



MACROECONOMICS

# Uzbekistan: The Three Pillars

THEMATIC INSIGHTS

17.11.2021

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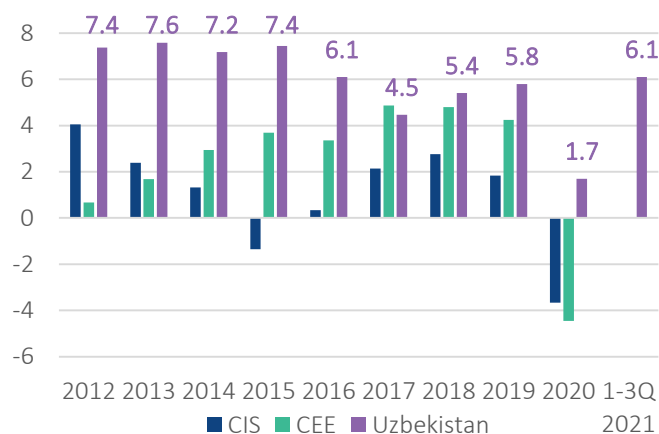
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# Introduction

Uzbekistan has many similarities in terms of strengths and weaknesses with other developing and emerging market economies. At the same time, we believe there are important pillars, which enable to argue that the country stands out. Namely, while most of the export categories consist of commodities, the prices of those are not correlated with each other, leading to resilience. Furthermore, in recent years Uzbekistan has actively positioned itself as a reformer with liberalizing economy and putting more emphasis on foreign investments, further strengthening the growth outlook. While going forward the continuation of liberal reforms and increasing role of private sector is expected, the government will likely play an important role in development through addressing innovation and coordination market failures. Indeed, Uzbekistan has a strong track record of discovering new industries and therefore the success likelihood is considerable, further strengthening the outlook.

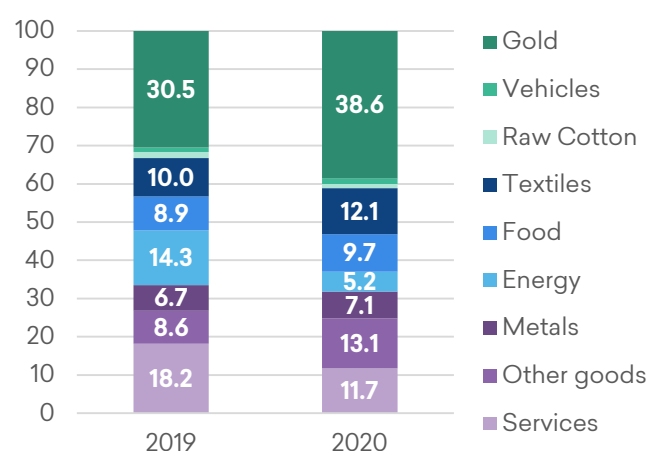
# The diversification

## Real GDP growth (YoY, %)



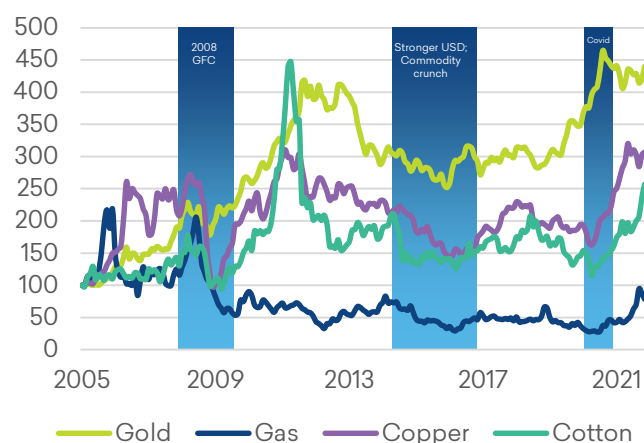
Source: World Bank, TBC Capital

## Uzbekistan export structure



Source: The state committee of the republic of Uzbekistan on statistics, BACI

## Selected commodity prices (2005 = 100)



Source: ICE, FRED

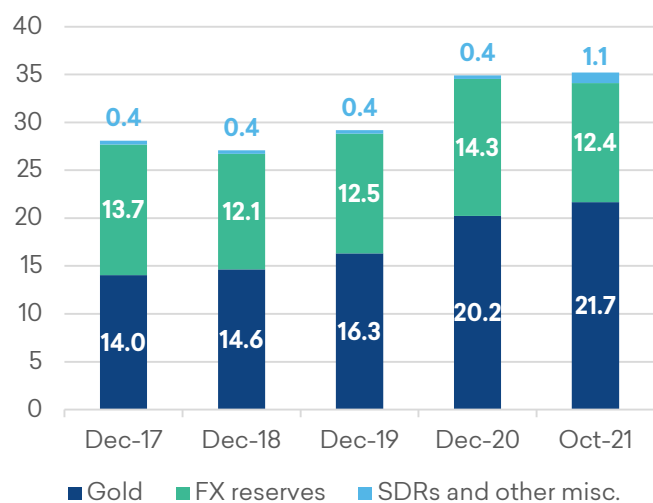
The pandemic caused severe declines in economies worldwide, however, among only few countries Uzbekistan demonstrated the resilience with 1.7% positive growth in 2020 and a strong recovery in 2021. While tourism share in GDP in Uzbekistan is low, this strong performance is still remarkable as according to the stringency index<sup>1</sup> the negative impact on growth was substantial and furthermore, the fiscal stimulus was marginal with the deficit to GDP ratio increasing by only 0.5 percentage points in 2020.

The main reason behind such a resilience is the diversification of the economy. In particular, Uzbek exports are dominated by gold, industrial metals with mainly copper, gas, cotton, textiles and fruits & vegetables, out of which the demand on the cyclical metals and energy increases during the strong global growth. Gold price, meanwhile, tends to increase during global downturns. Therefore, it can be argued that while Uzbekistan still largely depends on the commodity exports, the price of the main export products are not correlated with each other. We expect this diversification to also hold in the future taking into account country's large deposits of gold as well as cyclical commodities. Furthermore, we expect the non-commodity, higher value added sectors to play an increasing role.

At the same time, there are particular scenarios during which this diversification does not seem to be as effective. The appreciation of the USD during 2014-2016 and the subsequent commodity price shocks saw a major value decrease of both pro-cyclical commodities as well as gold. Uzbekistan's total exports and the economy were largely unaffected by this shock due to the resurging gold mining sector, not the diversification.

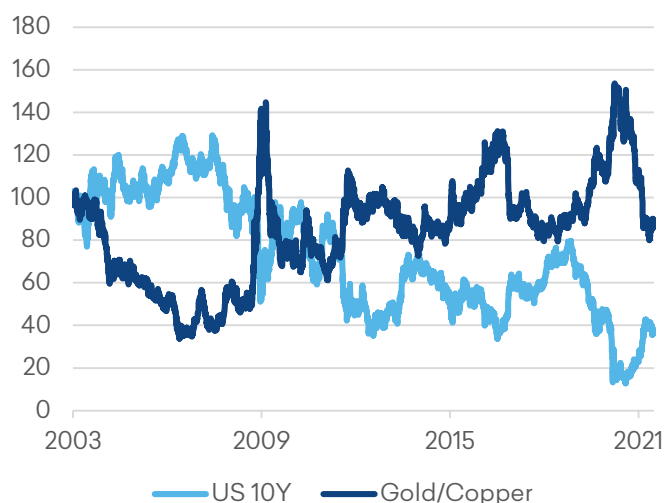
<sup>1</sup> [Covid-19 government response tracker](#)

## Official reserves of Uzbekistan (Billion USD)



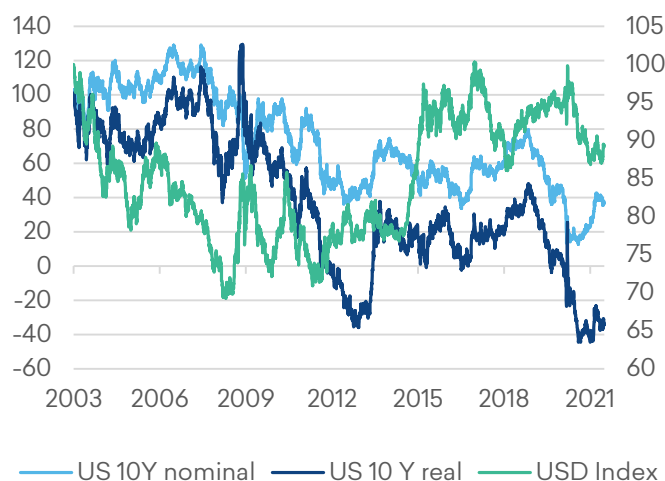
Source: Central bank of Uzbekistan

## US 10 year nominal yield and gold-to-copper ratio (2003 = 100)



Source: ICE, FRED

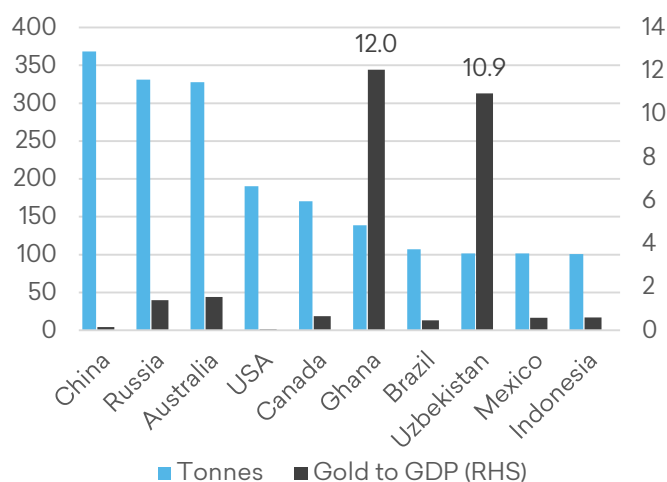
## Treasury yields and USD index (2003 = 100, USD RHS)



Source: Fred

Therefore, the vulnerability during the strong USD periods should be taken into account. To partially mitigate the strong USD risk, keeping high, 59% of GDP net international reserves in the USD rather than gold looks to be beneficial, as well as, borrowing more in the EUR, though [keeping in mind the EUR/USD PPP estimate](#). Additionally, as major economic partners of Uzbekistan practice monetary policies with considerably lower interest rates, the [multicurrency portfolio](#) with the CNY and the RUB in the basket may also be considered. While the development of national currency market at a reasonable price is a priority, it is difficult to achieve substantial results in the near term and therefore, other risk mitigation options should also be on the table. In addition, higher US 10 year nominal benchmark yield, not necessarily correlated with the stronger USD, still implies lower gold prices, though the relationship is positive with pro-cyclical commodities, thus during high global growth periods demand on Uzbekistan's non-commodity exports increases with it. Therefore, the increase in the US 10 year nominal benchmark yield would likely have a negative effect through the financial tightening channel, as the cost of borrowings increases with the yields.

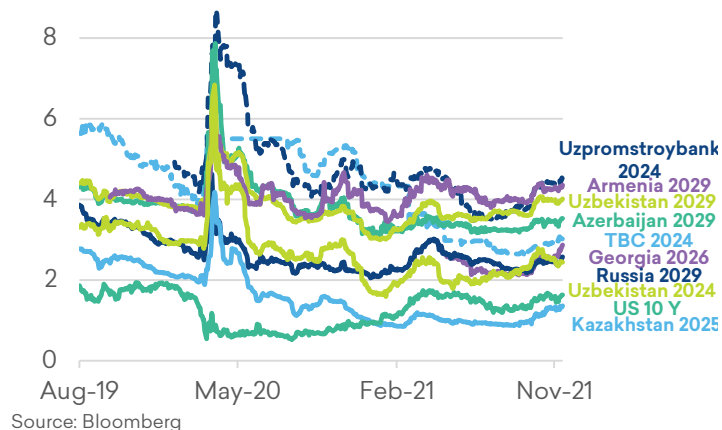
## Gold mining (Tonnes, value to GDP %, 2020)



Source: World Gold Council, World Bank, TBC Capital

# Liberal reforms and foreign savings

## International Bond Yields (%)

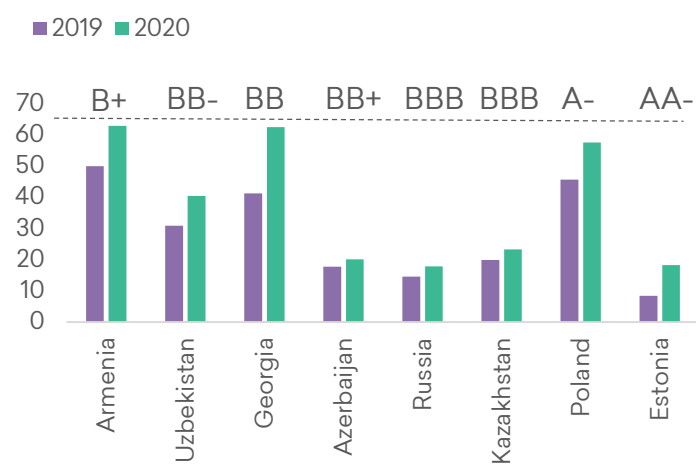


In recent years, Uzbekistan has actively positioned itself as a reformer with liberalizing economy and putting more emphasis on foreign investments. The whole gamut of the economy and institutions are under reforms, including but not limited to privatization, new transparent and digitalized tax code, trade liberalization, central bank reform, etc<sup>2</sup>. The results are already evident in World of Bank's doing business report, Uzbekistan improving its ranking from 141 in 2015 to 69 in 2020.

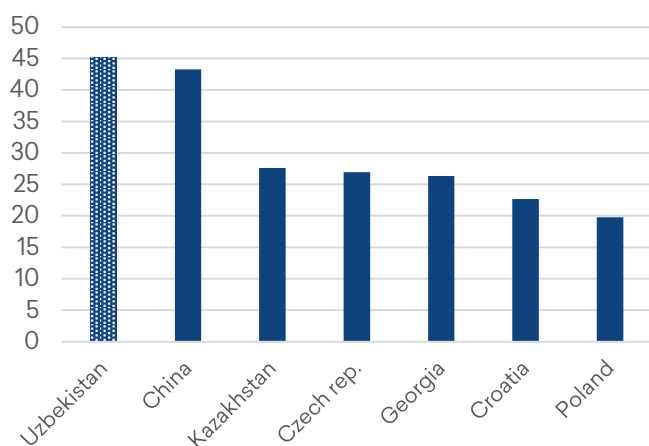
Recently, Uzbekistan has debuted on the international markets with reasonable yields. With the current public debt to GDP ratio lower than 40% and increased presence of IFIs, country is recently increasingly focusing on external savings to fund it's very strong investment to GDP ratio.

2. [Republic of Uzbekistan: 2021 Article IV Staff Report](#)

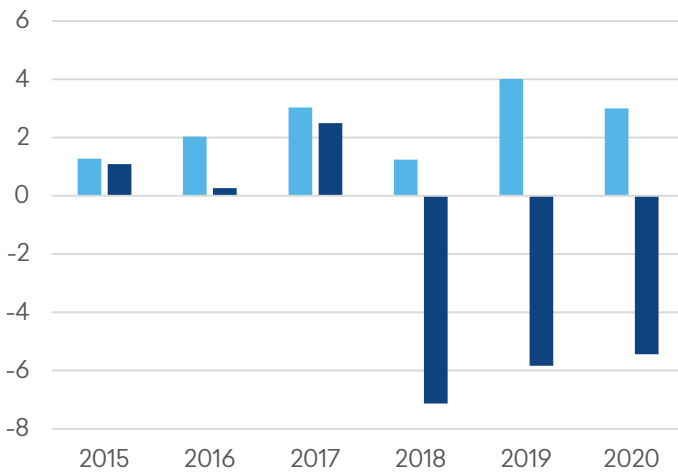
## Public debt and Fitch ratings (% of GDP)



## Gross fixed capital formation in 2019 (% of GDP)



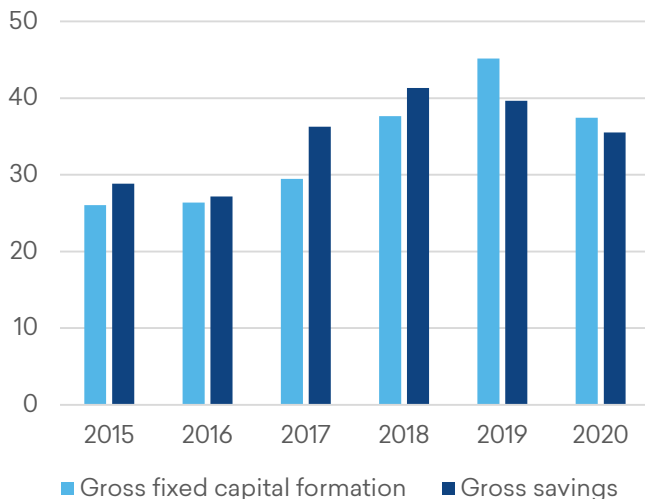
## Net FDI inflows and CA balance in Uzbekistan (% of GDP)



Source: World Bank

■ FDI ■ Current Account

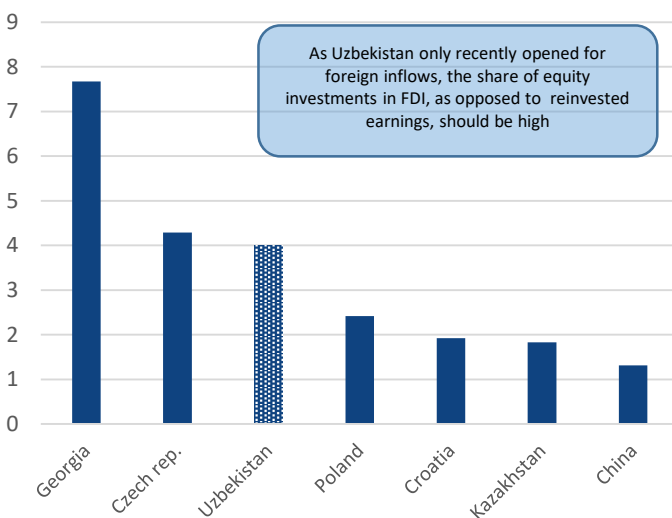
## Gross fixed capital formation and gross savings in Uzbekistan (% GDP)



Source: World Bank

■ Gross fixed capital formation ■ Gross savings

## Net FDI inflows in 2019 (% of GDP)



Source: World Bank

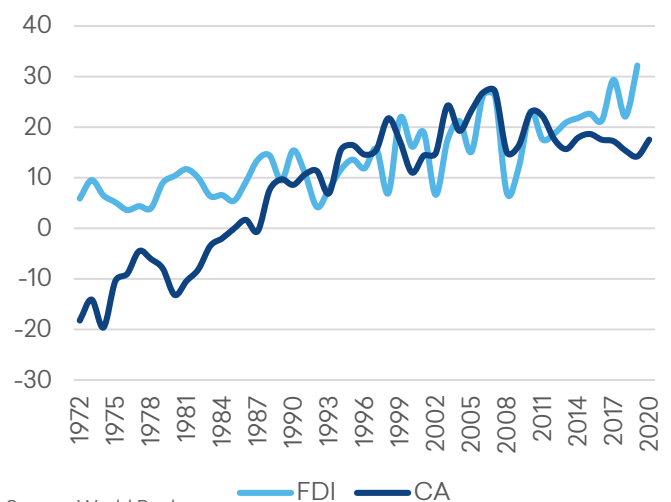
As Uzbekistan only recently opened for foreign inflows, the share of equity investments in FDI, as opposed to reinvested earnings, should be high

It is important to highlight that if a country receives high inflows, the only way to avoid a CA deficit is to reinvest those inflows abroad. According to the Chairman of the Monetary Authority of Singapore, in the 1970s and 1980s when Asia was rising, Singapore and South Korea had large and sustainable current account deficits as global financiers thought that there were investment opportunities<sup>3</sup>.

While Uzbekistan still has a lot of homework to do in order to become a hub in as many areas as Singapore, one could certainly argue that Uzbekistan should further advance in this direction even with further widening of a current account deficit given it is not financed by short term flows and there is no evidence of an overheating of the economy often combined with the housing bubbles.

3. Bloomberg Markets and Finance Interview with Tharman Shanmugaratnam

## Net FDI inflows and CA balance in Singapore (% of GDP)



Source: World Bank

— FDI — CA

# Industrial policy

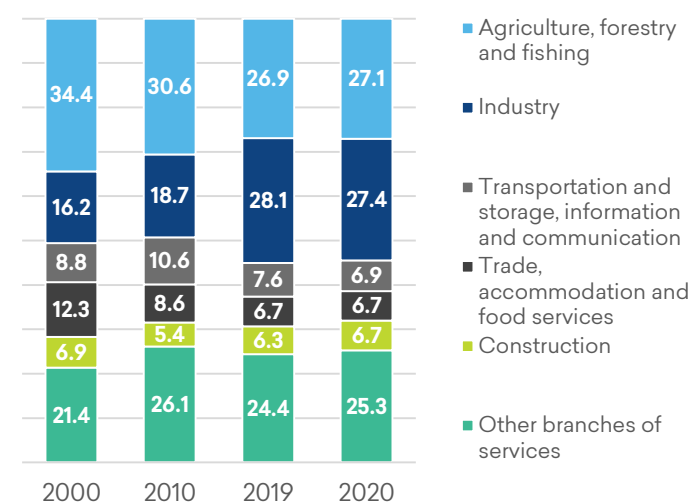
While going forward, the continuation of liberal reforms and increasing role of private sector is expected to continue, the government will likely play an important role in strengthening growth and development through addressing cost discovery and coordination market failures<sup>4</sup>. Indeed, Uzbekistan has a strong track record of discovering new industries. In particular, while cotton had dominated the exports together with commodities, new higher-value added industries such as textiles, cars, fertilizers and chemicals were developed<sup>5</sup>.

Though some of the sectors have not proliferated in exports, they still dominate the local markets, for example the car industry. In addition, recently the commodities have regained the share in exports, though on the back of higher prices, rather than decline in non-commodities output.

Going forward, alongside planned increased in mining of commodities, there is strong potential of growth in tourism sector, as well as further discovery of new high value added industries.

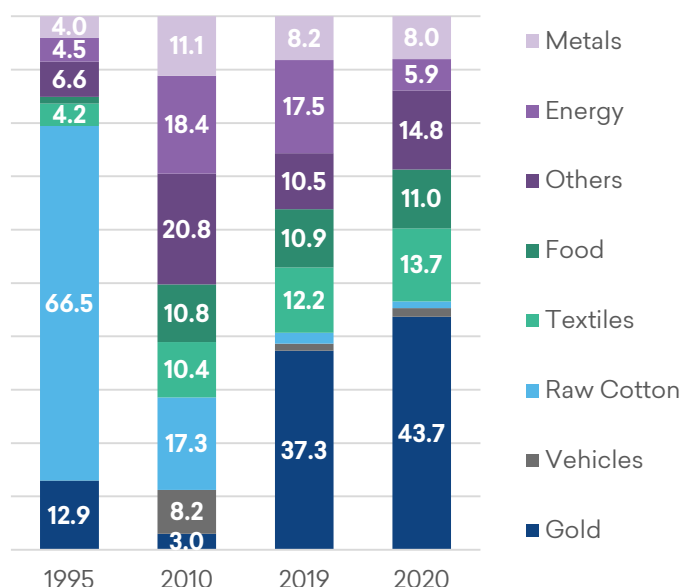
4. [Rodrik, Dani. \*Industrial Policy for the Twenty-first Century\*. 2004](#)  
 5. [Popov, Vladimir, and Anis Chowdhury. "What Uzbekistan tells us about industrial policy that we did not know?." \(2015\).](#)

## Uzbekistan GDP structure by sectors (%)



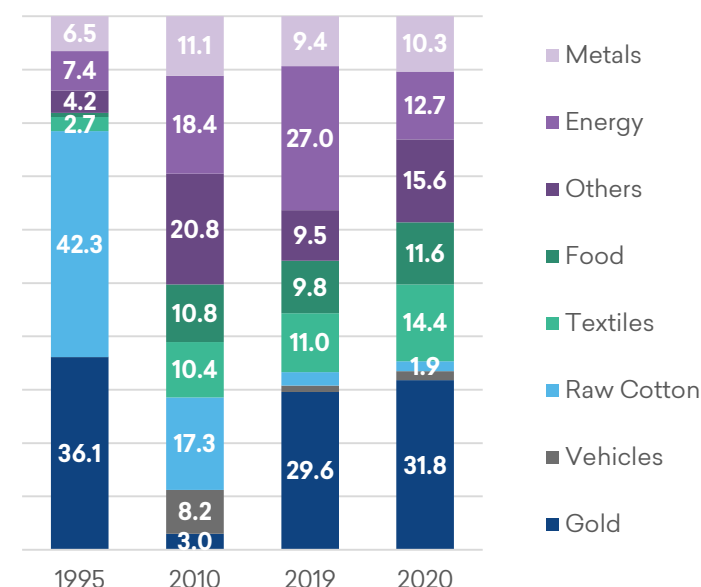
Source: The state committee of the republic of Uzbekistan on statistics

## Uzbekistan export structure (Current prices, %)



Source: UN Comtrade, BACI

## Uzbekistan export structure (Constant 2010 prices\*, %)



\*Adjusted for 2010 Copper, natural gas, cotton and gold prices  
 Source: UN Comtrade, BACI, ICE, FRED

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