Uzbekistan

Highlights

- **The economy continues to grow strongly.** In the first half of 2024, economic growth accelerated slightly to 6.4 per cent year on year, with the services sector the main driver, accounting for 2.8 percentage points of the growth rate.
- **Electricity and gas tariffs were brought closer to cost-reflective levels.** This step will facilitate resource-saving behaviour and may encourage private investment in the energy sector.
- **Measures to improve conditions for Uzbek migrants abroad are under way.** The authorities have introduced a number of steps to support its citizens abroad, including signed agreements with several countries.

Key priorities for 2025

- **The authorities should make fiscal management more effective.** The government budget has continued to record substantial deficits in 2024 and active fiscal consolidation measures are needed to make it more sustainable.
- **Facilitating further investment in renewables would improve energy resilience.** In recent years, gas production has fallen below consumption needs, prompting the authorities to start importing Russian gas. Investment in green energy would strengthen Uzbekistan's energy independence and enable exports in the longer term.
- **The authorities should accelerate the pace of privatisation.** The successful privatisation of Ipoteka Bank in 2023 was a welcome sign of the authorities' commitment to reducing the state's footprint in the economy. Further privatisations would strengthen the corporate governance framework in the main economic sectors and bode well for the country's investment climate.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	2.0	7.4	5.7	6.0	6.0
Inflation (average)	12.9	10.9	11.5	10.0	11.6
Government balance/GDP	-3.3	-4.8	-4.4	-4.6	-3.3
Current account balance/GDP	-5.0	-7.0	-0.8	-4.9	-4.9
Net FDI/GDP [neg. sign = inflows]	-2.9	-3.3	-3.3	-2.4	na
External debt/GDP	57.7	57.7	52.6	54.4	na
Gross reserves/GDP	58.0	50.8	44.1	38.0	na
Credit to private sector/GDP	35.5	35.6	36.3	38.8	na

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Macroeconomic developments and policy response

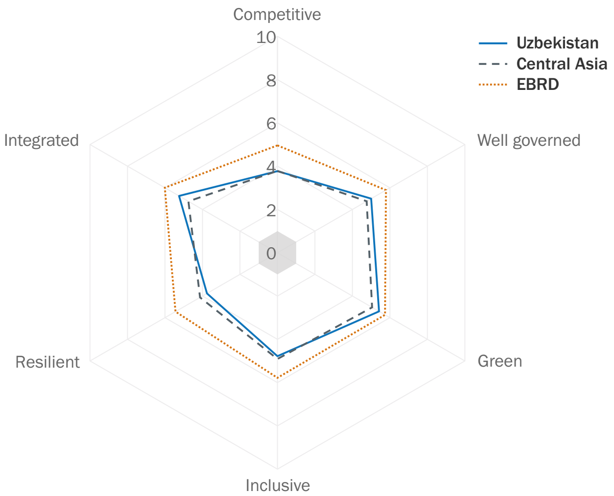
Economic growth picked up in the first half of 2024. The economy grew by 6.4 per cent year on year in the first six months of the year. Incoming remittances rose 25 per cent year on year and amounted to US$ 6.5 billion (€5.8 billion), supporting expansion in the services sector (up 6.4 per cent year on year, accounting for 2.8 percentage points of gross domestic product [GDP] growth). Mining stagnated, however, because of lower natural gas extraction. Even so, industrial production expanded 7.8 per cent on the year (accounting for 2 percentage points of GDP growth) thanks to a rise in manufacturing output (up 9.4 per cent year on year). Lower gas extraction led to energy shortages, prompting a 78.1 per cent year-on-year increase in mineral fuel imports in the first seven months of 2024. Concurrently, gold exports declined (down 25.6 per cent year on year), further widening the trade deficit, which reached US$ 7.3 billion (€6.5 billion, almost 8 per cent of 2023 GDP).

Inflation remains relatively high. As of July 2024, inflation was still in double digits, at 10.5 per cent, the highest rate in the Central Asian region. Inflationary pressures persisted because of rising imports, currency depreciation, energy tariff adjustments and government spending. Nevertheless, in July 2024, the Central Bank of the Republic of Uzbekistan reduced its policy rate by 50 basis points to 13.5 per cent. The Uzbek som (UZS) continued to depreciate through 2024, losing around 2.9 per cent against the US dollar from 1 January to 9 September.

International reserves act as a strong buffer, but fiscal discipline has weakened. In the first seven months of 2024, the budget deficit had already reached UZS 36.5 trillion (around €2.5 billion, or 3 per cent of 2023 GDP), while the 2024 consolidated budget deficit limit stood at UZS 52.6 trillion (€3.7 billion, 4 per cent of GDP). As more than 70 per cent of subsidies were allocated to the energy sector, upward tariff adjustments introduced in May 2024 are likely to help reduce government expenditure. According to Fitch Ratings, the budget deficit will reach 4.2 per cent of GDP in 2024 before moderating to 3.4 per cent in 2025. Increases in public-sector wages (effective October 2024) and pensions (from September 2024) are likely to put additional pressure on the government purse. On the positive side, Uzbekistan's international reserves increased to US$ 37.4 billion (€33.6 billion) in July 2024 (up 8 per cent in the year to date), aided by growing gold reserves, covering 11.7 months of imports.

The country will remain on a robust growth trajectory in the short term. Real GDP is forecast to grow by 6.0 per cent in both 2024 and 2025, supported by infrastructure investment and buoyant domestic demand. On the upside, market-oriented reforms could enhance the business climate and increase foreign direct investment. On the downside, energy deficits and disruptions to remittance inflows could hamper growth.

Assessment of transition qualities (1-10)



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Structural reform developments

Uzbekistan is attempting to improve conditions for labour emigrants abroad and to diversify migration patterns. A new presidential decree, passed in April 2024, introduced measures to support Uzbek labour migrants in other countries, including subsidies for professional and language certification, visa processing, travel costs, and financial and legal assistance for those in distress. In addition, to facilitate emigrants' return, employers in Uzbekistan who hire them will receive monthly subsidies. To reduce dependency on Russia, Uzbekistan has reached agreements with several countries to facilitate outward labour migration, including Germany. For instance, 390 positions were secured for Uzbek workers at Volkswagen and Volvo factories in the Slovak Republic, while in June 2024, a memorandum of understanding was signed with Latvia to train 600 Uzbek truck drivers to work in the EU.

Efforts to align national legislation with World Trade Organization (WTO) agreements are ongoing. A presidential decree issued in June 2024 envisages abolishing the exclusive rights of particular enterprises, export subsidies, and inefficient tax and customs benefits. Also, the government is revising customs duties to meet WTO standards and plans to unify rail freight services tariffs for export-import operations by 2030.

Long-overdue tariff reform will support energy-sector sustainability. In October 2023, electricity and gas tariffs for businesses were increased. However, for sociopolitical reasons, the authorities postponed any tariff increases for the public until May 2024. On 1 May 2024, Uzbekistan raised electricity and gas prices for households for the first time since August 2019, while simultaneously introducing consumption-based social supports for vulnerable groups. The households in question will pay lower rates for consumption within a set limit (up to 200 kWh of electricity per month and specific seasonal gas limits depending on the region). Usage beyond these limits will be subject to higher tariffs, based on consumption levels. A further price increase is scheduled for April 2025. Furthermore, on 1 August 2024, a new billing system for electricity consumption was introduced. This includes a mobile app, enabling users to track payments and usage. Overall, these initiatives could stimulate private investment in the energy sector and encourage resource-saving behaviour.

Uzbekistan has set up a National Investment Fund to manage state assets effectively. The new fund, established in August 2024, will be responsible for implementing Organisation for Economic Co-operation and Development corporate governance and international financial reporting standards, as well as integrating environmental, social and governance principles into the Fund's assets, thus increasing its market value and attracting institutional investors to participate in its investment and privatisation processes. Initially, the Ministry of the Economy and Finance will be the Fund's sole shareholder. By the end of 2026, the authorities plan to list the Fund's shares on the Tashkent and international stock exchanges.

Business support measures are gaining traction. Under a plan announced by the president in August 2024, branches of the state-owned Entrepreneurship Development Company will be established in each region of the country. The company will provide credit guarantees to support sustainable and solvent entrepreneurs. Some regulatory requirements have been abolished or adjusted. For example, micro-credit limits have been expanded, collateral requirements have been lifted for loans below a certain threshold and conditions for opening micro-credit organisations have been simplified. In addition, in response to popular demand, microfinance organisations are now allowed to offer Islamic financing products. Concurrently, to enable access to finance for small and medium-sized enterprises, Uzbekistan is advancing regulatory reforms aimed at creating a favourable environment for factoring.