UZBEKISTAN

Highlights

- **GDP growth remains robust, although below the figures reported for 2016.** The growth rate eased from the official 7.8 per cent in 2016 to a more realistic 5.3 per cent in 2017 and 5.2 per cent year-on-year in the first three quarters of 2018. Growth was driven by expansion in services, industrial production and construction.
- **The authorities continued to implement major reforms.** Progress has occurred in a number of areas in the past year, including foreign trade liberalisation, progress on fiscal and tax reform, changes in the customs regime, the abolition of annual state-investment programmes and a reduction in state-directed lending.
- **Connectivity with other Central Asian countries is being significantly improved.** Initiatives led by Uzbekistan over 2017-18 resulted in the opening of new border crossings with Kazakhstan, border demarcation with the Kyrgyz Republic, reopened rail and road connections with Tajikistan, and the resumption of electricity exports from there.

Key priorities for 2019

- **Commercialisation, restructuring and privatisation of state-owned enterprises (SOEs) are key priorities.** Restructuring of SOEs to remove their non-core activities, address their strained balance sheets, and improve governance mechanisms and advance their further commercialisation should all be accelerated along with potential privatisations. This needs to be accompanied by tariff reforms and should result in the transformation of core sectors of the Uzbek economy, such as energy and transportation.
- **Additional financial sector reforms are required.** Uzbekistan needs a market-oriented banking sector that offers a broad range of financial services and improved access to finance for small and medium-sized enterprises (SMEs) and the private sector. The quality of banking supervision also needs to be strengthened.
- **The business environment should be further improved.** Short-term priorities include legislation to improve tax and customs efficiency, further streamlining of licensing and other business regulation, further transition to e-government solutions, and more streamlined customs regulation.

Main macroeconomic indicators %

	2014	2015	2016	2017	2018 proj.
GDP growth	8.0	7.9	7.8	5.3	5.0
Inflation (average)	9.1	8.5	8.0	12.5	18.0
Government balance/GDP	0.2	0.1	-0.1	-3.0	-1.0
Current account balance/GDP	1.7	0.7	0.6	3.5	-4.0
Net FDI/GDP [neg. sign = inflows]*	-1.2	-0.1	-0.2	-0.2	-1.0
External debt/GDP*	14.5	18.5	20.3	41.3**	n.a.
Gross reserves/GDP**	38.2	38.7	37.8	57.5**	n.a.
Credit to private sector/GDP	n.a.	n.a.	n.a.	n.a.	n.a.

*Using the official exchange rate for GDP calculation, which was strongly overvalued until the currency liberalisation in September 2017.
**Calculated at the exchange rate of 8000 sum/US$ the external debt was 49 per cent of GDP in 2017 and gross reserves were 69 per cent of GDP.

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Macroeconomic performance

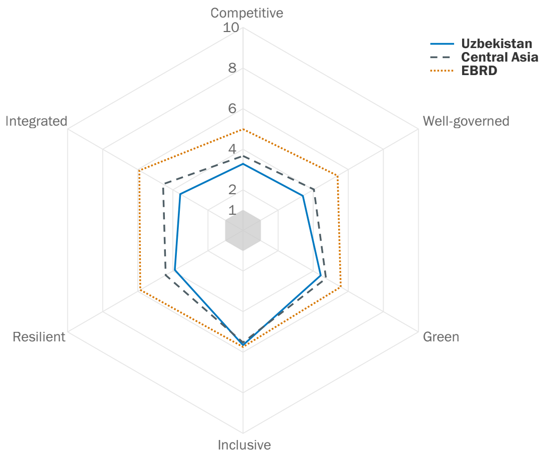
Economic growth has eased in 2017 and 2018. GDP growth slowed from the officially reported rate of 7.8 per cent in 2016 to 5.3 per cent in 2017 and 5.2 per cent in the first three quarters of 2018, reflecting improved data accuracy and also some slowing of private consumption and a widening foreign trade deficit. Exports contracted by 0.3 per cent year-on-year in US dollar terms in the first three quarters of 2018, whereas imports surged by 33.3 per cent, facilitated by trade liberalisation policies. Fixed investment rose by 20.4 per cent in 2017 and 13.4 per cent year-on-year in the first half of 2018. Remittances from Russia continued to increase in the first two quarters of 2018 following a marked recovery in 2017.

Inflation has continued to accelerate. Average inflation rose from 8.0 per cent in 2016 to 12.5 per cent in 2017. In August 2018 inflation reached 15.7 per cent year-on-year. Inflation is expected to remain in double digits in 2018 and 2019 because of further price liberalisation and the resulting adjustment in relative prices. Credit growth reached 44.1 per cent year-on-year in the first three quarters of 2018. In response to rising inflationary pressures, the central bank increased the policy rate from 14.0 per cent, where it had been since June 2017, to 16.0 per cent in September 2018.

Fiscal and external positions remain strong. Uzbekistan's consolidated budget deficit is estimated to have remained below 1 per cent of GDP in 2017. However, the augmented fiscal deficit (including off-budget funds, primarily the Fund for Reconstruction and Development) increased substantially from 0.6 per cent of GDP in 2016 to 3.3 per cent of GDP in 2017 as a result of measures taken to stabilise the economy during the currency liberalisation and implementation of reforms, Public debt is relatively low, and stood at about 25 per cent of GDP at the end of 2017. The balance of payments, published in June 2018 by the central bank for the first time, shows a US$ 1 billion current account deficit in the first half of 2018 although the growing trade deficit was partially offset by remittances inflows. Net international reserves stood at US$ 26.4 billion as of 31 July 2018, covering 24 months of imports.

Real GDP growth is projected to slightly moderate in the short term. Growth is projected to reach 5.0 per cent in 2018 and 4.5 per cent in 2019 due to a further slow-down in private consumption and falling net exports. Increased investment, supported by structural reforms and the improved business environment, will likely underpin growth. Public infrastructure spending is also expected to continue.

Assessment of transition qualities (1-10)



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Major structural reform developments

Further measures were taken to improve the business environment. Uzbekistan ranks 76th out of 190 countries in the World Bank's *Doing Business 2019* report. After making substantial progress with reforms in 2017, Uzbekistan improved its score by 1.08 percentage points in the latest report thanks to improvements in all indicators except for getting credit and enforcing credit, where the scores were unchanged. In particular, Uzbekistan strengthened minority investor protections by clarifying the ownership and control structures of listed companies, reduced costs of paying taxes by introducing new classification criteria for enterprises, and accelerated trading across borders by introducing an electronic application and payment system for several export certificates.

The institutional and economic framework of the central bank is being strengthened. A new Decree on Improvement of the Central Bank Activity, adopted in January 2018, sets out price stability, stability and development of the banking system, and stability and development of the payment systems as the main goals of the Central Bank of Uzbekistan (CBU). The CBU is no longer accountable to the Cabinet of Ministers but instead to the Senate. In March 2018, the central bank developed a concept for the development and implementation of monetary policy for 2018-21 which envisages transition to an inflation targeting regime. The central bank will work closely with the Ministry of Finance on the issuance of government securities to activate open market operations, and will launch a single electronic interbank market for the provision of short-term liquidity.

A concept for improving Uzbekistan's tax policy was approved. The new policy, approved by the President in June 2018, is aimed at the reduction of the tax burden, elimination of the gap between taxation of payers of general and simplified taxes, and the improvement of tax administration. Changes will take effect in January 2019. The concept includes optimisation of the number of taxes through their unification, the reduction and simplification of tax reporting, and the minimisation of operating expenses. A new Tax Code is expected to be drafted by December 2018 with the help of the IMF, the World Bank and other international institutions.

Significant steps have been taken to improve connectivity. Progress was made on implementation of the Uzbekistan-Kyrgyzstan-China railway project, which has been under consideration for 22 years, during a tripartite meeting in December 2017 in Uzbekistan. Intergovernmental agreement on the construction of the railway is expected to be signed by the end of 2018. Electricity connectivity with Tajikistan was re-established in April 2018, after Uzbekistan had withdrawn from the regional power grid in 2009. In addition, in July 2018 Uzbekistan introduced simplified visa procedures, abolished visas for up to 30 days for citizens of some countries, and launched an electronic entry visa system.

Further trade liberalisation measures have been introduced. In June 2018, the President signed a resolution to streamline foreign trade activity and enhance the system of customs and tariff regulation. Under the resolution, import duties and excise taxes on imported goods are reduced to the level adopted by the Eurasian Economic Union countries, the time needed for issuing permits for export and import operations is reduced, and customs procedures are significantly simplified. In addition, Uzbekistan and Afghanistan are currently drafting an agreement to establish a free trade zone, according to which goods from Afghanistan will be exempt from customs duties and other trade restrictions. The process of WTO accession, which started in 1994 but came to a standstill after 2005, was resumed in late 2017. Uzbekistan aims to complete the process in four to five years.

A presidential decree initiating the "Programme of transformation of state enterprises and other entities with majority state ownership" was announced in May 2018. The decree aims at the reduction of the participation of government officials in the management bodies of SOEs and calls for enhancing the transparency of decision-making and improving SOE governance. The programme refers to SOEs that are key for the performance and the structure of main industries and was intended to be implemented in 2018-20. Although some provisions of the decree have been renounced since, and the progress might take longer than originally envisioned, the decree demonstrated the dedication of the authorities to proceed with SOE reform.

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Energy sector reform is advancing. A resolution of the President, "On measures of improving the management system of the oil and gas industry," adopted in June 2017, changes the organisational and legal form of Uzbekneftegaz, the national oil and gas company, and its main subsidiaries into joint stock companies in order to improve the management system and the organisational structure of the industry. There are reform activities ongoing in Uzbekenergo. In November 2017 the President also signed a resolution, "On measures to ensure the rational use of energy resources". These measures include a requirement to utilise energy-efficient and energy-saving technologies in the design and construction of government buildings and adoption of flexible electricity tariffs depending on the time of the day, among other factors.

There have been marked improvements in the availability and quality of statistics. Uzbekistan joined IMF's Enhanced General Data Dissemination System (e-GDDS) under a presidential decree dated 12 December 2017. The main macroeconomic and financial statistics have become accessible through a single source – the National Summary Data Page – starting from May 2018. The CPI methodology was updated in January 2018, and statistics on the balance of payments and the international investment position were published for the first time in June 2018. In addition, a roadmap for the improvement of statistics is currently being developed by the Statistics Committee, together with the CBU and Ministry of Finance.