
5 August 2020

All regional economies evidence a significant slowdown amid the coronavirus pandemic and the imposed quarantine measures, and the economy of Uzbekistan was no exception, although it remained in the positive GDP growth zone of 0.2% yoy in 1H2020. The Central Bank of Uzbekistan eased its monetary conditions by lowering the rate from 16% to 15% to meet the current challenges. The country's international reserves rose by 10.8% amid rising gold prices since the beginning of the year. The current account deficit is decreasing, but it is expected to widen by the end of the year. At the same time, large-scale economic reforms initiated back in 2017 are being implemented at a slow pace, especially with regard to the privatization of state-owned enterprises. Thus, prior to the expiration of the previous privatization strategy for 2019-2021, two new strategies were developed for the period 2020-2025. In accordance with those documents, by 2025, more than 37% of state-owned companies should become private, and the share of private banks' assets should increase from 15% to 60%.

Economy is slowing down amid negative dynamics in the real sector. Economic growth in 6M2020 amounted to 0.2% yoy (6.0% yoy in 6M2019) Construction (+ 7.3%) and agriculture (2.8%) evidenced the highest growth rates. Investments decreased by 12.8% yoy in 1H2020. Industrial production fell 1.9% yoy. Such a slowdown in the real sector of the economy will affect the country's annual GDP growth, which, according to the IMF projections, in 2020 will slow down to 1.8% yoy from 5.6% in 2019.

The CBU is easing credit conditions in response to a slowdown in business activity. The Central Bank of Uzbekistan (CBU) softened its monetary conditions for the first time since 2018 by lowering the base rate from 16% to 15% amidst a slowdown in inflation resulting from a drop in economic activity in Uzbekistan and abroad. Respective to this the CBU shifted from the initial inflation projection 12-13.5% to 11-12.5%. In June, consumer inflation amounted to 14.2% yoy, accelerating from 13.6% in March due to the rise in food prices to 18.8% yoy. The rise in prices for non-food products and services was less pronounced due to the decline in business activity. According to the June forecasts of analysts, the inflation in 2020 in Uzbekistan will amount to 12.5%. At the end of June 2019, the FX rate of the national currency weakened by 7.0% YTD and amounted to 10,173.4 sums per US dollar. The FX rate of the Uzbek sum at the end of this year is projected at 10,419 sums per US dollar (9.6% yoy).

Growth of IRs due to the growth in the value of gold. As of 1 July 2020, international reserves increased by 10.8% YTD and they reached \$32.3 bn (+ 16.5% yoy). FX currency reserves increased by 0.1% (8.9% yoy) and amounted to \$12.5 bn. Assets of the CBU in gold increased by 16.4% (25.9% yoy) and amounted to \$19.0 bn. The share of gold in the structure of gold and foreign exchange reserves has increased since the beginning of the year from 56.0% to a record high of 60.3%. The growth in reserves was mainly due to the revaluation of assets in gold since the price of one troy ounce of gold in 1H2020 increased by 18.2% to \$ 1,800.

Current improvement of external accounts. According to preliminary data from the CBU, in 1Q2020, the current account deficit decreased by 22.6% yoy to \$812 mn. This was facilitated by a decrease in the trade account deficit by 6.9% yoy to \$1.6 bn and on the services account by 17.1% yoy to \$459 mn. Along with this, there was also a decrease in the primary income account by 38.6% yoy to \$208 mn. The only item in the current account that evidenced an increase was the secondary income account, the surplus of which increased by 18% yoy to \$1.0 bn. According to forecasts, the current account deficit in 2020 will expand to \$5.0 bn, which will reach circa 9.5% of GDP. The IMF forecast for Uzbekistan's current account deficit is 9.4% of GDP for 2020 and 6.4% for 2021.

Slowdown of the average annual dynamics of lending to the economy. Lending to the economy by the commercial banks is gradually slowing down due to the decline in business activity and domestic and foreign demand as well. Thus, if the loan portfolio expansion in 1H2019 was 24.9% in 1H2020 the loan portfolio grew by only 15.7%. The total return on the banking sector (ROE) is 16.7%.

State assets privatization in the economy and the banking sector is staggering. The share of state-owned enterprises is currently 55% of the country's GDP. On behalf of the President of the Republic of Uzbekistan, a new strategy for the privatization of state enterprises for 2020-2025 was developed, according to which more than a thousand enterprises will be privatized. It is noteworthy that the new strategy is intended to replace the previous one, planned for implementation in 2019-2021. The banking sector has adopted an

individual strategy for large-scale privatization from 2020 to 2025. In our previous [report on Uzbekistan](#), we doubted the implementation of such large-scale reforms within the specified timeframe. The revision of plans for privatization with an increase in terms of execution only confirmed this. As a result, despite the leadership's focus on gradual liberalization of society and implementation of reforms, the economy of Uzbekistan is likely to remain in the medium term an economy with a significant share of state-owned enterprises, which will create significant structural distortions in the economy.

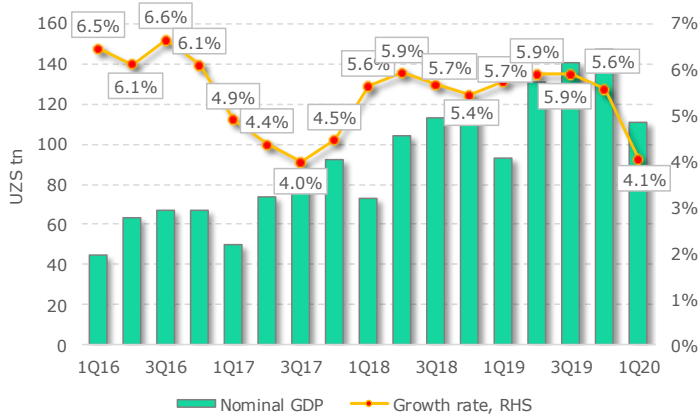
Economy of Uzbekistan – construction and agriculture support the growth

The economic growth of Uzbekistan in 2019 accelerated to 5.6% (5.4% in 2018) and amounted to \$57.9 bn (\$50.4 bn in 2018). The construction (+ 19.0% yoy) and agriculture (+ 2.5% yoy) sectors evidenced relatively high growth. Industrial production (8.9% yoy) and services (5.1% yoy) demonstrated a slowdown.

In 3M2020, construction and agriculture continued to support the economy of Uzbekistan. Thus, in 1Q2020 GDP slowed down to 4.1% yoy (5.3% yoy in 1Q2019) and amounted to 110.5 trn. sum (\$11.6 bn).

According to the preliminary data of the State Committee of the Republic of Uzbekistan on statistics (SCRUS), the GDP

Figure. 1. Economy growth in Uzbekistan 2016-2020



Source: SCRUS, Halyk Finance

growth for 1H2020 was 0.2% yoy. Industrial production growth in 6M2020 was negative and dropped to 1.9% YoY (+ 4.8% yoy in 6M2019). At the same time, the manufacturing grew by 2.2% yoy (+ 7.8% yoy in 6M2019). The share of manufacturing in the structure of industrial production in 1H2020 increased to 81.2%. The mining and quarrying in 6M2020 evidenced a decrease by 20.1% yoy (+ 4.7% in 6M2019). Production of gas condensate decreased by 30.3% yoy whilst natural gas by 17.1% yoy. Construction in 1H2020 increased by 7.3% yoy (+ 23.7% yoy in 6M2019). Services in 6M2020 made 2.6% yoy (12.7% yoy in 6M2019). Growth in agriculture in 6M2020 was 2.8% yoy (+ 2.4% yoy in 6M2019). Therefore, there is a further decline in industrial production, amid positive growth in agriculture, services and construction.

to US\$ 84.8 tn or \$8.3 bn. FDI (+ 18.2% yoy), foreign investments and loans (+ 298.3% yoy) and foreign loans guaranteed by the government (-18.1% yoy) accounted for 44.5% of the total investment for 6M2020.

Investments in fixed assets in 6M2020 decrease by 12.8% yoy (+ 58.9% yoy in 6M2019) and totaled

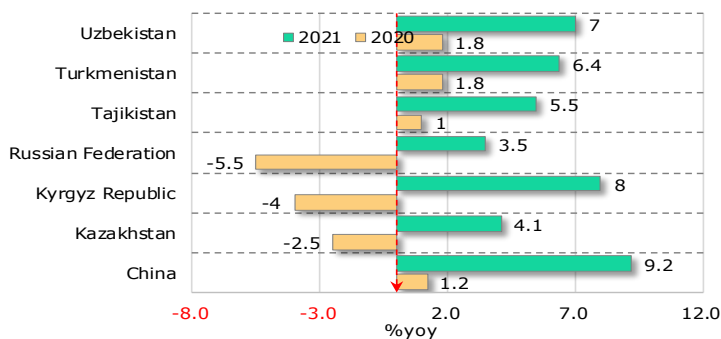
S&P confirmed Uzbekistan's sovereign rating at 'BB- / B', revising its outlook to negative amidst a slowdown in the economy and a gradual increase in the country's external debt, as well as the prospects for a deterioration in external accounts. The agency highlighted that the level of government borrowing in the republic remains low and corresponds to the confirmed rating. The rating agencies Moody's (B1, outlook stable) and Fitch (BB-, stable) did not take any rating actions in relation to the country.

Amidst of a slowdown in production, there is a gradual decline in domestic demand that affected retail trade growth. In 6M2020, the retail trade turnover increased by 0.7% yoy (6.4% yoy in 6M2019). The decrease in domestic demand was due to the decrease in cross-border remittances of labor migrants from the Russian Federation by 7.2% yoy in 3M2020 (+ 12.6% yoy in 3M2019) to \$759 mn. Real money income of the population in Uzbekistan increased by 1.5% yoy in 6M2020 (+ 6.3% yoy in 6M2019).

Growth projection – a notable decline

According to experts' June estimates, GDP growth in Uzbekistan in 2020 will be to 0.8% yoy and accelerate in 2021 to 5.7% yoy.

Figure. 2. Regional growth projections 2020-2021



Source: IMF, Halyk Finance

The IMF's estimation (April 2020) of economic growth in Uzbekistan was 1.8% yoy in 2020 and 7.0% yoy in 2021. Note that in the June forecast, the IMF downgraded its forecast for 2020 for major countries - trade partners of Uzbekistan - for China from 1.2% to + 1%, Kazakhstan from -2.5% to -2.7% and Russia from 5.5% to -6.6%. Other data are lacking for other countries in the region, but it is clear that further slowdowns will also occur in their economies. WB forecast for economic growth Uzbekistan in 2020 is 1.5% yoy and 6.6% yoy in 2021. As per current ADB estimation, economic growth in Uzbekistan in 2020 will be also 1.5% in 2020 and increases to 6.5% yoy in 2021. The future growth of the economy of Uzbekistan will depend on the realization of the risks of a protracted exit of the

economies of Uzbekistan's partner countries from the crisis associated with the coronavirus and the quarantine measures introduced against it. Growth will depend on the state of the Russian economy, which, according to various estimates, is expected to decline by 4.7%, 5.0% (Ministry of Economic Development of the Russian Federation), 5.5 (IMF) and 6.0% (WB) in 2020.

The state of the Russian economy is directly translated into domestic consumption within Uzbekistan, since the recession in the Russian economy will decrease cash transfers from the Russian Federation. According to various estimates, about 10 mn labor migrants visit the Russian Federation annually, a significant part is from Uzbekistan. Quarantine measures within the country will also have a negative impact on economic growth, which will limit tourist flows to Uzbekistan. Falling prices for energy carriers (natural gas) and metals (mainly copper) will have a significantly affect the economic growth.

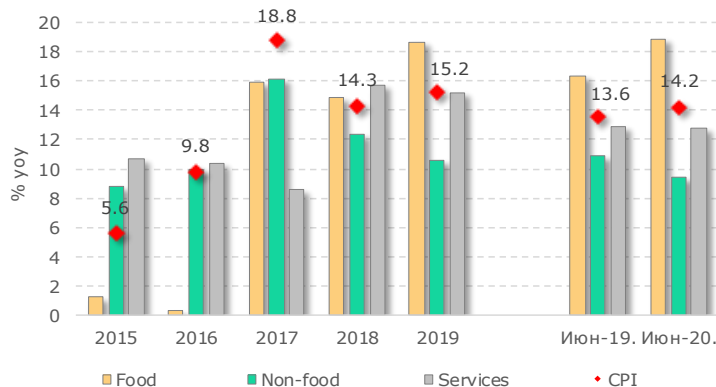
Agriculture and manufacturing, in our opinion, will support the economy of Uzbekistan in 2020 along with the investments, which will be one of the main sources of growth, especially state investments. However, we assume that all these forecasts take place without considering the possibility of a second wave of coronavirus COVID-19 in the third and fourth quarters of this year.

Monetary conditions – the first step towards easing since 2018

In mid-April of this year, the CBU decided to cut the base rate by one percentage point to 15%. Since the end of September 2018, this is the first easing of the regulator's monetary conditions. The rationale for this decision was a decrease in inflation amidst a decrease in business activity resulting from contraction in both external and domestic demand and as a consequence of the inflation forecast of the CBU itself. Thus, the forecast for 2020 inflation (eop) has changed from the initial 12-13.5% to 11-12.5%. Note that it was planned to liberalize state-regulated prices in the republic, but due to the coronavirus epidemic and the predicted weakening of demand, the transition to market-based price management was postponed.

In 2019, the CPI in Uzbekistan amounted to 15.2% yoy. Since the beginning of the year, CPI has decreased to 13.6% in March, but in April and June it accelerated again to 14.5% (13.7% yoy in April 2019) and 14.2% (13.6% YoY in June 2019), respectively.

Figure.3. CPI in Uzbekistan



CPI growth was facilitated by the growth in demand for food, while the demand for non-food, especially imported products was somewhat "suppressed", because in the period there was the weakening of the Uzbek sum. Food inflation in June was 18.8% yoy (16.3% yoy in June 2019). Prices for non-food products in June 2020 increased the least by 9.4% yoy (10.9% yoy in June 2019) compared to other components of inflation. Paid services inflation in June 2020 reached 12.8% yoy (12.9% yoy in June 2019). As of March 2020, inflationary expectations of the population remained at 15.5%, which is 1.9% higher than actual inflation.

Analysts predict inflation in Uzbekistan at 12.5% yoy (average annual value) with a further decrease

Source: SCRUS, Halyk Finance

to 10.7% yoy in 2021, while the base rate will remain at 15.0% in 2020 with a subsequent decrease to 14.0% in 2021. The IMF forecast for the average inflation rate in 2020 in Uzbekistan is 12.5% yoy with a subsequent decrease to 10.7% yoy in 2021. Inflation (eop) will be 11.2% and 9.1% respectively. We believe that this will be primarily conditioned by a suppressed domestic demand of households, which will fall amidst a decrease in remittances from abroad, a slowdown in consumer lending, as well as a general downturn in the economy.

FX rate of sum was under the free float rate regime. In 1q2020, the national currency has weakened by 0.5% and reached to 9552 sums per US dollar. However, since April, there has been an acceleration in its weakening under the influence of external factors. As of the end of June 2019, the FX rate of the national currency weakened by 7.0 YTD and reached 10,173.4 sums per US dollar. The depreciation of the national currency was conditioned by weakening of the currencies of Uzbekistan's main trading partners. The national currency was supported from further weakening by the inflow of foreign capital under the financial account, as well as the secondary income of labor migrants.

Analysts predict the FX rate of the national currency in 2020 at 10,419 sums (+ 9.6% yoy) per US dollar with an average rate of 9,967 sums (+ 12.6% yoy) per year. We believe that the FX rate of sum in 2020-2021 will be formed under the influence of the FX rate for the USDRUB and USDKZT pair, since these are the currencies of the main trading partners, in addition, these are the main recipient economies of labor migrants from Uzbekistan.

Fiscal Policy - increased transparency and discipline, unclear prospects

In order to increase transparency and budgetary discipline, a number of innovations were introduced into the budgetary process of the republic when planning the 2020 budget. Now the country's budget is adopted in the form of a law by the country's parliament, and not by a resolution of the president of the republic, as it was before. The consolidated budget does not include 3 purpose-oriented funds, as it was in 2019, but 18 funds. As part of the budget process, the budget calendar will be used to approve the medium-term tax policy. A two-tier scheme of budget managers has been introduced into the process of disbursing budget funds. As part of the budgetary process, local budgets will receive receipts from a single tax payment, excise tax on mobile services and alcoholic beverages. The republican budget will finance social expenditures and wages of general education schools and pre-school institutions.

The budget for 2020 was composed at the end of last year and assumed an increase in consolidated budget revenues by 30.5% yoy (state budget by 25.5% yoy) to UZS158.9 tn (state budget UZS128.5 tn) or 24.3% (23.8% of GDP in 2019) of

GDP. Consolidated budget expenditures should increase by 25.3% to UZS162.4 tn (state budget UZS131.1 tn) or 24.8% of GDP (25.3% in 2019).

A significant increase in expenditures of the consolidated budget is planned due to the expansion of expenditures from purpose-oriented funds by 28.7% yoy to 35.4 tn sum. In 2020, transfers to government funds were expected to increase by 84.9% yoy to 9.2 tn sum. This budget structure provided for a reduction in the consolidated budget deficit to 3.5 tn sums in 2020 or -0.5% (-1.5% of GDP in 2018) of GDP for 2020. Target for budget deficit for 2021 + 0.2% of GDP.

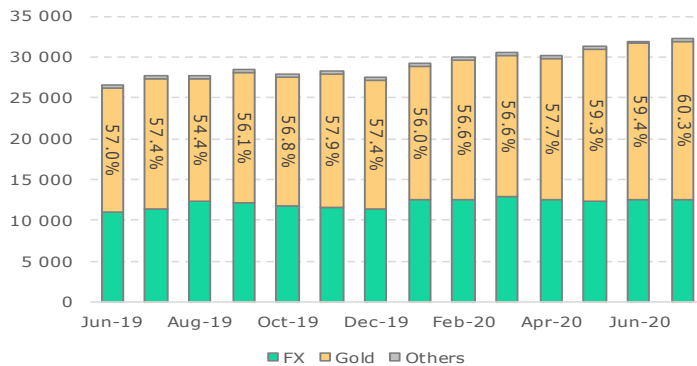
However, in connection with COVID-19 and the creation of the Anti-Crisis Fund in March of this year in the amount of about \$ 1 bn, the Ministry of Finance of the Republic of Uzbekistan was instructed by June 1, 2020 to clarify the parameters of the state budget for 2020. Based on the above, it was instructed to revise the limits on external borrowing for 2020. The Ministry of Finance of the Republic of Uzbekistan was also instructed to attract by the end of 2020 foreign preferential loans in the amount of \$1 bn from international financial institutions and from other sources. The results of the revision have not yet been published on the website of the Ministry of Finance of the Republic of Uzbekistan.

Analysts predict the budget deficit at 4.8% of GDP in 2020 and 3.1% of GDP in 2021. At the same time, the amount of external public debt, according to analysts, will be 34.5% in 2020 and 35.3% of GDP in 2021. We believe that under current conditions, the burden on the budget and off-budget funds will increase, which will affect the growth of external and internal obligations of the government of Uzbekistan. Therefore, if the government's obligations in 2019 amounted to 29.3% of GDP, then in the next 4 years this metrics will be at an average level of 35% of GDP.

International reserves - strong growth, especially of gold reserves

Uzbekistan's international reserves in 2019 increased by 7.7% yoy and as of the end of 2020 amounted to \$ 29.2 bn. The

Figure. 5. IRs structure of CBU



Source: CBU, Halyk Finance

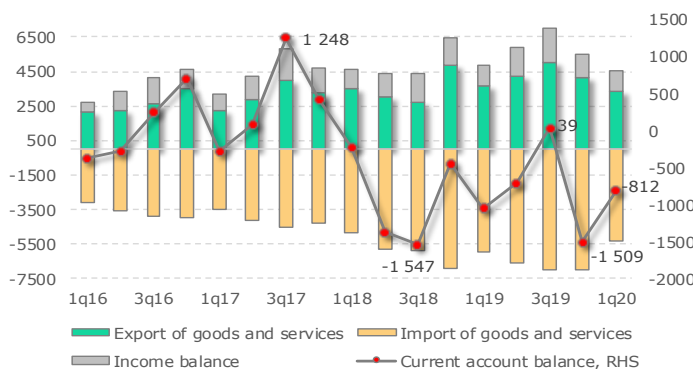
growth of gold and FX reserves in 2019 was primarily driven by an increase in the CBU's assets in gold due to an increase of its price (+11.5 % yoy), while the volume of gold declined (-5.4% yoy). Noteworthy to mention an increase of FX currency and deposits (+ 3.3% yoy).

As of July 1 2020, the growth of the country's international reserves peaked 10.8% YTD (+ 16.5% yoy) and they reached \$32.3 bn. FX reserves increased by 0.1% (8.9% yoy) to \$ 12.5 bn. Assets the CBU in gold increased by 16.4% to \$19.0 bn (+ 25.9% yoy). The share of gold in IRs has increased since the beginning of the year from 56.0% to a record high of 60.3%. Volume of gold increased from 10.8 mn (336 tons) to 11.0 mn (342 tons) troy ounces. At the same time, the price of one troy ounce of gold increased by 18.2% YTD to \$ 1,800. Thus, the growth of gold and FX reserves was due mainly to the nominal revaluation of the asset.

Our estimate of the gross volume of IRs in Uzbekistan as of the end of 2020 is at least \$33.1 bn (+ 13.4% yoy). Given the moderate growth in gold prices (average annual value of \$ 1,667 per ounce), there will be a nominal revaluation of the existing reserves in gold, as well as moderate growth of this asset in volume (+ 9.3% yoy).

External accounts - deficit narrowing, but growth expected

Figure. 6. Current account of Uzbekistan, \$ mn



Source: CBU, Halyk Finance

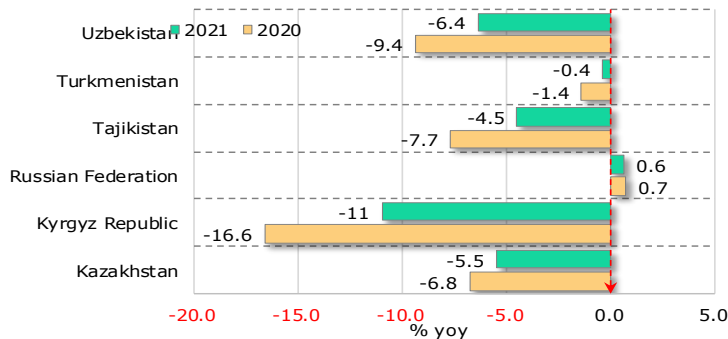
According to the results of 2019, the current account deficit of the republic decreased by 10.2 yoy and amounted to \$3.2 bn. Narrowing of the current account deficit was conditioned by widening of the surplus on the secondary income account by 29.6% yoy to \$5.5 bn, the existing surplus on the primary income account, which decreased by 41.9% yoy to \$ 875 mn, as well as a 7.2% yoy decrease in the deficit in the services account to \$2.3 bn. Trade balance deficit expanded by 6.2% to \$7.3 bn, on the contrary, prevented its further narrowing. In 2019, the financial account of the republic recorded an inflow of capital by 5.6 times to \$7.9 bn due to an increase in capital inflow through direct investment by 3.7 times to \$2.3 bn. Capital inflow through portfolio investments occurred due to the issue of debt obligations at the beginning of 2019 and at the end of the year 2019 amounted to \$1.3 bn. The inflow on the account of other investments increased from \$ 776 mn in 2018 to \$4.2 bn in 2019.

According to preliminary data from the CBU, in 1Q2020, the current account deficit decreased by 22.6% yoy and amounted to \$812 mn. Narrowing of the current account deficit was conditioned by decrease of the trade account deficit by 6.9% to \$ 1.6 bn and in the services account by 17.1% yoy. At the same time, the surplus on the primary income account also

contracted by 38.6% yoy to \$208 mn. The only item in the current account that increased was the secondary income account, the surplus of which increased by 18% yoy to \$1.0 bn due to the expansion of the surplus on the account of personal transfers by 17.2% yoy to \$1.1 bn. However, according to the statistics of cross-border remittances of the Central Bank of the Russian Federation, money transfers from Russia to Uzbekistan in 1Q2020 decreased by 7.2% yoy to \$ 759 mn.

In 1q2020, the financial account evidenced a decrease in capital inflows by 67% yoy to \$720 mn. At the same time, a surplus was observed on the direct investment account by 18.3% yoy to \$261 mn, while the portfolio investment account recorded capital inflow decreased from \$1.0 bn to \$1.4 mn,

Figure. 7. Deficit/surplus projections of current account in 2020-2021



Source: IMF, Halyk Finance

while other investments decreased by 53.1% to \$458 mn.

According to analysts' consensus forecasts, the current account deficit in 2020 will expand to \$5.0 bn, which will reach about 9.5% of GDP. At the same time, in 2021 the deficit will be reduced to \$3.7 bn and will reach 6.8% of GDP. The IMF forecast for Uzbekistan's current account deficit is 9.4% of GDP for 2020 and 6.4% for 2021.

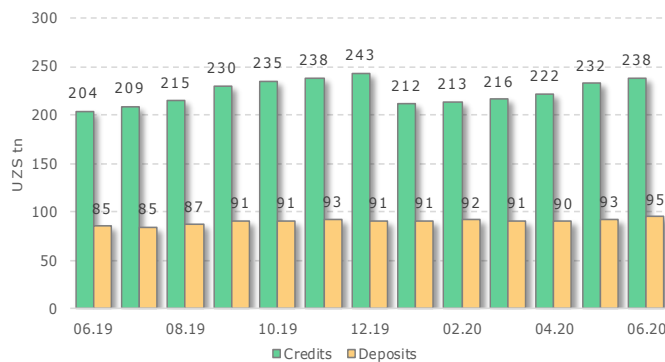
We believe that relatively low prices for Uzbek exports (natural gas and metals) will widen the current account deficit. At the same time, the expansion of the trade deficit will be provided by the growth of imports of machinery and equipment under the implementation of industrial projects. However, the export of gold, the price of which will rise due to uncertainty in the currency and financial markets, will partly offset the deterioration of the trading account. We also expect a decrease in remittances from the Russian Federation and Kazakhstan (from 10%-30% depending on the duration and severity of quarantine measures) due to the deterioration of business activity in these countries.

Banking sector - state-owned banks dominate the market

The structure of the banking sector of the Republic of Uzbekistan as of July 2020 is represented by 31 banks (28 at the end of 2019), including 13 with state participation. The banking sector assets in 6M2020 increased by 15.9% and amounted to

316 tn sums or \$31.1 bn. The share of the banking sector's assets to GDP increased from 58.3% in June 2019 to 59.7% in June 2020. Loan portfolio of commercial banks for 6M2020 increased by 15.8% and amounted to 244.9 tn sums or \$24.1 bn. The share of the loan portfolio in the structure of assets of the banking sector decreased from 79.0% in June 2019 to 77.5% in June 2020. Currency structure of the portfolio as the end of June 2020 is represented by 49.8% (55.4% in June 2019) by loans in foreign currency, which since the beginning of the year have grown by 20.9% and amounted to 122 tn sums or \$12 bn. The deposit base of the banking sector as of at the end of June increased by 7.9% YTD and amounted to 98.2 tn sums (\$9.7 bn) or 18.5% of GDP (18.7% in June 2019). In the structure of commercial banks' deposits, deposits in foreign currency account for 44.19% (41.1% in June 2019) or 43.3 tn sums (+8.3% YTD). Equity of the banking sector grew by 7.6% yoy and reached 54.9 tn sum or \$5.4 bn or 10.4% of GDP (6.6% in June 2019) The capital adequacy ratio of the banking system in June 2020 amounted to 20.5% (15.3% in June 2019). The quick ratio for the sector as of June 2020 was 61.1% (33.1% in June 2019). ROA as of the end of June 2020 was 2.27% (2.0% in June 2019). ROE declined from 16.8% a year earlier to 16.7% in June 2020.

Figure. 8. Banking sector of Uzbekistan



Source: CBU, Halyk Finance

Equity of the banking sector grew by 7.6% yoy and reached 54.9 tn sum or \$5.4 bn or 10.4% of GDP (6.6% in June 2019) The capital adequacy ratio of the banking system in June 2020 amounted to 20.5% (15.3% in June 2019). The quick ratio for the sector as of June 2020 was 61.1% (33.1% in June 2019). ROA as of the end of June 2020 was 2.27% (2.0% in June 2019). ROE declined from 16.8% a year earlier to 16.7% in June 2020.

In general, lending rate by commercial banks of the economy is gradually slowing down. This is especially noticeable during the coronavirus pandemic. Thus, if the growth of the loan portfolio for 6M2019 amounted to 24.9% YTD, then for 6M2020 the loan portfolio grew by only 15.8% YTD. Slowing in the rate of lending was conditioned not only by a decrease in household income and a decrease in remittances from labor migrants, but also due to a deterioration in business activity resulted from the pandemic.

In the banking system of Uzbekistan in June 2020 there is observed a high share of state presence - 85% (85.5% in June 2019) of the total assets, 89% (89.4% in June 2019) of total loans and 72% (72.3% in June 2019) of total deposits. Such a high concentration of state-owned banks in the system does not promote competition in the banking services market.

The progress of economic reforms in Uzbekistan

Since coming to power, President of Uzbekistan Shavkat Mirziyoyev has repeatedly accented the need to improve the investment attractiveness of the country and, in this regard, initiated large-scale reforms in 2017-2018.

At the end of 2019, the President of Uzbekistan once again instructed the respective departments to significantly reduce the state's share in the economy. According to the Agency for State Assets Management, the number of enterprises with state participation amounted to 2,965, and their share in the country's GDP is at 55%. The agency has prepared a privatization strategy for 2020-2025, according to which more than 1,115 enterprises will be privatized (37.6%). At the same time, the state will retain its share in 554 enterprises. The largest assets in which the state share will be retained are Uzbekneftegaz, Uztransgaz, the national airline Uzbekistan Airways, Navoi and Almalyk mining and metallurgical plants and Uzmetkobinat. The assets were supposed to be put up for sale on the Republican Stock Exchange after the inventory procedure of assets and liabilities, as well as their assessment and confirmation. It was assumed that the strategy will be approved in July this year.

Unlike the previously existing privatization strategy ("Strategies for Owning, Management and Reforming Enterprises with State Participation for 2019-2021"), this strategy specifies goals and implementation plans. In our previous [report on Uzbekistan](#), we doubted the implementation of such large-scale reforms within the specified time frame, which confirmed the adoption of a new strategy with an increase in the time frame for its implementation. As a result, despite the leadership's focus on gradual liberalization of society and carrying out reforms, the economy of Uzbekistan is likely to remain an economy with a significant share of state-owned enterprises in the medium term, which will create significant structural distortions in the economy.

In the banking sector, it is also planned to carry out a large-scale privatization due to the high share of the state presence. In May of 2020, the President signed a decree "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025." According to this decree, the state shares in Ipoteka-Bank, Uzpromstroybank, Asaka, Aloqabank, JSCB Qishloq Qurilish Bank and Turonbank will be privatized. First, it is planned to transform the activity of banks, and then to sell the state's share in them to strategic investors. State shares in the National Bank, Agrobank and Microcreditbank, due to their systemic importance, will be preserved for now. It is also planned to sell the state block of shares of the People's Bank and Asia Alliance Bank. As a result of the implementation of this reform, it is planned to increase by 2025 the share of private banks' assets from the current 15% to 60%.

Despite the slow privatization process, a number of reforms are being implemented quite successfully in Uzbekistan. Thus, from the beginning of 2019, a new taxation system began to operate in the Republic of Uzbekistan. The tax reform provided for a reduction in the tax burden on legal entities and individuals, as well as a decrease in the amount of tax deductions. A flat rate of 12% was introduced on the income of individuals (before that there were 4 scales of income tax), insurance contributions of citizens to the off-budget Pension Fund were canceled. Legal entities with annual revenues of no more than 1 bn sums began to pay a single tax payment. Corporate income tax rate decreased from 14% to 12% (in 2020, the rate was increased to 15%), and for the commercial banks from 22% to 20%. Until October 2019, the VAT rate was 20%, although it was originally planned to introduce a VAT rate of 12% as in Kazakhstan. In October, a decision was made to cut the rate to 15%. In 2020, the VAT rate remains the same. Along with these changes, the electronic tax document flow was expanded, the terms, procedure and forms of tax audits were changed.

FX currency regulation, in addition to changing the currency regime in 2017 itself, was seriously revised for the citizens of the republic. Since August 2019, cash sale of FX currency to citizens had been allowed, and not to a card account as it was before. In October last year, it was decided that residents of the republic can open personal accounts abroad without any restrictions. The regime for exporting FX currency for citizens was also simplified: the amount that does not require declaration increased from 5 thousand to 10 thousand US dollars.

In terms of customs regulation, rates were reduced in 2019 for 3,400 items of goods imported into the country, and a zero customs rate was introduced for 72% of them. In the current year, it was planned to continue the phased reform of the customs service in order to increase the efficiency of its activities. At the first stage, the integration of information systems of railway transport with information systems of customs authorities for online monitoring of the movement of wagons and containers will take place. In order to simplify customs control procedures at the second stage, it is planned to launch the "Single Window" information system. At the third stage, it is planned to reduce the time for registration of a cargo customs declaration from 3 days to 1 day. These initiatives, signed by the President on June 5, must be completed by November 2020.

As part of the pension reform in 2019, the minimum old-age pension payments were increased by 10%. In October 2019, a Decree of the President of the Republic of Uzbekistan was signed to increase the minimum pension of citizens by age by another 10%. Working pensioners began to receive their pension in full, and not half, as it was before. From April 1, 2020, it was planned to increase the retirement age (from 55 to 58 years for women and from 60 to 62 years for men), as well as

the introduction of compulsory work experience of at least 10-15 years (previously 7 years), in accordance with the requirements of the ILO (The International Labor Organization).

Within the framework of the legislation regulating the private property of citizens of the republic, the Law "On the privatization of non-agricultural lands" was adopted. The law provides for the acquisition of land plots by residents of the Republic of Uzbekistan (individuals and legal entities) on the basis of the right of permanent use or life-long inheritance.

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