



CURRENCY DEVALUATION IN UZBEKISTAN

Since President of Uzbekistan Shavkat Mirziyoyev came to power in December 2016, significant social and economic reforms have been undertaken in the country. For instance, the government has created new free economic zones (in Urgut, Gijduvan, Qoqand, and Hazarasp, as well as seven free economic zones of the pharmaceutical sector), improved the legal and economic conditions of running business, and initiated reforms in the tax and education systems. Moreover, the country has succeeded in improving its relations with the neighboring states, especially Tajikistan and Kyrgyzstan, and deepening cooperation with international organizations such as the European Bank for Reconstruction and Development, World Bank (WB), and International Monetary Fund (IMF). However, one of the main changes introduced by the new leadership is the currency and foreign exchange reform, which has made the country's national currency, the som, freely exchangeable.

The Uzbek government first introduced som-coupons, a transitional currency, which replaced the Soviet ruble at the rate of one-to-one, on November 12, 1993. The permanent currency unit was introduced on July 1, 1994, at the rate of one som for 1000 som-coupons, with the exchange rate equaling 25 soms per \$1. However, by losing two-thirds of its value in the second half of 1994, the som became one of the weakest new currencies in Central Asia. Due to hyperinflation, which Uzbekistan experienced in the 1990s, the government was unable to make the som fully convertible. In 1996, the country faced a significant balance of payments deficit, which pressured the national currency's exchange rate. As a result, the government maintained tight control over the som, limiting access of the population to foreign currency. The government established two legitimate, though overvalued, exchange rates, namely, the official exchange rate set by the Central Bank of Uzbekistan (CBU) and the interbank privileged exchange rate for particular state enterprises and licensed importers. Moreover, up to February 2017 most exporters were obliged to convert 50% of their export revenues into local currency at the official exchange rate. In February 2017, the percentage of mandatory conversion was reduced to 25%.

Under these conditions, the third, so called black market, exchange rate, which was usu-

ally significantly higher than the official exchange rate, appeared in the country. In fact, in the beginning of the 2000s, the Uzbek authorities made several attempts to introduce full currency convertibility, but failed to do so. As a result, because of the country's failure to deregulate the currency market, the IMF left Uzbekistan in 2000.

However, the situation has changed radically after President Mirziyoyev issued a decree on priority measures for liberalizing the foreign exchange policy dated September 2, 2017. After the decree took effect on September 5, 2017, the CBU devalued the country's currency in relation to foreign currency by almost 96%. The official exchange rate increased from about 4,200 soms per \$1 to 8,100 soms per \$1, while the interbank privileged exchange rate increased from 4,240 soms per \$1 to 8,110 soms per \$1. The CBU stated that the current average exchange rate should be in the range of 8,000-8,150 soms per \$1. As a result, the new official and interbank exchange rates exceeded the black market exchange rate, which amounted to 7,700 soms per \$1 as of September 4, 2017. It is worth mentioning that in the early August 2017, a month before the devaluation, the black market exchange rate was about 8,100-8,200 soms per \$1, but public expectations of the forthcoming currency market liberalization led to its decrease.

Under the decree, individuals and legal entities are allowed to freely sell and buy foreign currency. Indeed, legal entities no longer need a special license to buy foreign currency in commercial banks to fulfill their operational activities such as imports of goods, repatriation of profits, repayment of loans, payment of travel expenses and other non-trade transfers. Individuals are also permitted to freely buy foreign currency in commercial banks with its further transfer to an international payment card that should be used only in international transactions. At the same time, individual entrepreneurs that import products from abroad are also allowed to buy foreign currency using a banking account. Moreover, the requirement for the mandatory conversion of export revenues for exporters was completely abolished.

The ongoing reforms should promote Uzbekistan's economic liberalization aimed at further strengthening the macroeconomic stability and maintaining high economic

growth. In fact, the currency conversion restrictions created a barrier to foreign capital seeking access to the Uzbek market. The lack of convertibility has prevented foreign investors from doing business in Uzbekistan. For instance, according to the WB, the average share of foreign direct investment (FDI) in the Uzbek GDP in 2000-2015 was 1.69%, while in other Central Asian countries this share was several times higher, equaling 8.8%, 8.2%, 5.9% and 4.4% for Turkmenistan, Kazakhstan, Kyrgyzstan, and Tajikistan, respectively. Therefore, the liberalization of the currency market can increase the investment inflow in the long term, which would be a positive development for Uzbekistan since FDI remains one of the key drivers of social economic development in transition economies.

On the other hand, the recent devaluation can cause negative consequences affecting Uzbekistan's economic stability in the short term. Firstly, due to the fact that the currency devaluation increases prices on imported goods, it appears that in 2017 the inflation rate will grow much faster than in the previous years. Secondly, the situation can have an immediate negative impact on the stability of the banking sector. For instance, Moody's Investors Service notes that the devaluation will quite probably have a negative effect on the quality of bank borrowers in Uzbekistan. Indeed, the liberalization of the currency policy may adversely affect the country's banking system, the key industries of the national economy and real income of the population in the short run. Therefore, in order to mitigate potential negative effects, the Uzbek government should continue the policy of economic reforms by introducing further changes and amendments to the legislation arising from the September 2017 currency decree. One of them should be the development of a new Law on Currency Exchange Regulation to replace the existing law dated May 7, 1993.

In conclusion, it remains to be seen if Uzbekistan will succeed in its economic reforms, but the initial stage of this process is very promising. The Uzbek government would be able to ensure long-term economic growth through taking appropriate and sustainable measures to overcome possible financial instability, along with adequate support of international organizations, such as the IMF and WB.

Politics, Foreign Affairs and Security

- According to the preliminary results of the presidential elections published by the Central Election Commission of Kyrgyzstan, former Prime Minister Sooronbai Jeenbekov gained 54.28% of the votes, while his main opponent Omurbek Babanov was the second leading candidate with 33.41% of votes. The turnout during the presidential election reached 55.8%, meaning that 1.7 million voters out of 3.2 million people who were eligible to vote took part in the election. The top five leaders among the candidates include Adakhan Madumarov (6.42%), Temir Sariyev (2.54%), and Talatbek Masadykov (0.63%).
- During the Council of the Heads of State of the Commonwealth of Independent States (CIS) held in Sochi, the heads of the CIS member states discussed prospects of further strengthening cooperation within the framework of the CIS, focusing on the development of cooperation in political, economic and cultural fields.
- During his official visit to Baku, President of Bulgaria Rumen Radev exchanged views with his Azerbaijani counterpart Ilham Aliyev on further developing political and economic partnership between the two countries.
- During his official visit to Minsk, Speaker of the Parliament of Azerbaijan Ogtay Asadov discussed with Mikhail Myasnikov, the Chairman of the Council of the Republic of the National Assembly of Belarus, further prospects for deepening interstate relations. Following the talks, the parties signed a declaration on the contribution of the parliaments of Azerbaijan and Belarus to the development of trade and economic ties between the two countries, as well as their cooperation in culture, science and education.
- During his official visit to Kazan, Deputy Prime Minister of Uzbekistan Gulomjon Ibragimov discussed with President of Tatarstan Rustam Minnikhanov possible cooperation in engineering, construction, housing and communal services, health, agriculture, information, culture and a number of other areas.
- According to the Defense Ministry of Azerbaijan, the country's rocket and artillery units conducted exercises in line with the Armed Forces' 2017 training plan. The exercises were held in order to improve the combat skills of the military personnel.

Economy, Finance and Energy

- According to the Statistics Committee of the Ministry of National Economy of

Kazakhstan, the volume of oil and gas condensate production in January-September 2017 amounted to 54.091 million tons and 9.926 million tons, which is a 12.9% and 10.1% growth, respectively, compared to the same period of 2016. For the reporting period, the country produced 39.163 billion cubic meters of natural gas, which is 15.8% more than in the same period last year.

- According to the Russian state-owned oil producer, Rosneft, the company acquired a 30% stake worth \$1.125 billion in the concessions agreement for the development of the Egyptian Zohr deep-water gas field, the largest in the Mediterranean Sea, from the Italian Eni. The agreement stipulates a strategic partnership between Rosneft, Eni (60% stake) and BP (10% stake) in developing this offshore gas field.
- According to the Russian state-owned nuclear corporation, Rosatom, the company and the Energy Ministry of Morocco signed a memorandum of understanding in the field of peaceful uses of nuclear energy. The document was signed by Alexander Voronkov, the Director of the Middle Eastern Office of Rosatom, and Khalid El Mediouri, the Director-General of Morocco's National Centre for Nuclear Energy, Sciences and Technology.
- During his official visit to Moscow, Mayor of Ulaanbaatar Sunduin Batbold discussed with his counterpart Sergey Sobyenin further strengthening of cooperation in the fields of urban planning and development, architecture, housing, and public utilities. As a result of the negotiations, the parties signed a cooperation program for 2018-2020.
- According to the Statistics Committee of the Ministry of National Economy of Kazakhstan, the investment in fixed capital in the country in January-September 2017 reached \$16.7 billion, which is 4.4% more than in the same period of 2016. A high percentage of the fixed capital investment has been made in mining and quarrying (36.4%), transportation and warehousing (14.5%), and real estate operations (12%).
- According to the Central Bank of Uzbekistan, a minimum size of charter funds of microcredit organizations was set in the country in accordance with the bank's order amending the licensing regulations for such organizations. Under the order, the size of the authorized funds of microcredit organizations should be at least 2 billion soums (\$0.24 million), irrespective of their location.
- According to the Finance Ministry of Russia, the deficit of the Russian federal budget in January-September 2017 amounted to 268.13 billion rubles

(\$4.59 billion), which is nearly six times less than in the same period last year – 1.58 trillion rubles (\$27.09 billion). As of October 1, 2017, the budget expenditures and revenues amounted to 11.238 trillion rubles (\$192.57 billion) and 10.970 trillion rubles (\$187.98 billion), respectively.

- According to Lyuksina Tekeyeva, the Deputy Chairman of National Statistics Committee of Kyrgyzstan, the foreign trade turnover of the country in September-August 2017 amounted to \$3.88 billion growing by 12.1% year-on-year. It was also noted that the trade turnover between Kyrgyzstan and other member states of the Eurasian Economic Union amounted to \$1.51 billion, which is a 13.7% growth compared to the same period of 2016. In the reporting period, Kyrgyzstan's exports amounted to \$1.1 billion, while imports reached \$2.78 billion.
- According to the Ministry of Economy of Azerbaijan, since early 2017, the country's National Fund for Entrepreneurship Support has provided preferential loans worth \$57.4 million to 1,326 businessmen. It is planned that the total amount of loans allocated to entrepreneurs through the fund would reach \$88.76 million by the end of the year.

Society and Culture

- According to U.S. State Department spokesperson Heather Nauert, the country will withdraw from the United Nations Educational, Scientific and Cultural Organization (UNESCO). It was noted that the country would establish an "observer mission" to replace its representation at the Paris-based agency.
- During his official visit to Tashkent, Ahmed Shaheed, the United Nations Special Rapporteur on Freedom of Religion or Belief, discussed with President of Uzbekistan Shavkat Mirziyoyev issues of improving the Uzbek legislation on the freedom of conscience and religious organizations, as well as coordinated measures and joint activities in the sphere of religion and interethnic relations.
- During his official visit to Moscow, Minister of Religious Affairs and Civil Society of Kazakhstan Nurlan Yermekbayev discussed with Ravil Gaynutdin, the Chairman of the Spiritual Administration of Muslims of the Russian Federation, prospects of developing close cooperation in the religious sphere, including experience sharing in protecting the population from destructive religious ideas.