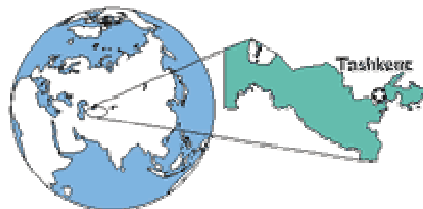


COUNTRY REVIEW

Uzbekistan



8 February 2010

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EULER HERMES COUNTRY RISK GRADE: D

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

COUNTRY PROFILE

Capital city:	Tashkent
GDP:	USD 27,918 mn (2008e)
Population:	27.2 mn (2008e)
GDP per capita:	USD 1,027 (2008e)
Currency:	Uzbekistani sum (UZS)
Form of state:	Republic; authoritarian presidential rule
Head of government:	President Islom KARIMOV (since 24 March 1990)
Next elections:	Presidential: 2014 / Legislative: 2014

Uzbekistan is governed by strong authoritarian presidential rule. Islom Karimov has led the country since March 1990 (then still the elected regional president of this former Soviet republic). He was re-elected president for a third term (although this violates the constitutional two-term limit) in 2007 with 88% of the vote. He exercises total control, appointing the prime minister, deputy ministers and regional governors, who all report directly to him. The country's parliament is effectively "rubber stamps" policies as all opposition parties were barred from the last election in 2009/2010. Prospects of political liberalisation have weakened further since 2004. A series of terrorist attacks in 2004 (allegedly by Islamic militants), which demonstrated the fragility of Uzbekistan's apparent political stability, and large-scale anti-government demonstrations in May 2005 (cracked down on by security forces) have prompted further restrictions on the media and the already weak political opposition. Vested interests will continue to dominate the political scene and businesses.

Regional stability is poor in Central Asia and Uzbekistan has ongoing border disputes with Kazakhstan, Kyrgyzstan and Tajikistan. Driven by the West's regional security agenda, particularly in Afghanistan, Uzbekistan's relations with the US and the EU appear to improve from a low in 2005 (which resulted from Western criticism of the violent crackdown on the May 2005 protests). The EU has lifted its sanctions against the country and the US is again allowed to use Uzbek airbases, at least for non-arms supplies into Afghanistan. But Uzbekistan does not rely much on Western support as it has expanded economic links with both Russia and China and deepened security ties with Russia in recent years.

During the Soviet era, intensive production of cotton and grain led to overuse of agrochemicals and depletion of water supplies, which has left the land poisoned and the Aral Sea and certain rivers half dry. As a result, Uzbekistan is a dry, landlocked country of which 11% consists of intensely cultivated, irrigated river valleys. More than 60% of its population lives in densely populated rural communities. Attempts at industrial change since independence have had little success so far and Uzbekistan remains a low income economy where agriculture accounts for around 24% of GDP (29% of the workforce), industry 33% (13%) and services 43% (58%). Uzbekistan is the world's second-largest cotton exporter, a large producer of gold, natural gas and oil, and a regionally significant producer of chemicals and machinery. The economy has remained narrowly based and vulnerable to external shocks.

Official data are scarce, in many cases not up to date, open to doubt and internally contradictory. The economy is reported to have grown by an annual average 8% from 2004 to Q3 2009. The fiscal account was near-balanced in 2007-2009. Official inflation was 8% yr/yr in Q1-Q3 2009. The current account surpluses narrowed from 22% of GDP in 2008 to estimated 11% in 2009. Foreign exchange reserves reportedly cover more than 10 months of merchandise imports. Despite these fairly positive official data, the local currency, the sum, has continued to depreciate against the USD (10% in 2009), the central bank has kept its key policy interest rate unchanged at 14% and the government continues to emphasize anti-crisis policy measures. Current account convertibility was introduced in 2003, but does not really work in practice, as many formal and informal restrictions on access to foreign exchange have remained in place. External debt has moderated to adequate levels according to the ADB.

The Uzbek government did not take advantage of the favourable external environment in 2004-2008 to enact any structural or institutional reform, such that the longer term economic outlook remains very gloomy. The very weak business environment, which will continue to deter most foreign investors, is particularly reflected in the lack of an independent judicial system, a weak and state-controlled banking sector, a burdensome and opaque regulatory framework and pervasive corruption.