

# BESPOKE

## Country Briefing

# Uzbekistan

## Electrifying Growth – Mind the Water Hazard

### ***EXTRACT of Main Report***

**Population and GDP (2024E)**

Population, mln	36.6
GDP, Nominal, US\$ bln	\$92.2
GDP/Capita, US\$	\$2,518
GDP/Capita, PPP, US\$	\$8,073

Source: World Bank, Worldometers, M-A est.

**Key Macro Forecasts**

	2024E	2025E
Growth, real % YoY	5.5%	5.6%
Remittances, % of GDP	13.0%	13.4%
CPI - year-end, % YoY	12.1%	8.6%
Budget balance, % GDP	-4.0%	-4.0%
Current account, % GDP	-5.3%	-4.5%
Unemployment, % eop	6.8%	6.5%
CBU key rate, % eop	14.0%	12.0%
Sovereign Debt, % GDP	38.0%	39.0%
FX & gold Reserves, \$ bln	\$36.0	\$36.3
UZS/US\$, year-end	13,000	14,000
UZS/US\$, average	12,500	13,500
UZS/Tenge, Average	28.1	28.7
UZS/Ruble, Average	133	141

Source: Macro-Advisory estimates

**Exports, % of Total (2023)**

Gold and Precious Metals/Stones	33.0%
Cotton and Textiles	21.5%
Agriculture Products	11.9%
Copper and Industrial Metals	10.1%
Fuels and Oil, distillates	8.0%

Source: UN COMTRADE

**Imports, % of Total (2023)**

Machinery	17.0%
Iron, Steel, Metals, Ores	13.4%
Vehicles	9.4%
Food and Animal Feed	8.4%
Fuels	6.3%
Pharmaceuticals	5.6%

Source: UN COMTRADE

**Business & Corruption Rankings**

Corruption Perception (of 180)	121
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Source: Transparency Int'l

**Credit Ratings**

Fitch - February 2024	BB-	Stable
S&P - December 2023	BB-	Stable
Moody's - January 2023	Ba3	Stable

Source: Credit Agencies

**Tax Rates**

Corporate Tax	15%
Turnover Tax	4%
Bank sector profits tax	20%
Personal Tax	12%
Dividend & Investment	5-10%
Value Added Tax	15%
Social Security - Companies	12 - 25%
Social Security - employees	0%

Source: Uzbekistan Finance Ministry

**Steady Climb to the US\$160 bln Mountain Peak**

*"It does not matter how slowly you go so long as you do not stop"*

Confucius

**New reform phase.** Uzbekistan has been almost completely transformed, as a country, economy, and society, because of the successful rollout of major reforms since early 2017. The focus has now switched and is aimed at attracting more diverse investment, including efforts to tackle corruption.

**President set ambitious targets.** The value of GDP has expanded from US\$53 bln in 2018 (the year after the ending of the dual-currency) to an expected US\$94 bln this year. President Mirziyoyev has set a target of US\$160 bln by end-decade under the "Uzbekistan-2030" program. This calls for increased and diversified investment to boost personal incomes and cut the trade deficit. The major reforms in government and the bureaucracy (2022 and 2023) are prerequisites for this strategy to work.

**Trying to advance privatizations.** There have been several attempts to kick-start the privatization process but with limited success so far. The President has ordered a fresh effort, albeit still on a relatively modest scale.

**Tight monetary policy to stay.** The start of the phasing out of fuel and utility subsidies (this year) will add to inflation pressure – expected to average 10% -and will force the CBU to maintain a tight monetary policy until 2H25.

**No major geopolitical issues ...** The government has adopted the so-called multi-vector approach which means it is engaged in talks with all other governments and while not adopting western sanctions or criticizing Moscow's (or Beijing's) actions, it is taking actions to avoid being accused of helping Russia evade sanctions.

**... but China and Russia are the dominant investors and trade partners.** Despite several high-profile meetings with the EU and the U.S. (as part of the Central Asia group as well as separately), China and Russia are the dominant non-IFI investors in the country and its biggest trade partners.

**The EU and the U.S. are targeting critical minerals.** Brussels and Washington have stepped up efforts to gain access to so-called critical minerals in the country, as well as engaging in talks to acquire more uranium. However, Chinese investors have already taken the lead with several major deals.

**Electricity investment remains dominant.** Most major investments in the country in recent years have been in renewable energy projects. Significantly more needs to be done, including in the distribution system, if there is to be enough electricity to power the planned economic growth.

**Expanded transport links will be key for export growth.** The China-Kyrgyzstan-Uzbekistan railway and the hoped-for rail lines across Afghanistan are critical if the planned export growth is to be achieved.

**Water scarcity is the major challenge.** The country's other major challenge is to improve water security, for both households and agriculture. 80% of water is imported and the country faces a critical shortage within a few years unless effective remedial actions are taken this year and next.

## Eurasia Region Coverage

Macro-Advisory provides bespoke due diligence – including comprehensive government and industry power and influence mapping services - and in-depth analysis of macroeconomics, politics, key-industry trends, business opportunities, and risk assessment across all Eurasia states plus macro-level coverage of Afghanistan and Iran. This report provides a top-down review of the key topics in Kazakhstan in summary format. We provide greater depth and analysis for clients as requested.

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## Summary: Electrifying Growth – Mind the Water Hazard

**An ambitious plan to end-decade.** Uzbekistan has had considerable success in attracting billions of dollars of aid, concessional debt, and co-investment, which has helped transform the economy since 2017. GDP, which dropped to US\$50 bln in 2018 (the year after the ending of the dual-currency system led to a steep devaluation of the som) is set to reach US\$94 bln this year and the President's flagship "Uzbekistan-2030" strategy sets a target of US\$160 bln by the end of this decade.

**Uzbekistan needs to diversify and grow inward investment.** Most of the money raised and attracted over the past six years has been for major infrastructure improvements and expansion, especially for renewable energy projects. To achieve the target of US\$160 bln for GDP, and the associated target of boosting household incomes to move Uzbekistan into the high-income category, the country needs to be more successful in attracting investment into the manufacturing and service industries which can create well-paid employment and boost exports while reducing imports.

**This is at the core of the Uzbekistan-2030** strategy (Page 6) and the focus of the current phase of economic, business, and industrial reforms. This phase started in late 2022 when the President announced a major reform of the civil service and some state agencies. He followed that with more changes, such as in the Presidential Administration, in 2023. These changes directly addressed the criticism by many foreign investors and multi-nationals about the difficulty in navigating the Soviet-legacy bureaucracy to get deals done and permissions agreed upon.

**The reform process is continuing this year** (refer to Appendix 2 on page 64) with such measures as tax reforms (Appendix 2 for details), the start of the phasing out of fuel and energy subsidies as part of budget reforms, the setting up of a specific agency to tackle corruption and arming it with tougher legislation, and also the start of a campaign aimed to tackle the grey economy which the government estimates at UZS 165 tln (refer to page 15 for more details).

**The next phase aims to improve the business climate.** This next phase of reforms and investment initiatives offers significant scope for investors and multi-nationals entering or expanding in the country (refer to page 11 for a summary of opportunities by sector). The main effort will be to attract investment into manufacturing sectors (for job creation, import reduction, and export growth); into agriculture, textiles, and technology (key export growth areas and major employers); into the service sectors (to help the government deliver on its promise of better healthcare, education, housing, etc.); and into improving infrastructure.

**Investment in electricity remains critical.** Expanding and improving basic infrastructure remains the critical objective for Mirziyoyev's government and the electricity sector is top of that list. Despite the huge investment already made into the country's electricity generating capacity, especially in renewable energy sources (RES – refer to page 39) the future program is even bigger. The country needs to generate a lot more electricity if it is to ensure an adequate and stable supply to support the ambitious economic growth and diversification program (to 2030) and it needs to significantly expand and modernize the existing distribution system. The government also plans to be a major exporter of electricity to neighboring states in the next decade.

The other major infrastructure project is to expand trade routes, especially rail and road. Several major routes have opened or have been expanded (refer to page 44) but to make a real difference, two long talked-about routes need to be built. These are the China-Kyrgyzstan-Uzbekistan (CKU) route, which would provide greater integration for Uzbekistan into the Chinese BRI network – Page 66), and the trans-Afghanistan railroad which would offer destinations in Pakistan and the Iran Gulf ports for Uzbekistan produce (Page 68). Both are at very early stages of planning and will need to happen in the next few years if the President’s ambitious trade plans are to be realized.

The major problem facing the government is the threat of water scarcity coming into the second half of this decade. Several estimates, including from the World Bank and government agencies, predict a significant shortfall for both drinking water and agriculture use unless remedial actions are taken now. President Mirziyoyev has declared 2024 as the transition year to deal with the looming water crisis, a crisis that would be made worse if the Qosh Tepa canal being built in Afghanistan is not managed efficiently. The threat is that, even if the canal is built properly, it may take up to 20% of the water from the Amu Darya river which is the main water source for Uzbekistan’s most important agriculture region. But reports, and photographs, suggest the canal is already leaking badly so the water loss for Uzbekistan could be a lot more.

In terms of regional politics, Uzbekistan is in good shape and has no major concerns for investors. The Qosh Tepa canal could become a source of future conflict between Tashkent and Kabul but officials in both capitals say that pragmatic solutions will be found. Kabul needs Uzbek electricity and Tashkent wants to build a transit railway across Afghanistan.

Balanced geopolitical backdrop. The U.S. and EU want access to the critical minerals (Page 34) present in Uzbekistan (as they wean themselves off Chinese and Russian supply); they are also targeting more uranium from the country. But China and Uzbekistan have signed the “All-Weather” agreement (Page 25) to greatly expand investment and trade cooperation, and Russia has agreed to a major (heavily discounted) supply of gas and oil to ensure Uzbekistan does not suffer shortages.

**Uzbekistan and its Neighbors**



Source: Wikipedia

***For a copy of the full note and information about our range of services, please email [info@macro-advisory.com](mailto:info@macro-advisory.com)***

## Who are we?

- Macro-Advisory is an independent Eurasia-based consultancy providing international companies and investors with strategic advisory services throughout the CIS-Eurasia region.
- Macro-Advisory's coverage footprint includes the entire CIS-Eurasia region plus Mongolia.
- For our clients, we carry out market and sectoral analysis, risk assessments, and deep due diligence work across all the key industry sectors in all countries of the region.
- We keep our clients fully informed of the relevant trends and events which impact their business.
- We assist local business teams and management in headquarters to help ensure a strategic focus and success for our clients' businesses.
- We are experts on the Eurasian Economic Union (EaEU) and help our clients assess the opportunities and implications of the economic bloc.
- We are experts in the operation of the Chinese-promoted Belt & Road Initiative (BRI) and in helping our clients understand the opportunities arising from this expanding trade and transport network.

## Our Competitive Advantages

- **Local.** From several locations in Eurasia, we cover the entire CIS-Eurasia region. We have an available network of industry specialists across the region to assist with project work as required. We also have offices in London, Washington, and New York, from which we can regularly engage with our clients.
- **Independent.** We are independent and this allows us to offer completely impartial advice. We combine coverage of economics, politics, industry, and social trends to provide the most comprehensive analysis for our clients.
- **Experienced.** The combined experience of our key personnel living and working in the CIS-Eurasia region is over 150 years.
- **Network.** We have built a substantive network of contacts in government and regulatory agencies as well as in other relevant bodies. This allows us to consult with decision-makers and policy influencers, and to gain better insights into evolving events.
- **Commercial.** All our reports come with commercially relevant and, more importantly, actionable recommendations.
- **Reports.** All our clients get regular reports updating and provide analysis of economic and industry data as well as an assessment of all relevant news and events that are important for companies and investors in the region.
- **Briefings.** We host regular client briefings, including quarterly events with special guest speakers. We also organize formal presentations for clients, including at the management and board level.

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