



Uzbekistan

Highlights

- **Economic growth has remained strong in 2023.** Key growth drivers include solid external demand for Uzbek goods and labour, and robust domestic consumption as a result of higher income from remittances and wages.
- **The authorities are seeking to improve conditions for foreign investors.** A new Centre for Investors, under the Agency for Attracting Foreign Investment, will facilitate visas for foreign investors and assign managers to guide them through the processes of permitting, land procurement and integration into relevant infrastructure networks.
- **The country has made further progress on fostering gender inclusion and curbing domestic violence.** In April 2023 Uzbekistan criminalised gender-based violence, increased the severity of administrative and criminal consequences for domestic violence, and banned the conditional release of individuals convicted of abusing minors.

Key priorities for 2024

- **Tariffs should be brought closer to cost-reflective levels.** Recent disruptions to heating and electricity supply, as well as water scarcity, highlight the urgency of addressing infrastructural deficiencies. Economically viable tariffs would stimulate investment in energy- and water-saving technologies, attract private and foreign capital, and encourage resource-saving behaviour.
- **Efforts to privatise and commercialise state-owned enterprises (SOEs) and banks should be sped up.** Partial initial public offerings for leading SOEs and banks would induce better corporate governance and management, ultimately leading to improved performance and contributing to the development of financial markets.
- **Support measures for small and medium-sized enterprises (SMEs) should be streamlined.** The authorities should encourage product innovation, including digital SME banking, by financial-sector actors and use loan guarantees to unlock SME financing by banks and non-bank financial institutions. Non-financial support mechanisms should also be employed to foster SME participation in the supply chains of larger companies.

Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	6.0	2.0	7.4	5.7	6.5
Inflation (average)	14.5	12.9	10.8	11.4	10.2
Government balance/GDP	-0.3	-3.3	-4.6	-4.2	-4.6
Current account balance/GDP	-5.6	-5.0	-7.0	-0.8	-4.3
Net FDI/GDP [neg. sign = inflows]	3.8	2.9	3.3	3.1	n.a.
External debt/GDP	37.2	53.7	56.0	n.a.	n.a.
Gross reserves/GDP	48.6	58.0	50.8	44.5	n.a.
Credit to private sector/GDP	28.9	35.5	35.6	36.7	n.a.

Macroeconomic developments and policy response

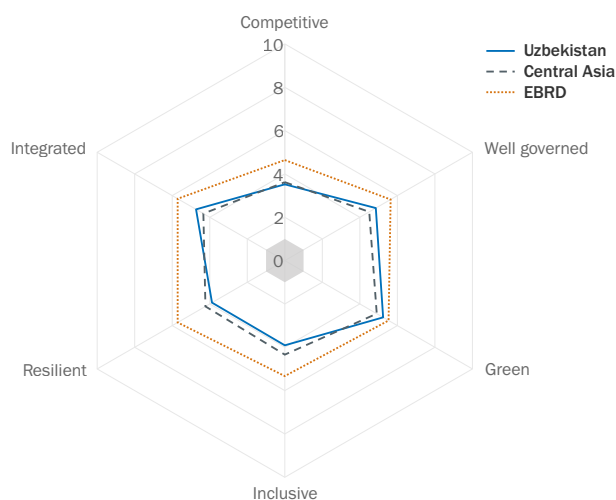
Robust growth continues and inflation is falling. Gross domestic product (GDP) grew 5.6 per cent year on year in the first half of 2023. The economy has been supported this year by strong external demand for Uzbek goods and labour. Exports rose 31 per cent year on year in January to July 2023. However, remittances were down by more than 20 per cent year on year in the first half of 2023 due to a high base effect. Nevertheless, domestic demand remains robust thanks to strong growth in wages and credit. All the main sectors of the economy have expanded this year, although agriculture is growing at a relatively slower pace. Meanwhile, inflation has been decreasing gradually, from a peak of 12.3 per cent in July 2022 to 9 per cent in June 2023, allowing the Central Bank of Uzbekistan to start softening its monetary policy stance. The Uzbek sum lost 4 per cent of its value against the US dollar in August 2023, seemingly driven by the sharp depreciation of the Russian rouble.

Banks are benefiting from a surge in money transfers. The banking sector remains strong and a recent surge in money transfers has added to banks' deposit base and profits. Notwithstanding the recent decline in remittances, bank deposits saw 9.6 per cent year-on-year growth in the first half of 2023. Furthermore, the ratio of non-performing loans to total loans dropped to 3.5 per cent at the end of June 2023 (from 5.3 per cent in June 2022). While banking-sector privatisation has been slowed by the Covid-19 pandemic and geopolitical realities, TBC Bank's successful expansion and the more recent privatisation of Ipoteka Bank by Hungary's OTP Bank suggest the market is ready for more.

Public debt remains low amid strong economic growth, but Uzbekistan's fiscal performance has worsened. The share of general government debt to GDP dropped from 37.1 per cent in 2020 to 34.3 per cent in 2022, mostly thanks to strong economic growth. In 2022 the government budget recorded a deficit of 4.2 per cent of GDP, a small improvement on the 4.6 per cent gap posted in 2021. However, in the first half of 2023 the situation deteriorated, as the deficit widened to 6.17 per cent of GDP. International reserves stood at US\$ 33.7 billion (€31.9 billion) in July 2023, down 5.7 per cent from the beginning of the year, but still high enough to ensure adequate fiscal buffers and cover around 11 months of imports, according to Fitch Ratings.

Strong growth will continue in the short term. We forecast that the economy will grow by 6.5 per cent in 2023 and 2024. The continued relocation of foreign companies, well-managed privatisations and business-climate reforms are potential upsides. An escalation of Russia's war on Ukraine, however, could worsen the outlook by crippling Russian demand for Uzbek labour and goods. In the medium term, growth will be constrained by Uzbekistan's ageing energy and water infrastructure, as exposed by recent gas and electricity outages.

Assessment of transition qualities (1-10)



Structural reform developments

Measures are being taken to increase the country's attractiveness to foreign investors. A presidential decree on “measures for the effective organisation of state management in the sphere of investments, industry and trade within the framework of administrative reforms” was signed in July 2023. It mandates the Ministry of Investment, Industry and Trade to designate managers to guide prospective investors through the processes of permit acquisition, land procurement and integration into relevant infrastructure networks. The decree also establishes the Centre for Investors, under the Agency for Attracting Foreign Investment, to facilitate the granting of visas for foreign investors and otherwise ease their entry into the country.

Value-added tax (VAT) refund procedures are being streamlined. Responding to business community demands, from October 2023 the tax authorities will discontinue the practice of applying the “tax gap” coefficient for VAT refunds. This significantly reduces the room for corrupt practices in tax-refund calculations. The government is also set to implement a transparent entrepreneurial ranking system. Businesses that achieve higher rankings will be eligible for tax exemptions and expedited processing of their VAT refunds, with the turnaround time reduced to a single day.

Institutional support for small businesses is increasing. In August 2023 the president announced the transformation of Kishlok Kurilish Bank into Uzbekistan's Business Development Bank. Through its 14 regional centres, the bank will assist entrepreneurs by offering training and consultancy services in auditing, marketing, legal matters and accounting. Entrepreneurs participating in these programmes will gain access to affordable loans, but will have to cover 10 per cent of the training and consultancy service costs.

Progress is being made on establishing independent market regulators to more effectively regulate natural monopolies. A new presidential decree, signed in July 2023, stipulates that by 2025, independent market regulators will become responsible for regulating tariffs in their designated sectors. The reform will affect the civic aviation, natural gas, railway, telecommunications and power sectors. The Committee for the Development of Competition and Protection of Consumer Rights will prepare specific regulatory frameworks, together with relevant line ministries.

Climate change mitigation efforts are accelerating. In October 2022 Uzbekistan launched a digital platform enabling consumers to acquire locally produced solar panels and solar water heaters on favourable terms. “Green energy” certificates have been issued since July 2023 to further incentivise renewable energy generation. In August 2023 the authorities formulated a comprehensive set of measures to curb greenhouse gas emissions and fulfil their obligations under the Paris Agreement, as part of the World Bank-supported Innovative Carbon Resource Application for Energy Transition (iCRAFT) project.

New laws criminalise gender-based violence. In April 2023 the law on the protection of women and children from violence was amended, increasing the severity of administrative and criminal consequences for domestic violence and banning the conditional release of individuals convicted of abusing minors. These amendments also enhance legal support mechanisms for women and children, in line with Uzbekistan's commitment to foster inclusion and uphold human rights.

Uzbekistan is aligning its legislation with World Trade Organization (WTO) agreements to expedite its accession. In June 2023 the president signed a decree on “additional measures to expedite the republic of Uzbekistan's accession to the World Trade Organization”. The decree prohibits any legislation that fails to adhere to WTO rules and regulations. It also establishes the role of Special Representative for WTO matters within the presidential administration. In August 2023 the president signed another decree to further harmonise Uzbekistan's legislation with WTO agreements.

A new development strategy sets ambitious goals, including on decarbonisation. In September 2023 the president of Uzbekistan signed a decree, approving the “Uzbekistan-2030” strategy, which encompasses 100 quantifiable objectives for the country over the next seven years. Specific targets include increasing GDP to US\$ 160 billion (€151.4 billion) and per capita GDP to US\$ 4,000 (€3,785.90); attracting US\$ 110 billion (€104.11 billion) in foreign direct investment and US\$ 30 billion (€28.39 billion) through public-private partnerships; increasing energy efficiency; boosting the country's transit potential; improving social welfare; fully digitising government services; preserving water resources; and fostering regional cooperation, particularly in the water sector. Crucially, the strategy emphasises the green economy transition, aiming to increase the share of renewable energy to 40 per cent of total consumption (up from the previous 25 per cent target).