

# NEWSLETTER

## UZBEKISTAN



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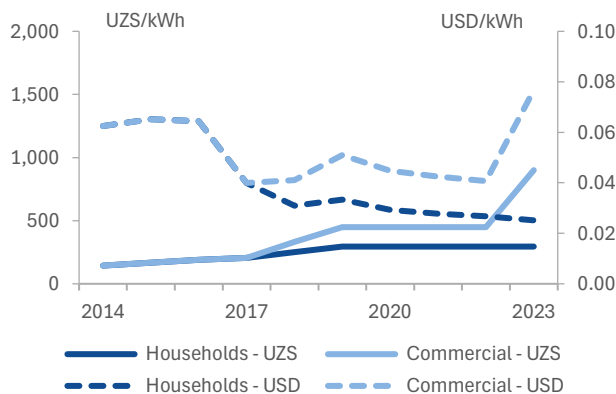
### New electricity tariffs for households – a crucial reform

Uzbekistan has a legacy of high energy subsidies, which led to inefficiencies and made it one of the most energy intensive countries. To increase efficiency, enable investment and reduce the burden on the state budget, Uzbekistan is currently implementing major electricity tariff reforms. In May 2024 block tariffs for households were introduced which differentiate consumers by the consumption level, with higher prices for higher consumption. The reform implies a tariff increase of at least 53% in the smallest consumption block and more than 400% in the highest consumption block. The increase is necessary from an efficiency and economic point of view; however, it is also a significant burden for the population, especially vulnerable households. The government is aware of that, and efforts are ongoing to enhance targeting mechanisms and social support. Additionally, we also see clear communication as essential for public understanding and acceptance of the reform.

#### Background and electricity tariffs in the past

Uzbekistan is one of the most energy-intensive economies in the world. According to the International Energy Agency total energy subsidies amounted to 19.3% of GDP in 2021. One reason for this is the heavy subsidisation of electricity tariffs, which has led to inefficiencies and made investments unprofitable. Electricity tariffs have already been adjusted in the past to prevent energy wastage. However, the adjustments for households were relatively small.

#### Historical development of electricity tariffs



Source: Cabinet of Ministers of Uzbekistan

Between 2010 and 2017, a single tariff applied to all consumer categories. By 2018, Uzbekistan began differentiating tariffs, introducing higher rates for commercial

consumers, approximately 50-60% higher than those for households. This way the households were cross subsidised by the commercial consumers. Despite increases cost recovery could not be achieved.

Tariff increases were suspended due to the COVID-19 pandemic and later due to the war in Ukraine to protect the population from further price increases. However, this made the situation for the government budget and the energy sector worse. The tariffs for households measured in US dollar almost continuously decreased in the past 10 years.

In October 2023, the electricity tariffs for commercial consumers were increased. In May 2024, increases for households followed with the introduction of block tariffs.

#### New electricity tariffs for households

Block tariffs are a pricing method where the unit cost of electricity increases as consumption rises. Electricity usage is divided into blocks, with the first block (covering basic needs) priced relatively low, and subsequent blocks becoming continuously more expensive.

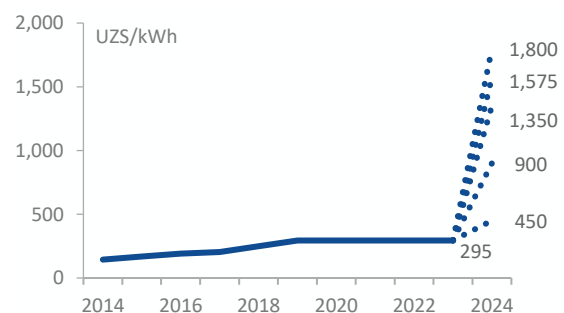
#### Residential tariffs without electric stoves

Consumption block, kWh	Old tariff, UZS/kWh	New tariff, UZS/kWh
Up to 200		450
201 - 1,000		900
1,001 - 5,000	295	1,350
5,001 - 10,000		1,575
10,001 and above		1,800

Source: Cabinet of Ministers of Uzbekistan

Block tariffs aim to balance affordability and energy efficiency. They aim to protect low-income households by keeping basic consumption costs low. Consumers with a higher demand are encouraged to save energy by charging more for additional usage.

#### New electricity tariffs for households by consumption blocks



Source: Cabinet of Ministers of Uzbekistan

Block tariffs are straightforward to administer since they do not require detailed income data. However, they are

not ideal directing support to the most vulnerable. Wealthier households also benefit from lower rates on initial blocks. While they promote energy savings, block tariffs may not align perfectly with household incomes, potentially leading to fairness concerns.

The new tariff structure results in significant increases in electricity costs, particularly affecting households with higher consumption.

#### Change in the electricity bill: example calculations

Consumption, kWh	Old tariff, UZS	New tariff, UZS	Increase
200	59,000	90,000	53%
500	147,500	360,000	144%
1,500	442,500	1,485,000	236%
5,500	1,622,500	6,997,500	331%
15,000	4,425,000	23,085,000	422%

Source: Own calculations

For the lowest block the price increases by 53% and above 400% for the highest consumption block. According to statements by officials of the Ministry of Energy, the electricity costs including generation, transmission, distribution and VAT were at UZS 1,002 in 2024. This implies that cost coverage is reached in the higher consumption blocks but not in the two lowest.

The published proportions of consumption for June 2024, based on the new blocks, indicate that 40% of electricity is consumed in the first block, 39% in the second, and 21% in the higher blocks.

While the consumption at higher blocks is charged at the rates above the actual cost, the available data suggests that the revenue generated from these higher prices is still insufficient to cross-subsidise the lower blocks. Consequently, despite significant price increases, further steps are necessary to reach cost coverage. The next increase is scheduled for April 2025.

#### Social support

Despite low electricity tariffs in the past, the energy poverty in Uzbekistan was already high. According to the Ministry of Energy, the share of consumers currently falling under the first block, is approx. 5 m subscribers (71% of the total number of subscribers). The first block is also called lifeline block and should ensure that everyone can cover their basic consumption.

As the tariffs in the first block were also increased compared to the previous tariff, additional support measures are planned. These include financial assistance for utility costs above the first block offered by the government for vulnerable households during the heating season as well as one-time payments paid at the beginning of the heating season.

These measures aim to alleviate the financial burden on low-income families during the colder months. The assessment of their adequacy is difficult and will only be possible after the upcoming heating season.

#### Conclusion

The recent tariff reforms in Uzbekistan represent a significant step towards reducing the financial deficit in the energy sector, enhancing efficiency and enabling investments in energy infrastructure. The implemented block tariffs are a pragmatic approach that balances affordability and energy efficiency and is at the same time easy to implement.

Further increases planned for 2025 and beyond will be needed to reach cost coverage and reflect the true cost of energy supply. Continued efforts will also be needed to ensure that vulnerable households are adequately supported. In addition to that we believe that transparent communication about the need and benefits of these reforms is essential to gain public acceptance and to ensure the long-term success of the reform.

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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