

13 | 2022

POLICY BRIEFING
UZBEKISTAN

Economic implications on Uzbekistan of the war in Ukraine and the sanctions against Russia

by Woldemar Walter, Dinara Saparova

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Summary

- » Western sanctions against RUS, as a reaction to the war in UKR, weaken the RUS economy with possible negative effect on the UZB economy. We assess this effect on key areas

Energy prices

- » The war has led to higher global energy prices; however, little effect on UZB, due to own energy resources and far-reaching energy independence; impact only through higher gasoline/diesel prices

Exposure to Russia: remittances, tourism and exports

- » RUS key source for remittances in UZB; but against expectations, remittances increased; number of RUS tourists also increased
- » RUS is major market for UZB exports (12% of total), but so far no negative effect; in fact, exports to RUS increased by 45% in 6M2022

Migration

- » Possible positive effect via migration of (qualified) workforce and companies from RUS to UZB

Macroeconomic implications

- » Higher inflation due to war in UKR and related higher food prices
- » No negative impact on economic growth, new forecast of 5.2% for 2022
- Apart from higher inflation, no negative impact of the war on the UZB economy so far
- However, exposure to RUS remains and poses a risk if situation in RUS worsens

Outline

1. Introduction
2. Economic outlook in RUS in 2022
3. Implications of higher energy prices
4. Exposure to Russia: remittances, tourism and exports
5. Migration of workforce and companies
6. Macroeconomic effects
 - I. Inflation
 - II. GDP

1. Introduction

The war in UKR and sanctions against RUS might affect other economies through different channels, including

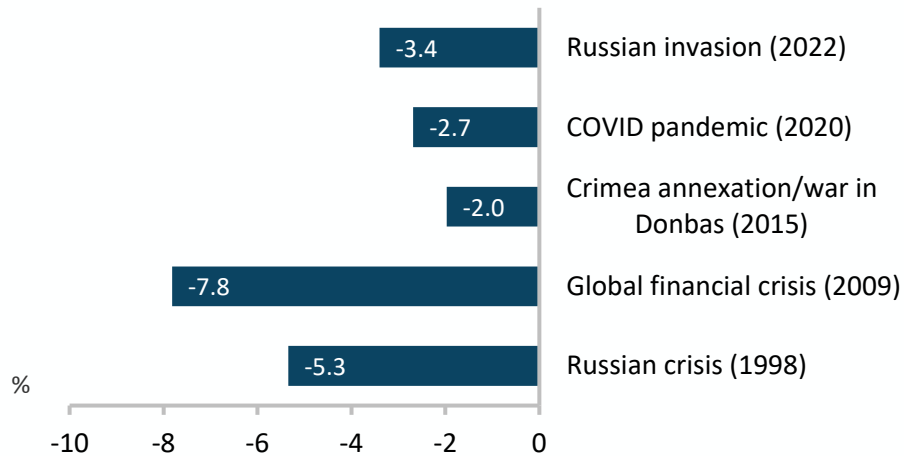
- » Higher energy prices
- » Exposure to the RUS economy due to remittances, tourism and exports
- » Migration flows

Aim of this policy briefing

- » Estimation of these effect on UZB
- » Assessment of the macroeconomic implications for UZB

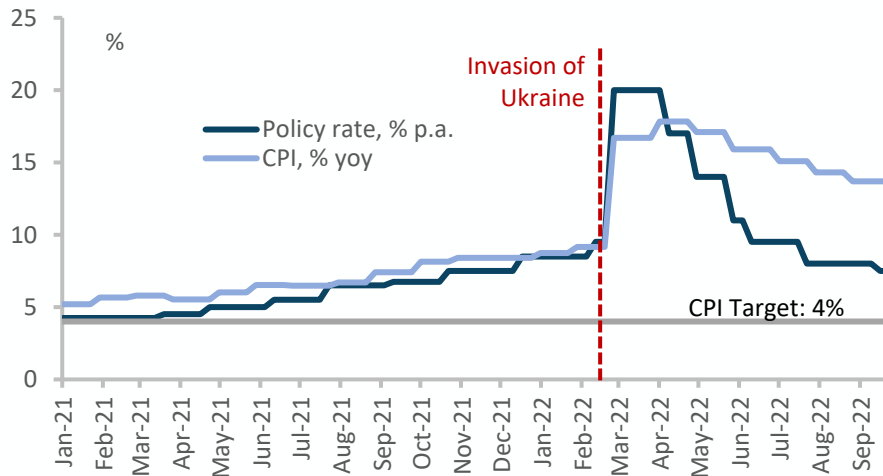
2. Economic outlook in Russia in 2022

Historic GDP declines



Sources: Rosstat and IMF October 2022 forecast

Inflation and key policy rate



Source: CBR

Severe economic and financial damage

- » The war has led to several waves of sanctions on RUS by Western countries
- » According to new IMF Oct forecast RUS real GDP likely to decline by 3.4% in 2022
- » Thus, impact lower than previously anticipated but still severe, larger than impact of COVID pandemic
- » Inflation accelerated after the start of the war, exchange rate weakened
- » CBR is facing a trade-off between supporting the real economy and financial stability / inflation objectives
 - To avoid run on deposits, CBR hiked the key rate to 20% p.a. in Feb-22
 - Once financial stability was restored, the key rate was gradually cut to 7.5% p.a., though inflation is still above target

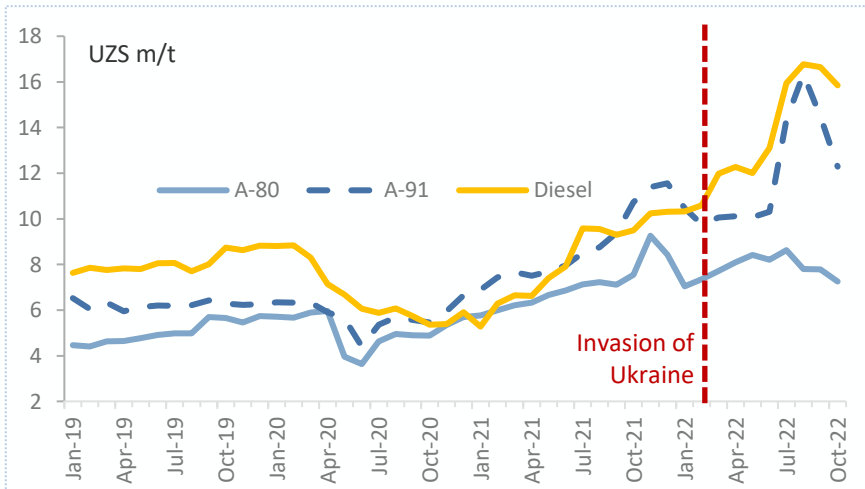
3. Implications of higher energy prices

Energy balance

PJ, avg. 2017-2019	Con- sumption	Production	Imports	Exports
Crude oil	-	127	41	-
Oil products	167	164	6	3
Natural gas	1,608	1,966	0	424
Coal	87	61	19	-
Renewables	25	25	-	-

Source: IEA, UN Comtrade, own calculations

Wholesale prices for gasoline and diesel



Source: Uzbek Commodity Exchange

Starting point

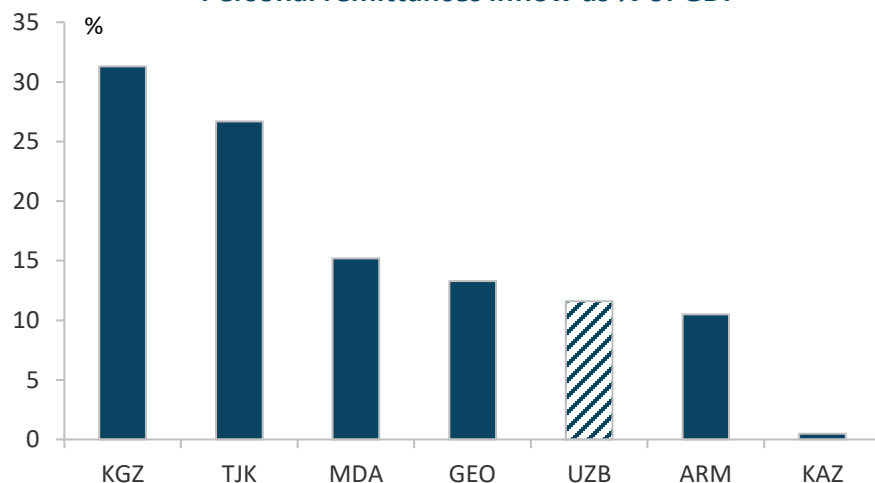
- » Key role of domestic gas in energy system
- » Own production of crude oil largely covers supply for own oil refineries
 - Some imports from TKM and KAZ
- » Fossil fuels dominate electricity production, but ambitious renewables roll-out

Analysis of effect

- » Gasoline prices increased since beginning of the war following global trends, e.g. diesel by 45%
 - Temporary limitation on gasoline and diesel export introduced to address increasing prices from 15 July 2022
- » However, only 42% of the transportation sector consumption covered by gasoline and diesel, strong use of gas as car fuel
- » Strong effect on gasoline and diesel prices, but overall limited impact on economy due to own resources and dominance of gas

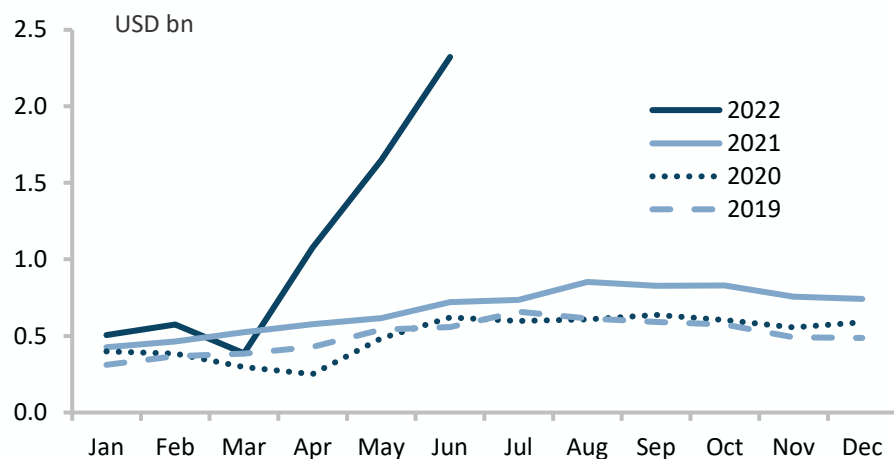
4. Exposure to Russia: remittances

Personal remittances inflow as % of GDP



Source: World Bank, data for 2020

Foreign transfers



Source: Central Bank of Uzbekistan

Starting point

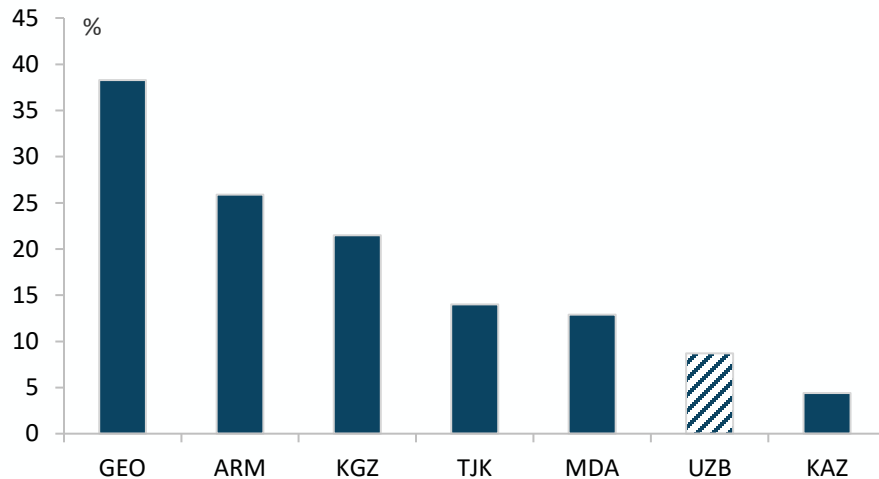
- » Remittances play significant role in the UZB economy: over 11% of GDP in 2020
- » RUS main source for remittances: 56% to 75%, depending on source

Analysis of effect

- » By start of the war: expectation of decrease of remittances due to weakness in RUS
- » But foreign transfers (proxy for remittances) on contrary strongly increased: USD 2.3 bn in Jun-22, three times more than in Jun-21
- » Development attributed to surprisingly strong demand in RUS for Uzbek labour migrants but also special factors
 - E.g. Russians transfer foreign currency to Uzbekistan to get US dollars cash
 - Influx of Russian citizens transferring funds to Uzbek accounts
- » Expected shock not materialised, so far still strong demand for labour migrants in RUS

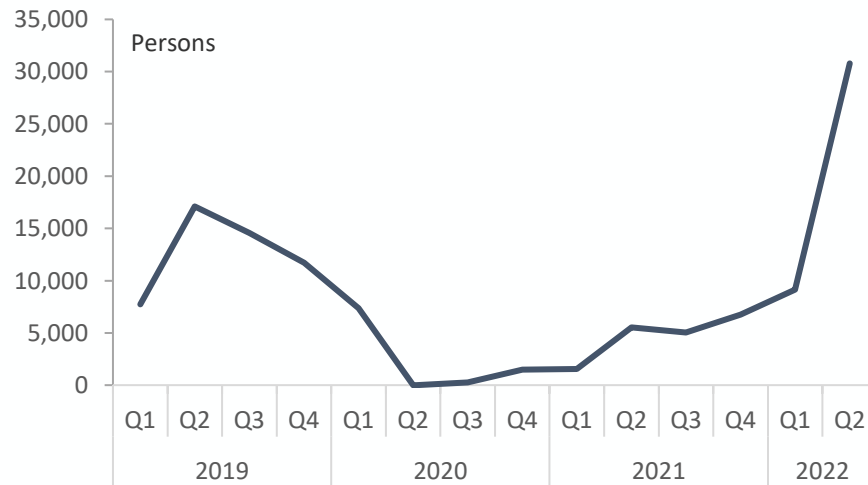
Exposure to Russia: tourism

Visitor spending in total exports of goods and services



Source: World Travel & Tourism Council, data for 2019

Russian citizens entering UZB as tourists



Source: Federal Security Service (FSB) Russia

Starting point

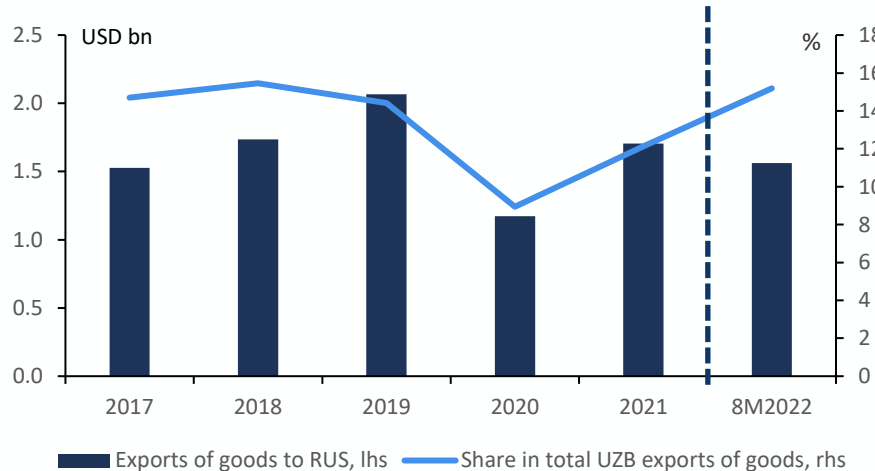
- » Tourism spending 8.7% of total exports of goods and services, small compared to other countries in Central Asia
- » Most tourists from KAZ, KGZ and TJK
- » Only 5% of inbound arrivals from RUS (2019), relatively small exposure

Analysis of effect

- » Russian sources: number of tourists from RUS did not decrease, on contrary it significantly increased
 - Numbers likely include entries to change money (see last slide) and workforce migration (see next slide)
- » Uzbek State Committee on Statistics: RUS citizens accounted to 10% of total tourists, rise compared to previous years
- **No negative effect on tourism, increased number of tourists from RUS**

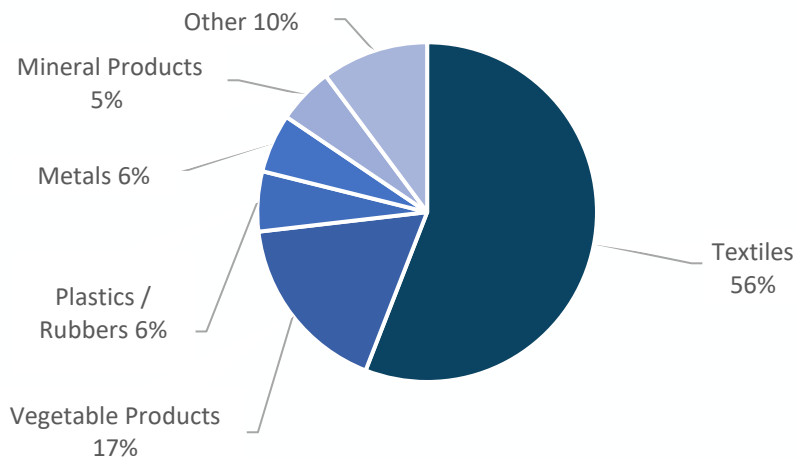
Exposure to Russia: exports

UZB exports of goods to RUS



Source: Uzstat

Structure of UZB exports to RUS, 2021



Source: UN Comtrade

Starting point

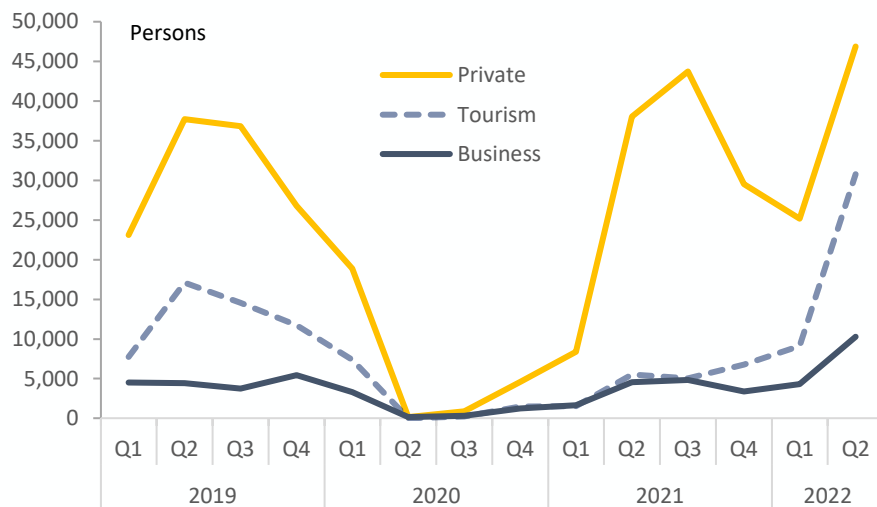
- » 2021: USD 1.7 bn of exports of goods to RUS
- » RUS 2nd most important market for UZB exports (excluding gold exports), 12% of total goods exports in 2021
- » Main exports are textiles and vegetable products

Analysis of effect

- » Early forecasts predicted a significant decline of exports to RUS, due to expected economic slowdown in RUS
- » However, data for 6M2022 shows exports to RUS increased by 45% yoy, above average export growth
- » Increase mainly in exports of textiles and vegetable products
- » Expected export shock due to economic decline in Russia did not materialise

5. Migration of workforce and companies to UZB

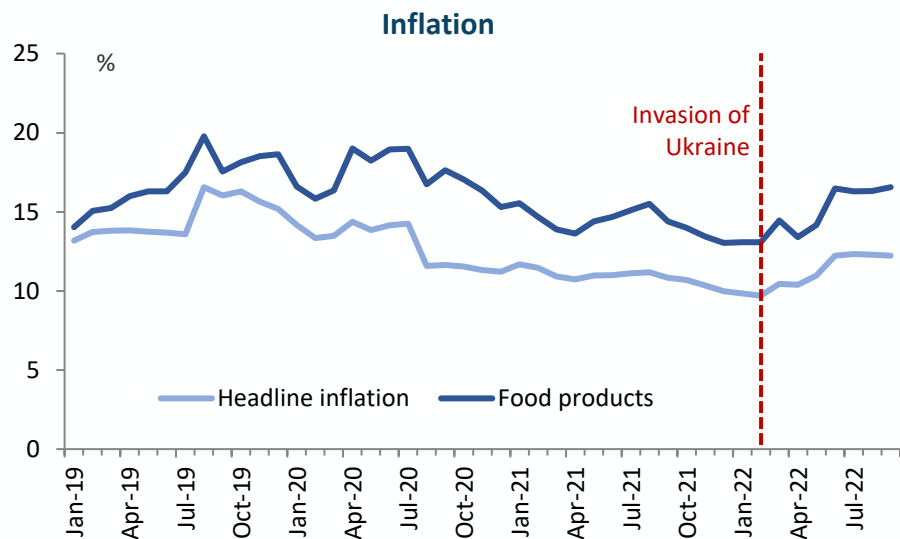
Russian citizens leaving RUS to UZB by stated purposes



Source: Federal Security Service (FSB) Russia

- » No statistics available showing relocation of RUS workforce and companies to UZB
- » However, RUS data show strong rise of tourism and entries due to private reasons
- » Qualitative reports: UZB important destination for Russian citizens (IT specialists) leaving RUS
- » UZB government reacted fast by providing initial assistance and IT visa
- » Local authorities estimate that in March and April around 6,000 IT specialists arrived in UZB
- » The IT park reports 200 applications from mostly RUS companies to become residents
- UZB likely to benefit from relocating companies and individuals
- Further research needed to assess impact on economy and measures to grasp potential

6. Macroeconomic effect: inflation



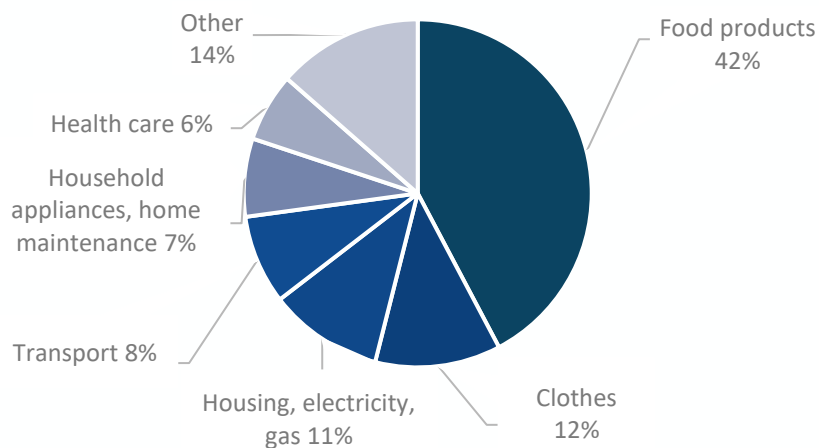
Starting point

- » UZB net importer of food
 - Imports 2021: USD 3.2 bn
 - Exports 2021: USD 1.5 bn
- » Large share of food products in CPI basket

Analysis of effect

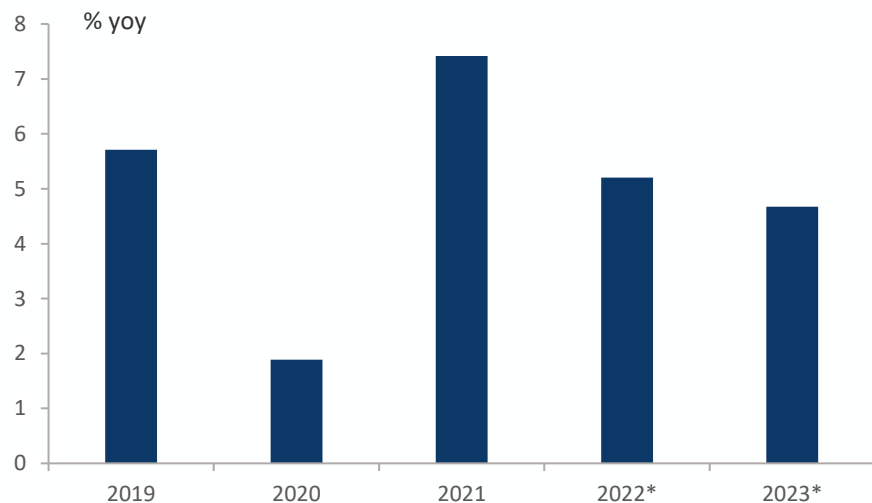
- » Higher food prices due to war in Ukraine significantly contributed to rising inflation
- » 7M2022: food imports increased by 30%, mainly due to sugar, cereals and processed food
- » Previously decreasing trend of inflation was reversed, but impact smaller than in other countries due to own energy resources
- » Higher food prices in the context of the war in Ukraine contributed to a hike in inflation

CPI basket



Macroeconomic effect: GDP

Real GDP growth



Source : IMF; *forecast

Regional comparison of real GDP forecasts for 2022

	2021	2022*	2023*
Uzbekistan	7.4	5.2	4.6
Kazakhstan	4.1	2.5	4.3
Kyrgyzstan	3.7	3.8	3.2
Russia	4.7	-3.4	-2.2
Tajikistan	9.2	5.5	4.0
Turkmenistan	4.6	1.1	2.3

Sources: IMF; *October forecast

Analysis of effect

- » Expected negative effect of war in Ukraine and sanctions against RUS on UZB economy did not materialise
- » Instead: increase of exports and foreign money transfers
- » On top: relocation of qualified workforce and companies from RUS
- » As a result: economy will grow stronger than expected in spring forecast
- » New IMF October forecast: 5.2% GDP growth yoy
- » Growth also in regional comparison quite high
- No negative shock on the economy so far; instead, high GDP growth in 2022

About the German Economic Team

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.*

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