



The Central Bank of Uzbekistan

16th Annual NBP-SNB Joint Seminar

External Sector Dynamics and challenges to the Monetary Policy

18 December 2019



Macroeconomic reforms at glance



Major reforms aimed at liberalizing economy have started in 2017.

These reforms include:

- Liberalization of the FX market;
- Deregulation of administratively set prices (agricultural, utilities, energy, etc.)
- Relative price adjustment - liberalization of the foreign trade, especially with neighboring countries;
- Wage adjustment;
- Rebuilding social and production infrastructure;
- Reforming the SOEs, including banks;
- Tax administration and etc.

Uzbekistan is undergoing radical reforms, which were delayed for decades. Most former USSR and other socialistic countries were able to liberalize their economies and financial sectors in 90s and early 2000.

Current macroeconomic environment



Immediate consequences of these reforms:

- high inflation;
- high credit growth and twin deficit;
- rising external debt, mainly due to government borrowing;
- increased dependence of national economy on external economic and financial cycle.

Selected Macroeconomic Indicators



	2016	2017	2018	2019 ^e
Real GDP Growth	6.1	4.5	5.1	5.5
Nominal GDP				
in trln. UZS	242	303	408	524
in bln. USD	81.7	58.9	50.5	59.2
Population (in mln.)	31.6	32.1	32.6	33.9
GDP per capita (in USD)	2 587	1 832	1 546	1 746.0
Inflation	9.8	18.8	14.3	15-15.5
Fiscal Balance (% of GDP)	-0.5	-1.9	-2.1	-4.0
External debt (% of GDP)	17.9	26.8	34.2	38.9
<i>PPG</i>	8.0	12.9	20.0	25.8
<i>Private</i>	9.9	13.9	14.3	13.0
Current account (% of GDP)	0.4	2.5	-7.1	-4.8
Nominal exchange rate (UZS/USD, avg)	2 969	5 140	8 069	8 853
REER (2010=100. - = dep)	77.5	32.8	38.7	37.0
Banking Sector				
Bank assets (% of GDP)	34.2	53.3	51.2	52.5
Credits to the economy (% of GDP)	22.8	37.9	40.7	45.1

Balance of Payments



in mln. USD

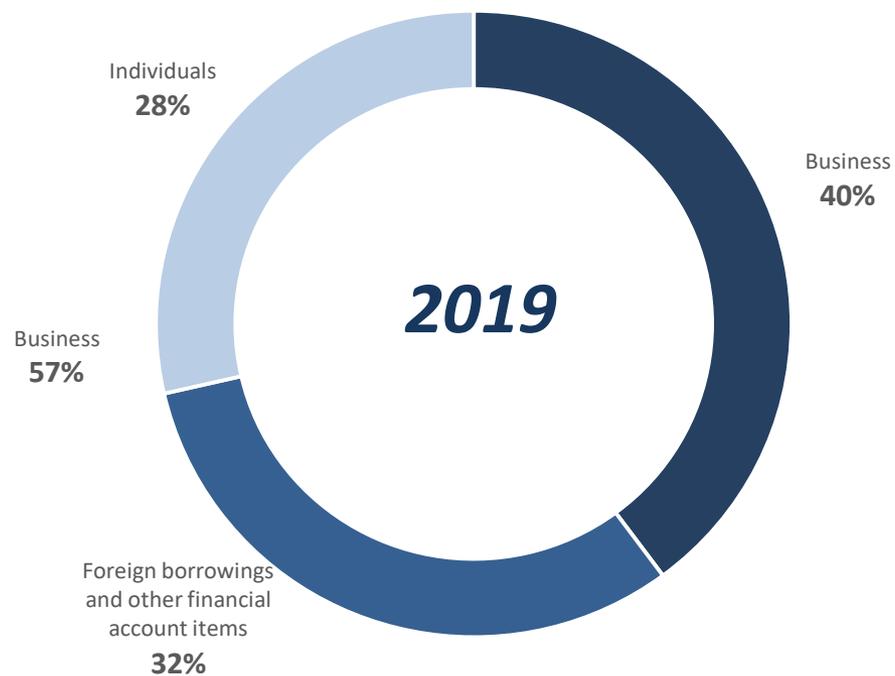
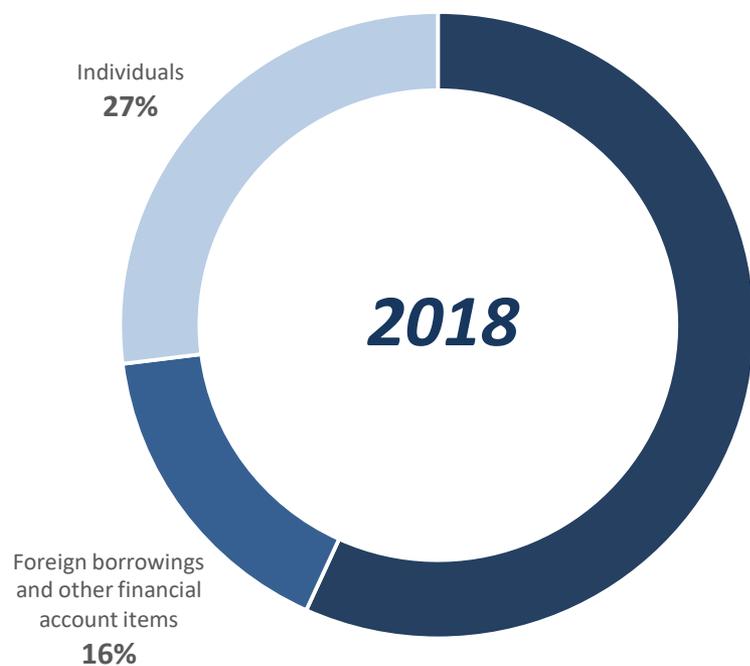
	2016	2017	2018	9M 2019
Current account balance	295	1 480	-3 594	-1 585
Balance on goods and services	-3 931	-4 058	-9 308	-6 210
Balance on primary income	934	1 215	1 507	835
Balance on secondary income	3 292	4 323	4 208	3 790
Capital account balance	14	100	143	170
Financial account balance	112	-571	-1 414	-5 279
FDI	-1 657	-1 788	-623	-1 720
Portfolio investment	2	3	13	-1 035
Other investment	1 771	1 221	-779	-2 526
Change in reserves	552	-256	-1 564	662
Net Errors and Omissions	356	-2 406	473	-3 236

International Investment Position



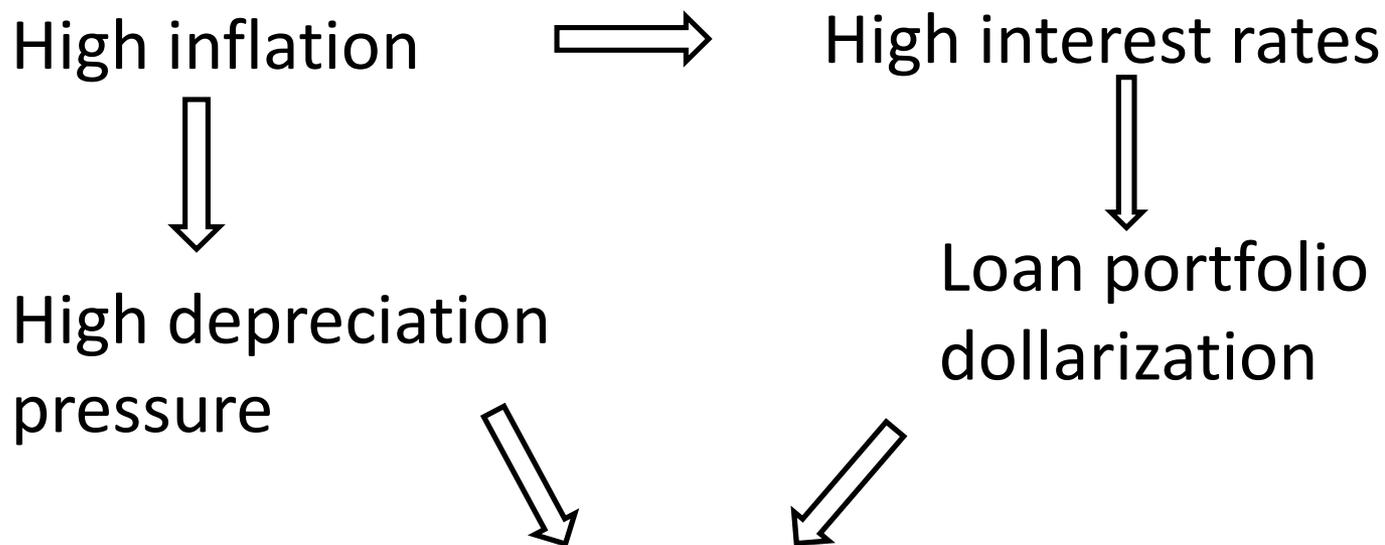
	2016	2017	2018	Q2 2019
Assets	37 283	41 796	42 332	44 281
Direct investment	178	187	189	191
Portfolio investment	1	1	1	1
Other investment	10 675	13 531	15 060	16 346
Debt instruments	10 675	13 531	15 060	16 346
Reserve assets	26 429	28 077	27 081	27 743
Liabilities	22 650	25 960	27 203	31 465
Direct investment	8 658	10 042	8 957	9 090
Portfolio investment	9	9	45	1 095
Financial derivatives and ESOs	0	0	4	4
Other investment	13 983	15 909	18 198	21 276
Debt instruments	13 983	15 909	18 198	21 276
Net international investment position	14 633	15 836	15 129	12 816

FX Market Supply Structure (excl. Gold export proceeds)



Key Policy challenges:

1. High inflation and possible outcomes of anti-inflationary policy



Monetary Policy vs Macprudential Policy

- ! Exchange rate movements may act more as a shock amplifier than a shock absorber

Credit Portfolio and Liability Structure



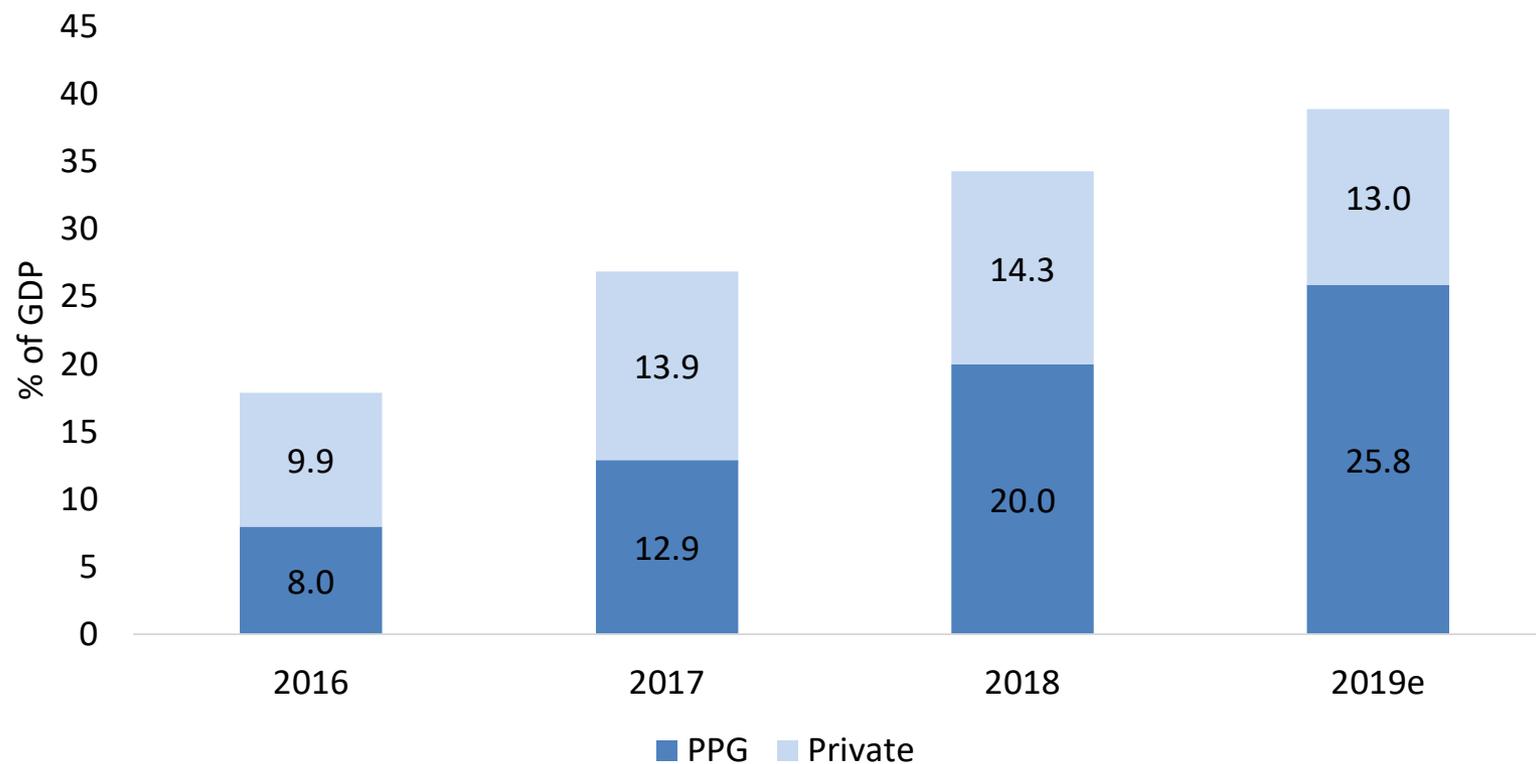
	2016	2017	2018	2019 ^e
	<i>annual percent change</i>			
Total Credit Portfolio		107.6	43.6	43.5
National currency		37.1	74.1	37.4
Foreign currency		201.7	25.3	48.7
<i>- excluding exchange rate effect</i>		20	22	30
	<i>percent of total credit portfolio</i>			
National currency	57.0	37.6	45.6	43.7
Foreign currency	43.0	62.4	54.4	56.3

Key Policy challenges:

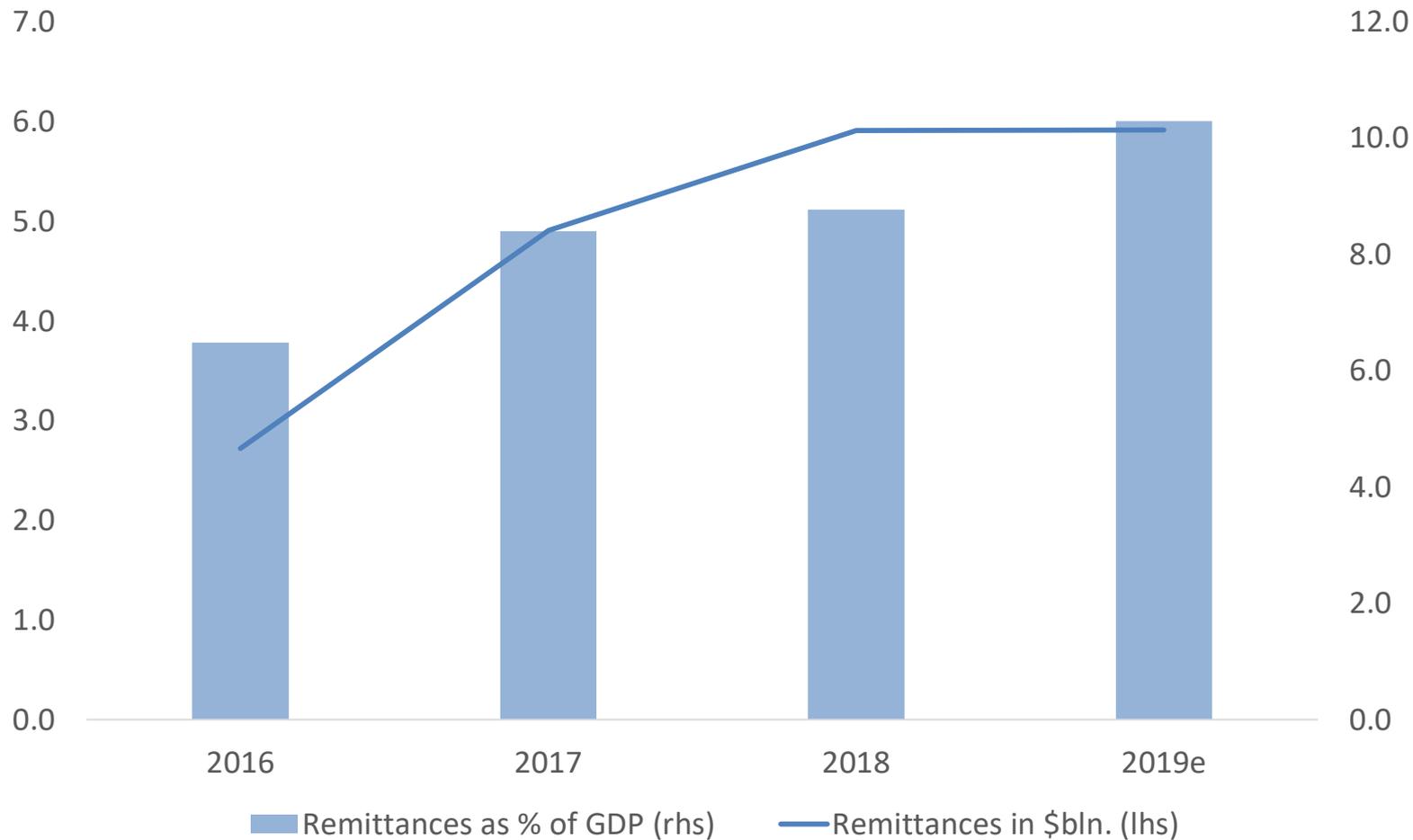
2. Rising external debt and growing importance of managing capital flows

- Historically, low level of external debt and high level of international reserves creates favorable conditions for foreign capital inflows, both for private and public sectors
- But relatively faster pace of external debt growth may require to stand ready for possible medium and long term difficulties.
- Understanding the transformation of external debt growth on strengthening capacity of the economy is an important factor for developing appropriate policy measures
- Forming some FX buffers can be an option, but it has implications for designing right FX interventions strategy consistent with economic fundamentals

External Debt Dynamics



Key Policy challenges: 3. Remittance trap?



Key Policy challenges:

3. Remittance trap?

- Large share of remittances comes from Russia. Worsening financial and economic condition in Russia may pose serious risks for macroeconomic stability
- Government's policy is directed towards creating more and sustainable jobs and stop migrating people to countries where they are taking low quality jobs.
- But this has to be compensated in an appropriate way.
- High and rising share working age population implies a strong potential for growth.
- Increase in the volume of high quality FDI can help to go out of this "trap". Meanwhile, institutional reforms, strengthening the rule of law, fighting against corruption, investing in human capital is an integral part of these measures.



Thank you!