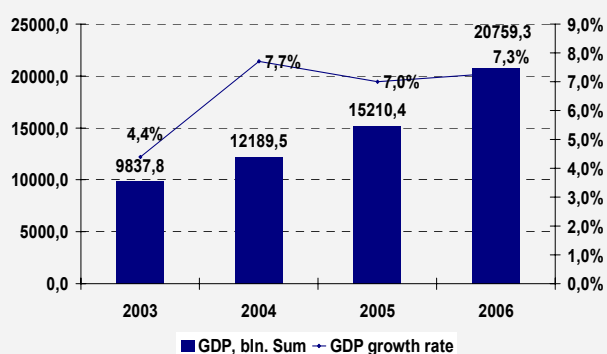


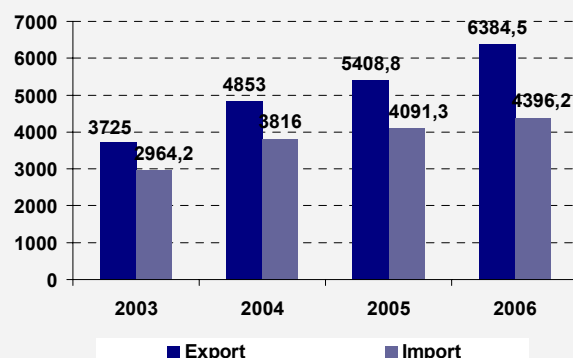
Macroeconomic review: Results of 2006

In 2006 the tendency of growth of economy of Uzbekistan and creation of a favorable climate in the country has proceeded. Growth of gross national product, the foreign trade turnover, and also acceleration of development of many strategic branches is observed.

Dynamics of GDP growth



Dynamics of growth of foreign turnover, in billion USD



INDICATORS	2003	2004	2005	2006
Population, in millions	25,7	26,0	26,3	26,6
GDP, in billion UZS	9837,8	12189,5	15210,4	20759,3
GDP per capita	382689,5	468,4	577,6	779,4
Incomes of population	6488,6	7634,4	9989,8	12954,9
Expenditures and savings, in million UZS	6211	7561,1	9794,6	12680,7
Expenditures of population for goods and services, in million UZS	5107,4	5871,8	7248,3	9538,9
Industrial production, in million UZS	6127,5	8074,8	10913,4	14521,1
Agricultural production, in million UZS	4094,2	4732	5395,5	7314
Production of commodities, in million UZS	2094,8	2405,1	2945,1	4069,7
Investments in general	1927,1	2473,2	3012,9	3383,3
Construction, in million UZS			1377,5	1843,4
Commodity turnover, billion km	9656,8	11040,9	69,2	73,9
Passenger turnover, billion km	29004,9	32534,5	46,6	52
Retail sales, in million UZS	4289,7	4764,7	5736,8	7460,8
Payable services to population	948,4	1226,6	1609,7	2180,6
Balance of payments				
Foreign trade turnover (in million USD)	6689,2	8669	9500,1	10780,7
Including:				
Export	3725	4853	5408,8	6384,5
Import	2964,2	3816	4091,3	4396,2
Trade balance (+,-)	760,8	1037	1317,5	1988,3
Official exchange rate of UZS to USD (average annual)	971,5	1020,2	1113,6	1219,3
Official exchange rate of UZS to EURO (average annual)	1099,4	1268,2	1385,9	1531,2
Official exchange rate of UZS to russian roubles (average annual)	31,7	35,4	39,4	44,8

Source: State Committee on Statistics of Uzbekistan

GDP GROWTH

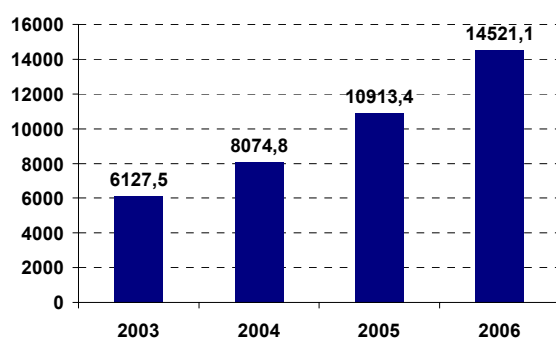
Development of economy of Uzbekistan occurs rather dynamically. In 2006 in comparison with 2000 in comparative prices growth of economy has made 45%. Thus, industrial production has increased in 1.6 times, agriculture - in 1.5, the foreign trade turnover - in 1.7, volume of export - in 1.9, gold and exchange currency reserves - in 3.7, and finally the real wages have increased more than four times.

The economy of Uzbekistan in 2006 grew in faster rates in comparison with 2005. In the real prices growth of gross national product on results of 2006 has made 7.3% (2005 – 7.0%), industrial production – 10.8% (2005 – 7.3 %), manufacture of agricultural production – 6.2% (2005 – 6.2%).

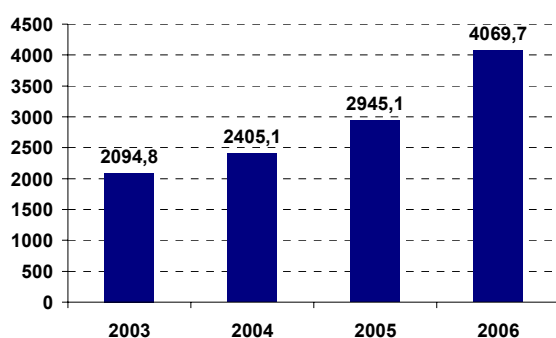
In absolute expression, in 2006 industrial of the country has made 14.5 trillion UZS, volume of the agricultural production – 7.3 trillion UZS, and manufacture of consumer goods – 4.0 trillion UZS.

The share of the industry in gross national product of the republic in 2006 has made 22.1% having increased on comparison with 2000 on 7.9%, the contribution into the sphere of services has made 39.5% having increased on comparison with 2000 on 3.9%. The rate of inflation in 2006 has made – 6.8%.

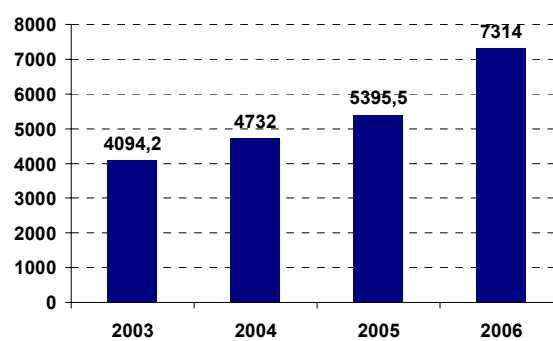
Volume of industrial production (billion UZS)



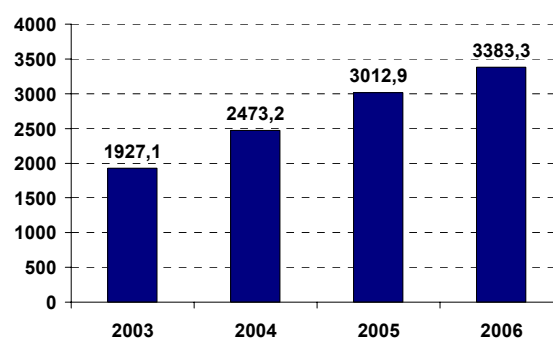
Production of usable commodities



Volume of agricultural production (billion UZS)



Investments to main capital



INVESTMENTS

Volume of foreign investments into investment projects of Uzbekistan in 2006 has grown on 20% in comparison with 2005 - up to 895.7 million US dollar. The foreign investments attracted under the warranties of the government of Uzbekistan have increased for 5.4%, having made for 2006 211.9 million US dollars. Direct investments have increased on 25.4%. The total sum of direct foreign investments in 2006 has made 683.8 million US dollars.

In 2006, according to the governmental investment program, it was planned to attract 917.97 million US dollars into 134 investment projects. At the same time, it was supposed to attract 365.41 million US dollars credits under the guarantee of the government, and direct investments in amount of 552.56 million US dollars.

In 2006, it was attracted 68.3% of total amount of investments on development of industrial sector of the economy, including on updating of technological park and purchase of the new equipment it was spent about 50% of all means. On development of a fuel and energy complex, the chemical industry, metallurgy and mechanical engineering 34.6% of investments, on projects in the field of rural and water management, processing of agricultural production and production of consumer goods about 17.8% of investments, and to IT sphere and communication systems – 15.3%.

During 2006 several industrial enterprises has been set into operation including Kungrad soda manufacturing plant (costing more than 100 million US dollars), Tupalang HYDROELECTRIC POWER

STATION, installations on washing chlorides on Kizilkum phosphoritic combine. In addition, production of a rolled strip from copper and its alloys is adjusted at APO «Uzmetkombinat», the first turn of salvaging of gas at joint venture "Kokdumalak" has started, 11 large investment projects in the textile industry have finished and have become operational.

Due to foreign investments in 2006, the project on working out the Shahpahta deposits on PDA conditions with Russian "Gazprom" has been completed, industrial drilling under project PDA with "LUKOIL" on deposit Hauzak-Shadi has begun, Malaysian company Petronas has started studying gas deposit Gadjak in the Surkhan-Darya region located in the south of Uzbekistan, civil-engineering designs of railway Tashguzar-Bojsun-Kumkurgan and a transmission line "Uzbekistan" are being realized.

Besides, 7 joint textile enterprises in 5 regions of republic in total cost 50,11 million US dollar has been put into operation, Chinese Huawei has started realization of the project in cost 12,5 million US dollar on reconstruction of a telecommunication network of the Uzbek national operator - JSC "Uzbektelecom".

In 2006, modernization of the railway on a site Samarkand - Khodjidavlet by extent of 341 kilometers in cost 155 million US dollars also has been completed, projects on providing people with potable water at the cities of Bukhara, Gulistan, Dzhizak, Karshi and Samarkand are being realized, complex reequipment of a state broadcasting company of Uzbekistan is proceeding, power unit Talimardzhanskoj TES has been set into operation.

In 2006, it was monitored the acceleration on transactions with merges and acquisition. According to results of 2006, 30 transactions on merges and acquisition for a total sum more than 558.8 million US dollar have been accomplished, that both by quantity and on volumes considerably surpass 2005 results. In structure of the market transactions with involving the foreign capital, in particular, the Russian companies have advantage. In a branch cut, the leading place by quantity of the concluded transactions was borrowed textile branch, while on volume - telecommunication.

By quantity of all traded Uzbek enterprises, the majority of them have been sold by the State Property Committee - 16 for a total sum in 99,1 million US dollar or 17% from total volume. However, one of positive factors of investments specifying perspectivity in the capital of the Uzbek enterprises is that, the sales volume of foreign investors of the shares almost in 6 times exceeds the sum of the transactions accomplished by the state. In fact one of basic factors by consideration of direct investments into any country, in particular, developing, it is the opportunity to resell the share through the certain period.

Таблица 2: Анализ объявленных сделок по СИП в Узбекистане за 2005-2006 гг.

Sector	Amount of transactions	General volume, million USD	2006		2005	
			Amount of transactions	General volume, million USD	Amount of transactions	General volume, million USD
Construction	5	More than 16,9	5	18,25		
Textile	5	165,4	1	н/д		
Telecommunications	3	276,8	1	10		
Electrical equipment	3	31,7	1	24		
Energy sector	3	14,5	-	-		
Banking sector	2	8,9	2	More than 32		
Food stuffs	2	38,17	2	8,21		
Chemical industry	2	More than 2,2	1	н/д		
Oil and gas	1	н/д	1	4,27		
Tourism	1	0,7	-	-		
Cotton industry	1	0,9	-	-		
Machine building	1	2,53	-	-		
Cattle breeding	1	0,126	-	-		
Heavy industry	-	-	1	N/A		
Automobile production	-	-	1	100		
TOTAL	30	More than 558,8	15	More than 196,7		

Among transactions on merges and acquisitions, it is necessary to note about purchase by JSC "Vimpel-communications" ("Vypelcom") 100% shares of JSC "Bakri Uzbekistan Telecom" ("Buztel") and JSC "Unitel". Thus, the price of purchase "Buztel" has made 60 million US dollar plus approximately 2.4 million US dollar debts of the company while the price of purchase for "Unitel" has made 200 million US dollar plus of the obligation on debts.

FOREIGN TRADE

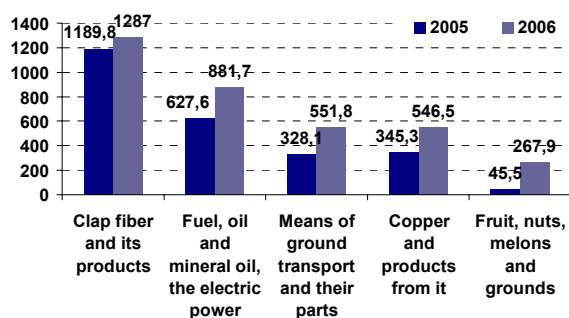
The balance of the foreign trade turnover in Uzbekistan remains positive and has reached maximal for last 4 years of a parameter - 1,9 billion US dollars, having increased on comparison with 2005 on 13,4%. The volume of export has increased for 18.0%, while volume of import 7.4% in comparison with 2005, having reached 6384,5 and 4396,2 million US dollars respectively. The share of export in the foreign trade turnover has made 59.2%, import 40.8% whereas in 2005 the given parameters were made 56.9% and 43.1% respectively.

In 2006, export of goods was carried out to 97 countries of the world, 86 out of them are the distant countries and 11 countries of the near abroad. The greatest relative density of the countries of exporters borrowed Russia – 28.9%, Iran – 12.5%, Turkey-11.7%, China – 6.9% and Ukraine – 6.5%. In 2006, basic exported goods became clap fiber and its products (26.6% from total amount of export), fuel, oil and mineral oil, the electric power (18.2%), means of ground transport and their parts (11.4%), copper and products from it (11.3%), fruit, nuts, melons and grounds (5.5%), products of inorganic chemistry (3.5%).

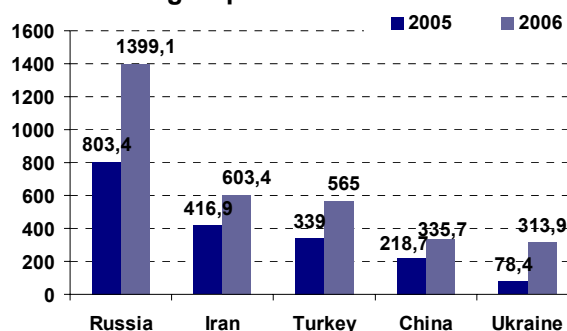
In 2006, import was carried out from 119 countries of the world, 108 out of them are countries of the distant and 11 countries of the near abroad. The greatest relative density among the countries-importers there are Russia – 27.1%, South Korea – 14.0%, Kazakhstan – 10.0%, China – 8.2% and Ukraine – 6.2%.

Among the imported consumer goods the greatest relative density is on the mechanical equipment and its parts (18.7% from total amount of import), means of ground transport and their part (15.2%), the electric equipment (7.4%), and ferrous metals (5.5%).

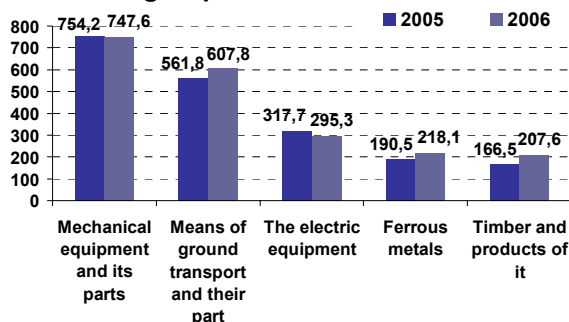
Export structure of Uzbekistan in 2006 on groups of commodities



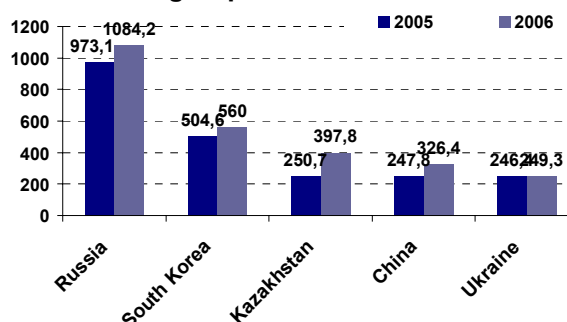
Export structure of Uzbekistan in 2006 on groups of countries



Import structure of Uzbekistan in 2006 on groups of commodities



Import structure of Uzbekistan in 2006 on groups of countries



Sources: State Custom Committee of Uzbekistan

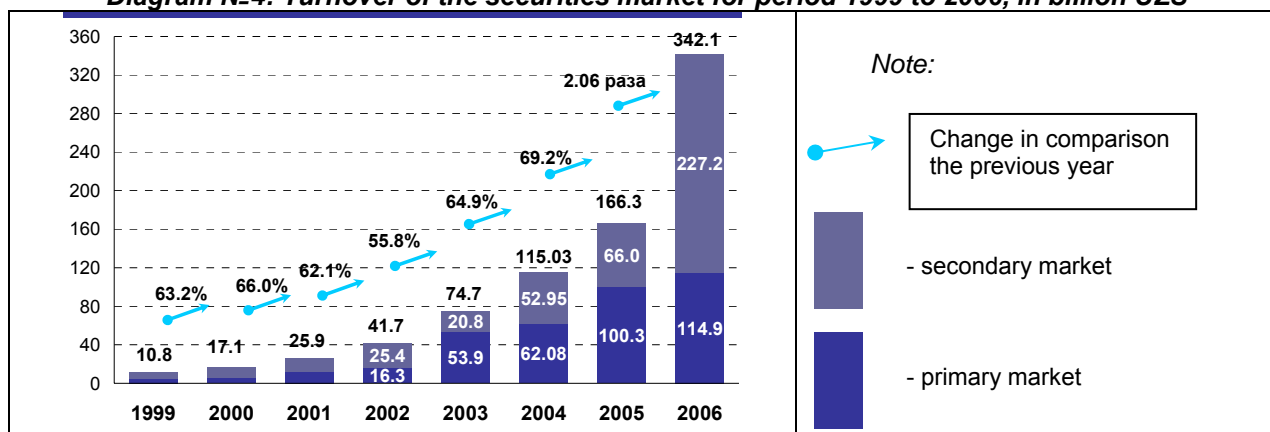
SECURITIES MARKET

As for the beginning of January 2007, there were totaled 2 017 joint-stock companies with the cumulative charter capitals in amount of 2.98 trillion UZS on a securities market of the republic.

In 2006, the securities market has left on a stage of active rise. A cumulative turnover of securities market of corporate sector (shares and bonds of the enterprises) for 2006 has made 342.1 billion UZS that is practically equivalent to a three-year turnover (for 2003-2005 the general turnover has made 356.03 billion UZS). There was substantial growth not only in quantity of indicators, but also that is more important, in quality of them. So, if on a result of 2005 the share of a turnover in the secondary market had made 39.7%, on results of the last year the given parameter has increased for 26.7 percentage items

and has made 66.4 %, while the share of the organized market has reached 40.84%.

Diagram №4: Turnover of the securities market for period 1999 to 2006, in billion UZS



Confirming tendencies of the share market, concerning the growth of securities turnover in the secondary market, it is possible to note, that the share of realization of securities in the primary market for 2006 was reduced almost in 2 times - to 33.6%, instead of 60.3% in 2005. The turnover of the secondary market having increased in 3.44 times, in other words on 161.2 billion UZS in comparison with the similar period of the last year, and has made 227.2 billion UZS. The share of the secondary market has increased on 26.7 percentage items and has made 66.4% or 227.2 billion UZS (39.7% or 66.0 billion UZS - on results of 2005).

In 2006 the greater share of transactions passed in the unorganized market – 59.1%, or 202.38 billion UZS. There is also positive tendency of increase in share of turnover of securities on the organized segment of the share market. In comparison with 2005, the share of the organized market has increased for 15.7 percentage items, having reached 40.84%.

CHANGES IN LEGISLATION AND INSTITUTIONAL DEVELOPMENT

2006 has become a year in which a number of normative and legal acts directed to liberalization of the economy of the country, as well as providing the substantial growth of the economy of the republic has been accepted.

1. Fund of reconstruction and development of Uzbekistan has been created

In 2006, with the decree of the president of Uzbekistan Islam Karimov it had been created Fund of reconstruction and development of Uzbekistan with the authorized capital in amount of 1 billion US dollar. The fund must "to accumulate financial assets of the state and managing subjects, to carry out financing the major projects which have crucial importance for realization of priority problems in development of economy, structural transformations and modernization of manufacture, to finance programs of updating and modernisation of strategically important enterprises, first of all key economic branches of economy, to provide financing the projects directed on modernisation and escalating of rates and volumes of manufacture in a fuel and energy complex, the chemical industry, mechanical engineering and branches of nonferrous metallurgy".

Besides, the fund is obliged to finance realization of national socially-significant state programs and projects on formation of industrial and non-productive infrastructure, first of all in perspective, but insufficiently developed regions, the telecommunications creating conditions for integration of republic in the international network of communications, providing the shortest output on the international transport corridors and the world markets, to provide the organization of joint financing of projects with the international financial institutions, credit establishments of republic and foreign countries.

The basic sources of formation of fund are the additional receipts formed as a result of a favorable conjuncture of the world prices for strategic resources, and also by separate types of taxes and payments from managing subjects, a part of assets of the government in a foreign currency, incomes of Uzbekistan of realization of production within the framework of PDA agreements on section of production with foreign partners, means from realization of the state property to foreign investors for a foreign currency, investment incomes of management of assets of fund.

The Fund of reconstruction and development of Uzbekistan is released by the decree of the head of Uzbekistan from all types of taxes, gatherings, duties and obligatory deductions in the state trust funds, except uniform social payment.

2. Ground areas borrowed by buildings and constructions are let to be privatized.

The president of Uzbekistan Islam Karimov has signed the Decree "About privatization of the ground areas borrowed by buildings and constructions of legal entities and citizens". The order according to which starting from the 1st of January 2007, legal entities-residents of the republic have a right to privatize the ground areas on which objects of an industrial infrastructure, and also the ground areas adjoining to them in the sizes necessary for realization of industrial activity are located belonging them as the property, or buildings privatized by them and constructions, in view of applied technological processes, town-planning norms and rules is established".

"Privatization of the ground areas is carried out on a voluntary basis, in accordance with market costs, with registration of the property right by way of established by the legislation", - spoken in the decree.

By the accepted document it is certain that not privatized ground areas which are being in constant using of legal entities, residents of republic, are subject till 1st of January 2008, to renewal in long-term rent for the term of till fifty years, but not less than for thirty years.

"The right on long-term rent of the ground area can be stopped or the area of the rented ground area can be reduced before the expiry of the term specified in the contract, in the cases stipulated by the ground legislation", - is marked in the decree.

Besides, starting from 1st of January 2008, citizens, residents of republic will have a right to privatize the ground areas allocated them for individual housing construction and service of an apartment house.

By the decree of the President it is set that privatization of the ground areas given for individual housing construction and service of an apartment house, in borders and the sizes established by cadastral documents, must be carried out strictly on market prices. Thus, the cost earlier paid by citizens at reception of the ground areas for individual housing construction and service of an apartment house, is set off at definition of the size of a payment for privatization of the ground areas by results of the auction tenders.

It is marked in the document that the privatized ground area is not limited in a turn, including transactions on sale and purchase, exchange, donation, inheritance, transfer to using (rent), can be a subject of the mortgage, including for borrowing the credit from banks and other credit organizations.

By the decree of the head of the state it is certain, that "the means acting from privatization of the ground areas, completely act in the state budget and go at a rate of 80 percent - to the republican budget and 20 percent - in corresponding local budgets, with target use on development of an infrastructure and an accomplishment of territories".

3. Changes in regulating norms in securities market.

On 27 September 2006, the decree of the President of Uzbekistan "About Measures On the Further Development of the Securities market" has been published. In the decision, requirements to the corporate bonds issuers who can be exclusively open joint-stock company are certain. Also, release should meet following requirements:

- not exceed the size of own capital for date of decision-making on the release, confirmed by the conclusion of the auditing organization;
- company should have positive parameters of profitability, solvency, financial stability and the liquidities confirmed by the conclusions of the auditing organization for last three years, and also to receive an independent rating estimation;
- issue should be carried out at participation of the commercial banks which are carrying out functions of payment agents on payment by issuers of means due to investors.

Besides, a number of other conditions for release of corporate bonds are certain.

4. The program on localization for enterprises of Uzbekistan for 2006-2008 has been confirmed.

The president of Uzbekistan has approved the Program of localization for the enterprises of Uzbekistan for 2006-2008 with settlement volume of importing for the sum 3,6 billion US dollars. The program, in particular, has been included 288 projects providing output for a total sum of 4,621 trillion UZS.

5. The rate of refinancing has been decreased

The central bank of Uzbekistan starting from 15th of July 2006, has lowered the rate of refinancing to 14% annual against operated before the rate of 16% annual. The former rate - 16% has been established on 21th of December 2004, against operated before the rate in 18%.

6. The tax for service providing companies has been introduced

In Uzbekistan starting from 1st of April 2006, the legal entities providing auditor services, services of leasing, insurance, service in sphere of formation and accounting, a number of social and household services, are released from payment of the profit tax and uniform tax payment for the period of three years.

It is spoken in the decision of the president of the country of Islam Karimov "About measures on acceleration of development of sphere of services and service in republic Uzbekistan in 2006-2010". The decision, in particular, provides an increase in a share of all types of services in gross national product of the country in 2010 up to 49% from 38.3% in 2005.

7. Uzbekistan has cancelled a number of individual tax privileges

Uzbekistan has defined the list of joint ventures in which attitude termless tax and customs privileges are cancelled. A number of privileges on payment of the profit tax, property and import of the equipment for Uzbek-American gold mining joint venture "Zarafshan-Newmont" has been cancelled, 50% in which belongs to Newmont Mining Corp.

Privileges for other gold mining joint venture - "Amantaytau Goldfields" where 50% of shares belong to British Oxus Gold also has been cancelled. Earlier, the joint venture used the preferential rate on payment of a royalty and it was released from payment of the customs duties, deductions on amortization of a fixed capital, taxes to property and dividends.

Besides, tax privileges for LLC "VBD Toshkent", controllable by the Russian company "Vimm-Bill-Dan produktsii pitaniya", and Uzbek-American joint venture on manufacturing motor oil "Uz-Daewoo Electronics" for custom payments on importing technological equipments has been cancelled.

Privileges on payment of the VAT are cancelled for Uzbek-Swiss joint venture "Nestle-Uzbekistan" which is engaged in production of food stuffs. A number of privileges under the VAT and payments to republican funds are cancelled in the attitude to Uzbek-American leasing company "Uzkeysagrolizing".

In previous years Uzbekistan on a regular basis gave tax and customs privileges with the purpose to attract foreign investments into the economy of the republic. For strategically important joint ventures these privileges were made out by the special governmental orders.

6. The minimal wage rates has been increased

In 2006, the size of the minimal wages increased in two times, starting from 1st of July and 1st of November. Starting from 1st of November, the minimal wage rates are established in territory of republic: wages - 12 thousand 420 UZS per month; pensions on age - 24 thousand 600 UZS; the initial (zero) category on a uniform scale of charges - 12 thousand 420 UZS; grants to invalids since the childhood at a rate of 24 thousand 600 UZS; grants to the aged and invalid citizens who are not having the necessary experience of work at a rate of 14 thousand 900 UZS per month.

7. Uzbekistan has become the full member of EvrAzEC

At the summit of Interstate advice of heads of the states-participants of the Euroasian economic community in St.-Petersburg, the Republic Uzbekistan became an official member of this organization, and this has been informed on the official web-site of Ministry of Finance of Uzbekistan. Strategic purposes of EuAzES are directed on development of integration among the countries-members.

PERSPECTIVES OF 2007

The government of Uzbekistan had been certain following priorities for 2007.

- maintenance of the steady and balanced rates of growth, structurization and modernization of economy, technical and technological updating its major branches, and further liberalization of a tax policy;
- creation of maximum favorable conditions for business, first of all private business, and consecutive decrease in presence of the state in the economy;
- all-round strengthening of work on attraction of foreign investments, first of all direct investments;
- maintenance of consecutive increase of a payment and quality of a life of the population;
- comprehensive support for acceleration the development of small business and private business, the solution on this basis the problems of employment of the population and increase of well-being of people;
- further deepening and expansion of scales of reforms in a banking and financial system;
- further deepening economic reforms in a municipal services.

One of directions of the given performance of objects in view is gradual decrease in tax burden. So, starting from the 1st of January 2007, the rate of uniform social payment is lowered from 25% to 24%, and the rate of the profit tax for legal entities from 12% to 10%. In addition, the rate of uniform tax payment is lowered from 13% to 10% for the enterprises of small business.

In March 2007, the President of Uzbekistan also has signed the decree according to which the enterprises which carrying out modernization and modernisation of manufacture, are given a number of tax and customs privileges. In particular, the document gives the right to managing subjects to reduce within three years taxable base under the profit tax by the sum of the means directed on modernization and technological reequipment of manufacture. Besides, the new equipment put into operation is released for the period of five years from the tax to property.

The document establishes that starting from the 1st of April 2007, the privileges stipulated by the legislation on customs payments on the imported technological equipment are given according to the list of the equipment, which should be approved by the government. Last years in Uzbekistan with the purpose of attraction of foreign investors into the economy of the republic, a number of tax and customs privileges were repeatedly entered.

The budget of 2007 is supposed with deficit in amount of 233 billion UZS, or 1% of gross national product. The profitable part of the state budget-2007 is stipulated in amount of 5,071 trillion UZS (21.8% of gross national product), while expenditure part - 5,304 trillion UZS (22.8% of gross national product). Income of the consolidated budget of Uzbekistan are confirmed in the sum 7,543 trillion UZS (32.4% of gross national product), while expenditure - 7,776 trillion UZS (33.4% of gross national product). In 2007, the basic volume of expenditures (54.3% of all charges against 51% in 2006) will be directed to development of social sphere - public health services, education, culture and sports, and social protection of the population.

Parameters of the state budget are developed in view of planned growth of gross national product in 2007 on 7.7%, industrial production - on 7.8%, investments - on 8.1%, real incomes of the population - on 17%, a rate of inflation which is not exceeding 5-7%.

The budget of Uzbekistan for 2006 has been confirmed by the parliament with deficit in amount of 271 billion UZS, or 1,5% of gross national product, incomes - 3 trillion 992,2 billion UZS (22% of gross national product), expenditures - 4 trillion 263,3 billion UZS (23.5% of gross national product). It is expected that in present year, the budget will be executed with profit in amount of 27,9 billion UZS, or 0,15% of gross national product.

It is possible to say with confidence that there is the period of economic rise in Uzbekistan. It is approved not only by local, but also by foreign experts. So, the International monetary fund as a whole highly estimates the financial and economic policy of Uzbekistan per 2005-2006. Fund has confirmed it in the message for a press on results of the next annual review of the Uzbek economy completed in February, 2007.

The IMF has noted that, according to official data, real growth of gross national product of Uzbekistan exceeded 7%, the balance of payments was reduced with large profit, while gold and exchange currency reserves steadily accrued. Inflation in 2006 has started to decrease, though it is still "remains high". In opinion of IMF experts, successes have been reached, owing to "essential updating macroeconomic policy and favorable external economic conditions".

During the discussion of results of the review members of board of directors of IMF specified that the nearest economic prospects of Uzbekistan remain good. At the same time, they emphasized that for performance of the courageous intermediate term program of the economic growth developed by Tashkent, it is necessary for authorities "to constrain inflation, to strengthen mediatorial functions of financial institutions and trust to bank system, to improve a business climate, including by liberalization of trade and payments".

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