

Republic of Uzbekistan: Selected Issues



REPUBLIC OF UZBEKISTAN

SELECTED ISSUES

July 2024

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REPUBLIC OF UZBEKISTAN

SELECTED ISSUES

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Central Asia
Department**

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MAKING FISCAL CONSOLIDATION MORE GROWTH FRIENDLY: LESSONS FROM THE INTERNATIONAL EXPERIENCE

This paper discusses key channels by which fiscal consolidation impacts short- and medium-term growth, examines the international experience on how to make fiscal consolidation more growth friendly, and discusses policy implications for Uzbekistan.

A. Key Channels of Impact of Fiscal Consolidation; on Short- and Medium-Term Growth

1. **The main channels of impact of fiscal consolidation on growth** are aggregate demand compression (affecting growth mostly in the short term), confidence, interest rate, and real exchange rate effects (impacting growth in the short to medium term), and economic efficiency effects (impacting growth in the medium term). In particular:

- **The aggregate demand compression effect** refers to the impact on aggregate demand of reducing government expenditures or increasing taxes which has a negative short-term impact on growth.
- **The confidence effect** refers to the impact of fiscal consolidation on consumer and business confidence. A fiscal consolidation that is credible and deemed likely to meet its goals (i.e., often a permanent fiscal deficit and debt reduction accompanied with medium-term growth benefits) can boost confidence, leading to increased private consumption and investment. It therefore provides a partial offset to the negative demand compression effect which tends to dominate in the short term except in some special cases.¹ On the other hand, if fiscal consolidation is not credible, a negative confidence effect could compound the negative aggregate demand compression effect.
- **The interest rate effect** refers to the interest rate reduction that fiscal consolidation brings about as it reduces the public borrowing requirement, which can stimulate private investment and consumption. It therefore also usually provides a partial offset to the negative demand compression effect on growth except in the same special cases alluded to above.
- **The real exchange rate effect** refers to the real exchange rate depreciation (defined as the fall in the relative price of non-tradable goods) that results from the reduced demand of tradable and non-tradable goods and services fiscal consolidation induces in a small open economy

¹ Daniel and others (2006) note that in situations of high debt and fiscal deficits, a credible fiscal consolidation may be expansionary even in the short-term implying that the confidence and interest rate effects individually or jointly could more than offset the aggregate demand compression effect. This is because the consolidation helps reduce the sovereign risk premium included in interest rates catalyzing higher private investment and raising asset values which, combined with expectation of lower taxation going forward, would also contribute to boost consumption.

where tradable goods and services prices are determined internationally. The real exchange rate depreciation incentivizes higher external demand offsetting some of the demand compression.

- **The economic efficiency effect** refers to the medium-term growth enhancing efficiency impacts of fiscal consolidation measures. Examples include revenue and expenditure measures that eliminate distortions that artificially favor inefficient economic sectors and encourage stronger competition in the economy over the medium term.

2. A credible fiscal consolidation will typically have a negative impact on growth in the short term but a positive one over the medium term.² The short-term impact on growth depends on the size of the consolidation and the size of the short-term fiscal multiplier. The latter depends on the size of the above-mentioned effects and how much can materialize in the short term. This, in turn, depends on the structural characteristics and cyclical conditions of the economy and the design of fiscal adjustment (timing, pace, composition, and duration).³ The medium-term impact depends on the extent to which the fiscal adjustment measures help improve efficiency in the economy.

3. Therefore, making fiscal consolidation more growth-friendly entails designing measures that reduce its negative short-term growth impact while increasing the positive medium term one. In some cases, there may be a trade-off between minimizing short-term negative growth effects and the positive medium-term growth effects as measures that minimize the short-term negative impact may not be as efficiency enhancing as those that have larger negative short-term growth effects. For example, increasing labor taxes may have a smaller short-term multiplier than some expenditure measures but can worsen economic efficiency in the medium term.

B. How to Make Fiscal Consolidation More Growth Friendly

The literature and the experience from IMF-supported programs discussed in IMF (2021) suggest several ways to help make fiscal consolidation more growth-friendly:

4. Time the consolidation appropriately. While picking the timing of consolidation is not always possible, consolidations that occur when cyclical conditions are favorable or when external conditions help offset weaker domestic demand with stronger exports tend to have smaller negative short-term growth impacts.

² Exceptions include situations of high debt and fiscal deficits where a credible fiscal consolidation may be expansionary even in the short term, discussed earlier, and self-defeating consolidations as in De Long and Summers (2012). Such cases may arise, for example, when, a non-credible adjustment based on temporary low quality fiscal measures fails to improve the fiscal balance and its negative longer-term impact on output leads to an increase in the debt-to-GDP ratio instead of a decline.

³ See, for example, Battini and others (2014), who suggest that countries with higher trade openness, lower labor market rigidities, large automatic stabilizers, a more flexible exchange rate regime, high debt levels, and more inefficient revenue administration and public expenditure management tend to make short-term fiscal multipliers smaller. Moreover, fiscal multipliers are smaller if the economy is in an expansion phase and if accommodative monetary policy helps cushion the impact of the consolidation.

5. Seek to consolidate gradually to the extent possible. Implementing fiscal consolidation measures gradually (that is, reducing the size of consolidation per year and avoiding very large adjustment in any given year) can help mitigate the short-term negative impact on economic growth and stabilize debt more permanently. Gradual consolidation allows the implementation of high-quality fiscal measures, which tend to take more time to implement. However, gradual consolidation may come at the expense of increased resistance to adjustment over time and may not be feasible in some countries. For example, this may be the case in countries that have high debt and financing pressures where a more front-loaded consolidation approach may be needed to restore confidence and macroeconomic stability, or in countries where a narrow window of support for consolidation and reform exists.

6. Consolidate with high quality fiscal measures. High quality fiscal measures are those that have a permanent consolidation effect while improving efficiency and equity in the economy. They are essential for the consolidation to be credible, durable, and growth enhancing in the medium term.

- **On the revenue side,** examples of high-quality measures include shifting the composition of revenue to more efficient taxes (e.g., VAT, excise duties, sin taxes, environmental taxes, and property taxes); improving equity (e.g., making the personal income tax more progressive); and eliminating distortions that make different economic sectors be subject to different effective tax rates (e.g., removing tax exemptions and incentives, avoiding reduced tax rates in presumptive regimes for small taxpayers that provide incentives to reduce firm size to take advantage of the lower rate).
- **On the expenditure side,** examples include rationalizing compensation (e.g., eliminating unnecessary allowances and non-wage benefits); eliminating distortive subsidies (e.g., fuel and energy subsidies, subsidies to loss-making state-owned enterprises); reducing the cost of procuring goods and services (e.g., procurement reform); and improving the design of social benefits to minimize unintended adverse labor market incentives and strengthen the targeting of the vulnerable.
- **The desirability of a specific mix of revenue versus expenditure adjustment will depend on the country-specific circumstances.** There is no consensus in the literature on which specific composition is best⁴. Fiscal multipliers can vary depending on the revenue or spending instruments utilized to consolidate, and as noted earlier, there may be tradeoffs between

⁴ Studies, often carried out for advanced economies, found a variety of results. For example, Baunsgaard and others (2012) surveyed the literature and found that short-term spending multipliers are larger than short-term revenue multipliers. This is in line with Keynesian theory, which argues that when taxes are increased, households accommodate part of that increase by reducing their savings and therefore do not reduce spending by the full amount of the tax increase. On the other hand, other studies, such as Alessina and Ardagna (2010), find that expenditure-based fiscal consolidation is less recessionary and could even be expansionary. Moreover, short-term multipliers can be different even across spending and revenue instruments. On the spending side, investment tends to have the highest short-term multiplier followed by wages, goods and services, and transfers to households and subsidies. On the revenue side, the ranking follows perceived distortionary effects with consumption taxes doing better than taxes on income and profits and property taxes being the most growth friendly.

minimizing short-term adverse growth effects and medium-term growth-enhancing efficiency effects. Moreover, depending on the context, yields from revenue or expenditure measures may have different degrees of certainty. That said, revenue-based consolidation tends to contribute to more durable adjustment where revenue-to-GDP ratios are low, and large consolidations generally require a combination of both revenue and expenditure measures to succeed.

7. Protect well targeted and productive social spending. Safeguarding well targeted safety net expenditure can help maintain social cohesion and support domestic demand during the consolidation process as the propensity to consume of the vulnerable tends to be higher than that of higher-income consumers. Moreover, targeted social programs can ensure that the burden of consolidation is shared equitably, facilitating public support for the consolidation. Protecting critical social expenditure with a key impact on human capital accumulation and the productivity of population—such as critical outlays for basic education and health services delivery—is also essential to avoid adverse productivity effects that weigh on medium-term growth.

8. Protect and shift the composition of expenditure towards productive public investment. For example, for a given expenditure envelope targeted in the consolidation, protecting productive infrastructure investment and shifting the composition of expenditure more towards such expenditures can not only create jobs and stimulate demand in the short run, but also enhance productivity and competitiveness in the long run. However, financing costs and risks need to be carefully assessed.

9. Strengthen fiscal institutions to promote effective implementation of fiscal policy. Even the best quality measures may not have their intended results if not implemented and communicated effectively. Evidence highlights the importance of a credible medium-term budget framework, efficient revenue administration, sound public financial management, as well as fiscal transparency. Fiscal transparency helps fiscal consolidation by improving program design (e.g., increasing realism in macro forecasts and public debate) and increasing government accountability. Fiscal rules can help too, but their effectiveness depends on countries' ability to implement them and their commitment to fiscal discipline. Capacity development plays a critical role in strengthening fiscal institutions, but such efforts take time to bear fruit and need to be tailored to country circumstances. For example, it is vital to focus on basic public financial management and information technology functions before proceeding to more challenging areas such as performance budgeting.

10. Combine fiscal consolidation with the implementation of structural reforms. This can enhance the growth-friendliness of consolidation measures. Structural reforms, such as improving labor market flexibility, enhancing competition, and promoting innovation, can boost productivity and the long-term growth potential.

11. Coordinate consolidation with supportive monetary and exchange rate policies to the extent possible. To the extent that inflation developments allow for accommodative monetary and exchange rate policies, this could help offset the short-term contractionary effects of fiscal consolidation and support private investment and consumption.

C. Implications for Uzbekistan’s Planned Fiscal Consolidation

12. Uzbekistan’s planned fiscal consolidation has several elements that contribute to making it growth-friendly:

- **Timing.** The consolidation is planned when the economy is strong and can assist monetary policy in reducing inflation.
- **Size, pace, and duration of the consolidation.** The size (2.5 percent of GDP), pace (1.5 percentage point the first year and 1 percent the second year) and duration of the consolidation (2 years) is well in line with most consolidations surveyed by Balasundharam and others (2023) which typically involve adjusting 1 to 2 percentage points per year over a 3 to 4 years horizon.
- **Quality of several measures.** A large part of the adjustment is implemented with high-quality efficiency-enhancing measures: reducing energy subsidies, improving the targeting of social spending, and curbing policy lending.
- **Protection of the vulnerable.** The introduction of an energy consumption norm subject to lower price increases, the provisions of a one-off benefit to help compensate safety net benefit recipients for additional heating costs in the winter, and the improvement in coverage of safety net programs in recent years help protect the vulnerable from energy price increases.
- **Combining the adjustment with the implementation of structural reforms.** Consolidation measures are combined with growth-enhancing structural reforms (see structural policies in the main text).

13. However, additional actions could be considered to make the adjustment more growth-friendly:

- **Introduce efficiency and equity enhancing revenue-raising measures.** After significant reforms of the VAT and mining taxation, attention could turn to excise taxes, the corporate income tax (CIT), and the personal income tax (PIT). A gradual increase in excise rates for alcohol, tobacco, nicotine, fossil fuels, vehicles and sugar would help better address externalities and provide revenue in the short term. The tax base of the CIT could be expanded by phasing out tax incentives over time, including investment deductions and exemptions, while reducing the burden of the turnover tax for small businesses. The PIT could be reformed by replacing the current flat personal income tax rate with a design that reintroduces progressivity and adjusts the exemption threshold to improve equity. The tax base should also be broadened by eliminating non-statutory exemptions from customs duties and by strengthening tax administration in line with the recommendations of the recent TADAT assessment. The latter includes performing a taxpayer register audit to ensure accuracy, preparing a compliance improvement plan to address risks across all taxes and taxpayer segments, and achieving 100 percent on-time payments by large taxpayers.

- **Avoid across-the-board spending cuts.** Goods and services were cut across the board in the 2024 budget by 10 percent. The problem with this type of measure is that cuts in dissimilar programs will not have the same economic consequences. Cutting some programs can disrupt essential services (e.g., no gasoline for ambulances, insufficient medicines for hospitals and textbooks for schools), and have adverse medium-term growth consequences (e.g., postponing proper maintenance of infrastructure) and may lead to public pressure for quickly reversing the measures.
- **Improve the efficiency of health and education spending.** The World Bank Public Expenditure Review (PER) notes that non-wage spending in health and education is low and crowded out by high wage bills, which have been growing in recent years as efforts to improve pay in these areas were implemented. This points to the need to review the adequacy of non-wage spending in these sectors and undertake wage bill rationalization more broadly since these are large sectors of public employment. In the specific case of health spending, consideration should be given to strengthening primary care and introducing task-shifting (i.e., delivering certain services with less specialized staff) which will lead to greater efficiency from health wage bill expenditure by shifting its composition over the medium term. Expediting the consolidation of a centralized purchasing agency for pharmaceuticals could also deliver substantial savings from improved prices and would help reduce out-of-pocket health expenditures, which are especially burdensome for vulnerable households.
- **Deepen the optimization of social protection programs.** The welcome integration of social safety net and social protection programs under the National Agency for Social Protection in July 2023 provides an opportunity to eliminate overlapping programs, design reforms to improve the targeting of the vulnerable, improve the design of social safety net and social protection programs to minimize disincentives for labor supply, and reduce the costs of delivering social protection.
- **Intensify the phase-out of SOE support combined with SOE reform.** Reducing budget support, subsidized/directed bank lending, and other SOE privileges combined with privatization or liquidation of SOEs that do not have a clear public policy rationale is essential for successful SOE reform. The experience of Ipoteka Bank, and the international experience of SOE reforms more broadly, illustrate the importance of phasing out SOE support to change the incentives that SOE managers face and make them accountable for results.⁵
- **Advance pension reform.** The reduction in social contributions in 2019 without a corresponding adjustment of other pension parameters is currently burdening the budget with transfers to the pension system (1.3 percent of GDP in 2023) but the burden is expected to grow as it is currently being mitigated by a young population. The pension system deficit is expected to grow significantly if the system is not reformed since aging in Uzbekistan over the next 20–30 years will be one of the fastest in the world. Parametric reforms are needed to bring retirement

⁵ See World Bank (1995), for example.

ages in line with international best practice, expand the reference wage history used for pension calculations, and make the pension system's basic parameters rule based. Pension reforms are best implemented gradually to help workers adapt to them and distribute the impact fairly across generations, so it is important to start early to avoid abrupt changes down the road forced by budget pressures.

- **Prioritize the strengthening of key fiscal institutions based on IMF CD advice. In particular:**
 - **PFM Strategy:** Prepare a new PFM Strategy for 2025-2030 that prioritizes strengthening the core budget processes, budget credibility, and fiscal discipline. In particular, the strengthening of such processes should ensure that the budget is used as a lever to drive change and improve the efficiency of spending. In particular, budget discussions should involve negotiating the whole spending envelope of a given budgetary institution and not only the new spending initiatives to ensure that new spending priorities can be accommodated in a given spending envelope by rationalizing/optimizing existing spending projects.
 - **Medium Term Budget framework.** Strengthen the budget process with a strategic phase that incorporates medium-term macro-fiscal projections at early stages to guide budget prioritization and expenditure ceilings; timely prepare and publish the Fiscal Strategy paper (FSP); align the preparation of the public investment budget with that of the recurrent budget and incorporate it in the budget documentation; determine and communicate indicative expenditure ceilings on a per institution basis for all budgetary organizations; and organize the process for authorization of within year changes to the budget.
 - **Public Investment Management:** Unify the public investment process irrespective of the financing source; create a unified appraisal and selection process; establish a single project pipeline; and improve project monitoring and evaluation to increase public investment efficiency.
 - **Fiscal transparency:** Restart reporting fiscal statistics using GFS as soon as feasible and improve the frequency and timeliness of publication of fiscal statistics to meet Special Data Dissemination Standards (SDDS).
 - **Management of fiscal risks.** Construct and publish an annual Fiscal Risk Statement, as part of the budget documentation or the FSP, covering an assessment of macro-fiscal risks and material contingent liabilities. In particular, strengthen the analysis of SOE-related fiscal risk, including analysis of SOE financial performance and explicit support provided to them. To prevent fiscal risks from PPPs, introduce a ceiling on PPP guarantees as authorized in the public debt law, taking into account the results of the ongoing stock-taking exercise.

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ENHANCING GOVERNANCE AND COMBATING CORRUPTION

1. During the 2024 Article IV consultation with Uzbekistan, IMF staff conducted a comprehensive assessment of governance issues guided by the IMF’s 2018 Framework.¹ This paper focuses on progress and areas for improvement regarding central bank governance and operations, the business environment and market regulation, restructuring and privatizing state enterprises, the rule of law, and corruption. Other aspects of the IMF’s framework—including fiscal governance and financial sector oversight—are discussed in the 2024 Article IV staff report for Uzbekistan. The assessment is based on the findings of technical experts at the IMF, informed by reports from other international organizations as well as interviews with the authorities, stakeholders from the public and private sectors, development partners, and non-government organizations.²

2. The assessment finds that Uzbekistan made progress in several areas, but more work is needed (additional details below).

- Governance of the **Central Bank of Uzbekistan (CBU)** has been enhanced with the adoption of a Central Bank Law in 2019 and measures to strengthen its internal operations, including audits, accounting standards, and compliance culture. Additional measures need to be taken to improve its governance by strengthening its independent oversight, collegial decision-making, internal controls, and safeguards for CBU staff.
- On **market regulation**, Uzbekistan has strengthened the Anti-Monopoly Committee, enacted a Law on Competition, streamlined the investment process, and stepped-up World Trade Organization (WTO) accession discussions. Investors saw noticeable improvements in the business environment. Efforts should continue to open markets, reduce monopoly power, improve the business investment, and join the WTO.
- Uzbekistan has implemented a new regime for **restructuring and privatizing state enterprises**, including identifying and setting a timeline for adoption of international accounting standards and privatization of large state-owned enterprises (SOEs). Uzbekistan is encouraged to continue to improve the efficiency of SOEs by restructuring and privatizing them and attracting private shareholders. Additional measures to ensure integrity in privatization processes should be adopted.

¹ Governance issues are routinely covered in IMF country reports when deemed macro-critical. IMF engagement on governance and corruption is guided by the 1997 guidance note on the Role of the IMF in Governance Issues and the 2018 Framework for Enhanced Fund Engagement on Governance. The framework promotes a systematic, candid, and even-handed engagement with members on governance vulnerabilities, including corruption, that are considered macro-critical. The framework focuses on state functions most relevant to economic activity, namely: (i) fiscal governance; (ii) financial sector oversight; (iii) central bank governance and operations; (iv) market regulation; (v) rule of law; and (vi) Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT); and the severity of corruption.

² Staff met with Uzbekistan’s Anti-Corruption Agency, Central Bank, Chamber of Accounts, Committee for Development of Competition and Consumer Protection, Ministry of Interior, Prosecutor General’s Office, and Supreme Court of Justice. Staff also met with representatives of businesses and non-government organizations.

- Uzbekistan has made significant reform efforts and sustained and notable improvement on **rule of law** and **corruption** indices. Nonetheless, given initial low score levels, there is sizable scope for further improvement on corruption and the rule of law. The draft Law on Asset Declarations should be presented to Parliament and enacted. An efficient income declaration system should be established and the Law on Conflicts of Interest approved. Measures to step up enforcement of access to information laws, including giving citizens the right to appeal, should be adopted. In addition, the whistleblower protection bill should be enacted and additional measures to enhance the independence of prosecutors and judges adopted.

A. Enhancing Central Bank Governance

3. Developments. Over the last several years, the government has taken important steps to improve central bank governance. In 2019, a new Central Bank Law (CBL) was enacted, establishing a good basis for the independence of the Central Bank of Uzbekistan (CBU), mandating the CBU to pursue inflation targeting, and prohibiting CBU financing of the government. In 2022, the CBU completed a safeguards assessment, carried out by the IMF following Uzbekistan's use of the IMF's Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) at the outset of the COVID crisis in 2020. Following recommendations from the IMF safeguards assessment, the CBU has recently undertaken measures to strengthen its operations and governance. It established an investment committee, approved related charter and guidelines, and adopted a road map to implement risk-based internal audits. Reputable international audit firms have carried out audits following international standards, and the transition to International Financial Reporting Standards (IFRS) is ongoing, with the first publication of the audited IFRS-compliant financial statements expected this year. The CBU also has established procedures to ensure prudent oversight of foreign exchange reserves and to promote a strong compliance culture with multiple controls.

4. Areas for action. The CBU should follow up on the outstanding safeguards assessment recommendations, including:

- Naming a majority of independent members to the CBU Board.
- Ensuring the Audit Committee consists exclusively of independent members.
- Introducing collegial decision-making for executive management of the CBU.
- Improving financial personal autonomy safeguards for CBU staff.
- Aligning CBU functions with international best practice.

B. Improving the Business Environment and Market Regulation

5. Developments. The government aims to increase the private sector share of the economy to 85 percent by 2030. To this end:

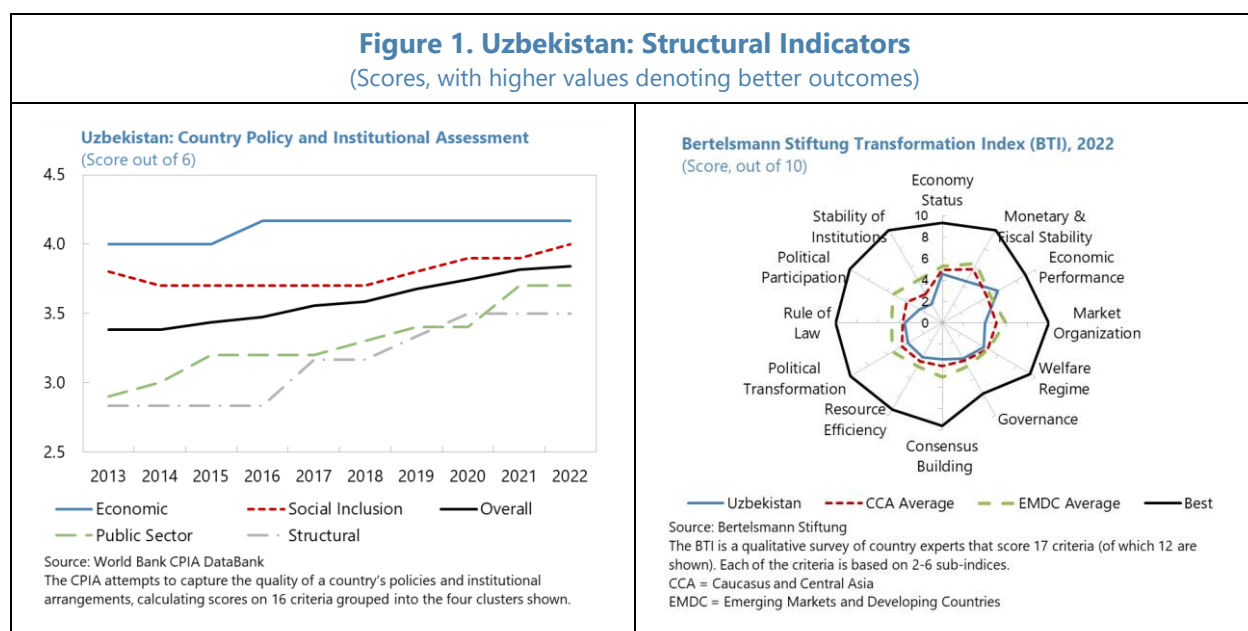
- In 2023, the government established an investment center and tasked the Ministry of Investment, Industry, and Trade (MIIT) with assisting investors to obtain permits, land, and access to infrastructure. The government also mandated the establishment of independent market regulators in aviation, electricity, natural gas, railways, and telecommunications. The independent regulators will set prices and aim to make management of natural monopolies more effective.

- In 2023, the government enacted a [Law on Competition](#), defining dominant market power and superior bargaining power. It sets penalties for abuse of such powers and clarifies conditions when preliminary consent is needed from the Anti-Monopoly Committee (AMC), reorganized as the State Competition Promotion and Consumers Protection Committee (SCPCPC) in 2022.

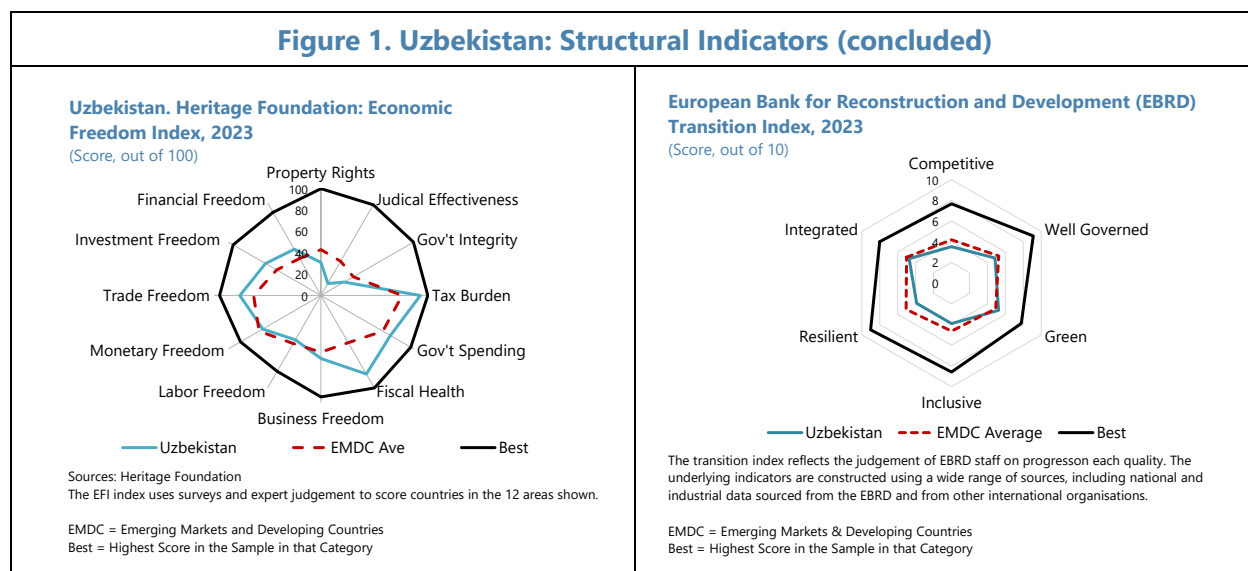
6. The government has stepped up WTO accession discussions. They restarted in July 2020, and additional meetings were held in June 2022, March 2023, and November 2023. As part of the accession process, extensive information was submitted on the foreign trade regime, including on subsidies, intellectual property, and non-tariff barriers. To accelerate the process, the government issued several decrees in 2023 to align laws with WTO rules and regulations. It also established a special department in the Ministry of Justice to ensure compliance with WTO rules and created WTO divisions in 20 ministries and agencies. As part of the accession process, bilateral negotiations with 31 members of the WTO are being conducted. As of May 2024, negotiations had been concluded with 11 members.

7. Assessment. According to a 2022 European Bank for Reconstruction and Development (EBRD) survey, firms said the business environment is friendly and that licensing, investment facilitation, the tax system, and infrastructure have improved. Firms saw less progress on access to finance, rule of law, and competition policy.³ Good progress has been made on WTO accession. In November 2023, WTO members commended Uzbekistan’s steps to bring its domestic laws in line with WTO rules and to establish institutions to promote and monitor accession efforts.

8. Areas for action. The government should continue to open markets, reduce monopoly power, and promote a friendly and predictable investment environment. It should continue its strong efforts to join the WTO, which would reduce barriers to trade and provide improved access to foreign markets.



³ See OECD (2023), [Insights on the Business Climate in Uzbekistan](#), OECD Publishing, Paris.

Figure 1. Uzbekistan: Structural Indicators (concluded)

C. Restructuring and Privatizing State Enterprises

9. Uzbekistan's economy is dominated by state-owned enterprises (SOEs) in key sectors, including banking, chemicals, energy, mining, manufacturing, telecommunications, and transportation. As of 2020, the Asia Development Bank (ADB) estimated that 73 percent of joint stock companies had some degree of government ownership and control. In addition, many large state enterprises performed supervisory roles in their sectors, conflicting with their role as enterprise managers. In many cases, government officials also served on the Boards of SOEs and intervened in management decisions or set prices.⁴

10. Over the past several years, several key measures were implemented with support from the ADB, EBRD, World Bank and advice from international consultants:

- In 2019, the government issued a [Decree on Attracting Foreign Direct Investment](#) that designated state assets to be sold and companies that would offer shares to investors and established the Tashkent Investors Forum.
- In 2020, the government issued a **Decree on Accelerating the Reform of State Enterprises and Privatization of State Assets**. The decree designated which state enterprises would be restructured, prepared for privatization, privatized, or sold at public auction. The largest SOEs were assigned to the Ministry of Finance with others assigned to the State Asset Management Agency (SAMA). The government also mandated that all large corporate taxpayers produce financial statements according to IFRS.
- In 2022, the government set out a timeline for privatization of state banks and state enterprises. It also developed an action plan to eliminate monopolies' exclusive rights and to further promote the private sector.

⁴ See Umidjon Abdullaev (2020). [State-Owned Enterprises in Uzbekistan: Taking Stock and Some Reform Priorities](#). Asian Development Bank Working Paper No. 1068.

- In 2023, the **Law on State Property Management** gave SAMA sole authority for policies on state property, mandated that ownership and regulation functions be separated, and established evaluation of executives based on performance.

11. The government has focused on restructuring and privatizing state enterprises and promoting greater investment via foreign direct investment and public-private partnerships.

To prepare SOEs for privatization, the government has required state enterprises to transition to IFRS, reformed corporate boards, and boosted efforts to improve corporate governance. Over the last several years, several medium-sized enterprises have been privatized, including a Coca Cola bottling plant, a fertilizer company, an oil refinery, a cement plant, and several smaller SOEs. In 2023, the 5th largest bank was sold to Hungary's OTP and efforts to privatize two large state banks are ongoing. Nonetheless, many large enterprises remain to be privatized. While the pace of reform may be slower than the government and investors had initially hoped for, this reflects in part the scale of the reforms, which also created difficulties in other countries.

12. Efforts to improve the efficiency of SOEs enterprises via restructuring, privatization, and attracting private shareholders, should be sustained.

Independent regulators should be established so that SOEs can focus on commercial objectives. Further procedures could also be adopted to ensure the integrity of SOE privatization, including procedures to prevent conflicts of interest and abuse of power.

D. Rule of Law and Anti-Corruption⁵

Corruption Vulnerabilities

13. Despite many challenges, since 2017 significant efforts were made to promote rule of law and combat corruption.

- In January 2017, as one of its first acts, the new government enacted the [Law on Combatting Corruption](#). The law specified the roles of ministries and agencies in combatting corruption, measures to fight corruption including government openness and accountability, and efforts to educate the public.
- In 2020, a [Presidential Decree](#) established the [Anti-Corruption Agency](#) (ACA) with a broad mandate, including analyzing the nature of corruption, formulating policies to prevent corruption, and coordinating the activities of ministries and agencies. The ACA leads the implementation of internal control/compliance systems of government agencies and state-owned enterprises (including banks), implementing and monitoring measures to boost integrity and prevent and manage conflicts of interest, monitoring the National Corruption Perception Index (which measures corruption vulnerabilities in regions, sectors, and other spheres), leading the openness initiative for state bodies and organizations, and conducting administrative investigations of corruption offences. The ACA is also expected to be responsible for monitoring

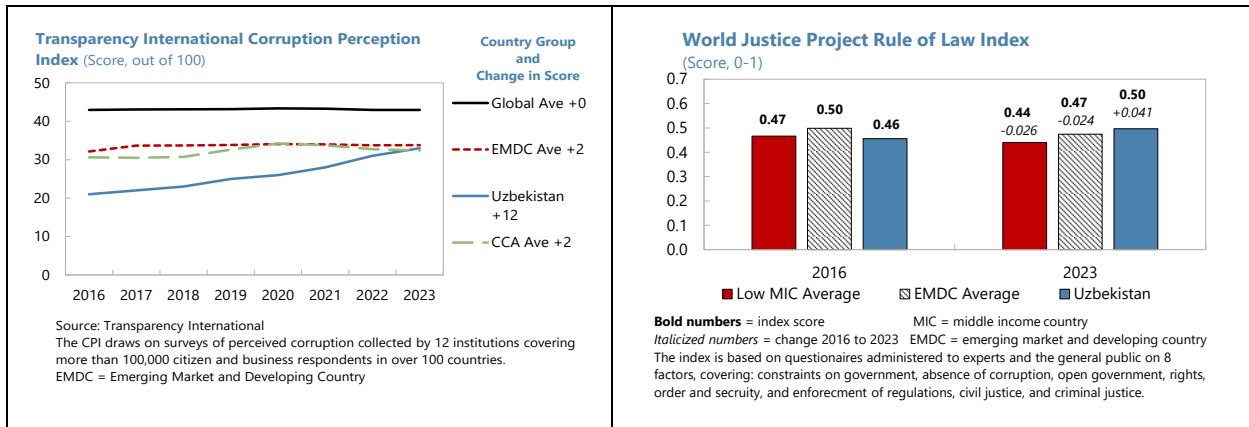
⁵ This section covers weaknesses and frameworks in connection with the enforcement of contracts and property rights, cognizant that the most important determinant of the enforcement of economic rights is the quality of the judiciary—both its technical capacity and its independence from private and public interference.

compliance with the asset declaration and conflicts of interest regimes once the relevant legislation is enacted.

- In 2021, the [Law on Public Procurement](#) was enacted. It requires that procurement bids be carried out through a public procurement portal and that information on bids, including the identities of beneficial owners, be recorded in a unified register available to the public free of charge.
- In 2023, the ACA established regulations regarding the conditions for receiving and reporting gifts to public officials.
- Most recently, the government drafted a Presidential Decree to improve Uzbekistan’s anti-corruption framework and expand enforcement mechanisms. The Decree would also approve a National Anti-Corruption Strategy through 2030 and a Roadmap to implement the Strategy in 2024-2025.

14. Scores on rule of law and corruption indicators have improved significantly in recent years.

- From 2016—before recent reforms started—to 2023, Uzbekistan’s overall score on the **World Justice Project’s Rule of Law Index (WJP RLI)** improved from 0.46 to 0.50.⁶ This improvement was the largest of any country in the world. Uzbekistan also showed the largest improvement on the absence of corruption sub-index.
- In some areas, Uzbekistan is significantly above the global average, including the sub-indices on order and security (0.90 vs. a global average of 0.72) and the speed of civil justice (0.77 vs. 0.44).
- From 2016 to 2023, Uzbekistan improved 12 points on **Transparency International’s Corruption Perceptions Index (TI CPI)** and was tied for the 3rd greatest improvement.



⁶ [WJP Rule of Law Index | Uzbekistan](#). For an explanation on the methodology used see: [WJP Rule of Law Index - Methodology](#). The Rule of Law Index is on a scale from 0 to 1, with 1 denoting the best outcome. It reports data on eight factors: (1) constraints on government powers, (2) absence of corruption, (3) open government, (4) fundamental rights, (5) order and security, (6) regulatory enforcement, (7) civil justice, and (8) criminal justice. These are further disaggregated into 44 specific sub-factors. The WJP explains, “The country scores and rankings presented in this report are built from more than 500 variables drawn from the assessments of over 149,000 households and 3,400 legal practitioners and experts in 142 countries and jurisdictions”.

15. Nonetheless, scores improved from a low base and have only recently reached the Caucasus and Central Asia (CCA) and Emerging Markets and Developing Economies (EMDC) averages; scores on some sub-indices of the WJP RLI remain low. These include impartial administration of the criminal justice system (0.44 vs. a global average of 0.47), protection of property rights against undue expropriation (0.29 vs. 0.56)⁷, corruption in civil justice (0.46 vs. 0.56), and improper government influence on civil justice (0.27 vs. 0.52). On another index, the Bertelsmann Transformation Index (BTI), Uzbekistan scores 4 out of 10 on independence of the judiciary.⁸ These results suggest that courts' ability to protect property rights, enforce contracts, and ensure evenhandedness in civil justice should be further improved.

16. There is sizable scope to further address corruption vulnerabilities, including in macro-economically important sectors. Despite the improvement in governance and rule of law indicators, corruption vulnerabilities across key state functions remain. A 2022 poll conducted by the Anti-Corruption Agency (ACA) of Uzbekistan found that 39 percent of young people surveyed do not consider giving bribes to be corruption.⁹ Other surveys found that corruption is perceived as most severe in the health, education¹⁰, tax¹¹, extractive industries¹², procurement¹³, construction, and telecommunications sectors.¹⁴ The prevalence of corruption in education and health is of special significance for sustainable economic development, vulnerable communities, and women. Access to information and monitoring of concession agreements for use of land and infrastructure projects is another concern according to some stakeholders. Uzbekistan has seen significant development and foreign investment in land development-related projects, but there remain challenges regarding access to information. This could undermine public trust and create opportunities for corruption, for example in licensing and concession agreements for the use of land.

17. Links between the private and public sector across government levels and areas of the economy pose significant risks. Information from several sources suggests that checks and balances are affected by insufficient prosecutorial and judicial independence with insufficient civic participation. In this regard, there have been recent positive developments, including the creation of a Supreme Board for the Selection of Judges, improved norms regulating recruitment of law

⁷ For data on impartial administration, read here: [WJP Rule of Law Index | Uzbekistan | Criminal Justice](#); and for information on protection of property rights against undue expropriation, read here: [WJP Rule of Law Index | Uzbekistan | Regulatory Enforcement](#)

⁸ [Transformation Atlas 2022 \(bti-project.org\)](#)

⁹ U4. Anti-Corruption Agency of the Republic of Uzbekistan 2022a.

¹⁰ U4. Idem. "In 2021, the Anti-Corruption Agency rated the Ministry of Health, the Ministry of Higher and Secondary Specialized Education and the Ministry of Construction and Housing and Communal Services as the most corrupt government bodies in the country (Kun.uz 2021). A year later, the senate of Uzbekistan stated that healthcare and education were the most corrupt sectors in Uzbekistan (US State Department 2022). According to a statement from the chair of the National Anti-Corruption Council in 2021 "every third criminal case initiated in the courts has been committed by officials of health care, education, or banks" (Qalampir.uz 2022b).

¹¹ OECD Report on Anticorruption Reforms in Uzbekistan issued following the 4th Round of Monitoring of the Implementation of the Istanbul Action Plan, 2019. P. 40.

¹² U4. P.14.

¹³ Uzbekistan: Corruption and Anti-Corruption. [corruption-and-anti-corruption-efforts-in-uzbekistan.pdf \(u4.no\)](#)

¹⁴ A governmental research center, the Uzbekistan's parliament, and the Anti-Corruption Agency.

enforcement and judges, and a requirement that new judges have completed studies at the newly established Judicial Academy.

18. The government has improved procurement regulations and transparency, yet more could be done to ensure access to information, statistics, and data. In December 2019, the government issued Decree No. PP-4544 "On measures to further improve public procurement system and to broadly involve business entities in public procurement process". In 2021, a [Law on Public Procurement](#) was enacted which mandated that procurement occurs through a public procurement portal and that bidders must provide information on beneficial owners. Procurement data is entered into a unified register and made available on the internet, improving the ability to detect, report, and prevent conflicts of interest and influence peddling. However, the ACA would benefit from additional tools to ensure compliance with legal requirements on openness and access to information.

19. Information on state agencies and state-owned enterprises should be available by default and citizens' right to seek and disseminate that information should be ensured. From 2016 to 2022, Uzbekistan rose from 166 to 133 out of 180 countries on the Reporters without Borders' Freedom of the Press Index, although it has dropped somewhat recently. The Anti-Corruption Agency has continued its positive efforts by creating a department to promote openness of government and access to public information. It has also designed and implemented a **National Corruption Perception Index**, which measures the openness and corruption risks of government agencies. These efforts should be sustained, and additional legal instruments should be adopted to ensure citizens have adequate remedies in cases of unjustified restrictions on access to information.

Institutional Frameworks

20. Uzbekistan has taken important steps to combat corruption and improve inter-agency coordination and independence. These include creating the Law Enforcement Academy in 2018 and the Anti-Corruption Agency in 2020, strengthening the Prosecutor General's Office, and increasing the independence of the Chamber of Accounts and the judiciary as part of the 2023 Constitutional reform. The mandate of the Anti-Corruption Agency is consistent with member obligations under the UN Convention against Corruption (UNCAC) and has catalyzed the adoption of reforms and significantly improved inter-agency coordination. Implementing recommendations provided by the World Bank would contribute to streamlining the operation and effectiveness of ACA. Moreover, the Prosecutor General works in coordination with the National Council for Combatting Corruption, which oversees the implementation of biannual programs to fight corruption (the last one being the 2023-2024 Program to Fight Corruption).

21. Institutional frameworks should be reformed to ensure effective coordination and prosecutorial independence. Additional safeguards should be adopted to ensure the independence of the Prosecutor General's Office, particularly for prosecutors dealing with corruption cases. A clear and enhanced procedure should be put in place for the selection of prosecutors, particularly to ensure the integrity, independence, and competence of those leading corruption cases. Further, safeguards could be put in place to prevent potential unjustified removals of prosecutors from

sensitive cases or from office. In this regard, it would be helpful to issue clear guidelines on application of the norms of removal from cases outlined under the law.

22. Judicial independence and integrity are improving. The creation of the Supreme Board for the Selection of Judges and the strengthening of the Judicial Academy and its training programs for judicial officials have significantly improved the selection process of judges. In addition, information technology and digitization reforms have been recently implemented, thus improving independence, integrity, and efficiency of courts, partly due to automated distribution of cases, reinforced cyber security systems, enhanced transparency, access to laws, judicial decisions, and live streamed trials. The integration of dispersed databases of the judicial branch is a noteworthy achievement.

23. Additional measures could be adopted to prevent corruption risks and the potential influence of vested interests:

- **Further strengthening the criteria and selection process for judges and creating specialized anticorruption courts.** An independent assessment mechanism using external experts could evaluate and provide recommendations on new decrees that regulate the criteria and selection process for judges.¹⁵ The creation of specialized anticorruption courts could also be considered. Specialized courts would have greater expertise and result in more efficient decision-making.
- **Adopting additional safeguards for the selection of auditors and ensuring adequate resources for the Chamber of Accounts.** Uzbekistan's Chamber of Accounts is independent under existing laws, but additional legislation could be introduced so that the Chair and key members of the Chamber of Accounts can only be removed in compliance with international standards.¹⁶ This would further protect the Chamber from undue influence from other branches of government. Consideration could also be given to expanding its activities to ensure adequate oversight over SOEs, with higher priority given to those with higher risk. Ensuring that the Chamber has sufficient resources (e.g., IT systems and staff) to carry out its duties would also be important. If the Chamber's activities are expanded to cover SOEs, additional staff with expertise in risk-based audits, accounting, and SOE oversight would be needed.

Legal Frameworks

24. In recent years, authorities have taken steps to update and strengthen the anticorruption legal framework, in line with Uzbekistan's obligations under UNCAC. The ACA drafted a law on asset declarations, which is expected to be presented to Parliament and enacted in the near term. In 2022, the government adopted a legal framework (Resolution of the President of the Republic of Uzbekistan, PP-240, 2022) that promotes a risk-management approach to corruption, aims to accelerate digitization of public administration, fosters identification of conflicts of interests

¹⁵ U4. P.13.

¹⁶ [Uzbekistan - United States Department of State](#)

in procurement processes, and mandates the implementation of the E-Anticorruption Project.¹⁷ Other positive measures include adoption of decrees that stipulate rewards for individuals reporting corruption¹⁸, promote an intolerant attitude towards corruption¹⁹, adopt additional measures for the effective organization of anticorruption activities²⁰, improve the activities of the Anti-Corruption Agency²¹, and introduce a rating system for assessing the effectiveness of anti-corruption work.²² Further, legal reforms aim to boost fairness in the recruitment and promotion of public officials.²³

25. Efforts to improve the legal framework for the prevention and detection of corruption should continue. To strengthen the legal frameworks under Articles 19 and 21 of the Law on Anti-Corruption, comprehensive norms on conflicts of interests and the ethical conduct of public officials should be promulgated promptly. The draft law on asset declarations should be presented to Parliament and enacted swiftly and an efficient income declaration system established. The digital platform where officials' asset declarations will be recorded and made accessible to the public should be promptly implemented. Staff considers that digitizing declarations will facilitate effective monitoring and comparison with information from other sources, boosting the government's ability to ensure compliance. The ACA could join efforts with the State Tax Committee, which has expressed its willingness to lead by example by piloting the asset declaration platform.

26. Some whistleblower protection provisions are contained in Articles 25 and 28 of the Law on Anti-Corruption²⁴ and the Law on Rewards for Whistleblowers. Yet, the whistleblower protection regime could be strengthened to better protect against threats, retaliation, or harassment.²⁵ The approval of the Whistleblower Protection Bill²⁶ should be expedited and

¹⁷ [PP-240, 05/11/2022. On measures to improve mechanisms for eliminating corruption risks in public administration and expanding public participation in this area \(lex.uz\)](#) The methodology for the norm needs to be adopted is still in the making. Further, the operationalization of the platform E-Anticor.uz needs additional development.

¹⁸ Decree of the Cabinet of Ministers of December 31, 2020 No. 829 ["On approval of the regulation on the procedure for rewarding persons who reported corruption offenses or otherwise provided assistance in the fight against corruption". The main documents on combating corruption \(uzbekgeofizika.uz\)](#)

¹⁹ Decree of the President of the Republic of Uzbekistan, dated July 6, 2021, No. UP-6257 ["On measures to create an environment of intolerant attitude towards corruption, to radically reduce corruption factors in state and public administration, as well as to widely involve the public in this process". The main documents on combating corruption \(uzbekgeofizika.uz\)](#)

²⁰ Decree of the President of the Republic of Uzbekistan dated July 6, 2021, No. PP-5177 ["On additional measures for the effective organization of anti-corruption activities". The main documents on combating corruption \(uzbekgeofizika.uz\)](#)

²¹ Decree of the President of the Republic of Uzbekistan dated December 7, 2021 No. PP-34 ["On additional measures to further improve the activities of the Anti-Corruption Agency of the Republic of Uzbekistan". The main documents on combating corruption \(uzbekgeofizika.uz\)](#)

²² Decree of the President of the Republic of Uzbekistan dated January 12, 2022 No. PP-81 ["On measures to introduce a rating system for assessing the effectiveness of anti-corruption work". The main documents on combating corruption \(uzbekgeofizika.uz\)](#)

²³ Resolution of the President of the Republic of Uzbekistan, dated 05/11/2022 No. PP-240

²⁴ [LRU-419-сон 03.01.2017. On combating corruption \(lex.uz\)](#)

²⁵ Law on Rewards for Whistleblowers (2020)

²⁶ [Whistleblower Protection Bill Discussed | Anticorruption.uz](#)

decriminalizing defamation, which would boost public oversight of public officials, should be considered.²⁷

27. Transparency and access to information could be further improved. The Laws on Anti-Corruption and the Openness of the Activities of Public Authorities and Management establish citizens' right to access information on the operations of public bodies and a duty of openness in public administration. However, Uzbekistan's WJP scores on publication of laws and government data and on right to information were 0.26 and 0.35, respectively.²⁸ Clear legal procedures for citizens to appeal denials of requests for information could be provided. Global experience indicates greater transparency reduces the risk of corruption. Particular attention should be paid to sectors such as extraction of minerals, public construction projects, and privatization of state enterprises. IMF staff welcomes the establishment of the government's electronic procurement portal in 2021 that provides enhanced access to information about procurement contracts and the identities of beneficial owners.

28. Staff commends the application of the provision on examination of normative legal acts for consistency with anticorruption efforts contained in the Law on Anti-Corruption. The mandate to revise draft legislation to avoid such risks is good practice. Other measures that could be helpful include clarifying when a review is applicable, how draft laws should be improved, and the ministry or agency responsible for the review.

29. Areas for action:

- Present to parliament, obtain approval, and enact the asset declaration regime drafted by the ACA and other stakeholders; establish an efficient income declaration system; and launch the digital platform for the publication of asset declarations of officials as provided in the law. IMF staff supports piloting asset declarations with officials from the tax administration.
- Train anticorruption officials in each state agency on conflict of interest rules and create opportunities to educate public officials on how to report or seek advice on conflict of interest issues.
- Enact a comprehensive whistleblower protection law, consistent with international best practice, that enhances whistleblowers' protection from retaliation, and specifically creates channels to report corruption while ensuring the anonymity of whistleblowers.
- Adopt measures to increase transparency and access to information by creating a right to appeal denials of information requests. Grant the ACA powers that ensure accountability and sanction lack of compliance.
- Revise rules for disclosing conflicts of interest and beneficial ownership for those bidding on state enterprises and assets. The ACA should design a plan to detect and address potential risks arising from privatization.

²⁷ A similar course of action was made by OECD in 2019.

²⁸ [WJP Rule of Law Index | Uzbekistan | Open Government](#) 2023

Enforcement

30. The government has taken steps to detect and punish cases of petty corruption.

Enforcement agencies continue to fight petty corruption with a significant number of cases resulting in conviction. Additional efforts could boost prosecution of corruption across all levels of government.

31. Detection and prosecution of officials for corruption cases could be strengthened.

According to information provided by the Prosecutor General's Office, low and mid-level officials involved with corruption are generally prosecuted in the context of petty corruption, while prosecution of public officials involved in more serious corruption cases is less common. Nonetheless, it is notable that there have been prosecutions of more than 20 corrupt judges, which has led to their debarment and conviction.

32. Strengthening government interaction with civil society would help detect corruption.

The Anticorruption Law grants non-governmental organizations and the media powers to help fight corruption. Additional safeguards against retaliation would enhance their effectiveness.

33. Areas for action:

- Adopt measures to boost the independence of prosecutors and judges with jurisdiction over corruption-related cases in line with international best practice. Improving the recruitment process for prosecutors and judges would ensure they meet the highest standards of integrity and competence.
- Continue to develop a risk-based, strategic plan to improve fiscal oversight and audits of public spending in areas vulnerable to corruption, utilizing databases and information collected by the Chamber of Accounts.
- Adopt legal amendments to boost the independence of the head of the Chamber of Accounts.