



Uzbekistan: economic potential and investment opportunities



February, 2019

Key Investment Highlights



Uzbekistan's Strategic Trading Location

- Export industries are leveraging better exploitation of the country's strategic Silk Road trading location
- Large scale infrastructure investment is increasingly linking Central Asia to Asia and Europe

Favourable Demographics, Young Population, Largest in Central Asia

- Uzbekistan is the most populous state in the region (32.7 million) and currently has the largest workforce (14.3 million)
- Policy is geared towards expanding education and channelling excess agricultural labour into industrial employment
- 65 higher education institutions and several international universities now being represented in Uzbekistan. Literacy rate close to 100%

Large Natural Resource Endowment

- Abundant and diversified natural resources (gas, gold, copper, uranium) provides a platform to drive rapid growth
- Massive potential for solar power – 320 days of sunshine annually
- Reform policies are stimulating diversification of the economy – automobile production already in place

Robust Growth, Strong Fiscal and External Accounts

- Economic growth is consistently above rest of world: 7.1% average vs. 2.8% world average (2013-2017)
- 15 years of budget surplus, low government debt (24% of GDP), fiscal rules for debt and budget are under discussion
- 13 consecutive years of current account surplus; foreign exchange reserves equal to 20 months of imports

Strong Commitment to Reforms and Transformation Strategy

- Government deeply committed to reforms, with significant accomplishments already achieved
- Ranking in World Bank's "Ease of Doing Business" improved by 90 places between 2012 and 2018
- Wide ranging institutional, economic and social reforms guiding Uzbekistan, embodied in "Action Strategy 2017-2021"

Deep and Varied Support from International Development Partners

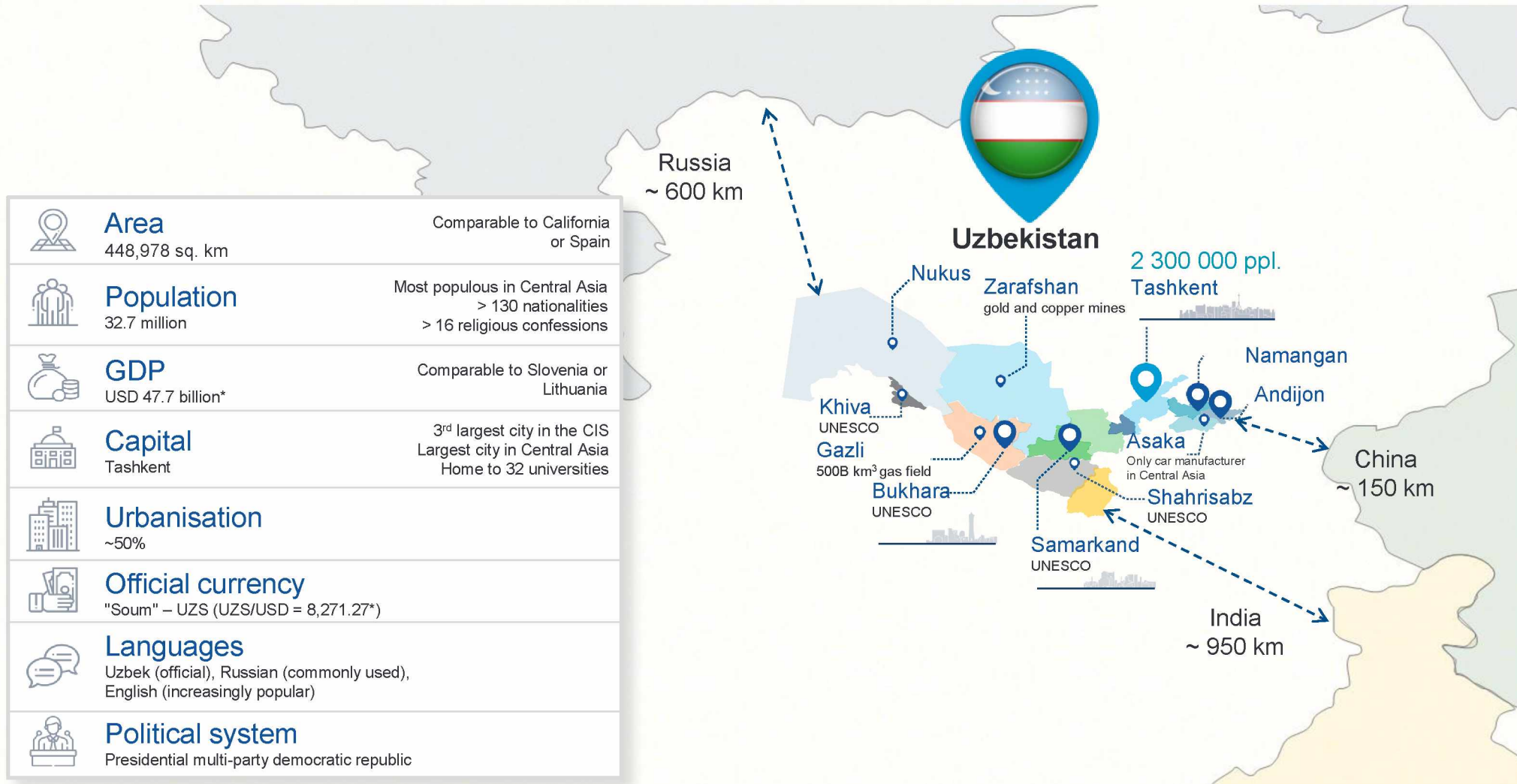
- Strong support from the IMF, World Bank and the Asian Development bank for advancing structural reforms
- Up to \$1.8 bn of approved development policy financing loans



Uzbekistan's Strategic Location



In the heart of Eurasia, the Republic benefits from access to markets with 3.3 billion people within 950 km.

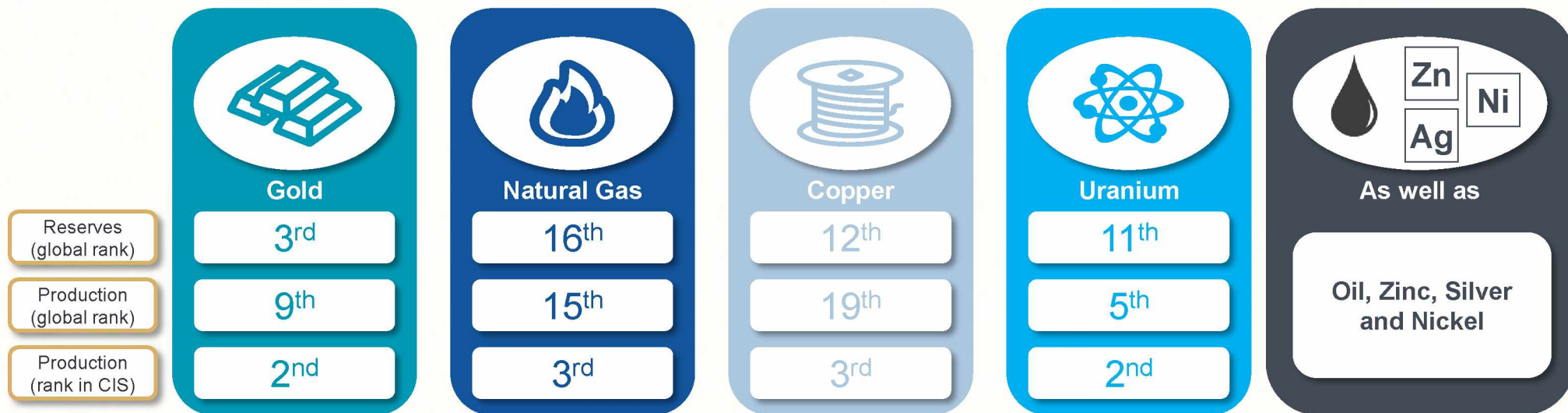


*Average USD/UZS rate for 2017 is 5,183. A USD/UZS rate of >8,000 reflects the full UZS 2017 devaluation.

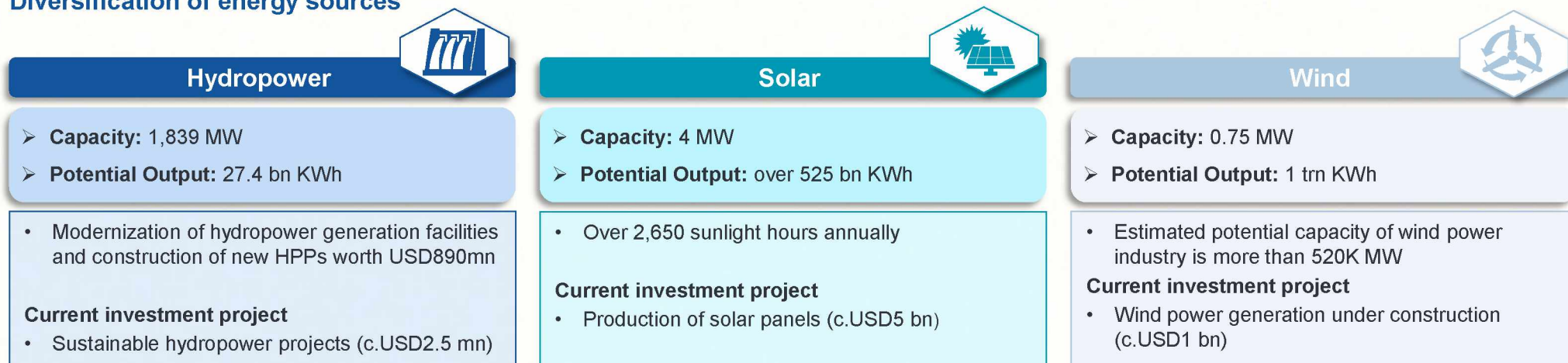
Natural Resource Endowment



Mineral resources abundant and diverse



Diversification of energy sources



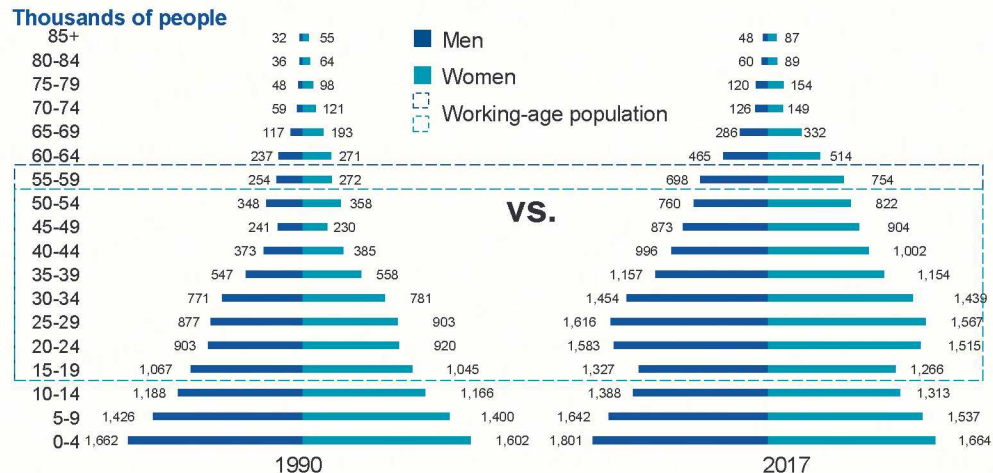
Source: IRENA, ADB, State Committee of Uzbekistan for geology and mineral resources, OECD, Central Bank, Ministry of Finance, Statistics Committee of Uzbekistan.



Young, Large Labour Force A Major Factor in Growth Potential

Uzbekistan is enacting reforms to more productively and positively take advantage of its main asset – its human capital.

Age structure of the population



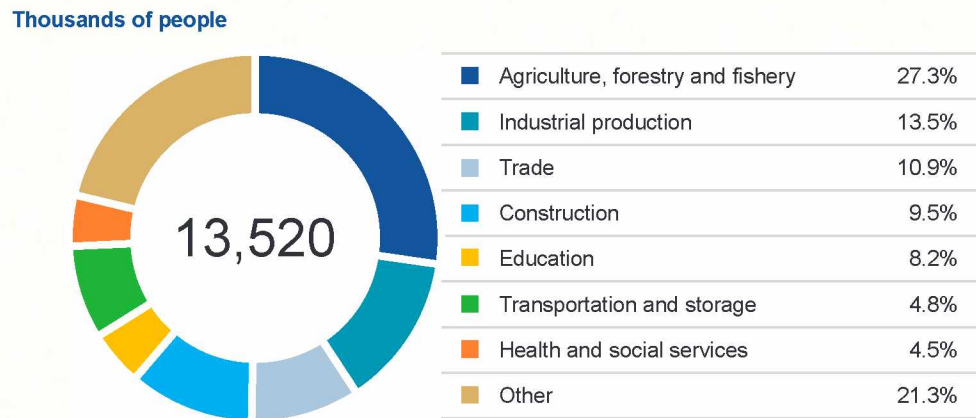
Demographic dividend

- ★ Most populous nation with the largest work force in Central Asia
- ★ 90.6% of the population in 2017 is of working-age, 56.5% of population is under 30 years and 72% of the population is currently under 40
- ★ The working age population is 9x larger than the pension age population
- ★ The national poverty rate has fallen significantly (to 12.3%) and is approaching the OECD average (11.6%)

Workforce policies

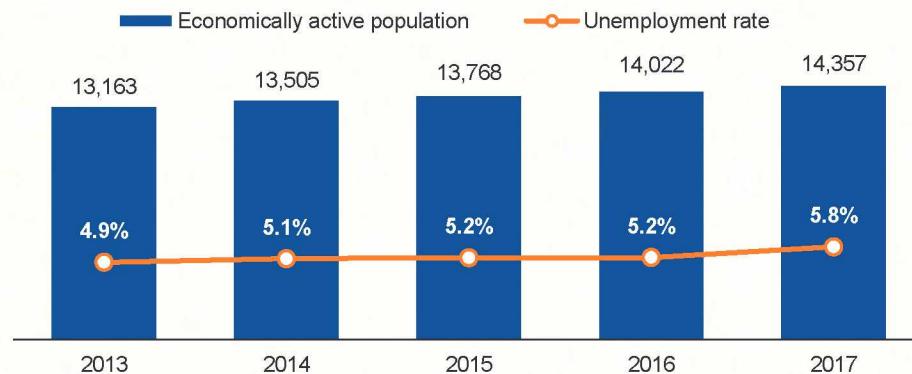
- ★ Policy is geared towards expanding education and channelling excess agricultural labour into industrial employment
- ★ The government supports labour migration to other countries through initiatives such as signing intergovernmental agreements relating to migrant workers

Employment by sector as of 2017



Dynamics of economically active population

Thousands of people and as % of available workforce



Source: The Ministry of Employment and Labour Relations, State Committee of Statistics

President Mirziyoyev, Elected in 2016, Is Driving Reforms



Uzbekistan's reform efforts, launched by President Mirziyoyev following his election in 2016, are broad and deep, touching every aspect of government, society, and the economy, with the aim of creating a market-based economy.

Key Areas of Reform

Development of state governance

- Administrative reforms
- Adoption of anticorruption laws
- Human rights priorities
- Introduction of e-Government
- Establishment of a Ministry of Innovation

Rule of law and legal reforms

- Transparency of and public involvement in regulations
- Refinement of the judicial system
- Enhancement of contract law
- Empowerment of local deputies

Development and liberalisation of the economy

- FX and trade liberalisation
- Priority to price stability
- Price reforms and ending subsidies (energy, food, etc.)
- Improved Investment climate
- Agricultural reforms
- Tax reform
- Transparency of economic data
- Innovation Strategy 2018-2021

Development of the social sphere

- Improved quality of education and health services
- Increasing private and international role in higher education
- Extending coverage and targeting of social services
- Real income and employment growth

Security, religious tolerance and interethnic harmony, foreign policy

- Protection of sovereignty and territorial integrity
- Improved information security
- Promoting interethnic concord
- Strengthening of the republic's defense capability
- Improved foreign policy base

2019 - 2021 Development Focus Areas

- Modernisation of the economy
- Technological development
- FDI promotion and investment climate
- Private property protection mechanisms
- Tax system reform
- Banking system and financial market development
- State-owned enterprise reform

Reforms Being Implemented, Progress Visible in Many Sectors



State governance reforms

1



- The Office of the President, the Cabinet of Ministers, and 20+ Ministries revised their structures, tasks and functions
- Better coordination between state bodies and local administrations; 46 government bodies reshaped or merged; 6 were abolished
- Adopted 50 resolutions based on the suggestions from the newly-introduced Impact of Legislative Acts' Assessment System
- Virtual Presidential Reception reviewed over 2 million appeals by 24 August 2018

Rule of law and legal reforms

2



- Increasing transparency of political decision making
- Discussion of proposed normative acts (by-laws) via national portals
- Adopted the presidential decree on enhancement of normative (rule-setting) actions
- Directed legislative regulation stability provision

Development and liberalisation of economy

3



- Abolished surrender requirements and barriers on current account transactions
- Increase in foreign trade turnover stands at 46.9%*; import tariffs have been cut; a roadmap in place with key steps to join the WTO
- Monetary policy authorities will transition to inflation targeting
- **The country's World Bank Ease of Doing Business ranking jumped from 166 (2012) to 76 (2018)** ←
- Reduction of administrative interference in the economy is promoting an equal playing field for businesses including tariff rises on gas and electricity (by 10.4% and 9.4% respectively) and measures taken to liberalise bread and flour price
- Increasing transparency and openness, improved data quality, joining IMF data distribution system (e-GDDS)
- Business Ombudsman Institution established
- Bread and flour prices increasingly liberalised, except for protections for vulnerable populations and against extreme volatility

Development of social sphere

4



- 55.8% of Budget expenditures in 2018 are spendings on social sphere: education (31.4%), healthcare (15.4%), other social (9%)
- A ministry for preschool education was founded; evening and distance learning were adopted
- The number of private clinics grew from 3,040 to 4,073 in the last year
- The labour migration agency confirmed 14 conventions, including the convention against child and forced labour
- The annual increase in jobs reached 350k – 450k; a new Tax Code lessens the tax burden on individuals; public salaries are indexed to CPI levels; the state as established self-employment support programmes; and established a national chamber of innovative health

Security, religious tolerance & interethnic harmony, foreign policy

5



- Approved the concept of administrative reforms
- The first-ever anti-corruption law was adopted; control over corruption in education was enhanced
- 19 laws and 900 other legal acts focused on the development of all spheres of public and social life were adopted
- The Centre for Strategic Development and Presidential Civil Society Advisory Council were established

Source: Decree of the President dated 09/08/2017
*As of 1H2018

Uzbekistan Has Strong Ties with International Partners



Uzbekistan has built strong ties with foreign governments as well as with international financial institutions. Support comes in the form of long-term financing on concessional terms and extensive technical assistance

Cooperation with international organisations



Asian Development Bank

Policy-Based Loans; Technical assistance in main sectors worth USD3.9 bn

- Power Generation Efficiency Improvement: \$1.5 bn
- Advanced Electricity Metering: \$0.5 bn
- Takhiatash Power Plant Efficiency Improvement: \$0.6 bn
- Second Central Asia Regional Economic Cooperation: \$1.3 bn



WORLD BANK

Development Policy Operations; 24 projects worth USD3.4 bn

- Development Policy Operation to the Uzbekistan: \$0.5 bn
- Horticulture Development Project to enhance the productivity and profitability of horticulture sector in the project area \$0.5 bn
- The development objective of the Energy Efficiency Facility for Industrial Enterprises Project \$0.2 bn



European Bank for Reconstruction and Development

68 projects worth EUR1.3 bn; EUR333 mn of support infrastructure

- Tashkent Water - €26.1 mn
- Namangan Water - €52.2 mn
- Khorezm Water - €52.2 mn
- Tashkent District Heating - €43.5 mn and €87 mn
- UzbekEnergo Muruntau Substation - €71.7 mn
- Re-opening of EBRD's offices in Tashkent in November 2017



INTERNATIONAL MONETARY FUND

Regular Article IV Consultations

- Cooperation on methodology for Balance of Payments
- Cooperation on monetary policy and related instruments
- Cooperation on stress-testing the banking system
- Cooperation for joining GDDS
- Cooperation for updating metadata



More than 70 mid-regional documents in human rights and 10 agreements are adopted



Provision of technical and advisory assistance to the Government of the Republic in addressing short- and medium-term priority objectives related to the socio-economic development of the country



Tourism development, construction and enhancing living standards. Negotiated 5 projects worth \$0.6 bn

Increasing bilateral engagement



- In 2017-2018, Uzbekistan signed agreements with 15 countries with a total value of more than \$50bn



- Key joint projects are in the oil and gas, petrochemical, nuclear and metals industries



- Forms of participation in the projects: investments, loans, production sharing agreements and trade financing



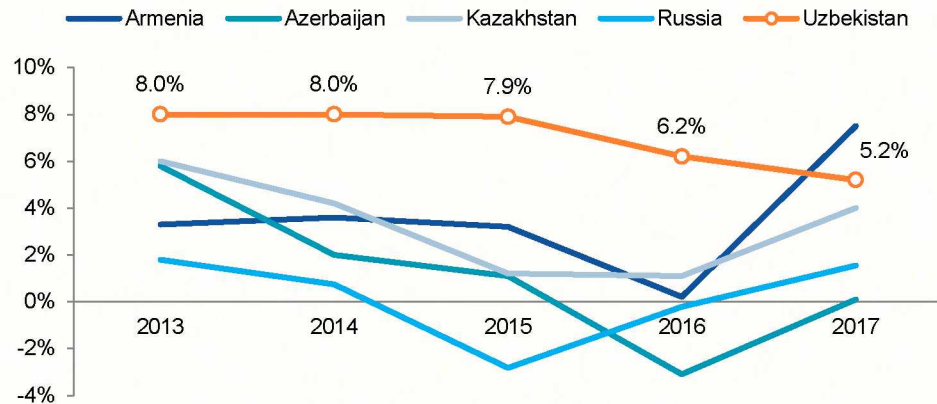
Economic Growth Consistently Above the World Average



Uzbekistan's economic growth has outpaced the world average in recent years despite internal and external shocks, and current reforms will build on a strong foundation.

Uzbekistan's growth is among the highest of regional peers

Real GDP growth year-on-year (%)



Strong growth of the economy in 2008-2017

- ★ The real GDP of Uzbekistan doubled in the period 2008-2017, with investments increasing at around 13% per annum
- ★ Nominal GDP in USD terms decreased to USD32 bn in 2017 due to UZS liberalisation

Government policy and demographics will support growth

- ★ The implementation of active investment policy, measures aimed at smoothing negative external effects, improvement of the tax system, and public finance regulation, as well as the country's favourable demographic position, all will contribute to increasing the pace of economic expansion

Recent currency liberalization caused devaluation but did not undermine consumers' purchasing power

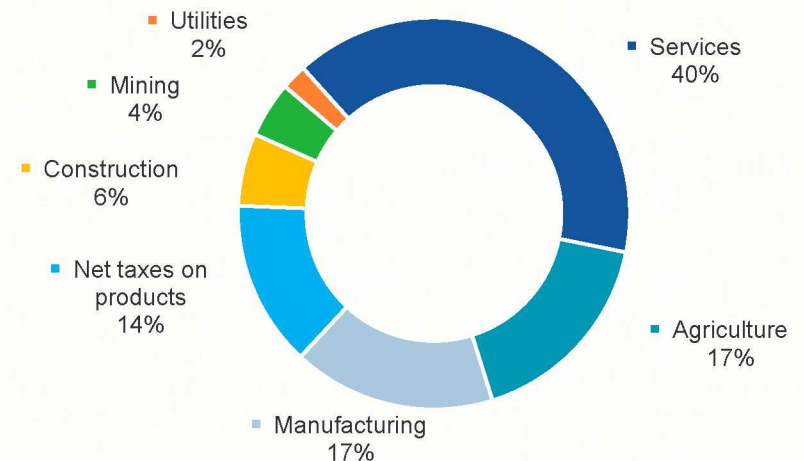
■ Nominal GDP, UZS tn ■ Nominal GDP, USD bn (RHS) ◆ GDP per capita at PPP, USD '000s



Source: Central Bank of Uzbekistan, State Committee of Statistics, World Bank (for GDP growth data for regional peers)

The economy comprises diverse activity, lead by services

Sector contribution to GDP (%)



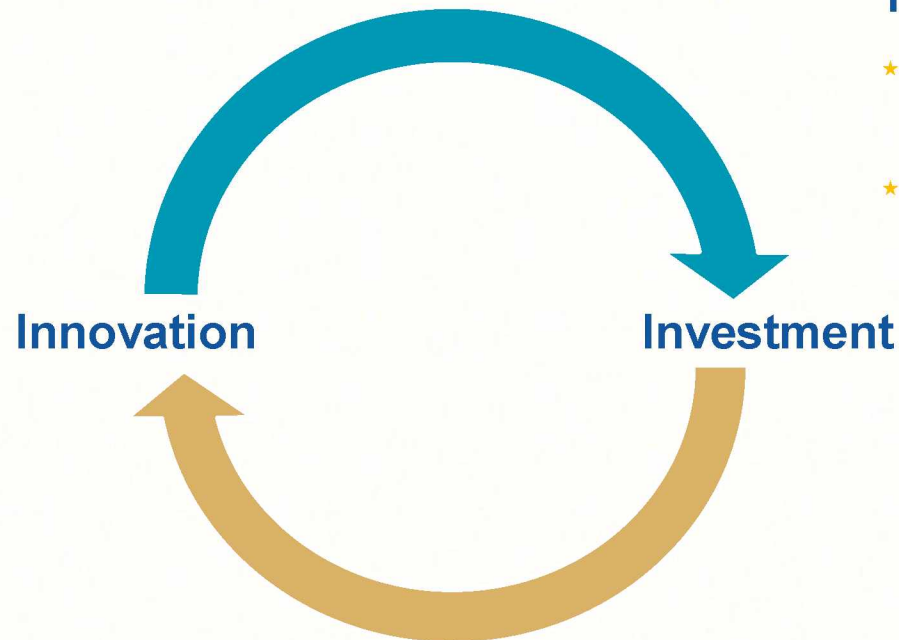
Innovation and Investment



The government is prioritizing investment and innovation as key tenants of its new direction, creating opportunities for 'catch-up' growth as well as leap-frogging peers.

Innovation

- ★ The government has implemented an Innovation Strategy, 2018-2021, key specific commitments of which are:
 - ★ Establishment of a Ministry of Innovation
 - ★ Development of special financing institutions to support innovation
 - ★ Increasing state research and development funds to 0.8% of GDP by 2021
- ★ The government is further aware that fostering innovation will also entail making general improvements to the investment and business climate



Investment

- ★ More than 60% of capital expenditures as of year-end 2017 were focused on new construction
- ★ Structurally significant investment projects completed in 2017 include:
 - Electrification of the Karshi-Termez and Pap-Kokand-Andijan railway districts
 - Construction of a new 900mW thermal power station
 - Construction of a gas processing plant and support facilities at the Kandym cluster of producing fields

Institutional Development

- ★ The Ministry of Finance in October 2018 established an agency for the development of Public-Private Partnerships (PPP), the functions of which are:
 - Participating in PPP program development
 - Facilitating dialog between the public and private sectors, including with international organizations
 - Preparing methodologies for assessing PPP program effectiveness



Tax Policy and Reform

State tax reforms will lead to better revenue collection at the state and regional levels as well as a continued ability to balance the republic's budget. The tax system is becoming simpler and more targeted to consumption

State taxes – allocated between republican and local budgets	2017	2018	2019
Corporate income tax	7.5%+8% (pmt for social infrastructure development)	14%	12%
Single tax payment	5%	5%	4%
Personal income tax	From 0% to 23%	From 0% to 22.5%	Single flat rate 12%
VAT	20%	20%	20%
Excise duties	Absolute amount	Absolute amount	Absolute amount
Severance tax	Absolute amount	Absolute amount	Absolute amount
Fixed tax for certain commercial activities	5%	5%	Absolute amount
Water resource usage tax	Absolute amount	Absolute amount	Absolute amount
Local taxes – allocated to local budgets	2017	2018	2019
Fuel consumption tax	Absolute amount	Absolute amount	Absolute amount
Corporate property tax	5.0%	5.0%	2.0%
Corporate land tax	Absolute amount	Absolute amount	Absolute amount
Single land tax	0.95%	0.95%	0.95%
Taxes allocated to non-budgetary funds	2017	2018	2019
Social payments to pension funds	8%	8%	Abolished
Corporate payments to other funds	1.6%+1.4%+0.5%	single rate 3.2%	Abolished
Single social payment	25% (15% for small businesses)	25% (15% for small businesses)	25% for gov. enterprises/12%

Tax reform in progress

- ★ Development of a new tax code with assistance from the World Bank
- ★ A new tax code draft is expected on December 1, 2018
- ★ Current tax amendments and those in 2019 will have effect first in 2020

Tax simplification

- ★ Corporate income tax and taxes for social infrastructure improvement and development will be replaced with a single corporate income tax
- ★ Mandatory allocations to the pension fund, republican road fund and education and healthcare institution development fund will be replaced by a single mandatory allocation to state funds

Further reduction of the tax burden

- ★ The tax rate for individual entrepreneurs lowered by 30% on average
- ★ Income tax for commercial banks lowered by 100 bps and for other corporates (except for mobile operators) by 150 bps
- ★ Mandatory allocations to state funds have decreased by 30 bps

Reinforcement of local budgets' income base

- ★ Land tax and water resource usage taxes increased by 15% each
- ★ Excise duties for several domestically produced products increased by 10-25%
- ★ Establishment of the right for local governments to set multipliers (0.7x-1.3x) for base rates on individual property taxes and individual land taxes
- ★ Individual property tax set to be based on cadastral value, with a maximum limit on total tax charge of 120% of the tax charge for 2017
- ★ Taxes dependent on municipal efficiency applied to local budget balances (individual property tax, individual land tax, retail fees for certain goods and services, fixed taxes for certain commercial activities, taxes from retail markets)

Perspectives reforms

- ★ Unified tax-payer database
- ★ Electronic invoice implementation
- ★ Law enforcement reforms
- ★ Enhancing oversight control of tax authorities

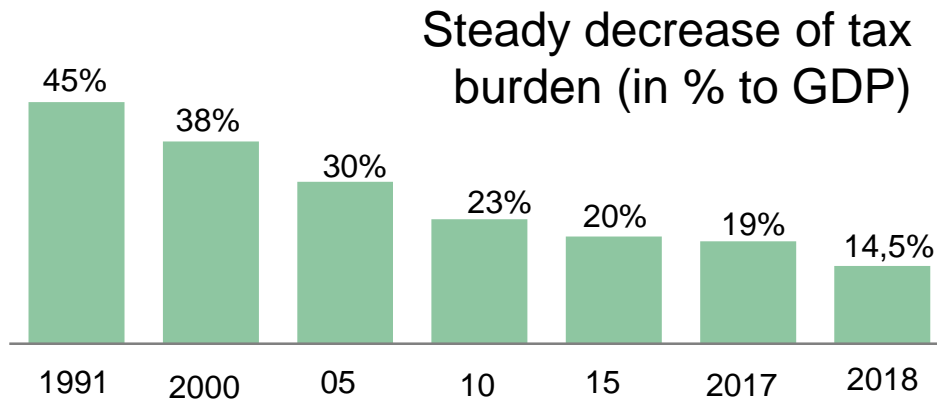
Attractive tax incentives and free economic zones

We welcome foreign capital with significant tax incentives...

- 0% income tax (for SMEs)
- 30%-50% income tax reduction²
- 0% VAT

...and invite them to join one of the 21 Free Economic Zones to get full exemption from

- Income tax and custom duties¹
- Social infrastructure and uniform SME taxes
- Compulsory contributions to the Road Fund



Total implemented:
275 projects

Total amount:
More than US\$ 2 bil.

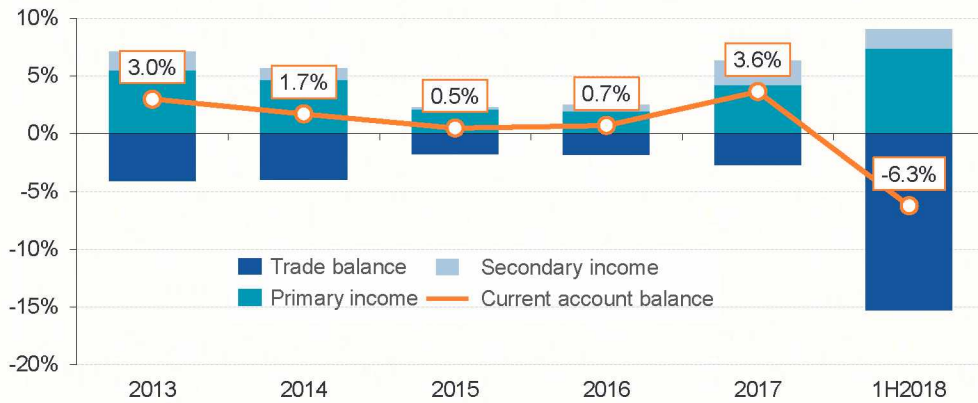


Strong External Balance Sheet



Balance of payments components

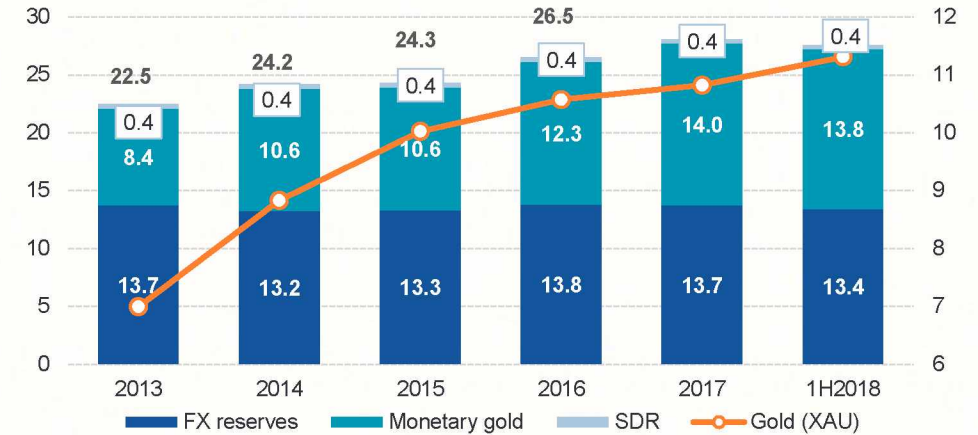
% of GDP



Sizeable FX Reserves

USD bn

XAU mn



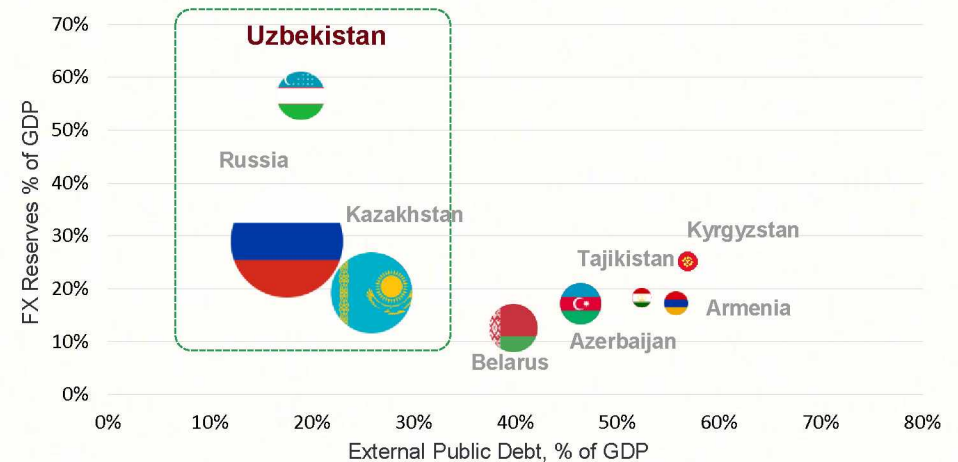
Stable International investment position

USD bn



Healthy and Adequate Foreign Exchange Reserves

% of GDP



Source: Central Bank of Uzbekistan

Uzbekistan proves sustainable growth of **financial stability and transparency**

Strong performance of Uzbekistan Eurobond sets a benchmark for corporate financing

5.35%
yield

Of 10-year government
eurobond issued in Feb 2019

Credit rating has been assigned by the most respectable agencies and rising

MOODY'S

B1 long-term issuer rating
since February 2019

**STANDARD
& POOR'S**

BB- with a stable outlook
First assigned credit rating

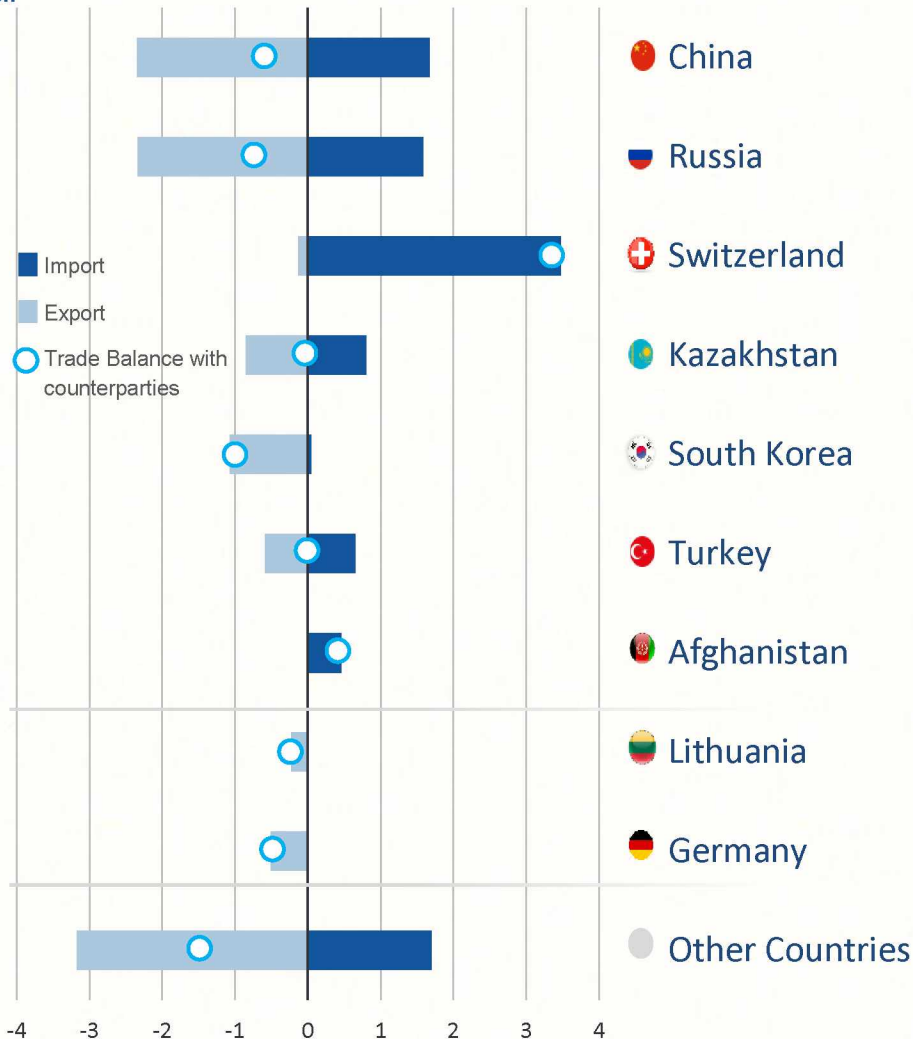
Fitch
Ratings

Uzbekistan's Diverse Trading Relationships



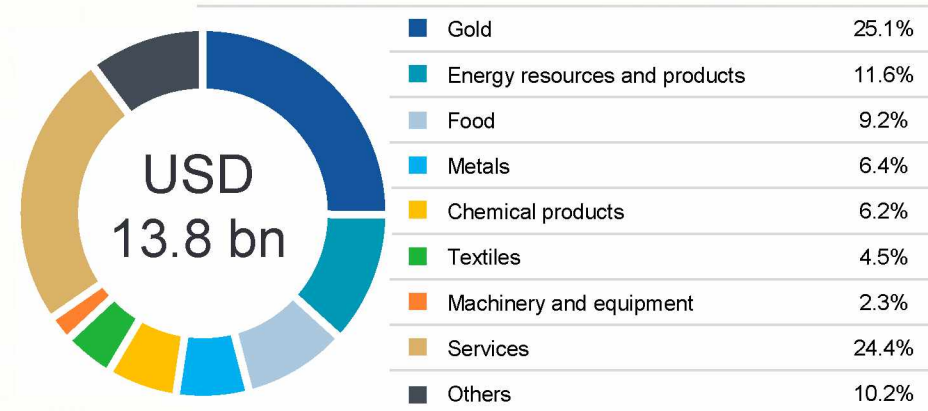
Goods trade with main trading partners in 2017

USD bn



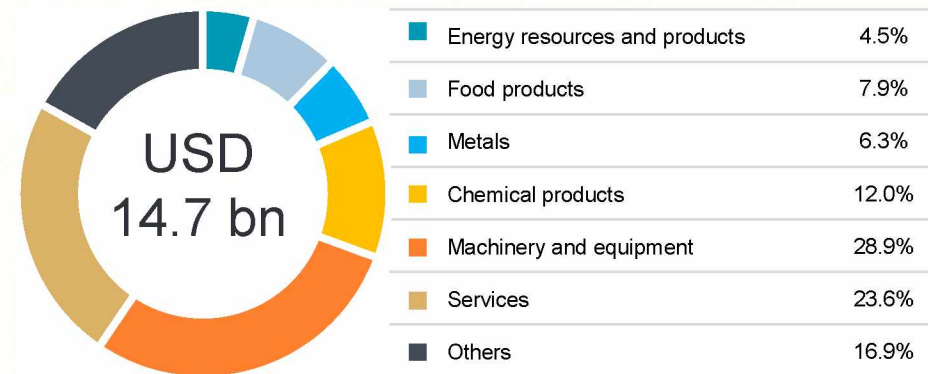
Structure of exports*

% of total, 2017



Structure of imports*

% of total, 2017



Source: Ministry of Finance, Central Bank of the Republic of Uzbekistan, State Committee of Statistics, State Customs Committee, IMF
 Note: *Goods and Services

The international community acknowledges the recent significant progress in Uzbekistan

“ *The first concrete steps on improvement of quality of economic data and increase of their transparency.*

IMF Spokesperson



“ *We are in a great hurry, we are striving to expand and deepen our presence in Uzbekistan as soon as possible.*

Philip Bennet

Former First Vice-President of EBRD



European Bank
for Reconstruction and Development

“ *ADB, in accordance with the government's strategy, is planning to provide USD 2.6 billion in sovereign loans in 2017–2019, to increase non-sovereign transactions through equity investments and private loans.*

Takehiko Nakao

The President of ADB

ADB

“ *The Action Strategy, developed by the initiative of the President Shavkat Mirziyoyev, is a very serious and bright program, it reflects ideas of the United Nations and reforms aimed at ensuring human rights.*

Zaid Raad Al-Hussein,

Un high commissioner for human rights



THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

“ *The World Bank is ready to significantly increase its presence in Uzbekistan and to support the reforms in the country*

Kristalina Georgieva
World Bank CEO

“ *The Action Strategy has much in common with the United Nations Sustainable Development Goals and the wider 2030 Agenda for Sustainable Development, and can form the basis for even greater cooperation between your country and the United Nations.*



UNITED NATIONS

Antonio Guterres,
UN Secretary General

“ *If you look back in history, you can see that Uzbekistan has always played a special role in Eurasia. While people in other parts of the region had a nomadic lifestyle, civilization was already flourishing in Uzbek cities.*



Jonathan Hilman,
The Director of the Asia Liaison Project
at the Center for Strategic & International
Studies (USA)

Success Stories

