



# Republic of Uzbekistan credit rating discussion

15 September 2020

# Rating-Agentur Expert RA (RAEX-Europe)

- The Agency works since 2013 in **Frankfurt am Main**
- **The CRA, registered by the European Securities and Markets Authority (ESMA)**
- **Official status** of External Credit Assessment Institution (ECAI)
- International **rating service team** with diverse academic and professional experience
- More than **20 years of experience** in the analytical researches and risks analysis

# RAEX- Europe activities

- Assigning **credit ratings** to:
  - ✓ Sovereign issuers
  - ✓ Sub-sovereign issuers (regions)
  - ✓ Banks
  - ✓ Insurance companies
  - ✓ Companies from non-financial sectors
- Assigning **non-credit ratings: ESG ratings** (environmental, social and governance)
- Additional **services for stock-exchanges: Green/Social/ Sustainable Bond Second Opinion**
- **Business-conferences** and presentations in Frankfurt-am-Main

# Sovereign credit ratings of CIS countries



Country	Sovereign government rating		Outlook
	National currency	Foreign currency	
Kazakhstan	BBB-	BBB-	Stable
Russia	BBB-	BBB-	Stable
Azerbaijan	BB+	BB+	Negative
Georgia*	BB	BB	Stable
Armenia	BB-	BB-	Stable
<b>Uzbekistan</b>	<b>BB-</b>	<b>BB-</b>	<b>Stable</b>
Belarus	B	B	Stable
Kyrgyzstan	B	B	Negative
Tajikistan	B	B-	Negative

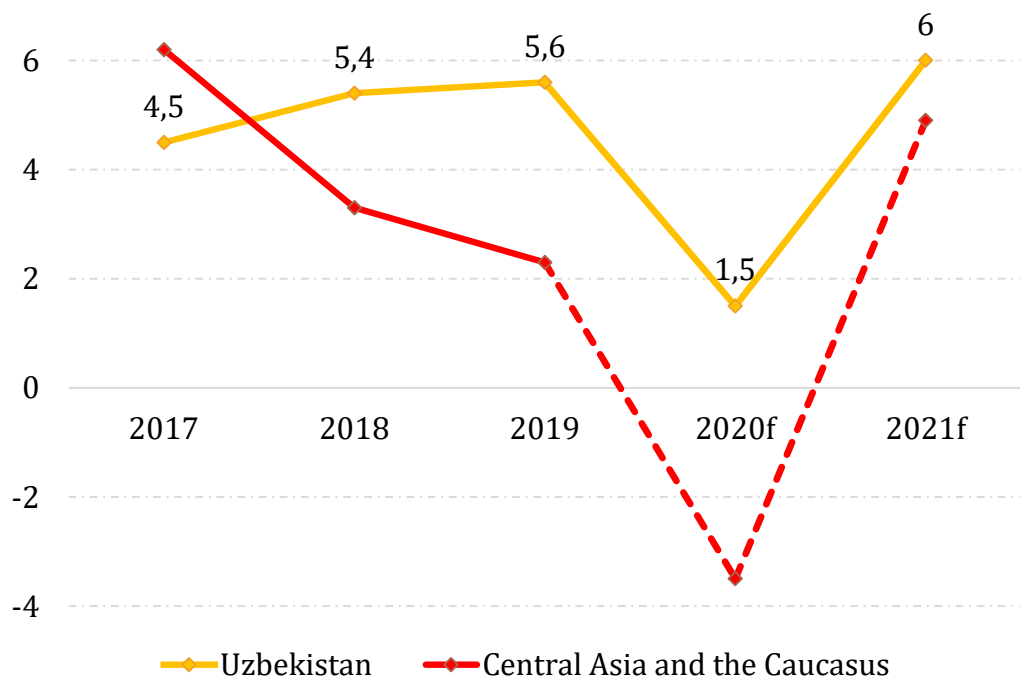
\* Not CIS member

Source: RAEX-Europe

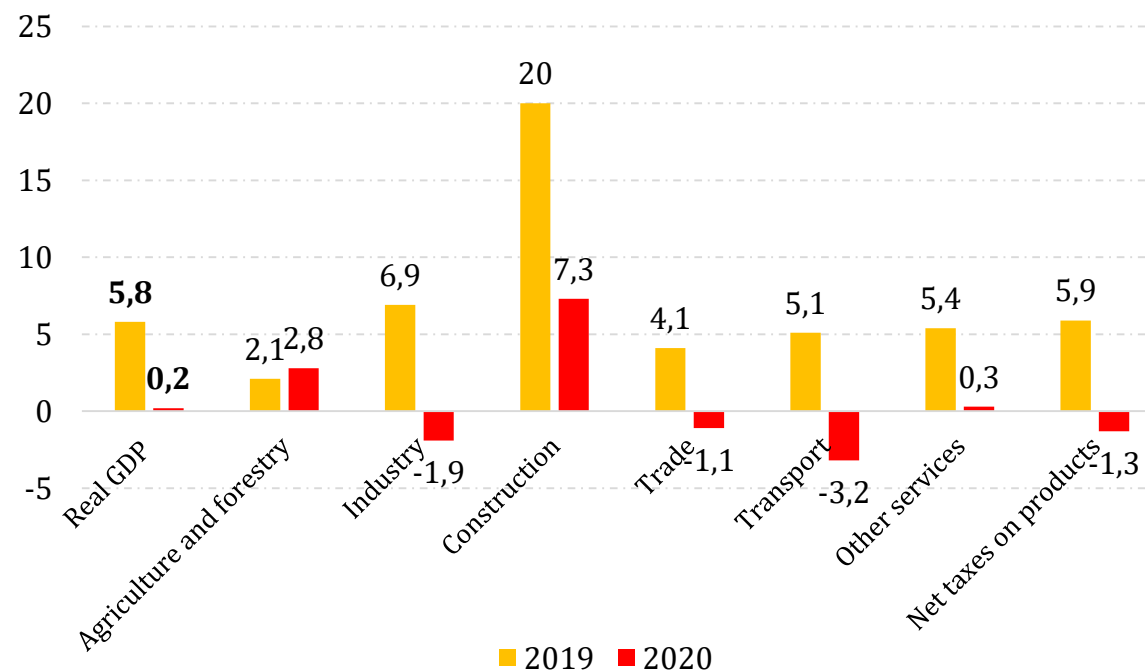
# Positive factors

- **Positive real GDP growth despite COVID-19 crisis:** the year-end GDP growth expected to stand at 1,5%, with a subsequent recovery to 5-6% in the medium term

Real GDP growth, % y-o-y



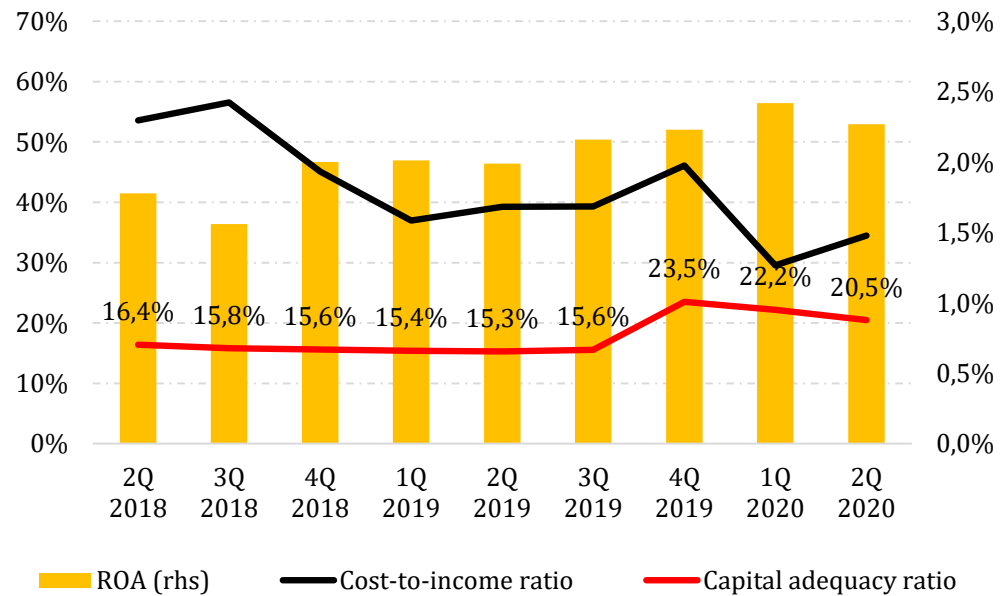
Real GDP growth by type of economic activity for January-June 2019 and 2020, %



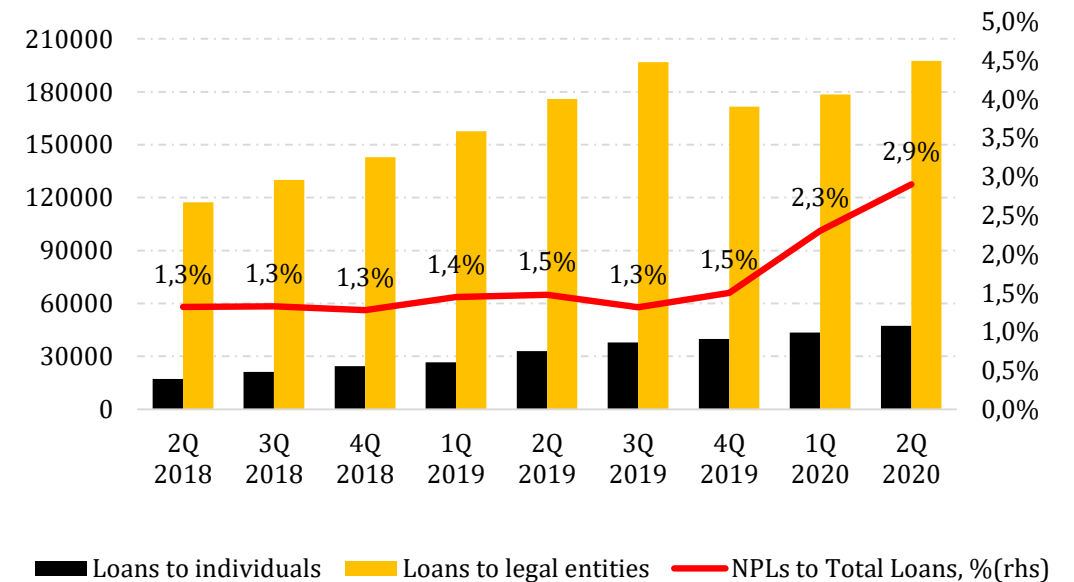
# Positive factors

- The banking system of Uzbekistan demonstrated a **positive financial result with acceptable capital adequacy levels**
- The **level of NPL is manageable** despite gradual increase, while elevated risks of materialization of contingent liabilities persists

Profitability and capital adequacy metrics, %



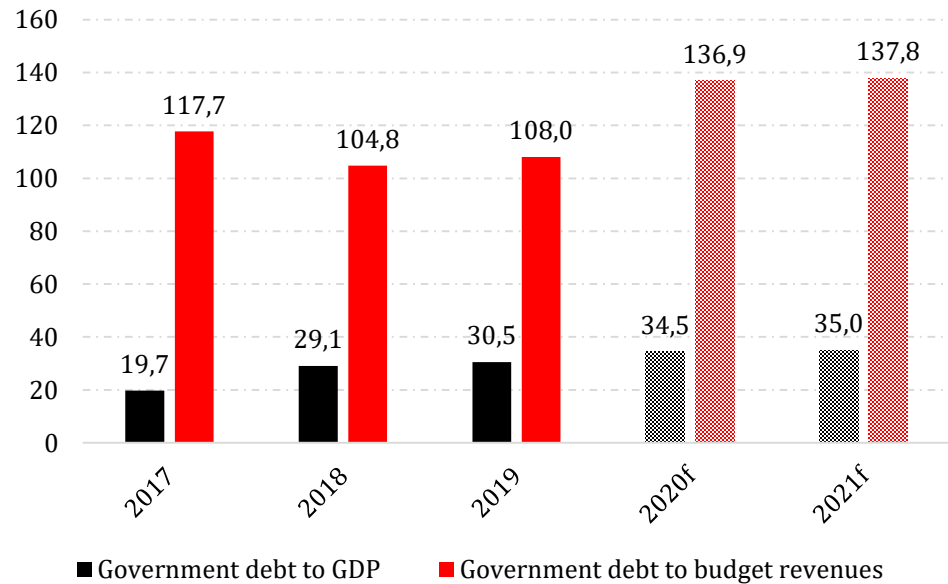
Capital adequacy and asset quality metrics



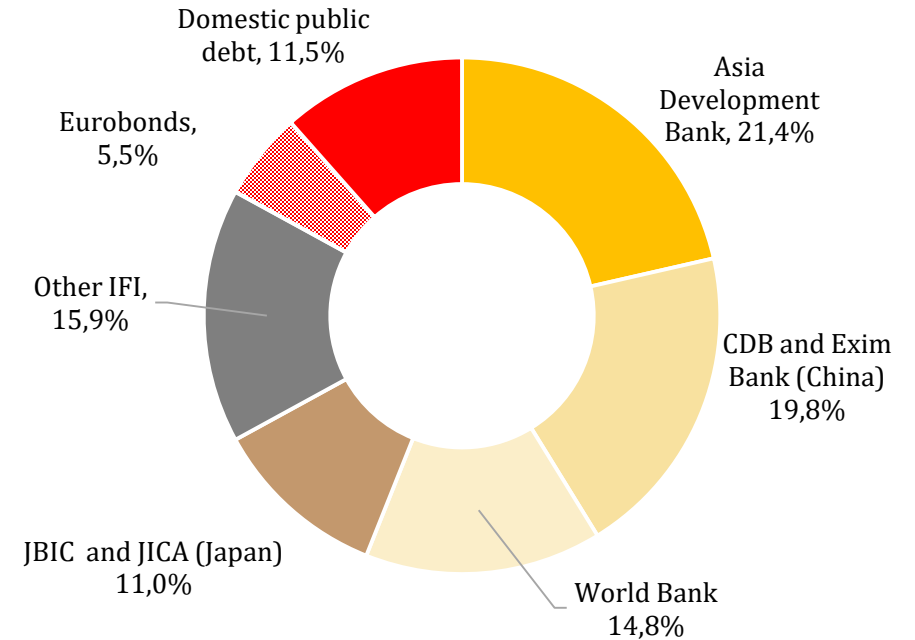
# Positive factors

- **Overall government debt** of Uzbekistan keeps increasing and estimated to reach 34,5% of GDP and 137% of budget revenues but remains at acceptable levels, while **most of the debt is represented by long-term concessional agreements**

Government debt dynamics, %



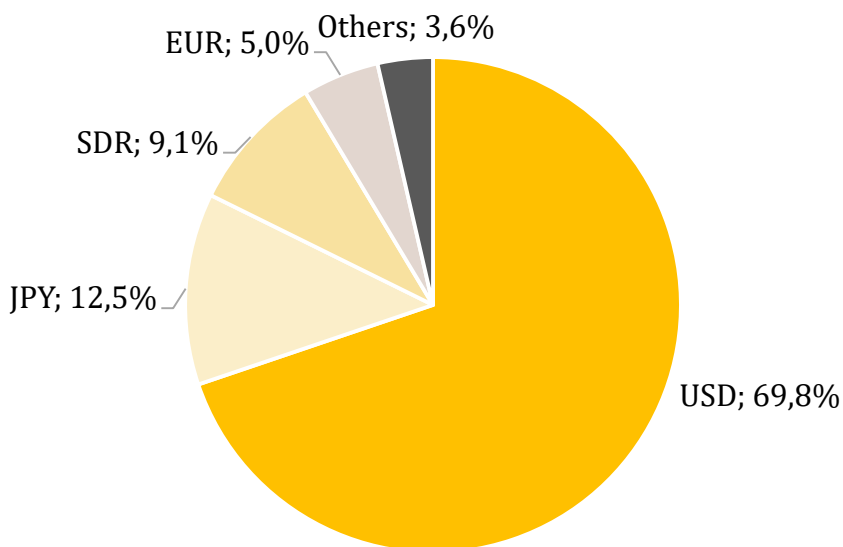
Government debt structure as of 1Q 2020, %



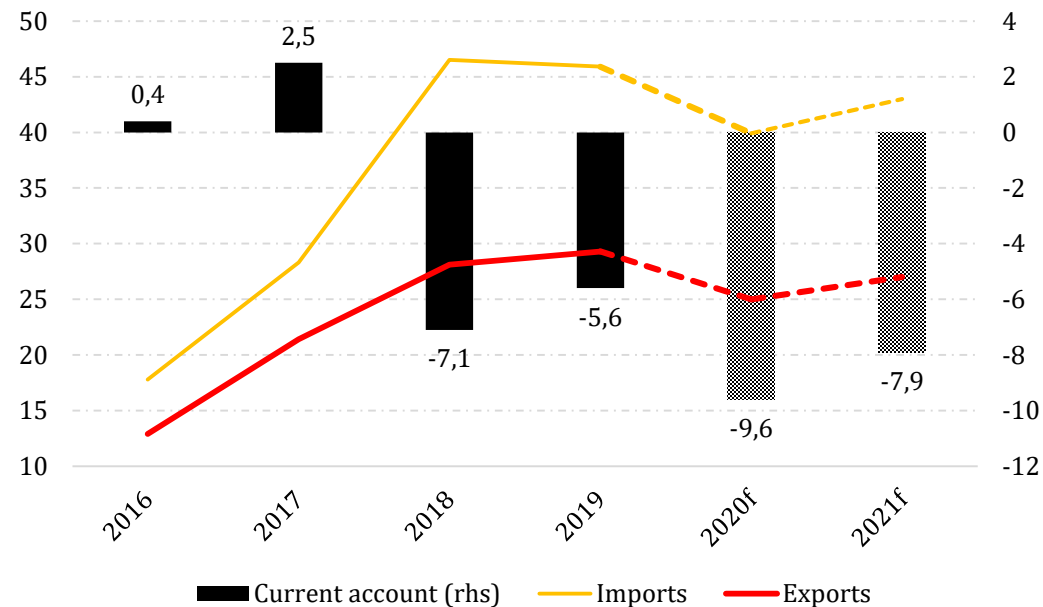
# Restricting factors

- Due to the dominance of FX-denominated obligations in the structure of public debt and high volatility of the national currency, the **debt position remains vulnerable to exchange rate fluctuations**
- In 2020 we anticipate the **current account deficit to widen to almost 10% of GDP**
- The **unemployment rate remained elevated** at 9,3% in 2019 and we expect a sharp increase in the number of unemployed given the high share of labor migration to neighboring countries

Currency structure of public external debt as of March 2020 , %



External sector indicators, % of GDP

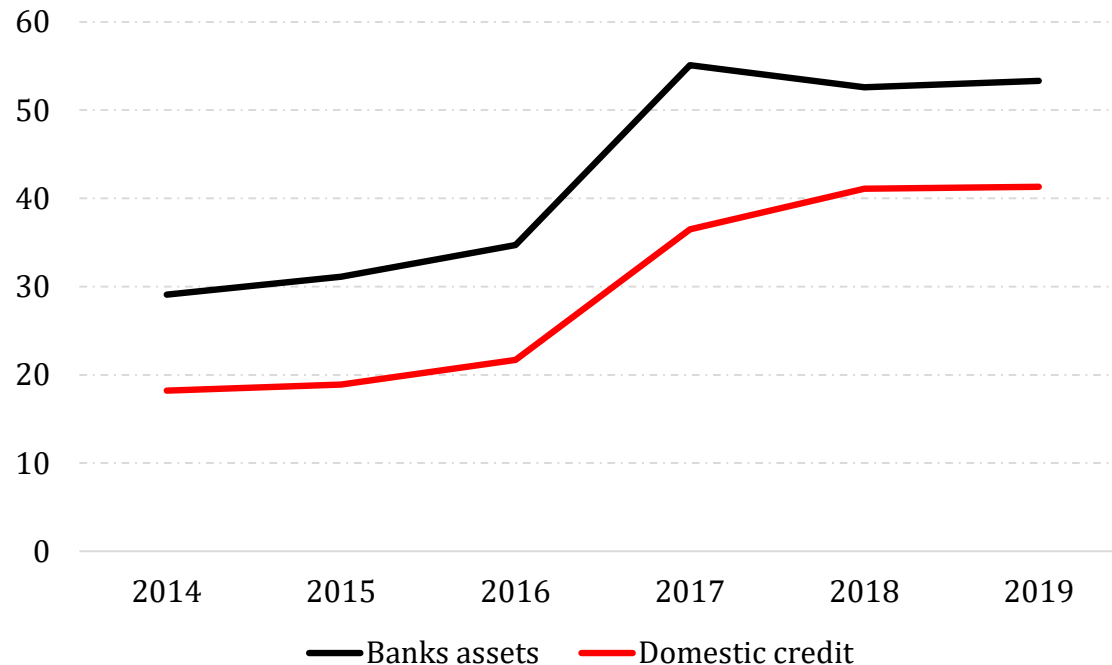




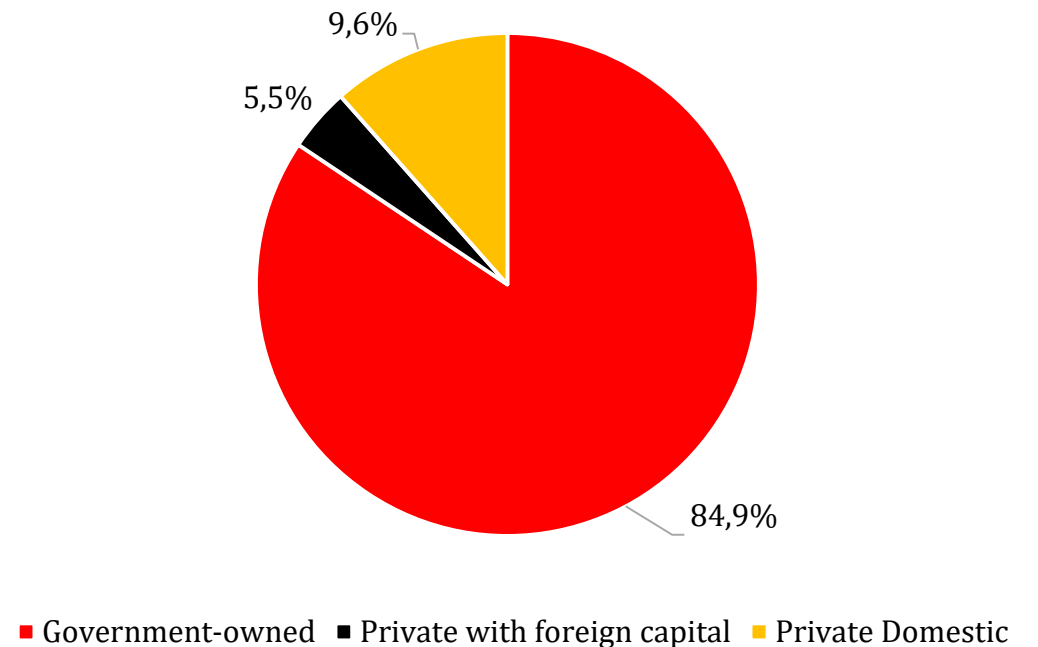
# Restricting factors

- The ratio of **banking system assets and domestic loans to GDP** remains at moderate levels of 52,1% and 40,4% respectively, while the role of the financial sector for the economy is limited by the high concentration on state-owned banks

Credit to the economy dynamics, % of GDP



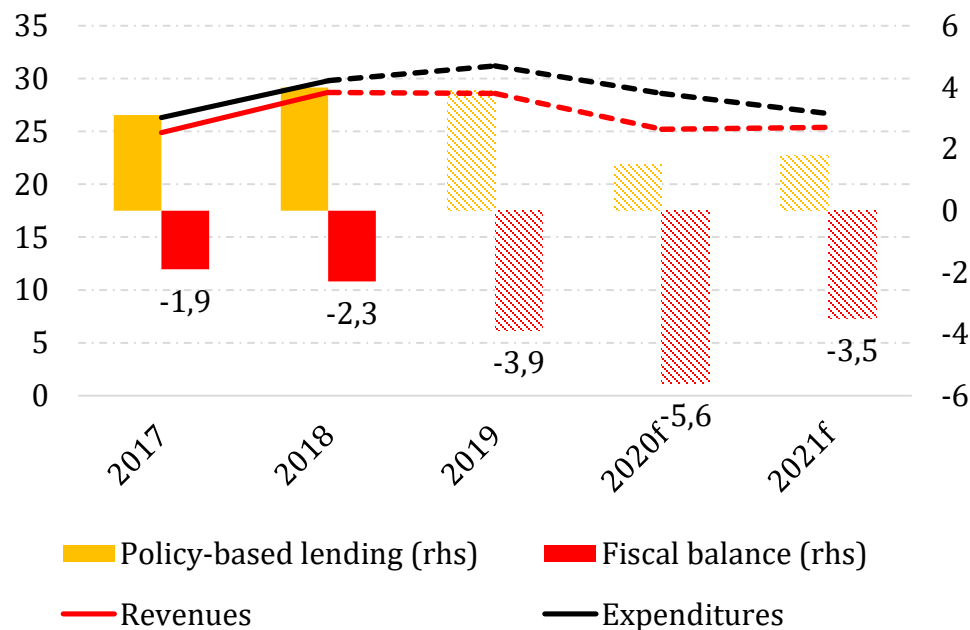
Structure of the banking system assets as of July 2020, %



# Restricting factors

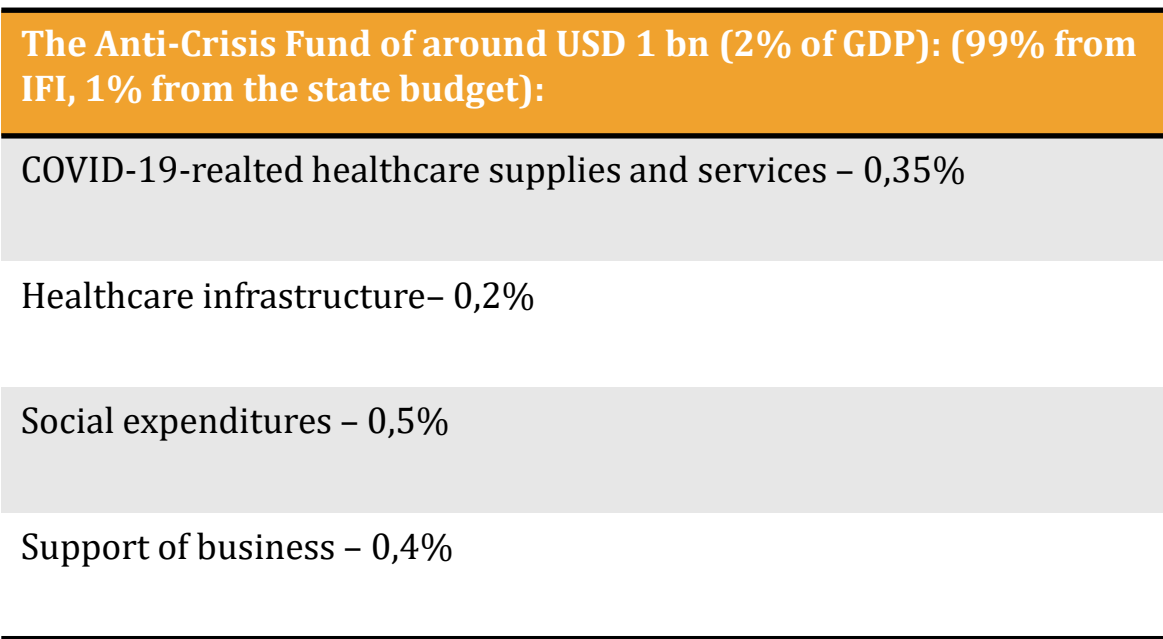
- In 2020 we expect the **consolidated fiscal deficit to widen significantly** from 1,5% to 4,1% of GDP and the **overall fiscal deficit** from 3,9% to 5,6% of GDP

**Fiscal balance dynamics, % of GDP**



\*Overall fiscal balance in IMF definition, that includes policy-based lending.

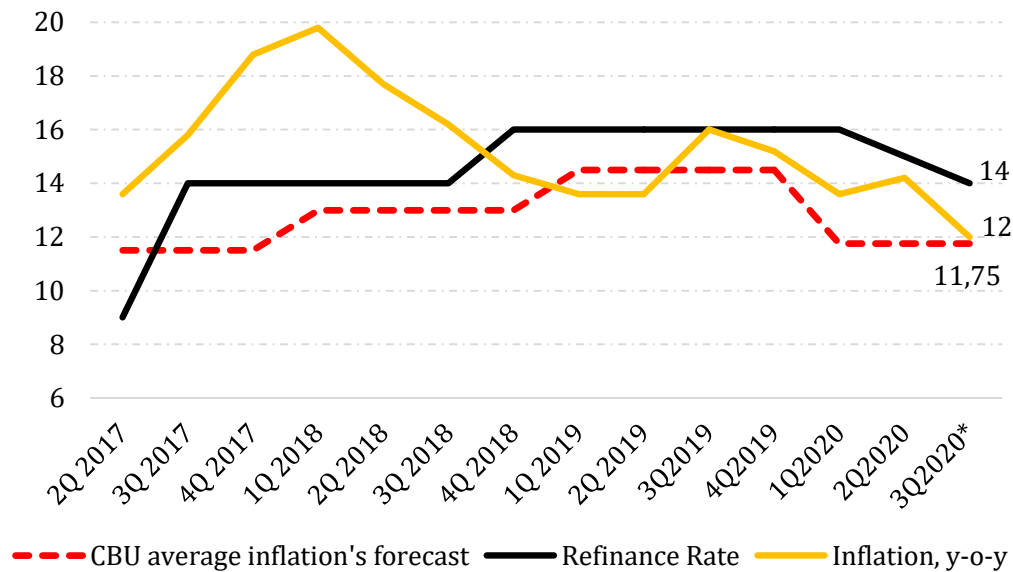
**COVID-19 related expenditure of the Anti-Crisis fund, as of 11 August 2020, % of GDP**



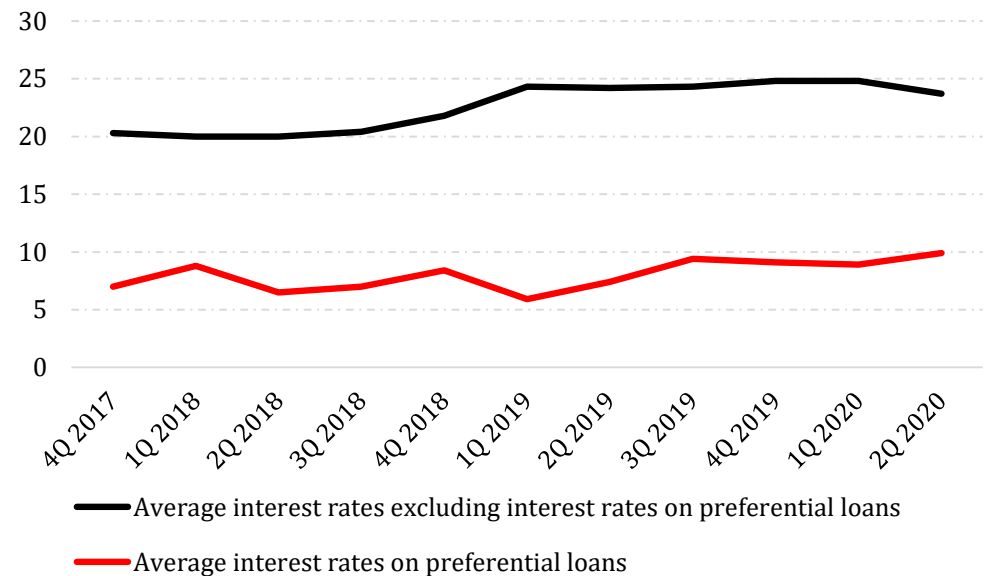
# Restricting factors

- The CBRU continues to improve **monetary policy** within the framework of inflation targeting and transition to free-float exchange rate regime, also showing **prompt response to COVID-19**
- The **quality of the fiscal policy** in Uzbekistan has improved substantially with the implementation of anti-crisis measures
- Uzbekistan's long-term growth perspectives supported by **diverse and abundant natural resources**, however, the country's has **exposure to water risk**

Refinancing rate vs inflation rate, %



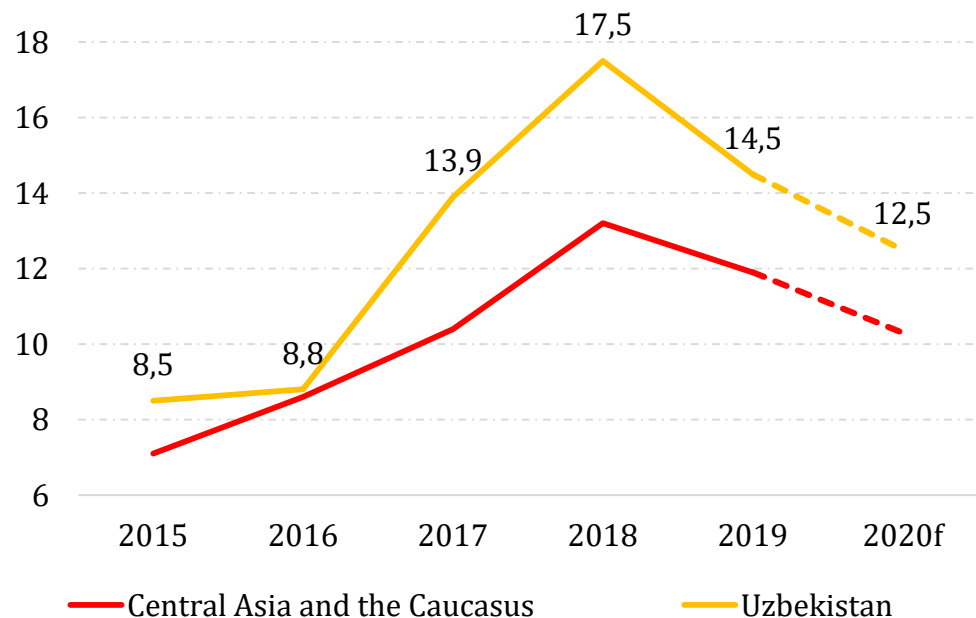
Average annual interest rates on loans in national currency, %



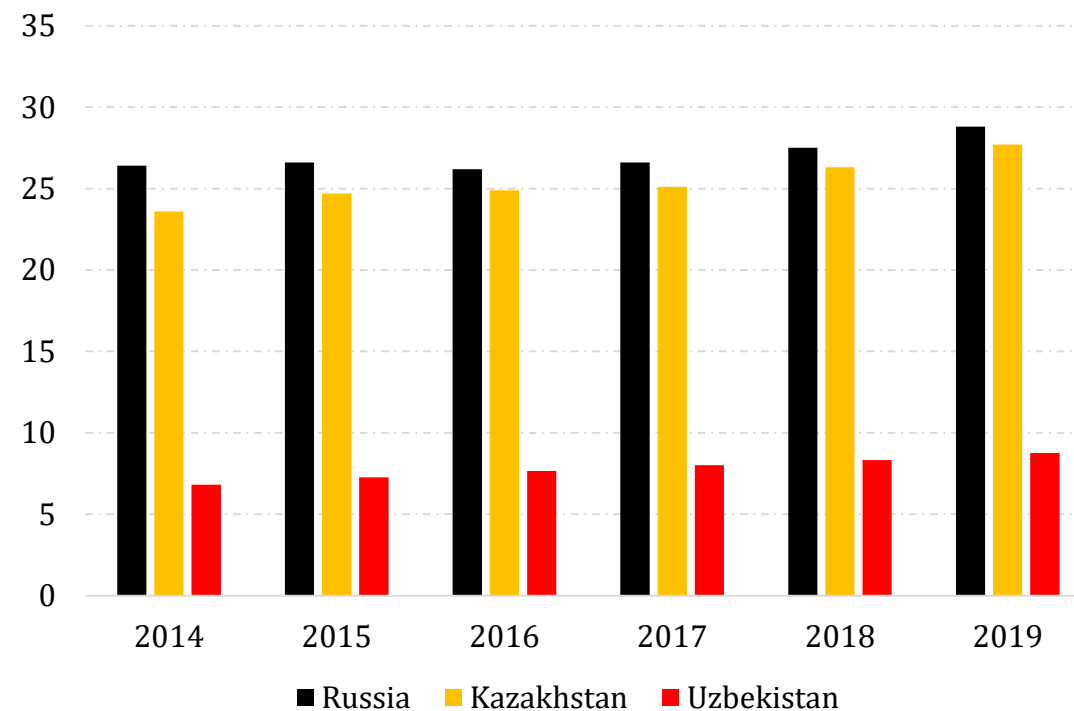
# Negative factors

- The inflation rate **to be in the range of 12,5%-13,0%** at the end of 2020 and its level will depend on the development of the pandemic
- The country remains one of the least developed amongst its peers as shown by the low level of **GDP per capita**

Annual inflation rate, % y-o-y

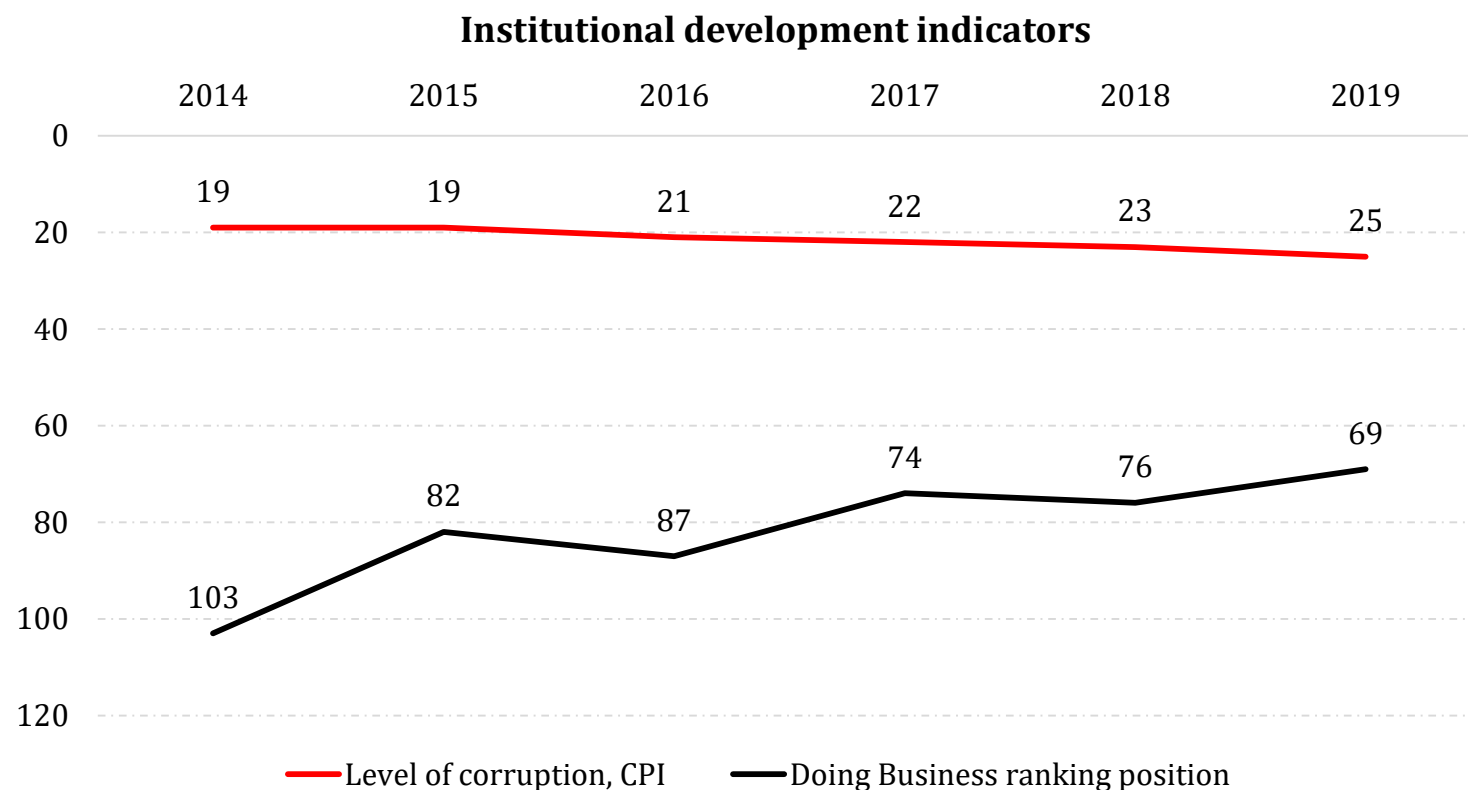


GDP per capita at PPP, USD



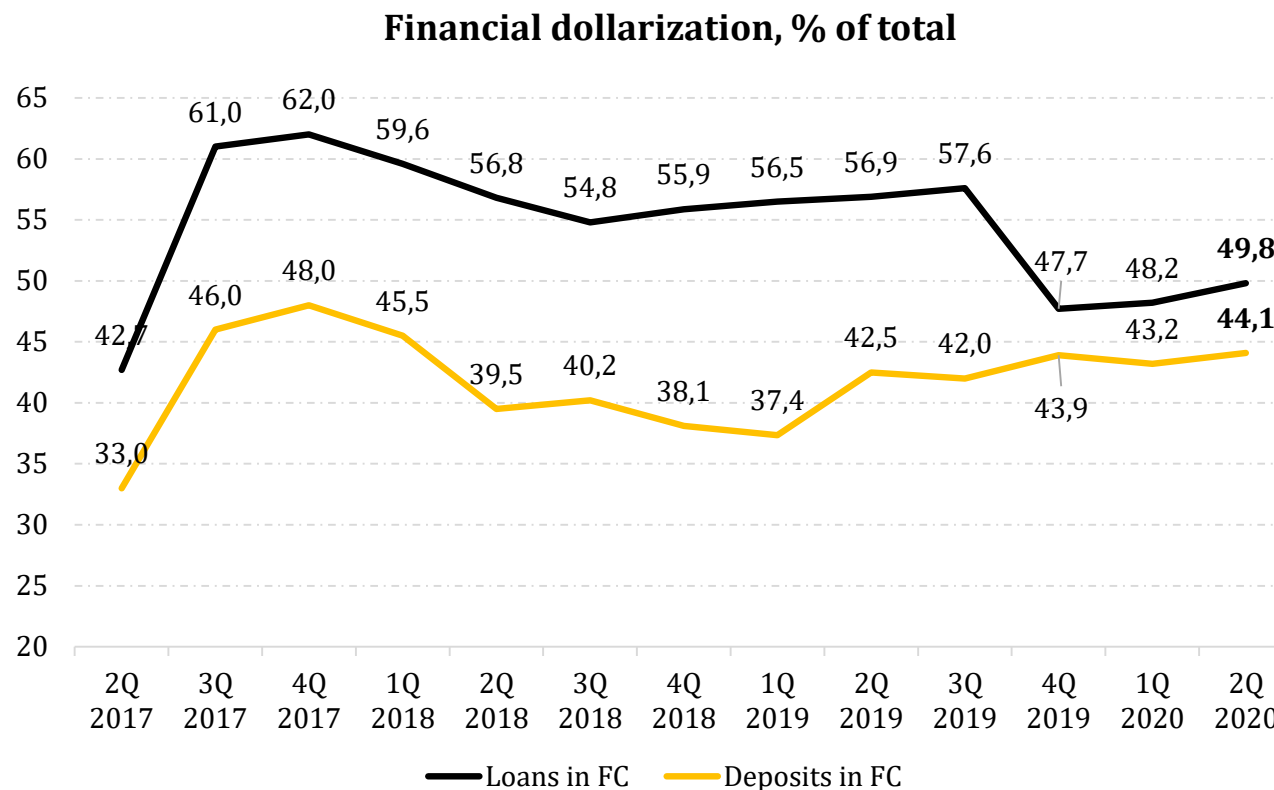
# Negative factors

- Even though from 2017 the authorities launched structural reforms aimed at improving the investment climate, **institutional development continues to be restrained** by high levels of corruption and a diminished rule of law in the country
- The country's **capital market remains underdeveloped**, evidenced by a low market capitalization of companies listed on the national stock exchange below 10% of GDP



# Stress-factor

- Despite the decline in FX-denominated lending and due to the weakening of the UZS, the **level of financial dollarization of the economy is not declining**: at the end of 1H 2020, the share of FX in total deposits and loans was 44,1% and 49,8% respectively



# Stable outlook

The **stable outlook** on ratings reflects our expectations about the **balance of negative and positive factors**, that might affect the rating in the future:

Could lead to an upgrade:	Could lead to a downgrade:
Faster than expected <b>recovery of the global economy</b> , which can lead to an improvement of the external position of Uzbekistan	<b>Continued lock-down measures in the country</b> and longer period of turbulence in the global economy
Smooth continuation of the initiated <b>structural reforms</b> of the public business sector with reduction of the government footprint in the economy	<b>Deterioration of the stance of the banking system</b> , which would materialize contingent liabilities of the government
Further improvement of the <b>exchange-rate flexibility</b> and monetary policy	<b>Higher than expected increase of the government debt and deficit metrics</b>

# Thank you for your attention!

**Rating-Agentur Expert RA GmbH**  
Walter-Kolb-Straße 9-11, 60594 Frankfurt am Main  
Тел. +49 69 3085 4500  
[www.raexpert.eu](http://www.raexpert.eu)  
[anokhov@raexpert.eu](mailto:anokhov@raexpert.eu)

Next Sovereign Rating Update – **Georgia – 2.10.2020**

**Sustainable Finance in Georgia Webinar – 23.09.2020**