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## Macroeconomic Watch: Uzbekistan in 2021

Uzbekistan posted GDP growth of 1.6% in 2020, according to the State Statistics Committee. It was one of only several countries in Europe and Central Asia to record positive economic growth amid the backdrop of the COVID-19 pandemic.

GDP growth in 2020 was fueled by expansion in the financial, information and communications technology, energy, healthcare, and construction.

Analysts expect Uzbekistan to return to growth levels seen before the pandemic, forecasting a rebound with an average growth rate of 5.1% in 2021 and 5.3% in 2022. Economic growth is dependent on the continued and successful rollout of President Shavkat Mirziyoyev's reforms as well as a global recovery after the COVID-19 pandemic is brought more under control.

Uzbekistan did not experience damaging economic upheaval as a result of pandemic lockdowns and the country has few restrictions currently in place. Trade, especially with China, has suffered but looks to return in 2021 and beyond.

Inflation came in at 11.1% in 2020 and is expected to fall below 10% in the coming years.

The Uzbek soum fell 8.9% against the US dollar in 2020 but analysts expect the currency to fare better in 2021.

### GDP growth % forecasts

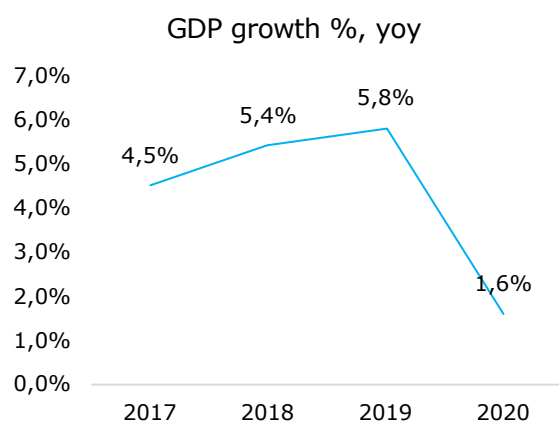
	2021E	2022E	2023E
IMF	5.0%	6.0%	5.5%
World Bank	4.3%	4.5%	
Central Bank of Uzbekistan	4.5-5.5%		
Asia Development Bank	6.5%		
European Bank for Reconstruction and Development	4.5%		
Fitch Ratings	5.1%	5.5%	
Macro-Advisory Consulting	4.4%	4.9%	
Trading Economics	6.0%	5.5%	
<b>Average</b>	5.1%	5.3%	5.5%

## Growth opportunities

### Accelerated privatization and reform.

Already in 2021, President Mirziyoyev has instructed the government to accelerate the privatization of major state-owned enterprises as part of a wider package of economic reforms. The government has published plans to privatize 30 SOEs by April 2021 and is aiming to sell majority stakes in some of the country's largest banks by 2023. Changes to the tax code, intended to lower rates while raising government revenues, should also boost economic growth.

**"Green" revolution.** Renewable energy has been a priority for the government under President Mirziyoyev, who has committed billions of dollars in future spending to develop solar, wind, and hydroelectric power sources. Uzbekistan's goal is to be carbon neutral by 2050, and its green revolution has the support of the EBRD and other international financial organizations that have already loaned hundreds of millions of dollars for renewable energy projects.

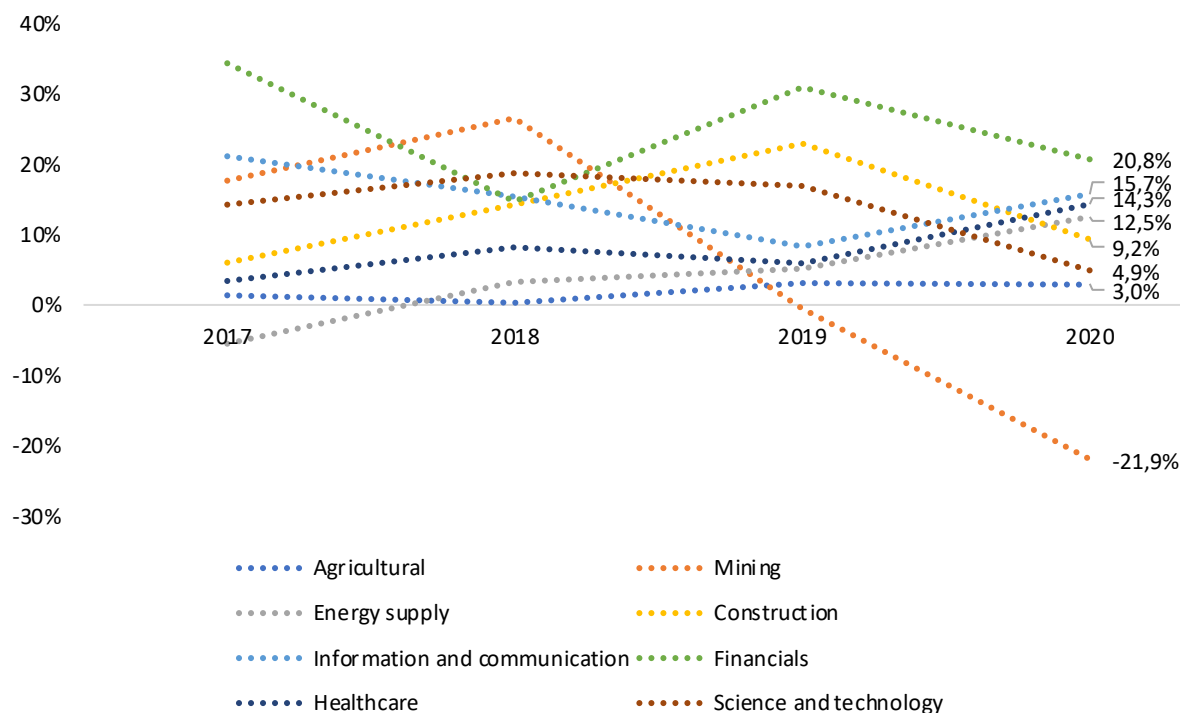


Source: State Statistics Committee of Uzbekistan

**Growth sectors.** Much of Uzbekistan's recent economic growth has been driven by a housing and construction boom, and the construction sector has an impressive CAGR of 35% in 2017-2020. The financials sector, historically underdeveloped but which will play a key role in Uzbekistan's economic growth over the next decade, grew 30.9% in 2019 and 20.8% in 2020. The banking sector is also poised to expand as many state-owned banks are scheduled to be privatized and will shift to a commercial business model. The agricultural sector, which grew at a modest 3% in both 2019 and 2020, is an investment priority for the government.

**Foreign investment.** Uzbekistan has recently become an attractive destination for foreign investment and in 2020 \$7 billion in FDI and credits flowed into the country. Led by Russia, China, and Turkey, foreign investors have taken particular interest in the electrical engineering, building materials, ITC, food, and chemical industries. Furthermore, the global hunt for higher yields has driven investment capital into emerging markets, with more than \$17 billion flowing into EM assets in the first three weeks of 2021.

GDP growth % by sector, yoy



Source: State Statistics Committee of Uzbekistan

## Risks and Challenges

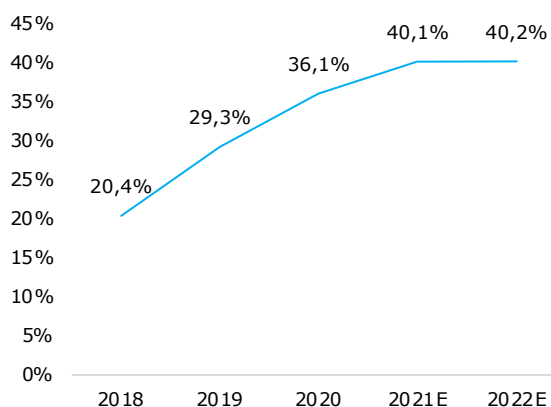
**Virus resurgence.** Further global COVID outbreaks would negatively affect Uzbekistan's economic outlook by disrupting trade, further damaging the tourism industry, and forcing the government to spend and borrow more.

**External debt.** External government borrowing has increased significantly in response to the pandemic. In June 2020, S&P downgraded Uzbekistan's sovereign credit rating outlook from "stable" to "negative" due to rising fiscal and external debt levels. Most of the government's debt is in foreign currency.

**Trade risks.** Uzbekistan's trade deficit has been increasing even under COVID conditions. The virus has had a major impact on trade: for example, the value of China's imports from Uzbekistan in 2020, primarily raw materials, fell more than 30% while Chinese imports overall declined only 1%.

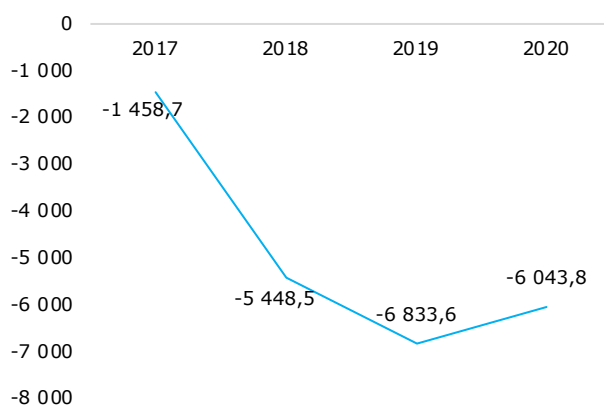
**Inflation.** The Central Bank of Uzbekistan's February 2021 monetary policy review identified a rise in inflation in food products as a possible near-term risk. While overall inflation was only 11.1% for 2020, inflation for food products came in higher at 15.3%. The CBU cites protectionist trade policies and heightened inflationary expectations as possible compounding risk factors.

Gross government debt, % of GDP



Source: IMF

Net balance of trade, USD mln



Source: State Statistics Committee of Uzbekistan

## Inflation

Since the government devalued the soum by half and ended the dual exchange rate regime in 2017, Uzbekistan's inflation rate has remained in double digits, reaching as high as 20% in 2018. However, despite spiking in the summer of 2020 during the height of the pandemic, inflation rates have been falling and are expected to decline further over the next five years.

The Central Bank of Uzbekistan cut the policy rate twice in 2020, from 16% to 14%, and further cuts are on the horizon in 2021 and 2022. The CBU announced that it will attempt to lower the policy rate to 10% by the end of 2021.

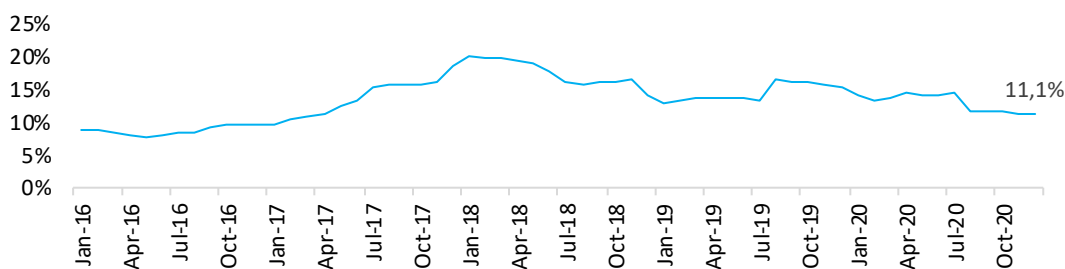
The CBU also announced that it is targeting an inflation rate of 5% by 2023, following in the footsteps of CIS peers such as Russia, Kyrgyzstan, and Kazakhstan that have targeted 5% inflation.

Sustained lower rates of inflation will spur economic growth, especially among households and SME's, encourage saving and investment, and help Uzbekistan maintain international competitiveness.

### Inflation forecasts, yoy

	2021E	2022E	2023E
IMF	9.3%	6.1%	4.9%
Asia Development Bank	10.0%		
Societe Generale	10.7%	7.7%	
Macro-Advisory	10.0%	8.0%	
Trading Economics	10.0%	10.0%	
<b>Average</b>	10.0%	8.0%	4.9%

Inflation %, yoy



Source: Central Bank of Uzbekistan

Currency

Although the Uzbek soum depreciated almost 9% against the US dollar in 2020, it performed better than neighboring currencies such as the Russian ruble and Kazakh tenge.

The days of massive currency devaluation of the soum, which lost 60% against the dollar in 2018, seem to have long passed. Most analysts are predicting a smaller fall versus the dollar in 2021.

In December, the MSCI International Emerging Market Currency Index rose 2.2% against the dollar, its best performance in more than two years. With trillions more in stimulus and continued Fed asset buying in the United States, emerging market currencies stand poised to benefit from a weakening US dollar.

The Uzbek government has also signaled that it views currency stability as vital to the country’s overall economic transformation and plans to take measures to increase exports and shrink the trade deficit.

