



REPUBLIC OF UZBEKISTAN

2012 ARTICLE IV CONSULTATION

September 2013

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Uzbekistan, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 7, 2012, with the officials of Uzbekistan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 1, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Press Release** summarizing the views of the Executive Board as expressed during its February 22, 2013 discussion of the staff report that concluded the Article IV consultation.

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REPUBLIC OF UZBEKISTAN

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

February 1, 2013

KEY ISSUES

Uzbekistan's growth has been strong, but macroeconomic challenges remain.

Despite setbacks in global recovery, growth momentum remains strong, supported by sustained public investment and elevated prices for Uzbekistan's commodity exports. Substantial external and fiscal buffers continue to grow, but demand-boosting policies have resulted in high inflation. The uncertain external environment poses downside risks to export demand. Against this background, discussions focused on policies to bring down inflation and on fostering strong and sustained growth by providing an enabling environment for private-sector development to raise productivity and ensure adequate employment.

Bringing inflation down will require coordinated policies. Although monetary policy was tightened since mid-2011, more needs to be done by limiting reserve accumulation and raising interest rates, while maintaining macro-fiscal stability. Fiscal loosening should be avoided to prevent additional inflationary pressures. It will be important to design the fiscal policy within a medium-term framework, while managing the natural resource revenue in line with best international practices, including transparency and good governance.

Structural reforms need to be stepped up to ensure high and sustained growth.

Implementing effectively the recent decisions to improve the business environment will help foster productive investment and promote private-sector participation, while creating jobs for the fast-growing population. A key priority is to ease the restrictiveness of the foreign exchange (FX) and trade regimes, as it impedes the development of the financial and private sectors and distorts resource allocation.

Improving economic data quality and transparency should be a priority. Bringing statistics standards in line with international practice would help improve the quality of macroeconomic analysis. Public availability and transparency of data would facilitate business planning and investment.

Approved By
**Daniela Gressani and
 Dhaneshwar Ghura**

A staff team comprising Ms. Bacalu (head), Mss. Cerovic and Unigovskaya, Mr. Kryshko (all MCD), and Ms. Kostina (local IMF office) conducted the discussions in Tashkent during November 28–December 7, 2012. Ms. Gressani (MCD) and Mr. Choi (OED) joined some of the discussions.

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INTRODUCTION

- 1. Despite uncertainties in the global environment, Uzbekistan's resource-rich economy has recorded solid growth in recent years.** The country is rich in natural resources (gold, natural gas, copper, and uranium), ranks sixth among world cotton producers, and comprises 40 percent of Central Asia's population. Supported by high commodity prices for Uzbekistan's exports, demand-boosting policies, and remittances, GDP growth averaged 8¾ percent in the past five years. Cautious management of the windfall mineral revenues has led to sizeable savings in the budget and in the Fund for Reconstruction and Development (FRD) created in 2006. Considerable external and fiscal buffers, low debt, and low exposure to global financial markets have shielded Uzbekistan from the effects of the global crisis and facilitated the counter-cyclical measures that were taken during the global financial crisis, allowing higher investment through FRD lending under government projects.
- 2. The authorities pursue a gradualist approach to reforms anchored in industrialization and a strong role for the state in the economy.** Policies have aimed at gradually increasing the share of the private sector by developing small and medium-sized enterprises (SMEs), while keeping state ownership in mining, energy, banks, and cotton. To this end, the share of SMEs in GDP reached 53 percent by 2012 and the share of agriculture has declined to 18 percent of GDP in 2011 from about a third of GDP in the early 1990s.
- 3. The Uzbek authorities are developing a strategy for achieving upper-middle-income country status by 2030.** Despite the officially reported decline in poverty, from 26 percent in 2004 to 18 percent in 2010, per capita income remains low, especially if compared with other resource-rich countries in the region. Achieving the authorities' ambitious objective would imply an almost ten-fold increase in per capita income, which in turn would require maintaining the current high growth rates over the next two decades.

RECENT ECONOMIC DEVELOPMENTS

- 4. The economy of Uzbekistan continued to grow rapidly.** GDP grew by 8.3 percent in 2011 and by 8.2 percent through September 2012, boosted by high prices for export commodities, and by state-led investment. Growth was registered in all sectors, with the most dynamic ones being: services, facilitated by the increase in real income; transportation, benefiting from higher gas transit revenues from a new pipeline to China; agriculture, boosted by exceptional weather conditions; and industry, supported by government-led investment.

Box 1. Authorities' Response to IMF Policy Recommendations

Relations between Uzbekistan and the IMF have centered on surveillance. Since the last Article IV consultation, the authorities followed IMF advice in several areas. They: (i) took measures to tighten monetary policy by raising some interest rates on their monetary operations and increasing sterilization of FX purchases; (ii) continued treasury and fiscal accounting reforms; (iii) engaged in technical assistance to strengthen banking supervision; (iv) requested assistance with joining the IMF General Data Dissemination System; and (v) adopted a package of regulations to ease the regulatory environment for private-sector development. Key recommendations on further liberalization of the FX market and trade, freeing banks from noncore functions, and disseminating macroeconomic data remain under the authorities' consideration.

5. The external position continues to be strong, but the current account surplus has narrowed. In 2011, export growth was constrained by declining demand for natural gas exports while import rebounded strongly, supported by high remittances and FDI. This led to a narrowing in the current account surplus to 5.8 percent of GDP in 2011 from 6.2 percent in 2010. In 2012, the merchandise trade balance surplus has narrowed sharply, leading to a further decline in the current account surplus to an estimated 2.7 percent of GDP. A sharp reduction in gold exports (volume and value) and lower cotton and food exports (on account of lower prices) were not offset by higher exports of processed goods and recovered gas export volumes facilitated by the launch of a newly built gas pipeline to China. The drop in gold exports reflects the authorities' preference to keep a much larger part of produced gold in official reserves, which reached 16 months of import cover (including FRD assets abroad) in October 2012.

Text Table 1. Uzbekistan: Macroeconomic Indicators, 2006–13

	2006	2007	2008	2009	2010	2011	2012	2013
							Est.	Proj.
Real GDP growth (in percent)	7.5	9.5	9.0	8.1	8.5	8.3	8.0	7.0
CPI inflation rate (average)	14.2	12.3	12.7	14.1	9.4	12.8	12.2	11.4
CPI inflation rate (e-o-p)	11.4	11.9	14.4	10.6	12.1	13.3	11.0	11.0
Consolidated budget balance (in percent of GDP)	2.2	2.2	4.4	0.2	2.0	2.0	0.1	-0.9
Augmented budget balance (including FRD, in percent of GDP)	5.2	5.2	10.7	2.8	4.9	8.8	4.7	1.8
Broad money (annual percentage change)	37.8	46.9	38.7	40.8	52.4	32.3	27.5	26.6
Credit to the economy (annual percentage growth)	6.4	15.9	33.6	40.4	42.4	32.0	25.2	21.4
Current account (in percent of GDP)	9.1	7.3	8.7	2.2	6.2	5.8	2.7	3.5
Gross official reserves (in months of imports)	6.9	7.9	9.8	13.1	12.3	14.2	16.2	17.7

Sources: Uzbek authorities, and Fund staff estimates and projections.

6. Inflation remained in double digits, but receded somewhat. After peaking at 13.8 percent in November 2011, annual inflation, based on alternative CPI measurement by Fund staff, has declined to 10.7 percent in October 2012.¹ The headline inflation reflects increases in the

¹ Staff calculates the alternative CPI using the authorities' source data and international methodology. By the authorities' methodology, annual inflation hovered at around 7 percent during this period.

administrative prices of petrol, natural gas, utilities, and bread (these increases were aimed at ensuring cost recovery), as well as faster currency depreciation and demand pressures stemming from pension and wage increases. Stripped from seasonal and administrative prices, the estimated core inflation declined to 5½ percent year-on-year in October 2012 after picking up to 8½ percent in March 2012.

7. Monetary policy has been tightened since mid-2011. An increase in net foreign assets was sterilized through the continued accumulation of government deposits, including FRD, and intensified liquidity-mopping operations by the Central Bank of Uzbekistan (CBU). The CBU increased the interest rates on its certificates of deposit from 5 to 7 percent in September 2012, facilitating liquidity sterilization. Efforts to promote noncash payments in the economy reduced the currency-to-deposit ratio to 33 percent through October 2012 from 45 percent in early 2011. Reflecting tighter monetary conditions, reserve and broad money growth decelerated considerably from 27 and 52 percent at end-2010 to 16 and 30 percent, respectively, through October 2012. Credit growth also decelerated from 42 percent to 32 percent over the same period, but remained high in real terms, supported by directed lending. At the same time, the refinance rate (which guides bank lending rates) and reserve requirements have remained unchanged.

Text Table 2. Uzbekistan: Noncash Payments Trends

	2004	2009	2010	2011	2012 Jan-Sep
Ratio of the number of bank cards to working age population, in percent	2.7	35.7	45.7	47.6	49.2
Bank card transactions, in percent of total value:	100.0	100.0	100.0	100.0	100.0
<i>Of which:</i> Withdrawal of cash	30.7	24.3	11.9	10.4	17.2
Purchase of goods and services	69.3	75.7	88.1	89.6	82.8
Ratio of value of bank card transactions to total retail trade turnover, in percent	3.3	18.1	30.2	36.2	38.2

Source: Central Bank of Uzbekistan, and IMF staff estimates.

8. Fiscal policy was prudent in 2011–12. The budget outcome suggests a modestly tight fiscal stance in 2011 as the estimated structural surplus, adjusted for the economic cycle and the effects of the high mineral revenue, increased marginally by 0.2 percent of GDP. Fueled by strong commodity revenue, the augmented surplus increased to 8.8 percent of GDP from 5 percent in 2010.² Despite tax cuts aimed at improving households' disposable income and supporting SMEs, income and profit tax revenue remained strong. Overall expenditures were lower on account of better targeting of social welfare, but wages continued to grow strongly. Preliminary estimates of the 2012 data point to a better-than-projected budget outcome (possibly by ½ percent of GDP) reflecting continued measures to broaden the tax base and strengthen tax administration. However, absent below-the-line financing annual data, it is difficult to assess the fiscal stance for 2012 based on the available statistics. FRD has continued to play a stabilizing role by shielding the state budget from the effects of volatile commodity prices. Three quarters of all mineral revenue was channeled to FRD in 2011–12 (Box 2).

² Augmented government is defined as consolidated government and FRD.

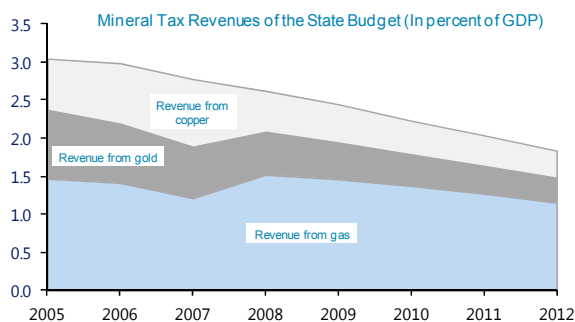
Box 2. Uzbekistan: Fund for Reconstruction and Development

The authorities have been managing the mineral resource revenue through the state FRD, created in mid-2006. Its main objectives are to: (i) accumulate revenue in excess of the established cut-off prices on mineral resources, mainly gold and copper; and (ii) stimulate investment and economic development by extending long-term loans to banks for cofinancing of strategic government-selected projects. Since its creation, the FRD has accumulated \$11 billion in assets, of which \$9½ billion (as of October 2012) are managed abroad by the CBU as part of the international reserves. The remainder is used for domestic lending in FX under government projects and is earmarked for imports, in particular of capital and intermediary goods.

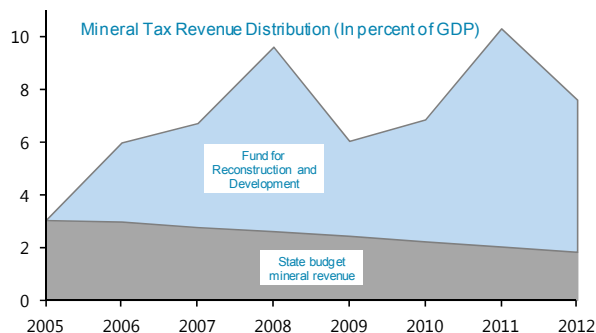
The FRD has played a useful macro-stabilizing role, but there is scope to bring its activities in line with best international practices. The authorities have followed a conservative approach in establishing the annual cut-off prices (not publicly available) and have managed to shield the state budget from commodity price volatility by channeling two-thirds of commodity revenue to FRD since its creation. A comprehensive and transparent strategy for managing the FRD, and the resource wealth, more broadly, should be adopted. It should take into consideration the average mineral reserves-to-production ratios (estimated at 20–30 years, less than the indicative threshold of 30–35 years) and the revenue dependency ratio approaching the threshold of 20–25 percent of total fiscal revenue. Based on these, transparent rules regarding the externally and domestically invested shares of funds consistent with the overall macroeconomic policies should be adopted. Best practices regarding sovereign wealth funds management should be followed to avoid behaviors that could conflict with monetary and fiscal policy objectives. In addition, the success of meeting the development needs objectives will critically depend on the quality of investment projects; these require an adequate framework that includes appraisal, selection, and procurement rules. This framework should ensure high returns on domestic investments and enhanced productivity of the economy in the future (Annex I). Finally, a transparent relationship with the government, high corporate governance standards, and accountability should be also established.

Uzbekistan: Mineral Taxes, 2005–12

Dependence of the state budget from mineral revenue has declined.



The bulk of mineral revenue was parked in the FRD, shielding the state budget from commodity price volatility.



Sources: Uzbek authorities; and IMF staff estimates.

9. The functioning of the foreign exchange market has not changed in 2011–12.³ Aiming at maintaining the competitiveness of the export sector, the authorities have accelerated the annual rate of nominal depreciation of the sum to 10½ percent in 2012 from 8–9 percent in previous years. The rules regarding current account transactions and surrender requirements, which influence the availability of FX, have remained unchanged. Surrender requirements were kept at 100 percent for cotton and gold and 50 percent for other exports and the availability of FX for imports has been restricted. The margin that emerged in 2009 between the official exchange rate and the parallel rate in the unofficial cash FX market has narrowed recently to 38 percent from 55 percent in early 2012, reportedly reflecting the effects of the more limited availability of sum in circulation.

10. The banking system of Uzbekistan continues to perform well. Banks' capital adequacy ratio, at about 24¼ percent, remains high by international standards and the level of non-performing loans is low relative to peers, even by alternative measures of the rating agencies which are assessing the banking system as stable. Also, tighter monetary policy measures have eased the excessively high credit growth. The share of bank lending linked to FRD financing has increased to about a quarter of all new loans, reflecting the government's preference to channel part of public savings to strategic projects via state-owned banks.

MACROECONOMIC OUTLOOK AND RISKS

11. The outlook for growth is favorable, but, under unchanged policies, inflation is projected to remain in double digits.

- Under current policies, GDP would grow by 7 percent in 2013 and by 6 percent on average thereafter. GDP growth will be driven by strong domestic demand, predicated on continued implementation of the authorities' investment program (\$47 billion in 2011–15), and by favorable terms of trade as prices for Uzbekistan's main exports are expected to stay elevated compared to their historical averages. Growth is estimated to continue to exceed potential with output gap expected to close in 2014.
- On high commodity revenue, the external and fiscal buffers are projected to increase further. Debt indicators will continue to be low. Moreover, different shock scenarios under standard debt sustainability analysis result in debt levels that are low and manageable (Figures 5 and 6).
- Under current policies, inflation is expected to stay in double digits throughout 2013 and will be elevated over the medium term. Continued high wage and pension increases, accompanied by directed lending and steady nominal exchange rate depreciation, will fuel inflationary pressure.
- The state budget for 2013 aims at a deficit of 1 percent of GDP, as it envisages a further reduction in the tax burden (by about ½ percent of GDP) with continued focus on social

³ In 2010, the Fund made findings under the Fund's jurisdiction. See Informational Annex.

spending and investment. The augmented government surplus, including FRD, is expected to shrink to 1.8 percent of GDP in 2013, but would increase thereafter on a projected increase in gold revenue.

12. While the medium-term baseline scenario is favorable, uncertainties stemming from the global environment are high and risks are tilted to the downside (see Risk Assessment Matrix). With limited direct financial exposure to the euro zone and the United States, the effects of a one percentage point negative shock to euro area and Russia GDP growth are estimated to be limited for Uzbekistan.⁴ Nonetheless, the uncertain external environment poses some risks. A sharp deceleration in global growth that would likely accompany an escalation of the euro zone crisis would affect the economy via lower remittances inflows and weaker demand for Uzbek exports. Lower commodity prices could result from weaker activity in Europe, but also from a slowdown in emerging markets, including main trading partners. Although the share of mineral production in GDP is estimated to be below 20 percent and minerals contribute about 20 percent of total public sector revenue, minerals account for 55 percent of total exports of goods. An eventual 10 percent drop in the international prices for gold, copper, and oil would result in a deterioration of the current account by about 1 percent of GDP and of the fiscal balance by about 0.7 percent of GDP. In addition, Uzbekistan is susceptible to potential risks emanating from changes in the security and political situation in the region. In case the economic risks materialize, the authorities should use the available ample fiscal space to counter the negative effects of global spillovers. Monetary tightening should be put off if output is affected and inflation is clearly on a downward path.

⁴ See IMF Country Report No. 12/267.

Uzbekistan: Risk Assessment Matrix (RAM)

Risk	Relative Likelihood	Impact if Realized
Strong intensification of the euro area crisis (incomplete delivery of policy commitments leading to yield reversal)	<i>Medium</i>	<i>Low to Medium</i> The main direct impact would be through declining export demand for major export commodities, posing a risk of lower GDP growth. Direct financial links with Europe are limited due to country's low exposure to global financial markets.
Protracted period of slow European growth (larger-than-expected deleveraging or negative surprise on potential growth)	<i>Medium</i>	
Further slowdown in Emerging Markets (including a further growth shock in China permeating through commodity prices)	<i>Low</i>	<i>Medium</i> Russia and China are major export destinations for Uzbekistan. Russia is a major source of remittances for Uzbekistan. A slowdown in these countries would have a negative effect on the economy.
Global food price shock (preventing the expected decline in food prices to materialize)	<i>Low</i>	<i>Medium</i> While an increase in food commodity prices may strengthen country's terms of trade, it would put additional pressure on already high inflation, with negative effects on the poor and on macro stability.
Risks related to regional and political developments	<i>Medium</i>	<i>Medium</i> Regional developments, including election cycles in the region, withdrawal of NATO troops from Afghanistan, and tensions related to regional water disputes, raise concerns about potential social unrests and security instability.

Note: The RAM shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed in the staff's subjective assessment of the risks surrounding this baseline. The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.

POLICY DISCUSSIONS

13. Discussions focused on the main economic policy challenges in the years ahead. In the short term, there is a need to rein in inflation through coordinated measures to increase the effectiveness of monetary and exchange rate policies and through prudent fiscal policy. In the medium term, the objective is to raise real income per capita by increasing total productivity of capital and labor in the economy (Annex I) and by ensuring employment for the country’s young and growing population (Box 3). In addition, discussions focused on data quality and dissemination.

Box 3. Uzbekistan: Employment and Growth

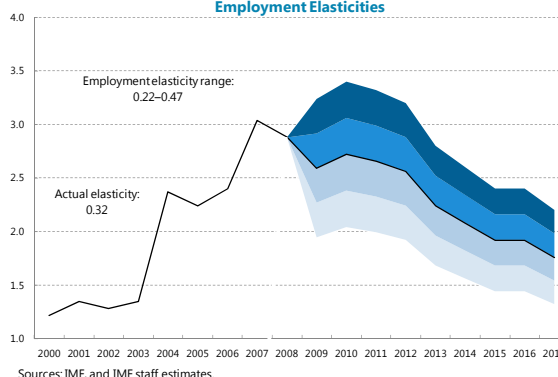
Creating jobs for the young and fast growing population is high on the authorities’ agenda. The estimated relatively weak response of employment to growth implies that Uzbekistan will need to grow at an average rate of 8.7 percent in the next five years to absorb new entrants into the labor market and keep the unemployment rate constant. Maintaining such high real GDP growth over a long period of time is a challenge. Decisive measures to deliver on structural reforms would help increase employment responsiveness to growth, and thus increase the flexibility of labor and product markets and create an environment where the private sector is large enough to absorb new labor force entrants. With the resulting higher elasticity, even lower GDP growth rates would deliver the desired unemployment outcome.

Uzbekistan: Medium Term Outlook for Unemployment 2012–17

Unemployment Rate (2012)	5.0	
Labor Force (in 2017, millions)	14.3	
New Entrants to the labor force in 2012–17 (millions)	1.7	
Total number of currently unemployed and new entrants	2.4	
	Scenario 1	Scenario 2
	Absorbing new entrants to the labor market requires	Reducing unemployment by half requires
Change in employment (percent)	14.7	17.3
Annual employment growth (percent)	2.8	3.2
Annual real GDP growth rate	8.7	10.2
<i>Memorandum items:</i>		
Average real GDP growth rate, 2000–11	6.8	
Annual employment growth rate achieved at past actual GDP growth	2.2	
Employment elasticity used in Scenarios 1 and 2	0.32	

Sources: Uzbek authorities, and IMF staff estimates.

Uzbekistan: Annual Percent Employment Growth Under Various Employment Elasticities



14. The authorities broadly concurred with the assessment of the macroeconomic outlook.

While staff underscored that strong economic growth would materialize only with successful implementation of the ambitious investment program, the authorities consider that staff’s projections are on the conservative side. They acknowledged the risks from the uncertain global environment, but stressed the broad self-sufficiency of the Uzbek economy, prudent external borrowing, and economic diversification that is shifting output and exports away from commodities and toward high value added goods. The most pressing concerns, according to the authorities, are related to the need to safeguard the value of the official reserves against the growing uncertainties in the global economy.

A. Monetary and Exchange Rate Policies

15. The CBU is committed to further monetary tightening. The positive output gap and double-digit inflation warrant further action. Strong credit growth is boosted by keeping the CBU refinance rate negative in real terms and by preferential directed lending, including lending by FRD. In addition, the entrenched expectations about future steady exchange rate depreciation and official reserves accumulation add to inflationary pressures. While the CBU considers that monetary policy is not fueling inflation, it intends to continue monetary tightening by mopping up the excess liquidity and further promoting noncash payments to contain second-round effects from administrative price increases.

16. The CBU continues to accumulate official reserves. Although the reserves are comfortable by any measure, the authorities prefer to have even higher international reserves going forward. Staff advised the authorities to slow down reserves accumulation, because it leads to the need to sterilize the resulting excess liquidity. Staff argued that the CBU should focus only on inflation and move away from the policy of a heavily managed depreciation of the sum by allowing truly market-based setting of the exchange rate. The first step in this direction could be easing of surrender requirements and the restrictive rules on current account transactions. Further on, the CBU should intervene in the FX market only to avoid excessive exchange rate volatility. These measures will help remove the distortions in the FX market without putting undue pressure on the exchange rate or on international reserves. The authorities agree that depreciation affects inflation through the import component of the consumption basket (which is low compared to other countries) and also through expectations. The authorities do not plan to change their policy of nominal depreciation of the sum, which is primarily aimed at supporting the competitiveness of exports.

Text Table 3. Uzbekistan: Reserve Adequacy Indicators
(As of October 2012)

	Benchmark	Uzbekistan	
		Total official reserves	Without FRD
Reserves, as of end-October 2012, percent of GDP		43	24
Indicators:			
In months of imports	3	16	9
In percent of broad money	20	189	104
In percent of short-term debt	100	>5000	>3000
IMF composite metric, in percent 1/	100–150	>500	>300

Sources: Uzbek authorities, and IMF staff estimates.

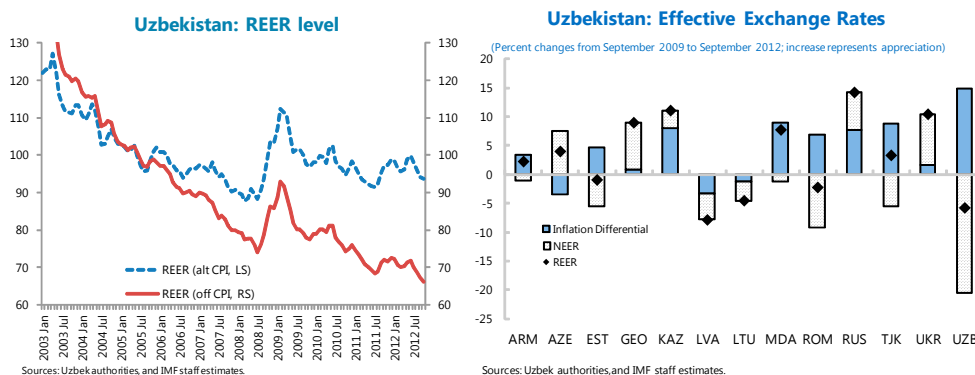
1/ Composed of 30 percent of short-term debt, 15 percent of long-term debt and equity liabilities, 10 percent of M2, and 10 percent of exports.

17. Real exchange rate assessment is complicated by the existence of a parallel exchange rate in the unofficial foreign exchange market. The authorities consider that the parallel exchange rate is not representative, and claim that the unofficial FX market is illegal, small, and related to unlawful activities and tax evasion. The CGER-based analysis suggests that, over the medium term, the projected current account surplus is close to the estimated norm (Box 4). An alternative macroeconomic balance approach (MBA) suggests that the projected current account surplus is lower than the estimated norm, implying a real exchange rate overvaluation. Data deficiencies add to the uncertainties surrounding these assessments.

Box 4. Uzbekistan: Exchange Rate Assessment and Competitiveness

The existence of an official exchange rate and a much more depreciated parallel market rate make exchange rate assessment difficult.

The CPI-based real effective exchange rate (REER), calculated using the official exchange rate, does not point to considerable competitiveness issues. In 2011, the REER and the nominal effective exchange rate (NEER) depreciated by, respectively, 3 percent and 10 percent. In 2012, the REER appreciated by 3 percent through October, while the NEER depreciated by 5 percent. Since the onset of the global crisis, the cumulative nominal effective depreciation has outpaced the high inflation differential between Uzbekistan and its trading partners.



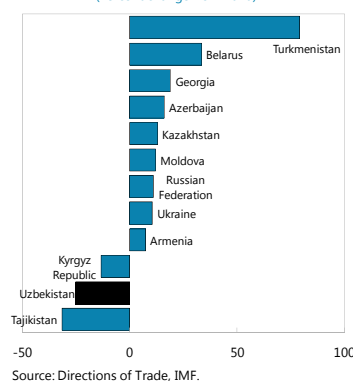
CGER-based assessment and an alternative MBA estimate suggest that the current account surplus is on average not far from the norm. Standard CGER approaches (excluding the ERER as not applicable given data quality) show that the projected medium-term current account balance (2.4 percent of GDP in 2017) is close to the current account norm. An alternative MBA calculation, however, shows that the projected current account surplus is lower than the norm. These results should be treated with caution given: (i) the parallel foreign exchange rate; (ii) the role that current account liberalization may play in adjustment towards the norm; and (iii) the assumption that exchange rate adjustment alone can facilitate current account rebalancing.

Alternative non-price indicators raise some concerns about competitiveness. In contrast to other CIS countries, the export market share of Uzbekistan continued to decline in 2011, despite the favorable terms of trade.

Uzbekistan: Exchange Rate Assessment		
	Medium-term Current Account Balance (2017, percent of GDP)	Estimated over(+)/ under(-) valuation (percent)
Estimated current account norm		
CGER Approaches		
Macroeconomic Balance Approach (MBA) 1/	1.5	-5.9
External Sustainability Approach 1/	2.9	2.9
Alternative MBA calculation 2/	5.7	20.4
<i>Memorandum item:</i>		
Projected medium-term current account balance	2.4	

Source: WEO, and Fund staff estimates.
 1/ Based on CGER methodologies (see SM/06/283). Pooled estimates specification.
 2/ Using specification II from IMF Working Paper "Are Middle Eastern Current Account Imbalances Excessive?" (WP/11/195).

Uzbekistan: Export Market Share, 2011
 (Percent change from 2010)



Source: Directions of Trade, IMF.

B. Fiscal Policy and Reforms

18. There was an agreement that prudent fiscal policy is warranted. In the current cyclical position, with the economic activity above potential, the envisaged fiscal loosening in 2013 would require additional tightening of monetary policy to avoid overheating risks. The authorities underscored that, as in the past, they will aim at a better-than-budgeted outcome because they are committed to prudent spending, and will save the eventual revenue overperformance. The latter will be achieved by strengthening tax collections facilitated by a broader tax base as further tax cuts are enforced in 2013. In addition, the authorities plan to revise the numerous existing tax exemptions and privileges that reportedly amount to 30 percent of GDP. An action plan outlining concrete measures will be guided by the forthcoming technical assistance in revenue administration.

19. Promoting fiscal policy within a medium-term fiscal framework is a priority. The authorities intend to maintain the public debt at the current level as a share of GDP, and stressed that external borrowing is undertaken to support the industrial modernization and infrastructure development program. Designing the fiscal policy within a medium-term fiscal framework (currently elaborated by the ministry of finance on an experimental basis) would allow strategic planning and prioritizing of expenditure, and would promote efficiency in government spending. The medium-term framework designed around a structural primary balance that excludes natural resource revenues, would help delink fiscal policy design from the volatility of resource revenue and avoid fiscal procyclicality. Taking into account natural resource exhaustibility, public debt dynamics, and FRD returns would help ensure a sustainable fiscal path over the longer term.⁵

20. Prudently managing the exhaustible and volatile mineral resource revenue will support sustainable growth. Policies should focus on maintaining a smooth expenditure path that would help avoid the need for sharp consolidation in the future. The authorities agreed with the need to use exhaustible resources efficiently, but mentioned that the resource horizon is likely to increase as recent exploration activities point to new discoveries (e.g., in the natural gas sector). At the same time, low returns on externally managed FRD assets and development needs make domestic investments more attractive. The focus shifts to establishing a consistent macroeconomic framework (including producing and analyzing macroeconomic data by resource and nonresource sectors) and ensuring effective management and use of the volatile commodity revenue.

C. Financial Sector

21. Financial intermediation is low. State-owned banks dominate the system, with their assets share reaching about 80 percent of total bank assets. Continued capital injections by the government ensure that the banking system remains well capitalized while extending loans under the large government projects. Through end-September 2012, banks' balance sheet capital increased by 24 percent year-on-year, and their capital adequacy ratio exceeded 24 percent. Banks' credit policy is influenced by state-directed lending, often below market rates, which impedes the

⁵ "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries", IMF Policy Papers: August 24, 2012.

development of sound risk management and increases segmentation. The noncore functions (e.g. tax administration or cash monitoring of their clients) undermine trust in banks, hamper access to credit, and inhibit financial intermediation. The recent measures to strengthen banking supervision methodology, prudential standards, and risk assessment practices are welcome. To bear fruit, these measures should be accompanied by scaling back of directed lending and reduction of the noncore activities for banks.

22. The authorities agreed that strengthening banking sector governance and supervision should help foster financial intermediation. The authorities are committed to strengthening banking supervision, the regulatory environment, and enforcement of prudential standards. However, there are no coordinated plans to efficiently relieve banks of their noncore functions or to phase out directed lending.

D. Structural Reforms

23. Structural reforms are key to achieving the authorities' objective of becoming an upper-middle-income country over the next two decades. Conventional growth analysis suggests that capital has been the biggest driver of GDP growth in recent years, while contribution of total factor productivity fell considerably (Annex I). Against this backdrop, recent efforts aim at modernizing and diversifying the economy by increasing the role of the private sector. A set of measures to reduce controls, simplify licensing, and streamline permission requirements was adopted in July 2012. The success of these measures will depend on the de facto implementation of the adopted regulations. Future growth will have to rely on sizable total factor productivity increases (Annex I). One area where decisive measures are overdue is the energy sector. The fivefold difference between domestic and export prices for gas gives rise to a considerable implicit subsidy (Box 5). The recent disruptions in gas and electricity supply to final consumers reflect the distortions caused by price controls, as well as outdated technology and equipment. The authorities agree that addressing inefficiency in the energy sector is critical for ensuring the success of the industrialization strategy and social policy; they are engaging with international donors to reform the sector.

24. Trade policies are restrictive and remain an impediment to private-sector development and regional trade (Box 6). With simple average tariff exceeding 14 percent, Uzbekistan's tariff barriers are the highest in the region. Many nontariff barriers are impeding trading across borders, including transit, and have negative spillovers in the region in the form of higher costs and delays at customs. Although WTO accession is not high among the authorities' priorities, they continued to adjust the national legislation to the WTO requirements, and started bilateral consultations with WTO members. The authorities agree that foreign trade regulations and practices are cumbersome. Recent trade policy measures are focused on streamlining regulations and simplification of customs procedures. The measures include a considerable reduction and simplification of customs documents, creation of a shared interagency electronic database for foreign trade, and abolition of import contracts registration at customs.

25. To succeed on the structural front, the authorities should address the following immediate priorities:

- Anchor the modernization and industrialization strategy around consistent macroeconomic policies to ensure financial viability of projects and high returns on investments, conducive to productivity growth, and an enabling environment that would support non-mineral private-sector growth;
- Eliminate tariff and nontariff barriers to trade. While the primary focus should be on eliminating exchange restrictions—commonly perceived as the main nontariff impediment to trade—other nontariff barriers, related to customs procedures, rules, and regulations, should be swiftly repealed. Import tariffs need to be brought down;
- Implement decisively in practice the recent measures to improve the trade and business environment and enhance the economy’s flexibility. These would be critical to launching private sector-led growth, increasing productivity, and creating jobs;
- Continue with adjusting administrative prices to achieve cost recovery and eliminate cross-subsidies. When liberalizing prices, in particular on energy and food, protect the poor by strengthening the social safety nets, including targeted cash transfers, rather than providing equal benefits through across-the-board price controls. International experience shows that reforms based on cash transfers to households and businesses create a system of incentives to reduce the waste of resources, contributing to a rapid increase in efficiency.

E. Statistical Issues

26. Data quality continues to significantly hamper surveillance. Bringing statistics standards in line with international practices would help improve the quality of macroeconomic analysis. Policy makers and investors would benefit from good quality, comparable data that are consistent across different sectors and would facilitate business planning and investment decisions. The authorities’ decision to join the IMF General Data Dissemination System (GDDS) and the appointment of a national coordinator are welcome. Further steps in this area should include: (i) addressing the outstanding issues regarding the methodology of CPI statistics; (ii) opening an International Financial Statistics country page; (iii) repealing confidentiality restrictions that impede dissemination of economic data; (iv) adopting a GFSM 2001-compliant fiscal data template; (v) producing macroeconomic data for natural resource and nonresource sectors; (vi) upgrading external sector statistics to the requirements of the BP6 Manual; and (vii) producing the international investment position statistics.

STAFF APPRAISAL

27. Uzbekistan's growth has remained strong, but risks are tilted to the downside. Prudent macroeconomic policies—low debt, comfortable fiscal and external buffers—combined with positive terms of trade and low level of international economic integration, have largely shielded the economy from the impact of the global financial crisis. Demand-boosting policies and sustained public investment have helped growth, but have also spurred inflation that remains in double digits. The uncertainties related to the global environment pose downside risks through possible weaker demand for Uzbek exports and a possible slowdown in remittance inflows. However, the impact of these uncertainties is deemed to be limited. The government has sufficient buffers to ensure economic stability in the near term.

28. The positive economic outlook is conditional upon future total factor productivity increases. In the near and medium term, high economic growth is projected to continue to be facilitated by favorable terms of trade and public investment. The projected high growth depends on a successful implementation of the authorities' medium-term investment policy, which envisages launching a large number of modern enterprises as well as modernization of the existing ones in the energy, petrochemical, and textiles sectors, and a revamping of infrastructure. The authorities should anchor the modernization and industrialization strategy around consistent macroeconomic policies to ensure financial viability and high returns on investments, conducive to enhanced productivity growth and an enabling environment to support nonmineral sector growth.

29. Lowering inflation sustainably to single digits will require coordinated use of monetary, exchange rate, and fiscal policies. Monetary tightening should continue by reducing official reserves accumulation, increasing sterilization, and making interest rates positive in real terms to better manage demand pressures stemming from public spending. Fiscal policy should support the anti-inflationary efforts by avoiding the budgeted fiscal loosening. Market forces should be allowed to fully guide the exchange rate, while the CBU should intervene only to smooth the sharp exchange rate fluctuations. Achieving low inflation should clearly dominate the macroeconomic policy objectives. The authorities should stand ready to adjust their policies and stop tightening, if growth slows down considerably and inflation is set clearly on a downward path.

30. Priority should be given to FX market liberalization. Eliminating the distortions in the FX market by adhering to the obligations of Article VIII, sections 2(a) and 3 of the IMF Articles of Agreement should be pursued without delay. In addition, the authorities should ease surrender requirements and facilitate banks' free transactions in the FX market. These measures would allow consolidation of the recent improvements in cash management, facilitate FX market development, and unleash the potential gains from trade. Work on the WTO agenda should continue as it helps in addressing other nontariff barriers related to customs procedures, rules, and regulations.

- 31. Fiscal policy needs to be set within a transparent and consistent medium-term framework.** While the overall fiscal position is strong and public debt low, a comprehensive medium-term fiscal framework would allow strategic planning and prioritizing of expenditure, and will promote efficiency in government spending, while allocating adequate resources to better-targeted social support. Fiscal policy decisions should be anchored around the structural primary balance, and should be supported by prudent and transparent management of mineral resource revenues, including the FRD.
- 32. A modernized financial sector is needed to foster growth.** The stability of the highly capitalized banking sector is commendable. However, enhancing trust in banks by further strengthening banking supervision and prudential regulations, as well as their enforcement, will be critical to financial stability. The CBU should be vigilant to vulnerabilities that arise from high credit growth and a recent increase in the share of FX lending, mainly through FRD. Improving cash management and freeing banks from noncore functions (e.g., tax administration and cash monitoring of their clients) will be steps in the right direction.
- 33. Recent measures to improve the business environment are encouraging.** Some progress has already been achieved by simplification of the regulatory environment, which is acknowledged in the World Bank's 2013 Doing Business report. Staff fully supports the ongoing efforts to further streamline the regulatory environment, including cutting the number of controls, introducing electronic tax reporting, and creating an even playing field for all businesses, as these will help fight corruption and reduce inefficiencies. Moreover, for these efforts to bear fruit, the key is to effectively implement the newly adopted regulations.
- 34. Strengthening data quality and dissemination of macroeconomic statistics should be a priority.** The recent decision to adhere to the IMF GDDS is welcome, and will help progress in the area of statistics. Ensuring data quality and availability, including the publication of country reports, would enhance policy-makers and investors' perceptions of the underlying economic developments and policies.
- 35.** It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

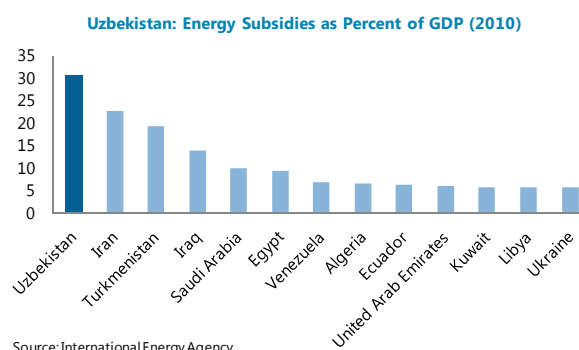
Box 5. Uzbekistan: Subsidies

The system of subsidies in Uzbekistan is dominated by implicit subsidies. While available data indicate that direct subsidies are low, there is evidence of the existence of substantial indirect subsidies.

Direct cash transfers amount to 2 percent of GDP (or 6 percent of budget expenditure), mostly consisting of cash transfers targeted to the most vulnerable households. The share of these subsidies in GDP has been declining. In addition, in-kind assistance at the local (mahalla) level is wide spread and is targeted at most poor families and implemented through the local communities. The World Bank considers the local social support to be relatively well organized and effective. Also, certain direct support to the economy is included in the budget. This includes subsidies to agriculture (for irrigation, fertilizers, electricity, etc.) and some other sectors. This type of support is not reported as subsidy and is difficult to quantify.

A major part of **indirect subsidies** originates from price controls on food and energy, including electricity and natural gas. Subsidies appear as a result of a difference between the domestic price and the price at the border for some essential goods. For example, the current domestic gas price for households is only one-fifth of Uzbekistan's gas export price. The International Energy Agency (IEA) ranked Uzbekistan the first in the world in the amount of energy and fuel subsidies as share of GDP. According to the IEA's analysis, energy subsidies in 2010 amounted to \$11.9 billion (30 percent of GDP). The authorities recognize the existence of high indirect subsidies, and plan to address this issue with gradual increase in administrative prices. Price increases should be accompanied by measures to protect the poor through strengthening social safety nets. However, over the longer term, more needs to be done to raise the efficiency of energy sector, and the initial efforts to reform the sector with help from donors are welcome.

In addition, numerous programs established by government are believed to be financed by state-owned banks through **directed lending at preferential conditions**. Some of these programs include credits to certain sectors and industries, preferential mortgage loans to young families, and also tax preferences related to mortgage loans for construction, reconstruction, and purchase of houses and flats, particularly in rural area.



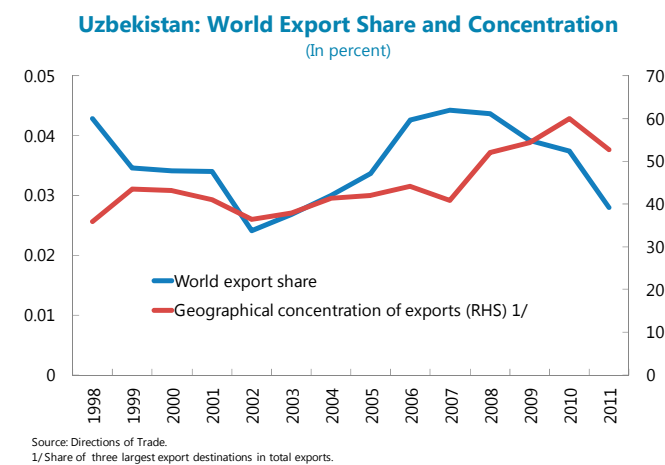
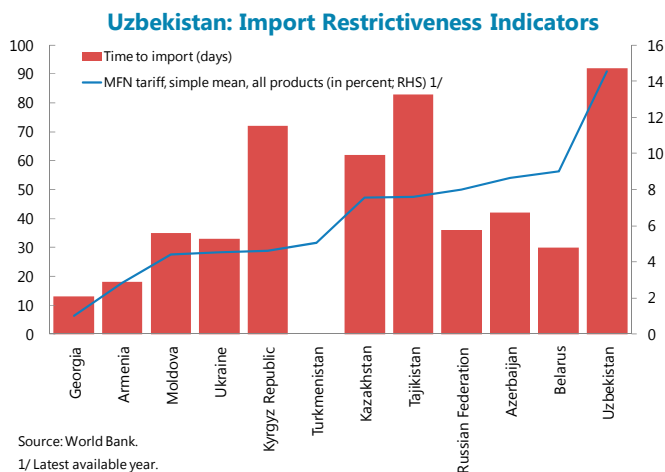
Box 6. Uzbekistan: Trade Policies

Trade policies in Uzbekistan are among the most restrictive in the region. A range of tariff and nontariff barriers to discourage imports is utilized. Uzbekistan has the highest tariffs in the region, and it is one of two CIS countries which maintain exchange restrictions constraining imports. Uzbekistan also maintains export surrender requirements amounting, on average, to 50 percent of export revenues. At the same time, selected state-sponsored importers and exporters enjoy privileges.

Staff estimates that trade restrictions have significant negative effects on trade and growth in Uzbekistan. International comparisons suggest that Uzbekistan’s trade is below the level that would be expected by 18 percentage points of GDP.¹ This is a concern, as the economy is not benefiting fully from the division of labor, technological advancement, and growth. Trade restrictiveness is likely an important factor behind low total factor productivity growth in Uzbekistan (Annex I).

The authorities have maintained that their goals are to promote export growth and economic diversification, and to reduce resource dependency; however, there is little evidence that these are being achieved.

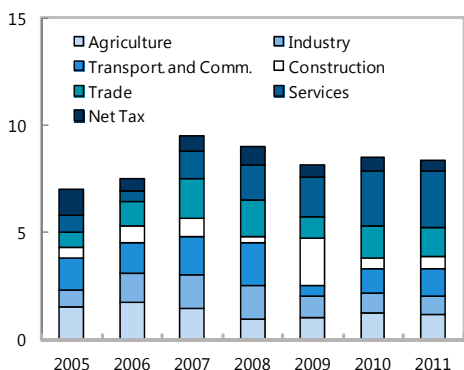
Uzbekistan’s export market share has been falling in recent years. Exports remain mainly comprised of commodities—gas, gold, cotton and metals—and agricultural products, which together amount to about 85 percent of exports. The geographic concentration of exports has been rising, with Russia, China, and Turkey being the three largest export destinations in 2011.



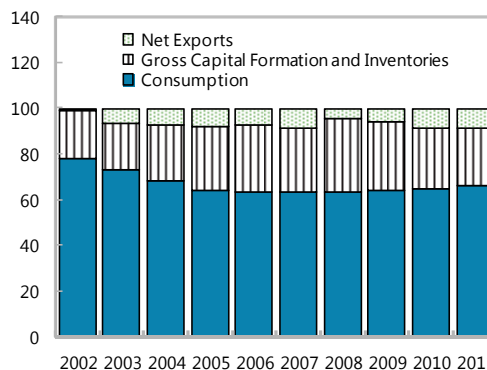
^{1/} A gravity-type regression model of trade openness, incorporating a set of standard variables, such as population, per capita GDP level, distance to EU, and access to ports, was run on a sample of 181 countries, for which data were available in the IMF databases.

Figure 1. Uzbekistan: Recent Economic Developments

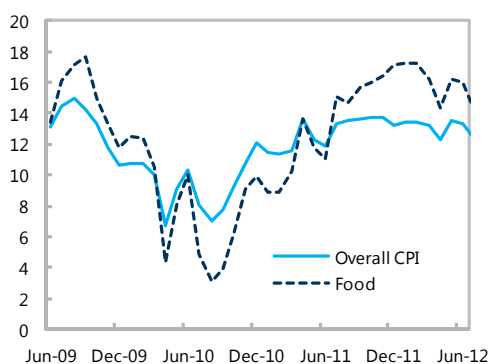
GDP: Sectoral Contribution to Growth (in percent)



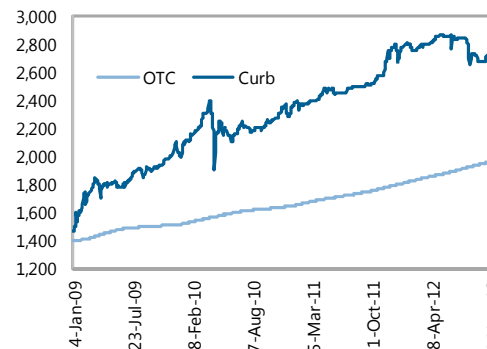
GDP: Expenditure Approach (in percent)



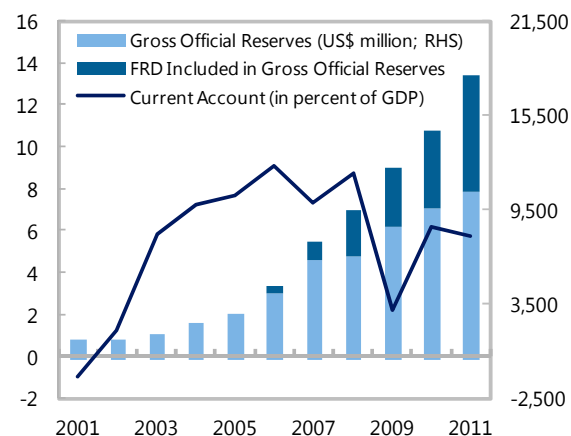
Inflation Rate (12-month percent change)



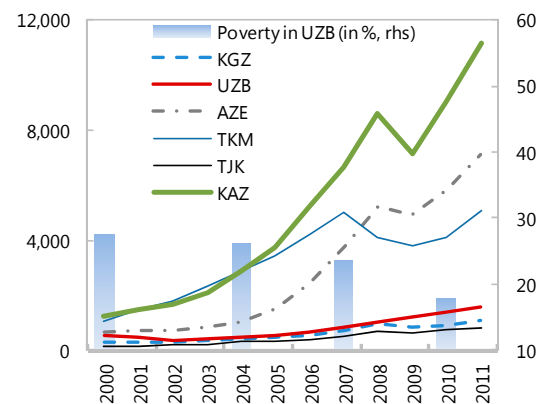
OTC and Curb Market Exchange Rates (sum per U.S. dollar)



Current Account and Gross Official Reserves



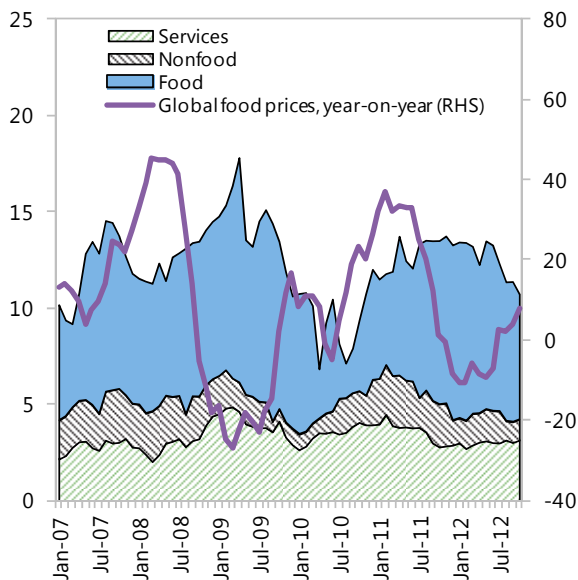
GDP per Capita in CCA Countries (in U.S. dollars)



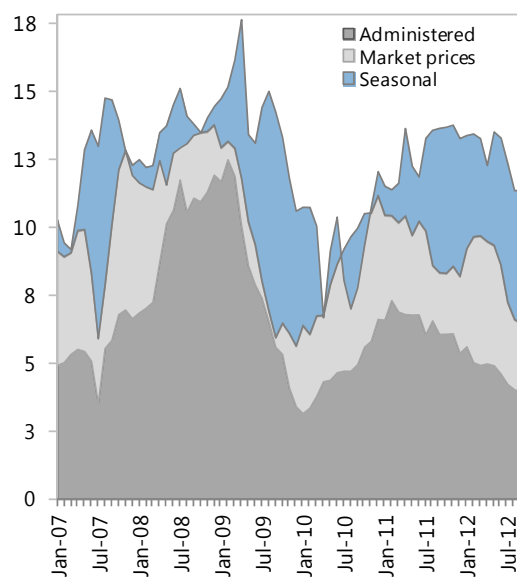
Sources: Uzbek authorities, International Finance Statistics, and IMF staff estimates.

Figure 2. Uzbekistan: Inflation Developments, 2007–12
(In percent)

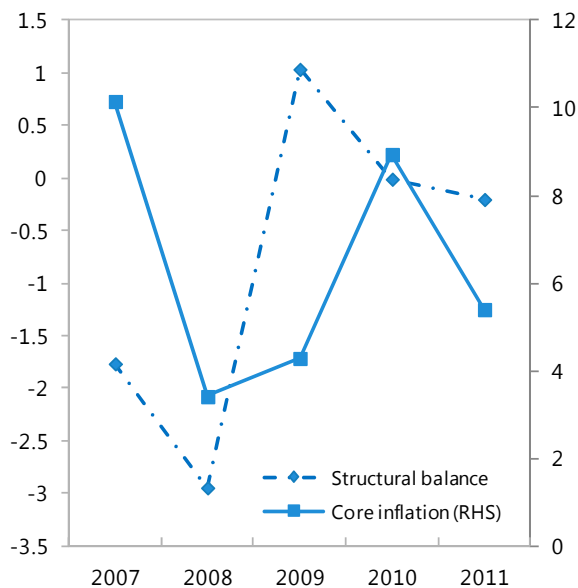
Contribution to CPI Inflation



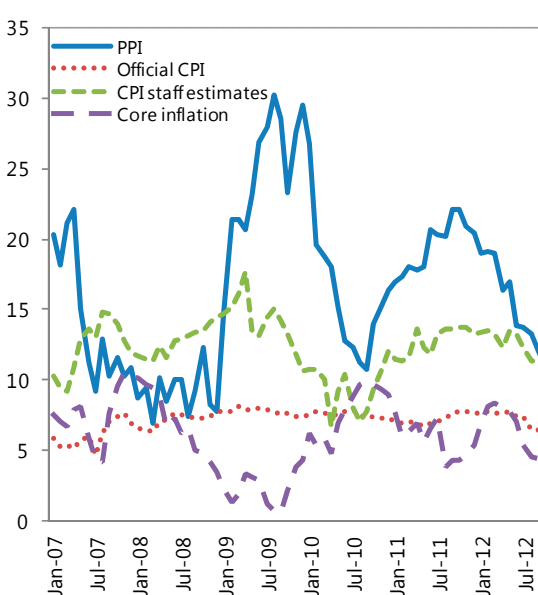
Contribution to CPI Inflation



Core Inflation



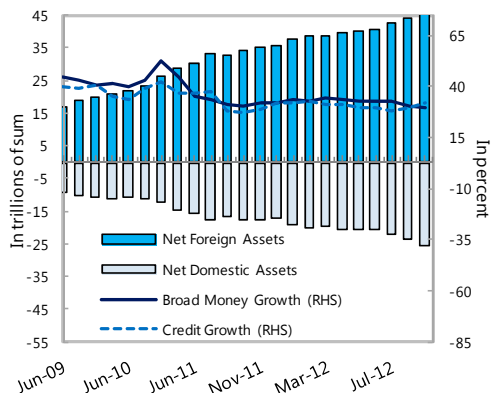
Different measures of inflation



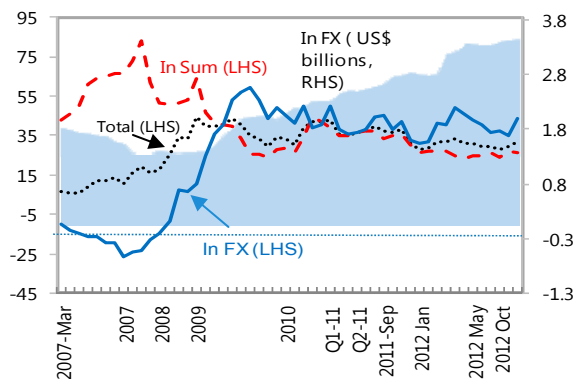
Sources: Uzbekistan authorities, and IMF staff estimates.

Figure 3. Uzbekistan: Monetary and Fiscal Developments

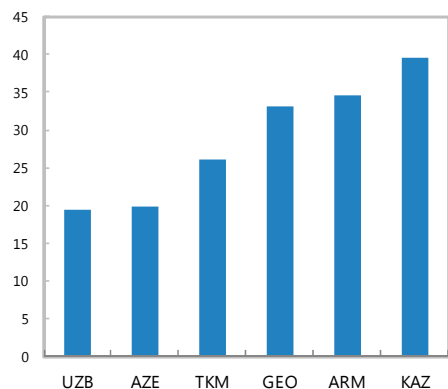
Sources of Broad Money Growth



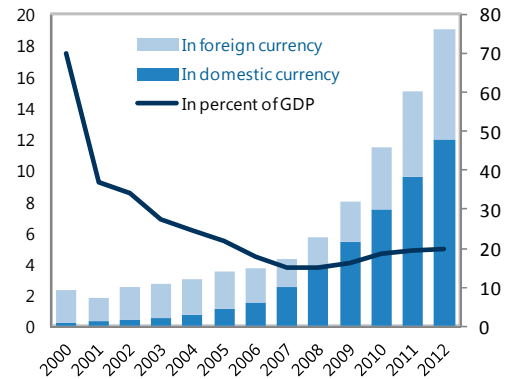
Credit to Economy (12-month percent change, and in FX)



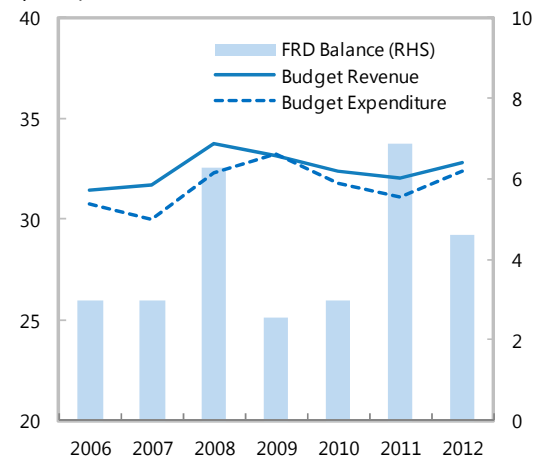
Total Credit (as of end-2011; in percent of GDP)



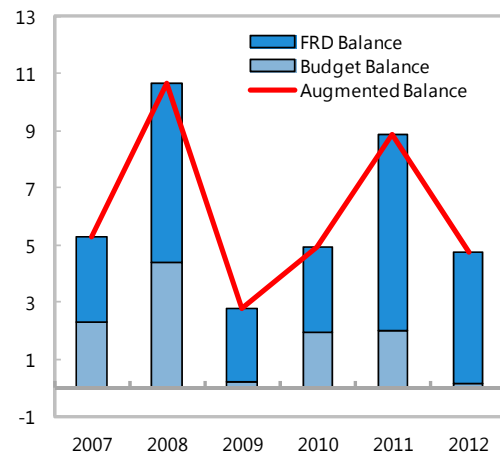
Credit to Economy (in trillions of sum)



Consolidated Budget Revenue and Expenditure (in percent of GDP)



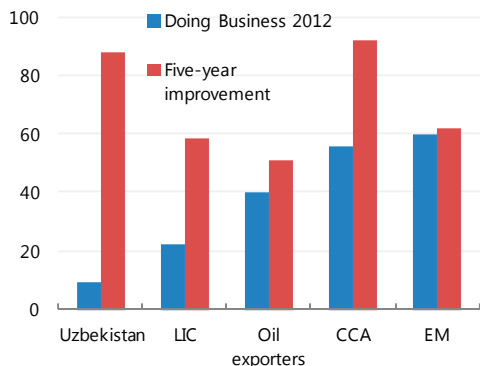
Budget and Overall Fiscal Balance (in percent of GDP)



Sources: Uzbek authorities, and IMF staff estimates.

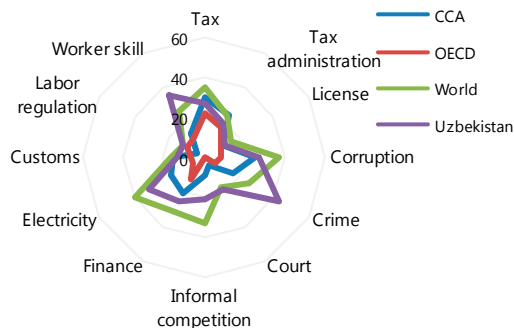
Figure 4. Uzbekistan: Business Environment and Governance

Ease of Doing Business (percentile rank)



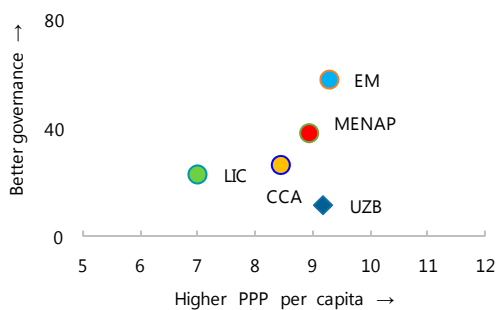
Sources: Doing Business (2012), and IMF staff calculations.

Firm-Level Business Constraints (percent of firms)



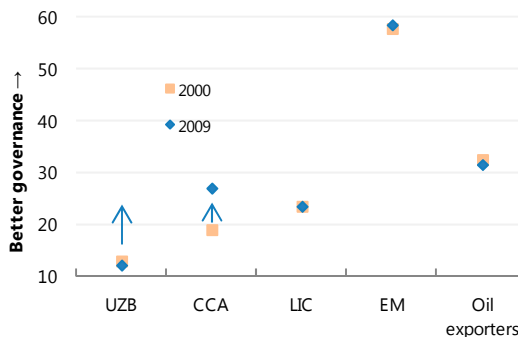
Sources: World Bank Enterprise Surveys, and IMF staff calculations.

WGI-4 and GDP per Capita (log PPP)



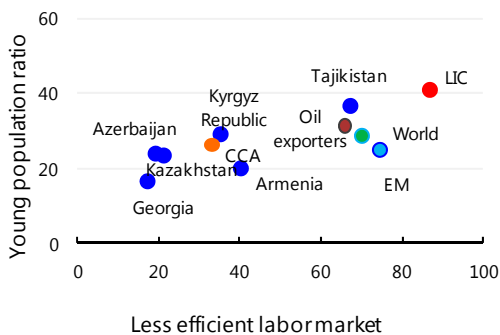
Sources: WGI, and IMF staff calculations.

Changes in WGI-4 (percentile rank)



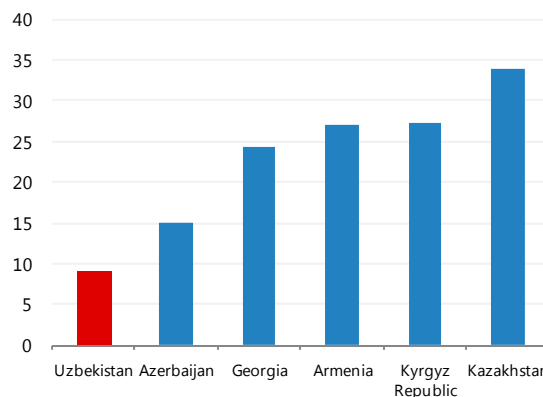
Sources: WGI (government effectiveness, regulatory quality, rule of law and control of corruption), and IMF staff calculations.

Labor Market Efficiency and Young Population Ratio



Sources: Global Competitiveness Report (2010; pillar 7 without female participation and brain drain) and World Development Indicators (2009), and IMF staff calculations.

Firm-Level Dispersion in Business Environment (90th–10th percentile in days to get operating license)



Sources: World Bank Enterprise Surveys, and IMF staff calculations.

Table 1. Uzbekistan: Selected Economic Indicators, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Est.			Projections		
National income										
Nominal GDP (in billions of sum)	37,747	49,043	61,794	77,751	96,664	117,386	138,768	163,274	192,108	224,969
Nominal GDP (in millions of U.S. dollars)	28,605	33,461	38,963	45,353	51,165	56,470	61,215	66,383	71,987	77,697
(In percent)										
GDP at current prices	33.9	29.9	26.0	25.8	24.3	21.4	18.2	17.7	17.7	17.1
GDP deflator	22.9	20.2	16.1	16.2	15.1	13.5	11.0	11.0	11.0	11.0
GDP at constant prices	9.0	8.1	8.5	8.3	8.0	7.0	6.5	6.0	6.0	5.5
Consumer price index (eop)										
Official	8.0	7.4	7.3	7.6	...	...	...	...	...	...
Alternative (Fund staff calculations) 1/	14.4	10.6	12.1	13.3	11.0	11.0	11.0	11.0	11.0	11.0
Consumer price index (average)										
Official	7.2	7.8	7.5	7.6	...	...	...	...	...	...
Alternative (Fund staff calculations) 1/	12.7	14.1	9.4	12.8	12.2	11.4	11.0	11.0	11.0	11.0
Average wage (sum per month)										
	277,589	390,007	506,437	633,573	...	...	...	...	...	...
(Annual percentage change)										
Money and credit										
Reserve money	31.2	30.5	27.1	20.0	15.7	16.5	17.6	...	...	...
Broad money	38.7	40.8	52.4	32.3	27.5	26.6	24.0	...	...	...
Net foreign assets	39.5	35.1	31.9	35.2	35.9	25.8	23.0	...	...	...
Net domestic assets	-40.2	-30.6	-14.2	-38.5	-45.1	-25.0	-21.9	...	...	...
Of which: Net claims on government	-115.4	-22.1	-33.4	-58.7	-30.2	-16.5	-20.7	...	...	...
Credit to the economy	33.6	40.4	42.4	32.0	25.8	21.0	18.2	...	...	...
Velocity (in levels)	5.8	5.3	4.4	4.2	4.1	3.9	3.8	...	...	...
External sector										
Exports of goods and services (in millions of U.S. dollars)	12,158	11,536	12,453	15,000	14,252	16,290	18,029	18,908	19,901	21,204
Imports of goods and services (in millions of U.S. dollars)	11,393	11,698	11,215	14,167	15,234	16,606	17,952	19,504	21,194	23,006
Real effective exchange rate (ave., off. rate, alt. CPI; - dep.) 2/	-1.7	11.4	-5	-3.9	2.7	...	...	...	...	...
(In percent of GDP, unless otherwise specified)										
Current account	8.7	2.2	6.2	5.8	2.7	3.5	4.2	3.1	2.5	2.4
External debt outstanding	13.1	15.0	14.8	13.4	13.0	13.0	13.3	13.6	13.9	14.3
External debt service ratio 3/	6.2	5.8	4.1	3.6	6.4	3.6	3.5	3.6	3.7	3.9
Government finance										
Consolidated revenue and grants	33.7	33.1	32.4	32.0	32.8	32.3	32.3	32.3	32.4	32.4
Consolidated expenditure and net lending	32.4	33.6	32.0	31.9	32.7	33.2	33.3	33.7	33.7	33.8
Statistical discrepancy	2.6	0.7	1.6	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Consolidated budget balance 4/	3.9	0.2	2.0	2.0	0.1	-0.9	-1.0	-1.3	-1.3	-1.4
Fund for Reconstruction and Development revenue 5/	7.0	3.6	4.6	8.2	5.8	4.1	5.0	4.8	4.5	4.3
Fund for Reconstruction and Development expenditure	0.7	1.0	1.6	1.4	1.2	1.3	1.2	1.1	1.0	1.0
Balance	6.3	2.6	3.0	6.9	4.6	2.7	3.8	3.7	3.5	3.3
Augmented government balance	10.2	2.8	4.9	8.8	4.7	1.8	2.8	2.4	2.1	2.0
Public debt (in percent of GDP)	12.7	11.0	10.0	9.1	8.6	8.5	8.6	8.8	8.9	9.2
Of which: External public debt	11.5	10.3	9.4	8.5	8.1	8.1	8.3	8.4	8.6	8.8
Memorandum items:										
Gross official external reserves (in millions of U.S. dollars)	9,534	12,226	14,579	18,049	22,431	26,541	30,242	33,718	37,055	40,596
Gross official reserves (in months of imports)	9.8	13.1	12.3	14.2	16.2	17.7	18.6	19.1	19.3	19.6
Nominal GDP per capita (in U.S. dollars)	1,039	1,195	1,367	1,559	1,737	1,895	2,030	2,175	2,331	2,486
External debt outstanding (in millions of U.S. dollars)	3,748	5,022	5,753	6,058	6,636	7,351	8,146	9,030	10,009	11,086
Exchange rate (sum per U.S. dollar; eop)	1,393	1,511	1,640	1,795	1,986	...	...	...	...	...
Credit to economy (in percent of GDP)	15.2	16.4	18.5	19.4	19.6	19.6	19.6	19.8	19.7	19.5
Broad money (in percent of GDP)	17.3	18.7	22.6	23.8	24.4	25.4	26.7	27.8	29.0	29.9
Population (in millions)	27.5	28.0	28.5	29.1	29.4	29.8	30.2	30.5	30.9	31.3

Sources: Uzbek authorities, and Fund staff estimates and projections.

1/ The authorities have started reporting CPI index using the Rothwell formula in November 2011. They provided historical data starting 2004. Reconciliation of the authorities' and Fund staff calculations for historical CPI data using international methodology is ongoing.

2/ In 2012, as of end-October.

3/ In percent of exports of goods and services.

4/ Based on below-the-line financing data.

5/ Includes transfers of \$1.1 billion in 2008, \$1.2 billion in 2011 and \$1 billion in 2012.

Table 2. Uzbekistan: Balance of Payments, 2008–17
(In millions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Est.	Projections				
Current account balance	2,485	735	2,397	2,612	1,371	1,972	2,576	2,052	1,812	1,884
Balance of goods and services	765	-162	1,238	833	-982	-316	77	-596	-1,293	-1,802
Merchandise trade balance	2,205	1,976	3,005	3,368	1,561	2,348	2,775	2,300	1,805	1,462
Exports of goods	10,811	10,352	10,978	13,204	12,202	13,947	15,315	15,924	16,609	17,532
Cotton fiber	1,067	1,013	1,573	1,348	1,222	1,201	1,299	1,353	1,265	1,241
Energy	2,835	4,032	2,975	2,779	4,774	5,158	5,052	5,039	5,028	5,019
Gold	3,991	3,013	2,267	3,823	578	1,619	2,720	2,754	2,790	2,841
Food Products	512	712	1,261	1,990	1,123	1,284	1,417	1,590	1,852	2,169
Other exports of goods	2,407	1,582	2,902	3,264	4,504	4,684	4,827	5,188	5,674	6,263
Imports of goods	-8,606	-8,376	-7,973	-9,837	-10,641	-11,599	-12,540	-13,624	-14,804	-16,070
Food Products	-726	-765	-867	-1,170	-1,235	-1,292	-1,283	-1,295	-1,357	-1,429
Energy products	-450	-326	-655	-847	-926	-989	-1,051	-1,116	-1,188	-1,263
Machinery and intermediate goods	-4,572	-4,801	-3,628	-3,907	-4,316	-4,695	-5,075	-5,490	-5,953	-6,448
Other imports of goods 1/	-2,858	-2,484	-2,824	-3,913	-4,164	-4,624	-5,131	-5,723	-6,306	-6,930
Balance of services	-1,441	-2,138	-1,768	-2,535	-2,543	-2,663	-2,699	-2,896	-3,098	-3,264
Credit	1,347	1,184	1,474	1,795	2,050	2,343	2,714	2,984	3,292	3,672
Debit	-2,787	-3,322	-3,242	-4,330	-4,593	-5,006	-5,412	-5,880	-6,390	-6,936
Income (net)	1,805	1,041	1,195	1,803	2,479	2,425	2,650	2,815	3,271	3,853
Of which: Interest (net)	146	95	58	-95	-20	-83	-77	47	239	532
Transfers (net)	-84	-144	-36	-24	-125	-138	-151	-166	-166	-166
Capital and financial account balance	1,056	1,144	-1,285	-184	-1,387	-1,042	-936	-854	-786	-725
Capital transfers	-136	-131	-117	-145	-140	-155	-167	-182	-197	-213
Foreign direct and portfolio investment (net)	711	842	1,628	1,651	889	970	881	792	698	598
Loans, net	87	918	569	305	578	715	796	884	979	1,077
Public and publ. guaranteed debt (net)	-37	136	51	210	308	417	473	534	600	667
Commercial nonguaranteed (net)	124	782	518	94	270	298	323	350	380	410
Trade credits	86	-537	-979	558	-230	-123	-66	-35	-18	-10
Money and deposits	-284	131	-676	-390	-659	-655	-639	-624	-609	-591
Other investment and statistical discrepancy 2/	592	-78	-1,710	-2,163	-1,824	-1,795	-1,741	-1,690	-1,640	-1,586
Overall balance	3,541	1,879	1,112	2,428	-15	930	1,640	1,198	1,026	1,159
Financing	-3,541	-1,879	-1,112	-2,428	15	-930	-1,640	-1,198	-1,026	-1,159
Gross reserves (- increase)	-3,541	-1,879	-1,112	-2,428	15	-930	-1,640	-1,198	-1,026	-1,159
<i>Memorandum items:</i>										
Current account balance (in percent of GDP)	8.7	2.2	6.2	5.8	2.7	3.5	4.2	3.1	2.5	2.4
Exports of G&S (in percent of GDP)	42.5	34.5	32.0	33.1	27.9	28.8	29.5	28.5	27.6	27.3
Imports of G&S (in percent of GDP)	39.8	35.0	28.8	31.2	29.8	29.4	29.3	29.4	29.4	29.6
Export growth rate (G&S)	37.3	-5.1	7.9	20.5	-5.0	14.3	10.7	4.9	5.3	6.5
Import growth rate (G&S)	39.8	2.7	-4.1	26.3	7.5	9.0	8.1	8.6	8.7	8.6
FDI (in percent of GDP)	2.5	2.5	4.2	3.6	1.7	1.7	1.4	1.2	1.0	0.8
Gross official reserves (in millions of U.S. dollars) 3/	9,534	12,226	14,579	18,049	18,346	19,380	21,068	22,341	23,446	24,714
Gross external debt (in millions of U.S. dollars) 4/	3,748	5,022	5,753	6,058	6,636	7,351	8,146	9,030	10,009	11,086
In percent of GDP	13.1	15.0	14.8	13.4	13.0	13.0	13.3	13.6	13.9	14.3
PPG external debt (in millions of U.S. dollars)	3,294	3,433	3,647	3,857	4,165	4,582	5,054	5,588	6,187	6,854
In percent of GDP	11.5	10.3	9.4	8.5	8.1	8.1	8.3	8.4	8.6	8.8
Commercial nonguaranteed (in percent of GDP)	1.6	4.7	5.4	4.9	4.8	4.9	5.1	5.2	5.3	5.4
Total debt service payment (in millions of U.S. dollars)	748	673	510	540	910	593	627	671	740	832
In percent of exports of G&S	6.2	5.8	4.1	3.6	6.4	3.6	3.5	3.6	3.7	3.9
In percent of gross international reserves	7.1	4.2	3.7	5.0	3.2	3.2	3.0	3.0	3.2	3.4
Remittances	2,384	1,595	1,741	2,694	3,482	3,715	4,017	4,340	4,701	5,086

Sources: Uzbek authorities, and Fund staff estimates and projections.

1/ Includes one-time adjustment in 2007 of \$1.5 billion due to misclassified imports as temporary imports.

2/ In 2010, includes discrepancy carried over from 2008–09 as a result of delayed official recording of FDI by China into gas pipelines.

3/ Includes valuation effects throughout 2017; projections exclude monetization of gold purchases by CBU from domestic producers.

4/ Includes credits extended by Russia in 1992–94, the settlement of which (a total of U.S. dollars 464 million) is still in dispute.

Table 3. Uzbekistan: General Government Consolidated Budget, 2008–17
(In billions of sum)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Est.	Projections				
Budget revenue and grants	12,725	16,251	20,014	24,883	31,715	37,863	44,808	52,779	62,172	72,894
Tax revenue	8,131	10,224	12,741	15,710	19,786	23,801	28,183	33,218	39,155	45,938
Taxes on incomes and profits	2,683	3,023	3,786	4,859	5,848	7,006	8,282	9,745	11,466	13,427
Taxes on property	410	551	756	1,009	1,235	1,478	1,747	2,055	2,418	2,832
Taxes on goods and services	4,721	6,315	7,768	9,326	11,914	14,325	16,934	19,924	23,443	27,453
<i>Of which</i> : Value added tax	2,505	3,085	3,900	4,761	6,231	7,738	9,147	10,763	12,663	14,829
Excises	1,123	1,794	2,219	2,542	3,146	3,727	4,405	5,183	6,099	7,142
Mining tax	881	1,168	1,285	1,555	1,951	2,180	2,577	3,032	3,568	4,178
Customs duties	317	336	430	516	788	993	1,220	1,493	1,827	2,225
Other budget revenue (tax and nontax)	663	655	893	1,392	1,558	1,524	1,802	2,120	2,494	2,921
Social security contributions (Pension and Employment Fund)	3,043	4,155	5,059	6,214	7,819	9,439	11,159	13,131	15,452	18,097
Road Fund	366	479	781	926	1,438	1,746	2,064	2,429	2,858	3,346
Education development tax	463	550	322	378	797	967	1,143	1,345	1,583	1,854
Grants	59	187	219	263	317	385	456	536	631	739
Budget expenditure and net lending	12,232	16,475	19,804	24,776	31,575	38,949	46,221	54,952	64,752	75,942
Total expenditure	12,184	16,310	19,642	24,168	31,311	38,613	45,812	54,457	64,155	75,228
Socio-cultural expenditure (including health, education)	4,028	5,381	6,759	8,541	11,718	14,113	16,683	19,630	23,096	27,047
Social safety net	3,682	5,310	6,404	7,597	9,271	11,574	13,734	16,221	19,160	22,526
Low-income support (in the budget)	670	1,075	1,361	1,529	1,724	2,135	2,574	3,090	3,708	4,429
Pension and Employment Fund	3,012	4,235	5,043	6,068	7,548	9,439	11,159	13,131	15,452	18,097
Pension Fund	2,968	4,188	5,006	6,031	7,513	9,397	11,108	13,070	15,378	18,009
Employment Fund	44	46	37	37	35	43	51	62	74	88
Economy	960	1,285	1,526	1,959	2,398	2,964	3,552	4,174	4,907	5,742
Public authorities and administration	263	353	490	630	852	1,035	1,223	1,439	1,693	1,983
Public investment	704	982	1,043	1,223	1,239	1,791	2,235	3,118	3,668	4,296
Interest expenditure	82	77	64	75	111	132	208	254	310	378
Other expenditure in the budget	2,003	2,262	2,468	3,172	3,941	4,786	5,658	6,657	7,832	9,172
Road Fund	403	474	668	710	1,463	1,833	2,064	2,429	2,858	3,346
Extrabudgetary expenditure financed by grants	59	187	219	263	317	385	456	536	631	739
Net lending	48	165	162	608	264	336	410	495	597	714
Statistical discrepancy 1/	1,176	325	1,004	1,441	...	...	...	...	...	...
Consolidated budget balance 2/	1,669	101	1,214	1,548	141	-1,086	-1,413	-2,173	-2,580	-3,049
Primary balance	1,751	178	1,278	1,623	252	-954	-1,206	-1,919	-2,270	-2,671
Fund for Reconstruction and Development										
Own revenue 3/	2,632	1,759	2,852	6,411	5,564	4,780	6,924	7,852	8,657	9,619
Expenditure	270	497	1,016	1,079	1,132	1,552	1,692	1,836	1,992	2,161
Balance	2,363	1,262	1,836	5,332	4,432	3,228	5,232	6,016	6,665	7,457
Augmented government 4/										
Revenue and grants	15,357	18,010	22,865	31,294	37,279	42,643	51,732	60,632	70,829	82,512
Expenditure and net lending	12,502	16,972	20,819	25,855	32,707	40,501	47,913	56,788	66,744	78,104
Balance	4,032	1,363	3,050	6,880	4,572	2,142	3,819	3,844	4,084	4,409
Financing	-4,032	-1,363	-3,050	-6,880	-4,572	-2,142	-3,819	-3,844	-4,084	-4,409
Domestic	-4,095	-1,529	-3,181	-7,209	-4,681	-2,457	-4,218	-4,342	-4,703	-5,164
Domestic banking system	-4,169	-1,561	-3,200	-7,260	-4,685	-2,484	-4,256	-4,390	-4,760	-5,232
Monetary authorities	-3,956	-1,554	-3,193	-7,254	-4,451	-2,360	-4,043	-4,170	-4,522	-4,970
<i>Of which</i> : Fund for Reconstruction and Development	-2,363	-1,262	-1,836	-5,332	-4,432	-3,228	-5,232	-6,016	-6,665	-7,457
Deposit money banks	-213	-7	-7	-6	-234	-124	-213	-219	-238	-262
Treasury bills outside banks	11	3	-4	12	-23	...	...	...	...	...
Privatization proceeds	63	29	23	39	28	28	38	48	58	68
External	63	166	131	329	108	315	399	499	618	756
Memorandum items:										
GDP	37,747	49,043	61,794	77,751	96,664	117,386	138,768	163,274	192,108	224,969
Current expenditure	11,750	14,667	17,712	21,973	28,292	34,604	41,057	48,374	56,998	66,847
Wages and wage-related expenditure	3,382	4,687	6,330	8,070	10,087	12,250	14,481	17,039	20,048	23,477

Sources: Uzbek authorities, and IMF staff estimates and projections.

1/ Includes valuation adjustments. For 2010, it includes valuation adjustment (0.9 percent of GDP).

2/ Based on below-the-line data.

3/ Includes transfer of \$1.1 billion in 2008, \$1.2 billion in 2011 and \$1 billion in 2012.

4/ Includes consolidated government and the Fund for Reconstruction and Development.

Table 3a. Uzbekistan: Statement of Operations – General Government 2008–17 1/
(In billions of sum)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	15,357	18,010	22,865	31,294	37,279	42,643	51,732	60,632	70,829	82,512
Taxes	8,960	11,254	13,843	17,014	22,020	26,515	31,391	36,992	43,595	51,138
Taxes on income, profit and capital gains	2,683	3,023	3,786	4,859	5,848	7,006	8,282	9,745	11,466	13,427
Taxes on property	410	551	756	1,009	1,235	1,478	1,747	2,055	2,418	2,832
Taxes on goods and services	5,550	7,345	8,871	10,630	14,149	17,038	20,141	23,698	27,884	32,653
Taxes on international trade and transactions	317	336	430	516	788	993	1,220	1,493	1,827	2,225
Social contributions	3,043	4,155	5,059	6,214	7,819	9,439	11,159	13,131	15,452	18,097
Grants	59	187	219	263	317	385	456	536	631	739
Other revenue	3,295	2,414	3,744	7,803	7,122	6,304	8,726	9,972	11,151	12,539
Expenditure	12,232	16,392	19,798	24,339	31,501	38,867	46,093	54,767	64,498	75,608
Expense	10,844	14,546	17,950	22,204	28,314	34,758	41,201	48,523	57,151	67,005
Compensation of employees	3,382	4,647	6,323	8,070	10,084	12,250	14,481	17,037	20,047	23,419
Use of goods and services	3,100	4,124	4,909	6,188	8,479	10,230	12,081	14,128	16,599	19,430
Interest	82	77	64	75	111	132	208	254	310	378
Subsidies	951	994	1,016	1,157	1,466	1,975	2,357	2,835	3,333	3,942
Social benefits	2,929	4,251	5,143	6,080	7,384	9,214	10,944	12,938	15,297	18,001
Other expense	401	452	494	634	788	957	1,132	1,331	1,566	1,834
Net acquisition of nonfinancial assets	1,388	1,847	1,848	2,136	3,187	4,108	4,892	6,244	7,347	8,604
Gross/Net Operating Balance (= revenue minus expense)	4,514	3,464	4,916	9,090	8,965	7,884	10,531	12,108	13,677	15,508
Net lending/borrowing (= revenue minus expenditure)	3,125	1,617	3,067	6,955	5,778	3,776	5,639	5,864	6,330	6,904
<i>Memorandum items:</i>										
Gross domestic product	37,747	49,043	61,794	77,751	96,664	117,386	138,768	163,274	192,108	224,969

Sources: Uzbekistan authorities, and Fund staff estimates.

1/ Fund staff preliminary estimates based on fiscal data presented by the authorities. Fiscal presentation follows the Government Finance Statistic Manual 2001 (GFSM 2001).

Table 4. Uzbekistan: General Government Consolidated Budget, 2008–17
(In percent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
					Est.	Projections				
Budget revenue and grants	33.7	33.1	32.4	32.0	32.8	32.3	32.3	32.3	32.4	32.4
Tax revenue	21.5	20.8	20.6	20.2	20.5	20.3	20.3	20.3	20.4	20.4
Taxes on incomes and profits	7.1	6.2	6.1	6.2	6.1	6.0	6.0	6.0	6.0	6.0
Taxes on property	1.1	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Taxes on goods and services	12.5	12.9	12.6	12.0	12.3	12.2	12.2	12.2	12.2	12.2
<i>Of which:</i> Value added tax	6.6	6.3	6.3	6.1	6.4	6.6	6.6	6.6	6.6	6.6
Excises	3.0	3.7	3.6	3.3	3.3	3.2	3.2	3.2	3.2	3.2
Mining tax	2.3	2.4	2.1	2.0	2.0	1.9	1.9	1.9	1.9	1.9
Customs duties	0.8	0.7	0.7	0.7	0.8	0.8	0.9	0.9	1.0	1.0
Other budget revenue (tax and nontax)	1.8	1.3	1.4	1.8	1.6	1.3	1.3	1.3	1.3	1.3
Social security contributions (Pension and Employment Fund)	8.1	8.5	8.2	8.0	8.1	8.0	8.0	8.0	8.0	8.0
Road Fund	1.0	1.0	1.3	1.2	1.5	1.5	1.5	1.5	1.5	1.5
Education development tax	1.2	1.1	0.5	0.5	0.8	0.8	0.8	0.8	0.8	0.8
Grants	0.2	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Budget expenditure and net lending	32.4	33.6	32.0	31.9	32.7	33.2	33.3	33.7	33.7	33.8
Total expenditures	32.3	33.3	31.8	31.1	32.4	32.9	33.0	33.4	33.4	33.4
Socio-cultural expenditure (including health and education)	10.7	11.0	10.9	11.0	12.1	12.0	12.0	12.0	12.0	12.0
Social safety net	9.8	10.8	10.4	9.8	9.6	9.9	9.9	9.9	10.0	10.0
Low-income support (in the budget)	1.8	2.2	2.2	2.0	1.8	1.8	1.9	1.9	1.9	2.0
Pension and Employment Fund	8.0	8.6	8.2	7.8	7.8	8.0	8.0	8.0	8.0	8.0
Pension Fund	7.9	8.5	8.1	7.8	7.8	8.0	8.0	8.0	8.0	8.0
Employment Fund	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Economy	2.5	2.6	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.6
Public authorities and administration	0.7	0.7	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Public investment	1.9	2.0	1.7	1.6	1.3	1.5	1.6	1.9	1.9	1.9
Interest expenditure	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Other expenditures in the budget	5.3	4.6	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Road Fund	1.1	1.0	1.1	0.9	1.5	1.6	1.5	1.5	1.5	1.5
Extrabudgetary expenditure financed by grants	0.2	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net lending	0.1	0.3	0.3	0.8	0.3	0.3	0.3	0.3	0.3	0.3
Statistical discrepancy 1/	3.1	0.7	1.6	1.9	...	...	...	...	...	...
Consolidated budget balance 2/	4.4	0.2	2.0	2.0	0.1	-0.9	-1.0	-1.3	-1.3	-1.4
Fund for Reconstruction and Development										
Own revenue 3/	7.0	3.6	4.6	8.2	5.8	4.1	5.0	4.8	4.5	4.3
Expenditure	0.7	1.0	1.6	1.4	1.2	1.3	1.2	1.1	1.0	1.0
Balance	6.3	2.6	3.0	6.9	4.6	2.7	3.8	3.7	3.5	3.3
Augmented government 4/										
Revenue and grants	40.7	36.7	37.0	40.2	38.6	36.3	37.3	37.1	36.9	36.7
Expenditure and net lending	33.1	34.6	33.7	33.3	33.8	34.5	34.5	34.8	34.7	34.7
Balance	10.7	2.8	4.9	8.8	4.7	1.8	2.8	2.4	2.1	2.0
Financing	-10.7	-2.8	-4.9	-8.8	-4.7	-1.8	-2.8	-2.4	-2.1	-2.0
Domestic	-10.8	-3.1	-5.1	-9.3	-4.8	-2.1	-3.0	-2.7	-2.4	-2.3
Domestic banking system	-11.0	-3.2	-5.2	-9.3	-4.8	-2.1	-3.1	-2.7	-2.5	-2.3
Monetary authorities (net lending)	-10.5	-3.2	-5.2	-9.3	-4.6	-2.0	-2.9	-2.6	-2.4	-2.2
<i>Of which:</i> Fund for Reconstruction and Development	-6.3	-2.6	-3.0	-6.9	-4.6	-2.7	-3.8	-3.7	-3.5	-3.3
Deposit money banks	-0.6	0.0	0.0	0.0	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1
Treasury bills outside banks	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...
Privatization proceeds	0.2	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
External	0.2	0.3	0.2	0.4	0.1	0.3	0.3	0.3	0.3	0.3
<i>Memorandum items:</i>										
GDP (in billions of sum)	37,747	49,043	61,794	77,751	96,664	117,386	138,768	163,274	192,108	224,969
Current expenditure	31.1	29.9	28.7	28.3	29.3	29.5	29.6	29.6	29.7	29.7
Wages and wage-related expenditure	9.0	9.6	10.2	10.4	10.4	10.4	10.4	10.4	10.4	10.4

Sources: Uzbek authorities, and Fund staff estimates and projections.

1/ Includes valuation adjustments. For 2010, it includes valuation adjustment (0.9 percent of GDP).

2/ Based on below-the-line data.

3/ Includes transfer of \$1.1 billion in 2008, \$1.2 billion in 2011 and \$1 billion in 2012.

4/ Includes consolidated government and the Fund for Reconstruction and Development.

Table 4a. Uzbekistan: Statement of Operations – General Government 2008–17 1/
(In percent of GDP)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue		35.6	40.7	36.7	37.0	40.2	38.6	36.3	37.3	37.1	36.9	36.7
Taxes		23.4	23.7	22.9	22.4	21.9	22.8	22.6	22.6	22.7	22.7	22.7
Taxes on income, profit and capital gains		6.2	7.1	6.2	6.1	6.2	6.1	6.0	6.0	6.0	6.0	6.0
Taxes on property		1.2	1.1	1.1	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Taxes on goods and services		14.9	14.7	15.0	14.4	13.7	14.6	14.5	14.5	14.5	14.5	14.5
Taxes on international trade and transactions		1.0	0.8	0.7	0.7	0.7	0.8	0.8	0.9	0.9	1.0	1.0
Social contributions		6.2	8.1	8.5	8.2	8.0	8.1	8.0	8.0	8.0	8.0	8.0
Grants		0.2	0.2	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other revenue		5.8	8.7	4.9	6.1	10.0	7.4	5.4	6.3	6.1	5.8	5.6
Expenditure		29.9	32.4	33.4	32.0	31.3	32.6	33.1	33.2	33.5	33.6	33.6
Expense		25.8	28.7	29.7	29.0	28.6	29.3	29.6	29.7	29.7	29.7	29.8
Compensation of employees		7.6	9.0	9.5	10.2	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Use of goods and services		8.1	8.2	8.4	7.9	8.0	8.8	8.7	8.7	8.7	8.6	8.6
Interest		0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Subsidies		2.4	2.5	2.0	1.6	1.5	1.5	1.7	1.7	1.7	1.7	1.8
Social benefits		6.4	7.8	8.7	8.3	7.8	7.6	7.8	7.9	7.9	8.0	8.0
Other expense		1.0	1.1	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Net acquisition of nonfinancial assets		4.2	3.7	3.8	3.0	2.7	3.3	3.5	3.5	3.8	3.8	3.8
Gross/Net Operating Balance (= revenue minus expense)		9.8	12.0	7.1	8.0	11.7	9.3	6.7	7.6	7.4	7.1	6.9
Net lending/borrowing (= revenue minus expenditure)		5.7	8.3	3.3	5.0	8.9	6.0	3.2	4.1	3.6	3.3	3.1
<i>Memorandum items:</i>												
Gross domestic product (in billions of sum)		28,186	37,747	49,043	61,794	77,751	96,664	117,386	138,768	163,274	192,108	224,969

Sources: Uzbekistan authorities, and Fund staff estimates.

1/ Fund staff preliminary estimates based on fiscal data presented by the authorities. Fiscal presentation follows the Government Finance Statistic Manual 2001 (GFSM 2001).

Table 5. Uzbekistan: Monetary Survey, 2008–14
(In billions of sum, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014
					Est.	Projections	
Net foreign assets (in billions of U.S. dollars)	10.5	13.1	15.9	19.7	24.6	28.2	31.9
Official exchange rate (sum/U.S. dollar, eop)	1,393	1,511	1,640	1,795	1,986	...	...
Net foreign assets	14,666	19,821	26,142	35,346	48,027	60,410	74,277
Gold	1,879	2,823	5,830	8,106	16,865	22,165	26,235
Net foreign exchange (excluding FRD)	8,716	11,319	12,267	14,108	11,976	13,859	16,138
FRD	4,071	5,679	8,045	13,132	19,186	24,386	31,904
Net domestic assets	-8,155	-10,650	-12,165	-16,848	-24,451	-30,571	-37,272
Net domestic credit	-2,032	-1,433	-1,190	-4,946	-7,102	-7,423	-9,539
Government, net 1/ 2/	-7,795	-9,507	-12,673	-20,078	-26,094	-30,398	-36,690
<i>Of which</i> : Fund for Reconstruction and Development	-4,071	-5,679	-8,045	-13,132	-19,186	-24,386	-31,904
Treasury bills	38	38	42	30	0	0	0
Rest of economy	5,725	8,036	11,441	15,101	18,991	22,975	27,150
Loans in domestic currency	3,854	5,404	7,498	9,546	...	...	...
Loans in foreign currency	1,871	2,632	3,943	5,556	...	...	...
Other items, net	-5,913	-8,977	-10,770	-11,561	-16,868	-22,668	-27,253
Nonbudgetary deposits of budget organizations	-210	-241	-206	-341	-480	-480	-480
Broad Money	6,511	9,171	13,977	18,498	23,577	29,839	37,005
Currency outside banks	2,663	3,513	4,361	5,224	5,532	6,093	7,080
Demand deposits	1,419	2,068	3,356	4,156	5,649	7,434	9,369
Quasi-money	2,429	3,590	6,261	9,118	12,395	16,312	20,556
<i>Memorandum items:</i>							
FRD (in millions of U.S. dollars)	2,923	3,757	4,905	7,316	9,662	11,214	13,523
	(Annual percentage change)						
Broad money	38.7	40.8	52.4	32.3	27.5	26.6	24.0
Net foreign assets	39.5	35.1	31.9	35.2	35.9	25.8	23.0
Net domestic assets	-40.2	-30.6	-14.2	-38.5	-45.1	-25.0	-21.9
Domestic bank credit to government	-114.1	-22.0	-33.3	-58.4	-30.0	-16.5	-20.7
Domestic credit to rest of economy	33.6	40.4	42.4	32.0	25.8	21.0	18.2
Loans in domestic currency	52.7	40.2	38.7	27.3	...	...	...
Loans in foreign currency	6.3	40.6	49.8	40.9	...	...	...
Velocity (in levels) 3/	5.8	5.3	4.4	4.2	4.1	3.9	3.8
Ratio of Currency to Deposits	0.69	0.62	0.45	0.39	0.31	0.26	0.24
Ratio of Currency Outside Banks to Broad Money	0.41	0.38	0.31	0.28	0.23	0.20	0.19
Monetization ratio	17.3	18.7	22.6	23.8	24.4	25.4	26.7
Loans/GDP ratio	15.2	16.4	18.5	19.4	19.6	19.6	19.6

Sources: Central Bank of Uzbekistan, and Fund staff estimates and projections.

1/ Including net proceeds from sale of treasury bills to banks.

2/ Projections for NDC: Government, Net include the revaluation gain from FRD balances.

3/ Velocity is calculated using nominal GDP over end of period money supply.

Table 6. Uzbekistan: Summary Accounts of the Central Bank, 2008–14
(In billions of sum, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014
					Est.	Projections	
Net international reserves (in billions of U.S. dollars)	9.5	12.2	14.6	18.0	22.4	26.5	30.2
Gross international reserves (in billions of U.S. dollars)	9.5	12.2	14.6	18.0	22.4	26.5	30.2
Official exchange rate (sum/U.S. dollar, eop)	1,393	1,511	1,640	1,795	...	...	...
Net foreign assets	13,281	17,855	23,251	31,670	43,745	56,837	70,401
Gold	1,879	2,823	5,830	8,106	16,865	22,165	26,235
Foreign exchange	7,330	9,976	10,035	11,159	8,493	11,162	13,211
FRD	4,071	5,679	8,045	13,132	19,186	24,386	31,904
Foreign liabilities	0	-623	-659	-727	-800	-875	-949
Net domestic assets	-9,854	-13,384	-17,570	-24,855	-35,863	-47,653	-59,604
Net domestic credit	-7,221	-8,782	-11,982	-19,243	-25,316	-29,648	-35,977
Government, net	-7,274	-8,828	-12,021	-19,275	-25,348	-29,680	-36,009
<i>Of which: Fund for Reconstruction and Development 1/</i>	-4,071	-5,679	-8,045	-13,132	-19,186	-24,386	-31,904
Banks	53	46	38	32	32	32	32
Monetary policy instruments 2/	-1,466	-2,373	-2,968	-4,263	-6,909	-10,880	-12,507
Other items, net	-1,167	-2,229	-2,620	-1,349	-3,638	-7,125	-11,120
Reserve money	3,427	4,471	5,681	6,815	7,882	9,185	10,797
Currency in circulation	2,735	3,590	4,452	5,370	5,721	6,301	7,322
Deposits of commercial banks	677	844	1,186	1,394	2,111	2,835	3,426
Other deposits	15	37	43	51	49	49	49
	(Annual percentage change)						
Reserve money	31.2	30.5	27.1	20.0	15.7	16.5	17.6
Net foreign assets	37.1	34.4	30.2	36.2	38.1	29.9	23.9
Net domestic assets	-39.3	-35.8	-31.3	-41.5	-44.3	-32.9	-25.1
Net credit to government	-119.2	-21.4	-36.2	-60.3	-31.5	-17.1	-21.3
Net credit to banks	-14.9	-13.7	-15.9	-16.4	0.0	0.0	0.0
<i>Memorandum items:</i>							
Money multiplier (in levels)	1.90	2.05	2.46	2.71	2.99	3.25	3.43
FRD (in millions of U.S. dollars)	2,923	3,757	4,905	7,316	9,662	11,214	13,523

Sources: Central Bank of Uzbekistan, and Fund staff estimates and projections.

1/ Includes transfer of \$1.1 billion in 2008, \$1.2 billion in 2011, and \$1 billion in 2012.

2/ Central Bank of Uzbekistan certificates of deposit.

Table 7. Uzbekistan: Financial Soundness Indicators for Banking Sector, 2008–12
(In percent, unless otherwise indicated)

	2008	2009	2010	2011	Q1 2012	Q2 2012	Q3 2012
<i>Capital adequacy</i>							
Total regulatory capital/risk-weighted assets	23.2	23.4	23.4	24.2	24.3	24.3	24.3
Total regulatory capital/total assets	13.9	13.3	13.8	12.1	11.7	11.3	10.7
<i>Asset quality</i>							
Distribution by risk weight category	100.0	99.9	100.0	100	100	100	100
0 percent	19.9	23.8	25.8	26.7	27.3	27.2	27.3
20 percent	30.1	26.1	24.5	25.3	25.0	25.2	25.3
50 percent	1.3	1.7	1.8	1.5	1.4	1.5	1.5
100 percent	48.7	48.3	47.9	46.5	46.3	46.1	45.8
Sectoral concentration	100.0	100.0	100.00	100.0	100.0	100.0	100.0
Industry	39.8	39.7	41.53	41.02	42.20	43.09	43.24
Agriculture	17.5	11.0	10.60	10.62	11.99	12.31	12.43
Transport and communication	8.4	9.4	12.09	12.94	13.56	13.01	13.23
Construction	5.4	7.9	6.51	6.80	4.60	4.46	4.78
Trade and commerce	7.8	10.3	8.38	8.39	7.94	7.95	7.68
Procurement	2.5	2.9	2.91	2.38	2.47	2.87	2.69
Housing and public utility services	3.0	1.7	1.34	1.36	1.10	0.98	1.06
Other services	15.6	17.2	16.64	16.49	16.15	15.34	14.89
Large exposures/total assets	0.3	0.1	0.1	0.1	0.1	0.0	0.1
Large exposure/total capital	1.9	0.6	0.7	0.4	0.4	0.4	0.4
Connected lending/total capital	4.3	0.1	12.0	10.3	9.9	9.1	8.6
Direct credits/total lending	0.9	0.6	0.4	0.2	0.2	0.2	0.2
Foreign exchange loans/total loans	34.6	36.4	39.4	41.9	41.8	39.3	39.5
NPLs/total gross loans (or exposures)	3.0	1.2	0.97	0.71	0.65	0.59	0.50
NPLs net of provisions/total capital	3.9	1.9	1.5	1.2	1.2	1.1	1.1
Provisions (billions of sums)	107.9	63.0	61.7				
Government guarantee/total loans	25.9	21.3	24.6	28.3	28.8	26.7	27.1
<i>Profitability</i>							
Return on (average) assets	1.4	1.5	1.2	1.9	1.9	1.9	1.9
Return on (average) equity	8.9	7.4	7.7	14.4	15.6	15.9	16.2
Interest margin/gross income	31.3	33.6	34.1	35.2	36.1	36.3	36.3
Expenses/revenues	75.6	78.2	79.2	77.8	71.1	76.6	76.2
Noninterest expenses/gross income	43.9	45.5	45.9	67.0	57.2	64.4	64.5
Personnel expenses to noninterest expenses	44.7	43.7	41.0	43.6	45.0	44.0	45.0
Trading and fee income to total income	36.0	49.7	33.3	33.5	33.4	34.9	35.3
<i>Liquidity</i>							
Loans to deposits	126.1	117.1	99.2	98.2	101.9	105.7	109.8
Liquid assets/total assets	33.4	31.7	31.2	31.2	31.3	31.4	31.6
Liquid assets/short-term liabilities	68.1	66.6	67.3	71.3	72.4	72.8	73.1
Funding volatility ratio (volatile liab-liquid assets/illiquid assets)	11.9	11.8	13.6	14.5	14.8	14.8	14.7
Demand deposits/total liabilities	24.7	22.6	25.1	25.8	25.7	26.3	26.5
Customer deposits to total (non-interbank) loans	79.4	85.4	100.9	96.0	98.2	94.7	94.1
Foreign exchange liabilities to total liabilities	46.8	40.4	47.2	50.0	51.2	43.0	44.1

Source: Central Bank of Uzbekistan.

Table 8. Uzbekistan: Poverty Indicators and Millennium Development Goals, 1990–10
(In percent of total population, unless otherwise indicated)

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (in percent)	52	52	53	53	54
Employment to population ratio, ages 15–24, total (in percent)	33	33	34	34	35
Income share held by lowest 20 percent	11	...	8	7	...
Malnutrition prevalence, weight for age (percent of children under 5)	...	15	7	4	...
Goal 2: Achieve universal primary education					
Literacy rate, youth female (percent of females ages 15–24)	...	...	100	...	100
Literacy rate, youth male (percent of males ages 15–24)	...	...	100	...	100
Persistence to last grade of primary, total (percent of cohort)	...	92	98	98	98
Primary completion rate, total (percent of relevant age group)	...	99	95	97	93
Adjusted net enrollment rate, primary (percent of primary school age children)	...	...	...	93	92
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (in percent)	...	6	7	18	22
Ratio of female to male primary enrollment (in percent)	99	97	100	98	97
Ratio of female to male secondary enrollment (in percent)	...	...	97	97	99
Ratio of female to male tertiary enrollment (in percent)	...	...	83	70	65
Share of women employed in the nonagricultural sector (percent of total nonagricultural employment)	37.0	36.0	37.1	40.3	...
Goal 4: Reduce child mortality					
Immunization, measles (percent of children ages 12–23 months)	84	91	99	99	98
Mortality rate, infant (per 1,000 live births)	62	56	51	47	42
Mortality rate, under-5 (per 1,000 live births)	75	67	61	55	50
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15–19)	...	41	25	14	13
Births attended by skilled health staff (percent of total)	...	98	96	100	...
Contraceptive prevalence (percent of women ages 15–49)	...	56	67	65	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	59	36	33	32	28
Pregnant women receiving prenatal care (in percent)	...	95	97	99	...
Unmet need for contraception (percent of married women ages 15–49)	...	14	...	8	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (percent of children under age 5 with fever)	...	...	...	...	...
Condom use, population ages 15–24, female (percent of females ages 15–24)	...	...	3	...	...
Condom use, population ages 15–24, male (percent of males ages 15–24)	...	...	18	...	...
Incidence of tuberculosis (per 100,000 people)	125	199	286	233	122
Prevalence of HIV, female (percent ages 15–24)	...	...	...	...	...
Prevalence of HIV, male (percent ages 15–24)	...	...	...	...	...
Prevalence of HIV, total (percent of population ages 15–49)	...	...	...	...	...
Tuberculosis case detection rate (in percent, all forms)	37	22	22	36	50
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP \$ of GDP)	4	4	3	2	1
CO2 emissions (metric tons per capita)	5	4	5	4	4
Forest area (percent of land area)	7.2	...	7.6	7.7	7.7
Improved sanitation facilities (percent of population with access)	84	85	91	97	100
Improved water source (percent of population with access)	90	90	89	88	87
Net ODA received per capita (current U.S. dollars)	0	4	8	6	8
Goal 8: Develop a global partnership for development					
Internet users (per 100 people)	0.0	0.0	0.5	3.3	19.2
Mobile cellular subscriptions (per 100 people)	0	0	0	3	76
Telephone lines (per 100 people)	7	7	7	7	7
Fertility rate, total (births per woman)	4	4	3	2	2
Other					
Life expectancy at birth, total (years)	67	66	67	67	68
Literacy rate, adult total (percent of people ages 15 and above)	...	...	99	...	99

Source: The World Bank.

Goal 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$2.15 a day.

Goal 2: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.

Goal 7: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion

Goal 8: Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system. Address the special needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.

Table 9. Uzbekistan: External Debt Sustainability Framework, 2008–17

(In percent of GDP, unless otherwise indicated)

	Actual				Projections						Debt-stabilizing non-interest current account 6/ -1.4	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
Baseline: External debt	13.1	15.0	14.8	13.4	13.0	13.0	13.3	13.6	13.9	14.3		
Change in external debt	-3.6	1.9	-0.2	-1.4	-0.4	0.0	0.3	0.3	0.3	0.4		
Identified external debt-creating flows (4+8+9)	-14.9	-6.6	-12.4	-11.5	-5.4	-6.0	-6.4	-5.0	-4.2	-3.9		
Current account deficit, excluding interest payments	-9.1	-2.5	-6.4	-6.1	-3.7	-3.8	-4.6	-3.5	-2.9	-2.9		
Deficit in balance of goods and services	-2.7	0.5	-3.2	-1.8	1.9	0.6	-0.1	0.9	1.8	2.3		
Exports	42.5	34.5	32.0	33.1	27.9	28.8	29.5	28.5	27.6	27.3		
Imports	39.8	35.0	28.8	31.2	29.8	29.4	29.3	29.4	29.4	29.6		
Net nondebt creating capital inflows (negative)	-2.5	-2.5	-4.2	-3.6	-1.7	-1.7	-1.4	-1.2	-1.0	-0.8		
Automatic debt dynamics 1/	-3.2	-1.6	-1.8	-1.7	0.1	-0.5	-0.4	-0.4	-0.3	-0.2		
Contribution from nominal interest rate	0.4	0.3	0.3	0.4	1.0	0.3	0.4	0.4	0.4	0.5		
Contribution from real GDP growth	-1.2	-0.9	-1.1	-1.1	-0.9	-0.8	-0.8	-0.7	-0.8	-0.7		
Contribution from price and exchange rate changes 2/	-2.5	-1.0	-1.0	-1.0	...	...	...	...	...	...
Residual, including change in gross foreign assets (2-3) 3/	11.3	8.5	12.2	10.1	5.0	6.1	6.7	5.3	4.5	4.3		
External debt-to-exports ratio (in percent)	30.8	43.5	46.2	40.4	46.6	45.1	45.2	47.8	50.3	52.3		
Gross external financing need (in billions of US dollars) 4/	-1.9	-0.2	-2.0	-2.2	-1.2	-1.6	-2.2	-1.6	-1.4	-1.4		
In percent of GDP	-6.5	-0.5	-5.1	-4.9	10-Year	10-Year	-2.4	-2.8	-3.5	-2.5	-1.9	-1.8
Scenario with key variables at their historical averages 5/					13.0	8.8	5.1	0.3	...	...	-1.1
Key Macroeconomic Assumptions Underlying Baseline					Historical Average	Standard Deviation						
Real GDP growth (in percent)	9.0	8.1	8.5	8.3	7.4	1.9	8.0	7.0	6.5	6.0	5.5	
GDP deflator in U.S. dollars (change in percent)	17.6	8.2	7.3	7.5	7.3	11.0	4.5	3.1	1.8	2.3	2.3	
Nominal external interest rate (in percent)	3.4	3.0	2.3	2.9	3.1	0.4	8.7	3.0	3.0	3.3	3.8	
Growth of exports (U.S. dollar terms, in percent)	37.3	-5.1	7.9	20.5	17.8	16.6	-5.0	14.3	10.7	4.9	5.3	
Growth of imports (U.S. dollar terms, in percent)	39.8	2.7	-4.1	26.3	17.6	19.3	7.5	9.0	8.1	8.6	8.7	
Current account balance, excluding interest payments	9.1	2.5	6.4	6.1	6.9	2.5	3.7	3.8	4.6	3.5	2.9	
Net nondebt creating capital inflows	2.5	2.5	4.2	3.6	2.1	1.2	1.7	1.7	1.4	1.2	1.0	

Note: DSA for countries with market access was applied for Uzbekistan. It is a low-income non-IDA-only country with considerable official reserves. Uzbek public companies and banks have access to borrowing in the international markets without explicit government guarantees.

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and nondebt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP) remain at their levels of the last projection year.

Table 10. Uzbekistan: Public Sector Debt Sustainability Framework, 2008–17
(In percent of GDP, unless otherwise indicated)

	Actual				Projections					Debt-stabilizing primary balance 9/ -0.5	
	2008	2009	2010	2011	2012	2013	2014	2015	2016		2017
Baseline: Public sector debt 1/	12.7	11.0	10.0	9.1	8.6	8.5	8.6	8.8	8.9	9.2	
<i>Of which: Foreign-currency denominated</i>	12.2	10.6	9.7	8.9	8.6	8.5	8.6	8.8	8.9	9.2	
Change in public sector debt	-3.1	-1.8	-1.0	-0.9	-0.5	-0.1	0.1	0.2	0.2	0.2	
Identified debt-creating flows (4+7+12)	-13.4	-5.0	-6.5	-10.2	-6.5	-3.4	-4.1	-3.7	-3.5	-3.3	
Primary deficit	-10.4	-2.9	-5.0	-8.9	-4.8	-1.9	-2.9	-2.5	-2.3	-2.1	
Revenue and grants	40.7	36.7	37.0	40.2	38.6	36.3	37.3	37.1	36.9	36.7	
Primary (non-interest) expenditure	30.3	33.8	32.0	31.3	33.7	34.4	34.4	34.6	34.6	34.5	
Automatic debt dynamics 2/	-2.9	-2.0	-1.4	-1.2	-1.7	-1.4	-1.2	-1.1	-1.2	-1.1	
Contribution from interest rate/growth differential 3/	-3.8	-2.8	-2.2	-1.9	-1.7	-1.4	-1.2	-1.1	-1.2	-1.1	
<i>Of which: Contribution from real interest rate</i>	-2.7	-2.0	-1.4	-1.3	-1.1	-0.9	-0.7	-0.7	-0.7	-0.7	
Contribution from real GDP growth	-1.1	-0.8	-0.7	-0.7	-0.6	-0.5	-0.5	-0.4	-0.4	-0.4	
Contribution from exchange rate depreciation 4/	0.9	0.8	0.7	0.7	...	...	...	...	...	...
Other identified debt-creating flows	-0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-0.2	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	10.4	3.2	5.5	9.3	6.0	3.3	4.2	3.8	3.6	3.5	
Public sector debt-to-revenue ratio 1/	31.3	29.9	26.9	22.6	22.4	23.5	23.1	23.6	24.3	25.0	
Gross financing need 6/	-10.2	-2.8	-4.9	-8.8	-4.7	-1.8	-2.8	-2.4	-2.1	-2.0	
<i>In billions of U.S. dollars</i>	-2.9	-0.9	-1.9	-4.0	-2.4	-1.0	-1.7	-1.6	-1.5	-1.5	
Scenario with key variables at their historical averages 7/					8.6	5.6	4.0	2.3	0.6	...	0.1
Scenario with no policy change (constant primary balance) in 2012-2017					8.6	5.6	3.9	2.0	0.0	...	0.1
Key Macroeconomic and Fiscal Assumptions Underlying Baseline											
Real GDP growth (in percent)	9.0	8.1	8.5	8.3	8.0	7.0	6.5	6.0	6.0	5.5	
Average nominal interest rate on public debt (in percent) 8/	1.8	1.6	1.2	1.2	1.6	1.6	2.1	2.1	2.2	2.2	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-21.0	-18.6	-14.9	-15.0	-13.5	-11.9	-8.9	-8.9	-8.8	-8.8	
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	-7.4	-7.8	-7.8	-8.6	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	22.9	20.2	16.1	16.2	15.1	13.5	11.0	11.0	11.0	11.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	9.7	20.6	2.6	6.1	16.3	9.1	6.5	6.8	5.9	5.4	
Primary deficit	-10.4	-2.9	-5.0	-8.9	-4.8	-1.9	-2.9	-2.5	-2.3	-2.1	

Note: DSA for countries with market access was applied for Uzbekistan. It is a low-income non-IDA-only country with considerable official reserves. Uzbek public companies and banks have access to borrowing in the international markets without explicit government guarantees.

1/ General government gross debt.

2/ Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

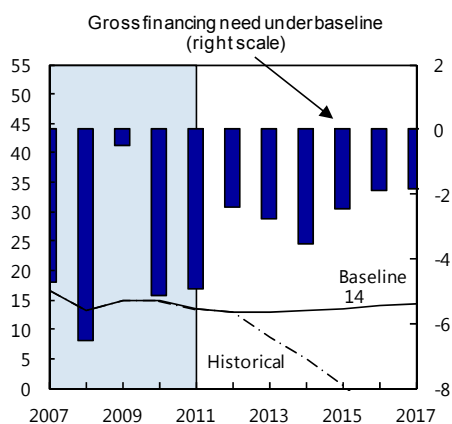
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

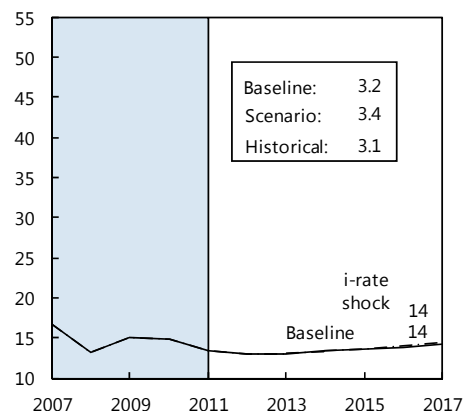
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 5. Uzbekistan: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)

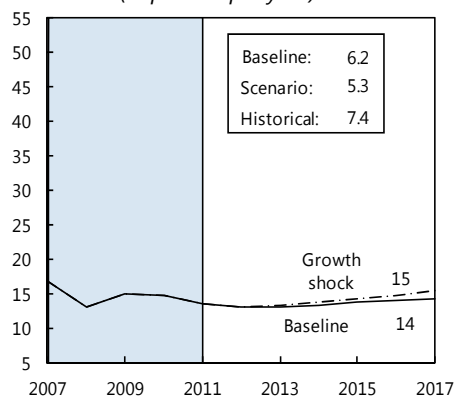
Baseline and historical scenarios



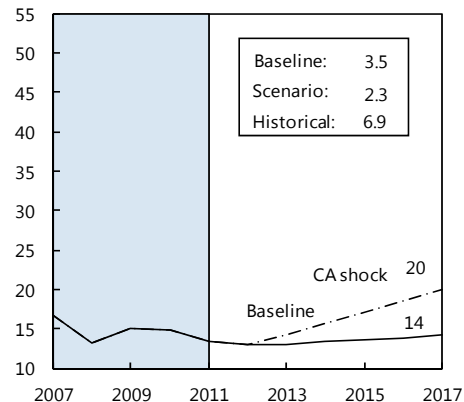
Interest rate shock (in percent)



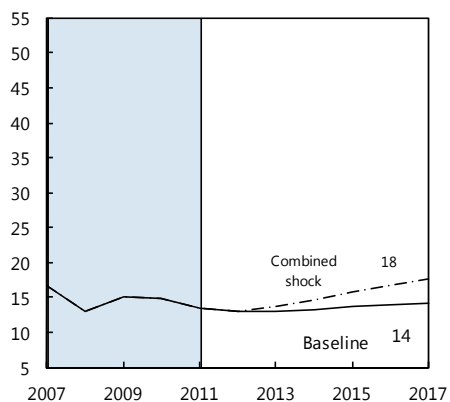
Growth shock (in percent per year)



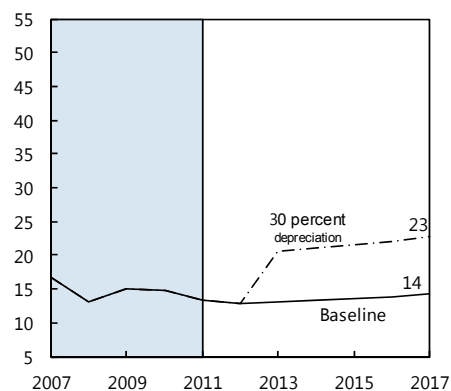
Noninterest current account shock (in percent of GDP)



Combined shock 2/



Real depreciation shock 3/



Sources: Uzbek authorities, and IMF staff estimates and projections.

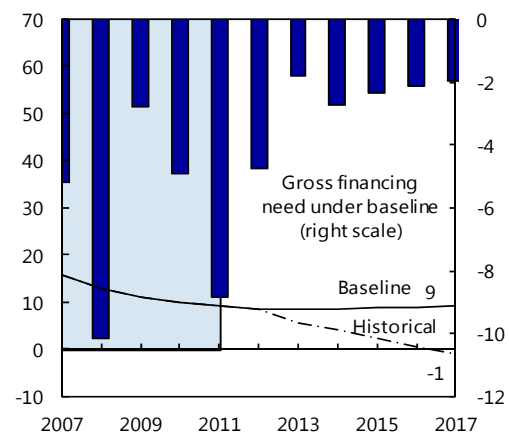
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

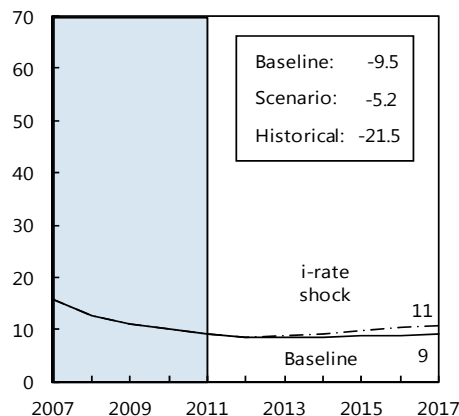
3/ One-time real depreciation of 30 percent occurs in 2013.

Figure 6. Uzbekistan: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)

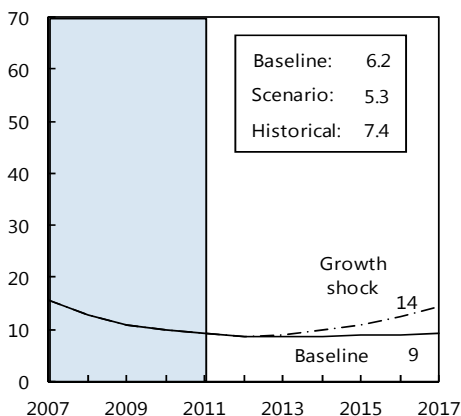
Baseline and historical scenarios



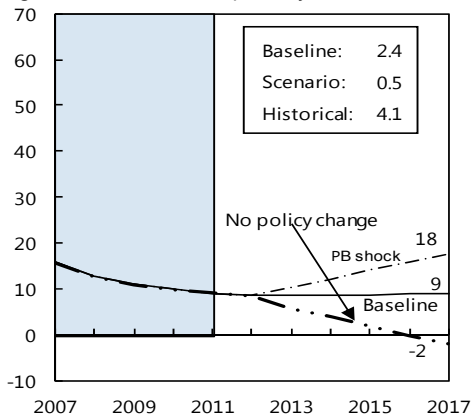
Interest rate shock (in percent)



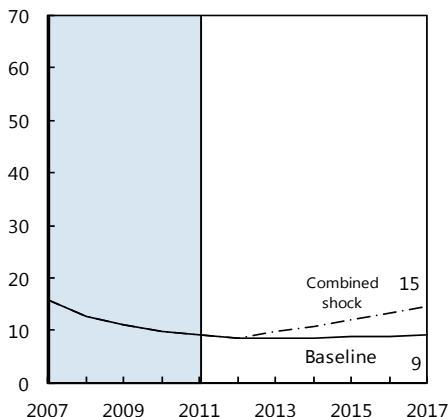
Growth shock (in percent per year)



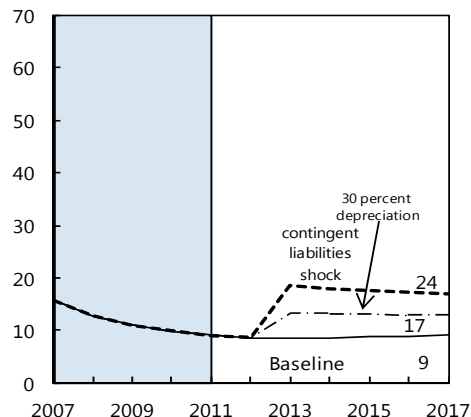
Primary balance shock (in percent of GDP) and no policy change scenario (constant primary balance)



Combined shock 2/



Real depreciation and contingent liabilities shocks 3/



Sources: Uzbek authorities, and IMFstaff estimates and projections.

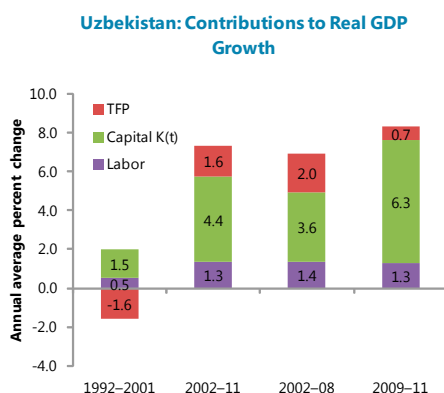
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

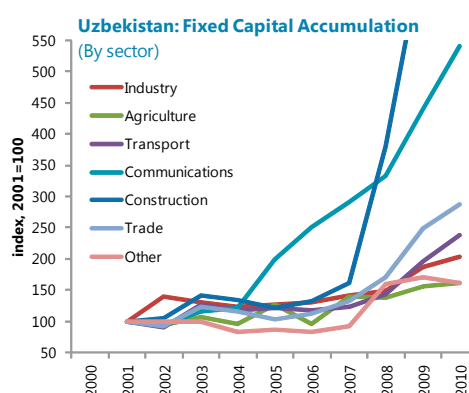
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Annex I. Uzbekistan: Sources of Growth

During the second decade of transition to market, growth in Uzbekistan was largely driven by capital, with the contribution of total factor productivity (TFP) falling considerably since the global crisis. Conventional growth accounting analysis suggests that capital input was the biggest driver of GDP growth, explaining about 4.4 percent out of the average 7.4 percent outcome in 2002–11. Consistent with a massive government-led industrial modernization program, capital accumulation became even more important over the past three years. The accumulation of capital was the fastest in construction, communications, transport, and trade and industry. Overall employment in the economy was gradually expanding adding 1.3–1.4 percent to the growth outcome. Yet, the contribution from TFP slowed down considerably from 2 percent in the pre-crisis years to 0.7 percent recently.

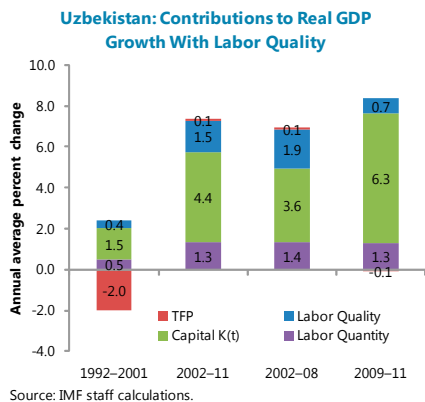


Source: IMF staff calculations.

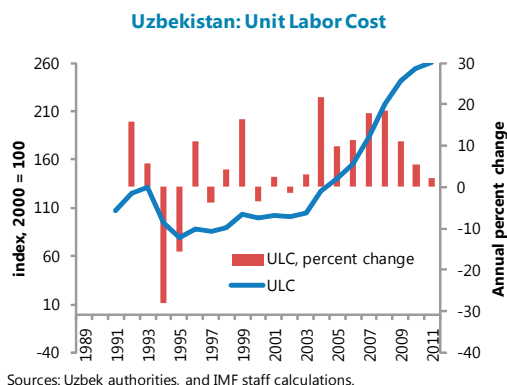
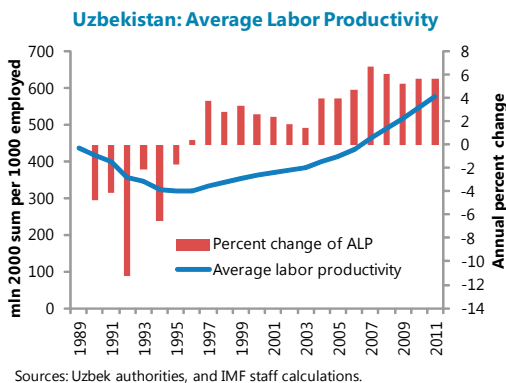


Sources: Uzbek authorities, and IMF staff calculations.

If labor quality, proxied by educational attainment of Uzbek labor force, is introduced, the TFP contribution to GDP growth virtually disappears. This implies that the quality-adjusted labor plus physical capital accumulation suffice to account for observed growth performance, and that the productivity gains resulting from industrial modernization are not yet clearly visible.



Inadequate TFP gains may adversely affect the competitiveness of the economy. Over the past decade, Uzbekistan’s growth was indeed strongly supported by improving average labor productivity that bottomed out in 1995 and greatly accelerated in 2004, in part reflecting higher quality of labor, more productive capital, and some reallocation of resources to more efficient sectors like communications, transport, and industry. However, the growth of labor compensation, proxied by real wages, has consistently outpaced the growth of labor productivity. The resulting steep increase in unit labor costs will undermine the economy’s competitiveness, unless sizable TFP gains materialize soon.



Uzbekistan would be able to achieve enhanced TFP growth⁶ by:

- Making sure that capital and labor flow to the sectors in which they are used most efficiently. Enhancing labor market flexibility to allow for labor reallocation from less productive to more productive sectors will be key. Relieving capital markets in the nonpriority areas from heavy government footprint should also help;
- Ensuring that all prices, including the exchange rate, interest rates, and wage rates reflect true market incentives;
- Diversifying away from commodity sectors would help boost potential growth and TFP in the long run;
- Improving the de facto business environment and strengthening property rights to encourage FDI and private-sector development;
- Reducing the energy intensity of GDP through comprehensive modernization of the energy sector and promotion of energy-efficient manufacturing and services; and
- Advancing technological innovation as a key part of Uzbekistan’s state-led industrial modernization policy.

⁶ The growth model assumes Cobb-Douglas production function with constant returns to scale featuring capital stock K_t , labor quantity input L_t and total factor productivity A_t : $Y_t = A_t K_t^\alpha L_t^{1-\alpha}$. Capital share α is fixed at 0.5 following convention in the literature with respect to transition and emerging market economies. The extended growth model with quality-adjusted labor assumes production function $Y_t = A_t K_t^\alpha (L_t Q_t)^{1-\alpha}$, where Q_t is a composite index summarizing the quality of labor employed in the economy and constructed from data on educational attainment of Uzbek employees.



REPUBLIC OF UZBEKISTAN

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 1, 2013

Prepared By

The Middle East and Central Asia Department
(In Consultation with Other Departments)

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RELATIONS WITH THE FUND

(As of November 30, 2012)

Membership Status

Date of membership: September 21, 1992

Status: Article VIII

General Resources Account

	SDR Million	Percent Quota
Quota	275.60	100.00
Fund holding of Currency	275.60	100.00
Reserve position in Fund	0.01	0.00

SDR Department

	SDR Million	Percent Allocation
Net Cumulative Allocation	262.79	100.00
Holdings	263.25	100.18

Outstanding Purchases and Loans

None

Latest Financial Arrangements

Type	Stand-by
Approval Date	12/18/1995
Expiration Date	3/17/1997
Amount Approved (SDR million)	124.70
Amount Drawn (SDR million)	65.45

Projected Obligations to the Fund

None

Implementation of HIPC Initiative

Not Applicable

Implementation of Multilateral Debt Relief Initiative

Not Applicable

Exchange Rate Arrangements

The de jure and de facto exchange rate regimes are managed float and crawling peg respectively. The exchange rate of the dollar is determined on the basis of interbank trading sessions (ITS). Effective March 13, 2008, ITS also include euro operations. The sum has gradually depreciated against the dollar. The official exchange rate of the Central Bank of Uzbekistan (CBU) is determined once a week as the average ITS rate for the previous week, and it remains in effect for one week. The official exchange rate of the CBU is used for accounting purposes, statistical and other reporting on foreign exchange operations, and for the calculation of customs and other mandatory payments in the territory of Uzbekistan.

Although Uzbekistan accepted the obligations of Article VIII Sections 2(a), 3, and 4 of the Fund's Articles of Agreement with effect on October 15, 2003, it maintains at least two exchange restrictions and one MCP subject to Fund jurisdiction. First, undue delays (of up to and exceeding 12 months) in the availability of foreign exchange for payments and transfers for current international transactions gives rise to an exchange restriction. Second, the CBU's practice of providing only limited foreign exchange for payments and transfers for current international transactions is considered direct rationing and gives rise to an exchange restriction. Third, the practice that no interest is paid on "blocked accounts" for conversion of sum to foreign exchange and that these transactions are delayed beyond the normal 5–7 business days, gives rise to an MCP, since the lack of interest payments directly increases the cost of the exchange transaction. The Executive Board did not approve the above exchange restrictions and multiple currency practice.

Article IV Consultation

Uzbekistan is on the standard 12-month consultation cycle. The 2011 Article IV consultation was completed by the Executive Board on a lapse of time basis on January 9, 2011.

Staff Visits and Policy Discussions (since January 1, 2005)

February/March 2005	Article IV Consultation
November/December 2005	Staff Visit
November/December 2006	Article IV Consultation
June 2007	Staff Visit
April/May 2008	Article IV Consultation
December 2008	Staff Visit
June 2010	Article IV Consultation
June 2011	Staff Visit
November 2011	Article IV Consultation
May 2012	Staff Visit
November/December 2012	Article IV Consultation

Safeguards Assessment

The CBU is currently not subject to safeguards assessment policy since Uzbekistan is not expected to have a financial arrangement with the Fund in the near future.

IMF Technical Assistance

The Fund provided technical assistance and training to Uzbekistan in a number of areas. Technical assistance is currently being provided on budget and treasury reforms, on banking and financial supervision, national income accounts, and balance of payments statistics through assistance of resident advisors.

Technical Assistance missions since January 1, 2005:

STA	National Accounts, Prices, and Balance of Payments Statistics	May 2007
LEG	AML/CFT	Jan., Mar./Apr. 2009
FAD	Public Financial Management	February 2010
FAD	Inspection Visit	June 2007, Oct 2008, Nov./Dec. 2009, June 2010, Sept. 2011
STA	Monetary and Financial Statistics	February 2011
MCM	Banking Supervision	May/April 2012 October 2012

Resident Representative

The Fund's first Resident Representative, Istvan Szalkai, was in Tashkent from September 1993 to September 1995. His successor, Mark O'Brien, served from November 1995 to December 1997. He was replaced by Christoph Rosenberg who served from January 1998 to April 2001. Currently, the Fund does not have a resident representative in Uzbekistan, but maintains a locally staffed office in Tashkent.

Resident Advisors

Richard Grzebinski served as an advisor on computerization to the State Tax Committee from January 1994 to January 1995. His successor, Mr. Emmanuel Sigler, served from April to June 1995.

Alexander Agafonoff served as an advisor on monetary policy at the CBU from November 1994 to December 1995.

Jim Stevenson began his service as an advisor on treasury operations at the ministry of finance in September 1996. His assignment was prematurely terminated in July 1998 because of a lack of cooperation by the ministry of finance.

John Zohrab began his service in January 2003 as an advisor to the ministry of finance. He assisted the authorities with the Public Financial Management (PFM) project, including treasury modernization, while visiting Tashkent from Georgia. In November 2006, he was relocated to Tashkent to assist with PFM project implementation, continuation of treasury reform, and PFM legal framework strengthening.

Nataliya Ivanyk, a regional resident advisor in external sector statistics started her assistance to the Uzbek authorities in November 2007. The objective of her assignment was to improve the quality of balance of payments statistics (in particular address the persistently negative errors and omissions item), assist the authorities with compilation of the international investment position statistics, and facilitate reporting of these data to the Fund on a regular basis for publication. Her assignment ended in November 2008.

Devi Manraj began her long-term technical assistance project as a regional resident advisor based in Tashkent in January 2008. Her terms of reference envisaged assisting the authorities with real sector statistics, in particular addressing the shortcomings in the national income accounts and price statistics. Her assignment ended in December 2008.

Todor Todorov began his long-term technical assistance project as a regional resident advisor based in Tashkent in August 2009. His terms of reference envisage assisting the authorities with real sector statistics, in particular addressing the shortcomings in the national income accounts and price statistics. His assignment ended in August 2010.

RELATIONS WITH SELECTED INTERNATIONAL FINANCIAL INSTITUTIONS

The World Bank (As of December 19, 2012)

JMAP Implementation Table

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	1. Vision 2030, this will include closely aligned sector strategies	January–February, 2011	International knowledge-sharing workshop in Tashkent with participants from Brazil, China, and Russia, May 2012
		February–April, 2013	Concept review, January 2013
			Paper and Workshop on economic sustainability of growth, July 2013
			Paper and Workshop on social and environmental sustainability of growth, September 2013
	2. First Public Expenditure and Financial Accountability (PEFA) Assessment Report for Uzbekistan - on the status of public financial management systems and processes	February–April, 2012	Report review, December 2012
		Final delivery January 2013	

	3. Strengthening Regulatory and Supervisory Framework of Central Bank	August–September, 2012	December 2013
	4. Enhancing Financial Reporting and Auditing in the Banking Sector	September 2012 January 2013	December 2013
IMF work program in next 12 months	Article IV mission	November–December 2012	February 2013
	Staff Visit	June 2013	June 2013
	Technical assistance:		
	- MCM (Banking Supervision)	February 2013	February 2013
	- FAD (Tax administration)	March 2013	March 2013
	- FAD (PFM)	Regional advisor	Through end-2012
	- STA (GDDS Metadata Development)	March 2013	March 2013

B. Requests for Work Program Inputs (as needed)

Fund request to Bank	CPIA Policy Dialog briefing	Annual or Semi-annual	December 2012
	Assessment of business environment and investment climate	2012–13	June 2013
	Assessment of social policies and poverty indicators	2012	Mid-2013
	Assessment of energy sector efficiency and reform priorities	2012–13	2013
Bank request to Fund	Assessment of macroeconomic developments and policies	Annual or Semi-annual	December 2012, June 2013

The European Bank for Reconstruction and Development (EBRD)

(As of November 30, 2012)

Uzbekistan became a member of the EBRD in 1992. The last Country Strategy was approved by the Board in July 2005.

Current Bank's operating assets stand at EUR 53 million with majority in the form of debt. Overall, EBRD's portfolio is performing with public sector projects, but several private sector clients experiencing severe delays on conversion.

The Bank's current operational priorities were an active portfolio management including loan restructuring, exit from equity projects, securing timely repayments, and strengthening monitoring. Annual business volume stood at EUR 1.8 million in 2011 and EUR 2.1 million at the end of November 2012 as a result of restructuring of private sector projects.

The Asian Development Bank (ADB)

(As of January 1, 2013)

Uzbekistan became a member of the ADB in 1995. ADB approved the new Country Partnership Strategy (CPS), 2012–16 for Uzbekistan in September 2012. The CPS aligns with the updated Welfare Improvement Strategy for 2012–15 (WIS II), which is under preparation. The WIS II seeks to support inclusive economic growth by fostering a modernized and diversified economy and creating equitable economic opportunities. Consistent with the WIS II, the main areas of support in the CPS are (i) infrastructure development focused on transport and communications, energy, water resources, water supply, and other municipal infrastructure and services; and (ii) access to financial services. Private sector development and operations, regional cooperation, governance and reforms, knowledge management, gender equity, climate change, and environment are the key thematic drivers of change in the CPS.

ADB approved its Country Operations and Business Plan (COBP), 2012–14 in November 2012. The new COBP 2012–14 is consistent and aligned with the priorities of the new CPS. The COBP includes operational support for transport, energy, municipal services, water, and access to finance, as guided by the development priorities of the government. These focus on industrial modernization and diversification of economy. The planned investment will increase efficiency and competitiveness, and boost connectivity within the Central Asia Regional Economic Cooperation region and beyond.

The COBP envisages about \$1.3 billion during 2012–14 for public sector assistance. Of this, \$226 million is expected to be sourced annually from the Asian Development Fund (subject to the fund availability). In addition, ADB is considering direct investments in private sector undertakings. Technical assistance grants for project preparatory, policy advisory, and knowledge sharing are estimated at \$12.3 million, supporting (i) preparation of an energy efficiency project, (ii) second solar power development (iii) third small and microfinance development, (iv) improving financial sector access, and (v) capacity building, and improving efficiency of public management.

In 2012, ADB provided Uzbekistan with \$595 million in loans, \$275 million in guarantee, and up to \$6 million in equity participation to support electricity transmission, regional highway corridor development, natural gas chemical production, and commercial banking.

The \$150 million loan for Namangan 500 KV Power Transmission Project will increase energy security through the diversification and expansion of energy supply routes. The two loans, totaling \$320 million, for the CAREC Corridor 2 Road Investment Programs will reconstruct 115 km of CAREC Corridor 2 and help improve road safety and asset management. The Surgil Natural Gas Chemicals Project, with a \$125 million direct loan and \$275 million guarantee, is the second direct private sector investment project in Uzbekistan for ADB, and aims catalytic effects to expand the gas subsector by encouraging foreign operators to develop similar undertakings.

ADB's regional cooperation program complements country-level operation. ADB provides targeted regional assistance in trade facilitation, as well as in the energy and transport and communication sectors.

ADB has extended 46 loans to Uzbekistan (including two private sector loans) totaling \$3.518 billion, and \$50.8 million in technical assistance. The current loan portfolio comprises 33 percent for transport; 23 percent for energy; 11 percent for water supply, sanitation, and municipal services; 10 percent for agriculture and natural resources; 8 percent for education; 6 percent each for multisector and private sector development; and 2 percent for financial sector.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General

Data have serious shortcomings that significantly hamper surveillance. Shortcomings are most serious in the national accounts, external sector, and government finance statistics.

National Accounts

The methodology for compiling the annual GDP estimates should be improved. Appropriate procedures need to be developed for reconciling production and expenditure-based estimates of GDP. Discrete quarterly GDP estimates are not compiled. The collection of primary source data for compiling national accounts statistics relies predominantly on the old Soviet-type system (including complete enumeration of legal entities, collection of cumulative data, use of numerous fragmented survey questionnaires, and classification of economic activities according to the old material product system). The restructuring of the data collection system should start as soon as possible. A long-term resident advisor in real sector statistics was posted in the State Statistics Committee (SSC) during 2008–10 to implement the work program. The currently applied system for data confidentiality slows down the implementation process.

Price Statistics

The official CPI is based on inappropriate techniques that lead to a systematic underestimation of inflationary pressures. In 2005, technical assistance was provided for implementing international standards for treatment of seasonal goods in the CPI; however, implementation is still pending for computing a price index for fruits and vegetables. While continuing reporting the official CPI index, the authorities started reporting a CPI index in November 2011 calculated using Rothwell formula as per earlier Fund advice, and provided historical data from 2004. The authorities' new estimates have been submitted to the Fund for STA assessment.

Government Finance Statistics

Detailed data on revenue and expenditure of the consolidated government budget are compiled by the ministry of finance on a monthly basis and are available after a processing time of about four weeks. Data for extrabudgetary funds are available quarterly with a longer delay, and include only broad categories of revenue and expenditure of the four largest funds. The authorities occasionally provide fiscal tables that include net lending, foreign-financed investment, and details on the financing of the deficit. A persisting statistical discrepancy between the financing of the budget based on the above-the-line and below-the-line data points to possible coverage and classification issues. The authorities do not reconcile the monetary and fiscal financing data on a regular basis.

Budget expenditure data are organized according to a largely functional classification. An economic classification is available only occasionally, but the quality of these data is inadequate. The ministry of finance occasionally provides data on tax arrears. Information on total proceeds from

privatization operations and treasury bills are provided on a quarterly basis, and data on issues and repayments of treasury bills are available monthly on request.

Even though the authorities have started reporting GFSM 2001, compliant format to the Fund, significant deficiencies exist, including absent disaggregated data. Staff Report for the 2012 Article IV Consultation includes an estimated fiscal presentation based on GFSM 2001.

Monetary Statistics

Following the introduction of new charts of accounts for the CBU and for the commercial banks in 1997, several missions have assisted the CBU in compiling monetary statistics using data from the new charts of accounts and in accordance with the IMF recommended methodology. With the implementation of major recommendations of these missions, a prototype IFS page for Uzbekistan was prepared by STA. The introduction of the IFS page will be pending on the agreement by the authorities and establishing a track record of regular reporting to STA. Action by the authorities is still pending.

Balance of Payments

Legal and institutional issues were found to hamper the compilation and dissemination of external sector statistics, as well as the delivery of technical assistance. These include: (i) the balance of payments statistics together with relevant source data are treated as classified data, which impedes not only the pace of statistical development but also interagency data sharing; (ii) the restricted access to data strongly affects the efficiency of technical assistance work; (iii) there is no legal framework clearly defining the responsibility to compile the international investment position (IIP) and gross external debt statistics; and (iv) the institutional capacity to compile the external sector statistics is insufficient. No clear commitment was received from authorities with regard to statistics disclosure. The authorities have not progressed regarding the compilation of the IIP, with human capacity constraints being one of the important reasons behind this deficiency.

Key factors for the persistent errors and omissions include the understatement of debit entries such as imports of goods and services, income payments (including for FDI), and shuttle trade. In addition, undercoverage of outflows (FDI, including disinvestments for the product-sharing agreements, and nonbank assets abroad) was identified. Detailed time series data were not available to the mission to quantify the impact of each of the items identified.

In external trade statistics, exports of cotton, and other bulk exports are valued on a c.i.f. basis rather than f.o.b. Some adjustments are made to capture informal cross-border trade and shuttle trade. Two parallel systems are used for compiling trade data—one based on customs declarations and the other based on enterprise surveys. STA has recommended that the customs data be used for compiling merchandise trade statistics and the enterprise reports to collect data on trade in services only.

Data provision on external debt is broadly satisfactory. Data on external government and government-guaranteed debt, including projections of future debt service obligations, are

submitted with quarterly frequency, though often with considerable delay. The authorities do not separately indicate the amount of concessional debt, the amount of private debt owed or debt, intermediated by banks.

II. Data Standards and Quality

Uzbekistan does not participate in the General Data Dissemination System (GDDS). The authorities have conveyed their decision to participate in GDDS, they appointed a national coordinator, and a STA mission is planned for Q1 2013 to prepare the necessary metadata.

No data ROSC is available.

III. Reporting to STA

Uzbekistan has yet to approve publication of a country page in the International Financial Statistics.

Uzbekistan does not report statistics to STA for publication in the Government Finance Statistics and the Balance of Payments Statistics Yearbooks.

Uzbekistan: Table of Common Indicators Required for Surveillance
(As of January 14, 2013)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	1/14/13	1/14/13	D	W	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	11/30/12	12/17/12	M	M	NA
Reserve/Base Money	11/30/12	12/17/12	M	M	NA
Broad Money	11/30/12	12/17/12	M	M	NA
Central Bank Balance Sheet	11/30/12	12/17/12	M	M	NA
Consolidated Balance Sheet of the Banking System	11/30/12	12/17/12	M	M	NA
Interest Rates ²	11/30/12	12/17/12	M	M	NA
Consumer Price Index	11/30/12	12/17/12	M	M	NA
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	09/30/12	12/05/12	Q	Q	NA
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	06/30/12	11/13/12	Q	Q	NA
External Current Account Balance	09/30/12	12/05/12	Q	Q	NA
Exports and Imports of Goods and Services	09/30/12	12/05/12	Q	Q	NA
GDP/GNP	09/30/11	11/07/12	Q	Q	NA
Gross External Debt	06/30/12	12/05/12	Q	Q	NA
International Investment Position			NA	NA	NA

¹Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Currency and maturity composition are not reported regularly.

⁶Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).



INTERNATIONAL MONETARY FUND



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IMF Executive Board Concludes Article IV Consultation with the Republic of Uzbekistan

On February, 22, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Uzbekistan.¹

Background

Despite setbacks in global recovery, Uzbekistan's resource-rich economy has recorded a solid growth in recent years. Following a strong performance in 2011, high economic growth continued in 2012. GDP grew by 8.3 percent in 2011 and by 8.2 percent through September 2012, boosted by high prices for export commodities, and state-led investment. After peaking at 13.8 percent in November 2011, annual inflation has declined to 10.7 percent in October 2012. The double-digit inflation rate reflects increases in administrative prices, as well as currency depreciation and demand pressures stemming from pension and wage increases.

The external position continues to be strong, but the current account surplus has narrowed, on account of recent drop of gold exports, and lower cotton and food prices. At the same time, import was strong, supported by remittances and FDI. As a result, the current account surplus narrowed to 5.8 percent of GDP in 2011 and further to an estimated 2.7 percent of GDP in 2012. The drop in gold exports reflects the authorities' preference to monetize gold in official reserves which reached 16 months of import cover (including the assets of the Fund for Reconstruction and Development (FRD) abroad) in October 2012.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Monetary policy has been tightened since mid-2011, with continued accumulation of government deposits, including FRD, and intensified liquidity-mopping operations by the Central Bank of Uzbekistan (CBU). Reserve and broad money growth decelerated considerably from 27 and 52 percent at end-2010 to 16 and 30 percent, respectively, through October 2012. Credit growth has also decelerated, but remained high in real terms, supported by directed lending. At the same time, the refinance rate (that guides bank lending rates) and reserve requirements have remained unchanged. Aiming at improving competitiveness of the export sector, the authorities have continued their policy of a nominal depreciation of the sum.

Fiscal policy was prudent in 2011, and preliminary data for 2012 point to a better-than-projected budget outcome, reflecting continued measures to broaden the tax base and strengthen tax administration. Overall expenditures benefited from better targeting of social welfare, while wages continued to grow strongly. Fueled by strong commodity revenue, the FRD has continued to play a stabilizing role by shielding the state budget from the effects of volatile commodity prices as three quarters of all mineral revenue was channeled to it in 2011–12.

Growth prospects remain favorable, but risks are tilted to the downside as a result of global uncertainties. Cushioned against external shocks by high external and fiscal buffers, GDP growth will be strong, predicated by continued implementation of the authorities' investment program, and by favorable terms of trade as prices for Uzbekistan's main exports are expected to stay elevated compared to their historical averages. Under current policies, inflation is expected to stay in double digits throughout 2013 and is projected to be elevated over the medium term.

Executive Board Assessment

Directors welcomed Uzbekistan's strong economic performance and accumulation of large policy buffers in recent years. Looking ahead, Directors agreed that the main policy priorities should be to bring down inflation, broaden the base of economic growth, and expand employment. Continued implementation of prudent policies and structural reforms will be critical to achieve these goals.

Directors supported a further tightening of monetary policy to head off overheating risks, as part of a well coordinated policy mix. A less accommodative stance should be supported by a slowdown in the accumulation of already ample reserves and a shift toward a market-determined exchange rate.

Directors commended the authorities' commitment to fiscal prudence. They welcomed plans to improve revenue administration, curtail tax exemptions, and reduce energy subsidies while strengthening social assistance. Directors stressed the importance of adopting a medium-term budget framework and upgrading the management of the mineral revenue fund in line with international best practice.

Directors noted that the banking system remains stable and well capitalized. Nonetheless, they encouraged the authorities to strengthen prudential oversight, relieve banks of their noncore functions, and phase out directed lending.

Directors encouraged the authorities to accelerate structural reforms in a variety of areas to raise productivity and unlock new growth engines. They noted with satisfaction recent steps to improve the business environment and promote small- and medium-sized enterprises. Against this background, Directors considered it especially important to further liberalize the foreign exchange and trade regimes.

Directors welcomed the authorities' decision to join the IMF's General Data Dissemination System and called for further improvements in the quality and transparency of economic data.

Uzbekistan: Selected Economic Indicators

	2007	2008	2009	2010	2011
GDP in millions of U.S. dollars	22,307	28,605	33,461	38,963	45,353
(Annual percentage change)					
Production and prices					
Real GDP	9.5	9.0	8.1	8.5	8.3
Consumer price index (e.o.p) 1/	11.9	14.4	10.6	12.1	13.3
GDP deflator 2/	24.0	22.9	20.2	16.1	16.2
Producer price index (e.o.p) 2/	10.8	7.7	29.5	16.4	20.4
(In percent of GDP)					
General government 3/					
Total revenue and grants	31.7	33.7	33.1	32.4	32.0
Total expenditure and net lending	30.1	32.4	33.5	32.0	31.9
Overall balance (-=deficit) 4/	5.2	10.2	2.8	4.9	8.8
(Annual percentage change)					
Monetary Indicators					
Reserve money	44.9	31.2	30.5	27.1	20.0
Broad money	46.9	38.7	40.8	52.4	32.3
Velocity of average broad money (level)	6.0	5.8	5.3	4.4	4.2
(In millions of U.S. dollars, unless otherwise specified)					
External sector					
Export of goods and services	8,851	12,158	11,536	12,453	15,000
Import of goods and services	8,150	11,393	11,698	12,215	14,167
Current account	1,632	2,485	735	2,397	2,612
In percent of GDP	7.3	8.7	2.2	6.2	5.8
Gross international reserves	7,510	9,534	12,226	14,579	18,049
In months of next year imports	7.9	9.8	13.1	12.3	14.2

Sources: Uzbek authorities; and Fund staff estimates.

1/ Based on authorities' source data and Fund staff calculations using international methodology.

2/ Official estimates.

3/ Including the Fund for Reconstruction and Development.

4/ Based on below-the-line financing data.