



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 05-Apr-2020 | Report No: PIDA29121



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
Uzbekistan	P173948	Additional Development Policy Financing: Sustaining Market Reforms in Uzbekistan (P173948)	P168280
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
EUROPE AND CENTRAL ASIA	23-Apr-2020	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Uzbekistan	Ministry of Finance of the Republic of Uzbekistan		

**Proposed Development Objective(s)**

Sustain Uzbekistan's economic reforms and transition to a market economy by (i) increasing the role of markets and the private sector in the economy; and (ii) enhancing social inclusion.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	200.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	200.00
World Bank Lending	200.00

Decision

**B. Introduction and Context**

Country Context

**The COVID-19 outbreak poses a significant threat to the ambitious economic and social transition under way.** Economic



growth is currently projected at 1.6 percent, significantly lower than the pre-crisis projection of 5.7 percent. Per capita GDP growth is expected to be nearly flat in 2020, compared to a pre-crisis projection of 4.5 percent. It is likely that conditions will deteriorate further, and that growth could be negative in 2020. Promising signs of private sector growth and job creation in highly inclusive sectors with potential opportunities, such as tourism, horticulture, and services are now at high risk. These sectors are likely to be the worst affected. The crisis has wiped out the main tourist and high-value horticulture export seasons. Domestic restrictions and closures have brought most industrial output and commerce to a temporary halt. Efforts to attract foreign investment – through public-private partnerships (PPPs) and the imminent launch of an ambitious SOE reform and privatization strategy – are likely to be put on hold. Traditional sources of export-led growth, such as natural gas, metals, light manufacturing, chemicals and fertilizer parts of the economy have been severely affected as the economies of Uzbekistan’s main trading partners have sharply weakened.

**A sharp fall in remittances, increased risks of rising unemployment and inflation from the impact of the COVID-19 crisis pose a significant threat to two decades of sustained poverty reduction.** Uzbekistan has made commendable progress in reducing poverty. Extreme poverty has almost entirely been eliminated, and the World Bank pre-crisis poverty estimate<sup>1</sup> was projected to have fallen to 7.4 percent of the population in 2020. Remittances from Russia have played a significant role, with over two million migrant workers remitting money to some of the poorest households in the country. Remittances may fall by more than 50 percent this year, compared to 2019, as a result of the COVID-19 crisis. There is emerging evidence of increasing unemployment, as sustained domestic disruption severely affects businesses. Lower commodity prices and production and import interruptions are likely to elevate inflation risks. These factors could significantly increase the incidence and depth of poverty in the coming months.

**Recognizing this threat, the authorities have moved rapidly to contain the outbreak and respond to the economic effects of the crisis.** Following the first detected case of the virus in Uzbekistan and learning from emerging lessons from China and South Korea, the authorities moved rapidly to close schools, implement tight movement controls and social distancing requirements, and activate emergency health protocols. Progressively, these restrictions have led to the suspension of most non-essential domestic economic activity across the country. The government has also moved quickly to shore up health sector resources, including essential equipment and additional hospital bed capacity to cater to the surge in treatment needs. In response to a first wave of expenditure needs, the government announced in late March a US\$1 billion anti-crisis package to fund health expenditures and provide interim relief to the most affected households and enterprises.

**Despite the significant shocks from the COVID-19 crisis Uzbekistan’s macroeconomic policy framework remains supportive of the major economic transition that is under way and is adequate for the proposed supplemental operation.** Economic growth is expected to rebound and remain strong over the medium-term, although that outcome also depends on the success of global efforts to combat the COVID-19 crisis. Sustainable twin (external and fiscal) balances with identified deficit financing, judicious debt management, and greater flexibility in exchange rate management will help maintain sufficient reserve cover and moderate levels of public and private external debt. Although inflation remains high, in large part reflecting significant increases in administered prices, it is expected to gradually moderate over the medium-term as policy-based lending is scaled back and as monetary policy transmission improves. The post-COVID-19 outlook, however, remains vulnerable to downside risks, including: (i) deeper and more prolonged (than anticipated) health and economic crises from the COVID-19 outbreak; (ii) continued government-directed credit at current levels, which could have significant consequences to macroeconomic stability over the medium-term; (iii) external economic shocks (e.g. from slowdowns in trading partners) impacting domestic economic performance and financial sector stability ; (iv) large increases in contingent liabilities arising from a number of planned

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<sup>1</sup> Using the lower middle-income poverty line (US\$3.2/day 2011 PPP)



Public Private Partnership transactions if contractually linked economic conditions do not materialize; (v) adverse weather conditions and (vi) the occurrence of a major natural disaster.

#### Relationship to CPF

**This operation is fully consistent with the World Bank Group’s twin goals, and the new focus areas in Uzbekistan following the 2018 Performance and Learning Review (PLR) of the 2016-2020 Country Partnership Framework.**

Adjustments to the CPF were made following a clear signal from authorities about its intentions to undertake a faster, deeper and broader program of economic and social reform. The overall objective of the operation is to provide supplemental finance in order to sustain the reform agenda and is consistent with the first pillar of the revised focus areas following the PLR (supporting a Sustainable Transformation towards a Market Economy).

#### C. Proposed Development Objective(s)

This operation provides additional financing for the “Sustaining Market Reforms in Uzbekistan” Development Policy Loan. The development objective of the parent operation is to:

Sustain Uzbekistan's economic reforms and transition to a market economy by (i) increasing the role of markets and the private sector in the economy; and (ii) enhancing social inclusion.

#### Key Results

**The proposed operation supports the government in deploying a strong and early response to contain the health, social, and economic policy implications of the COVID-19 crisis.** The government’s anti-crisis response includes strong health, social, and economic policy measures to minimize the damage caused by the crisis to society and the economy, support an early economic recovery, and enable the full resumption of the government’s ambitious structural reform agenda. The proposed operation supports the government in meeting the unanticipated surge in spending as part of this response, with the objective of supporting the overall reform program from being jeopardized.

#### D. Project Description

**The proposed supplemental financing loan of US\$200 million supports the Government of Uzbekistan’s response to an unanticipated tax revenue shortfall and expenditure surge in response to the COVID-19 outbreak.** This financing is intended to augment the US\$500 million already disbursed under the Sustaining Market Reforms in Uzbekistan Development Policy Loan, which was approved by the World Bank Group’s Board on June 14, 2019. The supplementary financing from the World Bank will go a long way in covering the fiscal needs of the Government and providing it the fiscal space to carry out exceptional emergency responses to the health and economic crises that have emerged from the COVID-19 outbreak. The fiscal space will also be useful to safeguard the longer-term structural reforms that are necessary for Uzbekistan’s successful transition to becoming a market economy and are being supported by the World Bank’s DPL to which this supplemental is attached. The resources are being provided in financing coordination with the Asian Development Bank, and in technical and advisory coordination with the International Monetary Fund.

#### E. Implementation

##### Institutional and Implementation Arrangements



**The Ministry of Finance is responsible for the implementation of the program supported by the proposed operation.**

As the main implementing agency, the Ministry of Finance will coordinate with other Government agencies involved in the implementation of the operation, including the Presidential Administration, the Office of the Cabinet of Ministers of Uzbekistan, the Central Bank of Uzbekistan, the Ministry of Economy, the Ministry of Agriculture, the State Tax Committee, the Ministry of Investment and Foreign Trade, the General Directorate of State Inspection for Supervision of Quality of Education, the Ministry of Education, the National Asset Management Agency, the Office of the Cabinet of Ministers of Uzbekistan, and the State Committee on Statistics. The Ministry of Finance will work with these institutions to collect the necessary data of assess implementation progress and evaluate results. The technical capacity of these institutions is adequate to perform regular monitoring of the indicators and outcome measures.

## **F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects**

### Poverty and Social Impacts

**This proposed operation will have a positive poverty and social impact through its support for anti-crisis measures that limit the anticipated increase in poverty.** The government has outlined an ambitious set of social protection measures to contain the expected increase in poverty levels this year. This operation provides financial support towards these measures and will reinforce work to adapt and strengthen the safety net system under a separate proposed US\$100 million emergency COVID-19 response facility project

### Environmental, Forests, and Other Natural Resource Aspects

**There are no changes as a result of this operation to the environmental issues set out in the June 2019 DPL.**

## **G. Risks and Mitigation**

**Relative to the June 2019 DPL, macroeconomic risks are now assessed as high.** Globally, the COVID-19 outbreak has severely affected global economic and financial sector conditions. The health and economic effects of the outbreak have already affected Uzbekistan. Initial data show a sharp decline in export volumes, and recent measures to curtail the spread of the virus have severely disrupted domestic commerce and production. Growth is projected to be sharply lower in 2020 at 1.6 percent against a forecast of 5.7 percent in January. Under an increasingly likely downside scenario where global and domestic economic disruption are deeper and more prolonged, the economy may contract in 2020. The current account is projected to widen sharply in 2020 on the back of lower exports and remittances. The COVID-19 crisis also poses a significant risk to Uzbekistan's ambitious economic and social transition, especially if poor outcomes caused by the crisis are mistakenly attributed by the population to the effects of the reform agenda. Increased risks of rising unemployment, a sharp fall in remittances, and inflationary risks from a sustained COVID-19 outbreak pose a significant threat to poverty reduction. As the crisis passes, the macroeconomic risks environment is likely to moderate quickly as prospects from the economic transition remain strong. In the meanwhile, Uzbekistan's strong macroeconomic buffers, safety nets, and community institutions; and the announced anti-crisis package, will help partially mitigate immediately high risks, as well as the impact of the crisis on the poor. All other risks remain unchanged from the June 2019 DPL program document.



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**APPROVAL**

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**Approved By**

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