

# The World Bank in Uzbekistan

## Country Snapshot



An overview of the World Bank's work in Uzbekistan

April 2018

UZBEKISTAN	2017
Population, million	32.4
GDP, current US\$ billion	48.7
GDP per capita, current US\$	1,504
Life Expectancy at birth, years (2017)	71.1

### At a Glance

- In January 2018, the Government of Uzbekistan adopted its Annual Program of Reforms for 2018 based on the National Development Strategy for 2017–2021.
- Steps taken to liberalize the economy in 2017 and the first quarter of 2018 include opening the foreign exchange market; abolishing the mandatory sale of part of firms' export revenues at the official exchange rate; cutting the average import tariff in half; increasing prices on energy to reduce fiscal transfers and preferential lending to energy state-owned enterprises; promoting market price determination; improving banking sector regulations to comply with international standards; and amending the labor code to expand formal contracts to part-time and temporary workers.
- Despite the progress, however, the challenges ahead are substantial. The Government will have to tackle the complex legacies of the old system and properly manage the reform process.
- The World Bank is working with the Government to accelerate private sector growth, raise agricultural productivity, and improve public service delivery.

### Country Context

Twenty-five years after the collapse of the Soviet Union, Uzbekistan was still a closed, centrally planned economy. With the drivers of the old growth model exhausted, Uzbekistan has launched a process of market-oriented reforms that have surprised observers by their breadth and speed. In December 2016, the administration of the newly elected President Shavkat Mirziyoyev acknowledged the need to transition to a market-oriented economy underpinned by private sector growth. In February 2017, the Government announced a broad market-oriented reform program that included five priority areas: improving public administration and state-building; ensuring the rule of law and judiciary reform; maintaining economic growth and liberalizing the economy; enhancing social safety nets; and ensuring security and implementing a constructive foreign policy. The program also reiterated the authorities' commitment to ensuring macroeconomic stability, and improving the business climate in the country.

An impressive array of institutional reforms to enhance macro-fiscal and financial resilience, create markets, foster private sector participation, and improve the business climate was launched in 2017–18. This included visa liberalization, greater independence for the Central Bank of Uzbekistan (CBU), an assessment of banking sector resilience, the implementation of financial recovery plans in key state-owned enterprises (SOEs), plans to reinstate the previously stalled World Trade Organization accession process, and new legislation to promote competition and public-private partnerships (PPPs). The authorities are working on improving the tax system and tax administration procedures and on creating greater economic data transparency, including by joining the General Data Dissemination Standard (GDDS) of the International Monetary Fund.

## The World Bank and Uzbekistan

The World Bank Group's Country Partnership Framework (CPF) for the period 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.

In February 2017, the Government of Uzbekistan launched a comprehensive reform process with the adoption of the National Development Strategy for 2017–2021. The World Bank's program in Uzbekistan is being adjusted to better respond to the country's new priorities and development vision.

In addition to traditional financial tools, new instruments, such as Development Policy Operations, Program for Results, and Reimbursable Advisory Services, as well as intensive analytical work, are being programmed to support the Government's transformation efforts.

In April 2017, the World Bank Group (WBG) in Uzbekistan launched the Performance and Learning Review (PLR), which marks the turning point in the implementation of the WBG program in Uzbekistan, originally outlined in the Country Partnership Framework (CPF) for the period Fiscal Year 2016-20.

The PLR is designed to introduce changes to the WBG program in response to lessons learned from the CPF implementation and significant changes in the country context and government priorities. The PLR will provide an opportunity to update focus areas, the choice and mix of instruments, and the modalities or criteria for engagement, as necessary.

### Key Engagement

Uzbekistan joined the World Bank in 1992. As of April 2018, the Bank had provided funding for 40 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.

### WORLD BANK PORTFOLIO

No. of Projects: 16  
Lending: \$2.7 Billion  
IBRD: \$1.2 Billion  
IDA: \$1.45 Billion

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\$2.7 billion, are currently being implemented. The World Bank is also administering the Global Partnership for Education (GPE) grant-financed project worth US\$49.9 million.

As of April 2018, the International Finance Corporation's (IFC) total committed portfolio stood at US\$52.7 million for nine projects, with investments in the financial sector and manufacturing. IFC's advisory services program is helping the country to develop its financial markets and infrastructure, expand its access to finance, upgrade the credit information sharing system, promote food safety, and increase water and power efficiency.

IFC has launched a new six-year advisory program in Uzbekistan, focused on developing a sustainable cotton supply chain and on introducing modern, socially and environmentally sound cotton-growing technologies and farming practices in the country.

The Multilateral Investment Guarantee Agency (MIGA) portfolio in Uzbekistan was comprised of guarantees for a project in the oil and gas sector. MIGA had issued a political risk insurance guarantee for US\$119.5 million to BNP Paribas (Suisse) SA of Switzerland to cover a non-shareholder loan to Lukoil Overseas Uzbekistan Ltd. for the Khauzak-Shady Block and Kandym Field Group projects. That guarantee was terminated in FY2017 and no new guarantees have been issued since then.

## Recent Economic Developments

GDP growth slowed to 5.3% in 2017 (from 7.8% in 2016), led by the deceleration in domestic demand. Total investment growth moderated from 9.5% in 2016 to 7.1% in 2017, but remained the main growth engine for the economy.

On the other hand, private consumption declined slightly in real terms due to the pickup in inflation in the consumer price index and despite a recovery in remittance inflows from Russia (which rose by 42% year-on-year in dollar terms in 2017 due to the strengthened economic activity in that country). The recovery in remittances and the stronger trade balance strengthened the current account surplus further in 2017 compared to 2016.

On September 5, 2017, the CBU liberalized the exchange rate, leading the official rate to depreciate by 52% as it converged with the curb rate. The CBU has pursued a managed floating of the currency since that time. The authorities also abolished the mandatory sale of a portion of firms' export revenues to the CBU at the official exchange rate (i.e., widening the participation of the private sector in the foreign exchange market) and cut average import tariffs from 15.6 to 7%.

In preparation for this reform, the CBU raised the policy rate from 9 to 14% in June 2017, curtailing the strong credit expansion that took place earlier in the year and helping stabilize the banking loan-to-GDP ratio at 43.1% in 2017 (compared to 26.6% in 2016).

Nonperforming loans (NPLs) were at 0.79% in the second quarter of 2017 and 1.2% at the end of the year, according to CBU estimates. Moody's assessed NPLs at 2.5% in August 2017. These could increase after the exchange rate unification, given the currency exposures of public enterprises.

The Government also drew from its large fiscal buffers (at the Uzbek Fund for Reconstruction and Development [UFRD], a reserve fund) to cover the debts of the largest banks and public enterprises (particularly in the energy sector) that were affected by the depreciation of the official exchange rate.

As a result, the augmented budget (including state and UFRD activity) incurred a larger deficit of -3.3% of GDP in 2017 relative to the -0.6% of GDP a year earlier.

The official poverty rate declined slightly from 12.5% in 2016 to an estimated 12.4% in 2017. However, the official unemployment rate was 5.8% in 2017, higher than the 5.2% in 2016.

## Economic Outlook

Robust growth is expected to continue at about 5% in 2018–19, but job creation may take longer to pick up, as investments may not return quickly to their pre-2017 level. Fiscal activity (including through UFRD lending) and bank credit are projected to become less expansionary than in the past to help reign in inflation, which is expected to remain elevated as liberalized prices continue to adjust.

Budget spending will be geared toward mitigating the impact of the exchange rate adjustment on the vulnerable population, supporting critical public enterprises to gradually converge toward greater sustainability and cost recovery, and sustaining the public investment program.

Monetary policy is expected to be tighter than in previous years, also aimed at containing inflation from trending up. The current account surplus would narrow as imports continue to rise in the face of trade liberalization, even as exports (both commodities and manufactures) maintain a positive growth and remittances remain solid.

Real GDP growth is projected to accelerate slowly to 5.5% by 2020 as the private business climate improves on the back of the reform process, supporting an acceleration of private investment, including foreign direct investment.

Although data limitations do not allow for poverty projections, increased income growth and the sustained robust net remittances in 2018 are expected to result in some progress on poverty reduction over the near term.

## Project Spotlight

### Horticulture Development Project



2,500 jobs are being created, thanks to loans to farmers and agro-firms in rural areas across Uzbekistan.

Uzbekistan is currently implementing transformational reforms, moving from a state-driven development model to a private sector-led economy, and agriculture is playing a critical role. In 2016, the sector accounted for 17% of GDP, 15% of export revenues, and over one-third of employment.

The Government recognizes the need for the diversification of agricultural production

away from a heavy reliance on cotton to higher value-added production and processing, including fruits and vegetables and livestock, which will lead to better paid jobs in rural areas, greater food security, and increased exports.

The country's horticulture subsector is an especially important source of all-season employment in rural areas. Moreover, horticultural crops generate significantly higher revenues for farmers than wheat and cotton. Fruit and vegetable production accounts for as much as 50% of the value of crop output and over 35% of agriculture export value.

It is estimated that the investment needed to develop the horticulture sector equates to over US\$1 billion. As such, one of the main goals of the **Horticulture Development Project (HDP)** supported by the World Bank is to provide financial and technical support to Uzbek farmers, private enterprises, agro-firms, and agro-processing enterprises to increase productivity and profitability.

Loans allocated by local banks participating in the project have funded business activities across the country, affecting a larger pool of horticultural producers and 12,000 farmers by providing improved access to services and facilities (cold storage, processing) or inputs such as seedlings, fruits, and vegetables (through nurseries and orchards).

So far, a total of 223 loans have been issued across Uzbekistan for a range of investments. It is estimated that they will directly create 2,500 jobs in rural areas, of which around 750 would be for women. In addition to the loans, the sub-borrowers have co-invested US\$52.3 million equivalent of their own funds, bringing the total amount of investments in the agricultural sector to US\$185 million.



#### CONTACTS

Tashkent,  
+998 71 120-2400  
107B Amir Temur Street,  
Block C, 15th floor, 100084,  
Tashkent, Uzbekistan.

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