UZBEKISTAN

Table 1	2018
Population, million	32.3
GDP, current US$ billion	49.7
GDP per capita, current US$	1535
School enrollment, primary (% gross)[a]	101.0
Life expectancy at birth, years[a]	71.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2016)

Economic growth was 5.1 percent in 2018 due to strong investment growth in industry and infrastructure . Despite a projected external weakening, Uzbekistan's medium-term outlook remains favorable as market reforms address production bottlenecks and liberalize high-potential growth sectors of the economy.

Recent developments

Economic growth in 2018 accelerated reflecting the high growth in industry and construction. Agricultural production was disappointing due to unfavorable weather and water shortages. Domestic demand remained robust in 2018 due to strong domestic investment growth (18.1 percent), supported by large increases in government lending to fund capital investments of state-owned enterprises (SOEs). Annual inflation averaged 17.9 percent in 2018 mainly due to the effects of the 2017 exchange rate unification, wage increases, and the removal of administrative price controls.

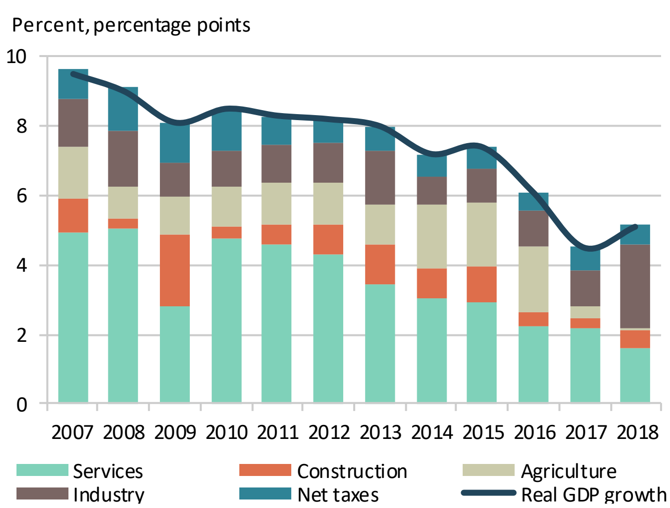
Import spending rose sharply in 2018 (up 25.8 percent year on year) due to large capital imports by SOEs. Export growth was weaker at 10.7 percent. A more competitive real exchange rate and removal of export controls helped textile and food exports, which grew by 41.4 and 25.3 percent, respectively. Car exports declined by 39.7 percent due to weaker demand and supply bottlenecks. Commodity exports of gas and metals grew by 65.8 percent and 27.6 percent, respectively. Gold exports, however, declined by 10.8 percent due to lower global prices in 2018. As a result, the current account moved from years of surplus to a deficit of 8.1 percent of GDP in 2018, financed by a drawdown in reserves and from external creditors. The real effective exchange rate depreciated by about 10 percent in 2018 due to the exchange rate unification in late 2017, and since then a depreciation of the som against major currencies.

In response to inflationary pressures, authorities raised the policy (refinancing) rate by 2 percentage points (from 14 to 16 percent) in September 2018. The effects of this increase were dampened by the increase in government-directed lending, which drove annual domestic credit growth of 50.8 percent in 2018.

Total government expenditure as a share of GDP, including directed lending, rose to 35.7 percent of GDP in 2018 (from 31.5 percent of GDP in 2017). Central government expenditures grew by 3.7 percent of GDP due to an expansion in public investment and reform-related social spending initiatives. A surge in extra-budgetary government lending to SOEs of 5.1 percent of GDP compounded this increase. A push to improve tax collection and administration helped to partially offset these expansions, leading to an overall fiscal deficit of 2.5 percent of GDP in 2018 (compared to a deficit of 2.1 percent of GDP in 2017).

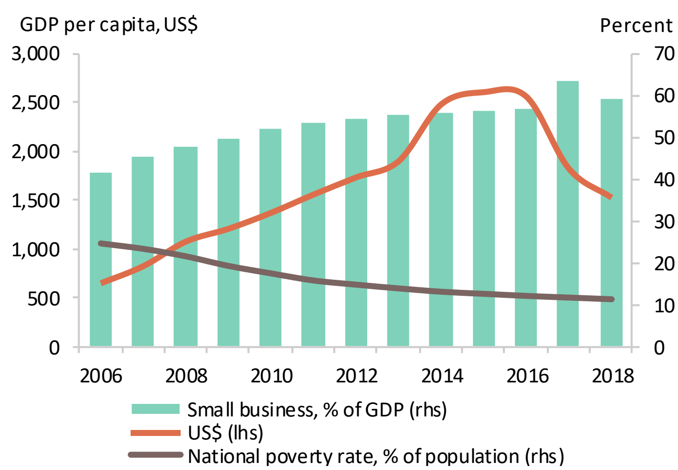
The banking sector remains well-capitalized and stable. Large capital injections by the Uzbekistan Fund for Reconstruction and Development in 2017 and 2018 have helped banks remain well capitalized after the foreign exchange unification in late 2017, despite rapid credit growth in 2018. At end-2018 the capital adequacy ratio stood at about 16 percent. Non-performing loans were low at 1.3 percent of gross loans, mainly due to the recent restructuring of debts from energy SOEs to state-owned banks.

FIGURE 1 Uzbekistan / Real GDP growth and contributions to real GDP growth



Source: Uzbekistan official statistics.

FIGURE 2 Uzbekistan / Poverty, GDP per capita, and small business development



Sources: Uzbekistan official statistics. Due to the lack of data access, the World Bank cannot validate the official figures.
Note: Poverty line is national data based on minimum food consumption at 2,100 calories per person per day and excludes non-food items.

The official poverty rate, which stood at 11.9 percent in 2017, is estimated to have declined to 11.5 percent in 2018. Estimates of PPP adjusted poverty rate at the LMIC line was 9.6 percent in 2018. The official unemployment rate was 9.3 percent in the last quarter of 2018. Unemployment was 17 percent among youth (16-25 years old) and 12.9 percent among women in 2018. According to official statistics, 59.3 percent of the total employed in the economy were employed in the informal sector in 2018. Since September 2018, income growth among the B40 has been driven by increased remittances and a 30 percent nominal increase in social protection payments in 2018. Poor and B40 households consistently cite local labor market conditions as their most pressing economic concern. Government public works and employment programs were expanded in 2018.

Outlook

Despite a slowdown relative to historical averages, Uzbekistan's economic outlook remains positive, with growth projected at 5.3 in 2019 and converging to around 6 percent by 2021. Market reforms are expected to address production bottlenecks and liberalize high-potential growth sectors of the economy, such as horticulture, tourism, food processing, textile, and chemicals. These will be supported by a significant reduction in 2019 of the business tax burden. Inflationary pressures will persist in 2019–20 due to further price reforms and wage increases, but the effects are expected to moderate by 2021. The current account is expected to moderate from its 2018 level but remain in deficit as the economy continues increasing imports of capital and machinery to modernize production. This is expected to be financed by increased donor support and a gradual increase in FDI. External buffers are expected to remain comfortable over the medium-term, with forex reserves at over 13 months of import cover. Gross external debt is expected to slightly decline by 2020 to about 39 percent of GDP, while total public debt is expected to increase to about 29 percent of GDP.

Central government budget (excluding policy-based lending) is expected to shift from a surplus to a small deficit of about 1 percent of GDP over the medium-term due to the significant reductions in excise, income and payroll tax rates, and increased spending to maintain public investments, pensions, and low-income allowances. The government is expected to curtail directed lending in the economy to maintain fiscal discipline. Steady economic growth and remittance income are expected to contribute to a modest pace of poverty reduction. Changes in government policies may further expand support programs to the poor and vulnerable households and reduce poverty. For 2019 the government has increased the budget allocation for social protection by 50 percent.

Risks and challenges

Uzbekistan's economy remains reliant on a state dominated economic model and on traditional trading partners that face heightened external risks over the medium term (for example, the Russian Federation). While market reforms have begun to address these issues, the next phase of reforms aims to tackle more complex issues such as SOEs and the financial sector, agricultural reforms, and the privatization of non-agricultural land. These reforms are critical to economic transformation and to sustaining growth and job creation. They also carry significant economic and social risks that will need to be carefully monitored and managed.

TABLE 2 Uzbekistan / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	6.1	4.5	5.1	5.3	5.5	6.0
Private Consumption	1.4	1.3	3.5	3.6	3.8	4.0
Government Consumption	3.8	6.6	1.5	1.4	2.3	2.6
Gross Fixed Capital Investment	4.1	19.4	18.1	15.3	10.2	10.1
Exports, Goods and Services	7.9	1.3	10.7	8.2	2.2	2.5
Imports, Goods and Services	-2.2	18.7	25.8	18.4	7.1	6.8
Real GDP growth, at constant factor prices	6.1	4.5	5.1	5.3	5.5	6.0
Agriculture	6.2	1.2	0.3	2.9	3.2	3.4
Industry	5.9	5.4	10.4	6.4	6.3	6.7
Services	6.2	6.0	4.7	5.9	6.3	7.0
Inflation (Private Consumption Deflator)	8.0	12.5	17.9	14.8	14.1	11.0
Current Account Balance (% of GDP)	0.3	1.4	-8.1	-7.8	-6.3	-5.7
Fiscal Balance (% of GDP)	-0.6	-2.1	-2.5	-2.0	-2.1	-2.1
Debt (% of GDP)	10.5	24.1	24.4	28.1	29.0	28.5
Primary Balance (% of GDP)	-0.6	-2.0	-2.1	-1.5	-1.6	-1.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.