INTERNAL TRADE: THE EVOLUTION AND OVERVIEW STATISTICS OF UZBEKISTAN

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With an estimated population of 35.5 million, Uzbekistan has the foundation needed to become a regional economic powerhouse: a dynamic, literate, and entrepreneurial population – the largest in Central Asia; relatively good infrastructure; and the largest potential consumer market in the region. Uzbekistan's cotton industry and rich natural resources such as gold and natural gas offer attractive opportunities for investors. The Cotton Campaign, a global human rights coalition, ended its thirteen-year boycott of Uzbek cotton in March 2022, reporting it had found no systemic or systematic government-imposed forced labor during the 2021 cotton harvest. The government's declared economic policy prioritizes the attraction of private investments through improvement of Uzbekistan's business climate, privatization, and liberalization of foreign trade. Unfortunately, external factors now add uncertainty and pose increased risk to the country's economic outlook. The Russian war in Ukraine has affected the political and economic landscape of the region, and the full long-term impact is yet to be understood. For now, this has already resulted in a fall in Uzbekistan's forecast 2022 GDP growth from 6% to 3.5-4%. Russia and Ukraine were Uzbekistan's largest and ninth largest trading partners in 2021. Remittances constituted 12% of Uzbekistan's GDP in 2021, with 70% of them coming from Russia. Uzbekistan has also been actively attracting Russian investment capital: the largest state industrial and energy companies of Uzbekistan have signed several billion-dollar loan agreements and MOUs with Russian state banks to finance their projects in the last few years. The status of these agreements may be at risk now that Russian aggression has triggered western sanctions on Russian banks, though as of June 22, Uzbekistan's soum was being traded on the Moscow stock exchange.

Fitch Ratings affirmed Uzbekistan's outlook as stable in April 2022, while S&P and Moody's have not updated their respective stable and positive outlooks on the country since summer 2021. In May 2021, Deputy Prime Minister and Minister of Economic Development and Poverty Reduction Jamshid Kuchkarov declared that the government had set its goal to increase per capita GDP from the current $1,700 to $2,500 by 2025, and $4,200 by 2030.

Uzbekistan's economy demonstrated the growth of 7.4% in real terms, with GDP rising to 734.6 trillion Soum ($69.2 billion) in 2021. Measured in U.S. dollars, nominal GDP increased by 15.5%. A robust 7.4% GDP expansion came primarily from the service (3.3%) and manufacturing (2.2%) sectors. The soum, Uzbekistan's national currency, depreciated by 3.4% against the U.S. dollar. Uzbekistan's international reserves grew only by $0.2 billion, reaching $35.1 billion, while external debt rose by $5.4 billion (16%). Annual inflation remained double-digit in 2021: the GDP deflator was 13.6% and consumer price inflation was 10.8%, compared to a 2020 baseline. The Central Bank expects 12-14% inflation in 2022 due to supply side factors and food price pressures mainly caused by the Russian invasion of Ukraine. The key rate hike from 14% to 17% in March 2022 should help it cope with the risk of excessive inflation.

Despite the fallout from the war in Ukraine, Uzbekistan is expected to grow by 5.3 percent in 2022. The medium-term outlook remains positive, as ongoing economic reforms are expected to continue to invigorate private sector led growth.

Uzbekistan has pursued an ambitious initial set of trade and price liberalization reforms in recent years. However further reforms are needed to continue to spur productivity, private sector-led growth, and job creation. The focus should shift to addressing weak factor markets, high trade and transit costs, dominant state-owned enterprises, the weak regulatory environment, and further strengthening market incentives and sustainability in agriculture and across the economy.

The government recognizes the need for a more inclusive transition. According to the new national poverty line, about 17 percent of the population lived in poverty in 2021. The recent reform efforts to expand coverage and strengthen the targeting of social assistance will be key to supporting those who may otherwise fall behind.

Table 1. General statistics of Uzbekistan in 2021

Country Context, Uzbekistan, 2021[1]	
Population, million	35.0
GDP, current US$ billion	69.2
GDP per capita, current US$	1,980.2
Life Expectancy at Birth, years	71.8

Uzbekistan's GDP grew by 5.4 percent in the first half (H1) of 2022, led by strong remittances, exports, and investments. Exports (in US$) grew by 40.5 percent year-to-year. Non-gold exports were 22.5 percent higher. Imports expanded by 27.4 percent.

Net remittance inflows doubled as a share of GDP in H1 to 16.7 percent due to favorable exchange rate movements with the Russian Ruble and more labor migrants going abroad. These drivers narrowed the current account deficit to just 1.4 percent of GDP in H1 2022, compared with 4.8 percent in H1 2021.

[1] https://www.worldbank.org/en/country/uzbekistan/overview

The World Bank's financial and analytical support to Uzbekistan has grown substantially since 2017, bolstering the Government's efforts to implement a comprehensive program of market reforms.

As of October 1, 2022, the World Bank's country program in Uzbekistan consisted of 27 projects, with net commitments totaling around US$4.76 billion. These include loans from the International Bank for Reconstruction and Development (IBRD) for US$1.75 billion and concessional credits from the International Development Association (IDA) for roughly US$3.01 billion.

These projects provide support in critical areas, such as macroeconomic reforms and the modernization of agriculture, water resource management, water supply and sanitation, energy, transport, health, education, social protection, urban and rural infrastructure, national innovation, tax administration, statistical and financial systems, and more. They also help in the mitigation of the health, social, and economic implications of the COVID-19 pandemic.

The World Bank's project portfolio in Uzbekistan is complemented by a comprehensive program of technical assistance and advisory and analytical services provided to the government. The current program includes inputs to the national strategies in health, social protection, and land management, as well as technical assistance activities supporting reforms in agriculture, energy, aviation, tax administration, banking sectors, trade facilitation, and poverty reduction.

The fiscal deficit declined from 5 percent of GDP in H1 2021 to 4.2 percent in H1 2022. International reserves increased to US$35.6 billion, equivalent to 11 months of imports.

Higher costs of food, fuel, and logistics drove CPI inflation up to 12.3 percent in June 2022, compared with 10.9 percent in June 2021. While the banking system remains resilient overall, non-performing loans spiked from 2 percent in end-2020 to 6.2 percent in August 2021, but gradually decreased to 4.9 percent in H1 2022.

Poverty declined from 17 percent in 2021 to 15.7 percent in 2022. The unemployment rate fell to 8.8 percent in H1 2022.

In Uzbekistan, growth is expected to slow to 5.3 percent in 2022. Increased logistical challenges linked to the sanctions imposed on Russia will dent private consumption growth. Private investment and exports will grow strongly, and the current account balance will improve due to strong global commodity prices and increasing remittances. FDI is not expected to pick up in 2022, with the trade deficit to be financed largely by official borrowing.

The fiscal deficit will decline from 6.2 percent of GDP in 2021 to 4.4 percent in 2022 – higher than the 2022 budget target of 3 percent of GDP, due mainly to higher social protection and infrastructure spending. An anticipated fiscal consolidation by 2023 is to be delayed due to a prioritized social protection spending increase in response to pressure from rising food prices.

Poverty will reduce to 14.5 percent in 2023 and 12.2 percent in 2024. Public debt and total external debt will gradually fall to 32 and 55 percent of GDP, respectively, by end-2024.

Risks to the outlook are titled to the downside, including a prolonged war in Ukraine, further sanctions on Russia, and tighter global financial conditions. Potential positive surprises include higher global commodity prices and stronger productivity growth arising from ongoing structural reforms.[3]

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