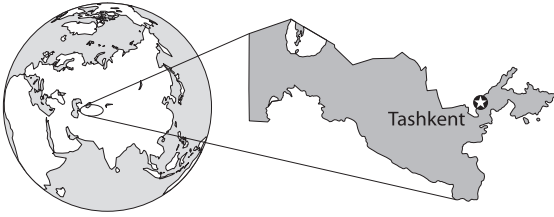


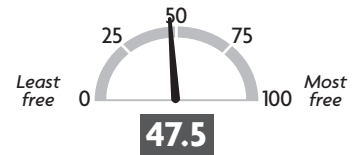
UZBEKISTAN



World Rank: **158**

Regional Rank: **35**

Economic Freedom Score



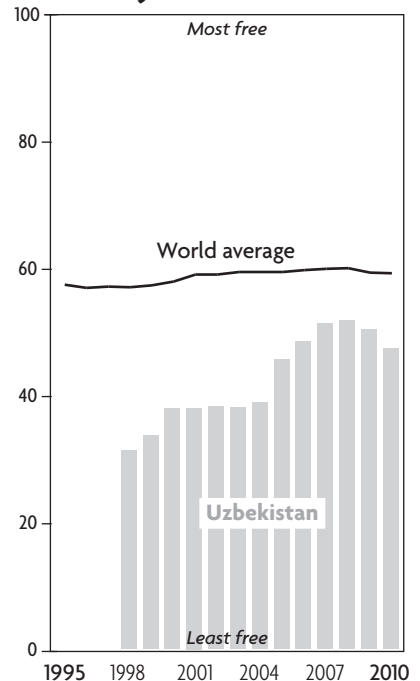
Uzbekistan's economic freedom score is 47.5, making its economy the 158th freest in the 2010 *Index*. Its score is 3 points lower than last year, reflecting reduced scores in half of the 10 economic freedoms. Uzbekistan is ranked 35th out of 41 countries in the Asia-Pacific region, and its overall score is lower than the world average.

Economic reform is an unfinished process in Uzbekistan. The country scores poorly in most areas of economic freedom. The bright spot is fiscal freedom, where Uzbekistan scores relatively high because of a moderate income tax rate and a low corporate income tax rate. **The overall entrepreneurial environment is inefficient and burdensome, and a weak legal framework undermines the development of a strong private sector.**

State intervention remains considerable in many areas of the economy and continues to hold back long-run economic development. The courts are subject to political interference, and corruption is pervasive throughout the civil service.

BACKGROUND: President Islam Karimov, in power since the late 1980s, evicted the U.S. from the Karashi-Khanabad air base in 2005 but in 2008 allowed the U.S. and NATO limited use of an airfield and railroads to resupply military forces in Afghanistan. In October 2008, the European Union relaxed economic sanctions. In April 2009, the U.S. signed an agreement with Uzbekistan allowing shipment of nonlethal supplies to Afghanistan. Uzbekistan relies heavily on natural gas, oil, gold, and uranium exports, but cotton remains the main source of export revenues. Russian investment is growing in numerous sectors. GDP growth was 9 percent in 2008 according to official statistics, but the economy was negatively affected in 2009 both by declines in remittances and by falling prices and demand for Uzbekistan's major export commodities.

Country's Score Over Time



Quick Facts

Population: 27.3 million

GDP (PPP): \$72.5 billion

9.0% growth in 2008

8.2% 5-year compound annual growth

\$2,656 per capita

Unemployment: n/a

Inflation (CPI): 12.3%

FDI Inflow: \$918 million

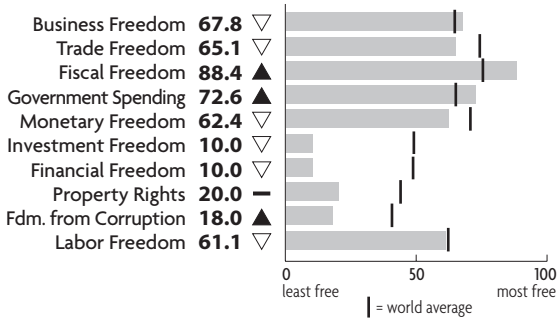
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

UZBEKISTAN'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 67.8

The overall freedom to start, operate, and close a business is limited under Uzbekistan's regulatory environment. Starting a business takes 15 days, compared to the world average of 35 days. Obtaining a business license takes more than the world average of 18 procedures and 218 days. Closing a business is a lengthy process.

TRADE FREEDOM — 65.1

Uzbekistan's weighted average tariff rate was 7.5 percent in 2008. Some high tariffs, services market access barriers, discriminatory import taxes and fees, non-transparent and burdensome standards and certification regulations, non-transparent government procurement, export subsidies, weak enforcement of intellectual property rights, corruption, and inefficient and cumbersome customs implementation add to the cost of trade. The government sometimes closes border posts to restrict trade. Twenty points were deducted from Uzbekistan's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 88.4

The top income tax rate is 25 percent, and the top corporate tax rate is 10 percent (15 percent for commercial banks). Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 20.8 percent.

GOVERNMENT SPENDING — 72.6

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 30.2 percent of GDP. State intervention in the economy remains pervasive, hindering development of the private sector. Large state-owned enterprises have not been privatized. Uzbekistan's fiscal system lacks transparency, and there are large discrepancies in official statistics. Except for export revenues from Russia and Kazakhstan, Uzbekistan is relatively isolated from the global economy.

MONETARY FREEDOM — 62.4

Inflation has been high, averaging 12.8 percent between 2006 and 2008. Despite attempts to limit inflation by imposing price controls on basic foodstuffs and energy, inflation accelerated to 14 percent in 2008. The government influences prices through regulation, subsidies, and state-owned enterprises and utilities. It controls prices primar-

ily by declaring companies or certain products national or regional monopolies, which automatically requires official review and approval of prices. Fifteen points were deducted from Uzbekistan's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 10

Officially, foreign and domestic investments face equal treatment under the law. In general, numerous sectors are either reserved for the state or subject to limited-ownership restrictions and minimum capital requirements. In practice, investors face such barriers as cumbersome bureaucracy; the threat of expropriation; inconsistent, burdensome, and arbitrary regulation; weak contract enforcement; corruption; and political unrest and violence. Residents and non-residents may hold foreign exchange accounts, subject to some restrictions. Payments and transfers face quantitative limits and delays. Some capital transactions, including credit operations and real estate transactions, are subject to controls.

FINANCIAL FREEDOM — 10

Uzbekistan's undeveloped financial sector is subject to heavy government intervention. Along with the high costs of financing, the banking sector's limited capacity for financial intermediation remains a key barrier to development of the private sector. Banking is dominated by state-owned banks and lacks competition and transparency. Although the government has reduced the number of state-run banks in recent years, most of their assets have merely been transferred to smaller government-owned banks. Government-controlled banks support the government's economic priorities through subsidized loans offered to specific sectors. Foreign banks may operate only in a subsidiary status, and all routine banking operations require government permission. The insurance sector is minimal. Capital markets are virtually nonexistent, and the stock market is very small.

PROPERTY RIGHTS — 20

The government influences Uzbekistan's judiciary. Judicial procedures fall short of international standards, corruption is extensive, and expropriation is possible. There is no general system for registration of liens on chattel property. Pirated audiotapes, compact discs, videotapes, and other optical media are sold freely.

FREEDOM FROM CORRUPTION — 18

Corruption is perceived as pervasive. Uzbekistan ranks 166th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Foreign-owned businesses view corruption as one of the largest obstacles to foreign direct investment. The law does not forbid government officials from acting as "consultants," a common method of extracting payment.

LABOR FREEDOM — 61.1

Uzbekistan's labor regulations are relatively rigid. The non-salary cost of employing a worker is high, but dismissing an employee is moderately easy. Regulations on the number of work hours remain rigid.