UZBEKISTAN

Highlights

- **Economic growth remained strong at 8.1 per cent in 2014, however, external vulnerabilities are rising.** The country has been affected by the weaker external outlook in the region, which is negatively affecting trade with and remittances from Russia. Vulnerabilities from prolonged challenges in the external environment are continuing. Public investment and energy exports are still the key drivers of growth.
- **State stakes in major industrial enterprises are to be offered to foreign investors.** A resolution, approved in May 2015, offers state stakes in 69 major industrial enterprises for sale to foreign strategic investors. The assets include stakes in major enterprises in chemicals, construction, automotive, banking and finance, and insurance.
- **Investments into the energy sector are being ramped up.** The government is starting a new investment programme to upgrade energy infrastructure and increase power generation capacity, including by implementing multi-year energy infrastructure upgrades at Uzbekneftegas.

Key priorities for 2016

- **The business environment needs to be improved.** High costs of doing business continue to constrain foreign and domestic investment and the competitiveness of the country. Structural reforms need to be accelerated, in particular in the areas of governance, reducing the cost of trade and finance for businesses and easing the tax burden.
- **Banking sector reforms and phasing out state-directed lending are crucial.** The major challenges in the financial sector include the restrictions on cash and foreign exchange transactions. Banking supervision and risk management need to be strengthened, and state-directed lending at preferential terms needs to be reduced.
- **Modernisation of the electricity system is important given the high energy intensity of the economy.** The lack of a reliable and stable electricity supply is a key obstacle for businesses in Uzbekistan. It is important to expand and modernise the power sector and improve the efficiency of power delivery.

Main macroeconomic indicators %

	2011	2012	2013	2014	2015 proj.
GDP growth	8.3	8.2	8.0	8.1	7.5
Inflation (average)	12.8	12.1	11.2	8.4	8.8
Government balance/GDP	7.8	7.8	2.4	2.2	0.1
Current account balance/GDP	5.8	1.8	2.9	1.7	0.2
Net FDI/GDP [neg. sign = inflows]	-3.6	-1.1	-1.1	-1.0	-1.5
External debt/GDP	13.3	12.9	12.7	13.0	n.a.
Gross reserves/GDP	39.7	43.2	39.4	38.6	n.a.
Credit to private sector/GDP	n.a.	n.a.	n.a.	n.a.	n.a.

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Macroeconomic performance

Economic growth was strong in 2014 at 8.1 per cent and is expected to moderate slightly in 2015 to 7.5 per cent. In the first half of 2015 growth remained robust at 8.1 per cent driven by strong public investments and energy exports. Industrial production was up by 8.1 per cent, agricultural production increased by 6.5 per cent and retail trade turnover was up by 14.8 per cent in the first half of 2015 year-on-year.

The som has depreciated significantly in 2014 and continues to weaken further in the course of 2015. The currency depreciated by 9 per cent in 2014 and another 6 per cent in January to August 2015, with pressure coming from lower remittances and weak commodity prices. The Central Bank of Uzbekistan cut its policy rate to 9 per cent in January 2015 from 10 per cent in 2014, but tightened currency controls by cracking down on the street currency trade in May 2015. Remittances from Russia started contracting in the last quarter of 2014 by 43 per cent and continued the declining trend in 2015, down by 55 per cent in the first half of the year. Inflation averaged 8.4 per cent in 2014, increasing to 9.0 per cent in March 2015 year-on-year as a result of a hike in petrol and utility prices.

External and fiscal balances continued to record a surplus. The current account surplus declined to 1.7 per cent of GDP in 2014, from 2.9 per cent in 2013. Exports in 2014 declined by 1.5 per cent on the previous year due to lower demand from Russia and other trading partners, while imports grew by 0.1 per cent in 2014. The slow-down in key trading partners such as China, Kazakhstan and Russia is negatively affecting the trade performance of the country. Exports to Russia dropped by 18 per cent in 2014, with the main trade item – cars produced by GM Uzbekistan JV – down by 57 per cent year-on-year in the first half of 2015. The fiscal balance recorded a surplus of 2.6 per cent of GDP in 2014. External debt is low, at around 13 per cent of GDP in 2014.

Uzbekistan's economic growth is expected to slow to 7.5 per cent in 2015 as a result of the weaker external outlook in the region, which is negatively affecting trade and resulting in a drop of remittances from Russia. In 2016, growth can be expected to remain at around 7.2 per cent, as external factors continue to weigh on remittances and trade.

Major structural reform developments

Uzbekistan's progress with structural reforms remains negligible. The poor business environment and high state interference in the economy continue to drag on productivity and growth potential. The country ranked 87th out of 189 countries in the World Bank *Doing Business 2016* report, with the biggest challenges being getting electricity, dealing with construction permits and trading across borders. The fifth round of the EBRD/World Bank Business Environment and Enterprise Performance Survey (BEEPS V) identified electricity issues, competitors' practices and access to finance as the most binding constraints for firms in Uzbekistan.

State stakes in major industrial enterprises are to be offered to foreign investors. The resolution "On measures to increase private ownership's stake and importance in the economy", approved in May 2015, offers state stakes in 69 major industrial enterprises for sale to foreign strategic investors. The assets to be offered include state stakes in major enterprises in chemicals, construction, automotives, banking and finance, and insurance. In addition, state stakes in 343 companies and organisations will be offered for sale and around 412 state properties (including unfinished construction) will be offered at tenders with investment conditions.

The government is implementing a US$ 2 billion investment programme. The new programme, announced in April 2015, includes 130 investment projects to upgrade energy infrastructure and increase power generation capacity. The state energy company, Uzbekneftegas, will also start implementing energy infrastructure upgrades in 2015, the total cost of which will be US$ 7.1 billion, with some expenditures expected to be funded as part of the government investment programme. Construction of the Uzbek section of the Central Asia-China gas pipeline is also expected to begin in 2015, with a total cost of US$ 800 million. In addition, Uzbekneftegaz is planning to invest US$ 18.65 billion in the development of the oil and gas complex of Uzbekistan between 2015 and 2019.

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The government is continuing efforts to improve tax administration. The State Tax Committee (STC) of Uzbekistan is in the process of developing IT solutions for risk-based audits in order to simplify tax administration for micro, small and medium-sized enterprises. The system will help to detect risks of tax under-reporting or fraud to focus inspectors' attention on the most risky taxpayers.

Measures to protect private businesses have been introduced. The programme "On measures to ensure reliable protection of private property, small business and private entrepreneurship, the removal of barriers to their rapid development" was approved in May 2015. It establishes a single procedure and frequency of scheduled inspections of micro and small businesses and farms, starting from 1 July 2015. Also, Uzbekistan's updated securities market law came into force in June 2015, which is expected to simplify securities emissions and make the process more effective.