

## Economic growth reaches pre-crisis level

After growing by only 1.6% last year due to the pandemic, the Uzbek economy is expected to return to strong growth of 5.0% in 2021. The pick-up in economic output is reflected above all in a significant increase in investment and services. Exports also grew strongly by 12% in the first half of 2021, and imports by as much as 15%. Likewise, remittances show a significant increase of 37% compared to 2020.

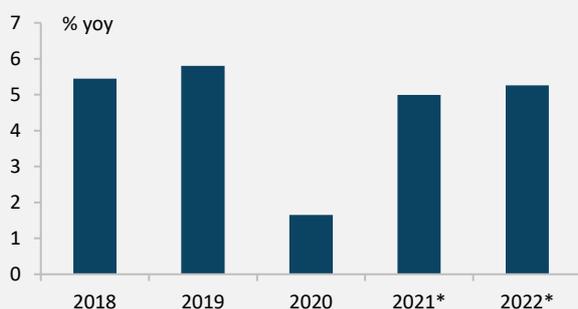
Other indicators also paint a positive picture: inflation is expected to fall below 10% by the end of 2021, the exchange rate has remained largely stable against the U.S. dollar so far in 2021, and the very high currency reserves of USD 35.5 bn provide a solid buffer against potential further shocks. The fiscal deficit was much lower than expected at 4.4% of GDP in 2020. A deficit of 5.5% is expected for 2021, which is justified by increased investment and does not jeopardise fiscal sustainability.

At the same time, near-term growth prospects depend on the recovery of trading partners' economies, infection dynamics and ultimately the pace of Uzbekistan's vaccination campaign.

### Economic growth accelerates

In 2020, the Uzbek economy grew by 1.6%. Uzbekistan thus got through the crisis well compared to other countries, yet growth was significantly lower than in previous years. The slump was reflected above all in declining investment, which fell by 8.2%.

### Real GDP growth



Source: IMF; \*forecast

In 2021, growth is expected to reach 5.0%, similar to the pre-crisis level. In the first 6 months, the economy grew by 6.1%, mainly due to stronger services and investments.

### Slight decline in inflation

Inflation is expected to fall below 10% by the end of 2021. This is still relatively high, but significantly lower than in previous years. Inflation is currently mainly

driven by rising food prices. Rising wages have an additional price-driving effect. After slowing down significantly last year, real wage growth is expected to pick up again in 2021. The reasons are higher wages in the public sector and greater momentum in the private sector. Nevertheless, the central bank is sticking to its target of reducing inflation to 5% by the end of 2023.

### Stable exchange rate and high currency reserves

The exchange rate remained largely stable against the US dollar in the first half of 2021, which can be interpreted as a strength of the Uzbek economy. However, in view of the still quite high inflation, a slight depreciation could have been expected.

### Exchange rate and international reserves



Source: Central Bank of Uzbekistan

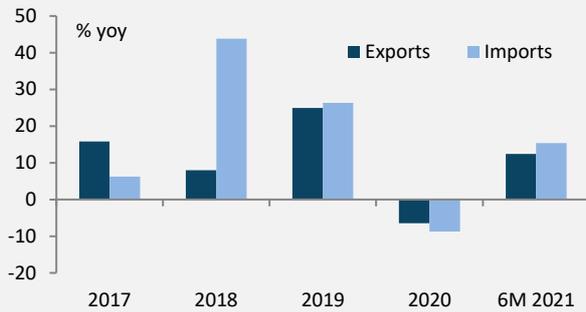
Confidence and stability are provided by the very high foreign exchange reserves of USD 35.5 bn or about 16 months of import coverage, a comfortable buffer for potential further shocks. The growth in reserves in recent years was primarily caused by the higher valuation of gold reserves, which was caused by a higher gold price.

### Increase in foreign trade and remittances

After a pandemic-related decline in exports (-6%) and imports (-9%) last year, foreign trade is rising significantly again this year.

Imports increased by 15% in the first six months of 2021. This was mainly due to higher imports of pharmaceuticals (+37%) and metals (+25%). Exports are also developing very dynamically, having increased by 12%, particularly due to higher exports of textiles (+64%). Gold exports - Uzbekistan's most important export commodity - fell however (-35%).

## Foreign trade



Source: Uzstat; note: trade in goods

Excluding gold, the year-on-year increase in exports is a remarkable 44%. In this respect, there is a strong recovery in trade in 2021 after the pandemic-related slowdown last year.

A similarly positive picture is shown by remittances, which play an important role in Uzbek consumption.

## Remittances



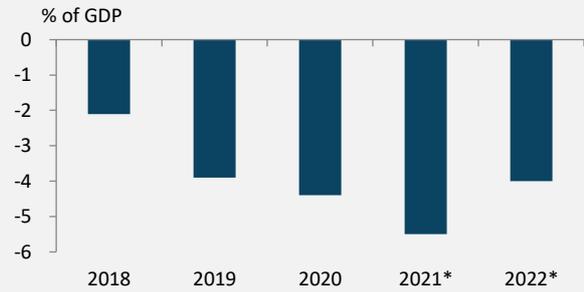
Source: Central Bank of Uzbekistan

These totaled USD 3.3 bn in the first half of the year, up 37% from 2020. This increase indicates a recovery in the economies of destination countries of migrant workers.

## Public debt remains manageable

After last year's budget deficit was a surprisingly low 4.4% of GDP, it is expected to rise to 5.5% of GDP this year. The reason for the increase in the deficit is increased public investment, which was postponed last year.

## Budget balance



Source: IMF; \*forecast

Public debt is moderate at just under 40% of GDP. At the same time, it has almost doubled since 2018. The government is therefore planning to introduce a debt ceiling of 60% of GDP. However, the debt is to be stabilised well below this level to have room to manoeuvre in the event of potential future shocks. Overall, Uzbekistan is thus adhering to a sustainable fiscal policy.

## Conclusion

The return of high GDP growth rates is very welcome. However, the growth forecast is fraught with uncertainty, as it assumes that the recovery among key trading partners will continue and that infection levels in Uzbekistan will remain manageable. Against this background, an acceleration of the vaccination campaign, which is still suffering from vaccine shortages, is particularly desirable.

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