UZBEKISTAN

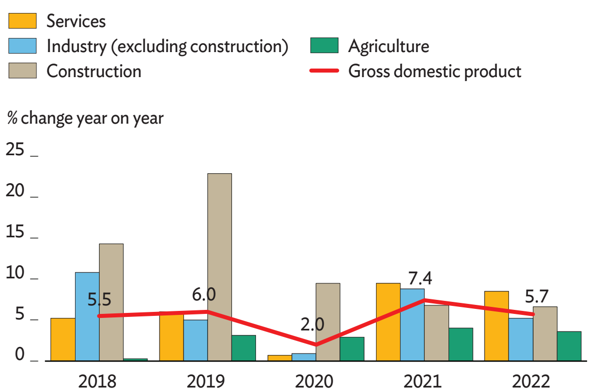
Growth remained strong but slowed across all sectors in 2022. Inflation accelerated, while surging remittances and money transfers slashed the current account deficit. Cooling demand is projected to trim growth in 2023 and stabilize in 2024, especially in services and private consumption. Protracted monetary tightening is expected to reduce inflation, despite an anticipated rise in utility tariffs. A growing population and diversifying economy need education reform and improved training, particularly in science, technology, engineering, and mathematics.

Economic Performance

Growth decelerated following robust recovery from the pandemic in 2021 but remained strong. The State Statistics Agency reported growth slowing from 7.4% in 2021 to 5.7% in 2022. On the supply side, expansion in industry diminished from 8.8% in 2021 to a still strong 5.2%, driven by gains of 5.3% in manufacturing and 2.1% in mining and quarrying. Growth in oil production slowed from 2.9% in 2021 to 1.8% in 2022. Natural gas output contracted by 4.0%, reversing a 8.2% increase in 2021 and causing energy shortages in winter. The downturn reflected decreased natural gas reserves and operational difficulties in gas fields. Growth in services edged down from 9.5% to 8.5% as trade, accommodation, and food services slowed from 13.6% in 2021 to 9.3% and transportation, storage, and information and communication slowed from 17.8% in 2021 to 14.7%. Expansion in road transport services fell steeply from 15.5% in 2021 to 6.5% as lower demand cooled business activity and production. Growth in agriculture moderated slightly from 4.0% in 2021 to 3.6%, reflecting deceleration in crop production, in particular cotton and wheat. Growth in construction, mostly in buildings and structures, stabilized at 6.6% in 2022, following 6.8% growth in 2021 (Figure 2.8.1).

Figure 2.8.1 GDP Growth by Sector

Growth decelerated in 2022 with slowdown across all sectors.



Source: Statistics Agency.

Elevated inflation and slower government investment weighed on domestic demand. On the demand side, growth in consumption decreased from 9.6% in 2021 to an estimated 8.5%. Higher prices trimmed real income growth, slowing the expansion in private consumption from 11.6% to an estimated 10.7%, despite a reported jump in money transfers, including remittances, by 233.8%, up from 14.3% in 2021, and a 12.0% rise in public wages, pensions, and social assistance. Fiscal consolidation cut growth in public consumption from 3.1% to an estimated 1.2%. Growth in investment fell from 2.9% to 0.9%, with decreases in public investment in urban infrastructure and private investment in manufacturing. The deficit in net exports of goods and services widened by 38.9%, or slightly less than 40.8% expansion in 2021.

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External and domestic shocks reversed a declining trend for inflation. Inflation accelerated from 10.7% in 2021 to 11.4% in 2022, reflecting higher global prices for food and energy and wheat price liberalization. Food inflation rose from 14.4% in 2021 to 15.3% on price increases for cereals, meat, vegetables, dairy products, edible oil, and sugar. Inflation for other goods accelerated from 8.3% to 10.0%, while that for services diminished from 8.2% to 7.0%. An influx of Russian citizens into Uzbekistan raised housing rental prices by 24.6% in 2022, up from 8.9% a year earlier.

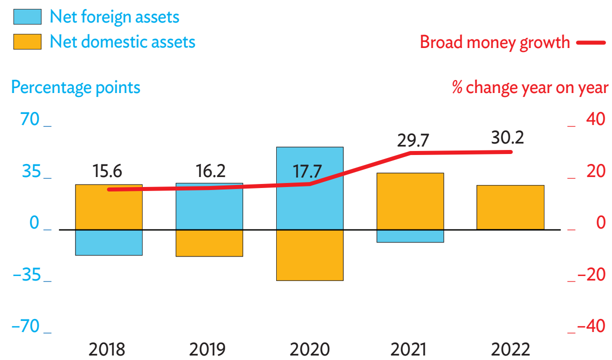
Fiscal consolidation continued but accommodated increasing social spending. The fiscal deficit narrowed from the equivalent of 6.1% of GDP in 2021 to 4.0% as growth in revenue outpaced expenditure. According to a State Tax Committee report, revenue rose from 26.1% of GDP in 2021 to 29.7%, reflecting improvement in tax collection and a broadening of the tax base. Collections of value-added tax (VAT) jumped by 15.8% on an increase in the number of taxpayers, particularly in retail, transport, and information technology services. Taxes paid by state-owned enterprises—the largest taxpayers—were stable, buoyed by high prices for gold, copper, and petrochemicals. Outlays rose from the equivalent of 32.1% of GDP to 33.9% with increased expenditure on social protection, education, and health care. Most of the deficit was financed externally, raising public debt by 5.3%.

Monetary policy remained focused on reducing inflation. In response to high inflation, the central bank kept monetary policy tight with a policy rate of 15.0% throughout 2022. Credit to the economy grew by 19.5%, up from 17.8% a year earlier, on rising demand from industry and agriculture and higher mortgage lending. The share of nonperforming loans shrank from 5.2% of all loans in 2021 to 3.6% in 2022. Growth in broad money edged up from 29.7% in 2021 to 30.2% as expansion in the money supply in local currency accelerated from 28.9% in 2021 to 39.0% while growth in foreign currency deposits plunged from 31.5% to 10.8% (Figure 2.8.2). The Uzbek sum depreciated slightly, by 4.2% against the US dollar in 2022, the decline limited by a doubling of money transfers including remittances.

Soaring cross-border transfers from Russia shrank the current account deficit. The gap narrowed from the equivalent of 7.0% of GDP in 2021 to 0.6% in 2022, as money transfers to Uzbekistan jumped by $8.6 billion. The rise came partly from repatriated revenue from agricultural exports, and partly from migrant workers in Russia shifting their transfers home from informal to formal bank channels as Russia introduced restrictions on taking US dollar cash out of the country (Figure 2.8.3). The combined deficit in goods and services amounted to $15.7 billion. Exports of goods and services grew by 17.7%, up from 12.9% in 2021, as strong external demand from Russia and higher prices boosted exports of petrochemicals, steel, food, machinery and equipment, and apparel. Tourism services soared from 65.0% growth in 2021 to 281.5% with an influx of short- and long-term visitors from Russia. Imports of goods and services grew by 26.0%, up from 23.1% a year earlier, with higher imports of machinery and equipment, hydrocarbons, petrochemicals, food, and travel and transport services. Net foreign direct investment edged up from the equivalent of 3.0% of GDP in 2021 to an estimated 3.5% in 2022.

Figure 2.8.2 Contributions to Money Supply Growth

Broad money expanded in 2022, driven by growth in the money supply in local currency.

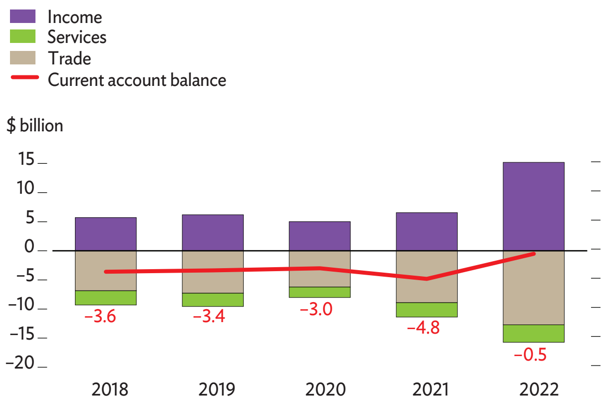


Sources: The Central Bank of the Republic of Uzbekistan. *Statistical Bulletin: January-December 2022*; Asian Development Bank estimates.

Debt management was prudent, and international reserves remained sound. Public external debt moderated from the equivalent of 33.9% of GDP in 2021 to 31.2% despite most of the budget deficit being financed by external borrowing. Gross foreign reserves rose slightly, from $35.1 billion at the end of 2021 to $35.8 billion a year later, providing cover for 14 months of imports. A 10.1% rise in gold reserves offset an 11.0% decline in foreign currency reserves (Figure 2.8.4).

Figure 2.8.3 Current Account Components

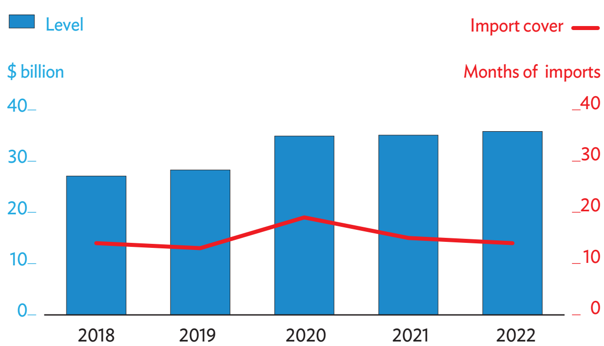
The current account deficit in 2022 narrowed as reported remittances increased.



Sources: The Central Bank of Uzbekistan. 2023. *Preliminary Data of Current Account Balance for 2022*; Asian Development Bank estimates.

Figure 2.8.4 Gross International Reserves

Gross foreign reserves edged up in 2022 as gold reserves increased.



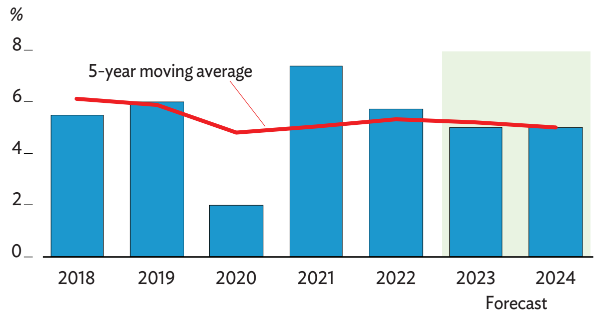
Sources: Statistics Agency of Uzbekistan; Asian Development Bank estimates.

Economic Prospects

Growth is forecast to slow to 5.0% in 2023 as expansion in private consumption and services decelerates, and stabilize in 2024 (Figure 2.8.5 and Table 2.8.1). Risks to growth remain from continued sanctions on Russia and their repercussions on external demand for Uzbekistan's exports. Further mobilization of military reservists in Russia would create an additional influx of migrants and visitors. However, likely economic contraction in Russia could reduce demand for Uzbek migrant workers and, thus, inward remittances.

Figure 2.8.5 GDP Growth

Growth is forecast to slow in 2023-2024 as expansion in private consumption and services slows.



Sources: Statistics Agency of Uzbekistan; Asian Development Bank estimates.

Table 2.8.1 Selected Economic Indicators, %

Growth will slow and inflation decelerate in 2023 and 2024.

	2021	2022	2023	2024
GDP growth	7.4	5.7	5.0	5.0
Inflation	10.7	11.4	11.0	10.0

GDP = gross domestic product.

Sources: State Statistics Agency; Central Bank of Uzbekistan; Asian Development Bank estimates.

Growth will remain subdued in services and construction and stabilize in industry and agriculture. On the supply side, growth in services is projected to edge down to 5.5% in both 2023 and 2024 as demand cools for food and accommodation, storage, and transportation services. Growth in construction is also forecast to slip, to 6.0% in 2023 and 2024, with slower expansion in housing, local infrastructure, and upgrades to manufacturing plants. Growth in industry, by contrast, is expected to rise to 5.5% in both years with modest recovery in textiles, food, and mining and quarrying in response to growing demand for hydrocarbons and high external demand, mainly from Russia, for apparel and processed food. Growth in agriculture is projected to remain at 3.5% in both years, reflecting continued gains in farm productivity from wheat price liberalization in 2022 and assuming sufficient water to irrigate cotton and wheat.

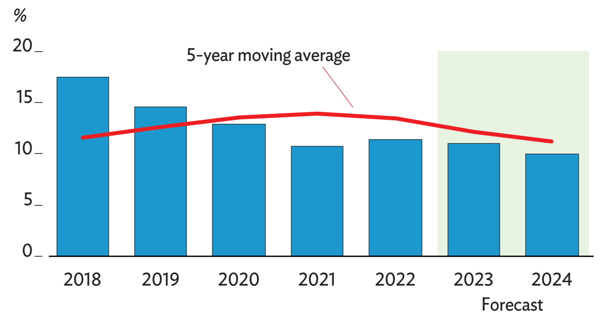
Growth in private consumption and investment will moderate. On the demand side, growth in private consumption is expected to decelerate to 8.0% in 2023 and 2024 as demand cools further and an anticipated rise in domestic energy prices restrains real household income growth, despite government plans to raise public wages and pensions and implement, from the start of 2023, a cut in VAT from 15% to 12%. Public consumption is projected to grow by 2% in both years on higher spending to operate and maintain public institutions such as hospitals and schools. With anticipated higher public investment in urban infrastructure, education, and health care, total investment is forecast to grow by 3% in both years. The deficit in net exports is expected to widen as migrant flows from Russia abate, weakening demand for tourism and transport services, and with higher imports of consumer products and of capital and intermediate goods for industry.

Inflationary pressure will persist, coming in part from continuing structural reform and increasing social spending. Inflation has continued to rise, reaching 12.1% year on year in January 2023 from 9.7% a year earlier. However, average annual inflation is anticipated to decelerate to 11.0% in 2023 and 10.0% in 2024 as monetary policy remains tight (Figure 2.8.6). The central bank kept its policy rate at 15.0% at its January 2023 meeting and is expected to continue a tight monetary policy to curb inflation in 2024. In addition, to help contain food inflation, the government extended import duty exemptions for essential foods such as edible oils, poultry, wheat flour, and rice to the end of 2023. The government is expected to raise prices for natural gas and electricity in 2023 and again in 2024 to revive delayed structural reform in energy that started in 2019, while increasing social assistance to cushion the cost to low-income households. Broad money is projected to increase by 25.0% in both 2023 and 2024.

Narrowing the budget deficit may be rendered difficult by structural reform and increased social spending. The fiscal deficit is forecast to remain equal to 4.0% of GDP in 2023 and moderate to 3.5% in 2024 (Figure 2.8.7). Revenue is expected to decline to 28.0% of GDP in 2023 and 2024 with the cut in the VAT rate and despite steady tax revenue from state-owned enterprises in mining and quarrying. The government plans to maintain high outlays for social protection, education, health care, and capital projects. However, the authorities are cutting public sector staff by 30% in 2023 and 2024 with reductions

Figure 2.8.6 Inflation

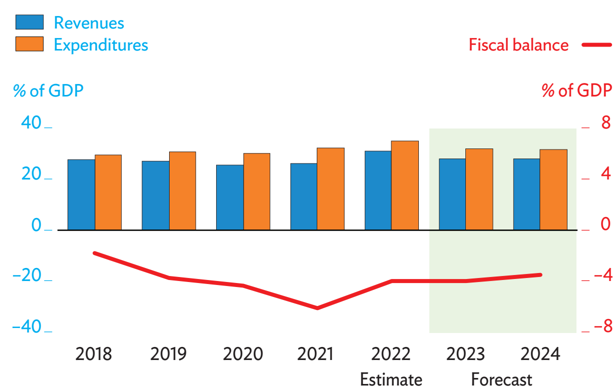
Inflation will decline in 2023-24 with anticipated monetary tightening and extended import duty exemptions on food.



Source: Statistics Agency of Uzbekistan; Asian Development Bank estimates.

Figure 2.8.7 Fiscal Components

The fiscal deficit will remain unchanged in 2023 and narrow in 2024 as government spending is reduced.



GDP = gross domestic product.

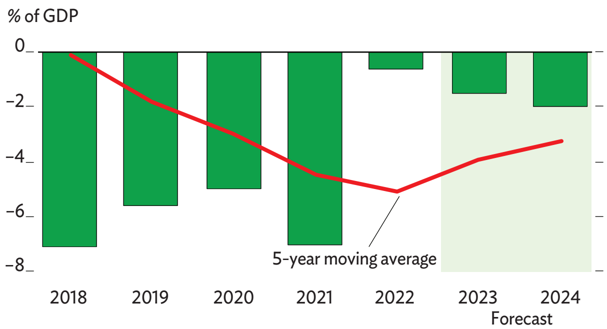
Sources: International Monetary Fund; Asian Development Bank estimates.

in ministries and agencies to curb government spending. Expenditure is forecast to moderate to the equivalent of 32.0% of GDP in 2023 and 31.5% in 2024.

Higher imports and lower income inflows will widen the current account deficit. The current account deficit is expected to widen to equal 1.5% of GDP in 2023 and 2.0% 2024 as imports rise and remittance inflows and money transfers from Russia decline (Figure 2.8.8). Exports of goods and services are projected to grow, but more slowly than imports, as demand rises for imported transport services, capital and intermediate goods, and consumer products.

Figure 2.8.8 Current Account Balance

The current account deficit will widen in 2023-2024 with rising imports.



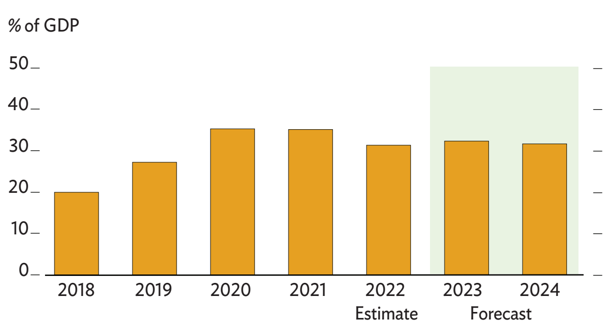
GDP = gross domestic product.

Sources: International Monetary Fund; Asian Development Bank estimates.

Gross foreign reserves are projected to increase to $37 billion in 2023 and 2024 with a rise in gold reserves. This will provide cover for 12 months of imports in 2023 and 11 months in 2024. The authorities set a $4.5 billion ceiling on external borrowing in 2023 to keep public debt below 60% of GDP in 2023 and 2024. External public debt of about $24 billion is currently below 32% of GDP and is expected to stay at about 32% to the end of 2024 (Figure 2.8.9). Foreign direct investment is forecast to grow by 10% in 2023 and 2024 with capital investment in mining, quarrying, and petrochemicals.

Figure 2.8.9 External Debt

Public external debt will remain stable as a share of GDP in 2023-24.



GDP = gross domestic product.

Sources: Statistics Agency of Uzbekistan; Asian Development Bank estimates.

Policy Challenge—Reforming Education

With population growth at 2% a year, Uzbekistan needs more secondary schools and higher-quality education. Secondary education including vocational schools absorbed an estimated 72.3% of public spending on education in 2022. In the 2021/2022 academic year, 6.3 million students attended 10,289 secondary schools, and nearly 500,000 graduated annually. Government plans to increase enrollment by an additional 1.2 million students require either the construction of an estimated 1,961 schools or shorter school days to allow more double shifts.

The quality of secondary education is a concern. Uzbekistan has not yet conducted the Program for International Student Assessment to obtain a comparative measure of the quality of its secondary school education. However, it is clear that the academic program needs improvement if measured by school graduates' admission to higher education. About 1.8 million students apply annually for admission to bachelor's degree programs at 154 higher education institutions, but only 12.2% of applicants are admitted. In 2022, half of all applicants could not obtain the minimum required score on higher education admission tests, suggesting a failure to coordinate secondary school education with requirements for higher education. In part, this reflects education policy fragmented between the Ministry of Preschools and School Education and the Ministry of Higher Education, Science, and Innovation. Secondary school students often take paid courses at private education centers to prepare for admission tests to higher education institutions. Inability to afford such courses reduces the chances of young people from low-income households gaining access to higher education. In addition, annual tuition for undergraduate study in public higher education institutions in Uzbekistan averages $717, which is one-third of GDP per capita, making it unaffordable for low-income families. The government aims to increase the share of students enrolled in higher education from 21% in 2021 to 50% by 2026, mainly by improving the quality of pre-university education and creating a more enabling environment for private universities.

As the economy diversifies, it will need more labor with science, technology, engineering, and mathematics (STEM) skills. Structural transformation has raised the share of industry in GDP from 19.5% in 2016 to 26.7% in 2022. The government intends to expand exports by accelerating manufacturing growth. Consistent with national targets for Sustainable Development Goal 9—on industry, innovation, and infrastructure—Uzbekistan plans to promote inclusive and sustainable industrialization through 2030, which is expected to expand further the share of manufacturing in total employment from 12.1% in 2021. To meet industry demand for skilled labor, especially in research and development, accelerated improvement of STEM education is necessary. In 2022, ADB highlighted several recommendations to improve education in STEM and Education Technology in Bangladesh, Cambodia, the Kyrgyz Republic, and Uzbekistan: A Synthesis Report. The government is advised to (i) boost students' interest in science and mathematics, (ii) ensure that STEM teachers attend regular in-service courses as part of their professional development and apply the latest developments in STEM education, (iii) improve preservice and in-service teacher education in STEM subjects to enhance pedagogical practices that improve student learning outcomes, (iv) further develop research expertise in academic staff at teacher education institutes, (v) establish science centers to popularize STEM, (vi) form nongovernment scientific societies to further boost activity in STEM education, (vii) promote integrated STEM education initiatives through low-cost initiatives, and (viii) significantly increase internet bandwidth in schools.