



# THE REPUBLIC OF UZBEKISTAN

Economic and Financial Update

April, 2020





# Agenda

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# 1 Economic overview and reforms



## Economic performance in 2019

Indicator	change, yoy, %	tn soums
Gross domestic product	+5,6%	511,8
CPI, eop, annual change, %	+15,2%	
Industrial production*	+6,6%	331,0
Construction works*	+19,0%	68,8
Agriculture production*	+2,5%	224,3
Investments to fixed assets	+33,9%	189,9
Foreign trade turnover, bn \$	+26,2%	42,2
Exports, bn \$	+28,0%	17,9
Imports, bn \$	+24,9%	24,3
Population's total income	+6,5%	344,7
The number of permanent population, th people	+2,0%	33 905,8

\* Total amount produced.

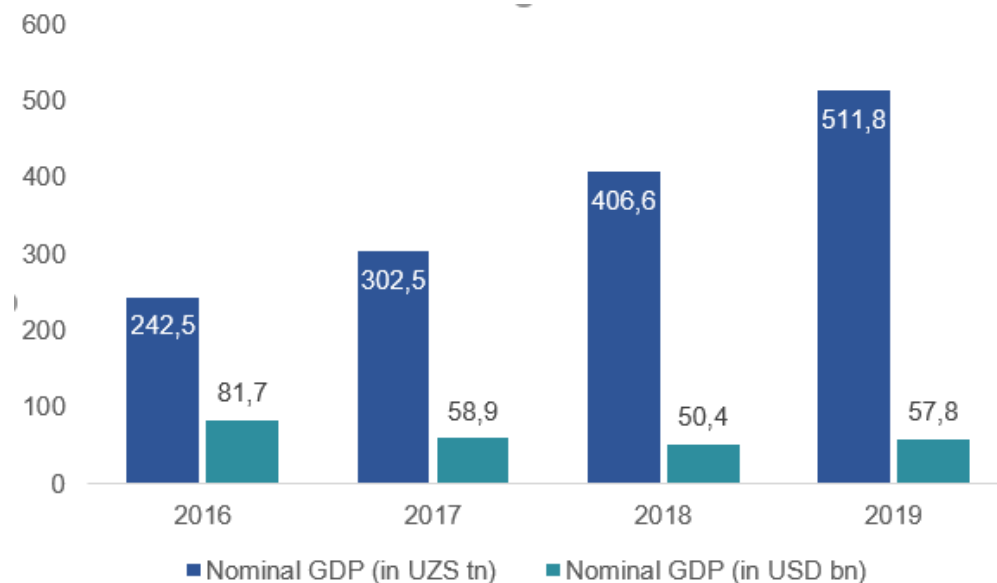
## Growth perspective for 2020-2022

- The economy is expected to grow at 3,0% - 4,0%\* in 2020 due to the negative impact of COVID-19, construction (9,3%)\*\*, agriculture (4,0%)\*\* and services (5,7%)\*\*. Meanwhile, the IMF forecasts (May, 2019) the economy of Uzbekistan to grow at 6% annually during 2020-2022;
- According to the Asian Development Bank's report from April 2020, the economic growth in Uzbekistan will slow down in 2020 due to coronavirus (COVID-19) pandemic, as well as falling natural gas and copper prices. The ADB estimates GDP growth to be 4,7% in 2020 and 5,8% in 2021. Meanwhile, the World bank (Apr 2020) forecasts Uzbek economy to grow at 1.6% in 2020.
- The government is tasked to create 500,000 new jobs this year through government programs and business development.

\* MoF's preliminary estimates

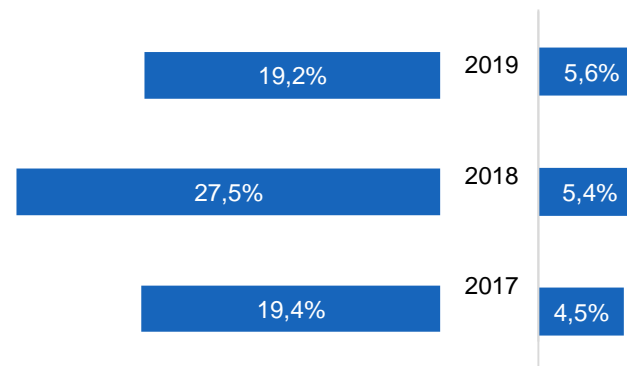
\*\* Pre-Covid-19 estimates of Ministry of Economic Development and Reduction of Poverty

## Nominal GDP



## GDP deflator (to a previous year)

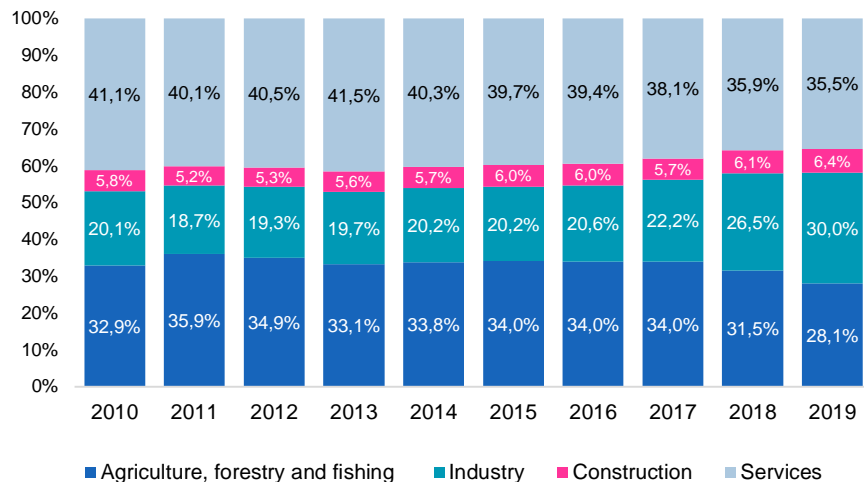
## Annual real GDP growth





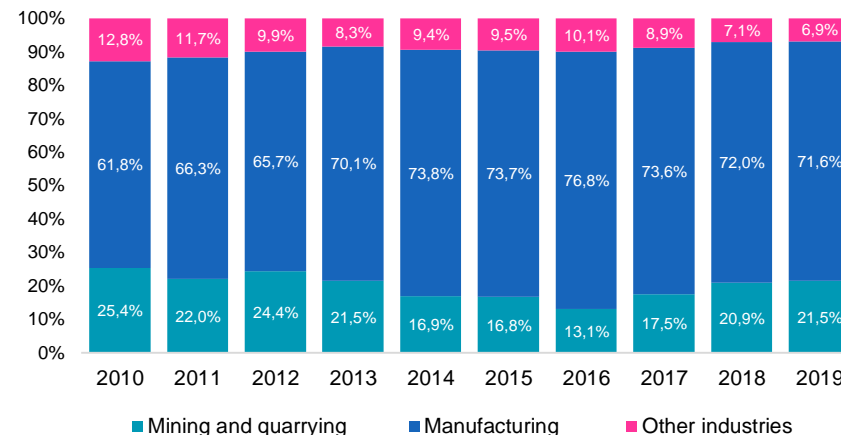
## The structure of gross value added

% share of gross value added



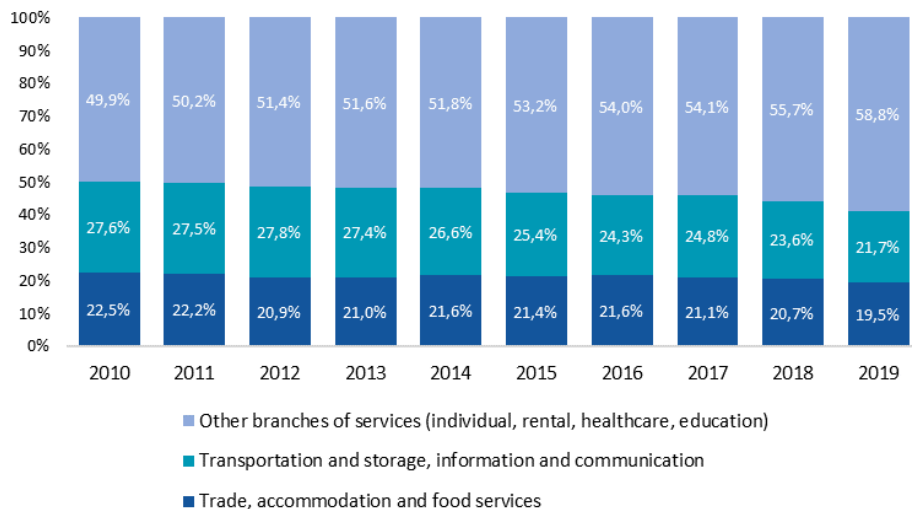
## The structure of industry value added

% share of industry value added



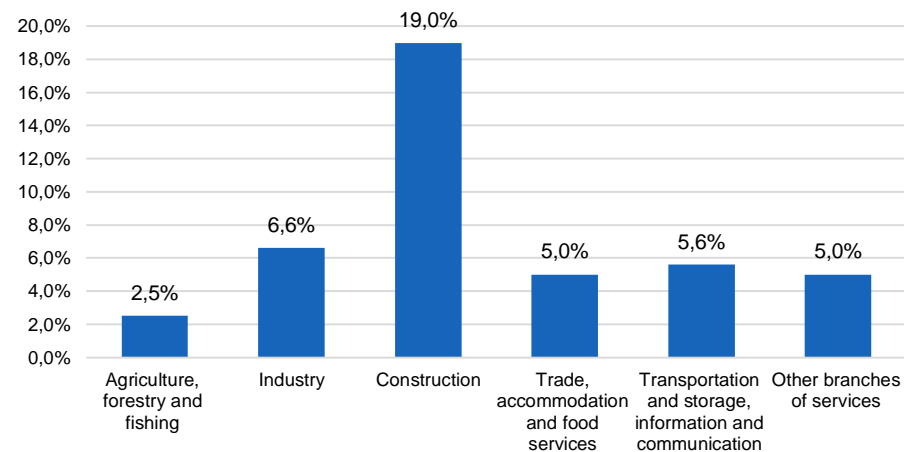
## The structure of services value added

% share of services value added



## Sectors' real growth

annual % change

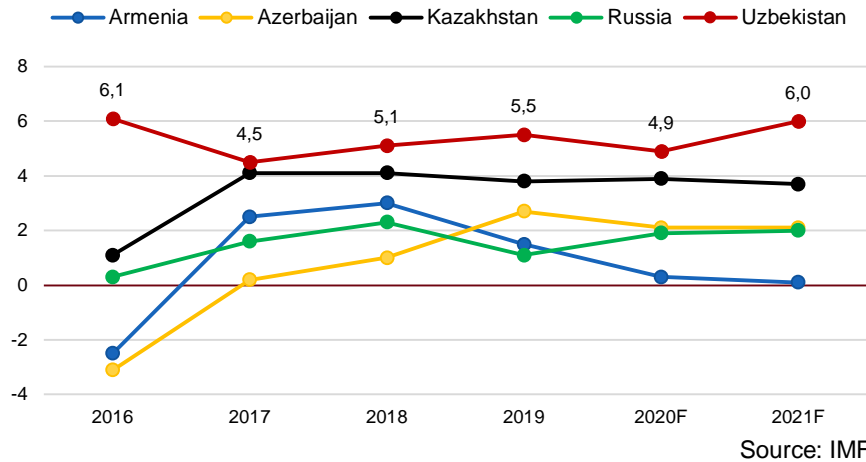




# High economic growth relative to peers

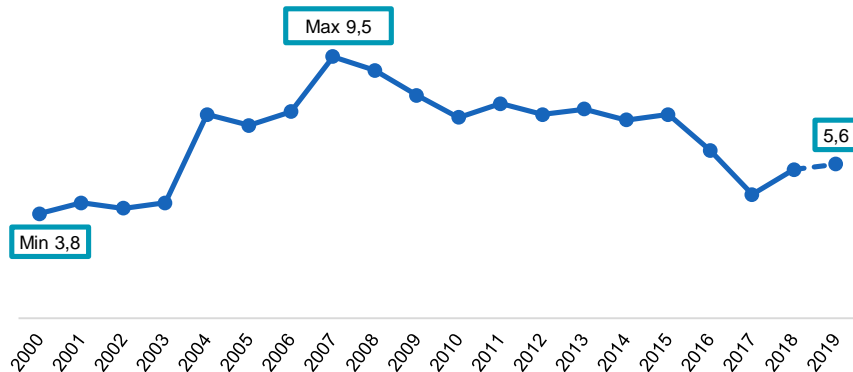
## Uzbekistan's growth continues to be among the highest of its regional peers

Real GDP growth year-on-year (%)



## Uzbekistan Real GDP growth

Annual percent change (%)



## Growth perspectives

Source: MoE, CBU

- The economic growth is now forecast to 3,0% - 4,0%\* in 2020 due to the impact of COVID-19.
- The effect of expansionary fiscal and monetary policies during 2018-2019 will continue to affect the growth in 2020. As a result of coordinated monetary and macro-prudential policies, the impact of these factors are expected to smooth in the first half of 2020;
- The real aggregate income of population is expected to grow by 7% which will increase the household consumption by 5,6%\*\*;
- It is also expected that in 2020\*\*:
  - industrial output will increase by 6,5% (6,7% in 2021);
  - construction – 9.3% (9,5% in 2021);
  - agriculture – 4.0% (4,1% in 2021);
  - services by 5.7% (6,0% in 2021);
  - foreign trade turnover by 10,8% and reach \$46,7 bn in 2020.
- The share of industry in GDP will reach 31,1%\*\* in 2021 and of services – 35,4%\*\*.

## External factors

- The impact of coronavirus in China and other countries is expected to cause commodity prices, including oil, gas and metal products decline;
- A special working group has been created that will work to decline the negative impact of current situation in global markets due to coronavirus outbreak.

\* MoF's preliminary estimates

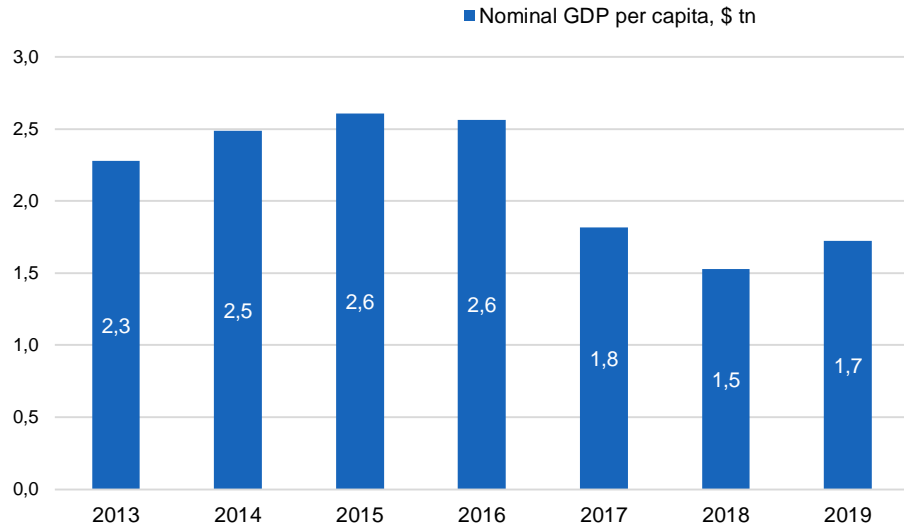
\*\* Pre-Covid-19 estimates of Ministry of Economic Development and Reduction of Poverty



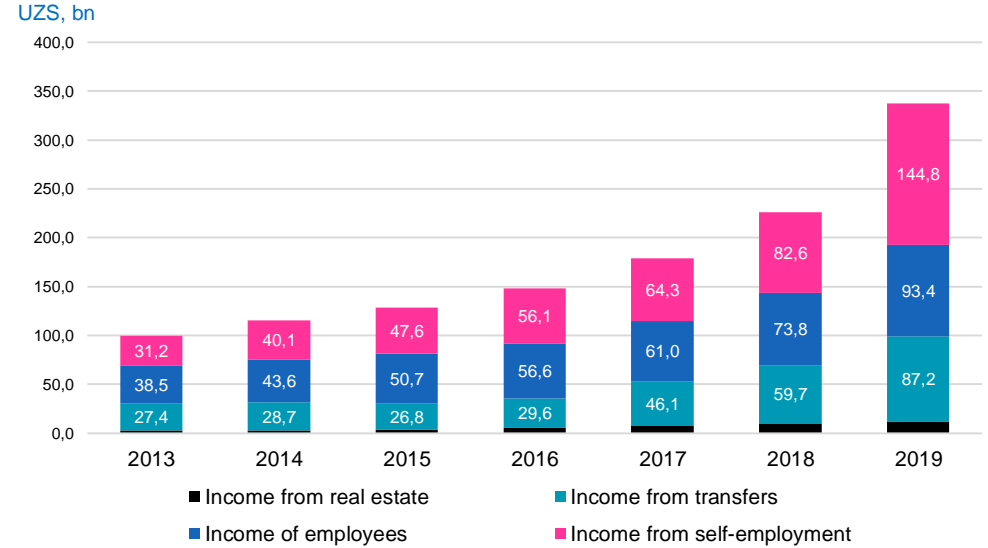


# Income per capita continuously improving

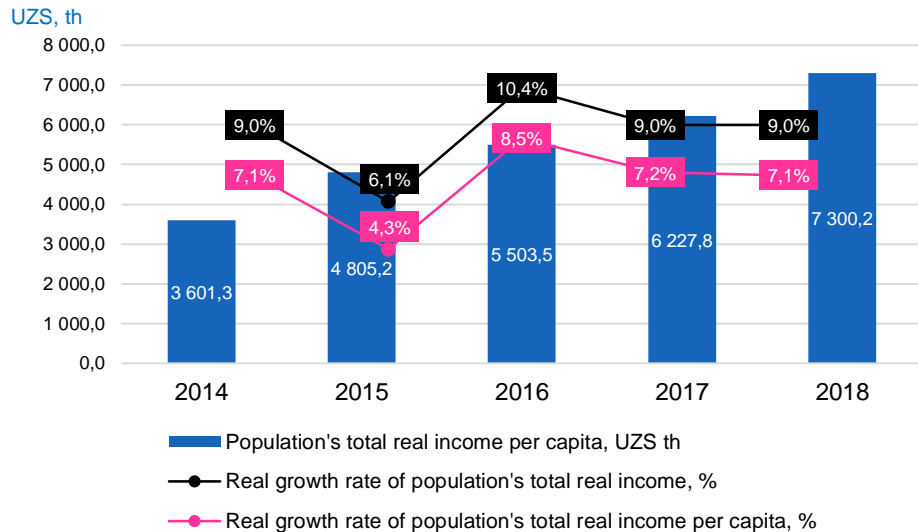
## GDP per capita of Uzbekistan



## Total income of population



## Population's total real income per capita

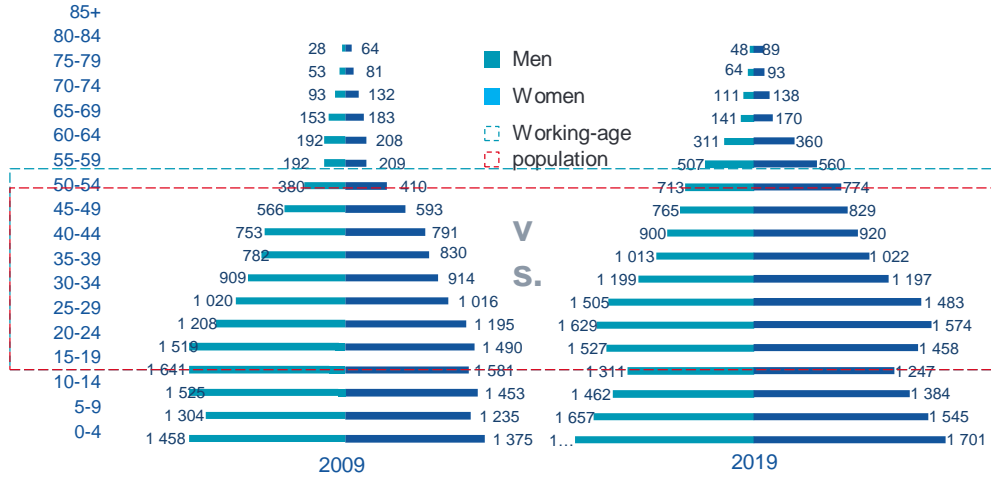


- According to preliminary data, in 2019, the share of income earned from small business in the total income of the population was **59,5%**;
- UZS 4,7 tn were allocated to social support of the population;
- Over the past period, changes in pensions, allowances and stipends contributed to an increase in the total income of the population by 2,8%;
- Compared to the same period in 2018, pensions growth rate was 29,2% and the growth rate of allowances was 42,7%;
- In 2019, average monthly nominal wages in enterprises and organisations was 2 324,5 thousand sums and increased by 27,5% compared to 2018.

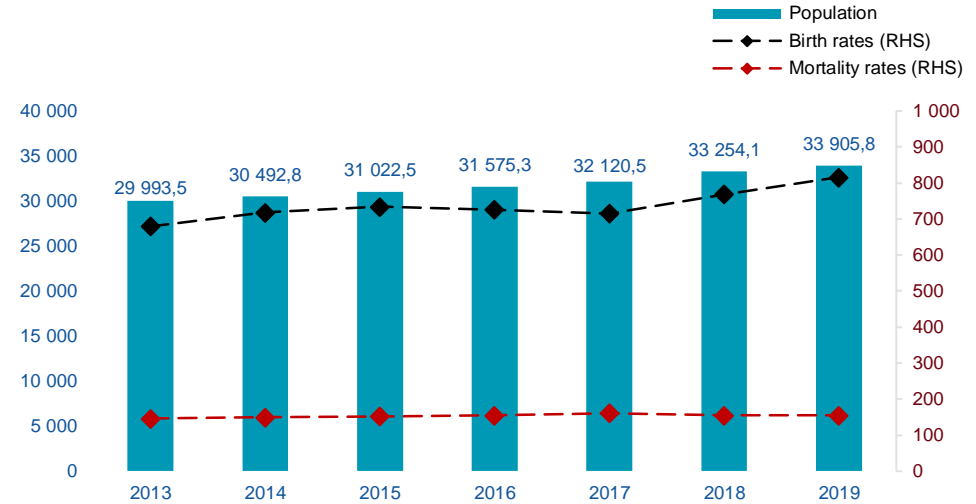


# Favorable demography and human capital

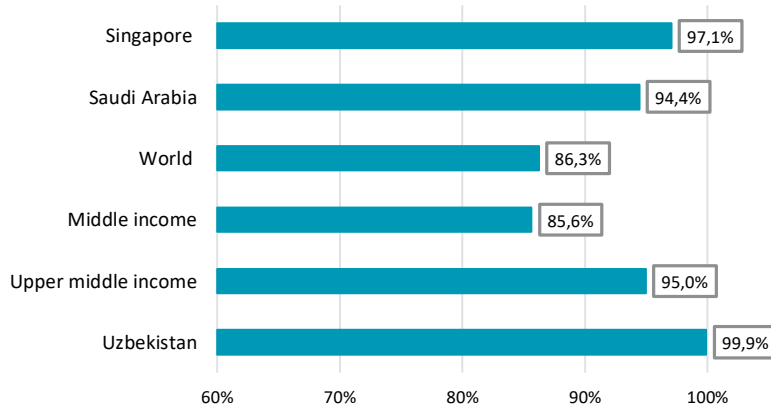
## Age structure of the population, 1 000 ppl.



## Population dynamics, ppl. thd



## Literacy rates



## Demographic dividend

- 54.8% of population is under 30 years old;
- Working age population is 6-fold higher than pension age population;
- Close to 100% literacy rate;
- National poverty rate is 11,5%;
- Gender equality
  - minimum 30% women in parliamentary elections;
  - six-fold increase in share of women (17.1%) employed in the government since 2005;
  - women hokims (mayors) are being appointed in local governments of several regions;
  - woman chairman of Senate of Oliy Majlis (Parliament).
- Life expectancy has risen from 66.4 years in 1991 to 74.6 years in 2018 and expected to grow to 75,0 in 2019.





# Key Reforms in 2019

## Fiscal policy



- ✓ The main parameters of the State budget and state extra-budgetary funds have been adopted in the format of a Law of the Republic of Uzbekistan;
- ✓ Starting 1 January 2020, the consolidated budget includes the State budget, state extra-budgetary funds and the UFRD;
- ✓ Parliamentary appropriation system has been introduced;
- ✓ The terms of the first level budget managers and the second level budget managers have been introduced;
- ✓ The new edition of the Tax Code has been adopted;
- ✓ The practice of suspension of the operations on taxpayer's accounts in the commercial banks by the State Tax Service was abolished;
- ✓ The limit for annual external borrowing and fiscal rules have been introduced in the Budgeted Law;
- ✓ The transparency of fiscal data has been improved.

## Achievements in property rights



Law "On Land privatization" has been introduced which envisages that:

- ✓ The residents, regardless their legal statutes have the right to privatize non-agricultural land plots;
- ✓ Privatized land plots is private property which are inviolable and protected by the state;
- ✓ Land plots are privatized through transparent online auction.

## Eased travel restrictions



- ✓ A visa-free regime for citizens of more than 85 countries to visit Uzbekistan;
- ✓ A new type of three-year visa for investors;
- ✓ "Open sky" regime is introduced at local international airports ("Karshi", "Nukus", "Termez" and "Bukhara");
- ✓ 6,7 mn visitors from all over the world in 2019 (5,3 mn visitors 2018).

## Introduction of public-private partnerships (PPPs)



- ✓ The law "On public-private partnerships" was approved by the Parliament of Uzbekistan;
- ✓ 15 investment projects of \$1.7 bn for PPP projects;
- ✓ Masdar won a tender for the build a photovoltaic power station for US\$100 mn (approx.) 100MW utility-scale solar plant in the Navoi region with price 2.679 cents per 1 kWh.;
- ✓ US\$ 1.1 billion (approx.) 1300 MW thermal power plant in the Syrdarya region.

## Price liberalization



- ✓ Bread, grain and flour prices were liberalized;
- ✓ Energy prices were increased for firms close to cost-recovery level;
- ✓ Broad based increases in tariffs on energy, natural gas and petrol by respective 18%, 19% and 13%;
- ✓ Implemented market mechanisms for sustainability of the economy such as allowing companies independently take decisions on managing costs and income.

## Changes in monetary policy



- ✓ Starting 1 January 2020, the CBU has been tasked to ensure a phased transfer to inflation targeting regime with a permanent inflation target of 5% in 2023;
- ✓ The role of the CBU in reducing monetary and non-monetary inflation factors has been strengthened;
- ✓ Prompt response to internal and external factors through a flexible interest rate policy;
- ✓ The practice of issuing loans at the preferential rates has been abolished.

## Reforms in the agricultural sector



- ✓ The Strategy for the Development of Agriculture of the Republic of Uzbekistan for 2020-2030 was approved by the government;
- ✓ State agriculture companies in the sphere of providing material and technical resources, services and product processing will be privatized step by step;
- ✓ Government removed the state order of setting quantity and price for cotton and wheat:
  - Allows producers for independently make decision on what product they want to grow;
  - Promotes market mechanism for determining price and quantity depending on supply and demand.

## Reforms in the banking sector



- ✓ Major Laws regulating the sector were changed with IFI support (On Central bank, Banks and Banking activities, Foreign currency regulation, Payment and payment systems);
- ✓ Banking sector development strategy is under development in conjunction with World Bank;
- ✓ The number of state owned banks will gradually diminish up to 4 and over the period will be merged to become two;
- ✓ Large banks (Ipoteka bank, PSB, Asaka bank, Aloka bank) are being transformed in cooperation with IFIs (as EBRD, IFC) to prepare them for further privatization. IFIs will take part as shareholders;
- ✓ Some banks may go public (IPOs);
- ✓ Enhancing Central bank's regulatory capacity (attracting independent members to the banks' Board of directors);
- ✓ "O`zsanoatqurilishbank" issued the first corporate Eurobonds in the amount of \$300 mn.



# Major SOE and SOB reforms in 2019

## Major SOE reforms in 2019



### 1. Ministry of energy has been organized;

*Main purpose: to empower Ministry of energy with functions of Government to regulate energy sector of Uzbekistan, and corporatize SOEs in this sector.*



### 2. Uzbekneftgaz and Uzbekenergo have been unbundled;

*Vertically integrated monopolies have been unbundled according to classical scheme: generation or mining, transmission and distribution by creating independent separate entities which are regulated by Ministry of energy.*



### 3. Concept for reforming and developing the industry of large enterprises of mining-metallurgical industry is being finalised;

*The concept will consider attracting investors solely through primary (IPO) and secondary (SPO) public offerings on local and international stock markets. It is planned to put "Uzmetkombinat" on offering in 2022, Almalyk Mining and Metallurgical Combinat JSC and Navoi Mining and Metallurgical Combinat (NMMC) JSC – in 2023.*



### 4. Pursuant to the presidential decree (21.05.2019), the Ministry of Finance has become the coordinator in reforming and restructuring SOEs and SOBs;

*The following departments have been formed in the Ministry of Finance accordingly: (1) Department of tariff politics and state-owned enterprises reform and (2) Department of coordination of state-owned banks reform.*

## Major SOB reforms in 2019:

- UFRD loans (\$4,3 bn) were transferred from banks' balance sheet to the UFRD's balance sheet and a part of the UFRD's credits (\$1,5 bn) were converted into the authorized capital of banks;
- Loans under government programs are allocated only through 3 bank: Xalqbank, Agrobank and Microkreditbank;
- New edition of Law** on Banks and Banking Activities has been adopted which was developed jointly with the World bank. The Law envisages the followings:
  - the detailed procedure for registering and licensing banks;
  - resident and non-resident investors are granted the right to acquire up to 5% of the banks' shares without the consent of the central bank;
  - the functions and powers of a supervisory board and the banks' management are regulated in details;
  - requirements for internal control and risk management system are established and others.

## Plans for 2020:

- In 2020, the Banking System Reform Strategy will be adoption and the implementation will be started. The Strategy envisages:
  - the reduction in the number of banks with state share from 13 to 4 in the medium term;
  - In the future, it is planned to reduce the number of banks with state participation to 2.
- Only through privatization the state's share in the capital of the banking system will decrease from the current 85% to 40% in the next 3 years.
- The reform of state banks will not have a significant impact on the state budget as dividends received from all 13 state banks in 2018 and 2019 were about 0,4% and 1,4% of budget revenues, respectively.



# Completed reforms in 2017-2019



## Development of state governance



## Rule of law and legal reforms



## Development and liberalisation of the economy



## Development of the social sphere



## Security, religious tolerance and interethnic harmony, foreign policy

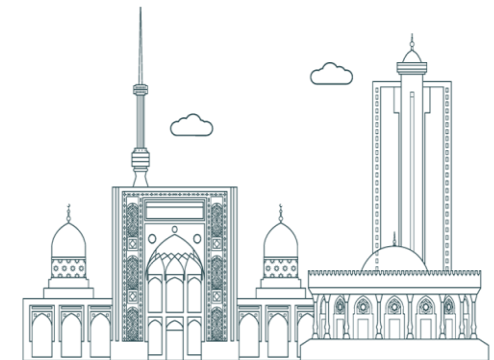
- ✓ Administrative reforms;
- ✓ Adoption of anticorruption laws;
- ✓ Human rights priorities;
- ✓ Establishment of Ministry of Innovation;
- ✓ Establishment of Committee on judicial matters and anticorruption at the Senate;
- ✓ Establishment of the Department of State Budget at the Legislative Chamber of Oliy Majlis;
- ✓ Establishment of Agency to attract international investments.

- ✓ Transparency of and public involvement in regulations;
- ✓ Refinement of the judicial system;
- ✓ Improving administrative, criminal, civil and economic legislation;
- ✓ Closing of notorious Jaslyk prison camp;
- ✓ Adoption of Electoral Code on June 26, 2019;
- ✓ Parliamentary elections: According to the International Foundation for Electoral Systems, the electoral campaign 2019 had been perceived by the international community as “more robust than in past elections”;
- ✓ Release of 3,081 prisoners and 2,623 citizens were found guilty of unjustified substances;

- ✓ Prioritisation of price stability;
- ✓ Improved investment and business climate;
- ✓ Agricultural reforms;
- ✓ Reform of state-owned enterprises, particularly in the banking, metals & mining and energy sectors;
- ✓ Adoption of new edition of the Tax Code;
- ✓ Reduction of administrative interference in the economy;
- ✓ Adoption of State Budget Law for 2020;
- ✓ Adoption changes and additions in the Law of the Bankruptcy;
- ✓ Inaugural issuance of corporate Eurobonds of “UzPSB” JSC;

- ✓ Improving the quality of education and health services;
- ✓ 6 international institutes & universities were opened;
- ✓ Real income and employment growth;
- ✓ Establishment of new social projects and actions such as “Open Justice”, “Advice.uz”, “Madad”, “Biz birgamiz” and etc.

- ✓ Building new 10 mosques and 8 churches;
- ✓ More than 7,200 citizens made pilgrimages;
- ✓ There were organized “Generosity week” on 16<sup>th</sup> November which consisted of international conferences, press conference, a festival of friendship and culture, civil forum and etc.





## Development of state governance

- ✓ Establishment of new anticorruption body enabling report to the President and Parliament *(by May 1, 2020)*
- ✓ Establishment of Public Chamber for public control and defining its functional responsibilities
- ✓ Establishment of the Fiscal Institution under the State Tax Committee *(by April 1, 2020)*
- ✓ Establishment of practical cooperation among Parliament, government and civil society to implement SDGs that were adopted by UNDP
- ✓ Introduction of a system that enforces regional and district khokims to report regional councils
- ✓ Establishment of the Senators' Chamber in local councils



## Rule of law and legal reforms

- ✓ Revising the Law of full contribution of the independence of the Court
- ✓ Adoption of the new edition of the Law of the Republic of Uzbekistan "On Courts"
- ✓ Improvement of Prosecutor's involvement in the activities of courts
- ✓ **Cancellation of appeal by Prosecutor's Office**
- ✓ **Abolishment of disciplinary punishment of a judge by the Chairmen of the Courts**
- ✓ Improvement of the institution for reviewing the legality, validity and fairness of court decisions
- ✓ Revising the authority of khokims
- ✓ Develop clear criteria and target objectives for evaluating khokims' activities
- ✓ Ensure the participation of local khokimiyats in decision-making at the national level



## Development and liberalisation of the economy

- ✓ Develop a Program of "Digital Uzbekistan – 2030" *(by April 1, 2020)*
- ✓ Approval and implementation of "Roadmaps" on transformation of state-owned banks *(by June 1, 2020)*
- ✓ Draft of the Presidential Resolution "Additional measures on development of E-government system"
- ✓ The cancellation of state order for the cultivation of cotton and grain
- ✓ Establishment of free trade zones in Andijan, Termez and Kungrad districts *(by March 20, 2020)*
- ✓ Revising the basics of licensing and registration, and reducing their amount by twice
- ✓ Strengthening the legal framework for cluster and cooperative relations in agriculture *(by November 1, 2020)*
- ✓ Development of the Draft Law of Government debt *(by December 1, 2020)*
- ✓ NGMK will issue Eurobonds *(by September, 2020)*



## Development of the social sphere

- ✓ Formulation of "Youth of Uzbekistan – 2025" conception
- ✓ Formulation the Project of Mitigating Poverty
- ✓ Formulation of the Concept of "Social protection of citizens"
- ✓ Implementation of a System of Residence *(by April 1, 2020)*
- ✓ Development of the Concept of Cinematography Development 2030 *(by July 1, 2020)*
- ✓ Adoption of the Law of Cinematography
- ✓ Giving special grants for females in studying
- ✓ Reduction of period of studying in some universities from 4 to 3 years
- ✓ Establishment of 141 private schools
- ✓ 10 institutes & universities of Uzbekistan switch to self-financing system



## Security, religious tolerance and interethnic harmony, foreign policy

- ✓ Intensive development in tourism of making pilgrimages *(by June 1, 2020)*
- ✓ Development of a national strategy for cybersecurity by 2020-2023 *(by September 1, 2020)*
- ✓ Improvement of the quality of border and customs control at border points *(by June 1, 2020)*
- ✓ Development of the Draft Law of the Republic of Uzbekistan "On Security Activity" *(by April 1, 2020)*
- ✓ Development of cooperation with the Eurasian Group on combating legalization of money laundering and financing terrorism
- ✓ Promotion of Uzbekistan's nomination for election to the UN Human Rights Council for 2021-2023



# 2 Covid-19 impacts and measures





## Preventative measures

- ❖ The Republican Anti-Crisis Commission is established to prompt operative solutions and implement measures for the provision of macroeconomic stability, uninterrupted operation in the sectors of the economy and social protection of citizens during the crisis;
- ❖ The special hospitals are being constructed in Tashkent (with 30,800 beds), Surkhandarya, Namangan, and Navoi regions (with 1,000 beds each);
- ❖ 300,000 express tests and 500 artificial ventilators purchase are purchased;
- ❖ Production of medical masks is set to 5 mn pieces a day;

**1,214** CONFIRMED CASES\*

**99** RECOVERIES

**4** DEATHS

## Anti-Crisis Fund

- ❖ Anti-Crisis Fund has been created under the Ministry of Finance and will be financed by State Budget. (UZS 10tn ~ USD 10.5bn)
- ❖ Cabinet of Ministers will attract USD 1bn of external borrowing to finance State budget;
- ❖ Fund expenditures:
  - ✓ Mitigating coronavirus infection spread (UZS 1 tn ~ USD 104.6mn);
  - ✓ Stabilizing economic activity by supporting entrepreneurship, employment, sustainable functioning of key sectors (UZS 8.3 tn ~USD 868.5mn);
  - ✓ Social support (UZS 0.7 tn ~USD 73.2mn)

## Key Considerations

- ❖ Government ensures that economy remains alive, some of SOEs representing major sectors of the economy still work out full capacity;
- ❖ Government is putting some capex projects on hold and intensifies procurement of expenditures;
- ❖ Inflation is expected to slowdown in 2020 (11-12.5%);
- ❖ Budget for 2020 assumes gold price at 1,350 per oz against current market price 1,700 per oz;
- ❖ Borders are closed only for individuals, goods turnover is not affected.
- ❖ The number of recipients of social benefits will increase by 10%.





# Anti-crisis (COVID-19) package 1

Presidential decree #5969 dated 19.03.2020 “On priority measures to mitigate the negative impact of the coronavirus pandemic (COVID-19) and global crisis on the economy” has been adopted:

## Measures on taxes and benefits



*Moratorium on tax audits by the end of the year:*



*Legal entities are given a 6-month delay in paying taxes on property land and for the use of water resources:*



From April 1 to 1 October 2020, the minimum amount of social tax for individual entrepreneurs will be decreased from 100% to 50% of the basic estimated amount per month – from 223 000 to 111 500 UZS:



*The tax rate for the use of water resources for the irrigation of farmland is reduced by 50%:*



*From 15 April to 15 October 2020, the deadline for the property tax payment and land tax of individuals is extended:*



The deadline for submitting a declaration of personal income for 2019 is extended (from 1 April to 1 August 2020)



The accrual of tourist (hotel) tax is suspended from 1 April to 1 July 2020



## Anti-crisis package 1

The President of Uzbekistan has adopted Decree “On priority measures to mitigate the negative impact of the coronavirus pandemic (COVID-19) and global crisis on the economy”



## Anti-crisis (COVID-19) package 2

Presidential decree #5978 dated 03.04.2020 “On additional measures to support the population, economic sectors and business entities during the coronavirus pandemic (COVID-19)” has been adopted:

### Measures on taxes and benefits



Set up to December 31, 2020 zero rates of customs duty and excise tax on the import of goods;



Continue for a period of 6 months without interruption the payment of benefits to families with children, childcare benefits and material assistance;



To establish that in the period from April 1 to December 31, 2020:

a) tour operators, travel agents and tourism entities providing hotel services:

- ✓ exempt from land tax from legal entities and property tax of legal entities;
- ✓ pay social tax at a reduced rate of 1 percent;

b) payers of value added tax, the turnover on the sale of goods (services) of which does not exceed 1 billion soums per month and using electronic invoices, is entitled to calculate and pay value added tax on a quarterly basis;



The Central Bank should take measures to create conditions and simplify procedures for:

- ✓ the provision by commercial banks until October 1, 2020 of deferred payments on loans to legal entities and individuals, individual entrepreneurs who are faced with financial difficulties;
- ✓ non-application of penalties and penalties for overdue loans of borrowers whose activities were adversely affected by the introduced quarantine regime.



## Anti-crisis package 2

The President of Uzbekistan has adopted Decree “On additional measures to support the population, economic sectors and business entities during the coronavirus pandemic (COVID-19)”

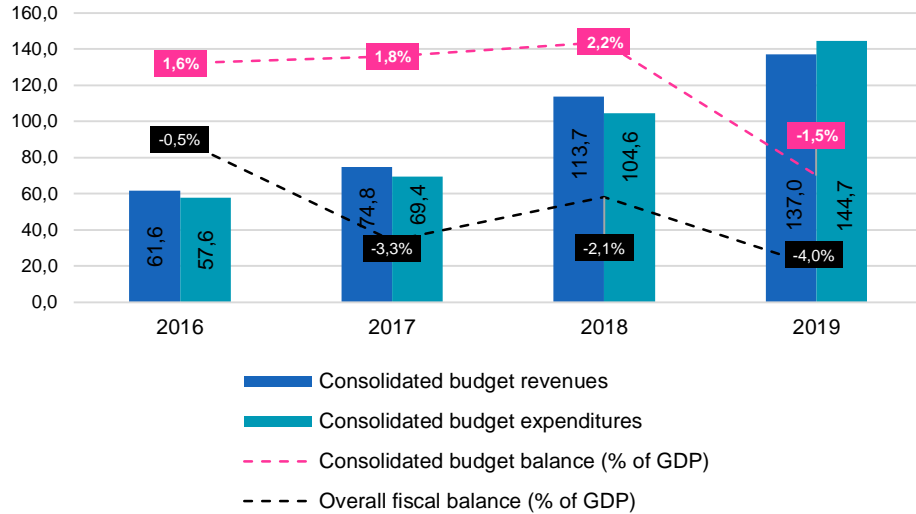


# 3 Public Finance and Debt Management



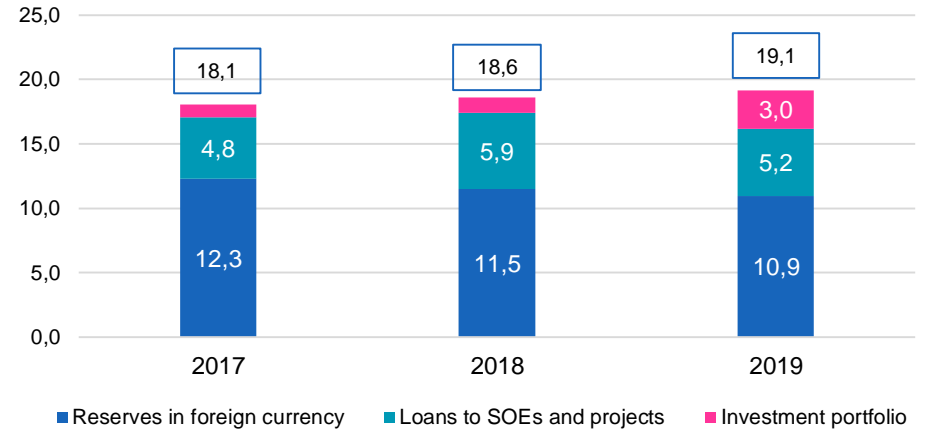
## Government to reduce fiscal deficit in 2020-2022

UZS tn, % of GDP



## UFRD assets expanding and diversifying

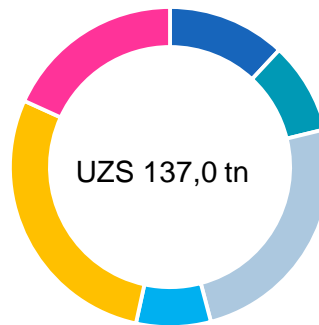
USD bn



## Consolidated budget revenues (preliminary)

UZS bn

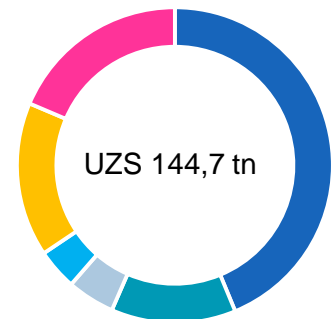
Type of consolidated budget revenues (% share of total)	2019 UZS bn	Nominal change against 2018
Corporate income tax (12%)	16 360,6	+367,2%
Personal income tax (9%)	12 668,5	+97,2%
VAT (25%)	33 809,8	+21,3%
Excise duties (8%)	10 316,0	+6,3%
Other tax and non-tax revenues (28%)	38 850,5	+23,0%
Revenues of extra-budgetary funds (18%)	24 945,4	-15,2%
<b>Consolidated budget revenues</b>	<b>136 950,8</b>	<b>+26,2%</b>



## Consolidated budget expenses (preliminary)

UZS bn

Type of consolidated budget revenues (% share of total)	2019 UZS bn	Nominal change against 2018
Social expenses (44%)	63 322,3	+48,1%
Economy expenses (13%)	18 481,0	+143,6%
Centralized investments (5%)	7 048,5	+30,5%
Maintenance of state authorities, administration and self-governing bodies (4%)	6 058,1	+56,2%
Other expenses (16%)	22 878,7	+13,8%
Expenses of extra-budgetary funds (18%)	26 912,4	+1,0%
<b>Consolidated budget expenses</b>	<b>144 701,0</b>	<b>+36,0%</b>





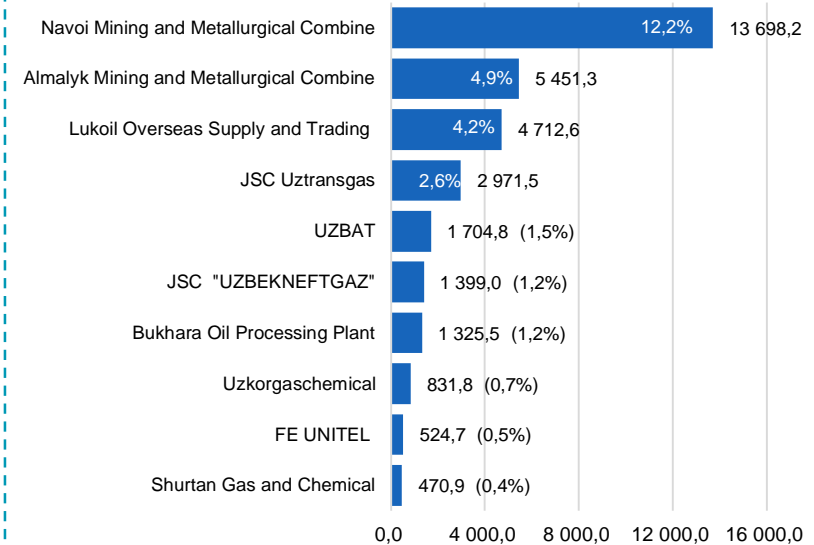
# Tax Policy and Reform

## Tax policy effect in 2019

Types of taxes	2018 rates	2019 rates	Actual for 2019	Conditional receipts at 2018 rates	Deviation
Corporate income tax	14%	12%	5 548,7	6 473,5	-924,8
Income tax on commercial banks	22%	20%	1 007,9	1 108,7	-100,8
Dividends tax (incl. on individuals)	10%	5%	838,7	1 677,4	-838,7
Excess profit tax	50%	0%	107,9	134,9	-27,0
Single social payment	25%/15%	12%	5 781,4	8 658,3	-2 876,9
Personal income tax	7,5-22,5%	12%	12 384,6	10 303,1	+2 081,4
Insurance premiums of citizens	8%	0%		6 497,5	-6 497,5
Single tax payment	5%	4%	1 988,7	2 485,9	-497,2
Property tax	5%	2%	1 553,7	2 182,5	-628,8
Deductions to state trust funds	3,2%	0%		6 925,0	-6 925,0
Excise duty on the provision of mobile services		15%	755,3		+755,3
Excise duties on polyethylene granules		25%	185,0		+185,0
Cement use tax		10%	213,4		+213,4
<b>Result</b>					<b>-16 081,4</b>

Sources: Ministry of Finance

## Top 10 taxpayers in 2019 (UZS bn / as % share of total revenues)



### Tax Code in new edition stipulates:

- ★ 9 types of taxes, and a special tax regime for small companies (with turnover up to 1 billion soums) are maintained in the form of a turnover tax;
- ★ the introduction of the right to return the "negative" VAT balance after a detailed desk audit, its simplified return for the largest taxpayers and those who have provided a bank guarantee, as well as the introduction of the right to simplified return the 0% VAT for diplomatic missions;
- ★ abandoning the cascading CIT taxation of dividends by introducing a set-off mechanism for previously taxed amounts of such income, with saving the tax at 5 percent;
- ★ the introduction of calculation of land tax for legal entities with agricultural land plots based on the normative value of agricultural land



# Tax Policy and Reform

## New tax rates in 2020

Types of taxes	2019	2020
Corporate income tax	12%	15%
Corporate tax for commercial banks	20%	20%
Personal income tax	12%	12%
VAT	20%	15%
Turnover tax	4%	4%
Property tax	2%	2%
Single land tax	0,95%	Abolished
Subsoil use tax:		
on gold	25%	25%
on silver	25%	25%
on metal	4%	5%

Source: Ministry of Finance of the Republic of Uzbekistan

## VAT productivity\*

### Uzbekistan in comparison with the main world regions

VAT productivity unweighted averages	
Emerging European Countries	0,47
Latin America and The Caribbean	0,44
Developed Countries	0,39
The Whole World	0,39
Emerging Asian Countries	0,38
Sub-Saharan Africa	0,35
Uzbekistan	0,30
Middle East and North Africa	0,21

### Uzbekistan in comparison with the regional peers

VAT productivity unweighted averages	
Georgia	0,54
Ukraine	0,49
Estonia	0,46
Belarus	0,43
Lithuania	0,37
Russian	0,30
Uzbekistan	0,30
Kazakhstan	0,27

\* VAT productivity = (VAT revenue as a percentage of GDP/VAT rate )





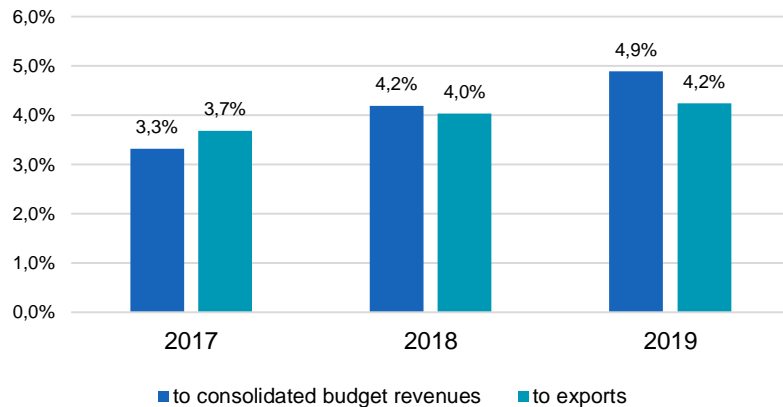
# Moderate level of public debt

- According to Debt Sustainability Analysis of IMF (May, 2019), **the overall risk of debt distress** of Uzbekistan is “low” and the country’s debt carrying capacity was assessed as “strong” which had been “medium” before;
- In the Budget Law for 2020, **the maximum amount of new public external loan agreements** has been set at the amount of \$4 bn\*, and of disbursement of external PPG debt which is repaid from the budget – \$1,5 bn (e.g. \$7,9 bn worth external public debt loan agreements have signed during 2019);
- **Draft Public Debt Law** is being developed based on international best practices.
- **US Treasury consultant** has been involved to assist in drafting the Public Debt Law and consulting in various issues of debt management, including the development of government securities market.

\* Presidential decree which has been adopted in March 19, 2020 tasked the Government to propose a revision for the borrowing limit (\$4bn) as Uzbekistan is attracting extra \$1 bn to cushion the effect of COVID-19

## External PPG debt service expenses

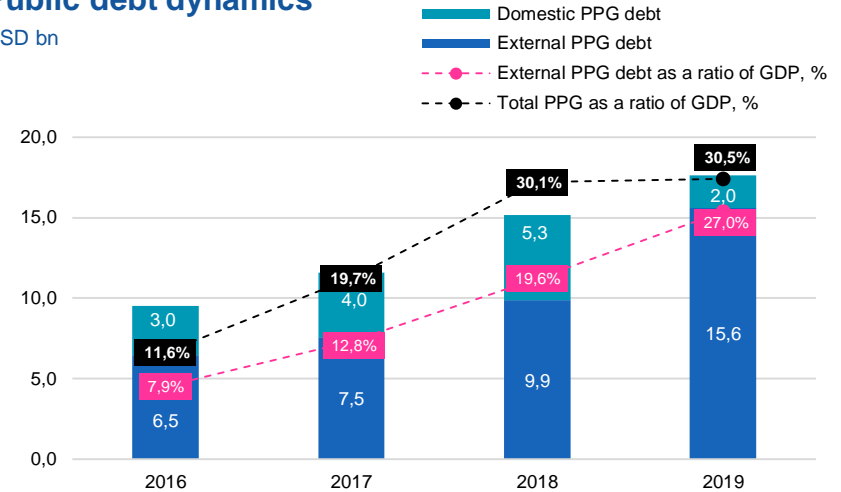
as percent ratio



Source: Ministry of Finance of the Republic of Uzbekistan

## Public debt dynamics

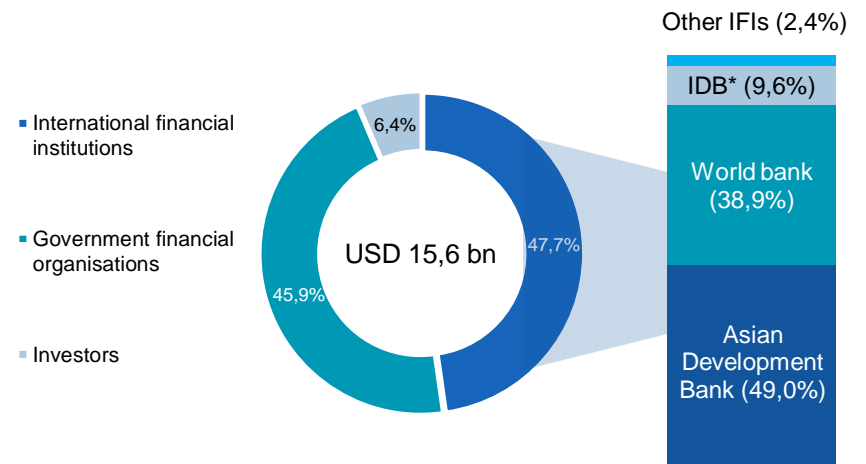
USD bn



Revoked domestic government guarantees have been taken into account in accordance with the Resolution of the President of the Republic of Uzbekistan dated 09.10.2019 No PR-4487.

## External PPG debt by creditors

percent, as at 31.12.2019



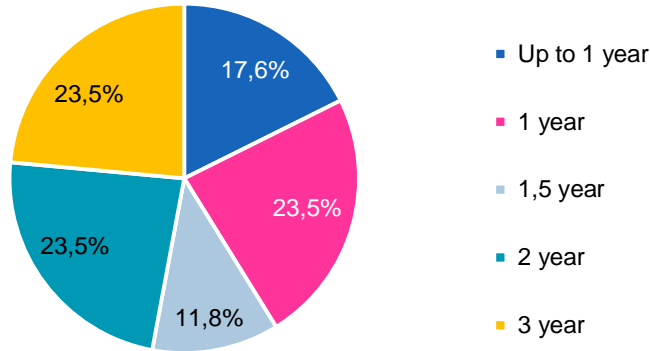
\* Islamic Development Bank



# Government securities and capital market

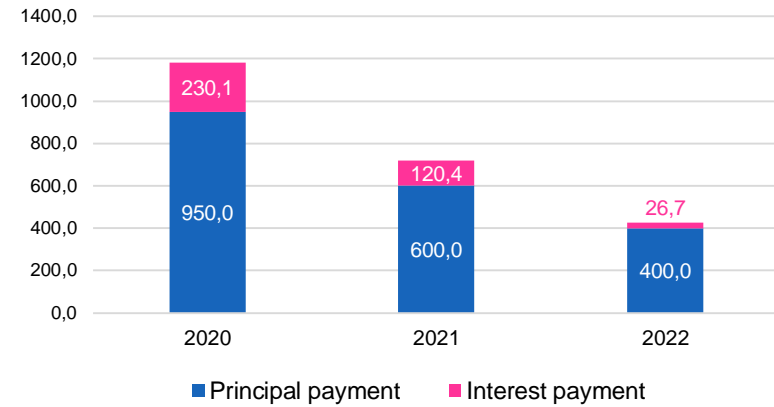
## The structure of Treasury bills and bonds

% share of total outstanding Treasury bills and bonds as at 1 April 2020



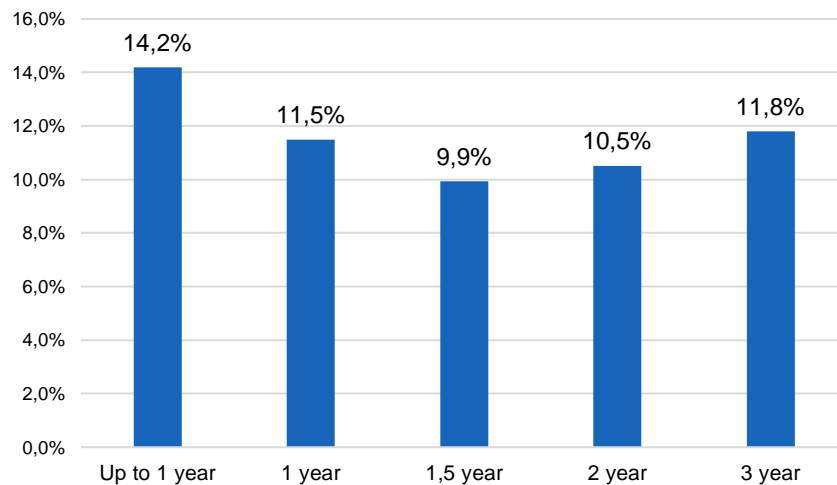
## Servicing the Government bills and bonds in 2020-2022

UZS bn, based on existing portfolio as at 1 April 2020



## Weighted average interest rate of government securities

Based on existing portfolio as at 1 April 2020



## Development of local capital market

□ **The Capital market development Strategy** was prepared with the support of the EBRD and ADB using the recommendations of the consultants of BTA (Brian Taylor) and ISC International Securities Consultancy). The Strategy envisages:

- increasing the demand for securities by expanding and diversifying the investor base, as well as increasing financial literacy;
- Increasing the supply of new financial products by increasing the number of issuers and improving corporate governance;
- diversification of types of bonds available;
- reducing the dependence of the economy on the banking sector;

□ CBU, MoF, CMDA and other respective parties are working on **lifting the barriers on domestic securities market** for foreign investors.



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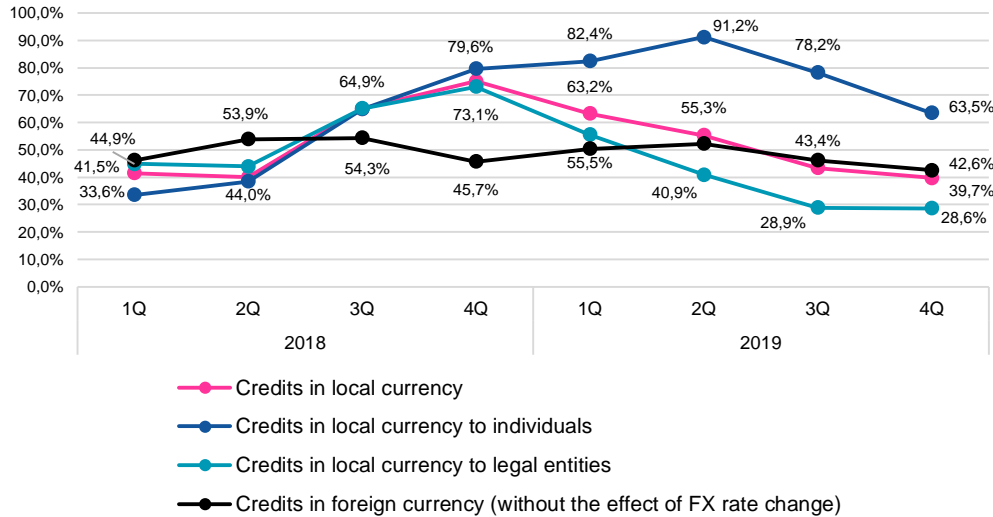
# 4 Monetary Policy and External Sector



# Credits to the economy and dollarisation

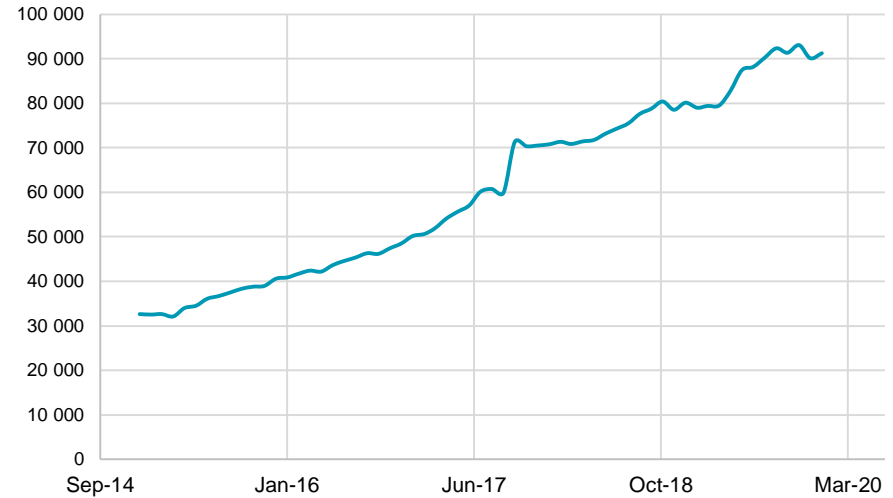
## Credit growth

Annual percent change (%)



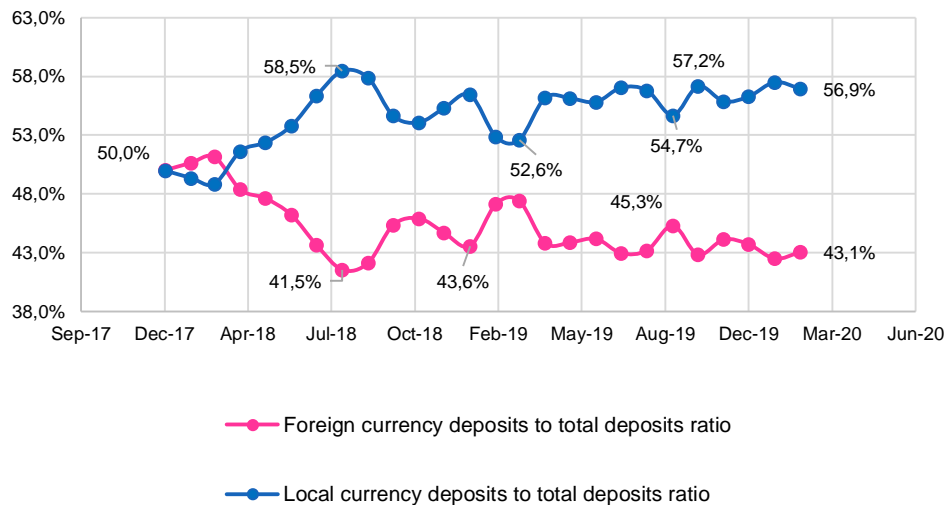
## Broad Money (M2)

UZS bn



## Financial dollarisation

% of Total deposits



## Measures taken to decrease credit growth and dollarization in the economy:

- Starting from January 1, 2020, interest rates on preferential loans (including loans within a state program) will be set at the level of the Central Bank refinancing rate and at market interest rates from 2021;
- According to CBU, in 2020, as a result of implementation of a coordinated monetary and macro prudential policy, the credit growth in the economy is expected to come back to its fundamental trend and **be about 20-25 percent (excluding the effect of exchange rate change) in proportion to nominal GDP growth rate;**
- As a result of tightening monetary conditions, which significantly rises interest rates on deposits in national currency, creates conditions for **reducing the level of dollarization in the banking system;**
- External borrowing will be on-lent in national currency** at CBU refinancing rate. Hedging strategies are being developed to reduce a currency risk.

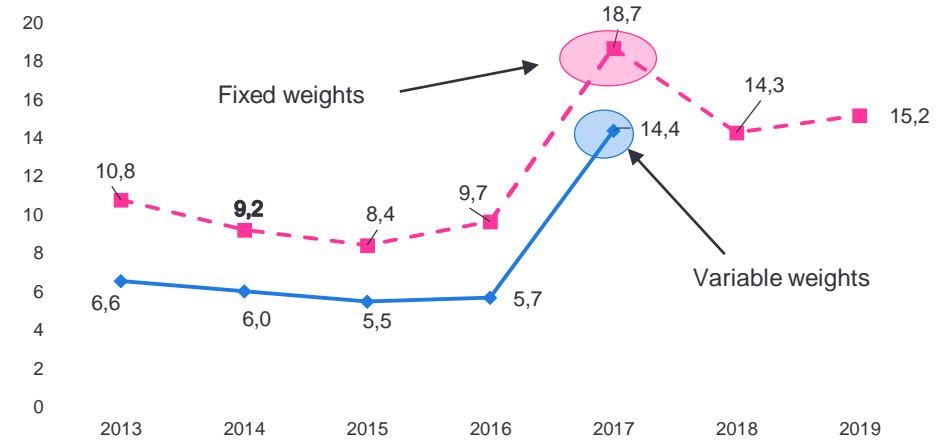


# Prices

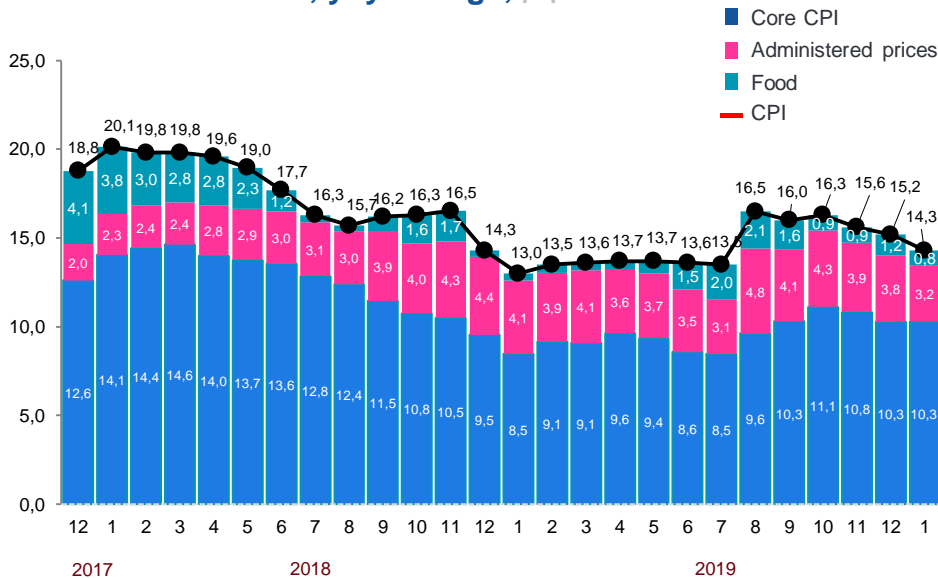
- ❑ In March 2020, the annual CPI amounted to 13,6%, the same with the corresponding month of previous year, monthly CPI increased by 0,1 points compared to February 2020 and fell by 1,5 points compared to December 2019
- ❑ The annual inflation rate in 2019 was 15,2% and remained at the upper limit of the Central bank's forecast corridor;
- ❑ During the 4<sup>th</sup> quarter of 2019, the inflation rate slowed down due to the stabilization of tariffs and services, strengthening prudential banking liquidity controls, and preparations to reduce credit market segmentation by moving to market mechanisms of credits, as well as measures to optimize government spending over previous quarters.

## CPI inflation, yoy, eop

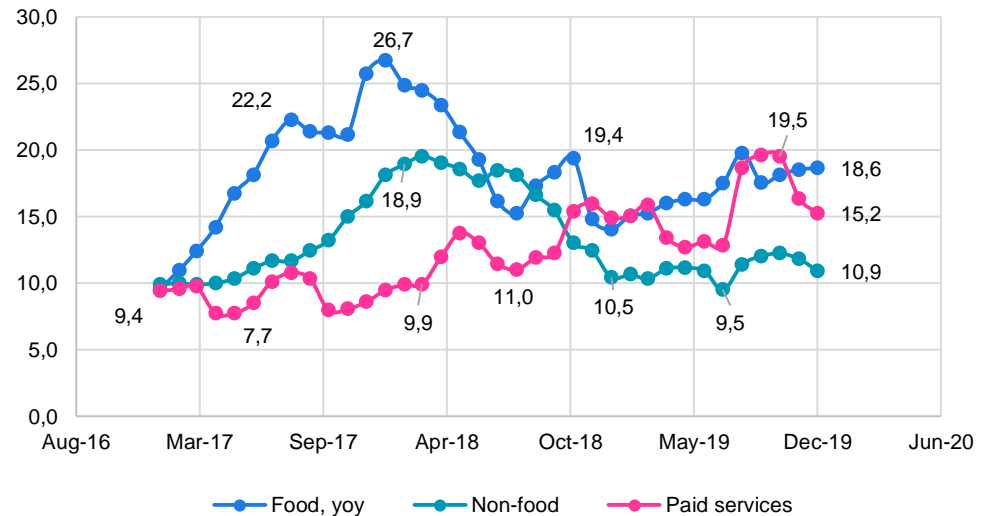
Annual percent change (%)



## Contribution to CPI, yoy change, p. p.



## CPI, yoy change, %





# Expected inflation factors in 2020:

Inflation rate (eop) is projected at 12%-13,5% in 2020 \*

## Monetary and fiscal factors

Change in credit growth in the economy ↓

State budget expenditure growth (excluding UFRD) ↓

Exchange rate devaluation ↓

## Non-monetary factors

Increase of utility tariff prices (gas, electricity and petroleum) ↑

Change of food prices ↓

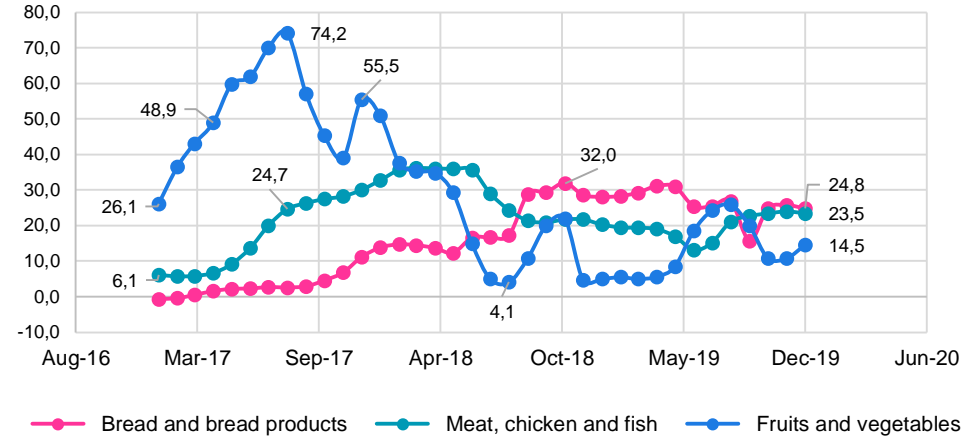
## Tax and customs

- VAT reduction (from 20% to 15%)
- Increase of excise tax rate for alcohol and tobacco products
- Increase of import duties (sugar – 20%, flour – 10%, vegetable oil – 5%) ↓ ↑

- ↑ - Inflation increasing factors;
- ↓ - Inflation reduced factors.

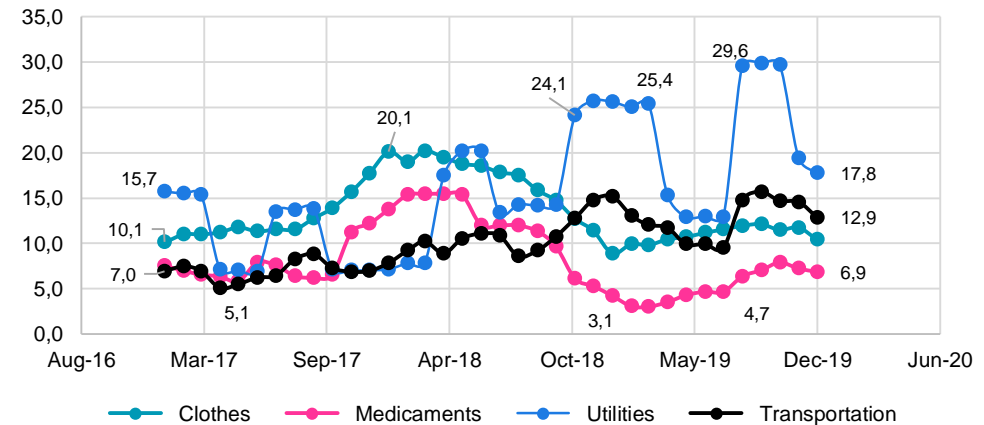
\* Actual as at 11.03.2020. The inflation corridor forecast may change in April, 2020 due to external risks and current situation in global markets

## Prices for food products, yoy, % (fixed weights)



Source: Statistics Committee of Uzbekistan

## Prices for non-food products, yoy, % (fixed weights)



Source: Statistics Committee of the Republic of Uzbekistan





# Central Bank pursuing macroeconomic stability through effective monetary policy

## Active anti-inflationary monetary policy:



### Moderately tight monetary terms

Increase in refinancing rate from 9% to 14% in June 2017, 16% in September 2018



### New approach to FX interventions based on «Neutrality of FX Reserves»

Sterilization of additional liquidity in the banking system with no impact on the UZS fundamental market trend



### Interim regime of transition to inflation targeting based on monitoring wide range of operational targets

Interbank interest rates.



### Enhanced communication with population and business community



### New rules for mandatory reserves of credit institutions

- Reserve requirement rates decreased to lower burden on banks;
- Reserves are held only in national currency;
- Differentiated reserve requirements to stimulate dedollarization and “long term money”.



### Capacity building to improve forecasts and analysis

- Launch of evaluation of inflationary expectations and factors of inflation in the economy in January 2018
- Model based inflationary forecasts



## Anti-inflationary monetary policy

### Actions planned:

Improving operational capacity of Central Bank through enhancing monetary policy tools and strengthening transmission mechanisms:

- Enhancing open market operations (auctions, local currency deposits, repo);
- Launching policy rate with upper and lower bounds as operational target;
- Increasing transparency and enhancing communication channel;
- Ensuring consistency in fiscal and monetary policies.



## Policy coordination with Ministry of Finance

Presidential decree #5877 dated 18.11.2019 “On improving monetary policy with a step-by-step transition to the inflation targeting regime” has been adopted:

From 1 January 2020, Central Bank of Uzbekistan adopted measures for step-by-step transition to inflation targeting regime according to which:



- in 2021, inflation rate is projected to decline to 10 percent;
- from 2023, inflation rate is targeted at 5 percent;



**The basic principles of monetary policy of the Central Bank of the Republic of Uzbekistan:**



*The use of a wide range of monetary policy instruments to regulate interest rates in the money market and manage inflationary processes;*



*Conducting a detailed macroeconomic analysis and forecasting;*



*improving the communication policy of CBU*



Adoption the concept of joint actions of the Government and the Central Bank of the Republic of Uzbekistan to reduce inflation and ensure price stability;



Adoption of the roadmap on reducing inflation and ensuring price stability for 2020;



Establishment of a commission to coordinate measures to reduce inflation and ensure price stability which report to President Administration about the execution of actions.



### Policy coordination with Ministry of Finance:

According to Presidential decree #5877 dated 18.11.2019 “On improving monetary policy with a step-by-step transition to the inflation targeting regime”, Ministry of Finance will ensure:

- a consistent reduction in the overall fiscal balance deficit to a level not exceeding 1,5 percent by 2022;
- strict implementation of the State budget within the framework of the established parameters, as well as the coordination of the fiscal and monetary policies with the Central Bank.

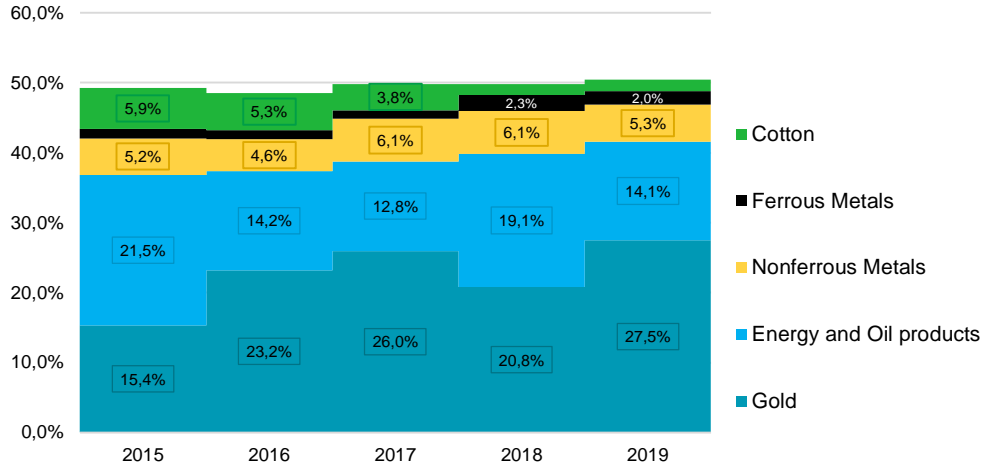
The Memorandum “On cooperation on the qualitative generation of public finance statistics, establishing channels for the rapid exchange of data, integration with the system of national accounts and international statistical reports” has been signed among Ministry of Finance, Central Bank and State Committee on Statistics.



# Diversified Reserves Provide Strong Buffer to External Shocks

## Diversified commodity exports

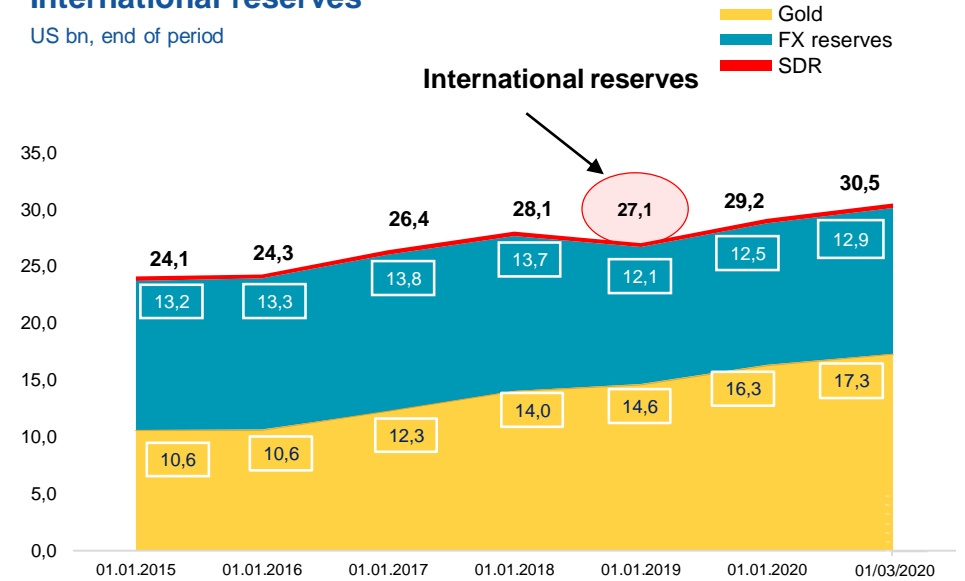
% share of total exports of goods and services



\* The increasing share of gold is mainly explained by the rise in price for gold

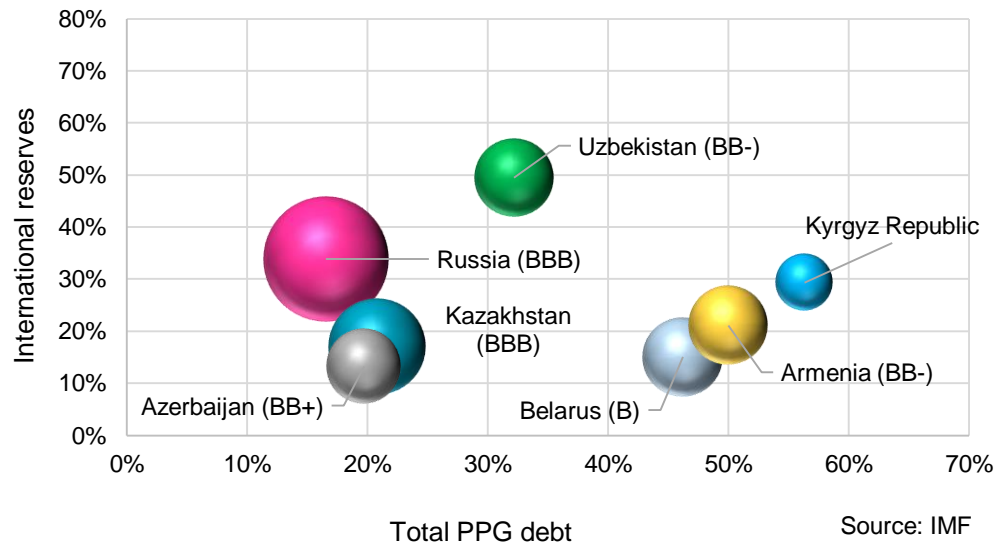
## International reserves

US bn, end of period

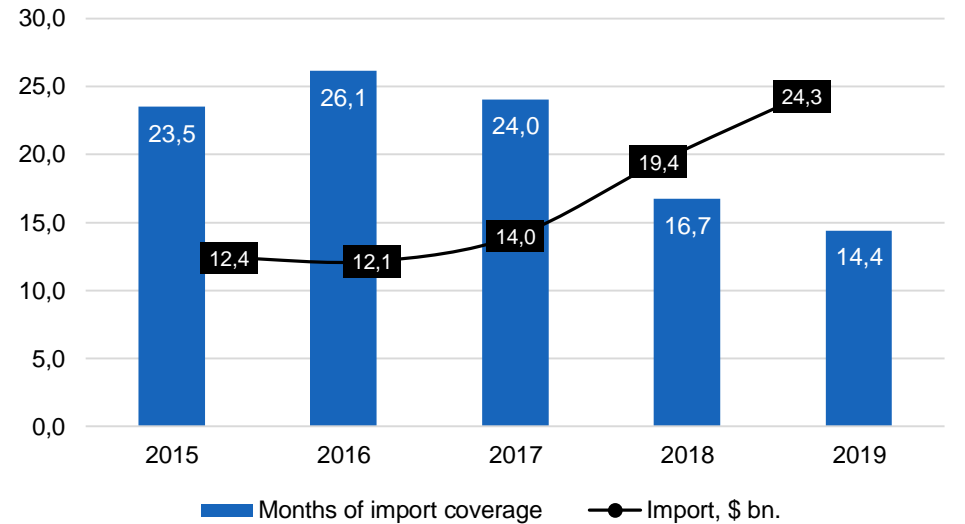


## Diversified international reserves and public debt

as a % ratio to GDP



## Months of import coverage of international reserves



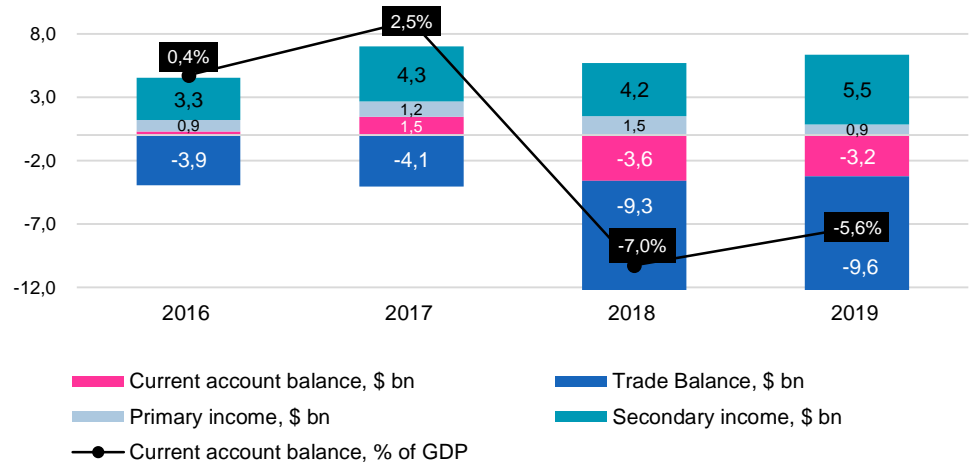


## Decreasing current account deficit

- Net FDI accounted for USD 2.3 bn in 2019, an increase by three fold compared to 2018. Continuing economic reforms and improving foreign relations will support FDI inflows in the coming years;
- Current account deficit improved significantly in 2019 making up USD 3.2 bn (USD 3.6 bn in 2018) mainly due to rise in gold prices (main export commodity);
- In 2019, the import of machinery and equipment consisted of 44% of imports of goods and services;
- Increase in remittances inflows and higher amount of exports during 2019 helped to improve current account deficit by bringing it close to 5,6% of GDP;
- It is expected that the abolishment of the practice of lending on a preferential basis, the limitations to external borrowing and shrinking fiscal deficit will contribute to the reduction of current account deficit.

## Current Account

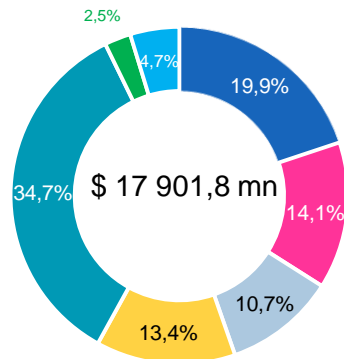
USD bln, as of GDP (%)



## Export structure in 2019

USD bn

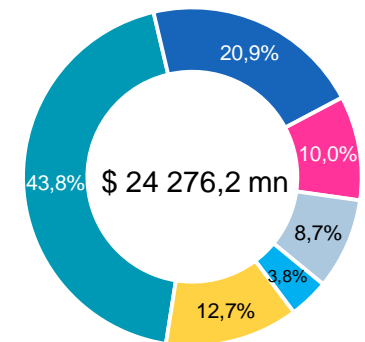
- Services (19,9%)
- Energy and oil products (14,1%)
- Cotton fiber and textile (10,7%)
- Food and chemical products (13,4%)
- Gold and metal products (34,7%)
- Machinery and equipments (2,5%)
- Others (4,7%)



## Import structure in 2019

USD bn

- Machinery and equipment (43,8%)
- Food and chemical products (20,9%)
- Services (10,0%)
- Metal products (8,7%)
- Energy and oil products (3,8%)
- Others (12,7%)



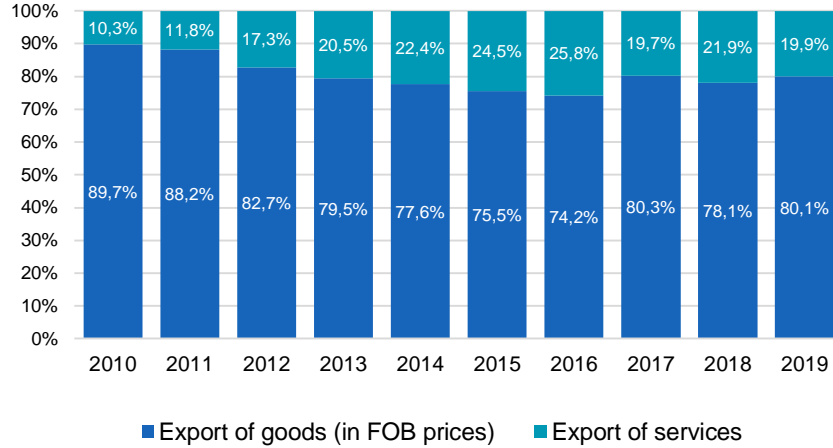
Source: Statistics Committee of Uzbekistan, Central Bank of Uzbekistan



# Foreign Trade

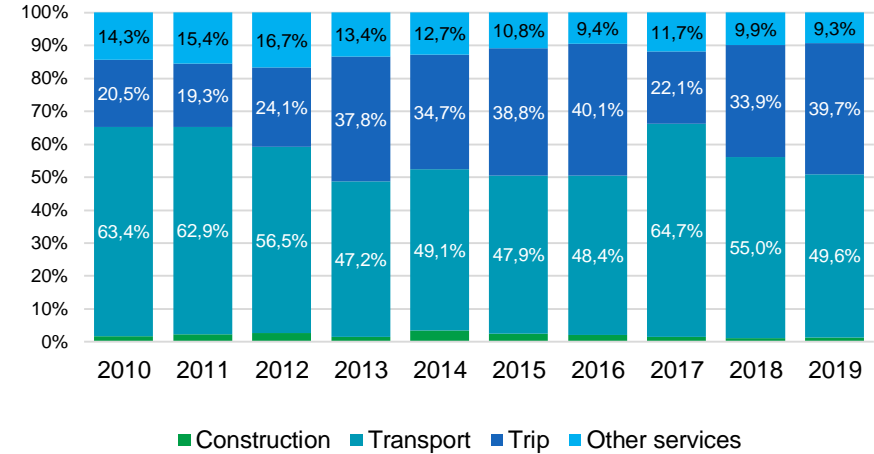
## Export of goods and services

% share of total exports



## Export structure of services

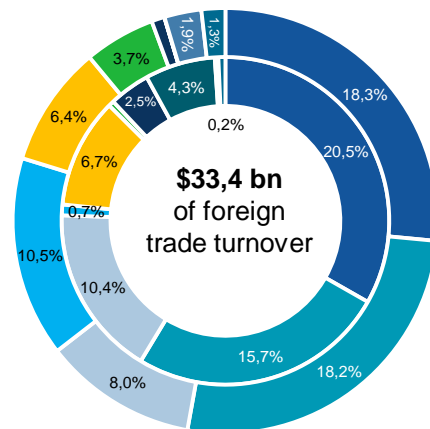
% share of total exports



## Top 10 trade partners in 2018

% share of total (the outer pie represents imports structure, the inner one - exports structure)

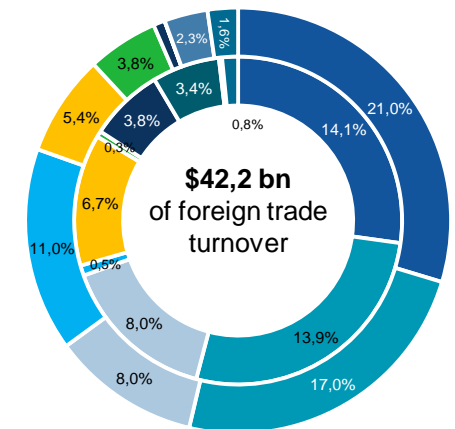
- China
- Russia
- Kazakhstan
- South Korea
- Turkey
- Germany
- Kyrgyzstan
- Afghanistan
- USA
- Turkmenistan



## Top 10 trade partners in 2019

% share of total (the outer pie represents imports structure, the inner one - exports structure)

- China
- Russia
- Kazakhstan
- South Korea
- Turkey
- Germany
- Kyrgyzstan
- Afghanistan
- USA
- Turkmenistan





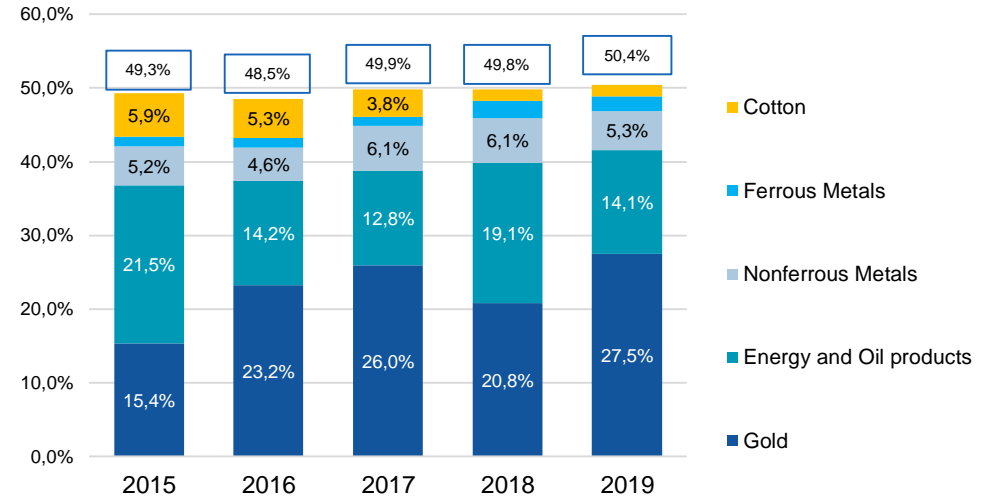
# Commodity exports

## Commodity exports

USD mn				
No	Types of products	2018 actual	2019 actual	Change in %
1.	Cotton	222,1	281,6	+26,8%
2.	Ferrous metals	320,3	349,6	+9,1%
3.	Nonferrous metals	851,5	951,3	+11,7%
4.	Energy and oil products	2 666,8	2 524,9	-5,3%
5.	Gold	2 909,5	4 918,3	+69,0%

## Commodity exports are diversified

share in export of goods and services, %

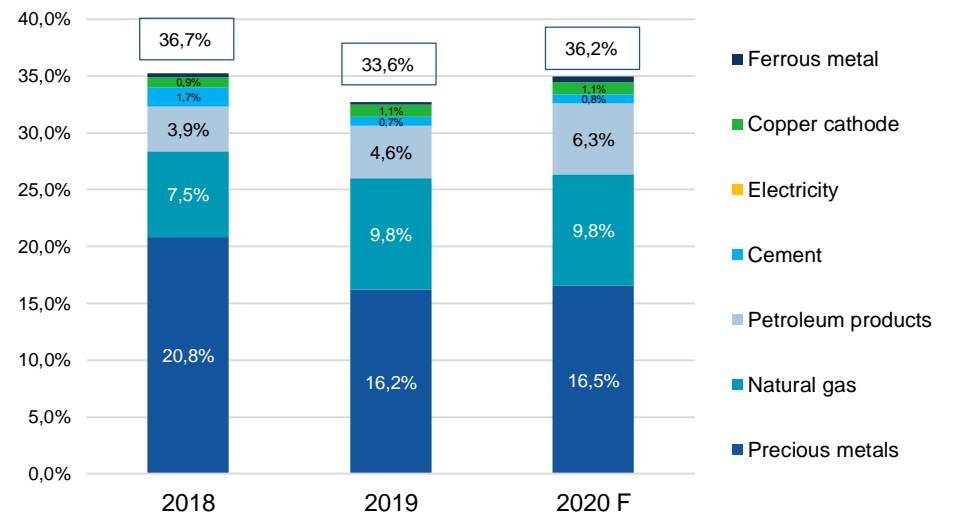


## Commodity derived revenues

UZS bn				
No	Types of products	2018 actual	2019 actual	2020 forecast
<b>State budget revenues, of which:</b>		<b>79 099,1</b>	<b>112 165,0</b>	<b>128 460,0</b>
<b>By main products</b>		<b>29 024,5</b>	<b>37 717,7</b>	<b>46 535,6</b>
1.	Precious metals	16 487,4	18 198,2	21 234,5
2.	Natural gas	5 969,6	10 973,1	12 600,7
3.	Petroleum products	3 102,9	5 203,7	8 028,9
4.	Cement	1 356,0	832,1	1 016,8
5.	Electricity	1 136,0	1 033,7	1 603,9
6.	Cathode copper	713,6	1 260,0	1 350,0
7.	Ferrous metal	256,0	216,8	700,8

## Diversified commodity derived revenues,

share in state budget revenue, %



Source: Central Bank of the Republic of Uzbekistan



# 5 Institutional indicators





## Priority ratings and indices

### Entrepreneurship

Doing Business Index

76  
2019 | **69**  
2020



Logistics Performance Index

118  
2016 | **99**  
2018



### Competitiveness

Global Competitiveness Index

N/A



Competitive Industrial Performance Index

N/A



Statistical Capacity Indicators

51,1  
2017 | **54,4**  
(score)  
2018



### Innovation & Technology

The Global Innovation Index

N/A



E-Government Development Index

80  
2016 | **81**  
2018



### Politics & Law

Worldwide Governance Indicators

2017 | **2018**



Rule of Law Index

94  
2019 | **92**  
2020



Corruption Perceptions Index

158  
2018 | **153**  
2019



Democracy Index

156  
2018 | **157**  
2019



Worldwide Press Freedom

165  
2018 | **160**  
2019



### Economics & Finance

Index of Economic Freedom

140  
2019 | **114**  
2020



Sovereign credit ratings (Fitch / S&P)

BB-  
2018 | **BB-**  
2019



Country Risk Classification (OECD)

6-group  
2018 | **5-group**  
2019



Open Budget Index

N/A



### Worldwide Governance Indicators 2018

Political Stability & Absence of Violence/ Terrorism

131  
2017 | **136**



Government Effectiveness

142  
2017 | **139**

Regulatory Quality

191  
2017 | **184**

Rule of Law

186  
2017 | **182**

Control of corruption

184  
2017 | **183**

Voice and accountability

197  
2017 | **191**

### Prosperity

Human Development Index

105  
2018 | **108**  
2019



Sustainable Development Goals

52  
2018 | **52**  
2019





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Thank you!

For any inquiries regarding  
the Presentation do not  
hesitate to contact us:

Phone: +998712394812  
Email: [dmo@mf.uz](mailto:dmo@mf.uz)