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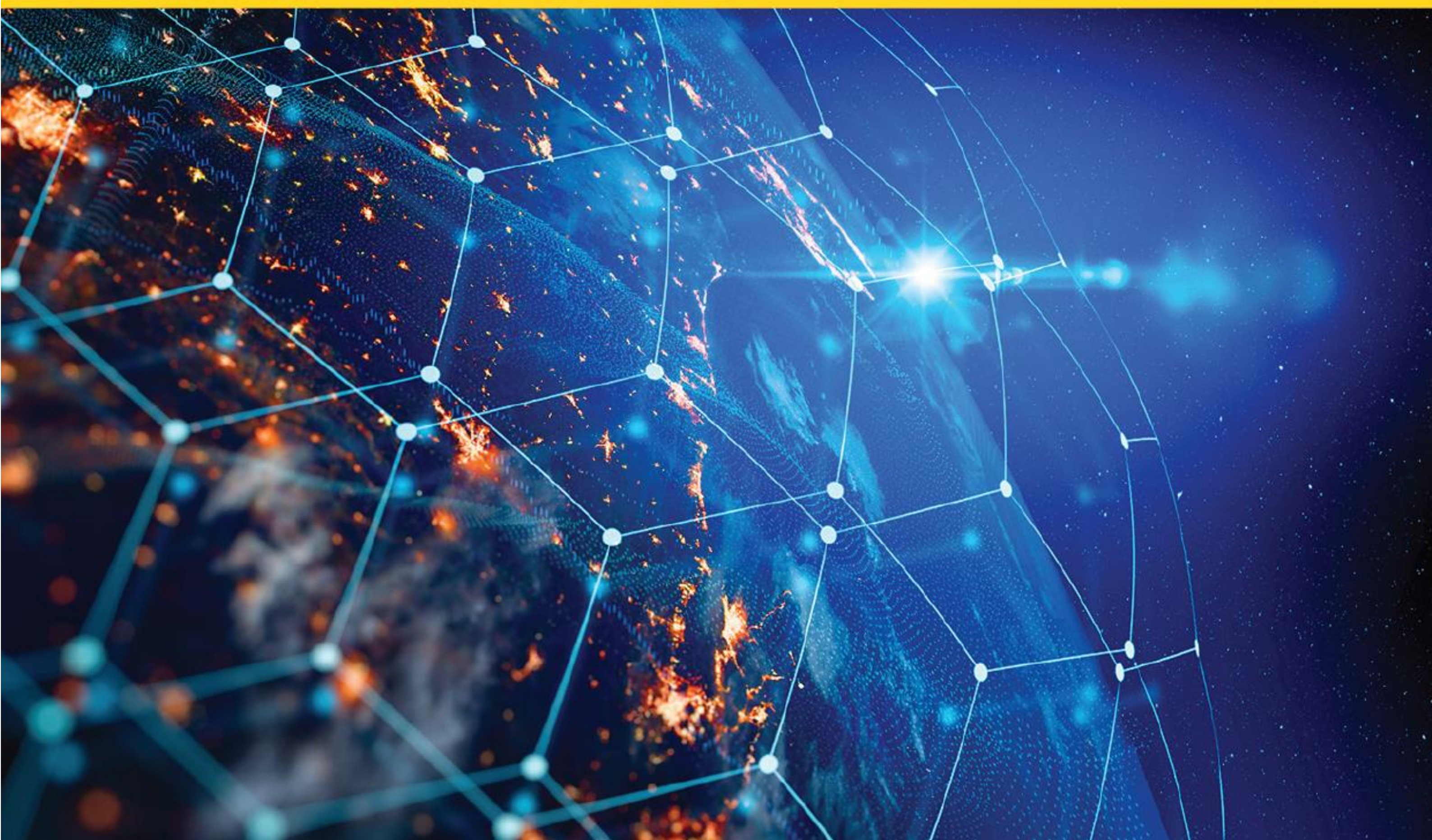

Uzbek economy in 2025: continuity, diversification and growth prospects

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Abstract

Since gaining independence in 1991, Uzbekistan has maintained a managed economy reminiscent of the Soviet era while simultaneously diversifing its economic base. The country has emerged as a key player in cotton production, natural gas, gold exports, and electricity generation. The agricultural sector produces a variety of crops and livestock, while industries like textiles, cotton, food processing, and engineering drive economic growth. The country's foreign trade is significantly influenced by its trade partners, particularly China, Russia, and Türkiye. Projections indicate a stable economic outlook for Uzbekistan, with a predicted 5.8 percent increase in GDP by 2025, reflecting the economy's resilience and reform efforts. The Central Bank's monetary policy strategies are designed to withstand various economic scenarios and contain inflation. Notably, economic forecasts project growth in exports, remittances, and GDP, even in the face of global economic challenges. A positive shift in the current account balance, supported by capital inflows and rising international reserves, underscores Uzbekistan's economic progress and outlook for the future.

Keywords: Uzbekistan, economy, monetary policy, trade

Introduction

General economic characteristics of Uzbekistan

Since independence in September 1991, Uzbekistan has largely maintained a Soviet-style managed economy (a form of economy similar to a planned economy). In addition, however, the government in Tashkent has attempted to diversify the Uzbek economy over the years. Thanks to this, Uzbekistan became the world's fifth-largest cotton exporter and seventh-largest cotton producer in the late 2010s and now ranks sixth in cotton production. In addition to cotton production, a significant portion of the Central Asian country's foreign exchange revenues comes from natural gas and gold exports, and together with its giant Soviet-era power generation facilities, Uzbekistan has become one of the largest electricity producers in Central Asia.

Besides cotton, the main agricultural products of Uzbek agriculture are rice, grapes, fruits, vegetables, wheat, corn, and potatoes. Karaku sheep are raised in the mountainous regions, and silkworm breeding is characteristic of the Fergana Basin. The country's industry is based on the traditional textile, cotton, and food processing industries, as well as the chemical and engineering industries. The country's main exports include cotton, natural gas, gold, electricity, fertilizers, metals, textiles and foodstuffs. Uzbekistan's main trading partners are China, Russia, South Korea, Kazakhstan, Türkiye and Germany.

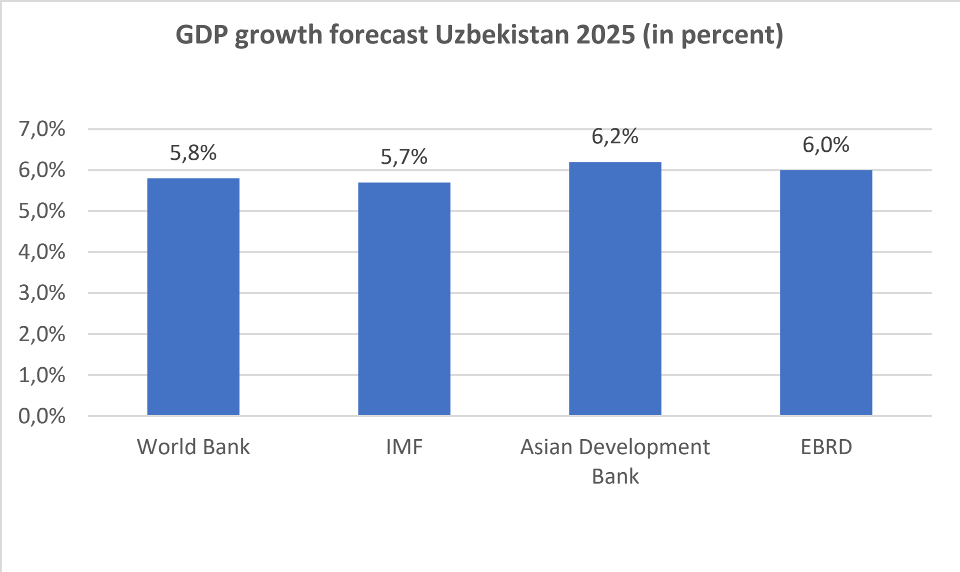
Selected Economic Indicators 2020-2024					
	2020	2021	2022	2023	2024
National income					
Real GDP growth (percent change)	2.0	7.4	n.a.	5.7	5.2
GDP per capita (in dollars)	1,776	2,014	2,301	2,499	2,668
Population (in millions)	33.9	34.6	35.3	35.0	36.7
Prices			(Percent change)		
Consumer price inflation (end of period)	11.2	10.0	12.3	9.0	11.0
GDP deflator	11.4	13.5	14.9	12.1	10.0
External sector			(Percent of GDP)		
Current account balance	-5.0	-7.0	-0.8	-4.7	-5.2
External debt	56.8	57.8	53.1	53.3	51.4
			(Level)		
Exchange rate (in sums per U.S. dollar; end of period)	10,477	10,838	11,225		

Source: UzStat and IMF data

Growth prospects

According to a recent World Bank report (January 2025), Uzbekistan is among the most dynamic economies in the European and Central Asian region, with promising prospects for the coming years. The country's GDP growth reached 6.5 percent (USD 115 billion) in 2024, showcasing its economic resilience in the face of external challenges.

Projections indicate that the Uzbek economy will expand by 5.8 percent in 2025 and by 5.9 percent in 2026, thereby maintaining its position as a regional leader in economic growth. It is noteworthy that these forecasts are consistent with those made in October 2024, which also projected a steady growth trajectory for Uzbekistan.



Source: own compilation based on the IMF, World Bank, Asian Development Bank and EBRD data

From January to November of 2024, Uzbekistan's foreign trade turnover amounted to USD 59.4 billion, indicating an increase of USD 2.1 billion or 3.6 percent in comparison with the same period in 2023. This growth is indicative of the country's ongoing initiatives to stimulate exports, optimize imports, and attain a balanced trade.

Exports in the first 11 months of 2024 amounted to USD 24.2bn, marking a 4.4 percent increase from 2023. Conversely, imports reached USD 35.1bn, exhibiting a 3 percent rise compared to the previous year. The resulting trade deficit stood at USD 10.9 billion, indicating a modest improvement in the trade balance as exports grew at a faster rate than imports. The following table presents the top 10 trade partners in 11 month 2024, according to the Uzbek Statistics Agency. China maintained its position as Uzbekistan's primary trade partner, contributing 19 percent of the total foreign trade turnover in first 11 moth in 2024, a decrease from 21.3 percent in 2023. This decline is due to a combination of factors, for example Uzbekistan started an active diversification of its trade relations in 2024 to reduce its high dependence on a single country. In addition, changes in global and regional demand have also contributed greatly to this decline. In addition, the fluctuations in the exchange rate between the Chinese yuan and the Uzbek som have also had an impact on trade volumes.

Total trade with China reached USD 11.3 billion in 2024, marking a decrease from the USD 12.2 billion recorded in 2023. Exports to China declined to USD 1.9 billion from USD 2.3 billion, while imports fell to USD 9.3 billion from USD 9.9 billion. Notwithstanding the decline, China has maintained its position at the top of the trade list consistently since March 2023.

Russia strengthened its position as the second-largest trade partner, contributing 18 percent of total foreign trade turnover in 2024, up from 15.5 percent in 2023. Total trade with Russia rose to USD 10.7 billion, an increase from USD 8.9 billion in 2023. Exports to Russia increased to USD 3.4 billion from USD 3 billion, while imports expanded to USD 7.3 billion from USD 5.9

billion. In January and February 2023, Russia was Uzbekistan's primary trade partner, a position it held until China surpassed it.

Major partner countries in the foreign trade turnover of Uzbekistan				
Country		Years		
		2022	2023	2024 (January-November)
China				
	Export	2,50	2,3	1,9
	Import	5,8	10	9,3
Total		8,30	12,3	11,2
Russia				
	Export	2,9	3	3,4
	Import	5,6	5,9	7,3
Total		8,5	8,9	10,7
Kazakhstan				
	Export	1,3	1,3	1,3
	Import	2,9	2,7	2,5
Total		4,2	4	3,8
Türkiye				
	Export	1,5	1,2	1
	Import	1,5	1,7	1,6
Total		3	2,9	2,6

Source: UzStat

Kazakhstan maintained its position as the third-largest trade partner, contributing 6.5 percent to the total foreign trade in 2024, a slight decrease from its 7 percent share in 2023.Total trade with Kazakhstan reached USD 3.9 billion in 2024, reflecting a marginal decline from the USD 4.1 billion recorded in 2023.

Notably, Kyrgyzstan, which was among Uzbekistan's top 10 trade partners in 2023, has been replaced on the list in 2024 by India, which has emerged as a prominent player in Uzbekistan's foreign trade. The Uzbekistan FTA with India for the 11M2024 period resulted in a total trade value of USD 867.4 million, with exports amounting to USD 97 million and imports reaching USD 770.4 million.

Countries with the largest Share of Foreing Trade with Uzbekistan (january-November, 2024, in billion dollars)		
Country	Foreign trade in billion dollars	Distribution in percentage
China	11,2	19
Russia	10,7	18
Kazakhstan	3,8	6,5
Türkiye	2,6	4,4
South korea	1,8	3
Türkmenistan	1,1	1,8
Germany	1,1	1,8
France	1	1,7
Afghanistan	0,9	1,7
India	0,8	1,5

Source: UzStat

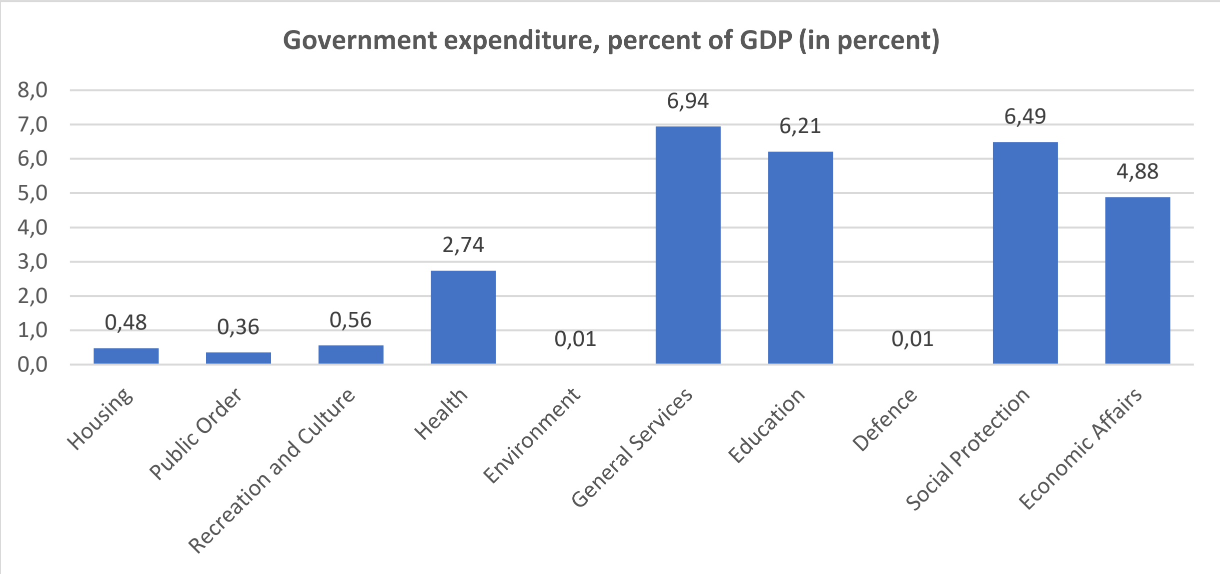
Continuing the economic development priorities

Since 2016, under the auspices of Shavkat Mirziyoyev, the President of Uzbekistan, the nation has undertaken ambitious reforms with the objective of enhancing the efficiency of its economy. These reforms have resulted in the creation of new employment opportunities and the fortification of the Uzbek economy's thriving sectors. On December 20, 2022, the President delineated six pivotal areas of economic development in his address: (1) implementing a reform of public administration; (2) and further strengthening the welfare state (further elaborated below) by centering human beings around state action; (3) building human rights protection and freedoms as the constitutional duty of the state; (4) a reinforced protection of nature, including the protection of water resources; (5) by improving the business environment free market mechanisms; (6) ensuring healthy competition and the inviolability of private ownership; promoting entrepreneurship; and attracting investment and privatizing the largest public enterprises and banks.

Education

In countries with a comparable level of development, the education sector constitutes 6.21 percent of the GDP in 2024. Uzbekistan's education system is characterized by its comprehensive and universal nature, with a mandatory education period of 11 years. Annually, approximately 35,000 students travel abroad for their studies, primarily to Russia, Germany, and Türkiye. The number of higher education institutions and graduates is increasing. From 70 higher education establishments in 2016 to 162 in 2022, including private, public, and foreign universities. In 2020, the Central Asian country is expected to produce 83,900 graduates from higher education institutions (compared to 53,300 in 1991).

Almaty, renowned for its robust IT and gaming sectors, serves as the epicenter for Kazakhstan's creative industries. Recent reforms in Uzbekistan have placed a significant emphasis on fostering start-ups and business initiatives across the country. Uzbekistan currently holds the 82nd position in the global creative industries sector. Recent reforms in Uzbekistan have placed a significant emphasis on fostering business start-ups, enterprise projects, and the support infrastructure for these enterprises. A pivotal aspect of these reforms pertains to the enhancement of human capital, particularly in the domains of creative abilities, innovative entrepreneurship, and innovation. In the context of youth policies, the "Uzbekistan 2030 Strategy" envisions the establishment of a creative park in each region of the country.



Source: IMF data

Balance of payments

In the firstnine months of 2024, the current account deficit exhibited a 17 percent year-on-year decline, amounting to USD 3.4 billion, or 4.3 percent of GDP.

Specifically, during the first nine months of the current year, the volatile dynamics of commodity prices in global markets and the increase in international services to non-residents contributed to a 4 percent surge in exports, reaching USD 19.1 billion. Concurrently, the import volume exhibited a more modest growth rate compared to the previous year (5.5 percent), reaching USD 31.4 billion. This is attributable to the fact that, despite elevated levels of investment activity and domestic consumer demand, which stimulate imports of energy resources, machinery and equipment, and food products. Consequently, in the first nine months of 2024, the negative trade balance increased by 8 percent compared to the same period of the previous year, reaching USD 12.4 billion.

The differentiation in the geography of labor migration and the increase in wages in the traditional countries of residence of labor migrants helped stimulate income from the primary and secondary income components. Concurrently, the increase in investment income of non-residents became a factor in the increase in expenditure.

In the initial nine months of 2024, net FDI inflows into the country exhibited a 7 percent year-on-year surge, reaching USD 1.9 billion.

In 2024, the investment in Uzbekistan amounted to USD 1.7 billion, primarily due to operations involving international bonds. However, a substantial surge in global gold prices led to a notable increase of nearly USD 6.6 billion in the balance of international reserves compared to the beginning of the year, reaching a total of USD 41.1 billion as of October 1, 2024.

The results for the initial nine months of 2024 demonstrate that the net international investment position strengthened by 29 percent compared to the beginning of the year, reaching USD 16.3 billion on October 1, 2024, due to the impact of balance of payments financial account operations and non-operational changes. Concurrently, the foreign currency assets of residents exhibited an increase of USD 10.8 billion (representing a 13 percent rise compared to the beginning of the year), while external liabilities rose by USD 7.1 billion (a 10 percent increase).

As of October 2024, Uzbekistan's total external debt amounted to USD 60.2 billion, with the external debt of the state amounting to USD 32.5 billion and external corporate debt amounting to USD 27.7 billion.

Monetary policy

Updating for current disinflation and decelerating economic activity (note, in slight contraction in the labor market) from tightening to a neutral monetary policy stance. Central banks, led by the ECB and the Fed, are already reducing interest rates and they will continue to do so until 2025. But a number of questions remain — including how much more they can go in the way of more cuts, how quickly and how they will be transmitted to the larger economy.

The year 2025 is revealed for central banks to keep interest rates in alignment with the economy, neither of which heats up nor fizzles out, with potential growth. This equilibrium interest rate is known as the natural or neutral rate of interest and is a theoretical construct; it is unobservable and uncertain, but guides monetary-policy design. There are various approaches to estimating this rate, and the first figure provides two of the most notable employed by the Federal Reserve and the European Central Bank (ECB). The first method is macroeconomic in nature, while the second is based on money market prices. This estimate ranges from 2.75 percent to 3.25 percent for the United States and between 1.5 percent and 2.5 percent for the euro area. How fast the Federal Reserve, the European Central Bank and other central banks turn to monetary easing, returning their interest rates to neutral, is a function of how quickly the kindly scenarios would play out in their respective economies.

In Uzbekistan, the monetary policy guidelines for the 2025-2027 period reflect the Central Bank of Uzbekistan's vision of the medium-term evolution of the current macroeconomic situation and specify the monetary policy measures aimed at achieving the target for price stability indicators over this period.

In 2025, the government of Uzbekistan will formulate the overarching principles of Uzbekistan's monetary policy in consideration of the primary and alternative scenarios for macroeconomic developments. These principles will prioritize medium-term shifts in external and internal conditions, as well as the potential risks of inflation. Concurrently, the Ministry of Economy and Finance of Uzbekistan has incorporated a risk scenario, predicated on the intensification of entrenched inflationary pressures, into its analysis.

Possible scenarios

The Central Bank of Uzbekistan has developed projections for monetary policy and the macroeconomic situation in Uzbekistan under a range of possible scenarios.

1.) The main scenario is developed on the basis of the conditions for continued development of internal and external conditions at the current pace, in particular, a decline in global inflation, the maintenance of positive economic growth rates in the world, the development of commodity prices at relatively high levels in international markets, an increase in investment demand in the country, and the active continuation of reforms and structural changes.

The implementation of relatively tight monetary conditions is expected to result in a normalization of consumer demand, leading to a decline in inflation to 6-7 percent in 2025.Furthermore, considering the anticipated rise in regulated prices in the forthcoming year and the low base effect of food inflation in 2024, it is projected that the inflation target of 5 percent will be attained in the latter half of 2026.

The extension of the target horizon suggests a gradual decline in inflation without adversely affecting overall macroeconomic stability under current conditions and inflation factors. Concurrently, coordinated monetary policy and macroprudential policy measures will be reinforced to reduce the monetary determinants of inflation and ensure a sustainable downward trajectory for core inflation.

2.) The alternative scenario has been developed in consideration of the persistence of current domestic conditions and heightened external risks, including the sustained high levels of global inflation, a substantial decline in economic activity in certain major economies, and the exacerbation of global economic fragmentation, which could have adverse ramifications for the domestic economy.

In this scenario, external risks are anticipated to exert a substantial negative influence on economic growth, and fiscal stimulus is expected to be predominantly utilized to mitigate the losses in economic growth from the decline in external demand and to sustain domestic demand. Consequently, the projected economic growth rates for 2025, 2026, and 2027 are estimated to be 5-5.5 percent, 5.0-6.0 percent, and 5.5-6.5 percent, respectively.

Conversely, under a different hypothetical scenario—one marked by a modest deceleration in economic activity and the persistence of somewhat constrained monetary conditions—headline inflation is forecast to reach approximately 7-8 percent in 2025, around 6 percent in 2026, and subsequently decline to the target level of 5 percent in the initial half of 2027.

Should the conditions outlined in this scenario materialize, a tightening of monetary conditions relative to the baseline scenario—particularly the potential increase in the policy rate—will be contemplated. The risk scenario incorporates the deleterious impact of climate change on regional output indicators, the augmented fiscal stimulus associated with constrained output, and the heightened risk of energy supply and demand imbalances, which could lead to elevated inflation. These risks are expected to result in a significant rise in headline inflation, reaching approximately 8-9 percent in 2025, 7-8 percent in 2026, and achieving the 5 percent target by the end of 2027. In response to these anticipated developments, monetary conditions are projected to undergo a tightening, accompanied by an increase in the central bank's policy rate, with the aim of curbing inflationary pressures. Concurrently, concerted efforts with the government will be made to mitigate the impact of non-monetary factors on inflation. Irrespective of the prevailing macroeconomic conditions, monetary policy measures will be implemented with the overarching objective of ensuring price stability, a primary mandate of the Central Bank. This involves attaining and maintaining inflation at the target level of 5 percent, thereby fostering a stable economic environment.

However, to enhance the efficacy of monetary policy measures in Uzbekistan, the Central Bank plans to implement the following initiatives in 2025 and 2026:

- The operational mechanism and interbank money markets will be refined to ensure the effective transmission of monetary policy decisions to the economy;
- The range of short-term forecasting models will be broadened, and the parameters of medium-term forecasting models will be revised and adapted to current economic realities;
- Monetary and macro-prudential policy measures will be actively used in a coordinated manner to rebalance lending activity;
- The transparent communication of monetary policy will continue, with improved communication channels and enhanced publication of statistics among the key areas.

Economic growth projections in the trade

According to the Central Bank, economic growth is expected to decelerate in 2025 in Uzbekistan's primary trading partners: China (from 4.8 percent in 2024 to 4.5 percent in 2025), Russia (from 3.6 percent to 1.3 percent), Türkiye (from 3.6 percent to 2.7 percent), and Kazakhstan (from 3.5 percent to 4.6 percent). Notwithstanding this anticipated slowdown, the Central Bank projects a 9-11 percent increase in domestic exports, primarily driven by the stable prices of key raw materials (gold, copper, uranium) and a modest rise in cotton prices. However, the bank has also forecasted an increase in Uzbekistan's real GDP to 5.5-6 percent.

Concurrently, imports are projected to rise by 8-10 percent, driven by robust domestic demand for machinery and equipment, vehicles, fuel and energy products, and food and raw materials. The Central Bank and the Uzbek Ministry of Trade anticipate remittances to escalate by 10-12 percent, reflecting favorable labor market dynamics in the receiving countries and wage growth. The impact of global economic factors:

The Central Bank has indicated that the easing of global financial conditions and the decline in interest rates (SOFR interest rate cuts averaging 0.7 percent since the beginning of the year) are contributing to a reduction in the cost of servicing external debt. Additionally, a surge in the primary and secondary income components is projected, with an anticipated increase of 8-10 percent, which will partially offset the external deficit.

Summary

Since gaining independence in 1991, Uzbekistan has maintained a Soviet-style managed economy while endeavoring to diversify its economic base. The country has emerged as a major player in cotton production and export, alongside natural gas and gold exports, and has become one of Central Asia's largest electricity producers. Key agricultural products include rice, grapes, and fruits, while industries focus on textiles, cotton, and food processing. The primary trade partners of Uzbekistan are China, Russia, and Kazakhstan.

Economic indicators demonstrate steady growth in GDP and population, alongside fluctuations in consumer price inflation and external sector balances. The country's growth prospects, as outlined in a World Bank report, project continued expansion. In 2024, Uzbekistan's foreign trade turnover increased, with exports rising at a faster rate than imports, resulting in a trade deficit. China and Russia remain the country's primary trade partners, while Kazakhstan maintains its position as a significant economic actor. Since 2016, President Mirziyoyev has implemented reforms with the objective of enhancing economic efficiency, particularly in priority sectors such as minerals and mining, energy, textiles, and education. Uzbekistan possesses substantial reserves in uranium and gold production, and its energy reforms are aimed at diversifying and enhancing efficiency, with a particular emphasis on renewable sources like solar energy. The education system is undergoing expansion, with a focus on higher education and international student exchange programs.

The Central Bank of Uzbekistan's monetary policy outlook for 2025-2027 contemplates a range of scenarios for economic development, underscoring the importance of price stability measures. Balance of payments data indicates a declining current account deficit in 2024, attributable to investment inflows. The strengthening net international investment position and international reserves underscore Uzbekistan's growing economic stability. In sum, the country's economic forecast demonstrates resilience in the face of global challenges and ongoing reforms driving sustainable growth.