

## Rating-Agentur Expert RA GmbH assigned 'B' sovereign government and 'CCC' credit climate ratings to Uzbekistan

Rating-Agentur Expert RA GmbH assigned 'B+' sovereign government credit rating (SGC) to Uzbekistan in national currency (Moderately low level of creditworthiness of the government) and 'B' in foreign currency (Moderately low level of creditworthiness of the government).

Rating-Agentur Expert RA GmbH assigned 'CCC+' country credit environment rating (CCE) to Uzbekistan in national currency (low quality of credit environment of the country) and 'CCC' in foreign currency (low quality of credit environment of the country).

### MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

#### Positive factors:

- Very low level of gross government debt (estimated at 11,6% of GDP and 32,9% of budget revenues for 2015), the lowest as compared to its regional peers<sup>1</sup>;
- Historically low short-term debt<sup>2</sup>. The maximum amount between 1997 and 2013 was USD 626 m, which would be covered by current FX reserves by 39x and would be as low as 1% of the projected GDP for 2015;
- FX reserves cover gross government debt by more than 3x and represent 39% of GDP, the highest among its regional peers;
- Positive fiscal balance (projected to be 0,1% of GDP in 2015) but with a negative trend;
- Constant and high average real GDP growth over the last six years (7,9% y-o-y). However, it is forecast to be slightly lower at 6,8% in 2016;
- According to reported data, the banking system appears to be stable characterized by low levels of NPLs (0,4% of total loans in 2015) and high capital adequacy (11,3% in 2015);
- Fiscal policy has been prudent. While the policy is in fact loose, the budget has remained balanced in 2015 due to lower expenditures.

#### Restricting factors:

- Government debt is projected to increase by about 3p.p. in 2015 up to 11,6% of GDP, the highest figure in the past six years. However, it remains low and does not pose any additional risk;
- Monetary policy remains accommodative (the Central Bank last lowered the reference rate from 10% to 9% in January 2015) despite inflation being high.

#### Negative factors:

- The level of GDP per capita in PPP terms (USD 5 999 in 2015) is one of the lowest among Uzbekistan's regional peers only above Kyrgyzstan and Tajikistan, both of which are non-hydrocarbons dependent countries;
- Inflation remained flat over the past six years and, according to IMF estimates, is expected to close 2015 at 9,5%<sup>3</sup>;

<sup>1</sup> Regional peers include Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia and Tajikistan.

<sup>2</sup> Total outstanding short-term debt from 1997 to 2013 provided by the Asian Development Bank.

<sup>3</sup> The Central Bank of Uzbekistan (CBU) reported an inflation rate of 5,6% for 2015. The Agency used the IMF estimate for the assessment due to the lack of transparency in the reported statistics.

- The unemployment rate, as reported by the World Bank, was as high as 10,6% in 2014. However, it has remained stable for the past six years;
- The volume of bank assets to GDP (37,1%) and private credit to GDP (22,9%) remain low and declined by 1,6p.p. and 0,1p.p. respectively in 2015;
- Sluggish institutional development with low transparency and quality of official statistics as well as high levels of corruption in the country (ranked 153<sup>rd</sup> out of 167 countries in 2015 according to Transparency International);
- High share of state-owned banks in the banking system (about 80% of total bank assets at end-2014) which eases directed lending operations distorting financial markets;
- Underdeveloped financial system with 285 listed companies on the national stock exchange as of March 2016 and market capitalization as low as 5,1% of GDP as of September 2015.

#### Stress factors:

- Capital controls leading to FX black markets and other distortions. Since 2009 the difference between the official and parallel (black market) exchange rate increased significantly. This situation generates speculation in the FX market, volatility of exchange rate, inflationary pressures and low FDI. It also increases the risk of incurring in money laundering operations and having unrecorded capital flows (moderate stress-factor).

#### Currency risks:

- Most of the total gross government debt is external. Additionally, restrictions to operate in foreign currency, as well as the obligation for exporters to surrender a partial or full amount of their FX proceeds constitute the main currency risk of Uzbekistan.

#### ADDITIONAL FACTORS THAT INFLUENCED CCE RATINGS:

##### Negative factors:

- Limited amount of instruments in the financial market;
- Banks' loan policy harmed by state directed lending.

##### Restricting factors:

- Low protection of investors as evidenced by the ranking of Doing Business (Uzbekistan ranked 88<sup>th</sup> out of 180 countries in 2015).

#### SENSITIVITY ASSESSMENT:

##### The following developments could lead to an upgrade:

- Improvement in the external environment along with further development of the banking and financial sectors.

##### The following developments could lead to a downgrade:

- Prolonged impact of regional spillovers on the economy and price stability;
- Continued increase in debt and government spending to sustain economic growth.

“Uzbekistan’s ratings are positively supported by extremely low levels of government debt, favorable public finances, above average economic growth and satisfactory levels of FX reserves. The resilience of the economy to the regional slowdown and other external shocks also contributed positively to the ratings.

On the other hand, the Agency noticed several risks for the country’s creditworthiness and credit environment. The main risk factor is the FX black markets which emerged after a series of government controls. These markets cause great imbalances in the economy including

inflationary pressures and exchange rate volatility. In addition, lack of institutional development and government transparency, combined with an underdeveloped financial system and low and declining domestic credit also disfavored the rating” – clarified Hector Alvarez, Expert of Rating-Agentur Expert RA GmbH.

Responsible expert: Hector Alvarez, Expert of Rating-Agentur Expert RA GmbH

Reviewer: Gustavo Angel, Expert of Rating-Agentur Expert RA GmbH

Research report on Uzbekistan is available at:

[http://raexpert.eu/reports/Research\\_report\\_Uzbekistan\\_15.04.2016.pdf](http://raexpert.eu/reports/Research_report_Uzbekistan_15.04.2016.pdf)

Next scheduled rating publication: 23 September 2016. The full sovereign rating calendar can be found at <http://raexpert.eu/sovereign.php#conf-tab-5>

For further information contact:

**Rating-Agentur Expert RA GmbH**  
Walter-Kolb-Strasse 9-11,  
60594 Frankfurt am Main, Germany  
+49 (69) 3085-45-00  
E-mail: [info@raexpert.eu](mailto:info@raexpert.eu)  
[www.raexpert.eu](http://www.raexpert.eu)

## Minute's summary

The rating committee for Uzbekistan was held on 13 April 2016. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Sovereign methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: Methodology for Assigning Sovereign Government Credit Ratings and Country Credit Environment Ratings. Short Public Version (from April 2015) can be found under the following link: <http://raexpert.eu/files/methodology/Methodology-Short-Sovereign.pdf>. Descriptions and definitions of all rating categories can be found under the following link: <http://raexpert.eu/sovereign.php> under the "Rating scale" section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

**These ratings are unsolicited. The rated entity did not participate in the rating process.**

Main sources of information: International Monetary Fund, World Bank, CIA Fact book, World Economic Forum, Doing Business, United Nations, The State Committee of the Republic of Uzbekistan on Statistics, Central Bank of Uzbekistan (CBU), Ministry of Finance of Uzbekistan, Transparency International.

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## Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the country with information considered as the most reliable and up to date in accordance to the overall position of the country and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Despite similar methodologies, credit ratings of Uzbekistan from RAEX (Moscow) (both SGC and CCE) may be different from those assigned by Rating-Agentur Expert RA GmbH due to:

- Possible differences in expert assessments of individual factors;
- Some differences in methodologies (methodologies are similar but not identical);
- Differences in the date/period of assessment for individual factors.

## Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies of the RAEX group.

## Risk warning

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's Research Reports.

This Report represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

## Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.