



NEWSLETTER №3

2019 Highlights

Economic statistics (2019)

- Consumer price index (CPI) was **13.6%** (yoy) as of June, 2019; **0.5 per cent** deflation in June.
- Industrial output growth reached **6.8%** as of May, 2019;
- Foreign Trade growth in January-May, 2019 amounted **23,7%**.

- Global Capital Bond Awards 2019:**
2nd Most Impressive issuer in the CIS region.
- Reforms agenda:** *New decree on restructuring and reforming joint stock companies as well as commercial banks with government ownership of 50% and more stipulates indispensable rules for the whole process. International Financial institutions are to support Uzbekistan's Public financial management and State-owned enterprises reform.*
- 4th largest Uzbekistan's bank in term of assets Ipoteka bank** will be privatized until the end of 2022 through IFC cooperation program as per Cabinet of Minister's resolution "On measures for further transformation of the joint-stock commercial mortgage bank "Ipoteka-Bank".
- Central Bank of Uzbekistan:** *The Board has agreed to issue a banking license to the Joint-Stock Commercial Tenge Bank owned by the BB-rated Halyk Bank of Kazakhstan.*
- ADB** is to support the Government of Uzbekistan to introduce projects on PPP basis in the water supply and sanitation sector in four cities.
- Uzbekistan plans to join the International Islamic Trade Finance Corporation (ISTFC) and the Islamic Corporation for the Insurance of Investments and Export Credit (ICIEC)**



Content:

1. Statistics at a glance:	2
2. Reforms agenda.....	2
3. Macroeconomic environment	3
4. Monetary policy and banking sector	5
5. Uzbekistan in global markets.....	8
6. Borrowing statistics and eurobonds.....	6
7. DMO activities	8
8. Economic indicators: anticipated timetable	8

Foreign exchange update:

31.03.2019

30.06.2019

	31.03.2019	30.06.2019
U.S.\$/UZS	8,389.97	8,562.34
EUR/UZS	9,491.57	9,731.96
RUB/UZS	129.72	135.52

2019 STATISTICS AT A GLANCE:

Key macroeconomic indicators			Government finance		
	As 1 st of June 2018	As 1 st of June 2019		As of 1 st June 2018	As of 1 st June 2019
Nominal GDP, UZ\$trn (as of 1st April 2018).	71.8 ⁽¹⁾	91.1 ⁽¹⁾	Consolidated budget balance/GDP, %	0.1 ⁽¹⁾	0.5 ⁽¹⁾
CPI, (yoy)	119.0	113.7	Official reserves assets, U.S.\$bn	28.1	26.5
Foreign trade turnover, U.S.\$bn (as of June 1)	12.7	15.8	Foreign currency reserves, U.S.\$bn (<i>in months of reserves</i>)	13.6	11.0
Fitch Ratings	BB- (Stable)		5 year tranche ⁽²⁾	3.57%	105.01%
Standard & Poor's	BB- (Stable)		10 year tranche ⁽²⁾	4.43% ⁽²⁾	107.31%

⁽¹⁾ As of quarter 1 2018 and 2019
⁽²⁾ As of 1st July 2019

1. REFORMS AGENDA

Commercial banks with government share and state owned entities are to be restructured and privatized

On May 21st Presidential decree №4325 was passed stipulating essential rules of restructuring and reforming joint stock companies as well as commercial banks with government ownership of 50% and more. Accordingly, Ministry of Finance is set as a coordinating body of the whole process with its newly confirmed organizational structure. Ministry is responsible for the following functions pertaining to the restructuring and reforming:

- coordinate the process of restructuring entities and banks with state ownership;
- develop single medium-term strategy in management, reforming, and effective ownership of entities with state ownership;
- liberalize the price of goods and services as well as tariffs offered by SOEs;
- create favorable conditions for such entities to attract foreign direct investments and in cooperation with the Agency prepare them for such reforms;
- effectively and efficiently construct the reform process involving reliable foreign experts and financial institutions;

Additionally, Ministry will work together with Central Bank as well as the State Assets Management Agency on any measures set to be implemented on timely and fully manner before reforming the commercial banks.

The World Bank to support Uzbekistan's Public financial management and State-owned enterprises reform

New project was approved the World Bank's Board of directors worth U.S.\$ 33mn in support of Uzbekistan's transition into a market-oriented economy.

The focus areas of the project are:

- creating capacity and tools for effective management and oversight of state-owned entities;
- the development of a pipeline of public-private partnerships (PPPs);
- updating and drafting relevant laws and regulations;
- preparing privatization and PPP transactions;

Ultimately, the project will support the activities of the Economic Council, created under the President of Uzbekistan in January 2019 for high-level coordination of the government's economic reforms.

New agency under the Ministry of Economy and Industry to be created

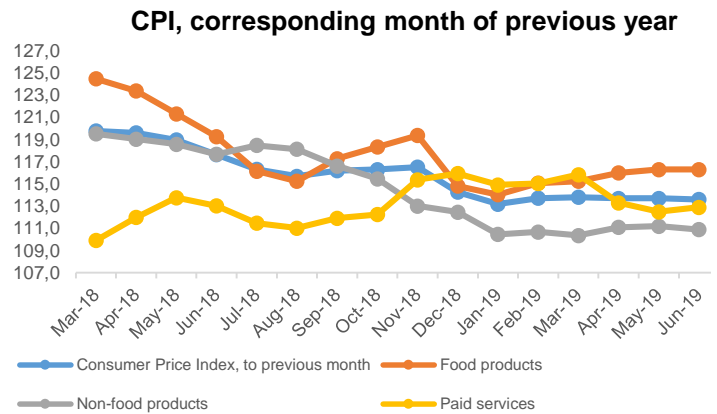
Urbanization Agency under the Ministry of Economy and Industry of the Republic of Uzbekistan will be created as the Presidential decree has passed on 31 May. The agency will be focused on:

- promoting single government policy on urbanization process;
- implementing modern market mechanisms in usage of land;
- developing program of stimulating labor mobility from regions to cities, directed at educating population of rural areas to new industry specializations;
- managing over formation of urban agglomerations;
- complex enhancement of settlement system for city dwellers taking into account foreign practices.

2. 2019 MACROECONOMIC ENVIRONMENT

Consumer Price Index (CPI)

In June 2019 consumer price decline was observed with deflation of 0.5 per cent. In comparison to June 2018, the average price level in the republic's consumer sector increased by 13.6%. The goods and services for the month went up by 0.7%. Specifically, food products price declined by 1.8%, whereas non-food and services increased by respective 0.6% and 0.7% for the month.

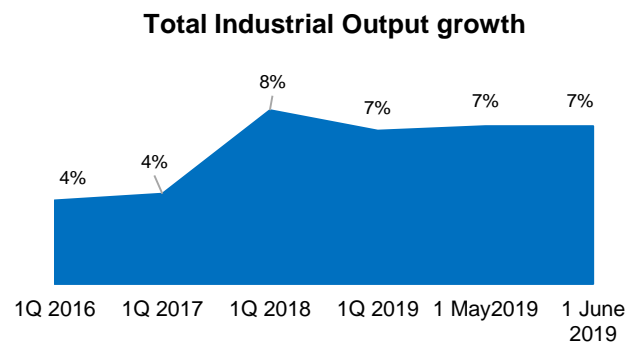


Source: State Committee of the Republic of Uzbekistan on Statistics

Industry

According to preliminary data, as at 1st of June 2019, industrial goods were produced amounting UZS 120.7 trillion, the industrial production index for the same period of last year made up 107.0%

The main factor behind the growth in total industrial production was the increase in mining and quarrying by 7.4%, manufacturing - by 7.4%, electricity, gas, steam and air conditioning - by 3.1%, water supply, sewerage, waste collection and disposal - by 9.6%.



Foreign trade

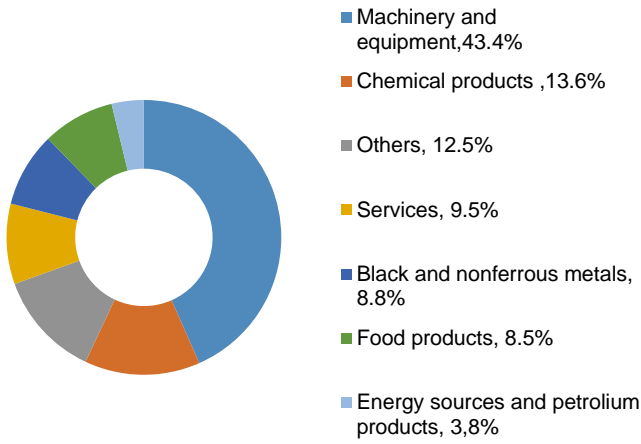
In first six months of 2019, Uzbekistan has traded relations with more than 159 countries of the world. In particular, the foreign trade turnover within the period January-May 2019 amounted to U.S.\$ 15,759.3mn and increased by U.S.\$ 3,018.5mn or increase by 23.7% compare to same period last year. Exports reached U.S.\$ 6,420.6mn (growth rate - 14.1%), and import U.S.\$ 9,338.7mn (growth rate - 31.3%). The foreign trade balance recorded a deficit of U.S.\$ 2,918.1mn.

The development of foreign trade relations of Uzbekistan is based on the real needs of the national economy, which is in the process of market reforms. At the same time, it is aimed at integrating Uzbekistan into the world economy.

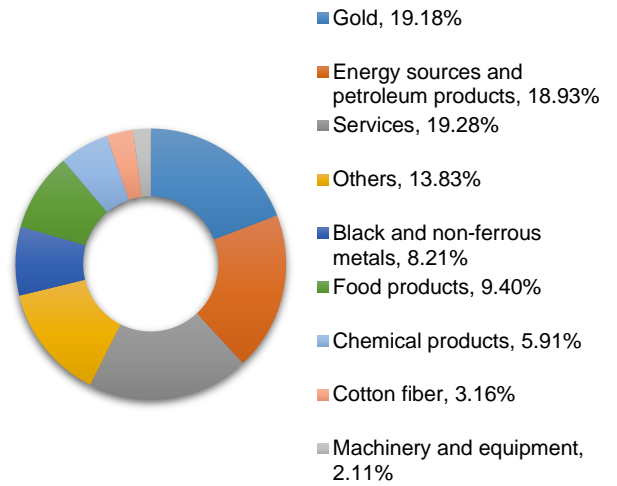
In January-May 2019, enterprises engaged in the export of goods increased by 673 units and their total number reached 3,521 units compared to the same period last year.

As a result of measures taken by the government to strengthen cooperation with the CIS countries and comprehensive support for foreign trade, the share of mutual trade with the CIS member states in Uzbekistan's foreign trade turnover reached U.S.\$ 5,557.2mn.

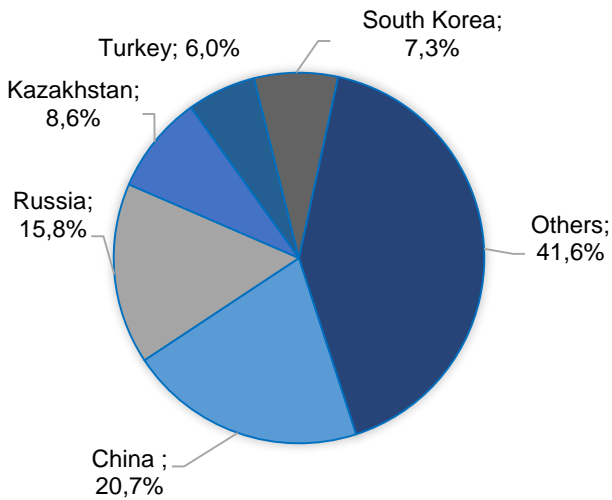
Structure of Imports as of June 1st 2019



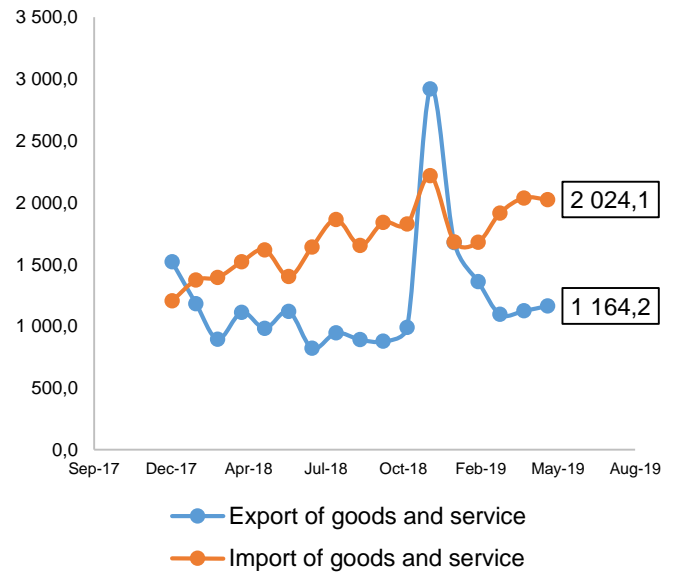
Structure of Exports as of June 1st 2019



Geographical distribution of foreign trade turnover of Uzbekistan (As of 1st June 2019)



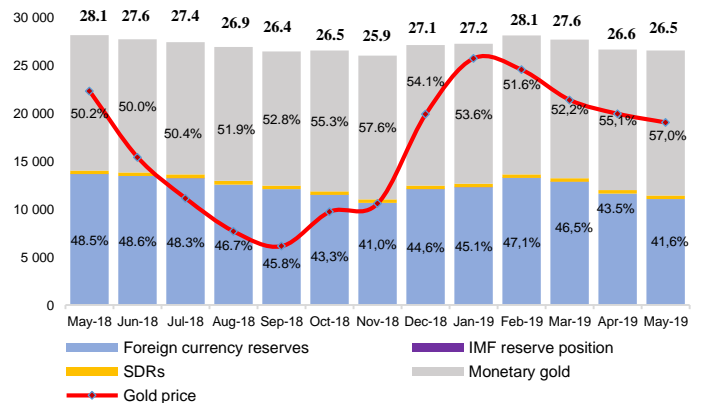
Monthly international trade (as of 1st June 2019)



Official Reserve Assets

As at 1st June, official reserve assets declined by U.S.\$115.2bn (by 0.4%), of which monetary gold have increased by 3.0% in comparison to last month. In the meantime, foreign currency reserve has decreased by 4.8% for same period. CBU adheres to the principle of "neutrality of gold and currency reserves".

Official reserve assets, in USDbn (end of period)



Source: Central Bank of the Republic of Uzbekistan

3. MONETARY POLICY AND BANKING SECTOR

Liquidity in the banking system

In 2018, gold purchases by the Central Bank from domestic gold miners, increase in government expenditures and money supply were main causes of higher liquidity in banking system.

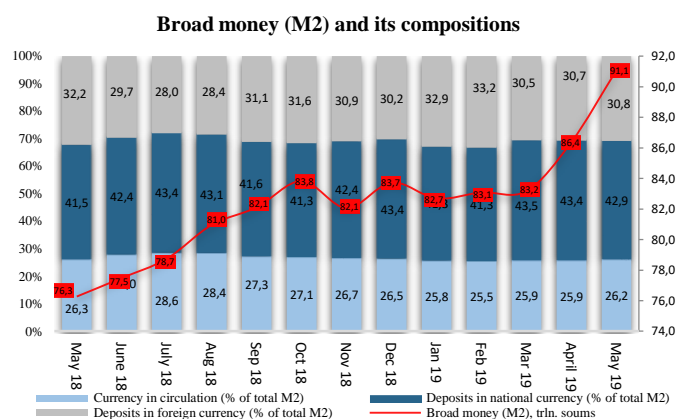
A number of action were taken by the Central Bank and the Ministry of Finance of the Republic of Uzbekistan which helped reduce the excess liquidity. These actions were domestic market interventions (sterilization of liquidity as a result of gold purchases from domestic gold miners), deposit auctions by Central Bank of the Republic of Uzbekistan and the primary issuance of domestic treasury securities.

Indicator name	June 1 st , 2018	June 1 st , 2019
Highly liquid assets (<i>billion UZS</i>)	35 183	29 943
Ratio of highly liquid assets to total assets	19,1%	11,5%
Current liquidity ratio (<i>minimum: 30%</i>)	56,3%	87,4%
Liquidity coverage ratio (<i>minimum: 100%</i>)	202,5%	203,2%
Net stable funding ratio (<i>minimum: 100%</i>)	107,5%	108,5%
Immediate liquidity ratio (<i>minimum: 10%</i>)	35,3%	40,3%

Source: Central Bank of the Republic of Uzbekistan

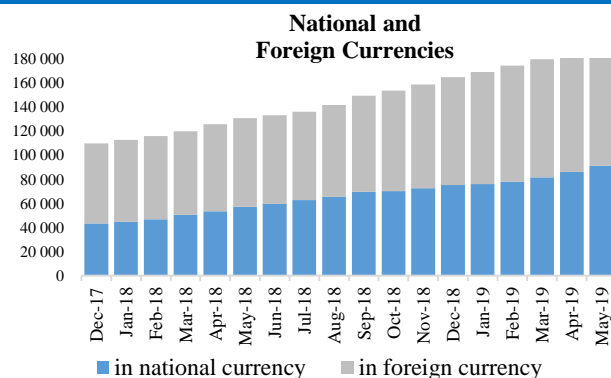
Broad Money (M2)

As of 1 June 2019 the broad money (M2) increased by 19.4% and currency in circulation increased by 19.2% compared to the last year same period. Deposits denominated in national currencies increased and in foreign currencies decreased by respective 3.5% and 4.3% within the same period of comparison.



Credits into economy

As at 1 June 2019, the growth rate of credits remains high. Credit to the economy in national and foreign currencies has increased by 60% and 46% respectively compare to the same period last year. In general, credit to the economy grew by 52% in comparison to the corresponding month of the previous year.



Source: Central Bank of the Republic of Uzbekistan

Banking system stability indicators of the Republic of Uzbekistan

billion UZS

	1Q2016	1Q2017	1Q2018	1Q2019	01.06.2019
Regulatory Tier 1 capital to risk-weighted assets	14.26%	13.21%	17.89%	14.51%	13.2%
Regulatory Tier 1 capital	6,969.3	8,451.5	20,620.0	24,789.2	25,530.1
Risk weighted assets	48,885.3	63,956.7	115,291.4	170,798.9	192,829.2
Highly liquid assets to total assets	24.76%	19.07%	20.79%	8.45%	11.49%
Highly liquid assets	17,015.1	17,303.6	36,253.0	19,631.8	29,943
Total assets	68,727.2	90,724.8	174,373.7	232,090.0	260,578
Capital to total assets	11.54%	10.79%	13.33%	12.19%	11.45%
Capital at the end of period	7,933.1	9,787.9	23,247.8	28,292.0	29,809
Total assets	68,727.2	90,724.8	174,373.7	232,090.0	260,578
Nonperforming loans to total gross loans	1.43%	0.86%	1.17%	1.45%	1.42%
Nonperforming loans	598.0	516.7	1,413.7	2,666.2	2,904.7
Total gross loans	41,813.1	59,847.6	121,040.1	184,392.6	203,955.1

source: Central Bank of the Republic of Uzbekistan

source: Central Bank of the Republic of Uzbekistan

4. UZBEKISTAN IN GLOBAL MEDIA

GlobalCapital Bond Awards 2019: 2nd most impressive
Russian, CIS and former CIS countries



5. BORROWING STATISTICS AND EUROBONDS

Total Public and Publicly Guaranteed (PPG) Debt

As at 1 April 2019, total PPG debt of the Republic of Uzbekistan amounted to **U.S.\$16,975mn** which is **29.4%** of GDP.

	U.S.\$ mn	as % of GDP	as % of foreign currency reserves	as % of official reserve assets
External PPG debt, total	11,688.83	22.43%	90.93%	42.29%
Domestic PPG debt, total	5,316.20	10.14%	-	-

Source: Ministry of Finance of the Republic of Uzbekistan

Domestic Treasury Securities

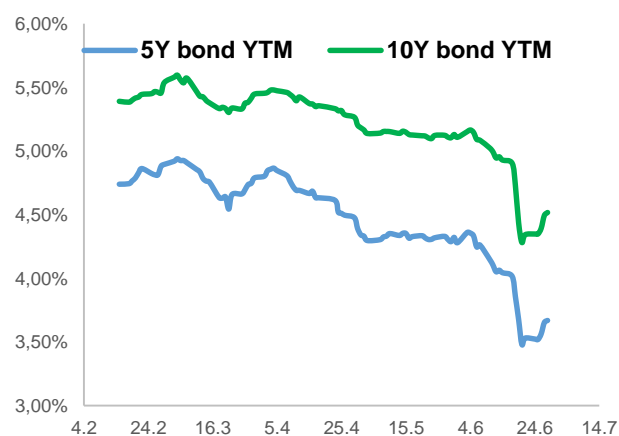
The Ministry of Finance in collaboration with the Central Bank of the Republic of Uzbekistan has issued next treasury bonds with tenor of 2 year at the lowest weighted average yield of 7.73% per annum. The Ministry of Finance has outstanding treasury bond amounting UZS 1 450 bn as of first 6 months of 2019 at various rates and tenor majority of which are two year bonds. Ultimately, the average oversubscription for all issuance was three time (triple).

The following table provides information about the placement of treasury securities of the Republic of Uzbekistan:

Date of auction	Maturity date	Amount, (thousand)	Total nominal value of securities placed to auction, (UZS bn)	Orderbook, (UZSbn)	Total nominal value of securities issued, (UZS bn)	Amount to be redeemed at maturity date, (UZS bn)	Weighted average annual yield
26.12.2018	26.06.2019	200.0	200.0	223.0	184.100	197 100	14.10%
27.12.2018	27.12.2019	200.0	200.0	229.3	203 000	232 000	14.22%
28.12.2018	24.12.2021	200.0	200.0	221.6	205 000	295 700	14.86%
19.02.2019	19.02.2020	60.0	60.0	123.3	60 884	69 000	13.33%
27.02.2019	27.02.2020	40.0	40.0	83.3	40 715	46 000	12.98%
05.03.2019	05.03.2020	30.0	30.0	30.0	30 015	34 500	14.94%
12.03.2019	12.03.2020	40.0	40.0	109.5	40 160	46 000	14.54%
19.03.2019	19.03.2020	80.0	80.0	142.8	81 463	92 000	12.94%
08.05.2019	08.05.2020	100.0	100.0	509.0	104 100	115 000	10.47%
15.05.2019	15.05.2020	100.0	100.0	478.7	104 100	115 000	10.47%
22.05.2019	21.11.2020	100.0	100.0	295.1	122 450	115 000	10.22%
04.06.2019	03.06.2021	100.0	100.0	240.8	106 753	117 200	9.82%
12.06.2019	11.06.2021	100.0	100.0	339.8	110 270	129 900	8.93%
19.06.2019	16.06.2021	100.0	100.0	521.1	112 567	129 900	7.73%
Total as at 21.06.2019			1 450,00	3 547.30	1 505 470	1 734 300	12.26%

Source: Ministry of Finance of the Republic of Uzbekistan

Eurobonds



Overall, during May the price of 5-year bond was between 101.52-101.91% and that of 10-year bond's was in the range of 101.45-102.03%. On 28th of May the prices of both 5&10Y bonds peaked with YTM reaching the lowest level that has been observed (4.30% and 5.11% respectively). Nevertheless, the upward trend in price of bonds continues and as of June 28th it constitutes respective 104.57% and 106.64%. The YTM for corresponding bonds made up 3.67% and 4.52% on the same date. The main driving factor behind the gradual decline in YTM was rate cut by Federal Reserve.

1. DMO ACTIVITIES

DMO team members took part in Debt Sustainability Framework (DSF) Training presented by the World Bank at Joint Vienna Institute

On 20-24 May 2019 training was delivered by World Bank and IMF experts which aimed to present the key features of the revised framework and provide hands-on training in the use of new DSF for Low-Income Countries template. In duration of the course the followings were closely studied:

- the structure of reformed LIC DSF;
- the way realism tools are used and stress tests are held;
- identification of debt carrying capacity;
- granularity in risk rating and use of judgment



One of our DMO team member participated in Fiscal Sustainability Course by IMF's Institute for Capacity Development (ICD) at the Academy of the Ministry of Finance of Georgia

On 13-17 May 2019 course was delivered by ICD's experts which aimed to present the main aspects of fiscal sustainability. The course provided a thorough overview of how to assess fiscal sustainability from a policy and tools perspectives, and let participants to discuss tools to understand fiscal risks and early warning indicators used by the IMF, sovereign debt management strategies and debt crisis.



7. ECONOMIC INDICATORS: ANTICIPATED TIMETABLE

JULY



20

CBU meeting on refinancing rate

Debt Management Office, Ministry of Finance

29, Istiqlol, Yunusobod distr., Tashkent city, 100017, the Republic of Uzbekistan

Phone: (+99871) 239-4804, E-mail: DMO@mf.uz

Web-site: www.mf.uz