

# The World Bank in Uzbekistan

## Country Snapshot



An overview of the World Bank's work in Uzbekistan

October 2019

UZBEKISTAN	2018
Population, million	32.3
GDP, current US\$ billion	49.8
GDP per capita, current US\$	1,540
Life Expectancy at birth, years (2018)	71.4

### At a Glance

- Uzbekistan's historic economic transition is entering a new phase that is focused on improving the efficiency of resource allocation in the economy to increase private investment and capacity in new, high-potential, and inclusive sources of growth and jobs. These include agriculture and tourism, where Uzbekistan has potentially strong value in the global marketplace.
- The country's main challenge continues to be the need to create new and better jobs for the growing number of young entrants into the labor market. Addressing this challenge in a sustainable and inclusive way remains the most important priority of the ongoing reforms.
- In 2019–20, GDP growth is expected to remain at around 5.6 percent, before accelerating to 6 percent in 2021, as market reforms in such areas as agriculture and chemicals open new sources of export-led growth and reforms continue to remove production bottlenecks and regulatory constraints.

### Country Context

In 2017, the Government of Uzbekistan announced a radical opening and transformation of the country's economy following more than 25 years of a relatively closed and state-dominated model.

Economic policy was reoriented to forge a competitive, market-led, private sector economy. Simultaneously, a series of social and political reforms have focused on reorienting the public sector to be responsive, citizen-centric, and centered on delivering high-quality public services for all citizens.

Commencing with an impressive series of measures to liberalize the foreign exchange market in 2017, the Government has enacted a series of structural reforms aimed at removing price controls, liberalizing the visa regime, easing trading restrictions and regulations to improve the business climate, and overhauling the tax system.

The Government's vision is to transform Uzbekistan into an industrialized, upper-middle-income country by 2030. Achieving this vision will require a sustained reform effort to further increase the efficiency of resource allocation in the economy and take advantage of new, high-potential sources of economic growth and job creation.

In support of this vision, the Government has recently announced plans to modernize the agriculture sector, reduce its ownership of state-owned assets and enterprises, and address constraints in the financial markets.

## 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. Therefore, the new cooperation areas are focusing on:

- 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

The WBG's financial and technical assistance as well as analytical support have grown substantially since 2017 and bolster the Government's efforts to implement a comprehensive program of reforms for Uzbekistan's transition to a market economy.

As of October 1, 2019, the World Bank portfolio in Uzbekistan consisted of 23 projects, with net commitments totaling US\$4.08 billion, including International Bank for Reconstruction and Development (IBRD) loans of US\$1.84 billion and International Development Association (IDA) credits of US\$2.18 billion.

Today, the World Bank's country program in Uzbekistan ranks as the second largest in the Europe and Central Asia region, after Turkey.

It supports the Government in implementing economic and institutional reforms with the goal of modernizing agriculture, health, education, water supply and sanitation, energy, transport, social

### WORLD BANK PORTFOLIO

No. of Projects: 23  
Lending: \$4.08 Billion  
IBRD: \$1.84 Billion  
IDA: \$2.18 Billion

protection, and urban and rural development. The Bank's investment portfolio in Uzbekistan is supplemented 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 Systematic Country Diagnostic, a Public Expenditure Review, and inputs to sector strategies for agriculture, transport, energy, and water.

The Bank's current advisory and analytical services outline the tasks required to support reforms in the aviation sector, tax policy and administration, the banking sector, trade facilitation, poverty and vulnerability mapping, and citizen engagement.

As of October 1, 2019, IFC was managing a US\$58 million investment portfolio in Uzbekistan. It provides advisory services under six projects designed to assist the country in privatizing state-owned enterprises (SOEs), including state-owned banks, 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 renewables and health sectors.

In July 2019, the IFC Board of Directors approved a credit line of US\$35 million to support the transformation of the state-owned Ipoteka Bank.

## Recent Economic Developments

Real GDP growth accelerated to 5.8 percent in the first half of 2019 from 4.9 percent in the same period a year ago, supported by a surge in investment growth that was financed by substantial increases in directed lending to SOEs.

Annual consumer price inflation eased to 13.6 percent in June 2019 from 17.7 percent in June 2018, which, together with stronger remittance inflows (up 13 percent year-on-year), supported an expansion of private consumption. Minimum wages, pensions, and allowances were increased by 10 percent on August 1, 2019.

The current account deficit fell to an estimated 6.6 percent of GDP in the first half of 2019 from 8.4 percent a year earlier. The overall budget deficit increased to an estimated 3 percent of GDP from 2.3 percent of GDP in the same time frame.

The official unemployment rate was 9.1 percent in the first half of 2019. The official poverty rate declined from 11.9 percent in 2017 to 11.4 percent in 2018, though it is measured using non-standard methods. The World Bank estimated that the poverty rate at the lower- and middle-income country line was 9.6 percent in 2018.

Despite projected weaker conditions in its main trading partner economies, Uzbekistan's medium-term economic outlook remains favorable as reforms improve the environment for high-potential growth sectors, such as horticulture, tourism, food processing, textiles, and chemicals.

## Economic Outlook

In 2019–20, the country's GDP growth is expected to remain at around 5.6 percent before accelerating to 6 percent in 2021, as market reforms open new sources of export-led growth, address production bottlenecks, and deal with regulatory constraints.

Annual inflation is forecast to increase by about one percentage point in 2019 following the increase in energy prices in August 2019 (18.8 percent for natural gas, 18 percent for electricity, and 12.5 percent for gasoline).

Inflationary pressures are likely to persist in 2019–20 due to further price reforms and wage increases but should decline over the medium term.

The current account deficit is expected to moderate from its 2018 peak but remain at 5–6 percent of GDP in 2020–21 on account of sustained heavy machinery and equipment imports. The shortfall is expected to be financed by a gradual increase in foreign direct investment and sustained donor inflows.

In August 2019, foreign exchange reserves stood at US\$27.7 billion (the equivalent of 12.4 months of import cover). External buffers will remain comfortable over the medium term.

Gross external debt is expected to decline slightly by 2020 to about 34 percent of GDP.



A trader from the ancient city of Khiva selling local souvenirs is one of many Uzbek citizens benefiting from the influx of foreign tourists.

## Project Spotlight

### Improving Access to Education Services for Children in Rural Areas of Uzbekistan



Students in a rural preschool in the Tashkent region of Uzbekistan attend a half-day group.

According to data from the Government of Uzbekistan, just 43 percent of children have access to preschools across the country.

The authorities set an ambitious goal to double this number by 2030.

The World Bank is working with the Government to achieve this objective.

**The Improving Pre-Primary and General Secondary Education Project**, financed by a Global Partnership for Education grant of US\$49.9 million and administered by the Bank, aims to increase access to quality preschool education and improve conditions for better learning outcomes in general secondary education.

Since 2015, hundreds of thousands of boys and girls in rural areas have benefited from the project activities. Some meaningful results achieved under the project include:

- More than 90,000 children aged 5–6 living in rural areas were enrolled in over 2,400 half-day groups established at preschools across Uzbekistan. They also benefited from better-equipped preschool facilities that received support under the project.
- Over 2,400 small libraries were established in rural preschools. In addition, over 650,000 children not enrolled in preschools received sets of storybooks for early stimulation and reading at home with the help of their parents.
- Nearly 200,000 secondary school teachers and administrators were trained in the field of teaching and education management, and over 1,700 rural schools were equipped with modern IT laboratories. As a result, the percentage of rural schools that meet the minimum school standards has reached 73 percent.
- The national student assessment system is being modernized to comply with internationally accepted standards for quality assessment in education. Moreover, the country is joining well-known international large-scale assessment systems, such as the OECD's Program for International Student Assessment (PISA), which will allow for informed decision making and policy preparation.

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>

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