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Uzbekistan: Achieving a multidimensional transition

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Summary: The economic development trajectory of Uzbekistan in the medium-long term will depend on whether it successfully achieves a political, economic, sociodemographic and energy transition.

Relatively sound macroeconomic fundamentals, coupled with government measures and financial support from donors, have allowed Uzbekistan to withstand the shock of the health crisis. The country has taken a neutral stance in the Russia-Ukraine conflict, but appears to be exposed to its economic and geopolitical repercussions through its ties with Russia (trade, diaspora remittances, investments). Despite a marked deterioration in the regional situation for the last year (Afghanistan, Kazakhstan, Tajikistan/Kyrgyzstan), the country shows internal political stability, which has not been affected by the social unrest over the status of the Karakalpakstan region in July 2022. At the same time, President Shavkat Mirziyoyev's "New Uzbekistan Strategy" is continuing the post-Soviet economic transition formally initiated in 2017. However, the uncertainties generated by the international environment hamper the implementation of reforms and the transformation from a planned economy to a market economy. The Government's socioeconomic development objective is to double nominal GDP per capita to $4,000 by 2030 in order to join the UMIC category and halve the poverty rate (11% of the population at national level in 2021). This is ambitious but achievable, based on the assumption of real GDP growth of at least 5% per year (IMF projections), an upward revision of an a priori underestimated GDP and gradual disinflation, coupled with a stabilization of the exchange rate. Faced with demographic pressure, the "inclusiveness" of economic growth, an improvement in human capital and private sector growth in labor-intensive sectors will be crucial, given the difficulties on the labor market, the high level of informality and the fact that emigration is used as a social safety net and a source of income.

The challenges for the coming years therefore lie in avoiding a capture of natural resource rents (mines, natural gas and cotton), and containing macroeconomic imbalances, starting with inflation and the external public debt. The country remains a net external creditor, but the partial liberalization of trade has generated a substantial current account deficit and significant external financing needs. The sustainability of the balance of payments will depend on the diversification of a competitive export base, an opening-up of the country to trade, the energy transition, a Government priority, the attraction of FDI and the development of domestic capital markets.

Thematic area: **macroeconomics**
Geographical area: **Uzbekistan**

1. Openness and political stability faced with a significant geopolitical risk

Under Russian-Soviet domination since the second half of the 19th century, Uzbekistan, since its independence in 1991, was characterized by a strong presidential regime and an isolationist foreign policy. The arrival in power of Shavkat Mirziyoyev in December 2016, with his reelection in October 2021, marked a major turning point for the country with a multi-vector openness policy.

At the heart of Central Asia, Uzbekistan enjoys internal political stability, which the deterioration in the regional and global geopolitical risk for the last year and the recent social unrest in the Karakalpakstan region should not undermine in the short-medium term. In reaction to the constitutional reform bill, revoking the autonomous status of the region, violent demonstrations took place in Karakalpakstan in July 2022, in a country not accustomed to social movements. The article on regional autonomy has been withdrawn from the constitutional reform and a presidential decree signed in September has formalized the increase in development assistance to this poor and rural region via direct transfers to people, tax exemptions, and loans and guarantees to support entrepreneurship. At the same time, the situation at the country's borders is of concern, with a risk of negative migratory, security, economic and commercial externalities. These concerns include i) the return in August 2021 of the Taliban regime in Afghanistan with which Uzbekistan maintains dialogue like few other countries; ii) the instability of Tajikistan and the violent skirmishes at its border with Kyrgyzstan; iii) the popular uprising in Kazakhstan in January 2022.

Uzbekistan has emerged from its isolation and is seeking to deploy an independent and multilateral foreign policy, balanced between the West, Russia and China. Russian control over Central Asia, a historical backyard of influence, is faced with growing competition from China, in particular since the launch of the "New Silk Roads" project in 2013. Uzbekistan's official line of neutrality, which is enshrined in the constitution, has been challenged by Russia's Eurasian ambition, all the more so since the outbreak of the conflict in Ukraine. The economic and commercial opening-up of Uzbekistan requires good neighborly relations and the country is now a force for regional integration. Uzbekistan has so far withstood Russian pressure to join the Eurasian Economic Union (EEU) and the Collective Security Treaty Organization (CSTO). But in 2001, it became a founding member of the Shanghai Cooperation Organization (SCO), whose last summit was held in mid-September 2022 in Samarkand in the presence of Vladimir Putin and Xi Jinping, which led to a strengthening of China's position in Central Asia. Uzbekistan joined the Organization of Turkic States in 2019 and in July 2022, concluded an agreement for an enhanced cooperation partnership with the European Union.

2. The economic transition put to the test by successive exogenous shocks

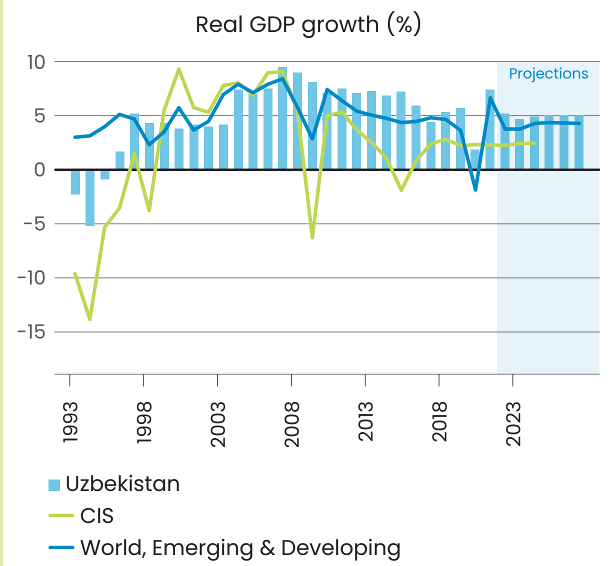
Since 2017, the Uzbek authorities have been on the path towards a gradual economic liberalization. While some reforms were implemented rapidly (liberalization of the exchange rate regime, foreign trade, administered prices, etc.), others are struggling to get off the ground. The transformation-privatization process[1] for numerous businesses and public banks and for the allocation of land has been handicapped by the succession or even overlapping of external crises since 2020 and the procrastination of international investors. This is coupled with risks of appropriation of domestic resources and corruption. Uzbekistan appears to face little risk of a collapse

1 Privatizations generated proceeds of around $300 million in 2021 and the authorities targeted double the amount in 2022 (including real estate assets, land, chemical industry, refineries).

of the productive system and hyperinflation, which Central and Eastern European countries in transition experienced in the 1990s. However, economic growth dynamics and control over inflation, the current account deficit and external public debt remain crucial, especially in view of the short, medium and long-term repercussions of the war in Ukraine.

After significantly reducing its growth projection for real GDP for 2022 in the spring, the IMF revised it up considerably this autumn from 3.4% to 5.2%, maintaining a projection just under 5% for 2023. At the same time, medium-term potential growth has been cut to about 5.5% from 5%. Economic activity has been dynamic for two decades (6.5% per year on average). The fall in commodity exports in 2014-2016 related to the end of the super cycle (2003-2014) has been relayed by the acceleration in public investment since 2017 (GFCF rate of 40% of GDP in 2018-2021). The counter-cyclical measures, the control of the pandemic, the increase in gold prices and the strong performance of the agriculture and construction sectors have cushioned the shock of the Covid-19 crisis, with a real GDP growth of 1.7% in 2020. It rebounded strongly in 2021 (7.4%), bolstered by consumption and services, as well as investment and industry. The same drivers have allowed economic activity to hold up well in H1 2022 (+5.4% year-on-year), despite the Russia-Ukraine conflict. The expected slowdown in trade with the main trade partners (Russia, China, Turkey, Kazakhstan) and diaspora remittances (very dynamic in H1 2022, see below), combined with the negative effect of inflation on purchasing power, is likely to weigh on GDP growth in the short term. The medium-term prospects are based on the assumption of a substantial accumulation of capital (public and private investment, including FDI), productivity gains[2] and a successful integration into world trade.

Graph 1 — Relatively favorable economic growth prospects



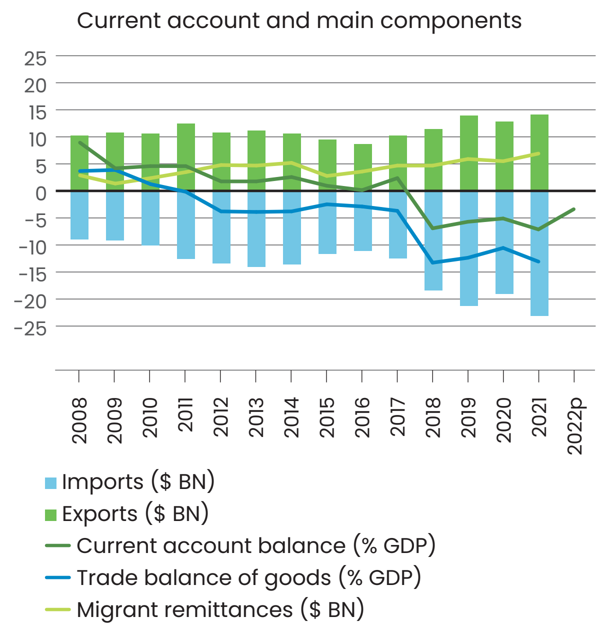
Source: IMF (WEO)

In the short term, the country's external accounts should benefit from a net positive effect from the international economy through an improvement in terms of trade. However, the short-term risks related to the war in Ukraine cannot be overlooked and minimized. In the medium-long term, the sustainability of the balance of payments will depend on the development of a competitive industrial export base centered around the country's comparative advantages (mining, textile, agribusiness industries) and tourism, an expansion of outlets, in particular towards the EU (GSP+ preferences[3]), the sustained attraction of FDI, adaptation to the energy transition and the moderation of external debt. According to the IMF, the current account deficit could be reduced this year to around 3.3% of GDP, against 7% of GDP in 2021. The Fund projects a current account deficit of around 5% of GDP by2027, which is of little concern if its corollary is a boom in productive investment and imports of capital goods (52% of total imports in H1 2022), supporting potential economic growth in the medium-long term. The trade deficit is expected to remain high in 2022, despite the strong growth in export revenues (+34% during the first eight months, against +21%

2 The level of productivity (GDP per person employed in USD PPP) is estimated at 80% of the average of LMIC countries and 55% of the average of UMIC countries.

3 The Generalized System of Preferences (GSP) multiplies by two the number of tax-exempt Uzbek products that can enter the European Union, for a total of 6,200.

Graph 2 — Reduction of the current account deficit expected in the short term



Sources: CBU, IMF, AFD calculations

for imports). Uzbekistan's trade openness ratio remains limited (28% of GDP in 2021) and its energy balance has shown a small deficit for two years. It is self-sufficient in natural gas[4] and it was recently decided to stop exports in order to serve domestic demand. Locally extracted coal[5] is also not destined for export, while the low level of oil production (60,000 barrels per day in 2021) makes the country dependent on imports. Conversely, the food balance is structurally in surplus, as the country exports agrifood products, in particular to Russia, and depends little on cereal exports (3% of total imports). The multimetal (including copper) and uranium mining potential remains underexploited, apart from gold which is under the control of two public conglomerates whose sole buyer is the Central Bank (CBU). Metals amounted to around half of total export revenues on average in recent years. They are dominated by gold, which the CBU uses as a management instrument for foreign currency liquidity and the exchange rate. Over the last five years, the appetite of foreign investors (Canadian, Japanese, Korean, Turkish, Chinese) in the mining sector has been bolstered by a more attractive legal framework.[6] At the same time, the outlook for the cotton-textile industry has improved since the lifting of the embargo in March 2022 which had been in place for nearly 12 years.[7] More globally, the farming sector, whose production is currently limited and labor-intensive, may help drive the modernization of the economy and the diversification of exports through the development of agro-food and agri-business chains.

However, the negative and potentially lasting effects of the Russia-Ukraine conflict and the new emerging geopolitical world order could counter trade development and the reinforcement of external accounts in Uzbekistan. Following the record, comprehensive and reversible inflow of current transfers in H1 2022 (almost 17% of GDP, against 12% of GDP for the whole of 2021),[8] the remittances of the diaspora in Russia (70% of total flows in 2021) and bilateral trade could decline due to the deteriorating economic conditions in Russia. The latter is Uzbekistan's second largest trading partner (12% of Uzbek exports, especially textiles and agrifood products, and 21% of imports), just behind China, with Ukraine in 8th place. Uzbekistan has received over $9 billion of Russian investments in five years, in particular in the gas sector. This financial windfall is likely to dry up in the short term with the sanctions against Russia, although some Russian investors could set up in the country to circumvent the sanctions. The closure of the traditional route to Europe via Ukraine lengthens transport times and increases logistics costs, while global supply chains have been disrupted since 2020. Uzbekistan is geographically landlocked and has therefore concluded agreements with Kazakhstan, Georgia, Azerbaijan and Turkmenistan to reduce the transport costs of the Trans-Caspian route. The Uzbek authorities have plans for a rail project to reach Pakistani ports via Afghanistan. It is costly (at least $5 billion) and complex given the relief of the landscape and the security problems. The Government has also pledged to reimburse 70% of the transport costs of local companies exporting high added value products to the EU (50% for exports to neighboring countries) until 1 April 2023.

4 World's 16th largest producer in 2021 and 25th for proved reserves according to BP.

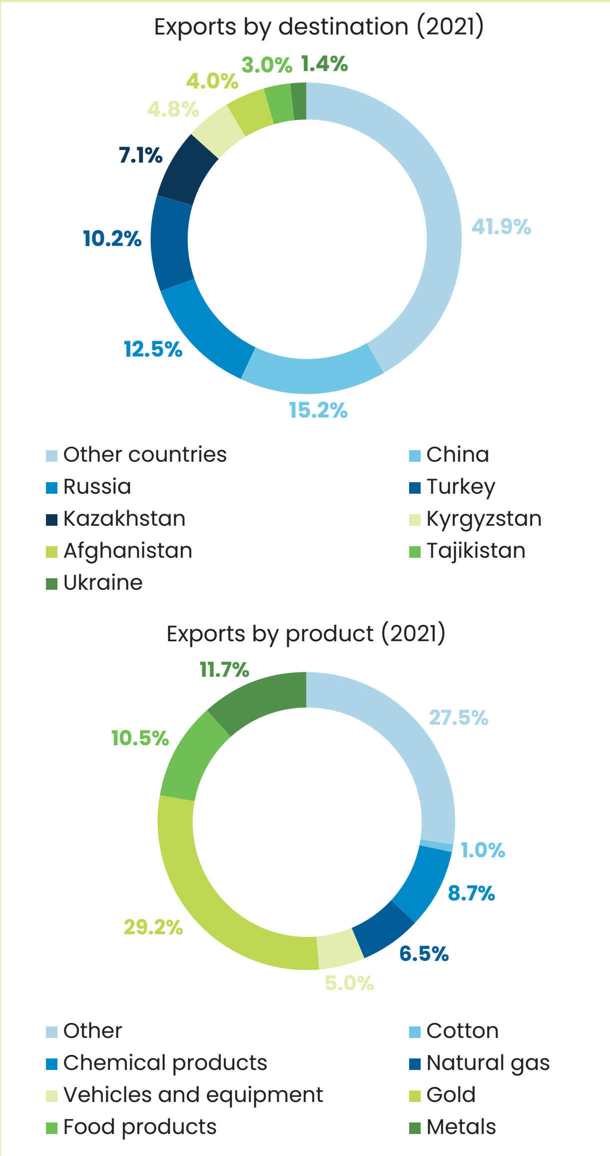
5 5 million tons in 2021 according to UZSTAT

6 44 mining and geological exploration projects in 2021, facilitated by an improvement in the investment climate (online bid invitations, licenses granted in five days, tax exemptions, new mining code imminent).

7 Cotton Pledge signed by 331 companies around the world against systemic forced child labor.

8 Massive transfers by Russian savers to protect their assets in an opportunist strategy of arbitrage on the dollar-ruble exchange rate, which is more favorable on the Uzbek market.

Graphs 3 and 4 — Relative diversification of exports in terms of outlets and primarization in terms of products



Sources: UZSTAT, AFD calculations

In this uncertain international context and with the tightening of financing conditions, the closure of Uzbekistan and the policy of accumulating reserves until 2016 are significant positive factors which still place it in a positive net external asset position (+$18.5 billion at mid-2022, i.e. 25% of GDP). However, this position is very gradually being eroded by the rapid increase in external liabilities. The external financing requirement (EFR)[9] was covered by financing from international donors in 2020-2021, FDI flows (3% of GDP in 2021, against 2.3% of GDP in 2015-2019) and Eurobond issuances. The ex ante EFR is expected to fall in 2022-2023 (10-12% of GDP) due to the reduction of the current account deficit. The level of liquid foreign exchange reserves has fallen slightly over the last two years ($12 billion in August 2022, i.e. 16% of GDP), covering almost seven months of imports of goods and services and offsetting the external financing requirement. Gross international reserves (with 62% gold) remain very comfortable ($34.1 billion in August 2022). 53% of outstanding external debt is public or publicly guaranteed. In 2021, it increased again by 20% and reached 63% of GDP according to the Central Bank. Its path needs to be monitored in the medium term, eventhough its profile is favorable (91% in the long term and a moderate service at 24% of exports of goods and services).

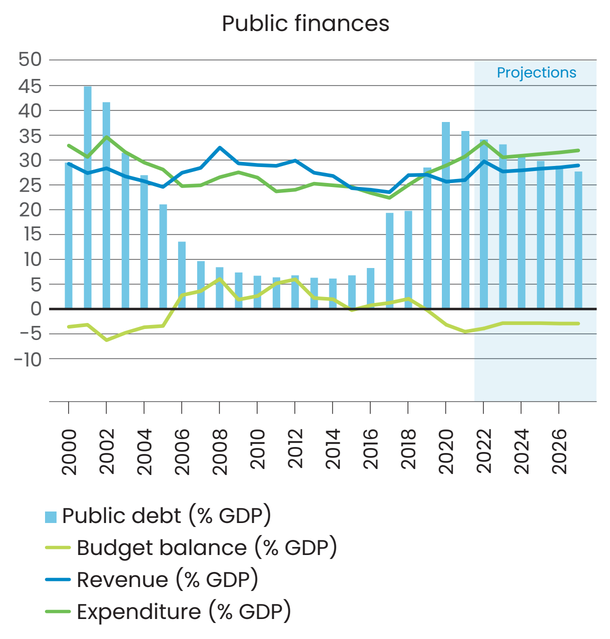
With a reserve of public savings[10] and a moderate public debt ratio, the Government has some budgetary leeway to face a new exogenous shock. The fiscal policy has been somewhat conservative for what was a command economy prior to the Covid-19 pandemic, with an "official" budget surplus of 2.2% of GDP on average in 2010-2019. According to the Ministry of Finance, after 4.3% of GDP in 2020, the public deficit is estimated at 5.8% of GDP in 2021, as the Government has continued its efforts in terms of social spending, public health and financing to support the most vulnerable households and companies in an election year. The new international situation compromises the target deficit of 3% of GDP in 2022, with the Government and IMF now anticipating 4% of GDP this year and 2.9% of GDP in 2023. The Uzbek authorities have committed to establish a medium-term budgetary framework (deficit ceiling at 3% of GDP and for debt at 60% of GDP), reduce off-budget expenditure, in particular loans to state-owned enterprises (SOE) and public guarantees, and to privatize three-quarters of state-owned assets/shareholdings. Note that the country requested emergency financing from the IMF (RFI/RCF) in 2020, but not the Debt Service Suspension Initiative (DSSI) of the G20/Paris Club. The public financing requirement[11] (PFR, ~8.5% of GDP in 2022) is

9 Defined as the sum of the current account balance and the external debt service during the year.

10 Mainly composed of assets from the Fund for Reconstruction and Development(FRD), i.e. $17 billion at mid-2022, including half of liquid foreign currency assets.

11 Defined as the sum of the budget balance and the public debt service during the year.

Graph 5 — Budgetary leeway to face external shocks



Sources: IMF, Ministry of Finance

expected to remain moderate in the coming years. The public debt ratio (including 29% of State guarantees)[12] has quadrupled since 2017 to 36% of GDP in 2021 (-2 percentage points in one year but +8 points compared to 2009). This remains a moderate level compared to the average of 50% of GDP in emerging and developing countries. According to the IMF, public debt is considered to be sustainable, with a low risk of debt distress.[13] The debt-to-GDP ratio doubled in 2017 due to the depreciation of the soum (50% against the US dollar), following the partial flexibilization of the exchange rate regime. At the end of 2021, 90% of the public debt stock was denominated in foreign currencies. Following a peak in the debt-to-GDP ratio at 38% in 2022, according to the IMF, the easing of the budget stimulus and strong growth in nominal GDP could allow a gradual reduction in the level of debt. The debt profile is favorable. It is mainly contracted with multilateral donors (47%) and bilateral donors (41%, including half from China),[14] on concessional terms and long-term (average maturity of almost 20 years). Market debt now accounts for 10% of total public debt. The country joined the JP Morgan EMBI index following the issuance of a first Eurobond in February 2019, followed by a second in November 2020 (at 3.7% with a 10-year maturity) and a third in July 2021 (at 3.9% with a 10-year maturity). Since the outbreak of the war in Ukraine, sovereign spreads have fluctuated between 400 and 600 basis points (bp).[15] This, combined with the rise in US Treasury bond yields (around 4% at mid-October 2022), suggests that there will be near-prohibitive financing conditions on international markets (between 8 and 10%). In the short term, the (re)financing strategy of the Treasury is likely to depend on donors, before returning to more favorable market conditions and a relay with the local market, which is shallow but recently opened to foreign investors and local individuals.

With respect to inflation and monetary policy, the Central Bank (CBU) is finding it difficult to curb pressure on prices, with inflation at over 10% since 2017. Overall inflation, the main cause of concern for the world economy, has not accelerated excessively in Uzbekistan in 2022 (12.3% year-on-year in August 2022). The CBU is expecting inflation to stand at 12-14% at the end of the year and the IMF anticipates an average annual rate of 11.5% in 2022-2023. While the increase in energy prices expected in July has been deferred, the increasing cost of food products (16.3% year-on-year) had, however, become unsustainable for 24% of households in July 2022, against 10% in January.[16] A 2019 law has reinforced the independence of the CBU, with a mandate for price stability, through an inflation targeting regime set at 5% for 2023, and for financial stability. The key interest rate was increased by 300 bp to 17% in March 2022 to anchor inflation expectations and stabilize the soum, with success.[17] In contrast with the regional and global trend, the monetary policy was eased in June-July with a reduction of the key interest rate to 15%, maintaining positive real interest rates. The transmission of the monetary policy to the economy via the banking sector remains relatively ineffective due to the high proportion of directed credits and the high level of dollarization (57% of loans). The banking system is

12 The unsecured debt of SOE is estimated at 7% of GDP.

13 Article IV Report, June 2022.

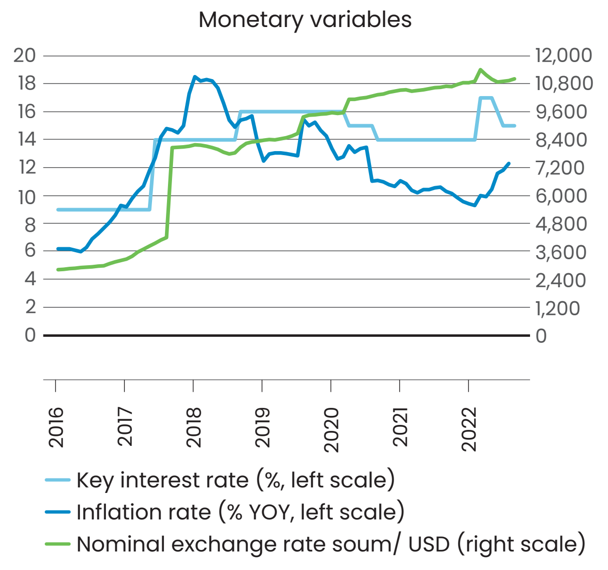
14 It should be noted that almost half of these commitments with donors have not yet been disbursed.

15 A peak already reached at the time of the crisis related to Covid-19 in March 2020, against an average pre-crisis level of spreads of 200 bp.

16 "Listening to the Citizens of Uzbekistan Survey", quoted by the World Bank (ECA Economic Update, Fall 2022, October 2022).

17 Following a depreciation of 6% against the US dollar between the outbreak of the conflict in Ukraine on 24 February and mid-March, the soum appreciated by 5% during the seven following months.

Graph 6 — Double-digit inflation; exchange rate under control



Sources: CBU, AFD calculations

dominated by public banks (80% of assets) and traditionally mainly serves to finance state-owned enterprises. There has been strong growth in bank credit for five years (+18% year-on-year in 2021 and 2022), but the credit penetration rate, which is estimated at 44% of GDP, still limits the risk of a credit bubble.

The balance sheet indicators of the banking sector have generally held up well since 2020 (capitalization, profitability, liquidity). There is a limited presence of Russian banks and Uzbek banks have little exposure to Russian banks under sanctions. However, asset quality deteriorated in 2021 with a rate of non-performing loans of 4.7% in August 2022, against 2.1% at the end of 2020. As a consequence of a deposit base half the amount of outstanding loans, the increase in the external debt of banks since 2019 is a point requiring vigilance, and both the transparency and supervision need to be reinforced. The Basel III regulation has been effective since 2018 and a banking reform was adopted in 2019 to: i) transfer the financing policy of banks for state-owned companies to the FRD; ii) strengthen the balance sheet of public banks, in particular through recapitalizations; iii) improve governance; and iv) align interest rates with concessional loans at the level of the policy interest rate. The plan to privatize public banks launched in May 2020, to reduce their share to 40% of banking assets by 2025, has hardly been implemented.

3. Continue to improve socioeconomic indicators

Virtually inexistent until 2016, the socioeconomic data now available paint a relatively satisfactory picture in terms of human development, human capital, inequalities and poverty. However, the official level of GDP per capita in current USD dollars remains low, and a priori underestimated[18]. In 2019, Uzbekistan ranked 106th in the world out of 189 countries in the Human Development Index (HDI), with an index of 0.72, which falls just below the threshold of the "High HDI" category (0.75), and is supported by reasonable performance in terms of health, life expectancy and basic education. Furthermore, the World Bank's Human Capital Index[19] ranked Uzbekistan 57th in the world out of 174 countries in 2020. Income inequalities measured by the Gini index (0.273 in 2021) are moderate. The multiple of the level of income between the first and last decile fell to 6 in 2019 from 13.7 in 2007, before rising to 6.8 in 2021 (much higher in many developing countries). But there are significant regional disparities, with a multiple of the level of per capita income of 2.8 between the Fergana region and the capital Tashkent. Measured by the national official definition of the low-income population, the poverty rate fell from almost 27.5% in 2001 to 11% in 2019, and rose to 11.5% in 2020 due to the health crisis. Poverty is largely concentrated in rural areas (79% in 2018). Estimates by the World Bank suggest that the most extreme forms

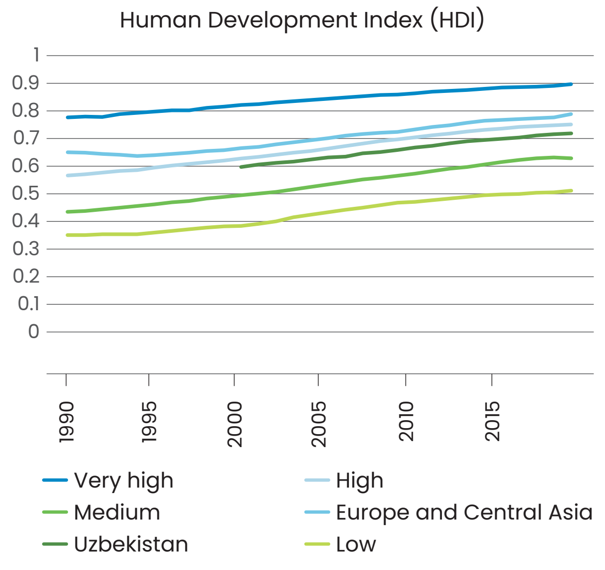
18 The State Committee on Statistics (UZSTAT) is working on a preliminary revision of GDP data for the end of 2022 based on 2021 and a retropolation back to 2010. The shadow economy (a hidden but legal economy), which is not currently taken into account, is estimated at 5 to 7% of GDP according to UZSTAT. It is one of the three components of the non-observed economy, along with illegal activity and informal activity.

19 The HCI calculates the contributions of health and education to the productivity of workers. The final score of the index ranges from zero to one and measures the productivity of a future worker born today compared to the criteria of full health and complete education/training.

of poverty (at the threshold of $1.90 PPP a day) had been almost eradicated in 2018, while the poverty rate at the threshold for LMIC countries ($3.20 PPP a day) stood at 9.5% in the same year. Non-monetary measurements of well-being have also improved over the last decade. Life expectancy increased by over two years between 2009 and 2018, partly due to a reduction of 39% in maternal mortality and of 17% in child mortality. The crime rate is moderate (38th lowest out of 136 countries according to the World Population Review).

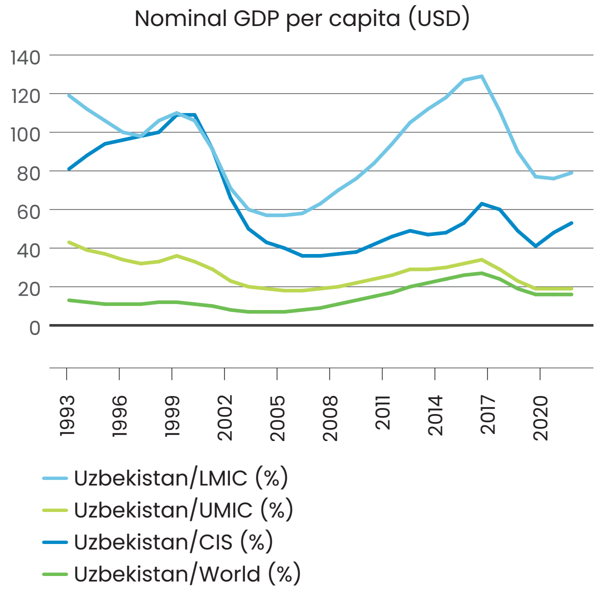
The Government's objective of doubling nominal GDP per capita to join the category of upper-middle-income countries (UMICs) by 2030 would appear to be achievable. A lower-middle-income country (LMIC), in 2021, Uzbekistan's GDP per capita only stood at 2,000 current USD according to the IMF and World Bank, a level similar to Nigeria. The devaluation/depreciation of the soum by 50% against the US dollar in 2017 had a major negative exchange rate effect on the level of GDP per capita (quite similar to the one observed in Nigeria) which reached $2,700 in 2015-2016. However, anecdotal evidence suggests that the standard of living of the Uzbek population is higher than implied by official statistics. According to the IMF, GDP per capita expressed in purchasing power parity terms stood at $8,600 in 2021, in line with Morocco (nominal GDP per capita of $3,200), which would be a better benchmark than Nigeria. Despite the demographic pressure (see below), achieving a level of GDP per capita of 4,000 current USD in 2030 is plausible under the assumption of a revision of the national accounts statistics, economic growth of at least 5% a year on average as of 2023, and a gradual disinflation coupled with a stabilization of the exchange rate.

Graph 7 — HDI relatively satisfactory



Source: World Bank

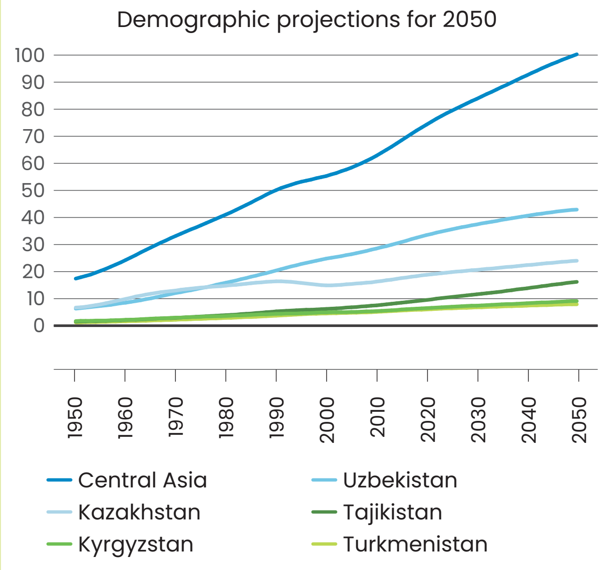
Graph 8 — Nominal convergence of standard of living hindered by the devaluation/depreciation of the soum in 2017



Source: World Bank

The objective of halving the poverty rate by 2030 is ambitious. The relatively strong economic growth over the past two decades has not been inclusive. Faced with demographic pressure, insufficient job creation has given emigration, in particular towards Russia, a critical role as a social safety net and a source of income for households. The Uzbek authorities do not fear a massive and irreversible return of the diaspora from Russia. The development of labor-intensive industries, in the context of fierce international competition, would appear to be the lifeline to absorb new labor market entrants. The economic system is dominated by the public sector (50% of GDP and 20% of employment) and holds back private initiative, which goes hand in hand with widespread informality. The economy is largely based on an agriculture sector with low productivity and an exploitation of natural resources much more capital-intensive than labor-intensive, especially as the accumulation of capital has driven up productivity (output per worker). The sectoral distribution of employment has been relatively stable since 2010 (agriculture 26% in 2021, industry 14%, construction 9.5%, trade 11%). While basic needs are most often met, through extensive public and social protection services, economic growth has gradually lost its effectiveness in poverty reduction. According to the World Bank, among the peer countries of Uzbekistan in terms of standard of living, the number of poor people declines by an average of 3.3% for each percentage increase in GDP per capita, against only 1.5% in Uzbekistan between 2009 and 2014 and even 1.1% between 2015 and 2019. This performance compares unfavorably to the regional average of Central Asia. The unemployment rate has doubled since 2016 to just over 10% in 2020-2021, as a result of the health crisis, and the labor force participation rate does not exceed 67%. Real wage growth has been modest in recent years, and the proportion of households' primary income (i.e. income from labor and property) fell from 80.4% in 2010 to 73.6% in 2021, the remainder coming from diaspora remittances, which almost seven families out of ten are more or less dependent on. According to the International Labour Organization (ILO), in 2017, labor income only accounted for 41% of national wealth, against 55% at regional level and 52% worldwide, highlighting the substantial capture of wealth by the State. In this context, the non-completed demographic transition (increase in the fertility rate to 2.9 children per woman in 2020) is an additional limiting factor. The central scenario of the United Nations anticipates a growth of the national population of 30% over the next three decades to 43 million inhabitants in 2050.[20]

Graph 9 — Demographic transition not completed



Source: United Nations

20 There has been no population census since 1989. The next is scheduled for 2023.

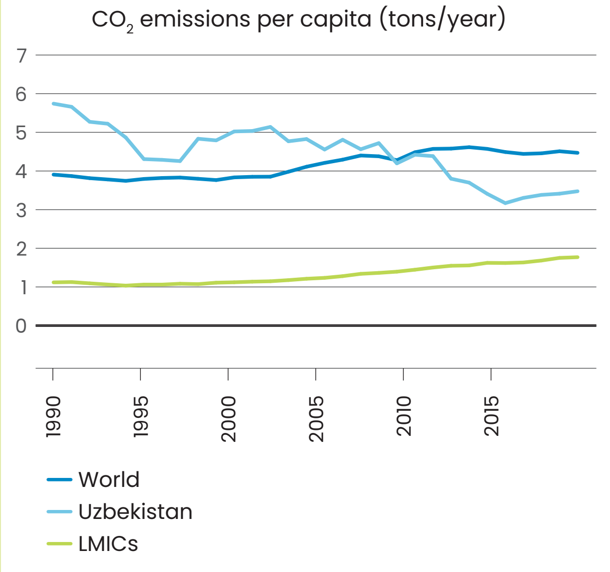
4. Anticipate and adapt to the low-carbon energy transition

The economic model of Uzbekistan, which is largely based on the exploitation of its natural resources (almost 70% of export revenue and 15% of budgetary revenue), is carbon-intensive and unsustainable in the medium-long term. Although the country's direct macroeconomic exposure[21] to so-called "sunset industries" in the context of the low-carbon transition appears to be moderate, the economic shortfall of refraining from exploiting the mining potential might be significant. With considerable natural capital, the country is vulnerable to climate change[22] and does not effectively use energy and water resources. The authorities are implementing proactive policies to address these major issues.

National greenhouse gas emissions (including three-quarters of CO_2) have remained relatively stable for the last 30 years, contributing to a downward trend in emissions per capita, a trend reversed in recent years. The emissions (5.5 tCO_2eq in 2018) are lower than the global average (6.7 tCO_2eq), but double the average of LMIC countries. Agriculture is the sector with the highest emissions, ahead of the energy sector, including electricity production. Energy prices continue to be subsidized (fixed since 2019), a practice giving little incentive for energy saving and sobriety. The country's performance in terms of the energy intensity of GDP compares unfavorably to the average of LMIC countries.

The Nationally Determined Contribution (NDC), which was updated in 2021, points out that temperatures are increasing twice as fast as the global average. The country is already faced with increasingly scarce water resources, desertification (drying up of the Aral Sea) and an increase in extreme weather events. Agricultural production, which is almost entirely irrigated, and hydropower production consume over 90% of available water resources. Access to blue gold is becoming a source of sociopolitical and socioeconomic risk at local level, but also at regional level due to tensions with neighboring countries over the withdrawal of water from the Amu Darya River.

Graph 10 — High CO_2 emissions compared to peer countries (LMICs)



Source: World Bank

In terms of adaptation, the strategy currently under preparation for a transition towards a "green" economy is expected to propose detailed action to provide a systemic response to all the challenges hindering the country's development. The objective is to promote a prosperous economy that safeguards the available resources. The NDC revises up the mitigation objective, i.e. a reduction in the carbon intensity of GDP by 35% by 2030 compared to 2010 (against 10% previously), with no quantification of the proposed measures. The authorities aim to exploit solar and wind potential in order to increase the share of renewable energies (ReN) in the energy mix to 25% by 2030, against 10% in 2019, with 80% currently based on natural gas. The diversification of the energy mix towards non-carbon energies will be essential for attaining carbon neutrality by 2050. In July 2021, the Uzbek Treasury issued its first SDG Bond for $870 million. A number of international donors are already actively working on energy-climate issues in the country, in particular on water resources, agriculture and power generation infrastructure.

21 I.e. to external, financial and socioeconomic factors.

22 It ranks 70th out of 182 countries according to the ND-Gain index on vulnerability to climate change and 104th for readiness.

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