

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

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**UZBEKISTAN - REQUEST FOR OBSERVER STATUS**

The following communication from the Government of Uzbekistan was received on 24 May 1994.

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According to the Decision on Observer Status of Governments in the Council of Representatives, the Government of the Republic of Uzbekistan has the honour to provide the Memorandum on trade and economic policies including intended future reforms. The Government of the Republic of Uzbekistan accepts the procedures set out in the Decision (document L/7286). The text of the Memorandum is attached.

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The request for observer status submitted by the Government of Uzbekistan was circulated in document L/7400. The text of the Memorandum on the trade and economic policies is reproduced hereunder. The request for observer status submitted by Uzbekistan will be considered at the Council meeting on 21 June 1994.

## MEMORANDUM

The Republic of Uzbekistan declared its state independence on 1 September 1991. At the present time 123 countries of the world have recognized Uzbekistan. Seventy-four countries have established diplomatic relations with the Republic.

The new Constitution was adopted on 8 December 1992. According to the Constitution, the Republic of Uzbekistan is a democratic republic with the presidential system of government. The Constitution guarantees that all citizens of Uzbekistan are equal before the Law, regardless of their origin, birth, social standing, material status, racial or national identity, sex, education, language, religious, political and other convictions, type of occupation. There is a single citizenship instituted in Uzbekistan. According to the Constitution of the Republic of Uzbekistan the State guarantees the citizens' basic economic rights. These rights in particular are: freedom of exercising economic activities, entrepreneurship, giving priority to the rights of the consumers, as well as equality and legal protection for all forms of property.

Deep economic and political reforms aimed at the formation of a socially oriented market economy are being carried out in the republic nowadays according to the national idea, based on the constitutional system and responsive to the interests, demands and specific features of the republic.

The following five principles are the basis of the national idea:

1. The economy must have priority over the policy.
2. The State as the major reformer determines priorities, works out and consequently implements the policy of reforms.
3. The law has the supremacy in all the spheres of life and activity.
4. The integration of market relations is followed by measures of social protection.
5. The establishment of objective requirements in the economic laws is an the integral part of the process of step-by-step transition to market relations.

Universally recognized principles of market economy, proven by the international practice as well as the way of living, traditions, customs and the way of thinking of the people of Uzbekistan lie at the basis of the national path for renewal and progress.

The Government of the Republic of Uzbekistan is carrying out measures aimed at deepening the economic reforms.

The Decree of the President of the Republic of Uzbekistan "On measures aimed at further deepening of economic reforms, ensuring protection of private property and development of enterprises" was adopted on 21 January 1994. It marked the new phases of economic reforms in Uzbekistan. The broadening scale of market transformations, the substantial growth of the role of economic regulators, the creation of a competitive environment and the mechanism of economy of resources reflect the general directions of economic transformation. According to the Decree the State support provided in different spheres of life will have a selective approach. Targeted social safety will be one of the characteristic features of this phase.

The Government carries out tasks of stabilization and further development of production, finance system and money circulation based on the introduction of a national monetary unit, as well as starting structural transformations with the purpose of overcoming the raw material character of the economic stabilization as an important condition for reform.

The temporary monetary unit "Som-Coupon" was put into circulation on 15 November 1993. Measures aimed at the strengthening of som-coupon are being undertaken presently to provide the further transition to a full value of national currency based on this temporary monetary unit.

### **Purposes of the reforms**

General macroeconomic purposes consist in seeking increases of production in all fields of the economy, reducing inflation, strengthening the balance of payments and official external reserves. In the sphere of system transformation, the program stipulates the use of market prices as the indicator of the state of the market, departing from operational State interference in the economy and the subsidization of non-efficient industries and productions. The economic reform includes the development of diverse forms of property, freedom of entrepreneurship, the formation of a favourable environment for national and foreign investments.

The establishment of the Interdepartmental Council on Economic Reform, Entrepreneurship and Foreign Investments reflected the necessity of coordinating the measures to speed up the introduction of economic reforms. The President of the Republic of Uzbekistan is the Chairman of the Council.

### **Pricing policy**

The Resolution by the Cabinet of Ministers "On price liberalization measures" of 9 January 1992 provided that the State policy of fixing prices and tariffs will remain for an extremely narrow range of products and services. Besides, the Government adopted reiterated resolutions to increase retail prices for main foodstuffs to bring their value into line with actual expenses.

The price liberalization has been connected with the implementation of a strict anti-monopoly policy, commercialization of public enterprises activities and the creation of a competitive environment.

From 1 January 1993 fixed retail prices with State budget subsidies remained only for bread of certain sorts. The share of the State budget subsidies has been consequently reduced and accompanied by a systematic review of retail prices.

There are free prices on energy resources for all consumers. The price level of energy resources is being adjusted step-by-step to the world prices.

The State budget covers price differences of a narrow range of industrial goods for children; coal set aside for the population; a range of public utilities and municipal passenger transport.

The amount of State budget expenditures for subsidies granted to the above mentioned foodstuffs, industrial goods, public utilities and municipal passenger transport in 1994 accounts for 5,3% of GNP, compared with 8,2% in 1993.

### **Privatization and State order**

The formation of a multistructural economy is in progress in Uzbekistan. In 1993 the number of denationalized enterprises ran to 54 thousand. Eighteen thousand four hundred of them became private, 26 thousand became joint stock companies, 8,7 thousand became collective and 661 became leased.

Privatization has been almost completed in local industries, trade public catering, services. More than 22 thousand enterprises have been transformed into private, family, joint-stock and other forms of property.

The development of the non-public sector in agriculture is active. State farms are being transformed into cooperative, leased and collective farms.

Presently the share of agricultural products of the non-state sector accounts for 70%.

As a whole, the share of non-state sector of the national economy accounts for 40% in produced national income.

With a view to implementing the provisions of Presidential Decree of 15 March 1994, the Government worked out the program of deepening the process of denationalization and privatization in the Republic of Uzbekistan.

The program determines the following priorities of the process of denationalization and privatization in the Republic of Uzbekistan:

- broad involvement of the population in the process of economic reforms, by means of the development of the securities market and establishing open stock companies, reducing the public share of stocks;
- creation of the means of production market by means of involving into the process of privatization wholesale enterprises and by means of the development of the network of primary goods exchanges;
- demonopolization of present production and administration structures, reducing the number of privatization limited enterprises;
- attraction of foreign investments into the economy of the republic, by means of invitation to tenders and auctions, investment tenders and direct sale of property;
- ensuring State support for enterprises after their denationalization.

The Government program stipulates the deepening of economic reforms in agriculture.

The Cabinet of Ministers adopted the Resolution N°88 "On additional measures introducing economic reforms in agriculture" on 23 February 1994. The provisions of the Resolution include:

- the transformation of State enterprises into non-State forms;
- additional allotment of 100 thousand hectares of land to farms;
- priority allotment of credit resources for farmers in terms of mortgages;

- withdrawal of all State orders determined for farms, except for the orders for cotton-fibre, grain, livestock, poultry and milk.

(State purchases remain within the following limits: cotton fibre - 75 %, meat and milk - 50 %)

### **Investment climate**

Foreign investment is attracted by means of the creation of joint ventures and the sale of certain amount of shares to foreign legal entities.

With the purpose of ensuring national and foreign investments, economic interests of national and foreign investors from risks losses, the State Investment Insurance Company "Uzbkinvest" was established.

The Government will implement policy aimed not at the control, but at the stimulation of the development of the private sector.

A wide range of measures provided for the business activity environment includes the stability of legal provisions, the freedom of travelling on the territory of the country, the simplification of the procedure of permit for travelling abroad for the citizens of the Republic.

Foreign investors have the right to acquire enterprises in commerce and service sectors, as well as the land of enterprise location, owning it privately.

The procedure of license issuance for certain types of business has been simplified. The list of activities subjected to licensing was cut down.

The transformation of ministries and departments of the industrial sector into concerns, corporations and associations was completed at the first stage of the reform. The further improvement of the sector system of management means the liquidation of concerns and the establishment of associations, holding companies and other organizational structures meeting the requirements of a market economy.

### **Banking and Monetary System. Payments**

The Law of the Republic of Uzbekistan on Banks and Banking Activities regulates the functioning of a two level banking system. In May 1993, the Parliament of the Republic of Uzbekistan amended the Law. In compliance with IMF recommendations, these provisions include the strengthening of banking control, down to the withdrawal of the licenses for banking activities in case of infringement of the license terms, the legislation in force, and the norms and regulations of the Central Bank of the Republic of Uzbekistan.

The Law on Exchange Control of May 1993 regulates the functioning of the monetary system. The implementation of the Law provisions led to the adoption of the number of standard acts and the creation of the system regulating exchange transactions.

Since 1 January 1994, som-coupon has been the only legal currency in circulation and has become the monetary unit of the Republic of Uzbekistan. The Cabinet of Ministers of the Republic of Uzbekistan adopted a Resolution regarding som-coupon circulation on 11 April 1994. This Resolution speeded up the creation of the necessary conditions for the stable money circulation of the som-coupon and established its purchasing power as the monetary unit of the Republic of Uzbekistan.

According to the resolution, the som exchange rate is floating and depends on the results of weekly auctions by the Uzbekistan Republic Currency Exchange. The Central Bank and authorized banks participate in the auctions. The exchange rate determined by the auctions is obligatory for all currency transactions.

A normal functioning of the foreign currency market is very important for the Republic. Authorized banks will act as exchange dealers, having exchange position, sell and buy foreign currency in the internal market as well as with clients, at mutually agreed rates by the parties participating in transactions.

Importers will have free access to currency accounts for payments connected with all legal foreign economic transactions. In the future the number of authorized banks will increase as a result of granting licenses to commercial banks interested in foreign currency transactions.

In the nearest future the interbank currency exchange will hold auctions of national currencies of States - members of CIS.

A complex of measures aimed at the introduction of currency exchange rates with neighbouring States is being worked out.

Nowadays the system of correspondent accounts is the basis of payments with the States which has concluded agreements with Uzbekistan. This order of payments remains for 1994. From 1 February 1994, the Central Bank lifted the restrictions on the use of correspondent accounts opened by commercial banks in States members of CIS. With purpose of the development of a currency market and increasing the efficiency of the use of the available currency resources in circulation the following measures are provided:

- opening foreign currency accounts of physical persons at interest rates corresponding to the international banking practice;
- issuance into circulation of national debit and credit cards with service in Uzbekistan as well as abroad.

#### **Measures in the trade sector**

The introduction of measures aimed at the creation of a united system of foreign trade regulation has begun recently. The united system of goods entering through the customs area of the Republic is one of these measures.

The Decree of the President of the Republic of Uzbekistan of 21 January 1994 is the important step in the formation of a favourable trade climate. Customs duty rates were determined for 65 times. Import duties were lifted till 1 July 1995 for all items imported into the Republic of Uzbekistan.

The Law stipulates private entrepreneurship for the import of goods and supplying the internal market and the creation of small wholesale networks including those on a family business basis.

National bank of foreign economic activity of the Republic of Uzbekistan and joint-stock banks will allot credits in national and foreign currency to citizens of the Republic of Uzbekistan. Citizens will take credits on terms of appropriate mortgages or other guarantees.

The list of products subject to export licensing within quota limits (including export to the States - members of CIS) has been considerably shortened.

The Law stipulates the introduction of the practice of the opening of wholesale fairs with participation of exchanges dealing with raw goods. The purpose is to organize the commercialization of goods and products left at the disposal of enterprises and farms in some coupons.

The export from the Republic of the goods bought at such fairs is not subject to licensing and customs duties.

The liberalization of the system of non-tariff as well as quantitative restrictions makes the system of customs tariffs the main instrument of foreign trade regulation based on the following:

- differential export and import duties;
- responsiveness of the difference in trade treatment with different countries, including those within the limits of customs unions (CIS).

Import bulk buying and import subsidies will be minimized when the transition to the obligatory sale of currency proceeds.

With the purpose of financing State expenditures in foreign currency the system of centralized export of strategic products will remain. However, competitive allotment of quotas will considerably liberalize the system.

In 1994 and 1995 the process of the creation of the system of trade treatments will continue. These trade treatments specified by bilateral and multilateral trade economic agreements of the Republic will determine the general direction of the trade policy.

By 1 April 1994 the Republic of Uzbekistan had concluded 28 trade and trade economic agreements with foreign States and States - members of CIS. China, Finland, India, the Russian Federation, Switzerland and the United States are among them.

### **Foreign debt**

On 2 November 1992, the Government of the Republic of Uzbekistan and the Government of the Russian Federation signed the Agreement "On successor obligations related to the external State debt and assets of former USSR" on 2 November 1992. According to the Agreement, Uzbekistan undertakes no obligations related to the external State debt of the former USSR.

The Republic of Uzbekistan relinquished its share of assets. In exchange the Russian Federation took on the obligations of Uzbekistan related to the external state debt of former USSR. The Russian Federation signed the corresponding agreement with creditors - members of Paris Club on 2 April 1993.

"The Law on External Borrowing" and a number of related regulations will be adopted by the Republic of Uzbekistan in the very near future. The draft Law has been worked out by the Central Bank with participation of international experts. The Law will regulate the procedures of external borrowing by residents, external debt guarantees provided by the Cabinet of Ministers, and the control over the aggregate amount of external debt of Uzbekistan.

### **Macro-economic policy and the system of social security**

The main priorities in macro-economic and social policy are:

- limitation of the deficit of consolidated budget and financial stabilization of national economy;
- restrictive monetary policy and consequent overcoming of inflation;
- stabilization and growth of production, providing employment to the population and support for its living standards, the formation of necessary internal resources for structural transformation of the economy;
- transition from the general system of budget subsidies to the targeted social security for the most vulnerable strata of population.

The system of targeted social security for the population stipulates rendering assistance to large families of moderate means needing State support.

A network of mutually connected economic, administrative and legal institutions will be created for the efficient functioning of the system.

### **Budgetary policy**

In 1994 the main direction of budgetary policy is support for anti-inflationary measures. Strict limitation of the budget deficit is of the primary importance for reducing inflation and pressures on the economy. The State budget of the Republic of Uzbekistan for 1994 was approved by the Parliament. It accounts for revenues of 5181.8 billion som-coupons and for expenditures of 5619.3 billion som-coupons with a limited deficit of 437.5 billion som-coupons (not exceeding 5 % to GNP). Non-budgetary funds account for revenues of 3479.1 billion som-coupons and for expenditures of 3407.9 billion som-coupons, with a surplus of 71.2 billion som-coupons.

The programme for 1994 stipulates strict measures aimed at reducing expenditures. These measures are based on wages policy and a strengthened system of targeted social security.

In the sphere of investments, the transition is from the budget financing to the orientation of funds to enterprises and bank credits.

In 1994 short-term (3-6 months) Government bonds will be issued for placement at market terms.

The measures aimed at the improvement of tax policy are:

- the improvement of the system of incentives in order to stimulate business and investment activities, the development of entrepreneurship, the growth of the production of competitive goods;



- a step-by-step reduction of the role of indirect taxes with the following increase of direct taxes;
- the equal treatment for national and foreign investors;
- a transition to the declaration of income using an identification number for tax-payers.

The present taxation system establishes the taxation of income. In prospect is a system of profit taxation with the parallel introduction of tax regulations concerning expenditures on wages.