ISSUE NO. 17 | MARCH – APRIL 2022

German Economic Team

NEWSLETTER

UZBEKISTAN

War in Ukraine: economic impact on Uzbekistan

Uzbekistan's economy will be severely affected by the war in Ukraine and sanctions against Russia. Uzbek exports to Russia are likely to drop by USD 555 m or 0.8% of GDP due to lower Russian demand. However, around half of the drop can be reoriented to other destinations. Remittances will also be heavily affected. We expect remittances from Russia to drop by USD 2.5 bn or 3.5% of GDP. This will have a particularly strong negative impact on consumption.

An additional challenge related to the war are rising food prices. Assuming a wheat price increase of about one third, Uzbekistan will have to pay about USD 200 m more for its imports. This will further burden low-income households in particular. The government will need to provide social support to the population to mitigate these effects. In addition, strategies should be developed to further diversify exports and labour migrants' destination countries.

Introduction

The war in Ukraine will have significant effects not only on the two countries involved, but also on the countries economically linked to them. Due to the massive sanctions, the Russian economy is expected to shrink by 10% and face a high inflation of 20% in 2022. This, in turn, will impact the Uzbek economy in several ways: Uzbek exports to Russia and remittances sent from Russia to Uzbekistan are both likely to decrease significantly.

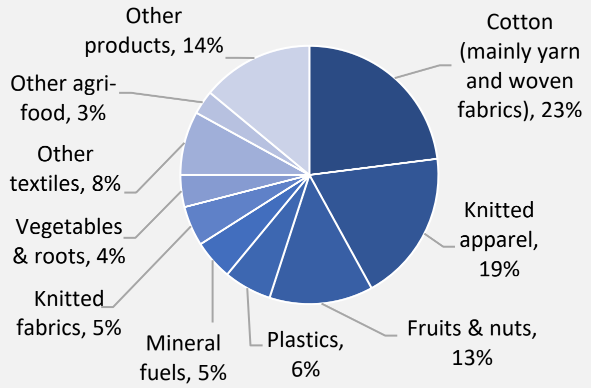
Estimating the reduction of Uzbek exports

In 2021, Uzbekistan exported goods worth USD 1.7 bn to Russia which was 12% of total Uzbek goods exports, making it the second most important market slightly behind China. The most important exports to Russia are textile and apparel amounting to 55% and agricultural products amounting 20% of exports. Exports to Ukraine are likely to be disrupted as well, but since they account for a far smaller share of Uzbek exports (approx. 1.6%), our analysis focuses on Russia.

For the most important goods, we analyse the impact on Uzbek exports on the individual product level. The estimate for 2022 is based on the observed Uzbek export decrease during the crisis in 2014/2015.

Uzbek exports to Russia are likely to decline by USD 555 m (0.8% of Uzbek GDP) due to lower Russian demand. Exports in the textiles and apparel sector are forecast to decrease by USD 216 m, agri-food by USD 121 m and other products by USD 218 m.

Structure of Uzbek exports to Russia



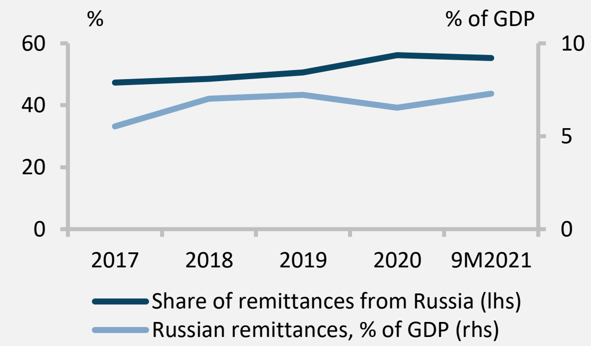
Sources: ITC Trade Map, WITS

However, we think that Uzbekistan will manage to reorient around half of the goods to other markets in the short term. In particular, this should be the case for less processed textile products like cotton yarn, woven and knitted fabrics as well as a large part of the agri-food products e.g. apricots, cherries and peaches. The total effect on Uzbek exports will thus be reduced to around USD 273 m or 0.4% of GDP.

Remittances from Russia to drop significantly

Remittances are an important factor for the Uzbek economy and a key driver of private consumption. Russia is the main source of Uzbek remittances, and its share was slowly increasing over time to an estimated USD 5.3 bn in 2021, equivalent to 56% of total remittances and 7.2% of GDP.

Personal remittances inflows from Russia



Sources: Central Bank Uzbekistan, Central Bank Russia

We estimate that the expected downturn of the Russian economy and Western sanctions on Russia could reduce remittances sent from Russia to Uzbekistan by around 50% in 2022. This would imply an overall drop in remittances by USD 2.5 bn or 3.5% of GDP. Reduced remittance inflows will cause a decline of domestic demand.

Economic impact of reduction in remittances

	Expected shock	
	USD bn	% of GDP
Reduction in remittances from Russia	-2.5	-3.5%
Effect on GDP	-1.0	-1.4%
Effect on consumption	-1.7	-2.4%
Effect on investment	-0.3	-0.4%

Source: own calculations

Consumption is expected to be affected the strongest, even if the shock is mitigated by decreasing imports, on which half of domestic demand is spent. Investment is also likely to decline. The total effect on GDP is forecast to be USD 1.0 bn, which is equivalent to a reduction of GDP growth by 1.4 percentage points.

Implications for energy and food prices

Even if Uzbekistan is rich in energy resources, it is nevertheless dependent on imports of oil products, of which a significant share is coming from Russia. Oil prices increased globally since the beginning of the war. However, as many countries reduced purchases of Russian oil, it is being sold at a significant discount. Uzbekistan will most likely continue to purchase oil products from Russia and will thus not be affected by rising prices, or much less so.

The situation is different for wheat, of which Uzbekistan is also a net importer. Most cereals are currently imported from Kazakhstan. Prices for wheat have increased significantly due to the expected loss of shipments from Ukraine. Assuming a price increase of around one third relative to last year, Uzbekistan would face additional expenditures of approx. USD 200 m or 0.3% of GDP for its wheat imports in 2022.

Conclusion

The war in Ukraine and the sanctions imposed on Russia will also have a significant economic impact on Uzbekistan in the form of lower exports, sharply falling remittances and rising food prices. This will mostly affect low-income households. The government should develop strategies to support them; besides social support, these should include efforts to diversify labour migrants target countries. Existing experience can be built upon, e.g. the labour migrants programmes with South Korea. However, it will nevertheless be difficult to compensate these effects in the short term.

Author
Woldemar Walter, walter@berlin-economics.com

A more comprehensive analysis is provided by our Policy Briefing: Economic implications for Uzbekistan of the war in Ukraine and sanctions against Russia.

Editor
Woldemar Walter

Subscribe / unsubscribe newsletter

German Economic Team

www.german-economic-team.com

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*