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Summing Up by the Chairman
Pre-Membership Economic Review of Uzbekistan
Executive Board Meeting 92/51
April 10, 1992

Executive Directors welcomed the opportunity to discuss recent economic developments in Uzbekistan and the main requirements for stabilization and reform in the country.

Directors noted that Uzbekistan's economic potential was considerable, particularly given its position as a major cotton and gold producer and the prospects of considerable oil production, in addition to its current gas output. They welcomed the authorities' commitment to transform the economy into a market-based system and the steps being taken in this direction, notably in the fields of price liberalization and tax reform, and in the adoption of legal and institutional structures for the banking system, foreign investment, and the privatization of agriculture. However, they noted that there remained a long way to go.

Directors observed that Uzbekistan's natural resources offered the promise of rapid economic development, provided that the reforms necessary for the achievement of the country's growth potential were actively pursued. In this context, Directors welcomed indications of a recent acceleration in the pace of reform and expressed the hope that this would be sustained. They noted the costs of a gradual approach to reform because of the sizable budgetary costs of continued subsidization and stressed the need to move rapidly toward market-clearing prices to give the right signals for investment decisions, with a consequent positive impact on economic growth. Moreover, Directors noted that the economic and financial links among republics were such that a widely divergent pace of reforms could not be pursued without risking severe economic disruption and a drain of resources from Uzbekistan.

Directors thus underscored the need to assign a higher priority to the reinforcement of structural reforms and the immediate implementation of macroeconomic adjustment policies. They commended the authorities on their efforts in the privatization of agriculture, and they noted that the increased scope for market prices to influence the pattern of agricultural production had led to a sharp increase in the production of foodstuffs. Directors urged that privatization efforts be extended to other areas of the economy, in particular trade and manufacturing. They also urged the authorities to proceed rapidly with the phasing out of the network of state controls in the economy, particularly state orders to enterprises; in this connection, the planned decline in the share of state orders in cotton production was regarded as a step in the right direction. Some Directors

also expressed concern with the present system, which allowed government ministries to acquire equity holdings in state firms that were being privatized, as it ran counter to moves to lessen state controls over production.

Directors commended the authorities on the steps already taken to increase tax revenue and lower fiscal expenditures; however, they stressed the importance of further tightening the fiscal position, which would require substantial new measures. Directors urged the authorities to formulate a carefully targeted social safety net by limiting subsidies and transfers to selected groups of the population. A phaseout of generalized subsidies was recommended as a matter of urgency, with a decisive continuation of the process of price liberalization. On the revenue side, Directors considered, a stronger tax collection effort was urgently needed.

Directors noted Uzbekistan's decision to remain in the ruble zone for the time being. However, they expressed concern that monetary and exchange policies were not being implemented in common with the Russian Federation and the rest of the ruble zone; in that context, they emphasized the need to establish a collegial relationship among the independent central banks of the zone to coordinate monetary policy among participating republics. In the banking sector, Directors recommended that the virtual automatic access to credit be discontinued, and that limits in line with the desirable expansion of credit in the ruble zone be imposed. Particular emphasis was placed on tightening the use of the rediscount mechanism and the need to maintain interest rates in line with those of other members of the ruble zone. Directors noted the need to strengthen the operational capacity of the State Bank of Uzbekistan.

Directors also expressed concern that Uzbekistan continued to apply a highly appreciated exchange rate and surrender requirements that diverged markedly from those in the Russian Federation and some other republics. They emphasized that differences between the foreign exchange rate regime of Uzbekistan and other members of the ruble zone encouraged the diversion of export receipts and urged the authorities to liberalize the exchange system. Some Directors cautioned against the proposed taxation of exports in convertible currencies. Directors also stressed the importance of a regularization of debt-service payments for the mobilization of external financing.

Finally, Executive Directors looked forward to Uzbekistan's becoming a member of the Fund, and to a close and productive relationship between Uzbekistan and the Fund, including the provision of much-needed technical assistance. They acknowledged the complexity of the task of simultaneously stabilizing the economy and instituting fundamental structural reforms and expressed the hope that Uzbekistan's efforts at building a modern, market-based system would meet early success.