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Economic outlook in Uzbekistan: no crisis so far

Forecasts earlier this year predicted a significant drop in GDP growth for Uzbekistan in 2022. The main reason for this was the expected recession in Russia and subsequent negative effects on Uzbekistan. A decrease in demand for Uzbek products, as well as falling transfers from labour migrants were expected.

However, these fears did not materialise. Uzbek exports to Russia grew substantially, increasing by 45% in the first half of 2022 compared to the same period last year. Due to special factors international transfers even multiplied. Therefore, the expected negative shock did not occur so far. The Uzbek economy will likely grow by more than the previously forecasted 3.4%.

The macroeconomic situation remains stable: inflation reached 12%, a moderate increase compared to the previous year, the exchange rate to the US dollar did not change and public finances are solid. Nonetheless, Uzbekistan should pursue its efforts to diversify its exports and sources of remittances, in order to be prepared for a potential intensification of the crisis in Russia.

Background and spring forecasts

Due to the war in Ukraine and the ensuing sanctions against Russia, considerable negative effects on the Uzbek economy were expected. This is because of the strong economic links between Uzbekistan and Russia. These are defined by trade and the transfers by labour migrants in particular. About 12% of goods exported by Uzbekistan in 2021 went to Russia. This makes Russia Uzbekistan's second biggest export market after China. Therefore, an export collapse would have consequences for the whole economy.

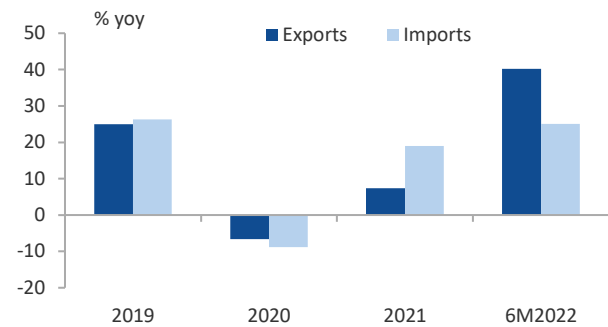
The country is even more important as a destination for Uzbek labour migrants. Depending on the source, between 56% and 75% of remittances originate from Russia. These transfers play a significant role for the Uzbek economy and especially for private consumption. Spring forecasts expected a decrease in both exports and remittances. In consequence, Uzbek GDP growth was supposed to drop to 3.4%-4.0% in 2022.

Trade growth

Trade data for 6M2022 however shows that these fears did not materialise. Total trade grew substantially over

this period: exports increased by 40% compared to the previous year and imports by 25%.

External trade



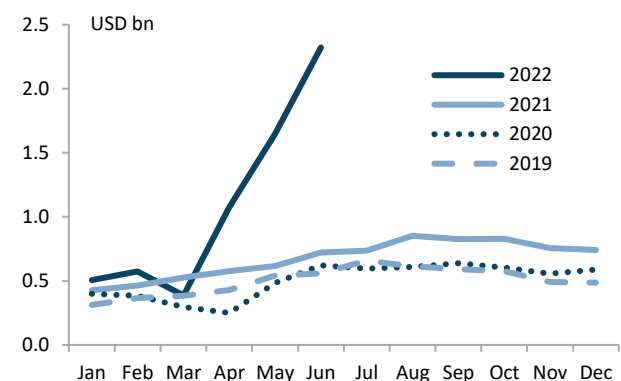
Source: Uzstat; Note: trade in goods

Remarkably and against expectations, trade with Russia expanded as well, even above average. Exports rose by 45% and imports by 27%. The main growth drivers for exports were textiles and agricultural products, especially vegetables. So far there has been no decline in Russian demand for Uzbek products.

Substantial growth of international transfers

A similar picture can be observed regarding international transfers. While they first dropped in March 2022, in the subsequent months they experienced tremendous growth. In June they amounted to USD 2.3 bn, which is three times more than in the same month of the previous year.

International transfers



Source: Uzbekistan National bank

This evolution however cannot solely be attributed to an increase of transfers by labour migrants. Indeed, the strong increase of international transfers can be explained by a series of special factors connected to the sanctions vis-à-vis Russia.

The capital transfer controls introduced by Russia have led to diverging exchange rates between cash and sight

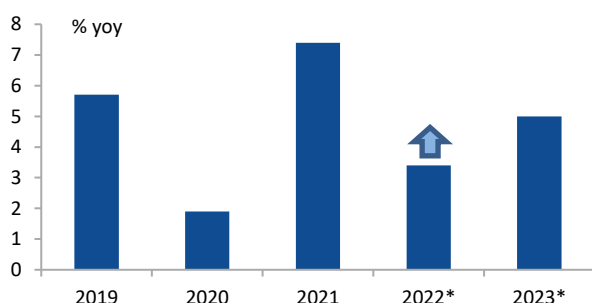
deposits. Labour migrants and small businesses increasingly use official channels of the banking system for money transfers, to take advantage of the better exchange rate of the rouble vs the US dollar. Another factor are Russian citizens transferring their deposits to Uzbekistan, in order to convert them into US dollar, which cannot be easily done in Russia anymore. Lastly, there is an influx of Russian migrants to Uzbekistan, who transfer their funds to Uzbek accounts.

These special factors implicate that international transfers are currently not an optimal indicator, to determine transfers of labour migrants. However, there are indications that these have also increased, for example, the increase in the number of labour migrants. The demand for Uzbek labour in Russia appears to remain high, especially in the construction sector.

GDP growth probably exceeding expectations

The development in the first half of 2022 shows that the expected negative effects of the Russia sanctions on the Uzbek economy did not take place, at least so far. Exports and international transfers both grew significantly. In turn, it is expected that the GDP growth will be substantially higher than the previously forecasted 3.4%-4.0%.

Real GDP growth



Source: Uzstat; *IMF-forecast

In 6M2022 Uzbekistan's GDP grew by 5.4% and was mainly driven by consumption and investments. The rise was broadly based regarding sectors, with strong growth rates of services, construction, and industry.

Macroeconomic situation remains stable

Further macroeconomic indicators show a fairly positive picture as well. Despite rising prices worldwide, inflation rose only slightly to 12% in July 2022 compared to the same month of the previous year. It is expected to remain at a similar level during 2022 and 2023. The exchange rate has recovered after a short phase of weakness at the start of the invasion of Ukraine and has almost reached its pre-war level to the US dollar. The current account deficit will be below the forecast of

8.3% of GDP, due to higher exports and international transfers. The budget deficit should not be too high with 4.4% of GDP, despite current support measures for the population and economy. The debt ratio stands at a moderate 40% of GDP.

Outlook

So far, the war in Ukraine and the sanctions against Russia did not cause the expected negative impacts for Uzbekistan. The relevant indicators - exports and international transfers - even developed very positively, though this was partially determined by special factors. There was no negative impact because the Russian economy developed better than expected. However, it is questionable whether this trend will continue, especially since sanctions continue to be tightened and the oil price is decreasing again. This will reduce the Russian governments leeway to implement supportive measures for its economy. Therefore, it remains advisable for Uzbekistan to diversify its exports, as well as the destination countries for migrant workers.

This newsletter is based on the 7th edition of the [Economic Monitor for Uzbekistan](#).

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.