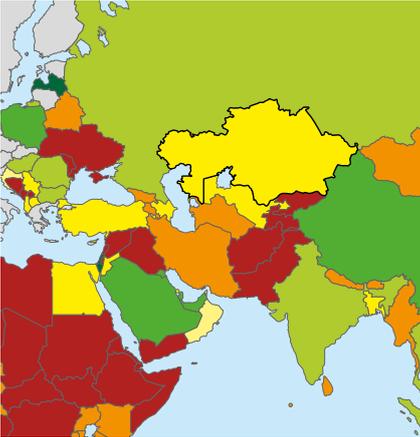




The country risk categories are arranged on a scale from 0 to 7.

The lower the figure, the better the country's creditworthiness.



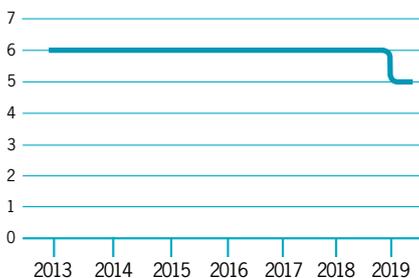
#### CONTACT

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#### BASIC FACTS

Population: 33 million (2018)  
GDP, nominal: USD 43 billion (2018)  
GDP/capita: USD 1,326 billion (2018)

#### COUNTRY CLASSIFICATION HISTORY



Source: EKN

## Lower country risk in Uzbekistan

EKN upgraded Uzbekistan to country risk category 5 in February 2019. The basis of the improved risk classification is lower trade barriers, including a currency reform that, combined with relatively strong state finances, has entailed reduced transfer risks in transactions with Uzbekistan. Economic growth remains strong, and the currency (Uzbekistani Som) has stabilised at a new, lower level following liberalisation. At the start of 2019, Uzbekistan received its first external credit ratings and sold eurobonds at a value of USD 1 billion, which significantly improved the capacity to meet potential future borrowing needs. The positive development is countered by weak institutions, a very high rate of inflation and a risk of policy mistakes during the economic transition that has only just begun. All in all, EKN considers Uzbekistan to have stable prospects based on the current country risk category.

#### THE COUNTRY'S STRENGTHS AND WEAKNESSES

##### STRENGTHS

- + Low level of foreign debt and large international reserves.
- + Low level of public debt and limited borrowing needs.
- + Generally stable and small banking sector, which entails a moderate risk of spillover from the banking sector to public finances.

##### WEAKNESSES

- Low income level, substantial government intervention in the economy and a challenging business/investment climate.
- Weak institutions, widespread corruption and a politicised judicial system.
- Untested political system and substantial transition risks as the country is changing.

## SWEDISH EXPORT TO UZBEKISTAN, MSEK

	MSEK
2018	145
2017	222
2016	160
2015	154
2014	146

Source: SCB

## EKN:S EXPOSURE

	MSEK
Guarantees	944
Offers	20

## EKN:S POLICY

Uzbekistan is in risk category 5 of 7 since February 2019, a classification which is determined in consultation with the OECD. EKN applies a normal risk assessment for pure sovereign risks, but other public buyers require a letter of credit guarantee, bank guarantee or sovereign guarantee. Normal risk assessment is applied for bank and corporate risks.

## EKN:S EXPOSURE AND EXPERIENCE

EKN's experience of issuing guarantees to buyers in Uzbekistan is limited and partly negative. In several cases, companies have lost necessary licences or had their operations expropriated by the state. In addition, company employees have been imprisoned and the potential to recover equipment has proven to be low. EKN's commitment is currently dominated by a guarantee within the gas sector.

EKN assesses the risk of negative impact on the environment and human rights in all transactions. Out of the four guarantees issued by EKN in Uzbekistan since 2014, one was in Class A, one in Class B, and two in Class C. In larger projects, it is a challenge to find and keep staff with the right competence and experience within environmental and social risk management. Intelligence gathering is hindered by a limited freedom of speech.

## WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

### EASING:

- Continued economic reforms, including an improvement of institutions and business climate.
- Stable domestic and foreign policy.

### TIGHTENING:

- Stagnating reforms and increased instability, above all in terms of inflation and exchange rate.
- Substantial deterioration of public finances and/or external position.

## GDP-GROWTH (% PER ANNUM)



The growth figures have been adjusted downwards.

Source: IMF WEO 2018

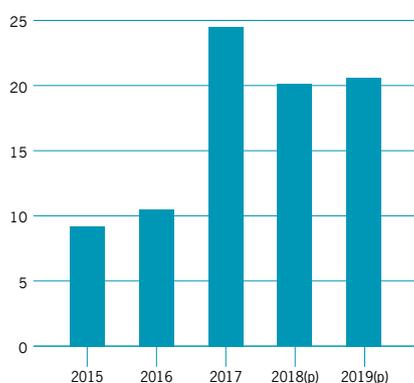
## INTERNATIONAL RESERVE (MONTHS OF IMPORT)



Despite the exchange rate depreciation, Uzbekistan's international reserves are satisfactory.

Source: IMF REO 2018

## PUBLIC DEBT (% of GDP)



Public indebtedness has increased significantly, but remains low.

Source: IMF REO 2018

## COUNTRY ANALYSIS

### BACKGROUND

In economic terms, Uzbekistan has been relatively successful in the 2000s. A high average growth rate, halving the poverty level, increased diversification of the economy and a steady increase of international reserves are among the success factors. However, the political and institutional development has been significantly slower. After the fall of the Soviet Union, the political scene in Uzbekistan has been dominated by the rule of former president Islam Karimov, which has meant that, for a long time, the country was very closed off from the rest of the world. Government intervention in the economy is still extensive, there is a large informal sector, and the regulatory environment is very complex. Karimov passed away in 2016 and was replaced by Shavkat Mirziyoyev, who unexpectedly broke away from the old regime. Thus far, the currency has been liberalised, the government has loosened its control over the population and the country's foreign relations have improved.

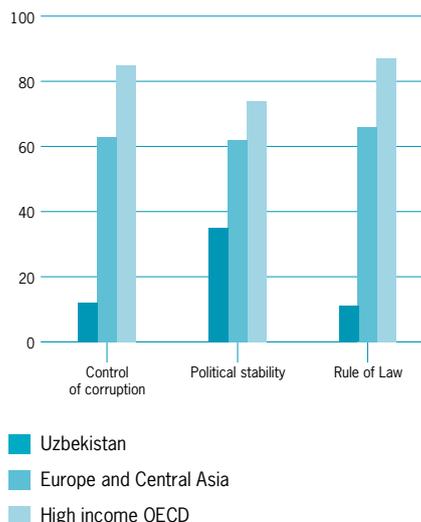
### RECENT DEVELOPMENTS

The Government's desire to implement reforms is assessed to remain strong and is supported by international actors, primarily EBRD, IMF and the World Bank, through loans and technical aid. As of yet, there have been no noticeable domestic protests to the changes and the resistance from the parties that benefited from Karimov's regime has been surprisingly weak. In the last few months, for the first time since its independence, the country has received external credit ratings by S&P (BB-), Fitch (BB-) and Moody's (B1), which improves Uzbekistan's conditions on the international capital markets. In mid-February 2019, the country managed to sell eurobonds at a value of USD 1 billion, and the demand turned out to be large. The bonds were oversubscribed despite the relatively modest interest rate (4.75%–5.375%) for a country making its first bond market appearance.

The exchange rate liberalisation that was implemented in the autumn of 2017 has otherwise continued to make its mark on the economy. The government provides support for the businesses and banks that were impacted by the drop in the exchange rate, which entails an expected increase in the budget deficit from 1.6 per cent in 2018 to nearly 3 per cent in 2019. Despite the government's attempts to counteract price increases, the rate of inflation was 19 per cent in 2018 according to IMF, with increased oil prices and a weaker exchange rate being the primary contributing factors. However, according to data from the central bank, the prices of both food and other products have begun to fall, which indicates that inflation is on the way down in 2019.

Economic growth has stabilised at around 5 per cent, after being written down by close to three percentage points in 2017, when the economic statistics were revised. The currency is also remaining stable – the trend is a weak rate of depreciation since the Som was unpegged, and the exchange rate fluctuations around the new level are assessed to be normal. The domestic banking system is relatively stable, despite a high dollarization and the fact that the Som has lost nearly 50 per cent of its value in relation to the US Dollar since the autumn of 2017.

## BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)  
Source: The World Bank

Most banks are government-owned, relatively well-capitalised and have low credit losses. No international commercial banks have offices in the country.

## LONG-TERM TREND

The reforms that Uzbekistan has initiated are positive for its long-term credit worthiness, which prompted EKN to upgrade Uzbekistan to country risk category 5 in February 2019. More importantly, Uzbekistan's public finances and external position are strong compared to other category-5 countries. Thanks to its low level of public debt, corresponding to approximately 20 per cent of GDP, and the moderate budget deficit, the government has a certain scope for fiscal policy measures during the transition to a more open and less government-controlled economy. At present, Uzbekistan has no need to borrow more on the international capital markets. The eurobonds sold in February 2019 should instead be viewed as a test of the investors' risk appetite, which increases the possibility to fulfil potential future borrowing needs. The ongoing efforts to revise economic statistics entail increased transparency and reliability, which, in combination with new credit ratings and the resumed collaboration with several multilateral banks, significantly increases the possibilities of borrowing on relatively advantageous terms.

A small banking sector and undeveloped financial price mechanisms limit the central bank's opportunities to influence the economy through monetary policy, which is why the possibility of implementing an active fiscal policy will be of particular importance in the next few years. A low level of foreign debt (36 per cent of GDP), a small current account deficit (0.5 per cent), a floating exchange rate and satisfactory international reserves (approx. 18 months' import coverage) give the country good conditions to maintain external stability. The strong external position, in combination with the relatively diversified economy, makes Uzbekistan resilient to external shocks, which was proven not least during the Russian recession of 2014–2016. A higher level of integration in the global economy will likely increase the sensitivity to external shocks in the long term, but this can be compensated through stronger fiscal and monetary policies.

A low income level, high level of corruption and weak institutions compared to other category-5 countries counter the positive factors above. Given the substandard and government-controlled institutions and the high level of corruption, there is an impending transition risk in the short term, not least in the form of policy errors. Reforms are moving at an accelerated speed, seemingly from the top down, which increases the risk of mistakes. Reforms that jeopardise social stability, challenge powerful interests, or disturb the current political system are unlikely to be implemented. The low income level entails a risk of setbacks, as the lowest-income households will be the most affected by public companies being subjected to competition, free pricing of bread and energy and decreased purchasing power. Creating jobs for the large and rapidly growing population will be the president's greatest challenge in the long term, especially considering that the private sector is currently very small.

All in all, EKN considers Uzbekistan to have stable prospects based on the current country risk category. A more negative outlook is possible if the reform process comes to a halt, inflation continues to rise, if currency stability and reserves are put under pressure or the political stability comes under threat.

## **BUSINESS ENVIRONMENT**

Uzbekistan continues to climb in the World Bank's ranking of countries' business climate. In the latest survey, the country was ranked 76 of 190, which is a significant improvement compared to previous years. Important steps have been taken towards a more market-oriented economy since Mirziyoyev became president. Export bans have been lifted on some ten products, while import tariffs have more than halved. The previous requirement for the country's export companies to convert 50 per cent of foreign exchange proceeds to local currency has been repealed, and it is now possible to buy and sell currency at the country's banks.

Despite these changes, the overall business environment is still very weak. Rules can suddenly change, licences can be revoked and operations can be expropriated, which has occurred in recent years in the mining, commercial and telecom sectors. There is widespread corruption far up into the government apparatus – Uzbekistan is ranked 158 of 180 in the Transparency International's Corruption Perception Index. The legal system is ineffective, politicised and suffers from a lack of predictability. Decades of protectionist policies have resulted in significant trade barriers to this day, and there are major challenges to both export and import businesses. Connections to the central government or to government-owned companies are vital for foreign companies wishing to do business in the country.