At a Glance

- During the past two years, Uzbekistan has made significant progress on advancing market-oriented economic reforms. Those reforms that can be implemented administratively have already been achieved, including the elimination of foreign exchange controls.

- The Government’s chief priority now is to maintain the impressive pace and scope of reforms while maintaining social stability and sustainable economic growth.

- Economic growth in the country is projected to be 5.3 percent in 2019, converging to about 6 percent by 2021.

- Reductions in tax rates and reforms to liberalize high-potential growth sectors, including horticulture, food processing, tourism, textiles, and chemicals, are expected to contribute to higher growth over the medium term.

Country Context

The Government’s reform agenda is focused on the implementation of the five-year development strategy for 2017–21, which is designed to achieve greater economic, social and political openness and build a competitive and market-oriented economy in Uzbekistan.

In January 2019, the Government adopted a 2019–21 “Reform Roadmap,” developed with World Bank support, that outlines how the country will achieve its social and economic goals over the medium term.

The Government intends to implement a comprehensive program of reforms covering five focus areas:

(i) maintaining macroeconomic stability; (ii) accelerating the transition to a market economy; (iii) strengthening social protection and citizen services; (iv) transforming the Government’s role in the market economy; and (v) preserving environmental sustainability.

The long transition process has only just begun for Uzbekistan and the challenges are likely to get more complex.

Many of these reforms, such as restructuring state-owned enterprises (SOEs) and the banking sector, creating a more level playing field between state-owned and private enterprises, implementing land reforms, and developing more accountable public institutions, are also likely to be politically problematic.

The maintenance of a stable macroeconomic environment is clearly critical to the next phase of reforms.
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 FY2016–20.

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 human capital, including the development of the health and education sectors.

Key Engagement

As of April 1, 2019, the World Bank portfolio in Uzbekistan consisted of 20 projects, with net commitments totaling US$3.52 billion (including International Bank for Reconstruction and Development [IBRD], US$1.34 billion and International Development Assistance [IDA], US$2.18 billion) in water, agriculture, transport, energy, education, health, and urban development.

Today, the World Bank’s country program in Uzbekistan is among the three largest in the Europe and Central Asia region, along with Turkey and Kazakhstan.

The Bank’s investment portfolio in Uzbekistan is complemented by a comprehensive program of technical assistance delivered jointly with the International Finance Corporation (IFC). The current program includes core diagnostics work, such as a Public Expenditure Review, a Public Expenditure and Financial Accountability assessment, and sector strategies for agriculture, education, transport, energy, and water; it also includes specialized tasks that are needed to support reforms in tax policy and administration, the banking sector, the trade and investment climate, poverty and vulnerability mapping, and citizen engagement.

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 have grown substantially since 2016 and bolster the Government’s efforts to implement a comprehensive program of reforms toward Uzbekistan’s transition to a market economy.

Currently, IFC manages a US$61 million investment portfolio, including projects in the financial and textile sectors. IFC’s advisory services have been implementing seven projects designed to assist the country in privatizing SOEs, transforming the cotton sector, developing and diversifying the financial market, promoting energy efficiency in the chemical sector, and piloting public-private partnership transactions in the renewable energy and health sectors.

The Multilateral Investment Guarantee Agency (MIGA) is actively exploring opportunities for utilizing political risk insurance guarantees for eligible cross-border investment projects in Uzbekistan. At present, MIGA has no outstanding exposure in the country.

WORLD BANK PORTFOLIO

<table>
<thead>
<tr>
<th>No. of Projects: 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending: $3.519 Billion</td>
</tr>
<tr>
<td>IBRD: $1.343 Billion</td>
</tr>
<tr>
<td>IDA: $2.126 Billion</td>
</tr>
</tbody>
</table>

Public Expenditure and Financial Accountability assessment, and sector strategies for agriculture, education, transport, energy, and water; it also includes specialized tasks that are needed to support reforms in tax policy and administration, the banking sector, the trade and investment climate, poverty and vulnerability mapping, and citizen engagement.

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 have grown substantially since 2016 and bolster the Government’s efforts to implement a comprehensive program of reforms toward Uzbekistan’s transition to a market economy.

Currently, IFC manages a US$61 million investment portfolio, including projects in the financial and textile sectors. IFC’s advisory services have been implementing seven projects designed to assist the country in privatizing SOEs, transforming the cotton sector, developing and diversifying the financial market, promoting energy efficiency in the chemical sector, and piloting public-private partnership transactions in the renewable energy and health sectors.

The Multilateral Investment Guarantee Agency (MIGA) is actively exploring opportunities for utilizing political risk insurance guarantees for eligible cross-border investment projects in Uzbekistan. At present, MIGA has no outstanding exposure in the country.
Recent Economic Developments

Economic growth accelerated to 5.1 percent in 2018, reflecting the high value-added growth in the industry and construction sectors. Domestic demand remained robust due to the strong 18.1 percent growth in domestic investment, supported by large increases in government lending to capital investments in SOEs.

Total lending that went to capital modernization also contributed to a 26 percent increase in imports compared to 2017, half of which was the import of capital goods. After years of surplus, the increase in imports, combined with only a modest increase in exports, contributed to a large current account deficit in 2018 totaling around 8 percent.

Despite an increase in revenue collections, the Government’s large lending to SOEs also contributed to an overall fiscal deficit of 2.5 percent of GDP in 2018.

Annual inflation remained high, averaging 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.

The banking sector remains well capitalized and stable primarily because of large capital injections from the Uzbekistan Fund for Reconstruction and Development. World Bank estimates of the poverty rate (using the lower-middle-income country poverty line adjusted for purchasing power parity) was 9.6 percent in 2018. The official unemployment rate by the end of 2018 was 9.3 percent.

Economic Outlook

Economic growth is projected to be 5.3 percent in 2019 and to converge to about 6 percent by 2021. Reductions in tax rates and the implementation of reforms to liberalize high-potential growth sectors of the economy, including horticulture, food processing, tourism, textiles, and chemicals, are expected to contribute to higher growth over the medium term.

Inflationary pressures are expected to persist over the medium term as a result of further market reforms and wage increases. Inflation is expected to moderate by 2021.

The current account balance on the balance of payments is projected to remain in deficit due to high capital and machinery imports to modernize production in the economy. This will be financed by donor support, external borrowing, and a gradual increase in foreign direct investment. External buffers will remain comfortable, with foreign exchange reserves covering about 13 months of imports.

Total public debt is expected to remain low and sustainable, increasing to about 29 percent of GDP over the medium term.

Steady economic growth, income from remittances, and the recent expansion of support programs to the poor are expected to contribute to further poverty reduction over the medium term.
Project Spotlight

Supporting Reforms in Uzbekistan’s Health Care Sector

For the past 20 years, the World Bank has been supporting the development of the health sector in Uzbekistan. In 1998–2011, the Health I and Health II projects helped to improve the quality and cost-effectiveness of primary health care services, launch 10-month doctor retraining courses on general practice and family medicine, and strengthen the capacity of the public health care system.

The Health System Improvement Project (Health III) has been running since 2012. It focuses on the development of secondary health care services through investing in medical equipment for hospitals across the country, improving the clinical service management of priority noncommunicable diseases (NCDs), and financing hospitals.

Selected results achieved under the Health III project include:

• Over 500 medical facilities have improved the quality of services thanks to the provision of modern diagnostic and treatment equipment.

• The capacity of health personnel and the quality of services has been improved through the introduction of 22 new treatment standards for NCDs.

• Over 3,000 doctors have completed 10-month general practitioner training, and 11,600 general practitioners and 28,500 nurses have undergone training as part of their continuous professional development.

• The first World Health Organization STEPwise instruction on NCD risk factor surveillance (STEPS) has been conducted.