

COMPASS Policy Brief

Transformation of the National Economy in the New Development Strategy of Uzbekistan for 2022-2026

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GCRF COMPASS: Comprehensive Capacity-Building in the Eastern Neighbourhood and Central Asia: research integration, impact governance & sustainable communities (ES/P010849/1)



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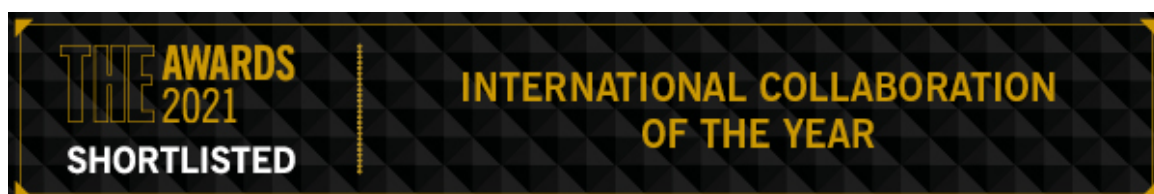
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Development Strategy Center (DSC) is a non-governmental, non-profit organisation in Uzbekistan that communicates rigorous public policy research by focusing on implementing Development Strategies of Uzbekistan for 2017-2021 and 2022-2026. The DSC was established in Tashkent, Uzbekistan, on February 14, 2017, by the Decree of the President of the Republic of Uzbekistan "On organisational measures to implement the Strategy of Actions on Five Priority Development Areas of the Republic of Uzbekistan in 2017–2021". DSC's mission is to conduct in-depth research, facilitate public participation and promote dialogue that leads to new ideas for solving problems facing Uzbek society today. The Center also prepares proposals for the effective implementation of the Development Strategy, including drafting laws and other acts under elaboration. DSC closely cooperates with international organisations, donors, analytical and educational institutions.

The GCRF COMPASS Project (ES/P010849/1, 2017-21) is an ambitious UK government capacity-building funding initiative, aiming to extend UK research globally and to address the challenges of growth and sustainability in developing countries. Notably, the COMPASS project led by the University of Kent, in partnership with the University of Cambridge, seeks to establish the 'hubs of excellence' at the top-level Higher Education Institutions in Azerbaijan, Belarus, Tajikistan and Uzbekistan, to enable them to become the centres for knowledge-sharing and transfer for *research integration, impact governance, and sustainable communities*.

The GCRF COMPASS project was awarded HIGH COMMENDATION for the International Collaboration of the Year by the Times Higher Education (THE) Awards 2021, widely known as 'the Oscars of Higher Education'.



TRANSFORMATION OF THE NATIONAL ECONOMY IN THE DEVELOPMENT STRATEGY OF UZBEKISTAN FOR 2022-2026

EXECUTIVE SUMMARY

The new Development Strategy of Uzbekistan for the coming five years was adopted on January 28, 2022. The strategic document covers seven priority areas that will be further reformed and identifies hundred target goals to be achieved by 2026. The policy brief provides an overview and analysis of the third priority area of the new Development Strategy of Uzbekistan for 2022-2026, which focuses on further economic liberalisation, privatisation in most spheres, competition, elimination of monopolisation, the attraction of more foreign investment, price stabilisation, support of the development of "driver spheres of the economy," and decentralisation that gives more authority to the regions. The policy brief suggests that the new Development Strategy will serve Uzbekistan as a baseline for further reforms in all spheres. The realisation of measures requires high potential and substantial resources. In addition, planned reforms need a constant flow of investments that require an appropriate investment strategy, environment and the rule of law.

Keywords: *Uzbekistan; economy; Development Strategy of Uzbekistan; reforms; industry, energy; GDP.*

Abbreviations: *GDP, Gross domestic product; kW/h, Kilowatt-hour; VAT, Value-added tax; WTO, The World Trade Organization.*

BACKGROUND

After extensive public discussions, Uzbekistan has adopted its five-year [Development Strategy for 2022-2026](#). It consists of seven priorities and one hundred goals that Uzbekistan is willing to achieve within five years. This strategic document will serve for Uzbekistan as a baseline for further reforms in all spheres, including public administration, the rule of law, economic development, social policy, spiritual enlightenment, solving universal problems, as well as ensuring security and implementing an open foreign policy. The Development Strategy for 2022-2026 is the second in a row right after the successful implementation of “The Strategy of Actions on Five Priority Areas of Development of the Republic of Uzbekistan for 2017-2021”, which in economic sphere for instance led to sharp changes in the banking and financial sector, in particular, the liberalization of the foreign exchange market, development of financial markets, improvement of monetary policy, including its instruments, development of domestic money and foreign exchange markets, the introduction of modern mechanisms for regulating commercial banks activities. Moreover, favourable conditions have been created to further liberalization of foreign trade and increase exports of products in high demand on the world market.

The Strategy foresees the implementation of various measures that should create the basis for joining a category of countries with upper middle income according to the World Bank classification.



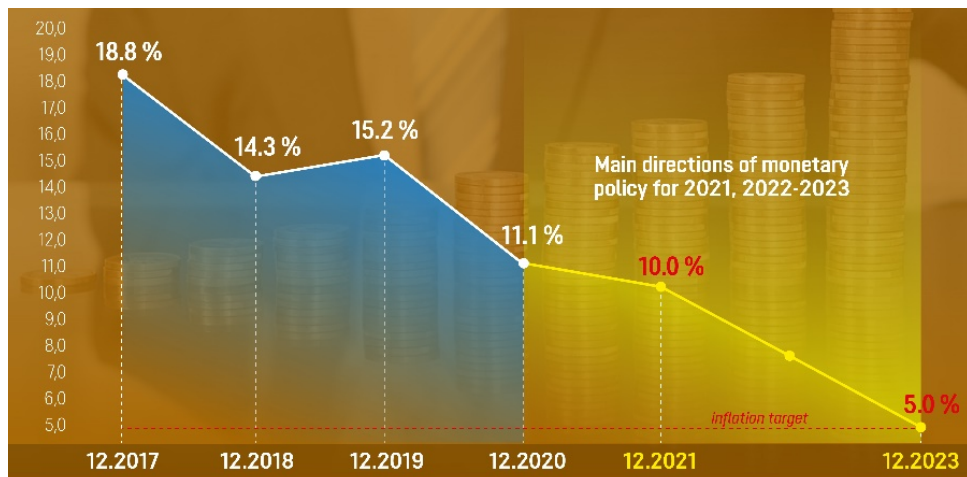
Source: Development Strategy Center, <https://strategy.uz/files/photo/infografika2021/uza/dastur10.jpg>

ANALYSIS OF THE ISSUE

The country has identified target goals in concrete numbers and introduced the mechanisms of reaching those goals. Further economic liberalisation, privatisation in most spheres, competition, elimination of monopolisation, the attraction of more foreign investment, price stabilisation, support of the development of "driver spheres of the economy," and decentralisation that gives more authority to the regions are among many other priorities identified in the Development Strategy for 2022-2026.

For instance, a target goal for the country is a 1.6-time increase in the GDP per capita in the next five years and the per capita income to reach \$4,000 by 2030 by ensuring stable high growth rates in all sectors of the economy, including energy, industry, machinery, mining, agriculture and others. Another

important aim is to ensure macroeconomic stability and gradually reduce the annual inflation rate to 5 per cent by 2023. This year, the state intends to decrease the inflation rate to 9 per cent. The following graph shows the annual inflation rates since 2017.



Source: Central Bank of the Republic of Uzbekistan

Looking at the outlined industrial policy reforms, one can see that the country will continue ensuring the stability of the national economy and increasing the share of industry in GDP by increasing the volume of industrial production by 40 per cent. For that, priority areas have been identified, and each consists of its target numbers. These goals include implementing large investment projects in metallurgy, such as an increase in the production volumes of gold by 26 per cent and silver by 42 per cent, and a 2-fold increase in copper and ferrous metal products. Production in the chemical industry will be worth \$2 billion by developing the chemical and gas chemical industries and bringing the level of natural gas processing from 8 to 20 per cent. Additionally, the plan calls for double the production of building materials, growth in the leather and footwear industry by 3.2 times its current size, a three times increase in pharmaceutical industry products, and furniture products growing by 2.8 times.

All of these plans require an uninterrupted supply of electricity to the economy. Therefore, in addition to other planned measures, the active introduction of **green technologies** in all areas, an increase in energy efficiency by 20 per cent, and a reduction in emissions of harmful gases into the atmosphere by 10 per cent are proposed. For example, by 2026, there is a planned increase in electricity production by an additional 40 billion kW/h, bringing the total to 110 billion kW/h. Furthermore, the government intends to save about 3 billion cubic meters of natural gas by bringing the share of renewable energy sources up

to 25 per cent of energy production by 2026. In conjunction with this, reducing the emission of harmful gases into the atmosphere in the amount of 8 million tons is also a priority.

Another important goal is the transformation of the **digital economy** into the core "driver" sphere of the economy. Implementing work aimed at increasing the digital economy's volume by at least 2.5 times is also a goal to strengthen the country's potential in this new sphere.

Planned reforms need a constant flow of investments that require an appropriate **investment environment** and the **rule of law**. Accordingly, taking measures to attract the necessary \$120 billion over the next five years, including foreign investment of \$70 billion, is another crucial goal for the government to realise. Moreover, the country is planning to reform its capital markets. Thus, it is planning to increase financial resources in the economy by bringing the capital market volume from \$200 million to \$7 billion over the next five years.

In order to facilitate the provision of banking services to the population, including foreign exchange transactions, a mechanism for cash withdrawal of foreign currency purchased by individuals on international payment cards in commercial banks was introduced by commercial banks. Completion of the transformation of the **banking system**, bringing the share of banking assets of private banks from 20 to 60 per cent in 2025, in general, is a goal to reform the banking sector and increase the affordability of decent banking services.



Source: Development Strategy Center, <https://strategy.uz/files/photo/infografika2021/uz/banner1.jpg>

Uzbekistan plans to increase the Republic's exports from current \$16 billion to \$30 billion by 2026 to maintain **sustainable economic development**. Hence, bringing the share of the private sector in exports to 60 per cent is a priority. Accordingly, by improving the system of providing organisational and financial assistance to exporting enterprises, the country is willing to increase the current number of exporting enterprises from 6,500 to 15,000. Expanding the geography of exports of goods from 115 to 150 countries is also expected.

To further support entrepreneurship, the government plans to reduce the tax burden on business entities by 2026 from 27.5 per cent to 25 per cent of GDP and decrease VAT from 15 to 12 per cent, as well as reducing profit tax for telecommunications, banking and finance sectors from 20 per cent to 15 per cent.

As part of policy of decentralization, the institutional system of the state apparatus was revised, important reforms were carried out to optimize it, increase its efficiency, based on the fact that “the problem in the regions can be solved, first of all, by people working and living in this region”. Specifically, a completely new system of integrated socio-economic development of regions has been established in the form of sectors. That is, the territories of the Republic of Karakalpakstan, regions, districts, cities were divided into four sectors of integrated socio-economic development, headed, respectively, by the chairman of the Jokargy Kenes of the Republic of Karakalpakstan, governors of regions and the city of Tashkent, districts (cities), prosecutors, heads of internal affairs bodies and the State Tax Service. The government is planning to increase the economic potential of the regions by carrying out **decentralisation reforms** to support the development of the districts further.

Keeping in mind that agriculture reserves a high volume in the state's GDP, the annual growth rate of agriculture is expected to be at least 5 per cent, which should lead to the increase of farmers' incomes by at least two times. Furthermore, Uzbekistan plans to implement a more differentiated approach in developing districts and communities. As such, depending on the main specialisations of communities, be it different types of farming, textile or other, government plans further support those driver areas in that community, addressing the peculiarities of each specific community separately.

Accelerating the processes of Uzbekistan's **accession to the WTO** is also among the priorities of the Development Strategy of Uzbekistan. According to experts, joining the WTO will provide an opportunity for Uzbek entrepreneurs to increase prospects for increasing scientific and technological progress in the sectors through the acquisition and purchase of efficient and reliable imported equipment. In addition, upon entry into the WTO, domestic exporters will gain easier access to foreign markets. In the meantime,

the expansion of exports of finished products to European countries within the framework of the GSP + system will remain a priority.

POLICY RECOMMENDATIONS

The brief overview of further economic reforms identified in the new Development Strategy of Uzbekistan for 2022-2026 suggests that:

- 1) "Development Strategy of New Uzbekistan for 2022-2026" as the national and strategic document should serve as a baseline for further reforms in all spheres.
- 2) Implementing all measures of the economic transformation in the Development Strategy of Uzbekistan for 2022-2026 requires high potential and substantial resources both national and international.
- 3) Planned reforms in the framework of Uzbekistan's Development Strategy for 2022-2026 need a constant flow of investments that require an appropriate investment environment and the rule of law.