



Uzbekistan

Highlights

- **Strong economic growth is continuing.** The economy expanded by 5.8 per cent year on year in January-September 2022 on the back of a doubling of remittances and gold exports, and macroeconomic stability has been restored following the initially tumultuous reaction to Russia's war on Ukraine.
- **Risks to the investment climate have abated.** Political risks to investment associated with the sudden eruption of social unrest in the Karakalpakstan region have been mitigated through a swift adjustment to the proposed constitutional amendments.
- **Uzbekistan is advancing on the digitalisation agenda.** The authorities have prepared more than 280 projects to facilitate the country's digital transformation, seeking to double the share of digital services in gross domestic product (GDP) in the next two years. Uzbekistan IT Park's "IT visa" mechanism will allow the country to benefit from the inflow of digital nomads, enabling the exchange of knowledge, skills and ideas.

Key priorities for 2023

- **To reduce dependence on Russia's labour market, the authorities should put in place a robust development strategy for small and medium-sized enterprises.** Such a strategy should eliminate artificial incentives for business fragmentation, enabling organic growth, innovation and exports, while addressing the country's regional inclusion challenges.
- **Efforts to accelerate the commercialisation and privatisation of state-owned assets should continue.** The aim should be to achieve greater operational efficiency of strategic state-owned enterprises (SOEs), attract private investment and boost lending to the economy. Privatisations and initial public offerings (IPOs) should be executed in line with best international practice, in a transparent and competitive manner.
- **Further efforts are needed to strengthen food and energy security.** This can be done through improved planning and investment in critical irrigation and food storage infrastructure, and greater energy generation and transmission capacity.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	5.3	5.7	1.9	7.4	5.5
Inflation (average)	17.5	14.5	12.9	10.8	11.2
Government balance/GDP	2.0	-0.3	-3.3	-4.7	-4.0
Current account balance/GDP	-6.8	-5.6	-5.0	-7.0	-3.3
Net FDI/GDP [neg. sign = inflows]	-1.2	-3.9	-2.9	-3.0	-1.3
External debt/GDP	32.5	40.5	56.0	57.7	n.a.
Gross reserves/GDP	51.5	48.7	58.3	50.8	n.a.
Credit to private sector/GDP	22.8	29.0	35.7	35.8	n.a.

Macroeconomic developments and policy response

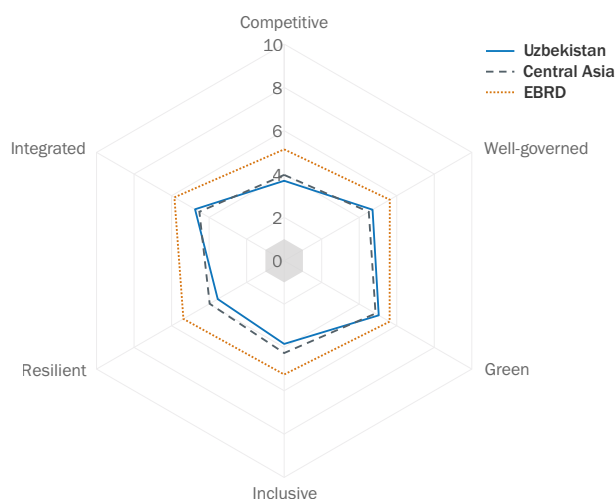
Strong economic growth is continuing in 2022. The economy grew by 5.8 per cent year on year in the first three quarters of 2022, supported by a boost in fixed capital investment (up 5.0 per cent year on year). From January to September 2022 growth was broad-based, with particularly strong gains in construction (up 6.3 per cent year on year), retail trade turnover (up 10.8 per cent year on year) and services (up 15.4 per cent year on year). On 10 March 2022 the Cotton Campaign ended its call for a global boycott of Uzbek cotton, thus creating an opportunity to expand cotton and textile investment and exports. In the first nine months of 2022 exports of goods and services grew by 35.7 per cent year on year, driven by a more than doubling of gold exports (reaching 21.1 per cent of total exports). Imports rose by 22.3 per cent year on year in the same period.

Inflation has reached double-digits, prompting policy rate adjustments. The inflation rate was 12.23 per cent year on year in September 2022. The war on Ukraine initially led to a depreciation of Uzbekistan’s national currency, the Uzbek som, in late February and early March 2022. To stabilise the foreign exchange market and limit the pass-through effect on prices, the Central Bank of Uzbekistan raised the policy rate by 300 basis points to 17 per cent in March 2022. Timely actions of the regulator helped the Uzbekistan som to regain its pre-war value. Subsequently, the central bank decreased its policy rate to 16 per cent in June, and further to 15 per cent in July. Foreign currency-denominated loans account for 47.5 per cent of total loans. Non-performing loans have continued to decline, reaching 4.7 per cent of total loans by September 2022 compared with 5.8 per cent a year previously.

The fiscal position is strengthening. The state debt-to-GDP ratio has been declining since the first quarter of 2021. As of 1 April 2022 external public debt amounted to US\$ 23.4 billion, and accounted for 32.9 per cent of GDP (down from 38.6 per cent in 2021). Concurrently, high international reserves (US\$ 33.4 billion as of 1 October 2022) ensure adequate fiscal buffers. Remittances have increased dramatically during 2022, rising by 96 per cent year on year in the first half of the year.

Robust growth will continue in the short term. The economy is forecast to grow at 5.5 per cent in 2022, and 6.5 per cent in 2023. Uzbekistan’s growth continues to rely on its large and industrious labour force, domestic market size, strong and diversified manufacturing capacity, and market-oriented reforms. However, a further deterioration of the Russian economy in 2023 presents a significant downside risk to the outlook.

CHART Assessment of transition qualities (1-10)



Structural reform developments

Plans for privatisation are advancing but in an uncertain environment. In March 2022 the president signed a Decree “On additional measures to further reduce state participation in the economy and accelerate privatisation”, which sets out a privatisation timeline for some SOEs, including Uzbekistan Airways and the national oil and gas company, and initial IPOs for the state-owned banks. However, international sanctions on Russia may hinder this ambitious privatisation agenda, as prospective Russian investors may face sanctions.

Capital market development is ongoing. In January 2022 a 10-year government bond was issued at the Uzbek Republican Currency Exchange auction. In line with the government’s agenda of attracting new market participants, individuals and non-residents were allowed to purchase government bonds in February 2022. Furthermore, the first inflation-linked government bond was issued in July 2022, a further step towards diversifying the capital market.

A new development strategy is in place. This Development Strategy for the New Uzbekistan 2022-26 reflects the authorities’ stated commitment to strengthening the reform agenda. Centred around seven pillars, the strategy includes establishing a free civil society, strengthening the rule of law, economic development and rapid growth, fair public policies and human capital development, safeguarding national interests, and strengthening security and defence alongside an active foreign policy. In addition, the government set national sustainable development goals up to 2030. The ambitious roadmap envisages: a halving of the poverty rate; sustainable agricultural development to strengthen food security; streamlining existing support mechanisms; a one-third reduction in maternal mortality; rooting out violence against women and children; integrating gender equality principles; increasing water efficiency; achieving full access to reliable and affordable energy; and a 160 per cent increase in per-capita GDP.

The investment environment is improving. The Investment Programme for 2022-26 introduces a central project management office to coordinate strategic investment projects. The Direct Investment Fund will now be able to own up to 49 per cent of the authorised capital of holding companies. In June 2022 the authorities introduced additional measures to improve the management of special economic zones and reduce the time required for decision-making by eliminating the requirement that business plans and feasibility studies for investment projects be pre-assessed by the Centre for the Comprehensive Expertise of Projects and Import Contracts.

Significant progress has been made on the digitalisation agenda. The “Digital Uzbekistan-2030” strategy (introduced in 2020) envisages connecting every settlement to the internet and upgrading digital skills, among other goals. More than 280 projects will facilitate the digital transformation of regions and sectors, aiming to double the share of digital services in GDP in the next two years. As part of the strategy, three new data centres will be launched in Tashkent, Bukhara and Kokand. About US\$ 2.5 billion will be invested in digital infrastructure in 2021-22. The strategy also strives for a gradual digitalisation of the banking sector, allowing for wider access to remote banking services by the population at large. Within the framework of the Million Programmers project, more than 100 information technology (IT) schools were organised, and more than 500,000 young people have taken programming courses. To benefit from the inflow of digital nomads, Uzbekistan’s IT Park has recently introduced a new mechanism (IT-Visa) to assist in the relocation of IT businesses and programmers. In addition to assistance with registration, IT businesses are offered a tax-and-customs-free regime, and licence-free employment of foreign persons.

The country is progressing on its green agenda. Uzbekistan ratified the Paris Agreement and submitted its first Nationally Determined Contribution (NDC) in 2018. A more ambitious NDC, submitted in 2021, seeks to achieve a 35 per cent reduction in specific greenhouse gas emissions per unit of GDP by 2030 (compared with the 2010 level). Uzbekistan has already committed to a net-zero target for its power sector by 2050 and is in the process of developing an economy-wide long-term strategy. Currently, Uzbekistan has set an ambitious renewable energy target, including 7 GW of solar photovoltaic and 5 GW of wind power by 2030. Moreover, the country joined the Global Methane Pledge in May 2022, intending to reduce global methane emissions by at least 30 per cent by 2030 compared with the 2020 levels. In 2019 the president of Uzbekistan approved the Strategy on the Transition to a Green Economy for 2019-30 aiming to improve energy efficiency, rationalise consumption and conservation of natural resources, reduce greenhouse gas emissions, provide access to green energy, create jobs and ensure resilience to climate change. With its approval pending in 2022, Uzbekistan’s Green Growth Strategic Framework provides the operational plan for green transformation across the entire economy.