

The World Bank in Uzbekistan Country Snapshot



An overview of the World Bank's work in Uzbekistan

October 2018

UZBEKISTAN	2018
Population, million	32.9
GDP, current US\$ billion	40.3
GDP per capita, current US\$	1,223
Life Expectancy at birth, years (2018)	71.4

At a Glance

- Following an economic deceleration in 2017, real GDP growth slowed further as investment growth eased in the first half of 2018. However, despite a projected external weakening, Uzbekistan's medium-term outlook remains favorable on account of the Government's ambitious reform initiative. It is critical that Uzbekistan continue to prioritize and implement key reforms in order to sustain robust and inclusive economic growth and job creation.
- The implementation of ambitious market-oriented reforms will require fundamental changes in government institutions. The Government will also have to tackle the complex legacies of the old system and properly manage the reform process.
- The adjustment of the World Bank Group country program in June 2018 will open the possibility of expanding the array of Bank instruments to support the Government in implementing a deeper and more focused program of reforms.

Country Context

In 2017, with the drivers of the old growth model exhausted, Uzbekistan launched an ambitious program of market-oriented reforms that were unprecedented in the country's modern history.

The Government's National Development Strategy for 2017–21 aims to transform the country by liberalizing the economy, reshaping the role of the state in the economy, modernizing the agriculture sector, strengthening governance, creating markets, including in financial services, enabling private sector growth, investing in human capital, and improving social protection and service delivery for all citizens.

The Strategy, to be implemented over five years, is guided by an annual state program. The country's reform momentum has also created new opportunities for regional cooperation in Central Asia, including in energy, transport, water, and economic connectivity.

The Government has made rapid progress on implementing an impressive number of policy changes in a short period of time by initiating public service, judicial, educational, and tax systems reforms; liberalizing the foreign exchange regime followed by price liberalization measures; strengthening the independence of the Central Bank of Uzbekistan (CBU); simplifying the visa regime; improving the investment climate and business environment; initiating important reforms in the agricultural sector; scaling up anticorruption efforts; and opening a dialogue between the Government and the citizens of Uzbekistan.

The World Bank and Uzbekistan

In June 2018, the World Bank Group's (WBG) program for Uzbekistan was adjusted to better respond to the country's new priorities and development vision based on the Performance and Learning Review (PLR) of the Country Partnership Framework (CPF) for FY16–20.

Whereas the CPF foresaw a gradual process in line with the priorities of the previous government, the PLR took into consideration the new Government's commitment to faster, deeper, and broader reforms. The new focus areas are: i) a sustainable transformation to a market economy; ii) reform of state institutions and citizen engagement and iii) investments in people.

Key Engagement

Uzbekistan joined the WBG in 1992. As of October 2018, the Bank had provided funding for 41 projects financed by loans of International Bank for Reconstruction and Development (IBRD) and credits of the International Development Association (IDA).

It has also carried out over 50 technical assistance activities. Bank assistance is currently focused on macroeconomic reforms, agriculture, water, energy, transport, health, and education.

Seventeen IBRD/IDA investment projects and a first-ever Development Policy Operation, spread across seven sectors and worth US\$3.34 billion, are currently being implemented. The World Bank is also administering a Global Partnership for Education (GPE) grant-financed project worth US\$49.9 million.

In August 2018, the WBG signed its very first Reimbursable Advisory Services agreement with the Government to support the reform of the civil aviation sector in Uzbekistan.

Overall, the Bank's technical assistance and analytical support to the Government have

WORLD BANK PORTFOLIO

No. of Projects: 18
Lending: \$3.34 Billion
IBRD: \$1.17 Billion
IDA: \$2.18 Billion

grown substantially and now cover a range of areas to support economic reforms.

As of September 2018, the International Finance Corporation (IFC) managed a US\$49.6 million investment portfolio, including projects in the financial and textile sectors. IFC's advisory services provided investments under six projects.

They are designed to assist the country in privatizing state-owned enterprises (SOEs), transforming the cotton sector, developing and diversifying the financial market, and piloting public-private partnership transactions in renewables.

The World Bank also supports the Government's efforts to enhance the investment climate and business environment by helping to improve the country's Doing Business indicators.

The Multilateral Investment Guarantee Agency (MIGA) portfolio in Uzbekistan was comprised of guarantees for a project in the oil and gas sector. MIGA had issued a political risk insurance guarantee for US\$119.5 million to BNP Paribas (Suisse) SA of Switzerland to cover a non-shareholder loan to Lukoil Overseas Uzbekistan Ltd. for the Khauzak-Shady Block and Kandym Field Group projects.

That guarantee was terminated in FY17 and no new guarantees have been issued since that time.

Recent Economic Developments

Following an economic deceleration in 2017, real GDP growth slowed further to 4.9% in the first half of 2018 (from 7% in the same period of 2017) as total investment growth eased. An acceleration in the inflation rate softened private consumption growth, which rose only modestly in real terms during the first half of the year. Private consumption was largely supported by nominal wage growth (21.4% year-on-year) and rising remittance inflows (15%). Annual consumer price inflation stood at 18.5% in June 2018.

The trade balance posted a deficit in 2017 and the first half of 2018, as a strong growth of imports outpaced the growth of exports by a comfortable margin. The nominal exchange rate had appreciated by 3.7% by September 2018 compared to September 2017, when the CBU opted to pursue a managed float of the currency in the wake of a large devaluation. The CBU raised its policy interest rate to 16% on September 24, 2018, after raising it to 14% at end-June 2017 from the previous 9%.

Although the higher policy rate has acted as a damper on credit expansion, the loan-to-GDP ratio stood at 42% at end-2017 (having risen sharply from 26% at end-2016). According to official figures, nonperforming loans (NPLs) have risen sharply over the past 12 months from 0.8% of total loans in June 2017 to 1.3% in June 2018. Moody's assessed the NPL ratio at 2.6% for 2017.

The Government drew down on its fiscal buffers at the Uzbek Fund for Reconstruction and Development, a reserve fund, to cover debt burdens at the largest bank and SOEs. The augmented budget deficit for the first half of 2018 is estimated at 0.5% of GDP.

Significant tax policy reforms were announced in June 2018 (effective in 2019), including the transition to a low flat tax from a progressive personal income tax, the elimination of the

turnover tax, and a reduction in the unified tax rate and in tax rates on corporate income, property, dividends, and the payrolls of small firms.

Economic Outlook

Annual GDP growth is expected to remain steady at about 5% in 2018–19 and 5.5% in 2020 as the business climate improves and private investment growth accelerates. Employment creation is expected to be sluggish, given that investment remains below pre-2017 levels and SOEs are dealing with the impact of the economic reforms.

Fiscal activity is projected to become less expansionary as the authorities work to rein in inflation, which nonetheless is expected to remain elevated as more administered prices are liberalized and wages continue to adjust.

Budget revenues are projected to decline, due to the large tax cuts planned for 2019, and spending is expected to be rationalized and better geared toward protecting vulnerable groups. At the same time, pressures to raise civil service salaries will strain the budget. In an effort to reduce inflation to single digits, monetary policy is expected to be tightened further.

The current account surplus is likely to slip into a minor deficit in 2018–20, as import growth continues to outpace that of exports owing to trade liberalization. Pressures on the Russian Federation's economy will also limit remittance flows to Uzbekistan.

However, the risk to external instability is modest due to a comfortable cushion of foreign exchange reserves—equivalent to 20 months of import cover—and moderate levels of external public debt, which is mostly concessional.

Project Spotlight

Improving the Energy Efficiency of Uzbekistan's Industrial Enterprises



Using World Bank financing, JSC Bekabacement, one of the biggest cement producers in Uzbekistan, aims to reduce its energy intensity by 20% by 2020. Thanks to the project, the company has already increased output, cut energy consumption, and reduced dust emissions.

Uzbekistan's economy continues to demonstrate a stable growth. Over the past decade, the country has doubled its GDP without increasing energy consumption.

However, with an energy intensity that is 35% higher than that of neighboring Kazakhstan and three times higher than in Germany, Uzbekistan is one of the most energy-intensive economies in the world.

Uzbekistan's industrial sector is inefficient, lacks modern technologies, and accounts for around 40% of total energy consumption. The Government's goal is to reduce the country's energy intensity by roughly 50% by 2030, and it has initiated modernization programs targeting key energy-consuming sectors.

The World Bank supports the Government's efforts to improve energy efficiency. A US\$125 million project supported by the Bank provides loans to local industrial enterprises to invest in energy-efficient technologies and equipment.

Thanks to the project, over 30 large SOEs, predominantly in the oil, gas, chemical, and construction sectors, have already improved their energy efficiency.

The investments have resulted in energy savings equivalent to 360 million kilowatt hours (kWh) of annual energy savings, enough to satisfy the needs of about 1 million people, or over 176,000 households, in electricity per year. Additionally, the participating enterprises have reduced their carbon dioxide emissions by 580,000 metric tons per year.

Better energy efficiency will strengthen Uzbek companies, improve financial returns and competitiveness, and contribute to Uzbekistan's green growth.



CONTACTS

Tashkent,
+998 71 120-2400
107B Amir Temur Street,
Block C, 15th floor, 100084,
Tashkent, Uzbekistan.

More about the World Bank in Uzbekistan

Data:
<http://data.worldbank.org/country/uzbekistan>

Projects:
<http://www.worldbank.org/en/country/uzbekistan/projects>

Research:
<http://www.worldbank.org/en/country/uzbekistan/research>

News:
<http://www.worldbank.org/en/country/uzbekistan/news>



Follow us on Facebook
World Bank Uzbekistan

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at <http://www.worldbank.org/uzbekistan>