

NEWSLETTER

UZBEKISTAN

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Strong economic growth in Uzbekistan

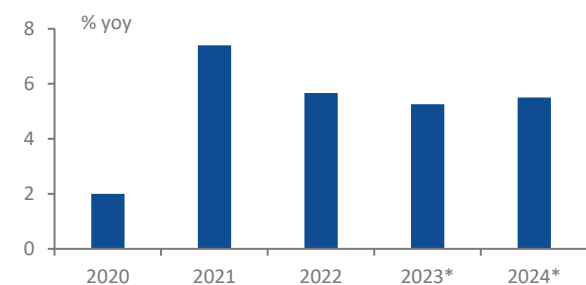
The Uzbek economy grew strongly by 5.7% in 2022. Growth was mainly driven by private consumption. In connection with the war in Ukraine and globally increased food prices, inflation rose to just over 12% in the course of 2022, but could be stabilised by a restrictive monetary policy. The war in Ukraine also led to immigration of Russian citizens to Uzbekistan and a massive increase in foreign transfers from Russia. Immigration supported consumption and contributed to a significant increase in tourism revenues. In addition, exports to Russia increased by 53% based on strong demand for textiles and food.

For 2023, solid economic growth of over 5% is forecast for Uzbekistan. However, this is based on the assumption of stable economic development in Russia.

Strong economic growth

The Uzbek economy recorded a GDP growth of 5.7% in 2022. Although it is a slight decrease compared to the previous year, growth remained high. The growth was mainly driven by private consumption, which increased by 11.4% yoy. The influx of Russian citizens contributed to the strengthening of private consumption.

Real GDP growth



Source: IMF, *forecast

Among sectors, services recorded the strongest growth of 8.5% yoy, based on strong private consumption. But industry, agriculture and construction also contributed to the increase of economic output, growth was thus broadly based.

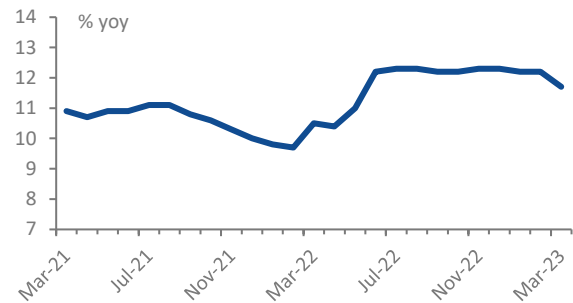
For 2023, the IMF forecasts growth of 5.3%. This is high in regional comparison, but is based on the assumption that the economic situation in Russia does not deteriorate significantly.

Increase in inflation has been contained

One of the negative effects of the war in Ukraine was the sharp increase in energy and food prices. Food

prices in particular had an impact on inflation in Uzbekistan. Inflation rose from 9.7% in February 2022 to slightly above 12% in June, but stabilised at this level.

Inflation rate



Source: Central Bank of Uzbekistan

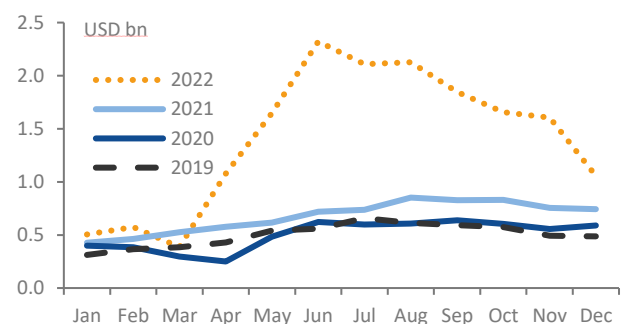
A major reason for that was the significant tightening of monetary policy at the beginning of the war in Ukraine. The Uzbek Central Bank raised the policy rate by 300 basis points to 17% p.a. After inflation stabilised, the policy rate was lowered again in two steps back to the pre-war level, which remains high in regional comparison.

Significant increase in foreign transfers

Besides the influx of Russian citizens, the massive increase in foreign transfers to Uzbekistan was a consequence of the war in Ukraine. Foreign transfers are usually a good indicator of remittances from labour migrants, i.e. money transfers to support relatives. In 2022, foreign transfers were overlaid by other effects. Foreign transfers also captured the transfer of savings of those who moved from Russia and transfers from small firms that switched to using banking transactions instead of cash payments. In addition, citizens from Russia, Kyrgyzstan and Tajikistan used Uzbek banks for transfers from Russia and subsequent cash withdrawals in Uzbekistan.

As a result, according to the central bank, foreign transfers more than doubled to USD 16.9 bn, equivalent to 21% of GDP. Around 85% of these foreign transfers came from Russia.

Foreign transfers



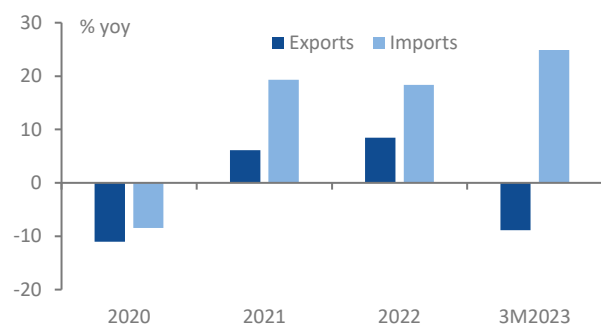
Source: Central Bank of Uzbekistan

These transfers supported the Uzbek sum, which depreciated only slightly against the US dollar by 3.6% in 2022. Another consequence was that Uzbekistan recorded a current account surplus of 1.4% of GDP compared to a significant deficit of 7.0% of GDP in 2021.

Growth in exports and imports

Uzbek foreign trade also developed positively. Exports of goods increased by 9% overall compared to the previous year, imports rose by 18%.

External trade



Source: UN Comtrade

Exports of goods to Russia grew by 53% and thus much stronger than total exports. Russia's share in Uzbek goods exports increased from 12% to 17%. The reason for the strong increase is the significant growth in exports of textiles and food products to Russia. These two product groups explain about two-thirds of the increase in exports to Russia. There was also a significant increase in exports of metals and machinery to Russia. Re-exports in machinery sector played a role, but their volume was relatively limited.

For overall goods trade, imports continued their growth trend in the first quarter of 2023. Exports declined at the same time, which can, however, be explained by the decline in gold exports.

Foreign trade in services also showed a positive trend, both in exports and imports. Exports of services increased by 53%, with tourism exports being the main growth driver. These almost quadrupled to USD 1.6 bn, exceeding the level of 2019. The influx of Russian citizens contributed to this positive development, although tourism from Uzbekistan's neighbouring countries also increased.

Public finances remain solid

Uzbekistan's budget deficit was 3.9% of GDP in 2022. The deficit fell compared to the previous year, in particular due to rising revenues. This was achieved, among other things, through better collection in VAT in the retail sector. State-owned enterprises in the raw materials

sector, which benefited from high commodity prices, also contributed to increasing revenues.

In the current year, the budget deficit is expected to fall below 3% of GDP. A possible increase in energy tariffs could further reduce the deficit. The very moderate public debt of 34% of GDP should continue to decline as the consolidation policy continues.

Conclusion

The economic development is very solid with growth of 5.7% last year and expected growth of over 5% this year. At the same time, Uzbekistan has benefited from some of the consequences of the war in Ukraine, including immigration, foreign transfers and rising exports to Russia. These effects are positive in the short term, but increase economic interdependencies with Russia. This brings the risk of even stronger negative shocks in the future in case the economic situation in Russia should deteriorate significantly.

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