

Uzbekistan: Market Profile



1. Overview

Independent since 1991, Uzbekistan seeks to gradually lessen its dependence on agriculture while developing its gold, uranium and petroleum reserves. Total investment growth moderated from 9.5% in 2016 to 7.1% in 2017, but remained the main growth engine for the economy. Energy supplies and hydrocarbons, including natural gas and petroleum, provide a significant share of exports. Other major export earners include cotton, food, services and metals. Since President Shavkat Mirziyoyev came to power,



Uzbekistan has seen improved relations with its neighbours and the country has begun to take steps towards boosting economic and political reforms. The authorities are working on improving the tax system and tax administration procedures, as well as on creating greater economic data transparency, which includes joining the General Data Dissemination Standard of the International Monetary Fund. In the near term, monetary policy is forecast to tighten, with the priorities being to contain inflation and balance the current account surplus. In January 2019, the Government adopted a "Reform Roadmap", with the support of the World Bank, which outlines how the country will achieve economic, social and political openness over the 2019-2021 period.

Sources: World Bank, Fitch Solutions

2. Major Economic/Political Events and Upcoming Elections

December 2016

Prime Minister Shavkat Mirziyoyev won the presidential election and set out to repair relations with Russia, China and the United States, opened up the economy, and relaxed the investment policy environment.

February 2017

President Mirziyoyev allowed commercial flights to Tajikistan for first time in more than 20 years.

June 2017

Rustam Asimov left the post of First Deputy Prime Minister.

October 2018

Russian President Vladimir Putin's state visit to Uzbekistan included business deals totalling USD27 billion, including a contract worth USD11 billion for a nuclear power plant.

February 2019

Uzbekistan's Eurobond issuance outperformed expectations, with an oversubscription rate of 8.2 times its original estimated demand. This indicated investor sentiments regarding the country had turned upwards, following a charm offensive by President Mirziyoyev and his government. The President paid a state visit to a number of countries ahead of the Eurobond issuance, assuring investors, including India, France, Germany, Russia and Belgium.

July 2019

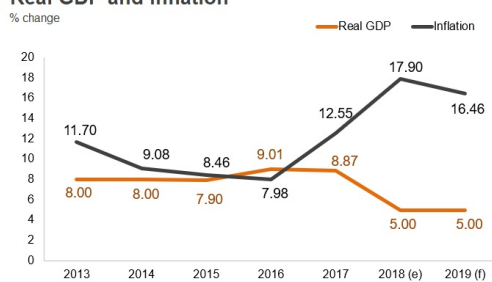
On July 24, the Foreign Ministry of Uzbekistan announced that Uzbekistan had begun official negotiations with the WTO over membership in 2019.

Sources: BBC Country Profile – Timeline, Fitch Solutions

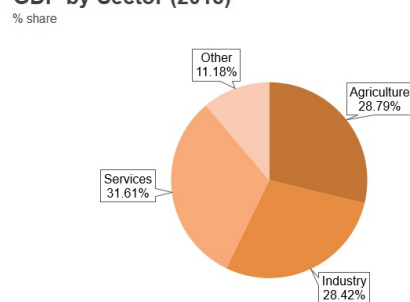
3. Major Economic Indicators



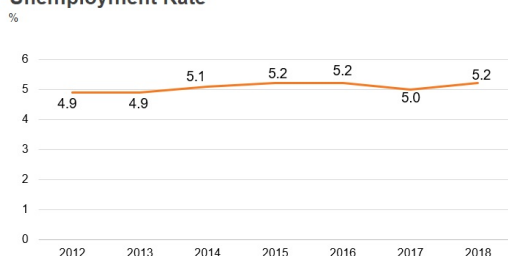
Real GDP and Inflation



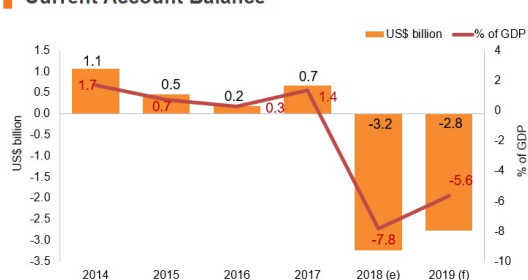
GDP by Sector (2018)



Unemployment Rate



Current Account Balance



e = estimate, f = forecast

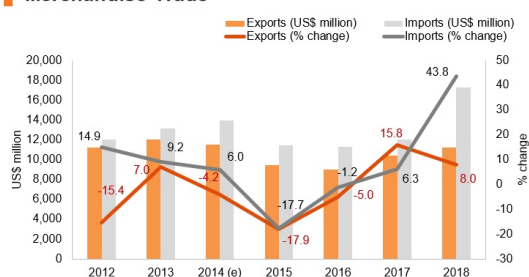
Sources: IMF, World Bank - World Development Indicators, Fitch Solutions

Date last reviewed: August 13, 2019

4. External Trade

4.1 Merchandise Trade

Merchandise Trade



e = estimate

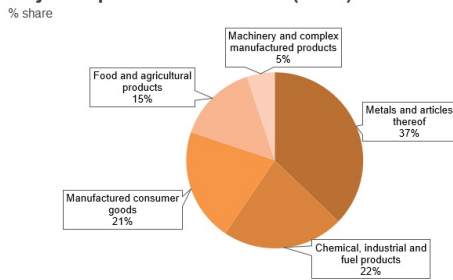
Note: Only the export value is an estimate in 2014

Source: WTO

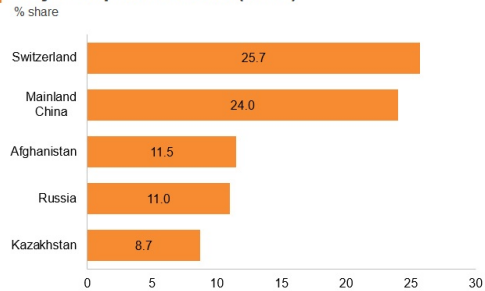
Date last reviewed: August 13, 2019



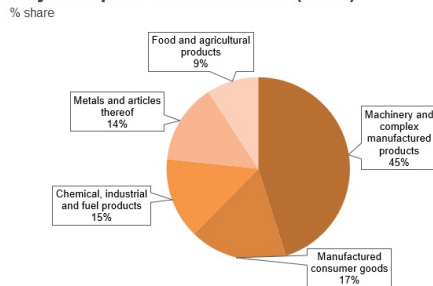
Major Export Commodities (2018)



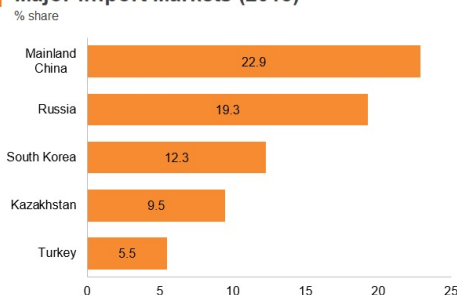
Major Export Markets (2018)



Major Import Commodities (2018)



Major Import Markets (2018)



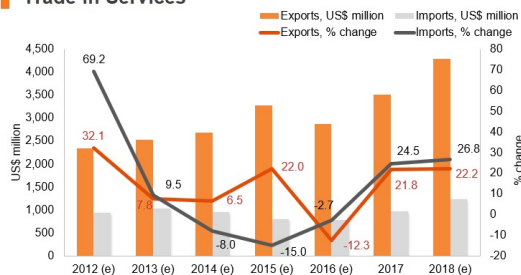
Note: Data based on the partner reported data (Mirror data)

Sources: Trade Map, Fitch Solutions

Date last reviewed: August 13, 2019

4.2 Trade in Services

Trade in Services



e = estimate

Source: WTO

Date last reviewed: August 13, 2019

5. Trade Policies

- Uzbekistan is still negotiating terms of accession to the World Trade Organization (WTO) and has approached Russia for assistance in the matter, a positive sign for Tashkent given Moscow's membership and status on the international front, as well as signalling a continued détente between the two countries on grounds of economic and diplomatic cooperation.
- Uzbekistan is a founding member of the Commonwealth of Independent States (CIS)



- and has joined the CIS Free Trade Area (CISFTA).
- Although no formal application to Eurasian Economic Union (EAEU) has been made, President Mirziyoyev had indicated intentions to approach the EAEU for more cooperation. In April 2018, Uzbekistan's customs regime reforms signalled a shift to harmonising trade policies with the EAEU.
 - The import of certain goods to Uzbekistan is subject to customs duties. The taxable base is determined as the customs value of imported goods. Rates of customs duties vary from 5% to 70%, depending on the type of imported goods. There is also a customs clearance fee of 0.2% of the customs value of imported goods, but not less than USD25 and not exceeding USD3,000.
 - Uzbekistan has the highest average import tariff rate out of eight Caucasus and Central Asian countries. The tariff rate on imported live animals, milk and cream, wheat and computer hardware is 5%; 10-30% on clothing, furniture, metals and foodstuffs; and 50% and above on luxury goods, vehicles and cigarettes.
 - All imports must pass stringent labelling requirements which must be in the Uzbek language.
 - The Uzbekistani government allows duty-free import of machinery and equipment for certain sectors to develop local industries. For example, there are no import duties for textile equipment and machinery and for spare parts.
 - Excise tax, charged as a percentage of the declared customs value, must be paid on certain products, such as cigarettes, vodka, ice-cream, oil and gas condensate, fuels, cars and carpets.

Sources: WTO - Trade Policy Review, Fitch Solutions

6. Trade Agreement

6.1 Trade Updates

Uzbekistan began official negotiations on accession to the WTO with assistance from Russia.

6.2 Multinational Trade Agreements

Active

1. Tajikistan-Uzbekistan (effective date: January 1996): Uzbekistan trades extensively with Tajikistan and this trade is set to grow with greater industrial development in both countries.
2. Azerbaijan-Uzbekistan (effective date: 1996): Uzbekistan supplies vehicles, non-ferrous metals, pharmaceutical products, fertilisers, electrical and mechanical appliances, and agricultural products to Azerbaijan, and renders services in the transport, tourism and other spheres. Azerbaijan's export to Uzbekistan mainly consists of mechanical appliances, confectionery products, various organic and chemical compounds, tanning and dyeing extracts.
3. Ukraine-Uzbekistan (effective date: January 2006): Both countries have stressed the importance of expanding bilateral relations between their respective business communities and the implementation of joint projects to enhance economic cooperation.
4. Russia-Uzbekistan (effective date: March 1993): The trade turnover between Russia and Uzbekistan for 2017 increased by 34% to USD3.65 billion compared to the previous year (latest data available).

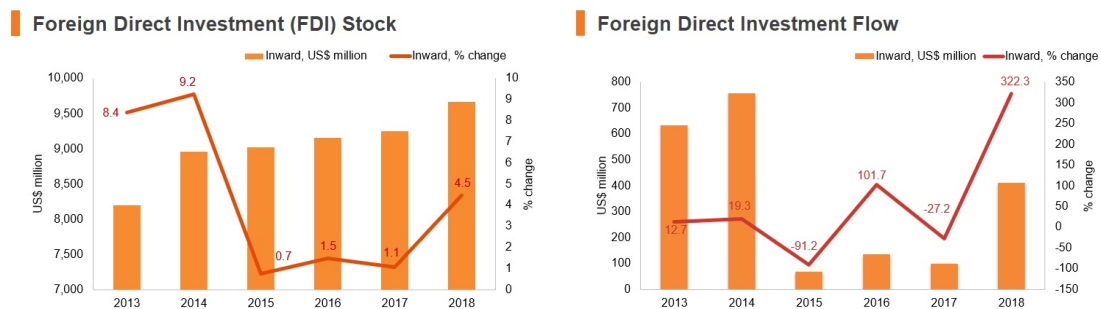


5. Kazakhstan-Uzbekistan (effective date: January 1997): Trade turnover between Kazakhstan and Uzbekistan amounted to USD2 billion in 2017 (latest data available), 31.2% higher than in 2016. Exports from Kazakhstan grew by 35% in 2017 to USD1.3 billion, while imports increased by 25.1% to USD735.2 billion.
6. Kyrgyzstan-Uzbekistan (effective date: March 1998): In 2017 (latest data available), the trade turnover between Uzbekistan and Kyrgyzstan increased by almost 60%.
7. Georgia-Uzbekistan (effective date: January 1995): The trade turnover between the two countries amounted to USD105 million in 2015 (latest data available), up 54% from the previous year.
8. CISFTA (effective date: September 2012): Free trade area between Russia, Ukraine, Belarus, Uzbekistan, Moldova, Armenia, Kyrgyzstan and Kazakhstan. It provides for the free movement of goods within the territory of the CIS, non-application of import customs duties, non-discrimination, gradual decrease of export customs duties and abolishment of quantitative restrictions in mutual trade between the CISFTA member states.
9. EU-Uzbekistan (effective date: July 1999): The EU's bilateral trade relations with Uzbekistan are governed by a Partnership and Cooperation Agreement (PCA). Under the PCA, Uzbekistan and the EU grant each other most-favoured-nation treatment with respect to: custom duties and charges applied to imports and exports; direct and indirect taxes applied to imported goods; and rules relating to the sale, purchase, transport, distribution and use of goods on the domestic market.

Source: WTO Regional Trade Agreements database

7. Investment Policy

7.1 Foreign Direct Investment



Note: Data are not available for Outward FDI Stock

Source: UNCTAD

Date last reviewed: August 13, 2019

7.2 Foreign Direct Investment Policy

1. Foreign investors can get consultations, business registration and other legal assistance from the UZinfoInvest agency, which operates as a branch of the Ministry of Foreign Economic Relations, Investments and Trade, or from the Chamber of Commerce and Industry of Uzbekistan on a contractual basis. These agencies provide investors with consulting services, as well as information and analysis support.
2. Foreign ownership and control are prohibited for airlines, railways, power



generation, long-distance telecommunication networks, and other sectors deemed to be related to national security. Foreign nationals cannot obtain a license or tax permission for individual entrepreneurship in Uzbekistan.

3. All land in Uzbekistan is owned by the state. Uzbekistani and foreign private entities may own buildings, but not the land on which they are built. Foreign entities and individuals may lease land.
4. The Law on Denationalisation and Privatisation (1991) lists state assets that cannot be privatised, including: land with mineral and water resources, the air basin, flora and fauna, cultural heritage sites, state budget funds, forex and gold reserves, state trust funds, the central bank, enterprises that facilitate monetary circulation, military and security-related assets and enterprises, firearms and ammunition producers, nuclear research and development enterprises, some specialised producers of drugs and toxic chemicals, emergency response entities, civil protection and mobilisation facilities, public roads and cemeteries.
5. Foreign investment in media enterprises is limited to 30%. In finance, foreign investors may operate only as joint venture partners with Uzbekistani firms, and banks with foreign participation face minimum fixed charter funding requirements (EUR10 million for commercial banks, EUR5 million for private banks, and EUR1.5-6 million for insurance companies – equivalent to USD10.7 million, USD5.3 million, and USD1.6-6.4 million respectively), while the required size of charter funds for Uzbekistani firms is set on a case-by-case basis.
6. As of September 2018, the World Bank's International Finance Corporation's (IFC) investment portfolio in Uzbekistan amounted to USD49.6 million and are in the financial and textile sectors. In addition, the IFC's advisory services are provided to assist the country in its plans to privatise state-owned enterprises (SOEs), improve the cotton sector, developing and diversifying the financial market, and investments renewable energy sources.

Sources: WTO – Trade Policy Review, ITA, US Department of Commerce, UZinfoInvest, World Bank

7.3 Free Trade Zones and Investment Incentives

Free Trade Zone/Incentive Programme	Main Incentives Available
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All Free Economic Zones (FEZs)	<p>- Businesses in FEZs are exempt from a number of payments, with exemptions corresponding to the investment amount. The exemptions regard: land tax, property tax, income tax (including social tax), single tax payments to small companies, obligatory payments to Central Funds, customs on equipment, raw materials and components.</p> <p>- The four categories which determine the length of the above privileges are:</p> <ul style="list-style-type: none"> • USD300,000-USD3 million (three years) • USD3 million-USD5 million (five years) • USD5 million-USD10 million (seven years) • USD10 million+ (10 years) <p>- During the five years following the exemption period, businesses are subject to a reduced income tax rate (50% lower than the prevailing rate).</p> <p>- There are no limitations in the implementation of foreign exchange transactions within FEZ for the settlement of payments between entities in the FEZ. Payments in foreign currency for goods and services from other business entities that are residents of Uzbekistan are also not restricted.</p>
Extraction and exploration incentives for oil companies	<p>- Tax exemptions during the operating period</p> <p>- Exempt from contributions to non-budget funds</p> <p>- Equipment and materials needed for operations are not subject to customs if imported local businesses supplying such companies are exempt from VAT</p>
Incentives for exporters	<p>Companies involved in exporting its own goods can defer payment of VAT on imported materials to make the goods being exported. The deferment lasts for 90 days and does not accrue interest due.</p>



Customs exemptions	<ul style="list-style-type: none"> - Vehicles used for the international transportation of goods, luggage, and passengers - The national currency of Uzbekistan (the sum), foreign currency, as well as securities - Goods for humanitarian aid - Goods for charitable purposes - Goods in transit (goods which will be re-exported) - Goods imported by businesses via loans granted by international and foreign governmental financial organisations - Property imported for production needs by foreign investors and companies with foreign participation of not less than 33% within two years after registration - Property imported for personal needs of foreign investors, citizens, or stateless persons residing in Uzbekistan (as per contract with the government) - Goods for production purposes given that the foreign entity importing the goods has invested at least USD50 million
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Sources: US Department of Commerce, Fitch Solutions

8. Taxation – 2019

- Value Added Tax: 20%
- Corporate Income Tax: 12%

Source: [Ministry of Finance of the Republic of Uzbekistan](#)

8.1 Important Updates to Taxation Information

- A number of tax incentives are abolished effective April 1, 2018, including: tax incentives provided to entities involved in localisation programmes, including currently implemented localisation projects; and rate reduction for corporate income tax (CIT), property tax, and unified tax payment (UTP) for exporters. As of January 1, 2018, CIT is unified with the infrastructure development tax (IDT).
- Land tax rates for legal entities and individuals and water-use tax rates for individuals are raised by approximately 15% from January 1, 2018.
- From January 1, 2018, mandatory contributions to designated funds (ie, pension fund, road fund and educational/medical institutions fund) are unified into a single contribution, the mandatory contribution to the state funds.
- Land tax rates for legal entities and individuals, as well as water-use tax rates for individuals are raised by approximately 20%.
- Excise tax rates on production of oil products (eg, gasoline, kerosine, diesel) have decreased 10 times, and the excise tax rate for production of natural gas decreased from 25% to 15%. The excise tax rate for production of vehicles by "General Motors Uzbekistan" has decreased from 5% to 3%.
- Excise tax has been introduced for Mobile communication services at the rate of 15% (along with reduction of monthly Charge payable by mobile operators for each customer from UZS4,000 to UZS2,000).



- Tax and customs exemptions provided to participants of small industrial zones were abolished (except for already registered participants until January 1, 2020).

8.2 Business Taxes

Type of Tax	Tax Rate and Base
CIT (standard)	12%
CIT for commercial banks	22% on operating profits
Capital Gains	- Taxed as ordinary income - Non-resident companies pay a 20% withholding tax as part of capital gains
Dividends	Dividends paid to residents or nonresidents are subject to a 10% withholding tax
Withholding Tax	Interest: 10% Dividends: 10% Royalties: 20%
VAT	20% on value of the products
Property and Land Tax	- Property tax is charged at an annual rate of 5% of the net book value of the fixed assets, adjusted for the effect of revaluation. - Businesses are exempt from paying property tax for the first two years after their initial registration. - All enterprises in Uzbekistan (including foreign ones) which own land or own rights to the use of land (such as through a lease agreement etc.) are liable to pay land tax. - This is usually a fixed fee depending of the location, quality and water supply levels of the relevant plot of land.
Excise Tax	Rates range from 5% to 70% depending on the type of goods which are being produced or imported.

Source: [Ministry of Finance of the Republic of Uzbekistan](#)

Date last reviewed: August 13, 2019

9. Foreign Worker Requirements

9.1 Localisation Requirements

The Uzbekistani government agency on Foreign Labour Migration sets quantitative restrictions for the hiring of foreign workers in certain sectors. For example, all head accountants in banks and auditing firms operating in the country must be Uzbekistani nationals. Furthermore, for projects conducted under PSAs, only 20% of the workforce employed is permitted to be foreign.

9.2 Foreign Worker Permits



In order to be allowed to hire foreign personnel, companies must demonstrate that an Uzbekistani national does not have the requisite skills for the relevant position. Any company wanting to employ foreign labour also needs to obtain a foreign labour license from the Uzbekistani government. Foreign worker permits generally take one month to be issued and are subject to a state duty of around USD480. Foreign workers must register with the Uzbekistani Ministry of Labour and Social Protection. It is therefore a fairly lengthy process.

By virtue of the country's CIS membership and Soviet heritage, it is very easy for workers from Russia and other CIS member states to work in Uzbekistan.

9.3 Exemptions For Business Travel

A bilateral visa-free regime has been established with Kyrgyzstan (up to 60 days), Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Moldova, Russia and Ukraine. From February 10, 2018, a visa-free regime is introduced for a 30-day period for citizens of seven new countries, including Japan, Indonesia, Israel, Korea, Malaysia, Singapore and Turkey. Mainland China and Hong Kong are on the list of countries whose citizens can use a simplified procedure for the issuing of tourist visas since February 10, 2018. Previously, the simplified procedure for issuing visas was available for citizens of Austria, Belgium, Great Britain, Germany, Spain, Italy, Latvia, France, Switzerland, Thailand, Czech Republic and Poland.

The visa-free regime applies to citizens of select countries, and holders of all categories of passports (diplomatic, service and civil) planning to visit Uzbekistan for up to 30 days, regardless of the purpose of their trip.

Sources: Government websites, Fitch Solutions

10. Risks

10.1 Sovereign Credit Ratings

	Rating (Outlook)	Rating Date
Moody's	B1 (Stable)	12/02/2019
Standard & Poor's	Not rated	N/A
Fitch Ratings	BB- (Stable)	10/05/2019

Sources: Moody's, Standard & Poor's, Fitch Ratings

10.2 Competitiveness and Efficiency Indicators



	World Ranking		
	2017	2018	2019
Ease of Doing Business Index	87/190	74/190	76/190
Ease of Paying Taxes Index	138/190	78/190	64/190
Logistics Performance Index	N/A	99/160	N/A
Corruption Perception Index	157/180	158/180	N/A
IMD World Competitiveness	N/A	N/A	N/A

Sources: World Bank, IMD, Transparency International

10.3 Fitch Solutions Risk Indices

	World Ranking		
	2017	2018	2019
Economic Risk Index Rank	N/A	92/202	126/202
Short-Term Economic Risk Score	48.5	47.7	44.4
Long-Term Economic Risk Score	52.9	52.8	47.9
Political Risk Index Rank	N/A	127/202	126/202
Short-Term Political Risk Score	56.0	66.3	69
Long-Term Political Risk Score	55.8	56.8	56.8
Operational Risk Index Rank	N/A	135/201	127/201
Operational Risk Score	41	41.3	43.2

Source: Fitch Solutions

Date last reviewed: August 13, 2019

10.4 Fitch Solutions Risk Summary

ECONOMIC RISK

The devaluation of the soum on September 5, 2017 and the removal of currency controls were major steps in opening up Uzbekistan's economy to foreign direct investment and international trade. Moreover, President Mirziyoyev has sought to build international trade links, modernise key industries and reduce tensions with neighbours. Ties with Uzbekistan's neighbours have been improving under Mirziyoyev's leadership, and disputes around water supplies and borders are being resolved. Improving relations with



Russia are a positive and further co-operation in relation to a potential threat from instability in Afghanistan seems likely. The prospect of Uzbekistan joining the Eurasian Economic Union has also risen. Nevertheless, the economy remains largely dependent on commodity exports and the country is slowly developing after years of isolation. Uzbekistan's economic growth prospects face headwinds in the near term, but are bright over the longer term. Inflationary pressures and a need to tighten fast credit growth will weigh on the near term, but the reform momentum is expected to drive longer term growth.

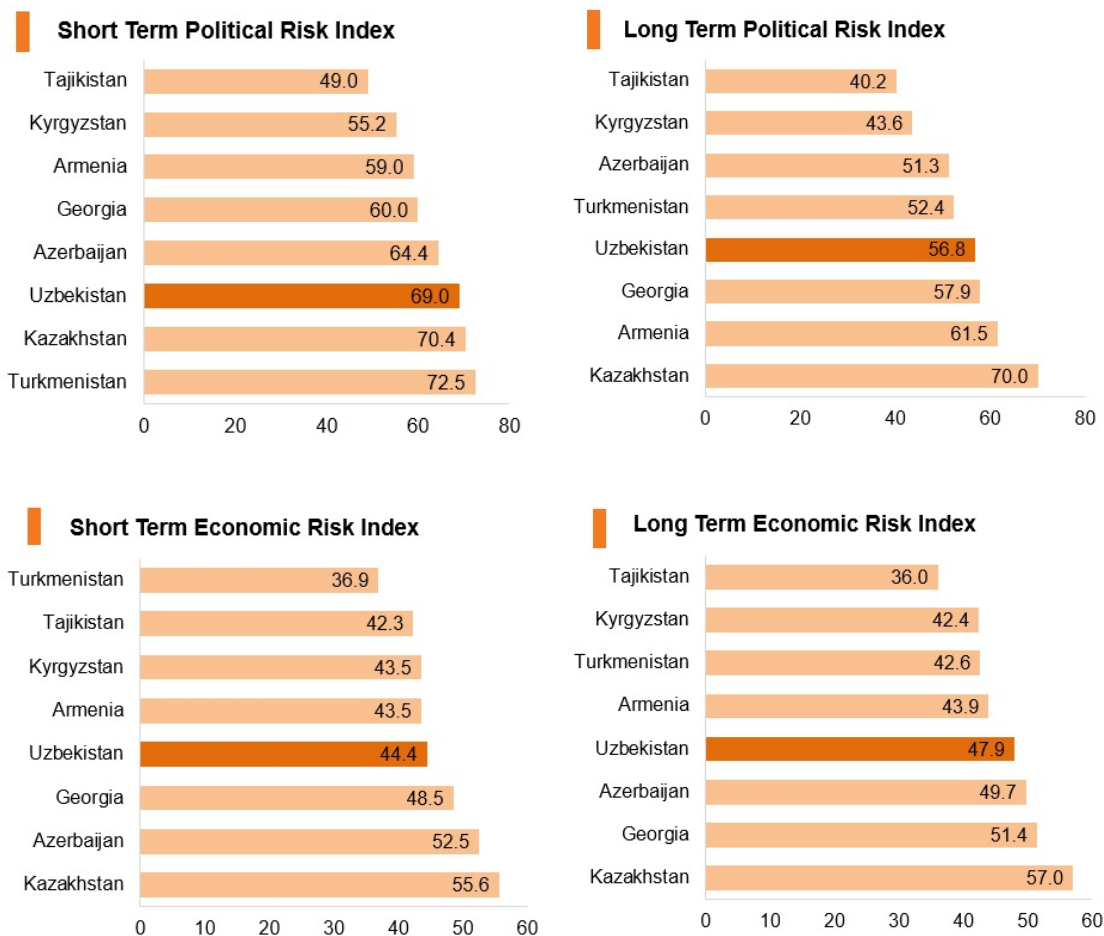
OPERATIONAL RISK

Companies seeking to capitalise on Uzbekistan's strong growth trajectory, natural resources and strategic position on China's new Silk Road route, have had confidence renewed since President Shavkat Mirziyoyev's election on the back of increased prospects for the implementation of business-friendly structural reforms aimed at opening up the economy. The presence of oil, gold and agricultural land, as well as the biggest population in the region also point to promises of growth over the medium to long term.

Source: Fitch Solutions

Date last reviewed: August 12, 2019

10.5 Fitch Solutions Political and Economic Risk Indices



100 = Lowest risk; 0 = Highest risk



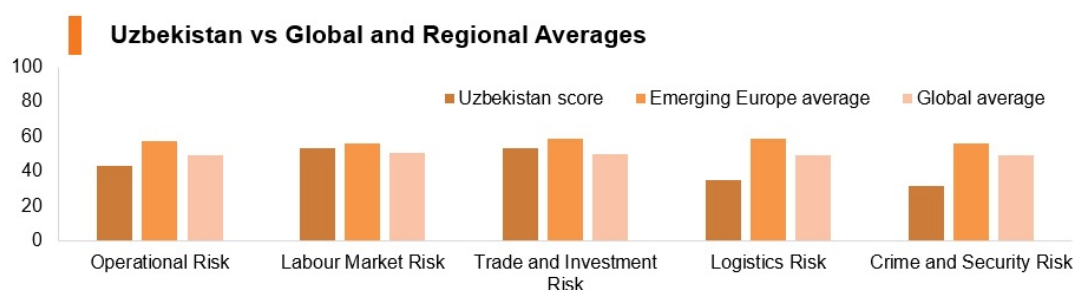
Source: Fitch Solutions Economic and Political Risk Indices
Date last reviewed: August 13, 2019

10.6 Fitch Solutions Operational Risk Index

	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
Uzbekistan score	43.2	53.4	53.1	34.7	31.7
Caucasus and Central Asia Average	50.4	56.7	53.4	46.6	44.9
Caucasus and Central Asia Position (out of 8)	7	7	5	8	7
Emerging Europe Average	57.4	55.9	59.1	58.6	55.9
Emerging Europe Position (out of 31)	30	23	24	31	30
Global Average	49.6	50.3	49.8	49.0	49.2
Global Position (out of 201)	127	84	90	148	166

100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Operational Risk Index





Country	Operational Risk Index	Labour Market Risk Index	Trade and Investment Risk Index	Logistics Risk Index	Crime and Security Risk Index
Georgia	62.2	64.1	71.4	54.9	58.3
Azerbaijan	59.1	61.1	62.5	59.5	53.2
Kazakhstan	58.7	70.2	58.9	54.1	51.5
Armenia	55.2	58.2	58.6	49.9	54.2
Tajikistan	43.7	53.8	39.1	38.8	43.2
Kyrgyzstan	43.6	54.2	44.6	38.0	37.7
Uzbekistan	43.2	53.4	53.1	34.7	31.7
Turkmenistan	37.6	38.7	39.3	43.1	29.4
Regional Averages	50.4	56.7	53.4	46.6	44.9
Emerging Markets Averages	46.9	48.6	45.4	47.4	46.1
Global Markets Averages	49.6	50.3	49.8	49.0	49.2

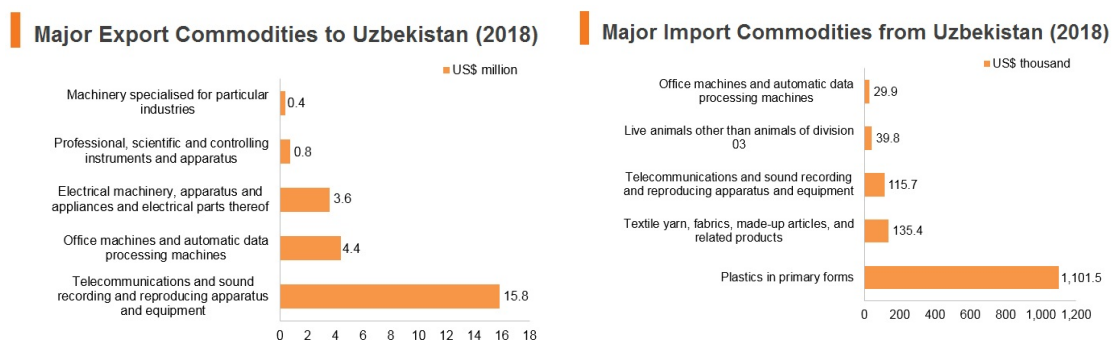
100 = Lowest risk; 0 = Highest risk

Source: Fitch Solutions Operational Risk Index

Date last reviewed: August 13, 2019

11. Hong Kong Connection

11.1 Hong Kong's Trade with Uzbekistan

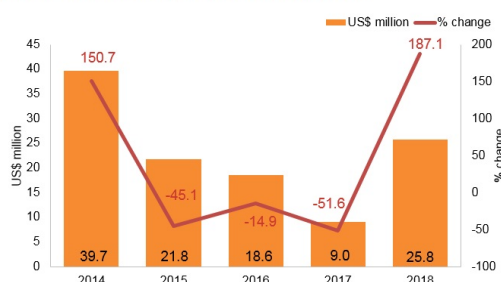


Note: Graph shows the main Hong Kong exports to/imports from Uzbekistan (by consignment)

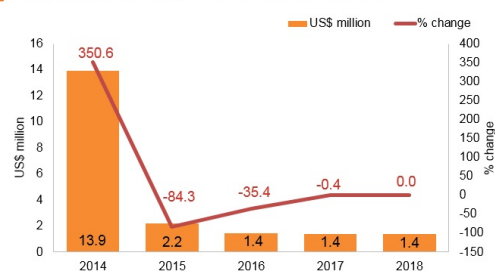


Date last reviewed: August 13, 2019

Merchandise Exports to Uzbekistan



Merchandise Imports from Uzbekistan



Note: Graph shows Hong Kong exports to/imports from Uzbekistan (by consignment)
Exchange Rate HK\$/US\$, average

7.75 (2014)

7.75 (2015)

7.76 (2016)

7.79 (2017)

7.83 (2018)

Sources: Hong Kong Census and Statistics Department, Fitch Solutions

Date last reviewed: August 13, 2019

	2018	Growth rate (%)
Number of Uzbek residents visiting Hong Kong	348	-10.5

Sources: Hong Kong Tourism Board, Fitch Solutions

	2018	Growth rate (%)
Number of European residents visiting Hong Kong	1,961,448	1.7

Sources: Hong Kong Tourism Board, Fitch Solutions

Date last reviewed: August 13, 2019

11.2 Commercial Presence in Hong Kong

	2016	Growth rate (%)
Number of Uzbek companies in Hong Kong	N/A	N/A
- Regional headquarters		
- Regional offices		
- Local offices		

11.3 Treaties and Agreements between Hong Kong and Uzbekistan



The agreement between China and Uzbekistan on the Promotion and Protection of Investments entered into force in September 2011.

11.4 Visa Requirements for Hong Kong Residents

From February 10, 2018, a simplified procedure for issuing Uzbekistani tourist visas was introduced for Hong Kong residents that implies getting a visa within two working days, not counting the day of receiving documents. Tourists will be given multiple-entry visas for up to one month, and representatives of the business community for up to one year, without requiring a tour voucher or an invitation from an inviting legal or physical person in Uzbekistan.

Source: [Uzbekistan Airways](#)

Date last reviewed: August 13, 2019

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