administered prices for utilities in the range of 15 to 33 percent. According to the authorities, the weight of goods and services with administered prices in CPI is 15 percent.

Costs arising from price controls are borne largely by the producers through the setting of wheat procurement and crude oil prices below international levels. The authorities indicated that there is no explicit subsidy from the budget related to food and petroleum products. Budgetary subsidies for utilities amounted to only 0.1 percent of GDP in 2007. Grain producers benefited from loans from state banks (about 1 percent of GDP) at a preferential interest rate of 3 percent.



Sources: World Economic Outlook; countries' authorities.
1/ Includes Armenia, Azerbaidjan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan, (and for gasoline, Turkmenistan).

The government is putting in place measures to improve the future supply situation. The acreage allocated for production of wheat, fruits, vegetables, and forage fodder was increased. Investments for oil and gas exploration and production are rising, but these will take time to translate into greater output volumes.

8. **Fiscal policy was prudent and the outcome better than budgeted.** The augmented fiscal surplus remained unchanged from 2006 at about 5 percent of GDP, compared with a budgeted deficit of 1 percent of GDP (Tables 5 and 6). The impact of the tax cuts and higher wage and salary expenditures was offset by increased revenues—from higher international commodity prices, VAT collections, and social security contributions—and a continued decline in public investment. In an encouraging development, the statistical discrepancy between above-the-line fiscal data and budget financing data declined significantly, suggesting some improvement in data coverage and classification.

9. **Structural reforms progressed further in 2007.** There was a concerted effort to increase minimum bank capitalization. The authorities removed banks' disincentives to attract local currency deposits by unifying reserve requirements on foreign and local currency deposits. Treasury modernization continued under the ongoing technical assistance project, as did tax reforms (Box 2). Further, the restructuring of "shirkats" into private farms was completed. Uzbekistan moved up slightly in the World Bank's *Ease of Doing Business* ranking to 138 in 2008, from 145 in 2007. However, rankings for activities such as trading across borders, protecting investors, and dealing with licenses declined.

III. Economic Prospects and Policies of the Authorities

A. Outlook and Risks

10. **The economic outlook for 2008 is favorable.** The authorities project GDP growth of at least 8 percent, mainly driven by increases in industrial production (petrochemicals, machinery building, and textiles). The current account surplus is projected to remain large, with continued strong growth in exports and remittances, and official reserves are expected to increase further. The authorities expect to curb inflationary pressures through tighter monetary and continued prudent fiscal policies.

11. **Risks to the 2008 economic outlook currently appear limited**. Growth prospects for most of Uzbekistan's trading partners are strong, despite downside risks, and commodity prices are expected to remain buoyant. The Uzbek economy remains insulated from developments in global financial markets because of its limited integration. Staff analysis of vulnerabilities suggests that a 10 percent decline in international commodity prices would reduce the current account surplus and government revenues by only about 1 percentage point of GDP each. In case of such an adverse shock, the authorities expect a slower accumulation of assets in the FRD, with the budget position excluding the FRD remaining broadly unchanged.

Box 2. Tax and Treasury Reforms

In recent years, the Uzbek authorities have undertaken impressive tax and treasury reforms.

Tax Reforms. The authorities: (i) reduced taxes on profit and income while increasing taxes on natural resources; (ii) streamlined the tax system by reducing the number of taxes and fees and introducing a simplified taxation for SMEs ; (iii) unified the regulatory framework by bringing all laws and regulations under a single comprehensive tax code in 2008; (iv) unified the accounting rules for estimating the tax base and tax payments; and (v) reduced tax exemptions and concessions. At the same time, reporting for tax purposes was simplified and the number of tax inspections reduced considerably.

Uzbekistan: Key Changes in Tax Regime in 2004–08
(In percent, unless indicated otherwise)

Tax Category	2004	2005	2006	2007	2008
Profit tax	18	15	12	10	10
Unified tax on SMEs	...	13	13	10	8
Social security contributions	33	31	25	24	24
Personal Income Tax	...	13/21/30	13/20/29	13/18/25	13/18/25
Water Tax (increase in percent)	30	30	50	50	20
Land Tax (increase in percent)	...	30	50	50	20
Tax on copper production 1/	...	30/50	30/50	30/50/100	60
Fuel consumption tax (sums per liter)	40	50	60	80	100

Sources: Uzbek authorities.
1/ Depending on the price of copper.

Treasury reforms. The areas of progress include: (i) adoption of a long-term strategy for public financial management reform; (ii) formal establishment of the treasury (with regional branches) under the ministry of finance; (iii) creation of the treasury single account system and gradual closure of budget organizations' accounts; and (iv) improved execution of expenditures through the treasury system.

12. **The medium-term outlook is also favorable.** The authorities target 8–9 percent export-led GDP growth over the medium term. They contend that these ambitious targets are achievable through consolidating macroeconomic stability, modernizing various sectors, improving physical and social infrastructure, enhancing the role of the private sector, and attracting FDI. They expect the current account to continue registering relatively large surpluses. However, the recorded current account surplus should decline as external statistics improve as debit items are properly recorded. The staff's more conservative baseline scenario based on current policies assumes that growth would slow down gradually to about 6 percent as export growth slows and the economy faces capacity constraints, and the current account surplus would decline gradually to 8 percent of GDP. With low and declining external and public debt levels, the debt outlook is resilient to adverse shocks (Tables 7–10).

B. Macroeconomic Policy Mix to Reduce Inflation

13. **The authorities acknowledge inflation as a major near-term challenge and intend to tighten monetary conditions significantly.** They intend to limit reserve money growth to about 28 percent (compared to 45 percent in 2007) by offsetting about three fourths of the projected increase in official reserves through indirect monetary policy instruments and higher government deposits, including in the FRD. Under this scenario, domestic inflationary pressures would be reduced even though inflation would decline only marginally because higher imported inflation would partly offset the impact of the tighter monetary policy stance. Credit to the economy would increase by 31 percent.

14. **To support such a monetary policy, the authorities intend to maintain a prudent fiscal stance in 2008.** They project the augmented budget surplus to remain at about 5 percent of GDP. Such a surplus would be achieved through a large increase in savings of commodity-based revenues in the FRD, while the consolidated government budget position would weaken. The latter assumes conservatively that the tax-to-GDP ratio would decline after the recent tax cuts and takes into account the authorities' intention to further increase wages and salaries, especially in health and education sectors. The authorities consider the continued increase in public sector wages and salaries as essential, given their low level and the need to attract high quality employees to the public sector and fight corruption. They also prefer wage and salary increases to subsidies, which in their view are difficult to target, and encourage corruption and smuggling of goods to neighboring countries.

Government Finances, 2006–08
(In percent of GDP)

	2006	2007 Prelim.	2008 Proj.
Consolidated government 1/			
Total revenue and grants	31.4	31.7	30.6
Total expenditure and net lending	30.9	30.2	31.1
Of which: wage-related expenditures	7.3	7.6	9.1
Statistical discrepancy	1.7	0.6	...
Balance	2.2	2.1	-0.4
Augmented government 2/			
Total revenue	34.4	35.6	36.7
Total expenditure	30.9	31.1	31.7
Balance	5.2	5.1	5.0

Sources: Uzbek authorities; and Fund staff estimates.

1/ Central and local governments, pension, employment, road, education, and privatization funds.

2/ Consolidated government and the FRD.

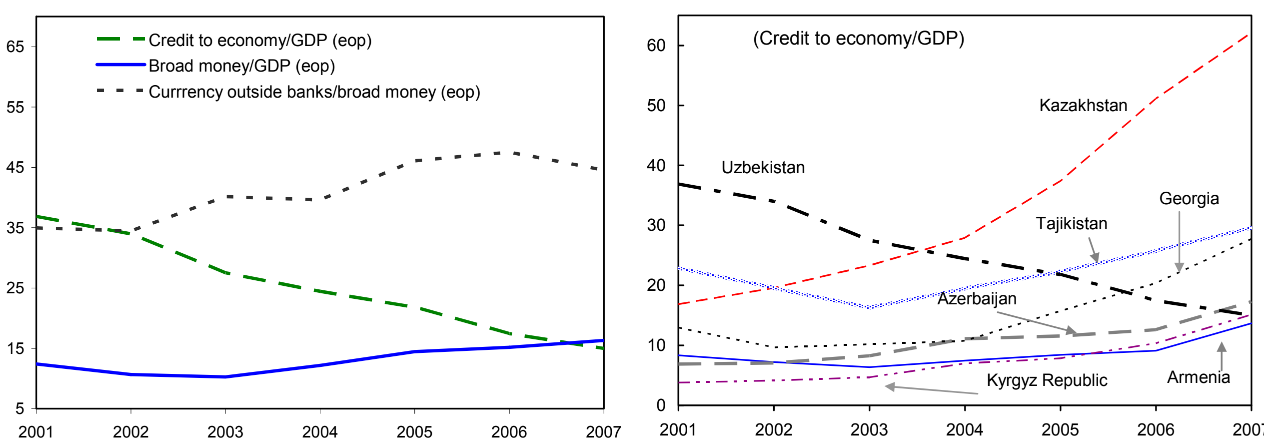
15. **The authorities intend to continue with the policy of gradual nominal depreciation of the sum.** The strong external position is fueling monetary expansion in an environment where the indirect monetary policy tools to effectively counter inflationary pressures are limited and the interest rate channel is ineffective because of low monetization and an underdeveloped money market. The authorities acknowledge that allowing a nominal

appreciation would take some pressure off indirect policy instruments and help control monetary conditions and inflation, while meeting the credit needs of the economy. However, they believe that the current policy of targeting a small nominal depreciation to support exports and domestic production has served them well. Moreover, the authorities do not agree with the staff assessment that the sum is undervalued (Box 3). Therefore, they plan to continue with their exchange rate policy, but if inflation outcomes so demand, they would consider slowing the rate of nominal depreciation, as in 2007.

C. Structural Reforms to Enhance Economic Performance

16. **The authorities plan to strengthen the financial sector to enhance its role in economic growth.** Notwithstanding recent progress, the financial system remains underdeveloped with low intermediation (Box 4 and Tables 11 and 12). Non-core functions of banks, including the obligation to report transactions to tax and customs authorities, negatively affect public confidence in the banking system and encourage cash transactions. The authorities acknowledge the importance of an effective financial system in strengthening the conduct of monetary policy and facilitating medium-term growth. They have recently allowed foreign exchange transactions in euros to help develop the foreign exchange market and plan to continue increasing bank capitalization by 20 percent annually over the next few years, sell 51 percent of Asaka Bank to a strategic partner, corporatize the National Bank of Uzbekistan, and implement by 2010 BASEL II standards.

Financial intermermediation remains low in Uzbekistan
(In percent)

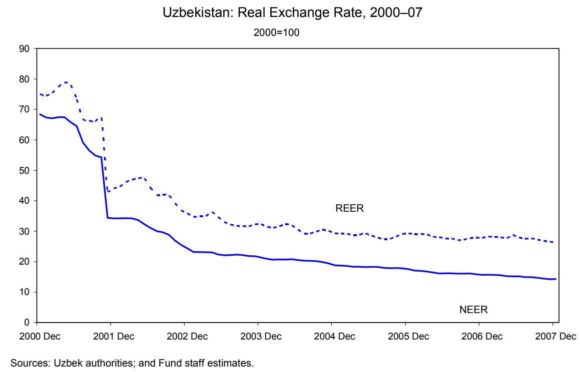


Source: Uzbek authorities; and Fund staff estimates.

Box 3. Staff's Assessment of the Exchange Rate Level

Following the trend of recent years, the real effective exchange rate depreciated by 1 percent in 2007, while the nominal effective exchange rate depreciated by 7 percent.

Staff assesses the exchange rate as significantly undervalued despite the complications in the assessment arising from weaknesses in data quality and existing import restrictions. Based on an out-of-sample calibration of the CGER approaches and estimates, the exchange rate is estimated to be undervalued in the range of 9–28 percent (see Table).



- Two approaches to estimating the underlying current account balance were considered. In scenario 1, the underlying balance was estimated at the projected surplus in 2013 (8.4 percent of GDP). In scenario 2, the estimated surplus was reduced by the amount of the errors of omissions projected for that year, which yielded an underlying surplus of 6 percent of GDP. This assumes that the recorded current account surplus will narrow as Uzbekistan improves BOP statistics, while export growth slows as the economy reaches capacity constraints. The estimates also assume an NFA benchmark that is an average of the 2007 (26 percent) and projected 2013 (59 percent) NFA positions. This is to allow for a continued build up in international reserves, as nonrenewable resource wealth is transformed to financial wealth and saved for intergenerational equity purposes. The sensitivity analysis of the misalignment to the NFA position suggests that in scenario 1 and 10 percentage point variation in the NFA-to-GDP ratio would change the degree of misalignment by 1 and 4 percentage points under the MB and ES approaches, respectively.

- The equilibrium real exchange rate approach does not yield reliable results over the short sample period (1992–2007). There is also no reason to believe that, on average, the real exchange rate was in equilibrium over this period as Uzbekistan underwent considerable structural changes.

Uzbekistan: Summary of Estimates of Real Exchange Rate Misalignment

CGER Approaches	Medium- term Current Account Norm	Estimated over(+)/ under(-) valuation	Comments
Scenario 1: Underlying CA is 2013 CA Balance			
Macroeconomic Balance Approach 1/	2.0	-28.4	(–) undervalued
External Sustainability Approach 1/	3.9	-20.1	(–) undervalued
Scenario 2: Underlying CA is 2013 CA Balance adjusted for E&O			
Macroeconomic Balance Approach 1/	2.0	-17.7	(–) undervalued
External Sustainability Approach 1/	3.9	-9.4	(–) undervalued

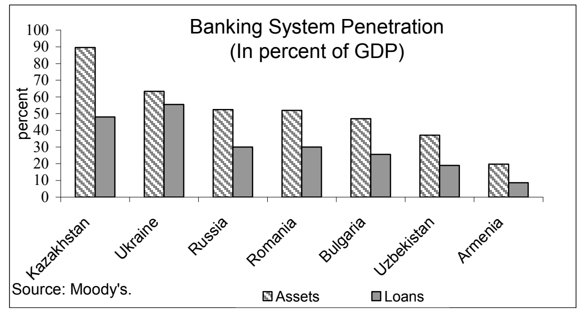
Source: WEO; and Fund staff estimates.
1/ Based on CGER methodologies (see SM/06/283). Misalignment is defined as the real exchange rate adjustment that would close the gap between the estimated "current account norm" and the "underlying" external balance. Pooled estimates specification.

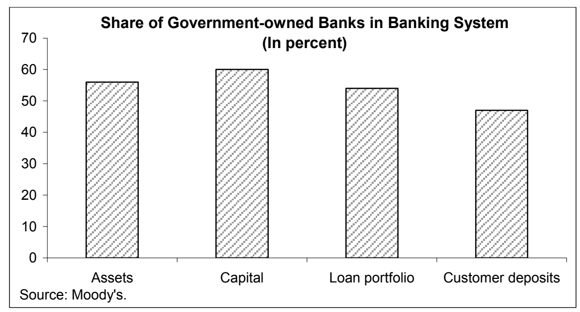
Notwithstanding the undervaluation, the staff is of the view that the balance of payments is unlikely to lead to disruptive exchange rate movements over time because the financial system is not integrated with global markets and in the event of higher international commodity prices the authorities could increase savings in the FRD. Further, the poor quality of macroeconomic data, the application of CGER coefficients to an out-of-sample country, and the restrictive trade policies introduce considerable doubt about the degree of misalignment.

Box 4: Uzbek Banking Sector Developments and Issues

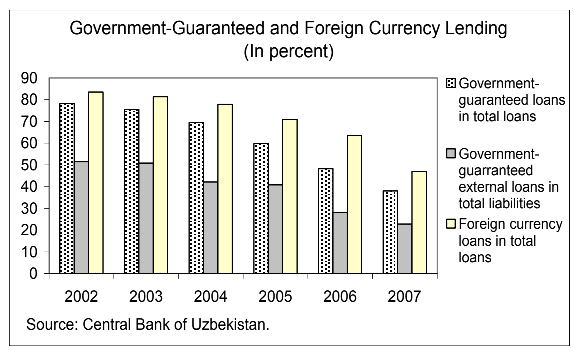
The banking system remains underdeveloped but relatively sound. The deposit base and penetration (ratio of loans and assets to GDP) are one of the lowest in CIS countries. Average bank profitability is also low. The system remains default-free and all banks are members of the mandatory deposit insurance scheme. A recent Moody's review of the banking system found CBU's on- and off-site supervision adequate.

State intervention remains prevalent. Bank concentration is high—the top 5 banks own 70 percent of assets—and state banks account for more than one half of system assets, capital, and loan portfolio. Close government control affects banks' independence and hampers competition. Banks are burdened with non-core functions, including tax withholding and finanical oversight.





Stress tests reveal low vulnerabilities. A doubling of nonperforming loans and the attendant provisioning would have only a marginal impact on capital adequacy, reducing it from the current 24 percent to 22 percent. Bank capital can sustain significant appreciation and remain above the minimum capital threshold of 10 percent.



Some recent developments have been promising. Minimum charter capital requirement for new commercial banks was raised from US$5 million to €5 million; those banks that did not satisfy the new limit had to augment their capital, partly through the stock market. Government-guaranteed loans are on the decline and on-lending of foreign credit lines has fallen over time, lowering foreign currency exposure of domestic banks. Nonperforming loans have stayed stable as share of total lending.

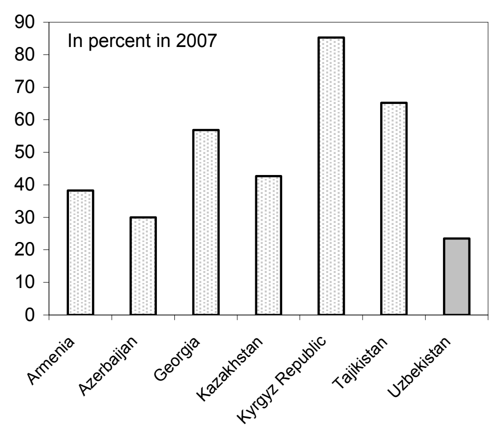
Basic reforms should boost confidence and improve profitability and efficiency. A removal of the non-core functions would boost confidence in the banking system and reduce the need for de facto restrictions on cash withdrawals and high household deposit rates. Profitability would be helped by reduced directed lending, lower household deposit rates, and higher market rates on central bank paper held by commercial banks. The intended privatization of the two large state banks should help improve the system's competitiveness and efficiency.

17. **Recent government decrees raised questions about Uzbekistan's compliance with international AML/CFT standards.** According to the Financial Action Task Force (FATF), the suspension of key AML/CFT provisions until 2013 and a 12–month deposit amnesty that prohibits banks from seeking information on source of funds "effectively repeal" the Uzbek AML/CFT's regime.[3] The authorities insisted that the AML/CFT legislation conforms to international standards and noted that they will undergo a full AML/CFT assessment by end-2008 in keeping with their obligations to the Eurasian Group for Combating Money Laundering and the Financing of Terrorism. They expressed their intention to consider the recommendations of this review.

18. **The authorities reiterated their commitment to fiscal reforms.** In addition to ongoing tax and treasury reforms, they intend to strengthen tax enforcement to allow the tax-related functions of banks to be discontinued; consolidate extra-budgetary funds and government entities' accounts into the consolidated budget to increase transparency; introduce medium-term budgeting; and adopt the GFSM 2001 budget classification and switch to standard accounting for budget preparation and reporting.

19. **Trade liberalization is not on the authorities' reform agenda in the near future.** Consistent with the "localization program", customs tariff rates are among the highest in the region and there are higher excise taxes on imports relative to similar locally produced goods.[4] The import process requires heavy documentation and is time consuming. The authorities noted that imports of raw materials and capital goods are subject to low tariffs and indicated that a reduction of high tariffs on consumer and luxury goods is not envisaged.

Imports are low as a share of GDP.



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

[3] FATF Statement, 28 February 2008, http://www.fatf-gafi.org/dataoecd/16/26/40181037.pdf

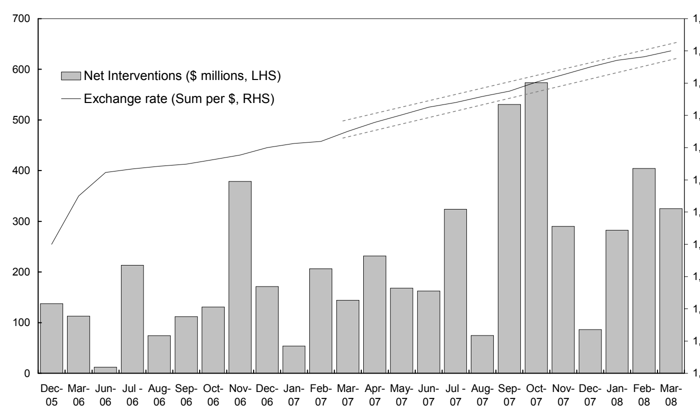
[4] The simple average tariff is 14.9 percent and the weighted average tariff is 16.6 percent. In addition, various taxes and fees are levied on imported goods.

20. **Market participants continue to report delays on sales of foreign exchange for consumer goods.** The authorities denied the existence of any de facto or de jure convertibility restrictions and argued that consumer goods imports have been stable because domestic production has increasingly met local demand. The authorities have provided all current foreign exchange laws and regulations for a full-fledged review by the Legal Department. The review did not identify any exchange restrictions or multiple currency practices. The staff is keeping the issue of de facto delays on the sale of foreign exchange for consumer goods under review.

D. Other Issues

21. **The de facto exchange rate regime has been reclassified.** Based on the authorities' interventions in the foreign exchange market in 2007 and the behavior of the nominal exchange rate, the de facto exchange rate regime has been reclassified as a crawling peg from the previous classification of conventional peg. The authorities agree with this classification for the current regime and signaled their intention to transition gradually to a currency basket (U.S. dollar and euro) as an operational target.

Central Bank of Uzbekistan: Net Interventions



Sources: Uzbek authorities; and Fund staff estimates.

22. **The authorities intend to address weaknesses in economic data.** Data limitations and methodological differences do not allow for the use of a single measure of inflation for policy discussions. The official CPI is based on inappropriate techniques that lead to a systematic underestimation, while large differences among various price indices hinder the evaluation of inflationary pressures in the economy. National income accounts employ inadequate valuation methods and data from the expenditure side are inconsistent with external sector and public finance data. Large errors and omissions in the balance of payments point to inadequate coverage and classification, and complicate the assessment of

the exchange rate level. The prohibition on dissemination of balance of payments data among government agencies impedes coordination of macroeconomic policy. The authorities indicated their commitment to address capacity constraints and improve statistics, working closely with the statistical advisors provided by the Fund.[5]

IV. Staff Appraisal

23. **The Uzbek economy has performed well in recent years, benefiting from a favorable external environment and an improved policy framework.** The authorities' response to high export commodity prices has been prudent and has generally contributed to macroeconomic stability. The current strength of the Uzbek economy presents the authorities with an opportunity to undertake the necessary reforms to achieve their short-and medium-term objectives.

24. **The main policy challenge in 2008 is to reduce inflationary pressures, and staff welcomes the envisaged tightening in monetary policy.** However, the current policy mix is not sustainable. Given the strength of the balance of payments, the staff recommends a more flexible exchange rate policy, that allows appreciation, to take pressure off monetary and fiscal policies.

25. **The sum real exchange rate appears to be significantly undervalued.** Uzbekistan's economic fundamentals have strengthened significantly and a real appreciation of the exchange rate is inevitable. Staff recommends allowing this to take place through nominal appreciation rather than inflation, as this would create less economic distortions, give the CBU control of money supply, provide room for high private sector credit, and lower the sterilization burden on fiscal policy. In staff's view, a gradual appreciation of the sum is unlikely to hurt exports provided structural reforms that facilitate the business environment are stepped up.

26. **The staff commends the authorities' prudent fiscal stance, which is essential in the short term to support monetary policy.** The use of commodity revenue windfalls as an important sterilization tool is appropriate in the current environment of high inflation. Over the medium term, however, given the low level of public debt, reducing inflation and adopting a more flexible exchange rate policy would allow the authorities space to reduce fiscal savings to finance social and infrastructure expenditures. Despite the current strong fiscal position, the staff cautions against continued sharp increases in public sector wages and salaries in light of their impact on private sector wages and salaries and hence on the competitiveness of the Uzbek economy.

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[5] The long-term resident advisor is working on issues related to national income accounts and price indices, and the regional advisor on external sector issues is working to improve the quality of balance of payment data. For details, see statistical issues annex.

27. **Strong reforms will be needed to sustain high growth rates.** The authorities' ambitious medium-term growth objectives will require that the macroeconomic policy mix allows domestic demand to play a larger role in contributing to medium–term growth; financial intermediation is enhanced; the trade system is liberalized; price controls are phased out and replaced by transfer programs that can reach the poor effectively; and the difficult business environment improves. Otherwise, with current policies, that are biased in favor of externally-driven growth, staff expects growth to slow gradually.

28. **Financial sector reforms are critical for sustained growth.** The staff urges the authorities to discontinue immediately the non-core functions of banks and eliminate any remaining de facto restrictions on cash withdrawals and transactions. Such reforms should allow elimination of other policy measures to promote deposits, including the deposit amnesty, very high deposit rates on household deposits, and their exemption from the statutory reserve requirement. The plans to continue increasing bank capitalization over the next few years are encouraging and should further strengthen the banking system. The staff recommends that the authorities ensure compliance with international AML/CFT standards.

29. **The authorities' steadfast implementation of tax and treasury reforms is welcome.** The priority going forward should be to complete the introduction of the treasury single account, improve tax enforcement, and switch to standard accounting for budget preparation and reporting.

30. **Trade liberalization is critical if the Uzbek economy is to sustain high growth through private sector development.** The staff advises the authorities to lower and unify tariffs for all economic agents, eliminate differences in excises on imported and domestic goods, remove restrictions on exports (including food items), reduce administrative costs in international trade, streamline customs procedures, and accelerate efforts for WTO accession. The staff also urges the authorities to fully adhere to their obligations under Article VIII of the Fund's Articles of Agreement.

31. **There is an urgent need to improve the quality of economic statistics, which significantly hampers surveillance.** In particular, the staff recommends expeditious progress in addressing weaknesses in price indices and developing national income accounts from the expenditure side by utilizing fully the services of the IMF-provided statistical advisors. The staff also recommends better dissemination of economic data and participation in the GDDS.

32. It is proposed that the next Article IV consultation discussions with Uzbekistan take place within a 12-month cycle.

Table 1. Uzbekistan: Selected Economic and Financial Indicators, 2003–08

	2003	2004	2005	2006	2007 Prelim.	2008 Proj.
National income						
GDP in sum billion	9,838	12,261	15,923	20,759	28,186	34,704
GDP in US$ million	10,116	11,941	14,197	16,977	22,231	26,571
	(Annual percentage change, unless otherwise specified)					
GDP at current prices	32.0	24.6	29.9	30.4	35.8	23.1
GDP at constant prices	4.2	7.7	7.0	7.3	9.5	8.0
Consumer price index (eop)						
Official	3.7	3.8	7.8	6.8	6.9	6.0–8.0
Alternative (Fund staff calculations) 1/	7.8	9.1	12.3	11.4	11.9	11.0
Average wage (sums per month)	40,170	53,180	82,371	113,840	177,982	...
Money and credit						
Reserve money	26.7	38.7	87.5	36.5	44.9	28.4
Broad money	27.1	47.8	54.3	36.8	46.1	32.4
Net foreign assets	45.6	48.8	44.0	76.3	67.4	35.8
Net domestic assets	-87.8	-50.5	-28.4	-148.1	-88.7	-38.4
Of which: net claims on government	-1,509.3	-113.6	-87.0	-145.5	-78.9	-56.8
credit to the economy	6.9	10.8	15.8	4.3	16.7	30.8
Income velocity of average broad money (level)	10.5	9.5	8.4	7.6	7.3	6.5
External sector						
Exports of goods and services (in millions of US$)	3,775	4,836	5,416	6,390	8,991	10,977
Imports of goods and services (in millions of US$)	3,097	3,927	4,101	4,668	6,736	8,687
Real effective exchange rate (official rate, alt. CPI; - deprec.)	-22.1	-8.2	-6.5	-2.0	-0.9	...
	(In percent of GDP, unless otherwise specified)					
Government finance						
Consolidated revenue and grants	33.4	32.2	30.8	31.4	31.7	30.6
Consolidated expenditure and net lending	33.9	32.1	31.1	30.9	30.2	31.1
Statistical discrepancy	0.6	0.6	1.5	1.7	0.6	0.0
Consolidated budget balance 2/	0.1	0.6	1.2	2.2	2.1	-0.4
Fund for Reconstruction and Development revenue	...	...	...	3.0	3.9	6.1
Fund for Reconstruction and Development expenditure	...	...	...	...	1.0	0.6
Balance	...	...	...	3.0	3.0	5.4
Augmented government balance 2/ 3/	0.1	0.6	1.2	5.2	5.1	5.0
Public debt (in percent of GDP)	41.6	35.1	28.2	21.3	15.8	13.5
Of which: External public debt	38.7	32.0	25.2	19.8	14.7	12.5
External sector						
Current account	8.7	10.2	13.7	17.3	19.2	16.8
External debt outstanding	42.0	36.2	29.1	22.7	17.6	15.4
External debt service ratio 4/	20.5	17.1	14.1	12.7	8.6	7.6
Memorandum items						
Gross official external reserves (in millions of US$)	1,659	2,146	2,895	4,459	7,413	10,145
Gross official reserves (in months of next year imports)	5.1	6.3	7.4	7.9	10.2	11.6
Nominal GDP per capita (in US$)	396	462	543	641	827	977
Nominal GDP per capita (in US$ on PPP basis)	1,654	1,808	1,970	2,154	2,388	...
External debt outstanding (in millions of US$)	4,249	4,322	4,133	3,853	3,913	4,095
Exchange rate (sums per U.S. dollar; eop)	979	1,058	1,180	1,240	1,290	...
Credit to economy	27.5	24.5	21.8	17.4	15.0	15.9
Broad money	10.3	12.2	14.4	15.2	16.3	17.5
Population (in millions)	25.6	25.9	26.2	26.5	26.9	27.2

Sources: Uzbek authorities; and Fund staff estimates and projections.
1/ Based on authorities' source data and Fund staff calculations using international methodology.
2/ Based on below-the-line financing data.
3/ Includes operations of the Fund for Reconstruction and Development.
4/ In percent of exports of goods and services.

Table 2. Uzbekistan: Balance of Payments, 2003–13
(Millions of U.S. dollars, unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
					Prel.			Projections			
Current account balance	881	1,215	1,949	2,933	4,267	4,472	4,136	4,113	4,274	4,478	4,802
Balance of goods and services	678	909	1,315	1,722	2,255	2,291	1,645	1,387	1,156	912	892
Merchandise trade balance	835	1,202	1,446	1,774	2,296	2,204	1,613	1,404	1,160	985	995
Exports of goods	3,240	4,263	4,757	5,615	8,026	9,817	10,890	11,961	13,124	14,532	16,159
Cotton fiber	739	876	1,033	1,097	1,127	1,284	1,267	1,248	1,243	1,238	1,229
Energy	454	602	623	839	1,818	2,577	3,133	3,449	3,734	4,042	4,331
Gold	1,046	1,242	1,315	904	1,144	1,546	1,587	1,635	1,691	1,740	1,764
Food Products	102	157	206	505	761	510	607	776	989	1,310	1,788
Other exports of goods	899	1,385	1,580	2,270	3,176	3,899	4,297	4,854	5,466	6,202	7,047
Imports of goods	-2,405	-3,061	-3,310	-3,841	-5,730	-7,612	-9,277	-10,558	-11,964	-13,547	-15,165
Food Products	-264	-235	-259	-332	-434	-608	-729	-875	-1,050	-1,260	-1,449
Energy products	-80	-81	-104	-199	-237	-407	-562	-748	-967	-1,208	-1,450
Machinery and intermediate goods	-1,183	-1,578	-1,593	-2,023	-3,094	-3,867	-4,641	-5,105	-5,615	-6,177	-6,794
Other imports of goods 1/	-878	-1,167	-1,355	-1,287	-1,965	-2,731	-3,346	-3,830	-4,332	-4,902	-5,471
Balance of services	-157	-293	-131	-53	-42	86	33	-17	-3	-73	-102
Credit	535	574	659	775	965	1,160	1,286	1,286	1,396	1,426	1,473
Debit 2/	-692	-867	-790	-828	-1,007	-1,074	-1,253	-1,303	-1,400	-1,499	-1,575
Income (net)	-116	-49	-24	41	62	143	146	147	152	156	159
Of which: Interest (net)	-121	-107	-131	-33	-14	64	64	60	61	61	58
Labor Compensation (net)	6	58	107	73	76	79	83	87	91	96	100
Transfers (net)	318	354	658	1,171	1,951	2,038	2,344	2,579	2,965	3,410	3,751
Capital and financial account balance	-414	-702	-1,181	-1,369	-2,113	-1,741	-1,936	-1,913	-1,791	-1,759	-1,839
Capital transfers	-48	-132	31	-116	-104	-94	-84	-76	-68	-62	-55
Foreign direct and portfolio investment (net)	70	187	88	195	739	918	987	1,056	1,187	1,327	1,336
Loans, net	-43	-73	-207	-304	60	183	22	-51	9	75	-31
Existing public and publ. guaranteed debt (net)	-95	-91	-241	-347	-213	-12	-128	-193	-91	-56	-43
Drawings	439	443	241	227	240	410	229	131	130	150	160
Amortizations	-533	-534	-482	-574	-453	-422	-358	-324	-221	-206	-203
Commercial nonguaranteed (net)	52	18	34	43	273	195	150	142	99	131	12
Disbursements	123	152	140	140	430	450	450	482	489	521	442
Amortizations	-71	-134	-106	-97	-156	-255	-300	-340	-390	-390	-430
Net Foreign Assets of Commercial Banks				-290	-433	-561	-892	-1,071	-1,324	-1,665	-1,726
Other capital and statistical discrepancy	-394	-684	-1,093	-854	-2,430	-2,187	-1,968	-1,771	-1,594	-1,435	-1,363
Overall balance	467	512	768	1,564	2,155	2,731	2,200	2,199	2,483	2,719	2,963
Financing	-467	-512	-768	-1,564	-2,155	-2,731	-2,200	-2,199	-2,483	-2,719	-2,963
Gross reserves (- increase)	-444	-487	-748	-1,564	-2,155	-2,731	-2,200	-2,199	-2,483	-2,719	-2,963
Use of Fund credit	-23	-25	-20	0	0	0	0	0	0	0	0
Memorandum items											
Current account balance (in percent of GDP)	8.7	10.2	13.7	17.3	19.2	16.8	12.9	11.1	9.9	9.0	8.4
Exports of G&S (in percent of GDP)	37.3	40.5	38.1	37.6	40.4	41.3	37.8	35.7	33.8	32.2	30.8
Imports of G&S (in percent of GDP)	30.6	32.9	28.9	27.5	30.3	32.7	32.7	31.9	31.1	30.3	29.3
Export growth rate (G&S)	26.4	28.1	12.0	18.0	40.7	22.1	10.9	8.8	9.6	9.9	10.5
Import growth rate (G&S)	8.9	26.8	4.4	13.8	44.3	28.9	21.2	12.6	12.7	12.6	11.3
FDI (in percent of GDP)	0.7	1.6	0.6	1.1	3.3	3.5	3.1	2.8	2.8	2.7	2.3
Gross official reserves (million U.S. dollars)	1,659	2,146	2,895	4,459	7,413	10,145	12,344	14,544	17,027	19,746	22,708
In months of imports of goods and services	5.1	6.3	7.4	7.9	10.2	11.6	12.5	13.1	13.6	14.2	14.2
Total debt service payment (million U.S. dollars)	773	825	764	811	772	837	818	828	774	760	799
In percent of exports of goods and services	20.5	17.1	14.1	12.7	8.6	7.6	6.7	6.3	5.3	4.8	4.5
Outstanding debt (million U.S. dollars) 3/	4,249	4,322	4,133	3,853	3,913	4,095	4,421	4,328	4,287	4,281	4,318
Of which: Public and publ. guaranteed (excl. IMF)	3,915	3,821	3,579	3,365	3,263	3,334	3,206	3,013	2,922	2,866	2,823
Commercial non-guaranteed	334	501	554	487	649	761	1,215	1,315	1,365	1,415	1,495
Total outstanding debt (in percent of GDP) 3/	42.0	36.2	29.1	22.7	17.6	15.4	13.7	11.6	10.0	8.6	7.5
Debt service of next 12 months											
In percent of gross international reserves	49.7	35.6	28.0	17.3	11.3	8.1	6.7	5.3	4.5	4.0	3.5

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

1/ Includes one-time adjustment in 2007 amounting to US$1.5 billion due to misclassified imports as temporary imports.
2/ State-owned enterprises receive the bulk of the publicly-guaranteed debt; these flows are not recorded in the budget (Table 5).
3/ This debt stock includes technical credits extended by Russia to Uzbekistan during 1992-94, the settlement of which (a total of US$ 464 million) is still in dispute.

Table 3. Uzbekistan: Summary Accounts of the Central Bank, 2004–08
(In billions of sum, unless otherwise indicated)

	2004	2005	2006	2007				2008	
				Mar.	Jun.	Sep.	Dec	Mar.	Dec. Proj.
Net int'l reserves (billion U.S. dollars)	2.1	2.9	4.7	5.1	5.6	6.6	7.5	8.5	10.2
Gross int'l reserves (billion U.S. dollars) 1/	2.1	2.9	4.7	5.1	5.6	6.6	7.5	8.5	10.2
Official exchange rate (sum/U.S. dollar, eop)	1,058	1,180	1,240	1,250	1,265	1,275	1,290	1,300	...
Net foreign assets	2,251	3,416	5,785	6,337	7,124	8,365	9,689	11,080	13,673
Gold	443	583	1,833	2,476	2,458	3,378	3,425	4,200	5,411
Foreign exchange	1,828	2,833	3,330	3,227	3,880	3,918	4,803	4,951	4,924
FRD	...	...	621	634	787	1,068	1,461	1,929	3,338
Foreign liabilities	-20	0	0	0	0	0	0	0	0
Net domestic assets	-1,546	-2,095	-3982	-4474	-5095	-6062	-7076	-8517	-10,318
Net domestic credit	-165	-431	-1631	-1896	-2218	-2498	-3256	-3899	-5,424
Government, net 2/	-271	-528	-1,710	-1,974	-2,291	-2,569	-3,318	-3,961	-5,468
Of which : Fund for Reconstruction & Developme	...	...	-621	-634	-787	-1,068	-1,461	-1,929	-3,338
Banks	106	98	79	78	73	71	62	62	44
Rest of the economy	0	0	0	0	0	0	0	0	0
Monetary policy instruments 3/	-284	-388	-642	-700	-854	-910	-1,081	-1,065	-1,955
Other items, net	-1097	-1,276	-1,709	-1,878	-2,024	-2,653	-2,739	-3,554	-2,939
Reserve money	704	1,321	1,803	1,863	2,029	2,303	2,612	2,562	3,354
			(Annual Percentage Change)						
Reserve money	38.7	87.5	36.5	49.5	40.2	28.1	44.9	37.5	28.4
Net foreign assets	42.1	51.8	69.4	64.2	62.3	70.7	67.5	74.8	41.1
Net domestic assets	-43.7	-35.5	-90.0	-71.2	-73.2	-95.4	-77.7	-90.4	-45.8
Net credit to government	-79.7	-94.9	-223.5	-219.4	-222.6	-168.5	-94.1	-100.6	-64.8
Net credit to banks	-10.2	-8.0	-19.3	-19.5	-14.1	-16.3	-20.8	-20.4	-28.9
Memorandum items									
Money multiplier (ratio)	2.12	1.74	1.74	1.81	1.90	1.83	1.76	1.84	1.82
FRD (in millions of US$)	...	...	501	507	622	838	1,133	1,484	2,500

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

1/ Gross official reserves differ from those in tables 1 and 2 on account of valuation effects.
2/ As of 2004, government accounts no longer exclude revaluation changes for exchange rate.
3/ CBU certificates of deposit and special deposits held by commercial banks.

Table 4. Uzbekistan: Monetary Survey, 2004–08
(In billions of sum, unless otherwise indicated)

	2004	2005	2006	2007				2008	
				Mar.	Jun.	Sep.	Dec.	Mar	Dec. Proj.
Net int'l reserves (billion U.S. dollars)	2.3	3.0	5.1	5.5	6.3	7.3	8.1	9.3	10.7
Official exchange rate (sum/U.S. dollar, eop)	1,058	1,180	1,240	1,250	1,265	1,275	1,290	1,300	...
Net foreign assets	2,474	3,563	6,280	6,849	8,022	9,305	10,510	12,073	14,273
Gold	443	583	1,834	2,478	2,458	3,378	3,688	4,200	5,411
Net foreign exchange	2,031	2,980	3,825	3,737	4,777	4,858	5,361	5,944	5,525
FRD	...	...	621	634	787	1,068	1,461	1,929	3,338
Net domestic assets	-984	-1,263	-3,134	-3,468	-4,161	-5,088	-5,913	-7,370	-8,185
Domestic credit	2,584	2,665	1,590	1,588	1,632	1,339	570	425	-212
Government, net (excluding treasury bills)	-450	-841	-2,064	-2,294	-2,733	-3,003	-3,693	-4,212	-5,791
Of which : FRD	...	...	-621	-634	-787	-1,068	-1,461	-1,929	-3,338
Treasury bills	36	33	32	37	35	34	36	38	48
Rest of economy	2,998	3,472	3,622	3,845	4,330	4,308	4,227	4,599	5,530
Loans in domestic currency	720	1,092	1,486	1,805	2,451	2,649	2,467	2,855	3,637
Loans in foreign currency	2,279	2,380	2,136	2,040	1,878	1,659	1,760	1,744	1,894
Other items, net	-3,418	-3,770	-4,502	-4,863	-5,597	-6,207	-6,254	-7,551	-7,710
Of which			0	0	0	0	0		
Of which : long-term liabilities	-1,678	-1,534	-1,346	-1,284	-1,240	-1,217	-1,172	-1,071	-1,305
million U.S. dollars	-1.6	-1.3	-1	-1	-1	-1	-1	-1	-1
Nonbudgetary deposits of bud.org.	-150	-158	-223	-193	-197	-220	-228	-245	-263
Broad Money	1,491	2,299	3,146	3,380	3,861	4,217	4,598	4,702	6,088
Currency outside banks	590	1,059	1,495	1,485	1,596	1,779	2,048	1,986	2,528
Demand deposits	231	372	491	597	895	1,034	1,061	1,122	1,415
Quasi-money	670	869	1,161	1,299	1,371	1,404	1,488	1,594	2,146
Memorandum items:									
Currency ratio (in percent)	39.6	46.1	47.5	43.9	41.3	42.2	44.6	42.2	41.5
FRD	...	...	501	507	622	838	1,133	1,484	2,500
			(Annual Percentage Change)						
Broad money	47.8	54.3	36.8	47.6	42.6	49.2	46.1	39.1	32.4
Net foreign assets	48.8	44.0	76.3	72.6	69.7	75.6	67.4	76.3	35.8
Net domestic assets	-50.5	-28.4	-148.1	-106.6	-106.1	-105.8	-88.7	-112.5	-38.4
Domestic bank credit to government 1/	-113.6	-87.0	-145.5	-129.8	-150.6	-119.2	-78.9	-83.6	-56.8
Domestic credit to rest of economy	10.8	15.8	4.3	5.8	13.5	19.0	16.7	19.6	30.8
Loans in domestic currency	35.9	51.8	36.1	50.3	65.3	82.6	66.0	58.2	47.4
Loans in foreign currency	4.7	4.5	-10.3	-16.1	-19.5	-23.5	-17.6	-14.5	7.6
Velocity (in levels) 2/	8.2	6.6	6.6	8.3	7.3	6.7	6.1	6.0	5.7
Ratio of Currency to Deposits	0.66	0.85	0.91	0.78	0.70	0.73	0.80	0.73	0.71
Ratio of Currency Outside Banks to Broad Money	0.40	0.46	0.48	0.44	0.41	0.42	0.45	0.42	0.42
Monetization ratio	12.2	15.1	15.2	12.0	13.7	15.0	16.3	13.6	17.5
Loans/GDP ratio	24.6	22.8	17.4	13.6	15.4	15.3	15.0	16.3	15.9

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

1/ Including net proceeds from sale of treasury bills to banks. Negative number implies a decline in net credit.

2/ Velocity is calculated using end of period nominal GDP over end of period money supply.

Table 5. Uzbekistan: General Government Consolidated Budget, 2003–08
(In billions of sum)

	2003	2004	2005	2006	2007	2008
					Prelim.	Proj.
Consolidated government						
Budget revenue and grants	3,288	3,945	4,900	6,519	8,922	10,632
Tax revenue	2,234	2,770	3,312	4,365	5,870	6,791
Taxes on incomes and profits	658	776	987	1,293	1,758	2,002
Taxes on property	123	172	211	276	349	438
Taxes on goods and services	1,367	1,728	2,005	2,623	3,470	4,104
Of which : Value added tax	536	655	815	1,142	1,682	2,001
Excises	694	878	638	881	1,017	1,170
Mining tax	30	56	354	487	615	746
Customs duties	86	94	109	173	293	248
Other budget revenue (tax and non-tax)	128	122	166	333	522	317
Social security contributions (Pension and Empl. Fund)	622	771	991	1,253	1,761	2,650
Road Fund and other extrabudgetary revenue	197	186	207	273	355	412
Education development tax	...	...	163	233	365	431
Grants	108	96	62	62	50	30
Budget expenditure and net lending	3,337	3,938	4,945	6,414	8,502	10,786
Total expenditure	3,263	3,875	4,862	6,374	8,455	10,875
Socio-cultural expenditure (inc. health and education)	913	1,119	1,581	2,169	2,906	3,910
Social safety net	806	969	1,291	1,735	2,283	3,400
Low-income support (in the budget)	183	219	280	366	397	620
Pension and Employment Fund	623	749	1,012	1,369	1,886	2,780
Pension Fund	598	725	983	1,335	1,841	2,726
Employment Fund	25	24	29	35	45	54
Economy	320	415	507	594	678	915
Public authorities and administration	59	74	97	124	176	243
Public investment	432	459	474	532	627	847
Interest expenditure	52	55	66	74	172	103
Other expenditure in the budget	479	531	627	879	1,138	1,078
Road Fund	140	139	168	204	270	349
Extrabudgetary expenditure financed by grants	62	114	50	62	50	30
Net lending	74	64	84	40	48	-90
Statistical discrepancy	56	68	244	347	176	...
Consolidated budget balance 1/	7	74	199	451	596	-153
Primary balance	59	129	265	525	768	-50
Fund for Reconstruction and Development						
Own revenue	...	...	...	621	1,108	2,112
Expenditure	...	...	...	...	268	222
Balance	...	...	...	621	840	1,890
Augmented government 1/ 2/						
Revenue and grants	3,288	3,945	4,900	7,140	10,030	12,745
Expenditure and net lending	3,337	3,938	4,945	6,414	8,771	11,008
Balance	7	74	199	1,072	1,435	1,736
Financing	-7	-74	-199	-1,072	-1,435	-1,736
Domestic	-101	-165	-307	-1,154	-1,520	-1,991
Domestic banking system 3/	-157	-239	-393	-1,223	-1,629	-2,085
Monetary authorities (net lending)	-83	-122	-257	-1,181	-1,609	-2,150
Of which : Fund for Reconstruction and Development	...	...	...	-621	-840	-1,890
Deposit money banks	-74	-117	-136	-42	-20	65
Treasury bills outside banks	0	-4	6	-1	0	1
Privatization proceeds	56	78	81	70	110	94
External	94	91	108	81	85	254
Memorandum items						
GDP	9,838	12,261	15,923	20,759	28,186	34,704
Current expenditure	2,831	3,416	4,387	5,842	8,096	10,251
Wages and wage-related expenditure	637	761	1,098	1,519	2,136	3,165

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

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

Table 6. Uzbekistan: General Government Consolidated Budget, 2003–08
(In percent of GDP)

	2003	2004	2005	2006	2007	2008
					Prelim.	Proj.
Consolidated government						
Budget revenue and grants	33.4	32.2	30.8	31.4	31.7	30.6
Tax revenue	22.7	22.6	20.8	21.0	20.8	19.6
Taxes on incomes and profits	6.7	6.3	6.2	6.2	6.2	5.8
Taxes on property	1.2	1.4	1.3	1.3	1.2	1.3
Taxes on goods and services	13.9	14.1	12.6	12.6	12.3	11.8
Of which : Value added tax	5.4	5.3	5.1	5.5	6.0	5.8
Excises	7.1	7.2	4.0	4.2	3.6	3.4
Mining tax	0.3	0.5	2.2	2.3	2.2	2.2
Customs duties	0.9	0.8	0.7	0.8	1.0	0.7
Other budget revenue (tax and non-tax)	1.3	1.0	1.0	1.6	1.9	0.9
Social security contributions (Pension and Empl. Fund)	6.3	6.3	6.2	6.0	6.2	7.6
Road Fund and other extrabudgetary revenue	2.0	1.5	1.3	1.3	1.3	1.2
Education development tax	...	...	1.0	1.1	1.3	1.2
Grants	1.1	0.8	0.4	0.3	0.2	0.1
Budget expenditure and net lending	33.9	32.1	31.1	30.9	30.2	31.1
Total expenditures	33.2	31.6	30.5	30.7	30.0	31.3
Socio-cultural expenditure (inc. health and education)	9.3	9.1	9.9	10.4	10.3	11.3
Social safety net	8.2	7.9	8.1	8.4	8.1	9.8
Low-income support (in the budget)	1.9	1.8	1.8	1.8	1.4	1.8
Pension and Employment Fund	6.3	6.1	6.4	6.6	6.7	8.0
Pension Fund	6.1	5.9	6.2	6.4	6.5	7.9
Employment Fund	0.3	0.2	0.2	0.2	0.2	0.2
Economy	3.3	3.4	3.2	2.9	2.4	2.6
Public authorities and administration	0.6	0.6	0.6	0.6	0.6	0.7
Public investment	4.4	3.7	3.0	2.6	2.2	2.4
Interest expenditure	0.5	0.5	0.4	0.4	0.6	0.3
Other expenditures in the budget	4.9	4.3	3.9	4.2	4.0	3.1
Road Fund	1.4	1.1	1.1	1.0	1.0	1.0
Extrabudgetary expenditure financed by grants	0.6	0.9	0.3	0.3	0.2	0.1
Net lending	0.8	0.5	0.5	0.2	0.2	-0.3
Statistical discrepancy	0.6	0.6	1.5	1.7	0.6	0.0
Consolidated budget balance 1/	0.1	0.6	1.2	2.2	2.1	-0.4
Fund for Reconstruction and Development						
Own revenue	...	...	...	3.0	3.9	6.1
Expenditure	...	...	...	...	1.0	0.6
Balance	...	...	...	3.0	3.0	5.4
Augmented government 1/ 2/						
Revenue and grants	33.4	32.2	30.8	34.4	35.6	36.7
Expenditure and net lending	33.9	32.1	31.1	30.9	31.1	31.7
Balance 1/	0.1	0.6	1.2	5.2	5.1	5.0
Financing	-0.1	-0.6	-1.2	-5.2	-5.1	-5.0
Domestic	-1.0	-1.3	-1.9	-5.6	-5.4	-5.7
Domestic banking system 3/	-1.6	-2.0	-2.5	-5.9	-5.8	-6.0
Monetary authorities (net lending)	-0.8	-1.0	-1.6	-5.7	-5.7	-6.2
Of which : Fund for Reconstruction and Development	...	...	...	-3.0	-3.0	-5.4
Deposit money banks	-0.7	-1.0	-0.9	-0.2	-0.1	0.2
Treasury bills outside banks	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.6	0.6	0.5	0.3	0.4	0.3
External	1.0	0.7	0.7	0.4	0.3	0.7
Memorandum items						
GDP (in billions of sum)	9,838	12,261	15,923	20,759	28,186	34,704
Current expenditure	28.8	27.9	27.6	28.1	28.7	29.5
Wages and wage-related expenditure	6.5	6.2	6.9	7.3	7.6	9.1

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

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

Table 7. Uzbekistan: External Debt Sustainability Framework, Baseline Scenario, 2005–13 1/
(In percent of GDP, unless otherwise indicated)

	Actual		Est.	Historical	Standard	Projections						
				Average 6/	Deviation 6/							2008–13
	2005	2006	2007			2008	2009	2010	2011	2012	2013	Average
External debt (nominal) 1/	29.1	22.7	17.6			15.4	13.7	11.6	10.0	8.6	7.5	
Of which public and publicly guaranteed (PPG)	25.2	19.8	14.7			12.5	10.0	8.1	6.8	5.8	4.9	
Change in external debt	-7.1	-6.4	-5.1			-2.2	-1.7	-2.1	-1.7	-1.4	-1.1	
Identified net debt-creating flows	-17.7	-22.7	-29.6			-29.0	-24.1	-20.5	-17.0	-13.4	-9.8	
Noninterest current account deficit	-14.7	-19.5	-24.5	-10.6	8.7	-25.0	-20.5	-17.2	-13.9	-10.5	-7.3	-15.7
Deficit in balance of goods and services	-9.3	-10.1	-10.1			-8.6	-5.1	-3.7	-2.7	-1.8	-1.6	
Exports	38.1	37.6	40.4			41.3	37.8	35.7	33.8	32.2	30.8	
Imports	28.9	27.5	30.3			32.7	32.7	31.9	31.1	30.3	29.3	
Net current transfers (negative = inflow)	-4.6	-6.9	-8.8	-3.4	3.2	-7.7	-7.3	-6.9	-6.9	-6.9	-6.6	-7.0
Other current account flows (negative = net inflow)	-0.8	-2.5	-5.5			-8.7	-8.1	-6.6	-4.3	-1.8	0.9	
Net FDI (negative = inflow)	-0.6	-1.1	-3.3	-1.2	0.9	-3.5	-3.1	-2.8	-2.8	-2.7	-2.3	-2.9
Endogenous debt dynamics 2/	-2.4	-2.1	-1.8			-0.6	-0.5	-0.4	-0.3	-0.2	-0.2	
Contribution from nominal interest rate	1.0	0.7	0.7			0.7	0.6	0.5	0.4	0.4	0.3	
Contribution from real GDP growth	-2.3	-1.9	-1.9			-1.3	-1.1	-0.9	-0.7	-0.6	-0.5	
Contribution from price and exchange rate changes	-1.1	-0.9	-0.6			…	…	…	…	…	…	
Residual (3-4) 3/	10.6	16.3	24.5			26.8	22.4	18.4	15.3	12.0	8.7	
Of which exceptional financing	0.2	0.1	0.1			0.0	0.0	0.0	0.0	0.0	0.0	
NPV of external debt 4/	...	...	19.4			15.3	13.1	11.0	9.2	7.5	6.1	
In percent of exports	...	...	48.1			37.1	34.7	30.8	27.1	23.4	19.9	
NPV of PPG external debt	...	...	16.5			12.5	9.3	7.4	6.0	4.7	3.5	
In percent of exports	...	...	40.8			30.2	24.7	20.8	17.7	14.5	11.4	
Debt service-to-exports ratio (in percent)	13.3	12.3	8.3			7.7	6.7	6.3	5.3	4.8	4.5	
PPG debt service-to-exports ratio (in percent)	10.6	10.6	6.4			5.0	3.8	3.2	2.2	1.9	1.7	
Total gross financing need (billions of U.S. dollars)	-1.1	-2.5	-5.2			-6.5	-6.6	-6.5	-6.2	-5.6	-4.5	
Noninterest current account deficit that stabilizes debt ratio	-7.6	-13.1	-19.4			-22.8	-18.8	-15.2	-12.2	-9.1	-6.2	
Key macroeconomic assumptions												
Real GDP growth (in percent)	7.0	7.3	9.5	6.0	2.2	8.0	7.5	7.0	7.0	6.5	6.0	7.0
GDP deflator in US dollar terms (change in percent)	3.2	3.2	2.7	2.5	0.5	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Effective interest rate (percent) 5/	3.0	2.8	3.6	3.5	1.0	4.3	3.9	3.7	3.8	3.8	3.9	3.9
Growth of exports of G&S (US dollar terms, in percent)	12.0	18.0	40.7	14.5	24.4	22.1	10.9	8.8	9.6	9.9	10.5	12.0
Growth of imports of G&S (US dollar terms, in percent)	4.4	13.8	44.3	12.3	21.9	28.9	21.2	12.6	12.7	12.6	11.3	16.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	11.2	11.2	11.2	11.2	11.2	11.2	11.2
Memorandum item:												
Nominal GDP (billions of US dollars)	14.2	17.0	22.2			26.6	32.2	37.2	43.0	49.6	57.2	

Source: Fund staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments, as well as the large errors and omissions term in the balance of payments due to data shortcomings, which hinder a full analysis. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 8 years, subject to data availability.

Table 8. Uzbekistan: Sensitivity Analyses for Key Indicators of Public and Publicly-Guaranteed External Debt, 2008–13
(In percent)

		Projections				
	2008	2009	2010	2011	2012	2013
NPV of debt-to-GDP ratio						
Baseline	12.5	9.3	7.4	6.0	4.7	3.5
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2008–13 1/	12.5	23.6	31.4	36.3	37.7	35.9
A2. New public sector loans on less favorable terms in 2008–13 2/	12.5	15.8	19.2	23.0	26.8	30.0
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2009–10	12.5	9.8	8.3	6.8	5.5	4.3
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	12.5	14.8	21.7	19.4	17.2	15.2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2009-10	12.5	11.3	9.5	8.1	6.7	5.4
B4. Net nondebt creating flows at historical average minus one standard deviation in 2009-10 4/	12.5	21.1	29.5	26.6	23.9	21.5
B5. Combination of B1-B4 using one-half standard deviation shocks	12.5	24.7	40.4	36.9	33.7	30.7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	12.5	15.9	13.4	11.4	9.5	7.7
NPV of debt-to-exports ratio						
Baseline	30.2	24.7	20.8	17.7	14.5	11.4
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2008–13 1/	30.2	62.4	88.1	107.3	117.3	116.6
A2. New public sector loans on less favorable terms in 2008–13 2/	30.2	41.7	53.7	67.9	83.4	97.2
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2009–10	30.2	26.0	23.3	20.2	17.0	14.0
B2. Export value growth at historical average minus one standard deviation in 2009–10 3/	30.2	45.9	85.3	75.9	66.5	57.5
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2009–10	30.2	24.7	20.8	17.7	14.5	11.4
B4. Net nondebt creating flows at historical average minus one standard deviation in 2009–10 4/	30.2	46.5	65.1	58.4	51.8	45.5
B5. Combination of B1-B4 using one-half standard deviation shocks	30.2	64.7	114.4	103.9	93.6	83.4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	30.2	24.7	20.8	17.7	14.5	11.4
Debt service ratio						
Baseline	5.0	3.8	3.2	2.2	1.9	1.7
A. Alternative Scenarios						
A1. Key variables at their historical averages in 2008–13 1/	5.0	7.2	7.9	8.1	8.5	8.9
A2. New public sector loans on less favorable terms in 2008–13 2/	5.0	6.5	5.9	5.3	5.3	5.4
B. Bound Tests						
B1. Real GDP growth at historical average minus one standard deviation in 2009–10	5.0	6.0	5.1	4.1	3.6	3.3
B2. Export value growth at historical average minus one standard deviation in 2009–10 3/	5.0	8.4	9.5	9.0	7.9	7.2
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2009–10	5.0	6.0	5.0	4.0	3.5	3.2
B4. Net nondebt creating flows at historical average minus one standard deviation in 2009–10 4/	5.0	6.0	5.9	5.7	5.0	4.6
B5. Combination of B1-B4 using one-half standard deviation shocks	5.0	7.3	8.2	8.7	7.7	7.1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	5.0	6.0	5.0	4.0	3.5	3.2
Memorandum item:						
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	9.3	9.3	9.3	9.3	9.3	9.3

Source: Fund staff projections and simulations.

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

Table 9. Uzbekistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005–13
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Projections						
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008–13 Average
Public sector debt 1/	28.2	21.3	15.8			13.5	10.6	8.6	7.2	6.1	5.2	
Of which foreign-currency denominated	25.2	19.8	14.7			12.5	10.0	8.1	6.8	5.8	4.9	
Change in public sector debt	-6.9	-6.9	-5.6			-2.3	-2.9	-2.0	-1.4	-1.1	-0.9	
Identified debt-creating flows	-6.9	-11.1	-10.5			-7.8	-6.3	-3.1	-2.8	-2.4	-2.0	
Primary deficit (-=surplus)	-1.7	-5.5	-5.7	-1.4	2.9	-5.3	-3.9	-1.6	-1.7	-1.5	-1.2	-2.5
Revenue and grants	30.8	34.4	35.6			36.7	35.6	33.4	33.2	33.0	32.9	
Of which: grants	0.4	0.3	0.2			0.1	0.1	0.1	0.1	0.1	0.1	
Primary (noninterest) expenditure	29.1	28.9	29.9			31.4	31.7	31.7	31.5	31.5	31.7	
Automatic debt dynamics	-4.8	-5.2	-4.4			-2.2	-2.2	-1.2	-1.0	-0.8	-0.7	
Contribution from interest rate/growth differential	-3.3	-2.7	-1.9			-1.2	-1.0	-0.7	-0.5	-0.4	-0.3	
Of which: contribution from average real interest rate	-1.0	-0.8	-0.1			-0.1	0.0	0.0	0.0	0.0	0.0	
Of which: contribution from real GDP growth	-2.3	-1.9	-1.9			-1.2	-0.9	-0.7	-0.6	-0.4	-0.3	
Contribution from real exchange rate depreciation	-1.5	-2.5	-2.5			-1.0	-1.2	-0.6	-0.5	-0.4	-0.3	
Other identified debt-creating flows	-0.5	-0.3	-0.4			-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	
Privatization receipts (negative)	-0.5	-0.3	-0.4			-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	
Residual, including asset changes	0.0	4.2	5.0			5.5	3.4	1.1	1.4	1.3	1.1	
NPV of public sector debt	...	...	...			11.6	8.7	6.7	5.1	4.5	4.0	
Of which foreign-currency denominated	...	...	...			10.6	8.1	6.3	4.7	4.2	3.8	
Of which external	...	...	...			10.6	8.1	6.3	4.7	4.2	3.8	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...	
Gross financing need 2/	-0.2	-4.4	-4.4			-4.5	-3.1	-0.9	-1.1	-1.0	-0.8	
NPV of public sector debt-to-revenue ratio (in percent) 3/	...	...	...			31.5	24.4	20.2	15.3	13.7	12.2	
Of which external	...	...	...			28.9	22.7	18.8	14.2	12.8	11.5	
Debt service-to-revenue ratio (in percent) 3/ 4/	3.8	2.7	3.3			2.0	1.9	1.8	1.4	1.2	1.0	
Primary deficit that stabilizes the debt-to-GDP ratio	5.3	1.3	-0.1			-3.0	-1.0	0.4	-0.3	-0.4	-0.3	
Key macroeconomic and fiscal assumptions												
Real GDP growth (in percent)	7.0	7.3	9.5	6.0	2.2	8.0	7.5	7.0	7.0	6.5	6.0	7.0
Average nominal interest rate on forex debt (in percent)	1.5	1.7	2.0	2.1	0.8	2.3	2.5	2.5	2.5	2.4	2.5	2.4
Average real interest rate on domestic currency debt (in percent)	-15.9	-16.6	3.8	-18.8	11.6	-10.5	-12.3	-6.3	-4.8	-4.7	-4.1	-7.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-5.1	-10.8	-13.9	7.1	30.4	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	21.4	21.5	24.0	30.9	12.9	14.0	16.9	10.1	9.3	9.1	9.0	11.4
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	6.4	13.3	2.1	7.4	13.6	8.4	7.1	6.3	6.6	6.6	8.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	11.2	11.2	11.2	11.2	11.2	11.2	11.2

Sources: Uzbek authorities; and Fund staff estimates and projections.
1/ General government gross debt is used.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are derived over the past 8 years, subject to data availability.

Table 10. Uzbekistan: Sensitivity Analysis for Key Indicators of Public Debt, 2008–13

	Projections					
	2008	2009	2010	2011	2012	2013
NPV of Debt-to-GDP Ratio						
Baseline	11.6	8.7	6.7	5.1	4.5	4.0
A. Alternative scenarios						
A1. Real GDP growth and primary balance are at historical averages	11.6	12.5	11.7	11.2	11.4	11.4
A2. Primary balance is unchanged from 2007	11.6	7.3	1.8	...	...	...
A3. Permanently lower GDP growth 1/	11.6	9.0	7.5	6.4	6.7	7.1
B. Bound tests						
B1. Real GDP growth is at historical average minus one standard deviations in 2009–10	11.6	10.3	10.9	11.2	12.5	13.7
B2. Primary balance is at historical average minus one standard deviations in 2009–10	11.6	18.5	23.4	20.4	18.5	16.9
B3. Combination of B1-B2 using one half standard deviation shocks	11.6	14.5	15.8	13.4	12.3	11.3
B4. One-time 30 percent real depreciation in 2009	11.6	12.7	10.2	7.9	7.2	6.5
B5. 10 percent of GDP increase in other debt-creating flows in 2009	11.6	18.7	15.2	12.3	10.8	9.4
NPV of Debt-to-Revenue Ratio 2/						
Baseline	31.5	24.4	20.2	15.3	13.7	12.2
A. Alternative scenarios						
A1. Real GDP growth and primary balance are at historical averages	31.5	35.0	35.1	33.6	34.6	34.6
A2. Primary balance is unchanged from 2007	31.5	20.4	5.3	...	...	...
A3. Permanently lower GDP growth 1/	31.5	25.2	22.4	19.4	20.2	21.7
B. Bound tests						
B1. Real GDP growth is at historical average minus one standard deviations in 2009–10	31.5	29.1	32.6	33.6	37.7	41.6
B2. Primary balance is at historical average minus one standard deviations in 2009–10	31.5	51.9	70.0	61.4	56.1	51.3
B3. Combination of B1-B2 using one half standard deviation shocks	31.5	40.8	47.2	40.5	37.3	34.4
B4. One-time 30 percent real depreciation in 2009	31.5	35.8	30.7	23.9	21.8	19.8
B5. 10 percent of GDP increase in other debt-creating flows in 2009	31.5	52.6	45.7	37.2	32.6	28.6
Debt Service-to-Revenue Ratio 2/						
Baseline	2.0	1.9	1.8	1.4	1.2	1.0
A. Alternative scenarios						
A1. Real GDP growth and primary balance are at historical averages	2.0	1.9	5.9	4.9	4.7	4.5
A2. Primary balance is unchanged from 2007	2.0	1.9	0.2	...	...	...
A3. Permanently lower GDP growth 1/	2.0	1.9	2.1	2.0	2.2	2.6
B. Bound tests						
B1. Real GDP growth is at historical average minus one standard deviations in 2009–10	2.0	2.0	3.4	4.8	5.6	6.0
B2. Primary balance is at historical average minus one standard deviations in 2009–10	2.0	1.9	12.6	14.8	8.1	5.4
B3. Combination of B1-B2 using one half standard deviation shocks	2.0	2.0	8.2	7.8	4.8	3.5
B4. One-time 30 percent real depreciation in 2009	2.0	2.1	2.2	1.8	1.5	1.4
B5. 10 percent of GDP increase in other debt-creating flows in 2009	2.0	1.9	1.8	1.4	1.2	1.0

Sources: Uzbek authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 6 (i.e., the length of the projection period)
2/ Revenues are defined inclusive of grants.

Table 11. Uzbekistan: Financial Soundness Indicators for Banking Sector, 2003–07
(In percent, unless otherwise indicated)

	2003	2004	2005	2006	2007 Preliminary
Capital adequacy					
Total regulatory capital/risk-weighted assets	29.8	25.3	25.0	23.6	23.8
Total regulatory capital/total assets	17.9	16.2	14.4	14.0	14.5
Asset quality					
Distribution by risk weight category	100.0	100.0	100.0	100.0	100.0
0 percent	9.8	10.6	14.3	18.2	20.8
20 percent	67.0	60.0	44.0	35.4	29.2
50 percent	0.00	0.00	0.00	0.0	0.0
100 percent	23.2	29.3	41.7	46.4	50.0
Sectoral concentration	100.0	100.0	100.0	100.0	100.0
Government	63.3	61.9	59.6	53.8	45.1
Agriculture	2.3	3.0	3.9	6.6	10.5
Mining & quarrying	12.9	13.4	15.3	13.6	11.1
Manufacturing	5.6	2.4	2.2	3.2	5.6
Trade & commerce	3.4	3.8	4.0	4.3	6.1
Transport	4.6	1.0	1.2	2.3	2.7
Building and construction	0.5	3.4	2.8	3.0	3.5
Other services	7.4	11.1	10.9	13.2	15.3
Large exposures/total assets	1.10	1.40	0.86	0.2	0.4
Large exposure/total capital	5.5	7.8	5.0	1.4	2.3
Connected lending/total capital	4.0	5.2	1.0	1.8	1.6
Foreign exchange loans/total loans	80.8	78.5	65.9	57.0	43.7
NPLs/total gross loans (or exposures)	1.6	2.1	8.9	3.0	2.8
NPLs net of provisions/total capital	2.8	3.5	2.5	4.9	3.6
Provisions (billions of sums)	21.5	36.0	69.9	66.6	79.1
Government guarantee/total loans	79.2	74.7	59.8	48.3	38.0
Profitability					
Return on (average) assets	1.4	1.4	0.9	0.8	1.3
Return on (average) equity	7.3	8.2	5.2	4.8	8.2
Interest margin/gross income	23.2	20.7	20.1	19.2	22.2
Expenses/revenues	87.8	87.3	90.7	79.1	74.4
Noninterest expenses/gross income	47.0	45.9	50.5	39.0	40.7
Personnel expenses to noninterest expenses	26.3	29.9	34.6	46.1	42.4
Trading and fee income to total income	36.0	37.9	35.9	33.1	35.3
Liquidity					
Loans to deposits	334.1	240.4	213.5	167.6	132.4
Liquid assets/total assets	21.3	22.2	19.7	28.5	35.6
Liquid assets/short-term liabilities	59.4	66.5	51.8	60.5	77.9
Funding volatility ratio (volatile liab-liquid assets/illiquid assets)	6.2	4.3	12.1	12.8	11.3
Demand deposits/total liabilities	12.3	11.0	18.4	19.2	24.0
Customer deposits to total (non-interbank) loans	29.3	40.1	42.7	59.8	75.6
FX liabilities to total liabilities	84.0	67.9	72.2	63.0	49.8

Source: Central Bank of Uzbekistan.

Table 12. Uzbekistan: Selected Vulnerability Indicators, 2003–07

	2003	2004	2005	2006	2007 1/ Prelim.	Date of latest observation
Key Economic and Market Indicators						
Real GDP growth (in percent)	4.2	7.7	7.0	7.3	9.5	Prelim.
CPI inflation (official, period average, in percent)	10.2	1.7	6.5	8.6	6.1	Actual
CPI inflation (Fund staff estimate, period average, in percent)	11.6	6.6	10.0	14.2	12.3	Est.
Exchange rate Sum/US$ (end of period)	979.4	1,058.0	1,180.0	1,240.0	1,290.0	Actual
External Sector						
Exchange rate regime			(De-facto crawling peg)			
Current account balance (percent of GDP)	8.7	10.2	13.7	17.3	19.2	Prelim.
Net FDI inflows (percent of GDP)	0.7	1.6	0.6	1.1	3.3	Prelim.
Export growth (percentage change of US$ value, GNFS)	26.4	28.1	12.0	18.0	40.7	Prelim.
Real effective exchange rate (2000 = 100)	33.4	30.6	28.6	28.0	27.6	Prelim.
Gross official international reserves (GIR) in US$billion	1,659.0	2,146.5	2,894.8	4,459.0	7,413.5	Actual
GIR in percent of ST debt on a remaining maturity basis	239.4	353.2	356.8	731.3	1094.8	Prelim.
Net international reserves (NIR) of the banking system in US$ billion	1.7	2.3	3.0	5.1	8.1	Actual
Total gross external debt in percent of GDP	42.0	36.2	29.1	22.7	17.6	Prelim.
Total gross external debt in percent of exports of GNFS	112.6	89.4	76.3	60.3	43.5	Prelim.
Public Sector 2/						
Augmented government budget balance (percent of GDP) 3/	0.1	0.6	1.2	5.2	5.1	Prelim.
Consolidated government balance (percent of GDP)	0.1	0.6	1.2	2.2	2.1	Prelim.
Primary balance (percent of GDP) 3/	-0.5	0.2	0.8	4.8	4.5	Prelim.
Public and publicly guaranteed gross debt (PSGD, in percent of GDP)	41.6	35.1	28.2	21.3	15.8	Prelim.
Domestic debt linked to foreign currency (in percent of total PSGD)	0.0	0.0	0.0	0.0	0.0	Prelim.
Public sector net debt (in percent of GDP)	37.1	29.5	21.6	13.1	4.0	Prelim.
Financial Sector						
Capital adequacy ratio (in percent)	29.8	25.3	25.0	23.6	23.8	Dec-07
NPLs in percent of total loans	1.6	2.1	8.9	3.0	2.8	Dec-07
Return on average assets (in percent)	1.4	1.4	0.9	0.8	1.3	Dec-07
FX loans to residents (in percent of total loans)	80.8	78.5	65.9	57.0	43.7	Dec-07
Memo item:						
Nominal GDP in millions of U.S. dollars	10,116	11,941	14,197	16,977	22,231	Prelim.

Sources: Uzbek authorities; and Fund staff estimates.

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

2/ Public Sector refers to general government.

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

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IMF Executive Board Concludes 2008 Article IV Consultation with the Republic of Uzbekistan

On [July -- 2008], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Uzbekistan.[1]

Background

The Uzbek economy has performed well in recent years. The favorable external environment and improvements in macroeconomic policies resulted in high growth rates, large current account surpluses, a significant decline in the debt burden, and a more than quadrupling of foreign exchange reserves from 2003 to 2007.

Growth accelerated in 2007. Official statistics indicate that GDP grew by 9½ percent, driven by trade, transport and communications, industry, and services. Available evidence suggests private investment rose as enterprises benefited from lower taxes and moderate improvements in the business environment. Consumption was supported by higher wages and salaries and increased remittance inflows.

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

The external position strengthened further. The current account surplus rose to 19 percent of GDP in 2007, aided by fast-growing remittance inflows, booming prices of commodities (gold, copper, and energy), and buoyant partner demand for Uzbek exports. Foreign direct investment inflows picked up, but from a low base. The import cover of gross official reserves rose to 10 months by end-2007. External debt (mostly public) fell further to 17½ percent of GDP.

Inflation continued to be high in 2007. Increases in administered prices pushed up the price index, while the large external surplus and sharp increases in wages and salaries contributed to inflationary pressures. The authorities responded, including by adopting a tighter-than-budgeted fiscal stance, tightening monetary conditions in late 2007, and reducing the pace of nominal depreciation of the sum. Fund staff estimates of the CPI (based on the authorities' raw data) indicate a pick up in inflation during 2007 of only ½ percentage point to 12 percent.

Despite the tightening of monetary conditions later in the year, the monetary stance was accommodative for much of 2007. Broad money growth rose to 46 percent by end-2007, as the sharp increase in net foreign assets was only partially sterilized by the accumulation of deposits in the Fund for Reconstruction and Development and the use of monetary policy instruments. Monetary conditions were tightened aggressively at year end and broad money growth slowed to 39 percent by March 2008.

Fiscal policy was prudent and the outcome better than budgeted. The augmented fiscal surplus remained unchanged from 2006 at about 5 percent of GDP, compared with a budgeted deficit of 1 percent of GDP. The impact of tax cuts and higher wage and salary expenditures was offset by increased revenues—from higher international commodity prices, VAT collections, and social security contributions—and a continued decline in public investment.

Structural reforms progressed further in 2007. Most importantly, there was a concerted effort to increase minimum bank capitalization; treasury modernization and tax reforms continued; and the restructuring of "shirkats" into private farms was completed. Uzbekistan moved up slightly in the World Bank's *Ease of Doing Business* ranking. However, rankings for activities such as trading across borders, protecting investors, and dealing with licenses declined.

Executive Board Assessment

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

Uzbekistan: Selected Economic Indicators (2003–07)

	2003	2004	2005	2006	2007 Prelim.
GDP in US $ million	10,116	11,941	14,197	16,977	22,231
	(Annual percentage change)				
Production and prices					
Real GDP	4.2	7.7	7.0	7.3	9.5
Consumer price index (e.o.p) 1/	7.8	9.1	12.3	11.4	11.9
GDP deflator 2/	26.7	15.7	21.4	21.5	24.0
Producer price index (e.o.p) 2/	27.4	26.5	28.2	24.0	10.8
	(In percent of GDP)				
General government 3/					
Total revenue and grants	33.4	32.2	30.8	34.4	35.6
Total expenditure and net lending	33.9	32.1	31.1	30.9	31.1
Overall balance (-=deficit) 4/	0.1	0.6	1.2	5.2	5.1
	(Annual percentage change)				
Monetary Indicators					
Reserve money	26.7	38.7	87.5	36.5	44.9
Broad money	27.1	47.8	54.3	36.8	46.1
Velocity of average broad money (level)	10.5	9.5	8.4	7.6	7.3
	(In million of U.S. dollars, unless otherwise specified)				
External sector					
Export of goods and services	3,775	4,836	5,416	6,390	8,991
Import of goods and services	3,097	3,927	4,101	4,668	6,736
Current account	881	1,215	1,949	2,933	4,267
In percent of GDP	8.7	10.2	13.7	17.3	19.2
Gross international reserves	1,659	2,146	2,895	4,459	7,413
In months of next year imports	5.1	6.3	7.4	7.9	10.2

Sources: Uzbek authorities; and Fund staff estimates.
1/ Based on authorities' source data and Fund staff calculations using international methodology.
2/ Official estimates.
3/ Including the Fund for Reconstruction and Development.
4/ Based on below-the-line financing data.