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REPUBLIC OF UZBEKISTAN

May 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF UZBEKISTAN

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 2018 Article IV consultation with the Republic of Uzbekistan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 4, 2018 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 4, 2018, following discussions that ended on March 13, 2018, 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, 2018.
- 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).
- A **Statement by the Executive Director** for the Republic of Uzbekistan.

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.

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May 9, 2018

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IMF Executive Board Concludes 2018 Article IV Consultation with the Republic of Uzbekistan

On May 4, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Uzbekistan.

External shocks which began in 2014, lowered exports, commodity prices, and remittances and contributed to a decline in growth from about 8 to 5 percent in 2017. At the same time, growth of domestic employment remained below one percent. A loosening of fiscal and monetary policies, along with price and foreign exchange liberalization, caused inflation to pick up in late 2017 and was close to 20 percent in early 2018. Uzbekistan's external position remains strong. International reserves were equivalent to 19 months of imports of goods and services at end-2017 and debt is low. Public and total external debt were 24½ and 41 percent of GDP, respectively, at end-2017.

The fiscal deficit, including the Fund for Reconstruction and Development (FRD), rose from ½ percent of GDP in 2016 to 3¼ percent of GDP in 2017. While the government's fiscal position was close to balance, the FRD deficit was larger than expected due to on-lending activities and recapitalization of state banks.

Monetary policy was loose early in 2017 and reserve money and credit to the economy had grown by more than 50 percent in August compared with a year earlier. Monetary policy tightened prior to the foreign exchange liberalization in September 2017, including by increasing the refinancing rate from 9 to 14 percent. Reported financial indicators suggest the banking system is sound. Banks capital adequacy ratio stood at 19 percent and non-performing loan ratio was 1.2 percent at end-2017. However, credit markets are segmented with state enterprises having preferential access to credit, including foreign exchange loans, at concessional rates.

[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.

In 2017, Uzbekistan embarked on a series of reforms to boost its economy. These included liberalizing prices, cutting tariffs, initiating structural reforms of state enterprises, granting the central bank greater independence, expanding the social safety net, and improving the quality and availability of economic statistics. Particularly significant was liberalization of access to foreign exchange and depreciation and unification of exchange rates in September 2017. The authorities are considering additional actions in 2018 including steps to restructure state enterprises and reform the tax system.

Executive Board Assessment[2]

They welcomed that Uzbekistan has initiated a comprehensive reform program to open and liberalize the economy, stimulate job creation, and promote inclusive growth. Noting the internal and external risks to the outlook, Directors encouraged the authorities to maintain prudent macroeconomic policies and the momentum of structural reforms. In this regard, they underscored the need for tighter fiscal and monetary policies to gradually bring inflation to single digits.

Directors commended the authorities for their prudent fiscal policies, which have kept public debt low. They supported the plans to reduce the overall fiscal deficit in 2018, mainly by reducing on-lending operations by the Fund for Reconstruction and Development. Directors emphasized the importance of ensuring that all fiscal operations are brought on budget. They also underscored that a comprehensive reform of the tax system is essential to foster job creation and to insure against the risk of a sharp future decline of tax collections from state enterprises. They advised that reform should be introduced gradually and should be revenue neutral to preserve a stability-oriented fiscal policy.

Directors agreed that the central bank should use a range of indicators, including the refinancing rate, bank liquidity, money, and the exchange rate, to gauge the appropriate stance of monetary policy. They noted that it will be important to enhance the independence of the central bank to support the adoption of inflation-targeting over the medium term.

Directors noted that reported financial sector indicators are strong, but the concentration of credit in state enterprises is a vulnerability. They welcomed plans to further upgrade the central bank's supervisory capacity and intervention tools. Directors underlined the importance of policies fostering a banking system that is inclusive and supports growth over the medium term.

Directors commended liberalization of the foreign exchange market, including the elimination of exchange restrictions. They noted that while Uzbekistan's external position is strong, it could be impacted by changes arising from the economic transition and Uzbekistan's dependence on remittances and commodity exports. Directors welcomed the

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[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.

authorities' intention to allow the exchange rate to adjust in line with fundamentals to help safeguard external stability and maintain scope for an independent monetary policy.

Directors welcomed the significant structural reforms underway. They emphasized that priorities ahead should focus on restructuring state enterprises and further trade and price liberalization, especially by raising energy prices to cost-recovery levels, and promoting competition. Directors also welcomed the recent governance reforms and encouraged continued efforts to fight corruption and enhance the rule of law. They underscored that economic diversification, especially into sectors with higher human capital content would support the country's fast-paced demographic transition.

Directors commended recent steps to improve the availability and quality of economic statistics and welcomed Uzbekistan's participating in the IMF's enhanced General Data Dissemination System (e-GDDS). They looked forward to further improvements towards subscribing to the Special Data Dissemination Standard (SDDS) as part of their participation in the e-GDDS.

Uzbekistan: Selected Economic Indicators, 2015-19

	2015	2016	2017	2018	2019
			Est	Proj	Proj
National income					
Real GDP growth (percent change)	7.9	7.8	5.3	5.0	5.0
GDP per capita (in U.S. dollars)	2,124	2,094	1,491	1,239	1,449
Population (in millions)	31.3	31.8	32.1	32.5	32.9
Prices			(percent change)		
Consumer price inflation (end of period)	8.4	7.9	18.9	16.9	10.1
GDP deflator	9.2	7.4	19.0	20.3	13.8
External sector					
Current account balance (percent of GDP)	0.7	0.7	3.7	0.2	-1.0
External debt (percent of GDP)	18.5	20.3	41.3	38.1	35.2
Exchange rate (in sums per U.S. dollar; end of period)	2,810	3,231	8,120	…	…
Real effective exchange rate (average, - = depreciation)	-2.4	-7.0	-31.8	…	…
Government finance			(percent of GDP)		
Consolidated fiscal balance	-1.2	-0.8	-0.1	-1.3	-1.4
Fund for Reconstruction & Development (FRD) balance	-0.1	0.2	-3.2	0.0	0.0
Augmented fiscal balance (incl. FRD)	-1.3	-0.6	-3.3	-1.3	-1.4
Augmented revenues & grants (incl. FRD)	34.3	32.1	31.6	31.7	31.6
Expenditures & net lending (incl. FRD)	35.6	32.7	34.9	33.0	32.9
Public debt	9.3	10.5	24.5	20.1	21.0
Money and credit			(percent change)		
Reserve money	20.0	22.2	84.8	15.4	14.5
Broad money	24.2	23.5	40.3	19.0	17.9
Credit to the economy	23.3	28.4	103.0	24.5	15.2

Sources: Uzbekistan authorities and IMF staff estimates and projections.

INTERNATIONAL MONETARY FUND

REPUBLIC OF UZBEKISTAN

STAFF REPORT FOR 2018 ARTICLE IV CONSULTATION

April 23, 2018

KEY ISSUES

Context. Uzbekistan has initiated far-reaching reforms to tackle the country's most pressing economic and social challenges, foremost the lack of jobs. The reforms aim at opening and liberalizing Uzbekistan's segmented economy, where state sector and connected businesses have enjoyed preferential access to real and financial resources while being sheltered from domestic and external competition.

Outlook and Risks. GDP is projected to expand by about 5 percent in 2018-19, but domestic job creation will continue to lag. At about 20 percent, inflation is high, in part due to price and exchange rate liberalization, but should decline gradually if constrained by tighter fiscal and monetary policies during 2018-19. The external position was strong in 2017 but is projected to shift from surpluses to deficits following the regime change in policies. Risks to the baseline are mostly medium term, including backsliding on reforms, weaknesses in banks constraining credit growth, and a sharp decline in revenues presently collected from state enterprises.

Fiscal Policy. Following a fiscal deficit of 3¼ percent of GDP in 2017, reducing on-lending operations should curb the deficit to 1¼ percent of GDP in 2018. Public debt is low and sustainable. The government plans to improve transparency by bringing all its operations on-budget in 2019. Tax reform is needed, foremost to stimulate job creation, but it should be revenue-neutral and gradual.

Monetary and Exchange Rate Policy. A tighter monetary stance is needed to lower inflation, including by raising the refinancing rate and reducing the pace of accumulating official reserves. The envisaged medium-term shift to inflation targeting will need to be underpinned by increasing the central bank's *de facto* independence. In the interim, the central bank should base its assessments of the appropriate monetary stance on multiple indicators, including interest and exchange rates.

Financial Stability. Reported financial soundness indicators are strong, but, given the concentration of loans in state enterprises, asset quality could deteriorate quickly. In the medium term, with growth expected to be powered by private firms dependent on bank financing, funding and capital gaps could emerge in banks.

Structural Issues. Restructuring state enterprises early in the transition should be a key priority. Plans to continue price and trade liberalization while taking measures to strengthen domestic competition are welcome.

Statistics. The authorities have already made significant steps toward improving the quality and availability of statistics, but more remains to be done.

Approved By
Adnan Mazarei
Zeine Zeidane

Discussions took place in Tashkent from February 27 to March 13, 2018. The team included Messrs. Dwight, Ghilardi, Jaeger (head), and Rozenov (all MCD). Mr. Kim (OED) attended selected meetings. Mr. Blair (LEG) and Ms. Popova (MCM) assessed compliance with Article VIII obligations. The mission held discussions with Deputy Prime Minister and Minister of Finance Kuchkarov, Central Bank Chair Nurmuratov, Minister of Economy Khodjaev, and other senior officials, and it liaised with representatives of international financial institutions (IFIs), embassies, universities, and the business sector.

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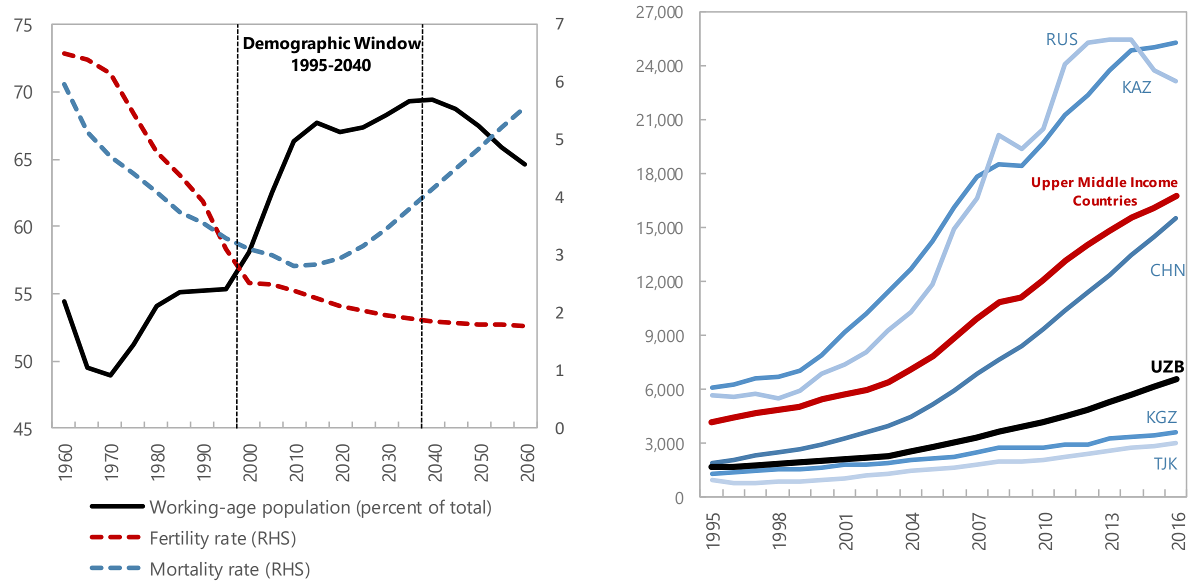
CONTEXT

1. **Uzbekistan faces the challenges and opportunities of a rapid demographic transition.** Reflecting earlier sharp downward trends in mortality and fertility rates, the share of Uzbekistan's working-age population in total population started to rise rapidly in the 1990s, and the share of people potentially available for work will remain unusually high for the next two decades (Figure 1, Panel A). While challenging in terms of job creation needs, the demographic transition offers Uzbekistan a unique window of opportunity to realize its longer-term aspiration of achieving upper middle-income country status. If successful, Uzbekistan would follow in the footsteps of economies in East Asia that capitalized on similar demographic windows of opportunity in the past.[1]

Figure 1. Uzbekistan: Demographics and Living Standards

Panel A. Demographics, 1960-2060
(2015-60: Medium-variant projections)

Panel B. Living Standards, 1995-2016
(PPP GDP per capita, current U.S. dollars)



Sources: United Nations *World Population Prospects 2017*, *World Development Indicators*, and IMF staff calculations.

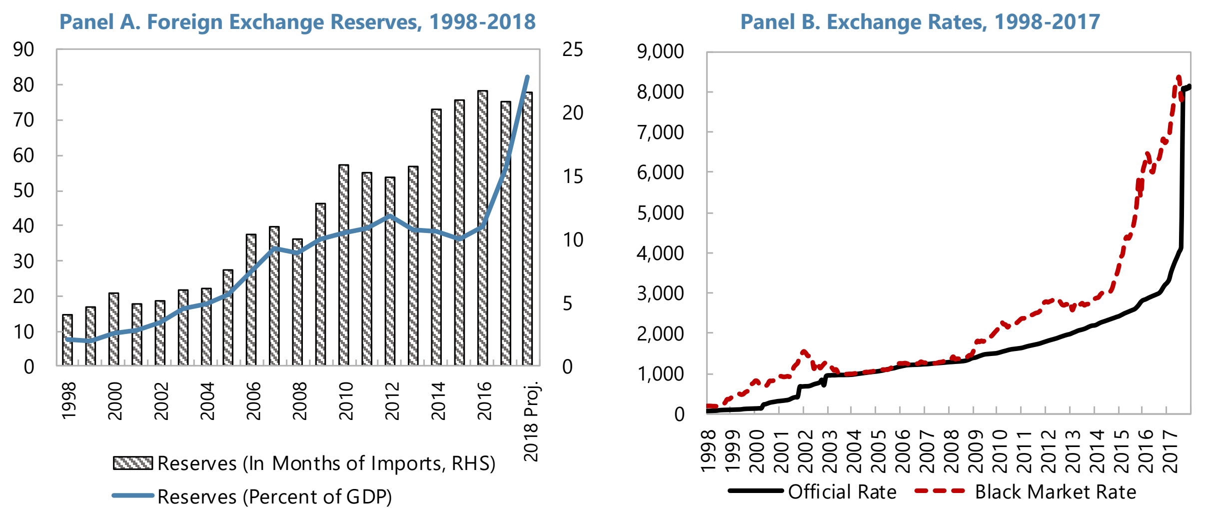
2. **Uzbekistan has relied heavily on a state-driven growth model, with mixed outcomes for jobs and living standards.** Policies emphasized state intervention, import substitution, and exchange restrictions, and deemphasized regional trade and cooperation. These policies effectively segmented the economy into a privileged sector that included the state and well-connected businesses, which received preferential treatment, and a disadvantaged sector that included the less-connected and informal firms. Outcomes from this growth model were decidedly mixed. Initially low living standards edged upward, but fell increasingly short of the country's goal of reaching upper middle-income country status, although Uzbekistan outperformed some of the other regional economies (Figure 1, Panel B). And, while data on job creation in Uzbekistan tend to be scant, past

[1] Bloom and Williamson (1998), Demographic Transitions and Economic Miracles in Emerging Asia, World Bank Economic Review, pp. 419-455.

employment growth was insufficient to absorb the growing labor force and was concentrated in small or informal firms. In fact, data on remittances and other labor migration indicators suggest that millions of Uzbeks were forced to seek—sometimes precarious—jobs abroad.

3. **At the same time, Uzbekistan built large external buffers.** The authorities targeted annual increases in foreign exchange (FX) reserves, subordinating other policy objectives, such as maintaining low and stable inflation, to this objective (Figure 2, Panel A). In line with FX accumulation targets, but at variance with the country's Article VIII obligations, FX at the official exchange rate was allocated to preferred customers and activities, while the remainder of FX demand had to be covered in the black market, where the spread sometimes rose to over 100 percent (Figure 2, Panel B). While FX reserves of this size have significant opportunity cost, they will allow the country to implement transition reforms from a position of external strength.

Figure 2. Uzbekistan: Foreign Exchange Reserves and Exchange Rates



Sources: Uzbekistan authorities and IMF staff calculations.

4. **In 2017, Uzbekistan changed course, putting the country on track toward building a more open and market-oriented economy.** President Mirziyoyev's new development strategy, which was adopted in February 2017, advocates five broad goals for reforms: (i) improving public administration and strengthening civil society; (ii) enforcing the rule of law by an independent judiciary; (iii) liberalizing and opening the economy; (iv) improving education, health care, public infrastructure, and the social safety net; and (v) promoting friendly and cooperative relationships with other countries.

5. **In line with this agenda, the authorities have already introduced several important reforms.** The most significant was the liberalization of the FX market in September 2017, with the official exchange rate depreciating by about 50 percent. Major revaluation gains accrued to the holders of FX assets, including holders of FX reserves, deposits, and cash; valuation losses accrued mainly in state enterprises, which have large FX exposures to state banks and external creditors. Other significant early reforms included starting to liberalize prices and reform state enterprises,

cutting average customs tariffs by more than half, liberalizing visitor visa requirements, reinitiating commitment to World Trade Organization (WTO) accession, expanding coverage of the social safety net, granting the central bank more independence, and improving the quality and availability of economic statistics. Moreover, Uzbekistan has taken the initiative to improve relations and cooperation with all its neighboring countries.

6. **As a late reformer, Uzbekistan can benefit from the experiences of other transition economies.** Like other countries at the start of reforms, Uzbekistan faces challenges and risks due to the magnitude of needed reforms and the need to build experience and institutional capacity. Uzbekistan can benefit from the lessons accumulated during earlier transition experiences, which suggest that adhering to a reformist vision, persevering in the face of setbacks, and communicating clearly have been key attributes of successful transitions (Box 1).

OUTLOOK, RISKS, AND REGIONAL SPILLOVERS

A. Economic Developments and Outlook

7. **Since 2014, growth has slowed, while inflation has picked up** (Tables 1-2). Starting in 2014, a battery of adverse external shocks—which lowered exports, commodity prices, and remittances—hit the economy. Although policies were loosened across the board, growth declined from about 8 percent to 5 percent in 2017; and domestic employment growth disappointed, averaging only ¾ percent during 2015-17. Concurrently, inflation rose, initially driven by loose monetary and credit policies, and following the policy regime switch in September 2017, increasingly reflecting pass-through from FX and price liberalization. As a result, in early-2018 inflation peaked at about 20 percent, driven mostly by a surge of prices of tradable goods (Figure 3).

8. **Growth in 2018-19 is projected to remain steady at about 5 percent, with continued subdued job creation.** Growth will be supported by strong commodity prices and trading-partner demand, reforms that boost agriculture, and the government's housing and infrastructure programs. Staff's discussions with private sector representatives suggested that—for now—foreign investors remain on the sidelines, waiting to see whether reforms continue and prove irreversible. Domestic employment growth will likely pick up to only about 1 percent, with net job creation, as in the past, concentrated in small businesses.

9. **Staff projects inflation to remain persistent, declining only gradually through 2018-19**. The baseline scenario includes a significant tightening of the stance of monetary and credit policies. Nevertheless, the delayed effects of past expansionary policies, continued pass-through from FX depreciation, and the need to keep adjusting relative prices, especially for energy, mean that inflation will likely be more persistent than one would expect based on past inflation behavior. Moreover, delayed adjustment of non-tradable prices following the recent upsurge in tradable prices could further add to inflation persistence.

10. ***Authorities' Views***: The authorities thought that staff's growth projections were on the pessimistic side as the recent improvements in the investment climate could pay off quickly. The authorities also argued that staff's inflation outlook assumes too much persistence in the recent shocks to inflation. Based on its internal models, the Central Bank of Uzbekistan (CBU) projected consumer price inflation will decline by end-2018 to the range of 12-14 percent and decline further into single digits by end-2019.

B. External Assessment

11. **Subject to several caveats, Uzbekistan's external position in 2017 appears substantially stronger than implied by economic fundamentals and desirable policies** (Figure 4 and Annex I). Given the preliminary estimate of the 2017 current account surplus of 3¾ percent of GDP, the IMF's external balance approach (EBA) suggests that a country like Uzbekistan should have a current account deficit of 2 (±1) percent of GDP, implying a gap of 6 (±1) percent of GDP. Using standard elasticities, this would correspond to a real exchange rate undervaluation of 25-30 percent. However, as discussed in Annex I, the preliminary estimate of the 2017 current account surplus may be biased upward, and the EBA approach does not take into account the major policy regime shift that occurred in September 2017. Given the regime shift and its likely positive impact on investment and imports, staff projects that the external balance will decline significantly in 2018 and beyond, eliminating the external gap.

12. **At the same time, accumulated FX reserves—at about 20 months of imports—are high and have significant opportunity costs**. Thus, there is no need to accumulate additional FX reserves. However, half of FX reserves represent FX deposits of the Fund for Reconstruction and Development (FRD), which operates as a combination of a development bank that channels loans to state enterprises, a bank recapitalization fund, and a sovereign wealth fund. Moreover, some of the FRD's assets may have to be devoted to cleaning up the balance sheets of state enterprises. On capital flows, the authorities plan to proceed cautiously on lifting present restrictions, also because reforms may create uncertainties that could lead to FX market volatility.

13. **Article VIII obligations**. At the time of the last Article IV consultation, Uzbekistan maintained two exchange restrictions and one multiple currency practice (MCP) subject to IMF jurisdiction. With the exchange rate unification in September 2017, as well as the adoption and implementation of regulations liberalizing the FX regime in Uzbekistan, these have been eliminated. Reports thus far indicate that market participants are now able to make payments and transfers for current transactions without impediment. Staff will continue to monitor the ongoing implementation of the new liberalized FX regime for consistency with Uzbekistan's Article VIII obligations

14. **Authorities' Views:** The authorities agreed that a developing country like Uzbekistan would normally be expected to run external deficits, although they doubted that the EBA's current account norm captures well the fundamentals of a country that is dependent on exhaustible commodity exports. Also, the authorities acknowledged that FX reserves appear high by standard metrics, but

noted that these metrics generally assume—unrealistically—that FX reserves are only used to insure against temporary shocks to output and consumption.

C. Risks to the Outlook

15. **Adverse shocks to exports constitute the main external risk, while domestic risks are primarily related to transition reforms** (see Risk Assessment Matrix).

- With commodities constituting a significant share of exports and some trading partners vulnerable to commodity price shocks, Uzbekistan could again face a triple combination of adverse external shocks that lowers exports, commodity prices, and remittances at the same time. If such shocks occur, Uzbekistan has room to use fiscal stimulus to counteract a temporary decline in external demand, while allowing the exchange rate to move to maintain competitiveness and facilitate expenditure switching. Over the medium term, transition reforms should help to diversify exports and absorb labor that would otherwise migrate out.
- Experiences with earlier transitions suggest that reforms could entail several domestic downside risks. These include: (i) reform fatigue or reversals as setbacks occur or benefits take longer than expected to materialize; (ii) faster-than-expected deterioration in banks' asset quality or risky behavior by banks to compensate for losses; (iii) the opening of medium-term funding and capital gaps in the banking system; and (iv) a sharp decline in revenue collections from state enterprises as their privileges are withdrawn. As discussed further below, these risks can be mitigated or managed through appropriate policies.

16. **Authorities' Views**: The authorities agreed with the characterization of external risks. On domestic risks, the authorities thought these were unavoidable when a country embarks on major reforms. They underscored their medium-term commitment to implementing the President's announced development strategy. On short-term risks to banks, the authorities were confident of their ability to ensure stability and noted that there would be sufficient public resources to support banks if needed. On the risk of lower declining tax collections from state enterprises, the Ministry of Finance was keenly aware that reforms of taxes and their administration are needed to forestall this risk.

D. Regional Spillovers

17. **A reformist Uzbekistan could catalyze change and raise incomes throughout the region.** Uzbekistan is by far the most populous country in Central Asia and it has historically been an economic hub for the region. Thus, successful reforms in Uzbekistan could have a powerful demonstration effect, boost trade, including by building regional supply chains, and promote regional integration, including by reconnecting regional energy and transportation networks as well as by resolving the region's age-old disputes about water rights.

Box 1. Risk Assessment Matrix [1]

Risk	Description	Likelihood / Timeframe	Possible Impact *(if realized)* / Transmission Channels	Policy Advice
External Risks and Spillovers				
Slowdown in Main Trading Partners (e.g. China, Russia)	A downturn in trading partners import demand (e.g. due to a sharp tightening of global financial conditions).	Low / Medium **Short to Medium-Term**	**Medium** A reduction of Uzbekistan's exports, remittances from Uzbekistan migrant workers, or FDI inflows could significantly slow growth and job creation as aggregate demand contracts.	Ease the monetary stance, including by allowing the exchange rate to adjust in line with market conditions. Ease fiscal policy, allowing automatic fiscal stabilizers to operate.
Lower Commodity Export Prices (e.g. gold, natural gas, or cotton)	While prices for gold, natural gas, and cotton are projected to be higher over the next two years, a global slowdown could lead to markedly lower prices for commodity exports.	Medium **Short-Term**	**Medium** In 2017, Uzbekistan's gold, natural gas, and cotton exports were 7, 4, and 1 percent of GDP, respectively. Lower terms of trade could worsen the current account, slow growth, and contribute to investment uncertainty.	Allow the nominal exchange rate to adjust to external shocks to reduce the impact on growth and maintain competitiveness. Continue structural reforms to diversify exports.
Increased Regional Conflict or Security Risks	Protracted or escalating conflicts outside Uzbekistan could disrupt regional trade, tourism, or foreign investment.	Low **Short to Medium-Term**	**Low** Heightened conflict or security risks could trigger external imbalance and slow growth and job creation as aggregate supply contracts.	Use Uzbekistan's external buffers temporarily. Assure investors that Uzbekistan will maintain consistent policies. Allow automatic fiscal stabilizers to operate and exchange rate to adjust.

Risk	Description	Likelihood / Timeframe	Possible Impact *(if realized)* / Transmission Channels	Policy Advice
Domestic Risks				
Backsliding on Reforms	Disappointment or impatience with the results of reforms leads to a reassessment, stopping or reversing reforms.	**Low** **Short to Medium-Term**	**High** Investment climate and regional cooperation deteriorate, and the population's hopes for a better economy are disappointed.	Step up communication on the failure of the previous development model to create jobs and raise living standards in line with Uzbekistan's potential.
Need to Recapitalize State Banks	Although capital adequacy ratios of banks appear high, reforms could undermine asset quality or lead some banks to make risky loans.	**Medium** **Short to Medium-Term**	**Medium** Realization of risk could have significant fiscal costs and reduce credit over the short term.	Continue to improve the CBU's capacity to supervise banks, using stress tests to identify banks at risk. Enhance tools for crisis management, including emergency liquidity assistance.
Bank Credit Constrained by Funding and Capital Gaps	In the past, the public sector, especially FRD, was a key source of bank funding and capital. In the future, banks may need to get more funding and capital other sources.	**Medium** **Medium-Term**	**Medium** Insufficient bank funding and capital could slow medium-term growth and stall job creation.	Ensure economic stability, esp. low inflation. Strengthen trust in banks to attract deposits. Improve the investment climate to attract foreign funding and investment. Promote alternative forms of financing.
Revenues Decline as State Enterprises Become Less Profitable	Following liberalization of the exchange rate & prices and other structural reforms, state enterprises become less profitable.	**Medium** **Medium-Term**	**Medium** A decline in revenues while expenditure pressures increase could lead to high fiscal deficits that undermine macroeconomic stability.	Reform tax policies and tax administration to distribute the tax burden more equally across enterprises. Restructure state enterprises, with or without privatization, to maintain the tax base.

[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.

POLICY DISCUSSIONS

A. Maintaining Prudent Fiscal Policy, Improving Fiscal Transparency, and Tackling Tax Reform

18. **Uzbekistan's fiscal policy has traditionally been prudent, although it lacked transparency, especially on-lending operations**. Past prudence is reflected in low accumulated levels of public and publicly-guaranteed debt (see Debt Sustainability Analysis). In fact, the government has no outstanding domestic debt, and external debt is mostly limited to official borrowing, which, following the recent exchange rate depreciation, amounted to 24½ percent of GDP at end-2017. At the same time, the government undertook significant on-lending operations to channel credit to state enterprises.

19. **The augmented fiscal deficit rose significantly in 2017, mainly due to on-lending operations.** As foreseen in the 2017 budget, the consolidated fiscal position was close to balance. Higher-than-projected revenues of about 1½ percent of GDP, mainly due to the revaluation effect of FX liberalization, compensated for an increase in net lending operations of 1½ percent of GDP, which were not included in the 2017 budget (Tables 4-5). The FRD registered an unexpectedly large deficit of 3¼ percent of GDP, as its expenditures for on-lending activities for state enterprises and state bank recapitalization far exceeded budget projections. Thus, the augmented fiscal deficit, which combines the consolidated and FRD balances, and which staff considers a better measure of the government's fiscal stance, expanded from a deficit of ½ percent of GDP to 3¼ percent of GDP in 2017.

20. **Staff supports the authorities' plans to tighten fiscal policy in 2018 to reduce inflation**. The tightening mainly reflects a cut in lending operations that fuel credit growth, with the FRD balancing its budget from 2018 onwards. In addition, the government envisages saving about half of the expected additional revenues in 2018 from higher-than-projected commodity prices and improved tax administration. Social safety net spending is projected to increase by about 1 percent of GDP, with targeted support reaching some 1.7 million beneficiaries, up from about 1.4 million beneficiaries in 2017. In addition, the budget envisages about ¼ percent of GDP for active labor market programs to improve the employability of the longer-term unemployed. The government will adjust social safety net spending and public wages for inflation during the first half of 2018. Staff projects that these measures, if implemented as planned, will reduce the augmented fiscal deficit to 1¼ percent of GDP. Over the medium term, the government is expected to continue to restrain on-lending operations. A medium-term fiscal deficit of 2 percent of GDP would stabilize the public debt to GDP ratio at about 25 percent (Table 8).

21. **Improving fiscal transparency is a priority**. In the past, the use of off-budget transactions made it difficult to assess the fiscal stance, the size of fiscal operations, and their impact on the economy. The authorities have already made progress consolidating on- and off-budget transactions in their reported fiscal data. The authorities are committed to bring all fiscal operations on-budget starting in 2019.

22. **Authorities' views**: The authorities were convinced that a tighter short-run fiscal stance, mainly driven by reduced on-lending operations, was needed to counter inflationary pressures. They believed that staff's revenue projections may be conservative, especially as improvements in tax administration could pay off more than expected.

23. **Comprehensive tax reform is needed, foremost to foster job creation, but should be revenue neutral and introduced gradually**. The present tax system is highly complex and full of exemptions. In addition, it applies different tax regimes—standard and simplified—to firms based on the number of employees. This segmentation seems to have severe adverse consequences for job creation. First, firms exceeding the employee threshold face an excessive tax burden. Second, small firms have strong incentives to stay small, downsize, or split themselves to avoid migrating into the standard tax regime. As a result, job creation has been concentrated in small businesses. Thus, comprehensive tax reform is needed to encourage firms to expand and create jobs. Reform should be introduced gradually so that tax administration can increase its capacity to process a greater number of tax payers while improving tax payers' ability to meet more demanding accounting standards. Perhaps even more important, tax reform should be revenue neutral to preserve a stability-oriented fiscal policy.

24. **Tax reform is also needed to forestall the risk of a sharp decline in future revenue collections from state enterprises**. A large share of taxes is presently collected from a relatively small number of state enterprises which greatly simplifies tax administration. But state enterprises also receive a wide range of privileges, including subsidized intermediate inputs and preferential access to credit, which enables them to carry an elevated tax burden. As Uzbekistan's economy shifts toward marked-based principles, state enterprise privileges will erode, reducing revenue collections. Tax reform is therefore also needed to widen the tax net and forestall the risk that future revenues may be constrained just when the government may need to step up social expenditures (education, health) and spending on real capital (infrastructure) to take advantage of Uzbekistan's demographic window over the next two decades.

25. **Authorities' views**: Tax reform is a top priority, and the authorities expressed their appreciation for the detailed advice provided by a recent IMF technical assistance mission on tax policy.[2] The Ministry of Finance agreed that reforms need to proceed gradually in line with improvements in tax administration; that projections of the impact of tax reform need to be realistic; and that reforms should be based on the principle of revenue neutrality.

[2] The authorities have published the technical assistance report on the government's website.

B. Tightening Monetary Policy, Moving to Inflation Targeting, and Reducing Segmentation in the Credit Market

26. **The CBU loosened monetary policy in early 2017, but started to tighten in the second half.** During the first half of 2017, the CBU significantly loosened monetary policy, while the government's on-lending operations added directly to expanding credit. As of August 2017, reserve money and credit to the economy had grown by more than 50 percent compared to a year earlier. Monetary policy was tightened prior to the FX liberalization in September, including by increasing the refinancing rate from 9 to 14 percent. After FX liberalization, the CBU maintained stable nominal exchange and refinancing rates.

27. **A tighter monetary stance will help contain inflation over the next two years**. Additional liberalization of prices, especially of energy prices, is planned in 2018 and there is the risk that high inflation could become hard-wired into pricing behavior and expectations. A tighter monetary stance is therefore warranted, including by increasing the nominal refinancing rate to bring it back to a positive real rate and by halting FX accumulation. To this end, staff recommended introducing a regular, pre-announced program of FX sales from the CBU's gold purchases. The central bank should also take immediate steps to enhance its capacity for open market operations; the planned issuance of treasury bills by the government could help in this regard.

28. **Staff supported the authorities' plan to move to inflation targeting over the medium term.** In the interim, the CBU should use a range of indicators, including the refinancing rate, bank liquidity, money, and the exchange rate to gauge the monetary stance and its impact on inflation. Experiences in other transition countries have demonstrated that greater degrees of *de facto* central bank independence have been associated with better inflation outcomes, but only after the initial price liberalization shocks had passed through the system. Other conditions that support inflation targeting include a strong transmission mechanism for monetary policy; building the central bank's analytical capacity; and communicating policies clearly.

29. **Steps should be taken to reduce the segmentation of Uzbekistan's credit market.** Currently, credits are directed via banks to support state enterprises and government programs at concessional rates (Figure 5). The FX segment of the credit market is dominated by state enterprises, which receive FX credit either directly from state banks or through on-lending operations by government entities, primarily the FRD. By contrast, the private sector is largely confined to domestic currency borrowing. As a first step, stricter limits should be put on the FRD's on-lending activities. As a second step, FRD on-lending activities could be shifted toward domestic currency. This would make the cost of credit more transparent and reduce loan dollarization. It would also strengthen the transmission channel of monetary policy.

30. **Authorities' views**: The CBU agreed that the interim monetary framework will need to rely on multiple indicators; in particular, relying solely on monetary targets was considered as unpractical given that an unobservable, but likely large, amount of FX cash is being used as money. On the present monetary stance, the authorities noted that the refinancing rate had been hiked significantly

in 2017 and that its current level may be appropriate if inflation declined rapidly during 2018. The CBU also emphasized it had adopted a neutrality principle whereby its purchases of gold would be offset by FX sales, effectively tightening monetary policy. Lastly, the CBU noted that—based on highly valued IMF technical assistance—it is examining ways to improve monetary policy operations, including via open market operations and changes to reserve requirements.

C. Safeguarding Financial Stability and Building a Growth-Promoting Financial Sector

31. **Reported financial sector indicators suggest the banking system is sound, and there seems to be no evidence of withdrawal of correspondent banking relationships (CBRs)**. The banking system is highly concentrated (the three largest state banks account for more than half of assets), lending and other bank activities are largely state driven. Regulatory capital to risk-weighted assets—close to 19 percent as of end-2017—is relatively high (Table 9). Similarly, the non-performing loan ratio—at 1.2 percent—is relatively low, while the system's profitability—with return on equity of about 17 percent—is high. Banks generally benefited from the September 2017 exchange rate depreciation as FX assets outweighed FX liabilities and part of their capital was denominated in foreign currency. Notwithstanding reports that other countries in the region may have experienced excessive withdrawals of CBRs, the CBU noted its survey of banks did not point to any significant difficulties.

32. **Nonetheless, banks will likely face challenges related to deteriorating asset quality and low operational efficiency**. First, banks have significant loan concentration risk, with state enterprises accounting for a high proportion of total loans (about 60 percent). Price liberalization and other economic reforms are likely to reduce the profitability of state enterprises, and banks' asset quality could therefore deteriorate quickly. Second, loan dollarization is high, and many state enterprises with FX loans have revenues primarily in domestic currency. And third, looking ahead, state banks will need to transform their business models to operate on a more commercially oriented basis and lower cost, including through cutting staff and mergers.

33. **The authorities have recently put in place several promising financial sector reforms**. First, banks are no longer required to keep records unrelated to banking on behalf of the authorities. Banks report this has significantly reduced administrative costs. Second, a presidential decree has instructed officials to refrain from pressuring banks to provide credit at preferential terms to selected borrowers. Third, the CBU has addressed potential supervisory conflicts by divesting from two banks and withdrawing its officials from the supervisory boards of banks.

34. **Staff recommended additional steps to promote financial development and help safeguard financial stability.** For example, reserve requirements should include reserve averaging, allowing banks to more efficiently manage liquidity and promoting development of the interbank market. The CBU should also enhance its framework for emergency liquidity assistance, including by expanding the range of acceptable collateral. The government's plan to restart issuing T-bills could aid this effort and jumpstart money market development.

35. **Over the medium term, bank credit may be constrained by funding and capital gaps.** For the next few years, the economy will continue to rely on banks for financing. To support higher growth and job creation, banks will need to raise additional funding and capital. In the past, the funding and capital gaps were largely met by mobilizing FRD funds. However, in the future banks should rely on more market-based solutions, for example attracting foreign funding and more deposits from households. To raise additional capital, banks should raise profits by better managing their credit operations and by reducing administrative costs, for example via mergers that consolidate costly branch networks. All these solutions point to similar policy requirements: creating a more stable macroeconomic environment; building the public's trust in the banking system; allowing banks to operate in line with best business practices; and improving the country's investment climate.

36. **Authorities' views**: The authorities agreed that the banking system faces many challenges. While the CBU believes the current supervisory framework is adequate, it plans to continue upgrading its supervisory capacity and intervention tools, including by incorporating stress testing more fully in the supervisory process. Nonetheless, they emphasized the need to remain vigilant regarding near-term risks and the financial stability impact of reforms over the medium term. Attracting foreign banks and expertise was seen as important to build a financial sector that promote growth, but it was also noted that foreign banks have generally found it difficult to operate in the region. The CBU also stressed that improving the public's financial education is a high priority.

D. Promoting Structural Reform and Sustainable Development

37. **Addressing balance sheet strains and restructuring state enterprises early in the transition should be key priorities**. State enterprises had large FX exposures to banks and external lenders, and dealing with their balance sheet losses has been postponed for now. The recommendations of a consulting group on state enterprise governance, expected to be available in July, should provide the basis to address the legacy issues of state enterprises.

38. **Further liberalization of prices is needed, and energy prices in particular need to be brought closer to cost-recovery levels**. In the past, relative price distortions were pervasive in certain sectors of the economy, particularly for energy (e.g. electricity, natural gas, and fuels) and for domestically-traded commodities (e.g. cotton, fertilizers, grains, and metals). However, many other prices (e.g. for imported or private sector-produced goods and services) were less distorted. Although energy prices have already increased significantly, they are still relatively low in international comparison (Figure 6).

39. **The government should take a more active role in reducing monopolistic practices and promoting competition**. In the past, notwithstanding the existence of a State Committee on Competition in charge of unfair pricing practices, *de facto* competition was restricted, especially in sectors dominated by state enterprises and well-connected businesses. Price liberalization by itself will not lower costs and prices if firms do not have to compete in the domestic market. More competition would also allow prices to adjust symmetrically downward if exchange rate appreciation lowers import prices, enhancing the effectiveness of a more flexible exchange rate.

40. **Additional steps to liberalize trade, which does not need to be balanced or in surplus at all times, are also needed**. Trade allows countries to specialize in production of goods in which they have a competitive advantage and can add the most value. To take advantage of these benefits, staff recommended further simplifying customs tariffs and streamlining customs procedures. Accession to the WTO would help Uzbekistan reach international standards and maintain access to export markets. Some officials seem to believe that only balanced trade or surpluses are beneficial for Uzbekistan. In fact, trade deficits are expected in countries with higher returns to investment and higher investment should help to achieve more job creation and higher living standards.

41. **The government should seek input from the business community to identify investment bottlenecks.** Studies indicate that imports and foreign direct investment help to transfer innovative technologies and facilitate job creation. Uzbekistan has already made significant progress in improving its *de jure* investment climate, as reflected by its improved ranking in the World Bank's *Doing Business Indicators*. Nonetheless, in discussion with staff, foreign investors have expressed concerns that the *de facto* investment climate remains difficult.

42. **The authorities have embraced the UN's Sustainable Development Goals (SDGs)** (Table 10). As key SDGs focus on promoting the accumulation of human capital (education, health) and real capital (public infrastructure), the SDG goals match well Uzbekistan's need to create jobs for an unusually high share of the working-age population during its present demographic transition. The authorities are working with the UN and the World Bank to identify overall funding requirements to achieve the SDGs by 2030 in critical development areas and to design public and private sector approaches to close potential funding gaps.

43. **Authorities' views**: The authorities agreed that tackling reforms of state enterprises is important, although the current focus is on improving their operations and governance. They strongly agreed on the need to increase domestic competition. On trade, they noted efforts to promote diversification and increase value-added in exports. For example, companies were being encouraged to use domestic cotton fiber to produce and export textiles. The authorities noted that fighting corruption is a high priority under the new development strategy.

E. Improving Economic Statistics

44. **The authorities have taken significant steps to improve the quality and availability of economic data, but for now data provision still has shortcomings that hamper surveillance** (Informational Annex). In the 1990s, the government restricted public dissemination of key economic statistics. In September 2017, the government committed to change course, starting with a Presidential decree mandating the dissemination of economic and financial data. In January 2018, the Statistics Committee began publishing a new consumer price index based on an updated methodology. And the government has agreed to participate in the IMF's enhanced General Data Dissemination System (e-GDDS), committing to post a National Summary Data Page with key economic, financial, and social statistics starting in May 2018. Ongoing work includes efforts to improve balance of payments statistics, monetary reporting and financial soundness indicators, and to compile Uzbekistan's International Investment Position. Moreover, the CBU, Ministry of Finance,

and the Statistics Committee are preparing a roadmap for improvement of statistics which is scheduled for release in November 2018. The Statistics Committee is also working to improve the quality and range of national accounts data. Going forward, staff recommends upgrading labor market statistics, including by concentrating the collection of labor survey data at the Statistics Committee, and accelerating production of an Uzbekistan country page in the IMF's International Finance Statistics (IFS).

STAFF APPRAISAL

45. **Uzbekistan has embarked on far-reaching reforms to achieve inclusive growth.** Reflecting the country's fast-paced demographic transition, its working-age population has surged over the last two decades, making the creation of more and better jobs an overarching policy priority. Past policies had little success in creating sufficient jobs or raising living standards in line with the country's aspirations. In response, the President's wide-ranging reform agenda aims at opening and liberalizing the economy. Given Uzbekistan's sizable population and geographic location, the reforms could also have beneficial effects on regional growth and cooperation.

46. **For reforms to pay off, policy makers need to adhere to their reformist vision, persevere in the face of setbacks, and communicate clearly**. Major reforms are needed across policy areas and institutions. The combination of Uzbekistan's massive reform needs and an initially low capacity to implement them may result in unavoidable setbacks. But as earlier transition experiences have demonstrated, such setbacks can be overcome, or even used as springboards to accelerate reforms.

47. **In the short run, growth may not spur sufficient job creation, but tighter policies should bring down inflation gradually**. While growth is expected to remain around 5 percent in 2018-19, domestic employment growth is unlikely to exceed one percent, and the number of labor migrants will likely continue to trend upward. Assuming the authorities tighten fiscal, credit, and monetary policies as envisaged, inflation—after peaking at about 20 percent—should gradually decline over the next two years. Uzbekistan starts from a strong external position, with FX reserves at 20 months of imports and a sizable current account surplus in 2017.

48. **Uzbekistan's external position is assessed as substantially stronger than indicated by fundamentals and desirable policies**. Last year's current account surplus was significantly larger than what would be predicted for a country with Uzbekistan's characteristics. However, the large depreciation in September 2017 followed by the surge in imports following liberalization of the FX and trade regimes, suggest the external position was not as strong as suggested by the IMF EBA current account model. In addition, staff projects that the current account balance will decline significantly in 2018 and post moderate deficits in the medium term.

49. **The government's plan to consolidate its fiscal position and increase fiscal transparency is welcome**. In 2017, the fiscal deficit rose to 3¼ percent of GDP, driven by lending operations—mainly through the FRD—that expanded credit to state enterprises. The government

plans to reduce the deficit to 1¼ percent in 2018 by cutting back on-lending activities that have fueled credit expansion in the past. The government's commitment to bring all fiscal operations on-budget beginning in 2019 is also welcome.

50. **Tax reform is needed to spur job creation and forestall the risk of a sharp decline in revenue collections, but the government needs to reform taxes gradually and in a revenue-neutral fashion**. The present tax system is not only complex and riddled with ad hoc exemptions for preferred firms and activities, it also acts as a roadblock for job creation. The tax net needs to be widened to compensate for a likely future decline in tax collections from state enterprises as reforms erode their privileges. Importantly, tax reform needs to preserve the state's ability to pay for future investments in human and real capital through spending on education, health, and public infrastructure. At the same time, improvements in tax administration should proceed in tandem with tax reform.

51. **The authorities rightly plan to tighten monetary policy to contain inflation, while taking steps to reduce segmentation of the credit market**. The central bank's shift to a tighter monetary stance is needed to ensure that inflation declines to single digits over the next two years. In this regard, the CBU should continue to develop other monetary instruments, such as open market operations. Over the medium term, a shift to inflation targeting is appropriate. In the credit market, the government should curb implicit subsidies to the state sector by limiting state enterprises preferential access to credit.

52. **The two key financial sector challenges are safeguarding financial sector stability in the short term and building a growth-supporting banking system over the medium term**. While reported financial soundness indicators appear strong, most credit is concentrated in state enterprises, and its quality could erode quickly. It is therefore welcome that the CBU plans to further upgrade its supervisory capacity and intervention tools. To increase growth and job creation in the medium term, the banking system will need to be able to fund credit growth without resorting to the state sector for closing its funding and capital gaps. This will require banks to become more efficient, increase the public's trust in the stability of banks, and improve the country's investment climate, also to attract foreign banking expertise.

53. **Early restructuring of state enterprises should be a priority**. While banks benefited from the revaluation of their foreign exchange assets, state enterprises incurred large balance sheet losses. The recommendations of the consulting group on governance due in July provide a first opportunity to draw up a comprehensive plan to deal with state enterprise legacy issues.

54. **Uzbekistan has initiated significant structural reforms; but additional steps are needed**. In 2017, Uzbekistan liberalized many prices, unified exchange rates, and eliminated measures inconsistent with Uzbekistan's Article VIII obligations. Next steps should include additional price liberalization—especially by bringing energy prices closer to cost-recovery levels—promoting competition, and further liberalizing trade.

55. **The authorities' strong efforts to improve statistics are particularly welcome**. In the past, non-transparent official statistics hampered surveillance, hindered effective policy making, and undermined public trust. The decision to join the Fund's enhanced General Data Dissemination Standard is especially noteworthy and will increase data transparency, but a reform road map is needed to cement and extend progress achieved so far.

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

Table 1. Uzbekistan: Selected Economic Indicators, 2015-19

	2015	2016	2017	2018	2019
			Est.	Proj.	Proj.
National income					
Nominal GDP (in trillions of sum)	172	199	249	315	376
Population (in millions)	31.3	31.8	32.1	32.5	32.9
GDP per capita (in US dollars)	2,124	2,094	1,491	1,239	1,449
Real sector			(Annual percent change)		
GDP at current prices	17.8	15.8	25.3	26.3	19.5
GDP at constant prices	7.9	7.8	5.3	5.0	5.0
GDP deflator	9.2	7.4	19.0	20.3	13.8
Consumer price index (eop)	8.4	7.9	18.9	16.9	10.1
Consumer price index (average)	8.5	8.0	12.5	19.5	12.9
Money and credit			(Annual percent change)		
Reserve money	20.0	22.2	84.8	15.4	14.5
Broad money	24.2	23.5	40.3	19.0	17.9
Net foreign assets	15.5	27.1	167.3	-7.5	10.0
Net domestic assets	5.4	31.9	329.8	-18.6	5.2
Net claims on government	14.0	14.5	107.8	-5.0	12.1
Credit to the economy	23.3	28.4	103.0	24.5	15.2
Velocity (in levels)	4.1	3.8	3.4	3.6	3.7
			(Percent of GDP)		
Broad money	24.5	26.2	29.3	27.6	27.2
Credit to the economy	24.0	26.6	43.1	42.5	41.0
External sector			(Percent of GDP)		
Current account	0.7	0.7	3.7	0.2	-1.0
External debt	18.5	20.3	41.3	38.1	35.2
External debt service ratio (percent of G&S exports)	4.7	5.2	13.6	15.6	13.9
			(Annual percent change)		
Exports of goods and services	-10.3	-2.8	9.4	12.6	4.5
Imports of goods and services	-16.4	-2.8	3.7	24.9	7.2
Exchange rate (in sums per U.S. dollar; eop)	2,810	3,231	8,120	…	…
Exchange rate (in sums per U.S. dollar; ave)	2,584	2,982	5,203	…	…
Real effective exchange rate (in levels, - = dep)	100	93	63	51	57
Gross official reserves (in billions of US dollars)	24.3	26.5	28.1	28.9	28.9
Gross official reserves (months of imports)	21.0	22.1	18.8	18.0	16.4
Government finance			(Percent of GDP)		
Consolidated revenue and grants	33.0	30.5	30.1	30.1	30.0
Consolidated expenditure and net lending	34.1	31.3	30.1	31.3	31.4
Consolidated primary budget balance	-1.2	-0.8	-0.1	-1.3	-1.4
Fund for Reconstruction & Development: Revenues	1.3	1.7	1.6	1.7	1.5
Fund for Reconstruction & Development: Expenditures	1.4	1.4	4.8	1.7	1.5
Fund for Reconstruction & Development: Balance	-0.1	0.2	-3.2	0.0	0.0
Augmented fiscal balance	-1.3	-0.6	-3.3	-1.3	-1.4
Public debt	9.3	10.5	24.5	20.1	21.0
Employment					
Domestic employment growth (percent) 1/	1.0	0.8	0.6	1.0	1.0
Employment rate (share of working-age population)	57.0	56.7	56.4	56.3	56.2
Unemployment rate (percent)	5.2	5.2	4.5	4.5	4.6
Registered labor migrants (millions)	1.0	1.1	1.3	1.4	1.5

Sources: Uzbekistan authorities and IMF staff estimates and projections.
1/ Excludes registered labor migrants.

Table 2. Uzbekistan: National Accounts, 2015-19

	2015	2016	2017	2018	2019
			Est.	Proj.	Proj.
			(Share of GDP)		
GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Final consumption expenditures	75.0	76.8	76.1	76.8	75.1
Private	57.4	60.7	61.0	61.2	59.8
Public	17.5	16.1	15.1	15.5	15.3
Gross investment	26.9	24.9	24.9	29.0	31.0
Net exports	-1.8	-1.8	-1.0	-5.8	-6.1
Exports of goods and services	19.6	19.0	29.0	38.9	34.3
Imports of goods and services	21.5	20.8	30.1	44.7	40.4
Gross national savings	27.6	25.7	28.6	29.2	30.0
Savings-investment balance	0.7	0.7	3.7	0.2	-1.0
			(Annual percent change)		
GDP at constant prices	**7.9**	**7.8**	**5.3**	**5.0**	**5.0**
Final consumption expenditures	16.9	16.1	2.5	6.1	3.5
Private	20.4	21.1	0.8	3.2	2.1
Public	6.7	0.0	9.0	16.6	7.9
Gross investment	-2.1	-3.6	9.5	11.3	11.2
Exports of goods and services	-3.3	-13.1	0.6	8.7	2.9
Imports of goods and services	11.8	3.5	-4.5	20.8	5.4
Prices					
CPI (average, in percent)	8.5	8.0	12.5	19.5	12.9
CPI (end-of-period, in percent)	8.4	7.9	18.9	16.9	10.1
Minimum wage (in thousands of sum)	122	135	150	173	201
Average wage (in thousands of sum)	1,177	1,298	1,496	1,723	2,002
Average wage growth	16.2	10.3	15.3	15.2	16.2
Employment					
Domestic employment growth (percent) 1/	1.0	0.8	0.6	1.0	1.0
Employment rate (share of working-age population)	57	57	56	56	56
Unemployment rate (percent)	5.2	5.2	4.5	4.5	4.6
Registered labor migrants (millions)	1.0	1.1	1.3	1.4	1.5

Sources: Uzbekistan authorities and IMF staff estimates and projections.

1/ Excludes registered labor migrants.

Table 3. Uzbekistan: Balance of Payments, 2015-19
(In millions of U.S. dollars, unless otherwise indicated)

	2015	2016	2017	2018	2019
			Est.	Proj.	Proj.
Current account balance	**470**	**498**	**1,774**	**86**	**-494**
Balance of goods and services	-1,224	-1,182	-499	-2,331	-2,923
Merchandise trade balance	-797	-1,011	-444	-1,807	-2,324
Exports of goods	**9,997**	**9,491**	**10,388**	**11,701**	**12,080**
Cotton fiber	736	637	477	244	110
Energy	2,685	1,714	1,920	2,346	2,305
Gold	1,708	2,609	3,335	3,556	3,647
Food Products	1,316	695	876	1,034	1,140
Other exports of goods	3,552	3,836	3,780	4,522	4,879
Imports of goods	**10,794**	**10,501**	**10,832**	**13,508**	**14,404**
Food Products	1,585	1,440	1,147	1,302	1,378
Energy products	725	589	668	1,036	1,029
Machinery and intermediate goods	5,027	5,018	4,552	5,628	5,956
Other imports of goods	3,457	3,455	4,465	5,542	6,041
Balance of services	**-427**	**-171**	**-55**	**-524**	**-599**
Credit	3,061	3,205	3,506	3,943	4,272
Debit	3,488	3,376	3,561	4,468	4,870
Income (net)	**1,460**	**1,289**	**1,867**	**1,996**	**1,993**
Of which: Interest (net)	-1,538	-1,397	-1,491	-1,709	-1,573
Transfers (net)	**234**	**391**	**406**	**421**	**436**
Capital and financial account balance	**-257**	**134**	**-1,952**	**-530**	**-242**
Capital transfers	**-97**	**-84**	**-60**	**-51**	**-60**
Foreign direct and portfolio investment (net)	**854**	**1,027**	**974**	**1,023**	**1,074**
Other investment	**-966**	**-767**	**-2,830**	**-1,502**	**-1,256**
o/w Loans, net	..	..	827	100	541
Public and publ. guaranteed debt (net)	..	..	914	888	1,061
Commercial nonguaranteed (net)	..	..	-87	-788	-520
Trade credits	-944	130	136	143	149
Other capital	-732	-2,062	-3,793	-1,745	-1,946
Statistical discrepancy	**-48**	**-42**	**-36**	**0**	**0**
Overall balance	**213**	**632**	**-178**	**-444**	**-736**
Gold purchases & Valuation Changes	-48	1,565	1,810	1,230	733
Change in reserves (- = increase)	**165**	**2,197**	**1,632**	**786**	**-3**
Memorandum items:					
Current account balance (in percent of GDP)	**0.7**	**0.7**	**3.7**	**0.2**	**-1.0**
Exports of G&S (in percent of GDP)	19.6	19.0	29.0	38.9	34.3
Imports of G&S (in percent of GDP)	21.5	20.8	30.1	44.7	40.4
Export growth rate (G&S)	-10.3	-2.8	9.4	12.6	4.5
Import growth rate (G&S)	-16.4	-2.8	3.7	24.9	7.2
Export prices (percent)	-10.3	9.3	8.8	3.6	0.3
Import prices (percent)	-20.3	-6.0	8.0	3.2	1.2
FDI (in percent of GDP)	1.3	1.5	2.0	2.5	2.3
Gross official reserves (in billions of U.S. dollars) 1/	**24.3**	**26.5**	**28.1**	**28.9**	**28.9**
Real Exchange Rate (in levels)	100.0	93.0	63.4	50.8	57.3
Gross external debt (in billions of U.S. dollars)	11.8	13.0	15.6	15.7	16.2
PPG external debt (in billions of U.S. dollars)	5.6	6.5	7.5	8.4	9.6
Total debt service payment (in billions of U.S. dollars)	0.6	0.7	1.9	2.4	2.3
In percent of exports of G&S	4.7	5.2	13.6	15.6	13.9
In percent of gross international reserves	2.5	2.5	6.7	8.4	7.9

Sources: Uzbekistan authorities and IMF staff estimates and projections.

1/ Projections exclude monetization of gold purchases by CBU from domestic producers.

Table 4. Uzbekistan: General Government Budget, 2015-19
(In billions of sum)

	2015	2016	2017 Budget	2017 Est.	2018 Budget	2018 Proj.	2019 Proj.
Budget revenues and grants	**56,666**	**60,627**	**68,774**	**74,865**	**88,247**	**94,577**	**112,965**
Tax revenues	**34,204**	**37,693**	**43,649**	**46,736**	**55,622**	**61,138**	**73,560**
Taxes on incomes and profits	10,194	11,256	11,838	12,954	12,805	14,925	18,538
Taxes on property	2,143	2,626	3,091	3,222	3,426	3,730	4,457
Taxes on goods and services	20,385	22,362	26,968	28,853	37,975	40,819	48,596
Of which : Value added tax	10,851	11,892	14,032	15,871	22,019	24,054	28,741
Excises	5,619	6,259	7,837	7,552	8,344	8,426	9,840
Mining tax	2,515	2,518	2,948	3,474	6,203	6,633	7,916
Customs duties	1,482	1,450	1,752	1,707	1,415	1,663	1,969
Other budget revenue (tax and nontax)	**3,095**	**3,434**	**2,953**	**4,963**	**6,608**	**6,267**	**7,489**
Funds	**19,367**	**19,500**	**22,172**	**23,167**	**26,018**	**27,172**	**31,917**
Social security contributions (Pension & Employment Fund)	14,408	14,715	17,257	17,761	20,291	20,746	24,238
Road Fund	2,630	2,523	3,110	3,649	3,730	4,378	5,232
Education & Other Development Fund	2,328	2,262	1,805	1,756	1,997	2,048	2,447
Total Expenditures and Net Lending	**58,652**	**62,213**	**69,342**	**75,037**	**89,102**	**98,595**	**118,070**
Socio-cultural expenditure (incl. education & health)	22,722	25,469	29,162	28,031	33,460	34,886	40,593
Social safety net	14,513	14,523	17,379	16,687	23,684	24,001	28,678
Economy	3,957	4,506	5,196	5,437	7,223	7,659	9,121
Public authorities and administration	1,594	1,791	1,726	2,394	3,050	3,142	3,165
Public investment	1,844	2,132	2,585	3,246	3,048	3,505	4,188
Interest expenditure	90	141	...	402	559	567	572
Other expenditure in the budget	8,331	9,168	10,130	11,548	14,132	14,435	16,676
Road Fund	2,655	2,586	3,165	3,340	3,947	3,971	5,232
Net lending	2,945	1,897	...	3,954	...	6,428	9,846
Consolidated Fiscal Balance	**-1,986**	**-1,586**	**-568**	**-172**	**-855**	**-4,018**	**-5,105**
Fund for Reconstruction and Development							
Revenues	2,264	3,309	2,756	3,886	5,004	5,297	5,685
Expenditures	2,455	2,835	2,309	11,954	7,937	5,297	5,685
Balance	-191	474	447	-8,068	-2,933	0	0
Augmented Fiscal Balance 1/	**-2,177**	**-1,112**	**-121**	**-8,240**	**-3,788**	**-4,018**	**-5,105**
Statistical Discrepancy	-34	28	...	778	...	0	0
Financing	**2,210**	**1,084**	**...**	**7,462**	**...**	**4,018**	**5,105**
Domestic	-613	-515	...	4,174	...	-1,659	-3,982
Domestic banking system	-714	-680	...	3,980	...	-1,862	-4,196
Monetary authorities	-402	-554	...	4,148	...	-1,490	-3,357
Of which : Fund for Reconstruction and Development	-879	-407	...	8,068	...	0	0
Deposit money banks	-313	-126	...	-168	...	-372	-839
Treasury bills outside banks	0	0	...	0	...	0	0
Privatization proceeds	102	165	...	193	...	203	213
External	2,823	1,599	...	3,289	...	5,677	9,087
Memorandum items							
GDP	171,808	198,872	239,980	249,136	290,605	314,634	375,942
Current expenditure	51,207	55,597	...	64,497	...	84,691	98,805
Wages and wage-related expenditure	17,698	20,485	...	25,663	...	30,673	34,615

Sources: Uzbekistan authorities and IMF staff estimates and projections.

1/ Augmented fiscal includes revenues and expenditures from both consolidated budget and Fund for Reconstruction and Development.

Table 5. Uzbekistan: General Government Budget, 2015-19
(In percent of GDP)

	2015	2016	2017	2017	2018	2018	2019
			Budget	Est.	Budget	Proj.	Proj.
Budget Revenues and Grants	**33.0**	**30.5**	**28.7**	**30.1**	**30.4**	**30.1**	**30.0**
Tax revenues	**19.9**	**19.0**	**18.2**	**18.8**	**19.1**	**19.4**	**19.6**
Taxes on incomes and profits	5.9	5.7	4.9	5.2	4.4	4.7	4.9
Taxes on property	1.2	1.3	1.3	1.3	1.2	1.2	1.2
Taxes on goods and services	11.9	11.2	11.2	11.6	13.1	13.0	12.9
Of which : Value added tax	6.3	6.0	5.8	6.4	7.6	7.6	7.6
Excises	3.3	3.1	3.3	3.0	2.9	2.7	2.6
Mining tax	1.5	1.3	1.2	1.4	2.1	2.1	2.1
Customs duties	0.9	0.7	0.7	0.7	0.5	0.5	0.5
Other budget revenue (tax and nontax)	**1.8**	**1.7**	**1.2**	**2.0**	**2.3**	**2.0**	**2.0**
Funds	**11.3**	**9.8**	**9.2**	**9.3**	**9.0**	**8.6**	**8.5**
Social security contributions (Pension & Employment Fund)	8.4	7.4	7.2	7.1	7.0	6.6	6.4
Road Fund	1.5	1.3	1.3	1.5	1.3	1.4	1.4
Education & Other Development Fund	1.4	1.1	0.8	0.7	0.7	0.7	0.7
Total Expenditures and Net Lending	**34.1**	**31.3**	**28.9**	**30.1**	**30.7**	**31.3**	**31.4**
Socio-cultural expenditure (incl. education & health)	13.2	12.8	12.2	11.3	11.5	11.1	10.8
Social safety net	8.4	7.3	7.2	6.7	8.1	7.6	7.6
Economy	2.3	2.3	2.2	2.2	2.5	2.4	2.4
Public authorities and administration	0.9	0.9	0.7	1.0	1.0	1.0	0.8
Public investment	1.1	1.1	1.1	1.3	1.0	1.1	1.1
Interest expenditure	0.1	0.1	...	0.2	...	0.2	0.2
Other expenditure in the budget	4.8	4.6	4.2	4.6	4.9	4.6	4.4
Road Fund	1.5	1.3	1.3	1.3	1.4	1.3	1.4
Net Lending	1.7	1.0	...	1.6	...	2.0	2.6
Consolidated Fiscal Balance	**-1.2**	**-0.8**	**-0.2**	**-0.1**	**-0.3**	**-1.3**	**-1.4**
Fund for Reconstruction and Development							
Revenues	1.3	1.7	1.1	1.6	1.7	1.7	1.5
Expenditures	1.4	1.4	1.0	4.8	2.7	1.7	1.5
Balance	-0.1	0.2	0.2	-3.2	-1.0	0.0	0.0
Augmented Fiscal Balance 1/	**-1.3**	**-0.6**	**-0.1**	**-3.3**	**-1.3**	**-1.3**	**-1.4**
Statistical Discrepancy	0.0	0.0	...	0.3	...	0.0	0.0
Financing	**1.3**	**0.5**	**...**	**3.0**	**...**	**1.3**	**1.4**
Domestic	-0.4	-0.3	...	1.7	...	-0.5	-1.1
Domestic banking system	-0.4	-0.3	...	1.6	...	-0.6	-1.1
Monetary authorities	-0.2	-0.3	...	1.7	...	-0.5	-0.9
Of which : Fund for Reconstruction and Development	-0.5	-0.2	...	3.2	...	0.0	0.0
Deposit money banks	-0.2	-0.1	...	-0.1	...	-0.1	-0.2
Treasury bills outside banks	0.0	0.0	...	0.0	...	0.0	0.0
Privatization proceeds	0.1	0.1	...	0.1	...	0.1	0.1
External	1.6	0.8	...	1.3	...	1.8	2.4

Sources: Uzbekistan authorities and IMF staff estimates and projections.

1/ Augmented fiscal includes revenues and expenditures from both consolidated budget and Fund for Reconstruction and Development.

Table 6. Uzbekistan: Summary Accounts of the Central Bank, 2015-19
(In billions of sum, unless otherwise indicated)

	2015	2016	2017	2018	2019
			Est.	Proj.	Proj.
Gross international reserves (in billions of US dollars)	24.3	26.5	28.1	28.9	28.9
Official exchange rate (sum/U.S. dollar, eop)	2,810	3,231	8,120	...	...
Net foreign assets	**67,294**	**84,531**	**225,496**	**217,282**	**235,854**
Gold	29,907	39,612	113,970	114,901	132,450
Foreign exchange	1,159	2,807	14,887	10,196	5,132
FRD	37,254	43,249	99,661	92,185	101,404
Foreign liabilities	1,026	1,138	3,021	3,116	3,132
Net domestic assets	**-53,156**	**-67,257**	**-193,573**	**-177,315**	**-193,672**
Net domestic credit	-46,583	-52,733	-116,565	-108,555	-121,089
Government, net	-46,589	-52,738	-116,863	-110,555	-123,589
Of which: FRD 1/	-37,254	-43,249	-99,661	-92,185	-101,404
Banks	6	5	298	2,000	2,500
Monetary policy instruments 1/	-7,947	-8,635	-4,829	4,143	7,610
Other items, net	1,375	-5,888	-72,178	-72,903	-80,193
Reserve money	**14,138**	**17,274**	**31,924**	**36,852**	**42,182**
Currency in circulation	10,733	13,256	20,063	24,110	28,415
Deposits of commercial banks	3,270	3,918	11,690	12,571	13,596
Other deposits	135,052	100,478	170,672	170,672	170,672
Growth rates					
Reserve money	20.0	22.2	84.8	15.4	14.5
Net foreign assets	16.9	25.6	166.8	-3.6	8.5
Net domestic assets	16.1	26.5	187.8	-8.4	9.2
Net credit to government	-13.1	-13.2	-121.6	5.4	-11.8
Nominal GDP	17.8	15.8	25.3	26.3	19.5
Money multiplier (in levels)	3.0	3.0	2.3	2.4	2.4

Sources: Uzbekistan authorities and IMF staff estimates and projections.

1/ Central Bank of Uzbekistan certificates of deposit.

Table 7. Uzbekistan: Monetary Survey, 2015-19
(In billions of sum, unless otherwise indicated)

	2015	2016	2017	2018	2019
			Est.	Proj.	Proj.
Net foreign assets (in billions of U.S. dollars)	26.0	28.7	30.5	30.5	30.5
Official exchange rate (sum/U.S. dollar, eop)	2,810	3,231	8,120	…	…
Net foreign assets	**72,964**	**92,705**	**247,823**	**229,130**	**252,019**
Gold	29,907	39,612	113,970	114,901	132,450
Foreign exchange (excl FRD)	5,803	9,844	34,192	22,044	18,165
FRD	37,254	43,249	99,661	92,185	101,404
Net domestic assets	**-30,829**	**-40,664**	**-174,788**	**-142,215**	**-149,583**
Net domestic credit	-9,425	-5,057	-13,020	19,350	25,904
Government, net	-50,574	-57,905	-120,324	-114,251	-128,052
Of which : Fund for Reconstruction and Development	-37,254	-43,249	-99,661	-92,185	-101,404
Rest of economy	41,149	52,848	107,304	133,600	153,956
Loans in domestic currency	26,307	32,102	45,012	61,859	77,485
Loans in foreign currency	14,842	20,746	62,292	71,741	76,471
Other items, net	-20,390	-34,208	-159,313	-159,110	-173,032
Nonbudgetary deposits of budget organizations	-1,014	-1,399	-2,455	-2,455	-2,455
Broad Money	**42,136**	**52,041**	**73,034**	**86,915**	**102,437**
Currency outside banks	10,655	13,209	19,449	23,145	27,279
Demand deposits	11,174	12,461	12,184	14,500	17,089
Quasi-money	20,307	26,371	41,401	49,270	58,069
Memorandum items:					
FRD (in millions of U.S. dollars)	13,258	13,384	12,273	12,273	12,273
Growth Rates					
Broad money	24.2	23.5	40.3	19.0	17.9
Net foreign assets	15.5	27.1	167.3	-7.5	10.0
Net domestic assets	5.4	31.9	329.8	-18.6	5.2
Domestic bank credit to government	14.0	14.5	107.8	-5.0	12.1
Domestic credit to rest of economy	23.3	28.4	103.0	24.5	15.2
Loans in domestic currency	21.6	22.0	40.2	37.4	25.3
Loans in foreign currency	26.5	39.8	200	15.2	6.6
Memorandum Items					
Velocity (in levels) 1/	4.1	3.8	3.4	3.6	3.7
Ratio of currency to deposits (in percent)	33.8	34.0	36.3	36.3	36.3
Ratio of currency outside banks to broad money (in percent)	25.3	25.4	26.6	26.6	26.6
Credit to the economy (percent of GDP)	24.0	26.6	43.1	42.5	41.0

Sources: Uzbekistan authorities and IMF staff estimates and projections.

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

Table 8. Uzbekistan: Medium-Term Outlook, 2015-23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income									
Nominal GDP (in trillions of sum)	172	199	249	315	376	437	507	584	670
Population (in millions)	31.3	31.8	32.1	32.5	32.9	33.3	33.6	33.9	34.2
GDP per capita (in US dollars)	2,124	2,094	1,491	1,239	1,449	1,526	1,621	1,712	1,806
Real sector				(Annual percent change)					
GDP at current prices	17.8	15.8	25.3	26.3	19.5	16.3	16.0	15.2	14.7
GDP at constant prices	7.9	7.8	5.3	5.0	5.0	5.5	6.0	6.0	6.0
GDP deflator	9.2	7.4	19.0	20.3	13.8	10.2	9.5	8.7	8.2
Consumer price index (eop)	8.4	7.9	18.9	16.9	10.1	8.2	7.5	7.3	7.2
Consumer price index (average)	8.5	8.0	12.5	19.5	12.9	9.1	7.9	7.5	7.3
Money and credit				(Annual percent change)					
Reserve money	20.0	22.2	84.8	15.4	14.5	14.9	15.1	15.6	15.5
Broad money	24.2	23.5	40.3	19.0	17.9	17.9	17.7	17.8	17.4
Net foreign assets	15.5	27.1	167.3	-7.5	10.0	6.4	7.2	8.0	8.8
Net domestic assets	5.4	31.9	329.8	-18.6	5.2	-1.5	-1.4	-1.6	-1.4
Net claims on government	14.0	14.5	107.8	-5.0	12.1	9.1	6.9	4.8	3.4
Credit to the economy	23.3	28.4	103.0	24.5	15.2	17.6	14.6	12.2	10.2
Velocity (in levels)	4.1	3.8	3.4	3.6	3.7	3.6	3.6	3.5	3.4
				(Percent of GDP)					
Broad money	24.5	26.2	29.3	27.6	27.2	27.6	28.0	28.7	29.3
Credit to the economy	24.0	26.6	43.1	42.5	41.0	41.4	40.9	39.8	38.3
External sector				(Percent of GDP)					
Current account	0.7	0.7	3.7	0.2	-1.0	-2.7	-2.7	-2.7	-2.6
External debt	18.5	20.3	41.3	38.1	35.2	34.3	33.7	33.6	33.7
External debt service ratio (percent of G&S exports)	4.7	5.2	13.6	15.6	13.9	13.2	12.2	11.5	10.9
				(Annual percent change)					
Exports of goods and services	-10.3	-2.8	9.4	12.6	4.5	6.8	5.7	5.6	5.9
Imports of goods and services	-16.4	-2.8	3.7	24.9	7.2	10.0	4.9	4.5	4.6
Exchange rate (in sums per U.S. dollar; eop)	2,810	3,231	8,120	…	…	…	…	…	…
Exchange rate (in sums per U.S. dollar; ave)	2,584	2,982	5,203	…	…	…	…	…	…
Real effective exchange rate (in levels, - = dep)	100	93	63	51	57	58	59	59	59
Gross official reserves (in billions of US dollars)	24.3	26.5	28.1	28.9	28.9	28.4	28.1	28.1	28.5
Gross official reserves (months of imports)	21.0	22.1	18.8	18.0	16.4	15.3	14.5	13.9	13.4
Government finance				(Percent of GDP)					
Consolidated revenue and grants	33.0	30.5	30.1	30.1	30.0	30.5	30.4	30.2	30.2
Consolidated expenditure and net lending	34.1	31.3	30.1	31.3	31.4	31.9	32.1	32.2	32.3
Consolidated primary budget balance	-1.2	-0.8	-0.1	-1.3	-1.4	-1.4	-1.7	-2.0	-2.1
Fund for Reconstruction & Development: Revenues	1.3	1.7	1.6	1.7	1.5	1.5	1.5	1.5	1.4
Fund for Reconstruction & Development: Expenditures	1.4	1.4	4.8	1.7	1.5	1.5	1.5	1.5	1.4
Fund for Reconstruction & Development: Balance	-0.1	0.2	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
Augmented fiscal balance	-1.3	-0.6	-3.3	-1.3	-1.4	-1.4	-1.7	-2.0	-2.1
Public debt	9.3	10.5	24.5	20.1	21.0	21.9	22.8	23.8	24.7
Employment									
Domestic employment growth (percent) [1]	1.0	0.8	0.6	1.0	1.0	1.5	1.5	2.0	2.0
Employment rate (share of working-age population)	57.0	56.7	56.4	56.3	56.2	56.2	56.5	57.0	57.6
Unemployment rate (percent)	5.2	5.2	4.5	4.5	4.6	4.6	4.6	4.6	4.6
Registered labor migrants (millions)	1.0	1.1	1.3	1.4	1.5	1.6	1.6	1.6	1.6

Sources: Uzbekistan authorities and IMF staff estimates and projections.

1/ Excludes registered labor migrants.

Table 9. Uzbekistan: Financial Soundness Indicators for the Banking Sector, 2015-2017 Q4
(In percent, unless otherwise indicated)

	2015	2016	2017 Q2	2017 Q4
Capital adequacy				
Regulatory Capital to Risk-Weighted Assets	14.7	14.7	13.8	18.8
Regulatory Tier 1 Capital to Risk-Weighted Assets	12.5	12.5	12.0	16.5
Capital to Total Assets	11.3	10.7	10.1	12.4
Net Open Position in Foreign Exchange to Capital	16.3	11.9	12.4	13.5
Asset quality				
Non-Performing Loans to Total Gross Loans	1.5	0.7	0.8	1.2
Non-Performing Loans Net of Provisions to Capital	4.2	2.2	3.1	2.9
Profitability				
Interest Margin to Gross Income	39.9	39.5	38.9	32.5
Non-Interest Expenses to Gross Income	65.9	64.8	59.5	59.3
Return on Assets	2.0	2.0	2.5	1.9
Return on Equity	17.5	17.9	23.6	17.1
Liquidity				
Liquid Assets to Total Assets (Liquid Asset Ratio)	23.7	25.4	21.2	23.6
Liquid Assets to Short-Term Liabilities	43.6	48.4	40.6	55.7

Sources: Uzbekistan authorities and IMF staff estimates and projections.

Table 10. Uzbekistan: Sustainable Development Goals, 2000-Latest

	2000	2005	2010	2015	Latest
Zero Hunger					
Prevalence of undernourishment (% of population)	16	15	9	6	...
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	24
Incidence of tuberculosis (per 100,000 people)	99	120	97	79	76
Immunization, measles (% of children ages 12-23 months)	99	99	98	99	99
Quality Education					
Primary completion rate, total (% of relevant age group)	94	103	96	100	99
Lower secondary completion rate, total (% of relevant age group)	11	92	100	94	94
Literacy rate, adult total (% of people ages 15 and above)	99	...	...	100	...
Gender Equality					
School enrollment, primary and secondary (gross), gender parity index (GPI)	0.98	0.98	0.99	0.98	0.98
Ratio of female to male primary enrollment (%)	101	100	98	98	98
Ratio of female to male secondary enrollment (%)	97	97	100	98	98
Ratio of female to male tertiary enrollment (%)	83	68	67	62	64
Proportion of seats held by women in national parliaments (%)	7	18	22	16	16
Clean Water and Sanitation					
People using at least basic drinking water services (% of population)	85	89	91	...	...
People using at least basic sanitation services (% of population)	89	98	100	100	100
Affordable and Clean Energy					
Access to electricity (% of population)	100	100	100	...	...
Renewable electricity output (% of total electricity output)	13	18	21	...	...
Decent Work and Economic Growth					
Employment in agriculture (% of total employment) (modeled ILO estimate)	42	39	33	30	29
Wage and salaried workers, total (% of total employment) (modeled ILO estimate)	56	58	69	71	72
Industry, Innovation, and Infrastructure					
CO_2 emissions (metric tons per capita)	5	4	4	...	...
Researchers in R&D (per million people)	669	645	549	515	...
Sustainable Cities and Communities					
PM2.5 air pollution, mean annual exposure (micrograms per cubic meter)	40	33	37	40	...
Responsible Consumption and Production					
Total natural resources rents (% of GDP)	12	19	14	9	...
Life on Land					
Forest area (% of land area)	8	8	8	8	...
Other					
Individuals using the Internet (% of population)	0	3	16	43	47

Source: The World Bank

Box 2. Seven Lessons from Earlier Transitions

Uzbekistan is a relative late-comer to the transition from a state-led to a more market-oriented economic system. This box summarizes a few reform lessons relevant for Uzbekistan:[1]

Lesson #1: Macroeconomic forecasts, especially for growth, were often too optimistic in the early phase of transition reforms. However, in the case of Uzbekistan this risk is mitigated by the fact that the state sector's share of employment and output has already been reduced by earlier reforms.

Lesson #2: Reforms liberalizing FX markets, prices, and trade were introduced first and generally welcomed by the public. After these reforms, other reforms—such as restructuring state enterprises, strengthening competition, and improving governance—faced more opposition, especially if the oligarchs and insiders that had benefited from early reforms stood to gain from stopping or slowing reforms.

Lesson #3: Economists and reformers overestimated their ability to sequence reforms, fine tune tactics, and control outcomes. The lesson from this seems to be that reformers should not over-strategize reforms, but also not delay reforms because the perfect moment has not arrived yet.

Lesson #4: Transition countries were often effective at improving legislation, rules, and institutions on paper, but implementation was haphazard or policy makers later even subverted earlier reforms. For example, some countries adopted modern, rules-based tax system, but then governments made deals with powerful, individual taxpayers.

Lesson #5: External advice was most effective when the political leadership was committed to a reformist vision. External advice can be helpful in advancing the reform agenda, but it cannot substitute for consistent, patient leadership and clear communication.

Lesson #6: The quality of human capital driving reforms was important for transition success, both at the firm and policy making levels. Generally, designing and implementing transition reforms worked better when new people open to transition ideas were in charge.

Lesson #7: Macroeconomic disruptions do happen during transitions, but they tended to be surprisingly short-lived, and, in some countries, even helped catalyze deeper reforms.

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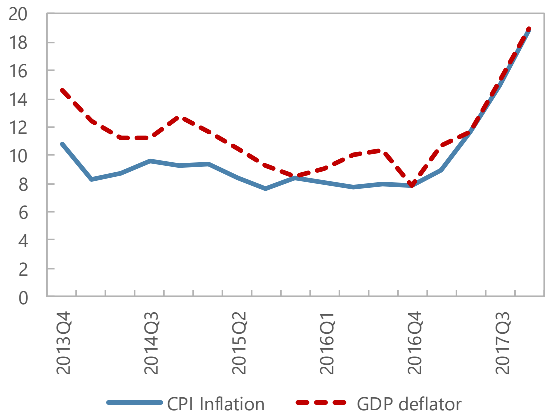
[1] This summary reflects *inter alia* lessons drawn in: World Bank (2002) Transition: The First Ten Years; Aslund (2007) How Capitalism was Built; Shleifer (2012) Seven Things I Learned about Transition from Communism; and IMF (2014) 25 Years of Transition: Post-Communist Europe and the IMF.

Figure 3. Uzbekistan: Inflation and Monetary Policy

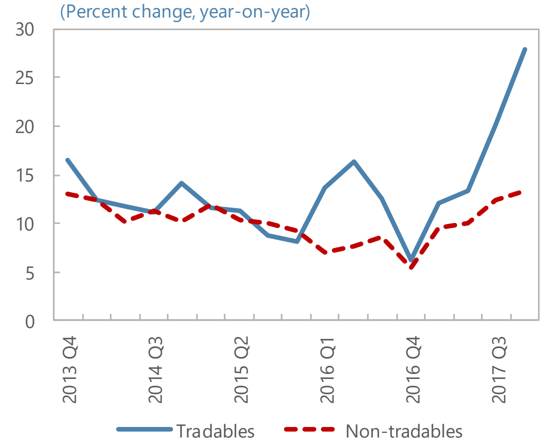
Since late-2016, inflation has surged…

Consumer Prices and GDP Deflator
(Percent change, year-on-year)



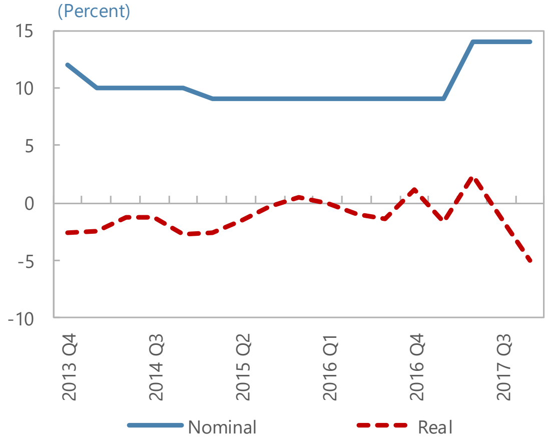
… and the main inflation driver has been tradable sector prices.

Tradable and Non-Tradable Goods Prices
(Percent change, year-on-year)



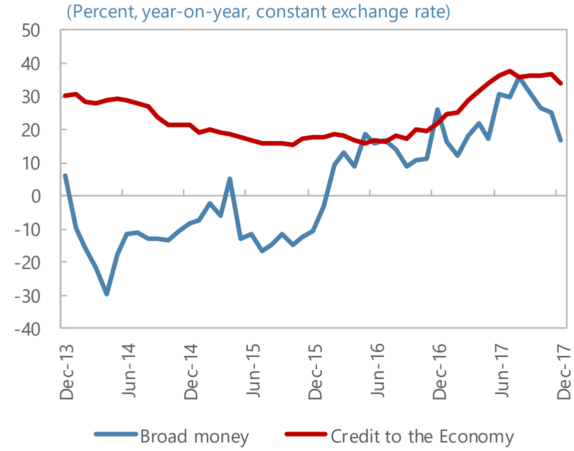
While the nominal refinancing rate was hiked in 2017, the real refinancing rate is below zero…

Nominal and Real Refinancing Rates 1/
(Percent)



… but nominal money and credit growth have started to slow down.

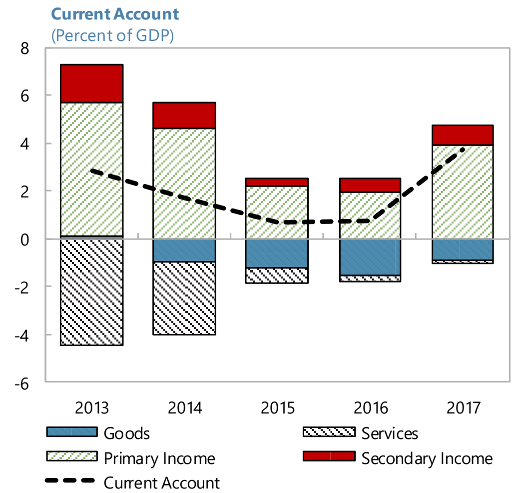
Growth of Broad Money and Credit to the Economy
(Percent, year-on-year, constant exchange rate)



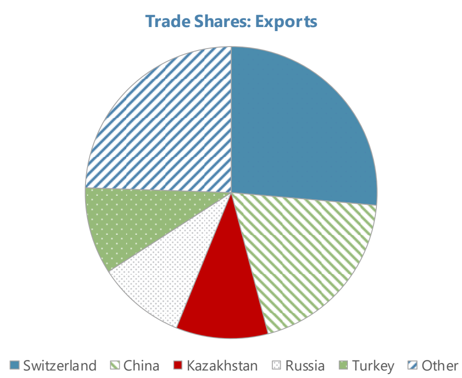
Sources: Uzbekistan authorities, and IMF staff calculations.
1/ Real refinancing rate deflated by the GDP deflator.

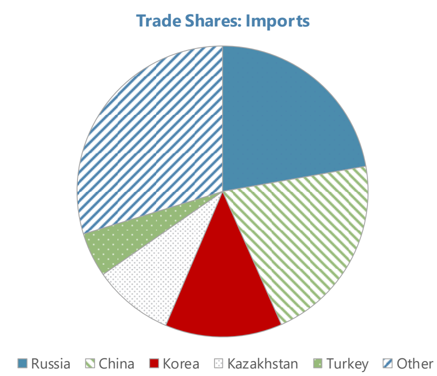
Figure 4. Uzbekistan: External Sector

Current account surpluses have been supported by remittances, while trade has been balanced.

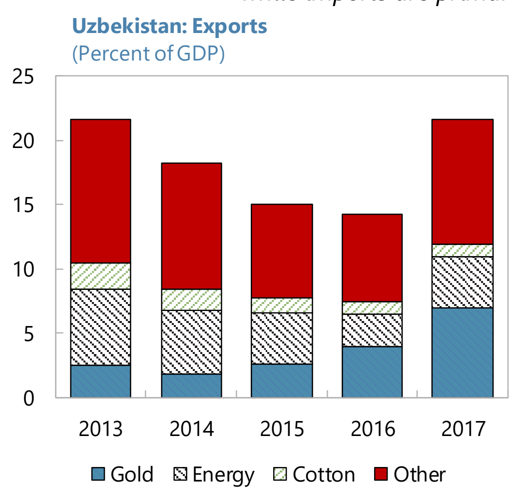


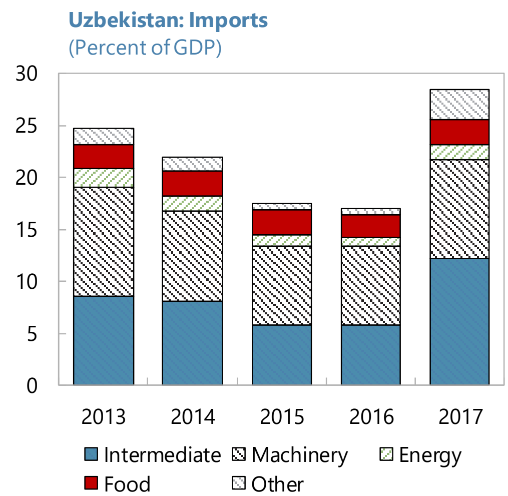
China, Kazakhstan, and Russia have been Uzbekistan's largest trading partners, with gold exports going to Switzerland.





Commodities (gold, natural gas, and cotton) dominate exports, while imports are primarily machinery and intermediate goods.

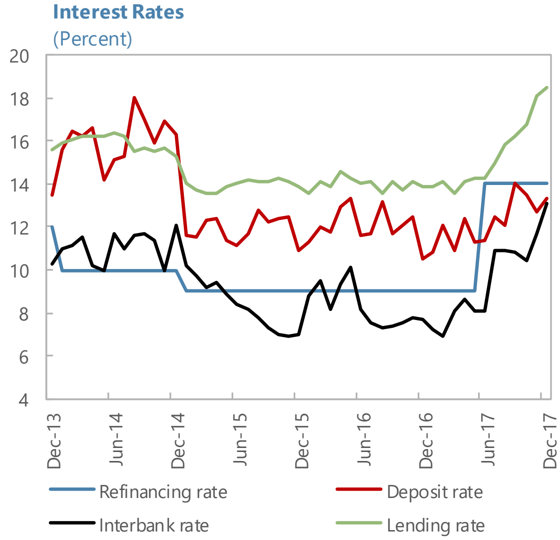




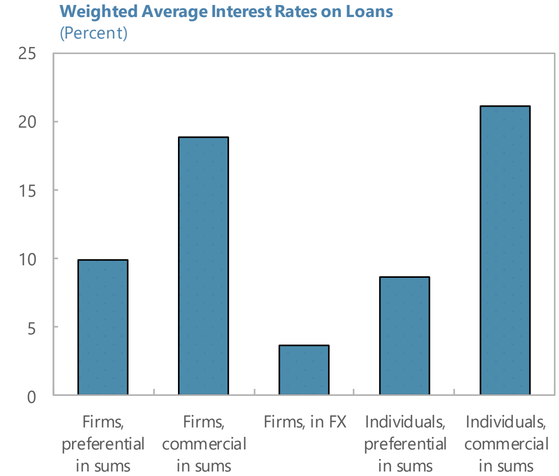
Sources: Uzbekistan authorities and IMF staff calculations.

Figure 5. Uzbekistan: Interest Rates and Credit Market Segmentation

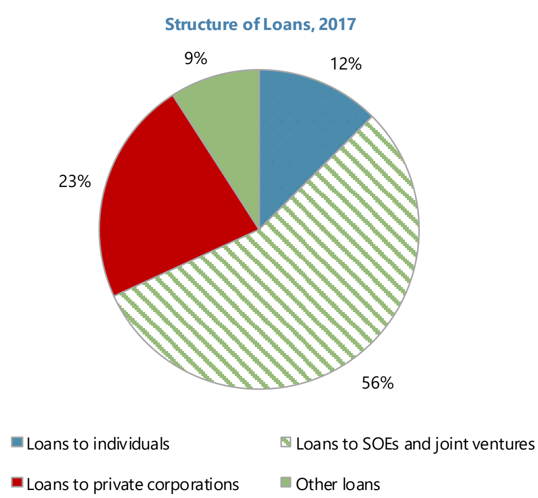
The Central Bank of Uzbekistan increased the refinancing rate in mid-2017 and market interest rates in local currency followed.



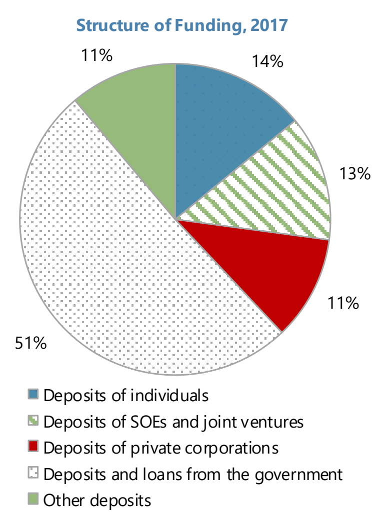
But the credit market is segmented, with preferential interest rates about twice as low as market rates.



Loans on preferential terms extended to state enterprises accounting for more than half of all loans.



Domestic banks are highly dependent on government financing.

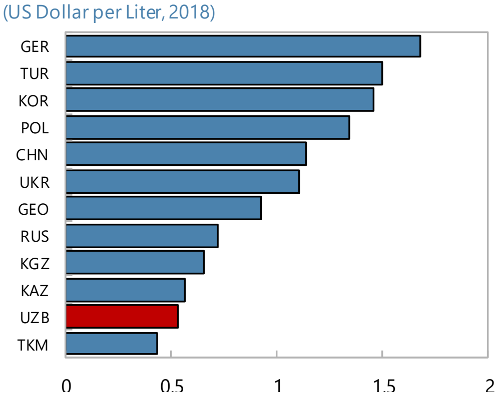


Sources: Uzbekistan authorities and IMF staff calculations.

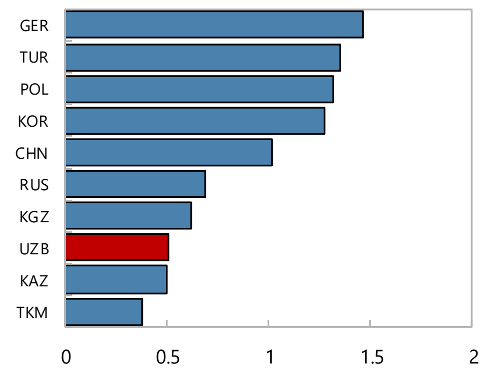
Figure 6. Uzbekistan: Energy Prices

Relative to its neighbors and main trading partners, Uzbekistan has low energy prices.

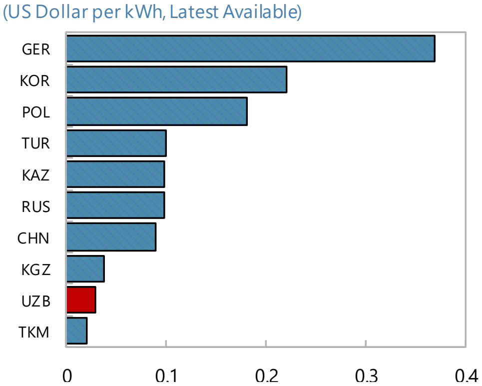
Gasoline Prices
(US Dollar per Liter, 2018)



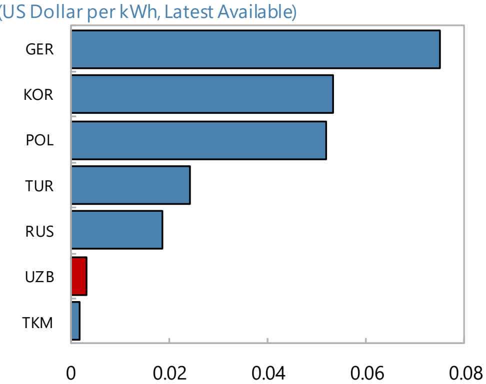
Diesel Prices
(US Dollar per Liter, 2018)



Electricity Prices (Households)
(US Dollar per kWh, Latest Available)



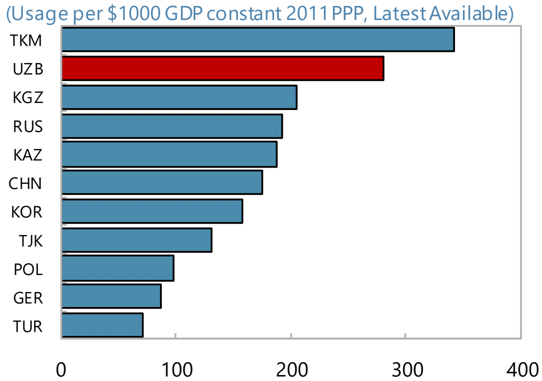
Natural Gas Prices (Households)
(US Dollar per kWh, Latest Available)



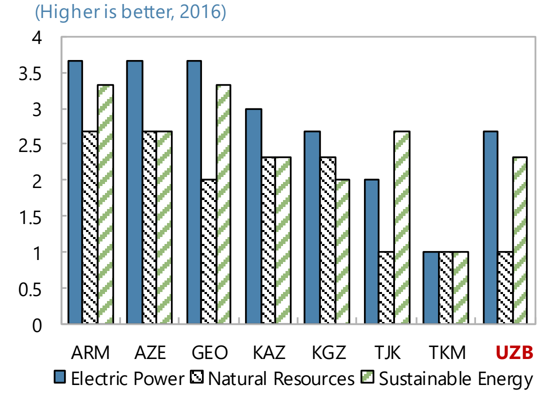
Energy efficiency is also low...

... and there is significant scope for further energy sector reforms.

Energy Efficiency (kg of Oil Equivalent)
(Usage per $1000 GDP constant 2011 PPP, Latest Available)



EBRD Transition Indicator Index Energy Sector Reform 1/
(Higher is better, 2016)



Sources: Uzbekistan authorities, World Bank *Doing Business Indicators*, European Bank for Reconstruction and Development, International Energy Administration, Eurostat, Globalpetrolprices.com, and IMF staff calculations.

1/ The transition indicator ranges from 1 (for a centrally planned economy) to 4 (for an industrialized market economy).

Annex I. External Assessment

Overall Assessment

Background. The IMF's current account, real exchange rate, and FX reserve methodologies suggest Uzbekistan's 2017 external position was substantially stronger than implied by fundamentals and desired policies. However, data for 2017 mostly reflect the previous policy and data measurement regimes. Trade data for January-February 2018 already suggest that the current account surplus could shrink significantly in 2018.

Policy Advice: To boost economic efficiency and growth, the authorities should continue efforts to liberalize Uzbekistan's trade regime, including via accession to the WTO. As FX reserves are sufficient for operational purposes and to insure against foreseeable external shock, the authorities' policy of limiting reserve accumulation is appropriate. Thus, monetary policy should focus on bringing down inflation over the medium term while allowing the exchange rate to adjust in line with fundamentals.

Current Account

Background. According to the IMF's EBA-Lite methodology, a country with Uzbekistan's characteristics would be expected to have a current account balance of -2¼ (±1) percent of GDP.[1] Given an estimated current account surplus of 3¾ percent of GDP in 2017,[2] this would point to a substantial gap of +6 (±1) percent of GDP. However, policy gaps explain very little of the overall gap.

Short-Term Outlook. The 2017 estimate likely overestimates future current account gaps following the policy regime switch in September 2017. Indeed, trade data for the first two months of 2018 show exports and imports rising more than 50 percent compared to a year earlier, with imports outpacing exports by a large margin. If this recent trend continues, the estimated current account gap would largely disappear by 2019.

Medium-Term Outlook. The current account is projected to register moderate deficits (on the order of 2-3 percent of GDP) over the medium term, in line with expectations for a developing economy. The balance of payments is expected to be in overall balance, but staff projects modest accumulation of foreign exchange reserves as domestically produced gold is added reserves.

- Staff projects healthy external demand. Key trading partner import demand has recovered, with import growth in China and Russia projected at 5-6 percent in US dollars over the medium term.
- The IMF forecasts the price of gold will rise on average by 3-4 percent per year, while the prices of cotton and natural gas will remain stable.

[1] The largest factors raising Uzbekistan's current account norm are a low dependency ratio, which reduces the need to spend and import (adding +5 percent of GDP to the norm), and a lower institutional rating, which boosts savings (raising the norm by 1¾ percent of GDP). The largest factors contributing to a lower norm are lower income/higher productivity which should make import of investment goods attractive (lowering the norm by 2½ percent of GDP) and a lower dependency ratio and slower aging speed that raise consumption (lowering the norm by 2 percent of GDP).

[2] This estimate could be subject to significant upward bias as reported "other capital" outflows in 2017, which includes the statistical discrepancy, reached an unusually high level, and may reflect under-estimation of imports (Table 3).

- Imports are projected to remain in line with GDP growth, with the lifting of import restrictions and exchange rate depreciation have offsetting effects.
- Labor income and remittances are expected to remain strong. In 2016 they amounted to 7¼ percent of GDP, mostly in the form of employee compensation from migrants working abroad.
- Risks to the outlook include policy uncertainty in advanced economies and financial risks in China. On the upside, global growth momentum could turn out to be stronger than expected.

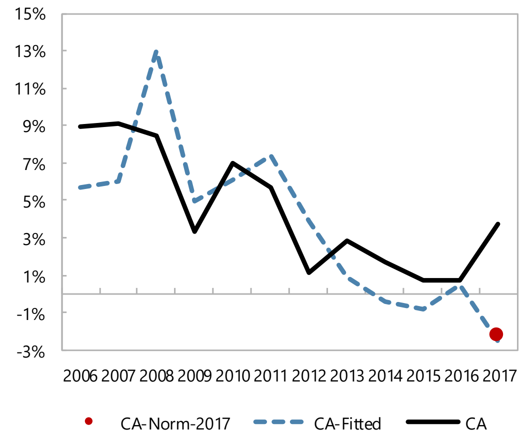
Assessment. Subject to considerable data uncertainties, Uzbekistan's current account position in 2017 is assessed to have been substantially stronger than implied by fundamentals and desirable policies. This is reflected in the sizable current account surplus, although policy gaps do not seem to explain the surplus. The gap is likely to fall significantly over the next few years, as opening of the trade regimes results in strong imports that offset the effects of exchange rate depreciation and growth in trading-partner demand. The outturn will, however, depend sensitively on developments in commodity prices and the extent to which the Uzbekistan sum depreciates.

Uzbekistan: Current Account

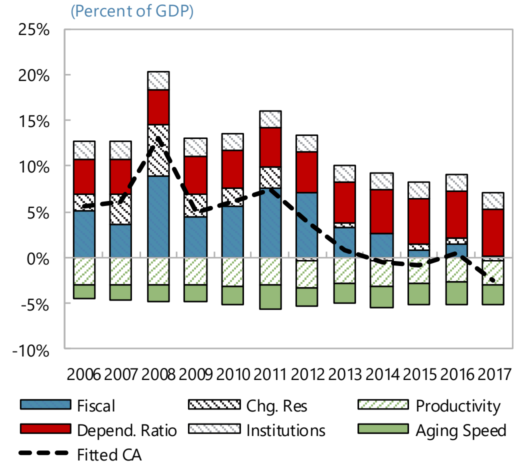
EBA-Lite Estimates

Actual CA	**3.7%**
CA Norm	**-2.2 ±1%**
CA-Gap	**5.9 ±1%**
Policy gap	-0.3%
o/w reserve accumulation	*-0.1%*
Residual	6.3 ±1%

Uzbekistan: Actual, Fitted, and CA Norm
(Percent of GDP)



Uzbekistan: Current Account Norm Contributions
(Percent of GDP)



Source: Uzbekistan authorities, and IMF staff calculations.

Real Exchange Rate

Background. In September 2017, Uzbekistan unified its exchange rates and liberalized access to foreign exchange. As a result, the official exchange rate fell from 4,250 to 8,100 UZS/USD.

According to Uzbekistan's authorities, the *de jure* exchange arrangement is floating, with the exchange rate is determined based on the supply and demand for foreign currency established on Uzbekistan's currency exchange. Since September 2017, the sum has stabilized against the U.S. dollar within a 2 percent band. Accordingly, the IMF classifies the *de facto* exchange rate as a stabilized arrangement (see the Informational Annex for additional detail).

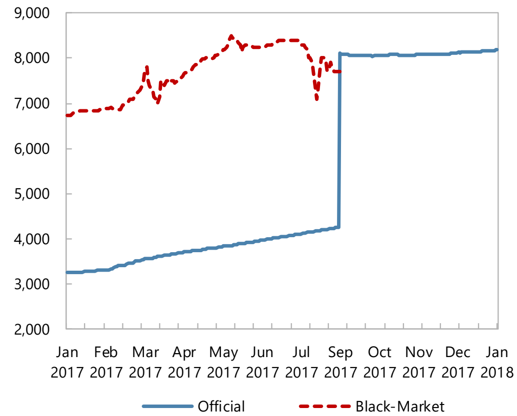
Based on the current account gap and standard elasticities, staff estimates the average REER was 25-30 percent undervalued in 2017.

Outlook. Following depreciation of 50 percent in September 2017 and with average inflation projected at 20 percent in 2018, staff projects the average real exchange rate will be about 30 percent lower in 2018 than in 2017.

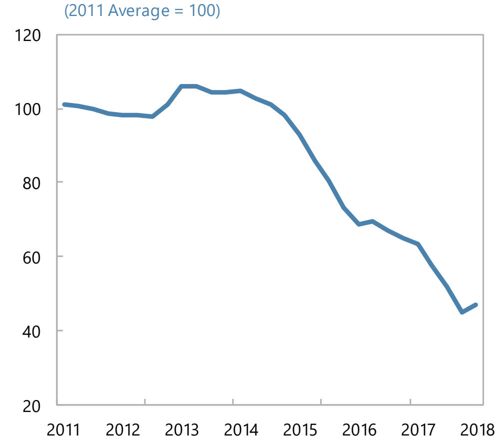
Assessment. Subject to the already-mentioned data uncertainties, staff assesses the 2017 average REER was undervalued relative to the value implied by fundamentals and desirable policies. However, the surge in imports in early 2018 suggests that imports before the switch in policy regime were repressed. Thus, notwithstanding the further decline in the real exchange in 2018, the trade balance is projected to decline significantly in 2018.

Uzbekistan: Exchange Rate Developments

Uzbekistan: Exchange Rates
(UZ Sum / US Dollar)



Uzbekistan: Real Exchange Rate vs. the U.S. Dollar
(2011 Average = 100)



Sources: Uzbekistan authorities and IMF staff calculations.

Capital and Financial Accounts

Background. Capital and financial flows are relatively limited, with the financial account close to balance. FDI inflows and government borrowing have each been on the order of 1-2 percent of GDP in recent years, with outflows on other investment largely offsetting these inflows.

Assessment. In the near term, FDI inflows are expected to remain modest. A pick-up in official external borrowing in 2018 would be partially offset by an increase in private sector FX deposits, in part as the authorities allow individuals to sell FX cash holdings. Financial flows could deviate from the baseline if FDI picks up faster than expected following economic liberalization. Similarly, financial outflows could be higher than expected to the extent investors decide to repatriate accumulated domestic currency holdings.

FX Reserves

Background. Uzbekistan's FX reserves are large by all metrics. At $28 billion at end-2017, they were equivalent to about 60 percent of GDP, 20 months of imports of goods and services, and considerably above the IMF's reserve adequacy metrics for emerging markets or developing countries. As a commodity exporter, Uzbekistan is also at risk of shocks arising from declines in its major exports. For example, a one standard deviation decline in prices would be equivalent to $0.8

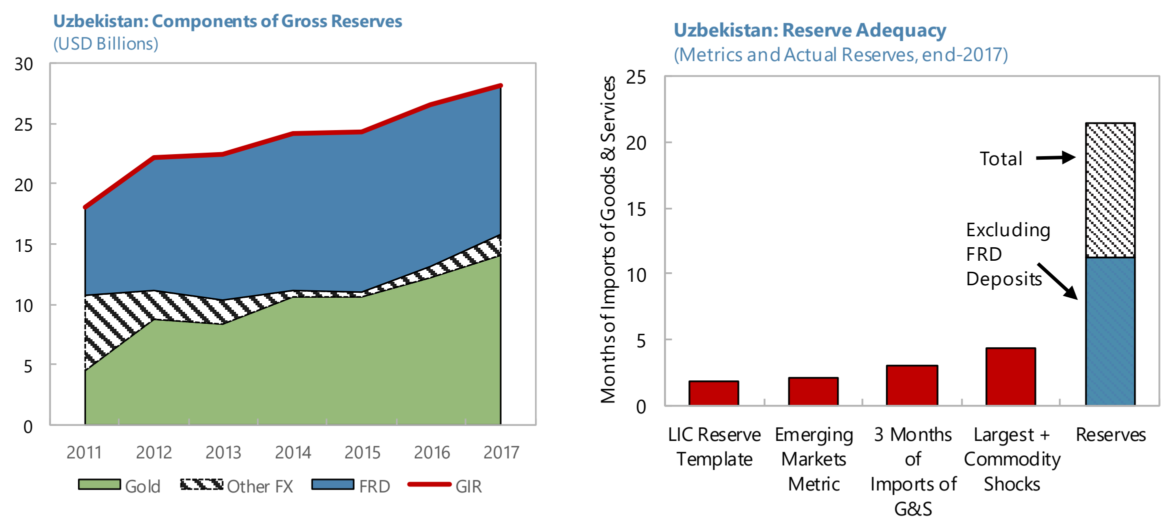
billion (or 1¾ percent of 2017 GDP) for gold, $0.7 billion (1 ½ percent of GDP) for fuels, and $0.3 billion (¼ percent of GDP) for cotton. Commodity shocks are also correlated (e.g. 61 percent for cotton & natural gas prices and 81 percent for gold & natural gas prices over the last 30 years).

About half of reserves represent deposits by the Fund for Reconstruction for Development (FRD), reducing the reserves available to insure against external shocks or for central bank FX operations. However, even if FRD deposits are excluded Uzbekistan's reserves remain significantly above standard reserve metrics.

Assuming a marginal return on capital equal to the regional average of about 7 percent, the opportunity cost of FX reserves would be around $1-2 billion annually, depending on whether FRD resources are included in FX reserves.

Assessment. As Uzbekistan lacks access to external commercial borrowing, FX reserves help ensure access to needed imports, insure against external shocks, and support the transition to a more flexible exchange rate. They are also needed for operational purposes (e.g. to smooth volatility in the FX market). At the same time, staff assesses Uzbekistan's FX reserves to be substantially higher than necessary for precautionary or operational purposes. Moreover, the opportunity costs are significant.

Uzbekistan: Gross International Reserves and Reserve Metrics



Sources: Uzbekistan authorities and IMF staff calculations.
The reserve adequacy metric with commodity shocks takes the largest metric (3 months of imports of goods and services) and adds a combined shock due to one standard deviation declines in the prices of gold, fuel, & cotton.

Annex II. Recommendations of the 2015 Article IV Consultation

Fund Recommendations	Authorities' Views	Developments since 2015	Assessment
Fiscal Policy			
Near-term fiscal policy should be adjusted, as required, to manage external shocks.	The authorities were considering a moderate fiscal loosening in line with the approved budget.	The augmented fiscal balance was loosened from +2¼ percent of GDP in 2014 to –½ percent of GDP in 2016 and –3¼ percent in 2017, primarily via net lending.	Given a decline in external demand from 2014 to 2016, some fiscal loosening was warranted. But the increase in net lending, particularly in 2017, was excessive.
A credible ***medium-term fiscal framework*** is needed to better manage resource revenues.	The authorities renewed their commitment to prudential fiscal policies.	A medium-term fiscal framework is still needed.	This advice remains relevant. All government expenditures should be brought on budget and steps taken to strengthen the medium-term fiscal framework.
Steps are needed to reduce ***energy subsidies*** while building adequate safety nets.	The authorities recognized the need to better track resource revenues and committed to continue saving sizeable hydrocarbon revenues.	In 2017-18, the domestic currency prices of electricity, natural gas, and petroleum were raised by 17-43 percent.	Actions have been in line with Fund advice. Further raising prices to cost recovery levels would strengthen the fiscal position of state energy firms and promote more efficient resource allocation.
Public investment management should be strengthened and reforms are needed to improve the quality & pace of ***development spending***.	The authorities noted their continued engagement with development partners to strengthen PFM and improve the quality of spending.	The government is currently seeking advice from IFIs in this area.	This advice remains relevant.
Monetary Policy			
Monetary policy should be tightened, to consolidate the reduction in inflation and to anchor expectations.	The authorities stated their monetary policy stance did not fuel inflation, but supported growth.	Reserve money grew around 20 percent annually in 2015-17. Inflation fell in 2015-16, before rising in 2017.	This advice remains relevant. Tighter monetary policy will be needed to reduce inflation over the next two years.

The ***monetary framework*** should focus on monetary aggregates. Excess liquidity should be managed via sterilization and positive real interest rates.	The authorities concurred with staff's recommendations on aligning the monetary policy framework with aggregate monetary targets.	The authorities continued to target the nominal exchange rate and accumulate reserves.	This advice was relevant until the 2017 shift to a new monetary framework. The CBU should now use a range of indicators to gauge its policy stance.
Foreign Exchange & Exchange Rate Policies			
Accelerating nominal ***exchange rate*** depreciation would help reverse excessive real exchange rate appreciation.	They agreed that accelerated depreciation, taking account of partners' exchange rates, would facilitate external adjustment.	With unification in September 2017, the nominal exchange rate depreciated around 50 percent.	Actions were in line with Fund advice. The authorities should now allow the exchange rate to adjust in line with fundamentals.
The **foreign exchange market** should be liberalized by easing surrender requirements and discontinuing moral suasion.	The authorities argued that the unofficial parallel foreign exchange market remained small and illegal.	The authorities liberalized access to foreign exchange and unified the official and parallel exchange rates in September 2017.	Actions were in line with Fund advice, including abolishing the FX surrender requirement, which is also considered a capital flow measure in line with the Fund's Institutional View on capital flows.
Financial Sector Policies			
Market-based ***credit intermediation*** should replace directed lending to support banks and promote financial deepening & inclusion.	They argued lending for public investment posed minor risks to banks. They would gradually relieve banks of non-core functions & directed lending.	The credit market is still segmented with significant concessional lending operations to state enterprises by the government and FRD.	This advice remains relevant.
Structural Policies			
Bolder action is needed on reforms to ***labor & product markets***, ***natural resource allocation***, the ***power sector***, and ***investment climate***.	The authorities were in broad agreement on the need for structural reforms. They advocated a state-led model with gradual reforms.	The authorities took steps to improve the business environment. In 2017 they liberalized prices, including for energy.	This advice remains relevant.
Other Recommendations			
The government should improve ***data quality*** & dissemination of macroeconomic statistics.		A new CPI has been introduced and Uzbekistan will join the eGDDS in 2018.	The authorities took action in line with Fund advice.

INTERNATIONAL MONETARY FUND

REPUBLIC OF UZBEKISTAN

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 23, 2018

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	266.09	101.25

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 from October 15, 2003, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

At the time of the last Article IV consultation, Uzbekistan maintained two exchange restrictions and one multiple currency practice (MCP) subject to IMF jurisdiction, all of which have been eliminated. First, the exchange restriction arising from undue delays (of up to and exceeding 12 months) in the availability of foreign exchange for payments and transfers for current international transactions has been eliminated. Market participants have confirmed that FX is now available in a timely manner, except for reports of a few specific pre-liberalization requests for FX purchases that are delayed. Staff was informed that the delay was due to an on-going assessment of the relevant transactions. Second, the authorities have ceased the practice of direct rationing in providing FX for payments and transfers for current international transactions and thus, the exchange restriction arising from this action has also been eliminated. Finally, as FX is generally freely available for payments and transfers for current international transactions without undue delay and the use of domestic currency conversion accounts is no longer mandatory, the MCP arising from the lack of interest payments on "blocked accounts" has ceased to exist.

According to Uzbekistan's authorities, the *de jure* exchange 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 good 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 September 2017, the sum has stabilized against the U.S. dollar within a 2 percent band. Accordingly, the IMF classifies the *de facto* exchange rate as a stabilized arrangement, effective September 6, 2017. Previously, the IMF had classified the *de facto* exchange rate as a crawl-like arrangement.

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 August 31, 2015.

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. Previously, a resident representative office was opened in Tashkent from September 1993 to April 2011.

Technical Assistance

(September 2015 to March 2018)

IMF Department	Type of Technical Assistance	Date
Fiscal Affairs	Budget and Treasury Reforms	February 2016
Fiscal Affairs	Implementation of the Government Financial Management Information System	February 2016
Monetary & Capital Markets	Supervisory Stress Testing	April 2016
Statistics	Balance of Payments Statistics	December 2017
Monetary & Capital Markets	Monetary and Foreign Exchange Operations	December 2017
Monetary & Capital Markets	Monetary Policy Framework	February 2018
Monetary & Capital Markets	Bank Stress Testing	February 2018
Fiscal Affairs	Review of the Tax System	February 2018
Statistics	Enhanced General Data Dissemination System	March 2018

RELATIONS WITH SELECTED INTERNATIONAL FINANCIAL INSTITUTIONS

Asian Development Bank (ADB)

(As of March 2018)

Uzbekistan became a member of the ADB in 1995. In September 2012, the ADB approved a Country Partnership Strategy (CPS), 2012–2016 for Uzbekistan which supported infrastructure development and access to finance. The ADB's Country Operations Business Plan (COBP), 2018-2020, issued in October 2017 extends the validity of the CPS. It is consistent with recent government initiatives, including the government's Strategy of Actions on Further Development of Uzbekistan, 2017-2021. The COBP includes operational support for transport, energy, municipal services, health, and access to finance. Support for the key drivers of change—private sector development, regional cooperation, governance, knowledge management, gender equity, and climate change and the environment—is integrated into the operational assistance.

Since 1995 the ADB has approved more loans to Uzbekistan than to any other country in Central Asia. As of December 2017, Uzbekistan had received 67 loans totaling $6.8 billion—including two private sector loans totaling $225 million, $6 million in equity investment, $218 million in guarantees, and $82 million in technical assistance grants. The allocation of the cumulative lending, grant, and technical assistance portfolio was approximately 30 percent to energy; 25 percent to transportation; 20 percent to finance; 10 percent to water, urban infrastructure and services; and 15 percent to other sectors (i.e. agriculture, education, health, industry, and public sector management).

To catalyze private investment, the ADB provides direct financial assistance for non-sovereign public and private sector transactions. For example, under the Trade Finance Program the ADB provides guarantees and loans through partner banks in support of trade. The ADB also provides co-financing for investment and technical assistance projects with government agencies, multilateral banks, and commercial organizations. The ADB closely coordinates programs and projects with multilateral and bilateral development partners, including the Islamic Development Bank (IDB), the Japan International Cooperation Agency (JICA), and the World Bank.

European Bank for Reconstruction and Development (EBRD)

(As of March 2018)

EBRD Activity in Uzbekistan	
Cumulative no. of projects:	60
Cumulative investment:	€ 853 million
Cumulative disbursement:	€ 591 million
Active projects:	11
Current portfolio:	€ 71 million

Uzbekistan joined the EBRD in 1992.

The EBRD focuses on identifying potential new projects in areas set out in a Memorandum of Understanding signed with the authorities in March 2017. In the short-term, the EBRD's work aims to support continuing sustainable economic growth, open market development, and a better investment climate. This includes:

- Development of micro and small businesses as well as private entrepreneurship including through increasing access to finance and provision of advisory services

- Modernization and development of the agribusiness, manufacturing and services sectors including supporting mid-sized business and FDI as well as green projects targeting energy and resource efficiency and waste minimization

- Support of environmental cleanup operations for Uranium legacy sites under the framework of the Environmental Remediation Account for Central Asia.

- Support for the reforms aimed at improving business climate; private sector development; banking sector strengthening; development of local capital markets; promotion of green economy; support for gender, youth and regional inclusion; and improvement of corporate governance and procurement with the objective to improve economic competitiveness and foster sustainable development.

As of March 2018, cumulative EBRD activity in Uzbekistan included 60 projects, with total investment of €853 million. The current portfolio totaled €71.3 million, with 63 percent for financial institutions; 36 percent in industry, commerce, & agribusiness; and one percent in infrastructure.

The EBRD provides analysis of Uzbekistan's economy, including:

- The business environment and main obstacles faced by firms in Uzbekistan through its Business Environment and Enterprise Performance Survey (BEEPS) in partnership with the World Bank, and

- A country assessment through its Transition Report 2017-18.

A country strategy for Uzbekistan is currently under preparation.

World Bank

(As of March 2018)

Background

World Bank Portfolio	
No. of projects:	16
Lending:	$ 2.74 billion
IBRD:	$ 1.17 billion
IDA:	$ 1.53 billion

The Country Partnership Framework (CPF) for Uzbekistan for 2016-2020 focuses on (i) private sector growth; (ii) agricultural competitiveness including cotton sector modernization; and (iii) improved public service delivery. As such, the CPF remains aligned with Uzbekistan's National Development Strategy for 2017-2021. The indicative financing envelope is about US$3 billion over the five-year CPF period, with a distribution of one-third of IDA and two-thirds of IBRD financing.

Uzbekistan has launched a comprehensive reforms process with the adoption of the National Development Strategy for 2017-2021 in February 2017. The World Bank program in Uzbekistan is being adjusted to better respond to the emerged priorities and development vision of the Government. In addition to the traditional financial instruments, new instruments, such as Development Policy Operation, Program for Results and Reimbursable Advisory Services and intensive analytical work, are being programmed or planned to support the Government's transformative efforts.

Key Engagement

Uzbekistan joined the World Bank in 1992. As of April 2018, the Bank had provided funding for 40 projects financed by the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) and sponsored more than 50 technical assistance programs via grants. The World Bank's funding is currently focused on infrastructure investments in the agriculture, water, energy, transport, health, and education sectors. This financing program is appropriate for meeting the large demand for this kind of investment, improving the competitiveness of the economy, and providing the required linkage between policy and investment.

Sixteen IBRD/IDA investment projects, spread across seven sectors and worth US$2.74 billion, are currently under implementation, including the Global Partnership for Education (GPE) grant-financed projects worth US$49.9 million.

As of April 2018, the International Finance Corporation (IFC) had a committed portfolio in Uzbekistan of US$52.7 million invested in nine projects in the financial sector and manufacturing. IFC's advisory services program is helping the country develop its financial markets and infrastructure, expanding access to finance, upgrading the credit information sharing system, promoting food safety, and increasing water and power efficiency. IFC has launched a new six-year advisory program in Uzbekistan, focusing on developing a sustainable cotton supply chain and on introducing modern, socially and environmentally sound cotton growing technologies and farming practices in the country.

The World Bank also supports the Government's efforts to enhance the investment climate and business environment by working on improving the country's Doing Business indicators.

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

STATISTICAL ISSUES

(As of March 31, 2018)

I. Assessment of Data Adequacy for Surveillance
General: Data have shortcomings that significantly hamper surveillance. Shortcomings are most serious in national accounts, price statistics, external sector, and government finance statistics.
National Account: The methodology for compiling the annual GDP estimates should be improved. Appropriate procedures need to be developed for reconciling production and expenditure-based estimates of GDP. Discrete quarterly GDP estimates are not compiled. The collection of primary source data for compiling national accounts statistics relies predominantly on the old Soviet-type system (including complete enumeration of legal entities, collection of cumulative data, use of numerous fragmented survey questionnaires, and classification of economic activities according to the old material product system). The restructuring of the data collection system should start as soon as possible. A mission in April 2018 will help the authorities to identify priorities and to develop a detailed plan for further cooperation on the compilation of the national accounts.
Price Statistics: In January 2018, the authorities introduced an updated CPI methodology.
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. 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. Budget expenditure data are organized according to a largely functional classification. An economic classification is available only occasionally, but the quality of these data 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. The authorities started reporting GFSM2001-compliant fiscal data in 2013 and publishing fiscal data in the *GFS Yearbook* in 2014.
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. An MFS mission is planned in FY19 to assist the CBU to advance this work.

Financial Soundness Indicators: The CBU reports 10 of the 12 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: Effective January 2018, the confidentiality regime was lifted from external sector statistics data, with balance of payments and international reserves data compiled but not published. No compilation system existed for international investment position (IIP) and external debt statistics (EDS). Only selected merchandise trade data were published. The BOP compilation is transferred to CBU, while SSC is responsible for IIP compilation.

There is a need to build up the CBU's capacity to compile external sector statistics and set up a new ESS compilation system. Assessment of BOP data is hampered by inadequate scope, with some essential entries presented net (e.g. the financial account), and by the high level of aggregation of presented data (e.g., cross-border trade transactions). The most important data gaps include: (i) the direct investment account lacks information on investment in the financial sector and is subject to inadequate recording of production sharing agreements; (ii) shuttle trade estimates are not based on surveys; (iii) income transactions, which are recorded on a cash basis, lack detail and are not timely; and (iv) inadequate coverage and classification of external debt transactions.

II. Data Standards and Quality

Uzbekistan plans to participate in the Enhanced General Data Dissemination System (e-GDDS). Beginning in May 2018, a National Summary Data Page (NSDP) will be posted 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, 2018)

	Date of Latest Observation	Date Received [1]	Frequency of Data [2]	Frequency of Reporting	Frequency of Publication
Exchange Rates	Mar 27, 2018	Mar 27, 2018	D	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [3]	Feb 2018	Mar 2018	M	M	M
Reserve/Base Money	Feb 2018	Mar 2018	M	M	M
Broad Money	Feb 2018	Mar 2018	M	M	M
Central Bank Balance Sheet	Feb 2018	Mar 2018	M	M	M
Consolidated Balance Sheet of the Banking System [4]	Feb 2018	Mar 2018	M	M	M
Interest Rates [5]	Feb 2018	Mar 2018	M	M	
Consumer Price Index	Feb 2018	Mar 2018	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing—General Government [6]	2017	Mar 2018	Q	Q	Q
Stocks of Central Government and Central Government Guaranteed Debt[7]	2017	Mar 2018	Q	Q	NA
External Current Account Balance	2017 Q3	Mar 2018	Q	Q	NA
Exports and Imports of Goods and Services	Feb 2018	Mar 2018	M	M	M
GDP	2017 Q4	Mar 2018	Q	Q	Q
Gross External Debt	NA	NA	NA	NA	NA
International Investment Position	NA	NA	NA	NA	NA

[1] The authorities do not yet supply data to the IMF Statistics Department. 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 2018 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

April 19, 2018

Approved By
Adnan Mazarei and Zeine Zeidane (IMF) and John Panzer (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
Augmented by significant risks stemming from domestic public and/or private debt?	No

Based on the Joint Bank-Fund Low-Income Country Debt Sustainability Analysis (LIC-DSA), Uzbekistan has maintained a low risk of external debt distress rating, with debt indicators remaining below relevant thresholds in both the baseline and stress scenarios[1]. The analysis suggests that most shocks applied to baseline indicators would have only a moderate impact on debt ratios. However, an exchange rate depreciation would have a significant impact on the debt-to-exports ratio, but still leave it well below its indicative threshold. Large international reserves also mitigate concerns regarding the impact of external shocks on external sustainability. The analysis assumes modest government deficits and external borrowing over the medium term.

[1] External public and publicly guaranteed (PPG) debt and public domestic debt dynamics are assessed using the LIC DSA framework, which recognizes that better policies and institutions allow countries to manage higher levels of debt, and thus the threshold levels are policy dependent. Uzbekistan is classified as having medium policy performance with a Country Policy and Institutional Assessment (CPIA) average of 3.43 for the period 2014–16, and the DSA uses the indicative threshold indicators on the external public debt for countries in this category: 40 percent for the present value (PV) of debt-to-GDP ratio; 150 percent for the PV of the debt-to-exports ratio; 250 percent for the PV of the debt-to-revenue ratio; and 20 percent for the debt service-to-exports and debt-service-to-revenue ratios.

BACKGROUND

1. **The stocks of total external and public and publicly guaranteed debt remain low and are expected to decline as a share of GDP over the medium term.**[2] In 2017, public and publicly guaranteed external debt measured about 25 percent of GDP, while private sector debt measured about 17 percent of GDP. These indicators increased significantly in 2017 compared to 2016 due to the 50 percent depreciation of the sum in September 2017. Nonetheless, the levels of these indicators remain modest. The relatively low level of debt reflects solid growth, robust exports, and modest external borrowing in recent years.

Text Table 1. Uzbekistan: External Public and Private Debt, 2017

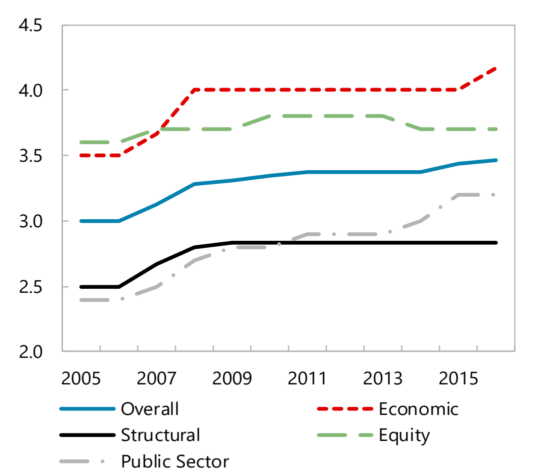
	Millions of U.S. dollars	Percent of GDP	Percent of External Debt
Total External Debt	15,563	41.3	100
Public and Publicly Guaranteed Debt	7,529	24.5	41
Public Debt	5,243	11.7	28
Guaranteed Debt	2,286	5.1	12
Private Debt	8,035	16.8	59

Sources: Uzbekistan authorities; IMF and World Bank staff calculations.

2. **As the government holds almost no domestic debt, public debt consists entirely of external debt.** Historically, the government has issued only a small amount of treasury bills. But the DSA does not include the potential fiscal costs that could arise from restructuring state enterprises or the banking system.

3. **Staff assesses risks to debt sustainability as low**. The World Bank's Country Policy and Institutional Assessment (CPIA) rating classifies Uzbekistan's policies and institutions at the low end of the "medium performer" category. Indicators of the quality of policies and institutions have risen modestly over the last 10 years, with the largest improvements on indicators for economic and public management.

Figure 1. Uzbekistan: Policy and Institutional Assessment
(2005-16, Out of 6)



Source: World Bank.

[2] PPG debt consists of debt of the central government and state enterprise debt guaranteed by the government. Non-government guaranteed debt of state enterprises is included in private sector debt.

MACROECONOMIC ASSUMPTIONS

4. **Macroeconomic assumptions are less favorable in this DSA compared with the 2015 DSA** (Text Table 2). Real GDP growth is lower than projected in 2015, reflecting the slowdown that occurred in 2017 along with revisions to the GDP methodology which also lowered GDP growth. However, beyond 2020 staff projects growth of 6.0 percent, which is only marginally lower than the 6.5 percent growth rate assumed in the previous DSA. The augmented fiscal deficit, which reflects the consolidated budget and net lending by the Fund for Reconstruction and Development, is projected to run a deficit of about 1½ percent of GDP compared with a slight surplus in the 2015 DSA. This primarily reflects lower projections for the revenue to GDP ratio, which is based on the outturn for 2017. The current account balance is projected to run modest deficits over the medium term under current projections, as trade liberalization and higher investment contribute to higher imports. Actual external and PPG debt-to-GDP ratios were higher in 2017 than projected in the 2015 DSA. This was due to (i) higher than projected private sector debut and (ii) the 50 depreciation of the exchange rate in 2017 which raised the debt-to-GDP ratios.

Text Table 2. Uzbekistan: Comparison of Selected Macroeconomic Indicators

	2016	2017	2018	2019	2020
Real GDP growth (percent)					
Current DSA	7.8	5.3	5.0	5.0	5.5
2015 DSA	7.0	6.7	6.5	6.5	6.5
Fiscal Deficit (percent of GDP) 1/					
Current DSA	-0.6	-3.3	-1.3	-1.4	-1.4
2015 DSA	-0.1	0.0	0.2	0.3	0.6
Current Account (percent of GDP)					
Current DSA	0.7	3.7	0.2	-1.0	-2.7
2015 DSA	0.0	0.2	0.3	0.4	0.8

Sources: Uzbekistan authorities and IMF & World Bank staff estimates and projections.
1/ The fiscal deficit includes revenues and expenditures of the Fund for Reconstruction and Development.

EXTERNAL AND PUBLIC DSA

5. **Currently, all of Uzbekistan's public debt is foreign currency denominated, external debt; therefore this section combines the external and public debt sustainability analyses**. In 2016, the Uzbekistan government paid off all domestic currency denominated public debt and remaining public debt consists entirely of external debt. Thus, indicators for total and external public debt are identical.

Public and Publicly Guaranteed (PPG) External Debt

6. **PPG debt is projected to rise gradually over the next 20 years.** (Table 1). Under the baseline, the government's primary balance is projected to be balanced or in small surplus over the medium term (Table 3). Disbursements of new debt are assumed to average around 3 percent of GDP per annum, as the government uses multilateral and bilateral official borrowing to invest in needed infrastructure.

- Historically, about two-thirds of government borrowing came from multilateral creditors with the remainder from official bilateral creditors. The debts have maturities on the order of 20 years and implicit interest rates of around 2 percent.
- For state enterprises, about three-quarters of guaranteed debts have come from official bilateral creditors, with a small portion from commercial creditors. Official borrowing 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 around 2½ percent.

The projections assume borrowing maturities and interest rates will be similar to their historical values. Under these assumptions, the PPG debt-to-GDP ratio is projected to rise from 20 percent in 2018 to 25 percent in 2023 and to 30-32 for 2028-38.

7. **Under the baseline, all debt burden indicators remain below their indicative thresholds**. On solvency indicators, the PV of PPG debt-to-GDP rises from 16 percent in 2018 to 24 percent in 2038, and throughout the period is well below its indicative threshold of 40 percent. The PV of PPG debt-to-exports ratio would rise from 40 percent in 2018 to 67 percent in 2028 and 72 percent in 2038, less than half the indicative threshold of 150 percent. Following a similar trajectory, the PV of PPG debt-to-revenue ratio would gradually rise to around 70 percent in 2028, before increasing to 76 in 2038, well below the indicative threshold of 250 percent. On liquidity indicators—PPG debt service-to-exports and to-revenue ratios—stay at or below 6 percent, significantly lower than the 20 percent thresholds, while the overall debt service-to-exports ratio falls from 16 percent in 2018 to 12 percent in 2038.

8. **The DSA shows that debt ratios are robust to a range of adverse shocks** (Table 2 and Figure 1).

- A **one standard deviation shock to export growth or inflation, a nominal depreciation of 30 percent, or a combination of one-half standard deviation shocks** would each raise the PV of debt-to-GDP and PV of debt-to-revenue ratios by 30-45 percent in 2028 compared to the baseline, but remain below their indicative thresholds.
- A one standard deviation **shock to export growth** would have a bigger impact on the PV of debt-to-exports ratio, which would rise from 67 percent in 2018 to almost 120 percent in 2028, but still below the threshold of 150 percent.
- As Uzbekistan has run significant current account surpluses in the past, **assuming key variables return to historical averages** results in a sharp decline in external debt over the medium term.
- **Shocks would have very limited impact on the flow indicators**. Debt service-to-exports and to-revenue ratios—which would remain at or below 5 percent in 2028 under every alternative shock scenario.

Total External Debt

9. **Under the baseline scenario, total external debt declines from 38 percent of GDP in 2018 to 34 percent of GDP in 2023, before rising back to around 40 percent in 2038** (Tables 1 & 2 and Figure 1). Private external debt is primarily held by domestic subsidiaries of foreign corporations and banks. It is projected to decline from 18 percent of GDP in 2018 to 9 percent of GDP in 2023, as some enterprises pay off outstanding debt to reduce their external liabilities. Thereafter, private external debt is projected to be relatively constant at around 9 percent of GDP. As discussed above, PPG debt is expected to rise modestly out 2038.

CONCLUSION

10. **Based on the debt sustainability analysis, Uzbekistan's risk of debt distress continues to be low.** All solvency and liquidity indicators are projected to remain well below their respective thresholds under both the baseline and stress scenarios. All the scenarios have only a modest impact on most debt ratios. However, a nominal depreciation shock would raise the PV of PPG debt-to-exports ratio significantly (but still below the indicative threshold).

11. **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 3 percent of GDP. Additional external borrowing could result in higher growth, exports, and revenues, but could impose an additional burden if not used wisely.

Table 1. Uzbekistan: External Debt Sustainability Framework, Baseline Scenario, 2015-2038 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-2023 Average	2028	2038	2024-2038 Average
External debt (nominal) 1/	**18.5**	**20.3**	**41.3**			**38.1**	**35.2**	**34.3**	**33.7**	**33.6**	**33.7**		**38.4**	**40.4**	
of which: public and publicly guaranteed (PPG)	9.3	10.5	24.5			20.1	21.0	21.9	22.8	23.8	24.7		29.5	31.5	
Change in external debt	-3.3	1.8	21.0			-3.2	-3.0	-0.9	-0.5	-0.1	0.1		0.9	0.0	
Identified net debt-creating flows	-1.9	-0.9	4.1			-0.8	1.3	1.1	1.0	0.9	0.7		0.5	0.4	
Non-interest current account deficit	**-1.0**	**-1.1**	**-4.7**	**-3.9**	**2.8**	**-0.2**	**1.7**	**1.8**	**1.8**	**1.7**	**1.6**		**1.5**	**1.5**	1.5
Deficit in balance of goods and services	1.8	1.8	1.0			5.8	6.1	7.3	6.9	6.5	5.9		5.9	5.9	
Exports	19.6	19.0	29.0			38.9	34.3	34.4	33.9	33.6	33.4		33.4	33.4	
Imports	21.5	20.8	30.1			44.7	40.4	41.7	40.8	40.1	39.3		39.3	39.3	
Net current transfers (negative = inflow)	-0.4	-0.6	-0.8	-0.5	0.8	-1.0	-0.9	-0.9	-0.9	-0.8	-0.8		-0.8	-0.8	-0.8
of which: official	0.0	0.0	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)	-2.5	-2.3	-4.9			-5.0	-3.5	-4.7	-4.3	-3.9	-3.5		-3.6	-3.6	
Net FDI (negative = inflow)	**-0.1**	**-0.2**	**-0.2**	**-1.6**	**1.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**		**0.0**	**0.0**	0.0
Endogenous debt dynamics 2/	**-0.8**	**0.3**	**9.0**			**-0.6**	**-0.5**	**-0.6**	**-0.8**	**-0.8**	**-0.8**		**-1.0**	**-1.2**	
Contribution from nominal interest rate	0.3	0.4	1.0			1.8	1.1	1.2	1.1	1.1	1.0		1.1	1.1	
Contribution from real GDP growth	-1.6	-1.4	-1.5			-2.5	-1.6	-1.8	-1.9	-1.9	-1.9		-2.1	-2.3	
Contribution from price and exchange rate changes	0.5	1.4	9.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-1.4**	**2.7**	**16.9**			**-2.3**	**-4.3**	**-2.0**	**-1.5**	**-1.0**	**-0.6**		**0.4**	**-0.3**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	36.0			33.6	30.2	29.0	28.1	27.7	27.6		31.3	32.9	
In percent of exports	...	...	124.1			86.5	88.1	84.3	83.0	82.5	82.5		93.6	98.4	
PV of PPG external debt	**...**	**...**	**19.2**			**15.6**	**16.1**	**16.6**	**17.2**	**17.9**	**18.6**		**22.4**	**24.0**	
In percent of exports	**...**	**...**	**66.3**			**40.2**	**47.0**	**48.4**	**50.9**	**53.3**	**55.6**		**67.0**	**71.8**	
In percent of government revenues	**...**	**...**	**60.8**			**49.2**	**51.1**	**51.9**	**54.1**	**56.5**	**58.7**		**70.7**	**75.8**	
Debt service-to-exports ratio (in percent)	**4.7**	**5.2**	**13.6**			**15.6**	**13.9**	**13.2**	**12.2**	**11.5**	**10.9**		**9.8**	**12.0**	
PPG debt service-to-exports ratio (in percent)	**3.0**	**3.3**	**3.4**			**3.6**	**3.6**	**3.5**	**3.5**	**3.5**	**3.5**		**3.1**	**5.3**	
PPG debt service-to-revenue ratio (in percent)	**1.7**	**2.0**	**3.1**			**4.4**	**3.9**	**3.8**	**3.7**	**3.7**	**3.7**		**3.3**	**5.6**	
Total gross financing need (Billions of U.S. dollars)	0.6	0.4	0.2			3.2	3.8	3.9	3.9	3.8	3.8		4.8	10.2	
Non-interest current account deficit that stabilizes debt ratio	2.3	-2.9	-25.7			3.0	4.7	2.7	2.3	1.8	1.5		0.6	1.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	7.9	7.8	5.3	7.9	1.0	5.0	5.0	5.5	6.0	6.0	6.0	5.6	6.0	6.0	6.0
GDP deflator in US dollar terms (change in percent)	-2.4	-7.0	-31.8	1.0	13.8	-19.9	12.8	1.1	1.1	0.5	0.4	-0.7	0.7	0.7	0.7
Effective interest rate (percent) 5/	1.4	1.9	3.5	2.2	0.7	3.7	3.6	3.6	3.5	3.4	3.3	3.5	3.1	2.9	3.0
Growth of exports of G&S (US dollar terms, in percent)	-10.3	-2.8	9.4	5.5	14.7	12.6	4.5	6.8	5.7	5.6	5.9	6.8	6.7	6.7	6.7
Growth of imports of G&S (US dollar terms, in percent)	-16.4	-2.8	3.7	7.7	18.7	24.9	7.2	10.0	4.9	4.5	4.6	9.3	6.7	6.7	6.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	31.6	31.4	31.5	31.4	31.4	31.4	31.5	31.4	31.4	31.4
Government revenues (excluding grants, in percent of GDP)	34.5	32.1	31.6			31.7	31.6	32.0	31.9	31.7	31.6		31.6	31.6	31.6
Aid flows (in Billions of US dollars) 7/	0.3	0.2	0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Concessional loans	0.3	0.2	0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.0	1.0	1.0	1.0	1.0	1.0		1.0	1.0	1.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			31.6	31.4	31.5	31.4	31.4	31.4		31.4	31.4	31.4
Memorandum items:															
Nominal GDP (Billions of US dollars)	66.5	66.7	47.9			40.3	47.7	50.8	54.5	58.0	61.8		85.4	163.4	
Nominal dollar GDP growth	5.3	0.3	-28.2			-15.9	18.4	6.6	7.2	6.5	6.5	4.9	6.7	6.7	6.7
PV of PPG external debt (in Billions of US dollars)			5.9			6.5	7.3	8.1	9.0	10.0	11.1		18.5	37.8	
(PVt-PVt-1)/GDPt-1 (in percent)						1.3	2.0	1.7	1.8	1.8	1.8	1.7	2.2	1.5	1.8
Gross workers' remittances (Billions of US dollars)	1.4	1.2	1.2			1.0	1.2	1.3	1.4	1.5	1.6		2.2	4.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	18.8			15.2	15.7	16.2	16.8	17.5	18.1		21.8	23.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	60.9			37.7	43.7	45.1	47.3	49.5	51.7		62.2	66.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.1			3.4	3.3	3.3	3.3	3.3	3.2		2.9	4.9	

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)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

Table 2. Uzbekistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-2038
(In percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
PV of debt-to GDP ratio								
Baseline	16	16	17	17	18	19	**22**	24
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	16	12	7	3	-2	-6	**-22**	-37
A2. New public sector loans on less favorable terms in 2018-2038 2	16	16	17	19	20	21	**28**	34
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	16	15	16	16	17	17	**21**	22
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	16	19	25	26	26	27	**29**	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	16	20	24	25	26	27	**32**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	16	16	17	18	18	19	**23**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	16	20	26	26	27	28	**31**	29
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	16	21	22	23	23	24	**29**	31
PV of debt-to-exports ratio								
Baseline	40	47	48	51	53	56	**67**	72
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	40	35	21	8	-5	-17	**-67**	-112
A2. New public sector loans on less favorable terms in 2018-2038 2	40	47	51	55	59	63	**83**	102
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	40	45	47	49	51	53	**64**	68
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	40	62	100	103	106	108	**119**	98
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	40	45	47	49	51	53	**64**	68
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	40	47	50	53	55	57	**67**	69
B5. Combination of B1-B4 using one-half standard deviation shocks	40	52	70	73	75	78	**88**	82
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	40	45	47	49	51	53	**64**	68
PV of debt-to-revenue ratio								
Baseline	49	51	52	54	57	59	**71**	76
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	49	38	23	8	-5	-18	**-71**	-118
A2. New public sector loans on less favorable terms in 2018-2038 2	49	51	54	58	63	67	**88**	108
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	49	48	48	50	53	55	**66**	70
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	49	59	79	81	83	84	**92**	76
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	49	63	75	78	81	85	**102**	108
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	49	51	54	56	58	60	**71**	73
B5. Combination of B1-B4 using one-half standard deviation shocks	49	63	80	82	85	87	**99**	92
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	49	66	68	71	74	77	**92**	99

Table 2. Uzbekistan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-2038 (concluded)

(In percent)

	Projections							
	2018	2019	2020	2021	2022	2023	**2028**	2038
Debt service-to-exports ratio								
Baseline	4	4	4	4	4	3	**3**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	4	4	3	3	2	2	**0**	-7
A2. New public sector loans on less favorable terms in 2018-2038 2	4	4	3	4	4	4	**5**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	4	4	4	4	3	3	**3**	5
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	4	4	5	6	6	6	**5**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	4	4	4	4	3	3	**3**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	4	4	4	4	4	4	**3**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	4	5	4	4	**4**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	4	4	4	4	3	3	**3**	5
Debt service-to-revenue ratio								
Baseline	4	4	4	4	4	4	**3**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2018-2038 1/	4	4	4	3	3	2	**0**	-7
A2. New public sector loans on less favorable terms in 2018-2038 2	4	4	4	4	4	4	**5**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2019-2020	4	4	4	4	4	4	**3**	5
B2. Export value growth at historical average minus one standard deviation in 2019-2020 3/	4	4	4	5	4	4	**4**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2019-2020	4	5	6	6	6	5	**5**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2019-2020 4/	4	4	4	4	4	4	**3**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	4	5	5	5	5	5	**4**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2019 5/	4	5	5	5	5	5	**4**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	30	30	30	30	30	30	**30**	30

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assu an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Uzbekistan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015-2038

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2015	2016	2017	Average 5/	Standard Deviation 5/	2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	16.8	10.5	24.5			20.1	21.0	21.9	22.8	23.8	24.7		29.5	31.5	
of which: foreign-currency denominated	16.8	10.5	24.5			20.1	21.0	21.9	22.8	23.8	24.7		29.5	31.5	
Change in public sector debt	-17.8	-6.3	14.0			-4.4	0.9	0.9	0.9	1.0	0.9		0.9	0.0	
Identified debt-creating flows	-0.8	-0.7	12.5			-7.4	-2.9	-2.2	-1.6	-1.0	-0.8		-1.1	-1.3	
Primary deficit	-0.7	-0.7	1.2	-3.6	3.3	-1.2	-1.7	-1.2	-0.5	0.0	0.2	-0.7	0.1	0.1	0.1
Revenue and grants	34.5	32.1	31.6			31.7	31.6	32.0	31.9	31.7	31.6		31.6	31.6	
of which: grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Primary (noninterest) expenditure	33.8	31.5	32.8			30.6	29.9	30.9	31.4	31.7	31.9		31.8	31.7	
Automatic debt dynamics	0.0	0.1	11.4			-6.2	-1.2	-1.0	-1.0	-1.0	-1.0		-1.2	-1.4	
Contribution from interest rate/growth differential	-5.0	-2.0	-1.8			-4.7	-2.9	-2.6	-2.6	-2.6	-2.6		-3.1	-3.5	
of which: contribution from average real interest rate	-2.5	-0.8	-1.3			-3.6	-2.0	-1.5	-1.4	-1.3	-1.2		-1.5	-1.7	
of which: contribution from real GDP growth	-2.5	-1.2	-0.5			-1.2	-1.0	-1.1	-1.2	-1.3	-1.3		-1.6	-1.8	
Contribution from real exchange rate depreciation	5.0	2.1	13.2			-1.5	1.7	1.5	1.6	1.6	1.6		...	...	
Other identified debt-creating flows	-0.1	-0.1	-0.1			-0.1	-0.1	-0.1	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.1	-0.1	-0.1			-0.1	-0.1	-0.1	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	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		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-17.0	-5.6	1.5			3.0	3.8	3.1	2.5	2.0	1.8		2.0	1.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	19.2			15.6	16.1	16.6	17.2	17.9	18.6		22.4	24.0	
of which: foreign-currency denominated	...	...	19.2			15.6	16.1	16.6	17.2	17.9	18.6		22.4	24.0	
of which: external	...	...	19.2			15.6	16.1	16.6	17.2	17.9	18.6		22.4	24.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	0.2	0.3	3.1			0.2	-0.4	0.0	0.7	1.2	1.4		1.2	1.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	60.8			49.2	51.1	51.9	54.1	56.5	58.7		70.7	75.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	60.8			49.2	51.1	51.9	54.1	56.5	58.7		70.7	75.8	
of which: external 3/	...	...	60.8			49.2	51.1	51.9	54.1	56.5	58.7		70.7	75.8	
Debt service-to-revenue and grants ratio (in percent) 4/	2.5	3.0	6.1			4.4	3.9	3.8	3.7	3.7	3.7		3.3	5.6	
Debt service-to-revenue ratio (in percent) 4/	2.5	3.0	6.1			4.4	3.9	3.8	3.7	3.7	3.7		3.3	5.6	
Primary deficit that stabilizes the debt-to-GDP ratio	17.1	5.6	-12.8			3.2	-2.6	-2.0	-1.4	-1.0	-0.7		-0.8	0.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.9	7.8	5.3	7.9	1.0	5.0	5.0	5.5	6.0	6.0	6.0	5.6	6.0	6.0	6.0
Average nominal interest rate on forex debt (in percent)	0.8	1.9	4.0	0.8	1.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1
Average real interest rate on domestic debt (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	16.8	14.2	151.3	24.8	44.5	-7.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.5	8.1	19.0	15.4	5.6	20.3	13.8	10.2	9.5	8.7	8.2	11.8	8.2	8.2	8.2
Growth of real primary spending (deflated by GDP deflator, in percent)	14.9	0.2	9.8	2.6	5.3	-2.1	2.7	8.9	7.6	7.1	6.6	5.1	5.9	6.0	6.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	31.6	31.4	31.5	31.4	31.4	31.4	31.5	31.4	31.4	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ 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.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Uzbekistan: Sensitivity Analysis for Key Indicators of Public Debt, 2018-2038

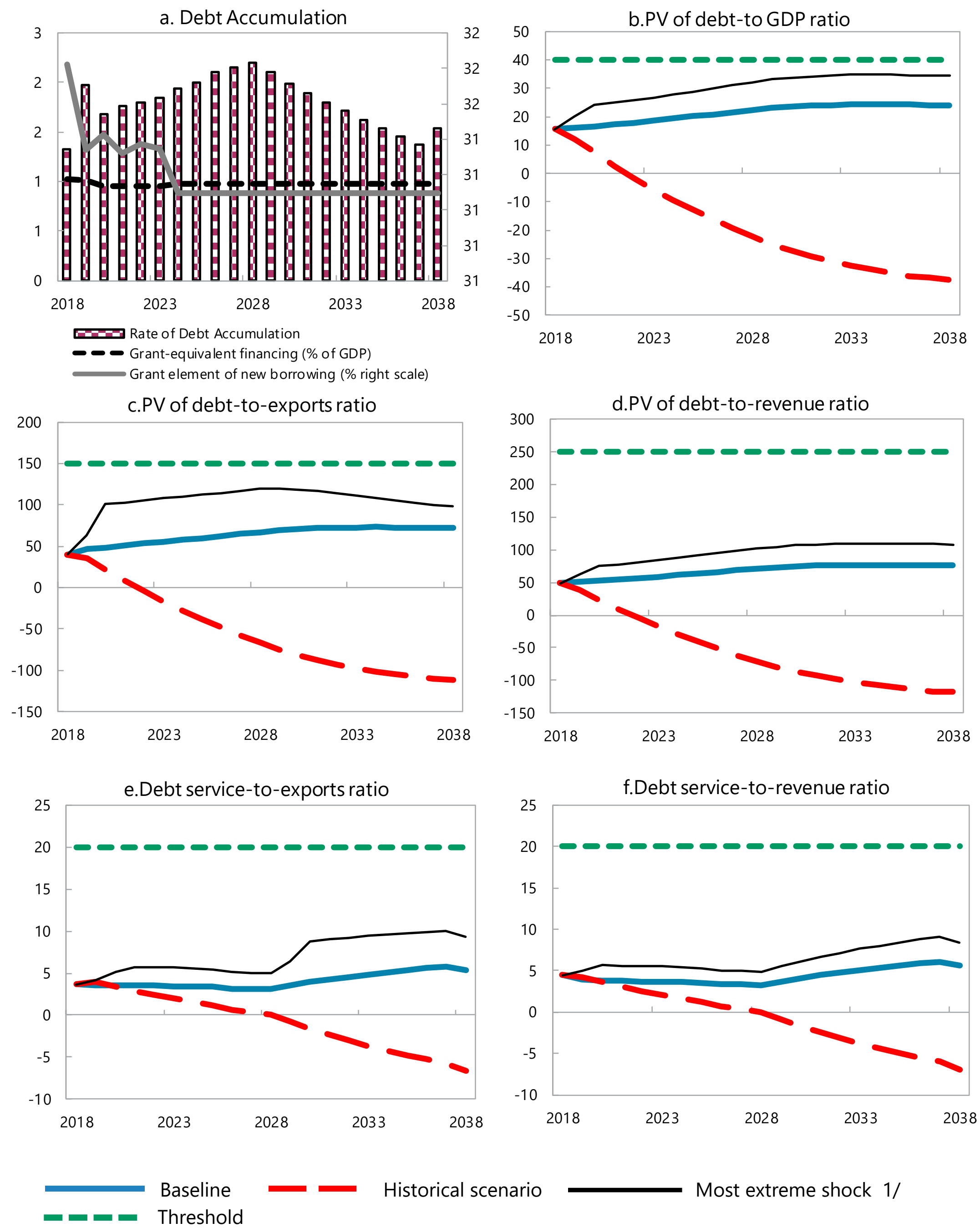
	Projections							
	2018	2019	2020	2021	2022	2023	2028	2038
PV of Debt-to-GDP Ratio								
Baseline	16	16	17	17	18	19	22	24
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	14	13	11	9	7	-1	-17
A2. Primary balance is unchanged from 2018	16	16	17	17	17	17	16	11
A3. Permanently lower GDP growth 1/	16	16	17	18	18	19	25	33
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	16	15	15	15	15	15	16	13
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	16	17	18	19	19	20	24	25
B3. Combination of B1-B2 using one half standard deviation shocks	16	16	15	15	15	15	14	10
B4. One-time 30 percent real depreciation in 2019	16	23	23	23	23	24	28	32
B5. 10 percent of GDP increase in other debt-creating flows in 2019	16	23	23	24	24	25	28	27
PV of Debt-to-Revenue Ratio 2/								
Baseline	49	51	52	54	57	59	71	76
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	49	45	40	35	29	22	-5	-53
A2. Primary balance is unchanged from 2018	49	52	53	54	54	53	51	36
A3. Permanently lower GDP growth 1/	49	51	53	55	58	61	79	104
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	49	49	47	47	47	48	50	41
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	49	54	56	58	61	63	75	78
B3. Combination of B1-B2 using one half standard deviation shocks	49	49	47	47	46	46	45	32
B4. One-time 30 percent real depreciation in 2019	49	73	71	72	74	75	88	100
B5. 10 percent of GDP increase in other debt-creating flows in 2019	49	72	72	74	76	78	88	87
Debt Service-to-Revenue Ratio 2/								
Baseline	4	4	4	4	4	4	3	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	4	3	3	3	3	1	-2
A2. Primary balance is unchanged from 2018	4	4	4	4	4	4	3	3
A3. Permanently lower GDP growth 1/	4	4	4	4	4	4	4	7
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2019-2020	4	4	4	4	3	3	3	4
B2. Primary balance is at historical average minus one standard deviations in 2019-2020	4	4	4	4	4	4	3	6
B3. Combination of B1-B2 using one half standard deviation shocks	4	4	4	4	3	3	3	3
B4. One-time 30 percent real depreciation in 2019	4	5	6	6	6	6	5	10
B5. 10 percent of GDP increase in other debt-creating flows in 2019	4	4	4	5	4	4	4	7

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

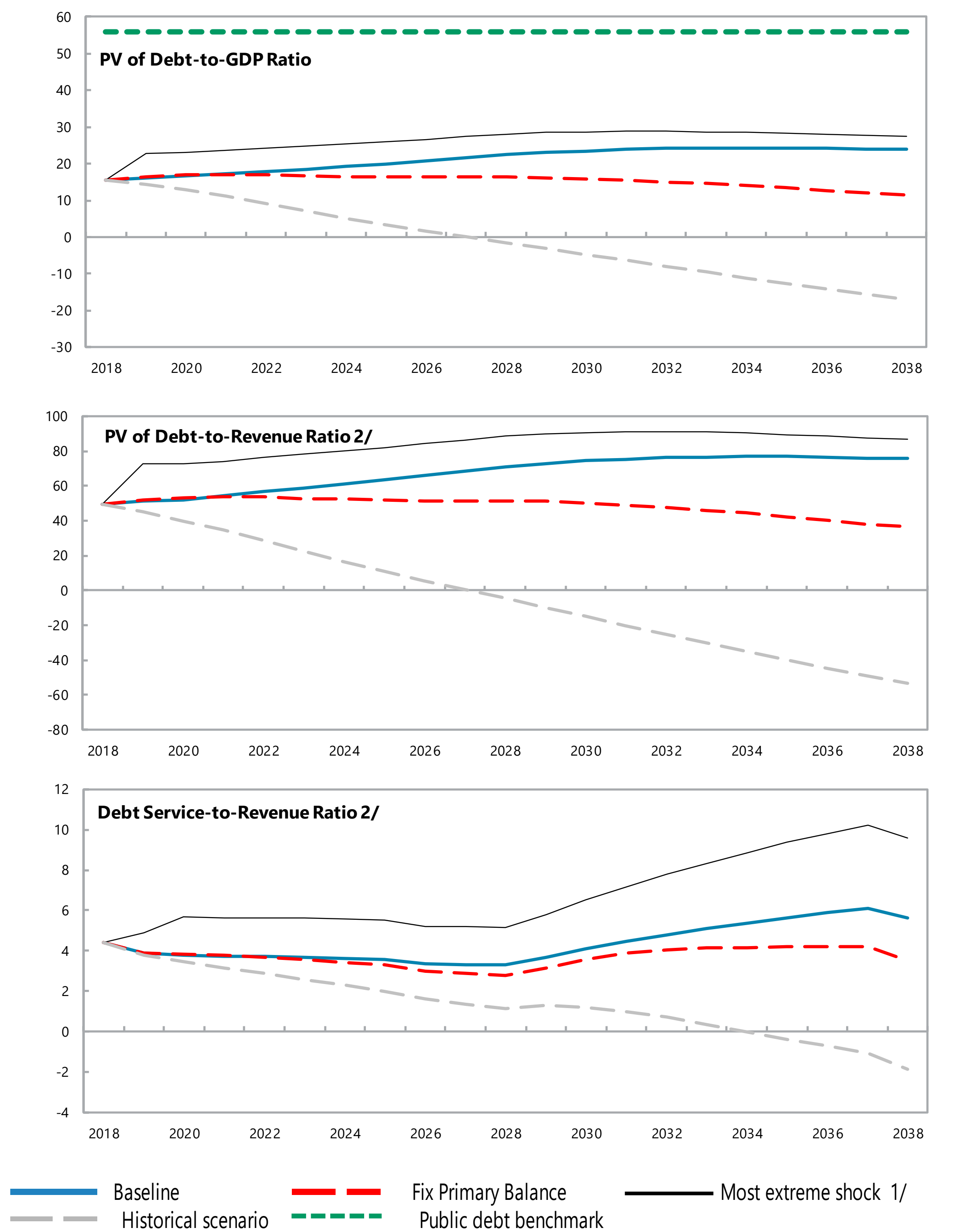
Figure 1. Uzbekistan: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2018-2038 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2028. In figure b. it corresponds to a GDP deflator shock; in c. to Exports shock; in d. to GDP deflator shock; in e. to Exports shock and in figure f. to a GDP deflator shock.

Figure 2. Uzbekistan: Indicators of Public Debt Under Alternatives Scenarios, 2018-2038 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2028.
2/ Revenues are defined inclusive of grants.

Statement by Christine Barron, Alternative Executive Director for Republic of Uzbekistan and Gwibeom Kim, Advisor to the Executive Director
May 4, 2018

On behalf of our Uzbek authorities, we thank staff for the constructive discussions and candid assessment of Uzbekistan's short- and medium-term challenges and perspectives, against a background of ongoing reforms. Uzbekistan faces challenges but also opportunities. The new government is pivoting toward a more open and market-oriented development model, and reigniting long-delayed reforms. The authorities broadly concur with staff's assessment of the economic challenges and their policy recommendations.

Economic Developments and Outlook

In February 2017, the new government initiated a comprehensive reform program with the adoption of the National Development Strategy for 2017-21. This strategy reiterated the authorities' commitment to ensuring macroeconomic stability, improving the quality of life of households, and achieving inclusive growth, especially in rural and remote areas of the country. The Strategy includes five priority areas: improving public administration and state- building; ensuring the rule of law and judiciary reform; maintaining economic growth and liberalizing the economy; enhancing social safety nets; and ensuring security and implementing a constructive foreign policy.

Under this development strategy, robust growth and job creation are expected to continue. Economic growth slowed from 7.8 percent in 2016 to 5.3 percent in 2017 due to FX adjustments, but strong investment has remained a key driver of growth. During 2018-19, the authorities expect economic growth to be around 6 percent, supported by favorable external demand and commodity prices, a pickup in agriculture due to reform measures and the normalization of harvests, and a buoyant construction sector building houses and public infrastructure. The authorities intend to conduct tighter fiscal and monetary policy to help control inflation, which is expected to remain elevated as newly-liberalized prices continue to adjust.

Exchange Rate Policy

A key economic reform was the liberalization of foreign exchange regulations in September 2017. The authorities unified the official and parallel market FX rates, depreciating the official exchange rate by 50 percent. As a result, individuals and entities can freely buy and sell foreign currency, and the requirements for compulsory sale of foreign currency by exporters have been removed. The exchange rate is now determined by the market.

Monetary Policy

The Central Bank of Uzbekistan (CBU) has taken considerable steps to improve its monetary and exchange rate policies. Monetary policy was tightened before the start of the FX market reforms and the CBU has been able to effectively manage anti-inflationary policies and ensure the stable functioning of the banking system during this period of liberalization. Starting

in 2018, the CBU has been implementing a new strategy based on the principle of foreign reserves neutrality. This aims to sterilize additional liquidity from the CBU's direct purchase of gold by supplying the appropriate amount of FX into the market.
The CBU has also continued to take active steps in employing interest rate instruments. Use of these monetary policies has resulted in a deceleration of money supply growth, a stabilization of interest rates in the interbank money market, an increased propensity of households to save in national currency, and a stabilized exchange rate. The CBU has declared its intention to switch to inflation targeting in the medium term, as staff recommend. Technical assistance from the Fund has been particularly valuable in improving the CBU's capacity in areas such as monetary policy operations and interbank market development, designing the interim monetary policy regime, compiling balance of payments data, and stress testing.

Fiscal Policy

Despite the challenges of reform, the authorities have continued their efforts to maintain a prudent fiscal policy, and tax reform is a top priority. The authorities will conduct a tighter fiscal policy by reducing on-lending operations. They will also focus budget spending on mitigating the impact of the exchange rate adjustment on the vulnerable, supporting critical public enterprises to gradually converge toward greater sustainability and cost recovery, and sustaining the public investment program. The authorities have made significant efforts to consolidate on- and off-budget transactions in the fiscal data. They have recently launched tax reforms to improve the tax system and tax administration. This process envisages reducing the difference in tax burden between small and large business entities, rationalizing of the VAT rate, unifying and cancelling a number of taxes and mandatory payments, and improving tax administration procedures. The authorities have also begun efforts to transform the customs and pension systems.

Structural Reforms

The authorities remain committed to their goal of achieving upper-middle-income status by 2030, by increasing the economy's competitiveness, improving the business environment, and developing the infrastructure to support rapid job creation. Broad structural reforms began in 2017. These included the FX market reforms, liberalization of the visa regime, more independence for the CBU, an assessment of banking sector resilience, the implementation of financial recovery plans in key SOEs, plans to resume the accession process to the WTO, and new legislation to promote competition and public-private partnerships. The recommendations of the consulting group on SOE governance will be ready in July, providing an opportunity to draw up a comprehensive plan to deal with SOE issues. The authorities expect the suite of reforms to result in greater macro-fiscal and financial resilience, new markets and more private sector participation. They will help improve the business climate and increase the competitiveness of the economy in order to create new jobs for a rapidly increasing population, especially among youth. The authorities are also working on creating greater economic data transparency, including by joining the General Data Dissemination Standard.