SM/93/259

CONTAINS CONFIDENTIAL
INFORMATION

December 20, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Republic of Uzbekistan - Staff Report for the 1993 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1993 Article IV consultation with the Republic of Uzbekistan, which is tentatively scheduled for discussion on Friday, January 21, 1994. A draft decision appears on page 18.

Mr. Kapur (ext. 38732) or Mr. Justice (ext. 35349) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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 Commission of the European Communities (CEC), and the Organisation for Economic Cooperation and Development (OECD), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF UZBEKISTAN

Staff Report for the 1993 Article IV Consultation

Prepared by Staff Representatives for the 1993 Consultation with Uzbekistan

Approved by John Odling-Smee and Anupam Basu

December 16, 1993

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I. Introduction

Uzbekistan became a member of the Fund on September 21, 1992, with a quota of SDR 133 million, which was raised to SDR 199.5 million pursuant to the Ninth Review. The first Article IV consultation discussions with Uzbekistan were held during the period October 12-November 1, 1993. 1/ The discussions followed three earlier missions to Uzbekistan in 1993, in January, May, and July. The Uzbek representatives were Mr. Hamidov, First Deputy Prime Minister, Mr. Mulladzhanov, Chairman of the Central Bank of Uzbekistan (CBU), Mr. Bakibaev, Minister of Finance, Mr. Azimov, President of the National Bank, Mr. Rustambekov, Deputy Minister for Foreign Economic Activity, Mr. Nasirov, Deputy Chairman, State Committee for Forecasting and Statistics, Mr. Goforov, Chairman of the Committee for State Property and Privatization, and other senior government officials.

The Article IV consultation discussions took place against the background of a breakdown of talks between Uzbekistan and Russia on the formation of a new ruble area, growing economic and financial imbalances in Uzbekistan and considerable uncertainty about the direction of economic policy. With the failure to reach a workable agreement on the ruble area, the Uzbekistan authorities introduced coupons as a parallel currency on November 15, 1993, and announced their intention to introduce a fully-fledged national currency in early 1994. 2/ While the authorities have expressed interest in possible Fund assistance under the Systemic Transformation Facility, discussions on a Fund-supported program have not advanced substantially, and progress will require a significant change in the present stance and direction of economic policies, as well as improved access of Fund staff to essential economic and financial data. Extensive technical assistance has been provided to Uzbekistan by the Fund, for strengthening the operations of the CBU, the Ministry of Finance, the Central State Taxation Board and the State Committee for Forecasting and Statistics. The provision of technical assistance to Uzbekistan is discussed in Appendices I and III.

The World Bank approved a US$21 million technical assistance loan on October 7, 1993. This loan is intended to support the development of institutional capacity within the Ministry of Labor, the Committee for State Property and Privatization and the CBU. Other projects currently under consideration by the World Bank include a rehabilitation loan for the cotton sector, an oil and gas sector project, and a human resources development

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1/ The mission was headed by Mr. Kapur (EUR II), and included Mr. Justice and Mr. Horton (both EUR II), Ms. Calika (PDR), Mr. Ruggiero (FAD), and Ms. Baker (Assistant, EUR II). Mr. Szalkai, the IMF Resident Representative in Tashkent, also participated in the discussions.

2/ This report reflects the situation in Uzbekistan as of the introduction of sum coupons in mid-November 1993. In light of the latest developments in Uzbekistan, a supplement to this staff report will be issued prior to the Board meeting.

project. 1/ Uzbekistan recently became a member of the IFC, which is expected to promote the formation of private financial institutions and to help the authorities work out a policy on foreign investment.

II. Economic Developments in 1992 and 1993 2/

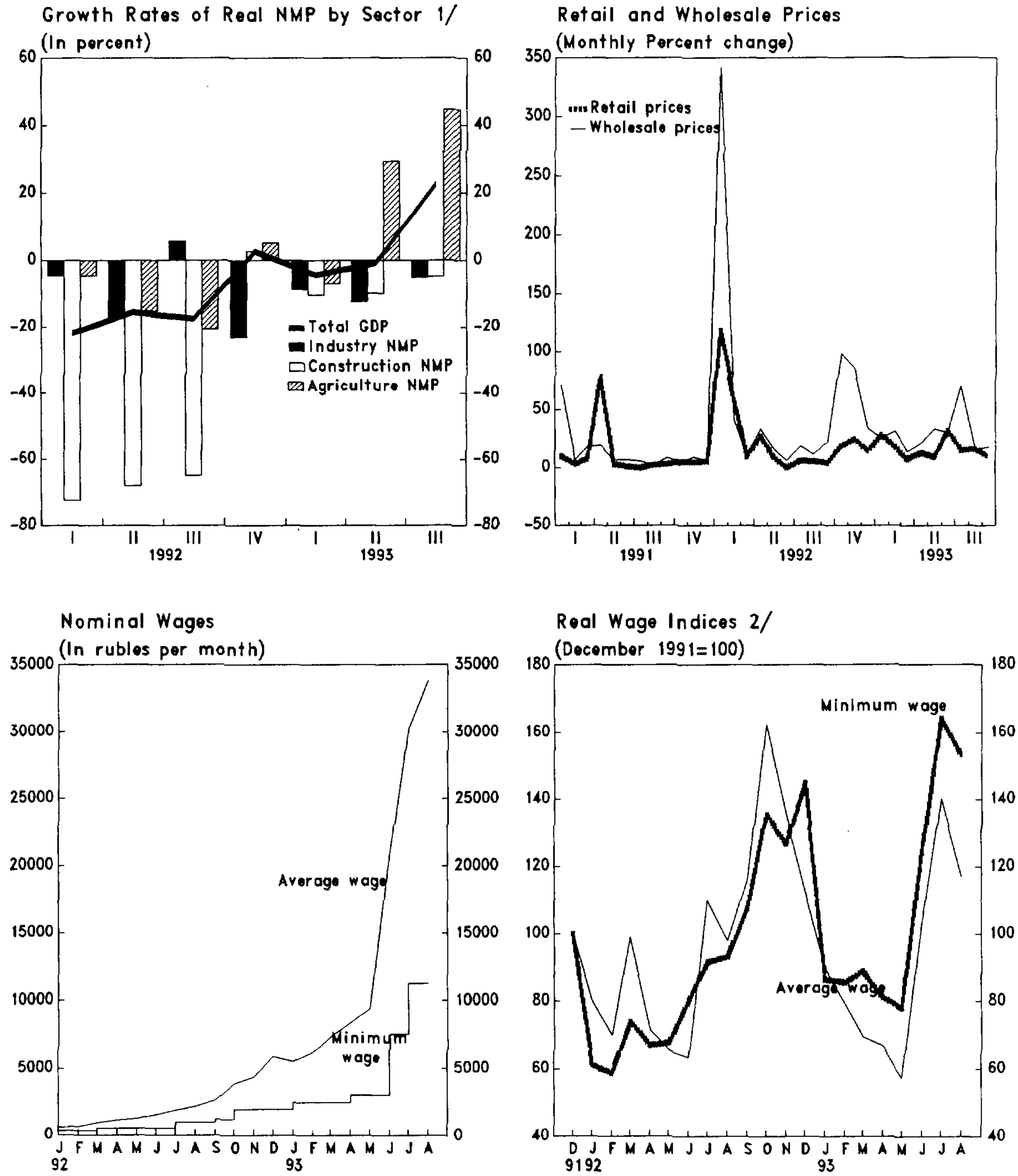
Uzbekistan is endowed with substantial natural resources, including significant reserves of petroleum, natural gas, and coal, as well as a considerable potential for hydroelectric power. The country is the eighth largest producer of gold in the world and has significant deposits of other precious metals. Uzbekistan is the world's fourth largest producer of cotton, which accounts for about 25 percent of net material product (NMP). Other important crops are grains, vegetables and fruit, although locally produced grain satisfies only one-quarter of consumption. Industrial production is based largely on the processing of agricultural materials and the manufacturing of machinery linked to the agricultural sector.

The economy of Uzbekistan has suffered serious setbacks since independence, partly due to large macroeconomic shocks from increases in the cost of imported energy products and from disruptions to traditional trade and payments links (Chart 1). As in other Soviet republics, production and trade were managed centrally, through quotas, state orders, licenses, and regulated prices. This system is largely intact in Uzbekistan, as the Government has attempted to move only partially to a market economy since independence, while maintaining many of the structures and institutions of the former regime, as well as an interventionist policy orientation. The economy continues to be managed on the basis of a national economic plan, while strategic sectors remain under state control. Monetary and fiscal policies have tended to be reactive. The Government has sought to dampen the impact of the decline in the terms of trade on real incomes and employment through widespread subsidization of consumption and output.

1/ Uzbekistan's relations with the World Bank Group are discussed in Appendix II. The European Bank for Reconstruction and Development has been working with the Government of Uzbekistan to reach agreement on a number of private sector development projects, including a US$60 million private sector development credit, to be administered on a revolving fund basis by the National Bank.

2/ The staff have encountered considerable difficulty in making a full assessment of current economic developments in Uzbekistan. Access to data on the budget, state orders system, external transactions and foreign currency and gold reserves has been limited, and the staff has been forced to rely on its own estimates to complete the balance of payments, monetary and fiscal accounts. The economic and financial data that have been provided by the authorities are often contradictory and unreliable. The coverage of this report is therefore less comprehensive than for many other FSU states and the information provided should be regarded as indicative and subject to higher-than-normal margins of error.

Chart 1
UZBEKISTAN
SELECTED REAL SECTOR INDICATORS, 1991-93



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

1/ Quarterly change relative to the corresponding period of the previous year.
2/ Nominal wages deflated by retail prices.

Although these policies have been successful in tempering the fall in production, they have contributed to growing economic and financial instability. The underlying deterioration in economic conditions has become more marked since mid-1992. Inflation has accelerated (although widespread price controls have kept inflation below that in Russia), the value of the cash ruble has depreciated rapidly, foreign currency and gold reserves have fallen sharply, domestic and external payments arrears have increased, shortages of essential commodities have become commonplace, and there has been a rapid build-up of short-term external debt.

1. Output, prices and investment

While the fall in output since independence has been less severe for Uzbekistan than for many other FSU states, the decline in GDP since 1991 can be attributed more to difficult external conditions than to conscious economic restructuring. Preliminary estimates suggest that output declined by 1 percent in 1991 and by a further 9.5 percent in 1992. In 1993, output is expected to remain flat due to a better than expected cotton crop.

An analysis of developments on the expenditure side of the national accounts is hampered by lack of data. The only component of aggregate demand for which reasonably reliable information is available is investment. Official estimates point to a fall of investment in real terms since 1991 of over 50 percent. The authorities expect investment to recover somewhat in 1994, with projects in mining, oil and gas, cotton and vehicle manufacture currently under consideration.

Price liberalization began in January 1992, in parallel with measures in Russia and other FSU states. At the retail level, prices of all but a few basic food and consumer goods and services were decontrolled. 1/ The quantity available for purchase of goods remaining under price control is rationed through a card system, except for bread. While administrative prices have been increased several times in 1992 and 1993--largely in response to budgetary pressures--retail price inflation has been only about two-fifths of wholesale price inflation. With the emergence of financing constraints and widespread shortages in mid-1993, retail price inflation has accelerated--in spite of widespread price controls--from about 528 percent in 1992 to an estimated 761 percent in 1993, although inflation was still far greater in Russia over the same period. Prices of products that have been removed from price control have not been exempt from administrative influence, as the Government has used prior approval requirements, advance notification conditions and restrictions on price margins.

1/ Bread, flour, macaroni, meat, vegetable oil, milk, tea, sugar, and soap remain subject to controls. Energy product prices that continue to be controlled include coal, gasoline, and electricity. Prices of certain utility services (heating, water, transport, communication) also are controlled.

The authorities have attempted to alleviate the impact of price increases by raising wages and pensions. The frequency and magnitude of increases of wages and pensions were greater in 1993: minimum wages and pensions were raised by 25 percent in January, by 20 percent in April, by 2.5 times on June 1, by 1.5 times on July 1, and by 20 percent on both September 1 and November 1. Since the July 1993 wage increase, any enterprise (public or private) that has not been able to meet the cost of raising wages in line with government guidelines, has had access to short-term government-guaranteed bank credit at rates of no more than 3 percent a year. For the June 1993 increase, enterprises were allowed to use 5 percent of their VAT debits towards the salary bill. Despite overall developments and substantial shifts in relative wage levels among sectors, there has been little change in either the structure or level of employment.

2. Government finances

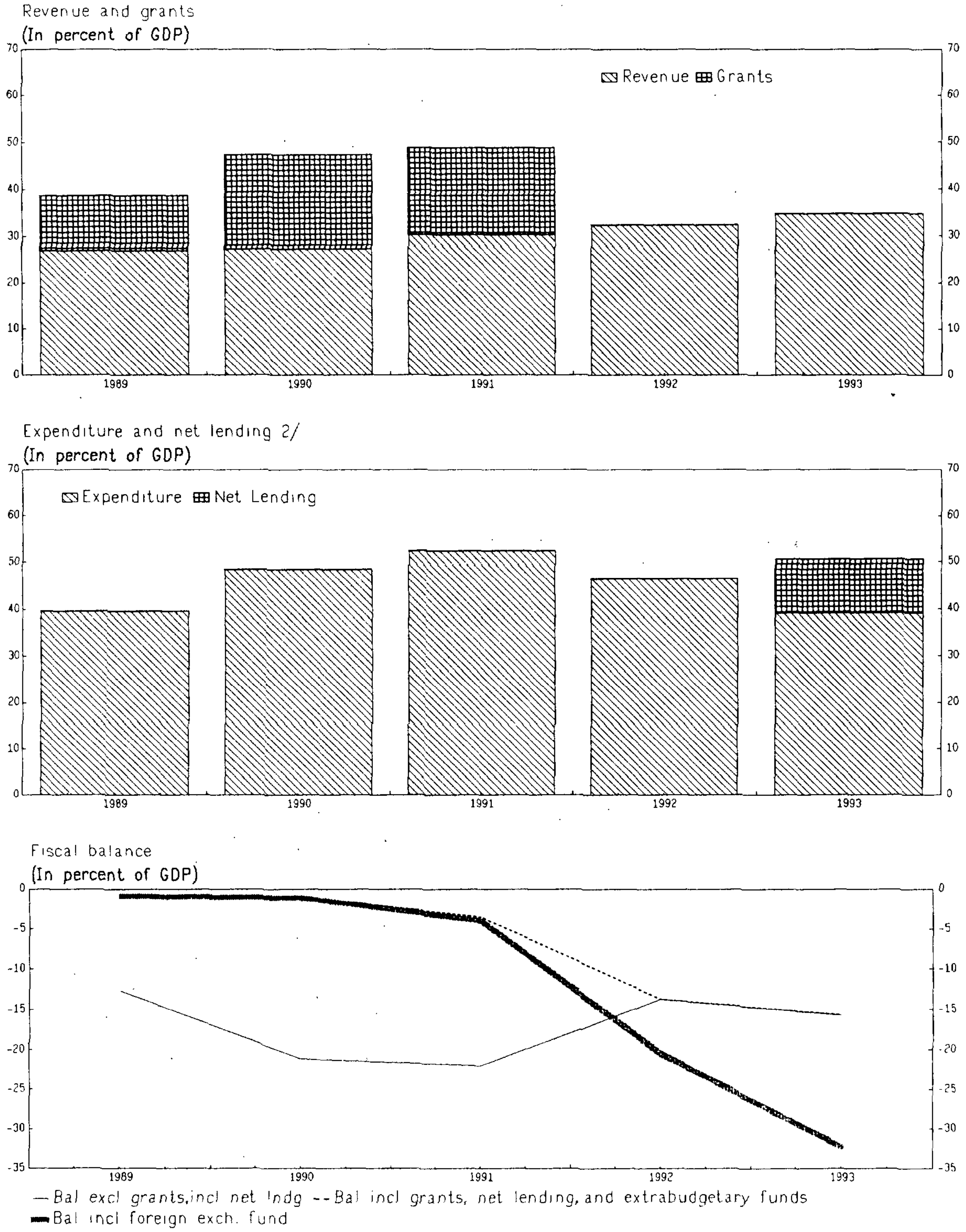
A deterioration in the Government's finances during 1993 has been influenced heavily by large-scale imports of foodstuffs that are provided at low prices to the population, by the loss of transfers from the Soviet Union, and by an erosion of the tax base due to numerous exemptions and concessionary rates for priority sectors and social groups. Higher import prices have not been passed on fully to consumers, but have been distributed among budgetary subsidies and transfers in rubles, extrabudgetary expenditures in foreign currency funds, and explicit subsidization (of foodstuffs) from the proceeds of cotton exports. While the official ruble budget is likely to show a deficit of only 5 percent of GDP in 1993, compared with 13 percent in 1992, the overall budget deficit is estimated to be considerably higher--about 32 percent of GDP, as compared with 20 percent in 1992--if account is taken of net lending, extra-budgetary funds and estimated foreign currency receipts and expenditures (Chart 2). 1/ The deficit has been financed by domestic bank borrowing and foreign borrowing, including borrowing against gold.

A substantial portion of revenues and expenditures are channelled through extrabudgetary (ruble and foreign currency) funds. The foreign currency funds were set up in 1992 and financed through a 60 percent surrender requirement (replaced by a 35 percent foreign exchange tax in May 1993) and through foreign exchange revenues from centralized exports. The Government received credits of about Rub 500 billion (11 percent of GDP) from the CBU in 1993, which it onlent to state enterprises. 2/

1/ The deficit would be even higher if implicit subsidies due to negative real interest rates and an appreciated exchange rate for external transactions were included.

2/ These loans have a two-year maturity, with interest rates of between 5 and 8 percent and were intended to replenish working capital that had been eroded due to inflation.

Chart 2
UZBEKISTAN
FISCAL INDICATORS, 1989-93 1/



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

1/ Budget estimates for 1993.

2/ Net lending in 1992 amounted to -0.4 percent of GDP.

As budgetary pressures increased in mid-1992, a number of changes were made to the tax code. The basis for the VAT was changed from a cash to an accrual basis and several new taxes and duties were introduced, including a 6 percent tax on material outlays and a 30 percent tax on depreciation allowances. In May 1993, the foreign exchange tax was introduced, retroactive to January 1993. 1/ The impact of these changes on revenues has been undermined, however, by erosion of the tax base and poor compliance with foreign currency tax regulations.

The key problem with the budget, however, has been on the expenditure side. While a cash management system has been successful in reducing budgetary expenditures in 1992 and 1993, some expenditures have been postponed (largely on investment and maintenance), while others were shifted to extrabudgetary funds. 2/ Priority has been given to spending on wages, social benefits, food subsidies, and medicines. Direct subsidies and transfers to households are estimated to represent over half of the total deficit, although the Government has sought to reduce the level of expenditures by eliminating a number of subsidies and targeting other expenditures through income testing.

3. Monetary and credit developments

Prior to the currency reform in Russia in July 1993, there were considerable constraints in conducting an independent, national monetary policy, due to the relative freedom of cross-border transactions in the ruble area. Although the ruble circulating in Uzbekistan was delinked from that circulating in Russia following the July reform, the CBU did not have full monetary independence, because Uzbekistan continued to share its currency (the pre-1993 ruble) with Kazakhstan, Armenia, Tajikistan and, until November 1, with Turkmenistan.

The primary objective of monetary policy in Uzbekistan has been to provide adequate credit to priority sectors on the basis of the credit resource planning method. Developments in money and credit, following a cash shortage in the first half of 1992, have been dominated by a large expansion in credit to the Government and to state enterprises; during this period, credit policy in Uzbekistan has been considerably looser than in Russia (Chart 3). Total bank and refinance credit increased at a faster rate than in Russia while Uzbekistan remained in the ruble area and have increased at an accelerated pace since July 1993. The structure of interest rates in the banking system is determined by CBU refinance rates, the maximum of which is 35 percent for the agricultural sector and 40 percent for industry and construction.

1/ The Government had frozen foreign currency earnings of exporters in January 1993.

2/ For example, price subsidies, other than for bread and flour, are provided through an extra-budgetary price stabilization fund established in 1993 and are no longer reflected in the official budget.

With price liberalization and associated increases in wages in early 1992, Uzbekistan's cash requirements increased sharply, but were not accommodated by increased cash shipments from the Central Bank of Russia (CBR). In part because of a severe shortage of cash, credit policy was relatively restrictive in the first half of 1992. Tight conditions and difficulties with interstate payments led to arrears in wage payments, between domestic enterprises, and to other FSU states. The liberalization of prices in early 1992 also resulted in a sharp increase in the nominal transactions demand for money. This, combined with the impact of highly negative real interest rates on saving and the release of deposit compensation frozen since 1991, contributed to an increase in the ratio of cash to deposits from 17 to 35 percent between end-1991 and end-June 1992. 1/ At the same time, the income velocity of cash jumped sharply. From the third quarter of 1992, the cash shortage eased and cash shipments from the CBR subsequently exceeded cash issued by the CBU.

With relaxation of credit policy by the CBU in mid-1992, credit to the enterprise sector expanded by 97 percent of GDP in 1992 and by 72 percent of GDP in 1993. The rapid increase of credit was not matched, at first, by higher prices as administrative controls kept inflation in Uzbekistan well below that in Russia. Credit expansion instead contributed to a sharp fall in external reserves and a widening of the CBU's correspondent account deficit with the CBR. In early 1993, financing constraints and widespread shortages contributed to an increase in inflationary pressures. Credit policy has aimed at maintaining production and employment levels in the face of rapidly increasing wage and input costs. Credit expansion has been fed by refinance credits from the CBU, overdrafts on the commercial banks' correspondent accounts and lack of enforcement of reserve requirements. In addition, the expansion of credit in 1993 partly reflected operations to monetize interenterprise arrears of Rub 35 billion in January and Rub 140 billion in April.

Although the maximum refinance rates of the CBU were increased to 35 percent for the agriculture sector and to 40 percent for other sectors in January 1993, only a small proportion of central bank lending is carried out at these rates. A large proportion of CBU credits carry rates of below 7 percent. The interest rate on refinance credits, along with a fixed margin, have determined the structure of lending rates in the banking system. Interest rates on savings deposits are set by the Cabinet of Ministers, and vary between 10 and 45 percent, depending on the maturity of the deposit. 2/ The introduction of interbank credit auctions in August 1993 marked a significant change of policy direction, although the

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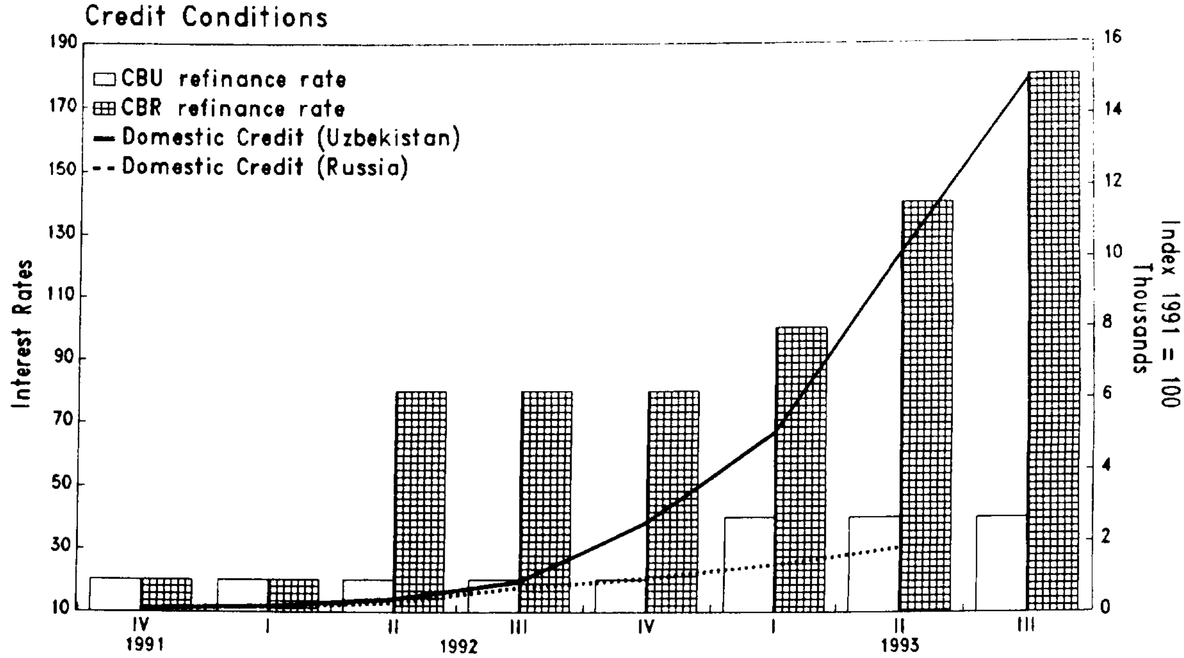
1/ The Savings Bank had compensated deposit holders for the erosion of the real value of their savings due to the January 1992 price reforms. This compensation had been frozen.

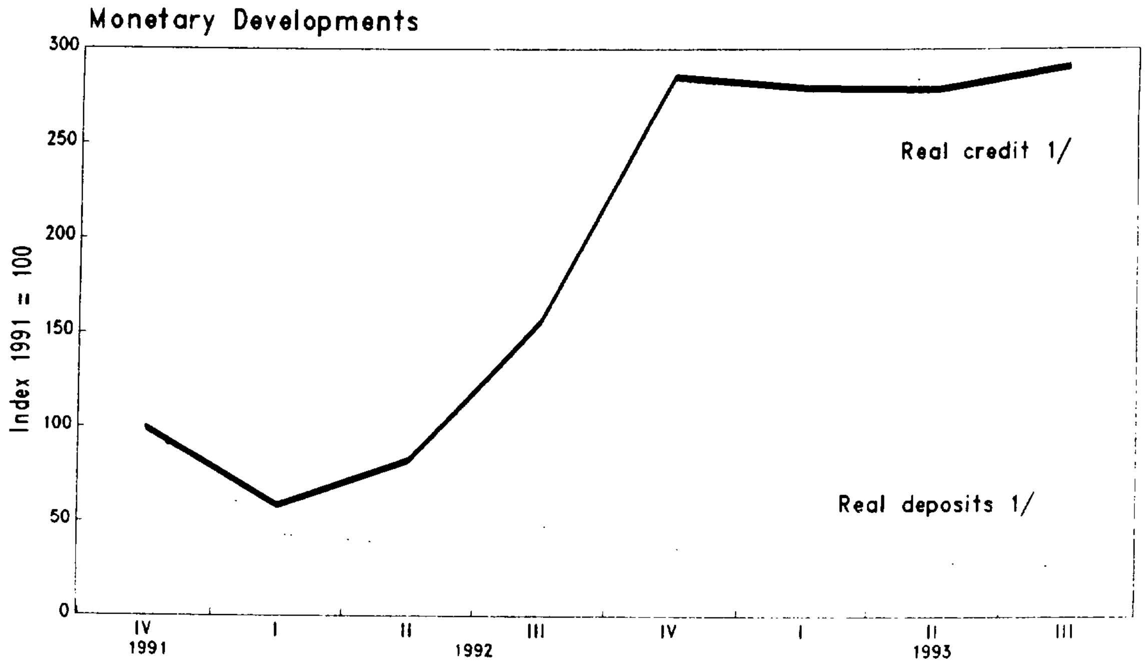
2/ With effect from August 1993, the Cabinet of Ministers established a time deposit with interest rates of between 85 and 90 percent. However, a household can make only a one-time cash deposit in excess of Rub 100,000.

Chart 3

UZBEKISTAN

MONETARY AND CREDIT CONDITIONS, 1991-93





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

1/ Deflated by the retail price index.

volume of sales has covered less than 5 percent of total credit. The rate of interest determined by the auction has varied between 80 and 95 percent. 1/

The CBR modified the system of correspondent accounts in mid-1992 to set fixed amounts of credit available for each ruble area central bank; previously, the CBR had provided credit without limit pending the settlement of ruble area trade. In line with this change, the CBR provided a credit of Rub 50 billion to Uzbekistan for 1992. This limit was exhausted in late 1992, and the deficit position on the CBU correspondent account with the CBR of Rub 57.3 billion at December 31, 1992 was converted into an interstate credit in 1993 (at Libor plus 4 percent). Another credit of Rub 125 billion was extended by the CBR in early 1993; however, only Rub 49 billion had been drawn as of October 31, 1993, and agreement on drawing the remainder of the credit has not yet been reached. 2/

The failure to agree on workable arrangements for the formation of a new ruble area in early November 1993 prompted Uzbekistan to introduce the sum coupon (to circulate in parallel with both old and 1993 rubles) on November 15 and to announce the introduction of a national currency in early 1994. 3/ An exchange rate of par subsequently was set for the coupon to both old and 1993 rubles; however, there are not yet rules regarding the conversion of pre-1993 rubles into coupons. 4/ According to the decree announcing the introduction of coupons, pre-1993 banknotes with Rub 5,000 and 10,000 denominations are no longer legal tender. However, wages and salaries continued to be paid partly in these 5,000 and 10,000 ruble notes. Each household was allowed to deposit up to Rub 200,000 in a bank account, from which funds could be used to make payments (funds can be withdrawn in small denomination notes, but these generally are not available). Deposits of over Rub 200,000 were required to be placed in noninterest bearing accounts that were frozen for 6 months. Confusion surrounding the conversion has caused many traders to refuse to accept coupons; most state shops have been closed throughout the transition, and the Government has suspended sale of foreign exchange.

1/ According to guidelines of the Cabinet of Ministers, the auction rate should not exceed 180 percent. Lack of competition and availability of low-cost credit resources from other channels have had a dampening effect on credit auction interest rates.

2/ Uzbekistan is reported to have received substantial shipments of new Russian rubles debited against its correspondent account, although the exact amount has not been confirmed.

3/ The latest developments following the introduction of coupons are described in a supplement to the staff report for the Article IV consultation.

4/ The authorities have viewed as equivalent the pre-1993 ruble and the 1993 Russian ruble. As such, the CBU's official exchange rate for the pre-1993 ruble since the July 1993 currency reform in Russia has been based on the Moscow interbank exchange rate (for the 1993 Russian ruble).

4. External sector

Few reliable data are available on the balance of payments. Estimates for 1991-1993 were pieced together by the staff from fragmentary information, as little information on certain current account transactions is available (transportation payments, etc.), and little or no detailed information has been provided to the staff on foreign currency and gold holdings, foreign investment, external credits, bilateral trade and payments agreements, debt and interenterprise arrears. The breakdown of traditional trading arrangements among FSU states and the movement toward world prices, especially for trade in petroleum products, has adversely affected Uzbekistan's trade position and led to a build-up of external debt. According to (rough) staff estimates, freely usable foreign exchange and gold reserves fell from over 2 months of import cover at end-1992 to less than 1 month of import cover at end-September 1993.

According to staff estimates, Uzbekistan should record a modest trade surplus with FSU states in 1993, compared to a deficit of about 9 percent of GDP in 1992 (Chart 4). 1/ The improvement is attributable largely to relatively weak imports, owing to the reduced availability of credit--including the suspension by Russia in 1993 of drawing on the technical credit--supply difficulties and disruptions to the payments system. Imports from the FSU fell from 39 percent of GDP in 1992 to 31 percent of GDP in 1993. There was also a sharp rise in exports as Uzbekistan utilized a higher proportion of noncotton exports to obtain essential imports from FSU states, and as cotton prices (FSU) were adjusted closer to international levels. 2/

The current account deficit on non-FSU trade increased from about 3 percent of GDP in 1992 to 9 percent in 1993, financed largely by gold-backed transactions (gold swaps, credits, etc.) and trade credits from Turkey and other countries. Uzbekistan's exports to non-FSU markets are estimated to be 17 percent lower in 1993 than in 1992, due partly to a decline in cotton export prices and partly to lower exports of other products. Imports from non-FSU countries in 1993 are estimated to be 29 percent higher than in 1992, reflecting, inter alia, a lease-buy arrangement for two planes by Uzbekistan Airlines and imports of goods formerly purchased from within the FSU. Other current account transactions

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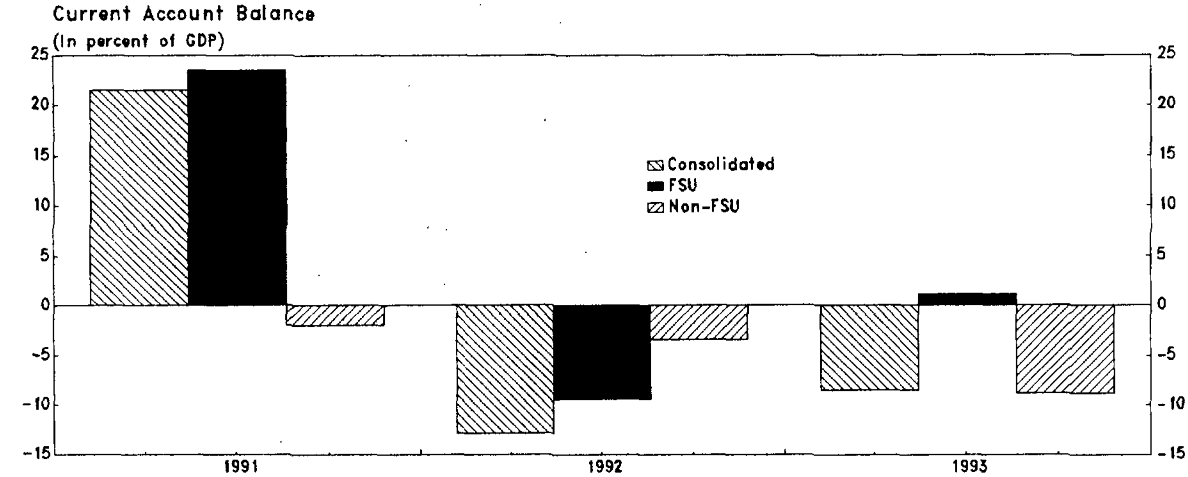
1/ Official data through the third quarter of 1993 show a surplus of Rub 132 billion. This does not match data on financing from the central bank, or data from other FSU states on their trade with Uzbekistan. Negative errors and omissions of Rub 403 billion during the same period suggest that import levels may be considerably higher than indicated by the recorded data.

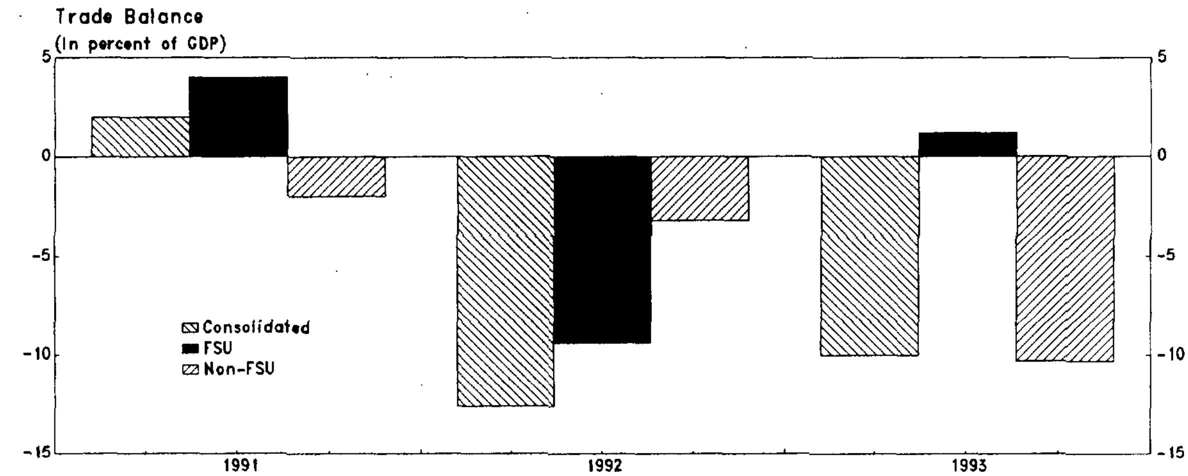
2/ Within FSU trade, there was a shift in the volume of exports to Russia (cotton) and to the other Central Asian countries, and away from Ukraine, Belarus and the Baltic countries.

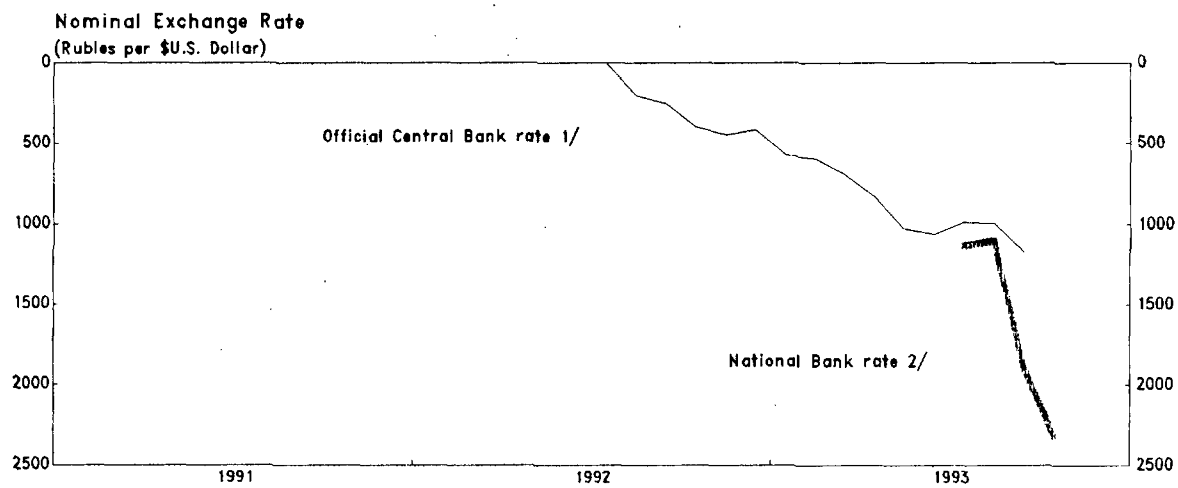
Chart 4

UZBEKISTAN

EXTERNAL ECONOMIC INDICATORS, 1991-1993







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

1/ Based on the Moscow Interbank rate. The exchange rate was fixed at 1.67 rubles per dollar until August 1992.
2/ National Bank for Foreign Economic Activity rate for commercial transact

in 1993 include non-FSU transportation payments and gains from gold swaps (US$118 million in 1993).

Claiming that past cotton reexports had made it a creditor, Uzbekistan did not sign the October 1991 Memorandum of Understanding on the foreign debt of the U.S.S.R., which would have committed Uzbekistan as jointly and severally responsible for the existing Soviet debt. In November 1992, however, Uzbekistan signed the "zero option" agreement, under which it ceded to Russia all rights and obligations in respect of the external assets and liabilities of the former Soviet Union. Based on available information, it is estimated that Uzbekistan had at end-1992 an outstanding stock of debt of US$167 million (4.5 percent of GDP) and that by end-1993, the stock of debt will reach about US$1.7 billion (20 percent of GDP). While debt service payments are estimated to be fairly low, they have risen from 2.2 percent of consolidated exports in 1992 to 6.8 percent in 1993. Almost all of Uzbekistan's external borrowing to date has been on commercial terms. 1/

Estimates of direct foreign investment in Uzbekistan are tentative. Although there are reports of over 800 joint ventures in the country, most investment has concentrated thus far on existing projects. Uzbekistan enacted a new foreign investment code in June 1991 to encourage foreign firms to establish joint ventures; a recent Presidential Decree encouraged and offered protection to foreign investment.

5. Trade and exchange regime

As under the Soviet regime, trade in Uzbekistan is dominated by a state orders system, which is implemented in conjunction with intergovernmental trade agreements and state plans for exports and imports. The Government is in the process of preparing a medium-term national economic plan, based on continuation of the existing system of centralized exports and imports. The plan covers 80-90 percent of CIS and non-CIS trade and relies on export and import controls (quotas, licenses, government administered stocks, administrative approvals, etc.) to protect domestic supply and balance trade.

The exchange rate generally has been maintained at an appreciated level, so that consumption has been subsidized. From August 1992, the official exchange rate of the CBU has been the rate determined by the CBR on the basis of the Moscow interbank exchange. The CBU rate applied to all official transactions, with the exception of sales and purchases of foreign currency by the National Bank for private nontrade transactions. Following the introduction of the Russian ruble in July 1993, the rates quoted by the National Bank for the old ruble diverged significantly from the official central bank rate, which was based on a rate for the 1993 ruble, in

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1/ Several gold swap operations and gold collateral loans in 1992 and 1993 are not reflected directly in the balance of payments owing to lack of information.

reflection of the authorities' view of the old ruble and 1993 ruble as equivalent. In addition to exchange measures identified as being maintained under Article XIV, Section 2, multiple currency practices subject to approval under Article VIII arise from this quotation of different exchange rates by the CBU and the National Bank, as well as from the spread between the buying and selling rates for foreign exchange at the National Bank.

6. Systemic reforms

State control remains pervasive in most sectors of the economy, through controls on distribution, prices, profit margins and exports. State orders continue to cover a large portion of planned output of important products, but have been reduced somewhat each of the past two years. 1/ Procurement prices are a fraction of world prices.

A privatization process started with adoption of a law on privatization in November 1991 and the establishment of a privatization committee in August 1992. Privatization of housing, small businesses and parcels of agricultural land has progressed rapidly. Privatization of shops, small service firms and light industry began in September 1992; by October 1993, over 40,000 entities had been sold or leased, generally to workers. The Government has announced its intention to begin in 1994 reform efforts in regard to large-scale enterprises. Privatization of larger enterprises has proceeded thus far on a discretionary basis. Nearly all government-owned housing has been sold or transferred; however, a formal real estate market has been slow to develop, reflecting restrictions and vagaries in property law. In the agriculture sector, the Government has worked to convert state farms into collectives, to sell livestock farms, and to distribute plots of land to families and private farmers. Reforms have not yet been directed at the supply, procurement or marketing systems for agricultural production. Progress in establishing a legal framework for private sector activity has been slow, as recent laws on property, private enterprise and foreign investment have been unclear and gaps in the legislation remain, such as the absence of an updated contract law and a law on intellectual property. Market entry, exit and operation are limited by overly discretionary regulation.

III. Policy Discussions

The Government believes that social and economic conditions in Uzbekistan dictate a more gradual and measured pace of economic adjustment and systemic change than that followed in Russia and other FSU states. The authorities cite two tenets that underlie their approach to reform. The first is a movement away from heavy dependence on production and export of

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1/ For example, the proportion of planned output of raw cotton that is subject to state purchase has been reduced from 95 percent in 1991 to 85 percent in 1992 and 80 percent in 1993.

cotton toward fuller exploitation of mineral and energy resources and industrial development, mainly through foreign investment. The second is provision of adequate food supplies and social benefits to the population, 50 percent of which is 19 years of age or younger.

The staff agreed that there should be an adequate social safety net and that the fuller exploitation of Uzbekistan's resource potential was desirable; however, staff cautioned the Government to implement its economic strategy within the context of tighter and more coherent budgetary and monetary policies that ensure low inflation and a strong currency. With the breakdown of talks in Moscow on the formation of a new ruble area, and the announcement of the introduction of a national currency in 1994, the staff sensed a growing realization among some policy-makers that there was no alternative to more coherent macroeconomic measures and accelerated systemic reform. However, it was not clear from the discussions whether there is a convergence of views within the Government on either the scope or the direction of reform, and the policy stance remains highly interventionist.

1. Money and credit

The staff stressed that the successful introduction of a national currency would require that appropriately supportive economic policies be put in place, notably in the form of credible anti-inflationary monetary and fiscal policies. While both government and central bank officials recognized that credit policy had been too loose in 1993, they attributed this mainly to seasonal financing of the cotton crop. As far as directed credits to enterprises were concerned, the authorities explained that these were needed to replenish enterprise working capital that had been eroded by inflation. The major argument put forward was the need to protect key sectors from adverse effects of higher costs.

CBU officials recognized that there was a need to tighten credit policies and indicated their intentions to provide a greater share of credit resources on market-related terms. In this context, CBU officials stated that they would reverse part of the recent expansion of refinancing credit, limit onlending through the Ministry of Finance to state enterprises, and provide a larger share of financing through credit auctions. The staff welcomed this apparent determination to strike out on a new path and noted that a key indicator of the tightness of credit would be a sharp rise in the CBU refinance rate, closer to rates set in an enlarged credit auction. All lending by the CBU, including to the Government, should be made at this higher rate, and the policy allowing automatic overdrafts on commercial banks' correspondent accounts at the CBU should be rescinded. The staff also urged the authorities to begin to implement past Fund recommendations regarding payments arrangements, banking supervision, and such monetary policy measures as transferral of foreign reserves and gold to the CBU (from the National Bank), removal of interest rate margins, and ending the policy of transferring Savings Bank resources to the CBU.

The authorities were cautious, however, about instituting any linkage between the central bank refinance rate, the rate charged to Government, and the interest rate determined at the auction. In particular, some officials believed that the policy of subsidized credits, particularly to agriculture, had resulted in a number of positive benefits and should be continued. In the discussions, the authorities showed little interest in the major Fund technical assistance recommendations relating to settlement of payments, but appeared receptive to recommendations concerning bank supervision.

The staff expressed concern regarding the large number of government agencies involved in the allocation of credit. No specific, credible conditions for enterprise reform have been attached to these credits--thus perpetuating soft budget constraints and delaying reform. The authorities acknowledged that enterprises should be subject to greater financial discipline and are currently in the process of identifying loss-making enterprises for restructuring or liquidation. The staff noted that establishing market prices would have a key role to play in the restructuring of the state enterprise sector.

2. Government finances

Although the authorities did not agree that excessive borrowing by the Government had contributed to the upsurge of inflation, the Government recognized that the ability of the Ministry of Finance to evaluate and influence macroeconomic policy and to formulate corrective measures needed to be enhanced. In this context, the staff again urged the Government to improve the transparency and administration of the budget by:
(a) abandoning the concept of a separate foreign exchange budget;
(b) bringing the major extrabudgetary funds under direct government supervision and refraining from establishing additional funds; and
(c) broadening and simplifying the tax system to minimize distortions.
Although the authorities--in particular representatives of the Ministry of Finance--did not respond immediately to these suggestions, they indicated that a consolidated (ruble-foreign exchange) budget would be prepared for 1994.

Staff noted that prospects suggested a further worsening of government finances in 1994, unless there was a clear change of policy direction. 1/ Without such a change, expenditure policy will continue to reflect the authorities' intention to avoid social instability through generalized subsidies and social benefits, while tax incentives and bias against exports and growth will continue to erode the tax base. During the discussions, the authorities did not clarify how the 1994 deficit would be financed. The availability of domestic bank financing likely will be limited by erosion of the savings base. The authorities stated that the deficit could be financed

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1/ A draft of the budget had been prepared by the Ministry of Finance, but the authorities were not ready to discuss the details of the budget with the staff.

by trade credits (from Turkey and other bilateral creditors) and sale of gold. The staff expressed serious misgivings with this approach and questioned the appropriateness of financing high levels of consumption (and subsidies) through foreign borrowing and gold sales.

3. Structural reforms

The authorities have expressed their determination to transform Uzbekistan into a modern, market-based economy and pointed to the steps taken to liberalize prices, privatize state assets, reform the financial system and introduce private property and new foreign investment legislation. The authorities indicated, however, that in the absence of an entrepreneurial base, it was necessary to maintain state intervention and control throughout the economy. At the same time, progress in liberalizing prices must account for social impacts on the young and poor and for the position of monopoly producers. The staff cautioned the authorities against attempts to use administrative price controls as an element of social policy; these were undermining the Government's ability to implement a macroeconomic stabilization policy.

4. External policies

The authorities noted that some steps had been taken to liberalize interrepublican and non-FSU trade flows, although most important traded commodities remain subject to controls. The authorities indicated that intergovernmental agreements now are based on international prices for commodities, with export and import volumes adjusted to ensure balanced trade. The staff noted that a move to world prices for trade, unless accompanied by institutional and price reforms, would put further pressures on the present structure of subsidies. 1/ The staff also expressed concern about the anti-export bias of the exchange and trade regime and stated that Uzbekistan's interests would be served best by a rapid elimination of export quotas and licenses, as well as by the removal of the foreign currency tax.

Uzbekistan has vast potential for economic growth over the medium-term, deriving not only from cotton and gold production, but also from reserves of oil and gas and other precious metals. 2/ These resources, and a relatively well-skilled population, could form the basis for industrial development. The fullest development of Uzbekistan's potential urgently is needed to maintain and improve the living standards of the country's young and rapidly growing population. Structural impediments to efficiency and growth must be eliminated, and resources mobilized for investment, including

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1/ Due to subsidies, access to credit and distorted prices, Uzbek producers do not receive the benefits of, or are insulated from, international prices.

2/ Owing to insufficient data and the unclear policy stance of the Government, a quantified medium-term outlook is not presented.

domestic savings and long-term external capital. In order to provide proper incentives for mobilization of these resources, however, economic and financial conditions in Uzbekistan must be stabilized, and appropriate structural policies must be put into place. The present policy of borrowing on commercial terms and seeking investment on a project-by-project basis to support a national plan is neither sustainable nor likely to result in a level of economic growth sufficient to raise living standards.

5. Technical assistance

Extensive technical assistance has been provided to Uzbekistan by the Fund in the areas of tax policy and tax administration, expenditure policy and reform, budgetary control, monetary policy, banking supervision, payments arrangements and statistics. This assistance is discussed in Appendices I and III. To date, most of the technical assistance recommendations made by the Fund staff have not been implemented. Actions to implement Fund technical assistance recommendations are urgently needed and should also be considered as a demonstration of the Government's willingness to take the necessary economic policy measures.

IV. Staff Appraisal

The economic potential of Uzbekistan is considerable--particularly the country's position as a major cotton and gold producer. This potential has encouraged the authorities to believe that they can afford to keep the existing economic structure intact, including maintaining fiscal subsidies and credits, widespread administrative controls, and price and profit regulations, while protecting social stability through the provision of low cost consumer goods and services. The budgetary costs and credit expansion that have resulted, however, have been very large and inimical to macroeconomic stability. In addition, the Government has subsidized consumption through an appreciated exchange rate and has relied on external borrowing (on commercial terms) and drawing on gold holdings as sources of financing.

The staff regards this approach as having no chance of success in bringing about sustained economic growth. In view of Uzbekistan's young and rapidly growing population, policies should be directed at raising savings, rather than preserving current consumption, to increase investment and future growth. Failure to reduce state intervention and impose hard budget constraints on enterprises will delay movement to market-based investment decisions, while prolonging misallocation of resources and perpetuating inefficiencies of central planning. The Uzbek economy needs substantial capital for modernization and diversification; this capital will not be forthcoming, either domestically or from abroad, unless macroeconomic stability is attained. To attain stability, reforms must be implemented within the context of more coherent budgetary and monetary policies that ensure low inflation and a strong currency. The costs of generalized subsidies and credit expansion have contributed to inflationary pressures and growing instability. This instability has combined with uncertainty in regard to trade and monetary relations with other FSU states and concerning the future direction of structural reform to place in jeopardy the Government's economic objectives.

The Government's economic reforms therefore have reached a critical stage, and policies urgently need to be reoriented. In this context, it is regrettable that the authorities have not made greater use of the advice of Fund staff to design a comprehensive program of adjustment and reform. At the present time, however, there appears to be a growing awareness among some Uzbek officials that fiscal and monetary policies need to be tightened, and that a more coherent approach to stabilization is required. The forthcoming introduction of a national currency and adoption of the 1994 budget present the authorities with opportunities to demonstrate a new commitment to strong and credible adjustment policies.

The staff is concerned that the Government's introduction in November 1993 of coupons, in parallel with the circulation of pre-1993 rubles and the Russian ruble and without clear conversion rules, has done little to bolster confidence. Accordingly, the staff has advised the Government to set immediately clear rules for the use of the coupon as a transitional currency and to proceed with preparations for the introduction of a national currency as rapidly as possible. The Fund has provided technical assistance to support these preparations. The staff has advised the authorities to introduce the national currency on the basis of a unified, floating exchange rate, a well-functioning foreign exchange market, and full current account convertibility. To deepen the foreign exchange market, the Government should: reduce the proportion of exports and imports covered by the centralized trade system; unify the exchange rate; replace the tax on foreign currency receipts with a surrender requirement; transfer official foreign exchange reserves to the CBU; and establish regular foreign currency auctions. The number of banks authorized as foreign exchange dealers should be increased and the monopoly position of the National Bank over foreign currency transactions reduced substantially.

The staff believes that efforts are needed to liberalize trade, including a phasing-out of centralized exports and imports and elimination of export quotas and licenses. A sustainable improvement in the balance of payments (and, for that matter, current account convertibility) requires that distortions caused by quotas and licenses be eliminated and dependence on restrictive bilateral agreements reduced.

The successful introduction of a strong national currency will require implementation of supportive macroeconomic policies and discontinuation of restrictive trade and payments policies. The Government's budget deficit (including extrabudgetary funds) will need to be cut sharply and recourse to central bank financing reduced to a level consistent with a rapid lowering of inflation. For effective control over government finances, all extra-budgetary funds and foreign currency expenditures must be consolidated into a single budget. The staff is concerned that frequent changes in tax rules, differentiated tax rates and widespread exemptions increase uncertainty about the Government's polices and erode the tax base, while distorting production and encouraging rent seeking.

The first priority of any stabilization program will need to be a sharp reduction in the growth of central bank credit consistent with a substantial lowering of inflation. The refinance rate of the CBU will need to be raised substantially and brought closer to levels resulting from an enlarged credit auction, with all preferential rates of interest abolished and remaining subsidies provided directly through the budget. Without measures to strengthen budget constraints in the public and enterprise sectors, including through restructuring and privatization, however, the desired impact of a rise in interest rates on credit growth and inflation may not be achieved. Distress borrowing by enterprises to finance the increase in debt service may lead to further credit growth, inflation and depreciation of the currency unless steps are initiated to restructure the enterprise (and banking) sector.

The slow pace of reform in the state enterprise sector therefore remains a difficult, but critical challenge for the Uzbek authorities. Enterprises generally have been insulated from the impact of market forces by transfers from the CBU, through the banking system or the budget. The staff understands that there may be a need for temporary financial assistance for enterprises adjusting to a new market environment, however, this assistance would need to be in line with an objective of macroeconomic stabilization and within a framework that provides appropriate incentives to improve efficiency, for example, by replacing directed credits with budgetary transfers that would be phased-out and made conditional on restructuring plans.

The progress made so far in creating a market-based economy in Uzbekistan needs to be advanced much further. Further steps now must be taken to liberalize effectively prices at all levels of production and trade, specifically, through elimination of administrative intervention--for example, in the form of controls over price and profit margins. The system of generalized price subsidies must be replaced with an adequate and carefully targeted social safety net. Although a start has been made in the phasing out of certain state orders, this process needs to be accelerated significantly with a view to the rapid elimination of the state orders system.

On other structural reforms, commendable progress has been made by the Government in the privatization of housing, agricultural land, small enterprises and retail trade. However, the method of privatization emphasized to date--the creation of joint-stock companies and transfer of shares to existing management and workers--is not sufficiently broad-based. In the enterprise sector, a comprehensive program is needed to define the speed and nature of sale of state assets. Such a program would be developed in collaboration with the World Bank and other agencies and would allow the authorities to tailor the various methods of asset sale (vouchers, auctions, joint-ventures, etc.) to the size and type of enterprise. Regardless of the method chosen, the state would relinquish control over most of the enterprises.

The Uzbek authorities need to change significantly not only the stance of economic policies, but also the institutional mechanisms for the implementation of such policies, before progress could be made toward formulating a comprehensive program that could be supported by the use of the Fund's resources. The Fund staff is prepared to continue to work with the Government to put together such a program; however, further steps in this direction would need to be preceded by a clear demonstration of the Government's willingness to take the necessary economic policy actions and to make available the necessary information to the staff. The Government's actions in regard to implementation of Fund technical assistance recommendations will be an important measure of this willingness. Finally, given the generally poor quality of Uzbekistan's macroeconomic statistics, it is important for the authorities to move quickly to improve the statistical base for economic analysis and policy-making.

The authorities continue to maintain exchange restrictions under Article XIV, including restrictions arising from the centralized allocation of foreign exchange for imports, limitations on availability of foreign exchange for business and private travel, and restrictions on payments for other current international transactions with respect to invisibles. 1/ The staff encourages Uzbekistan to apply these restrictions in a liberal manner and to eliminate them as soon as possible. A multiple currency practice subject to approval under Article VIII arises from the CBU's continued use of the Moscow interbank rate for official transactions. This rate differs from the rate used by National Bank for commercial transactions. A second multiple currency practice subject to approval under Article VIII arises from the spread between the buying and selling rates of the National Bank. In the absence of immediate measures to rectify these or of a clear timetable for their elimination, the staff does not recommend approval.

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

1/ The staff is seeking clarification from the authorities on a number of other measures which may involve Fund jurisdiction, including: (1) recent developments in the use of Russian ruble banknotes, pre-1993 ruble banknotes, and coupons in Uzbekistan; (2) external payments arrears; (3) the rules with respect to nonresident bank accounts; (4) Uzbekistan's system of correspondent accounts with other FSU members; and (5) bilateral payments agreements maintained by Uzbekistan with Fund members.

Proposed Decision

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

1. The Fund takes this decision relating to Uzbekistan's exchange measures subject to Article VIII, Section 3 and in concluding the 1993 Article XIV consultation with Uzbekistan, in the light of the 1993 Article IV consultation with Uzbekistan conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Uzbekistan maintains restrictions on payments and transfers for current international transactions, described in SM/93/259, in accordance with Article XIV, Section 2, except that the multiple currency practices arising from the divergence between the official rate and the rate quoted by the National Bank for Foreign Economic Activity, as well as from the spread between the buying and selling rates quoted by the National Bank for Foreign Economic Activity, are subject to approval under Article VIII, Section 3. The Fund encourages Uzbekistan to apply the remaining restrictions in a liberal fashion and to eliminate them as soon as possible.

Table 1. Uzbekistan--Selected Economic Indicators, 1990-93

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

	1990	1991	1992	1993 Est.
Nominal GDP (in billions of rubles)	32	62	417	4,617
Real GDP	4.3	-0.9	-9.5	--
GDP deflator	0.3	94	649	1,007
Exchange rate (in rubles per US$)				
End-of-period	0.56	1.67	415	1,569
Period average	0.59	1.75	222	999
Retail prices				
End-of-period	3	169	787	867
Period average	4	105	528	761
Wholesale prices				
End-of-period	7	311	2,688	1,033
Period average	...	147	1,419	1,128
Minimum wage (Rub/month)				
End-of-period	...	200	2,000	16,200
Period average	...	70	1,013	8,575
Average wage (Rub/month)	...			
End-of-period		460	5,919	61,387
Period average	241	346	2,263	26,414
Fiscal accounts (in percent of GDP)				
Total revenues and grants	44.9	49.1	33.5	34.7
Total expenditures and net lending	46.1	52.7	46.5	50.5
Fiscal Balance (deficit -)	-1.1	-3.6	-13.0	-15.7
Monetary and financial sector 1/				
Banking system credit to the economy	...	...	724.1	794.7
Liabilities of the banking system	...	...	257.4	772.9
Exports				
Interrepublican (in billions of rubles)	8	19	123	1,496
Foreign (in millions of U.S. dollars)	...	677	869	723
Imports				
Interrepublican (in billions of rubles)	12	17	162	1,440
Foreign (in millions of U.S. dollars)	2	1,386	929	-1,200
Trade Balance				
Interrepublican (in billions of rubles)	-4	2	-39	56
Foreign (in millions of U.S. dollars)	-1	-709	-60	-477

Sources: Data provided by the authorities and staff estimates.

1/ Percentage change relative to liabilities of the banking system at the beginning of the period.

Table 2. Uzbekistan: Financial Operations of the Central Government, 1991-93

(In billions of rubles)

	1991	1992	1993 1/			
			QI	QII	QIII	QIV Est.
Total revenue and grant	30.2	139.8	167.1	505.1	1,007.8	1,603.8
Total revenue	18.8	139.8	167.1	505.1	1,007.8	1,603.8
Current revenue	18.8	139.8	167.1	505.1	1,007.8	1,603.8
Taxes on incomes and profits	5.6	35.3	40.5	121.1	277.0	470.0
Corporate income tax	3.8	23.9	29.4	93.8	208.9	330.9
Individual income tax	1.8	11.4	11.1	27.3	68.1	139.1
Social security contributions	--	--	2.8	10.7	31.1	69.1
Property tax	--	0.7	1.1	3.4	6.2	8.2
Taxes on domestic goods and services	6.1	51.2	58.2	174.0	346.5	534.9
Value added tax	--	38.4	51.3	156.2	316.2	491.2
Excises 3/	--	9.5	6.4	16.4	28.0	40.4
Turnover and sales taxes	6.1	3.3	0.5	1.4	2.3	3.3
Taxes on interrepublican and international trade	0.2	4.7	14.2	26.8	52.6	75.6
Other taxes and non-tax revenue	6.9	47.9	50.3	169.1	294.4	446.0
Of which:						
Revenue from cotton marketing	--	29.3	27.3	85.6	143.8	241.8
Transfers from extrabudgetary funds	0.4	8.9	3.1	9.2	15.3	...
30 percent amortization deduction	--	--	3.7	10.7	18.0	25.0
6 percent resource payment	--	--	10.6	34.9	74.2	107.2
Domestic sales of precious metals	--	--	0.4	7.2	5.2	9.7
Capital revenue	--	--	--	--	--	--
Union transfers and other grants	11.4	...	...	...	...	...
Total expenditures and net lending	32.4	193.9	200.6	557.8	1,360.0	2,330.0
Total expenditure	32.4	193.9	155.6	429.7	981.7	1,805.0
National economy	5.9	20.9	22.5	58.4	145.1	232.8
Socio-cultural projects	9.2	70.8	48.5	149.9	377.5	693.7
Education	5.3	45.3	30.9	97.1	234.9	442.7
Health and sports	2.7	20.9	13.8	41.9	107.4	196.6
Social security and welfare	0.8	1.6	1.2	3.4	10.4	13.5
Culture, mass media and science	0.4	3.0	2.6	7.5	24.8	40.9
Foodstuff consumer subsidies	3.3	26.0	23.1	77.4	119.7	196.4
Other subsidies and transfers to population 2/	5.4	22.4	10.7	26.4	69.6	163.9
Non-food subsidies	0.2	4.5	1.1	3.9	9.5	44.1
Services	0.1	8.7	6.8	14.5	47.3	96.3
Family allowances	3.8	6.6	2.6	7.0	10.7	19.0
Other	1.3	2.6	0.2	1.0	2.1	4.5
Defense, public order and safety	0.2	11.7	25.8	48.3	113.1	207.4
State authorities and administration	0.3	2.8	2.3	7.5	22.9	46.3
Other expenditures	8.1	39.3	22.7	61.8	133.8	264.5
Of which						
Compensation to mining enterprises	...	...	16.8	43.9	86.2	86.2
Net lending	--	--	45.0	128.1	378.3	525.0

Table 2 (concluded). Uzbekistan: Financial Operations of the Central Government, 1991-93

(In billions of rubles)

	1991 Year	1992 Year	1993 1/ QI	QII	QIII	QIV Est.
Budgetary ruble operations surplus or deficit	-2.2	-54.1	-33.5	-52.7	-352.2	-726.2
(In percent of GDP)	-3.6	-13.0	...	...	...	-15.7
Balance of extra-budgetary funds	-0.3	2.0	2.5	-17.4	-40.9	-80.9
(In percent of GDP)	-0.5	0.5	...	...	...	-1.8
Foreign currency operations		(In millions of U.S. dollars, estimates)				
Foreign currency transactions (in millions of U.S. dollars, estimates)						
Receipts	...	608.2	43.2	99.0	138.4	191.4
Expenditures	...	743.2	216.8	387.2	592.8	856.8
Surplus/deficit	...	-135.0	-173.7	-288.2	-454.4	-665.4
Surplus/deficit (in billions of rubles) 4/	...	-30.0	-99.7	-205.1	-380.8	-685.8
(In percent of GDP)	...	-7.2	...	...	...	-14.9
Overall government financial position (not including gold)	-2.5	-82.1	-130.7	-275.2	-773.9	-1,492.9
(In percent of GDP)	-4.0	-19.7	...	...	...	-32.3
Financing	--	82.1	130.7	275.2	773.9	1,492.9
Domestic financing (including extrabudgetary funds)	2.5	-39.8	75.0	171.8	437.3	824.6
Domestic bank borrowing (net)	2.4	-45.0	69.0	165.0	430.0	817.3
Bond sales (gross)	0.1	5.2	6.0	6.8	7.3	7.3
External financing	...	30.0	99.7	205.1	380.8	685.8
Gold and precious metals	...	...	...	...	...	...
Errors and omissions	--	91.9	-44.0	-101.7	-44.2	-17.5

Source: Data provided by the authorities, and Fund staff estimates.

1/ Quarterly data are cumulative.
2/ Includes revenue from cotton marketing in 1993.
3/ Includes foodstuff, nonfood subsidies and services in 1993.
4/ Total for year represents aggregate at quarterly converted balances in rubles, rather than balance to year converted at period average exchange rate.

Exchange rate = CBU rate

Table 3. Uzbekistan: Monetary Accounts, 1991-93

(In billion of rubles, end-of-period stocks)

	1991	1992	1993 March	1993 June	1993 Sept Est.	1993 Dec Proj.
Monetary Authorities						
Net foreign assets	17	319	262	183	325	623
Net international reserves 1/	...	206	322	365	433	781
Foreign exchange	...	71	74	5	74	39
Gold (unrestricted)	...	135	248	360	359	742
Other	17	113	-60	-182	-108	-158
Cash in vault	--	130	219	188	200	353
Counterpart to rubles outside CBU	17	97	139	272	860	1,411
Ruble claims	--	-114	-418	-642	-1,168	-1,922
Net domestic assets	6	-190	-87	136	681	1,019
Credit to Government (net)	3	-10	111	353	686	1,073
Credit to banks	17	285	455	629	1,210	929
Credit to the economy	--	1	2	3	4	4
Other items (net)	-14	-466	-655	-849	-1,219	-987
Of which:						
Counterpart to gold	--	-135	-248	-360	-359	-742
Liabilities	24	129	175	319	1,006	1,642
Currency outside CBU 1/	17	97	139	272	860	1,411
Ruble deposits	7	19	23	34	52	106
Foreign currency deposits	--	13	13	13	94	125
Banking System						
Net Foreign assets	17	353	165	-81	-268	118
Foreign exchange	--	103	-24	-50	-182	-217
Cash in vault	1	130	220	188	202	353
Counterpart to rubles outside banks 1/	16	97	139	272	860	1,411
Ruble accounts	--	-112	-418	-851	-1,507	-2,171
Gold	--	135	248	360	359	742
Net domestic assets	37	-106	139	834	1,766	2,284
Credit to Government (net)	13	-32	37	133	398	785
Credit to the economy	32	477	849	1,652	2,239	2,687
Other items (net)	-8	-551	-747	-951	-871	-1,188
Liabilities	54	247	304	753	1,498	2,403
Currency in circulation	16	97	139	272	860	1,411
Deposits	38	150	165	481	636	992
Foreign currency deposits	--	125	56	69	94	125
Memorandum items:						
Foreign currency reserves (In millions of US$)	--	171	111	5	63	25

Sources: Central Bank of Uzbekistan, and Fund staff estimates.

1/ Fund staff estimates.

Table 4. Uzbekistan: Balance of Payments, 1991-93

(In millions of U.S. dollars or in billions of Russian rubles)

	Non-FSU balance			FSU balance			Consolidated balance		
	1991	1992	1993 1/	1991	1992	1993 1/	1991	1992	1993 1/
	(In millions of U.S. dollars)			(In billions of rubles)			(In millions of U.S.dollars)		
Current account 2/	-702	-63	-415	14	-39	56	7,225	-238	-400
Merchandise trade	-709	-60	-477	2	-39	56	688	-236	-463
Exports	677	869	723	19	123	1,496	11,829	1,424	2,205
Cotton fiber	344	673	622	10	42	519	6,353	861	1,135
Other	333	196	101	9	82	977	5,476	563	1,070
Imports	-1,386	-929	-1,200	-17	-162	-1,440	-11,141	-1,659	-2,667
Foodstuff	...	-685	-623	...	-7	-91	...	-716	-722
Energy products	...	--	--	...	-48	-777	...	-214	-825
Other	...	-244	-577	...	-108	-571	...	-729	-1,120
Services, net	7	-4	59	...	...	...	7	-4	59
Shipment and transportation	8	8	-24	...	...	...	8	8	-24
Travel	-1	-1	-1	...	...	...	-1	-1	-1
Interest 3/	...	-11	-42	...	...	...	...	-11	-42
Other (incl. gains from swaps)	...	...	127	...	...	...	...	--	127
Transfers, net	...	2	3	11	...	...	6,530	2	3
Capital account 3/	-1	129	539	--	--	49	-1	129	586
Direct investment, net	...	9	18	...	...	...	...	9	18
Loans									
Drawings	--	143	635	...	...	...	...	143	635
Repayments	--	-20	-108	...	...	...	...	-20	-108
Russian state credit	--	--	--	--	--	49	--	--	46
Other capital	-1	-3	-5	...	...	...	-1	-3	-5
Errors and omissions 4/	702	104	-271	-14	-75	-403	-7,224	-235	-749
Overall balance	--	171	-146	--	-114	-298	...	-344	-564
Financing (increase -) 5/	--	-171	146	--	114	298	...	344	564
Reserves (- increase)	--	-171	146	...	...	...	--	-171	146
Arrears 6/	...	...	...	...	35	...	...	158	...
Correspondent account credits 7	--	--	--	...	79	298	...	357	418
Other	...	...	...	...	...	...	...	...	...
				(In percent of GDP)					
Memorandum items:									
Current account balance	-2.0	-3.3	-9.0	22.5	-9.4	1.2	20.5	-12.7	-8.7
Exports	1.9	46.3	15.6	31.7	29.5	32.4	33.6	75.9	47.7
Imports	-3.9	-49.5	-26.0	-27.7	-38.9	-31.2	-31.6	-88.4	-57.7

Sources: Estimates provided by Uzbek authorities, and staff estimates.

1/ Preliminary projections. For 1993, FSU figures in the consolidated balance obtained by converting quarterly ruble data into U.S. dollars.
2/ Includes transfers.
3/ Uzbekistan's liabilities for the debts of the FSU are not included.
4/ The large amount reflects incompleteness of trade and financing data.
5/ Excludes the changes in monetary gold holdings stemming from transactions with residents.
6/ No information on interenterprise arrears was provided for 1993.
7/ 1993 incorporates the Rub 57.3 billion Russian state credit for refinancing existing correspondent account liabilities.
8/ Russian ruble rate per U.S. dollar through end-1993.

Uzbekistan - Fund Relations

(As of October 31, 1993)

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 currency of Uzbekistan was, until November 15, 1993, the Russian rubles issued in 1992 or earlier--"old rubles". Since November 15, however, the legal tender includes, in addition to old rubles (with the exception of 5,000 and 10,000 denominations), sum coupons, and 1993 Russian rubles. Officially, the sum coupon was introduced at par with the old ruble. There are at present no official rules regarding the conversion of old rubles into coupons.

Prior to November 15, 1993 the Central Bank of Uzbekistan (CBU) quoted the official exchange rate (for the old ruble) as equivalent to the value of the Russian ruble against the U.S. dollars, as ascertained by the Central Bank of Russia on the basis of the Moscow interbank foreign currency exchange. The CBU published the exchange rate of the Russian ruble for 30 currencies and the SDR. This rate applied to all official transactions with the exception of sales and purchases of foreign exchange by the National Bank for Foreign Economic Activity (NBFEA) for private (nontrade) transactions; the rates of the NBFEA did not, until July 1993, diverge significantly from the rates quoted by the CBU. Following the introduction of the 1993 Russian ruble, the CBU continued to post as the official exchange rate (for the old ruble), the rate determined at the Moscow Interbank exchange for the new ruble. This rate was used to record trade transactions, estimate trade taxes, and debt service; however, foreign exchange sales were suspended from July 23. Sales and purchases for nontrade transactions of individuals were carried out by the NBFEA in terms of old rubles. The quoted exchange rate of the NBFEA at the end of October 1993 was Rub 2,318 = US$1 for buying and Rub 2,433 = US$1 for selling. During this period, there was also a very small interbank foreign exchange market in which foreign exchange deposits were sold among banks, since only the NBFEA along with the CBU was allowed to buy and sell foreign exchange in cash. The functioning of this interbank market depended on the availability of foreign exchange for sale. At the time of the Article IV mission in October 1993, exchange restrictions under Article XIV 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 other current international transactions with respect to invisibles. Multiple currency practices subject to approval under Article VIII were the quotation of different exchange rates by the CBU and NBFEA and the spread between the buying and selling rates of the NBFEA. 1/

VIII. Pre-Membership Economic Review

The Pre-Membership Economic Review discussion for Uzbekistan was concluded on April 10, 1992 (SM/92/80).

IX. Article IV Consultation:

It is proposed that Uzbekistan be placed on a 12-month consultation cycle.

X. Staff visits and policy discussions:

1. December 1991: Staff Visit.
2. March 1992: Pre-Membership Economic Review.
3. May 1992: Use of Fund Resources.

1/ The staff is seeking clarification from the authorities on a number of other measures which may involve Fund jurisdiction, including: (1) recent developments in the use of Russian ruble banknotes, pre-1993 ruble banknotes, and coupons in Uzbekistan; (2) external payments arrears; (3) the rules respecting nonresident bank accounts; (4) Uzbekistan's system of correspondent accounts with other FSU members; and (5) bilateral payments agreements maintained by Uzbekistan with Fund members.

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).

XI. Technical Assistance:

The following list summarizes the technical assistance provided by the Fund to Uzbekistan since 1991.

Monetary and Exchange Affairs Department

1. June 1992: Modernization of Central Bank of Uzbekistan.

2. December 1992: Accounting, central bank organization, monetary statistics, payments systems, monetary operations and foreign exchange operations.

3. May 1993: Banking supervision.

4. December 1993: Introduction of national currency.

Fiscal Affairs Department

1. June/July 1992: Tax policy and administration, budget and expenditure control, and social safety net.

2. May 1993: Tax policy and administration.

3. December 1993/January 1994: Tax administration and computerization (expert visits).

Statistics Department

1. July 1993: Multitopic mission.

IMF Institute

1. June/July 1993: Course on financial programming and policy.

XII. Resident Representative

Mr. Istvan Szalkai, Resident Representative, since September 1993.

Uzbekistan--Relations with the World Bank Group

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. Work has been undertaken by the World Bank Group in such areas as 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 to Uzbekistan is to support the Government in the ongoing transformation of the economy. In the short term, the Bank aims to address the most urgent structural and systemic issues, including the need to improve incentives and to facilitate the mobility of goods and factors of production, in order to reverse the decline of economic activity and of productivity levels. Bank activities would work to: (i) promote fiscal discipline through restructuring and reallocating social expenditures, eliminating excessive subsidies, and improving the efficiency of the tax system; (ii) reform trade policy to reduce the role of the state; (iii) establish the legal basis for private sector development; (iv) restructure and privatize state-owned enterprises; and (v) bring about financial sector reform.

The Bank's work to support adjustment and stabilization in the near-term also is intended to help establish the basis for sustainable and significant economic growth in the medium- and long-terms. Medium-term objectives including stimulation of a vigorous supply response through the implementation of structural and sectoral reform measures and creation of an environment that supports self-financing of investments in key sectors.

The Bank has attempted to engage the Government in a discussion of structural reform policies through the preparation of a Country Economic Memorandum and development of a proposed rehabilitation loan. 1/ The US$180 million rehabilitation loan would support structural reforms in the enterprise sector, the financial sector and in regard to the system of social protection, while providing financing for critical imports and for the development of the foreign exchange market. The Bank's lending program recently moved forward with Board approval of a US$21 million technical assistance loan on October 7, 1993. This loan is intended to support development of institutional capacity within the Central Bank of Uzbekistan, the Ministry of Labor and the Committee for State Property and Privatization. Other projects currently under consideration include: a cotton sector project to improve productivity and quality, as well as efficiency of water use; an oil and gas sector project to improve energy efficiency and increase domestic production; and a human resources

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1/ An identification mission for the rehabilitation loan visited Tashkent during October 22-November 5, 1993.

development project to improve the functioning of the social safety net and the health care system. 1/

The Bank also has assisted the Government in the development of an external assistance strategy and with the establishment of an External Aid Coordination Unit within the Cabinet of Ministers. Consultative group meetings have been held under the auspices of the Bank in Paris in December 1992, and in Tashkent in May 1993. These meetings have afforded the Government with opportunities to articulate its economic policies and to receive input from donors.

Uzbekistan recently became a member of the IFC, which is expected to promote the formation of private financial institutions and to help the authorities work out a policy on foreign investment. Specific project work is expected to target export-oriented ventures and projects that could attract foreign-currency investment.

1/ The European Bank for Reconstruction and Development has been working with the Government of Uzbekistan to reach agreement on a number of projects, including a US$60 million credit to private sector development, to be administered on a revolving fund basis by the National Bank for Foreign Economic Activity of Uzbekistan.

Uzbekistan--The Institutional Framework and Technical Assistance

Economic management in Uzbekistan remains highly centralized, although responsibilities are split among government agencies and policies are directed by different administrative officials--generally at the level of Deputy Prime Minister, although the Central Bank of Uzbekistan and state-owned sectoral banks report directly to the President. The First Deputy Prime Minister oversees domestic economic developments and relations with other FSU states and directs the work of the State Committee for Forecasting and Statistics 1/ (which develops the annual national economic plan), the State Association for Contracts and Trade (which implements the plan and manages centralized, intra-FSU trade), the Ministries of Finance and Labor, the Central State Taxation Board and the State Property and Privatization Committee.

A Deputy Prime Minister for Foreign Economic Relations is responsible for non-FSU economic relations, including international trade, foreign debt and borrowing, and foreign aid and economic assistance. Other Deputy Prime Ministers are responsible for: (i) agriculture, (ii) trade and consumer goods production, (iii) industry and energy, (iv) construction and transport, (v) science and culture, and (vi) social security and health.

The division of economic policy responsibility among agencies overseen by several Deputy Prime Ministers probably has not undermined seriously decision-making, due to the integrating nature of the national economic plan and the centralized system of governance and presidential authority that prevails in Uzbekistan. However, the structure of the Uzbek Government and its institutional framework is more suitable for a planned, command economy than for a government pursuing market-oriented policies and economic reform. Economic policy measures are taken in response to performance relative to forecasts, rather than on the basis of market developments, while economic indicators and statistics reflect such performance, rather than provide information necessary to macroeconomic management. Finally, Uzbek Government officials and technicians have been trained in methods appropriate to a command economy, and are experienced in forecasting and management of planned production.

In light of these considerations, technical assistance and training have been provided to Uzbekistan in a variety of areas of economic policy. More resources will be required should the Government adopt a more market-oriented stance of economic policy-making, and indeed, to encourage the Government to take such a stance. During 1992 and the first half of 1993, there were seven Fund technical assistance missions to Uzbekistan by MAE, FAD, STA, and INS. 2/ Other international agencies and governments--including the World Bank, Eurostat, OECD, and the Governments of the U.S., Turkey, and Germany--are also providing a wide variety of technical

1/ The First Deputy Prime Minister is Chairman of the State Committee for Forecasting and Statistics.

2/ See Appendix I for a list of these missions.

assistance. Following a consultative group meeting in Paris in December 1992, a local coordination group of donors has been established in Tashkent. A Fund resident representative, Mr. Istvan Szalkai, was appointed in early September 1993.

1. Monetary affairs

In order to aid in the establishment of a modern central bank in Uzbekistan, the Fund has provided technical assistance in the area of monetary affairs and institutional development, beginning with a June 1992 MAE mission. 1/ That mission provided advice on legal matters, accounting, auditing, the system for payment, settlement and clearing, bank supervision and regulation, monetary statistics and analysis, monetary policy, foreign exchange operations and structural and organizational issues. The June 1992 mission also established the basis for subsequent technical assistance in the area of monetary affairs. A mission in December 1992 provided further advice on accounting and auditing, payment and settlements, central bank organization, monetary statistics, research and policy, and foreign exchange operations. 2/ Advice also was provided on the technical aspects of the issuance of a national currency. A mission in May 1993 provided advice on questions relating to banking supervision, including policy matters as well as legal and organizational aspects. Advice also has been provided on bank accounting by experts in the IMF Statistics Department and on policy-related issues by the European II Department.

Technical assistance also has been provided to Uzbekistan in the area of monetary affairs by central banks on a bilateral basis, most notably by the Central Bank of Turkey, but also by the central banks of India and Malaysia. The Government of Uzbekistan also has retained the services of prominent international commercial banks--including Union Bank of Switzerland and Deutsche Bank--to provide advice on monetary and financial sector matters.

Only limited progress has been achieved in areas in which technical assistance has been provided, owing in part to the lack of overall progress on the part of the authorities in developing a comprehensive economic reform program. In general, positive actions have been taken only in areas affecting the internal functioning of the Central Bank or areas which otherwise do not infringe on central planning or administrative allocation of credit. Regressive actions were taken--following technical advice to the contrary--in some areas, most importantly, concerning the control exercised over the financial system's use of cash and foreign currency. To increase control over the allocation of credit, management of all cash operations in the financial system was transferred from commercial banks to the CBU by a

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1/ The mission team was comprised of Fund staff and technical experts from the central banks of France, the Netherlands, Denmark and Canada.

2/ The mission was comprised of Fund staff and technical experts from the central banks of Ireland, France, Turkey and Canada.

decree of the Cabinet of Ministers in October 1992; this move was complemented by an internal order of the Central Bank centralizing all cash foreign exchange in the CBU in November 1992. In view of the failure to develop a comprehensive reform program and implement Fund technical assistance recommendations, the program for assistance and advice has slowed relative to those for other FSU countries. Recent measures to introduce coupons were developed without the advice of the Fund. 1/

2. Public finance

FAD has provided technical assistance to Uzbekistan in the area of public finance, beginning with a mission in June/July 1992. That mission provided advice on tax policy and administration, budget and expenditure control, and the development of a social safety net. Recommendations were intended to widen the tax base and increase revenue, to simplify the tax system and improve its efficiency and neutrality, to rationalize and target the system of social expenditures, and to increase the effectiveness of public expenditure management. A second FAD mission in May/June 1993 provided advice on tax policy and tax administration, including computerization of tax administration. The mission's recommendations included advice on the base and rates of various taxes, and on the scope of exemptions, deductions and tax holidays. The mission prepared a detailed action plan for computerization. The Central State Taxation Board subsequently asked for follow-up assistance. A special advisor has been appointed, and work will commence with a series of expert visits in December 1993 and January 1994.

Technical assistance on tax administration has been provided on a bilateral basis by, among others, the U.S. Agency for International Development (USAID), the German Gesellschaft für Technische Zusammenarbeit (GTZ), and the Governments of India and Russia. As in the area of monetary affairs, the Uzbek authorities also have sought technical advice from private companies, including international computer corporations.

In general, the authorities have shown little interest in implementing technical assistance recommendations in the area of tax policy, particularly those which aim to limit centralized intervention, reflecting disagreement over the need for fiscal adjustment and an overall policy stance that views the tax and expenditure system as a flexible instrument for reallocating resources. Progress has been made, however, in the area of computerization--with the support of USAID and GTZ--and in other technical areas, but this has more often reflected a desire to strengthen the efficacy of the current system, rather than to adopt reforms appropriate to market-oriented fiscal management. As in the area of monetary affairs, the failure to develop a comprehensive reform program, implement Fund technical assistance recommendations or to cooperate fully with Fund staff missions

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1/ An MAE mission is scheduled to visit Tashkent from December 4-December 16 to provide technical assistance on a national currency.

has caused the program for assistance and advice to slow relative to those for other FSU countries.

3. Statistics

The Fund's technical assistance program in statistics has focused on the development of an institutional framework for provision of economic information appropriate to the needs of a market economy. A mission from the Fund's Statistics Department (STA) visited Tashkent in July 1993 and provided training and advice on money and banking, government finance, balance of payments and real sector statistics, including institutional arrangements to facilitate the production of these statistics. The work of this mission will serve as the basis for further technical assistance in this area. The STA mission reviewed a comprehensive program developed by the State Committee for Forecasting and Statistics on the transition of Uzbekistan to the international system of economic accounts and statistics. The mission also reviewed a draft law on state statistics and made several recommendations concerning institutional arrangements, with a view to improving coordination and collaboration among state agencies, balancing confidentiality with providing adequately detailed information, and ensuring the independence of state statistical organizations.

Technical advice on statistics has also been provided by the World Bank, EUROSTAT and OECD, primarily in regard to theoretical issues related to the national accounts. Although hampered by lack of access to data, assistance in the area of statistics generally has been well received, owing to its practical nature and lesser emphasis on related policy changes. Senior officials have expressed concern to Fund staff that the weak statistical capabilities of their government have hindered their own analysis and decision-making.

4. 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 two-week course on financial programming and policy in Tashkent in June/July 1993. Seminars and training sessions also were provided during the July 1993 STA technical assistance mission to present a general overview of the macroeconomic statistical framework and to provide a more detailed review of the methodologies of the individual subsectors.

While additional technical assistance is needed in almost every area, immediate priority would be on strengthening the institutions responsible for monetary and financial policies, including the placement of long-term advisors in the Central Bank of Uzbekistan and the Ministry of Finance. The authority and capacity of the CBU to conduct monetary policy should be strengthened, and the respective roles of the Ministry of Finance, the Central State Taxation Board, the local government authorities, and the National Bank need to be defined clearly. Additional assistance is required to improve the quality and reliability of economic indicators--such as price, output and wage statistics--and of the national accounts.

In spite of these efforts and the clearly substantial need for continuing technical assistance and training, past technical advice, particularly in areas relating to monetary and fiscal policy (see table below), has been largely ignored by the Government. Fund missions have stressed that additional technical assistance to Uzbekistan will depend in large part on the extent to which past technical assistance is utilized.

Uzbekistan: Major Technical Assistance Recommendations

Area	Action
Tax Reform	- Reduce special exemptions and concessions - Extend coverage of VAT to services - Uniform tax rate on private enterprise profits - Levy single rate of 18 percent on profits and wages of public entities - Phase-out foreign exchange tax - Simplify customs duties - Shift to percentage rates for excises
Expenditure control	- Eliminate food subsidies (except bread and milk) - Phase-out non-food subsidies - Introduce targeted social safety net - Rationalize family allowances - Introduce user fees
Budgetary Control	- Integrate ruble and hard currency budgets - Establish a Treasury Department - Strengthen budget preparation and monitoring - Introduce hard budget constraints for enterprises - Integrate extra-budgetary funds into budget
Monetary Policy	- Introduce credit auctions - Raise central bank refinance rate - Eliminate interest subsidies - Remove interest rate margins - Transfer foreign reserves and gold to central bank
Banking Supervision	- Unify bank reserve requirements - End privileged position of Savings Bank - Limit bank lending to a single borrower - Eliminate restrictions on acceptance of deposits - Enforce prudential norms
Payments arrangements	- Introduce net clearing system - Remove restrictions on use of cash - End systematic monetization of entities arrears - Establish clearing house in Tashkent - Discontinue control of purpose of transaction on each payment order
Statistics measures	- Improve provision and transparency of statistics - Staff statistics department at central bank - Introduce chart of accounts at central bank - Establish government finance unit - Strengthen balance of payments unit - Reform price indices - Compile national accounts with constant base year

Uzbekistan--Basic Data

Social and demographic indicators (1992)

Area	447,400 sq. km.
Population density 1/	47.4 per sq. km.
Population	21.207 million
Rate of population growth 2/	2.4 percent
Life expectancy at birth	69.5 years
Infant mortality rate	35.5 per thousand
Population per hospital bed	79.6

	1989	1990	1991	1992	Est. 1993
Origin of Net Material Product			(In percent)		
Industry	26.0	23.8	31.0	32.7	29.8
Agriculture	42.3	44.3	45.0	38.9	34.9
Construction	14.2	14.9	12.3	14.3	14.7
Transport and communication	5.1	5.7	3.8	5.2	6.1
Other	12.4	11.4	7.9	9.0	14.4
Ratios to GDP					
Exports					
Non-FSU	5.3	3.6	1.9	46.3	15.6
Interrepublican	27.9	25.5	31.7	29.5	32.4
Imports					
Non-FSU	6.4	7.2	3.9	49.5	26.0
Interrepublican	39.4	37.1	27.7	38.9	31.2
Current account					
Non-FSU	...	...	-2.0	-3.3	-9.0
Interrepublican	...	...	22.5	-9.4	1.2
Government revenue, including grants 3/	35.0	44.9	49.1	33.5	34.7
Government expenditure 4/	35.9	46.1	52.7	46.5	50.5
Net transfers from the Union	9.4	19.4	18.5	--	--
Government overall surplus or deficit (-) 3/	-0.9	-1.1	-3.6	-13.0	-15.7
Liabilities of the banking system (end-of-year)	...	...	87.8	59.2	52.0
Change in liabilities of the banking system	...	...	...	46.3	46.7
Annual percentage changes in selected indicators					
Real Gross Domestic Product	...	4.3	-0.9	-9.5	--
GDP at current prices	4.1	4.6	92.2	577.9	1,007.5
Retail prices (period average)	0.7	4.0	105.0	528.0	761.0
Government revenue, including grants 3/	11.3	35.2	106.8	362.9	1,047.2
Government expenditure 3/ 4/	8.9	35.4	117.4	498.5	1,101.7
Liabilities of the banking system 5/	...	...	...	257.4	772.9
Currency in circulation (banking system) 5/	...	...	...	50.0	432.0
Deposits of the banking system 5/	...	...	...	107.4	240.9
Net domestic assets of the banking system					
Credit to the Government (net) 5/	...	...	...	-83.3	230.8
Credit to the economy 5/	...	...	...	724.1	794.7

Uzbekistan--Basic Data (Concluded)

	1989	1990	1991	1992	Est. 1993
General Government operations 3/			(In billions of rubles)		
Revenues, including grants	10.8	14.6	30.2	139.8	1,603.8
Expenditures 4/	11.0	14.9	32.4	193.9	2,330.0
Overall surplus or deficit (-)	-0.3	-0.4	-2.2	-54.1	-726.2
External trade			(In millions of U.S. dollars)		
Foreign balance					
Merchandise exports	...	...	677	869	723
Merchandise imports	...	...	1,386	929	1,200
			(In billions of rubles)		
Interrepublican balance					
Merchandise exports	9	8	19	123	1,496
Merchandise imports	12	12	17	162	1,440
GDP at current prices	30.6	32.0	61.5	416.9	4,617.2

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 1985-1992 was 2.4 percent. Annual average growth rate during 1970-1992 was 2.7 percent.

3/ Ruble budget operations only (does not include Government foreign currency operations).

4/ Includes net lending.

5/ Change in terms of percentage of liabilities of the banking system at the beginning of the period.