UZBEKISTAN

Table 1	2021
Population, million	34.9
GDP, current US$ billion	69.2
GDP per capita, current US$	1983.2
School enrollment, primary (% gross)[a]	100.1
Life expectancy at birth, years[a]	71.7
Total GHG Emissions (mtCO2e)	259.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

Russia's invasion of Ukraine will slow Uzbekistan's growth to 3.6 percent in 2022, due to a halving of remittances, record global oil and food prices, trade, investment, and banking disruptions, and the return of migrant workers. More social protection and labor market programs are needed to prevent increases in poverty. Higher commodity revenues and lower public investment spending will create fiscal space and, with tighter monetary policy, support macroeconomic stability.

Key conditions and challenges

After a wave of trade and price liberalization reforms, the focus of reforms is shifting to deeper structural constraints such as weak factor markets and dominant public enterprises. These reforms are needed to create a larger and more competitive private sector, which is key to addressing the economy's legacy of state-led growth with weak job creation.

The government recognizes the need for a more inclusive transition. About 7.5 percent of citizens lived below the World Bank's lower-middle-income poverty line in 2021. Many more live close to this line and are at high risk of poverty. One in six households has a member working abroad, mostly in Russia. Reforms to expand social assistance started during the COVID-19 pandemic will serve as an effective platform to expand safety nets and labor market support programs to prevent a sharp rise in poverty—and enable structural reforms to continue.

Recent developments

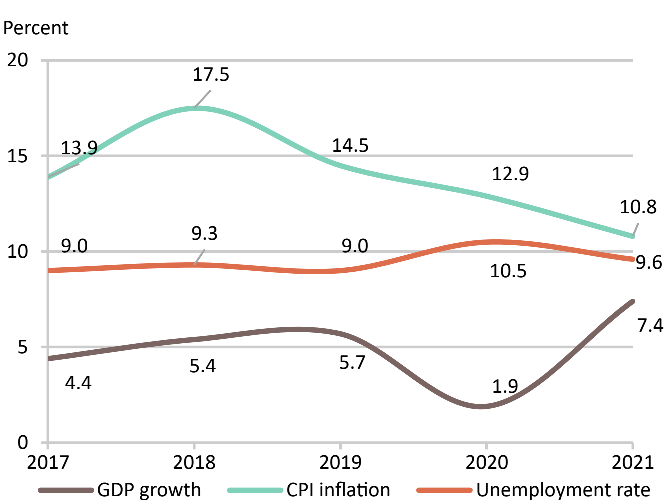
Uzbekistan's economy grew by 7.4 percent in 2021. Strong industrial and services growth helped temper still weak agricultural growth. Robust household income and investment growth and continued anti-crisis fiscal support also supported growth.

Imports grew by 20 percent in 2021 from higher consumer demand and a resumption of capital imports after a pandemic-induced slowdown. Exports grew by 10 percent but were still below pre-pandemic levels, as demand remained weak in major trading partners (Russia, Kazakhstan). Remittance inflows recovered, but only partially offset a large fall in gold sales (by 29 percent), leading to a wider current account deficit of 6.6 percent of GDP in 2021, against 5 percent in 2020.

The fiscal deficit increased to 6.2 percent of GDP in 2021 from 4.5 percent in 2020, as expanded social assistance coverage and higher health and education spending offset lower policy lending and higher tax revenues from a rebounding economy. The fiscal deficit was financed almost entirely through new external debt, though the government remained within its annual ceiling on new debt of $5.5 billion. Despite the drop in gold sales, international reserves increased by $0.2 billion in 2021 to about 51 percent of GDP.

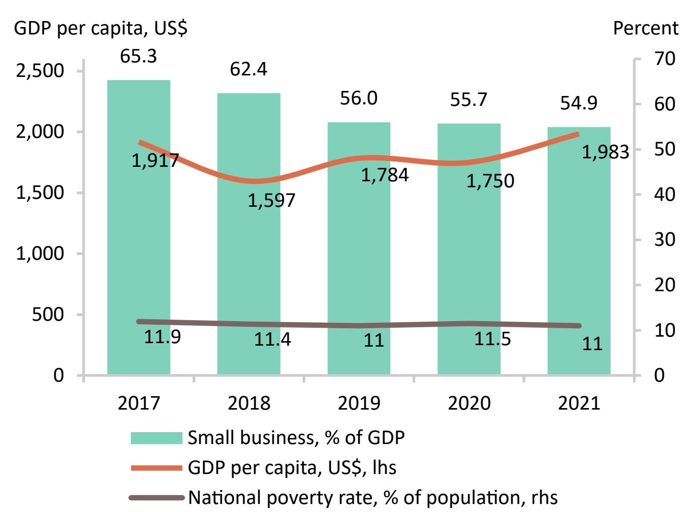
Inflation continued falling, averaging at 10.8 percent in 2021 (against 12.9 percent in 2020). Average annual inflation reached 9.8 percent at end-February 2022, the first reversion to single-digits since 2017. Higher domestic and global food prices and shipping costs continued to drive inflation. In the three weeks following Russia's invasion of Ukraine, and amidst lower remittance inflows and heightened uncertainties, the som depreciated by about 6 percent against the US dollar. In mid-March 2022, in response to exchange rate pressures and an uncertain inflation outlook, the central bank

FIGURE 1 Uzbekistan / GDP growth, inflation, unemployment



Source: Uzbekistan official statistics.

FIGURE 2 Uzbekistan / Poverty, GDP per capita, and small business development



Source: Uzbekistan official statistics.

(CBU) increased its policy rate by 300 basis points to 17 percent.

A reduction in subsidized lending and high real interest rates slowed credit growth to 18 percent in 2021 from 31 percent in 2020. Portfolio growth and stronger risk regulations reduced the banking sector's total capital adequacy ratio to 17.5 percent at end-2021 from 18.4 percent at end-2020.

The banking system remains resilient, but non-performing loans rose from about 1-3 percent of total loans between 2018 and 2020 to 5.2 percent at end 2021—a result of the pandemic. Capital and liquidity buffers remain above regulatory minimums but could be tested as further effects of the pandemic, the war in Ukraine, and strong credit growth in recent years emerge. To reduce banking dollarization, the CBU increased minimum reserves for foreign currency deposits from 14 to 18 percent in August 2021.

The unemployment rate declined to 9.6 percent in 2021 from 10.5 percent in 2020. Employment has not yet returned to pre-pandemic levels and unemployment remains high for women and youth.

Outlook

Russia's invasion of Ukraine will slow growth to 3.6 percent in 2022, compared to pre-crisis estimates of about 6 percent. An anticipated 50 percent fall in remittances (from a weaker ruble and the collapse of Russia's economy) and higher oil, wheat, and cooking oil prices will sharply lower private consumption. Investment growth is also expected to slow given the heavy reliance on Russian capital imports and bank financing for public and private investment projects. Although Uzbekistan will benefit from high global commodity prices (gold, copper, and natural gas), an estimated 6 percent of GDP fall in remittances will widen the current account deficit to 10 percent of GDP in 2022. With foreign investments from Russia expected to fall, FDI inflows will be subdued in 2022 and take time to recover. As a result, the higher current account deficit is expected to be financed by new public debt and the use of reserves.

Higher revenues from commodity exports and privatization receipts and slower public investment spending are likely to offset higher social spending to support remittance-dependent households and prevent an anticipated sharp rise in poverty levels from falling remittances and the return of potentially large numbers of displaced migrant workers. As a result, the overall fiscal deficit is expected to fall to 4 percent of GDP in 2022. An anticipated fiscal consolidation by 2023 is now likely to be delayed. The government is expected to continue adhering to its overall debt limits, and public debt is expected to peak at 42 percent of GDP in 2022-23 and stabilize at about 40 percent of GDP by end-2024.

These projections remain subject to significant further downside revisions depending on the duration of sanctions on Russia, potential global financial spillovers from US interest rate changes, further COVID-19 waves, and the impact of trade and logistics disruptions to Uzbekistan's supply chains.

TABLE 2 Uzbekistan / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.7	1.9	7.4	3.6	5.3	5.5
Private Consumption	5.3	0.1	7.1	0.6	2.9	3.2
Government Consumption	5.7	1.4	1.1	15.8	2.5	4.5
Gross Fixed Capital Investment	38.1	-4.4	5.2	-0.4	7.1	7.2
Exports, Goods and Services	16.2	-20.0	4.8	13.1	13.8	15.1
Imports, Goods and Services	13.3	-15.0	5.8	1.0	8.9	11.1
Real GDP growth, at constant factor prices	5.7	1.9	7.4	3.6	5.3	5.5
Agriculture	3.1	2.9	4.0	3.7	3.6	3.9
Industry	8.3	2.5	8.3	3.9	6.4	6.7
Services	5.6	0.9	9.0	3.3	5.6	5.7
Inflation (Consumer Price Index)	14.5	12.9	10.8	11.9	10.6	9.0
Current Account Balance (% of GDP)	-5.8	-5.0	-6.6	-10.2	-7.1	-5.7
Fiscal Balance (% of GDP)	-3.9	-4.5	-6.2	-4.0	-2.9	-2.5
Debt (% of GDP)	29.7	39.0	38.1	42.0	42.1	40.3
Primary Balance (% of GDP)	-3.4	-3.4	-5.0	-2.8	-1.7	-1.3
GHG emissions growth (mtCO2e)	0.4	-3.3	3.6	2.0	2.8	3.0
Energy related GHG emissions (% of total)	51.1	48.6	49.8	50.2	50.9	51.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.