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Uzbekistan ‘BB-’ Long-Term and ‘B’ Short-Term Ratings Affirmed

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S&P Global affirmed ‘BB-’ long-term and ‘B’ short-term ratings of Uzbekistan.

The agency said that Uzbekistan has embarked on a rapid process of economic modernization and integration with the rest of the world, utilizing its strong net external and fiscal asset positions in the process.

“The stable outlook reflects our expectation that, over the next year, Uzbekistan’s fiscal and external positions will remain strong but decline slightly, due to current account deficits and government borrowing,” S&P Global added.

“Our ratings are constrained by Uzbekistan’s low economic wealth, as measured by GDP per capita. In our view, future policy responses may be difficult to predict, given the highly centralized decision-making process and the relatively undeveloped accountability and checks and balances between institutions. Our ratings are also constrained by low monetary policy flexibility,” it noted.

Institutional and economic profile: Broad-based policy reforms have improved institutions and opened up the economy, but from a low base.

The authorities began a process of economic reforms in 2017 aimed at modernizing the economy, but challenges--such as SOE sector reforms and increasing foreign direct investment--remain. Progress with institutional reforms is also continuing but we expect decision-making to remain centralized despite improvements to governance.

GDP per capita remains low, at an estimated $1,800 in 2019, but we expect real GDP growth to remain relatively strong, averaging just over 5% over our forecast period to 2022, S&P Global stated.

“Over our forecast period through 2022, we expect real GDP growth to average just over 5%, supported by growth in the services, manufacturing, and natural resources sectors. The construction sector is a small but growing part of GDP. The economy has been government-led for many years and is still dependent on SOEs, which contribute a large share of GDP,” S&P Global stated.

“Attracting foreign direct investment (FDI) is a priority for the government. Currently, FDI inflows are low and concentrated in the extractive industries, particularly natural gas. If government reforms attract more FDI, this would reduce the debt-financing of the current account balance and help to preserve the government’s large external asset position,” S&P Global underlined.

"Better trade relations with neighbors should boost Uzbekistan's exports, especially agricultural goods. However, exports remain heavily dependent on commodities, with gold, other metals, and natural gas making up approximately 50%. Remittances and income from abroad are an important component of Uzbekistan's current account, given a large number of Uzbeks working abroad, particularly in Russia," the agency added.

S&P Global expects sustained current account deficits to mean liquid external assets exceed external debt by about 6% of current account payments on average over the forecast period, compared with 28% in 2017.
The Agency estimates the general government sector will be in a net debt position by year-end 2020.

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