Uzbekistan

Capital:	Tashkent
Population (million inhabitants):	26.9
GDP (US$ million):	22,308
Currency:	Uzbekistani som (UKS)

Country @rating:	D
Medium-term rating:	High risk
Business climate rating:	D

STRENGTHS

- The country boasts extensive raw material resources – gold, cotton and natural gas.
- Trade surpluses and foreign exchange reserves are large and foreign debt ratios have come down to low levels.
- Reform of the tax system and public revenue department have strengthened public sector finances.
- Located at the heart of Central Asia and with the largest population in the region, Uzbekistan represents a potentially attractive market for foreign investors.

WEAKNESSES

- With little diversification, the economy remains dependent on price trends for raw materials.
- The business environment has not been very conducive to private sector development.
- Patronage can be a source of tensions in a context of social dissatisfaction.
- The discontent could foster an upsurge of Islamic fundamentalism.

RISK ASSESSMENT

Dynamic raw material exports

Economic growth reached 8 per cent in 2008 driven by exports, with prices for gold and cotton at high levels. But the economy is expected to slow in 2009 amid lower raw material prices. GDP growth will nonetheless remain at satisfactory levels, however, since prices for natural gas exports are likely to increase sharply under an agreement with Russia. This dynamism has encouraged investment and the growth of domestic consumption. Although the drop in prices for imported food and energy goods has had a moderating effect on inflation, the influx of foreign exchange resulting from exports and transfers from expatriates has bloated the monetary mass and maintained double-digit price growth.

An essentially inhospitable business environment

Major shortcomings in the business environment have hampered the development of the private sector. With the state owning large companies and the land, the government has given little encouragement to modernising the production infrastructure. Protectionist policy fostering substitution for imports by domestic demand has deterred investment.

With financial intermediation relatively undeveloped in Uzbekistan, the country derives little benefit from its massive external surpluses. Liberalisation of banks, owned by the state, has proven to be a difficult feat to accomplish. Growth of the automotives and chemicals sectors notwithstanding, the economy will long depend on raw material exports.

Persistence of major political uncertainties

Despite the re-election in December 2007 of President Islom Karimov, in office since independence in 1991, major political uncertainties persist. The opposition could become radicalised in reaction to the lack of room for manoeuvre allowed by the government in power. Endemic poverty, centralised power and the lack of a designated successor could be sources of instability.

Although dependent on neighbouring countries for water Uzbekistan relations with them have nonetheless often been difficult. However, for its gas exports Uzbekistan remains dependent on Russia.

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MAIN ECONOMIC INDICATORS

USD millions	2004	2005	2006	2007	2008(e)	2009(f)
Economic growth (%)	7.7	7.0	7.3	9.5	8.0	6.5
Inflation (%)	15.5	18.8	11.4	11.9	12.1	10.0
Public sector balance (%GDP)	0.6	1.2	5.2	3.9	2.2	2.2
Exports	4,263	4,749	5,617	8,029	10,100	11,600
Imports	3,061	3,310	3,590	4,480	5,680	6,950
Trade balance	1,202	1,439	2,027	3,549	4,420	4,650
Current account balance	1,214	1,947	3,199	5,297	6,461	6,914
Current account balance (%GDP)	10.1	13.6	18.8	23.8	24.6	20.8
Foreign debt (%GDP)	36.0	28.9	22.7	17.4	14.7	11.7
Debt service (%Exports)	15.7	12.4	9.7	6.8	4.9	3.7
Foreign exchange reserves (in months of imports)	6.4	8.2	12.5	16.9	18.9	18.6

CONDITIONS OF ACCESS TO THE MARKET

Market overview

Uzbekistan signed Article 8 of the IMF charter on 15 October 2003, at the same time as officially declaring free convertibility for its currency. It has since slowly and steadily changed its trade regulations but has fallen short of full market liberalisation. The economy is still largely 'steered' by the government with a view to achieving self-reliance through protection of the domestic market and import substitution. The volume of ordinary trade is rising steadily, especially with Russia, Turkey, Kazakhstan and even Iran. Among its main trading partners only South Korea and Germany export more to Uzbekistan than they import from them.

To ensure timely debt servicing, the government has limited the sovereign guarantee facility to so-called priority schemes defined solely by the cabinet. Multilateral financing can be obtained from international lenders ready to assist projects aiming to open market access and develop the private sector.

The country is struggling with legislative and regulatory reforms whose implementation is often haphazard and dependent on the goodwill of the authorities. Imports of consumer and capital goods continue to be restricted by measures (tariff and non-tariff barriers) to protect the domestic market. Due to the Uzbek government's markedly cautious attitude to the pace of liberalisation, its extreme vigilance in respect of foreign debt and the country's geographical position, access to the Uzbek market remains difficult, especially for small- and medium-sized firms, which have to incur high market penetration costs.

The Uzbek Chamber of Commerce is actively involved in facilitating relations between Uzbek and foreign firms with the aim of limiting state intervention.

Attitude towards foreign investors

Uzbek legislation offers investors safeguards against discrimination, nationalisation or expropriation and allows free repatriation of profits and capital (limited by the availability of foreign exchange). Red tape remains one of the biggest obstacles, but legislation on this issue is under review. Meanwhile, the irrevocable and confirmed letter of credit remains the best means of payment.

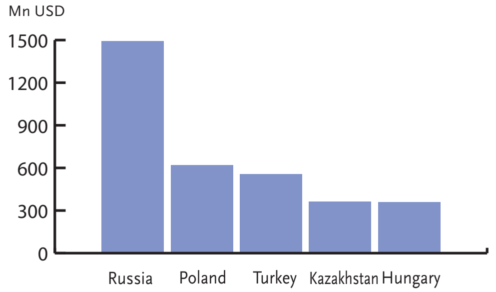
Uzbekistan has reached a stage in its privatisation programme where it needs FDI to kick-start economic growth. The latest privatisation programme for 2007–2011, which includes companies from strategic sectors, was published by presidential decree in July 2007. However, the majority of these enterprises have either filed for insolvency or exist only on paper. The rule in takeovers is to get investors to modernise the production apparatus of these enterprises. In strategic sectors, such as cotton and its derivatives, gold, energy and aeronautics, foreign shareholdings are subject to a 49 per cent ceiling, with the Uzbek government retaining a majority stake.

Foreign exchange regulations

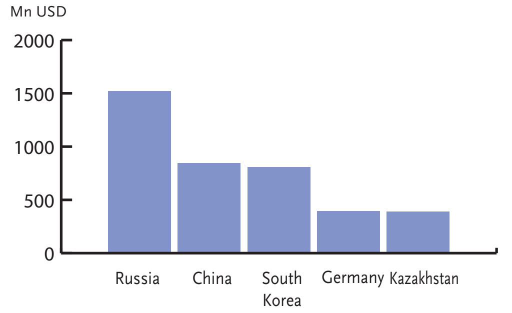
The currency has been freely convertible since 15 October 2003. The exchange rate seems to have steadied and since 2006 is pegged to the US dollar within a fluctuation band of ±2 per cent. Payments in hard currency are no longer restricted by the currency's lack of convertibility but by the shortage of foreign exchange at customers' banks. The lack of availability of hard currency and the slowness of the decision-making process in large public-sector enterprises and government departments mean that it takes intolerably long to obtain foreign exchange (over six months), entailing a risk of revision of the terms of international contracts. It is advisable to take out exchange risk cover.

Exports 38% of GDP → ← Imports 26% of GDP

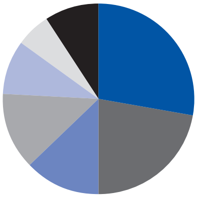
MAIN DESTINATIONS OF EXPORTS



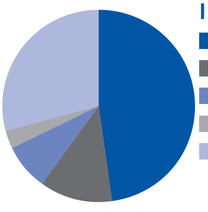
MAIN ORIGINS OF IMPORTS



EXPORTS by products



IMPORTS by products



DEBT/EXPORTS GDP/INHABITANTS GDP UZBEKISTAN/CIS