

THE ECONOMY REPORT

Analysis of macroeconomic situation on results of 2009

According to the National Statistics Committee of the Republic of Uzbekistan, the GDP of the country in 2009 made up around 48 097 bln UZS (15.76 trln UZS - in the 4th quarter), or 32.78 mln USD, demonstrating an 8.1% increase year-on-year. Our forecasts were in line with the GDP dynamics, which reflects stable state of the economy throughout the entire year, when the real GDP growth was around 7.9- 8.2%.

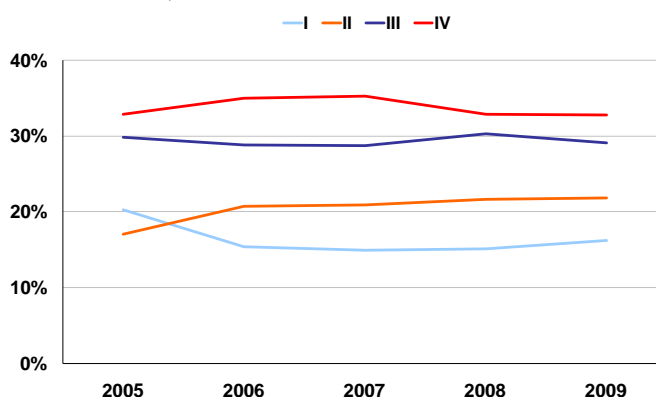
The budget surplus at the end of the year accounted to 0.2% of GDP versus planned deficit of 1% of GDP. The planned parameters of the budget envisaged revenue in the amount of 10.421 trln UZS (21.2% of GDP) against expenses of 10.913 trln UZS (22.2% of GDP). In the beginning of December, 2009 the planned indicators have been changed to 10.985 trln UZS of revenues and 10.952 trln UZS of expenses. Nearly 56% of the total budget funds were spent for the social infrastructure development and social support for the citizens.

The 2010 budget has been approved by the government with a planned deficit of 1% of GDP (approximately 616.1 bln UZS). The budget revenues (excluding the national earmarked funds) are expected to be 13.12 trln UZS, including 3.42 trln UZS in direct taxes, 6.97 trln UZS in indirect taxes, 1.97 trln UZS in resource payments and property taxes, 25.7 bln UZS in windfall profit taxes and other expenses 722.15 bln UZS.

The expenses in 2010 will reach 13.732 trln UZS and the greatest part amounting to 8.1 trln UZS will be directed to the social sector, expenses into economy will be around 1.573 trln UZS and centralized investment – 825 bln UZS. Nearly 524 bln UZS is planned to be spent for the maintenance of all levels of governmental bodies and approximately 2.7 trln UZS for other expenses.

Among important notable features are tax relieves, namely the profit tax for legal entities will be decreased from 10% to 9% and the individuals' income tax rate at the lowest batch will change from 12% to 11%.

Quarteral structure of GDP



Source: State Statistics Committee, Calculations: Avesta Investment Group

As it can be seen in the diagram, the quarterly GDP structure has remained almost unchanged: the share of the third quarter has fallen by 1.13 percentage point (p.p.) and the share of the first quarter rose by 1.06 p.p. The second and the fourth quarter have «exchanged» shares in the amount of 0.14-0.21 p.p. in favor of April – June period.

Real GDP growth forecast for 2010 stands at 8.3%, industrial production should increase by 8.3%, agricultural sector – by 5%, capital investments – by 22.1% retail turnover – by 16.3%. The inflation will stay within the borders of 7-9%.

Forecasts from some international organizations are less optimistic. Thus, the ADB has been forecasting 7% GDP growth in 2009 and 6.5% GDP growth in 2010, while inflation rate forecast for 2010 was lowered from 13% to 11% compared to 12.5% inflation rate forecast for 2009. These estimates are similar to the ones by the IMF, which forecasts the GDP of Uzbekistan to increase by 7% in 2009 and 2010. The least up-beat figures are published in the World Bank report, which has foreseen the GDP of the country to rise by 4.5% in 2009 and by 5% in 2010 while the inflation would be 12.5 % in 2009 and would fall to 9.5% in 2010.

Avesta Investment Group's own forecast is approximately 8.4-8.5% GDP growth in 2010 and about 8-8.1% GDP growth by the end of the first quarter of 2010.

Main macroeconomic indicators forecasts

| | GDP rate, % | | CPI, % | |
|--------------------------------|----------------|----------------|------------|----------------|
| | 2009 | 2010 | 2009 | 2010 |
| Official statistics | 8,1 | X | 7,4 | X |
| Government | 8 | 8,3 | 7-8 | 7-9 |
| EBRD | 7 | n/a | n/a | n/a |
| IMF | 7 | 7 | 12,5 | 9,5 |
| IFC | 7 | n/a | n/a | n/a |
| ADB | 7 | 6,5 | 12,5 | 11 |
| World bank | 4,5 | 5 | 12,5 | 9,5 |
| Avesta Investment Group | 8,1-8,3 | 8,4-8,5 | 8-9 | 8,5-9,5 |

The inflation rate (CPI) at the end of 2009 has reached 7.4% which was within the government forecast range (7-8%). It should be noted that in the first quarter inflation is traditionally the highest and has a tendency to fall to 0.5-0.6% per month during the consecutive two periods compared to 0.8-0.9% during the first quarter. If we compare the quarterly structure, it can be seen that the inflation in the first half of 2009 was higher than in the previous year, while during the second half of 2009 it was less by 0.03% per quarter compared to July-December, 2008. The cost of services have increased the most - by 17.3% in 2009, though less than in 2008 – 27.2%. The prices of non-food products were also less dynamic than in 2008; however, the food products price index has risen by 6.3% in 2009 compared to 2.7% in 2008.

Following 7.7% growth of the industrial production price index in 2008, it has increased by 29.5% in 2009. Most of this growth is attributable to the non-ferrous metals (2.4 times) and ferrous metals (63%) industries.

Unlike the industrial production price index, the transportation tariffs practically remained the same, which is related to slower tariff growth rates of all types of transportation and decrease in pipeline transportation tariffs. While in 2008 transportation tariffs have increased by 80.2%, in 2009 this figures was equal to only 0.6%.

Communication services costs have increased by 5% in 2009, mainly due to the telegraph tariff growth (19.5%) and cellular communications (9.6%).

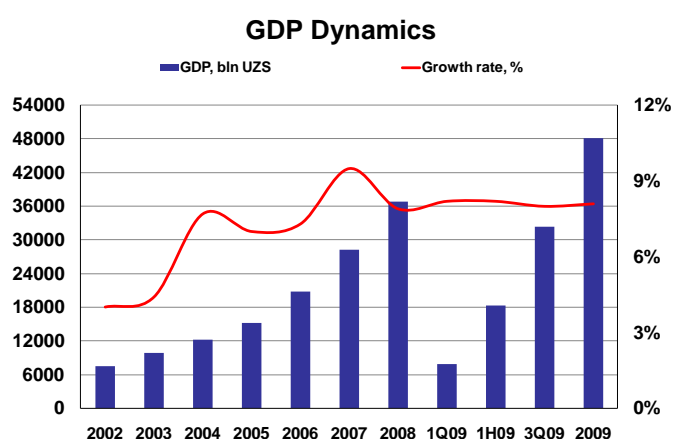
The share of small businesses in GDP rose to 50.1% in 2009 versus 48.2% in the previous year, while they employed 74.2% of the working population of the country – approximately 8.4 mln people.

The aggregate profit of companies working in Uzbekistan accounted to 5 236.6 bln UZS, which is 30.9% more than in the previous year. The most of the profit is earned by industrial enterprises, which generate around 2 656.5 bln UZS. One third of the profits are provided by the transportation sector – the growth was equal to 67.3% versus 16.9% in industrial sector. The

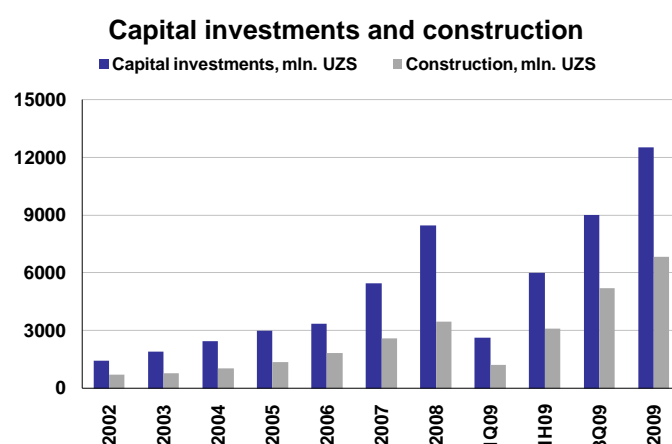
share of industrial sector has fallen from 58.7% to 50.7% and the share of transportation sector has increased from 24.6% to 34.4%.

Moreover, half of the profits are earned by companies in Tashkent city (49.3%). Decreasing profits are being observed in half of the regions; among them are large and developed regions such as Bukhara, Samarkand and Tashkent. The highest growth rates were registered in Navoi (2.1 times), Andijan (+84.6%) and Fergana (+48.9%) regions.

It should also be noted that the results of the measures taken earlier are beginning to pay off. In addition to the growing macroeconomic indicators, it can be observed by the fact that the ratings of three banks, which have received additional capital from the government, have been upgraded by the international rating agencies. Namely, Fitch Ratings has upgraded OJSCB "UzPSB" and OJSCB "Agrobank" (former OJSCB "Pahtabank") ratings from 'B-' to 'B', and has confirmed SJSCB «Asaka» rating at 'B'. Moody's has upgraded OJSCB «Qishloq Qurilish Bank» (former SJSCB «Gallabank») rating from «B3» to «B2».



Source: State Statistics Committee



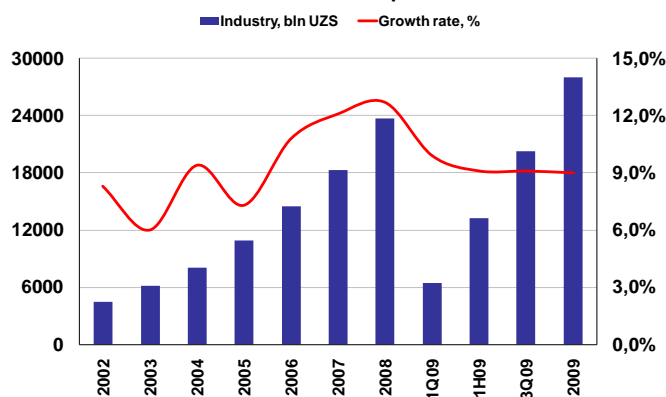
Source: State Statistics Committee

Industrial production has increased by 9.0% (+12.7% in 2008), agricultural production – by 5.7% (+4.5%), consumer goods production – by 13.9% (+17.7%), retail turnover – by 16.6% (+17.2).

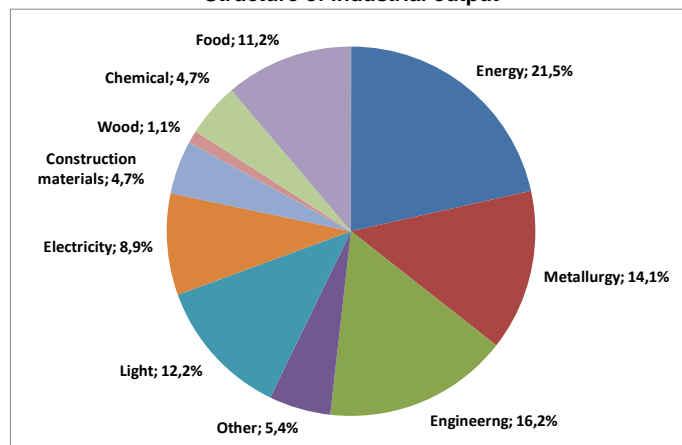
Among industrial sectors the most dynamic growth was demonstrated by the automobile-building and metal-processing industry which has grown by 17.4% and made up 16.2% of the total industrial production in the country. Second highest growth rate was shown by the chemical and petrochemical industry, which has increased by 11%, while its share has decreased by 0.2 p.p. and made up 4.7%. The shares of metallurgy and light industries have substantially decreased – by 2.1 p.p. and 1.4 p.p. making up 14.1% and 12.2% respectively.

| | 2007 | 2008 | 1Q09 | 1H09 | 9M09 | 2009 |
|--|----------|----------|---------|----------|----------|----------|
| Population | | | | | | |
| Population, mln. peoples. | 27,1 | 27,6 | 27,6 | 27,7 | 27,9 | 28 |
| Economy | | | | | | |
| GDP, bln. UZS | 28 186,2 | 36 839,4 | 7 795,6 | 18 312,9 | 32 339,9 | 48 097,0 |
| GDP per capita, ths. UZS | 1 040,1 | 1 336,9 | -- | -- | -- | 1 717,7 |
| Industrial output, bln. UZS | 18 318,7 | 23 679,0 | 6 419,0 | 13 265,1 | 20 265,8 | 28 009,3 |
| Agricultural output, bln. UZS | 8 988,9 | 10 479,6 | 957,9 | 4 985,6 | 8 901,7 | 12 642,6 |
| Consumer goods, bln. UZS | 5 312,4 | 7 436,5 | 1 853,2 | 3 986,7 | 6 291,9 | 8 809,0 |
| Investments in fixed capital, bln. UZS | 5 479,7 | 8 483,7 | 2 652,6 | 6 026,5 | 9 008,9 | 12 531,9 |
| Construction work, bln. UZS | 2 593,2 | 3 480,4 | 1 225,0 | 3 128,7 | 5 222,4 | 6 862,5 |
| Freight turnover, bln. t-km | 78,9 | 84,0 | 18,8 | 35,9 | 55,8 | 78,1 |

| | | | | | | |
|--|-------------|-------------|------------|-------------|-------------|-------------|
| Passenger turnover, bln. pas-km | 56,5 | 64,6 | 14,1 | 32,7 | 51,1 | 71,0 |
| Retail trade turnover, bln. UZS | 9 464,0 | 12 558,9 | 3 369,8 | 7 312,5 | 11 686,2 | 16 488,9 |
| Paid services rendered to population, bln. UZS | 3 053,0 | 4 474,6 | 1 183,8 | 2 614,8 | 4 306,2 | 6 298,0 |
| Economy | | | | | | |
| GDP, mln. USD | \$22 305,03 | \$27 883,71 | \$5 530,38 | \$12 756,89 | \$22 233,69 | \$32 775,14 |
| GDP per capita, USD | \$823,06 | \$1 011,91 | -- | -- | -- | \$1 170,50 |
| Industrial output, ths. USD | \$14 496,43 | \$17 922,61 | \$4 553,79 | \$9 240,56 | \$13 932,74 | \$19 086,61 |
| Agricultural output, ths. USD | \$7 113,33 | \$7 932,00 | \$679,56 | \$3 473,00 | \$6 119,92 | \$8 615,15 |
| Consumer goods, ths. USD | \$4 203,95 | \$5 628,68 | \$1 314,70 | \$2 777,16 | \$4 325,68 | \$6 002,79 |
| Investments in fixed capital, ths. USD | \$4 336,34 | \$6 421,30 | \$1 881,82 | \$4 198,10 | \$6 193,62 | \$8 539,72 |
| Construction work, ths. USD | \$2 052,12 | \$2 634,31 | \$869,04 | \$2 179,47 | \$3 590,40 | \$4 676,37 |
| Retail trade turnover, ths. USD | \$7 489,30 | \$9 505,82 | \$2 390,62 | \$5 093,94 | \$8 034,27 | \$11 236,17 |
| Paid services rendered to population, ths. USD | \$2 415,98 | \$3 386,82 | \$839,82 | \$1 821,49 | \$2 960,51 | \$4 291,70 |
| External trade turnover | | | | | | |
| External trade turnover, mln. USD | \$14 227,1 | \$19 077,00 | \$4 780,9 | \$10 497,00 | 16 014,0 | \$21 209,60 |
| Of which: | | | | | | |
| Exports | \$8 991,5 | \$11 572,90 | \$2 493,9 | \$6 034,10 | 9 173,8 | \$11 771,30 |
| Import | \$5 235,6 | \$7 504,10 | \$2 287,0 | \$4 462,90 | 6 840,2 | \$9 438,30 |
| balance (+,-) | \$3 755,9 | \$4 068,80 | \$206,9 | \$1 571,20 | 2 333,6 | \$2 333,00 |
| Monetary Data | | | | | | |
| 1 Year Interest Rate % | 14,00% | 14,0% | 14,0% | 14,0% | 14,0% | 14,0% |
| Foreign Exchange Rate (Local Currency/EUR) - average annual | 1 263,7 | 1 321,2 | 1 409,6 | 1 435,5 | 1 454,5 | 1 467,5 |
| Foreign Exchange Rate (Local Currency/US\$) - average annual | 1 728,7 | 1 941,7 | 1 942,9 | 1 976,6 | 2 028,4 | 2 079,2 |
| Foreign Exchange Rate (Local Currency/RUR) - average annual | 49,4 | 53,3 | 41,7 | 43,6 | 45,0 | 46,5 |
| Consumer Price Inflation (% Annual Change) | 6,80% | 7,8% | 2,7% | 3,6% | 4,2% | 7,4% |

Industrial output


Source: State Statistics Committee

Structure of industrial output


Source: State Statistics Committee

Export and import

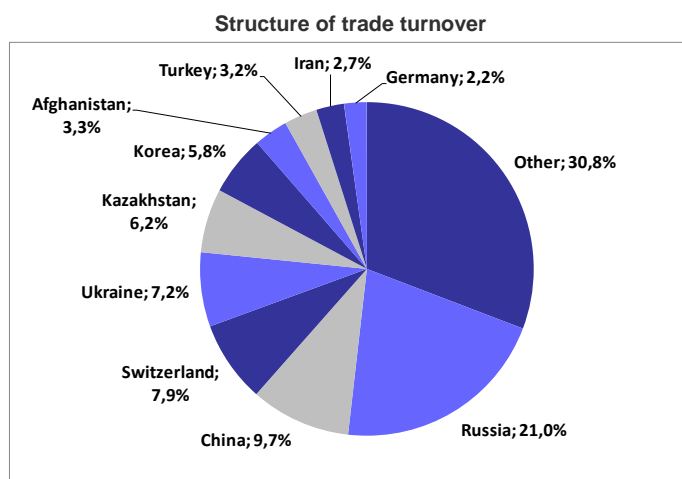
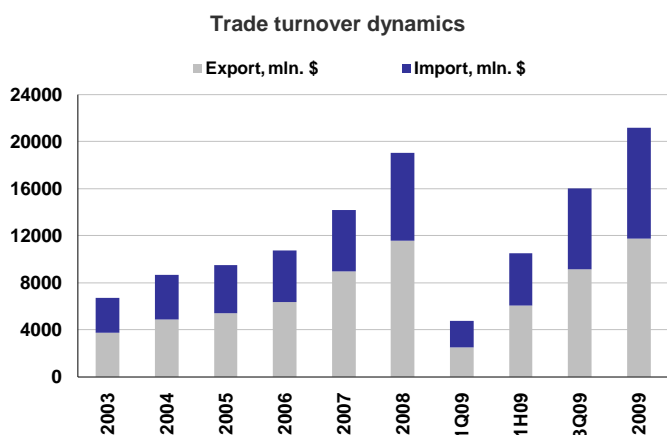
The external trade turnover of the Republic of Uzbekistan was equal to 21.2 bln USD at the end of 2009, increasing by 0.1% in comparable prices. The nominal growth of the external trade turnover made up 11.2%. Export rose by 2.4% up to 11.8 bln USD, while the forecast was 12.5 bln USD, while import has decreased by 2.7% down to 9.44 bln USD. The nominal change in the volume of imports made up +25.8%. The nominal quarterly import growth rates, which have been exceeding the export change rate four periods in a row have amounted to 39% while the export growth was equal to 76.1%.

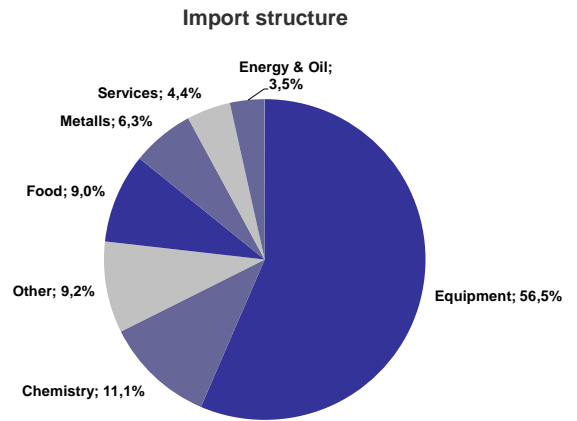
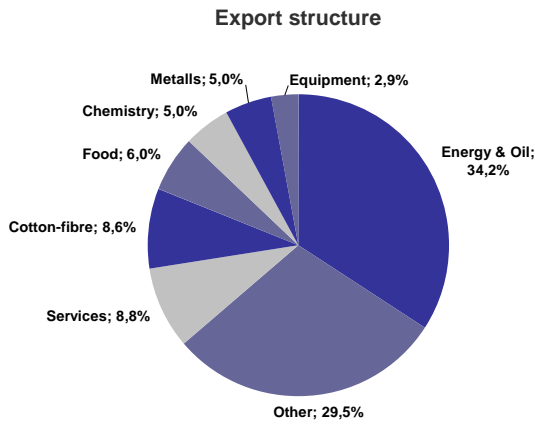
The trade balance surplus made up 2.33 bln USD in 2009 versus 4.07 bln USD in 2008. The fourth quarter practically made no changes to the balance, as export and import volumes were the same. Thus the most successful period for Uzbek companies was the second quarter, when export has exceeded import by 1.36 bln USD.

The most significant import article into the country is traditionally machinery and equipment for all sectors of the economy, its share in total imports made up 56.5% - 3.2 p.p. more than in 2008. Due to increase in the supply of machinery and equipment, the shares of other main import articles have decreased: chemical industry products – by 1.9 p.p., metals – 0.5 p.p., services – 1.3 p.p. In absolute terms, import volumes of chemical industry products and metals have decreased by 7.3% and 19.7%. Similar situation is observed with other import articles; contrary to this only import of food products and machinery and equipment have increased.

Export of energy products has increased by 1.42 times which led to the growth of its share in the export structure from 25.2% to 34.2%. Similarly, export of food products has increased by 39%, while all other products groups have decreased by 5.1–61.6%. Among groups with most export volume reduction is machine-building complex, it should be pointed out that its export volume was 3 times less in 2009 compared to 2008. Exports of chemical products and metals have also decreased substantially. This may be due to higher internal consumption of metals in construction works and development of the agricultural sector, which has demonstrated record-breaking rates of growth compared to 2008.

Among the trade partners the first place traditionally belongs to the Russian Federation with 21% in the total external trade turnover, which is 0.8 p.p. more than in 2008. Despite occupying the second place during the second and the third quarters, at the end of the year Switzerland was outperformed by China with a share of around 9.7% of the total turnover. Key trade partners still include Ukraine, Kazakhstan, South Korea, Iran, Turkey and Germany. It should also be noted that Afghanistan is amongst key trade partners for the second year in a row, which is related to active transportation and energy infrastructure construction projects, which are carried out by Uzbek companies, as well as to increasing supply of electricity to the south.





Source: State Statistics Committee

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