INTERNATIONAL MONETARY FUND ASSESSMENT LETTER

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 18/168
FOR IMMEDIATE RELEASE
May 9, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with the Republic of Uzbekistan

On May 4, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Uzbekistan.

External shocks which began in 2014, lowered exports, commodity prices, and remittances and contributed to a decline in growth from about 8 to 5 percent in 2017. At the same time, growth of domestic employment remained below one percent. A loosening of fiscal and monetary policies, along with price and foreign exchange liberalization, caused inflation to pick up in late 2017 and was close to 20 percent in early 2018. Uzbekistan's external position remains strong. International reserves were equivalent to 19 months of imports of goods and services at end-2017 and debt is low. Public and total external debt were 24½ and 41 percent of GDP, respectively, at end-2017.

The fiscal deficit, including the Fund for Reconstruction and Development (FRD), rose from ½ percent of GDP in 2016 to 3¼ percent of GDP in 2017. While the government's fiscal position was close to balance, the FRD deficit was larger than expected due to on-lending activities and recapitalization of state banks.

Monetary policy was loose early in 2017 and reserve money and credit to the economy had grown by more than 50 percent in August compared with a year earlier. Monetary policy tightened prior to the foreign exchange liberalization in September 2017, including by increasing the refinancing rate from 9 to 14 percent. Reported financial indicators suggest the banking system is sound. Banks capital adequacy ratio stood at 19 percent and non-performing loan ratio was 1.2 percent at end-2017. However, credit markets are segmented with state enterprises having preferential access to credit, including foreign exchange loans, at concessional rates.

[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.

In 2017, Uzbekistan embarked on a series of reforms to boost its economy. These included liberalizing prices, cutting tariffs, initiating structural reforms of state enterprises, granting the central bank greater independence, expanding the social safety net, and improving the quality and availability of economic statistics. Particularly significant was liberalization of access to foreign exchange and depreciation and unification of exchange rates in September 2017. The authorities are considering additional actions in 2018 including steps to restructure state enterprises and reform the tax system.

Executive Board Assessment[2]

They welcomed that Uzbekistan has initiated a comprehensive reform program to open and liberalize the economy, stimulate job creation, and promote inclusive growth. Noting the internal and external risks to the outlook, Directors encouraged the authorities to maintain prudent macroeconomic policies and the momentum of structural reforms. In this regard, they underscored the need for tighter fiscal and monetary policies to gradually bring inflation to single digits.

Directors commended the authorities for their prudent fiscal policies, which have kept public debt low. They supported the plans to reduce the overall fiscal deficit in 2018, mainly by reducing on-lending operations by the Fund for Reconstruction and Development. Directors emphasized the importance of ensuring that all fiscal operations are brought on budget. They also underscored that a comprehensive reform of the tax system is essential to foster job creation and to insure against the risk of a sharp future decline of tax collections from state enterprises. They advised that reform should be introduced gradually and should be revenue neutral to preserve a stability-oriented fiscal policy.

Directors agreed that the central bank should use a range of indicators, including the refinancing rate, bank liquidity, money, and the exchange rate, to gauge the appropriate stance of monetary policy. They noted that it will be important to enhance the independence of the central bank to support the adoption of inflation-targeting over the medium term.

Directors noted that reported financial sector indicators are strong, but the concentration of credit in state enterprises is a vulnerability. They welcomed plans to further upgrade the central bank's supervisory capacity and intervention tools. Directors underlined the importance of policies fostering a banking system that is inclusive and supports growth over the medium term.

Directors commended liberalization of the foreign exchange market, including the elimination of exchange restrictions. They noted that while Uzbekistan's external position is strong, it could be impacted by changes arising from the economic transition and Uzbekistan's dependence on remittances and commodity exports. Directors welcomed the

---

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

authorities' intention to allow the exchange rate to adjust in line with fundamentals to help safeguard external stability and maintain scope for an independent monetary policy.

Directors welcomed the significant structural reforms underway. They emphasized that priorities ahead should focus on restructuring state enterprises and further trade and price liberalization, especially by raising energy prices to cost-recovery levels, and promoting competition. Directors also welcomed the recent governance reforms and encouraged continued efforts to fight corruption and enhance the rule of law. They underscored that economic diversification, especially into sectors with higher human capital content would support the country's fast-paced demographic transition.

Directors commended recent steps to improve the availability and quality of economic statistics and welcomed Uzbekistan's participating in the IMF's enhanced General Data Dissemination System (e-GDDS). They looked forward to further improvements towards subscribing to the Special Data Dissemination Standard (SDDS) as part of their participation in the e-GDDS.

Uzbekistan: Selected Economic Indicators, 2015-19

	2015	2016	2017	2018	2019
			Est	Proj	Proj
National income					
Real GDP growth (percent change)	7.9	7.8	5.3	5.0	5.0
GDP per capita (in U.S. dollars)	2,124	2,094	1,491	1,239	1,449
Population (in millions)	31.3	31.8	32.1	32.5	32.9
Prices			(percent change)		
Consumer price inflation (end of period)	8.4	7.9	18.9	16.9	10.1
GDP deflator	9.2	7.4	19.0	20.3	13.8
External sector					
Current account balance (percent of GDP)	0.7	0.7	3.7	0.2	-1.0
External debt (percent of GDP)	18.5	20.3	41.3	38.1	35.2
Exchange rate (in sums per U.S. dollar; end of period)	2,810	3,231	8,120	...	...
Real effective exchange rate (average, - = depreciation)	-2.4	-7.0	-31.8	...	...
Government finance			(percent of GDP)		
Consolidated fiscal balance	-1.2	-0.8	-0.1	-1.3	-1.4
Fund for Reconstruction & Development (FRD) balance	-0.1	0.2	-3.2	0.0	0.0
Augmented fiscal balance (incl. FRD)	-1.3	-0.6	-3.3	-1.3	-1.4
Augmented revenues & grants (incl. FRD)	34.3	32.1	31.6	31.7	31.6
Expenditures & net lending (incl. FRD)	35.6	32.7	34.9	33.0	32.9
Public debt	9.3	10.5	24.5	20.1	21.0
Money and credit			(percent change)		
Reserve money	20.0	22.2	84.8	15.4	14.5
Broad money	24.2	23.5	40.3	19.0	17.9
Credit to the economy	23.3	28.4	103.0	24.5	15.2

Sources: Uzbekistan authorities and IMF staff estimates and projections.