IMF Country Report No. 19/129

REPUBLIC OF UZBEKISTAN

May 2019

2019 ARTICLE IV CONSULTATION —PRESS RELEASE AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with the Republic of Uzbekistan, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its May 6, 2019 consideration of the staff report that concluded the Article IV consultation with the Republic of Uzbekistan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 6, 2019, following discussions that ended on March 1, 2019, with the officials of the Republic of Uzbekistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 19, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 19/155
FOR IMMEDIATE RELEASE
May 9, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with the Republic of Uzbekistan

On May 6, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Uzbekistan.

In 2018, GDP growth picked up moderately to 5 percent as adverse weather impacted agriculture and bottlenecks in energy and water slowed economic growth, despite strong investment growth. Consumer inflation had fallen to 14½ percent by end-2018, but rapid credit growth, price liberalization, public wage adjustments, and high inflation expectations will maintain price pressures in 2019. A shift towards more liberal exchange rate and trade regimes in 2017 along with expansionary credit policies in 2018, pulled in additional imports causing a decline in Uzbekistan's current account balance from a small surplus in 2017 to a 7 percent of GDP deficit in 2018. Nonetheless, Uzbekistan has substantial external buffers with reserves at 13 months of imports and external debt a moderate 35 percent of GDP at end-2018.

The fiscal stance remained prudent in 2018 with the overall fiscal deficit, which includes policy lending, staying around two percent of GDP and public debt remaining at 20 percent of GDP. VAT and mining revenues surged but were offset by higher social expenditures and policy lending. In 2019, the authorities began implementing a major tax reform designed to simplify taxes, expand the standard corporate tax regime and value added tax, while reducing the tax burden on private firms and workers.

The central bank tightened monetary policy in 2018, raising the refinancing rate from 14 to 16 percent and using foreign exchange sales to sterilize liquidity generated by substantial purchases of domestic gold. Following nominal depreciation of 60 percent in 2017, the exchange rate remained relatively constant in 2018 and appreciated in real terms. However, credit to the economy grew more than 50 percent driven in part by a substantial increase in policy lending. State banks account for about 85 percent of banking system assets and their main function is to

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

support government investment and development plans. Nonetheless, bank soundness indicators continue to look reassuring. The central bank has begun using macroprudential tools to more actively contain risks, while continuing to upgrade its supervisory capacity and intervention tools.

Progress continued on structural and institutional reforms, but the reform agenda remains large. Currently, the government is accelerating state enterprise reforms by creating an asset management agency, unbundling responsibilities in the energy and transportation sectors, and identifying enterprises for restructuring or privatization. Other reforms focus on additional price liberalization, improving labor skills, implementing land reforms, streamlining regulations, and improving public governance. Uzbekistan has embraced the Sustainable Development Goals, with a focus on education, health, gender equality, infrastructure, and financial inclusion.

Executive Board Assessment[2]

Executive Directors welcomed the implementation of a first wave of economic reforms, including foreign exchange liberalization and tax reform, which has supported robust growth and helped transition toward a more open and market-based economy. Looking ahead, Directors encouraged the authorities to sustain and prioritize the reform momentum to maintain macroeconomic stability, boost inclusive growth, and spur private sector job creation.

Directors encouraged the authorities to continue their tight monetary policy to contain inflation, while bringing credit growth in line with external and internal stability requirements. Containing credit growth and phasing out directed credit would help limit inflationary pressures, avoid excessive external deficits, and prevent a potentially costly boom-bust cycle. Directors supported continued exchange rate flexibility, which would allow the economy to adjust in line with economic fundamentals. They encouraged the authorities to implement greater central bank independence.

Directors welcomed the authorities' prudent fiscal policy, which has kept the overall fiscal deficit and public debt at moderate levels. They supported the authorities' intention to reduce policy lending in 2019 and welcomed the commitment to include all off-budget fiscal operations in the 2020 budget. While Uzbekistan has significant investment needs, Directors agreed it would be important to resist pressures to scale up spending, which could have a procyclical economic impact. Directors commended the authorities' decision to proceed with a major tax reform, and advised its careful implementation, while standing ready to introduce additional measures as needed, particularly in the event of reduced revenues from state enterprises.

---

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

While reported bank soundness indicators are strong, Directors considered that state-owned banks need to address lingering balance sheet issues and improve governance. They supported the authorities' efforts to develop a strategy to restructure the banking sector, upgrade supervisory capacity in line with international best practice, and use macroprudential tools more actively.

Given the challenging structural reform agenda, Directors encouraged the authorities to prioritize reforms to address distortions and boost job creation. They supported efforts to improve the business environment, including by reducing the cost of doing business and strengthening public governance. Directors stressed the need to reform state-owned enterprises by improving corporate governance and allowing privatization or minority stakes. Streamlining and making the regulatory framework more predictable would encourage private entrepreneurship and stronger foreign investment. Directors strongly supported Uzbekistan's efforts to tackle corruption by boosting public education and legal, regulatory, and institutional reforms. They urged the authorities to continue to improve the quality and transparency of economic data.

Directors welcomed the authorities' agenda for inclusive growth anchored by the Sustainable Development Goals, including plans to help vulnerable groups by improving skills training, boosting funding for active labor market programs, providing greater support for migrants, and reforms to the labor market.

Uzbekistan: Selected Economic Indicators, 2016-21

	2016	2017	2018	2019	2020	2021
			Est.	Proj.	Proj.	Proj.
National income 1/						
Real GDP growth (percent change)	6.1	4.5	5.1	5.5	6.0	6.0
GDP per capita (in U.S. dollars)	2,576	1,810	1,550	1,832	2,095	2,353
Population (in millions)	31.6	32.1	32.6	33.0	33.5	34.0
Prices			(Percent change)			
Consumer price inflation (eop)	9.8	19.8	14.3	15.6	12.4	9.1
GDP deflator	8.7	18.4	28.1	21.7	15.6	11.7
External sector						
Current account balance (percent of GDP)	0.4	2.5	-7.1	-6.5	-5.6	-4.8
External debt (percent of GDP)	18.6	34.1	34.5	34.0	35.5	32.2
Exchange rate (in sums per U.S. dollar; eop)	3,231	8,120	8,340	…	…	…
Real effective exchange rate (2015=100 ave, - = dep)	84.3	65.9	60.2	…	…	…
Government finance			(Percent of GDP)			
Budget revenues	24.4	23.7	26.6	24.1	24.3	24.7
Budget expenditures	24.3	23.0	26.1	24.8	25.3	25.7
Budget balance	0.1	0.7	0.5	-0.6	-0.9	-1.0
Revenues (adjusted) 2/	25.4	24.7	27.9	25.4	25.4	25.6
Expenditures (adjusted) 2/	23.8	22.9	25.6	24.8	25.0	25.4
Consolidated fiscal balance	1.6	1.8	2.2	0.6	0.4	0.3
Policy-based lending	2.1	3.6	4.3	2.2	2.2	2.1
Overall fiscal balance	-0.5	-1.9	-2.1	-1.6	-1.8	-1.8
Public debt	8.6	20.2	20.6	23.2	24.7	24.7
Money and credit			(Percent change)			
Reserve money	22.2	84.8	-0.8	14.4	16.5	15.9
Broad money	23.5	40.3	14.4	21.0	20.3	18.4
Credit to the economy	28.4	103.0	50.8	25.0	20.1	18.8

1/ In March 2019, the government revised national accounts data for 2014-2018.

2/ IMF staff adjusts budget revenues and expenditures for extrabudgetary funds (primarily the Fund for Reconstruction and Development), lending and borrowing, and externally financed expenditures.

INTERNATIONAL MONETARY FUND

REPUBLIC OF UZBEKISTAN

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

April 19, 2019

KEY ISSUES

Context. Given its bulging working-age population, creating more and better jobs is the country's overarching priority. Uzbekistan has already implemented a first wave of important economic reforms, including foreign exchange liberalization, tax reform, and a major upgrade in statistics. Faced with a vast structural reform agenda, the authorities want to prioritize reforms that address the economy's most damaging distortions first. The main short-term macroeconomic stability challenge is to prevent a credit boom that could generate excessive external deficits and aggravate inflation pressures.

Outlook and Risks. High investment should boost growth and job creation; a weaker-than-projected external environment is the main short-term downside risk to growth. Inflation will likely remain elevated, in part reflecting much-needed relative price adjustments to correct resource misallocation. The current account deficit has increased sharply, mostly reflecting a surge in imports of capital goods, but external stability risks remain low due to high foreign exchange reserves and low external debt. A sustained credit boom is the main downside risk for both inflation and the external position.

Macro Stabilization. A tight monetary stance and moderate fiscal deficits need to be maintained to support macroeconomic stability. Credit growth will need to slow significantly to assure the economy's external and internal balance.

Financial Sector. Reported bank soundness indicators remain reassuring, but they may underestimate risks given the largely state-owned banking system. Given the state's dominance in the sector, the scope for using macroprudential policies is limited. The authorities need to restructure banks to create a more level playing field for allocating credit and to build the trust needed to mobilize new funding sources from the private sector.

Structural Reform Priorities. Reforms should focus on: (i) alleviating resource constraints, especially skilled labor, energy, land, and finance; (ii) lowering business costs, especially burdensome taxes and customs procedures; and (iii) addressing public governance weaknesses, especially fighting corruption while improving public administration, courts, and regulations.

Inclusive Growth. The Sustainable Development Goals (SDGs) are anchoring the country's inclusive growth agenda, especially on education, health, public infrastructure, and financial inclusion. Moreover, the authorities are redesigning labor policies from scratch to help unskilled and other disadvantaged workers find more and better jobs.

Statistics. The authorities have made significant progress. Nonetheless, much remains to be done, especially improving quality and availability of national account and labor statistics.

Approved By
Thanos Arvanitis
Maria Gonzalez

Discussions took place in Tashkent from February 19 to March 5, 2019. The team included Messrs. Cabezon, Dwight, and Jaeger (all MCD), Mr. Sheik Rahim (FAD), and Ms. Kostina (local office). Mr. Inderbinen (ED) attended the concluding meeting. The mission held discussions with Deputy Prime Minister and Minister of Finance Kuchkarov, Central Bank Chair Nurmuratov, Minister of Labor Kudbiev, and other senior officials. It also met with representatives of the private sector, other international financial institutions, embassies, and universities.

CONTENTS

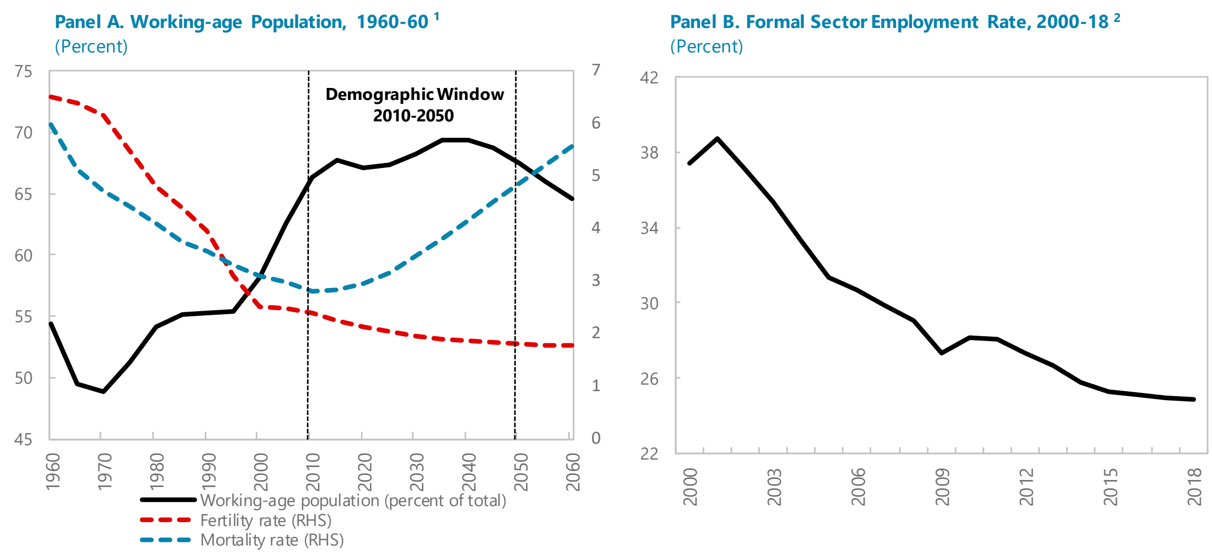
TABLES

ANNEXES

CONTEXT

1. **Reflecting a rapid demographic transition, Uzbekistan's foremost economic challenge is to create more and better jobs**. The working-age population as a share of total population has surged since the 1990s (Figure 1, Panel A). The bulge in available labor supply offers a window of opportunity for rapid and inclusive catch-up growth. In particular, following in the footsteps of other Asian countries, more job creation, higher savings, and increased human and real capital investments could generate a virtuous growth circle. Contrasting with this inclusive growth vision, over the last two decades, job creation in the formal sector fell increasingly short of the rapidly expanding labor supply (Figure 1, Panel B). Some job creation is reported to have taken place in Uzbekistan's informal economy, where jobs tend to be less protected, less safe, and lower paid, but millions of workers had to seek jobs abroad. In 2016, President Mirziyoyev initiated ambitious economic reforms to tackle the country's job malaise.

Figure 1. Uzbekistan: Demographics, Labor Supply, and Employment



1/ 2015-60 Medium-variant projections.

2/ Estimates of employment in formal sector as a percent of working-age population.

Sources: United Nations World Population Prospects 2017; country authorities; and IMF staff estimates.

2. **The reform agenda aims to redress a legacy of heavily mis-allocated resources.** Uzbekistan's state-led growth model tended to direct resources to capital-intensive production by large state-owned enterprises (SOEs), favoring mining, energy, and chemicals, while agriculture continued to operate largely in Soviet planning mode. The growth model also prescribed accumulating large foreign exchange (FX) reserves, discouraged mobility of jobless workers, and was not welcoming to foreign investments. Balancing and propping up this growth model required a maze of distorting economic policies, including import substitution, FX restrictions, directed credits, and micro-managing SOEs and state banks.

3. **Since taking office in 2016, the new government has completed a first wave of important economic reforms.** FX liberalization came first: it not only unified the official and the parallel exchange rates at a heavily depreciated rate but also eliminated all FX restrictions subject to IMF jurisdiction. Tax reform was the next priority, foremost to foster job creation by reducing the punishing tax burden on private firms and workers. Finally, the availability and quality of economic statistics improved substantially.

4. **One major theme of the Article IV discussions was the need to prioritize structural reforms.** Reforms so far have rightly focused on high-impact, broadly popular, and administratively workable priorities, with FX liberalization the exemplar of this pragmatic approach. But the outstanding economic reform agenda remains vast; the authorities were therefore keen to discuss how to set priorities to address the economy's most binding constraints on investment and entrepreneurship.

5. **A second major theme was avoiding the specter of a boom-bust credit cycle.** Keeping credit and investment growth in line with macroeconomic stability requirements is a new challenge for the authorities. Under the state-led growth model, a key goal was to run current account surpluses and accumulate large FX reserves, a policy objective that imposed a binding constraint on expanding credit and investment. The new policy regime has relaxed this constraint. At the same time, potential funding of credit from domestic and external financing sources is plentiful, while the country's investment needs are massive.

6. **A third major theme was reorienting policies toward more inclusive growth.** While it succeeded in reducing poverty rates significantly, the state-led growth model paid scant attention to the labor market difficulties of the large numbers of unskilled and other disadvantaged workers. To remedy this, the authorities are anchoring their inclusive growth agenda on the UN's Sustainable Development Goals (SDGs) and have started a major overhaul of their labor policies.

OUTLOOK, RISKS, AND REGIONAL SPILLOVERS

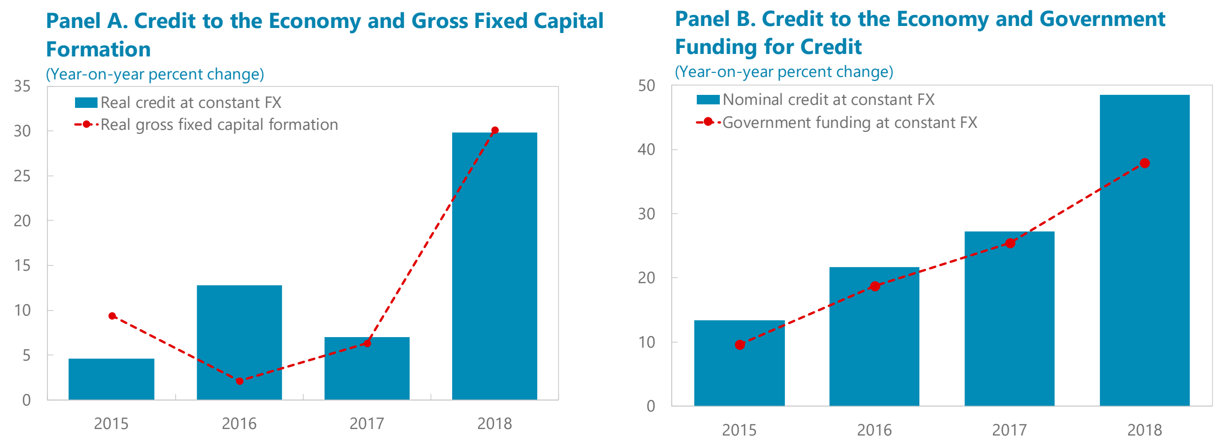
A. Economic Developments

7. **Credit and investment have surged.** Nominal credit to the economy expanded by about 50 percent in 2018, financing a massive increase in imports of capital goods as well as funding investments in housing and infrastructure following decades of underinvestment (Figure 2, Table 2). The government funded and directed a large part of the credit expansion by shifting deposits to banks and through policy-based lending operations (see Annex I for details).

8. **Despite investment booming, growth and job creation have picked up only moderately.** The response of the economy's supply side was muted by the absence of significant cyclical slack and by the presence of binding intermediate input bottlenecks, such as energy and water shortages. In addition, production in agriculture was adversely affected by bad weather conditions. With rapid nominal domestic demand growth in 2018 mainly absorbed by higher imports

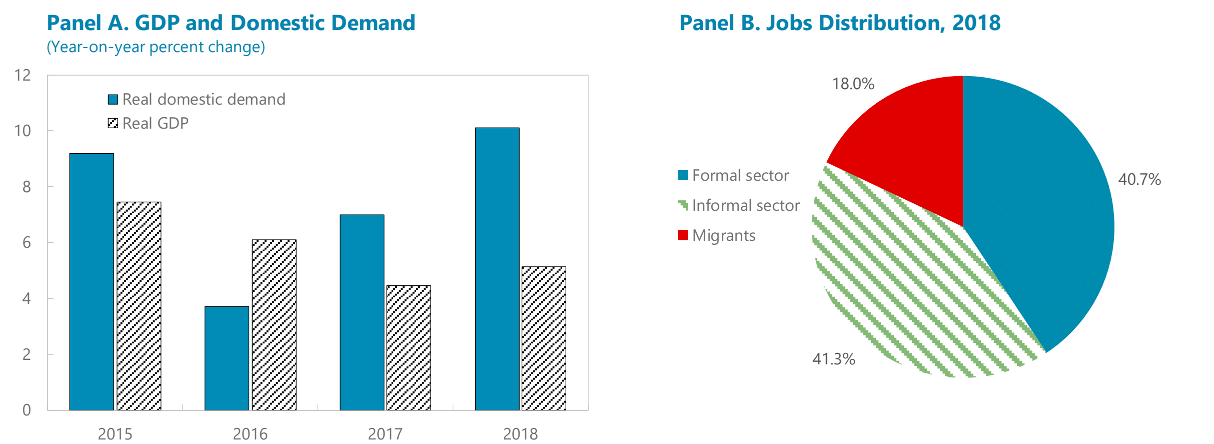
and inflation, real GDP expanded by 5 percent, following 4½ percent growth in 2017 (Table 2). Available labor market data suggest that the pickup in activity has so far made little dent in the pool of unused labor resources, while, based on remittances data, the number of workers abroad continued to expand.

Figure 2. Uzbekistan: Credit and Investment, 2015-18



Sources: Country authorities; and IMF staff estimates.

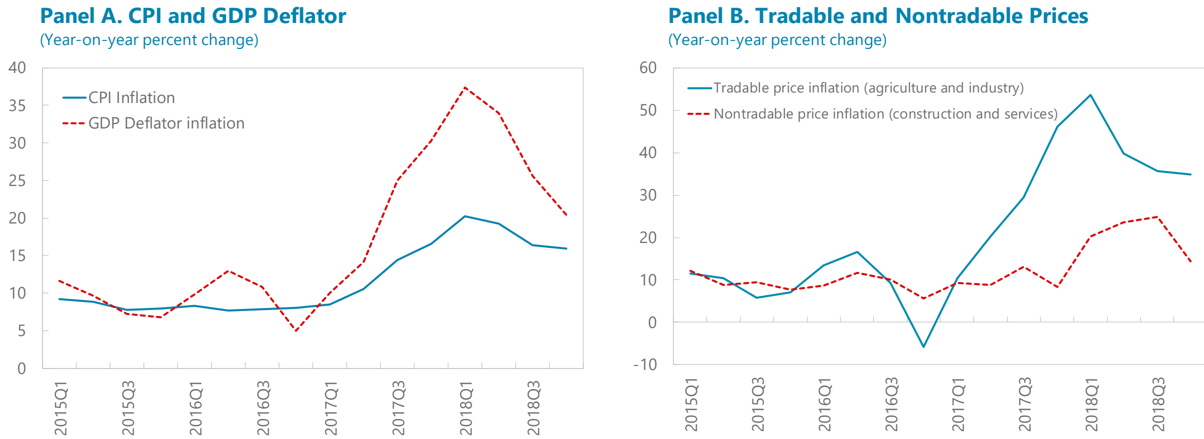
Figure 3. Uzbekistan: Growth and Labor Market, 2015-18



Sources: Country authorities; and IMF staff estimates.

9. **While consumer inflation declined during 2018, several factors coalesced to keep inflation pressures elevated.** FX liberalization, first steps at liberalizing prices, relative public wage adjustments, and rapid credit and domestic demand growth have acted as potent push and pull factors on inflation since reforms started in 2017. Reflecting the dominance of the exchange rate depreciation effect, consumer price index (CPI) inflation peaked at 20½ percent at the beginning of 2018 but receded to 14½ percent by year end (Figure 4). Expectations of high inflation remain well entrenched, and alternative inflation indicators, especially the GDP deflator, indicate high underlying price pressures, with tradable goods prices still rising at rates well above the CPI.

Figure 4. Uzbekistan: Inflation, 2015-18



Sources: Country authorities; and IMF staff estimates.

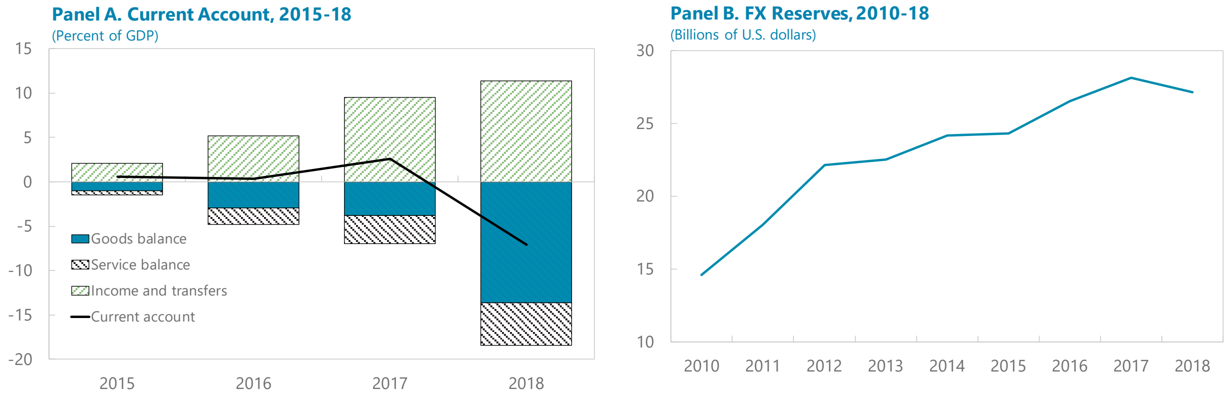
B. External Sector Assessment

10. **The external position has deteriorated significantly, reflecting several structural and policy shifts** (Table 3, Figure 5). First, FX and trade liberalization constituted a regime change, removing policy props that had repressed imports in the past. Second, the real exchange rate depreciated by about 50 percent, improving external cost competitiveness and compensating for Uzbekistan's heavily distorted economy. Third, FX reserve accumulation policy switched to a broadly neutral stance, halting the relentless buildup of FX reserves, while the Central Bank of Uzbekistan (CBU) allowed some nominal exchange rate flexibility in response to shifts in fundamentals. And fourth, the shift toward expansionary credit policies pulled in additional imports, especially capital goods needed to modernize the economy. The combination of these changes increased the current account deficit in 2018 to 7 percent of GDP, after a surplus of 2¼ percent of GDP in 2017. The Fund's revised external balance approach (EBA) suggests that the 2018 external deficit norm for Uzbekistan is centered on 4½ percent of GDP, compared with an underlying current account deficit of 5½ percent of GDP (Annex II). Thus, and the authorities agreed, Uzbekistan's external position is presently moderately weaker than implied by economic fundamentals and desirable policies.

11. **External stability risks remain low.** Risks are contained by large FX reserves, a strong international investment position, and external debt levels projected to remain moderate over the medium term (Table 7).[1] The discussions also suggested that FX market participants continue to be able to make payments and transfers for current transactions without impediments. On capital flow liberalization, the authorities rightly plan to proceed cautiously with removing strict outflow controls.

[1] See also the report's supplement on the sustainability of external debt.

Figure 5. Uzbekistan: External Sector



Sources: Country authorities; and IMF staff estimates.

C. Outlook and Risks

12. **Staff's economic outlook is predicated on the following assumptions**:

- ***External demand and prices***: Trading partners' import demand and relevant commodity prices, except gold, are projected to temporarily soften in 2019. The external assumptions are subject to significant downside risks, a concern shared by the authorities.
- ***Monetary policy***: The CBU maintains its neutral FX reserve accumulation policy, i.e. it sterilizes domestic purchases of gold with matching FX sales, allows the nominal exchange rate to move in line with fundamentals, and adjusts its refinancing rate in response to changes in prospective inflation pressures.
- ***Credit policy***: Credit growth in 2019 is assumed to be brought back in line with nominal GDP growth in the 25-30 percent range, mainly by scaling back directed and preferential lending. A large upward deviation from this credit growth benchmark is a key short-term stabilization risk.
- ***Fiscal policy***: The overall fiscal stance remains broadly unchanged in 2019 and beyond. Given the country's hard-wired fiscal conservatism, there is little risk of significant deviations from official budget targets. However, there is a risk that fiscal policy could behave pro-cyclically and that policy-based lending and off-budget operations, which are not captured by the official budget targets, could be scaled up.
- ***Structural reforms***: The government maintains reform momentum across a wide range of policies; slowing reform momentum is a key medium-term domestic policy risk.

13. **Staff projects continued high growth with modest job creation, persistent but sustainable external deficits, and significant but contained inflation pressures** (Tables 1-3):

- ***Growth*** is projected to pick up to 5½ percent in 2019 and to 6 percent in 2020, reflecting mainly higher investment and normalization of agricultural production growth.

- ***Job creation***, formal sector employment is projected to pick up to about 1½ percent, supported by lower labor taxes but also formalization of jobs as more firms are brought into the tax net.
- The ***external position*** is expected to stay in deficits of about 6 percent of GDP during 2019-20, but external debt levels will remain moderate and decline over the medium term.
- And ***CPI inflation*** is projected to decline only gradually to low double-digits by end-2020, as CPI inflation is likely to remain highly persistent, and there will be continued pressures from price liberalization and relative wage adjustments.

Authorities' views

14. **Their projections largely coincided with staff projections.** They saw, however, the possibility of higher growth as some investments may boost growth only with a delay. The authorities also argued that pass-through to consumer prices of energy price increases for businesses and the expansion of VAT to more firms would be less than assumed in staff's inflation projections.

D. Regional Spillovers

15. **Uzbekistan has taken the lead on improving regional cooperation.** The previous state-led growth model sought to minimize regional trade and infrastructure interdependencies. Given Uzbekistan's central geographic location and large population size, this stance cast a pall over regional trade and cooperation. Since the start of reforms, significant progress has already been made in boosting regional trade and promoting regional integration, including by reconnecting regional energy and transportation networks as well as by defusing the region's age-old disputes about water rights.

POLICY DISCUSSIONS

A. Maintaining a Prudent Fiscal Policy

16. **The fiscal stance in 2018 remained prudent.** The official budget balance reported by the government yielded a surplus of ½ percent of GDP, an over-performance of ¾ percent of GDP relative to the budget (Table 4). Additional revenue from FX liberalization, favorable commodity prices, and improvements in tax collections was partly saved, providing counter-cyclical support to the economy. Staff's preferred measure to gauge the impact of fiscal policy on the economy—the overall fiscal balance—adjusts the government's reported revenue and expenditure for off-budget transactions and includes an estimate of policy-based lending operations. In 2018, with policy-based lending the main deficit driver, the overall fiscal deficit amounted to 2 percent of GDP, the same overall fiscal deficit as in 2017.

Box 1. Risk Assessment Matrix [1]

Risk	Description	Likelihood / Timeframe	Possible Impact *(if realized)* / Transmission Channels	Policy Advice
External Risks and Spillovers				
Weaker-than-Expected Global Growth	The **global growth** slowdown could be become synchronized and deepen as weakening outlooks in the U.S, Europe, and China feed off each other.	**Medium** **Short** to **Medium-Term**	**Medium** A slowdown in global or regional growth could result in weaker exports, a reduction in remittances from migrant workers, and weaker confidence and investment, all of which could slow growth and job creation.	In the ***near term***, counter-cyclical stimulus could be provided through additional fiscal spending, while allowing the nominal exchange rate to adjust to external circumstances. In the ***medium term***, foster more resilience to external demand shocks via structural reforms, including reducing barriers to trade, especially costs of customs procedures, and better enforcing competition in product markets.
Large swings in energy prices	Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks. In the near term, uncertainty surrounding the shocks could translate into elevated price volatility, complicating economic management and adversely affecting investment in the energy sector. As shocks materialize, they may cause large and persistent price swings.	**Medium** **Short** to **Medium-Term**	**Medium** In 2018, Uzbekistan's net energy exports were about 4 percent of GDP. Lower energy prices could worsen the trade balance, fiscal revenue and could contribute to investment uncertainty. Conversely, higher energy prices could improve the trade balance, while providing additional fiscal revenue.	Allow the nominal exchange rate to adjust to persistent external price shocks. Allow automatic fiscal stabilizers to operate in the short term; correct the fiscal position over the medium term if external price shocks are persistent. Continue structural reforms to provide incentives to diversify exports.

Box 1. Risk Assessment Matrix [1]

Risk	Description	Likelihood / Timeframe	Possible Impact *(if realized)* / Transmission Channels	Policy Advice
Intensification of Security Risks	Heightened socio-economic or political disruptions in parts of Africa, Asia, Europe, Latin America, and/or the Middle East have regional/global spillovers.	**High** **Short** to **Medium-Term**	**Low** Regional conflict or security risks outside Uzbekistan could disrupt regional trade, tourism, or foreign investment.	Emphasize that Uzbekistan will maintain consistent policies and commitment to reforms. Provide fiscal stimulus, if needed, to counteract a decline in growth.
Domestic Risks				
Continued Credit Boom	Continued rapid credit growth leads to higher inflation, excessive external imbalances, and aggravates misallocation of resources.	**Medium** **Short** to **Medium Term**	**High** Could lead to a boom-bust credit cycle with adverse implications for growth and stability (see Annex I for details).	Bring credit growth in 2019 and beyond in line with external and internal stability requirements.
Slowing of Reform Momentum	Disappointment or impatience with reform results or reform paralysis because of a lack of prioritization overwhelms implementation capacity.	**Medium** **Medium Term**	**High** Improvements in the investment climate and regional cooperation could slow or reverse. Investor expectations are disappointed and recent improvements in country risk perceptions reverse.	Emphasize that the previous growth model failed and that experiences of other economies show major reforms take many years to show results. Prioritize reforms to remove the most binding constraints on private investment and job creation.
Bank Credit Constrained by Funding Gaps Over the Medium Term	Cutbacks on government funding of banks could create funding gaps if the banking system does not manage to tap alternative and more diversified funding sources over the medium term.	**Medium** **Medium Term**	**High** Banks would be limited in their ability to intermediate the economy's savings to fund investment projects and support more inclusive growth.	Foster macroeconomic stability, especially low and stable inflation. Improve public and bank governance to assure depositors or potential foreign bank investors that their property rights will be respected.

Box 1. Risk Assessment Matrix [1]

Risk	Description	Likelihood / Timeframe	Possible Impact *(if realized)* / Transmission Channels	Policy Advice
Fiscal Revenues Decline Over the Medium Term as SOEs Are Reformed	SOEs account for a large share of fiscal revenue, and SOE reforms and restructuring are likely to limit the ability of SOEs to carry their present elevated tax burden.	**High** **Medium-Term**	**Medium** Fiscal revenue could decline, putting pressure on the fiscal deficit. Alternatively, the government may continue to rely on high taxes from SOEs, delaying SOE reform and boosting quasi-fiscal deficits.	Implement tax reforms to improve tax collections, including by bringing the informal economy into the tax net. Improve corporate governance and performance in SOEs.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within one year and three years, respectively.

17. **The planned fiscal stance in 2019 will continue to support macroeconomic stability.** The official budget balance is projected to shift from a surplus to a deficit of ½ percent of GDP, mainly reflecting the cost of the 2019 tax reform (Table 4). But with policy-based lending projected to decline significantly, in line with the need to curb credit growth, the overall fiscal deficit is expected to decline to 1½ percent of GDP. If revenue over-performs again in 2019, as is likely given fast nominal wage growth, staff recommends resisting pressures for pro-cyclical spending increases. The recent US$1 billion Eurobond will add to already ample available external financing available from official creditors at concessional terms. As in 2018, the authorities plan to deposit part of excess financing in banks. Domestic debt issuance is planned to be limited and designed primarily to support financial sector development. The government should resist potential pressures to use excess financing to scale up policy-based lending or off-budget operations.

18. **Public debt is projected to remain moderate over the medium term, but additional spending needs will likely have to be accommodated.** Overall fiscal deficits of close to 2 percent of GDP would stabilize the public debt at about 25 percent of GDP, providing an appropriate fiscal anchor in a lower-income country accustomed to fiscal prudence (Table 7).[1] However, preliminary staff estimates of additional spending needed to achieve the UN's Sustainable Development Goals (SDGs) on health, education, and selected public infrastructure point to significant future spending pressures (see Annex III). Phasing out policy-based lending would open up some fiscal space; there would also seem to be significant scope for mobilizing additional revenue given that Uzbekistan's revenue-to-GDP ratio (25 percent of GDP) is presently well below CIS peers (34 percent of GDP).

19. **At the same time, declining future fiscal collections from SOEs pose a significant risk.** SOEs—which account for only 13 percent of formal sector employment—currently provide a large share of revenues, and experiences in other transition economies demonstrate that SOE reforms could crimp these collections significantly. Improving corporate governance in SOEs and continued tax reform efforts should go a long way toward forestalling this risk.

Authorities' views

20. **The authorities agreed that fiscal risks will need be monitored carefully to avoid destabilizing shifts in future fiscal policies**.

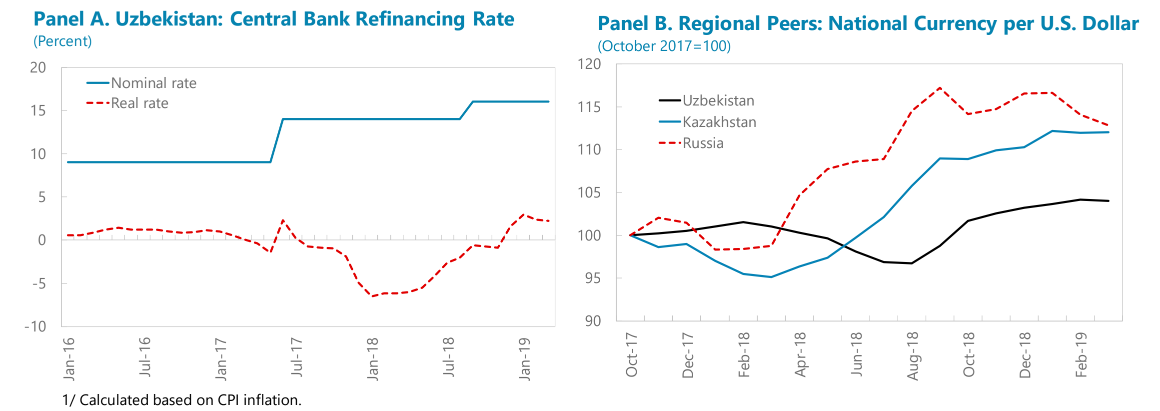
B. Continuing a Tight Monetary Policy and Reducing Credit Growth

21. **Given persistent inflationary pressures, the authorities agreed the monetary stance should remain relatively tight.** The Central Bank of Uzbekistan (CBU) aims to gradually bring CPI inflation back to single digits. After increasing the refinancing rate last year from 14 to 16 percent, the CBU is aiming at keeping liquidity in line with the tighter monetary stance, even if such operations are costly (Figure 6). However, at this point, the CBU's policy tools have only limited impact on monetary and credit conditions due to the heavy segmentation of the credit market. Credit growth will need to be contained by reducing policy-based lending and other directed credit

[1] See also the report's supplement on the sustainability of public debt.

operations outside the budget. The nominal exchange rate has moved broadly in line with underlying fundamentals, especially depreciations in key trading partners. However, staff recommends that CBU FX interventions to sterilize liquidity generated by purchases of domestic gold—which amounted to 7¼ percent of GDP in 2018—become gradually more regular and predictable. The mission also noted that for the central bank to conduct monetary policy and financial oversight effectively, the proposed new CBU law needs to provide the CBU with sufficient independence.

Figure 6. Uzbekistan: Monetary Policy and Exchange Rate



Sources: Country authorities; and IMF staff estimates.

Authorities' views

22. **The CBU argued that the FX market remains shallow and is prone to high volatility without market-smoothing interventions**, and significant changes to the FX market structure may have to await the emergence of a more market-oriented banking system. Moreover, the CBU noted it had largely followed its pre-announced FX "neutrality rule" to sterilize liquidity injected through its gold purchases.

23. **There was also agreement that the rapid expansion of credit—both in quantity and quality—needs to be contained with three objectives in mind:**

Ensuring macroeconomic stability: A continued credit boom could turn into a credit bust, with adverse implications for growth and stability (see Annex I for an illustrative simulation). There was broad agreement that bringing credit growth closer to projected nominal GDP growth during 2019-20 would not unduly constrain growth and job creation but could reduce the risk of excessive inflation and external imbalances.

Reducing credit misallocation: Directing credit to fund low-return investments in capital-intensive sectors is not an effective way to create jobs. The authorities should phase out directed credit over the next few years to improve credit allocation.

Increasing transparency of preferential credit: Where there is a good public policy rationale for extending preferential credit, the subsidy component of preferential credit should be reported in the budget, as is already the case for credit subsidies covered by the *Fund to Support Entrepreneurship*.

Authorities' views

24. Regarding macroeconomic stability, they noted that Presidential Decree No. 4141 dated January 31, 2019, mandates the government and the CBU to develop a proposal by May to contain future credit growth in line with internal and external stability objectives.

C. Building a Growth-Promoting Financial Sector

25. **The banking system remains heavily shaped and directed by the state, limiting the effectiveness of macroprudential policies.** State banks account for about 85 percent of the banking system's assets. The banks' main function remains to support the country's investment and development plan by extending credit, with the government providing directives, funding, capital, and guarantees as needed. Against this backdrop, unsurprisingly, reported bank soundness indicators continue to look reassuring, although liquidity indicators have tightened due to rapid credit growth (Table 8). But, following FX liberalization, several large unhedged SOEs suspended servicing some of their FX credits, signaling there are bank balance sheet issues that will need to be addressed as part of a restructuring of state banks. Notwithstanding the state's continued large influence on bank decisions, the CBU has started to more actively use macroprudential tools to contain risks, including by introducing a capital conservation buffer and higher risk weights for specific household loans. The CBU also continued to upgrade its supervisory capacity and intervention tools. At the same time, notwithstanding growing concerns in other countries in the region, there is no evidence of significant withdrawals of correspondent banking relationships in Uzbekistan.

26. **A strategy for restructuring the banking system is urgently needed.** The strategy—planned to be elaborated with the help of the World Bank—will at a minimum need to set directions on the future mix of public and private banks, determine the restructuring needs of banks earmarked for public or private operation, and decide on an approach to attract private participants to the sector.

27. **To obtain funding in the future, a restructured banking system will need to gain the trust of the private sector.** Currently, banks intermediate less than 10 percent of non-government savings, a significantly lower share than observed in more mature transition economies. As the government gradually reduces funding, banks will need alternative funding sources to support an expanding economy. This will require ensuring macroeconomic stability, especially low and stable inflation; assuring depositors that they are adequately protected; and building trust in banks' governance. Adopting a new banking law based on international best practices would support these requirements.

Authorities' views

28. **They agreed that mobilizing domestic savings and attracting foreign bank expertise will be critical for building a financial sector that promotes growth.** The CBU stressed that improving financial literacy and inclusion is a key ingredient toward building a more inclusive financial system. The Ministry of Justice noted that the new banking law would need to adhere to the country's overall legal framework, including addressing potential concerns that the law could give too much regulatory power to the CBU.

D. Prioritizing Structural Reforms

29. **Prioritizing Uzbekistan's vast structural reform agenda is challenging.** Reforms are needed across all policy areas; for example, a recent government's economic reform roadmap lists more than 500 priorities. Given a heavily distorted economy, it is unrealistic to address all such distortions in a short time. At the same time, the authorities are keen to quickly improve Uzbekistan's attractiveness as investment location, especially in order to attract more FDI. To deal with this challenge, the authorities have been using an eclectic mix of approaches, including international competitiveness rankings, expert road maps, and growth diagnostics to pinpoint reform priorities.

30. **An investor survey pointed to a number of promising reform priorities.** Staff surveyed domestic and foreign investors regarding the impact of reforms so far and the urgency of additional reform efforts in about 30 structural policy areas (Annex IV). Responses regarding the urgency of additional reforms can be grouped under three headers:

Availability of economic resources: Investors viewed tackling constraints on the availability of skilled labor, energy, land, and finance as especially urgent. These are also factors often cited as preconditions for a country's ability to successfully absorb large FDI inflows.

Cost of doing business: Investors pointed to the cost of customs procedures, high tax rates, and tax compliance as especially binding constraints; investment incentives were also seen as in need of a major reform overhaul.

Quality of public governance: Respondents identified fighting corruption and enforcing the rule of law, especially regarding competition and contracts, as especially important. They also highlighted the need to make government policies more predictable and improve the quality of public information.

Authorities' views

31. **They welcomed staff's attempt to add a new perspective to the reform prioritization debate.** They noted that the survey results in some areas confirm their own views, especially on availability of economic resources, while other results will require more reflection.

Reforms Targeting Availability of Economic Resources[1]

32. **SOE reform will be key to improve resource allocation.** In the past, SOEs absorbed disproportionate shares of skilled labor, energy, and financial resources, while facing weak competition enforcement and enjoying a wealth of investment preferences. Staff therefore welcomed the authorities' decision to accelerate SOE restructuring along three prongs. First, the new Agency for Management of State Assets has been given a mandate to strengthen corporate governance. Second, the government has started unbundling SOE activities in the energy and transportation sectors, and it has also made some progress on separating SOE management, supervision, and regulation. Third, the government is classifying SOEs into those that will be privatized, opened for minority stakes, or remain under full state ownership.

33. **Price liberalization is closely linked to SOE reform.** During the second half of 2018, the government liberalized bread prices and brought energy prices for businesses closer to cost-recovery levels. But significant cost recovery gaps remain, and the mission encouraged continued price adjustments, especially in the energy sector, to reduce SOE losses, save energy, and attract foreign investors to the energy sector. To reduce policy uncertainty, future price increases should follow a pre-announced calendar. To alleviate the impact on vulnerable households, the government plans to continue to improve targeting and coverage of social benefits.[2]

34. **Improving labor skills has been a long-standing reform concern; land right reform is underway.** Private ownership of non-agricultural land will be permitted starting in July 2019, while reforming use rights for agricultural land is a priority over the medium term. The World Bank has been providing comprehensive advice on improving labor skills, especially through tertiary education.

Authorities' views

35. **They noted that SOE reform should benefit from studying earlier experiences in other transition economies.** They agreed that further price liberalization is needed, but also noted the difficulty of striking the right balance between achieving cost recovery, adding to inflationary pressures, avoiding economic disruptions, and affecting the vulnerable.

Reforms Targeting Reducing Cost of Doing Business

36. **Tax reform is viewed as a multi-year undertaking.** The 2019 tax reform has simplified taxes, significantly reduced labor taxes in the formal private sector, and cast the VAT net much wider. In fact, the number of firms covered under the standard tax regime has expanded from 7,000 to 35,000 firms. Further reforms should prune tax and customs preferences, which are often granted to specific firms, equalize labor taxes across firms, and provide more efficient incentives for foreign

[1] The need to build a growth-promoting financial sector is covered in Section C.

[2] The World Bank is assisting the government in developing a unified social registry, a first step toward modernizing the social safety net.

investment. Regarding tax administration and compliance cost, measures are underway to reorganize the headquarters, establish a large tax-payer office, and strengthen the governance of field offices.

37. **Efforts to liberalize the foreign trade regime are gathering momentum as part of the WTO accession process.** As a double-landlocked country, Uzbekistan already faces high trading costs due to geographic challenges, which are further compounded by the high costs, time delays, and uncertainties imposed by present trade regulations. The authorities noted that applying WTO principles, including the *Trade Facilitation Agreement*, would help address regulatory weaknesses in trade facilitation and import licensing.

Authorities' views

38. **Tax reform remains a top priority to improve the attractiveness of Uzbekistan as an investment location**, and the authorities are keen to take full advantage of the Fund's and the World Bank's comprehensive, multi-year, technical assistance package.

Reforms Targeting Strengthening Public Governance

39. **Fighting corruption is a high priority.** The authorities pointed out that one of the first laws adopted by the new government was Uzbekistan's *Law on Combating Corruption*. The government's anti-corruption strategy is being implemented through legal, regulatory, and institutional measures, including on procurement. At the same time, the relevant implementation agencies will need to build capacity in enforcing measures. The government is also focusing on educating citizens and officials on anti-corruption policies and stepping up prevention and enforcement efforts, especially in the socially-sensitive areas of education and health.

40. **The regulatory framework is undergoing significant upgrades.** The authorities noted that streamlining and rationalizing the vast number of existing regulations, even in a relatively narrow field like competition regulations, is a Herculean task. Areas that are receiving particular attention include the legal and regulatory frameworks in the airline, wholesale trade, and energy sectors. A recent Presidential decree separated *Uzbekistan Airways* into separate companies to manage the airline, airports, and air navigation while transferring regulatory responsibilities to the government. Regarding wholesale trade, the government recently abolished trading licenses and advance payment requirements. On energy, the government has established a new tariff commission under the Cabinet of Ministers with the goal of adjusting prices to cost recovery levels.

41. **Fiscal transparency will continue to be strengthened.** Since 2017, Uzbekistan has made important progress toward improving fiscal transparency, albeit starting from a lagging position. The publication of a first citizen's budget was a major step toward strengthening fiscal transparency. The 2019 budget also included for the first time medium-term fiscal projections and a discussion of fiscal risks. The government is committed to include all fiscal operations, including off-budget spending, in the 2020 budget. It will also conduct a comprehensive assessment of fiscal risks, particularly risks related to SOEs, and establish a strong legal framework for regulating Public Private Partnerships (PPPs).

Authorities' views

42. **They noted that in some reform areas, including competition and contract enforcement, progress may appear slow because they first need to install and build implementation capacity.** On public governance, they expressed some frustration that international governance and transparency rankings seem slow to respond to changes on the ground.

E. Fostering Inclusive Growth

43. **The UN's SDGs are anchoring Uzbekistan's inclusive growth agenda.** The authorities have fully embraced the SDGs to set development goals, including for education, health, gender equality, infrastructure, and financial inclusion. Moreover, achieving the SDGs would promote their key goal of creating jobs. To add specificity to the inclusive growth dialogue, staff presented preliminary staff estimates of public and private resources needed to achieve key SDG goals over the next decade (Annex III).

44. **Unskilled and other disadvantaged workers could benefit from additional support.** Pre-reform policies paid little attention to labor market issues, while actively discouraging internal and external labor mobility. Women and youth experienced higher unemployment, and those with lower incomes often migrated abroad in search of work. The authorities have started tackling these issues (Annex V). First, they now recognize that migration is a key coping mechanism for disadvantaged workers. They have created an agency to support migrants and allowed private employment agencies to operate. Second, some restrictions on internal migration have been lifted. Third, the 2018 and 2019 budgets have significantly increased funding for active labor market programs, including training, public works, and wage subsidies. It also would be desirable to complete already started reforms, including revisions of the outdated labor code and employment law.

Authorities' views

45. **They welcomed staff's SDG costing framework, noting that estimates and caveats broadly match their own assessments.** They saw better functioning of the labor market as key for promoting inclusive growth. They also noted, however, that job creation is a herculean task given the accumulated labor supply overhang, which could be further boosted by SOE restructuring or returning migrants if external downside risks materialize.

F. Improving Economic Statistics

46. **Further steps are needed to improve statistics.** Before the reforms started, available statistics were scarce and often simply confirmed achievement of economic targets. Since May 2018, key economic, financial, and social statistics can be downloaded from a National Summary Data Page. At the same time, staff's investor survey suggests that many remain skeptical about progress so far and see an urgent need for further improvements. From staff's perspective, surveillance work would especially benefit from improved national account and labor market statistics, including by revising past data. Two initiatives would further catalyze reforms. First, the Statistics Committee, the Ministry of Finance, the Ministry of Labor, and the CBU should agree on a roadmap to improve

statistics. Second, subscribing to the IMF's Special Data Dissemination Standard (SDDS) would confirm the authorities' readiness to adhere to international standards and accountability.

Authorities' views

47. **They agreed that transitioning toward SDDS should be the next step to strengthen statistics.** They also noted that the government is keen to correct and publish revised statistics in areas where there may have been inaccuracies in the past.

STAFF APPRAISAL

48. **Uzbekistan has successfully implemented a first wave of significant economic reforms.** Reflecting the overarching need to create more and better jobs, the country has adopted a wide-ranging reform agenda to open the economy, level the economic playing field, and improve public governance. Foreign exchange liberalization, tax reform, and a major upgrade in the quality and availability of economic statistics spearheaded the early reforms. Uzbekistan is also leading efforts to improve regional cooperation, key for promoting regional trade and supply chains, while reconnecting the region's public infrastructure networks.

49. **Policymakers will need to be patient to reap the full benefits of reforms.** After almost three decades of static policies, reformers face the twin challenges of redressing a legacy of mis-allocated resources while gaining the reform credibility needed to attract foreign investments. Moreover, Uzbekistan's large reform needs combined with still low implementation capacity could result in setbacks. And looking ahead, the external environment could prove less benign that presently projected.

50. **In the short run, output growth and job creation are likely to improve moderately, while tighter policies should reduce inflation gradually**. Despite a less favorable external environment, buoyant investment is projected to increase GDP growth to 5½ percent in 2019 and support formal sector employment growth. CPI inflation—14¼ percent at end-2018—will likely remain elevated in 2019 before starting to gradually decline.

51. **Staff assesses Uzbekistan's external position as moderately weaker than indicated by fundamentals and desirable policies**. Imports, especially capital and intermediate goods, surged in 2018, boosting the current account deficit to about 7 percent of GDP. Nevertheless, the Fund's external balance approach and the country's large external buffers suggest that external stability risks remain low.

52. **Restraining credit growth, especially directed credit, has emerged as the main challenge to macroeconomic stability.** Following decades of underinvestment, credit growth boomed in 2018, financing a surge in investment. A prolonged credit boom could exacerbate inflationary pressures, feed into excessive external deficits, and trigger a costly boom-bust cycle. With both domestic and external financing likely to remain plentiful, the authorities will need to exercise self-restraint to ensure macroeconomic stability.

53. **Staff welcomes the government's prudent fiscal policies**. The 2018 overall fiscal deficit amounted to 2 percent of GDP, driven by policy-based lending operations to state enterprises—mainly through the FRD. The government's present fiscal plans, which include cutting back on-lending activities, are consistent with an overall deficit of 1½ percent of GDP in 2019. Staff also welcomes the government's commitment to bring all fiscal operations on-budget in 2020.

54. **Additional tax reforms are needed to spur investment and reduce risks to medium-term revenues.** The 2019 tax reform appropriately focused on simplifying taxes, reducing taxes on labor, and broadening the VAT. However, investors see additional tax reforms, especially improved tax administration, as key to improving the investment climate. Moreover, the government should widen the tax base as restructuring state enterprises could cause a decline in tax collections.

55. **The CBU rightly intends to maintain a tight monetary stance while allowing the exchange rate to move in line with fundamentals.** The CBU has kept the refinancing rate steady since September 2018 despite declining consumer inflation, a prudent stance given that underlying inflationary pressures remain strong. Moreover, liquidity in the banking system should be kept in line with the monetary stance, even if the monetary operations needed to achieve this target are costly. The exchange rate has moved broadly in line with underlying fundamentals, including depreciations in key trading partners. However, the central bank's FX interventions to sterilize liquidity generated by purchases of domestic gold could become more regular and predictable.

56. **The main financial sector challenge is to build a banking system that can support growth over the medium term**. In the future, the banking system will need to be able to fund credit growth without resorting to the government to close funding and capital gaps. This will require boosting the efficiency of banks, increasing the public's trust in the stability and governance of banks, and improving the country's investment climate to attract foreign banking expertise.

57. **The government needs to prioritize its vast structural reform agenda**. The government is rightly concerned that an unfocused, sprawling structural reform agenda could overburden its scarce implementation capacity while delaying the economic pay-offs from reforms. Liberalization of prices and steps to restructure SOEs promise to address constraints on resources for the private sector. WTO accession and reforms to the trade regime should also help reduce cost. And the authorities' plans to improve public governance should prove especially beneficial for the investment climate.

58. **The authorities' continued efforts to improve statistics are also welcome**. In the past, non-transparent official statistics hampered surveillance, hindered effective policy making, and undermined public trust. Much has been achieved already, but more work is needed, especially on improving national accounts and labor market statistics. Joining the Fund's Special Data Dissemination Standard could underpin these efforts.

59. **It is recommended that the next Article IV consultation be held on the standard 12-month cycle.**

Table 1. Uzbekistan: Selected Economic Indicators, 2016-21

	2016	2017	2018	2019	2020	2021
			Est.	Proj.	Proj.	Proj.
National income						
Nominal GDP (in trillions of sum) 1/	242	303	408	523	642	760
Population (in millions)	31.6	32.1	32.6	33.0	33.5	34.0
GDP per capita (in US dollars)	2,576	1,810	1,550	1,832	2,095	2,353
Real sector			(Annual percent change)			
GDP at current prices	15.4	24.8	34.7	28.4	22.6	18.4
GDP at constant prices	6.1	4.5	5.1	5.5	6.0	6.0
GDP deflator	8.7	19.4	28.1	21.7	15.6	11.7
Consumer price index (eop)	9.8	18.8	14.3	15.6	12.4	9.1
Consumer price index (average)	8.8	13.9	17.5	14.7	14.1	10.6
Money and credit			(Annual percent change)			
Reserve money	22.2	84.8	-0.8	14.4	16.5	15.9
Broad money	23.5	40.3	14.4	21.0	20.3	18.4
Net foreign assets	27.1	167.3	-2.4	6.9	5.3	3.2
Net domestic assets	31.9	329.8	-9.4	-0.5	-4.3	-9.1
Net claims on government	14.5	107.8	6.9	19.6	8.3	4.2
Credit to the economy	28.4	103.0	50.8	25.0	20.1	18.8
Velocity (in levels)	4.7	4.1	4.9	5.2	5.3	5.3
			(Percent of GDP)			
Broad money	21.5	24.1	20.5	19.3	19.0	19.0
Credit to the economy	21.8	35.5	39.7	38.7	37.9	38.0
External sector			(Percent of GDP)			
Current account	0.4	2.5	-7.1	-6.5	-5.6	-4.8
External debt	18.6	34.1	34.5	34.0	33.5	32.2
External debt service ratio (percent of G&S exports)	12.8	15.3	19.5	15.2	16.1	15.6
			(Annual percent change)			
Exports of goods and services	-19.2	17.7	13.9	10.3	6.0	6.5
Imports of goods and services	1.4	13.7	42.3	8.8	4.8	4.3
Exchange rate (in sums per U.S. dollar; eop)	3,231	8,120	8,340	…	…	…
Exchange rate (in sums per U.S. dollar; ave)	2,982	5,203	8,072	…	…	…
Real effective exchange rate CPI based (2015=100, - = dep)	84.3	65.9	60.2	64.6	67.8	70.2
Gross international reserves (in billions of US dollars)	26.5	28.1	27.1	27.5	27.9	27.6
Gross international reserves (months of imports)	19.3	14.4	12.8	12.3	12.0	11.1
Government finance			(Percent of GDP)			
Budget revenues	24.4	23.7	26.6	24.1	24.3	24.7
Budget expenditures	24.3	23.0	26.1	24.8	25.3	25.7
Budget balance	0.1	0.7	0.5	-0.6	-0.9	-1.0
Consolidated revenues 2/	25.4	24.7	27.9	25.4	25.4	25.6
Consolidated expenditures 2/	23.8	22.9	25.6	24.8	25.0	25.4
Consolidated fiscal balance	1.6	1.8	2.2	0.6	0.4	0.3
Policy lending	2.1	3.6	4.3	2.2	2.2	2.1
Overall fiscal balance	-0.5	-1.9	-2.1	-1.6	-1.8	-1.8
Public debt	8.6	20.2	20.6	23.2	24.7	24.7
Labor market 3/						
Formal sector employment growth (percent)	0.8	0.4	0.7	1.8	1.5	0.8
Working-age population growth (percent)	1.0	0.9	0.9	0.8	1.0	1.0
Unemployment rate (percent)	8.0	9.0	9.3	10.4	11.3	12.1
Labor migrants (millions)	1.1	1.3	2.4	2.4	2.5	2.5

Sources: Country authorities; and IMF staff estimates.

1/ In March 2019, the government revised national accounts data for 2014-2018.

2/ Consolidated fiscal data are budget data adjusted for operations of the Fund for Reconstruction and Development (FRD), equity injections, externally financed expenditures, and policy lending.

3/ Labor market statistics were revised starting in 2018.

Table 2. Uzbekistan: National Accounts, 2016-21

	2016	2017	2018	2019	2020	2021
			Est.	Proj.	Proj.	Proj.
			(Share of GDP)			
GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Final consumption expenditures	77.9	73.1	69.5	67.1	66.1	64.9
Private	63.0	59.9	54.5	52.1	51.1	49.8
Public	14.9	13.2	15.0	14.9	15.0	15.1
Gross investment	22.1	29.0	40.2	41.4	41.3	41.4
Gross fixed capital formation	22.8	25.6	29.8	30.7	30.6	30.6
Investories and stat. discrepancy	-0.7	3.5	10.4	10.7	10.7	10.7
Net exports	0.0	-2.1	-9.6	-8.5	-7.4	-6.3
Exports of goods and services	14.9	21.8	29.1	26.9	24.6	23.0
Imports of goods and services	14.9	23.9	38.7	35.4	32.0	29.3
Gross national savings	22.1	26.9	30.5	32.9	33.9	35.1
Savings-investment balance	0.0	-2.1	-9.6	-8.5	-7.4	-6.3
			(Annual percent change)			
GDP at constant prices	**6.1**	**4.5**	**5.1**	**5.5**	**6.0**	**6.0**
Domestic demand	4.1	6.6	12.0	7.9	6.1	5.7
Final consumption expenditures	8.1	3.4	4.1	7.0	5.4	4.8
Private	9.4	3.9	4.3	6.2	5.3	4.5
Public	2.7	1.5	3.1	10.2	6.1	6.5
Gross investment	-8.7	17.7	31.7	9.5	8.0	8.0
Gross fixed capital formation	2.1	6.4	30.1	9.5	8.0	8.0
Exports of goods and services	11.1	1.3	10.7	6.0	2.2	4.3
Imports of goods and services	-2.2	15.5	39.4	12.8	3.8	3.3
			(Contribution to real growth)			
GDP at constant prices (contributions)	6.1	4.5	5.1	5.5	6.0	6.0
Domestic demand	4.1	6.6	12.2	8.7	6.8	6.0
Final consumption expenditures	6.1	2.7	3.0	4.9	3.7	3.2
Gross fixed capital formation	0.5	1.5	7.7	2.8	2.5	2.4
Inventories and stat. discrepancy	-2.6	2.5	1.5	1.0	0.6	0.3
Net exports	2.0	-2.1	-7.1	-3.2	-0.8	0.0
Deflators			(Annual percent change)			
GDP	8.7	19.4	28.1	21.7	15.6	11.7
Domestic demand	11.1	19.5	29.2	17.8	14.3	10.9
Final consumption expenditures	9.8	13.2	22.9	15.9	14.5	11.1
Private	8.2	14.1	17.6	15.7	14.1	10.6
Public	16.7	9.1	48.1	16.3	16.0	12.1
Gross investment	16.2	39.0	41.7	21.0	13.2	9.7
Gross fixed capital formation	10.9	31.3	20.6	21.0	13.2	9.7
Exports of goods and services	0.8	80.5	62.5	11.9	9.7	6.2
Imports of goods and services	16.2	73.5	56.8	4.1	6.7	5.0
Prices			(Annual percent change)			
CPI (average, in percent)	8.8	13.9	17.5	14.7	14.1	10.6
CPI (end-of-period, in percent)	9.8	18.8	14.3	15.6	12.4	9.1
Minimum wage (in thousands of sum)	322	371	426	577	687	785
Average formal sector wage (in thousands of sum)	867	986	1,240	1,522	1,811	2,071
Growth (percent)	4.7	13.8	25.8	22.7	19.0	14.3
Average government wage (in thousands of sum)	951	1,074	1,324	1,799	2,141	2,448
Growth (percent)	11.5	12.9	23.3	35.9	19.0	14.3
Employment 1/						
Formal sector employment growth (percent)	0.8	0.4	0.7	1.8	1.5	0.8
Working-age population growth (percent)	1.0	0.9	0.9	0.8	1.0	1.0
Unemployment rate (percent)	8.0	9.0	9.3	10.4	11.3	12.1
Labor migrants (millions)	1.1	1.3	2.4	2.4	2.5	2.5

Sources: Country authorities; and IMF staff estimates.

1/ Labor market statistics were revised starting in 2018.

Table 3a. Uzbekistan: Balance of Payments[1], 2016-21
(In millions U.S. dollars, unless otherwise indicated)

	2016	2017	2018 Est.	2019 Proj.	2020 Proj.	2021 Proj.
I. Current account balance	**296**	**1,480**	**-3,577**	**-3,925**	**-3,941**	**-3,795**
Balance of goods and services	-3,931	-4,058	-9,308	-9,923	-10,203	-10,281
Merchandise trade balance	-2,392	-2,216	-6,867	-7,900	-8,312	-8,493
Exports of goods	**8,645**	**10,162**	**11,386**	**12,382**	**12,827**	**13,468**
Cotton fiber	637	477	222	310	152	71
Energy	1,714	1,920	2,665	2,595	2,859	2,984
Gold	2,808	3,260	2,910	3,755	3,861	3,972
Food Products	695	876	1,098	1,416	1,646	1,770
Other exports of goods	2,792	3,629	4,491	4,306	4,309	4,671
Imports of goods	**11,037**	**12,377**	**18,252**	**20,282**	**21,139**	**21,961**
Food Products	1,440	1,147	1,424	1,461	1,609	1,705
Energy products	589	668	792	733	812	874
Machinery and equipment	5,018	4,552	7,491	8,797	8,347	7,927
Other imports of goods	3,991	6,011	8,546	9,291	10,372	11,454
Balance of services	**-1,539**	**-1,842**	**-2,442**	**-2,022**	**-1,891**	**-1,788**
Credit	1,905	2,251	2,750	3,210	3,705	4,145
Debit	3,444	4,093	5,191	5,232	5,595	5,933
Income	**934**	**1,215**	**1,523**	**1,652**	**1,770**	**1,846**
Of which: Interest	-423	-498	-549	-569	-633	-698
Transfers (net)	**3,292**	**4,323**	**4,209**	**4,345**	**4,491**	**4,639**
II. Capital transfers	**14**	**100**	**143**	**100**	**116**	**132**
III. Financial account balance 2/	**-171**	**-188**	**-2,810**	**-3,571**	**-3,757**	**-2,982**
Foreign direct and portfolio investment	**-1,659**	**-1,791**	**-635**	**-1,022**	**-1,302**	**-1,629**
Other investment	**1,487**	**1,604**	**-2,174**	**-2,550**	**-2,455**	**-1,352**
Loans, net	-1,686	-833	-1,539	-2,992	-3,105	-2,196
Public and publ. guaranteed debt	-851	-920	-2,522	-3,475	-3,444	-2,331
Commercial nonguaranteed	-835	87	983	483	338	135
Others	3,174	2,436	-635	443	651	844
IV. Errors and omissions	**72**	**-2,024**	**-939**	**0**	**0**	**0**
Overall balance (I + II - III + IV)	**552**	**-256**	**-1,564**	**-254**	**-69**	**-682**
Gold purchases not exported & valuation changes	1,645	1,888	569	602	431	451
Change in reserves (+ = increase)	**2,197**	**1,632**	**-995**	**348**	**362**	**-230**
Memorandum items:						
Current account balance (in percent of GDP)	**0.4**	**2.5**	**-7.1**	**-6.5**	**-5.6**	**-4.8**
Underlying current account (in percent of GDP) 3/	**0.9**	**3.2**	**-5.6**	**-6.5**	**-5.6**	-4.8
Exports of G&S (in percent of GDP)	13.0	21.3	28.0	25.8	23.6	22.0
Imports of G&S (in percent of GDP)	17.8	28.3	46.4	42.2	38.1	34.9
Export growth rate (G&S)	-19.2	17.7	13.9	10.3	6.0	6.5
Import growth rate (G&S)	1.4	13.7	42.3	8.8	4.8	4.3
Export of goods prices (percent)	6.4	3.5	8.9	1.8	1.4	0.6
Import of goods prices (percent)	-5.9	8.5	3.5	-0.5	0.4	0.5
FDI (in percent of GDP)	-2.0	-3.1	-1.3	-1.7	-1.9	-2.0
Gross international reserves (in billions of U.S. dollars)	**26.5**	**28.1**	**27.1**	**27.5**	**27.9**	**27.6**
Real exchange rate CPI based (2015=100)	84.3	65.9	60.2	64.6	67.8	70.2
Real exchange rate GDP deflators based (2015=100)	88.0	71.7	71.3	82.7	90.0	96.0
Gross external debt (in billions of U.S. dollars)	14.6	15.6	17.1	20.1	23.2	25.4
PPG external debt (in billions of U.S. dollars)	6.5	7.5	10.0	13.5	16.9	19.3
Total debt service payment (in billions of U.S. dollars)	1.3	1.9	2.8	2.4	2.7	2.8
In percent of exports of G&S	12.8	15.3	19.5	15.2	16.1	15.6
In percent of gross international reserves	5.1	6.7	10.2	8.6	9.5	10.0

Sources: Country authorities; and IMF staff estimates.
1/ The authorities revised the historical BOP statistics in March 2019.
2/ Positive values means outflows.
3/ Underlying current account assumes the annual gold production is exported.

Table 3b. Uzbekistan: Balance of Payments[1], 2016-21

(In percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021
			Est.	Proj.	Proj.	Proj.
I. Current account balance	**0.4**	**2.5**	**-7.1**	**-6.5**	**-5.6**	**-4.8**
Balance of goods and services	-4.8	-7.0	-18.4	-16.4	-14.5	-12.9
Merchandise trade balance	-2.9	-3.8	-13.6	-13.1	-11.8	-10.6
Exports of goods	**10.6**	**17.5**	**22.6**	**20.5**	**18.3**	**16.9**
Cotton fiber	0.8	0.8	0.4	0.5	0.2	0.1
Energy	2.1	3.3	5.3	4.3	4.1	3.7
Gold	3.5	5.6	5.8	6.2	5.5	5.0
Food Products	0.9	1.5	2.2	2.3	2.3	2.2
Other exports of goods	3.4	6.2	8.9	7.1	6.1	5.8
Imports of goods	**13.6**	**21.3**	**36.2**	**33.5**	**30.1**	**27.5**
Food Products	1.8	2.0	2.8	2.4	2.3	2.1
Energy products	0.7	1.1	1.6	1.2	1.2	1.1
Machinery and equipment	6.2	7.8	14.8	14.5	11.9	9.9
Other imports of goods	4.9	10.3	16.9	15.4	14.8	14.3
Balance of services	**-1.9**	**-3.2**	**-4.8**	**-3.3**	**-2.7**	**-2.2**
Credit	2.3	3.9	5.4	5.3	5.3	5.2
Debit	4.2	7.0	10.3	8.6	8.0	7.4
Income	**1.1**	**2.1**	**3.0**	**2.7**	**2.5**	**2.3**
Of which: Interest	-0.5	-0.9	-1.1	-0.9	-0.9	-0.9
Transfers	**4.0**	**7.4**	**8.3**	**7.2**	**6.4**	**5.8**
II. Capital transfers	**0.0**	**0.2**	**0.3**	**0.2**	**0.2**	**0.2**
III. Financial account balance 2/	**-0.2**	**-0.3**	**-5.6**	**-5.9**	**-5.4**	**-3.7**
Foreign direct and portfolio investment	**-2.0**	**-3.1**	**-1.3**	**-1.7**	**-1.9**	**-2.0**
Other investment	**1.8**	**2.8**	**-4.3**	**-4.2**	**-3.5**	**-1.7**
Loans, net	-2.1	-1.4	-3.0	-4.9	-4.4	-2.7
Public and publ. guaranteed debt	-1.0	-1.6	-5.0	-5.7	-4.9	-2.9
Commercial nonguaranteed	-1.0	0.1	1.9	0.8	0.5	0.2
Others	3.9	4.2	-1.3	0.7	0.9	1.1
IV. Errors and omissions	**0.1**	**-3.5**	**-1.9**	**0.0**	**0.0**	**0.0**
Overall balance (I + II - III + IV)	**0.7**	**-0.4**	**-3.1**	**-0.4**	**-0.1**	**-0.9**
Gold purchases not exported & valuation changes	2.0	3.2	1.1	1.0	0.6	0.6
Change in reserves (+ = increase)	**2.7**	**2.8**	**-2.0**	**0.6**	**0.5**	**-0.3**
Memorandum items:						
Current account balance (in percent of GDP)	**0.4**	**2.5**	**-7.1**	**-6.5**	**-5.6**	**-4.8**
Underlying current account (in percent of GDP) 3/	**0.9**	**3.2**	**-5.6**	**-6.5**	**-5.6**	-4.8
Export growth rate (G&S)	-19.2	17.7	13.9	10.3	6.0	6.5
Import growth rate (G&S)	1.4	13.7	42.3	8.8	4.8	4.3
Export of goods prices (percent)	6.4	3.5	8.9	1.8	1.4	0.6
Import of goods prices (percent)	-5.9	8.5	3.5	-0.5	0.4	0.5
Gross international reserves (in billions of U.S. dollars)	**26.5**	**28.1**	**27.1**	**27.5**	**27.9**	**27.6**
Real exchange rate CPI based (2015=100)	84.3	65.9	60.2	64.6	67.8	70.2
Real exchange rate GDP deflators based (2015=100)	88.0	71.7	71.3	82.7	90.0	96.0
Gross external debt (in percent of GDP)	18.6	34.1	34.5	34.0	33.5	32.2
PPG external debt (in percent of GDP)	8.6	20.2	20.5	23.1	24.6	24.6
Total debt service payment (in percent of GDP)	1.7	3.3	5.5	3.9	3.8	3.4
In percent of exports of G&S	12.8	15.3	19.5	15.2	16.1	15.6
In percent of gross international reserves	5.1	6.7	10.2	8.6	9.5	10.0

Sources: Country authorities; and IMF staff estimates.

1/ The authorities revised the historical BOP statistics in March 2019.

2/ Positive values means outflows.

3/ Underlying current account assumes the annual gold production is exported.

Table 4a. Uzbekistan: General Government[1], 2016-21

(In billions of sums)

	2016	2017	2018 Budget	2018 Est.	2019 Budget	2019 Proj.	2020 Proj.	2021 Proj.
Budget revenues	**59,132**	**71,710**	**88,248**	**108,524**	**121,823**	**126,335**	**156,169**	**187,488**
Tax revenues	37,696	45,955	56,990	70,797	93,192	93,076	115,409	138,685
Taxes on incomes and profits	11,257	12,954	14,173	17,184	29,256	30,367	39,785	50,519
Taxes on property	2,627	3,222	3,426	4,110	3,685	3,747	4,784	5,500
Taxes on goods and services	22,363	27,566	37,976	47,676	58,232	56,774	68,430	80,061
Of which : Value added tax	11,892	14,686	22,019	27,877	35,994	33,977	42,466	51,163
Excises	6,259	7,449	8,344	9,702	9,018	9,576	11,564	13,461
Mining tax	2,518	3,474	6,203	8,425	12,952	12,952	14,075	15,060
Taxes on international trade	1,449	2,214	1,415	1,826	2,019	2,188	2,410	2,604
Other revenues	3,301	3,726	5,240	8,302	9,436	10,663	13,397	16,262
Funds	18,135	22,029	26,018	29,425	19,195	22,597	27,363	32,542
Social security contributions	14,712	17,762	20,291	24,144	19,045	22,447	27,174	32,313
Road Fund	2,446	3,082	3,730	3,840	0	0	0	0
Other	977	1,185	1,997	1,441	150	150	188	229
Budget expenditures	**58,825**	**69,577**	**89,110**	**106,338**	**129,627**	**129,627**	**162,085**	**195,251**
Socio-cultural expenditure	24,576	27,878	33,759	44,397	53,312	53,312	66,661	80,302
Social safety net	14,521	16,676	20,533	20,543	27,058	27,058	33,833	40,757
Economy	4,124	5,173	7,161	7,749	14,250	14,250	17,818	21,464
Public administration	1,824	2,575	3,051	3,879	4,507	4,507	5,636	6,789
Public investment	2,089	3,235	3,048	5,400	3,960	3,960	4,952	5,965
Interest expenditure	60	135	559	345	352	707	1,064	1,563
Other	9,105	11,135	17,059	19,744	26,188	25,831	32,120	38,412
Road fund	2,527	2,771	3,940	4,234	0	0	0	0
Official budget balance 1/	**307**	**2,134**	**-862**	**2,187**	**-7,804**	**-3,292**	**-5,916**	**-7,763**
Adjustments to revenues	2,354	3,077		5,134		6,426	6,895	7,283
Consolidated revenues 2/	61,486	74,787		113,658		132,761	163,063	194,771
Adjustments to Expenditures	-1,199	-200		-1,811		21	-1,446	-2,611
Consolidated expenditures 2/	57,626	69,376		104,527		129,648	160,639	192,641
Consolidated fiscal balance	**3,860**	**5,411**		**9,131**		**3,113**	**2,424**	**2,130**
Policy-based lending operations	4,973	11,009		17,594		11,696	13,948	15,612
Overall fiscal balance	**-1,113**	**-5,598**		**-8,463**		**-8,583**	**-11,524**	**-13,482**
Statistical Discrepancy	-1,056	-763		3,432		0	0	0
Financing	**57**	**4,835**		**11,895**		**8,583**	**11,524**	**13,482**
Domestic	-1,578	748		-4,809		-15,791	-14,080	-1,956
Domestic banking system	-1,743	555		-5,612		-16,538	-14,570	-2,289
Monetary authorities	-561	-1,151		1,062		-5,513	-4,857	-763
Deposit money banks	-1,182	1,706		-6,674		-11,025	-9,713	-1,526
Treasury bills & bonds	0	0		600		533	267	100
Privatization proceeds	165	193		203		213	223	233
External	1,635	4,087		16,704		24,374	25,604	15,438
Memorandum items								
GDP	242,495	302,537	352,895	407,514	506,224	523,373	641,532	759,730

Sources: Country authorities; and IMF staff estimates.

1/ As adopted by Parliament.

2/ Consolidated fiscal data are budget data adjusted for operations of the Fund for Reconstruction and Development (FRD), equity injections, externally financed expenditures, and policy lending.

Table 4b. Uzbekistan: General Government, 2016-21
(In percent of GDP)

	2016	2017	2018 Budget	2018 Est.	2019 Budget	2019 Proj.	2020 Proj.	2021 Proj.
Budget revenues	**24.4**	**23.7**	**25.0**	**26.6**	**24.1**	**24.1**	**24.3**	**24.7**
Tax revenues	15.5	15.2	16.1	17.4	18.4	17.8	18.0	18.3
Taxes on incomes and profits	4.6	4.3	4.0	4.2	5.8	5.8	6.2	6.6
Taxes on property	1.1	1.1	1.0	1.0	0.7	0.7	0.7	0.7
Taxes on goods and services	9.2	9.1	10.8	11.7	11.5	10.8	10.7	10.5
Of which : Value added tax	4.9	4.9	6.2	6.8	7.1	6.5	6.6	6.7
Excises	2.6	2.5	2.4	2.4	1.8	1.8	1.8	1.8
Mining tax	1.0	1.1	1.8	2.1	2.6	2.5	2.2	2.0
Taxes on international trade	0.6	0.7	0.4	0.4	0.4	0.4	0.4	0.3
Other revenues	1.4	1.2	1.5	2.0	1.9	2.0	2.1	2.1
Funds	7.5	7.3	7.4	7.2	3.8	4.3	4.3	4.3
Social security contributions	6.1	5.9	5.7	5.9	3.8	4.3	4.2	4.3
Road Fund	1.0	1.0	1.1	0.9	0.0	0.0	0.0	0.0
Other	0.4	0.4	0.6	0.4	0.0	0.0	0.0	0.0
Budget expenditures	**24.3**	**23.0**	**25.3**	**26.1**	**25.6**	**24.8**	**25.3**	**25.7**
Socio-cultural expenditure	10.1	9.2	9.6	10.9	10.5	10.2	10.4	10.6
Social safety net	6.0	5.5	5.8	5.0	5.3	5.2	5.3	5.4
Economy	1.7	1.7	2.0	1.9	2.8	2.7	2.8	2.8
Public administration	0.8	0.9	0.9	1.0	0.9	0.9	0.9	0.9
Public investment	0.9	1.1	0.9	1.3	0.8	0.8	0.8	0.8
Interest expenditure	0.0	0.0	0.2	0.1	0.1	0.1	0.2	0.2
Other	3.8	3.7	4.8	4.8	5.2	4.9	5.0	5.1
Road fund	1.0	0.9	1.1	1.0	0.0	0.0	0.0	0.0
Official budget balance 1/	**0.1**	**0.7**	**-0.2**	**0.5**	**-1.5**	**-0.6**	**-0.9**	**-1.0**
Adjustments to revenues	1.0	1.0		1.3		1.2	1.1	1.0
Consolidated revenues 2/	25.4	24.7		27.9		25.4	25.4	25.6
Adjustments to Expenditures	-0.5	-0.1		-0.4		0.0	-0.2	-0.3
Consolidated expenditures 2/	23.8	22.9		25.6		24.8	25.0	25.4
Consolidated fiscal balance	**1.6**	**1.8**		**2.2**		**0.6**	**0.4**	**0.3**
Policy-based lending operations	2.1	3.6		4.3		2.2	2.2	2.1
Overall fiscal balance	**-0.5**	**-1.9**		**-2.1**		**-1.6**	**-1.8**	**-1.8**
Statistical Discrepancy	-0.4	-0.3		0.8		0.0	0.0	0.0
Financing	**0.0**	**1.6**		**2.9**		**1.6**	**1.8**	**1.8**
Domestic	-0.7	0.2		-1.2		-3.0	-2.2	-0.3
Domestic banking system	-0.7	0.2		-1.4		-3.2	-2.3	-0.3
Monetary authorities	-0.2	-0.4		0.3		-1.1	-0.8	-0.1
Deposit money banks	-0.5	0.6		-1.6		-2.1	-1.5	-0.2
Treasury bills & bonds	0.0	0.0		0.1		0.1	0.0	0.0
Privatization proceeds	0.1	0.1		0.0		0.0	0.0	0.0
External	0.7	1.4		4.1		4.7	4.0	2.0

Sources: Country authorities; and IMF staff estimates.

1/ As adopted by Parliament.

2/ Consolidated fiscal data are budget data adjusted for operations of the Fund for Reconstruction and Development (FRD), equity injections, externally financed expenditures, and policy lending.

Table 4c. Uzbekistan: General Government, GFS, 2016-21

(In billions of Sums)

	2016	2017	2018	2019	2020	2021
			Est.	Proj.	Proj.	Proj.
Revenue	**66,755**	**73,876**	**113,400**	**132,761**	**163,063**	**194,771**
Taxes	48,489	53,212	80,435	110,510	138,436	168,243
Taxes on income, profits, and capital gains	15,831	19,725	25,408	47,320	62,282	79,504
Payable by individuals	4,932	5,896	7,422	12,798	16,472	20,482
Payable by corporations and other enterprises	10,900	13,830	17,986	34,522	45,810	59,022
Taxes on property	2,626	3,222	4,110	3,747	4,784	5,500
Taxes on goods and services	22,361	27,565	47,676	56,774	68,430	80,061
General taxes on goods and services	13,423	16,470	29,420	33,977	42,466	51,163
Value-added taxes	11,892	14,686	27,877	33,977	42,466	51,163
Sales taxes	1,531	1,785	1,544	0	0	0
Excises	6,258	7,449	9,702	9,576	11,564	13,461
Other taxes on goods and services	2,680	3,646	8,553	13,221	14,399	15,437
Taxes on international trade and transactions	7,670	2,700	3,241	2,670	2,941	3,177
Other taxes	0	0	0	0	0	0
Social contributions	12,317	13,737	18,809	17,486	21,169	25,172
Grants	0	0	0	0	0	0
Other revenue	5,949	6,926	14,157	4,765	3,458	1,356
Expense	**50,891**	**60,690**	**86,396**	**111,438**	**137,869**	**165,212**
Compensation of employees	19,332	21,883	28,019	40,692	51,477	62,545
Wages and salaries	15,526	17,598	22,519	32,578	41,372	50,267
Employers' social contributions	3,806	4,286	5,500	8,114	10,105	12,278
Use of goods and services	4,722	6,393	9,343	11,719	14,482	17,295
Consumption of fixed capital	0	0	0	0	0	0
Interest	60	135	345	707	1,064	1,563
Subsidies	312	330	1,288	1,662	2,056	2,464
Grants	0	0	0	0	0	0
Social benefits	16,965	19,366	24,069	31,703	39,641	47,753
Other expense	9,500	12,583	23,332	24,955	29,150	33,593
Investment in nonfinancial assets	**6,278**	**8,158**	**14,125**	**18,210**	**22,770**	**27,429**
Expenditure	**57,168**	**68,848**	**100,520**	**129,648**	**160,639**	**192,641**
Net lending (+) / Net borrowing (-)	**9,586**	**5,028**	**12,880**	**3,113**	**2,424**	**2,130**
Net transactions in financial assets for policy purposes	4,973	11,009	17,594	11,696	13,948	15,612
Net equity and policy lending	5,928	11,576	20,755	12,410	15,020	16,727
Repayments	955	567	3,161	714	1,072	1,115
Overall fiscal balance	**4,613**	**-5,981**	**-4,714**	**-8,583**	**-11,524**	**-13,482**
Overall statistical discrepancy	-1	0	-70	0	0	0
Net acquisition of other financial assets & liabilities	**4,614**	**-5,981**	**-4,644**	**-8,583**	**-11,524**	**-13,482**
Net acquisition of financial assets	4,866	-5,939	-5,792	16,325	14,347	2,056
Domestic debtors	4,866	-5,939	-5,792	16,325	14,347	2,056
External debtors	0	0	0	0	0	0
Net incurrence of liabilities	251	41	-1,148	24,907	25,871	15,538
Domestic creditors	9	-44	-91	533	267	100
External creditors	243	85	-1,056	24,374	25,604	15,438

Sources: Country authorities; and IMF staff estimates.

Table 4d. Uzbekistan: General Government, GFS, 2016-21
(In percent of GDP)

	2016	2017	2018	2019	2020	2021
			Est.	Proj.	Proj.	Proj.
Revenue	**27.5**	**24.4**	**27.8**	**25.4**	**25.4**	**25.6**
Taxes	20.0	17.6	19.7	21.1	21.6	22.1
Taxes on income, profits, and capital gains	6.5	6.5	6.2	9.0	9.7	10.5
Payable by individuals	2.0	1.9	1.8	2.4	2.6	2.7
Payable by corporations and other enterprises	4.5	4.6	4.4	6.6	7.1	7.8
Taxes on property	1.1	1.1	1.0	0.7	0.7	0.7
Taxes on goods and services	9.2	9.1	11.7	10.8	10.7	10.5
General taxes on goods and services	5.5	5.4	7.2	6.5	6.6	6.7
Value-added taxes	4.9	4.9	6.8	6.5	6.6	6.7
Sales taxes	0.6	0.6	0.4	0.0	0.0	0.0
Excises	2.6	2.5	2.4	1.8	1.8	1.8
Other taxes on goods and services	1.1	1.2	2.1	2.5	2.2	2.0
Taxes on international trade and transactions	3.2	0.9	0.8	0.5	0.5	0.4
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0
Social contributions	5.1	4.5	4.6	3.3	3.3	3.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.5	2.3	3.5	0.9	0.5	0.2
Expense	**21.0**	**20.1**	**21.2**	**21.3**	**21.5**	**21.7**
Compensation of employees	8.0	7.2	6.9	7.8	8.0	8.2
Wages and salaries	6.4	5.8	5.5	6.2	6.4	6.6
Employers' social contributions	1.6	1.4	1.3	1.6	1.6	1.6
Use of goods and services	1.9	2.1	2.3	2.2	2.3	2.3
Consumption of fixed capital	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.1	0.1	0.2	0.2
Subsidies	0.1	0.1	0.3	0.3	0.3	0.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	7.0	6.4	5.9	6.1	6.2	6.3
Other expense	3.9	4.2	5.7	4.8	4.5	4.4
Investment in nonfinancial assets	**2.6**	**2.7**	**3.5**	**3.5**	**3.5**	**3.6**
Expenditure	**23.6**	**22.8**	**24.7**	**24.8**	**25.0**	**25.4**
Net lending (+) / Net borrowing (-)	**4.0**	**1.7**	**3.2**	**0.6**	**0.4**	**0.3**
Net transactions in financial assets for policy purposes	2.1	3.6	4.3	2.2	2.2	2.1
Net equity and policy lending	2.4	3.8	5.1	2.4	2.3	2.2
Repayments	0.4	0.2	0.8	0.1	0.2	0.1
Overall fiscal balance	**1.9**	**-2.0**	**-1.2**	**-1.6**	**-1.8**	**-1.8**
Overall statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of other financial assets & liabilities	**1.9**	**-2.0**	**-1.1**	**-1.6**	**-1.8**	**-1.8**
Net acquisition of financial assets	2.0	-2.0	-1.4	3.1	2.2	0.3
Domestic debtors	2.0	-2.0	-1.4	3.1	2.2	0.3
External debtors	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	0.1	0.0	-0.3	4.8	4.0	2.0
Domestic creditors	0.0	0.0	0.0	0.1	0.0	0.0
External creditors	0.1	0.0	-0.3	4.7	4.0	2.0

Sources: Country authorities; and IMF staff estimates.

Table 5. Uzbekistan: Summary Accounts of the Central Bank, 2016-21
(In billions of Sums, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021
			Est.	Proj.	Proj.	Proj.
Gross international reserves (in billions of US dollar	26.5	28.1	27.1	27.5	27.9	27.6
Official exchange rate (sum/U.S. dollar, eop)	3,231	8,120	8,340	…	…	…
Net foreign assets	**84,531**	**225,496**	**226,398**	**243,423**	**256,636**	**264,770**
Gold	39,612	113,970	122,109	136,665	146,146	156,366
Foreign exchange	2,807	14,887	8,415	6,771	6,400	47
FRD	43,249	99,661	95,874	103,065	107,187	111,475
Foreign liabilities	-1,138	-3,021	-3,040	-3,077	-3,098	-3,118
Net domestic assets	**-67,257**	**-193,573**	**-191,694**	**-207,205**	**-214,436**	**-215,878**
Net domestic credit	-52,733	-116,565	-118,491	-137,090	-155,973	-163,193
Government, net	-52,738	-116,863	-118,496	-137,095	-155,978	-163,198
Of which: FRD	-43,249	-99,661	-95,874	-103,065	-107,187	-111,475
Banks	5	298	5	5	5	5
Special accounts	-8,635	-4,829	-208	-1,165	-1,428	-1,691
Other items, net	-5,888	-72,178	-72,995	-68,949	-57,035	-50,994
Reserve money	**17,274**	**31,924**	**31,663**	**36,218**	**42,200**	**48,892**
Currency in circulation	13,256	20,063	23,122	27,691	32,959	38,250
Deposits of commercial banks	3,918	11,690	8,288	8,274	8,987	10,389
Other deposits	100	171	253	253	253	253
Growth rates						
Reserve money	22.2	84.8	-0.8	14.4	16.5	15.9
Net foreign assets	25.6	166.8	0.4	7.5	5.4	3.2
Net domestic assets	26.5	187.8	-1.0	8.1	3.5	0.7
Net credit to government	-13.2	-121.6	-1.4	-15.7	-13.8	-4.6
Nominal GDP	15.4	24.8	34.7	28.4	22.6	18.4
Money multiplier (in levels)	3.0	2.3	2.6	2.8	2.9	2.9

Sources: Country authorities; and IMF staff estimates.

Table 6. Uzbekistan: Monetary Survey, 2016-21

(In billions of Sums, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021
			Est.	Proj.	Proj.	Proj.
Net foreign assets (in billions of U.S. dollars)	28.7	30.5	29.0	28.8	29.2	29.0
Official exchange rate (sum/U.S. dollar, eop)	3,231	8,120	8,340	…	…	…
Net foreign assets	**92,705**	**247,823**	**241,831**	**258,609**	**272,326**	**280,984**
Gold	39,612	113,970	122,109	136,665	146,146	156,366
Foreign exchange (excl FRD)	9,844	34,192	23,848	18,879	18,993	13,144
FRD	43,249	99,661	95,874	103,065	107,187	111,475
Net domestic assets	**-40,664**	**-174,788**	**-158,287**	**-157,513**	**-150,755**	**-137,014**
Net domestic credit	-5,057	-13,020	33,230	48,500	76,515	115,354
Government, net	-57,905	-120,324	-128,631	-153,830	-166,583	-173,545
Of which : Fund for Reconstruction and Development	-43,249	-99,661	-95,874	-103,065	-107,187	-111,475
T-bills and bonds	0	0	596	633	1,000	1,000
Rest of economy	52,848	107,304	161,861	202,330	243,098	288,899
Loans in domestic currency	32,102	45,012	75,940	100,297	126,636	153,955
Loans in foreign currency	20,746	62,292	85,921	102,033	116,462	134,944
Other items, net	-34,208	-159,313	-185,552	-200,047	-219,958	-243,709
Nonbudgetary deposits of budget organizations	-1,399	-2,455	-5,965	-5,965	-7,312	-8,659
Broad Money	**52,041**	**73,034**	**83,544**	**101,096**	**121,571**	**143,970**
Currency outside banks	13,209	19,449	22,164	26,821	32,253	38,195
Demand deposits	12,461	12,184	14,104	17,067	20,524	24,305
Quasi-money	26,371	41,401	47,276	57,208	68,794	81,469
Memorandum items:						
FRD (in millions of U.S. dollars)	13,384	12,273	11,496	11,496	11,496	11,496
Growth Rates						
Broad money	23.5	40.3	14.4	21.0	20.3	18.4
Net foreign assets	27.1	167.3	-2.4	6.9	5.3	3.2
Net domestic assets	31.9	329.8	-9.4	-0.5	4.3	9.1
Domestic bank credit to government	14.5	107.8	7.4	19.5	-8.5	-4.2
Domestic credit to rest of economy	28.4	103.0	50.8	25.0	20.1	18.8
Loans in domestic currency	22.0	40.2	68.7	32.1	26.3	21.6
Loans in foreign currency	39.8	200.3	37.9	18.8	14.1	15.9
Memorandum Items						
Velocity (in levels) 1/	4.7	4.1	4.9	5.2	5.3	5.3
Ratio of currency to deposits (in percent)	34.0	36.3	36.1	36.1	36.1	36
Ratio of currency outside banks to broad money (in percent)	25.4	26.6	26.5	26.5	26.5	27
Credit to the economy (percent of GDP)	21.8	35.5	39.7	38.7	37.9	38

Sources: Country authorities; and IMF staff estimates.

1/ Velocity is calculated using nominal GDP over end of period money supply.

Table 7. Uzbekistan: Medium-Term Outlook, 2016-24

	2016	2017	2018 Est.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
National income									
Nominal GDP (in trillions of sum) 1/	242	303	408	523	642	760	880	1,010	1,155
Population (in millions)	31.6	32.1	32.6	33.0	33.5	34.0	34.4	34.9	35.4
GDP per capita (in US dollars)	2,576	1,810	1,550	1,832	2,095	2,353	2,609	2,897	3,202
Real sector					(Annual percent change)				
GDP at current prices	15.4	24.8	34.7	28.4	22.6	18.4	15.8	14.8	14.3
GDP at constant prices	6.1	4.5	5.1	5.5	6.0	6.0	6.0	6.0	6.0
GDP deflator	8.7	19.4	28.1	21.7	15.6	11.7	9.3	8.3	7.8
Consumer price index (eop)	9.8	18.8	14.3	15.6	12.4	9.1	8.0	7.6	7.4
Consumer price index (average)	8.8	13.9	17.5	14.7	14.1	10.6	8.6	7.8	7.6
Money and credit					(Annual percent change)				
Reserve money	22.2	84.8	-0.8	14.4	16.5	15.9	17.1	16.3	15.4
Broad money	23.5	40.3	14.4	21.0	20.3	18.4	18.1	17.1	16.0
Net foreign assets	27.1	167.3	-2.4	6.9	5.3	3.2	2.5	3.7	4.7
Net domestic assets	31.9	329.8	-9.4	-0.5	-4.3	-9.1	-13.9	-15.6	-18.0
Net claims on government	14.5	107.8	6.9	19.6	8.3	4.2	2.1	2.4	2.9
Credit to the economy	28.4	103.0	50.8	25.0	20.1	18.8	17.3	16.3	15.4
Velocity (in levels)	4.7	4.1	4.9	5.2	5.3	5.3	5.2	5.1	5.0
					(Percent of GDP)				
Broad money	21.5	24.1	20.5	19.3	19.0	19.0	19.3	19.7	20.0
Credit to the economy	21.8	35.5	39.7	38.7	37.9	38.0	38.5	39.0	39.4
External sector					(Percent of GDP)				
Current account	0.4	2.5	-7.1	-6.5	-5.6	-4.8	-4.4	-4.4	-4.2
External debt	18.6	34.1	34.5	34.0	33.5	32.2	31.4	30.9	30.6
External debt service ratio (percent of G&S exports)	12.8	15.3	19.5	15.2	16.1	15.6	15.2	14.7	13.9
					(Annual percent change)				
Exports of goods and services	-19.2	17.7	13.9	10.3	6.0	6.5	9.2	11.5	11.4
Imports of goods and services	1.4	13.7	42.3	8.8	4.8	4.3	7.4	9.6	9.6
Exchange rate (in sums per U.S. dollar; eop)	3,231	8,120	8,340	…	…	…	…	…	…
Exchange rate (in sums per U.S. dollar; ave)	2,982	5,203	8,072	…	…	…	…	…	…
Real effective exchange rate CPI based (2015=100, - = dep)	84.3	65.9	60.2	64.6	67.8	70.2	72.0	74.1	75.9
Gross official reserves (in billions of US dollars)	26.5	28.1	27.1	27.5	27.9	27.6	27.8	28.2	29.0
Gross official reserves (months of imports)	19.3	14.4	12.8	12.3	12.0	11.1	10.1	9.4	8.8
Government finance					(Percent of GDP)				
Budget revenues	24.4	23.7	26.6	24.1	24.3	24.7	24.9	25.1	25.4
Budget expenditures	24.3	23.0	26.1	24.8	25.3	25.7	26.1	26.3	26.6
Budget balance	0.1	0.7	0.5	-0.6	-0.9	-1.0	-1.2	-1.2	-1.2
Consolidated revenues 2/	25.4	24.7	27.9	25.4	25.4	25.6	25.8	25.9	26.1
Consolidated expenditures 2/	23.8	22.9	25.6	24.8	25.0	25.4	25.6	25.8	26.1
Consolidated fiscal balance	1.6	1.8	2.2	0.6	0.4	0.3	0.1	0.1	0.1
Policy lending	2.1	3.6	4.3	2.2	2.2	2.1	2.0	1.9	1.8
Overall fiscal balance	-0.5	-1.9	-2.1	-1.6	-1.8	-1.8	-1.8	-1.8	-1.7
Public debt	8.6	20.2	20.6	23.2	24.7	24.7	24.6	24.7	24.8
Labor market 3/									
Formal sector employment growth (percent)	0.8	0.4	0.7	1.8	1.5	0.8	0.7	0.8	0.7
Working-age population growth (percent)	1.0	0.9	0.9	0.8	1.0	1.2	1.2	1.2	1.2
Unemployment rate (percent)	8.0	9.0	9.3	10.4	11.3	12.1	12.8	13.5	14.2
Labor migrants (millions)	1.1	1.3	2.4	2.4	2.5	2.5	2.6	2.6	2.7

Sources: Country authorities; and IMF staff estimates.

1/ In March 2019, the government revised national accounts data for 2014-2018.

2/ Consolidated fiscal data are budget data adjusted for operations of the Fund for Reconstruction and Development (FRD), equity injections, externally financed expenditures, and policy lending.

3/ Labor market statistics were revised starting in 2018.

Table 8. Uzbekistan: Financial Soundness Indicators for the Banking Sector, 2014-18
(In percent, unless otherwise indicated)

	2014	2015	2016	2017	2018
Capital adequacy					
Regulatory capital to risk-weighted assets	17.5	14.7	14.7	18.8	15.6
Regulatory tier 1 capital to risk-weighted assets	15.5	12.5	12.5	16.5	14.3
Capital to total assets	11.7	11.3	10.7	12.4	12.4
Net open position in foreign exchange to capital	16.1	16.3	11.9	13.5	2.1
Asset quality					
Non-performing loans to total gross loans	2.1	1.5	0.7	1.2	1.3
Non-performing loans net of provisions to capital	5.3	4.2	2.2	2.9	4.3
Profitability					
Interest margin to gross income	40.3	39.9	39.5	32.5	48.4
Non-interest expenses to gross income	65.9	65.9	64.8	59.3	54.4
Return on assets	1.9	2.0	2.0	1.9	2.0
Return on equity	16.8	17.5	17.9	17.1	16.2
Liquidity					
Liquid assets to total assets (Liquid asset ratio)	23.0	23.7	25.4	23.6	13.6
Liquid assets to thort-term liabilities	42.1	43.6	48.4	55.7	41.2

Sources: Country authorities; and IMF staff estimates.

Table 9. Uzbekistan: Sustainable Development Goals, 2000-Latest

	2000	2005	2010	2015	Latest
Zero Hunger					
Prevalence of undernourishment (percent of population)	16	15	9	7	...
Good Health and Well-Being					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	34	42	39	36	...
Mortality rate, under-5 (per 1,000 live births)	63	49	36	26	23
Incidence of tuberculosis (per 100,000 people)	99	120	97	79	73
Immunization, measles (percent of children ages 12-23 months)	99	99	98	99	99
Quality Education					
Primary completion rate, total (percent of relevant age group)	96	96	92	98	98
Lower secondary completion rate, total (percent of relevant age group)	...	93	94	89	91
Literacy rate, adult total (percent of people ages 15 and above)	99	...	...	100	...
Gender Equality					
School enrollment, primary and secondary (gross), gender parity index (GPI)	0.98	0.98	1.00	0.99	0.99
Ratio of female to male primary enrollment (percent)	100	100	98	98	98
Ratio of female to male secondary enrollment (percent)	97	97	100	99	99
Ratio of female to male tertiary enrollment (percent)	84	69	68	63	61
Proportion of seats held by women in national parliaments (percent)	7	18	22	16	16
Clean Water and Sanitation					
People using at least basic drinking water services (percent of population)	85	89	91	...	...
People using at least basic sanitation services (percent of population)	89	98	100	100	...
Affordable and Clean Energy					
Access to electricity (percent of population)	100	100	100	...	...
Renewable electricity output (percent of total electricity output)	13	18	21	21	...
Decent Work and Economic Growth					
Employment in agriculture (percent of total employment) (modeled ILO estimate)	40	35	27	23	21
Wage and salaried workers, total (percent of total employment) (modeled ILO estimate)	65	66	71	72	73
Industry, Innovation, and Infrastructure					
CO2 emissions (metric tons per capita)	4.9	4.5	3.6	...	...
Researchers in R&D (per million people)	660	631	543	497	...
Sustainable Cities and Communities					
PM2.5 air pollution, mean annual exposure (micrograms per cubic meter)	40	33	37	46	...
Responsible Consumption and Production					
Total natural resources rents (percent of GDP)	15	30	17	12	...
Life on Land					
Forest area (percent of land area)	8	8	8	8	...
Other					
Individuals using the Internet (percent of population)	0	3	16	43	...

Source: The World Bank

Annex I. Simulating a Boom-Bust Credit Cycle

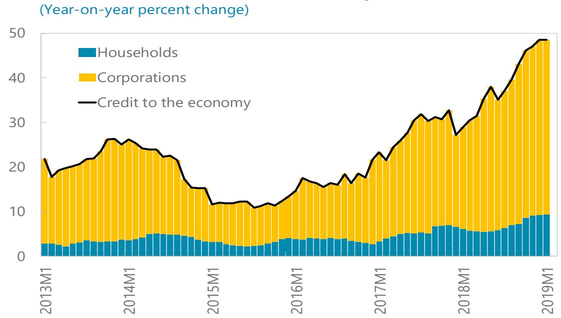
This annex provides details on credit growth in 2018, the structure of the credit market, and reports a stylized simulation that illustrates the potential economic mechanisms and costs of a boom-bust credit cycle.

A. Credit Growth in 2018

1. **Credit growth in 2018 surprised significantly on the upside.** The 2018 Article IV report—published in May 2018 projected credit growth to the economy at 25 percent in 2018[1]. In the event, credit grew by 51 percent. Close to 20 percentage points of the increase (of 51 percent) went to the industrial sector and the increase in credit to households contributed about 10 percentage points (see text table). Credit at preferential terms explained more than half of the credit growth in 2018. Across banks, state-owned banks contributed 45 percentage points to the 51 percent overall growth, highlighting the dominance of state-owned banks in credit allocation.

Uzbekistan: Credit

Uzbekistan: Credit to the Economy at Constant FX
(Year-on-year percent change)



Sources: Country authorities; and IMF staff estimates.

Uzbekistan: Credit Growth Dec. 2018/Dec. 2017

	Abs chg. (Sum trillion)	Contr. (Percent)	chg. Yoy (Percent)
Total	**54.6**	**50.8**	**50.8**
Corporations	**44.1**	**41.1**	**46.9**
Industry	20.6	19.2	46.9
Agriculture	5.3	5.0	104.9
Construction	4.5	4.2	28.6
Trade and public catering	4.5	4.2	98.0
Transport and commun.	3.8	3.6	19.1
Logistics supply and sales	2.4	2.2	71.1
Housing and community serv.	2.2	2.0	479.7
Other sectors	0.8	0.7	82.2
Individuals	**10.4**	**9.7**	**79.0**

Sources: Country authorities; and IMF staff estimates.

2. **Supply and demand factors explained the faster than anticipated credit growth in 2018.** Among the demand side factors were: (i) a larger government investment plan related to the modernization of state-owned enterprises; (ii) the government's new initiatives to develop the private sector which included preferential credit programs for agriculture and SMEs; (iii) an underestimation of the impact of price and FX liberalization as well as the opening of borders, which stimulated private demand for credit beyond the forecasts. Among the supply factors the most important is the larger government funding (than anticipated) for credit. This included capitalizations, loans, and government placement of deposits at commercial banks. As a result, credit boomed in 2018.

[1] Credit to the economy includes credit to households, non-financial private corporations, and non-financial state-owned enterprises.

B. Structure of the Credit Market

3. **Uzbekistan's credit market has three main segments:**

- Directed credit is credit allocated based on the government's investment plan; directed credit is generally extended at preferential (or concessional) terms.
- Other preferential credit is credit apart from directed credit that is also allocated at concessional terms.
- Market credit is credit allocated by demand and supply at commercial or market terms.

Uzbekistan: Credit Market Structure, 2018

	Credit: stock			Credit: change YoY		
	Total	Of which: In Sum	Of which: In FX	Abs.	Chg.	Contribution
	(Trillion Sum)	(Trillion Sum)	(Trillion Sum)	(Trillion Sum)	(Percent)	(Percent)
Total credit	**165**	**75**	**90**	**55**	**50.3**	**50.3**
Market credit	70	37	33	27	61.5	24.3
Preferential credit	95	38	57	29	43.0	26.0
Directed	…	…	…	19	…	…
Other preferential	…	…	…	10	…	…

Sources: Country authorities; and IMF staff estimates.

4. **Government credit policies have created a segmented market**. The credit market is split into a commercially (market credit) driven segment and a preferential segment (see text table). Historically, market driven credit was largely allocated to the private sector (corporations and households) and in local currency, while the preferential credit was allocated to SOEs and priority sectors and in foreign currency. In 2018, credit increased by 55 trillion sum, of which 27 trillion sum represented market credit, 19 trillion sum was directed credit, and 10 trillion sum was preferential credit. Preferential interest rates are well below market interest rates. In December 2018, the average interest rate on market loans was 21.8 percent while the rate on preferential loans was 8.4 percent. Therefore, government intervention in the credit allocation and pricing are key drivers of the market segmentation.

5. **Government funding and state-owned banks have been key for sustaining market segmentation**. Government-supported lending is largely carried out via state-owned banks. The government provides concessional funding to banks via Fund for Reconstruction and Development (FRD) loans, loans from the treasury, deposits at the commercial banks, and recapitalizations. Banks lend those funds to SOEs and to the private sector to achieve specified policy goals. While private banks are predominantly funded via retail deposits, state-owned banks are largely funded via government funds. This is reflected in very high loan-to-deposits ratios in state-owned banks (average 2.4) compared with private banks (average 0.8).

C. Credit and Investment

6. **The government's investment plan is important for determining the size and allocation of credit**. The government investment plan accounts for about half of gross fixed capital formation. Before 2018, policies aimed to contain external deficits implied limits on imports. To contain imports,

investment plans were kept at moderate levels and therefore credit growth was also moderate. After 2017, FX liberalization and opening of borders implied no bounds on the current account and imports. In addition, the government has sizable buffers and large foreign borrowing is available to finance imports. Consequently, there are no restrictions on the investment plan and credit has expanded to meet the plan's financing needs. This dynamic was reflected in 2018 centralized investment (see text table), which increased from 5.3 to 8.5 percent.

Uzbekistan: Financing of Fixed Investment, 2015-18

(Percent of GDP)

	2015	2016	2017	2018
Fixed investment	**19.4**	**19.8**	**22.6**	**26.3**
Centralized investment:	**3.6**	**4.3**	**5.3**	**8.5**
Budget resources	0.9	0.9	1.1	1.0
Gov. trust funds	1.2	1.0	0.8	1.3
Funds of the Children's Sport Develop. Fund	0.1	0.1	0.1	0.1
Funds of the FRD	0.9	1.0	1.7	1.9
Foreign investments and gov. guaranteed loans	0.5	1.4	1.7	4.1
Non-centralized investment:	**15.8**	**15.5**	**17.3**	**17.9**
Funds of enterprises	5.4	5.9	5.9	7.4
Public funds	4.7	3.6	5.1	3.0
Foreign direct investment and loans	3.4	3.8	4.1	3.6
Commercial-bank loans and other borrowing	2.3	2.1	2.2	3.9

Sources: Country authorities; and IMF staff estimates.

D. Boom-Bust Credit Cycles: A Simulation

7. **Continued fast credit growth could initiate a boom-bust credit cycle.** Uzbekistan's recent economic developments are consistent with the key features of the initial stage of a credit boom: fast credit growth; a surge in investment; a large deterioration in the external position as imports expand; and pressures on inflation (see also Annex I Box 1). The question is whether Uzbekistan will transit from this early credit boom stage to a soft landing or to an abrupt bust.

8. **An illustrative boom-bust credit cycle simulation for Uzbekistan highlights the key economic dynamics at work**. The simulation assumes a credit boom phase continuing during 2019-20 and assumes that credit growth comes to a halt in 2021. Credit grows 50 and 40 percent in 2019 and 2020 compared with the 25 and 20 percent in the baseline (Table I.1). Additional credit growth relative to the baseline is exclusively funded by the government, approximately half via external borrowing and half via FX reserves of the FRD. Additional government funding for credit is about US$ 4-5 billion per year during 2019-20. Other key assumptions are: (i) the economy is working at full capacity so additional domestic demand generates mainly higher imports and higher inflation; (ii) credit growth slows down after inflation reaches 20 percent and the current account deficit reaches 15 percent; and (iii) the nominal exchange rate remains at its baseline level during the boom, while at the bust stage the nominal exchange rate depreciates to ensure the real exchange rate returns to the baseline scenario level.

Box 1. Stylized Features of Boom-Bust Credit Cycles

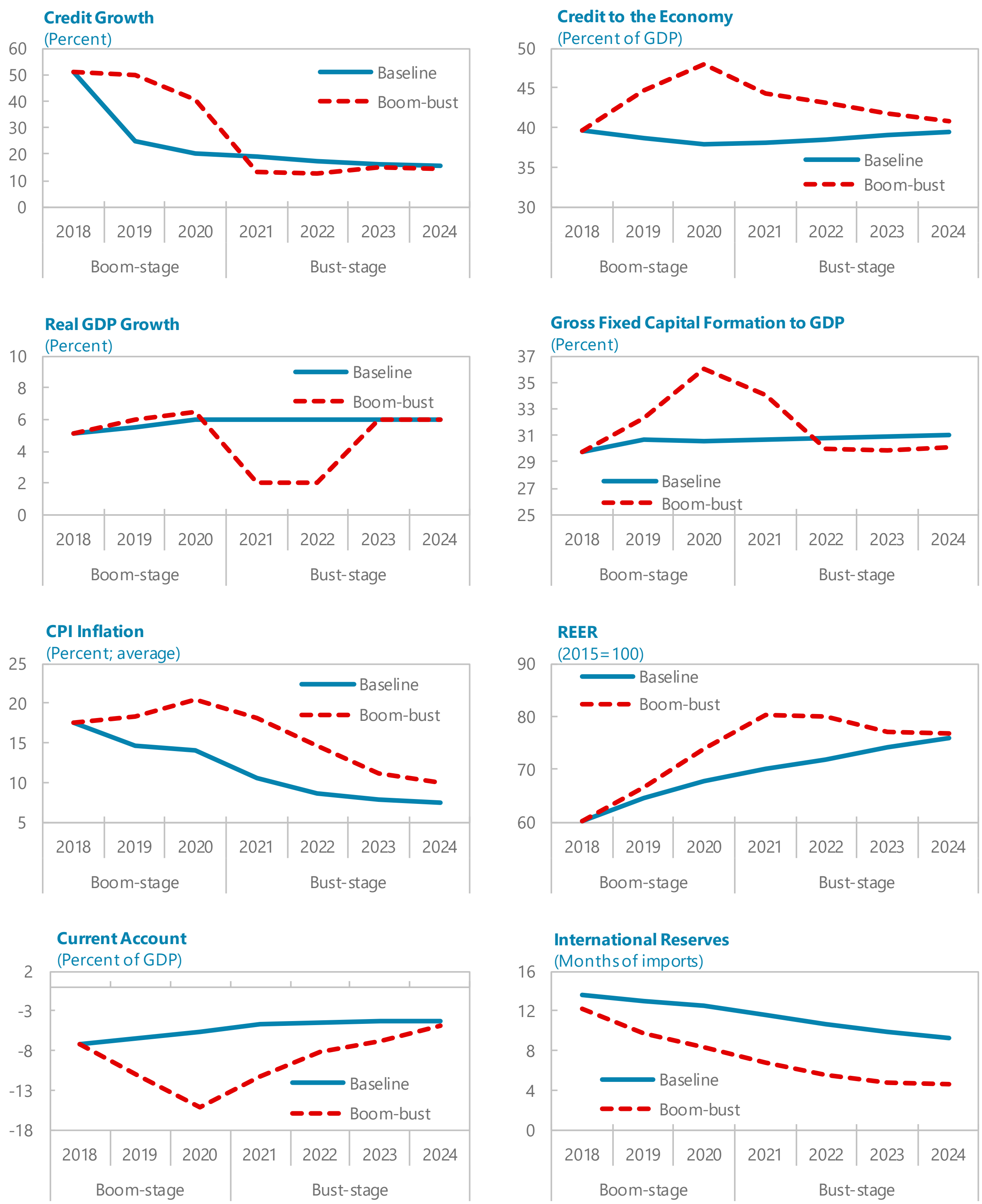
A boom-bust cycle describes a two-stage process. During the initial boom-stage, domestic demand expands fueled by credit (or capital inflows), and in a subsequent bust-stage, domestic demand slows down abruptly as credit funding (or capital inflows) dries up.

At the credit boom stage, credit and domestic demand grow rapidly, adding pressure on inflation and the current account deficit. Domestic demand usually drives an expansion in investment. Nevertheless, the domestic demand increase often has limited impact on real GDP growth as the credit boom and the real appreciation of the currency reallocate resources from the tradable to the nontradable sector. Nontradable industries expand while tradable industries contract. Also, non-performing loans in the banking sector start to increase.

Credit busts are triggered when inflationary pressures and nonperforming loans reach alarming levels. The empirical literature points out that credit booms can end abruptly or gradually. At the bust stage, credit growth decelerates—either as the banking system becomes more risk averse or policy-based lending is halted— and domestic demand loses momentum, while real GDP growth declines. As domestic demand for nontradables declines, but the tradable sector needs time to regain export markets, real GDP growth declines. Sometimes, flight from domestic currency holdings or perceived stresses in the banking system can trigger a foreign exchange crisis or a run on banks.

9. **Under the boom-bust scenario, the simulation suggests Uzbekistan would face high inflation, excessive current account deficits, and a significant erosion of external buffers** (Figure I.1, Table I.1). The stimulus to domestic demand would result in higher current account deficit and higher inflation. As half of the additional financing of credit uses FRD resources, international FX reserves would decline significantly by 2024, reaching about 5 months of imports (compared with 10 months under the baseline scenario). External debt would reach 40 percent of GDP (compared with 30 percent in the baseline scenario). Overall, the economy would also become more volatile, adversely affecting the investment climate.

Figure I.1. Uzbekistan: Boom Bust Credit Cycle – Selected Indicators



Source: IMF staff estimates.

Table I.1. Uzbekistan: Boom-Bust Credit Cycle Simulation - Selected Indicators

(Percent unless otherwise stated)

		Boom-stage			Bust-stage			
		2018	2019	2020	2021	2022	2023	2024
Credit growth	Baseline	50.8	25.0	20.1	18.8	17.3	16.3	15.4
	Boom-bust	50.8	50.0	40.5	13.2	12.5	14.8	14.6
Credit-to-GDP	Baseline	39.7	38.7	37.9	38.0	38.5	39.0	39.4
	Boom-bust	39.7	44.8	47.9	44.4	43.1	41.8	40.8
NPLs-to-gross loans	Baseline	2.8	4.9	4.4	4.0	4.1	4.3	4.6
	Boom-bust	2.8	6.0	9.8	12.2	9.6	8.6	7.6
Real GDP growth	Baseline	5.1	5.5	6.0	6.0	6.0	6.0	6.0
	Boom-bust	5.1	6.0	6.5	2.0	2.0	6.0	6.0
Domestic demand growth	Baseline	44.7	27.1	21.3	17.2	15.1	14.3	13.8
	Boom-bust	44.7	36.3	34.4	18.2	12.9	16.8	15.1
Domestic demand-to-GDP	Baseline	109.6	108.5	107.4	106.3	105.6	105.1	104.7
	Boom-bust	109.6	112.4	115.0	111.3	108.5	107.0	105.0
Gross fixed capital format.-to-GDP	Baseline	29.8	30.7	30.6	30.6	30.8	30.9	31.1
	Boom-bust	29.8	32.4	36.0	34.0	29.9	29.9	30.1
Inflation, avg	Baseline	17.5	14.7	14.1	10.6	8.6	7.8	7.6
	Boom-bust	17.5	18.4	20.5	18.2	14.7	11.2	9.9
GDP deflator chg.	Baseline	28.1	21.7	15.6	11.7	9.3	8.3	7.8
	Boom-bust	28.1	25.5	23.3	19.7	13.5	11.7	10.7
REER (index 2015=100,+ appreciation)	Baseline	60.2	64.6	67.8	70.2	72.0	74.1	75.9
	Boom-bust	60.2	66.7	73.8	80.2	80.1	77.2	76.8
CA-to-GDP	Baseline	-7.1	-6.5	-5.6	-4.8	-4.4	-4.4	-4.2
	Boom-bust	-7.1	-11.2	-15.1	-11.2	-8.2	-6.9	-4.9
External debt-to-GDP	Baseline	34.5	34.0	33.5	32.2	31.4	30.9	30.6
	Boom-bust	34.5	36.1	36.5	35.8	38.3	39.6	39.5
Reserves (Months of imports)	Baseline	13.6	12.9	12.6	11.6	10.6	9.9	9.2
	Boom-bust	12.2	9.7	8.3	6.8	5.6	4.8	4.6
Overall fiscal balance-to-GDP	Baseline	-2.1	-1.6	-1.8	-1.8	-1.8	-1.8	-1.7
	Boom-bust	-2.1	-7.3	-7.6	-3.2	-2.9	-1.9	-1.8
Consolidated fiscal balance-to-GDP	Baseline	2.2	0.6	0.4	0.3	0.1	0.1	0.1
	Boom-bust	2.2	0.4	0.1	-0.1	0.0	0.4	0.4
Policy lending-to-GDP	Baseline	-4.3	-2.2	-2.2	-2.1	-2.0	-1.9	-1.8
	Boom-bust	-4.3	-7.7	-7.7	-3.1	-2.9	-2.3	-2.2

Source: IMF staff estimates.

Annex II. External Sector Assessment

The external sector assessment concludes that Uzbekistan's external position is only moderately weaker than implied by economic fundamentals and desirable policies. The country's external stability risks are low in view of large FX reserves, a moderate external debt level, with most external debt at concessional rates and maturities exceeding ten years, and the country's strong international investment position.

A. Current Account

1. **Background**. FX market liberalization, the removal of trade restrictions, especially on regional trade, and booming investment shifted the current account (CA) from a surplus of 2½ percent of GDP in 2017 to a deficit of 7 percent of GDP in 2018. A shift to relatively high and persistent CA deficits has been a typical feature of transitions from state-led to more marked-based economies (Box 1).

2. **The Fund's revised external balance approach (EBA) suggests that Uzbekistan's economic fundamentals are consistent with running significant external deficits.** The staff's estimate of the CA norm deficit in 2018, i.e. the CA deficit consistent with Uzbekistan's economic fundamentals as well as desirable policies, is in the range of 3½-5½ percent of GDP (text table). The CA norm deficit is largely explained by Uzbekistan's productivity gap relative to the rest of the world and the country's favorable demographics.

Uzbekistan: EBA-lite: Current Account Approach, 2018
(Percent of GDP)

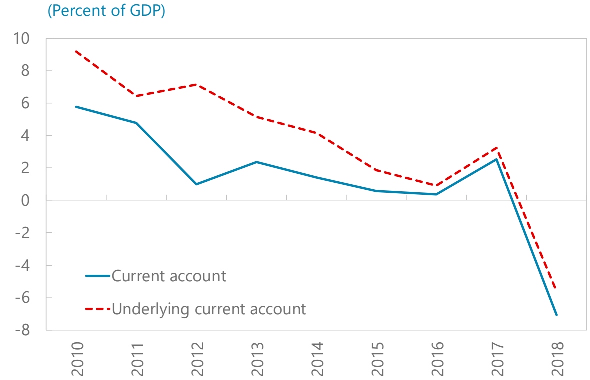
Current account	**-7.1**	
- Cyclical adjustments	0.0	
- Adjust. for gold purchases	-1.5	
Underlying CA	**-5.6**	
CA norm¹	**-4.5**	±1
CA gap	**-1.2**	±1
of which: policy gaps	-1.1	
Real exchange rate elasticity	-0.26	
REER gap	**4.6**	

1/ Multilaterally and cyclically adjusted (+0% cyclical adj. -0.54% multilateral adj.)

Source: IMF staff estimates.

3. **The underlying CA deficit in 2018 is estimated at 5½ percent of GDP**. The estimate of the underlying CA deficit adjusts the observed CA deficit for the CBU's decision on how much of its annual purchases of gold are exported during the year. The reason for this adjustment is that the CBU's gold purchases from domestic producers add to FX reserves but do not affect the rest of the balance of payments (BOP). If all gold purchased is exported during a given year, the gold exports are registered as a CA credit that fully matches the FX reserve buildup during the year. But if gold exports are kept below purchased gold volumes, the current account balance is understated. Thus, the deduction of 1½ percent of

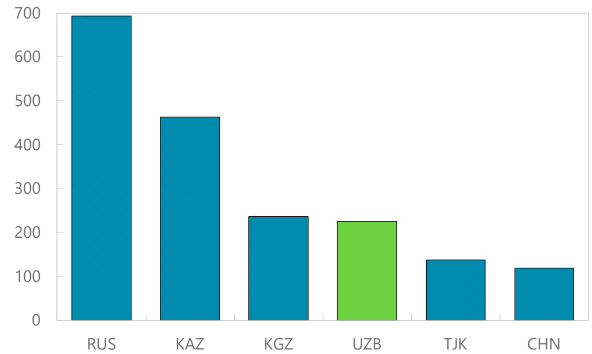
Uzbekistan: Current Account
(Percent of GDP)



Source: IMF staff estimates.

GDP from the observed current account deficit in the text table corrects for the difference in gold purchases and exports in 2018.[1]

Regional Peers: Average Wages, 2018
(U.S dollars per month)



Source: IMF staff estimates.

4. **The estimated CA gap implies a small real effective exchange rate (REER) gap**. Using standard trade elasticities, the REER gap is 4½ percent, suggesting the REER is close to its equilibrium level. Other cost competitiveness indicators, including Uzbekistan's wages in U.S. dollars relative to regional peers (see text chart), seem broadly in line with this assessment.

5. **CA Outlook.** The CA deficit is expected to remain high in the near term. For 2019, the current account deficit is projected to decline to 6½ percent of GDP, a projection conditional on the policies assumed in the baseline, especially more moderate credit growth. Under the baseline policies, the risk of a significant deterioration of the CA deficit in the near term is moderate, also given that gold export prices could provide a hedge against a large fall in energy export prices. Over the medium term, the CA is projected to gradually converge to a deficit level close to the estimated CA norm of 4½ percent of GDP, in line with the expectations for a transition economy with Uzbekistan's structural characteristics.

6. **Assessment**: Subject to the considerable uncertainties of economic transitions, Uzbekistan's underlying current account position in 2018 is assessed to be only moderately weaker than the level consistent with fundamentals and desired policies. The narrow implied REER gap and the apparent lack of a cost competitiveness problem do not point to a significant overvaluation problem. The weakening of the current account in 2018 and beyond can mainly be attributed to the opening of the economy and booming investment. Looking ahead, however, the pace of credit and domestic demand growth need to be contained to avoid the emergence of excessive current account deficits.

B. Financial Account

7. **Background**. Financial flows have been relatively limited and stable, reflecting the authorities' decision to proceed cautiously on lifting capital flow restrictions. The main inflows represent FDI and loans, with both FDI inflows and net loans on average during 2016-18 accounting for about 2 percent of GDP. In 2018, financial inflows increased temporarily due to expanded credit lines. Uzbekistan recently obtained a relatively favorable sovereign debt rating (BB-) when compared with peers, and the country was recently upgraded in the OECD's country risk classification from 6 to 5, a country risk rating it shares in the region with Azerbaijan and Kazakhstan. At the beginning of 2019, the government successfully issued for the first time

[1] Specifically, gold purchases amounted to 7.3 percent of GDP, while only 5.8 percent of GDP of gold was exported. The observed current account deficit was therefore corrected by 1.5 percent of GDP to calculate the underlying current account deficit.

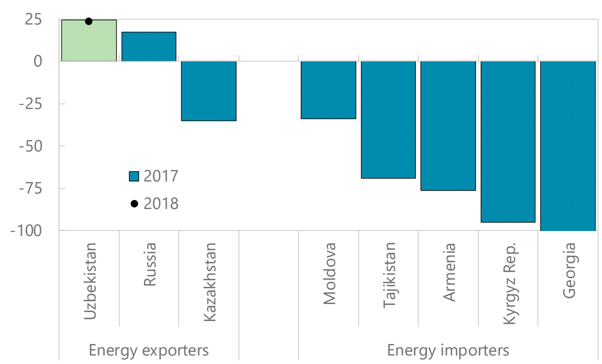
Eurobonds of US$ 1 billion, with the issue heavily oversubscribed. Finally, while some capital flows restrictions remain, FDI repatriation amounts have increased in 2018.

8. **Assessment**. In the near term, FDI inflows are expected to remain subdued and official external borrowing will likely expand. The government plans to continue tapping the sovereign bond market, while multilateral institutions will likely remain keen on providing additional loans.

C. International Investment Position

9. **Background**: Uzbekistan's international investment position (IIP) appears strong relative to regional peers, reflecting FX reserve accumulation, the private sector's desire to accumulate large FX cash holdings, and restraint on external borrowing (see text chart and table).[1] The strong IIP position is the result of past FX reserves accumulation and the desire of the private sector to accumulate large FX cash holdings.

Regional Peers: International Investment Position
(Percent of GDP)



Sources: IMF, BOP statistics; and IMF staff estimates.

Uzbekistan: International Investment Position
Billions of U.S. dollars

	2016	2017	2018
Assets	**36.4**	**41.7**	**43.1**
Direct investment	0.2	0.2	0.2
Other invest.: Deposits and FX cash	7.3	10.5	13.6
Other invest.: Others	2.5	2.9	2.2
Reserve assets	26.4	28.1	27.1
Liabilities	**23.9**	**27.5**	**31.0**
Direct investment	8.7	10.0	9.0
Other investment	15.2	17.4	22.0
of which: Gov. loans	6.5	7.6	10.1
of which: Other sectors loans	6.3	6.3	5.4
of which: Other sectors trade credit	2.0	2.8	5.4
IIP	**12.6**	**14.2**	**12.0**

Sources: Country authorities; and IMF staff estimates.

10. **The external balance sheet is largely insulated from volatility in global financial markets**. External assets mainly constitute FX reserves and private FX cash holdings. External liabilities are largely multilateral and bilateral loans at concessional rates and with long maturities (almost 90 percent of external debt is at maturities exceeding 10 years).

11. **Assessment:** Uzbekistan's external balance sheet points to large FX buffers that shelter the country from external shocks. At the same time, external assets and liabilities are largely insulated from global financial volatility and external liabilities have low rollover risk. Looking ahead, excessive expansion of market-based borrowing by the government or SOEs could build up balance sheet risks over the medium term.

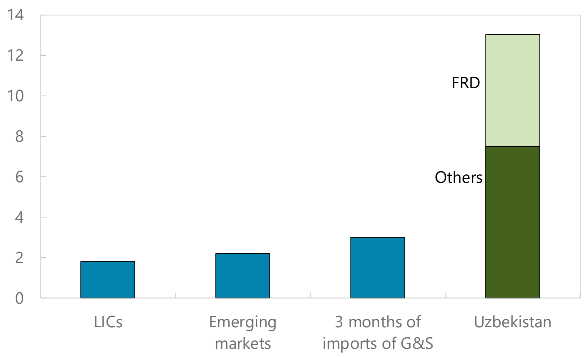
[1] Uzbekistan released IIP data for the first time in 2018.

D. FX Reserve Adequacy

12. **Background**. Uzbekistan's FX reserves are large by all metrics. At $27 billion at end-2018, they were equivalent to about 54 percent of GDP or 13 months of imports of goods and services. FX reserves were considerably above the IMF's reserve adequacy metric for emerging markets or developing countries[1]. However, as a commodity exporter, Uzbekistan is at risk of large shocks arising from declines in its major exports.

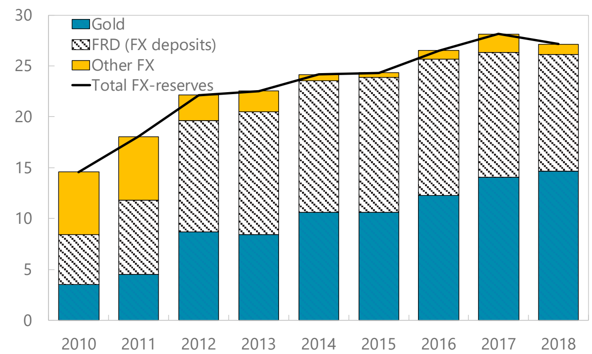
13. **About half of FX reserves represent deposits by the Fund for Reconstruction for Development (FRD**). However, even if FRD deposits were excluded, Uzbekistan's FX reserves would remain significantly above standard FX reserve metrics. At the same time, high FX reserves carry an opportunity cost: for example, assuming an alternative return of 7 percent,[2] the opportunity cost of FX reserves (including FRD deposits) would be about $1.5 billion annually or 3 percent of GDP.

Panel A. FX-Reserve Adequacy Indicators, 2018
(Months of next year imports)



Source: IMF staff estimates.

Panel B. Uzbekistan: FX-Reserves
(Billions of U.S. dollars)



Sources: Country authorities; and IMF staff estimates.

14. **Assessment**. High FX reserves help ensure access to needed imports, insure against external shocks, and support the transition to a more flexible FX rate. They are also of use for operational purposes, including smoothing volatility in the FX market. Finally, a share of FX reserves may eventually have to be devoted to cleaning up the balance sheets of SOEs as not all of their FX loans guaranteed by the state may be repaid. Against this backdrop, staff assesses Uzbekistan's FX reserves are broadly adequate for precautionary or operational purposes, notwithstanding the significant opportunity cost.

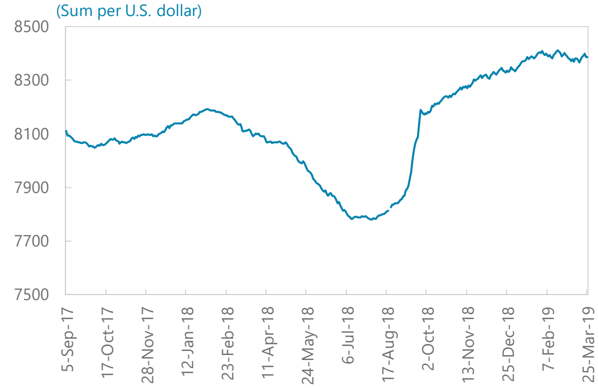
[1] Actual reserves are about 1,000 percent for the IMF's reserve adequacy metric (above the 100-150 percent recommended).

[2] Staff estimates Uzbekistan receives about a one percent return on its FX reserves.

E. Real Exchange Rate

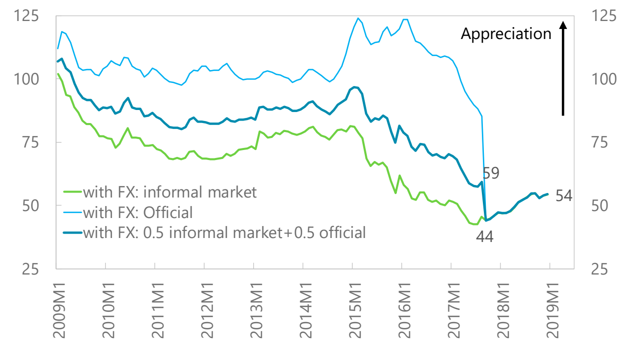
15. **Background**. On September 5, 2017, Uzbekistan unified its official and parallel exchange rates and liberalized access to foreign exchange. The official nominal exchange rate depreciated from 4,250 to 8,100 sum per dollar. During 2018, the nominal exchange rate fluctuated, but the sum remained relatively stable against the U.S. dollar. The *de jure* exchange arrangement is floating, while Uzbekistan's *de facto* exchange rate regime is classified by the Fund as "other managed" given that the nominal exchange rate path seems highly predictable and that the nominal exchange rate shows only very limited day-to-day volatility.

Uzbekistan: Exchange Rate
(Sum per U.S. dollar)



Sources: Country authorities; and IMF staff estimates.

Uzbekistan: Real Effective Exchange Rate[1]
(2010=100)



1/ REER based on CPI, INS methodology.
Source: IMF staff estimates.

16. **The Fund's EBA for exchange rates suggests that the real exchange rate is heavily undervalued**. Reflecting the sharp depreciation of the real effective exchange rate following FX liberalization (see text chart), the real exchange rate is estimated to be about 45 percent weaker than implied by fundamentals and desired policies. This estimate of a substantial exchange rate undervaluation contrasts with the current-account based estimate of a moderate overvaluation. Sharp initial real depreciations of exchange rates followed by relatively rapid real appreciations are in fact typical for transition economies, a stylized fact that is not easily captured by conventional macroeconomic models (Annex II Box 1).

Uzbekistan: EBA-lite: IREER Approach, 2018

(Log index 2010=100)	
Ln(REER) actual	**4.07**
Ln(REER) fitted	4.58
Ln(REER) norm	**4.53**
(Percent)	
Residual	-50.5
REER gap	**-45.3**
Policy gaps	5.2

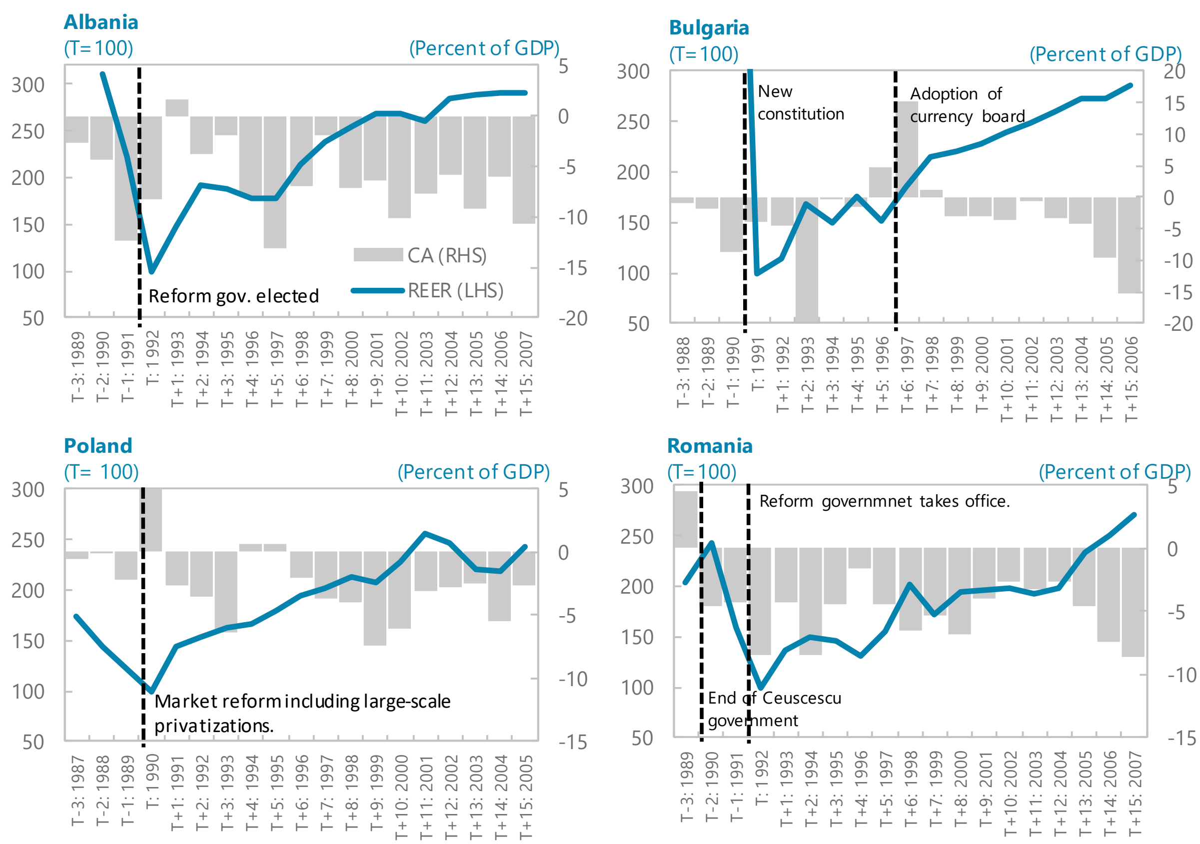
17. **Outlook**. In the near term, staff projects that the real exchange rate will appreciate as the transition evolves, as observed in other transition economies in the past.

18. **Assessment.** Subject to the already mentioned data uncertainties, staff assesses that the 2018 average REER was broadly consistent with fundamentals and desired policies.

Box 1. Current Account Balances and Real Exchange Rates in Transition Economies

The behavior of current account balances and real exchange rates in transition economies perplexed observers during the 1990s. At the beginning of transitions, real exchange rates tended to depreciate sharply (see the four selected transition country charts below). Among others, Halpern and Wyplosz (1996) documented these stylized exchange rate facts and traced them to the unique economic regime changes engendered by transitions.[1] At the same time, in response to the opening and liberalization of transition economies, CA balances deteriorated significantly, notwithstanding the concurrent large real depreciations. The main drivers of these high CA deficits were surging imports that reflected consumption smoothing given declines in domestic production, repressed demand for imports before the transitions, and imports of capital goods needed to modernize economies. These initial responses of real exchange rates and CA balances are difficult to capture by the Fund's present EBA approach.

Selected Transition Economies: Real Exchange Rates and Current Account Balances



Source: IMF staff estimates.

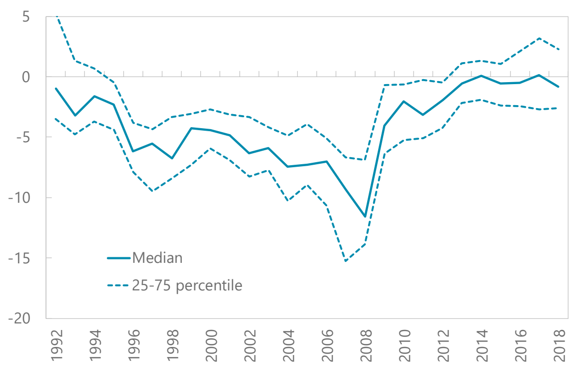
____

1/ Halpern, L., and Wyplosz, C. 1996. "Equilibrium Exchange Rates in Transition Economies," *IMF Staff Papers*, Palgrave Macmillan, Vol. 44 (4), pp. 430-461.

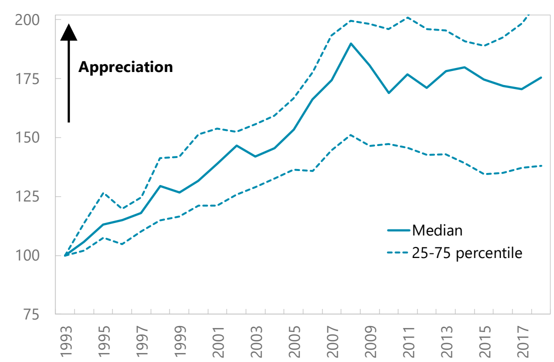
Box 1. Current Account Balances and Real Exchange Rates in Transition Economies (Continued)

As transitions evolved, current account deficits remained large but relatively stable, notwithstanding significant real trend appreciations. After the initial deterioration, CA deficits in selected transition economies tended to persist for about 10-15 years before correcting back to levels closer to balance (see left chart below). The persistent real exchange rate appreciation trends after the initial sharp depreciation (see right chart below) suggest that these exchange rate movements represent a gradual shift back to a longer-term equilibrium following the overshoot of real exchange rates at the beginning of transitions, as argued in detail by Halpern and Wyplosz (1996).

Selected Transition Economies[2]: Current Account
(Percent of GDP)



Selected Transition Economies[2]: Real Exchange Rate
(1993=100)



Source: IMF staff estimates.

2/ Including Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Rep., Estonia, Hungary, Latvia, Lithuania, Macedonia, Poland, Romania, Serbia, Slovak Rep., and Slovenia.

Annex III. Estimating Spending Needs to Achieve Selected SDGs

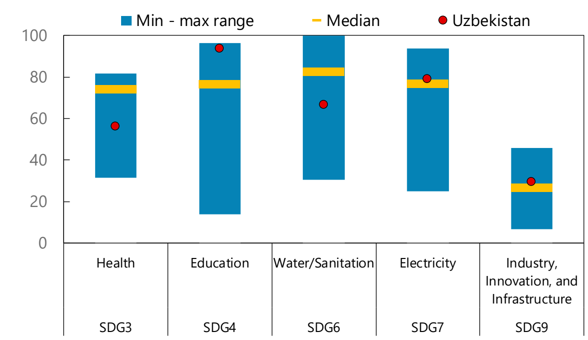
This annex estimates the additional spending—public or private—needed relative to current spending in order to make significant progress in achieving Sustainable Development Goals (SDGs) in five areas: health, education, water and sanitation, electricity, and roads. The estimates are based on the costing methodology presented in Gaspar et al (2019).[1]

A. Attaining the SDGs: A National Priority for Uzbekistan

1. **Uzbekistan has anchored its development agenda in the SDGs.** A Presidential resolution adopted in October 2018 sets 16 of the 17 SDGs as national goals to attain by 2030, with 127 related targets. It envisages that these goals will be gradually integrated into the country's development agenda, including the state budget. The authorities are also putting in place a framework to allow the regular reporting of progress against a baseline.

2. **Relative to peers, Uzbekistan performs well on the SDGs, but there are pockets of weaknesses.** On the SDG index developed by Sachs et al (2018), Uzbekistan's global ranking is 51 out of 156 countries.[2] With a current per capita income of around $1,500, Uzbekistan compares favorably to countries with per capita income between $1,500 and $6,000 on the goals of education and access to electricity, but it lags on industry, innovation and infrastructure (SDG 9) as well as water and sanitation (SDG 6).

Uzbekistan: Selected Sustainable Development Goals
(Composite index: 0=lowest score and 100=highest score)



Source: IMF staff estimates using Sachs et al (2017). Comparators are 45 countries with per capita income between $1,500-$6,000.

B. Assessing Spending Needs

3. **The additional spending needs in health (public and private) required to close the gap with peers is estimated at 2.3 percent of GDP in 2030.** Current spending is 6.2 percent of GDP, and the SDG health index stands at 76. High performing peers have scores in excess of 80 at similar spending levels.[3] These peers employ fewer medical personnel per capita than Uzbekistan, and they remunerate their doctors significantly more. Reducing employment and increasing remuneration to attain peer levels would require an increase in health care spending of 2.3 percent of GDP. Assuming

[1] Gaspar, V., Amaglobeli, D., Garcia-Escribano, M., Prady, D., and Soto, M. (2019), *Fiscal Policy and Development: Human, Social, and Physical Investment for SDGs*, IMF Staff Discussion Note.

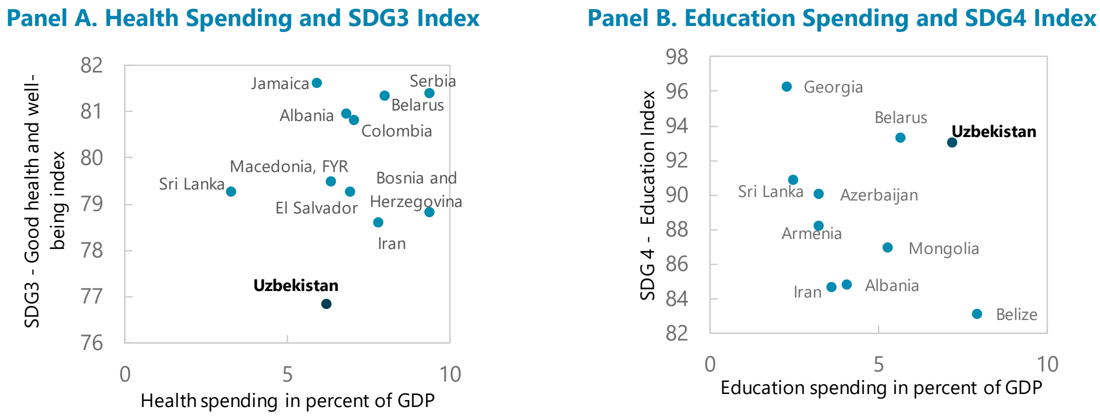
[2] Sachs, J., Schmidt-Traub, G., Kroll, C., Durand-Delacre, D. and Teksoz, K. (2018). *2018 SDG Index and Dashboards Report*, New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN).

[3] Countries with per capita GDP between $1,500-$6,000 in 2018 are chosen as peers. There are 45 countries in this income group: Albania, Algeria, Angola, Armenia, Azerbaijan, Belarus, Belize, Bhutan, Bolivia, Bosnia and Herzegovina, Cabo Verde, Colombia, Congo, Rep., Djibouti, Egypt, El Salvador, Macedonia, Georgia, Ghana, Guatemala, Guyana, Honduras, India, Indonesia, Iran, Iraq, Jamaica, Jordan, Kenya, Lao PDR, Moldova, Mongolia, Morocco, Namibia, Nicaragua, Nigeria, Paraguay, Philippines, Serbia, South Africa, Sri Lanka, Suriname, Swaziland, Thailand, Tunisia, Ukraine, and Vietnam.

an unchanged public-private mix, public and private spending in health would need to increase by 1.4 and 0.9 percent of GDP, respectively.

4. **Uzbekistan already spends significant resources on education; it should focus on improving the quality of spending.** Total spending on education exceeds 7 percent of GDP, largely from the public purse, and is higher than in peer countries. Basic educational attainment is high — literacy rates among youth and primary school enrolment are close to 100 percent— resulting in a relatively strong score on the SDG 4 index. An increase in spending of 0.3 percent of GDP is required by 2030 to maintain the score and accommodate demographic pressures. However, the absence of other relevant indicators makes it difficult to assess the quality of education in Uzbekistan. Tertiary enrollment is low by international standards at 9 percent. This together with perceptions of shortages of skilled labor shows the need for reforms in the higher education system[1].

Figure III.1. Health and Education Spending and SDG Indices



Source: IMF staff estimates. Comparison is with high performers on the respective SDG index in the per capita income group $1500 - $6000

5. **Annual investment in infrastructure-related spending to meet various SDGs is estimated at 6.1 percent of GDP**. These investments are in the areas of:

a. **Water and sanitation**. Based on the World Bank's costing model,[2] an additional one percent of GDP is required each year until 2030 to provide universal access to basic and safely managed water, sanitation, and hygiene. This estimate takes account of the projected annual increase in population. A large share of spending is expected to be in rural areas.

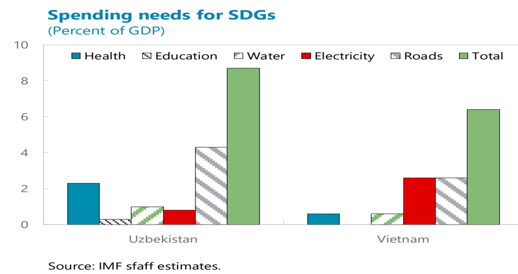
[1] A World Bank survey shows more than one third of firms view employee skills as a major obstacle to growth. *Uzbekistan: Modernizing Tertiary Education*, June 2014. See also Annex IV on investor views on reform priorities.

[2] Hutton, Guy and Mili Varughese (2016). "*The Costs of Meeting the 2030 Sustainable Development Goal Targets on Drinking Water, Sanitation, and Hygiene*," World Bank Technical Paper.

b. **Electricity.** Spending in the electricity sector will cost an additional 0.8 percent of GDP each year until 2030, largely because consumption is expected to track GDP. This cost estimate may increase, as the country replaces old plants, and invests in renewable energy.

c. **Roads.** To improve rural access to roads from 57 to 85 percent, and accommodate the higher traffic from an expanding economy, the road network would need to double by 2030. This would require additional capital spending of 2.8 percent of GDP each year until 2030.[1] A larger road network would also increase maintenance costs, adding 1.5 percent of GDP.

6. **Overall, total additional spending to reach the SDGs in social and infrastructure sectors is estimated at about 8.7 percent of GDP in 2030**.[2] This estimate compares favorably with low-income countries, where spending needs are estimated at 17 percent. It is double that of emerging economies, estimated at 4 percent of GDP.[3] Compared to Vietnam, spending needs are higher, with differences across sectors. While in Vietnam, the main gaps are in infrastructure, notably in electricity and roads, Uzbekistan's spending needs are concentrated in two sectors, health and roads.



C. Policy Implications

7. **Uzbekistan's SDG-related spending needs are large and will require careful consideration of funding options.** Regarding using budget financing for achieving SDG goals, the phasing-out of policy-based lending—currently about 2 percent of GDP—could open significant fiscal space and, as in the past, concessional debt financing could be available for public infrastructure. Finally, there is scope to mobilize additional revenues (Uzbekistan's revenue-to-GDP ratio at 25 percent is significantly lower than the average for CIS countries at 34 percent of GDP).

8. **But, at 8.7 percent of GDP, some of the spending needs will need to be met by the private sector**. Ongoing reforms aim at encouraging private sector participation in key areas of the economy, including infrastructure provision, where its role is currently small. These include the liberalization of energy prices, especially for gas and electricity; the improvement of the investment climate by combating corruption, promoting competition, and enforcing the rule of law; and the development of a strong legal framework for public private partnerships (PPPs).

---

[1] Rural access is calculated as the proportion of the population which lives within two kilometers of an all season road. The cost of building a km of road is assumed to be $0.49 million, based on World Bank estimates.

[2] The analysis, however, requires several caveats. The estimates for health and education spending are based on the SDG score, the quality of which is affected by data gaps. For example, in Uzbekistan only data on literacy rates, primary enrolment, and years of schooling are available and the SDG score does not include key variables such as secondary and tertiary enrollment, and student achievement. In addition, the estimates for infrastructure spending do not include the cost of upgrading or replacing dated infrastructure (e.g. in the electricity sector). Finally, estimates are based on an average efficiency scenario. A UN-World Bank study in 2018 shows that improving governance will be key to SDG progress in Uzbekistan. It can, at the same time, increase the returns to spending in the key SDG areas.

[3] Gaspar et al. (2019)

Annex IV. Prioritizing Structural Reforms: What Do Investors Want?

This annex reports the results of a staff survey of investors in Uzbekistan to help prioritize the authorities' structural reform agenda. In particular, investors were surveyed about the perceived urgency of reforms to improve the attractiveness of Uzbekistan as an investment location across a wide range of reform areas. Many observers see the lack of FDI in particular as the "missing bridge" needed to transit from a state-led to a more market-based growth model.

1. **The authorities are faced with the challenge of prioritizing a wide-ranging and demanding structural reform agenda.** There is agreement that major structural reforms are needed across all economic policy areas and institutions, as laid out in President Mirziyoyev's development strategy for 2017-21. However, a wholesale reform approach that addresses all major economic distortions in a short time period is not realistic given the legacy of a heavily distorted economy as well as information and implementation capacity constraints.

2. **Three broad approaches to prioritizing specific structural reforms are widely used**:

- ***Scan international competitiveness rankings to pick priorities***: This approach is highly influential as it promises to deliver not only relevant pointers to which structural reform areas are lagging most compared with peer countries, but the country's post-reform rankings can be used to assess the effectiveness of a reform effort. In fact, in the case of Uzbekistan, a presidential decree mandates the monitoring of the country's international competitiveness rankings. The main available international ranking for Uzbekistan at this point is the World Bank's *Doing Business* ranking. Even before the present reform wave got underway in 2017, the Uzbekistan authorities were highly successful in improving the country's overall ranking, moving the country up from the lowest quartile (2014 report) to second quartile (2018 report). In fact, in recent *Doing Business* rankings, Uzbekistan outranked the United States in the categories "starting a business" and "getting electricity," suggesting that ranking improvements can be "targeted" to achieve major upgrades, but the upgrades may not necessarily reflect *de facto* improvements in the investment climate.[1] On the other hand, Uzbekistan's lowest category rankings were "trading across borders" (lowest quartile) and "dealing with construction permits" (third quartile).
- ***Assemble a reform roadmap based on expert advice***: This approach is also influential as it tends to produce comprehensive inventories of specific reform actions—usually sorted by time horizon—that can be assigned to specific implementation agencies. Reform decrees in Uzbekistan are usually drafted following this approach, and the Uzbekistan authorities have issued a comprehensive reform roadmap for 2019-21, largely based on World Bank recommendations. The roadmap lists more than 500 reform actions across a vast array of reform fields, ranging from "aviation sector reform" to "citizen engagement." The downside of reform roadmaps can be that they are often put together in an unstructured setting where the number

[1] Another issue is that *Doing Business* usually seeks to capture the investment climate in the largest metropolitan area—Tashkent in the case of Uzbekistan—but the investment climate in the rest of the country could differ.

of participants is fluid, preferences of participants are diffuse, and the link between reform measures and desired outcomes is often complex, if not controversial. Moreover, there is a risk that this setting encourages an approach where "solutions" look for "problems," and where expert advice is only loosely based on a deeper understanding of the country's most pressing reform needs.[1] Finally, reform roadmaps often list as a reform action "design a roadmap for reform area X," meaning it is a roadmap that requires users to design more roadmaps.

- **Search for the most binding investment climate constraints and prioritize reforms aimed at removing those constraints**: This approach can be based on the insights of the growth diagnostics framework proposed by Hausmann, Rodrik, and Velasco.[2] It seeks to identify the most binding constraints on private investment and entrepreneurship by first identifying a potential list of constraints and then use a blend of empirics and heuristics to pinpoint the most binding constraints. This pragmatic approach overcomes most of the downsides of the two alternatives discussed earlier by creating a more structured setting for thinking about reform priorities. However, producing a full-blown growth diagnostics exercise is also very resource- and time-consuming.

3. **As a more limited contribution toward helping the authorities prioritize their reform agenda, staff undertook a survey of investors.** This contribution fits well as an input into the growth diagnostic framework. Based on brainstorming with private sector counterparts in Uzbekistan, the survey questions identified about 30 potential constraints on private investment and entrepreneurship, and asked for investors' views on reforms in these areas using two questions:

What has been the impact of reforms in reform area X so far on Uzbekistan's attractiveness as an investment location? What is the urgency of reforms in the reform area X to improve Uzbekistan's attractiveness as an investment location?

4. **The survey covered three broad reform areas**: (i) availability of economic resources; (ii) cost of doing business; and (iii) quality of governance (see Table IV.1). The survey was sent to about 100 domestic and foreign investors in Uzbekistan using the membership register of Uzbekistan's largest investor association. The response rate was about 30 percent.[3]

5. **Starting with the impact of reforms so far, the survey results suggest that several reforms have already had significant positive impact.** The reforms in areas under the "cost of doing business" header indicated generally positive impacts, while positive impacts of reforms under the "availability of resources" and "quality of public governance" headers were more limited. However, very few reforms were perceived as having had significant positive impacts, with the easing

[1] This approach to making reform decisions has been studied in an organizational context by Cohen et.al. (1972) "A Garbage Can Model of Organizational Choice," *Administrative Science Quarterly* 17, p. 1-25.

[2] See, for example, Hausmann, Rodrick, and Velasco (2006) "Getting the Diagnosis Right," *Finance and Development*, IMF, Volume 43, Number 1.

[3] A similar investor survey done in 2015 to gauge the effectiveness of structural reforms in Portugal during 2011-14 had a response rate of about 18 percent. See Jaeger and Martins (2015) "Generating Sustainable Growth: A Firm-Level Perspective on Structural Reforms," *From Crisis to Convergence: Charting a Course for Portugal*, edited by Gershenson et.al., IMF, pp. 87-108.

of rules on repatriation of investments, costliness of export procedures, and relaxation of rules for immigration visas for foreign workers notable exceptions.

6. **There seemed to be consensus across investors that availability of resources is a binding constraint, especially regarding skilled labor, land, and energy**. These—and the availability of a well-functioning financial system—are also factors often cited as crucial for facilitating the absorption of FDI.

7. **The investor responses suggested that taxes/incentives and, to a lesser extent, customs procedures are especially binding constraints for private investment when it comes to the cost of doing business.** As regards taxes, one issue is that the tax reform that took effect in January 2019 lowered some tax rates significantly, and more time may be needed for the reform to have a tangible impact on investor perceptions. The perceived urgency of additional customs reforms matches the ranking for "trading across borders" under *Doing Business*.

8. **Quality of public governance was identified by the survey as a binding constraint almost across all the listed reform areas.** As regards administrative bottlenecks, taxation, competition, and FDI promotion provide relatively straightforward targets for reform. At the same time, areas indicating binding constraints related to rule of law (corruption) or the quality of policies (predictability) will be much harder to tackle.

9. **Results from investor surveys are subject to several caveats.** First, respondents may not be aware of the actual reform outcomes or urgencies but nevertheless have strong opinions, in part reflecting their lack of information. At the same time, perceptions, whether rooted in reality or not, may matter greatly for investors' decisions. Second, respondents may blame their own lack of investment acumen on lack of reforms. And third, it may take time for some of the structural reforms to have an impact. Given these caveats, a similar investor survey could be conducted again in one or two years to check whether perceptions of the effectiveness of structural reforms have moved in the right direction.

Table IV.1. Impact and Urgency of Structural Reforms: An Investor Perspective[1]

Availability of economic resources	Perceived impact of reforms so far	Perceived urgency of more reforms
Credit	-0.3	-1.1
Energy	0.0	-1.2
Land tenure rights	-0.6	-1.3
Skilled labor	-0.4	-1.4
Immigration services (visas)	0.7	-1.1
Cost of doing business	**Perceived impact of reforms so far**	**Perceived urgency of more reforms**
Costliness of export procedures	0.4	-1.0
Costliness of import procedures	-0.2	-1.1
Costliness of payment services	0.2	-0.6
Costliness of licensing	0.2	-0.8
Costliness of transportation	0.0	-0.8
Costliness of telecommunication	-0.3	-1.0
Costliness of skilled labor	-0.3	-1.0
Costliness of unskilled labor	-0.1	-0.6
Level of tax rates	-0.3	-1.4
Cost of paying taxes	-0.3	-1.2
Investment incentives	0.0	-1.3
Effectiveness of free economic zones	-0.6	-1.1
Quality of governance	**Perceived impact of reforms so far**	**Perceived urgency of more reforms**
Cost of red tape: central government level	-0.1	-1.0
Cost of red tape: local government level	-0.1	-1.0
Ease of repatriation of investments	0.9	-0.9
Effectiveness of FDI promotion agencies	-0.4	-1.2
Enforcement of competition	-0.2	-1.2
Effectiveness of tax administration	-0.5	-1.4
Resolution of tax disputes	-0.6	-1.1
Costliness of contract enforcement	-0.4	-1.2
Reducing corruption	-0.3	-1.4
Availability of reliable statistics	-0.2	-1.2
Predictability of economic policies	-0.8	-1.5

Sources: Survey; and IMF staff estimates.

1/ Numbers indicate average scores across investors' responses, with scores standardized in the range -2 to +2. As regards perceived impact of reforms, investors had the choice between "no impact" (score = -2), "some impact" (score = 0), or "significant impact" (score = 2). As regards the perceived urgency of more reforms, investors had the choice between "no need" (score = 2), "some need" (score = 0), or "urgent need" (score = -2). Colors are assigned based on four uniformly spaced intervals as follows: red refers to a value below -1; orange to a value betwen -1 and 0; light green to a value between 0 and 1; and dark green to a value above 1.

Annex V. Reforming the Labor Market to Promote Inclusive Growth

This annex focuses on how labor market reforms in Uzbekistan can promote inclusive growth. That is, how changes to Uzbekistan's labor market can boost employment of vulnerable groups including workers who lack skills, the poor, migrants, women, and youth.

1. **A May 2017 Presidential decree committed the government to a medium-term national employment program** focused on improving the legal framework, employment programs, jobs for university graduates, support for the poor, equal access to jobs, public education, and international organizations. In this regard, Uzbekistan has been working with the International Labor Organization (ILO), United Nations Development Program (UNDP), and World Bank.

A. Structure of the Labor Market

2. **While the working-age population has increased dramatically, formal sector jobs have not, and informal jobs and migration have acted as a shock absorber**. In 2018, the working-age population was about 19½ million, of which 5½ million had formal jobs, 5½ million had informal jobs, 2½ million were migrants, and 6 million were economically inactive. [1] Over the last 10 years, the working-age population has grown by 3 million from 52 to 60 percent of the population while the number of formal jobs has been constant. Informal employment varies by sector and is highest in agriculture (80 percent of workers) and industry (60 percent). Those who lack education and skills, the poor, women, and youth are less likely to have formal jobs and more likely to be inactive.

3. **Several factors appear to contribute to low growth of formal jobs.** On the demand side, employment in government and state enterprises has not grown, while private sector employment has been discouraged by higher taxes on firms with more employees. On the supply side, growth of the working-age population has outpaced population growth.

4. **Employers say workers' skills do not match job requirements**. In a World Bank survey, employers ranked poor skills as the second biggest obstacle to doing business. The largest gaps were identified as language, analytical thinking, customer service, project management, and writing skills.[2] Lower education is also associated with lower employment and wages. For example, the unemployment rate for those with some primary education is 31½ percent, compared to 8½ percent

[1] Employees in government, state enterprises, large private firms, small and medium enterprises and entrepreneurs with patents are considered formal. They are registered with government, pay taxes, and are subject to protection schemes. Small farmers, craftsmen & family businesses, and entrepreneurs without patents are considered informal.

In 2018, the government reformed its labor surveys, resulting in an upward revision to the estimate of migrants and corresponding downward revision in the estimate of employment in other informal employment.

[2] See Ajwad, Mohamed Ihsan; Abdulloev, Ilhom; Audy, Robin; Hut, Stefan; de Laat, Joost; Kheyfets, Igor; Larrison, Jennica; Nikoloski, Zlatko; Torracchi, Federico (2014). *The Skills Road: Skills for Employability in Uzbekistan*. World Bank, Washington, DC.

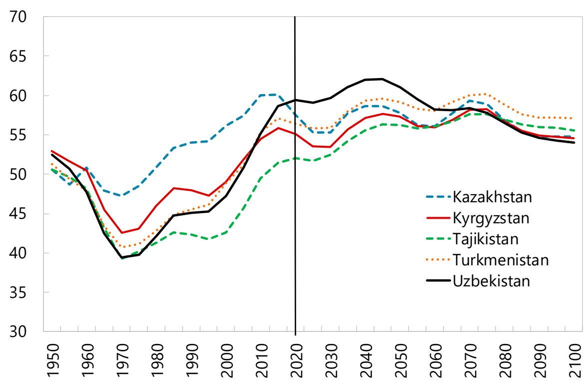
for those with secondary education, and 4½ percent for those with tertiary education. On average, workers with a tertiary education earn 55 percent more than workers with a secondary education.

5. **Access to primary and secondary education is high, but access to preschool and tertiary education is low**. According to SDGs indicators, the primary and secondary school completion rates are 97 and 91 percent respectively. However, only 26 percent of preschool students were enrolled in pre-primary education. And only 9 percent of secondary school graduates received higher education in 2012, down from 15 percent in 1991.

Figure V.1. Recent Trends in the Labor Market

Panel A. Working-Age Population

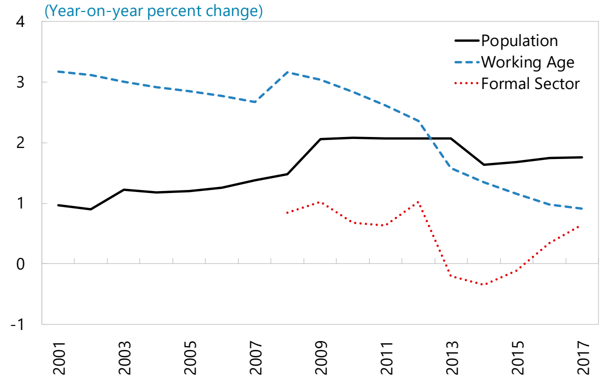
(Percent of Population)



Source: United Nations. *World Population Prospects 2017* Database; and IMF staff estimates.

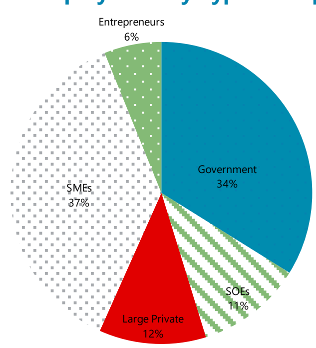
Panel B. Population, Working Age, and Formal Sector Employment

(Year-on-year percent change)



Sources: Country authorities; and IMF staff estimates.

Panel C. Formal Employment by Type of Employer



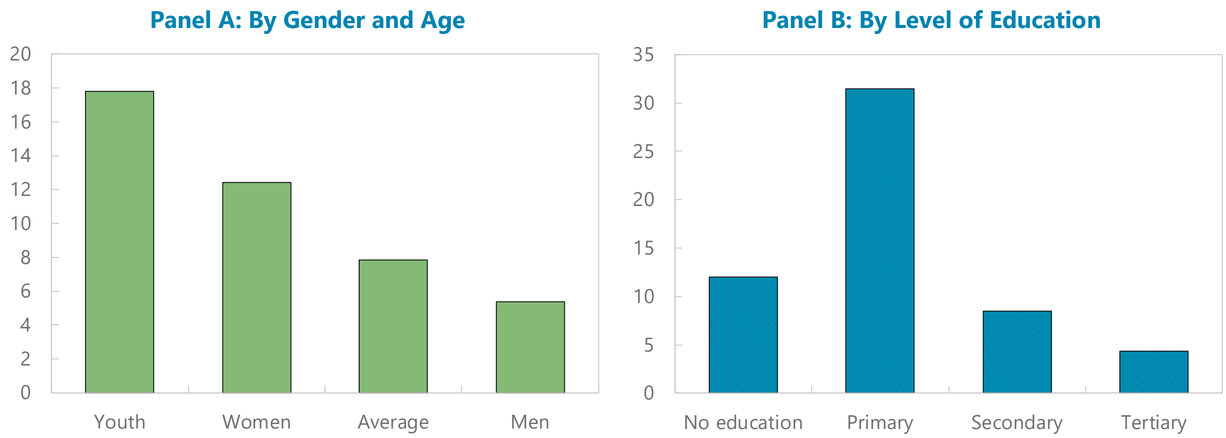
Sources: Country authorities; and IMF staff estimates.

B. Disadvantaged Groups: Women, Youth, and Migrants

6. **Women and youth have worse job prospects.**

- For ***women***, the employment-to-population ratio (28 percent) is half that of men (57 percent) and the unemployment rate for women (12 percent) is more than double that of men (5 percent). And whereas about 20 percent of men looking for work have been unemployed for more than 24 months, the corresponding figure for women is 36 percent. Moreover, there is clear gender segregation by sector, with higher representation of women in the education, health, social services sectors.[1]
- For ***youth***, the unemployment rate (18 percent) is more than double the unemployment for all job seekers (8 percent). And the share of 15 to 24 year-olds with permanent jobs is 49 percent, about 10 percentage points lower than for other workers.

Figure V.2. Average Unemployment Rates
(percent)



Source: World Bank and the Development Strategy Center (2018). *Listening to the Citizens of Uzbekistan*.

7. **Poor quality education has been identified as a problem for women and youth, while women also have greater responsibility for children**. The quality of education is seen as not providing critical thinking and job skills. Women also have less access to education opportunities. For example, while the primary school completion rate is the same for men and women, 11 percent of men received beyond a secondary education, compared to 7 percent of women.

8. **Lack of local job prospects and low incomes appear to be the biggest causes of migration**. For example, a study by the World Bank (2018) found that "out-migration is most common in areas with low labor force participation, low confidence in local economic prospects, and high reliance on social protection benefits". In the absence of remittance income, the national poverty rate would be expected to rise from 9.6 percent to 16.8 percent.

[1] ADB (2018). *Uzbekistan Country Gender Assessment Update*.

C. Policy Reforms

9. **The government is actively pursuing reforms to help those with low education, women, youth, and migrants**. Reforms include: (i) expanding active labor market policies; (ii) boosting education and skills training; (iii) assisting women, youth, and migrants, and (iv) revising labor laws.

10. **The government plans to significantly expand active labor market policies (ALMPs)**. Current ALMPs include job search assistance, a public works program, skills training, on-the-job training, and micro-credit programs for craftsmen/entrepreneurs.[1] The most dramatic increase will occur in the public works program. This program encourages temporary employment by providing a wage subsidy to employers. About 70 percent of jobs have been in the public sector, typically for unskilled jobs (e.g. landscaping, roadwork, seasonal agricultural work). ALMPs also target vulnerable groups (college graduates, the disabled, former military, former prisoners, and older workers) by matching workers with jobs in enterprises with 20 or more employees.

Table V.1. Active Labor Market Policies, 2018

Program	**Beneficiaries**	**Spending per Beneficiary**	**Total 2018**
	Number	*In sum*	*In billion sum*
Job search assistance	171,000	251,462	43
Employer wage subsidy	168,000	4,250,000	714
Skills training	6,250	3,040,000	19
On the job training	1,000	1,000,000	1
Micro-credit	6,585	2,581,703	17
Total	**352,835**		**794**
Percent of GDP			0.2%

Source: World Bank (forthcoming). *A Review of Active Labor Market Policies in Uzbekistan;* IMF staff estimates.

11. **There are also plans to improve education and training.** The government has already created a national Center for Quality Education and, in partnership with the World Bank, is designing a framework for standardized assessments of educational outcomes. The government is also considering rebalancing funding across education sectors, increasing scholarships for students, and promoting greater private sector participation in tertiary education. Other actions will focus on expanding access to early childhood education, modernizing curricula, improving teaching quality, encouraging entrepreneurship, and improving job matching programs.

[1] World Bank (forthcoming). *A Review of Active Labor Market Policies in Uzbekistan.*

12. **Other reforms focus on women, youth, and migrants.**

- For ***women***, the government already supports home-based work and loans for businesses that hire women. A key issue is the availability of childcare and preschool education. The UNDP has recommended Uzbekistan increase the coverage of preschool education from 14 to 30 percent of the population.[1] Additional recommendations suggest targeted programs for women within larger employment programs, providing micro-credit to female entrepreneurs and having the government bear more of the cost of childbirth and childcare, and public education on gender equality in the family and the benefits of higher education for women.
- For ***youth***, the government currently provides tax incentives for firms that hire university graduates and organizes job fairs. The government has also begun a project on *Promoting Youth Employment* with the UNDP. ALMPs will focus on providing youth with job search assistance, boosting soft skills (e.g. resume writing and interviewing), and apprenticeship programs. Longer-term goals are to boost the share those with higher education from the current level of 9 percent to 25 percent in the medium-term and 50 percent in the long-term.
- For ***internal and external migrants***, the government now recognizes that given the deficit in formal sector jobs, working abroad can provide benefits. To support migrants, the government has replaced the permit requirement with voluntary registration, allowed private agencies to provide employment services, created a new *Agency for External Labor Migration*, relaxed restrictions on internal mobility, and created a fund to support and protect Uzbekistan migrants.
- For the **poor**, the government introduced tailored measures to promote their access to the labor market as well as mandatory registration with employment support centers for able bodied beneficiaries to receive family allowances.

13. **Uzbekistan is revising its labor law and employment code**. A draft law *On External Labor Migration* would give the Agency for External Labor Migration responsibility for providing legal, social, and material support to migrants. It would also set the rules for employment contracts between foreign employers and Uzbekistan citizens and allow individuals to work abroad without going through formal channels. Similarly, revisions to the labor code would promote a more flexible labor market by simplifying procedures for termination, regularizing new forms of employment (e.g. teleworking, home production, temporary and seasonal work), and strengthening the framework for employment negotiations. After public consultations, the changes are expected to be submitted to Parliament in the third quarter of 2019.

[1] United Nations Development Program (2018). *Sustainable Employment in Uzbekistan: Overview, Problems, and Solutions*.

D. Improving Labor Statistics

14. **Uzbekistan largely follows ILO standards and is implementing several improvements.**[1] These include better methods for counting migrants and the unemployed. Recommendations for improving labor market statistics include: (i) more closely following ILO definitions, (ii) collecting and publishing data on hours worked; (iii) completing implementation of the revised job survey; (iv) reintroducing a labor cost survey; and (v) publishing data on pay by gender.

[1] See United Nations Economic Commission for Europe (UNECE), the European Free Trade Association (EFTA), and the Statistical Office of the European Commission (Eurostat) (2019). *Joint Overview of the Implementation of International Statistical Standards and Good Practices in the Republic of Uzbekistan*.

Annex VI. Recommendations of the 2018 Article IV Consultation

Fund Recommendations	Authorities' Views	Developments since March 2018	Assessment
Maintaining Prudent Fiscal Policy, Improving Fiscal Transparency, and Tackling Tax Reform			
*Staff supported the authorities' plans to **tighten fiscal policy in 2018** to reduce inflation.*	The authorities believed a tighter short-run fiscal stance, driven by reduced on-lending, was needed to counter inflation. They argued staff's revenue projections were too conservative.	The 2018 consolidated fiscal balance was -2.2 percent of GDP vs. staff's projection of -1.9 percent of GDP. Revenues overperformed by 2.1 percent of GDP, primarily due to higher revenues from income, mining, customs, and VAT. Expenditures were 1.7 percent of GDP higher than projected, primarily due to social and other expenditures. Bank recapitalization and policy lending were 1.5 percent of GDP higher than projected, resulting in an overall fiscal balance of -2.1 percent of GDP vs. a projection of -0.9 percent of GDP.	Staff's projections for both revenues and expenditures were too conservative, resulting in a better than expected consolidated fiscal balance. However, the overall fiscal deficit was 1.2 percent of GDP higher than projected due to higher than expected bank recapitalization and policy lending.
Fiscal transparency should be a priority.	The authorities pointed to progress in consolidating on- and off-budget transactions and committed to bring all fiscal operations on-budget starting in 2019.	The authorities under took a fiscal transparency evaluation in 2018 and a Presidential decree established a GFS and fiscal transparency division in the Ministry of Finance. The 2019 budget included medium-term fiscal projections, a discussion of risks, and the publication of a citizen's budget. However, the 2019 budget did not include all off-budget fiscal transactions.	Significant progress has been made on fiscal reporting and fiscal transparency. But the government was unable to bring all off-budget fiscal transactions onto the budget.
Comprehensive tax reform is needed to foster job creation and to forestall the risk of a sharp decline in revenue collections from state enterprises.	The authorities' noted that tax reform is a top priority. The Ministry of Finance agreed reforms should be revenue neutral and proceed in line with improvements in tax administration.	The government moved forward with a major tax reform in 2018, with implementation starting in 2019. The reform significantly reduced tax rates on private corporations, SMEs, and labor income. The number of firms registered under the standard tax regime and VAT regime rose from 7,000 in 2018 to 35,000 in 2019. The government is also reforming tax administration, including by setting up a large taxpayer office.	The 2018 tax reform is a major step that should improve incentives for private businesses and workers while expanding the tax base. It is too early to determine the impact on revenues. Tax administration has been improving and will need to deal with many new taxpayers.

Tightening Monetary Policy, Moving to Inflation Targeting, and Reducing Credit Market Segmentation			
A ***tighter monetary stance*** would help contain inflation over the next two years. Measures could include increasing the refinancing rate and halting FX accumulation.	The authorities noted they had hiked the refinancing rate in 2017 and that the current level could be appropriate if inflation declined rapidly in 2018. They had adopted a neutrality principle whereby FX sales would offset CBU gold purchases.	End of period CPI inflation measured 14¼ percent in December 2018 versus staff's forecast of 17 percent. The central bank increased the refinancing rate from 14 to 16 percent in September 2018, while the prime lending rate increased 2½ percent in 2018. However, overall credit to the economy increased more than 50 percent, compared to staff's forecast of 25 percent, driven by policy lending. The central bank kept to its policy of offsetting gold purchases with FX sales.	Consumer inflation was lower than projected by staff, due to lower than expected pass through of wage increases, tariff increases, and exchange rate depreciation. The CBU monetary stance tightened as measured by the policy rate and FX intervention. But overall credit policy was looser as bank and FRD lending increased significantly.
Staff supported the authorities' plan to ***move to inflation targeting*** over the medium-term, including developing additional tools for monetary operations.	The authorities agreed they should rely on multiple indicators of the policy stance in the near-term. They noted ongoing efforts to improve the monetary framework and operations.	The CBU has improved liquidity forecasting and started operations to remove excess liquidity. It has reformed reserve requirements (RRs) by including household deposits in the base and requiring that RRs be held in domestic currency. The CBU has introduced transparent open market operations for term deposits.	The authorities have continued to make significant progress towards medium-term inflation targeting by improving liquidity forecasting, reserve requirements, and initiating open market operations.
Steps should be taken to ***reduce segmentation of the credit market***, including stricter limits on FRD lending.	The authorities agreed on the need to increase the share of lending at market interest rates. They planned to limit FRD on- lending by aiming for a zero balance on FRD inflows and outflows.	Subsidized lending was stable. Preferential lending accounted for 49 percent of the new loans in 2018, compared with 51 percent in 2017. FRD on-lending was 12 trillion in 2018, 7 trillion (1½ percent of GDP) higher than projected.	The credit market remains highly segmented between firms that receive loans at subsidized and market rates. On-lending by the FRD significantly exceeded planned limits in 2018.

Safeguarding Financial Stability and Building a Growth-Promoting Financial Sector			
Enhance the framework for ***emergency liquidity assistance***. ***Issue treasury securities*** to expand available collateral.	The CBU believed its supervisory framework was adequate. It planned to continue upgrading its supervisory capacity and intervention tools, e.g. by incorporating stress tests.	The CBU is improving its ability to conduct stress tests, including with help from IMF technical assistance. It also plans to implement bottom-up stress tests, which will assist banks to improve their risk management. In December 2018, the government issued UZS 600 billion in treasury bills and bonds with maturities of three months, six months, and three years.	Good progress has been made on stress testing and on issuing domestic treasury bills and bonds.
Promoting Structural Reform and Sustainable Development			
Addressing balance sheet strains and ***restructuring state enterprises*** should be a key priority.	The authorities agreed that tackling reforms of state enterprises was important, with a focus on improving operations & governance.	Ahead of restructuring, the authorities are classifying state enterprises into those that provide public and commercial services. With help from external partners, they are also developing roadmaps to restructure the domestic power and banking sectors, among others. A new anti-monopoly agency was created.	The authorities have made initial steps to prepare state enterprises for restructuring. However, the pace has been slow.
Uzbekistan should ***further liberalize trade,*** including by acceding to the WTO.	The authorities noted efforts to promote diversification and increase value-added in exports.	After the depreciation and cut in import tariffs in 2017, exports and imports rose 18 and 38 percent, respectively, in US dollars in 2018. In June 2018, the President signed a resolution to streamline customs and tariff regulations. In March 2019, an inter-agency commission on joining the WTO began meeting.	The 2017 trade and exchange rate reforms continue to promote development of trade in 2018. Some steps were taken on WTO accession.
Other Recommendations			
The government should continue to ***improve the quality and dissemination of economic statistics.***	The authorities noted efforts to improve balance of payments, national account, and government financial statistics.	In May 2018, the government joined the IMF's enhanced General Data Dissemination System including publication of statistics on a National Summary Data Page. The authorities have improved labor and government financial statistics, among others. In February 2019, the government revised national accounts estimates.	There has been a major improvement in access to economic statistics. Methodologies have also been improved, although additional steps are needed to bring them fully in line with international standards.

INTERNATIONAL MONETARY FUND

REPUBLIC OF UZBEKISTAN

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 19, 2019

Prepared By

The Middle East and Central Asia Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2018)

I. Membership Status

Date of membership: September 21, 1992
Status: Article VIII

II. General Resources Account

	SDR Million	Percent Quota
Quota	551.20	100.00
IMF Holdings of Currency	551.20	100.00
Reserve Tranche Position	0.01	0.00

III. SDR Department

	SDR Million	Percent Quota
Net Cumulative Allocation	262.79	100.00
Holdings	266.11	101.26

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements

Type	Stand-By
Approval Date	December 18, 1995
Expiration Date	March 17, 1997
Amount Approved (SDR Million)	124.70
Amount Drawn (SDR Million)	65.45

VI. Projected Obligations to the Fund: None

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Implementation of the Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangements

Uzbekistan accepted the obligations of Article VIII Sections 2(a), 3, and 4 of the Fund's Articles of Agreement with effect on October 15, 2003 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

With the exchange rate unification in September 2017, as well as the adoption and implementation of regulations liberalizing the FX regime in Uzbekistan, two exchange restrictions and one an MCP maintained inconsistently with Article VIII were eliminated. Since then, Uzbekistan maintains an exchange system free from restrictions on the making of payments and transfers for current international transactions. FX is generally freely available for payments and transfers for current international transactions without undue delay.

According to the authorities, the de jure exchange rate arrangement is floating. The exchange rate is determined daily based on the supply and demand for foreign currency established on Uzbekistan's currency exchange. The Central Bank of Uzbekistan (CBU) is a direct buyer of monetary gold produced in Uzbekistan, acting as a supplier in the foreign exchange market in amounts equivalent to the volume of gold purchased from producers. The CBU also intervenes in the foreign exchange market to smooth out undue short-term volatility. Foreign exchange sales by the CBU in the FX market are not directed at affecting the fundamental trend of the exchange rate and are driven exclusively by the aim of sterilizing additional liquidity from CBU purchases of monetary gold.

Since May 2018, the exchange rate has increased its volatility, but there is still intervention to smooth short-term volatility. Therefore, the de facto exchange rate arrangement was reclassified to "other managed" from "stabilized", effective May 8, 2018.

Article IV Consultation

The Republic of Uzbekistan is on the standard 12-month Article IV consultation cycle. The previous Article IV consultation was concluded on May 9, 2018.

Safeguards Assessment

The CBU is currently not subject to safeguards assessment policy since Uzbekistan is not expected to have a financial arrangement with the Fund in the near future.

Resident Representative

Currently, the Fund does not have a resident representative in Uzbekistan but maintains a locally staffed office. A resident representative office was previously open in Tashkent from September 1993 to April 2011.

Technical Assistance
(April 23, 2018 to April 16, 2019)

IMF Department	Type of Technical Assistance	Mission Date
Statistics	Enhanced General Data Dissemination System	Apr 2018
Statistics	Government Financial Statistics	May 2018
Statistics	National Accounts Statistics	May 2018
Fiscal Affairs	Fiscal Transparency Evaluation	Jun 2018
Fiscal Affairs	Tax Administration Modernization	Jul 2018
Statistics	Monetary and Financial Statistics	Sep 2018
Statistics	External Sector Statistics	Oct 2018
Fiscal Affairs	Tax Policy and Administration Reform	Oct 2018
Fiscal Affairs, Statistics	Improving Fiscal Reporting and Fiscal Transparency	Nov 2018
Monetary and Capital Markets	Stress Testing	Nov 2018
Fiscal Affairs	Tax Administration Reform	Dec 2018
Fiscal Affairs	Tax Administration Reform	Feb 2019
Monetary and Capital Markets	Monetary and Foreign Exchange Operations	Feb 2019
Fiscal Affairs	Strengthening the Tax Policy Unit	Mar 2019
Statistics	National Accounts	Mar 2019
Fiscal Affairs	Improving Fiscal Reporting and Fiscal Transparency	Apr 2018
Statistics	Government Financial Statistics	Apr 2019
Monetary and Capital Markets, World Bank	Medium-Term Debt Management Strategy	Apr 2019

RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

(As of March 31, 2019)

Asian Development Bank:

- Country page: https://www.adb.org/countries/uzbekistan/main
- ADB project operations: https://www.adb.org/projects/country/uzb

European Bank for Reconstruction and Development:

- Country page: https://www.ebrd.com/uzbekistan.html
- EBRD's lending portfolio: https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?c37=on&keywordSearch=

World Bank Group:

- Country page: https://www.worldbank.org/en/country/uzbekistan
- Overview of Word Bank Group lending: http://financesapp.worldbank.org/en/countries/Uzbekistan/
- IBRD-IDA project operations: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=UZ

STATISTICAL ISSUES

(As of March 31, 2019)

I. Assessment of Data Adequacy for Surveillance
General: Data have shortcomings that significantly hamper surveillance. Shortcomings are most serious in national accounts, external sector, government finance, and labor statistics.
National Account: The nominal level of annual GDP is significantly underestimated due to large unmeasured areas of the non-observed economy. The recent TA mission in March 2019 recommended that special surveys on measuring the non-observed economy be conducted in services such as: construction, trade, hotels and restaurants, education, healthcare, and other personal services. Appropriate procedures need to be developed for reconciling production and expenditure-based estimates of GDP. Discrete quarterly GDP estimates are not compiled. However, the authorities implemented the recommendation of the April 2018 TA mission and improved the survey questionnaires. The collection of discrete source data will start from the 2019 Q1.
Price Statistics: In January 2018, the authorities introduced an updated CPI methodology. However, there may be scope to introduce further enhancements. The authorities plan to expand the coverage of the producer price index to include agriculture.
Government Finance Statistics: Detailed data on revenue and expenditure of the consolidated government budget are compiled by the ministry of finance on a monthly basis and are available after about four weeks. A non-negligible proportion of spending by budgetary institutions, comprising essentially their own source revenue, are made off-budget, and not shown in GFS reports. Data for extrabudgetary funds are available quarterly, and include only broad categories of revenue and expenditure of the four largest funds, that is, pension, road, education, and employment. The authorities occasionally provide fiscal tables that include net lending, foreign-financed investment, and details on the financing of the deficit. A persisting statistical discrepancy between the financing of the budget based on the above-the-line and below-the-line data points to coverage and classification issues. The authorities do not reconcile the monetary and fiscal financing data on a regular basis. The authorities follow their own classification to present expenditure data in the budget. GFS data are made available on functional and economic classification basis, but the quality of the economic classification is inadequate. The ministry of finance occasionally provides data on tax arrears. Information on total proceeds from privatization operations and treasury bills are provided on a quarterly basis, and data on issues and repayments of treasury bills are available monthly on request. Finally, public debt statistics by term maturity are not published. The authorities have strong commitment to address the fiscal statistics limitations. The authorities started reporting GFSM2001-compliant fiscal data in 2013 and publishing fiscal data in the *GFS Yearbook* in 2014. They are also working intensively to implement the recommendations of the FTE

and follow up missions, as well as they have approved a road map to improve the quality of fiscal reporting.

Monetary and Financial Statistics: Following the introduction of new charts of accounts for the CBU and for the commercial banks in 1997, several missions have assisted the CBU in compiling monetary. The CBU has started preliminary work on the publication of MFS in the Enhanced General Data Dissemination System, as well as on the introduction of a country page in *International Financial Statistics (IFS)*. Currently CBU publishes regularly information on their website and an MFS mission is planned in FY20 to support the CBU's ongoing efforts to compile MFS for publication in IFS. Nevertheless, longer timer series are needed, and institutional classification of credit should follow closely international standards (disaggregating publicly owned nonfinancial corporations, private owned nonfinancial corporations). Uzbekistan also reports data on some basic series and indicators of Financial Access Survey (FAS), including two indicators of the U.N. Sustainable Development Goals.

Financial Soundness Indicators: The CBU reports the 11 core financial soundness indicators (FSIs) and one of the 13 encouraged FSIs for deposit takers on a quarterly basis for posting on the IMF's FSI website with a lag of one month.

External Sector Statistics: The CBU started the publication of balance of payments (BOP) and international investment position in 2018. Previously BOP and international reserves data were compiled but not published. Before 2018, only limited data on external trade were published. Currently comprehensive reports are published by CBU and SSC, but there is need to improve data quality and the back-casting of statistical series is pending. Limited time series are obstacles for surveillance. There is a need to continue building up the CBU's capacity to compile external sector statistics. Largest data gaps pending are in the remittance's components, in the financial accounts of BOP, and in external debt stocks.

Other Statistics: Labor statistics have sizable limitations. Labor statistics (job vacancies, labor, cost and hours worked) definitions need to follow more closely international standards. Quality of employment data in household-surveys and enterprises-survey needs to improve. Currently, statistics are produced by the ministry of labor, instead of the statistics office.

II. **Data Standards and Quality**

Uzbekistan joined the Enhanced General Data Dissemination System (e-GDDS) in May 2018, and regularly updates the National Summary Data Page (NSDP) on the website of the State Statistics Committee of the Republic of Uzbekistan, utilizing the Statistical Data and Metadata Exchange (SDMX) as the language for data exchange.	No data ROSC is available.

Table of Common Indicators Required for Surveillance

(As of March 31, 2019)

	Date of Latest Observation	Date Received [1]	Frequency of Data [2]	Frequency of Reporting	Frequency of Publication
Exchange Rates	Mar 28, 2019	Mar 31, 2019	D	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [3]	Feb 2019	Mar 2019	M	M	M
Reserve/Base Money	Feb 2019	Mar 2019	M	M	M
Broad Money	Feb 2019	Mar 2019	M	M	M
Central Bank Balance Sheet	Feb 2019	Mar 2019	M	M	M
Consolidated Balance Sheet of the Banking System [4]	Feb 2019	Mar 2019	M	M	M
Interest Rates [5]	Feb 2019	Mar 2019	M	M	
Consumer Price Index	Feb 2019	Mar 2019	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing—General Government [6]	2018 Q3	Mar 2019	Q	Q	Q
Stocks of Central Government and Central Government Guaranteed Debt[7]	2018 Q4	Mar 2019	Q	Q	NA
External Current Account Balance	2018 Q4	Mar 2019	Q	Q	Q
Exports and Imports of Goods and Services	Feb 2019	Mar 2019	M	M	M
GDP	2018 Q4	Mar 2019	Q	Q	Q
Gross External Debt	2018 Q4	Mar 2019	Q	Q	Q
International Investment Position	2018 Q4	Mar 2019	Q	Q	Q

[1] The date for the latest observation and the date received reflect when data was transmitted to the area department.
[2] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[3] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[4] Foreign & domestic bank and domestic nonbank financing.
[5] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[6] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[7] Currency and maturity composition are not reported regularly.

REPUBLIC OF UZBEKISTAN

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

April 18, 2019

Approved By
Thanos Arvanitis and Maria Gonzalez (IMF) and Lalita Moorty (IDA)

Prepared by the staffs of the International Monetary Fund and the International Development Association.

Uzbekistan: Joint Bank-Fund Debt Sustainability Analysis

Risk of External Debt Distress	Low
Overall Risk of Debt Distress	Low
Granularity in the Risk Rating	Not applicable
Application of Judgment	The risk ratings were not adjusted

Based on the Joint Bank-Fund Low-Income Country Debt Sustainability Analysis (LIC-DSA), Uzbekistan has a low risk of debt distress, with debt burden indicators below relevant thresholds in the baseline and all stress scenarios. Over the medium term, the public debt-to-GDP ratio is expected to increase moderately, while the total external debt-to-GDP ratio is expected to decline somewhat. In addition, large foreign exchange reserve buffers mitigate potential distress concerns. The debt sustainability analysis suggests that the most significant risks could result from worse-than-expected external flows (mostly lower remittances) and significantly lower exports. The government should carefully manage external borrowing to maintain Uzbekistan's strong external position.[1]

[1] Due to statistical revisions and progress of structural reforms, comparisons with previous DSAs may not be informative. In particular, significant historical revisions of national accounts and balance of payments statistics hinder comparability. Moreover, given significant progress on transition reforms, staff has adjusted some of the macroeconomic projections to fit earlier experiences of transition economies.

BACKGROUND

1. **Stocks of total external and public and publicly-guaranteed (PPG) debt remain low and are expected to rise only moderately over the medium term.**[2] At the end of 2018, public and publicly-guaranteed external debt amounted to 20½ percent of GDP, while private external debt stood at 14 percent of GDP (text table).[3] The relatively low levels of external debt reflect a history of targeting external and fiscal surpluses under Uzbekistan's previous state-led growth model, a policy that also aimed at building up large international reserve buffers.

Uzbekistan: External Public and Private Debt, 2018

	Millions of U.S. dollars	Percent of GDP	Percent of external debt
Total external debt	17,078	34.5	100.0
Public and publicly-guaranteed debt	10,017	20.5	58.7
Government debt	7,288	14.9	42.7
Guaranteed debt	2,729	5.6	16.0
Private debt	7,061	14.0	41.3

Sources: Uzbekistan authorities; IMF staff estimates.

Uzbekistan: Public and Publicly-Guaranteed Debt, 2018

	Millions of U.S. dollars	Percent of GDP	Percent of PPG debt
Total public and publicly-guaranteed debt	10,089	20.6	100.0
Public and publicly guaranteed debt	10,017	20.5	99.3
Domestic debt	72	0.1	0.7

Sources: Uzbekistan authorities; IMF staff estimates.

2. **Almost all of Uzbekistan's public and publicly-guaranteed debt is denominated in foreign currency, with only a small share in domestic currency**. At end-2018, about 55 percent of PPG debt was owed to multilateral creditors, 35 percent to bilateral creditors, four percent to commercial creditors, and less than one percent represented domestic treasury bills and bonds. After paying off all domestic currency debt in 2011, the government began again issuing treasury bills and bonds in 2018 to set benchmarks for the domestic financial sector. Moreover, in early-2019, the government for the first time issued Eurobonds for one billion U.S. dollars, which raised public external debt of the government by about 1¾ percent of GDP.

[2] PPG debt consists of debt of the general government and debt of state-owned enterprises (SOEs) guaranteed by the government. External debt of SOEs that are not guaranteed by the government are included in private external debt.

[3] The levels of both debt indicators doubled approximately following FX liberalization in September 2017, when the official FX rate converged to the much more depreciated parallel market FX rate.

3. **Public debt coverage is broad.** Public debt covers debt of the general government (central government, local government, the pension fund, and other extrabudgetary funds) and SOE debt guaranteed by the government (see text table). However, data limitations undermine the completeness and comprehensiveness of PPG external debt data. In addition, the amount of non-guaranteed SOE debt is currently not known. Efforts to improve debt coverage are under way. (A joint IMF/World Bank mission in April 2019 worked to improve the quality of debt data and develop a medium-term debt management strategy). Most of reported private external debt reflects joint ventures between Uzbek SOEs and other firms, mostly in the energy sector. The contingency stress tests are based on standard parameters (see text table), implying a 2 percent of GDP shock to SOE debt and a 5 percent of GDP shock in case of financial market default. Currently, there are no significant Public Private Partnership (PPP) projects in Uzbekistan.

Uzbekistan: Public Sector Coverage in DSA

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	X
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

1	**The country's coverage of public debt**	The general government, government-guaranteed debt			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	0.0	No significant PPPs currently
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			7.0	

1/ The default shock of 2 percent of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.).

4. **Uzbekistan's debt-carrying capacity is assessed as strong.** The new debt sustainability framework for LICs uses a composite indicator (CI) to capture factors affecting a country's debt-carrying capacity. In particular, the CI uses a weighted average of the World Bank's Country Policy and Institutional Assessment (CPIA) score for Uzbekistan and the country's real GDP growth, remittances, foreign exchange reserves, and global growth. The calculation of the CI is based on 10-year averages of the variables, using 5 years of historical data and 5 years of projections. Uzbekistan's present CI score is calculated to be 3.06, which is just above the 3.05 lower bound for strong debt carrying capacity. The strong reading for the indicator largely reflects Uzbekistan's high international reserves (text table).

Uzbekistan: Composite Indicator of Debt-Carrying Capacity

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Strong	Strong	Strong	Medium
	3.06	3.06	3.43

Note: Until release of the April 2019 WEO vintage, the classification and corresponding score of the two previous vintages were based solely on the CPIA.

Source: IMF staff estimates.

Uzbekistan: Calculation of Composite Indicator of Debt-Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components (percent)
CPIA	0.39	3.50	1.35	44.0
Real growth rate (in percent)	2.72	6.45	0.18	5.7
Import coverage of reserves (in percent)	4.05	57.96	2.35	76.6
Import coverage of reserves^2 (in percent)	-3.99	33.60	-1.34	-43.7
Remittances (in percent)	2.02	2.41	0.05	1.6
World economic growth (in percent)	13.52	3.58	0.48	15.8
CI Score			3.06	100.0
CI rating			**Strong**	

Applicable Thresholds for Debt-Carrying Capacity

	In percent		
	Weak	Medium	Strong
External debt burden threshold			
PV of debt-to-exports	140	180	240
PV of debt-to-GDP	30	40	55
Debt service-to-exports	10	15	21
Debt service-to-revenue	14	18	23
Total public debt benchmark			
Public debt-to-GDP	35	55	70

MACROECONOMIC ASSUMPTIONS

5. The macroeconomic assumptions in this DSA are broadly unchanged compared with last year's DSA, except for the external current account outlook (text table).

- **Real growth:** Projected real GDP growth rates have been marginally upgraded for 2019-20, with growth driven by domestic demand. As reforms progress, consumption is forecast to expand, and investment is expected to remain at robust levels. Medium-term growth is projected at 6 percent, as in the previous DSA. Inflation is projected to be high in the near term as price liberalization as well as relative price and wage adjustments continue, with energy prices in particular converging to cost-recovery levels. Over the medium term, inflation gradually decline as price liberalization is completed.

- **Fiscal:** The overall fiscal deficit, which combines the consolidated fiscal deficit and the balance of the government's policy-based lending operations, is projected to stabilize at 1¾ percent of GDP over the medium term (versus 1½ percent of GDP in the 2018 DSA).

- **External:** The current account deficit is significantly larger than previously projected, reflecting a host of factors, including opening and modernization of the economy, as reflected in the surge of capital goods imports in 2018. Staff also revised the external projections to fit better the experiences of earlier transition economies. These revisions imply a higher current account deficit and a faster real appreciation than in the previous DSA. At the same time, FDI has been revised up assuming reforms continue and stimulate FDI inflows. International reserves are projected to remain relatively stable in the medium term as government borrowing and FDI cover most of the current account deficit during the transition.

Uzbekistan: Comparison of Selected Macroeconomic Indicators, 2017-21

	2017	2018	2019	2020	2021
Real GDP growth (percent)					
Current DSA	4.5	5.1	5.5	6.0	6.0
Previous DSA	5.3	5.0	5.0	5.5	6.0
Overall fiscal balance (percent of GDP) 1/					
Current DSA	-1.9	-2.1	-1.6	-1.8	-1.8
Previous DSA	-2.6	-1.0	-1.1	-1.1	-1.4
Current account (percent of GDP) 1/					
Current DSA 2/	1.2	-6.9	-6.5	-5.6	-4.7
Previous DSA	3.0	0.3	-0.8	-2.1	-2.1

Sources: Country authorities; World Bank; and IMF staff estimates.

1/ Current and previous data were adjusted for recent revisions, which increased nominal GDP by about 25 percent.

2/ Balance of payments (BOP) statistics revision in 2018 implied a current account deficit ½ percentage points higher due to the adoption of a new methodology.

REALISM TOOLS

6. The projections seem to be realistic (Figure 4). Fiscal and real sector projections are consistent according to the realism tests. The change in the primary balance over the next 3 years is close to the median of the cross-country distribution (zero). Nevertheless, for 2019, a small fiscal tightening (0.2 percent of GDP) is projected with limited impact on real GDP growth. However, as past investments and reforms spur GDP growth, the negative growth impact of the fiscal tightening will be more than offset. At the same time, the contribution of government capital expenditure on growth is projected to decline as the reforms reduce the footprint of the government in the economy.

EXTERNAL AND PUBLIC DSA

Total Public and Publicly-Guaranteed (PPG) Debt

7. PPG debt is projected to rise modestly over the next 20 years (Table 1-2). Under the baseline, the government's primary deficit will stabilize at 1½ percent of GDP (Table 2). Disbursements of new debt are assumed to average around 5 percent of GDP per year, as the government uses multilateral and bilateral official borrowing for financing investment and to support its reform plans:

- Historically, about half of PPG external borrowing came from multilateral creditors and one third from official bilateral creditors. These debts typically have maturities on the order of 20 years and implicit interest rates of about 2 percent. However, the Eurobonds issued in 2019 had maturities of five and ten years and interest rates of 4¾ and 5⅜ percent, respectively.
- For SOEs, about three-quarters of guaranteed debts reflected official bilateral creditors, with a small portion from commercial creditors. Official borrowing by SOEs has been on terms similar to that of the government. Commercial borrowing has an average maturity of about 5 years with implicit interest rates of about 2½ percent.

8. The projections assume borrowing maturities and interest rates will remain comparable to their historical values. Under these assumptions, the PPG debt-to-GDP ratio is projected to gradually rise from 20½ percent of GDP in 2018 to 26 percent of GDP in 2039.

9. Debt burden and service ratios show minimal increases under the baseline scenario (Table 4). The solvency indicator, the present value (PV) of public debt-to-GDP, increases marginally from 16 percent in 2018 to about 20 percent in 2029, which is below the 70 percent benchmark. Solvency and liquidity indicators normalized by revenue show a deterioration in 2019 due to the tax reform—which reduced the tax burden—but afterwards the indicators increase only marginally. The PV of the public debt-to-revenue ratio ticks up from 73 to 77 percent between 2019 and 2029, while the public debt service-to-revenue ratio remains below 10 percent.

10. Domestic debt remains limited. The government aims to keep issuing moderate levels of domestic debt in domestic currency to support financial sector development. Given high inflation, the cost of local debt can be high, while the government has sizable liquid assets amounting about 30 percent of GDP. As a consequence, domestic debt issuance is expected to remain negligible.

Total External Debt

11. Under the baseline scenario, total external debt declines from 34 percent of GDP in 2018 to 31 percent of GDP in 2024 and remains around that value until 2039 (Tables 1-2 and Figure 1). While public external debt increases over the next 20 years, private external debt is projected to decline. An important driver of the external debt decline is the projection of persistent real exchange appreciation, which is consistent with the experiences of earlier transition economies (reflected in the debt dynamics residuals reported in Tables 1-2).

12. Under the baseline, all PPG external debt indicators remain below their indicative thresholds (Table 3). As regards solvency indicators, the PV of PPG external debt-to-GDP rises from 18 percent in 2019 to 20 percent in 2039 and is below its indicative threshold of 55 percent throughout the period. The PV of PPG external debt-to-exports ratio would rise from 69 percent in 2019 to about 97 percent in 2039, less than half the indicative threshold of 240 percent. As regards liquidity indicators, the PPG debt service-to-exports and to-revenue ratios stay below 10 percent. Both indicators remain below their thresholds, which are respectively 21 and 23 percent.

13. The ratio of private external debt to GDP will decline as joint ventures reach the repayment stage. In many cases these are debts related to joint ventures in which SOEs are participants. The creditors of these debts are largely foreign commercial banks and corporations. Private external debt is projected to decline sharply in 2019 and 2020, as some enterprises pay off outstanding debts as investment projects are completed and they reach the debt repayment stage. Thereafter, private external debt is projected to decline gradually and stabilize at around 6 percent of GDP.

14. While total external debt is expected to remain stable going forward, the underlying drivers will change (Figure 3). In the past, the non-interest current account was in surplus and the exchange rate was the main factor driving the external debt ratio. In particular, the 2017 depreciation almost doubled the external debt-to-GDP ratio. Looking forward, productivity growth is expected to contribute to appreciation of the real exchange rate, as was observed in other earlier transition economies. Thus, moderate overall fiscal deficits (of about 2 percent of GDP) and significant current account deficits (on the order of 4-6 percent of GDP) are expected to drive debt dynamics.

Stress Testing and Risks

15. The DSA shows that debt ratios are robust to a range of adverse shocks (Figures 1 and 2)[4]:

- A one standard deviation **shock to other external flows** —which includes remittances and FDI— would have the greatest impact on the PV of external debt-to-GDP and exports ratios (Table 3). Under this shock, the PV of debt-to-GDP ratio would rise to 29 percent in 2024 and decline to 24 percent in 2039 compared to 19 percent for both years under the baseline. The PV of debt-to-exports ratio would rise to 139 percent in 2024 and decrease to 116 percent in 2029 compared to about 92 percent under the baseline. Nonetheless, all ratios would remain below the benchmark thresholds.
- A one standard deviation **shock to exports** would have a considerable impact, similar to other external flows. As in a shock to other flows, all the stock and flow ratios would remain below standard thresholds.
- A combination shock (of one-half standard deviation in GDP growth, fiscal balance, exports, financing flows, and depreciation) would have the next highest impact. But again, stock and flow ratios would remain below standard thresholds.

16. Overall, Uzbekistan's risk of external debt distress remains low. The stock of external debt is projected to decrease to about 31 percent of GDP by 2029, while the stock of overall public debt including guaranteed debt is projected to reach about 25 percent of GDP (Tables 1-2). All debt stocks and debt service ratios are projected to remain well below the relevant indicative thresholds (Figures 1-2, Tables 2-4). The DSA outlook benefits from robust growth and the continued relatively low cost of financing from concessional borrowing, which underscores the importance of policies that safeguard sustainable catch-up growth and external stability. Large fiscal buffers (about 30 percent of GDP) and sizable international reserves (about 13 months of imports) are important risk-mitigating factors.

17. Market-financing risk is low (Figure 5). Low gross financing needs and the reduced sovereign spreads support the low risk of potential liquidity needs. All debt stocks and debt service ratios are below the relevant thresholds, signaling some margin to manage debt. In addition, large liquid fiscal buffers are available to cope with temporary adverse shocks.

CONCLUSION

18. Based on the debt sustainability analysis, Uzbekistan's risk of public debt and external debt distress is low. All solvency and liquidity indicators are projected to remain below their respective thresholds under both the baseline and stress scenarios.

[4] Results of stress test of public debt and PPG external debt are similar so the results for PPG external debt are only discussed.

19. Debt sustainability ratios could worsen if external borrowing is significantly higher than projected. This analysis assumes the increase in external borrowing is modest, i.e. after an initial boost as reforms get underway, external PPG borrowing remains around 4-5 percent of GDP. Additional external borrowing could result in higher growth, exports, and revenues, but could impose an additional burden if not used wisely.

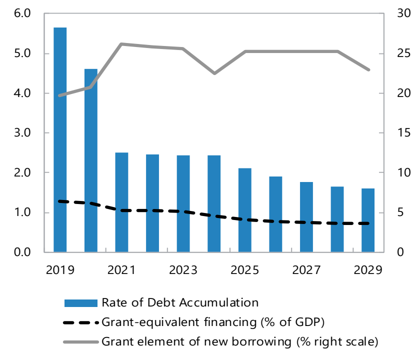
20. The authorities agree with the staff's views. They concur that the risk of debt distress is low, given the significant buffers and low debt-to-GDP ratio. The authorities share the view that investment needs must be addressed in a context of sound macroeconomic framework, including a sound fiscal policy. The authorities are also committed to strengthening debt management capacity to further minimize the risk of debt distress.

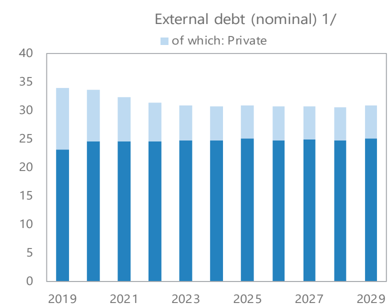
Table 1. Uzbekistan: External Debt Sustainability Framework, Baseline Scenario, 2018-39

(In percent, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**34.5**	**34.0**	**33.5**	**32.2**	**31.4**	**30.9**	**30.6**	**30.9**	**32.0**	**18.6**	**31.5**
of which: public and publicly guaranteed (PPG)	**20.5**	**23.1**	**24.6**	**24.6**	**24.6**	**24.7**	**24.8**	**25.1**	**26.1**	**9.8**	**24.6**
Change in external debt	0.4	-0.5	-0.5	-1.3	-0.8	-0.5	-0.3	0.3	0.1		
Identified net debt-creating flows	**11.0**	**3.2**	**2.0**	**1.0**	**0.5**	**0.2**	**0.1**	**0.0**	**0.0**	**-3.0**	**0.7**
Non-interest current account deficit	**6.0**	**5.5**	**4.7**	**3.9**	**3.6**	**3.6**	**3.4**	**3.4**	**3.4**	**-1.8**	**3.8**
Deficit in balance of goods and services	18.4	16.4	14.5	12.9	11.9	11.3	10.7	10.7	10.7	**3.9**	**11.9**
Exports	28.0	25.8	23.6	22.0	21.4	21.2	21.1	21.1	21.1		
Imports	46.4	42.2	38.1	34.9	33.3	32.5	31.7	31.7	31.7		
Net current transfers (negative = inflow)	-8.3	-7.2	-6.4	-5.8	-5.3	-4.9	-4.5	-4.5	-4.5	**-2.3**	**-5.1**
of which: official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	-4.1	-3.7	-3.4	-3.2	-3.0	-2.8	-2.8	-2.8	-2.8	**-3.3**	**-3.0**
Net FDI (negative = inflow)	**-1.2**	**-1.7**	**-1.8**	**-2.0**	**-2.2**	**-2.4**	**-2.4**	**-2.4**	**-2.4**	**-1.8**	**-2.3**
Endogenous debt dynamics 2/	**6.2**	**-0.6**	**-0.8**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-0.9**	**-1.0**		
Contribution from nominal interest rate	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8		
Contribution from real GDP growth	-2.0	-1.6	-1.8	-1.8	-1.7	-1.7	-1.7	-1.7	-1.8		
Contribution from price and exchange rate changes	7.2	...	...	...	...	...	...	...	...		
Residual 3/	**-10.6**	**-3.7**	**-2.5**	**-2.2**	**-1.3**	**-0.7**	**-0.4**	**0.3**	**0.1**	**5.3**	**-1.0**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**15.6**	**17.7**	**19.2**	**19.1**	**19.2**	**19.2**	**19.3**	**19.5**	**20.5**		
PV of PPG external debt-to-exports ratio	**55.6**	**68.7**	**81.6**	**86.6**	**89.5**	**90.5**	**91.5**	**92.3**	**97.5**		
PPG debt service-to-exports ratio	**3.9**	**4.6**	**6.5**	**7.5**	**7.9**	**8.1**	**8.7**	**8.8**	**10.1**		
PPG debt service-to-revenue ratio	**3.9**	**4.7**	**6.0**	**6.4**	**6.5**	**6.6**	**7.0**	**7.1**	**8.1**		
Gross external financing need (Million of U.S. dollars)	6,002	5,424	5,381	4,965	4,887	5,010	5,385	8,379	17,449		
Key macroeconomic assumptions											
Real GDP growth (in percent)	5.1	5.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	**7.1**	**6.0**
GDP deflator in US dollar terms (change in percent)	-17.4	13.6	9.4	7.4	6.1	6.2	5.7	1.5	1.0	**-2.3**	**5.8**
Effective interest rate (percent) 4/	2.7	3.3	3.1	3.0	2.9	2.8	2.8	2.7	2.6	**2.4**	**2.9**
Growth of exports of G&S (US dollar terms, in percent)	13.9	10.3	6.0	6.5	9.2	11.5	11.4	7.6	7.0	**2.3**	**9.2**
Growth of imports of G&S (US dollar terms, in percent)	42.3	8.8	4.8	4.3	7.4	9.6	9.6	7.6	7.0	**8.7**	**8.2**
Grant element of new public sector borrowing (in percent)	...	19.7	20.7	26.2	25.9	25.6	22.4	22.9	24.1	**...**	**24.0**
Government revenues (excluding grants, in percent of GDP)	27.9	25.4	25.4	25.6	25.8	25.9	26.1	26.1	26.1	**28.4**	**25.9**
Aid flows (in Million of US dollars) 5/	0.0	276.0	610.0	295.0	195.0	95.0	0.0	0.0	0.0		
Grant-equivalent financing (in percent of GDP) 6/	...	1.3	1.2	1.1	1.0	1.0	0.9	0.7	0.8	**...**	**0.9**
Grant-equivalent financing (in percent of external financing) 6/	...	19.7	20.7	26.2	25.9	25.6	22.4	22.9	24.1	**...**	**24.0**
Nominal GDP (Million of US dollars)	50,485	60,490	70,156	79,887	89,851	101,155	113,366	175,660	346,685		
Nominal dollar GDP growth	-13.2	19.8	16.0	13.9	12.5	12.6	12.1	7.6	7.0	**4.8**	**12.1**
Memorandum items:											
PV of external debt 7/	29.5	28.6	28.1	26.7	26.0	25.4	25.1	25.3	26.4		
In percent of exports	105.5	110.8	119.3	121.2	121.4	119.9	119.3	120.1	125.2		
Total external debt service-to-exports ratio	25.3	19.8	20.4	19.8	18.9	18.0	17.9	18.0	19.2		
PV of PPG external debt (in Million of US dollars)	7855.6	10704.2	13488.5	15249.8	17209.2	19398.0	21868.3	34173.9	71197.2		
(PVt-PVt-1)/GDPt-1 (in percent)		5.6	4.6	2.5	2.5	2.4	2.4	1.6	1.5		
Non-interest current account deficit that stabilizes debt ratio	5.6	6.0	5.2	5.1	4.5	4.0	3.7	3.1	3.3		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Εα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ε=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

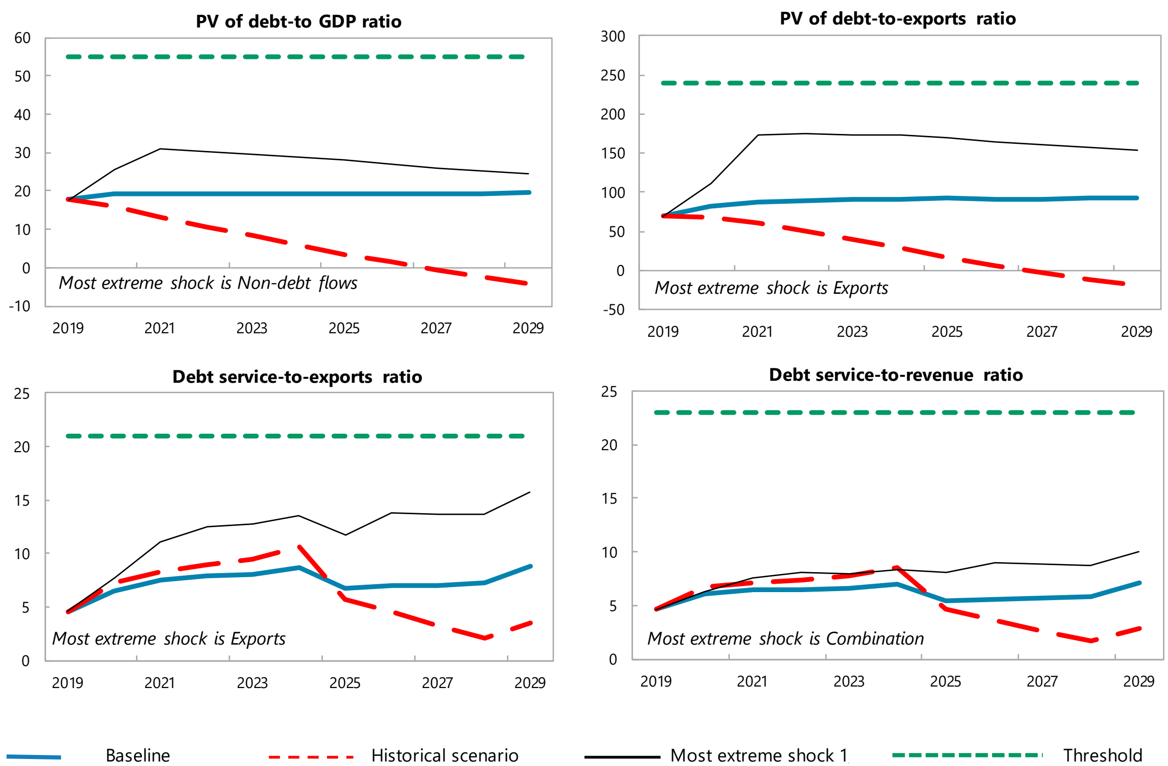
6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Uzbekistan: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2019-29

(In percent)



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.2%	2.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	4	4

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

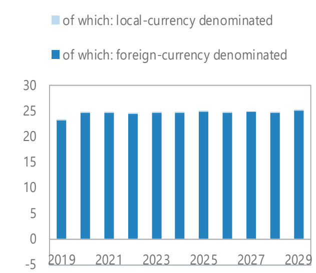
Table 2. Uzbekistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018-39

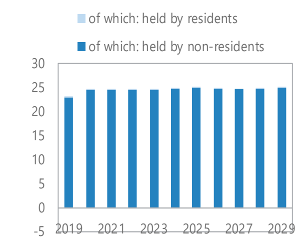
(In percent, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	20.6	23.2	24.7	24.7	24.6	24.7	24.8	25.2	27.4	9.9	24.7
of which: external debt	20.5	23.1	24.6	24.6	24.6	24.7	24.8	25.1	26.1	9.8	24.6
Change in public sector debt	0.4	2.6	1.5	0.0	0.0	0.1	0.1	0.4	0.2		
Identified debt-creating flows	-3.0	-1.5	-1.6	-1.1	-1.0	-0.9	-0.8	0.3	0.2	-1.5	-0.7
Primary deficit	1.6	1.4	1.5	1.4	1.5	1.4	1.4	1.4	1.4	-1.5	1.4
Revenue and grants	27.9	25.4	25.4	25.6	25.8	25.9	26.1	26.1	26.1	28.5	25.9
of which: grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	29.4	26.7	26.9	27.0	27.2	27.3	27.6	27.6	27.6	27.0	27.3
Automatic debt dynamics	-4.5	-2.8	-3.0	-2.5	-2.4	-2.2	-2.2	-1.1	-1.2		
Contribution from interest rate/growth differential	-1.0	-0.9	-1.2	-1.4	-1.4	-1.4	-1.4	-1.4	-1.5		
of which: contribution from average real interest rate	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
of which: contribution from real GDP growth	-1.0	-1.1	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.5		
Contribution from real exchange rate depreciation	-3.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	3.4	2.1	1.3	0.0	-0.1	0.1	0.1	0.4	0.4	2.7	0.4
Sustainability indicators	0.28	0.25	0.25	0.26	0.26	0.26	0.26	0.26	0.26		
PV of public debt-to-GDP ratio 2/	16.2	18.5	19.7	19.5	19.4	19.4	19.5	20.1	22.4		
PV of public debt-to-revenue and grants ratio	58.2	72.7	77.5	76.2	75.3	74.9	74.7	77.0	85.6		
Debt service-to-revenue and grants ratio 3/	3.9	5.2	6.0	6.4	6.5	6.6	7.0	7.1	12.3		
Gross financing need 4/	2.6	2.7	3.0	3.0	3.1	3.1	3.2	3.3	4.6		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	5.1	5.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	7.1	6.0
Average nominal interest rate on external debt (in percent)	2.1	2.4	2.4	2.4	2.4	2.3	2.3	2.2	2.1	1.9	2.3
Average real interest rate on domestic debt (in percent)	-20.3	77.4	-13.5	-10.5	-8.5	-7.7	-7.3	-4.2	2.3	-12.7	3.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-18.0	...	...	...	...	...	...	...	...	8.7	...
Inflation rate (GDP deflator, in percent)	28.1	21.7	15.6	11.7	9.3	8.3	7.8	6.6	6.5	16.1	10.0
Growth of real primary spending (deflated by GDP deflator, in percent)	16.7	-4.2	6.7	6.5	6.7	6.3	6.9	6.0	6.0	8.1	5.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.1	-1.2	0.0	1.4	1.5	1.3	1.3	1.0	1.2	-3.2	1.0
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The general government, and government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

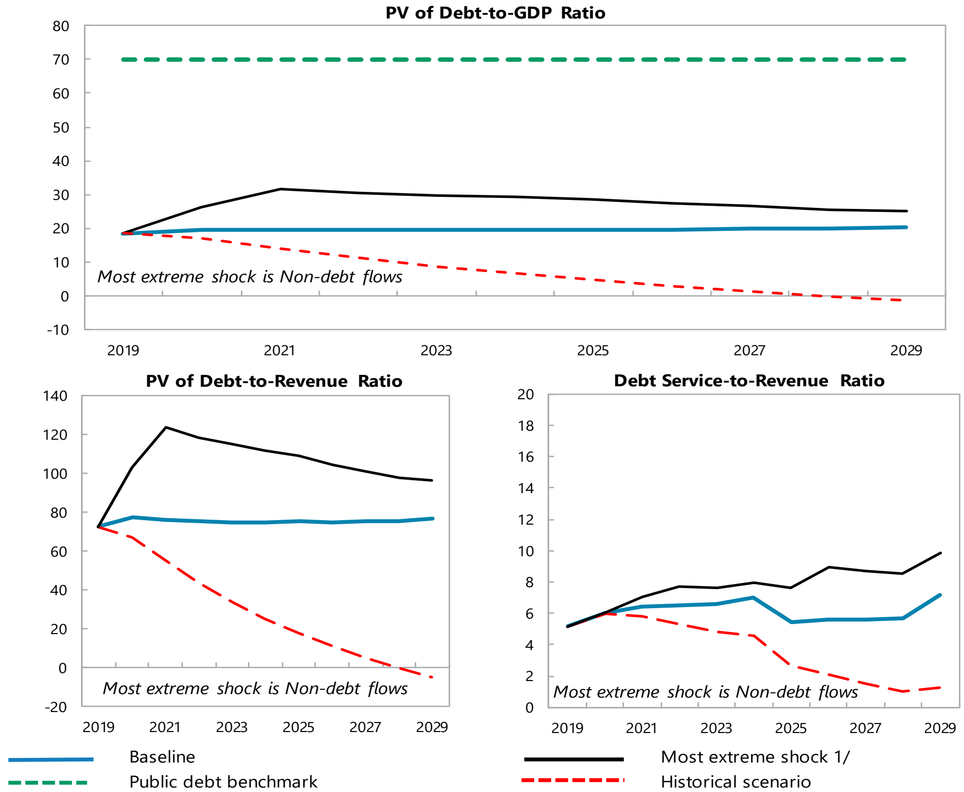
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 2. Uzbekistan: Indicators of Public Debt, 2019-29
(In percent)



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.2%	2.2%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-0.1%	5.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Uzbekistan: Sensitivity Analysis for Key Indicators of PPG External Debt, 2019-2029
(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	18	19	19	19	19	19	19	19	19	19	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	18	16	13	11	8	6	4	1	-1	-2	-4
B. Bound Tests											
B1. Real GDP growth	18	20	20	20	20	20	20	20	20	20	20
B2. Primary balance	18	21	25	24	24	24	23	23	23	23	23
B3. Exports	18	23	28	27	27	27	26	25	25	24	24
B4. Other flows 3/	18	26	31	30	29	29	28	27	26	25	24
B5. Depreciation	18	24	21	21	21	21	22	22	22	22	23
B6. Combination of B1-B5	18	27	31	30	30	29	28	27	26	26	25
C. Tailored Tests											
C1. Combined contingent liabilities	18	25	24	24	23	23	23	23	23	23	23
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	18	21	21	21	22	22	21	21	21	21	21
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	69	82	87	89	90	92	92	92	92	92	92
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	69	68	60	50	39	28	17	7	-4	-12	-20
B. Bound Tests											
B1. Real GDP growth	69	82	87	89	90	92	92	92	92	92	92
B2. Primary balance	69	90	112	113	113	112	111	110	108	108	108
B3. Exports	69	112	174	175	174	173	169	164	160	156	154
B4. Other flows 3/	69	109	141	141	139	137	133	127	123	119	116
B5. Depreciation	69	82	75	79	80	82	83	84	85	86	87
B6. Combination of B1-B5	69	122	134	166	164	162	157	152	147	143	140
C. Tailored Tests											
C1. Combined contingent liabilities	69	105	109	111	111	110	110	109	108	107	107
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	69	82	87	91	92	93	92	91	91	91	92
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	5	7	7	8	8	9	7	7	7	7	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	7	8	9	9	11	6	5	3	2	4
B. Bound Tests											
B1. Real GDP growth	5	7	7	8	8	9	7	7	7	7	9
B2. Primary balance	5	7	8	9	9	10	8	9	9	9	10
B3. Exports	5	8	11	13	13	13	12	14	14	14	16
B4. Other flows 3/	5	7	8	9	9	10	9	11	11	11	12
B5. Depreciation	5	7	7	8	8	8	6	6	6	6	8
B6. Combination of B1-B5	5	7	10	11	11	12	12	13	13	13	15
C. Tailored Tests											
C1. Combined contingent liabilities	5	7	8	8	9	9	7	7	7	8	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	5	7	8	8	9	10	11	7	7	7	9
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	5	6	6	7	7	7	5	6	6	6	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	7	7	7	8	9	5	4	3	2	3
B. Bound Tests											
B1. Real GDP growth	5	6	7	7	7	7	6	6	6	6	7
B2. Primary balance	5	6	7	8	8	8	7	7	7	7	8
B3. Exports	5	6	7	8	8	8	7	8	8	8	9
B4. Other flows 3/	5	6	7	8	8	8	8	9	9	9	10
B5. Depreciation	5	7	8	8	8	8	6	6	6	6	8
B6. Combination of B1-B5	5	6	8	8	8	8	8	9	9	9	10
C. Tailored Tests											
C1. Combined contingent liabilities	5	6	7	7	7	7	6	6	6	6	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	5	6	7	7	7	8	9	6	5	5	7
Threshold	23	23	23	23	23	23	23	23	23	23	23

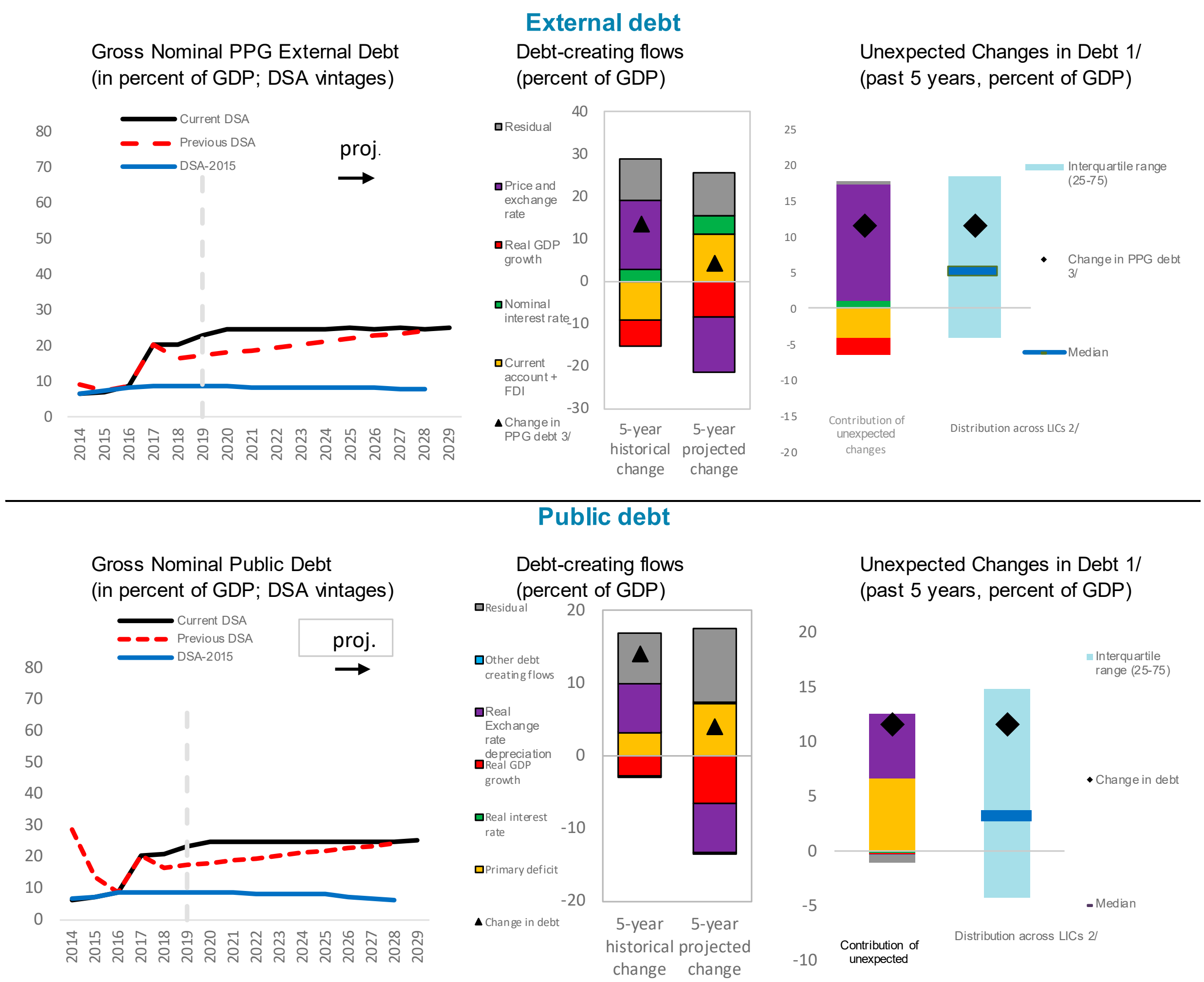
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Uzbekistan: Sensitivity Analysis for Key Indicators of Public Debt, 2019-2029
(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	18	20	20	19	19	20	20	20	20	20	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	18	17	14	11	9	7	5	3	1	0	-1
B. Bound Tests											
B1. Real GDP growth	18	21	22	22	23	24	25	25	26	27	28
B2. Primary balance	18	22	25	25	24	24	24	23	23	23	23
B3. Exports	18	23	27	27	26	26	26	25	24	24	24
B4. Other flows 3/	18	26	32	31	30	29	29	27	26	26	25
B5. Depreciation	18	22	20	18	16	15	14	13	12	11	10
B6. Combination of B1-B5	18	20	21	21	21	20	20	20	20	19	19
C. Tailored Tests											
C1. Combined contingent liabilities	18	25	24	24	24	23	24	23	23	23	23
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	18	20	20	20	20	20	20	20	20	20	20
Public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	73	77	76	75	75	75	76	75	76	76	77
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	73	67	55	44	34	25	18	11	5	0	-5
B. Bound Tests											
B1. Real GDP growth	73	81	84	86	89	91	94	96	100	102	106
B2. Primary balance	73	85	98	95	93	91	91	90	89	89	89
B3. Exports	73	89	107	104	101	99	98	94	93	90	90
B4. Other flows 3/	73	103	124	119	115	112	109	104	101	98	97
B5. Depreciation	73	88	78	70	64	58	54	49	45	41	38
B6. Combination of B1-B5	73	79	83	81	79	78	78	76	75	74	74
C. Tailored Tests											
C1. Combined contingent liabilities	73	99	96	93	91	90	90	89	89	88	89
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	73	78	77	76	76	76	75	75	75	75	77
Debt Service-to-Revenue Ratio											
Baseline	5	6	6	7	7	7	5	6	6	6	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	6	6	5	5	5	3	2	2	1	1
B. Bound Tests											
B1. Real GDP growth	5	6	7	7	7	8	6	6	7	7	9
B2. Primary balance	5	6	7	8	8	8	7	7	7	7	8
B3. Exports	5	6	7	7	7	8	7	8	8	8	9
B4. Other flows 3/	5	6	7	8	8	8	8	9	9	9	10
B5. Depreciation	5	7	8	8	8	8	6	6	5	5	7
B6. Combination of B1-B5	5	6	8	8	8	8	7	7	6	6	8
C. Tailored Tests											
C1. Combined contingent liabilities	5	6	7	7	7	7	6	6	6	6	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	5	6	7	7	7	8	9	6	5	5	7

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 3. Uzbekistan: Drivers of Debt Dynamics – Baseline Scenario



1/ Difference between anticipated and actual contributions on debt ratios.

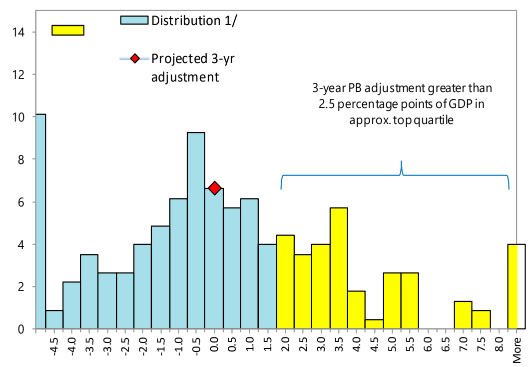
2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Source: IMF staff estimates.

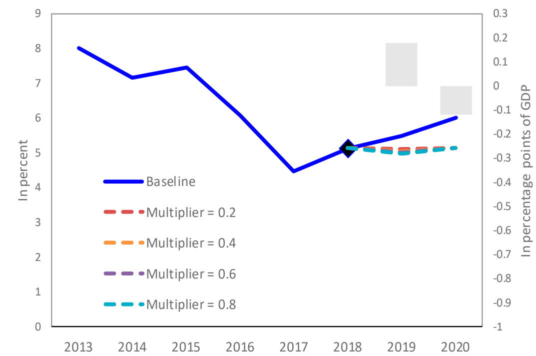
Figure 4. Uzbekistan: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



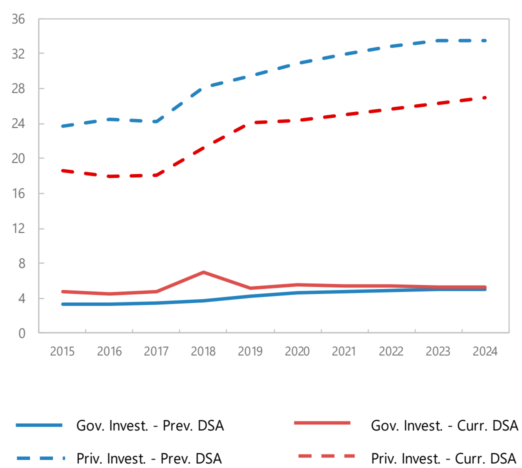
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

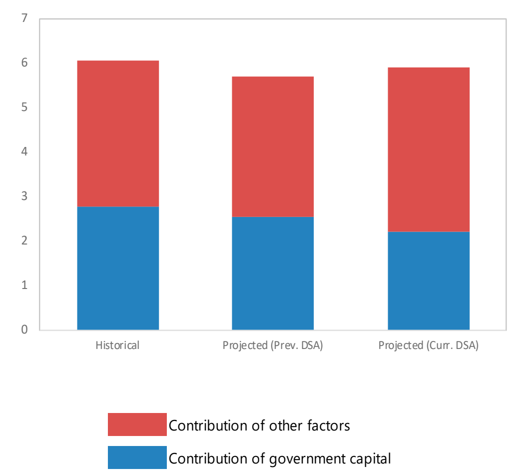


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

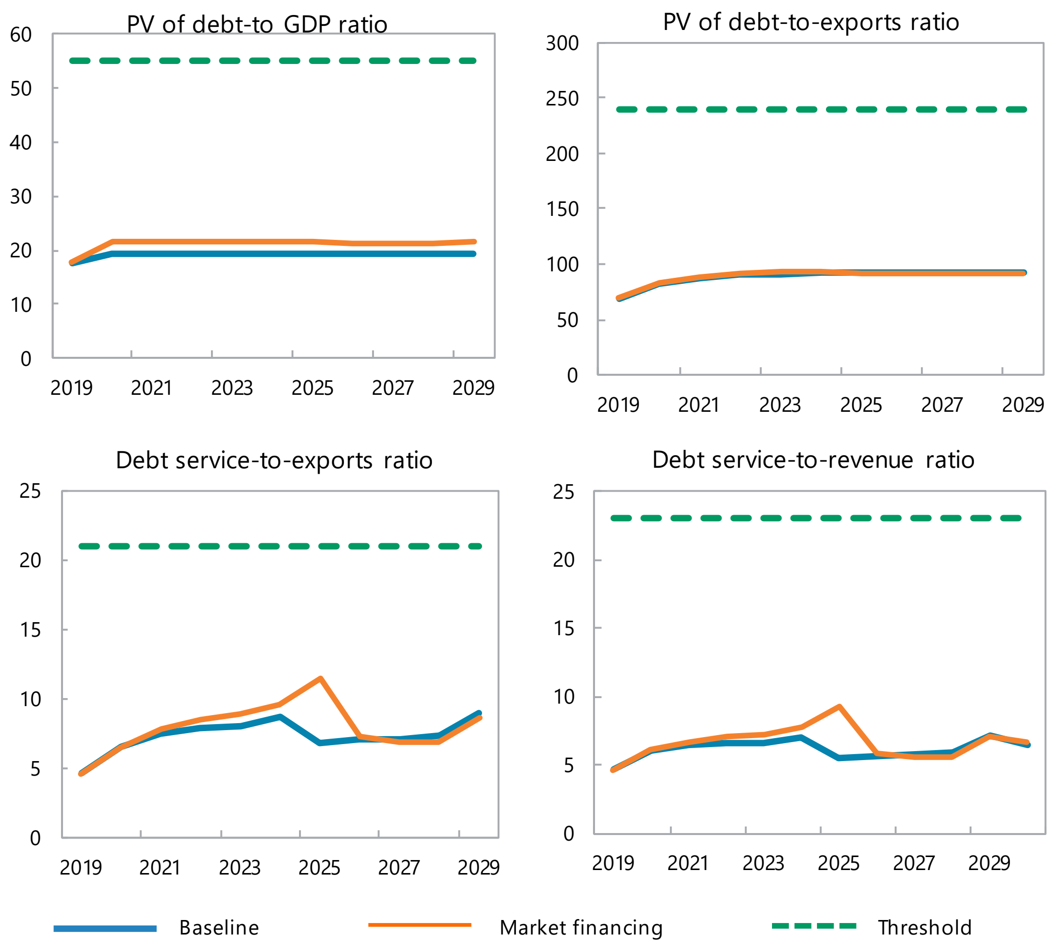


Source: IMF staff estimates.

Figure 5. Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	3	250
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ Uzbeksitan is not included in EMBI. Spread from the Uzbek 2019 international issuance.



Source: IMF staff estimates.