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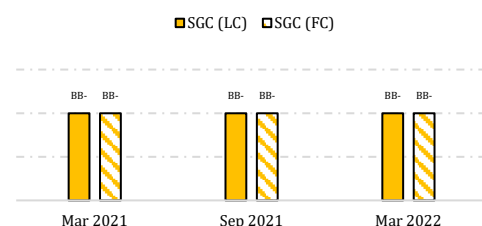
Ratings

Sovereign Government Credit (LC) **BB-**
Sovereign Government Credit (FC) **BB-**

Outlook (LC) **Developing**
Outlook (FC) **Developing**

*These ratings are unsolicited

Ratings dynamics



Main Economic Indicators of Uzbekistan

Macro indicators	2019	2020	2021*
Gross gov. debt, LC bn	149652	219549	273398
Nominal GDP, LC bn	529391	602551	703262
Real GDP growth, %	5,7	1,7	6,1
Gross gov. debt/GDP, %	28,3	36,4	38,9
Overall fiscal Deficit (surplus)/GDP, %	-3,9	-4,4	-5,5
Inflation rate, %	15,2	11,1	10,0
Current Account Balance/GDP, %	-	-	-6,4
External debt, USD bn	-	-	25,5
Development indicators		2021*	
Inequality adj. HDI		0,72**	
GDP per capita, USD th		8,5	
Default indicator	04.03.2022		
9Y Gov Bond Yield***, %		7,0	

Source: RAEX-Europe calculations based on data from the IMF, WB, CBU, NSC.
*Estimation **2019 ***USD government bond with remaining maturity 9,5 years

RAEX-Europe has confirmed at 'BB-' the ratings of Uzbekistan. The rating outlook is developing.

RAEX-Europe has confirmed the sovereign government credit ratings (SGC) of Uzbekistan at 'BB-' (Sufficient level of creditworthiness of the government) in national currency and at 'BB-' (Sufficient level of creditworthiness of the government) in foreign currency. The rating outlook changed to developing, which means that in the mid-term perspective there is equal probability of either upgrade, downgrade or maintaining of the credit ratings.

Summary

The confirmation of Uzbekistan's ratings at 'BB-' and change of the outlook to developing reflects, on the one hand, sustainable level of public debt and decent economic performance in 2021, and, on the other hand, potential further worsening of Russian economic stance, which would negatively affect the economy of Uzbekistan.

The economy of Uzbekistan remains actively developing and the government remains committed to continuing the ongoing structural reforms. However, Russian military invasion of Ukraine and subsequent imposition of hefty sanctions on Russia, a country which plays an important role for the economy of Uzbekistan being its second largest trade partner and a residence for many Uzbek workers, whose remittances to Uzbekistan compile a significant share of households' income in Uzbekistan, can negatively affect the credit ratings of Uzbekistan. Potential negative developments of the pandemic might also negatively affect the ratings.

The ratings also remain restrained by high inflation, low levels of institutional development and national welfare, and elevated levels of unemployment. Furthermore, despite improved management and transparency, the effectiveness of the monetary policy is undermined by the heavy segmentation of bank lending, high financial dollarization and underdeveloped local capital markets.

The economic activity has recovered from the pandemic shock, however new headwinds are on the horizon amid Russian military invasion of Ukraine. 2021 has become a year of economic recovery after a sluggish 2020. The recovery, which started in the first half of 2021, continued throughout the 3Q and 4Q of 2021: we have observed a gradual

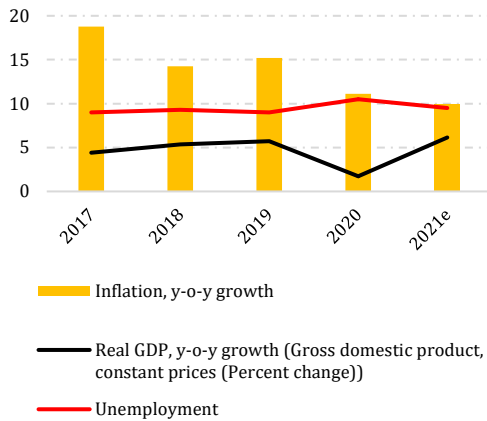
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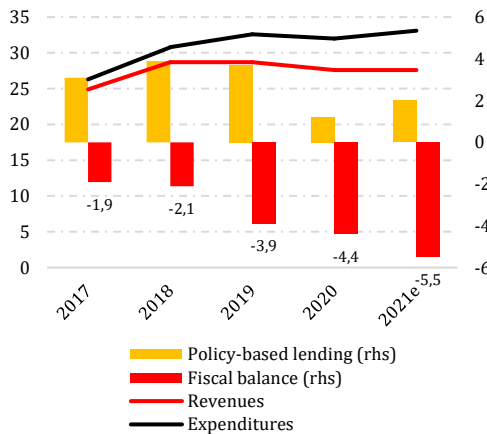
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Graph 1: Macroeconomic indicators, %



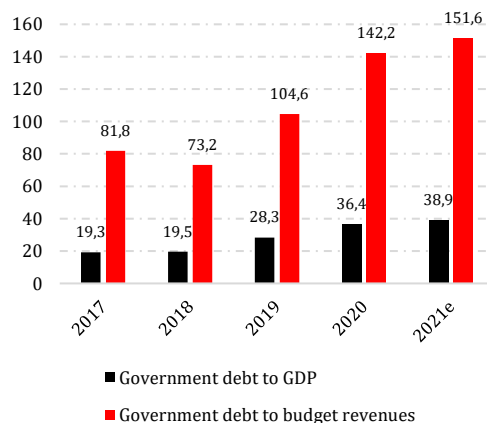
Source: RAEX-Europe calculations based on data from the IMF, WB, State Committee of the Republic of Uzbekistan on Statistics, Ministry of finance of the Republic of Uzbekistan

Graph 2: Fiscal budget dynamics, % of GDP



Source: RAEX-Europe calculations based on data from the IMF and WB *Overall fiscal balance in IMF definition, that includes policy-based lending

Graph 3: Government debt dynamics, %



Source: RAEX-Europe calculations based on data from the Ministry of finance of the Republic of Uzbekistan

increase of quarterly y-o-y real GDP figures throughout 2021. We estimate real GDP growth of around 6% for 2021. The rebound in economic activity in Uzbekistan was, among other things, reflected in the growth of revenues from trade and paid services: in 2021 retail trade turnover increased by 12% in comparison with 2020. We have also observed growth of the amount of remittances to Uzbekistan, which has been one of the drivers of consumption and investment activity of Uzbek population. The rate of unemployment, although having declined to 9,5% in 2021 (10,5% in 2020), remains one of the restricting factors of the ratings. Inflation has decreased from 11,1% in 2020 to 10,0 percent in 2021, which is in line with the CBU's target. We also note the significant stabilization of the pandemic situation in the fourth quarter of 2021, as a result of active mass vaccination; however, potential negative developments of the pandemic might negatively affect the ratings. GDP per capita in PPP terms remains very low among regional peers¹ (USD 8,5 th in 2021).

In our opinion, Russian military invasion of Ukraine can negatively affect the economy of Uzbekistan and, subsequently, negatively affect the credit ratings of Uzbekistan. Remittances from abroad play an important role for the Uzbek economy: they account for a significant part of incomes of Uzbek population, support internal consumption and provide the country with inflows of foreign currency, which supports the exchange rate of the Uzbek som. The bulk of remittances from abroad, around 70%, comes from Russia. Reduction of remittances from Russia might negatively affect the internal demand in Uzbekistan which in turn might lead to a decline in GDP. Decline of remittances can also cause the depreciation of the Uzbek currency. In addition, due to the potential decline of economic activity in Russia itself (due to the hefty western sanctions), Uzbek workers in Russia might lose their current jobs and might either look for another job position abroad (which will temporarily pause the remittances to Uzbekistan) or come back to Uzbekistan in search of a job, which might further increase the unemployment level in the country. Current situation with Russia might also negatively affect Uzbekistan's external stance, since Russia is the 2nd largest trade partner of Uzbekistan (based on the trade turnover for 11 months of 2021). Overall, we expect that the potential further worsening of economic situation in Russia will have a negative effect on the economy of Uzbekistan; the magnitude of this affect is, however, still to be observed. We expect the Uzbek economy to continue growth in the medium term. The rates of growth will depend on the development of the situation in Russia.

¹ Here Caucasus and Central Asia (CCA) oil and gas exporters: Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

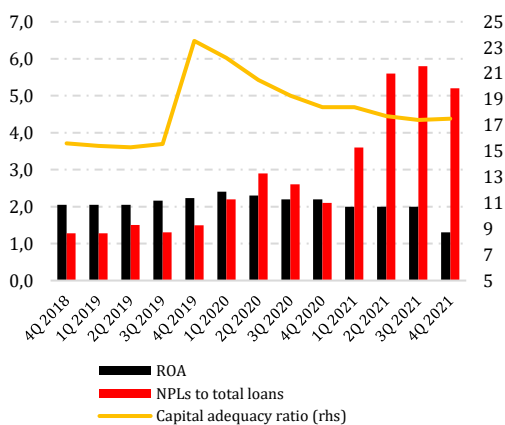
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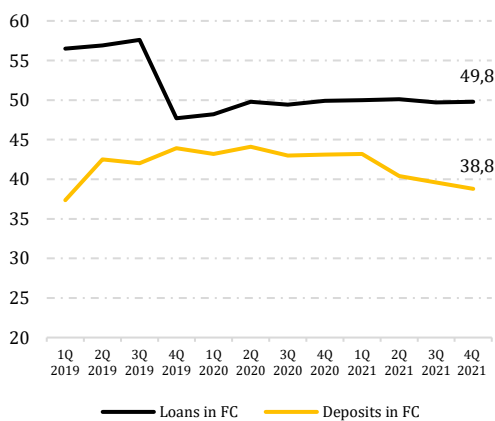
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Graph 4: Financial soundness indicators, %



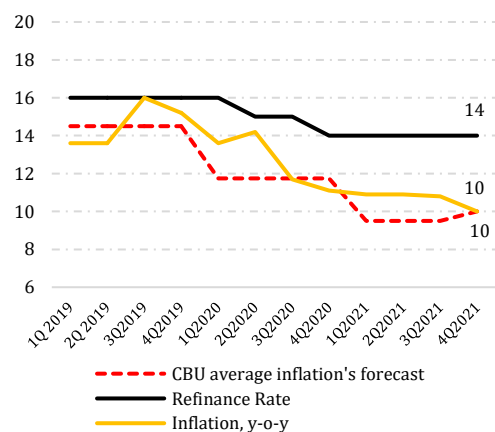
Source: RAEX-Europe calculations based on data from the CBU

Graph 5: Financial dollarization, % of total



Source: RAEX-Europe calculations based on data from the CBU

Graph 6: Refinance rate vs inflation rate, %



Source: RAEX-Europe calculations based on data from the CBU

Fiscal deficit widened. Despite the increase in budget revenues due to the recovery of economic activity, in 2021 fiscal deficit further widened to 5,5% of GDP. Fiscal stimulus in 2021 was concentrated on the continuation of the ongoing socio-economic reforms in Uzbekistan, further strengthening of macroeconomic stability and mitigation of the negative effects of the pandemic.

We expect that in 2022 Uzbekistan will enter the period of fiscal consolidation; the fiscal position however is sensitive to the situation with Russia. Among other factors, which will define the stability of Uzbekistan's public finances in the mid-term, are the development of the situation with COVID-19 and the continuation of the government's reforms regarding improvements in fiscal planning and transparency, reduction of the volume of policy lending, and implementation of announced plans for privatization of the massive public sector.

The debt position of Uzbekistan is sustainable. Uzbekistan's total public and publicly guaranteed debt (PPG) increased to 38,9% of GDP as of 2021 (see graph 3), compared to 36,4% of GDP in 2020. The increase in the level of public debt in 2021 was associated with the borrowings to finance the budget deficit and further develop the economy.

Uzbekistan's public debt remains at a moderate level and does not add additional risks to the country's creditworthiness. The majority of the debt is long term and comes in form of concession agreements with foreign governments and state banks, as well as international financial institutions. In terms of the currency structure, the prevalence of foreign currency-denominated debt (over 90% of debt) is a key risk factor, making the debt position vulnerable to currency fluctuations; the risk is further exacerbated by the situation with Russia.

Since the sharp devaluation of UZS in April 2020, the national currency has continued to weaken through the end of 2020 and during 2021, which will increase the debt burden. Although the government seeks to diversify debt structure by issuing domestic bonds, their share remains insignificant, and further issuance of these instruments is limited by the underdeveloped domestic capital market. In addition, we continue to note the high level of contingent liabilities of the government related to SOE and SOB debts, which may be lowered as the implementation of the privatization program continues.

Banking sector is overall stable. After having risen for 3 consecutive quarters of 2021, in 4Q 2021 the share of NPLs declined and constituted 5,2%. (see graph 4). The profitability of the banking sector, however, has declined to 1,3% in 4Q 2021, after being stable for the first three quarters

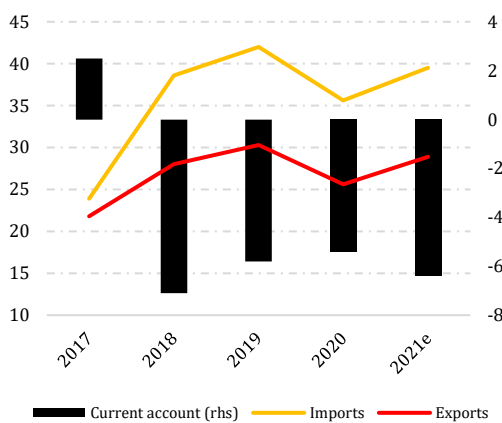
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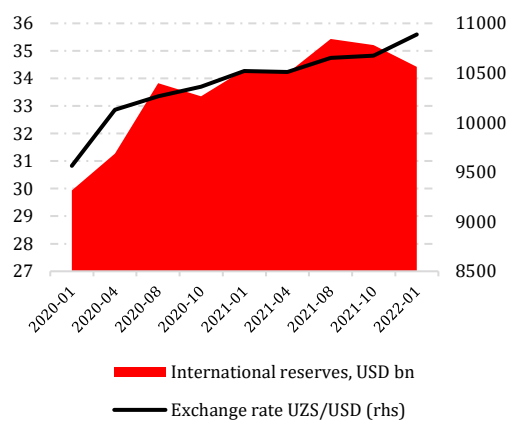
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Graph 7: External sector indicators, % of GDP



Source: RAEX-Europe calculations based on data from the WB and IMF

Graph 8: International reserves vs exchange rate



Source: RAEX-Europe calculations based on data from the CBU

of 2021 at 2,0%. Capital adequacy ratio, after deterioration in the first three quarters of 2021, increased in 4Q 2021; the reading as of 4Q 2021 is 17,5% which is above minimum regulatory requirements.

The role of the financial sector for the economy remains limited due to the high concentration of assets on state-owned banks (81% of sector's assets as of Q4 2021), as well as a still significant share of preferential loans to public sector enterprises. We expect a reduction of systemic risks of the banking sector if the authorities' plans to cancel policy lending to SOEs at below market rates are executed.

Quality of monetary policy is overall adequate. CBU continues to improve the quality, predictability and transparency of its monetary policy within the framework of inflation targeting and the transition to a free-floating exchange rate regime. The inflation target of 10% for 2021 was achieved; the regulator maintains a 5% target for 2023. Since September 2020 the key rate remains unchanged at 14%.

Among the factors which limit the effectiveness of the monetary policy transmission mechanism are increased level of financial dollarization (see graph 5) and underdeveloped domestic capital markets.

Uzbekistan's external stance might be affected by the situation with Russia. As mentioned above, Russia is the 2nd largest trade partner of Uzbekistan. Potential turmoil in the Russian economy might affect both Uzbekistan's exports to Russia and imports from Russia, which might subsequently affect Uzbekistan's external stance. The magnitude of this affects is, however, still to be observed.

Stress or Support factors:

- None.

SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Smooth continuation of the initiated structural reforms of the public business sector with reduction of the government footprint in the economy and banking industry;
- Further improvement of the exchange-rate flexibility and monetary policy, providing more freedom to monetary authorities, resulting in a long-term and controlled reduction of inflation and levels of financial dollarization.

The following developments could lead to a downgrade:

- Further worsening of Russian economic stance, which would negatively affect the economy of Uzbekistan;
- Negative developments of the pandemic in Uzbekistan and/or worldwide, which would lead to deterioration of the external position, as well as a contraction of local economy;

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- Deterioration of the stance of the banking system, which would materialize contingent liabilities of the government;
- Higher than expected increase of the government debt and deficit metrics due to the need of additional financing for the government expenditures, and underperforming of tax and external revenues.

ESG Disclosure:

Inherent factors

- Quality of fiscal policy; quality of monetary policy; natural resources; natural and climatic threats; environmental threats; level of corruption, CPI; Government Effectiveness Index; quality of the business environment; position in Doing Business Ranking; level of investment in human capital, adjusted for inequality; Rule of Law Index; transparency of government policymaking Index; level of information transparency of the government; Political Stability and Absence of Violence/Terrorism Index; natural disasters, constant exposure to difficult natural conditions.

Drivers of change factors

- Natural disasters, such as earthquakes and droughts have negative economic impact through affecting agriculture and damaging of infrastructure. Thus, the factor in our sovereign methodology which could be directly affected by this is **Level and dynamics of production**.

Next scheduled rating publication: 2 September 2022. The full sovereign rating calendar can be found at [Sovereign Rating Calendar 2022](#)

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RATING HISTORY:

Date	Review reason	SGC		Outlook	
		National currency	Foreign currency	National currency	Foreign currency
03.09.2021	Scheduled revision of both types of ratings for the country	BB-	BB-	Stable	Stable
05.03.2021	Scheduled revision of both types of ratings for the country	BB-	BB-	Stable	Stable
04.09.2020	Scheduled revision of both types of ratings for the country	BB-	BB-	Stable	Stable
06.03.2020	Scheduled revision of both types of ratings for the country	BB-	BB-	Stable	Stable
06.09.2019	Scheduled revision of both types of ratings for the country	BB-	BB-	Stable	Stable
08.03.2019	Scheduled revision of both types of ratings for the country	BB-	BB-	Stable	Stable
14.09.2018	Scheduled revision of both types of ratings for the country	B+	B+	Positive	Positive
16.03.2018	Scheduled revision of both types of ratings for the country	B+	B	NA	NA
22.09.2017	Scheduled revision of both types of ratings for the country	B+	B	NA	NA
24.03.2017	Scheduled revision of both types of ratings for the country	B+	B	NA	NA
23.09.2016	Scheduled revision of both types of ratings for the country	B+	B	NA	NA
15.04.2016	First assignment of both types of ratings for the country	B+	B	NA	NA

Minute's summary

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The rating committee for Uzbekistan was held on 4 March 2022. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Sovereign methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: [Methodology for Assigning Sovereign Government Credit Ratings – Full Public Version](#) (from August 2020). Descriptions and definitions of all rating categories can be found under the [Rating scale](#) section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

The definition of default can be found on the Agency's website in the section for [Internal policies](#).

These ratings are unsolicited. The rated entity did not participate in the rating process.

Main sources of information: International Monetary Fund, World Bank, CIA Fact book, World Economic Forum, Doing Business, United Nations, The State Committee of the Republic of Uzbekistan on Statistics, Central Bank of Uzbekistan (CBU), Asian development bank, Ministry of Finance of Uzbekistan, Transparency International.

ESG Disclosure

We consider Environmental, Social, and Governance (ESG) risks and opportunities in the creditworthiness analysis of our Sovereign entities. The disclosure document can be found on the Agency's website in the section: [ESG factors in RAEX-Europe's Credit Ratings](#)

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the country with information considered as the most reliable and up to date in accordance to the overall position of the country and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Regulatory use

SGC ratings can be used for regulatory purposes according to the ESMA definition.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process.

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Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

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The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.

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