UZBEKISTAN

Highlights

- **Uzbekistan's economy is recovering rapidly.** Real gross domestic product (GDP) increased by 6.9 per cent year-on-year in the first three-quarters of 2021, driven by services, manufacturing and mining. Investment activity has also started to recover, with fixed investment up by 5.0 per cent year-on-year in the first three-quarters of 2021.
- **State-owned enterprise (SOE) reform is advancing.** A new SOE strategy for 2021-25 seeks to reduce the state's footprint in the industrial, mining and manufacturing sectors, and ensure that SOEs are governed and managed in line with market principles.
- **Uzbekistan has committed to reaching carbon neutrality in power generation by 2050.** The authorities aim to develop power sources with low-carbon emissions, including solar, hydro, wind and nuclear, and modernise the electricity grid. Gas-fired power generation will be used in the transition to carbon neutrality and plans are under way for the construction of a comprehensive hydrogen energy infrastructure.

Key priorities for 2022

- **The immediate priority is to continue supporting people's livelihoods.** Besides economic measures for the most vulnerable, relevant infrastructure should be put in place to ensure that the healthcare system has sufficient capacity for the sick during the Covid-19 pandemic.
- **The authorities should step up efforts to accelerate digital transformation.** Investment in broadband infrastructure, digital skills and the information technology ecosystem is essential to enable remote working and learning for all groups of the population.
- **The government should adjust reform priorities in light of the post-Covid-19 situation.** In the short term, priority should be given to macroeconomic stabilisation, continued improvement of the investment climate and other measures to build investor confidence. Earlier plans for large-scale privatisation of state-owned banks and enterprises may have to be delayed to include restructurings in case of a slower-than-expected economic recovery or adverse market momentum.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	4.5	5.4	5.6	1.6	6.8
Inflation (average)	13.9	17.5	14.5	12.9	11.0
Government balance/GDP	1.3	1.7	-0.3	-3.1	3.0
Current account balance/GDP	2.5	-7.1	-5.6	-5.0	-6.5
Net FDI/GDP [neg. sign = inflows]	-3.0	-1.2	-4.0	-3.0	-4.5
External debt/GDP	26.3	33.3	43.4	57.1	n.a.
Gross reserves/GDP	47.5	53.7	50.3	60.5	n.a.
Credit to private sector/GDP	16.6	23.8	30.0	37.0	n.a.

CONTINUES

Covid-19: macroeconomic implications

The economy is recovering rapidly. Real GDP increased by 6.9 per cent year-on-year in the first three-quarters of 2021 (compared with 0.4 per cent growth a year ago). While growth was recorded across the board, the expansion in services, manufacturing and mining was particularly strong (7.6, 7.4 and 14.2 per cent year-on-year, respectively). On the demand side, a surge in remittances from Russia (up 35 per cent year-on-year in US dollar terms in the first eight months of 2021) stimulated private consumption and growth in retail trade (up 10.9 per cent year-on-year in the first three-quarters of 2021). Investment activity has also started recovering, with fixed investment up by 5.0 per cent year-on-year in January-September 2021. Exports declined by 20 per cent year-on-year in the first eight months of 2021, as gold exports were drastically reduced (down 24 per cent year-on-year). On the positive side, exports of gas, textiles and non-ferrous metals rose by 43, 60 and 72 per cent year-on-year, respectively.

Inflationary pressures subsided. Inflation has slowed (10.8 per cent in September 2021 versus 14.2 per cent a year earlier) thanks to currency stabilisation and conservative monetary policies implemented by the central bank. The policy rate was reduced from 16 per cent in early 2020 to 14 per cent in September 2020 and maintained at that level since then. After depreciating by 12 per cent on average in 2020, the exchange rate has been stable in 2021. Credit growth picked up to 22 per cent in June 2021 in real terms (both in corporate and retail segments) from 12 per cent a year ago, reflecting the reinvigoration of economic activity. At the same time, non-performing loans increased to 5.5 per cent in June 2021, versus 2.1 per cent at the end of 2020.

Public debt has risen significantly, due to increased external borrowing. The level of debt rose from 29.7 per cent of GDP in 2019 to 38.9 per cent of GDP in 2020. Significant external financing came from multilateral and bilateral creditors (around US$ 1.7 billion) and international sovereign bond placements of US$ 750 million in November 2020. As a result, external public debt surged from 15.7 per cent of GDP in 2019 to 21.1 per cent in 2020, prompting the government to set a cap on external public debt at 60 per cent of GDP. The overall fiscal deficit reached 4.3 per cent of GDP in 2020, up from 3.8 per cent in 2019. High gold prices had a positive impact on fiscal revenues and helped keep the rise of the deficit in check. Fiscal measures will continue to support the economy in 2021, with the consolidated fiscal deficit targeted at 5.5 per cent of GDP.

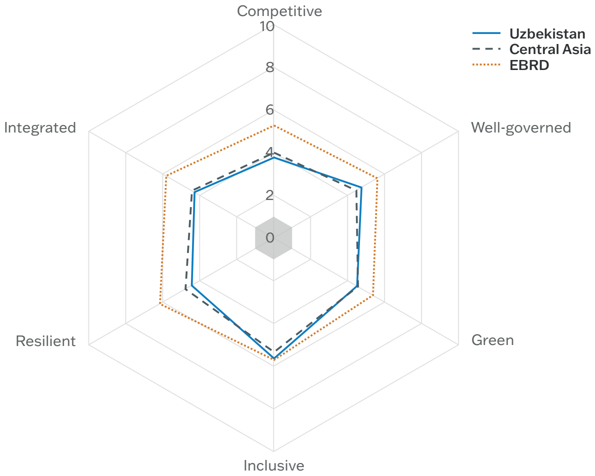
The economy is projected to grow at a high rate in the short term. GDP is forecast to expand by 6.8 per cent in 2021 and 6.0 per cent in 2022. A remittance-led surge in private consumption along with increased investment in infrastructure will be the key drivers of GDP growth. However, the forecast is subject to a high degree of uncertainty related to the path of the Covid-19 pandemic, potential resumption of international tourism, regional tensions and the situation in Afghanistan.

Policy response to Covid-19

Policies to facilitate post-Covid-19 recovery have been maintained through 2021. The framework for the Covid-19 response is the government's resolution "On measures to restore economic growth in 2020-21 and continue systemic structural reforms", which was adopted in September 2020. One of the goals is to support key sectors of the economy and maintain annual economic growth at around 5.0-5.5 per cent from 2021. Key measures include reforming the banking system and the agricultural sector, facilitating investment, improving the competitive environment and putting in place effective industrial policies, as well as supporting exporting enterprises. The issue of rising debt is also addressed via measures to optimise public investment expenditures, ensure more efficient spending of externally borrowed funds and restrict the issue of new external debt. A sum of UZS 3 trillion (US$ 280 million) is earmarked in the 2021 state budget to mitigate the economic impacts of the Covid-19 pandemic. The government plans to support households and businesses via interest rate compensation, a revolving export credit facility, subsidies for the unemployed and a range of other measures.

CONTINUES

Assessment of transition qualities (1-10)



Structural reform developments

The digitalisation agenda has been laid out in the "Digital Uzbekistan-2030" strategy. Approved by a presidential decree in October 2020, the plan is to connect every settlement to the internet by the end of 2022 and upgrade 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 of investment will be attracted for the development of digital infrastructure in 2021-22. The strategy also envisages a gradual digitalisation of the banking sector, allowing for wider access to remote banking services by the population at large.

SOE reform is advancing. In March 2021 the government adopted the Strategy for the Management and Reform of Enterprises with State Participation for 2021-25. The strategy seeks to reduce the state's footprint in the industrial, mining and manufacturing sectors and ensure that SOEs are governed and managed in line with market principles. According to the strategy, new laws on privatisation and state property management will be adopted at the end of 2021. Key targets under the strategy are a 75 per cent reduction in the number of enterprises with state participation, initial public offerings (IPOs) and secondary placements of shares of at least 20 SOEs, and bringing the share of independent members on the supervisory boards of SOEs to 30 per cent by 2025.

Uzbekistan has made a commitment to reach carbon neutrality in power generation by 2050. The new commitment was announced in February 2021. The authorities aim to develop power sources with low-carbon emissions, including solar, hydro, wind and nuclear, as well as modernise the electricity grid. Gas-fired power generation will be used in the transition to carbon neutrality. As part of this commitment, a hydrogen energy strategy was adopted in April 2021, envisaging the construction of a comprehensive hydrogen energy infrastructure, driving the country's energy efficiency and security. To build the necessary professional expertise, a National Research Institute for Renewable Energy Sources has been established under the Ministry of Energy. The institute is to run a laboratory to test and certify renewable and hydrogen energy technologies.

CONTINUES

Capital markets are being reformed. To accelerate the government's goal to reform the capital market by 2023, a presidential decree "On measures for the further development of the capital market" was signed in April 2021. The decree abolishes the Capital Market Development Agency and transfers its functions to the Ministry of Finance. The government is planning to pass a new capital markets law by the end of 2021. This is expected to improve the efficiency of conducting IPOs and security payment orders, designate the functions of underwriters, enhance accounting and listing requirements, introduce sukuk (Islamic) bonds and other types of instruments (exchange-traded funds, futures and so on), and permit foreigners to invest in government bonds. Starting from 1 January 2023 Uzbek companies will need to place their shares first on the domestic stock exchange and only then on foreign stock markets.

Uzbekistan has made major progress in eliminating child labour and forced labour in the cotton industry. The International Labour Organization reported that in 2020 systematic child labour was no longer used during the cotton harvest in Uzbekistan. Reforms are being implemented step-by-step and continue to have a significant positive impact. However, there are still challenges with uneven implementation in certain provinces and districts. The nationwide share of forced pickers dropped by 33 per cent in 2020. The vast majority of pickers participated in the harvest voluntarily but about 4 per cent were subject to direct or perceived forms of coercion. Some provinces and districts had very few or no forced labour cases in 2020.