UZBEKISTAN

Highlights

- **Economic growth remained strong at 8.0 per cent in 2015**, notwithstanding the challenging external environment, which has resulted in lower trade with, and remittances from, Russia. Public investment and energy exports remain the key drivers of growth. Industrial output remained strong, up by 8.0 per cent in 2015 year-on-year.
- **External and fiscal balances remained in balance.** The current account in 2015 remained close to balance, showing a very small deficit. Budget revenues have been resilient, with the fiscal balance remaining in surplus in 2015.
- **Currency controls have further intensified.** The limit on the amount of hard currency that Uzbek citizens can withdraw while travelling abroad was reduced significantly from July 2016. The country has also banned the use of Uzbek debit cards in wholesale and retail trading in Turkey, China and the United Arab Emirates. The gap between the black market and the official exchange rate has widened further.

Key priorities for 2017

- **Currency controls need to be gradually relaxed.** Stringent currency controls in the country are having an adverse effect on the ability of businesses to carry out their export/import-related operations, and they need to be gradually removed. The exchange rate unification is also an important pre-condition for creating a more sustainable economy and improving the environment for doing business.
- **Banking sector reforms and phasing out state-directed lending are crucial.** With access to finance remaining one of the key challenges facing businesses, strengthening of the banking sector through, among other things, enforcement of banking supervision and risk management and credit practices at banks, as well as reduction of state-directed lending at preferential terms is critical.
- **Reliability of electricity supply needs to be improved.** Addressing transmission bottlenecks through investment and improved efficiency as well as the modernisation of ageing and increasingly unreliable thermal power plants is required in order to improve electricity supply reliability, which is an important constraint for developing a more competitive economy.

Main macroeconomic indicators %

	2012	2013	2014	2015	2016 proj.
GDP growth	8.2	8.0	8.1	8.0	6.5
Inflation (average)	12.1	11.2	8.4	8.8	9.0
Government balance/GDP	7.8	2.4	2.2	0.9	0.0
Current account balance/GDP	1.8	2.9	0.7	0.1	0.1
Net FDI/GDP [neg. sign = inflows]	-1.1	-1.1	-1.0	-0.1	-0.1
External debt/GDP	12.9	12.7	12.2	15.3	n.a.
Gross reserves/GDP	43.2	39.4	38.2	38.7	n.a.
Credit to private sector/GDP	n.a.	n.a.	n.a.	n.a.	n.a.

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Macroeconomic performance

Uzbekistan's officially reported real GDP growth reached 8.0 per cent in 2015, compared with 8.1 per cent in 2014. The official sum exchange rate against the US dollar published by the Central Bank of Uzbekistan weakened over the course of 2014-15, depreciating by 21 per cent (against the US dollar), reflecting pressure from lower remittances and declining commodity prices. Remittances from Russia contracted by 57.5 per cent in US dollar terms in 2015 and another 19.3 per cent in the first half of 2016. In response to pressure on the currency, the Central Bank of Uzbekistan tightened currency controls. Inflation is expected to remain high at 9.0 per cent in 2016. Real GDP growth reached 7.5 per cent in the first quarter of 2016, driven by strong growth in construction (19.4 per cent), services (12.1 per cent) and industrial production (6.0 per cent).

External and fiscal positions remained broadly in balance. The current account balance declined to 0.1 per cent of GDP in 2015 compared with 0.7 per cent in 2014 as a result of weaker export earnings due to a drop in commodity prices. Budget revenues remained resilient with the fiscal balance remaining in surplus at around 0.9 per cent in 2015, however a significant part of spending is off-budget given the large public investment programme carried out by state-owned enterprises.

GDP growth in Uzbekistan is expected to decline to 6.5 per cent in 2016, reflecting a build-up of weaknesses in the economy resulting from a sharp drop in remittances from Russia and the slow-down of some of the main trading partners' economies over 2014-15. The decision of Russia's Gazprom to increase Uzbek gas imports to 4 billion cubic metres, compared with 1.5 billion cubic metres previously, will support foreign exchange inflows. In 2017, growth can be expected to decline further to 6.2 per cent, as external factors continue to weigh on and to crystallise internal macroeconomic vulnerabilities, increasing risks to growth.

Major structural reform developments

The poor business environment and high state interference in the economy continue to weigh on productivity and growth potential. Uzbekistan ranked 87th out of 190 countries in terms of ease of doing business according to the World Bank *Doing Business 2017* report. Significant obstacles to doing business continue to constrain foreign and domestic investment and the overall competitiveness of the economy. Structural reforms are lagging behind, particularly in areas such as economic governance, access to finance for businesses and foreign exchange controls.

Some measures have been passed to modestly liberalise the business environment and encourage foreign investment. Starting from July 2016 all new joint-stock companies are required to contain a minimum of 15 per cent equity in their ownership structure. Foreign investors have been promised tax exemptions on dividends until 2020; however, this legislation will not apply to socially important goods and natural resources.

The government has announced a new privatisation programme. Under the new programme, announced in November 2015, stakes will be sold in 1,247 state-owned companies. Among other measures, the authorities announced that they plan to raise US$ 58.0 million through the sale of Asaka Bank and US$ 63.6 million through the sale of Uzpromstroybank. However, progress with privatisations to date has been limited.

Uzbekistan further intensified currency controls. The limit on the amount of hard currency that an Uzbek citizen can withdraw while travelling abroad was reduced significantly starting from July 2016. The limit is now at US$ 300 per month compared with the previous US$ 100 per day. The authorities also banned the use of Uzbek debit cards in wholesale and retail trading in Turkey, China and United Arab Emirates. However, there are no restrictions on purchasing foreign currency required for medical or education purposes. As of mid-2016, the black market rate is at around 6,200 sum per US dollar, compared with 2,970 sum per US dollar established by the central bank. In September 2016, the government announced that currency controls would be softened gradually.

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Uzbekistan is deepening ties with China and Japan. China has already invested around US$ 6.5 billion in the Uzbek economy since 2013, when the two countries signed deals worth US$ 15 billion. In October 2015 Japan and Uzbekistan signed cooperation agreements worth US$ 8.5 billion to facilitate trade, as well as construction opportunities for Japanese firms.