At a Glance

- In February 2017, the Government presented its Strategy of Actions for the Development of Uzbekistan for 2017–2021, setting out a number of political, economic, and social goals for the next five years.

- The authorities have already taken steps to liberalize the economy, namely, the September 2017 adjustment of the official exchange rate to have it converge with the curb market rate.

- Foreign exchange reform needs to be accompanied by complementary structural reforms to ensure the adequate functioning of markets, which can then support the more efficient allocation of resources to increase productivity and job creation.

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

Country Context

In 2004–16, Uzbekistan’s economic growth was rapid and lifted significant parts of the population out of poverty. The development of small-sized private businesses in all sectors of the economy created most of the jobs, which contributed to private income growth and poverty reduction. Increased exports of gas, gold, and copper, aided by high commodity prices, generated state budget revenues that financed large increases in investment and salaries to bolster consumption.

However, declining world commodity prices in 2013–16 and the weak economic performance of China and Russia adversely affected Uzbekistan’s business exports, as well as state budget revenues and household income. This prompted Uzbekistan to switch to domestic demand as the main driver of economic growth during this period.

The impact of the deteriorated external environment was largely offset by the Government’s countercyclical fiscal and monetary policies, such that GDP growth slowed only marginally from 8.1% in 2014 to 7.8% in 2016.

In February 2017, the Government adopted and began implementing its Strategy of Actions for the Development of Uzbekistan for 2017–2021, which outlined its political, economic, and social priorities, including measures to liberalize the economy.

On September 5, 2017, the authorities linked the official exchange rate with the curb market rate and established a framework to allow it to flow. To ensure productivity growth and job creation, the liberalization of the foreign exchange market needs to be accompanied by other structural reforms to promote private investment while ensuring environmental sustainability and inclusive growth.
The World Bank and Uzbekistan

The World Bank Group’s 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 for Uzbekistan, which pinpointed quality job creation as a central, cross-cutting theme. The CPF 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. As of September 2017, the Bank had provided funding for 37 projects financed by the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) and sponsored more than 50 technical assistance programs via grants.

The Bank’s funding is currently focused on infrastructure investments in the agriculture, water, energy, transport, health, and education sectors. 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.

Sixteen IBRD/IDA investment projects, spread across seven sectors and worth US$1.96 billion, 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 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 on monitoring labor practices in the cotton subsector and helping the country to adopt a holistic approach to agricultural sector performance.

As of September 2017, the International Finance Corporation (IFC) had a committed portfolio in Uzbekistan of US$53.6 million invested in eight projects in the financial sector and manufacturing. IFC’s advisory services program is helping the country develop its financial markets and infrastructure, expanding access to finance, upgrading the credit information sharing system, promoting food safety, and increasing water and power efficiency. IFC has launched a new six-year advisory program in Uzbekistan, focusing on developing a sustainable cotton supply chain and on introducing modern, socially and environmentally sound cotton growing technologies and farming practices.

The Multilateral Investment Guarantee Agency (MIGA) program in Uzbekistan is limited to the Khauzak-Shady Block and Kandym Field Group project to cover a non-shareholder loan to LUKOIL Overseas Uzbekistan Ltd. This is a US$119.5 million guarantee for a period of up to seven years against the risks of transfer restriction, expropriation, breach of contract, and war and civil disturbance. The project’s benefit includes significant direct and indirect employment.
Recent Economic Developments

Uzbekistan’s GDP growth slowed down to 7% year-on-year (y-o-y) in the first half of 2017 from 7.8% in the first half of 2016, as per official statistics. Key drivers of this still robust rate were services, agriculture, and industry, which were supported by their corresponding 2016–20 sectoral development programs.

On the demand side, the main driver of economic growth was investment, including a large public investment program to support real sector development in 2015–19 as well as private and state-owned enterprise (SOE) investments. However, real investment growth slowed to 8.3% y-o-y in the first half of 2017 from 11.8% y-o-y in the first half of 2016.

Private consumption increased slightly in real terms in the first half of 2017 due to stable income growth (despite the acceleration in food price inflation) and a recovery of remittances inflows, which rose by about 30% y-o-y in U.S. dollar terms in the same period. The current account and state budget balances remained in small surpluses in the first half of 2017.

Monetary and exchange rate policies remained largely unchanged in the first half of 2017, helping total banking loans to grow by over 40% y-o-y in that period. On June 28, 2017, the Central Bank of Uzbekistan (CBU) rate was raised from 9 to 14%, given the higher inflation observed since late 2016. Nonperforming loans remained stable at 0.4% in August 2017 as per the CBU estimate, or 2.0–2.5% according to Moody’s estimate.

On September 5, 2017, the CBU allowed the official exchange rate to adjust from UZS4,210 to UZS8,100 per U.S. dollar, helping the official rate to converge with the curb market rate. The existing restrictions on convertibility were removed, widening the private sector’s participation in the foreign exchange market.

The official poverty rate declined from 12.8% in 2015 to an estimated 12.4% in 2016. However, the official unemployment rate was at 5.2% in the first half of 2017, the same as in 2016.

Economic Outlook

The outlook is predicated on the implementation of the reform agenda, including exchange rate convertibility. If accompanied by complementary market-oriented reforms, this will be an important step in reducing market distortions and encouraging private investment in the economy. Fiscal policy will likely be less expansionary than in the past to help rein in inflation, with budget spending geared toward mitigating the impact of the exchange rate adjustment on the vulnerable population, supporting critical SOEs, and sustaining the public investment program.

On the other hand, monetary policy is expected to be more restrained than in previous years, with the aim of containing inflation from trending up. Meanwhile, a pickup in global prices on the main Uzbek export commodities (e.g., gas, copper, and cotton) in 2017–18 will help reduce the negative trade balance, and the improvement in net remittances will keep the current account in small surplus.

The World Bank’s baseline scenario projects a moderation of growth down to 6.2% for 2017 as investment growth is slowing, and 5.6% in 2018 as transitional adjustments take place. This is due to persistent uncertainties and the fact that remaining rigidities in the economy may not allow for a sufficiently rapid adjustment to take advantage of a more competitive exchange rate.

Higher growth should rebound over the medium term (up to 6.3% in 2019), as sustained reform implementation in the second half of 2018 gradually becomes more entrenched, reducing uncertainty and supporting private investment and a pickup of net exports. Private investment is expected to grow faster in the medium term, including foreign direct investment (FDI), which also means a higher outflow of dividends on FDI on the current account balance.

Although data limitations do not allow for poverty projections, it is expected that increased income growth and a revival of net remittances by 2019 will continue the progress made in reducing unemployment and poverty over the near term.
Project Spotlight

Improving Pre-Primary and General Secondary Education Project

In 2011, Uzbekistan's pre-primary enrollment rate of 25% was among the lowest in the world. For the past several years, however, this figure has been increasing as a result of investments in unique programs.

The World Bank is currently implementing the Improving Pre-Primary and General Secondary Education Project in Uzbekistan. It is financed by a grant from the GPE and has two broad objectives. First, it aims to increase access to quality early childhood education and care in rural pre-primary institutions for children aged 3–6 years. Second, it aims to improve conditions for better learning outcomes in students enrolled in rural general secondary education schools.

The project, scheduled for completion in 2019, will significantly improve the delivery of education services in the pre-primary education system. Today, more than 55,000 children aged 5–6 years old from rural areas across the country have enrolled in a half-day program for the first time that was established by the project. By 2019, 98,000 children will benefit from the half-day program. Additionally, more than 71,000 children already enrolled in pre-primary education have benefited from better equipped rural preschools supported by the project.

Children who are out of school will also benefit from the project. Through a home-based early reading initiative, more than 275,000 children aged 3–6 years will be provided with books in the Uzbek, Russian, and Karakalpak languages, thus contributing to their development. By 2019, approximately 500,000 children will benefit from the at-home reading program.

The project’s objectives also included plans to improve learning conditions in general secondary education (grades 1–9). In the coming months, 200,000 education personnel from general secondary education schools will receive training in advanced areas of teaching and education management to enhance their professional skills.

The “Country Snapshot” is a bi-annual update, highlighting the country’s recent developments, economic outlook and major overview of the World Bank’s partnership with the country. You can find the latest updates at http://www.worldbank.org/uzbekistan