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S&P Global Ratings assigns rating to Uzbekistan at BB- /B

S&P Global Ratings has affirmed the Republic of Uzbekistan's long-term and short-term sovereign credit ratings for foreign and national currency liabilities at the BB-/B level. The rating outlook remains Negative.

The Negative outlook reflects the possibility that the external debt and debt of the enlarged government of Uzbekistan could continue to increase rapidly.

S&P Global Ratings may affirm the ratings if external or extended government debt growth slows over the medium term in line with the agency's baseline scenario as economic growth accelerates and current account receipts (the "CAR") increase, thereby mitigating pressure from additional external borrowing.

The Negative outlook reflects S&P Global Ratings' view that the growth rate of external and extended government debt may not slow until 2023. Uzbekistan's foreign economic position remains quite strong compared to countries with comparable ratings. The government's net debt remains low and maintains the ratings.

S&P Global Ratings notes that over the past two years, Uzbekistan has made progress in implementing reforms and fulfilling the tasks of modernizing the economy, which should help increase the productivity of the economy and the institutional capacity of the government. However, despite the positive trend of institutions' strengthening, Uzbekistan is developing from a low level.

The government of Uzbekistan has funded several support measures aimed at combating the effects of the pandemic. Initially, this amount was about USD 1 billion but was increased in anticipation of the second wave of the pandemic. The government has spent approximately USD 1.1 billion this year, of the USD 1.3 billion (2.2% of GDP) budget additionally earmarked for COVID-19-related spending.

The Central Bank of the Republic of Uzbekistan has organized revolving credit lines of about USD 3 billion to support private businesses, provide additional liquidity for the banking sector and ATMs. At the same time, organizations operating in key sectors of the economy have the opportunity to postpone debt service payments without imposing penalties on them.

S&P Global Ratings expects real GDP growth to average about 5% per annum over the forecast period to 2023, driven by growth in the services sector, growth in production and natural resource extraction. The construction sector provides a small but growing share of GDP. For many years, the economy was largely state-owned and still depends on state-owned enterprises, making a significant contribution to the country's GDP. Simultaneously, successful reforms in the state-owned enterprise sector, including modernizing operating activities and bringing them to a break-even level, could lead to greater growth potential for the Uzbek economy. Uzbekistan has significant reserves of natural resources, including reserves of various minerals, the export of which previously provided surplus CAR. Uzbekistan is one of the 20 largest global producers of natural gas, gold, copper and uranium.

The agency estimates that by the end of 2020, the extended government's debt will amount to USD 21 billion (37% of GDP). The extended government's debt is represented mainly by external liabilities denominated in foreign currency, making it dependent on changes in the exchange rate.

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