The World Bank in Uzbekistan

Country Snapshot

An overview of the World Bank's work in Uzbekistan

April 2017

UZBEKISTAN	2016
Population, million	31.5
GDP, current US$ billion	67.1
GDP per capita, current US$	2,126
School Enrollment, primary (% gross) (2015)	105
Life Expectancy at birth, years (2015)	68.1

At a Glance

- Uzbekistan's economy has grown rapidly over the past decade and lifted significant parts of the population out of poverty. Increased exports of gas, gold, and copper, combined with high commodity prices, have generated revenues that have financed large increases in investment and salaries to bolster consumption.

- The continued recession in Russia—Uzbekistan's second-largest trading partner and its primary source of remittances—slowing growth in China (Uzbekistan's largest trading partner), and declining prices of Uzbekistan's export commodities (natural gas, copper, and cotton) contributed to a slight reduction in the country's GDP growth in 2016. This challenging external environment suggests that Uzbekistan will need to find new drivers for economic growth in the future.

- The World Bank works with the Government of Uzbekistan to create conditions to accelerate private sector growth, raise agricultural competitiveness, and promote cotton sector modernization, as well as to improve public service delivery.

Country Context

A presidential election was held in Uzbekistan on December 4, 2016, following the death of the former President, Islam Karimov. The Prime Minister of Uzbekistan from 2003 to 2016, Shavkat Mirziyoyev, won the election with 88.6% of the vote.

Uzbekistan's economy has grown rapidly over the past decade and lifted significant parts of the population out of poverty. Increased exports of gas, gold, and copper, combined with high commodity prices, have generated revenues that have financed large increases in investment and salaries to bolster consumption However, commodity export volumes will likely plateau, and world prices are not expected to return to the levels of the past decade anytime soon. Uzbekistan will need, therefore, to find new drivers of economic growth in the future. The country's reform agenda needs to put the economy on a more sustainable path of income growth and job creation.

Uzbekistan's GDP growth slowed down marginally in 2016. The impact of lower commodity prices and the weak economic performance of the country's largest trading partners were offset by the Government's countercyclical fiscal and monetary policies. The current and fiscal accounts remain positive. Migrants returning from Russia and reduced remittances are nevertheless expected to put pressure on the labor market and to slow the pace of poverty reduction in the medium term.

Uzbekistan needs to foster a business climate conducive to private investment that will support SMEs, as well as large companies, in order to create high-quality jobs and increase exports, while ensuring environmental sustainability and inclusive growth.

The World Bank and Uzbekistan

The World Bank Group's (WBG) Country Partnership Framework (CPF) for FY16–20 is aligned with Uzbekistan's goal of achieving upper-middle-income status by 2030 by increasing the economy's competitiveness, improving the business environment, and developing the infrastructure to support rapid job creation.

The new framework is underpinned by the Systematic Country Diagnostic (SCD) for Uzbekistan. Quality job creation emerged as a central, cross-cutting theme of the diagnostic. The CPF for Uzbekistan focuses on three priority areas: private sector growth, agricultural competitiveness and cotton sector modernization, and improved public service delivery.

A special focus for future analytical work will be areas where the Government has made strong statements of principle but where specific actions, sequencing, and the pace of reform remain to be determined. These include: (i) reducing the role of the state in the economy; (ii) improving access to and the quality of economic, labor, and household data; (iii) expanding private sector participation in the economy and improving Doing Business rankings; and (iv) transforming and modernizing agriculture, including the cotton subsector.

Key Engagement

Uzbekistan joined the World Bank in 1992. Since then, the Bank has provided financing for 27 projects through the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) and 30 technical assistance programs through grants.

Bank financing remains focused on infrastructure investments such as the US$195 million IBRD loan for the Pap-Angren Railway Project and the US$200 million IDA credit for the Regional Roads Development Project. This financing program is appropriate for meeting the large demand for this kind of investment, improving the competitiveness of the economy, and providing the required linkage between policy and investment.

WORLD BANK PORTFOLIO

No. of Projects: 15
Lending: $1.9 Billion
IBRD: $800 Million
IDA: $1.1 Billion

International Finance Corporation (IFC) investments are expected to increase over the five-year CPF period. Amounts will depend on the Government's progress in moving the economy from state-dominated to private sector–led growth, reforms to further improve the investment climate and the business environment, and the growth outlook in Uzbekistan's main commercial partners.

Fifteen IBRD/IDA investment projects worth US$1.9 million are currently under implementation, in addition to two Global Environment Facility (GEF) and Global Partnership for Education (GPE) grant-financed projects worth US$62.6 million.

Uzbekistan's agriculture sector has considerable potential to improve productivity and growth by being a critical source of rural employment and an important driver of poverty reduction. In this regard, agricultural competitiveness and the modernization of the cotton subsector is one of the three CPF focus areas for analytical, technical, and financial support. As part of the strategic policy dialogue with the Government, the Bank also collaborates closely with the International Labour Organization (ILO) on monitoring current labor practices in the cotton sector, and helping the country to adopt a holistic approach to agricultural sector performance.

The World Bank also partners with the Government of Uzbekistan on an energy sector modernization program aimed at increasing the efficiency of infrastructure and the reliability of supply needed for robust and sustainable economic development.

Recent Economic Developments

Uzbekistan's political transition is now complete, with both a new president and new government in place in January 2017. GDP growth slowed marginally to 7.8% in 2016 from 8% in 2015, according to official statistics. Growth was supported by the expansion in services (12.5%), agriculture (6.5%), and industry (5%), led by the newly adopted development programs for 2016–20 on infrastructure, industry, agriculture, and the services sectors, including tourism.

On the demand side, the main driver of economic growth was investment, which grew at 9.5% per annum. Private consumption recovered in 2016 following a considerable slowdown in 2015, owing to increases in public sector wages, pensions, and social allowances. Remittances were below their 2015 level throughout 2016 but started to recover in the fourth quarter of 2016 by around 8% year-on-year (y-o-y).

Uzbekistan's exports grew in 2016 despite the weak external environment, reversing the negative trend of the previous three years. A small improvement in total exports (0.5%) was driven by improvements in exports of chemicals, machinery, gold, and services that offset the declines in gas, metals, and cotton. Uzbekistan's imports declined (mainly energy, food, and consumer durables).

Uzbekistan's monetary and exchange rate policies were largely unchanged in 2016. Inflation remained stable from 2015 (at about 8.5%). The Central Bank of Uzbekistan's refinancing rate was maintained at 9% in 2016 (i.e., slightly positive in real terms), helping total banking deposits to grow by 27.5% (y-o-y) in the first nine months of 2016, and total banking loans to grow by 25.7% (y-o-y).

Nonperforming loans (NPLs) appear to have remained relatively stable at 0.4% according to CBU estimates. Moody's assessed NPLs at 4–5% in August 2016.

The official poverty rate declined from 14.1% in 2013 to 12.8% in 2015 and an estimated 12.5% in 2016. The distribution of income has become more equitable over time, and the official Gini coefficient fell from 0.39 in 2001 to 0.29 in 2013. However, the unemployment rate was at 5.2% in both 2016 and 2015, an increase from 4.9% in 2014.

Economic Outlook

Uzbekistan's growth outlook is predicated on continued robust domestic investment supported by the allocation of fiscal resources (including from the UFRD) and a gradual recovery of commodity prices, remittances, and private consumption growth. Annual GDP growth is projected to slow slightly—from 7.8% in 2016 to an average 7.7%—over the medium term.

The fiscal balance will recover modestly but will not reach pre-2015 rates. Although currency weakening will support growth, monetary policy is expected to be broadly accommodative but somewhat more restrained than in previous years, aiming at a gradual reduction in the inflation rate.

As the external environment gradually recovers, Uzbekistan's external accounts could improve modestly over time, including under the current policy of tight foreign exchange controls to contain import growth.

Although data limitations do not allow for poverty projections, an increased income growth and revival of remittances could help sustain the progress in reducing unemployment and poverty over the near term.

Project Spotlight


View of the Talimarjan Thermal Power Station, 2016.

Recognizing that reliable and stable access to a power supply is a key factor for business development, the Government of Uzbekistan has committed to achieving the following strategic objectives in the power sector: expanding and modernizing the power system to provide a reliable electricity supply to end users; improving efficiency through the entire chain of power delivery from generation to distribution, given the high energy intensity of the economy; reducing the environmental footprint of the energy sector; and developing opportunities for exporting power to other countries, both in the region and in South Asia.

The Talimarjan Transmission Project supported by the World Bank aimed to improve the reliability of the electricity supply to residential and business consumers in southwestern Uzbekistan. It included the addition of two new combined-cycle gas turbine units to generate more power (financed by the Asian Development Bank, the Japan International Cooperation Agency, and local investments) and also the construction of a new high-voltage power transmission line.

These additions have reduced power transmission losses and increased power supply reliability. Electricity outages in the project area have been reduced from 92 to 24 hours per year, with the voltage variation range cut in half.

Today, over 4 million people in four southwestern regions of Uzbekistan, along with thousands of enterprises, enjoy a more reliable power supply. Robust operation of the plant and the commissioning of new facilities have created opportunities to implement promising large and small business projects and further strengthen the country's energy export potential.

The Project has also developed a wind atlas for the entire country and assessed Uzbekistan's wind potential to help promote the use of renewable energy.

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