COUNTRY REPORT

Uzbekistan

2nd quarter 1997

The Economist Intelligence Unit
15 Regent Street, London SW1Y 4LR
United Kingdom

The Economist Intelligence Unit

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Electronic delivery
EIU Electronic Publishing
New York: Lou Celi or Lisa Hennessey Tel: (1.212) 554 0600 Fax: (1.212) 586 0248
London: Moya Veitch Tel: (44.171) 830 1007 Fax: (44.171) 830 1023

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ISSN 1366-4158

Symbols for tables
"n/a" means not available; "–" means not applicable

Printed and distributed by Redhouse Press Ltd, Unit 151, Dartford Trade Park, Dartford, Kent DA1 1QB, UK

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Summary

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Outlook for 1997-98: Western governments will increase pressure on the Karimov regime to reach an accord with the IMF and to improve its human rights record. The government is likely to react to mounting social problems with a crackdown on the political opposition and independent Islamic groups. This will undermine the chances of the European Parliament ratifying a PCA. Uzbek-US relations will deteriorate as Tashkent draws closer to Russia and Iran. Regional relations will remain cool. Economic necessity rather than external pressure is likely to force an agreement with the IMF but more micro-level reform will be shunned. The economy will move into recession in 1997 and emerge only slowly in 1998. Recovery could be put off track by problems in the banking sector. Inflation will rise in 1997, putting downward pressure on the som. A large current-account deficit will be maintained throughout the forecast period and will be funded largely through foreign borrowing.

The political scene: Tashkent has sought to compensate for its deteriorating relations with Washington by strengthening ties with Russia. The security services have cracked down on the political opposition. Complaints have emerged from within the Tajik minority.

Economic policy: The government has shown little sign of reversing its failed economic policies despite receiving a public dressing-down at the EBRD. The president has continued to criticise the IMF and has ignored calls for a change in exchange rate policy. Monetary policy has remained loose and interest rate policy has been perverse. Questions have been raised about the stability of the banking sector which is suffering from over-concentration. Access to hard currency remains very restricted. Little progress has been made in privatisation.

The economy: The government claims that the economy emerged from recession in 1996 but this line is not supported by anecdotal evidence and the economy is thought to have moved back into recession this year. Plans have been announced to increase gold and uranium production. The government has revised upwards its estimate of the 1996 grain harvest but sowing of the 1997 cotton crop has been hit by bad weather. Inflation has accelerated and there has been a sharp fall in the market value of the som.

Foreign trade and payments: Scant data have been released but the evidence is of a large external deficit last year. The government has attempted to restore trade ties with Russia as a means to preserve rapidly dwindling foreign exchange reserves. FDI rates have failed to live up to expectations, forcing the government to resort to increased foreign borrowing.

Business news: Alcatel has won a large GSM contract while Daewoo has unveiled grandiose plans for a new business centre and hotel complex. A joint venture with a Canadian firm is to prospect for gold.

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Political structure

Official name	Republic of Uzbekistan
Legal system	The former Soviet republic of Uzbekistan declared its sovereignty in 1990. On August 31, 1991, after the failure of the Moscow coup, 98.2% of voters in a referendum supported independence. A new constitution was adopted on December 8, 1992, declaring Uzbekistan a multiparty democracy and a presidential republic
National legislature	The unicameral legislature, the 150-member Ali Majlis (parliament), is controlled by the Popular Democratic Party. The few deputies from opposition parties have been forced out
Electoral system	Universal suffrage over the age of 18
National elections	December 1994-January 1995; next parliamentary elections are due in December 1999, with the presidential elections due in 2000
Head of state	Islam Karimov, elected president with 86% of the vote on December 29, 1991
National government	Council of Ministers, headed by the prime minister, Utkur Sultanov, nominated by the president. In practice, Mr Karimov exercises total control and appoints *hakim* (regional governors) who have sweeping powers
Main political parties	Popular Democratic Party (PDP; former Communist Party); Adolat; Social Democratic Party of Uzbekistan[a]; Istiklol Yoli[a]; Birlik (Unity)[b]; Erk (Will)[b]; Islamic Renaissance Party[b]

Council of Ministers	Prime minister	Utkur Sultanov
	First deputy prime minister	Ismail Dzhurabekov
	Deputy prime ministers	Viktor Chzhen
		Saidmukhtar Saidkasymov
		Rustam Yunusov
		Mirabor Usmanov
		Kayim Hakkulov
		Dilbar Gulomova
	Deputy prime minister & minister of finance	Bakhtiar Khamidov
Key ministers	Agriculture	Marks Jumaniyozov
	Communications	Abduvokhid Dzhurabaev
	Defence	Rustam Akhmedov
	Education	Dzhurah Yuldashev
	Foreign affairs	Abdulaziz Komilov
	Health	Shavkat Karimov
	Interior	Zakirzhon Almatov
	Justice	Sirojiddin Mirsafoev
	Labour	Okilzhon Obidov
	Power	Valery Otayev
Central bank chairman	Faizullah Mullazhanov	

[a] Government-sponsored opposition party. [b] Banned.

Economic structure

Latest available figures

Economic indicators	1992	1993	1994	1995[a]	1996[a]
GDP at current prices Som m	444	5,095	64,878	298,530	497,422
GDP at official exchange rate $ bn	2.0	5.2	5.6	10.0[b]	12.4[b]
GDP at purchasing power parity[b] $ bn	46.0	45.0	43.1	42.6	41.9
Real GDP growth[c] %	–10.6	–2.3	–4.2	–1.2	1.6
Consumer price inflation (av) %	645	534	1,568	305	64
Consumer price inflation (year-end) %	n/a	985	1,281	117	89[b]
Population m (mid-year)	21.70	21.86	22.35	22.50	22.70
Consolidated budget balance % of GDP	–18.4	–10.44	–6.1	–4.1	–3.9
Exports $ m	1,424	2,877	2,940	3,805	3,615[b]
Imports $ m	1,660	3,255	3,255	3,598	4,812[b]
Current-account balance % of GDP	–11.8	–7.8	2.1	–0.5	–12.1[b]
Gross reserves (excl gold, Dec) $ m	n/a	104	676	645	430[b]
Total external debt $ m	60	1,032	1,194	1,630	1,925[b]
Exchange rate (av)[d] Som:$	n/a	n/a	11.6	30.0[b]	40.2[b]

April 24, 1997 Som59:$1[d]

Origins of net material product 1995[c]	% of total
Agriculture & forestry	28.5
Industry & construction	24.2
Transport & communications	8.4
Trade	5.6
Others	33.2
NMP	100.0

Components of gross domestic product 1995[e]	% of total
Private consumption	44.0
Public consumption	22.0
Gross fixed investment	29.0
Net exports	n/a
Change in stocks	n/a
GDP incl others	100.0

Principal exports 1995	% of total
Cotton	50.0
Energy	14.6
Foodstuffs	3.5
Transport equipment	3.4

Principal imports 1995	% of total
Machinery & equipment	29.1
Foodstuffs	17.7
Transport equipment	7.6
Ferrous metallurgy	5.0

Main destinations of exports 1995	% of total
Russia	18.8
Switzerland	13.7
Kazakstan	7.7
UK	7.6
Tajikistan	5.0
Turkmenistan	4.8

Main origins of imports 1995	% of total
Russia	24.9
South Korea	14.8
Germany	13.0
Kazakstan	7.5
Hungary	5.0
Switzerland	4.1

[a] Actual. [b] EIU estimates. [c] Figures from Goskomprognozstat. [d] Official rate. [e] World Bank estimates.

Outlook for 1997-98

More international pressure will be exerted—

Western criticism of the Uzbek government is unlikely to ease while it continues to stall in reaching an accord with the IMF and fails to implement much-needed reforms to mitigate the impact of the recent balance-of-payments crisis. Prior to that crisis, Western governments, while recognising the regime's poor track record, particularly in the field of human rights, were prepared to moderate their criticism in exchange for assurances that things would change. However, the imposition of draconian restrictions on currency convertibility alongside the regime's failure to make substantive improvements in the field of human rights has meant that Western governments no longer appear willing to give the regime the benefit of the doubt. Instead, Western criticism is likely to step up a gear in the hope that this will bring about a change of course.

—as the crackdown on dissent intensifies

Criticism of the regime's record on human rights is thus unlikely to abate and may well become more vociferous if only because, amid the deteriorating economic climate, the government appears set to clamp down on the political opposition. The government is clearly worried by the country's growing economic and social problems. However, its rather irrational fear is that the country's few dissidents and the small band of independent Muslims will use the present economic crisis to foment unrest. This view ignores the fact that what little unrest there has been to date does not seem to have had any political motivation or direction. Whereas in Kazakstan and the Kyrgyz Republic demonstrations are allowed, people in Uzbekistan know that demonstrations against the government have consistently been put down with force. Indeed, the government sees putting down dissent as vital to stability and the country's long-term development, and has made it clear that keeping foreign critics happy is a relatively low priority. Uzbeks are therefore very unlikely to challenge the position of the president, Mr Karimov, unless social problems become unbearable.

The regime is particularly fearful of the rise in Islamic extremism, especially in the light of the recent military victories of the Taliban Islamist militia in Afghanistan. The activities of the security forces will therefore be particularly focused on curbing the activities of Muslims who have rejected the state's attempts to control their mosques—religious leaders (imams) in Uzbekistan have to sit state examinations. The government will continue to brand these individuals as fundamentalists and will claim—with no evidence—that they are funded by Iran. In the long term, such persecution could serve as the biggest impetus to an Islamic revival.

Uzbekistan's diplomatic response will leave much to be desired—

The Uzbek response to pressure from the international community has been one of anger and defensiveness. The EIU has consistently argued that Uzbekistan would generally opt for cosmetic change and that Mr Karimov had never actually committed himself to the reforms which he is now being criticised by the West for not having implemented. Rather, Mr Karimov's tactic, which is unlikely to change, is to claim that he wants to develop a Western-style political system and a free-market economy, while remaining suitably vague on how long it will take for these institutions to develop and hedging his plans for liberalisation. For example, publicly, the president will continue to argue that he is in favour of a political opposition—but only as long as it is constructive and uncritically supportive. Similarly, Mr Karimov's call for a market economy will be hedged about with claims that the state should retain a large and guiding role in society.

—which will threaten the chances for a PCA

The government's belligerent attitude could well sink prospects of an early ratification by the European Parliament of the EU's Partnership and Cooperation Agreement (PCA) with Uzbekistan. The European Commission is at present trying to revive the PCA, which was initialled in April 1996, and to counter an attempt by the European Parliament to postpone ratification of the PCA for a one-year period. The Council of Ministers is reported to have drawn up a confidential paper on human rights in Uzbekistan which blatantly misquotes human rights organisations in an attempt to prove that the situation in Kazakstan and the Kyrgyz Republic (which have PCAs with the EU) is worse than in Uzbekistan. This claim is not borne out by senior EU diplomats in Tashkent who privately express their concern over Tashkent's lack of progress in the field of human rights. Nevertheless, lobbying by EU governments with major trading interests in Uzbekistan is likely to ensure that a European Commission mission scheduled to visit Tashkent in late April will rubber-stamp the report. The European Parliament is unlikely to fall for such a blatant sleight of hand. Meanwhile, Uzbekistan's refusal to play ball with the IMF will provide a further argument for those lobbying for the PCA to be stalled.

Soured relations with the USA—

The new-found Uzbek-US friendship appears to be facing its first test. There are irritations on both sides. Uzbekistan is less than happy that, despite its attempt to prove its loyalty to the USA—as witnessed by its unswerving support in recent votes in the UN and on the issue of NATO enlargement—US diplomats persist in raising human rights concerns and have failed to support it in its recent squabbles with the IMF. The belief in Tashkent appears to have been that, as Uzbekistan had become an acknowledged US ally, Washington would somehow help the country in its dealings with the IMF, in the same way that—the Uzbeks feel—the USA has encouraged the IMF to help both Russia and Ukraine. The Uzbek irritation on this issue is in part a pure misunderstanding of how the IMF works and, in part, a reflection of Uzbekistan's rather exaggerated view of its own importance.

—will not be helped by growing Uzbek-Iranian ties—

The USA is also starting to lose patience over the country's quietly improving ties with Iran. Uzbek-Iranian relations were strained by Tashkent's unsubstantiated allegations that Iran was supporting Islamic fundamentalism in Uzbekistan and by Mr Karimov's penchant for provoking public quarrels with Iranian leaders, which was in part a ploy to gain favour with Washington. Now, US concerns over Iran appear to be being brushed aside by Tashkent which seems more eager to put its own regional interests first. Uzbekistan and Iran have clear common interests in Afghanistan against the Pakistani-backed Taliban. In particular, Tashkent has come to realise that it cannot rely on its client, General Dostum, alone to keep the Taliban at bay. Similarly, both Iran and Uzbekistan want to secure a deal which guarantees their respective positions in Tajikistan. On a practical front, the Uzbeks also want to make use of Iran as an export route.

—and by the recent thaw in relations with Moscow

A sure indication of the growing rift in US-Uzbek relations has been the attempt by Uzbekistan to rebuild ties with Russia. Mr Karimov's view of Russia has changed from ridicule to rapprochement in less than one year. Similarly, after condemning attempts to restore trade between former Soviet republics as undesirable, Uzbekistan now wants to re-establish its trade flows towards the Russian market. Politically, the impact of such a move back to the Russian fold will probably be fairly limited, although there will be plenty of rhetoric. Russia is somewhat indifferent about having Uzbekistan as a close ally and is well aware that Mr Karimov's about turn is more the result of a panicky overreaction to the deteriorating economic situation than a long-term desire to forge closer ties with Moscow; a deal with the IMF could well see Tashkent seeking to rekindle ties with Washington. Likewise on the economic front, resurrecting Russian-Uzbek trade through intergovernmental deals, as appears to be the form the new-found relationship will take, is unlikely to work. Similar attempts to restore trade between former Soviet republics have failed because such state-directed trade rarely has much economic logic.

Regional relations will remain cool

Concern over the recent military victories of the Taliban in Afghanistan also partly explains the attempt by Tashkent to improve relations with Russia. The episode appears to have demonstrated to Tashkent that Russia, and not the USA, is the ultimate guarantor of its security. Hence it has sought to deepen military and security ties with Moscow. For similar reasons Uzbekistan has attempted to reinvigorate regional security cooperation within Central Asia. However, while Kazakstan, the Kyrgyz Republic and Tajikistan have reacted favourably to initiatives to deepen cooperation in the security field they remain wary of Uzbekistan's well-known aspirations to be the dominant regional power in Central Asia. These worries will continue to cloud relations between the Central Asian republics which have not been helped by Mr Karimov's persistent criticism of other countries in the region for their alleged political instability, subservience to Russia and mistaken economic policies.

Desperation could yet yield an IMF agreement—

For all its defiance on the political front, the Karimov regime will have to make compromises on economic policy if it is to secure a new stand-by arrangement with the IMF—the previous arrangement, which was signed in December 1995, was suspended in December 1996 and formally expired in March this year. Uzbekistan, which was hit by a balance-of-payments crisis in mid-1996, is simply running out of reserves. In a reflection of this, the spread between the government-determined official exchange rate and the market-determined bazaar rate is widening. Gold reserves will probably help the government ride out its present problems until September at the latest but it will then have to resort to foreign borrowing which, without IMF backing, will only be obtained at punitively high interest rates.

—but the terms will be harsh—

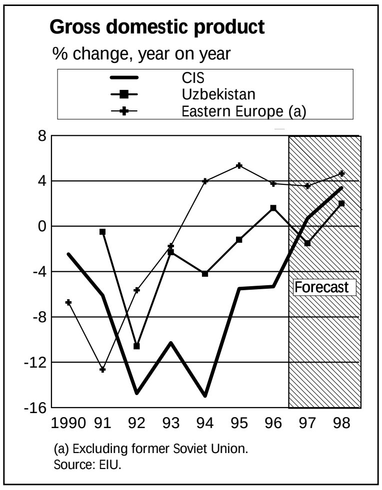
Given Uzbekistan's past record, the IMF is likely to impose tough conditions should Tashkent decide to return to the negotiating table. The Fund will look for a clear commitment to a stabilisation programme and will want to see a tightening of both monetary and fiscal policies before the stand-by arrangement is put back on track, as well as a timetable for the move to convertibility of the som. A unification of the exchange rate as part of preparation for making the som current-account convertible is expected to be a *sine qua non*. The latter demand will prove the most difficult for the Uzbek administration to accept, particularly as the president has been vociferous in his defence of existing exchange rate policy. For its part, the IMF is likely to grant Mr Karimov a face-saving visit from its director, Michel Camdessus. This is likely to take place in mid-May and would allow Mr Karimov to portray any subsequent climbdown as a response to IMF entreaties. A new arrangement could then be signed any time between June and September.

—although fundamental reform is likely to be spurned

The IMF, which sees its role in dealing with former Soviet republics as didactic as well as external sector-related, will nevertheless labour the point that Uzbekistan's balance-of-payments crisis was the result of poor policy choices. The IMF will also stress that sustaining reform through a crisis is a better option than backtracking on reform, as Uzbekistan has done since October 1996. However, the Fund has no mandate to foster micro-level reform. Indeed, the IMF's focus on the need to make the som convertible will probably distract energies from pressuring the regime into more far-reaching structural and micro-level reforms. Stabilisation is not enough and the Uzbek economy needs wide-ranging structural reforms if it is to have even average long-term growth prospects.

Yet the key problem for Uzbekistan, as demonstrated in the recent balance-of-payments crisis, is the lack of policy debate within the state administration, which itself stems from the lack of democratic freedoms in the country at large. Few officials, even ministers, appear to participate in the decision-making process, apparently for fear of being held personally responsible. Rather, decisions emanate from the very top, with the president and a handful of ministers making all the key choices. While this situation persists, the prospect of a well-thought-out stabilisation and restructuring programme being adopted and implemented is remote. In this environment, even in the event of a rapprochement with the IMF, it is unlikely that policy will change sufficiently to enable the economy to drive forward at a rapid pace.

The growth outlook is poor—



The ongoing balance-of-payments crisis and the need to tighten both fiscal and monetary policies make the outlook for economic growth less rosy than the government has claimed. The balance-of-payments crisis has already led to a tightening in liquidity, and all the anecdotal evidence suggests that, contrary to official data, the economy has moved back into recession. A stabilisation programme will tighten the screws still further. The economy is thus expected to contract by around 1.5% in 1997, while the timing of the recovery will, to a large extent, be dependent on when Uzbekistan renounces its present policies and comes to an agreement with the IMF. In the best-case scenario, and assuming that the government pursues sensible IMF-guided policies and unifies the exchange rate, while the cotton harvest recovers, growth could return in 1998. A rise in gold prices is unlikely on present form, although gold production could finally reverse its steady decline in 1997 as production at the Newmont-Zarafshan venture picks up. However, even in this best-case scenario real GDP growth is expected to reach only 2% in 1998.

—and recovery could be stalled by problems in the banking sector

Uzbekistan's heavy reliance on the export of commodities, particularly of gold and cotton, alongside the frailty of its banking sector, make the economy particularly vulnerable to shocks. This was amply shown in 1996 when the poor cotton harvest and low world market prices provoked the balance-of-payments crisis, the effects of which are still being felt. With the government having failed to implement any substantive reform of the agricultural sector, prospects for the cotton crop will remain largely driven by agro-climatic factors. Already this year sowing has been disrupted by bad weather which bodes ill for the harvest. By contrast, Newmont's participation in the gold-mining sector should help to stem the post-Soviet decline in production, although government forecasts that gold production will quickly rise appear overoptimistic.

The most immediate threat to recovery is likely to come from the banking sector which remains over-centralised and burdened by bad debt. Indeed, Uzbekistan's banks have been in crisis since August 1996, when the government reverted to its policy of confiscating savings to fund the agricultural sector. The Central Bank of Uzbekistan's policy of running negative real interest rates, alongside last year's savings confiscations and loose monetary policy, have all had a devastating effect on the banking sector's balance sheets. All but two small private banks in Uzbekistan are state-owned, with the top four state-owned banks controlling 89% of banking sector assets.

As dangerous as the present banking crisis and the lack of popular confidence in local banks is the role of the National Bank of Uzbekistan. The government simply needs to cut back this institution's increasingly important role. Formerly the local branch of the Soviet foreign trade bank (*Vneshekonombank*), the state-owned National Bank of Uzbekistan now dominates local banking, hogging most good quality business. The concentration of such loans in the bank's balance sheet represents a dangerous trend. In the event that some of the bank's loans were to go sour and it were to run into problems, the knock-on effects on the rest of the economy would be profoundly destabilising.

Inflation will remain high—

The loose monetary stance of the central bank, alongside the growing shortage of goods provoked by the restrictions on currency convertibility, are fuelling higher inflation, making any eventual stabilisation more difficult. With the government showing no willingness to address the problem in the short term, we expect annual average inflation in 1997 to rise to 120% as compared with the 64% estimated for 1996. On the assumption that the government reaches an accord with the IMF towards the latter half of 1997 and then implements a stabilisation programme, inflation should moderate to an annual average rate of 40% in 1998.

—while the som will continue to fall

The high inflation rate, together with restrictions placed on convertibility, will continue to exert significant downward pressure on the exchange rate. By late April, the official rate of the som had fallen to Som59:$1, with the commercial bank rate reaching Som65.65:$1 and the bazaar rate tumbling to Som150:$1, its lowest level since the currency's introduction in 1993. The IMF is likely to set, as a condition for continued disbursement from its stand-by arrangement, the unification of the exchange rate. Assuming that the government bites the bullet and reaches an accord with the Fund, the unified exchange rate is expected to settle at somewhere between the official and the bazaar rate. The annual average exchange rate is thus expected to reach around Som90:$1 in 1997, declining to an average of Som125:$1 in 1998.

The current account will remain vulnerable—

Over the forecast period, Uzbekistan's main weakness is expected to remain the external sector. On the export side, the outlook for cotton is uncertain as the sowing season has been disrupted by bad weather, while world market prices are expected by us to decline by 1.9% in 1997 before recovering modestly in 1998. Gold production should rise, but the world market price of gold will continue weak as central banks in EU countries offload their gold reserves in an attempt to meet the Maastricht criteria for EMU. Oil and gas exports are expected to remain weak as Uzbekistan's customers increase domestic energy production and resist Tashkent's attempts to impose higher prices and more stringent payment terms. On the import side, shortages of hard currency should help to stem the rise in spending in 1997. Import demand is then expected to pick up in 1998 as restrictions on convertibility are relaxed and as improving domestic demand conditions spur an upturn in demand for both consumer and capital goods. As a result, we expect a current-account deficit of $681m in 1997 and $806m in 1998.

—and foreign investors reticent

Funding the current-account deficit will prove expensive. Uzbekistan will have to rely on loans from both official and commercial lenders as the convertibility crisis is likely to deter FDI, which in any event has been disappointingly low throughout the transition period. Indeed, the authorities' behaviour over convertibility has soured relations with foreign investors, leading to a feeling that Uzbekistan cannot be trusted. This perception will not be overcome quickly and investors are likely to put on hold any plans for FDI until the latter part of 1998. By this time, the government will have proved its ability, one way or another, to clear up some of the problems it created in 1996. In any event, the ratio of net FDI to GDP is unlikely to reach beyond 1% in the next two years.

Forecast summary

(% change year on year unless otherwise indicated)

	1995[a]	1996[b]	1997[c]	1998[c]
Real GDP	–1.2	1.6[a]	–1.5	2.0
Industrial production	–0.2	2.0	0.0	0.5
Consumer prices (av)	305	64[a]	120	40
Consumer prices (year-end)	117	89	87	28
Current-account balance ($ m)	–53	–1,500	–681	–806
Trade balance ($ m)	207	–1,198	–280	–336
Average exchange rate (Som:$)	30.0[b]	40.2[a]	90.0	125.0

[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Review

The political scene

A shift in foreign policy is under way—

In what appears to be a significant shift in foreign policy, Uzbekistan has strongly hinted that it wants to rebuild ties with Russia. Since the end of 1993, when Uzbekistan was forced to introduce its own currency after being expelled from the rouble zone, the president, Islam Karimov, has consistently downplayed the importance of relations with Moscow. Although the two sides continued to cooperate with respect to security issues concerning Tajikistan and Afghanistan, between 1993 and 1996 Mr Karimov made great play of the fact that Tashkent had switched its allegiance from Russia to the USA. Officially, Uzbekistan and the USA are now the closest of allies. Indeed, Uzbekistan has made a point of backing the USA in key UN votes and has supported US policy on NATO enlargement and sanctions against Iran (1st quarter 1997, page 13).

—following a visit by the prime minister to Moscow—

The first sign that a policy tilt was under way came on March 10 this year when Abdumannob Mahmudov, an Uzbek government spokesman, claimed that Uzbekistan was seeking assistance from Russia in implementing its economic policies. The claim was extraordinary given the contempt with which Uzbek officials have until recently spoken of Russian economic policy. Mr Mahmudov then went on to say that Uzbekistan hoped that Russia would not "remain an aloof onlooker" during Uzbekistan's "present difficult conditions"—a clear plea for assistance. The next day the prime minister, Utkur Sultanov, arrived in Moscow to a warm reception from his Russian counterpart, Viktor Chernomyrdin. Mr Sultanov declared that Russia was a "priority partner" for Uzbekistan, the sort of language not heard since 1993 when Tashkent was pleading for economic assistance from Moscow in the aftermath of the collapse of the Soviet Union.

—which heralds the signing of a whole raft of economic agreements—

The change in policy stance by Tashkent appears to have been spurred by the severity of the balance-of-payments crisis and by the fact that the USA and international institutions, such as the IMF and World Bank, have refused to provide financial assistance unless the government undertakes a policy U-turn on currency convertibility. Refusing to contemplate such a humiliating climbdown, particularly to the IMF, Tashkent clearly hopes that its difficulties can be eased by improving trade ties with Russia. This was reflected in the agenda of the prime minister's visit where trade-related issues figured prominently. In particular, high on the agenda were plans to begin joint production of the Ilyushin-114 passenger aircraft, which is to be marketed within the Commonwealth of Independent States (CIS). In a deal reminiscent of the Soviet-era division of production, Russia is to manufacture the high value-added components, namely the avionics and the engines, while Uzbekistan will assemble the airframes. A further result of the prime minister's visit was that Russia and Uzbekistan signed an economic cooperation agreement covering the period 1998 to 2000. The two sides also agreed to set up Russian-Uzbek financial industrial groups, while Mr Sultanov expressed the hope that the volume of Russian-Uzbek trade would increase sharply in the near future. The latter statement contradicts Uzbek policy over recent years, which has been to make the Uzbek economy less reliant on Russia by diversifying trade towards developed market economies.

—as Mr Karimov courts Russia—

On March 27, 1997, Mr Karimov put his seal on the policy shift by publicly acknowledging the significance of ties between CIS states. He traced the origins of these ties to the economic integration of the Soviet Union. However, the president remains opposed to trends towards deeper integration within the CIS, such as the political union between Russia and Belarus or the customs union between Belarus, Kazakstan, the Kyrgyz Republic and Russia. He has, however, noticeably toned down his anti-Russian rhetoric, and recently admitted that Russia was a "mighty power in a defence, economic and spiritual sense". In the past, Mr Karimov has attacked Kazakstan, the Kyrgyz Republic and Turkmenistan for allowing Russia to help guard their borders, claiming that Uzbekistan was strong enough to look after itself. Yet during a visit to Moscow in March, Mr Karimov had a meeting with the head of the Russian Federal Border Guards, Andrei Nikolaev, to discuss cooperation between the two states in guarding the southern borders of the CIS.

—so as to play Moscow off against Washington

Mr Karimov's approach to foreign policy is as pragmatic as ever. Whatever the rhetoric about Uzbek nationalism and independence much heard in the past, in the light of the recent payments crisis, Uzbekistan is in desperate need of external economic support from whatever source. When Russia proved unable and unwilling to provide that support in 1993, Mr Karimov stopped calling for the reintegration of the former Soviet Union and struck out on his own course. For the last two and a half years the USA had appeared to be willing to step in to the void left by the dwindling influence and economic clout of Russia. Mr Karimov is, however, disappointed that Washington is not supporting Uzbekistan in its ongoing quarrels with the IMF and the World Bank. Indeed, Uzbek officials believe that the international financial institutions should ease conditionality on Uzbekistan because of its new-found relationship with the USA and because of its position, in their eyes at least, as a significant regional power which has global political importance. These officials forget that US policy is also commercially oriented, and the recent cooling in relations at least in part reflects US irritation over the Karimov regime's failure to heed advice over exchange rate policy.

The USA makes its unhappiness public—

Mr Karimov is reported to be annoyed at the way Washington seems to have changed tack from its previous policy of providing almost unbridled support for his regime. The Uzbek leader is particularly offended at the well-publicised letter of protest sent by the US ambassador to Uzbekistan, Stanley Escudero, and eight other Western envoys, calling for the introduction of currency convertibility (1st quarter 1997, page 17). Comments made by Ruth Harkin, the head of the Overseas Private Investment Corporation (OPIC), the US government's political risk insurance agency, while visiting Tashkent in early March, were also not appreciated by the regime. While OPIC announced that it would underwrite $200m of political risk insurance for the Newmont-Zarafshan gold venture, Ms Harkin complained that US investors wanted to see the government make "real steps" towards allowing the "real conversion of hard currency". The latter was a clear warning that superficial measures would not be acceptable to Washington.

—human rights deteriorate further—

US officials claim to be unconcerned and even unaware of the Uzbek policy shift. However, it is proving difficult to hide the tensions that lurk beneath the surface in US-Uzbek relations, particularly those concerning human rights. Indeed, alongside the Karimov's regime's failure to make progress on convertibility, US officials are reported to have been irked by the regime's apparent reneging on what they view as firm pledges to improve human rights. In fact, if anything, in recent months the crackdown on dissent has intensified as the authorities appear nervous that the ongoing economic crisis could provoke popular unrest. Yet, while there have been some unconfirmed reports of unrest, these appear to be relatively minor and are hardly likely to topple the regime.

The government is taking no chances. Alongside the ongoing harassment of devout Muslims in the Fergana valley, it is reported to be stepping up pressure on even those dissidents whom it might find politically more expedient to encourage. For example, the government is reported to have confiscated the passport of Mikhail Ardzinov, a prominent human rights campaigner. All Uzbek citizens need official permission to travel, and Mr Ardzinov lost his passport when he applied to travel within the CIS. Mr Ardzinov had taken the government's claims of liberalisation at face value and applied for his human rights society to be registered. In theory, the authorities might be expected to encourage Mr Ardzinov, as he has founded a splinter group which detracts from the credibility of one of the country's best-known dissidents, Abdumannob Polat, the founder of the Human Rights Society of Uzbekistan (HRSU). However, the government appears to be so concerned about the threat of social unrest that even Mr Ardzinov is finding his activities subject to extensive state control.

—and what little progress there was in 1996 has vanished

One of the small concessions made on the human rights front in 1996 was a decision by the government to allow the return of Mr Polat from exile in the USA. It was also notable that the best-known local dissident, Shukrullah Mirsaidov, was allowed to speak at a much-publicised human rights conference recently held in Tashkent. These rather minor concessions were hailed by Uzbekistan's supporters as being great strides forward in human rights practices. Judging from the evidence thus far it is unlikely that these will be repeated in 1997. The authorities have not only refused to register Mr Polat's HRSU (1st quarter 1997, page 11), but they are now refusing him an entry visa. As an Uzbek citizen, Mr Polat does not technically need an Uzbek visa, but in the past he has applied for one as an obvious precaution.

The one exception to the overall trend towards a hardening in the Karimov regime's stance towards dissent was its decision, following considerable international pressure, to withdraw its demand to have the journalist Albert Mousin extradited from Moscow to Tashkent. Mr Mousin had been arrested by Russian police and held in Moscow although he is a Kazak citizen (1st quarter 1997, page 12). Anvar Berdiev, a counsellor at the Uzbek embassy in Moscow, even went to a human rights news conference to deny—implausibly—that Uzbekistan was in any way involved with Mr Mousin's arrest or had requested his extradition.

Discontent in the Tajik minority surfaces

In an extremely unusual development, given the tight control exercised over the media in Uzbekistan, in a letter to *Tashkent Ovoz-I Tojik* (Tashkent Tajik Voice), Muhammad Kholmuminov, a Tajik teacher from the Surkhandarya region, detailed the authorities' failure to guarantee Tajik language education for children or to have more than one sub-faculty of the Tajik language in any Uzbek university. While written in a polite tone and praising Mr Karimov, the letter none the less implied that there was an attempt to thwart Tajik education in Uzbekistan.

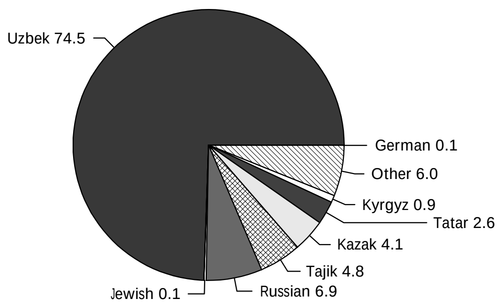
Ethnic composition of the population
(% of total)

	1989[a]	1993[a]	% change 1993/89
Uzbek	71.1	74.5	5
Russian	8.3	6.9	–17
Tajik	4.7	4.8	2
Kazak	4.1	4.1	0
Tatar	3.3	2.6	–21
Kyrgyz	0.9	0.9	0
Jewish	0.5	0.1	–80
German	0.2	0.1	–50
Other	6.9	6.0	–13

[a] Year-end.

Sources: UNDP, *Human Development Report 1995*; EIU *Business Reports*.

Ethnic composition of the population, 1993
% of total



Sources: UNDP, *Human Development Report, 1995;* EIU *Business Reports.*

Official data on the number of Tajiks in Uzbekistan are extremely unreliable and probably understate the true number. Tajiks claim that their numbers have been diminished by their steady assimilation which is itself partly caused by biases in the education system. However, the distinction between Uzbeks and Tajiks was not well-established when Uzbekistan became a separate Soviet republic in 1924, and when Tajikistan was hived off from Uzbekistan in 1929. Previously, urban dwellers were known as Sart, a social label which did not distinguish between those who spoke Persian or Turkic or were bilingual. The division of Central Asia into Soviet republics in the 1920s turned the Turkic-speaking Sart into Uzbeks, and the Persian-speaking Sart into Tajiks.

Claims of discrimination against the Tajik minority in Uzbekistan have fuelled tensions in relations with Tajikistan.

Economic policy

Little data published on current fiscal trends

The government's unstated policy of restricting the release of data on the state of the economy has continued and may well have intensified as a result of the ongoing balance-of-payments crisis and the widespread criticism of the regime's economic policies. Thus no new fiscal data have been released since the figures announced at the end of 1996. These implausibly claimed that Uzbekistan had managed to meet the targets laid down in its IMF stand-by arrangement (SBA) for the ratio of the budget deficit to GDP to be limited to 3.5%. The IMF remains unimpressed and has failed to reactivate the SBA which was suspended in December after the government failed to meet its obligations to the Fund (1st quarter 1997, page 16). The extent of the economic crisis in 1996 makes the government claim of having exactly met the IMF target unlikely.

In an apparent attempt to reassure the international community as to its commitment to stabilisation, the government has claimed that 1997 will be a year of fiscal restraint. Yet, given the overall macroeconomic environment and existing government commitments, bringing the budget towards balance will prove extremely difficult. On the revenue side, the government is set to forego some revenue as it plans to cut the value-added tax (VAT) rate from 18% to 17%; the rate on staple foods has, meanwhile, been reduced to 10%. Furthermore, the poor outlook for economic growth means that revenue from corporation tax will probably fall, as fewer firms make a profit and many new small private-sector firms are driven out of business. On the expenditure side, the government has budgeted for a substantial programme of welfare provision (equivalent to 18.8% of GDP) and industrial investment (8% of GDP) which would diminish the administration's ability to rein in the deficit.

The government shows no sign of reversing its policies—

The government has shown little sign of a willingness to come to terms with the IMF. Uzbekistan desperately needs to unlock the existing stand-by arrangement with the IMF so as to release vital balance-of-payments support and restart the flow of loans from the World Bank and the European Bank for Reconstruction and Development (EBRD). Yet the public statements of the authorities are becoming more, not less, defiant. The tone was set by Mr Karimov in a speech on December 27, 1996. It was followed by a defiant and much-ridiculed interview with the *Financial Times* in which the prime minister, Mr Sultanov, and the head of the National Bank of Uzbekistan (NBU, the state-owned foreign trade bank), Rustam Azimov, claimed that they preferred incurring inflation to heeding IMF advice.

The Central Bank of Uzbekistan (CBU, the central bank), has now added its voice to this chorus. On March 5 the chairman of the central bank, Faizullah Mullazhanov, gave an interview about IMF relations to the official Russian-language daily *Narodnoye Slovo* (Voice of the People) in which he made the implausible claim that Uzbekistan was working in "fruitful partnership" with the IMF and other international financial institutions. Mr Mullazhanov went on to claim that Uzbek economic policy "enjoys the full support and approval of the IMF" and that the IMF was "content" with local policy. Not once in the interview did Mr Mullazhanov mention that the IMF had suspended Uzbekistan's SBA and the World Bank and EBRD their loan disbursements. In total contradiction of the IMF's position, he denied that Uzbekistan had substantially deviated from its IMF-agreed targets. Instead, Mr Mullazhanov claimed that the deviations were "insignificant" and "permissible", a view not supported by the IMF.

Unfortunately for Mr Mullazhanov, not everybody in Tashkent is singing the same tune. On the one hand, officials, following Mr Karimov's and Mr Mullazhanov's line, claim in the local media that there is simply no economic crisis, that the country has not deviated from its IMF programme and that there is no shortage of hard currency. On the other hand, when addressing foreign audiences, the prime minister, the head of the NBU and Uzbek diplomats abroad acknowledge the mistakes and economic problems in Uzbekistan, with some even claiming to share the IMF's criticisms.

—and the president ignores the IMF—

Following his outbursts in December 1996 comparing IMF conditionality to slavery (1st quarter 1997, page 17), Mr Karimov seems now to have decided to ignore the IMF altogether. The president claims that all is well in the economy, aside from some minor problems caused by speculators and small-scale importers of foreign goods. According to the newspaper *Pravda Vostoka* (Truth of the East), Mr Karimov's cabinet meeting on February 26, 1997, laid out economic priorities, which make no mention of the IMF or a new stabilisation programme. Mr Karimov's main aims for 1997 are to:

- assist in the expansion of small-scale firms and of the private sector;
- encourage the creation of a class of owners;
- create stability in government finances;
- ensure the proper functioning of the financial and credit systems; and
- increase exports.

—but Tashkent's stance cuts no ice abroad

Uzbek economic policies appear to have received short shrift during the annual general meeting (AGM) of the EBRD in London in April. Uzbek officials trotted out the usual line that Uzbekistan has its own model of development and economic policies, and that, mistakes notwithstanding, all was well with the economy. Senior officials from the EBRD, IMF and World Bank present at the AGM were blunt in their response. Uzbek officials were told to convey a simple message to Mr Karimov: forsake current policies and adopt IMF strictures as the failure to do so will result in the continued suspension of funding. They also argued that the som has to become current-account convertible, trade restrictions have to be lifted and genuine structural reforms have to be undertaken. The Uzbeks were also advised to rid themselves of the fundamentally anti-reformist notion that radical reform and social protection are incompatible.

The focus on deficit reduction detracts from liberalisation

One of the problems of Uzbek economic policy is that the government has almost exclusively focused on reducing the budget deficit, without paying regard to how this will be achieved. While keeping the budget deficit under control is seen as an important way of establishing credibility with the IMF and potential foreign investors, the objective is being pursued at the expense of the long-term need to liberalise the economy and reduce the role of the state. The state, for example, continues to control the export sector, particularly the sale of cotton and gold, which provide a substantial part of government revenue. Control of the oil and gas sector, which has seen production increase because of the import substitution policy, likewise remains in state hands.

Monetary policy remains weak—

What little official data are released indicate that monetary policy has been grossly mismanaged. According to a report in *Pravda Vostoka* published on March 6, the CBU estimates that the nominal growth in money supply reached 110% in 1996 (1st quarter 1997, page 19). The press release from the CBU gave no indication as to what monetary aggregate this referred to or whether the rate of change was an annual average or an year-end figure. Either way, the growth in money supply easily outstripped the officially reported annual average inflation rate of 64% and the year-end inflation rate which is estimated by the EIU to have reached 89%. Sources in Tashkent indicate that the government is attempting to restrict the growth in money supply after its monetary binge of 1996, although there is as yet no evidence for this.

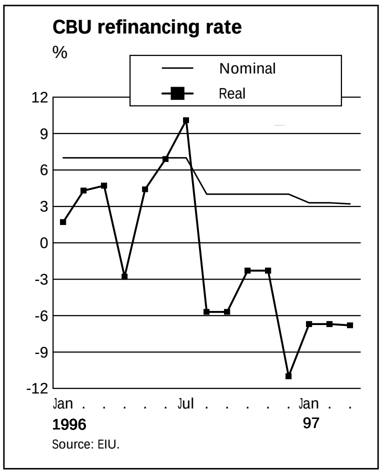
—and a scheme to compensate savers for inflation may not help—

In addition to printing money and giving interest-free loans to agriculture during the second half of 1996, the authorities boosted money supply by launching a compensation programme for lost savings. Mr Mullazhanov has made great play of the government's policy to reimburse savers for their deposits which were wiped out by the high inflation incurred since 1991. The central bank chairman claims that the government had spent Som3bn ($51m at the official rate, $22m at the bazaar rate) on this policy by early March this year. The authorities have indicated that they will reimburse savers who left their money untouched in bank accounts between January 1, 1992, and January 1, 1996. The government maintains that over the next ten years it will repay savers 4,000 times the original (nominal) value of their deposits. The total cost of the scheme is unclear. Figures of $810m (2nd quarter 1996, page 52) and $647m (1st quarter 1996, page 45) have been cited. The state-owned savings bank has estimated that at the beginning of 1992 deposits valued at a total of Rb9bn ($15bn) were held by 5 million residents.

Half of the cost of the compensation programme will be met by the state budget, the rest by the CBU. Either way, the programme has raised concern as to its likely impact on inflation. Yet, in practice, there may well be less to the policy than meets the eye, limiting its inflationary impact. First, savers are not being reimbursed for the loss of savings in 1991 when interest rates paid also failed to match the rate of inflation. Second, although the government is repaying 4,000 times the original value of the deposits, the repayment will be staggered over a ten-year period. In any case, according to official data, prices actually rose by 5,356 times in the period between 1992 and 1996. Savers will therefore receive only 75% of the value of their original savings, and the loss will be much greater, as actual inflation was undoubtedly higher than that reported by official statistics.

—with the CBU getting the basics wrong—

The government's attempts to rein in the fiscal deficit have been undermined by the expansive monetary policies pursued in parallel by the CBU. Indeed, while the CBU managed to maintain positive real interest rates for most of 1995 and 1996, the policy was reversed with the onset of the payments crisis. Thus, following on from a cut in the annual refinancing rate to 40% in January 1997 (3.3% on a monthly basis, 48.2% on a compound annual basis), the CBU again cut the rate, to 38% (3.2% on a monthly basis, 45.4% on a compound annual basis), in March. The monthly refinancing rate is now sharply negative in real terms as monthly inflation stands at around 10%. On a compound annual basis, and given that annual inflation in March stood at around 127%, the real compound annual refinancing rate was -81.6%. Publicly, Mr Mullazhanov has maintained that the refinancing rate is positive in real terms, a claim that has done little to engender confidence in the CBU.



CBU refinancing rate
(%)

	Annual rate	Compound annual rate	Monthly rate	Real monthly rate
1996				
Jan	84	125.2	7.0	1.7
Feb	84	125.2	7.0	4.3
Mar	84	125.2	7.0	4.7
Apr	84	125.2	7.0	–2.8
May	84	125.2	7.0	4.4
Jun	84	125.2	7.0	6.9
Jul	84	125.2	7.0	10.1
Aug	48	60.1	4.0	–5.7[a]
Sep	48	60.1	4.0	–5.7[a]
Oct	48	60.1	4.0	–2.3[b]
Nov	48	60.1	4.0	–2.3[b]
Dec	48	60.1	4.0	–11.0[c]
1997				
Jan	40	48.2	3.3	–6.7[d]
Feb	40	48.2	3.3	–6.7[d]
Mar	38	45.4	3.2	–6.8[d]

[a] Assuming 9.7% monthly inflation. [b] Assuming 6.3% monthly inflation. [c] Using World Bank data of 15% monthly inflation. [d] Assuming 10% monthly inflation.

Sources: Reuters for annual rate; EIU for other rates.

—with some help from the NBU—

According to information from the US embassy in Tashkent, the NBU is also pursuing a perverse interest rates policy. If the US data are accurate, the annual interest rate paid by local commercial banks on demand deposits in an unspecified hard currency (presumably US dollars) is a mere 4-4.5% depending on the size of the deposit. The reported annual interest rate on term deposits in hard currency (again presumably US dollars) is 5.5-6.5%, again depending on the size of the deposit. The current low interest rates are actually an improvement on the rates offered in 1996, when demand deposits paid out only 2% and term deposits 4%, both on an annual basis. The NBU, meanwhile, charges around 15% on its dollar loans. Such a high interest rate is appropriate given the risk of lending in Uzbekistan but it also implies that the NBU is benefiting from a spread between dollar deposit and lending rates of around 1,000 basis points, some of which is not risk-related but instead stems from the NBU's quasi-monopoly over the local banking market.

Such low interest rates on dollar-denominated deposits are also an incentive to capital flight. The interest rates paid by the NBU on dollar deposits are the same as rates paid by US retail banks. The reliability of Uzbek banks can, however, be seriously questioned despite the ridiculous NBU claim, made in an advertisement placed in the *Financial Times* in early April, that it is “the most reliable bank in the world”. Such a view is unlikely to be shared by the bank’s customers, many of whom were denied access to their accounts during the height of the recent convertibility crisis. In any event, Uzbek citizens wishing to get a return on their dollar savings are likely to put their money into Russian and Kazak banks which offer interest rates on dollar deposits comfortably in excess of 10% per year.

—creating economic distortions

The openly anti-reformist approach to monetary policy is creating a number of dangerous distortions in the economy. Credit is grossly misallocated, with the state continuing to direct the bulk of lending towards priority economic sectors, most of which are involved in import substitution and so do not earn the country hard currency. Similarly, until the end of 1996, flats in Tashkent could be purchased with loans costing only 12% per year (1st quarter 1997, page 20). This facility has been replaced with another programme designed to boost housing construction. The new programme was announced by the president on March 26 and entails the provision of loans, priced at only 20% per year and with a ten-year maturity, to individuals for house building. The loans will be collateralised against housing bonds which the government has yet to issue. As if the cheap money on offer were not already a significant waste of resources, the government is offering to reimburse borrowers for half of the costs of constructing new private dwellings.

In addition, there is little incentive to save in Uzbekistan while interest rates on deposits are negative in real terms. In February the annual interest rate paid out on demand deposits in som was a mere 20-25%, although some banks were offering 6% per month, equivalent to more than 100% on an annual basis. These rates are unlikely to attract deposits when monthly inflation is around 10%. A term deposit of six months still receives an annual interest rate of only 22-24%. The return on Uzbek government Treasury bills is also negative in real terms. According to Russian press reports, three-month T-bills were yielding 40% on an annualised basis at the end of March 1997, when annual inflation was running at 127%. Despite galloping inflation, the government has launched six-month T-bills worth Som1bn ($17m) yielding only 30% on an annualised basis.

The banking sector is in difficulty—

There are increasing hints from the government that the banking sector is in trouble. The first indication of a banking crisis came with the sudden and unpublicised sacking in January of Ahmat Ibotov, the head of Promstroibank, the second largest bank in Uzbekistan after the NBU. Then, on February 26 Mr Karimov launched a scathing attack on the country’s banks, accusing them of being corrupt and bureaucratic. The president also blamed the banks for maintaining excessively high interest rates. The CBU has also recently criticised the banks for poor credit risk evaluation and poor procedures over the issuing of bank guarantees.

A banking crisis would be the predictable result of the balance-of-payments crisis and the CBU's lax monetary policies. Inter-enterprise arrears are building up. As there are no effective bankruptcy or debt recovery procedures, firms are postponing repayments on all obligations, whether to banks or suppliers, so as to ease their cashflow problems. In 1996 the authorities closed three banks, all supposedly for breaching lending limits set by the CBU. While there is probably a degree of truth in the official explanation, other factors are at work. Uzavtodorbank, owned by the Ministry of Automobile Transportation, was in practice closed because it was in competition with two other banks which are active in the automotive sector. The first of these is Asaka Bank, which funds sales of Daewoo cars, while the second is the NBU itself, which monopolises the more profitable end of the loan market in Uzbekistan. Geolbank, owned by the Ministry of Geology, suffered a similar fate to Uzavtodorbank, given that the NBU is eager to maintain its monopoly over all hard currency loans to joint ventures in the mining sector. Meanwhile, the circumstances surrounding the closure of Sharq Bank, a privately owned bank in Samarkand, in March 1996 have still to be explained by the CBU.

—and is suffering from dangerous over-concentration—

One of the main problems in the banking sector is over-concentration. According to data from the US embassy in Tashkent, the three largest banks, all of which are state-owned, control 86% of commercial banks' assets. The main culprit is the NBU, which accounts for 45% of assets; the state-owned construction bank, Promstroibank, meanwhile, has 24% of commercial banks' assets, with Pahta Bank (the agricultural bank) holding 17%. Of the remaining 25 banks in the country, the largest is the state-owned Asaka Bank, which provides cheap loans, at an annual interest rate of just 4-7% per year, for the purchase of new Daewoo cars, and has 3% of all commercial bank assets. There are in addition two privately owned banks and 22 joint-stock banks which are effectively state-controlled.

—particularly in the hands of the NBU

The NBU, despite its supposed role as a state-owned foreign trade and foreign exchange bank, poaches most of the quality loans in Uzbekistan. The EBRD has unwittingly reinforced the dominant position of the NBU as the whole of its first small and medium-sized enterprises (SMEs) credit line to Uzbekistan went through the NBU and half of the second credit line is slated to be channelled through the bank. The EBRD is now trying to move lending away from the NBU, but is finding that there are few other banks which are even half competent or large enough to handle the levels of responsibility involved, and none which are privately owned.

The accuracy of data on the NBU's balance sheet is unclear. The NBU claims to have lent $2.9bn to 74 projects in 1996 alone, with a further $3bn in lending on the way. Meanwhile, the NBU also reports that in 1996 its total assets rose to $3.4bn, an increase of 85% on 1995 when they stood at $1.84bn. The NBU has, however, failed to announce the size and nature of its liabilities. It claims net income in 1996 of $113m, a feeble return on total assets of just 3.3%. In February this year the NBU managed to have its authorised capital more than doubled from $200m to $470m, further enhancing its dominance over the banking sector.

Access to hard currency remains limited

There has been no change in the government's much-criticised foreign exchange policy which continues to place swingeing controls on convertibility. The result is that hard currency is in even shorter supply than during the last quarter of 1996, while the spread between the official exchange rate, set by the government, and the bazaar rate, set by the market, has widened further. Thus, while the spread between the two rates was 107.1% in December 1996, it increased to 112% in January 1997 and 123.4% in February before climbing to 150% by mid-April. By contrast, the government has managed to keep the spread between the official rate and that offered by Uzbekistan's commercial banks steady at around 10%. The government is thought to have achieved this only through closing down the foreign exchange departments of most of Uzbekistan's banks.

Exchange rate spreads
(%)

	Official rate/ commercial bank rate	Official rate/ bazaar rate
1996		
Feb	19.2	25.1
Mar	19.9	31.5
Apr	9.0	33.7
May	1.0	36.3
Jun	1.5	36.1
Jul	20.4	40.3
Aug	20.5	45.6
Sep	7.9	59.7
Oct	24.4	78.4
Nov	10.0	108.2
Dec	10.3	107.1
1997		
Jan	9.7	112.0
Feb	10.2	123.4
Mar	10.6	138.8
Apr	11.1	154.2

Sources: US Department of Commerce, BISNIS Information Service; EIU.

Feeble progress is made on privatisation

The privatisation process in Uzbekistan continues to limp on, although few quality assets are on offer. The privatisation programme comprises three strands. The first was the widespread privatisation of residential property. Indeed, by the end of 1994 most residential property had in fact been given away. Despite this, the market remains highly illiquid as the new owners do not have full control over their real estate, and property rights are unclear. The second involved the sale of state-owned enterprises and other assets with export potential or with important shares of the local market. The sale of these quality assets was deliberately murky and, according to US officials, corrupt from start to finish. The World Bank politely called these sales "non-transparent", with the main beneficiaries reported to have been supporters of the regime. The third strand of privatisation, which is currently being implemented, involves the auctioning off of around 300 so-called blue-chip companies to privatisation investment funds (PIFs); on January 16 Uzbekistan held its second such auction. Under the scheme the public does not buy a share in firms directly but instead invests through the PIFs, which are essentially open-ended mutual funds. Although the PIFs are meant to be part of a mass privatisation programme, the value of shares traded has thus far been small. During the most recent auction only Som40m ($720,000 at the official rate, $330,000 at the bazaar rate) of shares were sold and only five funds took part.

The economy

The government refuses to come clean on the economy—

The government has held to its claim that the economy is finally recovering after five years of recession. The most recent figures released by the government relate only to 1996 but these claim that the economy recorded real growth of 1.6%. This has been trumpeted by officials as providing evidence of the success of the government's economic policies. They point out that, while Uzbekistan was emerging from recession in 1996, the economies of Russia, Kazakstan and Ukraine continued to contract. The president has himself described 1996 as "a year of economic stabilisation". However, official data are unreliable, while the government's line on the economy's performance remains inconsistent. Given the seriousness of the current-account crisis and the over-reaction of the government in imposing across-the-board restrictions on currency convertibility we doubt that the economy recorded real GDP growth in 1996. The important cotton crop is known to have been well down on 1995, while anecdotal evidence indicates that many shops and enterprises were forced to restrict their operations in the final quarter of the year in response to the convertibility crisis. Our standard practice is, however, to use official sources for our historical data series and hence we have adjusted our reported rate of GDP growth in 1996 to 1.6% as claimed by the government.

The only data released for 1997 have been those published by the statistical committee of the CIS (CIS Goskomstat), which claims that real industrial output in Uzbekistan grew by 4.1% in the first two months of 1997 on the same period of 1996. However, in reality, and on the assumption that the government is finally coming to its senses and trying to rein in monetary growth, and that import restrictions are working, the economy has probably pushed back into recession.

—and there are other indications that all is not well

Uzbekistan does not release data on the scale of inter-enterprise arrears, the amount of overdue payments between firms. The lack of data does not mean that Uzbekistan is unaffected by a problem which is commonplace in all former Communist economies. In fact, in recent months government officials have begun to express concern over the problem, although as yet without providing data as to its extent. The CBU has thus criticised firms for allowing inter-enterprise arrears to accumulate, the second time in the last six months that the authorities have hinted at the scale of the problem (1st quarter 1997, page 24). The central bank has vainly reminded managers of the president's May 1995 decree "On measures to increase the responsibility of heads of enterprises and organisations for timely accounting in the national economy", which treats late payment as a crime punishable with a prison sentence.

Grandiose plans for the mining sector

Despite Uzbekistan's failure to attract foreign investment, the government has announced a series of plans to expand the mining sector. The government intends to double the present level of production, to 120 tons per year within five to six years. The authorities are keenly aware that large-scale investment in gold mining in Latin America and Africa threatens to diminish Uzbekistan's importance as a gold producer and push it out of the top ten gold-producing states. Output has fallen gradually since the late-1980s when Uzbekistan produced around 70 tons of gold per year.

Meanwhile, the head of the State Geology and Mineral Resources Committee, Aleksandr Ogarkov, has claimed that Uzbekistan will need $1.1bn in foreign direct investment (FDI) in order to double gold production. There are no signs, however, that the government intends to change the legal regime to encourage more investment, or that it is willing to allow either foreign management control or 100% foreign-owned ventures as has the government in Kazakstan. Attracting such high levels of FDI will be a tall order given that the EBRD has estimated that gross cumulative FDI inflows to Uzbekistan between 1989 and 1996 reached a mere $342m. It will also be difficult to attract large-scale investment in gold given the falling world market price of gold. In the year to mid-April 1997, gold prices had fallen by 12.3%.

In a similar vein, Uzbekistan plans to increase uranium output by 75% in the next three years, although it has not indicated where the investment will come from. Uranium production reached 1,700 tons in 1996, down from late Soviet-era production of around 3,500 tons per year. The government plans to produce 2,400 tons of uranium in 1998 and 3,000 tons by 2000. Domestic production is dominated by the state-owned Navoi Mining and Metallurgical Combine (NGMK), which claims that production will be spurred by an increase in export demand in the USA.

Gold and uranium output
(tons)

	1992	1993	1994	1995	1996
Gold	64.5	66.6	64.4	63.6	60.0
% change, year on year	n/a	3.3	–3.3	–1.2	–5.7
Uranium	n/a	n/a	n/a	2,000	1,700
% change, year on year	n/a	n/a	n/a	n/a	–15.0

Sources: Reuters; Gold Fields Mineral Services; Foreign Broadcasting Information Service.

There are no signs of change in agricultural policy

Agricultural reform remains a low priority for the government, despite the fact that the sector is the country's largest employer, the largest earner of hard currency and the root cause of the balance-of-payments crisis. The president did claim on February 26 that the pace of agricultural reform had been too slow, but he failed to specify what reforms he wanted to see implemented. He did, however, boast that 19,500 new private farms had been established in 1996. Yet, despite this claim, there are few incentives for private farming in Uzbekistan. The state continues to set the prices of most inputs and outputs in agriculture. There is no indication that the government will grant greater land ownership rights to farmers. At present, farmers only have limited usufruct rights and there is no functioning land market; private ownership of land is still banned.

Grain production data are adjusted upwards—

Meanwhile, the deputy head of the grain department at the Ministry of Agriculture and Water, Zair Latypov, announced on March 7 that Uzbekistan would stick to its policy objective of self-sufficiency in grain. The target for the

1997 grain harvest has been set at 4m tons, while around 1.5m ha of land is to be sown with cotton, of which 1m ha will be irrigated. Rather than tackle the sector's fundamental problems and renounce the failed policy of attaining self-sufficiency in grain, the Ministry of Agriculture and Water is trying to rewrite history. Amid much criticism the ministry has recently argued that the policy has been more successful than had been previously assumed and reported by the government. Thus Mr Latypov has claimed that in 1996 total grain production reached 3.55m tons, compared with 3.22m tons in 1995. Previous data indicated a 1995 grain harvest of 2m-2.7m tons and a 1996 total of 2.74m tons.

—while the cotton crop has run into problems

The vital cotton sowing season has been hampered by bad weather. Initial reports from the specialist publication, *Cotton Outlook*, claim that, as of April 15 this year, rain had delayed sowing to such an extent that sowing targets had been abandoned. By that date 504,100 ha, or just one-third of the total land area to be given over to cotton, had been sown. The situation was better with the crop sown under plastic (which protects it from the elements): 118,690 ha was sown compared with a target of 218,500, a plan fulfilment rate of 54.3%.

Cotton acreage sown by province
(ha)

	1995	1996	1997[a]
Andizhan	110,200	110,000	110,000
Bukhara	110,300	125,100	129,000
Dzhizak	134,000	111,500	111,000
Fergana	127,800	127,600	127,000
Karakalpakstan	145,000	145,000	145,000
Kashkadarya	173,000	172,200	173,000
Khorezm	101,500	100,900	100,000
Namangan	95,000	94,800	95,000
Navoi	42,300	43,500	44,000
Samarkand	93,900	97,600	97,000
Surkhandarya	120,600	118,500	120,000
Syrdarya	137,100	135,000	141,000
Tashkent	107,600	108,200	108,000
Total	1,498,300	1,489,900	1,500,000

[a] Target.

Source: *Cotton Outlook*.

Inflation has been boosted

The government has released no new monthly inflation data, and the most recent figures leaked are from as far back as July 1996. Officials have, however, admitted that year-end inflation comfortably overshot the 21-25% target set by the IMF and the government's 30% target. This was re-affirmed on February 26, when Mr Karimov admitted that inflation had been higher than expected. According to the World Bank, monthly inflation in December 1996 was 15%, higher than our initial estimate of 9.1%. As a result, the year-end 1996 rate is estimated by the EIU to have reached 89%.

The impact of the government's resort to printing money at the end of 1996 is thought to be still feeding its way through the system. Monthly inflation is therefore estimated to have held at around 10% in March, implying an annual inflation rate of 127.4%. Some data on prices are available from US embassy reports. These indicate that for around half of the consumer price basket, prices increased by just 4.2% from January 16, 1997, to March 4, in part because of falls in bread and vegetable prices.

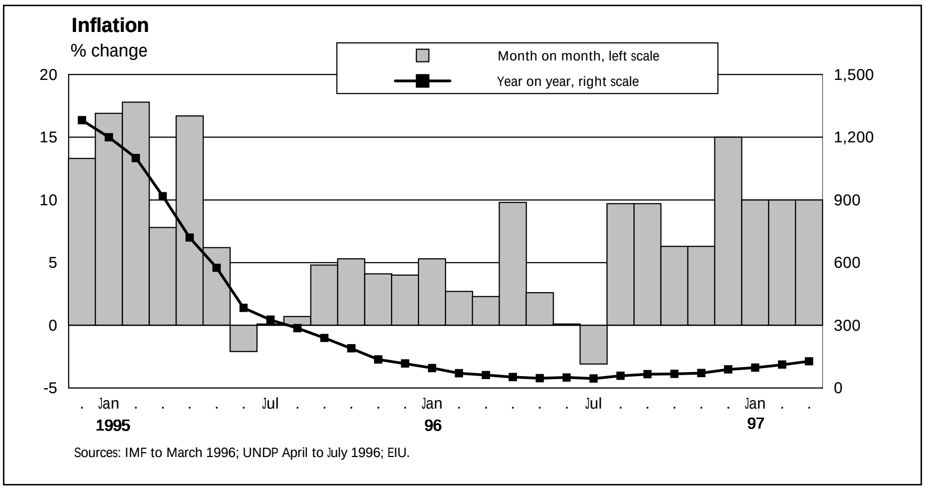
Consumer price inflation
(%)

	Monthly	Annual
1994		
Dec	13.3	1,281.4
1995		
Jan	16.9	1,199.2
Feb	17.8	1,100.3
Mar	7.8	917.3
Apr	16.7	719.3
May	6.2	575.0
Jun	–2.1	383.4
Jul	0.1	326.3
Aug	0.7	286.4
Sep	4.8	239.2
Oct	5.3	189.4
Nov	4.1	136.3
Dec	4.0	116.9
1996		
Jan	5.3	95.4
Feb	2.7	70.3
Mar	2.3	61.7
Apr	9.8	52.1
May	2.6	46.9
Jun	0.1	50.2
Jul	–3.1	45.4
Aug	9.7[a]	58.4[a]
Sep	9.7[a]	65.8[a]
Oct	6.3[b]	67.4[b]
Nov	6.3[b]	71.0[b]
Dec	15.0[c]	89.0[b]
1997		
Jan	10.0[d]	97.5[d]
Feb	10.0[d]	111.5[d]
Mar	10.0[d]	127.4[d]

[a] EIU estimate using government full-year inflation data. [b] EIU estimate using government fourth-quarter 1996 inflation data. [c] World Bank data. [d] EIU estimate.

Sources: IMF to March 1996; UNDP April-July 1996; EIU.

One indication of the inflationary trend has been the issue of a Som200 banknote by the CBU on March 1, twice the face value of the previous highest denomination note. The news of the Som200 banknote, worth $3.46 at the official rate and $1.43 at the bazaar rate, had the opposite effect to that which the CBU intended. Wild rumours circulated that the som would soon be replaced by a new currency. The rumours and the continuing collapse of the som in the bazaar have served to encourage the dollarisation of the economy. Meanwhile, many of the small businesses that the president wishes to encourage have gone under. Others are demanding cash in advance for sales, and credit has all but dried up.



Confidence in the currency reaches a low ebb—

Popular confidence in the som is at an all-time low. Following the four devaluations of the official exchange rate imposed by the government in 1996 (on October 18, October 31, November 19 and December 17), the official rate of the som has been steadier in 1997. The som ended 1996 trading at Som54.7:$1 on the official foreign currency auction which is rigged by the government. By mid-April 1997, the official rate of the som was set at Som59:$1, an 8% nominal fall in three and a half months. By the standards of the som, a monthly nominal depreciation of 2.2% is rather mild, given that the average monthly depreciation in 1996 was 3.7%. In the first quarter of 1997, assuming an average monthly inflation rate of 10%, the official rate is thought to have appreciated by 21.2% in real terms against the dollar.

By mid-April the commercial bank rate for the som was just over 10% above the official rate, in excess of the 5% maximum spread generally specified by the IMF for a unified exchange rate. The commercial bank rate had moved to 27.3% below the official rate as of the first week of October 1996, its lowest ever level. At that point, the CBU stepped in and closed down all of the foreign exchange departments in all but two of Uzbekistan’s banks (the NBU and Uzbpromstroibank), although the commercial bank rate continued to drop for a while in the rest of the month. The CBU has since allowed some banks and exchange bureaux to reopen, with the clear condition that the exchange rate offered shadows the official rate with a margin of around 10%. As a result, since November 1996 the commercial bank exchange rate for the som has moved in tandem with the official rate.

—as the exchange rate drops sharply in the bazaar

The only meaningful market-determined exchange rate in Uzbekistan is the bazaar rate since the population’s access to hard currency sold through official channels remains subject to extensive restrictions. Reflecting continuing uncertainty over exchange rate policy, and following the collapse in the som in 1996, the bazaar rate has plunged to new depths. By mid-April the rate stood at Som150:$1, 154.2% below the official rate.

Exchange rates
(Som:$1)

	Official rate	Commercial banks	Bazaar	Average auction ($ m)[a]	Official/ bazaar spread (%)
1996					
Jan	36.2	n/a	n/a	n/a	n/a
Feb	36.4	43.4	45.5	25.9	25.1
Mar	36.4	43.6	47.9	24.7	31.5
Apr	36.9	40.2	49.3	29.9	33.7
May	37.7	38.0	51.3	37.0	36.3
Jun	37.8	38.4	51.5	37.2	36.1
Jul	37.9	45.7	53.2	37.9	40.3
Aug	38.6	46.5	56.1	27.0	45.6
Sep	39.7	42.9	63.4	28.6	59.7
Oct	42.3	52.7	75.5	29.1	78.4
Nov	49.5	54.5	103.1	33.9	108.2
Dec	52.9	58.3	109.5	26.7	107.1
Annual average	40.2	45.8[b]	64.2[b]	30.7	54.7[b]
1997					
Jan	55.6	61.1	118.0	n/a	112.0
Feb	56.7	62.5	126.8	n/a	123.4
Mar	58.0	64.1	138.5	n/a	138.8
Apr (first half)	59.0	65.5	150.0	n/a	154.2

[a] Twice weekly auction, monthly average. [b] February-December average.

Sources: US Department of Commerce, BISNIS Information Service; Bloomberg.

Foreign trade and payments

Still no data on the trade accounts—

For almost a year now the government has released no data on the external balance, aside from one not very useful figure detailing total foreign trade turnover. The most recent actual figures from the IMF are for the first quarter of 1996. However, it is likely that the balance-of-payments crisis, which led to a current-account deficit last year estimated at 12.1% of GDP (converted at the official rate, 19.4% at the bazaar rate), is now starting to ease. Government import restrictions, economic contraction and the massive tightening of liquidity caused by the hard currency shortage and devaluation are all thought to have dampened demand for imports.

—but opportunities for arbitrage exist

The government's ability to make significant inroads into the large trade deficit in 1997 will be largely dependent on its willingness to bring about a fundamental change in foreign exchange policy. For the moment, the government is trying to keep imports out through the imposition of restrictions on trade and convertibility. The impact of these policies is, however, undermined by the continued existence of a multiple exchange rate system which creates considerable incentives for imports, particularly of consumer goods. In particular, those able to import consumer goods at the overvalued official rate can then resell the same items on the domestic market at a som price equivalent to the actual dollar cost of the goods converted at the som's bazaar rate. As a result, the importers pocket the spread between the official rate and the bazaar rate of over 100%. These profit margins are obviously an invitation to corruption.

Attempts are made to rekindle trade with Russia—

Given fast-dwindling foreign currency reserves (see below) the plan now appears to be to export cotton to Russia for payment in barter, with Russia taking 200,000 tons of Uzbek cotton fibre per year and Uzbekistan receiving farm machinery, non-ferrous metals and aviation fuel. In 1996, during his visit to the USA, Mr Karimov ridiculed the poor quality of Russian farm machinery, claiming that Uzbekistan would prefer to buy higher-quality, but costlier, US combine harvesters, noting that "the cheap man always pays twice". The irony is that Uzbek trade (both exports and imports) appears to have finally diversified from its over-concentration on former Soviet republics. The share of total trade outside the CIS rose from 50% in 1995 to 72% in the first three quarters of 1996. Exports to the CIS fell from 47% of the total in 1995 to 25% in the first three quarters of 1996, while imports from the CIS declined from 54% of the total to 31%.

—although plans to buy Russia grain have stalled—

As expected, the disadvantageous cotton-for-grain barter deal with Russia is on the brink of collapse (1st quarter 1997, page 33). Last October Russia and Uzbekistan agreed to barter 400,000 tons of Russian food wheat for 77,000 tons of Uzbek cotton fibre. At the time the deal was signed, Uzbekistan was committed to sending $141m of cotton fibre to Russia in return for, at best, $92m of Russian wheat (on the generous assumption that the Russian wheat is of a quality to earn world market prices), an indication of the Uzbek authorities' desperate shortage of foreign exchange.

However, Russia has simply not produced the wheat to barter for Uzbek cotton. In 1996 the Russian grain harvest was a mere 69.3m tons, the second worst harvest for 30 years. As a consequence, Russia has been able to deliver only 22,000 tons of wheat to Uzbekistan. To salvage the deal, the two sides have scaled down the volumes involved by 25%. Sources in Tashkent indicate that even the smaller deal may not pan out. As a result, Uzbekistan will probably have to buy the balance of the wheat on the international market, at an estimated cost of $70m. Uzbekistan's heavy buy orders in the European wheat market had already conspicuously pushed up prices in the Hamburg grain exchange in early March.

—forcing more wheat to be purchased from Kazakstan

Another factor undermining the Russian-Uzbek barter deal is Tashkent's insistence that the wheat be Russian in origin. Buying large quantities of Kazak wheat is politically unacceptable for the Uzbeks who view Kazakstan as a regional rival. However, the authorities are finding that if they want to avoid bread shortages and social unrest they have to grit their teeth and contemplate buying more Kazak wheat. At the end of March the Kazak government announced that it had sold 100,000 tons of wheat to Uzbekistan. It then gleefully announced that it had given Uzbekistan the option to buy a further 100,000 tons. The price of the Kazak wheat was not disclosed, but Kazak officials had been demanding a minimum export price of $165/ton.

Reserves continue to fall—

Uzbekistan has never published data for its foreign exchange and gold reserves in a recognisable international format. The NBU claims that Uzbekistan has seven months of import cover, a figure that is impossible to verify. However, data from the Bank for International Settlements (BIS) indicate that, as of the end of September 1996, Uzbekistan's net position with BIS-reporting banks was down to $526m. In terms of import cover, this represented a mere 1.7 months of cover. Uzbekistan, like all other former Soviet republics, has a large volume of unrecorded imports, which probably adds another 50% to recorded import costs, meaning that funds held with BIS-reporting banks are worth 1.2 months of recorded and unrecorded imports.

Given the low level of reserves, Uzbekistan is probably surviving by monetising its gold reserves. The most recent data for these, at the end of the first quarter of 1996, suggested that they were worth $658.5m on national valuation. In the past year, however, world gold prices have fallen by 12.3% and Uzbek gold production is also dropping.

—and FDI is simply not coming in—

Uzbekistan's reputation as one of the former Communist bloc's least attractive locations for FDI was further confirmed at the April AGM of the EBRD. The bank released data which indicated that gross FDI inflows to Uzbekistan between 1989 and 1996 totalled just $342m. On the assumption that virtually all of the inflows were made in the period after 1992, this represents a ratio of FDI to GDP of just 1%, the second lowest ratio in Central Asia after Tajikistan and 16th out of the 25 countries that are listed by the EBRD. Remarkably, even Turkmenistan, which must have one of the worst business climates and legal regimes in the former Communist bloc, has more FDI and a higher FDI/GDP ratio than Uzbekistan.

Foreign direct investment into Uzbekistan
($ m unless otherwise indicated)

	1992	1993	1994	1995	1996
Foreign direct investment (net)	9.0	48.0	73.0	–24.0	12.0[a]
% of GDP	0.4	0.9	1.3	–0.2	0.5[a]
Foreign direct investment (gross)	9.0	48.0	85.0	120.0	55.0[b]
% of GDP	0.4	0.9	1.5	1.0	0.5[c]

[a] First-quarter 1996 data. [b] EBRD estimate. [c] 1996 GDP estimated at $10.1bn.

Sources: Net FDI—IMF; gross FDI—EBRD.

—making the government desperate to borrow abroad—

The government knows that it is in a corner and desperately needs to rebuild its reserves. The 1997 grain harvest is likely to fall short of the 4m tons target, while a better cotton crop will be slightly offset by lower cotton prices. The fall in gold prices also means that the external sector problems of 1996 could occur again, albeit on a smaller scale. To meet debt repayments and to avoid being unable to buy grain, the government is trying to replenish its reserves through borrowing. According to Mr Karimov on February 26, the country is only being offered $350m in foreign loans at present, a sum far short of its likely financing requirement this year of well in excess of $1bn.

The administration is also still looking to issue a $200m Eurobond with a maturity of three to five years, although such a long maturity looks unlikely (1st quarter 1997, page 35). Market sentiment is still that the Uzbek Eurobond will have to be priced at 150 basis points over the December 1996 Kazak Eurobond, or 375 to 400 basis points over US treasuries. Given Uzbekistan's lack of a record as a borrower, its poor economic management and the absence of either an IMF agreement or reserves data, the country will be lucky to get a rating, let alone succeed in placing a Eurobond. With US interest rates set to rise, Uzbekistan is also going to market at the wrong time.

—adding further to the external debt burden

Uzbekistan's debt stock rose from zero at independence in 1991 to $1.6bn by end-1995, according to the latest figures from the World Bank. A rise in the external debt stock was to be expected for all former Soviet republics once the hand-outs from Moscow ended in 1991. Uzbekistan is now receiving appropriately priced resource flows which should be used efficiently to enable the country to implement market-oriented development. Or so the theory runs. The reality is otherwise. As in many other emerging markets, Uzbekistan's poorly thought-out and badly managed development strategy is shackling the country with a burden of debt that it will find increasingly difficult to bear. What is preventing Uzbekistan from getting into more debt is the fact that very few institutions will lend to it.

The external debt/GDP ratio does, however, remain modest, reaching just 15.4% at the end of 1995. The more useful and meaningful debt/exports ratio was also modest at 42.8%. In the case of Uzbekistan, 93.8% of external debt is denominated in hard currencies, while only around 40% of exports in 1995 were to hard currency markets, implying a debt/hard currency exports ratio of 100%. In 1996, if government data are to be believed, hard currency partners took around 60% of exports, which would give a debt/hard currency exports ratio of 91%.

Debt stock and debt service

($ m)

	1992	1993	1994	1995
Total debt stock	60	1,032	1,194	1,630
Long-term debt[a]	60	940	903	1,260
Use of IMF credit	0	0	0	158
Short-term debt	0	92	291	212
Memorandum item				
Export credits	0	94	67	359
Debt service	5	20	122	208
Official creditors	5	18	105	171
Multilateral	0	0	0	4
Bilateral	5	18	104	167
Private creditors	0	3	17	37
Bonds	0	0	0	0
Commercial banks	0	0	0	0
Other private	0	3	17	37

Note. Figures may not add due to rounding.
[a] All debt is public or publicly guaranteed.

Source: World Bank, *Global Development Finance.*

The debt data need to be treated with caution. Data on debt servicing vary between sources. The World Bank, whose export figures include services and so are 21% higher in dollar value for 1994 and 1995 for Uzbekistan, put the debt-service ratio in 1995 at 4.8%. We calculate, using IMF trade data and World Bank debt-service figures, that the ratio was 5.5%, broadly in line with the World Bank. By contrast, the IMF puts the 1995 debt-service ratio at 16% and rising. The difference may arise from the World Bank's focus on official debt flows and its failure to access information about private debt flows, such as the large amounts of commercial bank lending noted by the IMF. The IMF identified a $400m positive flow into the capital account from commercial banks in the first quarter of 1996 and has recorded $243m in 1992-95 in debt repayments to commercial banks.

External debt ratios
(%)

	1992	1993	1994	1995
Debt-service	0.4	0.7	4.1	5.5
Debt/GDP	3.0	18.8	21.2	15.4
Debt/exports of goods & services	4.2	35.9	40.6	42.8
Memorandum item				
Debt service ratio according to IMF	n/a	n/a	11.0	16.0

Sources: World Bank for debt; IMF for GDP and exports.

Business news

● The EBRD plans to set up an Ecu36m fund for Uzbekistan. However, the fund is unlikely to go ahead nor will funds be disbursed until Uzbekistan has agreed a new stand-by arrangement with the IMF and hence made progress on introducing current-account convertibility.

● Alcatel has won a $60m contract to install two turnkey Global System for Mobile Communications (GSM) networks for Tashkent and Samarkand.

● Daewoo has announced plans to build a $326m business centre and five-star hotel in Tashkent. Daewoo also claims that it will start engine production in Uzbekistan, requiring an investment of $600m. Production is planned to reach 300,000 engines per year. According to Russian press reports, the UzDaewoo plant produced 24,878 cars in 1996, of which 2,000 were exported to Belarus, the Kyrgyz Republic and Russia.

● Uzavtosanoat (Uzbekistan automobile manufacturer’s association) and Koc (Turkey) claim that they are to start assembling trucks and buses within 18 and not 42 months, as originally indicated. The joint venture, Samkocavto, aims to produce 2,000 buses and 1,000 light trucks per year.

● The government has announced the creation of a joint venture, called Uz-Can-Mining, to prospect the Kayragach gold deposit near Tashkent and the Aktepe silver deposit in Namangan region. The joint venture was formed between RUX Resources of Canada, a subsidiary of Williams Resources, and the State Committee for Geology and Mineral Resources and Tashkentgeologia (both of which are state-owned). The Canadian firm will have 50% of the equity in Uz-Can-Mining.

● Siemens of Germany has won a DM30 ($17m) contract to supply equipment to Bukhara, Urgench and Samarkand airports.

Quarterly indicators and trade data

Quarterly indicators of economic activity

		1994		1995				1996			
		3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Industrial production	Monthly av										
General index	1990=100	93.4	130.7	72.7	82.2	99.4	n/a	n/a	n/a	n/a	n/a
Cement	'000 tons	428	328	261	276	322	280	211	305	307	248[a]
Mining											
Lignite	'000 tons	336	298	221	234	269	278	232	239	253	190[a]
Natural gas	m cu metres	3,313	4,207	4,406	3,968	3,544	4,066	4,526	3,879	3,564	4,069[a]
Crude petroleum	'000 tons	326	402	437	430	439	464	402	432	398	461[a]
Employment											
Industry	'000	1,100	1,084	1,120	1,110	1,100	1,070	1,050	1,035	1,020	n/a
Unemployed, registered	"	19.3	21.2	27.6	32.8	28.4	26.4	28.9	32.9	33.4	n/a
Wages											
Monthly earnings, ind	som	480	660	973	1,475	1,551	2,118	2,244	3,350	3,920	n/a
Construction											
Dwellings completed	'000	6.9	6.4	2.4	5.6	6.4	5.1	2.0	5.9	8.7	n/a
Foreign trade	Qtrly totals										
Exports fob	$ m	449.2	1,276.3	499.0	779.7	577.8	1,243.5	453.4	518.1[b]	n/a	n/a
of which: CIS	"	224.1	998.9	178.7	442.5	235.6	252.7	104.5	109.6[b]	n/a	n/a
Imports cif	"	648.2	790.7	517.9	592.8	488.8	1,148.4	605.4	559.8[b]	n/a	n/a
of which: CIS	"	375.2	378.3	220.0	273.5	316.8	307.3	187.0	205.2[b]	n/a	n/a
	End-Qtr										
Exchange rate	som:$	17.0	25.0	26.1	30.0	33.5	35.5	36.1	37.7	40.0	43.5[c]

Note. Annual figures of most of the series shown above will be found in the Country Profile.
[a] October only. [b] Total for April-May. [c] End-October.

Source: OECD, *Short-term Economic Indicators.*

Former Soviet republics: currency status

Country	Name	Status	Introduction date	Remarks
Armenia				
Final currency	Dram	Sole legal tender	Nov 22, 1993	
Azerbaijan				
Final currency	Manat	Sole legal tender	Jan 1, 1993	Manat became sole legal tender on January 1, 1994.
Belarus				
Interim currency	Rubel	Sole legal tender	Jun 1992	Sole legal tender as of November 10,1992.
Estonia				
Final currency	Kroon	Sole legal tender	Jun 20, 1992	
Georgia				
Final currency	Lari	Sole legal tender	Sep 25, 1995	
Kazakstan				
Final currency	Tenge	Sole legal tender	Nov 15, 1993	
Kyrgyz Republic				
Final currency	Som	Sole legal tender	May 10, 1993	Sole legal tender as of May 15, 1993.
Latvia				
Final currency	Lat	Sole legal tender	Jun 28, 1993	Lat phased in between March 1 and June 28, 1993.
Lithuania				
Final currency	Lit	Sole legal tender	Jul 20, 1993	Lit phased in between June 25 and July 20, 1993.
Moldova				
Final currency	Leu	Sole legal tender	Nov 29, 1993	
Russia				
Final currency	Rouble	Sole legal tender	1993	Soviet roubles issued between 1961 and 1992 withdrawn. Russian 1993 rouble is devoid of Soviet emblems.
Tajikistan				
Interim currency	Tajik rouble	Sole legal tender	1961, 1993	Tajik rouble replaced the Russian rouble on May 11, 1995.
Final currency	Somon	Delayed	No date set	
Turkmenistan				
Final currency	Manat		Nov 1, 1993	Multiple exchange rate system abolished April 8, 1996.
Ukraine				
Final currency	Hryvnya	Sole legal tender	Sep 2, 1996	The hryvnya superseded the karbovanets (introduced November 13, 1992).
Uzbekistan				
Interim currency	Som	Parallel	Nov 29, 1993	Introduced as a coupon to circulate in parallel with the rouble as of November 29, 1993.
Final currency	Som	Final	Jul 1, 1994	

Source: EIU.

Former Soviet republics: exchange rates

	Exchange rate per $									
	Jan 6, 1995	Apr 9, 1995	Jul 3, 1995	Oct 6, 1995	Jan 5, 1996	Apr 4, 1996	Jul 5, 1996	Oct 4, 1996	Jan 1, 1997	Apr 4, 1997
Outside rouble zone										
Armenia (Dram)	404	407	408	400	402	404	410	412	440	469
Azerbaijan (Manat)	n/a	4,395	4,395	4,395	4,440	4,376	4,300	4,304	4,200	4,074
Estonia (Kroon)	12.5	11.2	11.1	11.4	11.6	11.9	12.2[a]	12.2	12.4[b]	13.4
Georgia (Coupon/Lari)	n/a	1,300,000	1,300,000	1.28[c]	1.17	1.26	1.25[d]	1.27	1.29[e]	1.30[f]
Kazakstan (Tenge)	n/a	60.5	63.6	61.4	64.3	66.0	66.9	70.0	72.5	75.4
Kyrgyz Republic (Som)	n/a	10.9	10.6	10.9	11.0	11.5	12.4	13.3	17.0	17.6[g]
Latvia (Lat)	0.55	0.51	0.51	0.54	0.54	0.54	0.56[h]	0.55	0.56[e]	0.58
Lithuania (Lit)	4.00	4.00	4.00	4.00	4.00	4.00	4.00[h]	4.00	4.00	4.00
Moldova (Leu)	n/a	4.49	4.54	4.54	4.53	4.58	4.65	4.61	4.60	4.57
Turkmenistan (Manat)	n/a	230	230	500	2,100	2,500	3,935	4,075	5,000	4,110[f]
Ukraine (Karbovanets/Hryvnya)	104,837	132,900	142,693	172,000	179,900	189,100	178,900	1.77[i]	1.83	1.85
Uzbekistan (Som)	n/a	26.1	30.3	33.8	34.6	37.0	37.8	40.0	55.0	58.9[j]
Inside rouble zone (local parallel currencies & Russian rouble)										
Belarus (Rubel)	11,195	11,500	11,500	11,500	11,500	12,200	15,500[h]	19,300	20,200	34,200
Russia (Rouble)	3,880	4,961	4,548	4,495	4,674	4,825	5,131[a]	5,424	5,747[b]	5,737
Tajikistan (Tajikistan rouble)[k]			51[kl]	n/a	300[m]	280	280	298	330	380[j]

[a] July 9. [b] January 7. [c] Coupon replaced by Lari. [d] June 5. [e] January 8. [f] April 7. [g] April 9. [h] June 10. [i] Karbovanets replaced by Hryvnya on September 2, at the exchange rate of HRN1.0:KRB100,000. [j] April 11. [k] Used the Russian rouble until May 11, 1995, when the Tajik rouble was introduced. [l] June 16. [m] February 2.

Sources: OMRI; *FT*; BBC Monitoring, *Summary of World Broadcasts*; Reuters; Bloomberg.

Former Soviet republics: GDP and GDP per head
(purchasing power parities)

	1989	1990	1991	1992	1993	1994	1995	1996
Armenia								
GDP								
$ bn	17.6	17.0	16.1	7.9	6.9	7.3	8.0	8.6
per head ($)	5,062	4,804	4,469	2,143	1,853	2,051	2,124	2,275
Azerbaijan								
GDP								
$ bn	21.8	20.0	20.7	13.8	10.9	8.7	7.4	7.6
per head ($)	3,076	2,804	2,872	1,866	1,474	1,163	986	1,005
Belarus								
GDP								
$ bn	49.9	50.4	51.4	47.7	43.8	37.7	34.8	36.5
per head ($)	4,879	4,910	5,006	4,631	4,228	3,645	3,365	3,525
Estonia								
GDP								
$ bn	7.7	7.4	6.8	6.2	5.8	5.8	6.1	6.4
per head ($)	4,896	4,670	4,334	3,988	3,803	3,836	4,067	4,349
Georgia								
GDP								
$ bn	24.1	21.4	17.8	10.9	7.7	5.6	5.5	6.2
per head ($)	4,420	3,919	3,275	2,005	1,405	1,032	1,005	1,139
Kazakstan								
GDP								
$ bn	71.9	74.6	72.4	64.7	56.0	43.0	40.1	41.4
per head ($)	4,327	4,477	4,304	3,827	3,316	2,523	2,416	2,507
Kyrgyz Republic								
GDP								
$ bn	11.0	11.9	11.2	9.7	8.3	6.3	6.0	6.5
per head ($)	2,550	2,706	2,524	2,164	1,842	1,364	1,311	1,372
Latvia								
GDP								
$ bn	14.5	14.6	13.6	9.1	8.0	8.2	8.3	8.6
per head ($)	5,437	5,471	5,118	3,462	3,070	3,209	3,288	3,463

continued

	1989	1990	1991	1992	1993	1994	1995	1996
Lithuania								
GDP								
$ bn	33.0	33.9	30.0	19.2	13.7	14.2	14.9	15.8
per head ($)	8,945	9,121	8,031	5,141	3,681	3,813	4,025	4,255
Moldova								
GDP								
$ bn	15.9	16.2	13.9	10.2	10.3	7.2	7.2	6.8
per head ($)	3,666	3,722	3,195	2,336	2,362	1,666	1,661	1,563
Russia								
GDP								
$ bn	856.7	875.4	865.0	759.9	711.9	636.4	626.2	601.4
per head ($)	5,815	5,918	5,835	5,124	4,805	4,301	4,227	4,066
Tajikistan								
GDP								
$ bn	9.9	10.2	9.7	7.0	5.2	4.5	4.0	3.4
per head ($)	1,915	1,920	1,770	1,248	916	781	693	577
Turkmenistan								
GDP								
$ bn	10.0	10.7	10.5	10.2	9.5	7.7	6.8	6.7
per head ($)	2,798	2,903	2,815	2,675	2,413	1,930	1,627	1,522
Ukraine								
GDP								
$ bn	216.5	217.6	206.6	191.3	168.4	132.4	119.2	109.5
per head ($)	4,181	4,197	3,978	3,668	3,227	2,551	2,308	2,138
Uzbekistan								
GDP								
$ bn	44.6	47.5	49.1	46.0	45.0	43.1	42.6	41.9
per head ($)	2,219	2,312	2,351	2,122	2,058	1,928	1,892	1,847

Sources: IMF; World Bank, *Statistical Handbook of States of the Former USSR*; UN Economic Commission for Europe, *Bulletin for Europe*, Vol 44 1992; EIU calculations.