

Drivers of Uzbekistan's Economic Growth

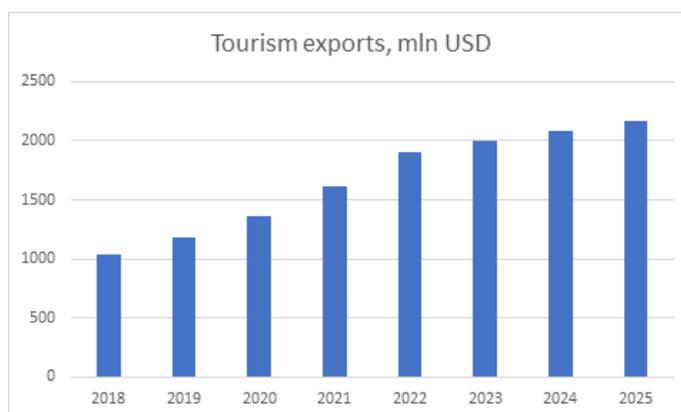
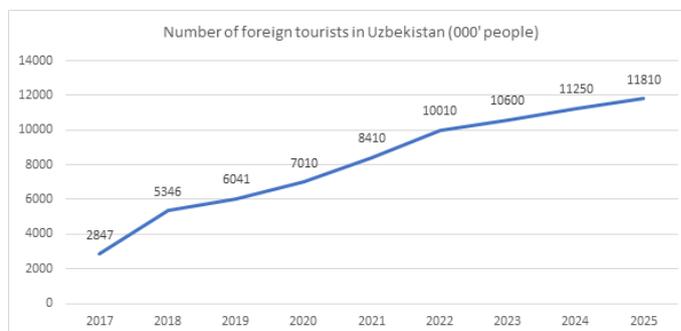
Key Message

This policy brief discusses the long-term economic growth prospects of the Republic of Uzbekistan. Among the drivers of economic growth are tourism, human capital, capital markets and privatization. Measures to tap on these sources of economic growth adopted by the government are outlined. The policy brief also offers additional measures that could be used by the government to maintain brisk GDP growth rates.

Starting from 2017, Uzbekistan has undergone a significant path of socio-economic reforms and gradually becoming one of the gravitational centers of trade, tourism and investments in the region. Thus, from 2017 there has been liberalization of the currency regime, ease of visa regulations with many countries, improvement of business climate and tax reforms. According to forecasts of ADB, Uzbekistan's growth rate will reach 6% in 2020. Inflation is to decrease from 17.5% in 2018 to 12% in 2020[1].

The concept for complex socio-economic development of the Republic of Uzbekistan 2020, publicly discussed in 2019, highlighted one aim, to become a higher upper middle-income country by 2030. This will only be achieved by activating the drivers of mid- and long-term economic growth.

In the mid-term, the tourism industry will be one important factor in Uzbekistan's economic growth. For example, the growth rate of visitors to Uzbekistan has increased by 87% in 2018 compared to 2017, and tourism exports have exceeded 1 billion USD.



Source:[2] The concept of development of the tourism sector in Uzbekistan¹

In addition, in 2019, Uzbekistan adopted the *Concept for the Development of the Tourism Sphere in the Republic of Uzbekistan in 2019-2025* and, in 2020, the Decree of the President of the Republic of Uzbekistan, *On Measures for Further Development of the Tourism Sphere*. So, according to the Resolution, in effect January 1, 2020:

- part of the costs of tourism entities or air carriers for organizing charter flights from foreign countries to Uzbekistan is compensated in equal shares from the State budget of the Republic of Uzbekistan and the off-budgetary Tourism Support Fund;

¹ Data for 2017 - <https://stat.uz/ru/press-tsentr/novosti-komiteta/5310-kolichestvo-lits-v-ekhavshikh-i-vyekhavshikh-iz-respubliki-uzbekistan>

- part of the cost (“rebate”) of foreign film companies in creating audiovisual products (films, television and video films, clips, cartoons, anime) in the Republic of Uzbekistan is compensated in the amount of not more than 300 thousand US dollars per unit of production;
- also, until 2023, legal entities providing tourism services are exempt from a wide range of taxes.

However, the rapid development of the tourism sector requires solving several remaining problems: lack of infrastructure and qualified personnel. Besides tourism, the next driver of economic growth and attracting local and foreign investors should be privatization and reduction of state participation in economic processes. Thus, priority sectors for privatization in the medium term will be banking, insurance, oil and gas, and other industries. The State Assets Management Agency is ready to offer investors stakes in such banks as Asia Alliance Bank, Turonbank and Alokabank². Also, within the scope of the Roadmap for improving the country's position in the Doing Business rating, the framework of the Decree of the President of the Republic of Uzbekistan (No. PP-4525 dated November 20, 2019), established the initiation of issues on the revision and cancellation of the results of decentralization and privatization. This means results assessments of the value of objects by the state, including regulatory, law enforcement agencies and courts, qualifies as a breach of the inviolability of private property, such cases are not accepted for consideration³. Studies on this topic show, in countries where the state presence exceeds 14.8% of GDP, it negatively affects economic growth. At the same time, according to the World Bank, this indicator in Uzbekistan amounted to 15%. Thus, a reduction in state presence in the economy should have a positive effect on economic growth.

Ongoing reforms, aimed at **developing the capital market**, should strengthen Uzbekistan's economic growth. Currently, the total nominal value of issued securities is less than 0.4% of GDP. In Singapore, this figure is 188 percent; in Malaysia, 112 percent, and; in Russia, 34 percent. Such a low level of development of the capital market is the result of several barriers addressed in the *Strategy for the Development of the Capital Market of the Republic of Uzbekistan for 2020-2025*, which is under discussion:

- lack of a healthy competitive environment, the presence of a significant number of business entities with state participation;

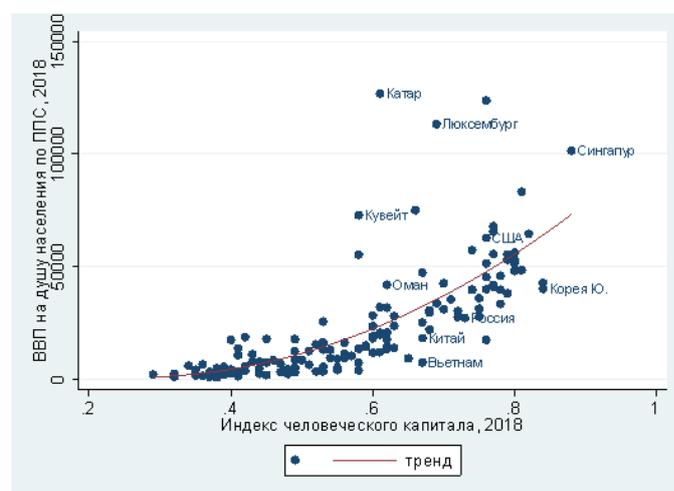
- fragmentation of market infrastructure, lack of modern information and telecommunication systems, as well as inefficient use of the capabilities of domestic systems in this area;
- absolute underdevelopment of capital market infrastructure at the regional level;
- underdeveloped corporate relations and corporate governance principles that are inconsistent with international standards, especially in enterprises with a predominant share of the state;

Implementing this Strategy should increase market capitalization, with free-floating account securities growing by more than 12 times by 2025, to 60 trillion sum. Thus, the total number of shares in circulation will grow to 3.3% of GDP.

At the same time, human capital should be a key cause of economic growth in the medium- and long-term. Thus, the Strategy for Innovative Development of the Republic of Uzbekistan for 2019-2021 notes that its main goal is developing human capital, key to determining the level of competitiveness of the country in the global arena and its progress innovation.

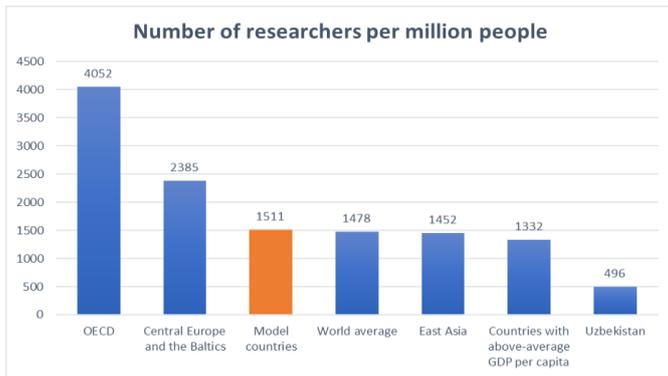
Uzbekistan's transition to an upper middle-income country, as well as listing in the top 50 on the Global Index of Innovative Development cannot be achieved without improving the quality of human capital. This means improving the quality and coverage of education at all levels; developing a lifelong learning system; reducing the skills gap in the labor market, and; increasing public and private investments in innovation and science. For example, in terms of the number of scientists per 1 million people, Uzbekistan lags behind other countries with similar GDP per capita.

Scatterplot between human capital index (x axis) and GDP per capita in PPP (y axis)



² <https://www.gazeta.uz/ru/2019/10/16/aab/>

³ <https://lex.uz/docs/4602234>



Source: World Bank (reference countries are those between 45 and 50 in GII)

The survey, sampling 100 companies in Uzbekistan, showed 67% of firms have difficulty hiring employees. Respondents had mentioned several main points including a lack of:

- technical and professional skills
- work experience
- motivation
- education

The survey showed the three main skills for candidates are: *team work, communication skills, and critical thinking*. Increasing the competitiveness of the national economy and stimulating economic growth requires:

- optimizing the tax burden
- developing international trade
- stimulating competition and demonopolization
- increasing the effectiveness of government institutions
- reducing the shadow economy
- improving energy efficiency

In sum maintaining economic growth in Uzbekistan would require to carry out complex work aimed at mutually effective functioning of financial markets, integration into global tourism and trade flows, as well as having GDP growth centered on the human development aspects. If these goal are achieved, Uzbekistan can enter high income status in the long run and be one of the competitive global economies.

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For further information about this brief, or to recommend a topic for a policy brief or collaborate with the Center for Policy Research and Outreach (CPRO) e-mail cpro@wiut.uz