

The background of the cover is a vibrant painting of a minaret with intricate tilework and calligraphy. Three men in traditional striped clothing are shown at the base of the minaret, blowing long, curved trumpets. The sky is a soft, hazy blue.

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# WHY INVEST IN UZBEKISTAN

**BRIEF INVESTOR HANDBOOK**

*Painting by Alevtina Kozlova*



## INTRODUCTION

The report provides an overview of key opportunities and factors affecting investment climate and economic development in Uzbekistan. According to the Investment Promotion Agency of Uzbekistan, the country is planning to implement projects worth USD 17 billion in 2023 and foreign direct investment will amount to USD 7 billion. In 2024, Uzbekistan aims to implement projects worth USD 18 billion and foreign direct investment is expected to reach USD 7.8 billion.

Foreign direct investment is seen as a significant element for modernization, as it can provide access to capital, technology, and international markets. The government of Uzbekistan has been taking steps to make the country more attractive to foreign investors by implementing a range of economical and political reforms aimed at creating a business-friendly environment. This includes the establishment of free economic zones, simplification of business registration and licensing procedures, and the introduction of tax incentives.

The country's strategic location as the main land corridor with developed infrastructure helps in booming market with high growth. There is no doubt that ongoing reforms will provide great opportunities to a wide range of investors.



## OVERVIEW

Currently, Uzbekistan's economy is experiencing significant growth within the CIS. According to the Asian Development Bank, the projected gross domestic product (GDP) growth for Uzbekistan is 5.0% for both 2023 and 2024. Furthermore, various industries in the country are expected to experience notable growth during these years, which will have a positive impact on attracting foreign direct investment (FDI).

One of the government's key priorities is the modernization of the manufacturing and industrial sectors. These sectors have been identified as crucial drivers of economic growth and job creation. To achieve this, the government has been actively seeking FDI to introduce new technologies, expertise, and capital into the country.

Uzbekistan possesses a competitive advantage, driven by the high demand for its products in neighboring countries. The country has established trade agreements with all neighboring nations, which have had a positive impact on its economy. Additionally, Uzbekistan maintains a highly competitive pricing policy, and the government provides extensive support to its industries.

Despite these advantages, there are certain areas that require attention, such as the need to increase the number of qualified specialists in the manufacturing and industrial sectors. To address this issue, private companies are investing in the education and training of their employees.





Uzbekistan's improvement in investment climate can be attributed to the effective reforms implemented in significant sectors of state management and the economy, such as:

- The establishment of The Direct Investment Fund.
- The creation of the Investments Promotion Agency as a one-stop shop for investors.
- The establishment of the Foreign Investors Council.
- The introduction of modern technologies for monitoring the implementation of investment projects.
- The creation of favorable business conditions aligned with international ratings and indexes.

These reforms are expected to have the following positive impacts:

- Attracting foreign direct investment and advanced technologies, while reducing capital control and promoting privatization.
- Providing a new platform for direct dialogue between businesses and the government, aimed at developing a favorable, transparent, non-discriminatory, and constructive business environment.
- Coordinating prompt resolutions for issues that arise during the implementation of investment projects.
- Removing barriers and simplifying business processes to enhance efficiency and ease of doing business.

## MACROECONOMIC INDICATORS

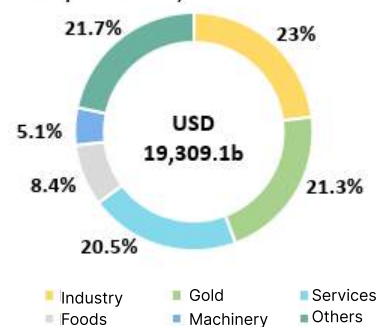
According to the report of the Statistics Agency under the President of the Republic of Uzbekistan, in the 1st quarter 2023 the structure of FDI and loans in the fixed capital by type of economic activity is as follows:

- processing industry – 46.8%;
- electricity and gas supply – 17.1%;
- mining industry – 10.1%;
- logistics and storing – 5.8%;
- agriculture – 4.7%;
- ICT – 2.5%;

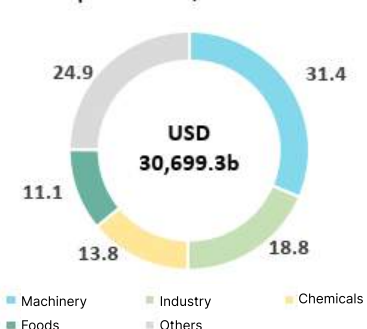
Inflation in Uzbekistan in the first quarter of 2023 slowed down from 2.9% to 2.4%. Prices for food products increased by 3.4% (in January-March 2022 - 4.4%). Price growth for non-food products amounted to 1.6%, paid services - 1.6%.

Foreign trade turnover of Uzbekistan in 2022 amounted to USD 50,008.4 million. That is 18% more than in 2021. The highest trade turnover falls on Russian Federation (18.6%), China (17.8%), Kazakhstan (9.2%), and Turkey (6.4%).

Main exports in 2022, %.



Main exports in 2022, %.



The industry is expected to grow by 5.5% in 2023 and 2024, with a modest recovery in textiles, food, mining, and quarrying. This growth is driven by increasing demand for hydrocarbons and high external demand, particularly from the Russian Federation, for apparel and processed food.

In contrast, growth in services is anticipated to decrease to 5.5% in both years, primarily due to reduced demand for food and accommodation, storage, and transportation services. The growth rate of private consumption and investment is projected to moderate during this period.

In terms of agriculture, the results for January-March 2023 indicate a positive growth rate of 3.2%, compared to 2.7% in the same period of 2022. The growth in the agricultural sector can be attributed to a 3.6% increase in livestock production.



Furthermore, the results for the 1st quarter of 2023 show a 4.1% growth in the industry. This positive trend is primarily driven by the growth of value added in the mining and quarrying sector by 2.0%, processing by 4.3%, and power and gas supply, steam and air conditioning by 5.4%.

Compared to January-March 2022, construction work in January-March 2023 has increased by 4.5%, while the growth rate of the construction of buildings and structures amounted to 103.4%, civil buildings - 115.0% and specialized construction work - 96.0%.

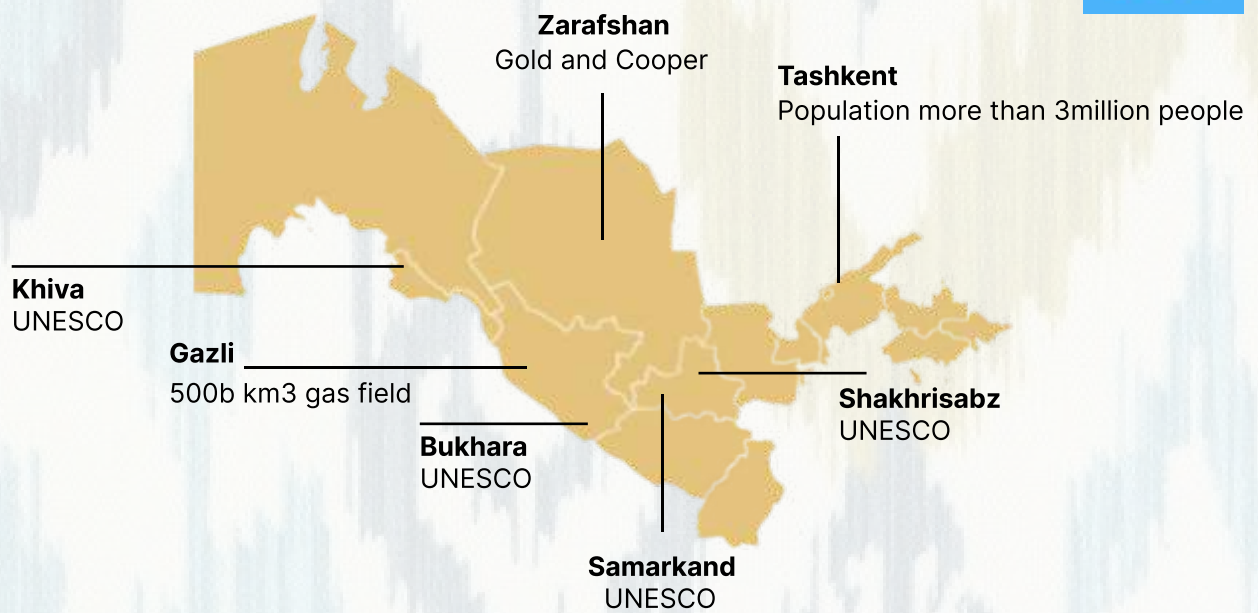


Based on the results of the 1st quarter of 2023, the gross value added of the service sector in Uzbekistan amounted to UZS 100,155.9 billion. This represents a 7.0% increase compared to the 1st quarter of 2022. The specific growth rates for various sub-sectors within the service sector are as follows: trade grew by 4.93%, accommodation and catering by 4.2%, transportation and storage by 10.0%, and ICT by 20.3%.

The government of Uzbekistan has recognized the importance of the ICT sector for the country's economic development. They have formulated a strategy that focuses on three key areas: infrastructure development, human resource development, and the promotion of innovation and entrepreneurship. In terms of infrastructure, the government is making significant investments to expand the ICT infrastructure across the country.

The establishment of IT parks in Uzbekistan has had a transformative impact on the ICT industry. The export volume of the industry has increased 50-fold, reaching U\$46 million. This growth has also led to the establishment of more than 300 new companies and the creation of 8,500 highly paid jobs. The number of IT park residents has also increased from 147 to 500, indicating the success and growth of the sector.





## KEY OPPORTUNITIES AND POTENTIAL

- Central location and logistics environment provides access to 4B+ markets. Total length of developed system of railways is 5,800 km and roads – 184k km. Uzbekistan is located in strategic position connecting markets of East Asia with Europe and has a great transit potential in cooperation with China, Kyrgyzstan and Kazakhstan. Total length of transit corridor is 950 km.
- Uzbekistan holds abundant and diverse natural resources. Uzbekistan’s energy sector has traditionally relied on natural gas, oil, and coal for power generation.
- At the same time, the country is diversifying its energy mix to reduce its dependence on fossil fuels.
- In 2019, Uzbekistan adopted a comprehensive energy strategy aimed at transforming its energy sector and achieving energy security. The strategy targets an increase in the share of renewable energy in the country’s energy mix to 35% by 2030.
- Another priority of the government is to improve the regulatory framework for renewable energy. The government has introduced a feed-in tariff system to provide incentives for renewable energy development, and has established a legal framework to support renewable energy projects.

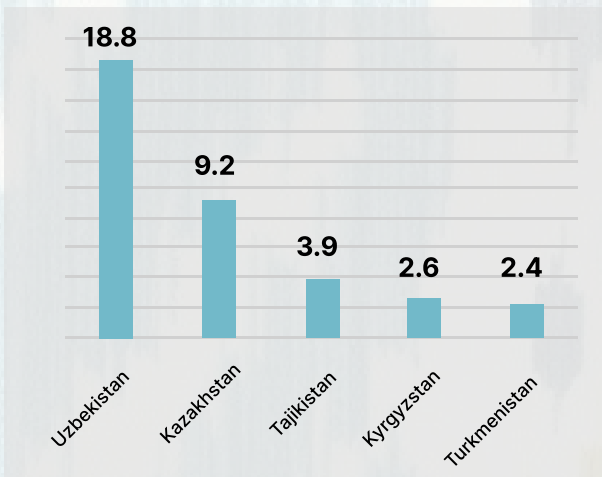
Type	Production	Reserves	Type	Installed Capacity	Output
Natural Gas	13 <sup>th</sup>	24 <sup>th</sup>	Wind	0.85 MW	1k KWh
Gold	10 <sup>th</sup>	10 <sup>th</sup>	Solar	4 MW	525b KWh
Uranium	7 <sup>th</sup>	16 <sup>th</sup>	Hydro	1.96 MW	27.4b KWh



- The government has introduced several tax incentives and subsidies for investors in the renewable energy sector, including a 5-year tax holiday and a 30% reduction in land taxes for renewable energy projects.
- As of 2023, there are 24 free economic zones (FEZs) offering enterprises special conditions, benefits and infrastructure. Between 2008 and 2021, 559 investment projects were implemented in FEZs, which created 46,833 job places and attracted USD 905.6 million in foreign investment.
- Largest workforce in the region, with over 60 higher educational institutions and 97% literacy rate demonstrate high potential of human resource development.



### Labor potential in Uzbekistan, million people



- In Uzbekistan, the state registration process for businesses operates on a «one-stop-shop» principle, where all registration documents are submitted to a centralized entity known as the One-Stop-Shop Centre. This center handles the registration with the justice, tax, and statistics authorities simultaneously, provided that all required documents are submitted without any issues. The registration requires a standard set of documents, including statutory documents prepared in the Uzbek language, to complete the state registration of a legal entity.

- Starting from January 1st, 2023, Uzbekistan implemented significant changes to its Tax Code to stimulate economic activity and simplify tax processes. Notably, the value-added tax (VAT) rate was reduced from 15% to 12%, offering relief to businesses and consumers alike. The time frame for in-house tax audits related to VAT validity was also shortened from 60 to 30 days, streamlining the process for businesses. As of May 2023, the tax rates include a general corporate income tax rate of 15%, a 0% tax on profits from exporting goods and services, a 12% VAT rate, and variable rates for excise tax. Personal income tax rates stand at 12%, with dividend and interest income taxed at 5% for residents and 10% for non-residents. These changes aim to create a more favorable and simplified tax environment for businesses operating in Uzbekistan.





## SUMMARY

This report highlights the key reasons why Uzbekistan presents an attractive investment opportunity. Uzbekistan's strategic location, serving as a vital transit hub connecting markets in East Asia with Europe, provides access to over 4 billion potential consumers. The country's well-developed logistics infrastructure, including an extensive railway system and road network, further enhances its competitiveness in international trade and transit. The report emphasizes the government's commitment to improving the investment climate through various reforms. The establishment of the Direct Investment Fund, Investments Promotion Agency, and Foreign Investors Council showcases Uzbekistan's proactive approach to attracting foreign direct investment and fostering a business-friendly environment. The government's focus on implementing modern technologies, creating favorable business conditions, and aligning with international standards contributes to the attractiveness of the investment landscape.

Additionally, the handbook highlights specific sectors expected to experience growth, such as industry, agriculture, and services. The government's prioritization of the ICT sector, with investments in infrastructure and the establishment of IT parks, offers significant opportunities for technology-driven businesses.

However, it is important for investors to understand the potential risks associated with investing in Uzbekistan. Factors such as economic fluctuations, regulatory changes, and geopolitical considerations may impact investment outcomes. Therefore, investors are advised to conduct thorough due diligence, seek professional advice, and carefully assess the risks involved before making any investment decisions.

**DISCLAIMER:** This Brief Investor Handbook provides general information about the investment climate in Uzbekistan. While efforts have been made to ensure the accuracy of the information, investors should be aware that investing in any country carries inherent risks. The information provided should not be considered as investment advice, and individuals are encouraged to seek professional guidance tailored to their specific investment objectives and risk tolerance.

