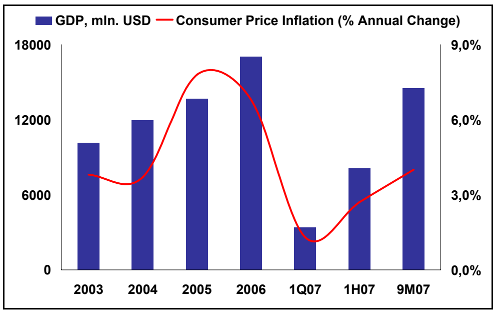
MACROECONOMICS
Analysis of macroeconomic situation through the 3rd quarter of 2007

By the results of 3 quarters of 2007, GDP of Uzbekistan was equal to 18 230 bln UZS or about 14.5 bln USD calculated at the average exchange rate during this period. Share of small business in GDP went up to 41.3% from 39% in the same period a year ago. Budget deficit by the end of the year should be 1% of GDP. According to official data, real GDP growth rate was 9.8% while it was 9.7% in the first half of this year and 7.3% in the previous year. Tight control of the money supply in the country by the Central Bank and the ministry of Finance has allowed maintaining inflation in the forecasted range (calculated to be about 4-4.2%; in the first half of the year it was 2.7%).

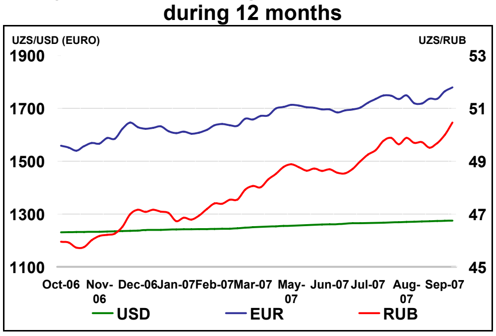
The draft budget for 2008 is under consideration of the government, in line with it, GDP is expected to be 34 480 bln UZS or 26.9 bln USD in 2008.Budget deficit is expected to be 1% of GDP or 344.8 bln UZS and will be financed with non-inflationary funds. GDP growth rate is expected to be at the level of previous years – about 8%; in line with this, inflation is expected to be around 8%, too.

Analyzing the inflationary process, one should take a notice of exchange rate dynamics of Uzbek soum versus major currencies and particularly versus USD. During the last 12 months the exchange rate versus USD has increased by 3.69% (in 2006 and 2005 – about 9%), while versus strengthening Euro – about 15.7% and versus Ruble – 11.1%.

GDP and Inflation



Dynamics of exchange rate of soum (UZS) during 12 months



	2005	2006	1Q07	1H07	9M07
Population and employment					
Population, mln people	26,0	26,7	26,7	26,8	27,0
Unemployed, thousand, people	32,2	92,2	24,4	24,9	25,9
Economic structure					
GDP, bln. UZS	15210,4	20759,3	4205,4	10115,6	18230,7
GDP per capita, thousand UZS	584,5	777,5			
Household income, bln UZS	9989,8	12954,9	3450,7	7321,3	11858,5
Household spending and saving, bln UZS	9794,6	12680,7	3506,9	7328,5	11758,7
Household spending on goods and services, bln UZS	7248,3	9538,9	2558,6	5546,3	8814,3
Industrial production, bln UZS	10913,4	14521,1	4086,8	8566,7	13164,0
Agricultural production, bln UZS	5395,5	7314,0	1100,4	3479,9	6362,6
Production of consumer goods, bln UZS	2945,1	4069,7	742,4	2442,7	3823,4
Capital investments, bln UZS	3012,9	3383,3	967,2	2631,2	3967,3
Construction, bln UZS	1377,5	1843,4	386,5	1084,8	1856,8
Cargo turnover, bln ton-km	69,2	73,9	17,7	38,0	58,4
Passenger traffic, bln passenger-km	46,6	52,0	13,2	26,7	41,7
Retail sales, bln UZS	5736,8	7460,8	2017,6	4339,2	6812,4
Paid services for population, bln UZS	1609,7	2180,6	564,5	1260,4	2076,7

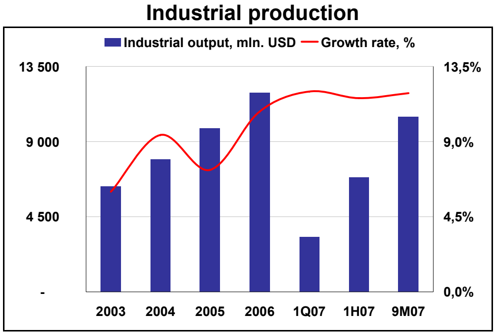
Trade balance					
External trade turnover (mln USD)	9500,1	10780,7	2758,0	6602,3	10097,8
Including:					
Exports	5408,8	6384,5	1678,9	4129,4	6197,7
Imports	4091,3	4396,2	1079,1	2472,9	3900,1
Trade balance (+,-)	1317,5	1988,3	599,8	1656,5	2297,6
Monetary system					
Refinancing rate (% annual)	16,0%	14,0%	14,0%	14,0%	14,0%
Official exchange rate of UZS to USD (annual average)	1114,0	1219,3	1243,8	1250,9	1257,2
Official exchange rate of UZS to Euro (annual average)	1385,9	1531,2	1627,4	1661,4	1686,9
Official exchange rate of UZS to Russian Ruble (annual average)	39,4	44,8	47,3	47,9	48,5
Inflation (CPI), %	7,8%	6,8%	1,3%	2,7%	4,0%

Growth is provided by the active development of practically all sectors of the economy. Industrial production has increased by 11.9% compared to the same period a year ago, agricultural production – by 3.5%, production of consumer goods – by 19.8% and retail sales – by 18.4%.

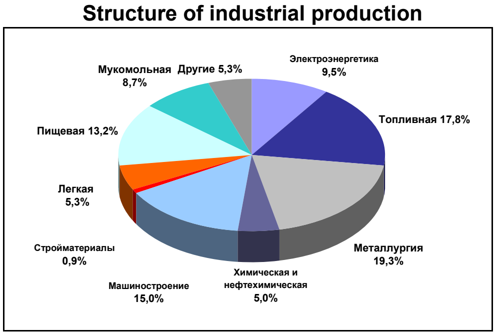
Reviewing the largest segment – industrial production, it should be noted that growth rates have never been that high for the last three years and they are held at the level of over 11% in all three quarters which gives ground to assume that final result will be higher by 11.5-12% than a year before. Uzbekistan was second in this category among CIS countries trailing to Azerbaijan (+27%), whose industrial production growth is due to riding oil prices and relatively small volumes. Most dynamically growing sectors are metal-fabricating industry which makes up about 15% of total industrial output – growing by 28.1%, as well as consumer goods production – growing by 19.8%.

The biggest share in total industrial output belongs to ferrous and non-ferrous metallurgy with the latter claiming about 4-5%, and FEC where about 18% is a share of oil-gas-coal segment and 9.5% is a share of electrical power sector. Moreover, the biggest change was recorded in metallurgy sector which had a share bigger by 2.5% a year ago than in by the results of 9 months of 2007. Machine building and light industries have increased their shares by 1.5% and 1.3%, respectively.

Industrial production



Structure of industrial production



Foreign economic trade turnover of the country is growing at a quite dynamic path, between January and September of 2007 it amounted to 10.1 bln USD or 56% of GDP growing by 33.6% versus the same period a year before. It should be noted that by the results of 2006, trade turnover had increased by 13.5%. Moreover, exports growth rate is practically twice of imports one, which has led export surplus to double amounting to about 2.3 bln USD. However, it should be taken into account that slower import growth rate is due to complications in customs clearing procedures resulting in delays of imports and creating artificial shortage in the market. In the past period this could be mostly noticed in the market of household appliances, computers and others.

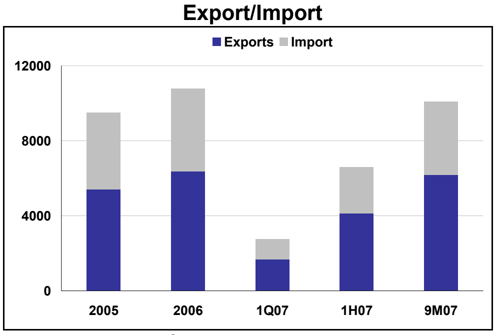
It is also noteworthy that share of CIS countries in the structure of trade turnover of Uzbekistan has increased (51% versus 42.6% in 2006), which is mainly due to improved relations with Russia (29.2% of the trade turnover), Kazakhstan (9.2%) and Ukraine (7.3%). The biggest non-CIS partners are Turkey, China, Korea and Iran. It can be expected that with implementation of projects in oil-gas and chemical spheres, share of will increase substantially and pass over Turkey, which does not have large-scale projects in Uzbekistan and mainly specializes in textile, construction and food industries. Similarly, considerable "spurt" can be expected from Singapore, Korea and Japan as they are actively negotiating cooperation in the sphere of exploration and extraction of minerals.

The biggest article of imports is machinery and equipment for all spheres of the economy which is due to active process of production modernization at industrial facilities and creation of new capacities. Share of chemical fertilizers and substances is quite big, too; however, in the next year it will start reducing as Kungrad alkali-works will be put into operation which will allow abandoning caustic ash imports from Russia. Practically all of the imported metal goes to APO "Uzmetkombinat" in the form of scrap ferrous metals, as well as copper from tolling contracts goes to Almalyk MSE.

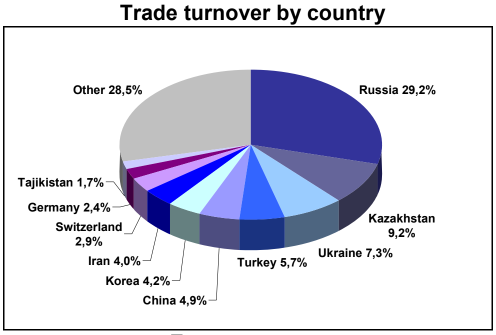
Exports are dominated by energy and oil products as electricity is supplied to southern Kazakhstan and Tajikistan, coal from Angren and Baysun deposits is supplied to neighboring regions and Afghanistan and natural gas is exported to Kazakhstan and Russia. A big share of natural gas and oil is refined inside the country, moreover due to insufficient supplies some oil is imported for Ferghana OPP from Kazakhstan. Metals have significant share as well – mainly it is output of Navoi and Almalyk MSE and Bekabad metallurgical plant.

It is noteworthy that share of cotton-fiber in export structure of Uzbekistan has declined (it was 17.3% during 9 months of 2007), which previously exceeded 20%. This is due to increased internal processing which is expected to reach 50% and decreased level of harvest versus the record setting year of 2005.

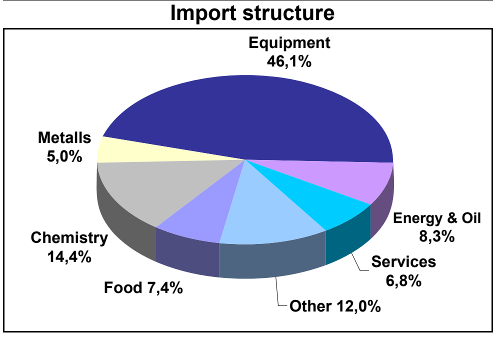
Export/Import



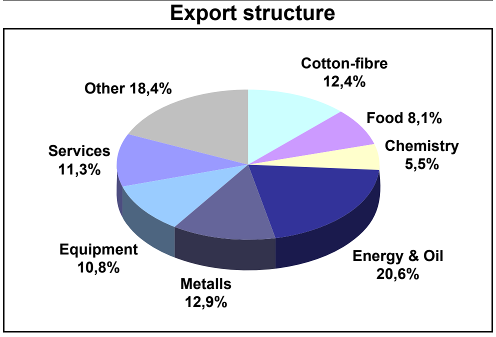
Trade turnover by country



Import structure



Export structure



Volume of investments has increased by 31.3% versus the previous year with twofold increase in foreign direct investments (FDI). By the end of the year amount of FDI should exceed 1 bln USD, and in 2008 they are expected to reach 1.4 bln USD. In contrast, in 2006 this figure was 0.9 bln USD. Total volume of investments from all financing sources in 2008 should be 5.4 bln USD, in 2007 – 3.9 bln USD.

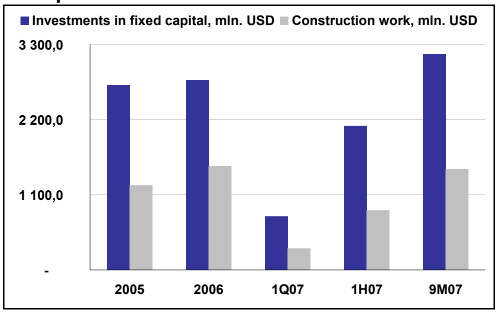
The most important factors stimulating growth of investments are tax and customs concessions, in particular for imported technological equipment, and improvement of investment climate to attract foreign investors.

Among the largest completed investment projects the following can be pointed out: construction of "Tashguzar-Baysun-Kumkurgan" railway branch which will help to improve infrastructure and to provide development of metallic ore deposits of Surkhandarya region; construction of a brewery by Baltic Beverages Holding (BBH) with production capacity of 1 mln hectoliters for 54.2 mln Euro. In addition, development projects of Tyubegatan potassium fertilizer deposit and "Khandiza" complex ore deposit were started.

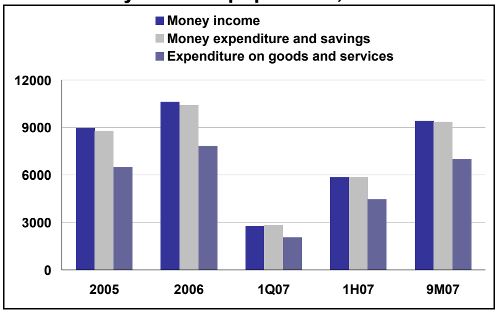
In the next year, among large projects the followings stand out: 100 mln USD investments by LUKOil in the hydrocarbon extraction project with a total value of about 1 bln USD and 105 mln USD investments of Gazprom in the exploration works at Ustyurt plato out of the total of 260 mln USD, as well as profit reinvestment project by the Uzbek branch of MTS in the development of its cellular network for 98 mln USD. In general, during the future years it is expected to attract about 2 bln USD investments from Russia.

Investment program for next years includes 92 prioritized projects, at the stage of examination or feasibility report development, which will serve to attract over 3.8 bln USD foreign investment during several years.

Capital investments and construction works



Money flows of population, mln USD



As it can be seen, practically all indicators during 9 months of 2007 have reached or exceeded results of 2006 and their rates significantly exceed of those in previous years.

Among notable events of the quarter is an increase of the minimum wage rate and other payments by 25% starting from August 1, 2007 as well as increase of pensions by one minimum wage rate, for this purpose additional 16 mln USD will be used from the budget by the end of the year. Moreover, minimum wage rate was increased by another 20% up to 18630 UZS from November 16.

As it can be seen, in the last 2 years increase in minimum wage rate is taking place twice a year – in the middle and at the end of the year. Taking into account the promise of the government to increase minimum wage rate by 2.5 times until 2010, it can be expected that similar practice will be done in 2008-2009 with 20% increase happening 4 more times during this period. Approximately, the minimum wage rate after the next increase in July-August, 2008 will be about 22360 UZS.

Average wage in the country, according to government statistics, is about 150 USD, in spheres of industry and transportation – about 230-240 USD, in social sphere – 90-100 USD.

Changes in the minimum wage rate

	01.07.06	01.11.06	01.08.07	16.11.07
Minimum wage	$8,45	$10,08	$12,24	$14,52
Pension by age	$16,74	$19,96	$24,25	$28,76
Zero discharge	$8,45	$10,08	$12,24	$14,52
Disabled person discharge	$16,74	$19,96	$24,25	$28,76
Discharge for old age persons	$10,14	$12,09	$14,69	$17,42

All expenses related to increase in wage rates of state run organizations, pensions, social payments and stipends, will be covered by the state budget and non-budget Pension fund under the Ministry of Finance of the Republic of Uzbekistan.

Contact Information

Avesta Investment Group (CJSC)
License of CSM for Investment advisor №1012

Legal Address: 25 Amir Temur str., 100000
Tashkent, Uzbekistan
Postal address: 36 Navoi str., 100011
Tashkent, Uzbekistan
Tel: +998 (71) 144-3363, 144-3685
Tel/fax: +998 (71) 144-3667
E-mail: info@avestagroup.com
Internet: http://www.avestagroup.com

Depositary Avesta Trust (LLC)
License of CSM for Securities custodian №1053, registry holder №1054 and nominal securities holder №1055

Postal address: 36 Navoi str., 100011
Tashkent, Uzbekistan Republic
Tel: +998 (71) 144-3685
Tel/fax: +998 (71) 144-3667
E-mail: trust@avestagroup.com
Internet: http://trust.avestagroup.com

Brokerage house Avesta Securities™ (Avesta Sekurities LLC)
License of CSM for Securities №1133

Tel: +998 (71) 132-6202
Tel/fax: +998 (71) 144-3667
E-mail: securities@avestagroup.com