



Republic of Uzbekistan credit rating webinar

3 April 2019

Agenda

- About RAEX
- Sovereign government credit risks of Uzbekistan
- Banking system credit risks of Uzbekistan



About RAEX

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

ECAI mapping RAEX- Europe

Mapping, approved by the European Commission in April 2018:

Credit quality step	RAEX- Europe	Fitch	Moody's	S&P
1	AAA, AA	AAA, AA	Aaa, Aa	AAA, AA
2	A	A	A	A
3	BBB	BBB	Baa	BBB
4	BB	BB	Ba	BB
5	B	B	B	B
6	CCC, CC, C, D, E	CCC, CC, C, RD, D	Caa, Ca, C	CCC, CC, R, SD/D

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 Bond Second Opinion**
- **Business-conferences** and presentations in Frankfurt-am-Main

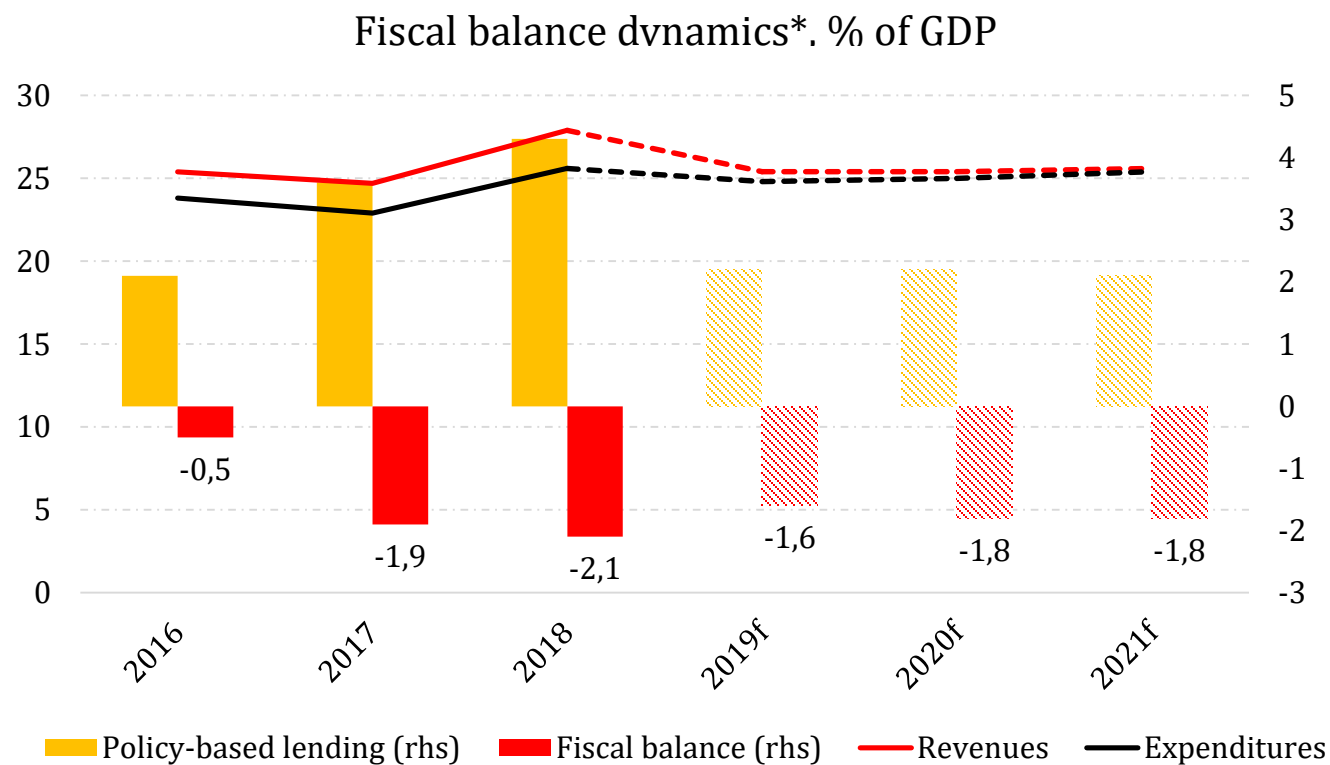
Sovereign government credit risks of Uzbekistan

Sovereign rating list of RAEX-Europe:

Country	Sovereign government rating		Dynamics		Outlook		Date
	National currency	Foreign currency	National currency	Foreign currency	National currency	Foreign currency	
Armenia	BB-	BB-	Confirmed	Confirmed	Positive	Positive	10.01.2020
Azerbaijan	BB+	BB+	Confirmed	Confirmed	Stable	Stable	08.11.2019
Belarus	B	B	Confirmed	Confirmed	Positive	Positive	10.01.2020
Georgia	BB	BB	Confirmed	Confirmed	Stable	Stable	04.10.2019
Germany	AAA	AAA	Confirmed	Confirmed	Stable	Stable	28.02.2020
Kazakhstan	BBB-	BBB-	Confirmed	Confirmed	Positive	Positive	13.12.2019
Kyrgyzstan	B	B	Confirmed	Confirmed	Stable	Stable	27.12.2019
Russia	BBB-	BBB-	Confirmed	Confirmed	Positive	Positive	13.12.2019
Tajikistan	B	B-	Confirmed	Confirmed	Negative	Negative	07.02.2020
Uzbekistan	BB-	BB-	Confirmed	Confirmed	Stable	Stable	06.03.2020

Positive factors

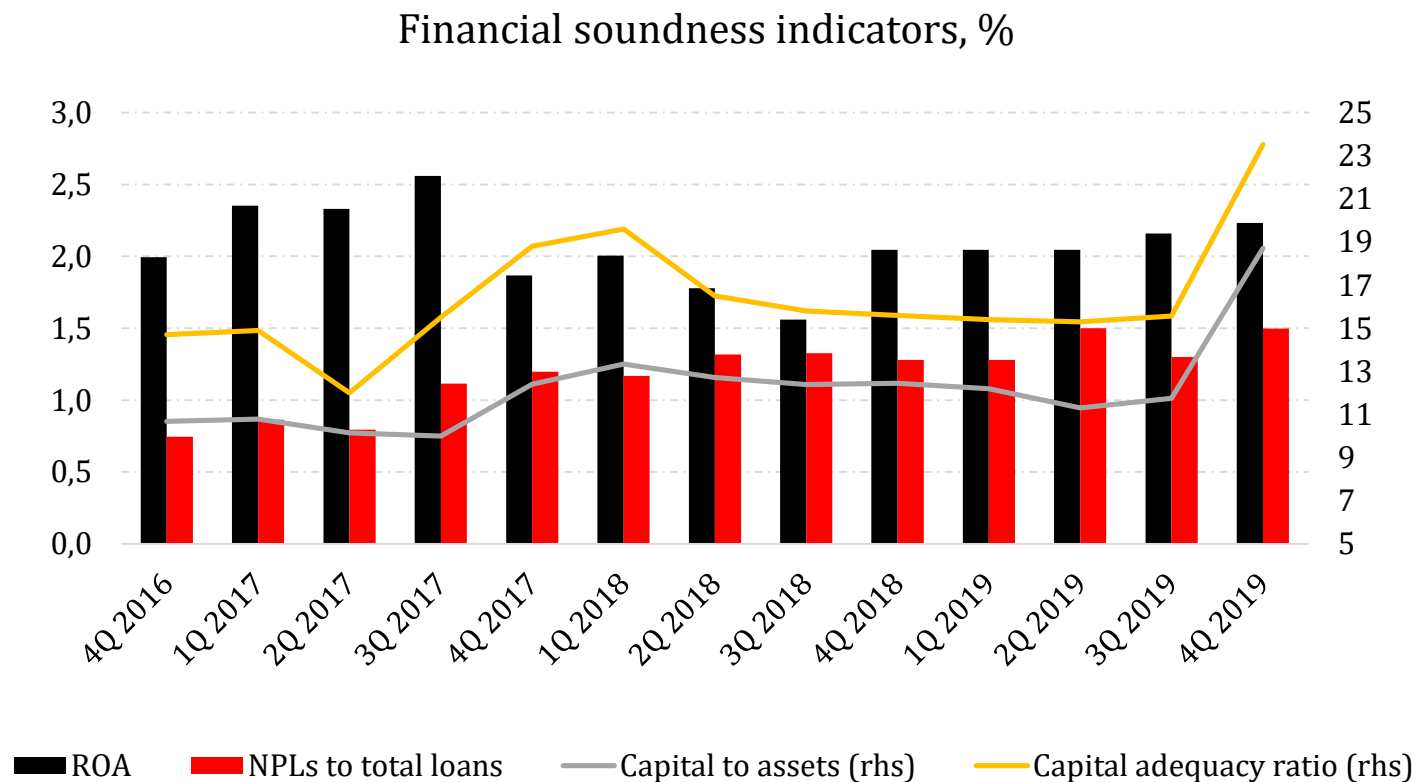
- **Overall government debt** of Uzbekistan keeps increasing and estimated to reach 36% of GDP and 142% of budget revenues but remains at acceptable levels
- **Consolidated budget** in 2019 was executed with a deficit of 1,5% to GDP, while the overall budget deficit could reach around 1,6% of GDP by the end of 2019



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

Positive factors

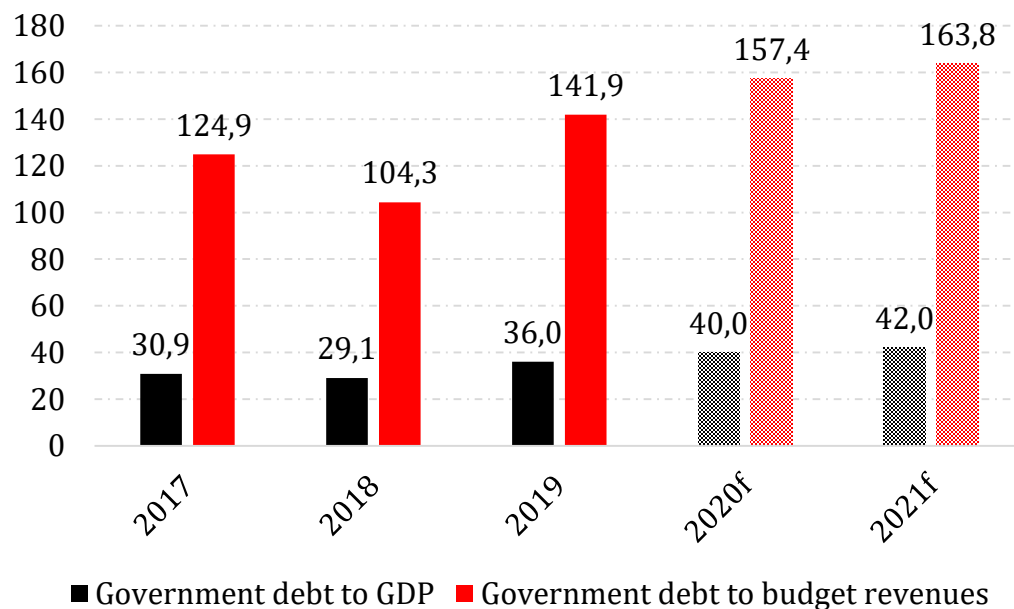
- **Accelerated growth of the Uzbek economy** at 5,6% in real terms, as compared to 5,4% in 2018, supported by significant growth in construction, manufacturing and service industries
- **Solid metrics of the banking system:** capital adequacy ratio at 23,5%, officially recorded NPLs to total loans ratio at 1,5% and ROA at 2,2% as of end 2019



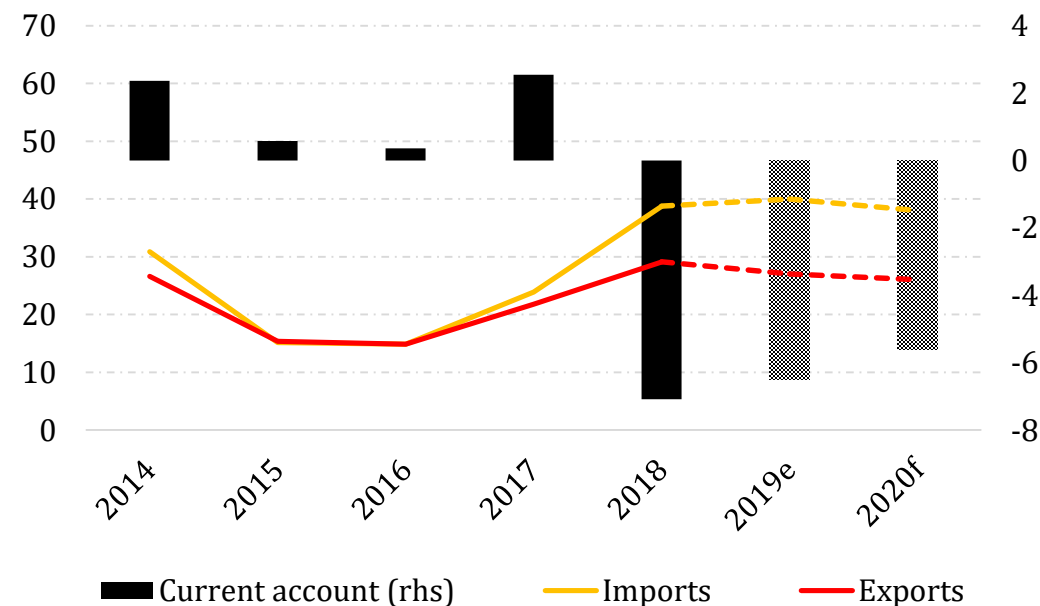
Restricting factors

- 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**
- **Trade deficit** in Uzbekistan in 2019 reached 11% of GDP as compared to 10% in 2018, mostly due to the growth of imports of machinery and equipment for the modernization of local enterprises

Government debt dynamics, %

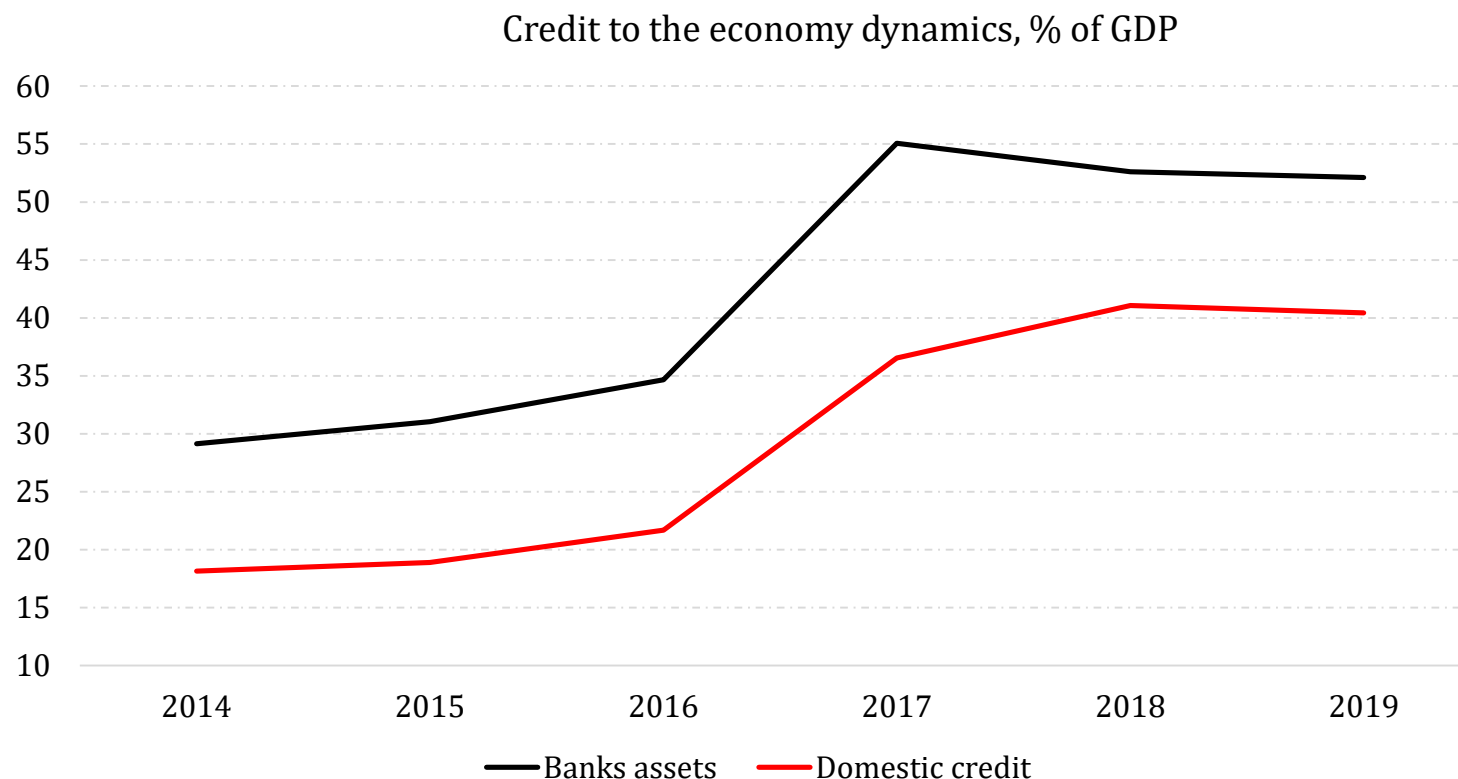


External sector indicators, % of GDP



Restricting factors

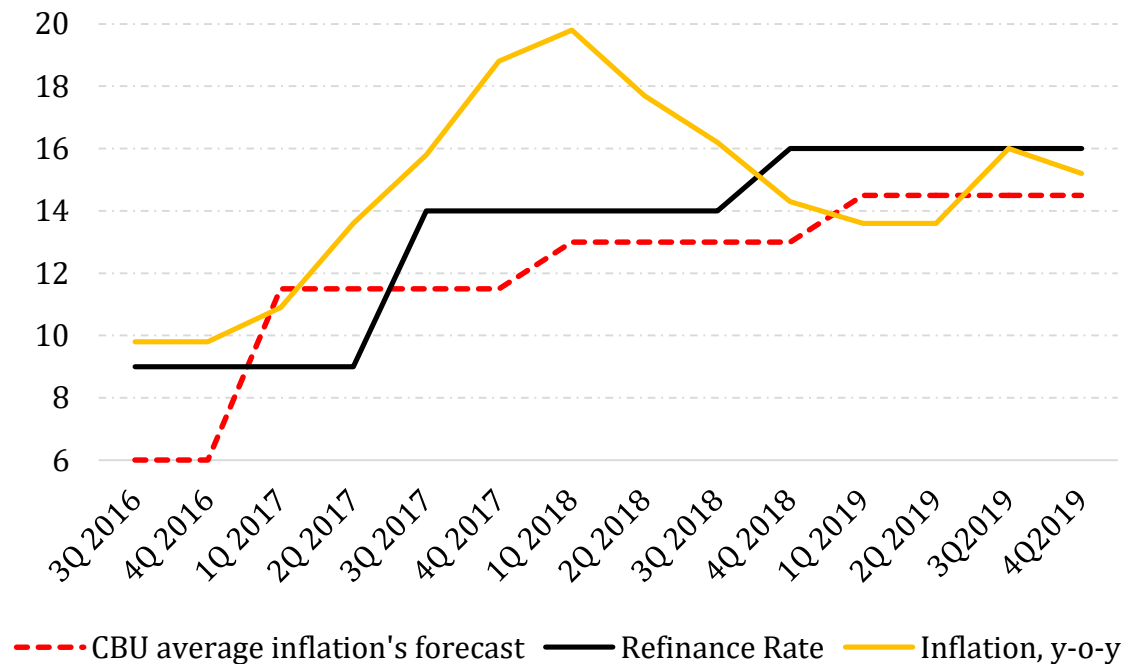
- **Ratio of banking system assets and domestic loans to GDP** is expected to stabilize by the end of 2019 at 52,1% and 40,4% respectively (as compared to 52,6% and 41,4% in 2018) mostly due to the restructuring of the banking system balance-sheet
- The officially reported **unemployment rate** slightly decreased to 9% in 2019 from 9,3% a year before



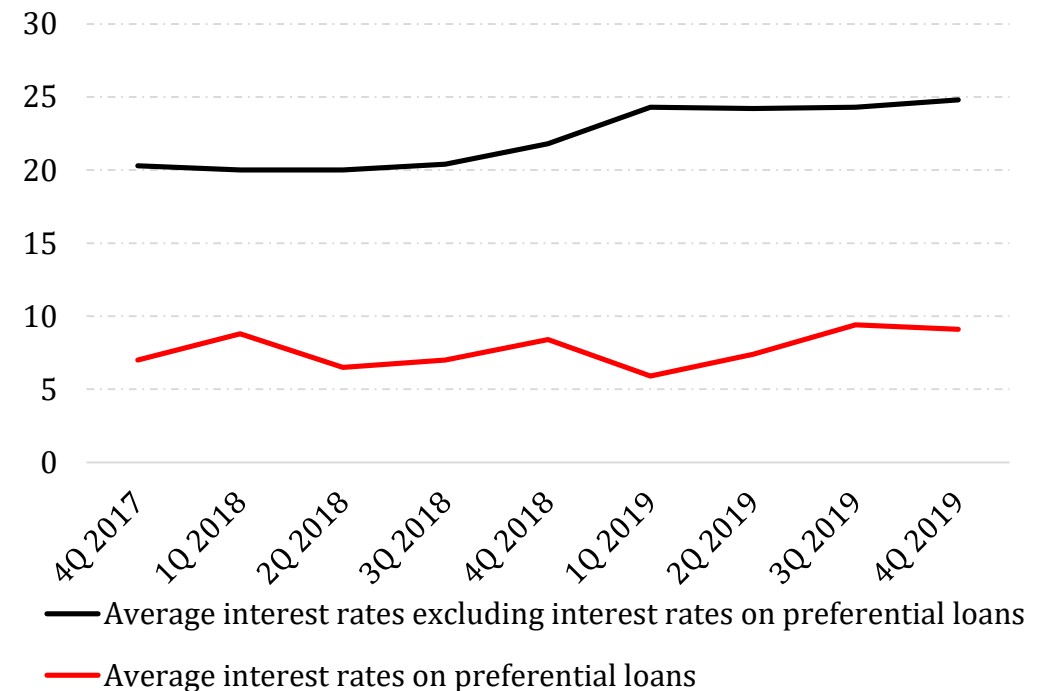
Restricting factors

- The CBU is pursuing the **tight monetary policy** in order to reduce inflation pressure
- The **quality of the fiscal policy** in Uzbekistan has improved substantially over the last two years, but still distorted by directed lending to SOEs
- 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, %



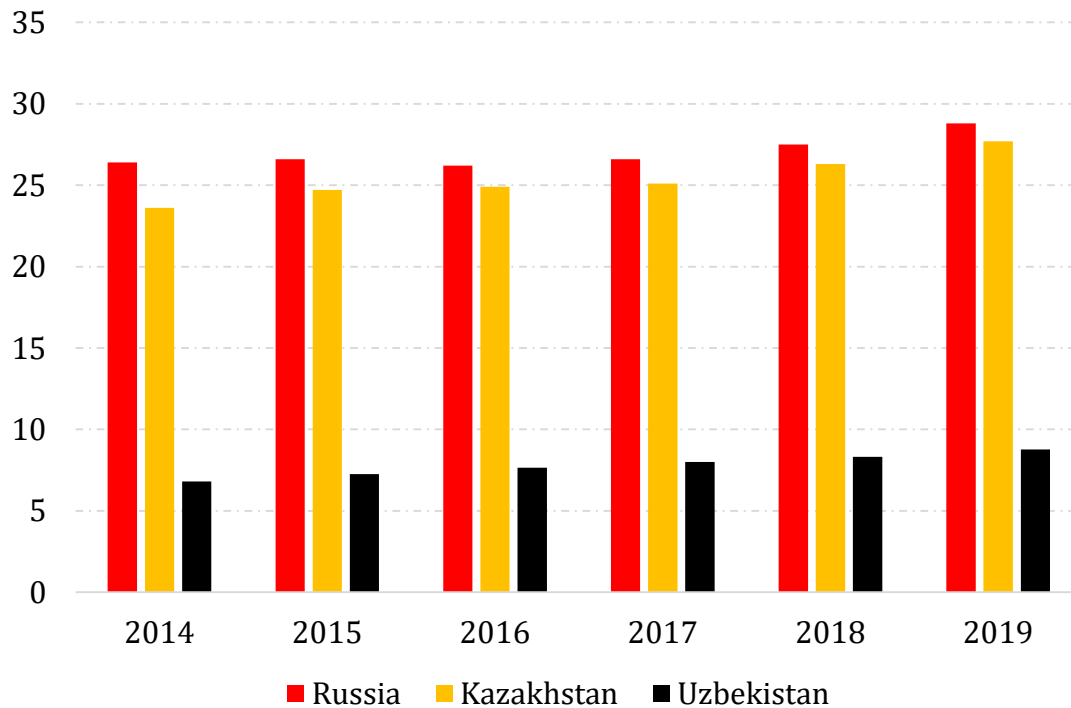
Average annual interest rates on loans in national currency, %



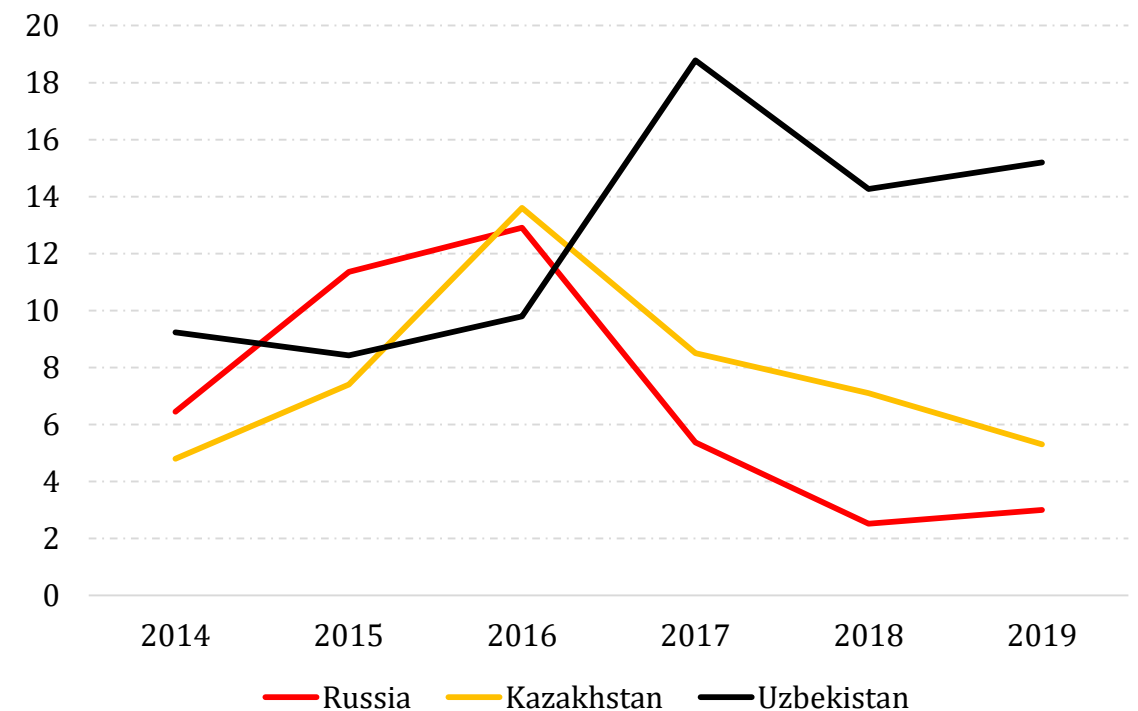
Negative factors

- The country remains one of the least developed amongst its peers as shown by the low level of **GDP per capita**
- Mostly triggered by the food price increase, **inflation** in 2019 hiked once again to 15,2% after a slowdown in 2018 (14,3% as compared to 18,8% in 2017)

GDP per capita at PPP, USD

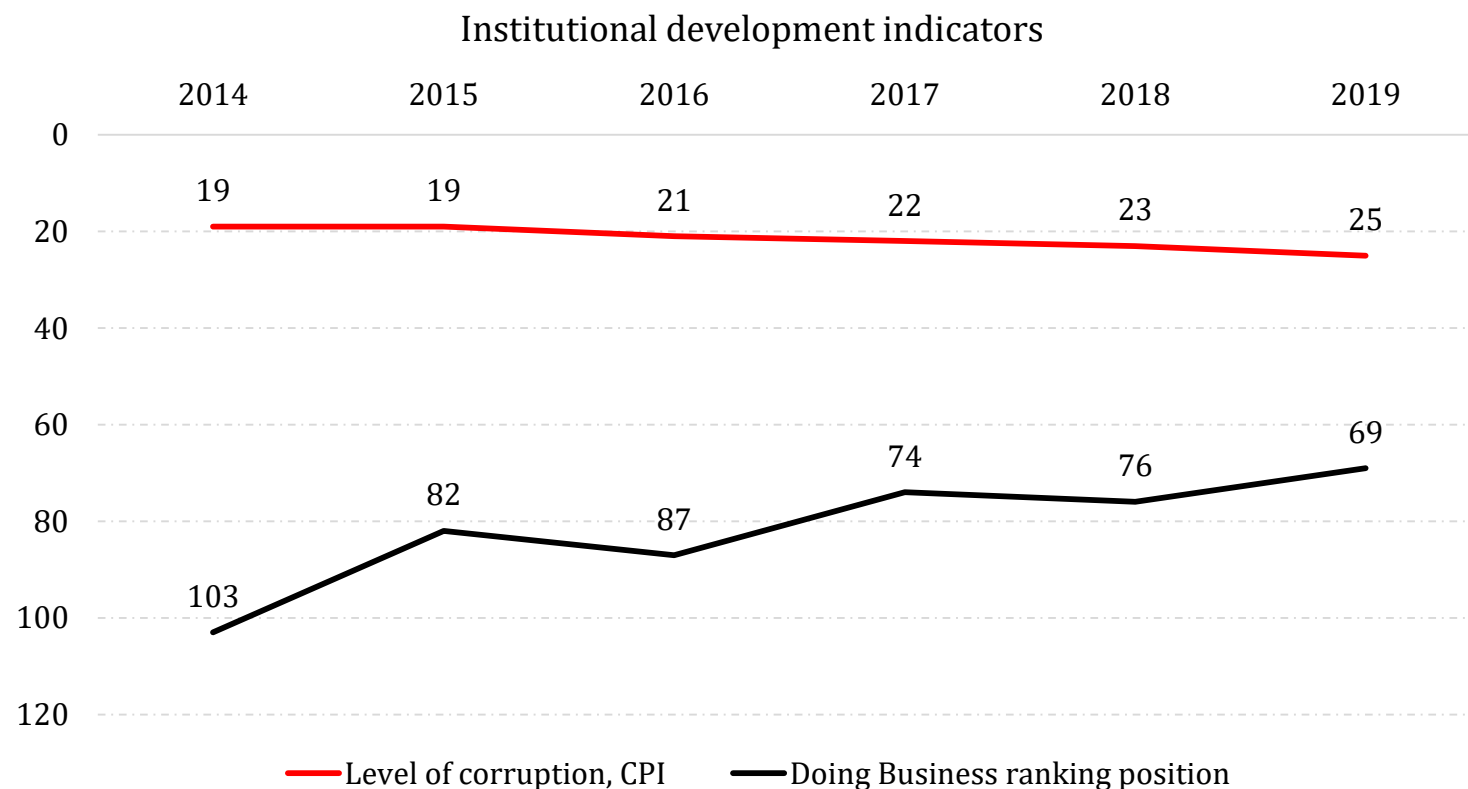


Annual inflation rate, % y-o-y



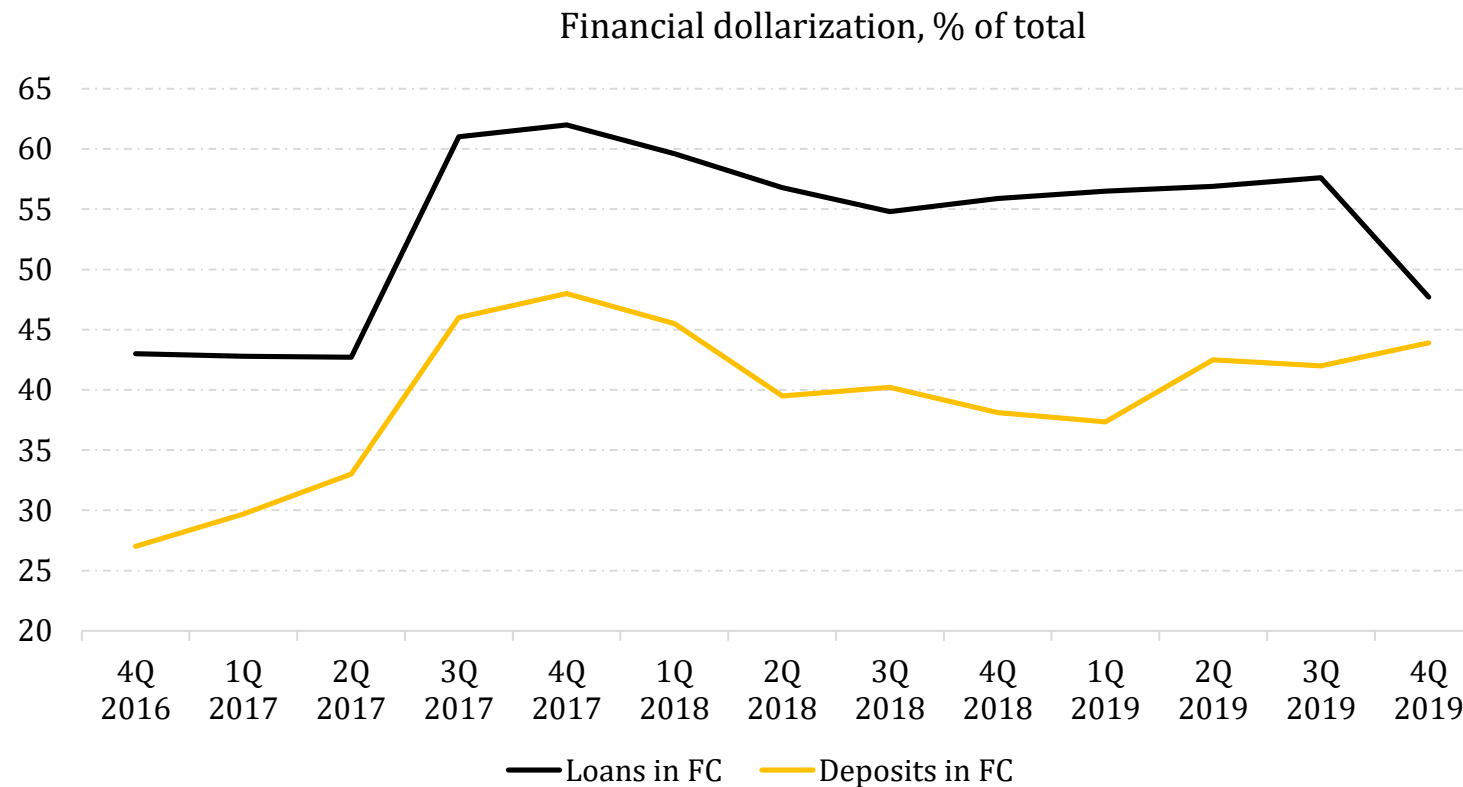
Negative factors

- Despite the recent reforms and improvements, **the institutional development is subdued** and hampered by the high level of corruption and the various legislative barriers
- The country's **capital market remains underdeveloped**, evidenced by a low market capitalization of companies listed on the national stock exchange of 8% of GDP in 2019



Stress-factor

- Despite positive dynamics, **financial dollarization** remains a problem for the economy representing 43,9% of total deposits and 47,7% of total loans by end 2019



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:
<p>Ensuring macroeconomic stability, economic growth and reduction of unemployment</p>	<p>Strong growth of directed lending with concentration in state banks, which may lead to increased external imbalances, higher inflation and materialization of contingent liabilities</p>
<p>Prudent and transparent fiscal policy focused on diversifying revenue sources and significant curtailing of policy lending programs</p>	<p>Sharp increase of dollarization levels due to adverse conditions on the FX-market</p>
<p>Improving the efficiency of monetary policy</p>	<p>Elevation of the government debt load due to devaluation of UZS</p>

Banking system credit risks of Uzbekistan

Banking Sector Risk (BSR)

- Assessment of BSR is an integral part of the process of assigning a credit rating according to the **international scale**. The Banking Sector Risk is assessed for the country where a bank's operations are concentrated (if the bank has a diversified structure of operations - in proportion to the distribution of assets)
- Group of **quantitative** and **qualitative factors** is assessed for each country:

Quantitative Factors	Qualitative factors
Credit Conditions	Bank regulatory capital to risk-weighted assets
Market Conditions	Level of government involvement in the banking sector
Funding Conditions	Presence of an active capital market in the economy
Institutional Framework	Political risk assessment
Economic Factors	State of the real estate market in the economy
Additional stress-factor:	Banking sector stability
<i>presence of a major crisis in the economy</i>	Systematic risks

- The risk assessment of the banking system is based on the final BSR score: from **15 (minimum risk level)** to **0 (maximum risk level)**

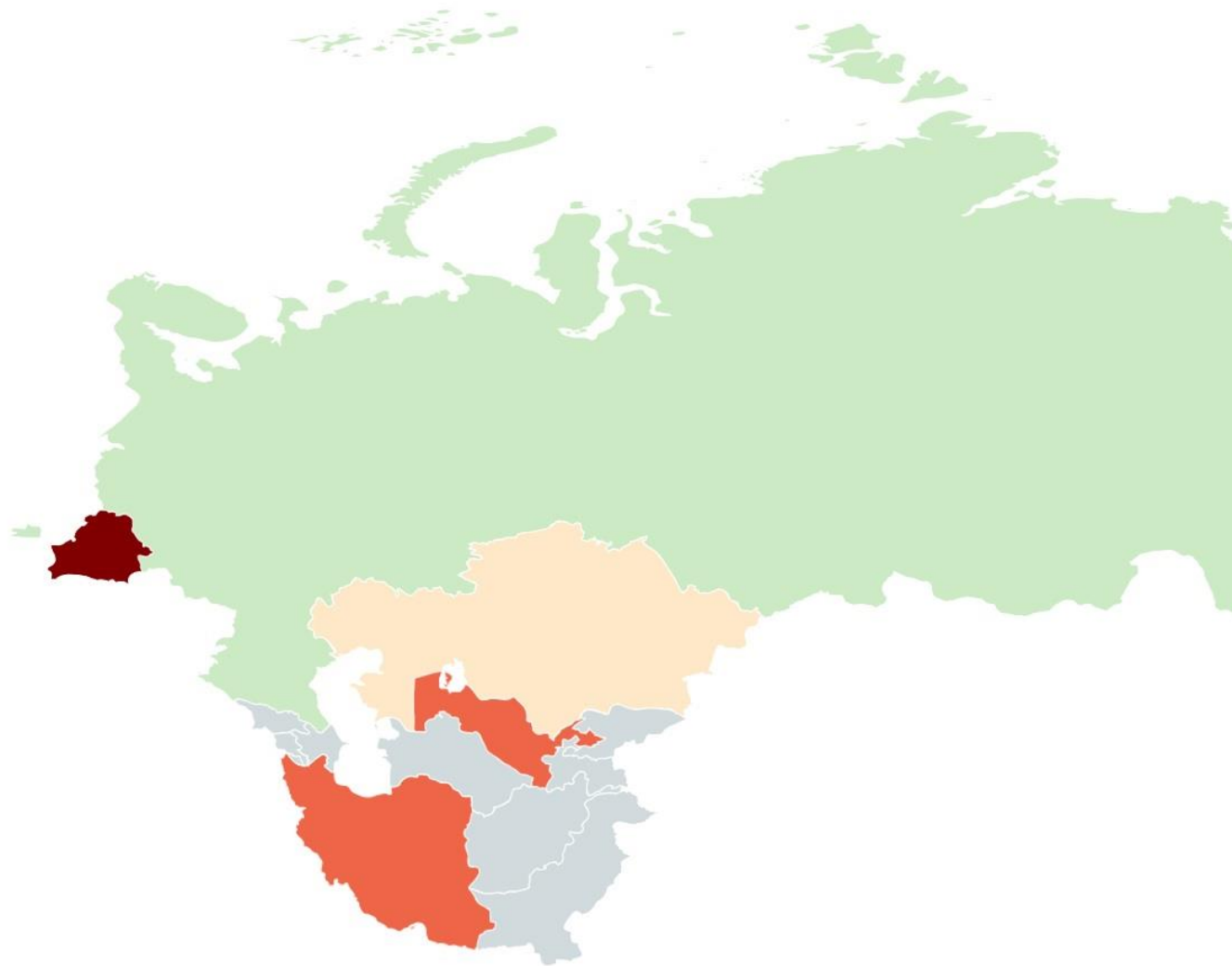
Banking Sector Risk (BSR)

- The final credit rating of a bank according to the **international scale** is assigned based on preliminary credit rating of the bank and an assessment of the Banking Sector Risk:

		BSR														
		15	14	13	12	11	10	9	8	7	6	5	4	3	2	1
Preliminary credit rating	1	AAA / AA+	AAA / AA	AA+ / AA-	AA / AA-	AA- / A+	AA- / A	A+ / A	A / A-	A- / BBB+	BBB+ / BBB-	BBB / BB+	BBB- / BB	BB+ / BB-	BB- / B+	B+ / B
	2	AA+ / AA	AA / AA-	AA- / A+	AA- / A	A+ / A	A / A-	A- / BBB+	A- / BBB	BBB+ / BBB-	BBB- / BB+	BB+ / BB	BB / B+	BB- / B+	B+ / B	B / B-
	3	AA / A+	AA- / A+	A+ / A	A / A-	A / BBB+	A- / BBB+	BBB+ / BBB	BBB / BBB-	BBB- / BB+	BB+ / BB	BB / BB-	B+ / B	B+ / B	B / B-	B- / B-
	4	A+ / A	A+ / A-	A / BBB+	A- / BBB+	BBB+ / BBB	BBB+ / BBB-	BBB / BBB-	BBB- / BB+	BB+ / BB	BB / BB-	BB- / B+	B / B	B / B-	B- / B-	B- / CCC+
	5	A / BBB+	A- / BBB+	BBB+ / BBB	BBB+ / BBB-	BBB / BBB-	BBB- / BB+	BBB- / BB	BB+ / BB-	BB / BB-	BB- / B+	B+ / B	B / B-	B- / B-	B- / CCC+	CCC+ / CCC+
	6	BBB+ / BBB-	BBB+ / BBB-	BBB / BB+	BBB- / BB+	BBB- / BB	BB+ / BB	BB / BB-	BB- / B+	BB- / B+	B+ / B	B / B-	B- / CCC+	B- / CCC+	CCC+ / CCC+	CCC+ / CCC+
	7	BBB- / BB+	BBB- / BB	BB+ / BB	BB+ / BB-	BB / BB-	BB / B+	BB- / B+	B+ / B	B+ / B	B / B-	B- / B-	CCC+ / CCC+	CCC+ / CCC+	CCC+ / CCC	CCC+ / CCC
	8	BB / BB-	BB / BB-	BB / B+	BB- / B+	BB- / B	B+ / B	B+ / B	B / B-	B / B-	B- / CCC+	B- / CCC+	CCC+ / CCC	CCC+ / CCC	CCC / CCC	CCC / CCC
	9	BB- / B	BB- / B	B+ / B	B+ / B-	B / B-	B / B-	B / CCC+	B- / CCC+	B- / CCC+	CCC+ / CCC	CCC+ / CCC	CCC / CCC	CCC / CCC	CCC / CCC	CCC / CCC
	10	B / CCC+	B / CCC+	B- / CCC+	B- / CCC	B- / CCC	B- / CCC	CCC+ / CCC	CCC+ / CCC	CCC+ / CCC	CCC / CCC	CCC / CCC	CCC / CCC	CCC / CCC	CCC / CCC	CCC / CCC
	11	CCC+ / D	CCC+ / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D	CCC / D

* Schematic representation

Banking Sector Risk (BSR) of the Republic of Uzbekistan



Country	BSR score	Risk level
Russia	6	Moderate
Kazakhstan	4	High
Uzbekistan	2	Very high
Iran	2	Very high
Belarus	1	Very high

BSR score reflects the state of banking sector macro environment in each country rated and is scaled from 1 to 15, ranging from very high risk to very low risk levels of the banking sector respectively.

Key negative factors

- Moderately **small economy** (the second largest economy of Central Asia, but more than three times smaller as compared to Kazakhstan)
- Very low **level GDP per capita**
- Double-digit **inflation** is one of the highest in region
- **Institutional environment** for the credit institutions remains subdued

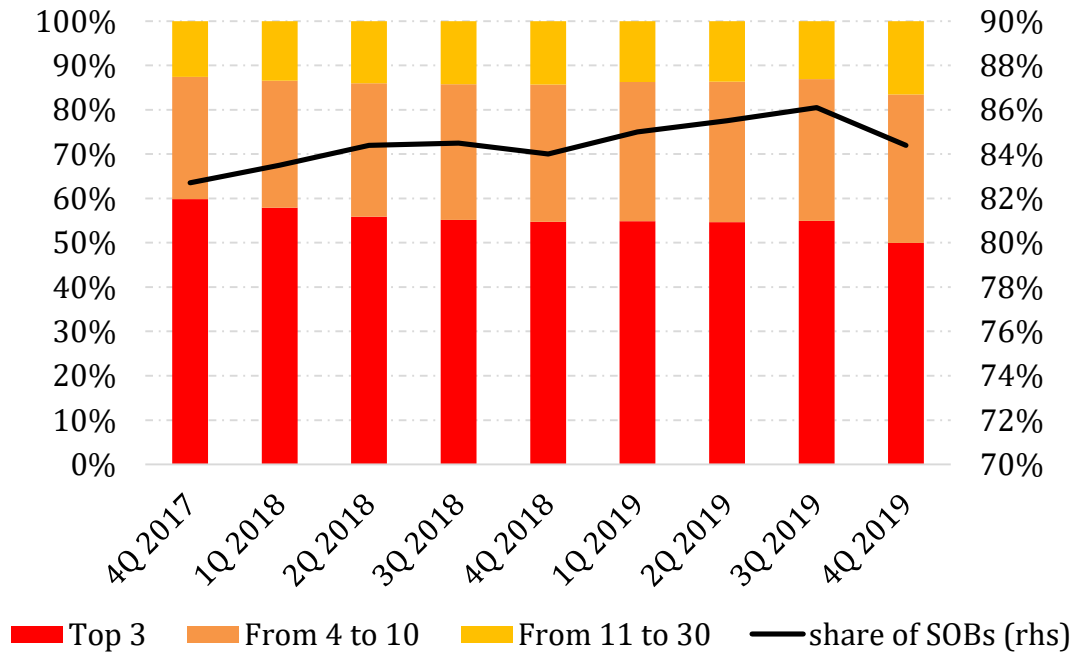
	Kazakhstan	Russia	Uzbekistan
Nominal GDP, USD bn	170	1 638	60
Real GDP growth, %	4,5	1,3	5,7
GDP per capita at PPP, USD	28 850	29 643	8 999
Inflation rate, %	5,3	3,0	15,2
Total assets of the banking system, USD bn	65,6	1 354	28,7
The ratio of bank assets to GDP, %	42,3	90,6	52,1

*as of end 2019

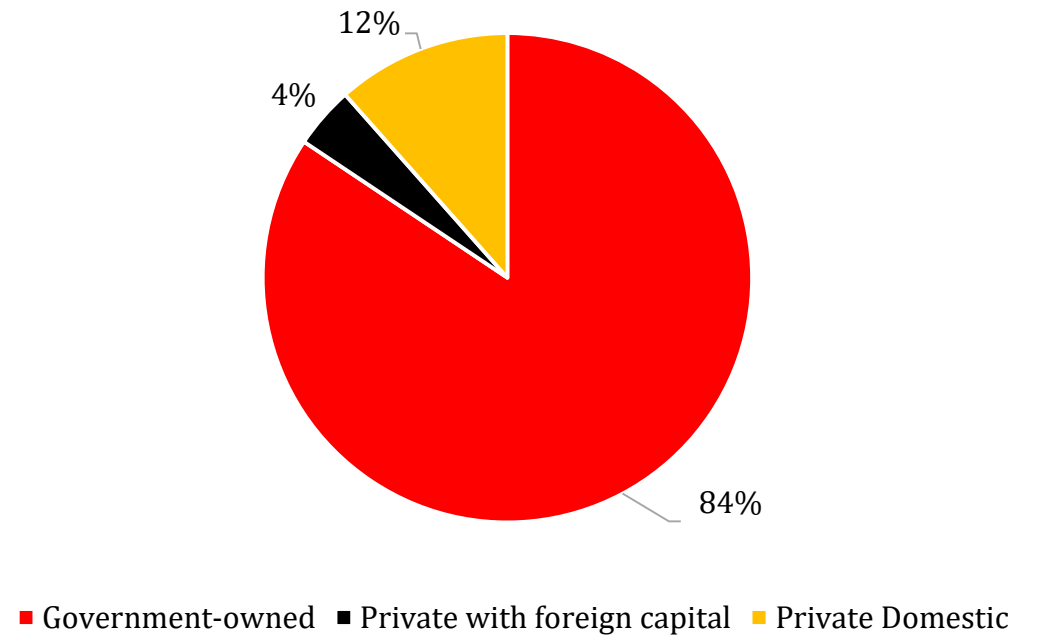
Key negative factors

- Among the three largest economies in the CIS the Republic of Uzbekistan at the end of 2019 had **the most concentrated banking system**
- **State ownership** dominates the banking system

Assets dynamic and concentration, %



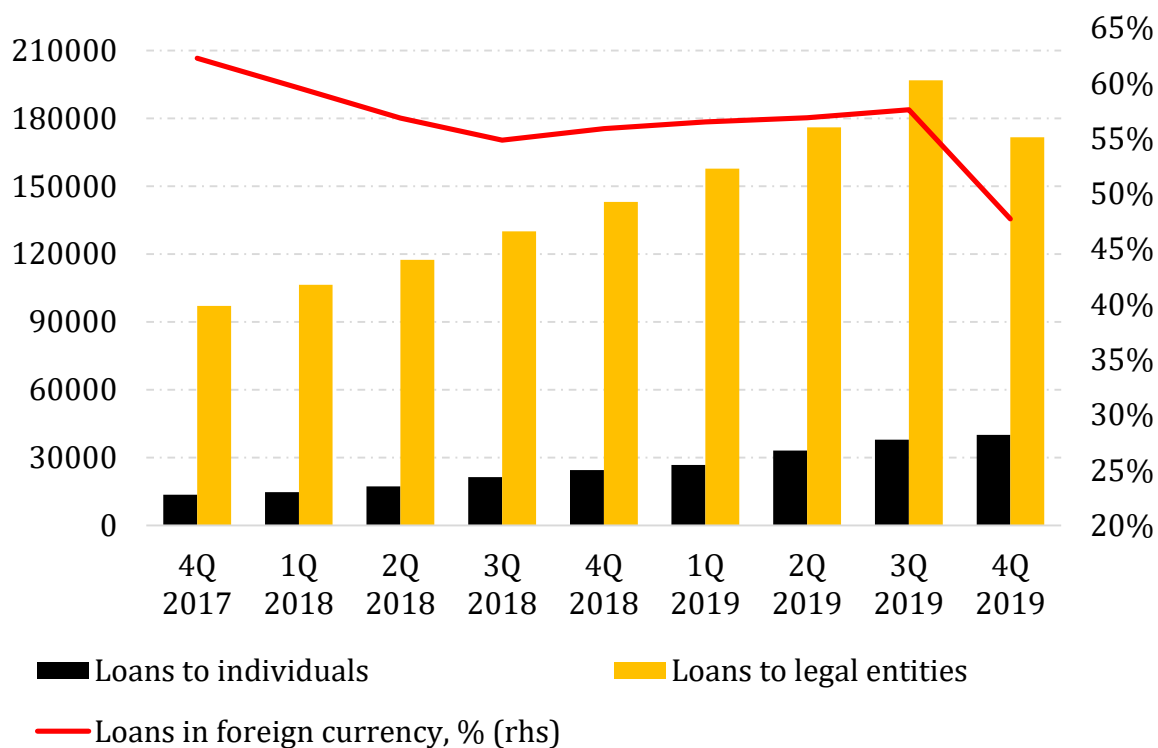
Structure of the banking system assets by type of banks, %



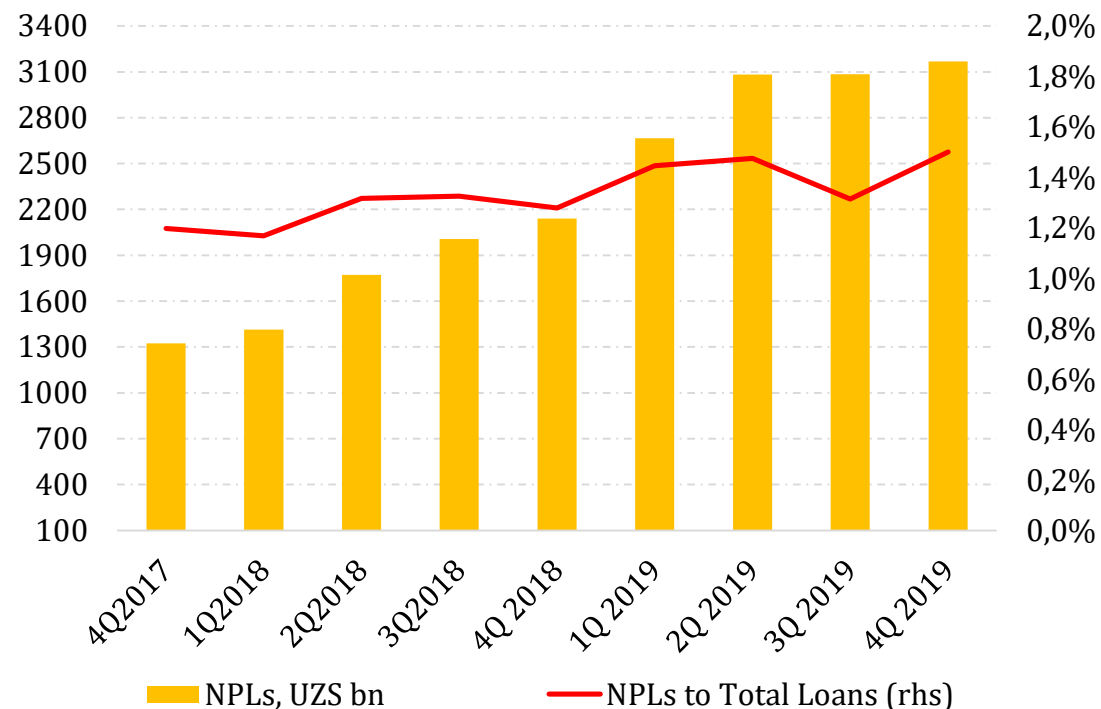
Key positive factors

- The ratio of **officially reported bank nonperforming loans to gross loans** in Uzbekistan is at a minimum level among the countries of the region

Loans dynamics and structure, USZ bn



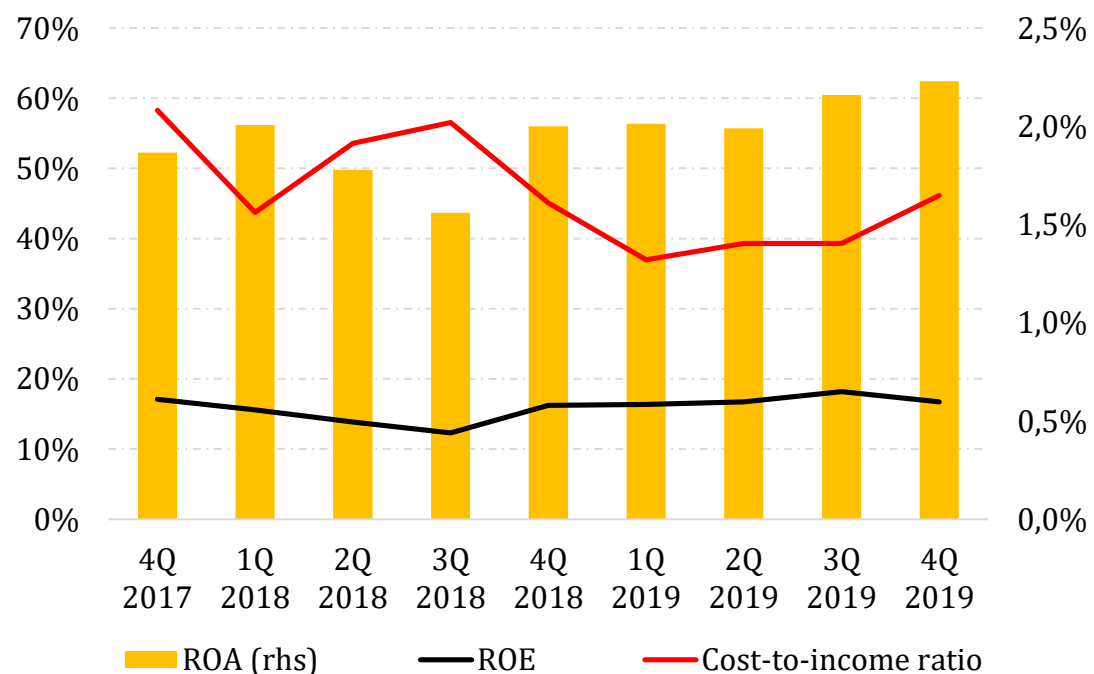
Non-performing loans of the banking system of Uzbekistan according to the national standards



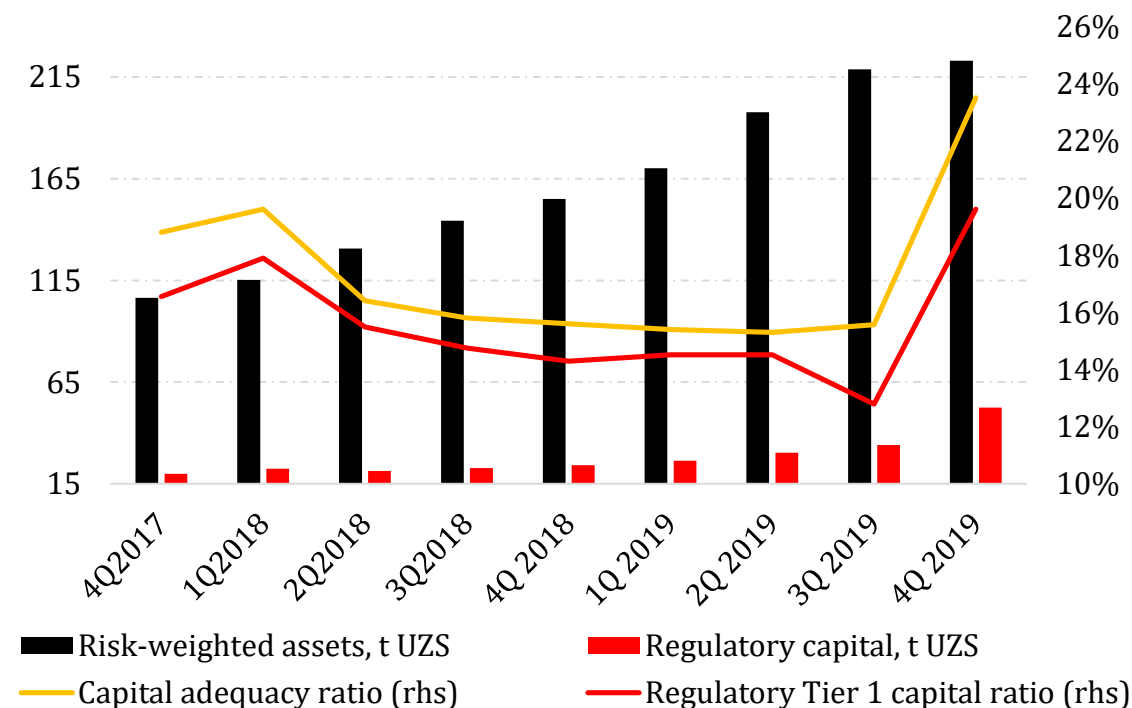
Additional positive factors

- The banking system of Uzbekistan demonstrated a **positive financial result** over the past 5 years, and remained profitable even during the devaluation of UZS
- In Uzbekistan the ratio of **bank capital to assets** remains high according to global standards but close to the levels typical for emerging markets

Profitability and efficiency metrics, %



Capital adequacy metrics



Key market changes: privatization

- Announcement to sell 25% of the shares of three SOBs: **Aloka Bank, Turon Bank and Asia Alliance Bank**
- Allowance for **foreign investors** to purchase up to 5% of the banks' shares without the preliminary permission of the CBU
- **Privatization plan for 2020-2025**
- We do not expect any privatization deals to be done **at least before 4Q 2020 or 1Q 2021**

Uzbek banks included to the “Draft of privatization list for 2020-2025”

Name of the bank	Government share in equity, %	Share in the assets, %*
List of banks are going to be fully privatized:		
Uzbek Industrial and Construction Bank JSCB	89,1	12,8
Asakabank JSCB	95,9	12,7
Qishloq Qurilish Bank JSCB	96,5	4,6
Aloqabank JSCB	94,2	2,7
Turonbank JSCB	97,6	2,2
Asia Alliance Bank JSCB	100	0,8
Ipoteka Bank JSCMB	84,7	8,7
Poytakht Bank JSC	100	0,1
Uzagroexportbank JSCB	75	0,1
List of banks that will remain in state ownership:		
Agrobank JSCB	94,3	6,8
Microcreditbank JSCB	84,8	2,2
Xalq Bank JSCB	100	6,4

Key market changes: COVID-19

- CBU recommended **banks to amend the terms** of the loan agreement with troubled enterprises on granting a grace period for principal payments on the loan until **1 October 2020** and extending the final payment dates based on the provided grace period
- Increase of **soft-loans to SMEs** (UZS 30 tln program of revolving loans for working capital)
- **Stress-testing** and **asset quality revision** for all banks before 1 June 2019
- Directed lending on preferential rates **can remain at current levels in order to support the economy**

Outlook

- The key risks of the banking system is growing **concentration on government-owned banks** and **elevated financial dollarization**
- **Possible deterioration of the asset quality** in the medium term
- Probability of **financial support of the banking system by the government** in case of a crisis is assessed as high
- In the long run, the main constrain factor of the banking system risk assessment score is the **level of economic development**

Additional materials:

Sovereign rating press-release:

Rating-Agentur Expert RA confirmed at 'BB'- the ratings of Uzbekistan. The rating outlook is stable.

Rating-Agentur Expert RA confirmed the sovereign government credit rating (SGC) of Uzbekistan at 'BB' (Sufficient level of creditworthiness of the government) and at 'BB' (Sufficient level of creditworthiness of the government) in foreign currency. The rating outlook is stable which means that in the mid-term perspective there is a high probability of maintaining the rating score.

MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

Positive factors:

- Overall government debt¹ of the Republic of Uzbekistan keeps increasing and estimated to reach 36% of GDP and 142% of budget revenues due to active borrowing on international markets (including an issuance of USD 1 bn Eurobonds in February 2019), as well as issuance of local UZS-denominated bonds and an increase in guarantees for national projects. We expect the debt load to increase by end-2020, but at a slower pace. In our view, the current and forecast debt load remains at acceptable levels. In addition, maturity and repayment conditions remain favorable, and 33% of overall debt owed to foreign governments and public institutions, and 33% to international financial institutions on concessional terms;
- According to preliminary data from the MFRU the consolidated budget² in 2019 was executed with a deficit of 1.5% to GDP, while the overall budget deficit³ could reach around 1.6% of GDP by the end of 2019 according to the IMF's latest estimates. In order to increase transparency and accountability of public finances, as well as to be in line with international standards, the MFRU introduced the official "overall fiscal balance"⁴ with targets of -2.7% and -2.1% of GDP for 2020 and 2021, respectively. Our assessment of the overall fiscal balance is close to the mentioned indicator, and does not pose substantial risks to the government's creditworthiness;
- Preliminary data for 2019 shows an accelerated growth of the Uzbek economy at 5.6% in real terms, as compared to 5.4% in 2018, supported by significant growth in construction, manufacturing and service industries. Such growth remains one of the highest in the region and we expect the metric to be in the range between 5.5% and 6% in 2020-2021, while the long-term growth rates will depend on the privatization of SOEs as well as the overall effectiveness of structural reforms;
- As a result of the Central Bank of Uzbekistan's (CBU) policy, regarding the capitalization of state-owned banks, the overall regulatory capital increased by 2.2x by the end of 4Q 2019 y-o-y, with capital adequacy and capital to assets ratios reaching 23.5% and 18.7%, respectively. Asset quality and profitability metrics also remained at positive levels, with an officially recorded NPLs to total loans ratio at 1.5% and RDA at 2.2% as of the same date. At the same time, we still see potential risks in the system related to the high concentration (around 85% of assets) of state-owned banks, strong government influence and partly controlled distribution of credit resources as preferential rates. There are

¹ According to the Ministry of Finance of the Republic of Uzbekistan (MFRU) data, including direct external and internal debt as well as publicly guaranteed debt.
² Includes State budget and all "state target funds".
³ Includes estimation of directed lending and off-budget operations.
⁴ Includes the expenses for National development programs financed by the external government debt.

Sovereign rating research report:

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Summary

The confirmation of Uzbekistan's ratings at 'BB' with a stable outlook are supported by accelerated economic growth, bearable level of public debt and deficits, as well as continuing structural reforms in the economy. The ratings are also underpinned by the solid stance of the banking sector, which maintains favorable levels of capitalization and profitability.

Nonetheless, rating levels are constrained by widening debt and public deficits, high inflation and exchange rate volatility, as well as elevated financial dollarization. Despite the significant improvements, the level of per capita wealth, institutional development, large contingent liabilities of the government, as well as the limited effectiveness of monetary and fiscal policies constrain our rating assessment.

Supported by investments as well as structural reforms, economic growth remains high, whereas low level of per capita income and high unemployment restrain the creditworthiness. Uzbekistan remains the country with one of the highest economic growth in the Central Asia and Caucasus region, with y-o-y real GDP growth of 5.6% in 2019, as compared to 5.4% in 2018 (see graph 1). Such a robust growth is mostly supported by investments from the government, SOEs and foreign companies, with an overall increase of investments in fixed assets of 33% y-o-y in 2019. The positive dynamic was recorded in all major sectors, with growth of 39% in construction, 9.6% in manufacturing, 5.7% in service and trade and 2.5% in agriculture, while the mining industry output decreased by 1% y-o-y.

The government forecast shows GDP growth rates of around 5.5% in 2020 and 6.2% in 2021, while IMF expects this metric to be close to 6% over the coming years. We expect the GDP growth to be in the range of 5.5%-6% in 2020-2021, if the macroeconomic environment remains stable, as well as all announced reforms to be implemented on time. However, we can decrease our current forecast in case of a substantial slowdown in the global economy, as well as delays in the investment and privatization programs in Uzbekistan.

Despite the impressive progress over the last years, the level of national wealth expressed in GDP per capita in PPP terms remains very low in

Rating

Sovereign Government Credit (LC)	BB-
Sovereign Government Credit (FC)	BB-
Outlook (LC)	Stable
Outlook (FC)	Stable

* This rating is non-pledged

Rating dynamics

Main Economic Indicators of Uzbekistan

Main indicators	2017	2018	2019
GDP per capita (PPP)	91,000	100,000	108,000
Nominal GDP (USD bn)	300,507	407,014	523,970
Real GDP growth, %	4.5	5.4	5.6
GDP per capita (GDP, %)	30.9	29.3	30.0
Deficit (current)/GDP, %	-1.9	-2.1	-2.2
Inflation rate, %	10.8	14.3	15.2
Current account	-	-	-4.3
External debt (USD bn)	-	-	33.0
Development indicators	2019		
New registered MS	8.71		
GDP per capita (PPP)	8.5		
Unemployment rate	94.81		
US\$ per USD (PPP)	3.9		

Source: RAEXPERT RA and various international organizations. Data as of the end of 4Q 2019. 2019: preliminary data.

* These are the forecast figures included in the Government Fiscal Plans for 2020-2021.

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Banking system Report:

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Banking Sector Risk
BB- of Uzbekistan
Level of risk: **2 High**

Uzbekistan Selected RSR score Metrics

	2017	2018	2019
Domestic credit provided by financial sector to GDP (%)	34.6	41.2	44.4
GDP per capita in PPP terms, USD bn	8.0	8.3	8.8
NPL, % loan portfolio	1.2	1.3	1.5
Bank deposits to GDP (%)	19.4	17.2	17.4
Current deposits to total assets (%)	53.1	41.8	41.9
Bank branches per 100k hb	20.2	20.1	20.0
Bank concentration (%)	20.0	14.8	14.0
Capital of bank assets, % to GDP	10.4	7.8	7.0
Return on equity, %	0.8	0.6	0.6
Nominal GDP (USD bn)	39.2	50.5	66.5
Inflation rate, annual %	10.8	14.3	15.2

Source: RAEXPERT RA and various international organizations. Data as of the end of 4Q 2019.

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https://raexpert.eu/files/industry_report_Uzbekistan_Banks_01.04.2020.pdf

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Next Sovereign Rating Update – Georgia – 3.04.2020

Georgia Webinar – 30.04.2020