

Overview

- 2020: Economic growth of 1.6%; without pandemic GDP would have increased by 6.0%
- Main reason for economic slowdown: lower investment
- Positive contributions to GDP of gov consumption (+3.6% yoy) and agricultural sector (+3.0% yoy)
- 2021: GDP forecast to pick up by 5.0%
- Inflation declined to ca. 11% by end 2020 and opened space for CBU to decrease its policy rate by 2 pp to currently 14%; CBU targets an inflation of 5% by end 2023
- Depreciation of Sum by 8.5% vs USD in 2020 in line with inflation
- International reserves (gold and FX) increased to USD 32.9 bn or 14 months of imports; main reason: higher gold price
- Current account deficit below 6.4% of GDP in 2020 due to rise in remittances
- Exports down by 6%; gold exports compensated decrease of other items; imports dropped by 9%
- Budget deficit increased to high 7.5% of GDP in 2020, but no threat to fiscal sustainability

Topics

- **Energy.** GET forecasts electricity consumption to rise by 24% to 46% until 2030
- **Migration.** Labour migration will reduce necessity to create jobs in Uzbekistan by 50,000 per year
- **Exports.** High potential to increase exports to EU for fruits and vegetables, metals and textiles
- **COVID-19.** Development of cases, domestic measures, economic support and int. financial support

Basic indicators

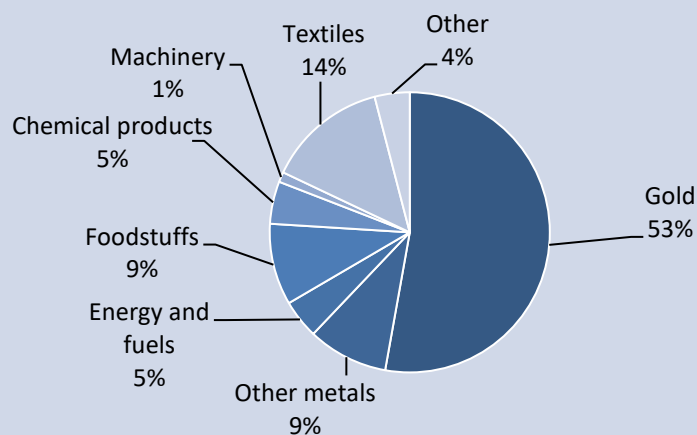
	Uzbekistan	Kazakhstan	Belarus	Ukraine	Russia
GDP, USD bn	59.8	165.7	60.3	154.7	1,464
GDP/capita, USD	1,763	8,814	6,379	3,717	9,973
Population, m	33.9	18.8	9.4	41.6	146.8

Source: National statistical offices, IMF; 2020 estimates

Trade structure

Exports

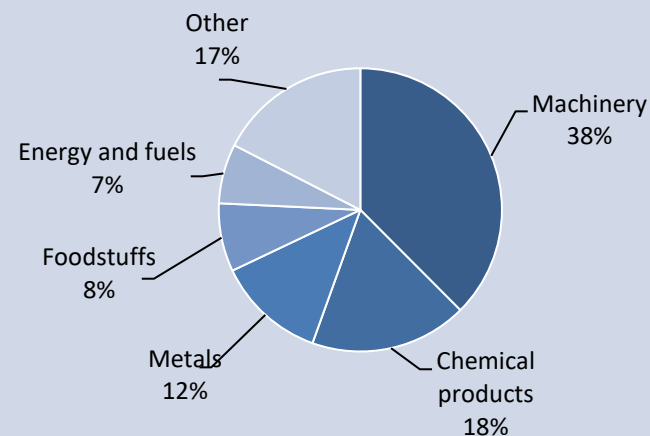
CIS 22% | UK 53% | China 9% | EU 2% | Other 14%



Source: National Statistics Office, 9M2020; note: trade in goods;

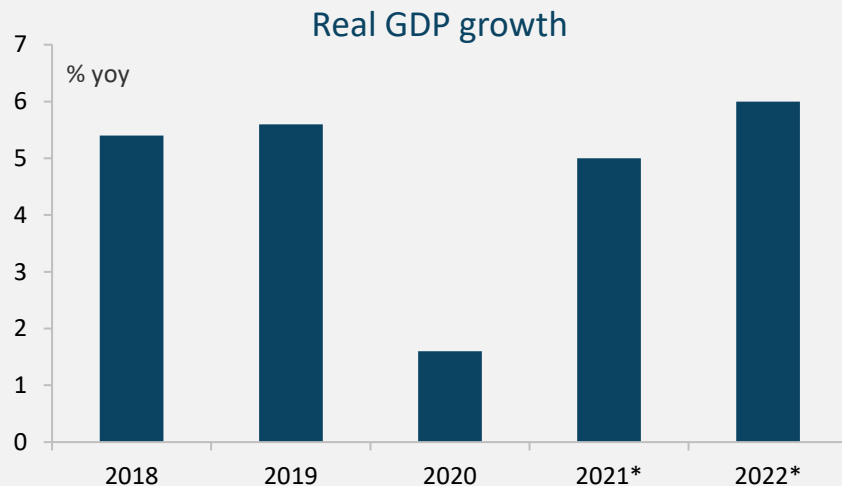
Imports

CIS 37% | China 22% | EU 15% | Other 26%



Source: National Statistics Office, 9M2020; note: trade in goods

Economic growth



Source: IMF; *forecast

Change in GDP forecasts for 2020

	GDP forecast (% yoy)		Change (pp)
	early 2020	Latest	
Uzbekistan	6.0	1.6	-4.4
Kazakhstan	3.9	-2.7	-7.6
Kyrgyzstan	3.4	-12.0	-15.4
Tajikistan	4.5	1.0	-3.5
Belarus	0.9	-0.9	-1.8
Russia	1.9	-4.1	-6.0
Germany	1.2	-5.0	-6.2
EU-27	1.4	-7.4	-8.8

Source: IMF, EU; Uzstat

2020

- GDP forecast before COVID-19: +6.0%
- Latest numbers by Uzstat: +1.6%

➤ **Economic slowdown, but still positive economic growth**

2021

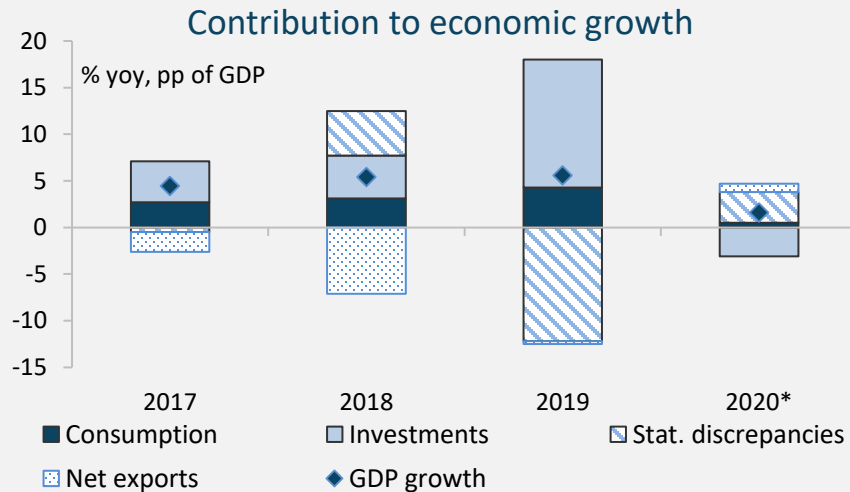
- Growth to speed up again to 5%
- Comparable level as before crisis

International perspective

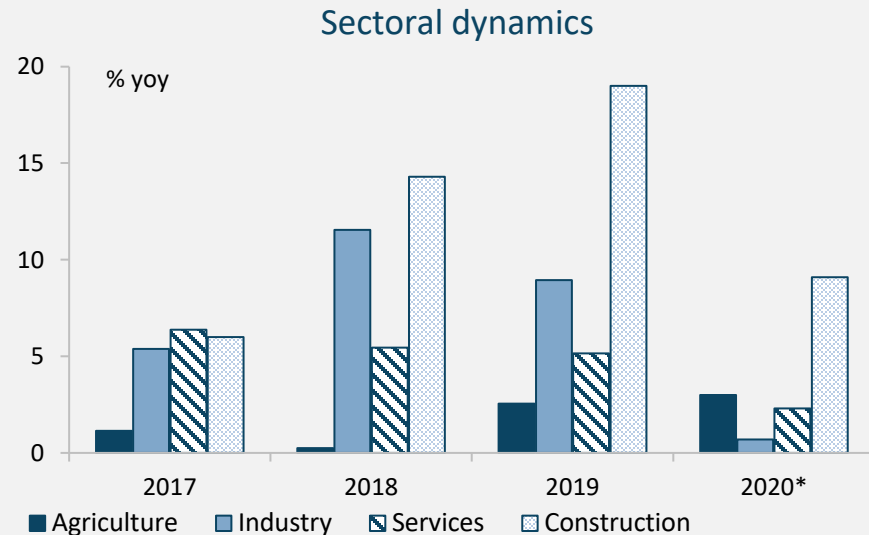
- Pandemic impact in regional comparison lower than most other countries
- Uzbekistan one of few countries with positive growth in 2020

➤ **Growth returns to pre-crisis level in 2021 after pandemic induced slowdown**

Sectoral perspective



Source: IMF, Uzstat; *preliminary estimate



Source: Uzstat; *preliminary estimate

Demand side

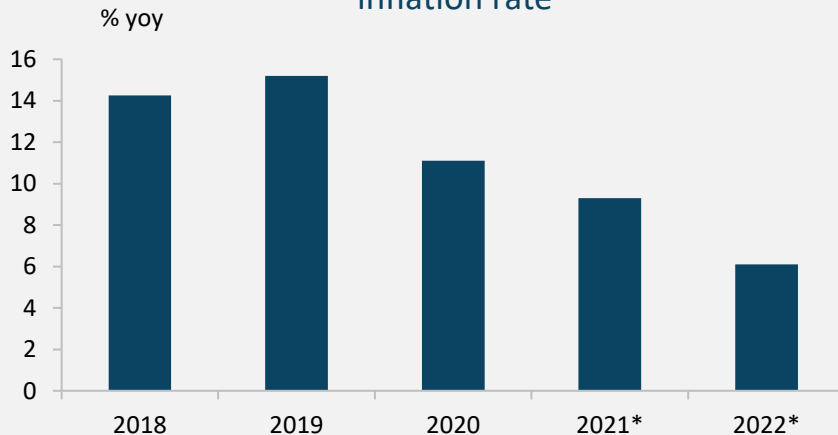
- Consumption increased by 0.7% yoy in 2020 and thus slightly positive growth contribution
- Reason: growth of public consumption of 3.6% yoy while private consumption almost unchanged
- Positive growth contribution of net exports as imports decreased stronger than exports
- Investments with -8.2% yoy had a negative growth contribution

Supply side

- Agriculture shows solid growth of 3.0% in 2020
 - Industry and services increased by 0.7% and 2.3%, respectively
 - Strong growth in construction of 9.1% mirrors public consumption
- **Growth in all sectors, strongest dynamics in agriculture**

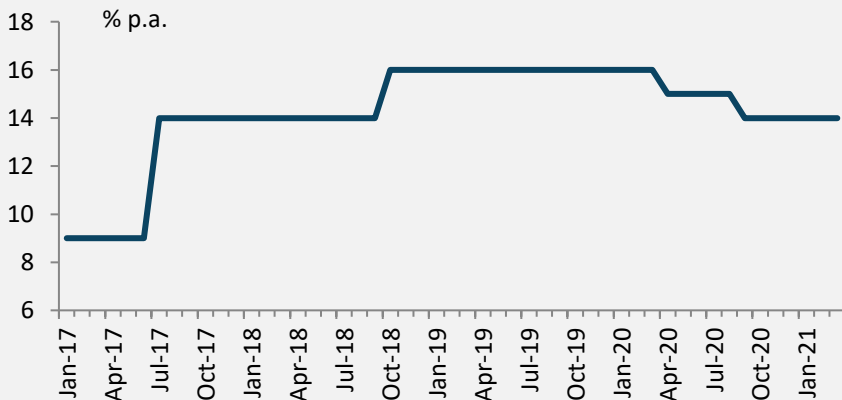
Inflation and monetary policy

Inflation rate



Sources: IMF; *forecast; note: end of period (consumer prices)

Policy rate



Source: Central Bank of Uzbekistan

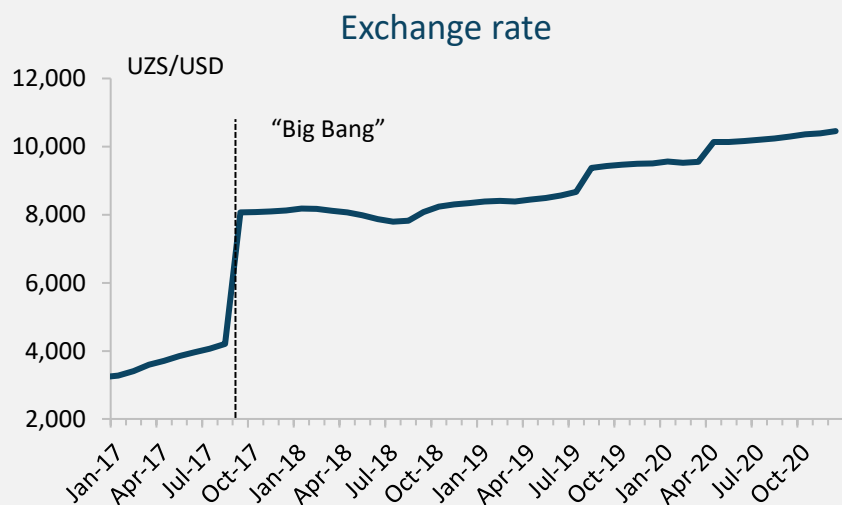
Inflation

- 2020: decrease of inflation to 11.1% at the end of the year, due to
 - quarantine restrictions which led to lower aggregated demand
 - deferral of hikes for electricity and gas tariffs
- Central bank started transition to inflation targeting regime this year
- Target: 10% in 2021 and 5% by end 2023

Monetary policy

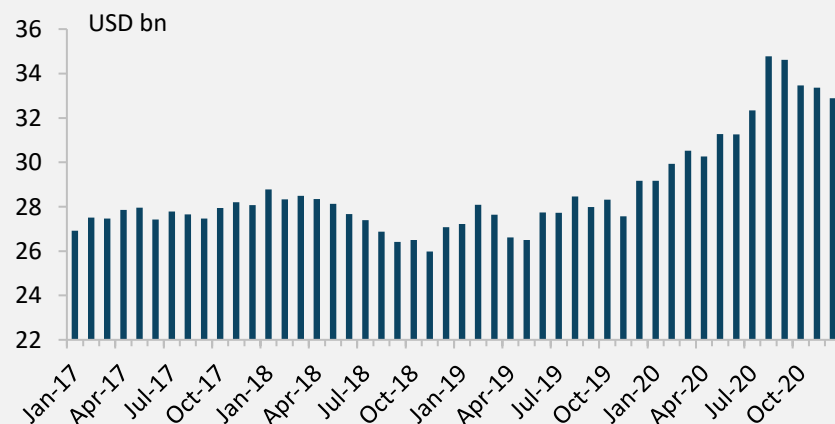
- CBU reduced policy rate twice by 1 pp in Apr and Sep to now 14%
 - Reduction possible due to reduced inflation pressure
 - Decision also aims to support the economy during pandemic
- **Lower inflation provided room to slightly cut the policy rate**

Exchange rate and international reserves



Source: Central Bank of Uzbekistan

International reserves



Source: Central Bank of Uzbekistan

Exchange rate

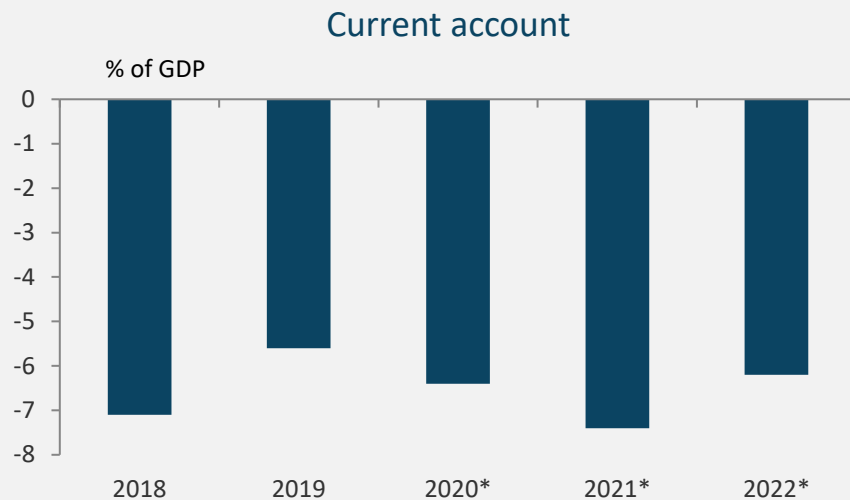
- Sum depreciated by 8.5% in 2020 vs USD
- Depreciation in line with still relatively high inflation

International reserves (gold and FX)

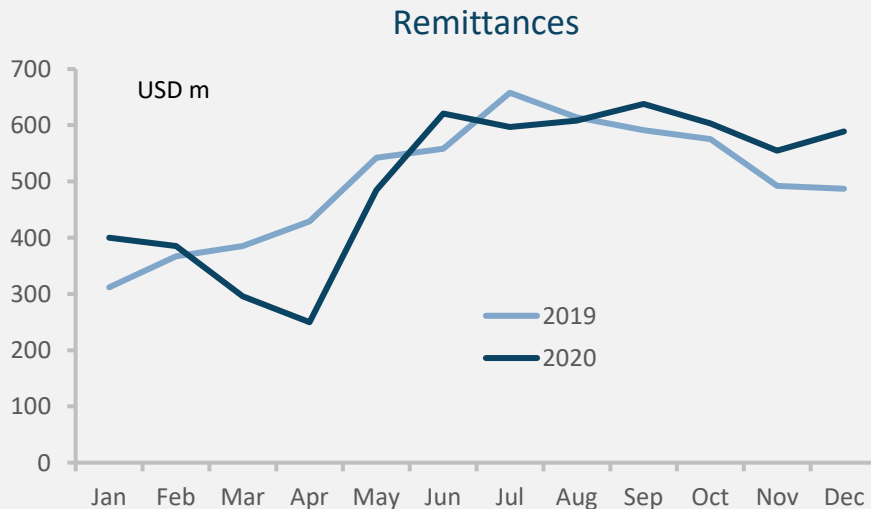
- Reserves increased in 2020 by USD 3.7 bn or 13% yoy to USD 32.9 bn
- Facilitated by
 - Higher price of (existing) gold reserves; around 2/3 of increase
 - High gold exports and loans from IFIs
- Reserves now account for around 14 months of imports – a very high amount in international comparison

➤ **Market driven depreciation and very high FX reserves**

Current account



Source: IMF; *forecast



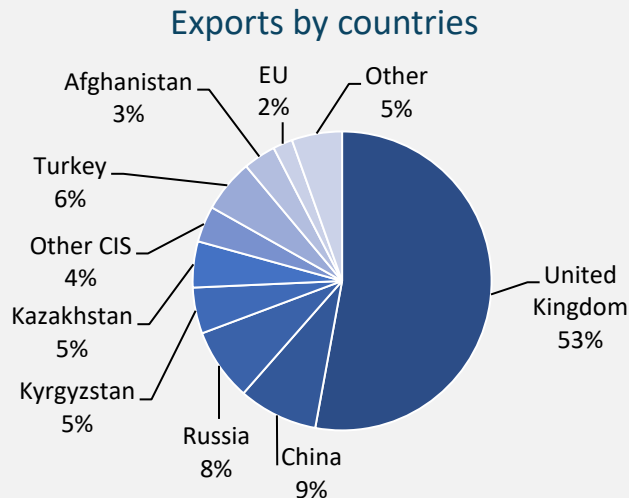
Source: Central Bank of Uzbekistan

- IMF estimate from Oct 2020: current account deficit of 6.4% of GDP in 2020 – a small increase to previous year
 - Assumption: Higher trade deficit and less remittances
 - However, current data show
 - Remittances actually increased slightly in 2020 by 0.3% yoy
 - Trade deficit decreased
 - Therefore, current account deficit likely lower than estimated 6.4% of GDP
 - Increased external borrowing especially from IFIs helped finance the deficit
- **Due to smaller trade deficit and growth in remittances current account deficit likely lower than expected**

External trade



Source: Uzstat; note: trade in goods



Source: Uzstat, 9M2020; note: trade in goods

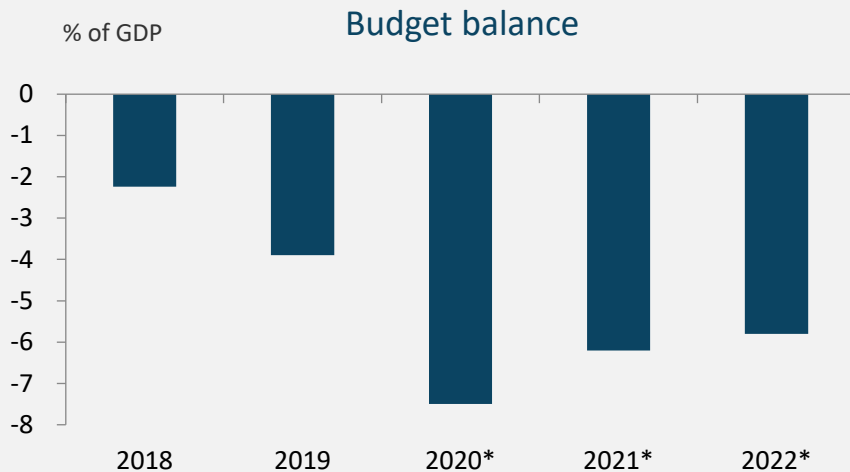
Exports

- 2020: Decrease of 6% yoy
- Mixed picture among goods
 - Natural gas: -79%
 - Textile fibres: -38%
 - Fruit and vegetables: -13%
 - But: gold +18% and textile fabrics +13%
- Gold by far most important item; sold to UK

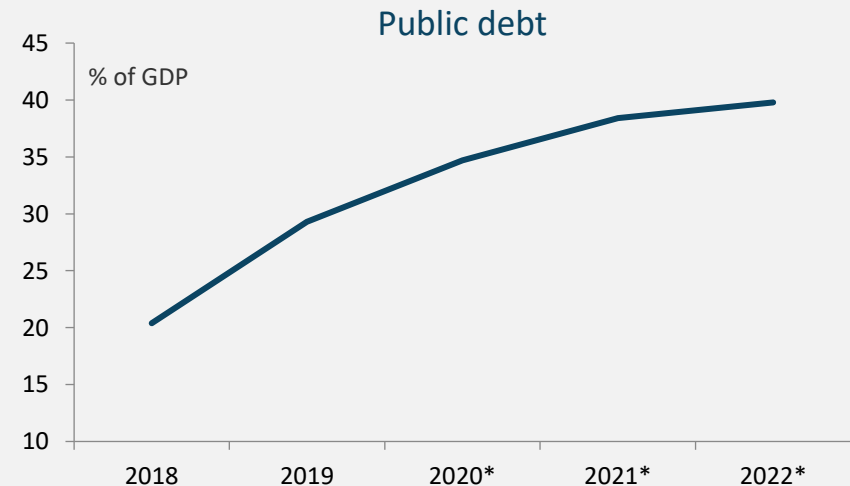
Imports

- 2020: Decrease by 9% yoy
- Most imports decreased
 - Machinery: -15%
 - Metals: -16%
- But pharmaceuticals strongly increased (+25%)
- **Increase in gold exports partly offsets decline for other products**
- **Decrease of imports of capital goods**

Public finances



Source: World Bank; *forecast; note: broad definition of budget balance



Source: World Bank; *forecast; note: broad definition of public debt

Budget balance

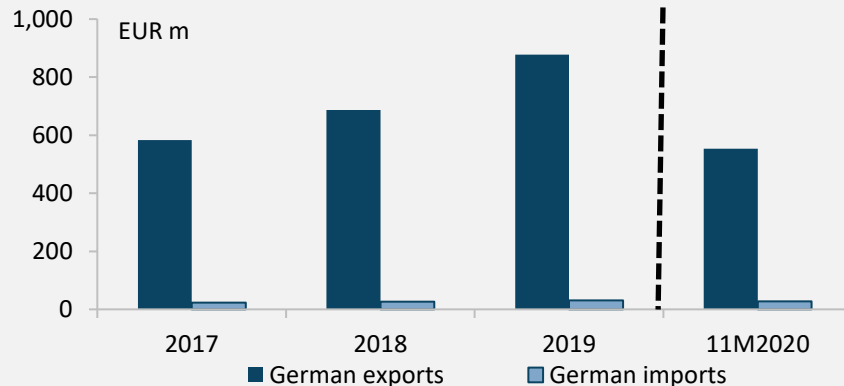
- 2020: high budget deficit of estimated 7.5% of GDP (using the broad definition)
- Strong growth of expenditures due to
 - Health spending to fight COVID-19
 - Allowances for low-income households
 - Support for enterprises
- Revenues partly decreased due to weaker growth and tax deferrals

Public debt

- Debt reached 35% of GDP in 2020
 - Despite strong increases in past years, fiscal sustainability not endangered, as debt is expected to stabilise in the medium-term
 - Additionally, most debt is with IFIs and used to facilitate reforms
- **High budget deficit only temporary and appropriate to cushion effects of pandemic**

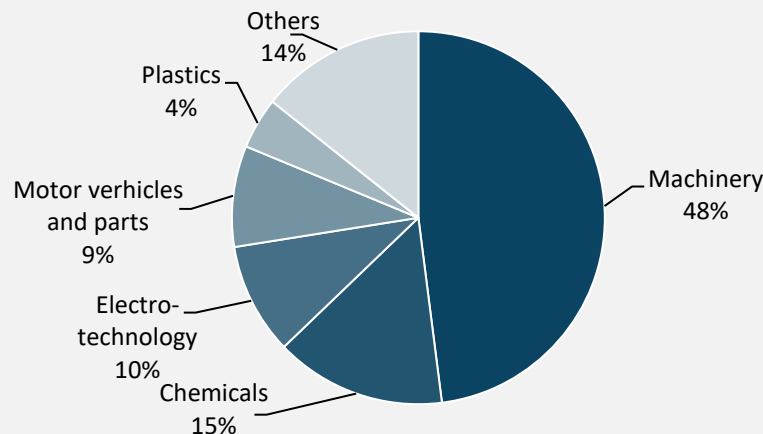
Bilateral trade between Germany and Uzbekistan

German trade with Uzbekistan



Source: German Federal Statistics Office, note: trade in goods

German exports to Uzbekistan



Source: German Federal Statistics Office; note: trade in goods in 11M2020

German exports

- 11M2020: goods worth EUR 553 m exported to UZB
- Decline of 32% yoy caused by lower investment in UZB
- Machinery exports down by 22% (EUR -76 m), but maintain the top position

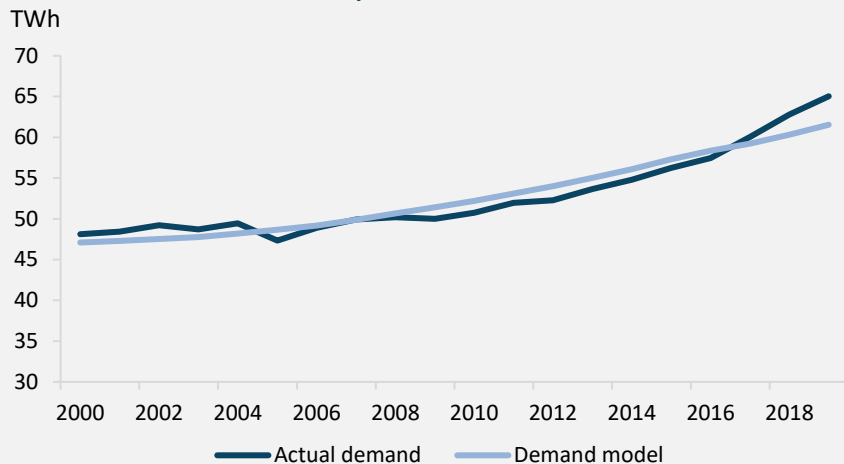
German imports

- 11M2020: exports of EUR 28 m, decline by 5% vs 2019
 - Decline of textiles imports by 36% (EUR -3.6 m)
 - Increase of foodstuffs imports by 9.6% (EUR +1.2 m)

➤ **German exports suffer from low demand for capital goods**

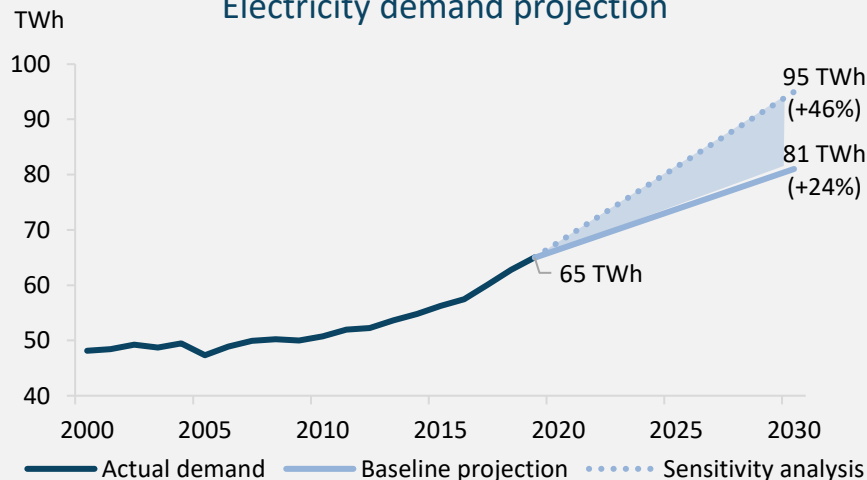
Energy sector: electricity consumption forecast

Electricity demand model fit



Source: Own calculations based on World Bank, CDC Energiiya

Electricity demand projection

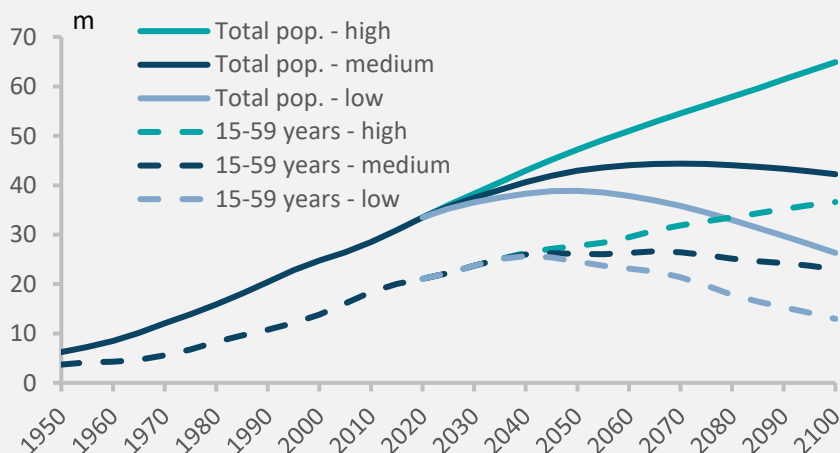


Source: Own calculations based on World Bank, CDC Energiiya

- Growth in GDP and population led to steep increase in electricity consumption in past years
 - Due to ageing infrastructure and worn-out equipment, the electricity sector already now struggles to meet power demand
 - Electricity consumption forecast is the basis for planning of future power plant park and necessary investments
 - GET forecast electricity consumption with top-down, regression model based on GDP
 - Model has a very good fit and explains 91% of the data
 - Sensitivity analysis takes possibly inflated GDP growth before 2017 into account
 - Forecast for 2030 ranges between 81 TWh in the baseline and 95 TWh in the sensitivity analysis
- **GET forecast: UZB electricity consumption likely to rise by 24%-46% in the next 10 years**

Demographic transition & migration

UN population estimates and projections: 1990-2100



Source: United Nations Department of Economic and Social Affairs (2019)

Uzbekistan: Population aggregates

(in m)	2019	1H2020
Total population, 1 January	33.3	33.9
Working-age population, 1 January (men: 16-59; women: 16-54)	19.8	19.8
Total labor resources	19.0	19.1
Economically active population	14.9	14.8
Employed	13.5	13.2
Official sector	5.7	5.7
Informal sector: Uzbekistan	5.4	5.6
Informal sector: abroad	2.5	1.9
Unemployed (mostly not registered)	1.3	1.6
Economically inactive population	4.1	4.4

Source: Ministry of Labour, Labour Market Balances

- Growing population and need to create jobs is one of the drivers for opening the country
 - Population will grow from 34 m now to almost 45 m in 2050
 - Working-age population grows by approx. 1% per year, Uzbek labour force needs to find 200,000 to 300,000 new jobs every year
 - At the same time: one out of six economically active individuals were migrants in 2019
 - Results of GET analysis
 - Per year, 50,000 Uzbek workers could find a job abroad
 - The need to create jobs at home is reduced accordingly
- **Government's plans to facilitate labour migration deserve international support**

Export potential to the EU

Uzbek products with highest export potential in EU

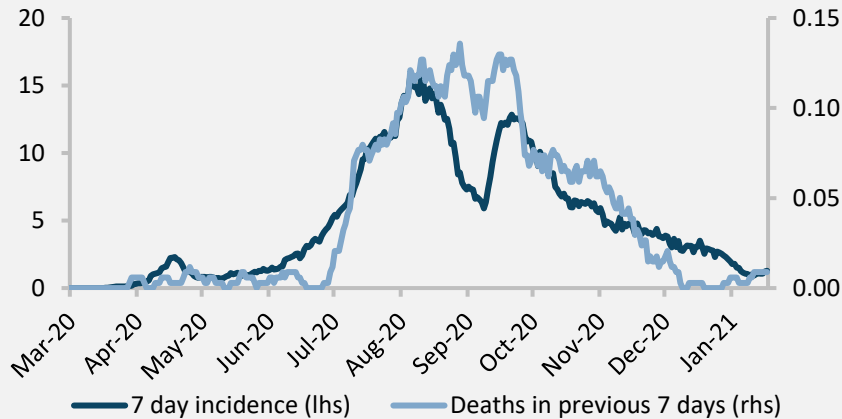
No	HS Code	Product Description	Compound score
1	7214	Other bars and rods of iron	79
2	1302	Vegetable saps and extracts; pectic substances	76
3	0807	Melons, watermelons	75
4	6111	Babies' garments and clothing accessories	73
5	0806	Grapes, fresh or dried	72
6	7604	Aluminum bars, rods, profiles	69
7	8544	Insulated wires, cables	67
8	3904	Polymers of vinyl chloride	67
9	2926	Nitrile-function compounds	67
10	5205	Cotton yarn, containing $\geq 85\%$ by weight of cotton	66
11	2001	Vegetables, fruits, prepared or preserved by vinegar	66
12	0802	Other nuts, fresh or dried	66
13	3923	Articles for the conveyance or packaging	65
14	2008	Fruit, nuts and other edible parts, prepared or preserved	65
15	0702	Tomatoes, fresh or chilled	65
16	7412	Copper tube or pipe fittings	63
17	6211	Track suits, ski suits, swimwear	63
18	0710	Vegetables, frozen	62
19	7616	Other articles of aluminium	62
20	2007	Jams, fruit jellies, marmalades	61

Source: Own estimates

- UZB exports to EU only around 2% of total exports
 - UZB as well as EU interested in intensifying bilateral trade
 - GET identified top-20 products with the highest export potential at the EU market, based on historical trade data and relative comparative advantages methodology
 - Products with highest potential
 - **Fruits and vegetables** (e.g. vegetable saps and extracts, melons, grapes, nuts, tomatoes)
 - **Metals** (e.g. bars of iron, aluminium, copper)
 - **Textile and apparel** (e.g. babies' garments, cotton yarn)
- **To tap potential government and business should identify and remove export barriers**

COVID-19: overview of cases

7 day incidence and deaths



Source: Johns Hopkins University. Figures per 100,000 people

	7 day incidence	Deaths in previous 7 days
Uzbekistan	1	<0.1
Tajikistan	0	0.0
Kyrgyzstan	14	0.3
Kazakhstan	35	0.2
Turkey	72	1.4
Russia	112	2.5
Germany	145	7.2
EU-27	223	5.6

Sources: Johns Hopkins University, Worldometer. Figures per 100,000 people. Data as of 17 January 2021

Domestic perspective

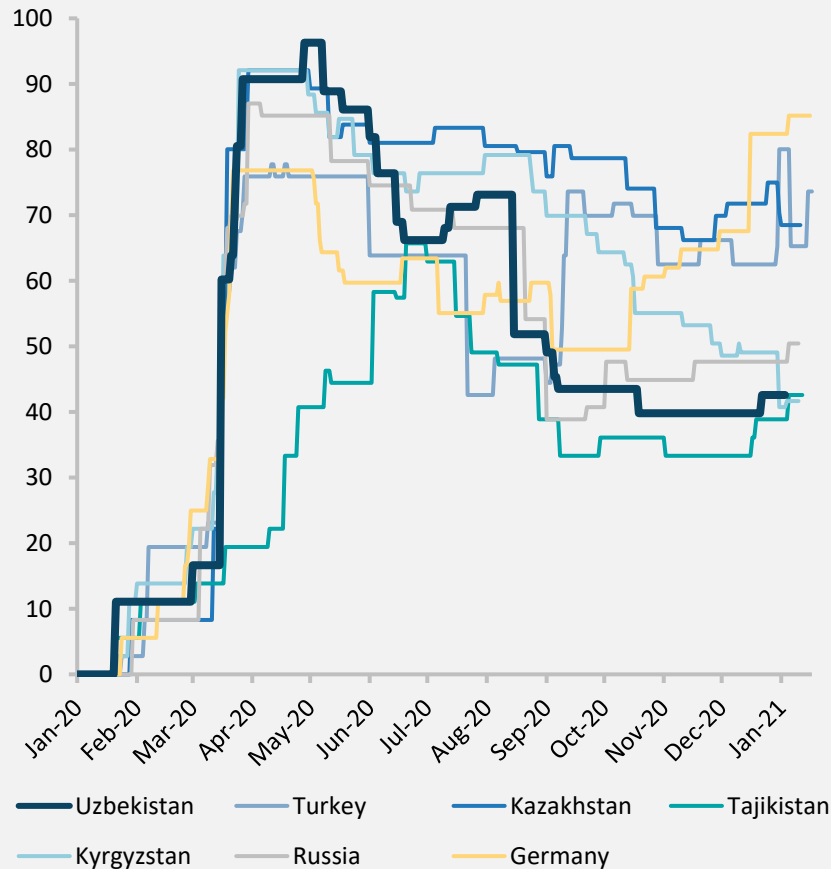
- March/April 2020 first small wave of infections
- Second wave started in June 2020 with much higher infections and deaths
- Vaccination starts with 100,000 doses of PfizerBioNTech February/March under COVAX global vaccine sharing mechanism
- Media reports also potential use and production of Russian Sputnik V vaccine
- Currently incidence low; facilities that were built to isolate and treat COVID-19 patients are already being dismantled

International perspective

- Very low numbers on incidence and deaths
- **Situation appears to be under control, even if the figures cannot be verified**

COVID-19: containment measures

Lockdown index



Source: Oxford COVID-19 Government Response Tracker

Note: The stringency index aggregates policy responses related to containment, closure and public information campaigns on a scale from 0 (lowest) to 100 (highest)

Domestic perspective

- Introduction of comprehensive measures
 - Closure of the external borders and of all commercial flights
 - Closure of public transport; restrictions on private transport
 - Closure of schools and kindergartens
 - Lockdown of major cities; prohibition to enter or leave
 - Closure of shops, ban on public events
 - Prohibition for all persons over 65 years of age to leave the house
 - Penalties for infringements
- Lifting of measures from mid-August

International perspective

- Rapid introduction of measures
- Containment measures at the beginning of pandemic very strict in comparison to other countries

COVID-19: support by the government

Households	Business	
<ul style="list-style-type: none"> • Approx. USD 50 m from the anti-crisis fund for families in need • Food packages for people with disabilities during quarantine • Postponement of payment of property and real estate taxes • Expiring social benefit payments extended for up to 12 months • Eligibility criteria for social benefits simplified and the income criterion relaxed 	<ul style="list-style-type: none"> • Credit guarantees up to 75% for companies with a positive credit history, but not exceeding USD 10 m • Subsidy on interest payments • Moratorium on initiation of insolvency and declaration of insolvency for companies • Numerous tax cuts and exemptions for various sectors, interest-free deferral of tax payments • Tax exemptions and subsidies for the tourism sector 	
	SME	Large companies
	<ul style="list-style-type: none"> • Tax measures e.g. Reduction of monthly social tax for self-employed traders • Export without payment guarantees • Deferrals for Value-added tax and customs duties for imports 	<ul style="list-style-type: none"> • USD 140 m of grants and loans for SOE, e.g. <ul style="list-style-type: none"> – Grant of USD 40 m to Uzbekneftegaz – Loan of USD 40 m to Uzbekistan Airways

Source: Government of Uzbekistan, Note: selection of measures

COVID-19: international support

International assistance by IFIs/donors

Area	Total value of support, USD m	Number of projects
1. Health	284.4	38
2. Macro	1,925.5	12
3. Social protection	79.9	12
4. Job creation	1,071.9	35
5. Education	7.6	38
6. Social cohesion	3.1	28
7. Data and assessment	0.5	17
Total	3,373.1	177

Source: Consolidated Multilateral COVID-19 Socio-Economic Response & Recovery Offer for Uzbekistan

- Coordinated international support to Uzbekistan offered under the multilateral partners' COVID-19 Crisis Management Team (consisting of 6 IFIs and 16 UN entities)
- Funded offers amount to a total of USD 3.37 bn or ca. 5.6% of GDP
- The significant international contribution shows the strong willingness to support Uzbekistan during crisis and its reform efforts
- Measures taken by the government very positively assessed by IFIs so far

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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