

Reform achievements and future challenges

After five years of reforms in Uzbekistan, we take this opportunity to take stock of the goals achieved, the ongoing reforms and the challenges ahead.

Among the most important reforms implemented so far are the flexibilisation of the exchange rate, the reduction of customs tariffs and the reform of the tax system, which have all decisively improved the openness and competitiveness of the economy. Important ongoing reforms include those in the banking and agricultural sectors as well as privatisation of state-owned enterprises (SOEs). As future challenges we see the need to strengthen the rule of law, combating corruption and reducing the role of the state in the economy.

All in all, Uzbekistan has achieved remarkable reform successes in the past five years. However, it still has a long way to go as current and future challenges are likely more complex than the ones successfully addressed so far. The good news is that the international community stands ready to support Uzbekistan on this path.

Major economic reforms since 2017

Uzbekistan has undertaken major economic reform efforts since 2017. As a stocktaking exercise, we provide an overview of goals that have already been achieved, currently ongoing reforms and suggestions for future priorities. Reforms started with the most pressing problems, namely the fixed exchange rate, trade-prohibitive tariffs, and the complex and competition-distorting tax system.

The liberalisation of the exchange rate was an important step for boosting economic development in Uzbekistan. The fixed and strongly overvalued exchange rate in connection with tight currency controls discouraged exports and prevented imports and investment. An efficient resource allocation was not possible. After the abolishment of the artificial fixing in September 2017, trade volume, foreign investment, and the competitiveness of Uzbek companies significantly increased.

The reduction of customs tariffs was also a very important element in opening up the economy. Uzbekistan had a very protectionist trade regime with prohibitively high tariff rates for goods such as agricultural products, textiles, and machinery. This restricted access to inputs for companies as well as choices and quality of consumer products. In September 2017, tariffs for 8,000 out of around 11,000 tariff lines were reduced, including a complete elimination of 5,000 tariff lines. Despite this progress in

trade liberalisation, we still see room for further reductions, as some tariffs were raised again and many still show protectionist character.

The third important reform was the simplification of the tax system. Uzbekistan had two tax regimes for companies. The general regime included VAT and a relatively high tax burden. The simplified regime for SMEs based on turnover had a much lower overall tax burden. This system discouraged growth of companies and the development of value chains, as most companies used the simplified regime and goods were taxed at each processing step.

A comprehensive reform tackled these problems. SMEs are now obliged to pay VAT, with exception of very small companies. The reform shows good progress, but it is a very complex process; further efforts are required such as ensuring that VAT functions optimally and unfair subsidies are abolished.

Currently ongoing reforms

After addressing the most pressing problems, the government is currently focusing on further reforms. These second-generation reforms include the banking sector, agriculture, and privatisation.

The banking sector is dominated by state-owned banks that account for around 85% of assets. For a long time, the business model for these banks was to channel loans from state funds to SOEs and investment projects. This resulted in a difficult access to finance for the private sector.

The government plans to strengthen the role of the private sector in the banking system by privatising 8 banks with 52% of assets until 2025. First steps have already been undertaken: directed lending through state-owned banks has largely been terminated. The government is cooperating with IFIs to privatise state-owned banks and first privatisations are underway.

The agricultural sector is one of the most important sectors of the Uzbek economy. However, extensive government control and lack of market signals hindered the development of the sector.

The sector is now in a restructuring process and some important reform goals have already been reached: the state export monopoly and minimum export prices as well as state orders for wheat and cotton were abolished. But further efforts will be necessary to reach the set growth and exports targets. This would, for example, include more independence for farmers in decisions on what to produce and through which channels and prices to sell their products.

The privatisation of SOEs is another important government priority. There are around 2,500 SOEs currently active in Uzbekistan, which correspond to an estimated 55% of GDP. Such a high level of state involvement in the economy hinders the creation of competitive markets. The government aims to reduce the role of the state by reducing the number of SOEs by 75% until 2025. Crucial first steps have already been made: relevant agencies have been established and around 600 companies were identified for privatisation. Uzbekistan is well advised to rely on international experience on this path and to favour quality and transparency over speed in the privatisation processes.

Recommendations for future priorities

We see two further reform priorities in the medium- and long-term. These are the strengthening of the rule of law and the fight against corruption as well as changing the role of the state in the economy.

Rule of law and combating corruption are at the very core for a sustainable economic development and attracting investment. Currently Uzbekistan is No. 85 out of 139 in the WJP Rule of Law Index and No. 146 out of 180 in the Corruption Perception Index. Thus, there is room for improvement.

Some measures were already implemented in this area. The Anti-corruption Agency was established in 2020 with support of international donors. A recent presidential decree introduced strict measures for civil servants like the prohibition of acquiring assets outside of Uzbekistan. Persons found guilty of corruption are prohibited to enter civil service and to participate in bids for the privatisation of state assets. These are promising first steps and Uzbekistan is improving in relevant indices, but still has a long way to go.

Another priority from our point of view is changing the role of the state in economic policy. As a legacy of centralised planning and the great importance of SOEs, decisions on economic development are currently often hand-steered by political decision-makers. We believe the best approach for the sustainable economic development of Uzbekistan is to follow an ordo-liberal economic model like the social market economy in Germany. The role of the state in this system is limited to setting framework conditions. The approach focuses on a competition policy based on liberal markets and free trade. The industrial policy develops overarching goals but remains respectful of sound competition principles.

Conclusion

Uzbekistan has shown a very high pace of reforms and achieved considerable progress and tangible results in a short period. However, many reforms implemented so far such as the liberalisation of the exchange rate were relatively easy to implement compared to present challenges. The current reform challenges are more complex, more difficult to define and implement and not likely to show immediate results. This needs to be considered when assessing them - it will take perseverance and time to achieve sustainable changes. However, Uzbekistan can count on the international community to further support its reform agenda.

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A more comprehensive analysis is provided by our Policy Briefing: [Uzbekistan's reform achievements and future challenges](#)

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