

# Uzbekistan

## Key developments and challenges

The response to the financial crisis has averted serious problems for exporters, but at the cost of introducing more distortions into the economy. The challenge is to reduce these distortions and increase the openness of the economy so that enterprises will not suffer a further erosion of competitiveness.

Recent survey results suggest that the business environment has not improved, despite a new tax code and tax cuts. Renewed efforts are needed to reduce the overall tax and administrative burden, which is particularly important for the development of new and existing small and medium-sized enterprises (SMEs).

The government's fiscal stimulus package has been appropriate and the economy has shown resilience to the global economic downturn. However, the increase in directed lending through commercial banks could potentially constrain future credit growth and should therefore be restrained.

### Country data

Population (in millions)	27.7
Area ('000 sq km)	448.9
GDP (in billion US\$, 2008)	27.9
Average transition score (scale: 1 to 4.33)	2.15

## Progress in structural reform

### Liberalisation and privatisation

In response to the deteriorating external environment, in December 2008 the government announced an anti-crisis programme to support exporters, producers of domestic goods and services and SMEs, while also promoting energy efficiency. Support for exporters includes allowing accelerated depreciation, the supply of working capital from commercial banks at subsidised interest rates, the restructuring of payment arrears to utilities and accelerating VAT refunds. Measures to assist local producers of goods and services include preferential treatment in state procurement, while the construction sector will benefit from tax advantages and a price cap on construction materials. SMEs will be supported through credit from financial institutions at preferential terms and through tax cuts. Steps will also be taken to improve the efficiency of the state-owned vertically integrated electricity company Uzbekenergo. The new government programme has been accompanied by a tightening of foreign exchange convertibility for importers. Enterprises are reporting convertibility delays for imports that can last up to six months, leading to costly higher working capital requirements. As a result, the difference between the official and the black market exchange rates has widened from around 5 per cent in 2008 to 20-25 per cent in 2009.

### Business environment and competition

According to the World Bank's *Doing Business 2010* survey, the economy's ranking has deteriorated slightly from 145th place among 181 countries in 2008 to 150th (of 183 countries) in 2009. Areas such as paying taxes, trading across borders and dealing with construction permits remain problematic. Despite the new tax code adopted in 2008, the resulting streamlining of the tax regime and the lowering of tax rates, the administrative tax burden and overall tax payments remain high in Uzbekistan. High tax rates were also regarded as one of the most serious obstacles affecting businesses in the 2008/09 Business Environment and Enterprise Performance Survey (BEEPS IV). The International Finance Corporation's 2008 survey on SMEs showed that, in spite of tax reductions, SMEs continue to pay taxes and obligatory payments equivalent to 170 per cent of retained net profit. The survey indicated that obtaining business permits remains a major concern for SMEs.

In January 2009 the government introduced further tax cuts in the context of the anti-crisis programme that are specifically targeted at exporters and industrial SMEs. The government also cut minimum, average and maximum personal income tax rates. However, as most of the tax reductions are specifically related to the size and nature of enterprises, the overall tax structure has become more complicated. The government plans to simplify the procedures for obtaining construction permits which, if implemented, should improve the country's *Doing Business* ranking in this respect.

According to the 2008/09 EBRD/World Bank Management, Organisation and Innovation (MOI) Survey, Uzbek enterprises performed relatively poorly as regards management practices compared with other transition economies, particularly in the area of operations and target management (see Chapter 5). MOI questions on innovation show that a very small percentage of Uzbek enterprises undertake research and development activities and register patents abroad, constraining their productivity growth.

### Financial sector

The authorities have taken steps to recapitalise five state-owned banks – Uzpromstroybank, Asaka Bank, Mikrokreditbank, Pakhta Bank and Galla Bank – in response to the crisis. A total of sum 491 billion (around US\$ 330 million) will be provided during 2009 funded from the budget, the Fund for Reconstruction and Development (FRD), and from other existing shareholders. Total lending by commercial banks to the real sector has been maintained, and grew by 36 per cent (year on year) in the first half of 2009, compared with growth of 34 per cent in 2008 as a whole. As part of the anti-crisis programme, banks took 78 bankrupt companies on to their books for recapitalisation during the first half of 2009, 30 of which were sold to investors.

A significant step was taken to enhance the country's anti-money laundering (AML) and countering the financing of terrorism (CFT) regime when the AML/CFT law was amended to comply with international standards in April 2009. The country had received repeated warnings from the Financial Action Task Force (FATF) to improve its AML/CFT measures. In June 2009 FATF welcomed the progress and called for the country to implement the regulations.

## Macroeconomic performance

Real GDP growth remained buoyant at 9 per cent in 2008, supported by favourable commodity prices during the first half of the year and by Russia's demand for manufactured exports until the third quarter. The economy remained relatively resilient to the global economic downturn, with real GDP growing by 8.2 per cent (year-on-year) during the first half of 2009, mainly reflecting the growth of domestic consumption and investment.

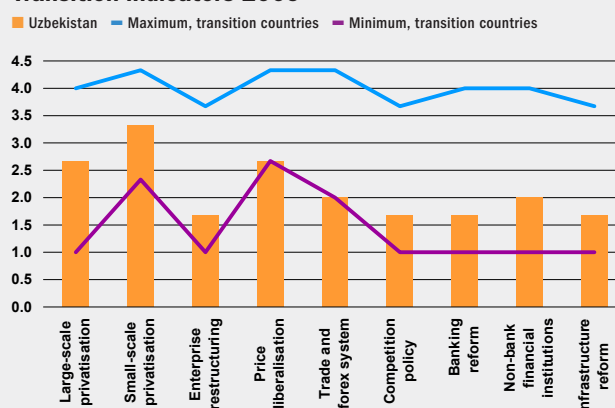
Increased revenues from gas and gold exports contributed to a fiscal surplus of 10.5 per cent of GDP (including funds accumulated in the FRD) in 2008. By the end of the year, the FRD held around US\$ 2.7 billion, equivalent to 9.7 per cent of GDP. In late 2008 a fiscal stimulus package of around 4 per cent of GDP was adopted, which is likely to narrow the surplus in 2009. Inflation edged upwards in 2008, primarily reflecting increases in food prices, public sector wages, and utility prices, so that inflation was 7.8 per cent at the end of the year, according to national data (but much higher at 14.4 per cent according to International Monetary Fund estimates).

The current account surplus almost doubled in 2008 to 12.8 per cent of GDP. The increase was the result of favourable international prices of Uzbekistan's key export commodities (including gold, metals and cotton), an increase in the price of gas exports by around 40 per cent and strong demand from Russia for non-commodity exports such as passenger cars. The flow of remittances through official channels from Russia was around US\$ 3.3 billion, or 13 per cent of GDP, in 2008 (according to data from the Russian Central Bank), boosting the current account surplus. However, there are reports that inflows have fallen sharply in 2009. Gross international reserves increased from 7.6 months of imports at the end of 2007 to 10 months at the end of 2008. The trade surplus narrowed by 36 per cent during the first half of 2009 as exports grew only modestly while the demand for imports of machinery and equipment remained robust.

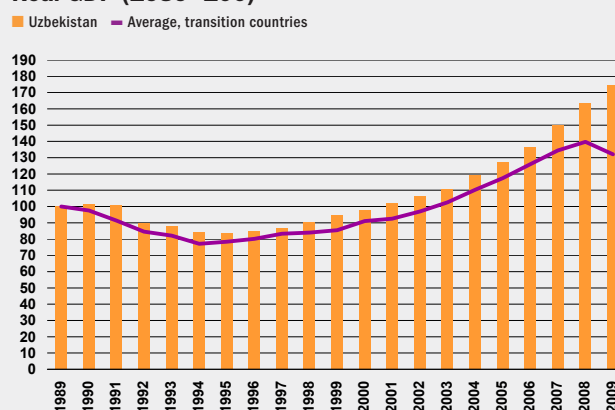
## Outlook and risks

Uzbekistan's outlook for 2009 is one of the most favourable in the region, with real GDP expected to grow by 7 per cent. The fiscal stimulus package has cushioned faltering external demand and remittances. The country's relatively strong fiscal position should allow further fiscal expansion in 2010 and provide support should demand for manufactured goods from Russia remain weak and the inflow of remittances decline further. The main short-term risk is higher inflation due to the very restrictive policy towards imports. In the medium term, there is the risk that the financial sector will again be adversely affected by a rise in non-performing loans, while the competitiveness of enterprises could be compromised as a result of soft budget constraints and various protectionist measures.

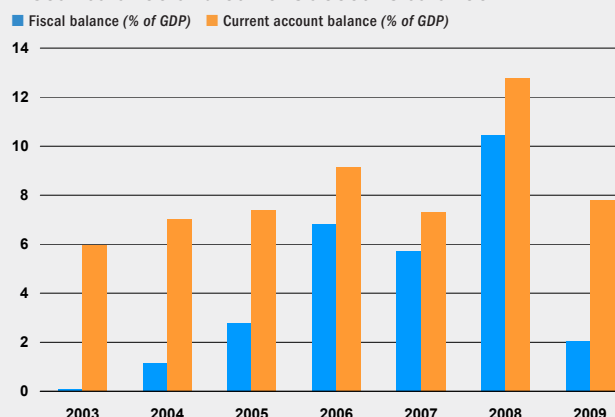
## Transition indicators 2009



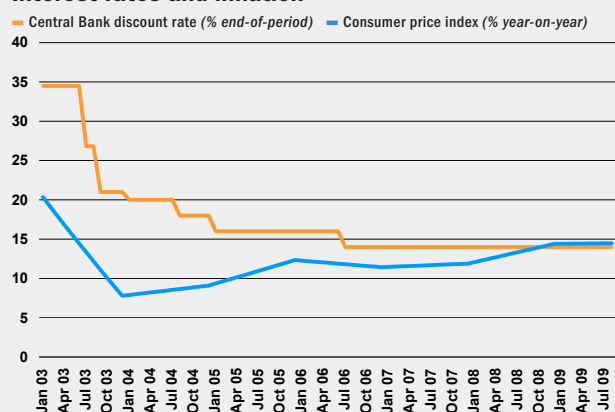
## Real GDP (1989=100)



## Fiscal balance and current account balance



## Interest rates and inflation



Liberalisation and privatisation	Business environment and competition	Infrastructure	Financial sector	Social reform
Current account convertibility - <b>limited de facto</b>	Competition office - <b>yes</b>	Telecoms regulatory assessment compliance - <b>low</b>	Capital adequacy ratio - <b>10 per cent</b>	Share of population living in poverty - <b>76.7 per cent</b> (2003)
Controls on inward direct investment - <b>yes</b>	Quality of insolvency law - <b>very low</b>	Independence of the electricity regulator - <b>no</b>	Deposit insurance system - <b>yes</b>	Government expenditure on health - <b>2.4 per cent of GDP</b> (2006)
Interest rate liberalisation - <b>limited de jure</b>	Secured transactions law - <b>malfunctioning</b>	Separation of railway infrastructure from operations - <b>partial</b>	Private pension funds - <b>no</b>	Government expenditure on education - <b>8.9 per cent of GDP</b> (2007)
Exchange rate regime - <b>crawling peg</b>		Independence of the road directorate - <b>no</b>		Household expenditure on power and water - <b>5.2 per cent</b>
Wage regulation - <b>yes</b>				
Tradeability of land - <b>limited de jure</b>				

### Structural and institutional change indicators

	2003	2004	2005	2006	2007	2008	2009
<b>Enterprises</b>							
Privatisation revenues (cumulative, in per cent of GDP)	4.0	4.7	5.2	5.5	5.9	6.3	na
Private sector share in GDP (in per cent)	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Private sector share in employment (in per cent)	na	na	na	na	na	na	na
Budgetary subsidies and current transfers (in per cent of GDP) <sup>1</sup>	5.1	5.2	4.9	4.6	3.8	4.2	na
Share of industry in total employment (in per cent)	12.4	13.0	13.2	13.4	13.5	13.5	na
Change in labour productivity in industry (in per cent)	5.6	1.4	2.1	6.4	8.7	9.5	na
Investment/GDP (in per cent)	20.7	24.5	28.0	24.8	21.3	21.3	na
<i>EBRD index of small-scale privatisation</i>	3.0	3.0	3.0	3.3	3.3	3.3	3.3
<i>EBRD index of large-scale privatisation</i>	2.7	2.7	2.7	2.7	2.7	2.7	2.7
<i>EBRD index of enterprise reform</i>	1.7	1.7	1.7	1.7	1.7	1.7	1.7
<b>Markets and trade</b>							
Share of administered prices in CPI (in per cent)	53.0	53.0	na	na	na	na	na
Number of goods with administered prices in EBRD-15 basket	8.0	8.0	4.0	4.0	4.0	4.0	na
Share of trade with non-transition countries (in per cent)	50.1	46.8	43.8	39.0	38.6	44.3	na
Share of trade in GDP (in per cent)	56.9	60.0	53.2	55.1	60.5	68.7	na
Tariff revenues (in per cent of imports) <sup>2</sup>	3.6	3.1	3.1	3.5	4.0	2.3	na
<i>EBRD index of price liberalisation</i>	2.7	2.7	2.7	2.7	2.7	2.7	2.7
<i>EBRD index of forex and trade liberalisation</i>	1.7	1.7	2.0	2.0	2.0	2.0	2.0
<i>EBRD index of competition policy</i>	1.7	1.7	1.7	1.7	1.7	1.7	1.7
<b>Financial sector</b>							
Number of banks (foreign-owned)	33 (5)	31 (5)	29 (5)	29 (5)	29 (5)	na	na
Asset share of state-owned banks (in per cent)	70.0	67.6	na	na	na	na	na
Asset share of foreign-owned banks (in per cent)	4.3	4.4	na	na	na	na	na
Non-performing loans (in per cent of total loans)	na	na	na	na	na	na	na
Domestic credit to private sector (in per cent of GDP)	27.5	24.5	21.8	17.4	15.0	15.0	na
Domestic credit to households (in per cent of GDP)	na	na	na	na	na	na	na
- Of which mortgage lending (in per cent of GDP)	na	na	na	na	na	na	na
Stock market capitalisation (in per cent of GDP)	0.1	0.0	0.3	4.3	8.8	10.4	na
Stock trading volume (in per cent of market capitalisation)	na	na	na	na	na	na	na
Eurobond issuance (in per cent of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	na
<i>EBRD index of banking sector reform</i>	1.7	1.7	1.7	1.7	1.7	1.7	1.7
<i>EBRD index of reform of non-bank financial institutions</i>	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Infrastructure</b>							
Fixed-line (mobile) penetration rate (per 100 inhabitants)	6.7 (1.3)	6.7 (2.1)	6.8 (2.7)	6.9 (10.2)	7.1 (21.9)	7.1 (46.5)	na
Internet users (per 100 inhabitants)	1.9	2.6	3.3	6.9	7.5	8.9	na
Railway labour productivity (1989=100)	51.8	47.9	45.6	69.3	71.9	74.0	na
Residential electricity tariffs (USc kWh)	1.7	na	2.6	2.9	3.4	na	na
Average collection rate, electricity (in per cent)	95	na	60	54	na	na	na
GDP per unit of energy use (PPP in US dollars per kgoe)	0.9	1.0	1.1	na	na	na	na
<i>EBRD index of infrastructure reform</i>	1.7	1.7	1.7	1.7	1.7	1.7	1.7
- <i>Electric power</i>	2.0	2.0	2.3	2.3	2.3	2.3	2.3
- <i>Railways</i>	2.7	2.7	2.7	2.7	2.7	2.7	2.7
- <i>Roads</i>	1.0	1.0	1.0	1.0	1.0	1.0	1.0
- <i>Telecommunications</i>	2.0	2.0	2.0	2.0	2.0	2.0	2.0
- <i>Water and wastewater</i>	1.7	1.7	1.7	1.7	1.7	1.7	1.7

<sup>1</sup> Refers to low income support in the budget.

<sup>2</sup> Refers to custom duties and export taxes.

## Macroeconomic indicators

	2003	2004	2005	2006	2007	2008 Estimate	2009 Projection
<b>Output and expenditure</b>	<i>(Percentage change in real terms)</i>						
GDP	4.2	7.7	7.0	7.3	9.5	9.0	7.0
Industrial gross output	6.0	9.4	7.2	10.8	12.1	12.7	na
Agricultural gross output	7.3	8.9	5.4	6.2	6.1	4.5	na
<b>Employment</b>	<i>(Percentage change)</i>						
Labour force (end-year)	2.6	3.5	2.8	2.6	2.5	2.7	na
Employment (end-year)	2.7	3.4	2.9	2.7	2.6	2.8	na
	<i>(In per cent of labour force)</i>						
Unemployment (end-year) <sup>1</sup>	0.3	0.4	0.3	0.3	0.3	0.2	na
<b>Prices and wages</b>	<i>(Percentage change)</i>						
Consumer prices (annual average) <sup>2</sup>	11.6	6.6	10.0	14.2	12.3	12.7	14.5
Consumer prices (end-year)	7.8	9.1	12.3	11.4	11.9	14.4	14.5
Producer prices (annual average)	na	na	na	na	na	na	na
Producer prices (end-year)	27.4	26.5	28.2	24.0	10.9	7.7	na
Gross average monthly earnings in economy (annual average)	14.0	32.4	54.9	38.2	56.3	39.1	na
<b>Government sector</b> <sup>3</sup>	<i>(In per cent of GDP)</i>						
General government balance	0.1	1.2	2.8	6.8	5.7	10.5	2.0
General government expenditure	33.4	31.6	29.5	29.2	32.7	32.7	na
General government debt	41.6	35.1	28.2	21.3	15.8	13.1	na
<b>Monetary sector</b>	<i>(Percentage change)</i>						
Broad money (M3, end-year)	27.1	47.9	55.5	37.8	46.9	35.6	27.0
Domestic credit (end-year)	-0.6	2.1	3.1	-40.3	-64.2	-137.2	na
	<i>(In per cent of GDP)</i>						
Broad money (M3, end-year)	10.3	12.2	14.6	15.4	16.7	17.3	na
<b>Interest and exchange rates</b>	<i>(In per cent per annum, end-year)</i>						
Refinancing rate	20.0	20.0	16.0	14.0	14.0	14.0	na
Treasury bill rate (3-month maturity)	na	na	na	na	na	na	na
Deposit rate (1 year)	20.3	16.1	15.5	15.0	19.4	na	na
Lending rate (1 year)	23.9	21.2	19.9	21.0	24.3	na	na
	<i>(Sums per US dollar)</i>						
Exchange rate (end-year) <sup>4</sup>	979.0	1,056.6	1,180.0	1,240.0	1,290.0	1,388.5	na
Exchange rate (annual average) <sup>4</sup>	995.5	999.2	1,072.3	1,219.8	1,263.7	1,320.2	na
<b>External sector</b>	<i>(In millions of US dollars)</i>						
Current account	587.0	859.6	1,097.0	1,551.9	1,630.7	3,561.7	2,198.2
Trade balance	807.6	1,241.7	1,289.0	1,369.8	1,893.5	3,080.5	2,484.3
– Merchandise exports	3,213.3	4,302.1	4,594.3	5,377.1	7,691.5	11,129.9	10,528.7
– Merchandise imports	2,405.7	3,060.4	3,305.3	4,007.3	5,798.0	8,049.4	8,044.4
Foreign direct investment, net	82.6	176.6	191.6	173.8	705.2	711.3	711.3
Gross reserves, including gold (end-year)	1,659.0	2,320.3	2,992.6	3,778.4	5,193.8	9,072.2	na
External debt stock	4,248.7	4,301.6	4,131.8	3,768.8	3,725.3	3,747.6	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, including gold (end-year)	6.0	6.7	7.9	8.5	7.6	10.0	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	19.9	16.5	13.8	11.1	8.0	5.9	na
<b>Memorandum items</b>	<i>(Denominations as indicated)</i>						
Population (end-year, million)	25.6	25.9	26.2	27.0	27.4	27.7	na
GDP (in billions of sums)	9,837.8	12,261.0	15,923.4	20,759.3	28,186.2	36,839.4	44,351.7
GDP per capita (in US dollars) <sup>5</sup>	386.5	474.4	567.5	630.8	814.8	1,007.4	na
Share of industry in GDP (in per cent)	15.8	17.5	20.7	22.1	25.0	25.8	na
Share of agriculture in GDP (in per cent)	28.6	26.4	25.0	24.1	21.7	20.8	na
Current account/GDP (in per cent)	5.9	7.0	7.4	9.1	7.3	12.8	7.8
External debt – reserves (in US\$ million)	2,589.7	1,981.2	1,139.2	-9.5	-1,468.5	-5,324.6	na
External debt/GDP (in per cent)	43.7	37.3	31.3	22.1	16.7	13.4	na
External debt/exports of goods and services (in per cent)	109.6	85.8	76.4	59.6	42.1	29.9	na

<sup>1</sup> Officially registered unemployed.

<sup>2</sup> Unofficial estimates; official figures are lower.

<sup>3</sup> Includes consolidated government and the Fund for Reconstruction and Development.

<sup>4</sup> Dual exchange rates were in operation until October 2003. Data show a weighted average of the official, bank and parallel market rates.

<sup>5</sup> Calculated at the weighted exchange rate for periods in which dual exchange rates were in effect.