

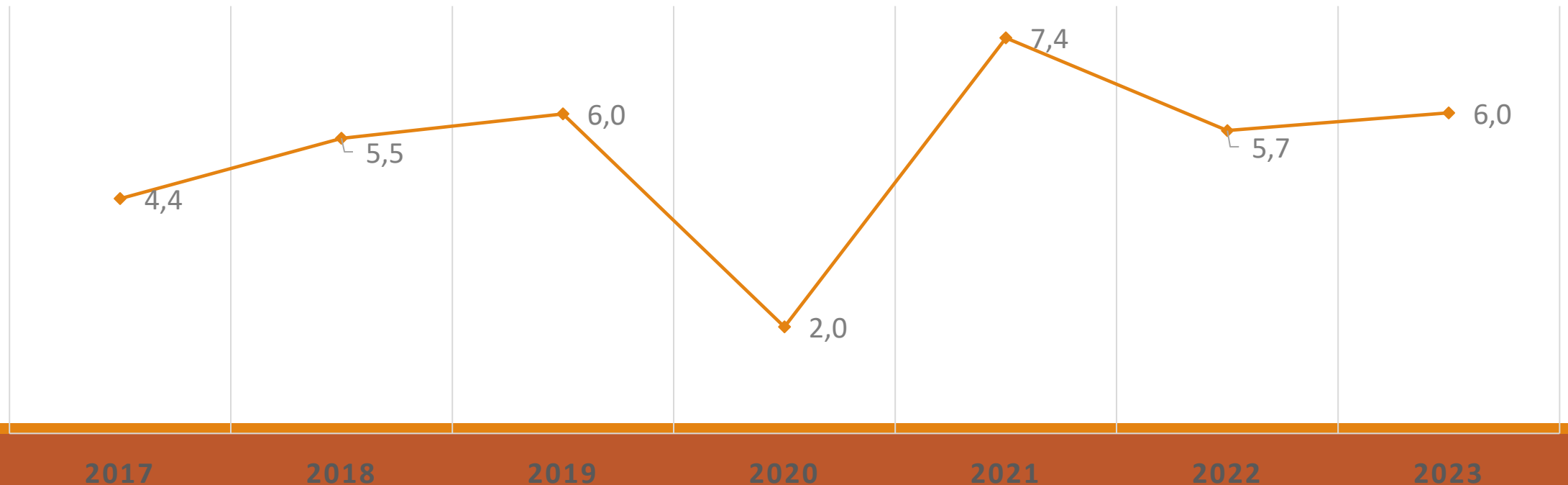
Impact of the war in Ukraine on the economy of Uzbekistan in 2022-2023

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Economic Growth - 1

The full-scale invasion of Ukraine had no adverse impact on the **growth rates** of Uzbekistan in 2022 and 2023. Primary sources of relatively high growth rates were **growth of Uzbek exports** (to Russia in 2022, among others), considerable **increase in remittances** to Uzbekistan (particularly in 2022), **rise in foreign investments and loans** from Russia, China, and Turkey, as well as **increased consumer demand** (also associated with the arrival of migrants from Russia).

Economic growth rate, %.



Economic Growth – 2

By industry,

- ❑ information and communication,
- ❑ finance and insurance,
- ❑ accommodation and food services,
- ❑ trade, transportation and storage,
- ❑ entertainment and recreation,
- ❑ construction

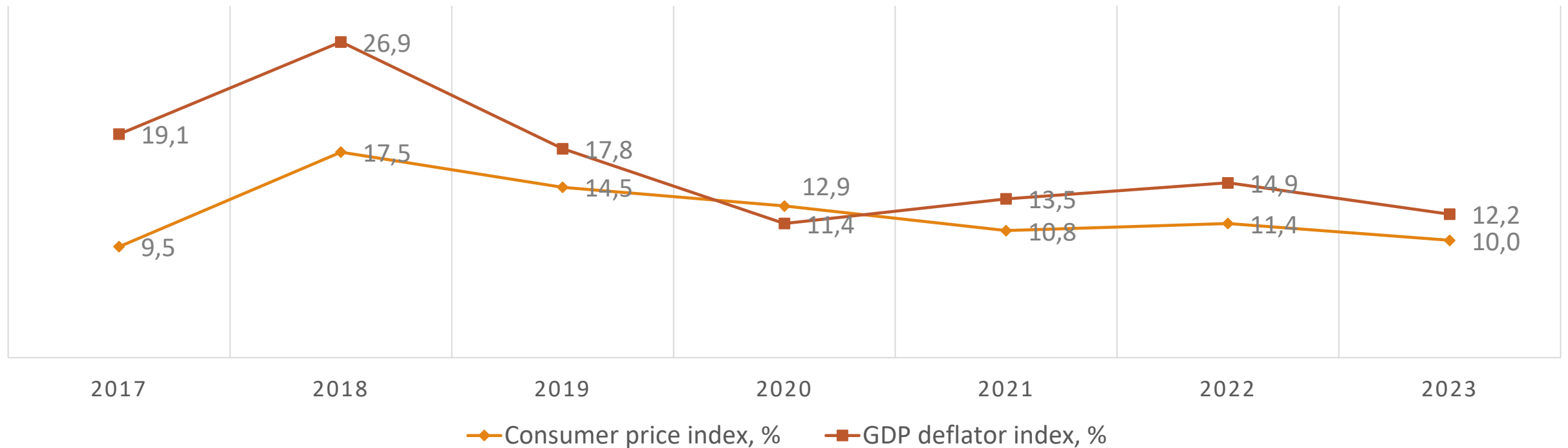
showed the highest output growth (as well as wage growth).

The growth of output and wages in these sectors is largely due to the outbreak of a full-scale war in Ukraine:

- ❖ Relocants from Russia have shown additional demand for consumer goods, hospitality, catering, entertainment, and IT services.
- ❖ They have also heavily used financial sector services.
- ❖ Many of them joined the IT sector as investors, entrepreneurs, and employees, which has boosted production and exports.

Inflation

The apparent effect of the war in Ukraine on Uzbekistan's economy is the **persistence of high inflation rates**. Rising global food and energy prices, higher costs of international transportation, increased demand for consumer goods, services, and housing on the part of relocants from Russia exerted pressure on domestic prices.



Depreciation

Based on 2022 results, **the depreciation of the Uzbekistani som** against the US dollar amounted to only 3.6%, which is well below the inflation rate. Significant growth in remittances from Russia and exports, primarily to Russia, were among the key factors behind the appreciation of the real exchange rate of the Uzbekistani som in 2022.

However, inbound remittances declined in 2023, which, along with the depreciation of the Russian ruble and persistent inflation, contributed to the accelerated depreciation of the national currency: the som fell by 9.9% against the US dollar, which is commensurate with the annual inflation rate.

Foreign Trade - 1

In 2022, **commodity exports to Russia and commodity imports** from Russia grew significantly. Surge in trade turnover between Russia and Uzbekistan in 2022 is obviously related to the war in Ukraine and emerging new opportunities for Uzbekistan's exports to the Russian market.

In 2023, the volumes of merchandise exports to Russia and merchandise imports from Russia did not change much. But Russia's share in Uzbekistan's total exports and imports has declined.

Exports and imports of goods and services, in USD billion



Foreign Trade - 2

The war in Ukraine has mainly harmed Uzbekistan's foreign trade by **complicating and driving up the cost of cargo transportation** from and to Europe, as well as from and to the United States. Previously, such goods used to transit through Ukraine and Russia unimpeded. Now the transit is either complicated or impossible.

Shipments take roundabout routes, which dramatically increases both the cost and time of delivery. In addition, *supplies of equipment, spare parts, materials and raw materials from Ukraine, Belarus and Russia declined sharply*. Slow and rather painful re-orientation towards producers from other countries is underway.

External shocks associated with the pandemic and war in Ukraine led to adjustments in the **customs policy of the country's government**. The leadership of Uzbekistan has decided to temporarily apply zero customs rates when importing a wide range of consumer goods, as well as raw materials for their production. This measure played a major role in curbing inflation, saturation of goods and tightening competition in consumer markets, including through the diversification of imports.

External Labor Migration

The war in Ukraine did not lead to a decrease in the number of **labor migrants from Uzbekistan to Russia**; moreover, their number in 2022 seems to have even increased.

This is attributed to, among other things:

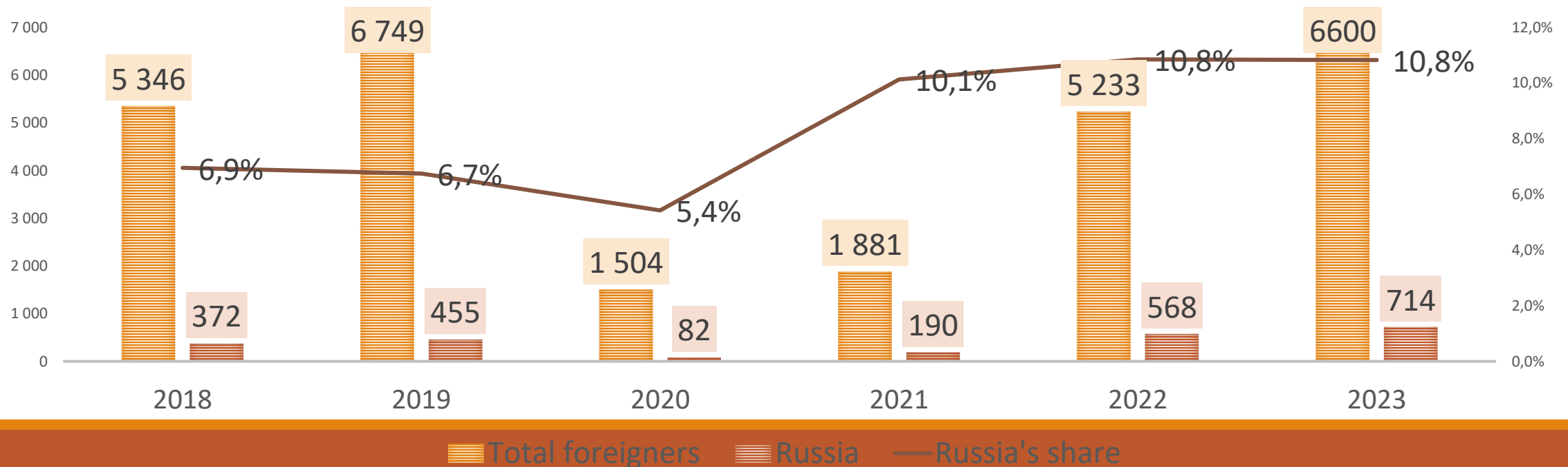
- a) increased demand for labor from Russian employers,
- b) appreciation of the ruble in 2022.

Accordingly, the drop in the ruble exchange rate starting in 2023 may potentially reduce the number of labor migrants from Uzbekistan. Which, according to some estimates, is already happening.

Relocation to Uzbekistan

In 2022-2023, at least 470,000 Russian citizens (**relocants**) arrived in Uzbekistan, with their arrival attributed to the impact of the war. People had left because of disagreement with the authorities, the deterioration of the investment climate, and fled from mobilization. However, one should understand that some newcomers used Uzbekistan as a transit territory and did not stay in the country for a long time.

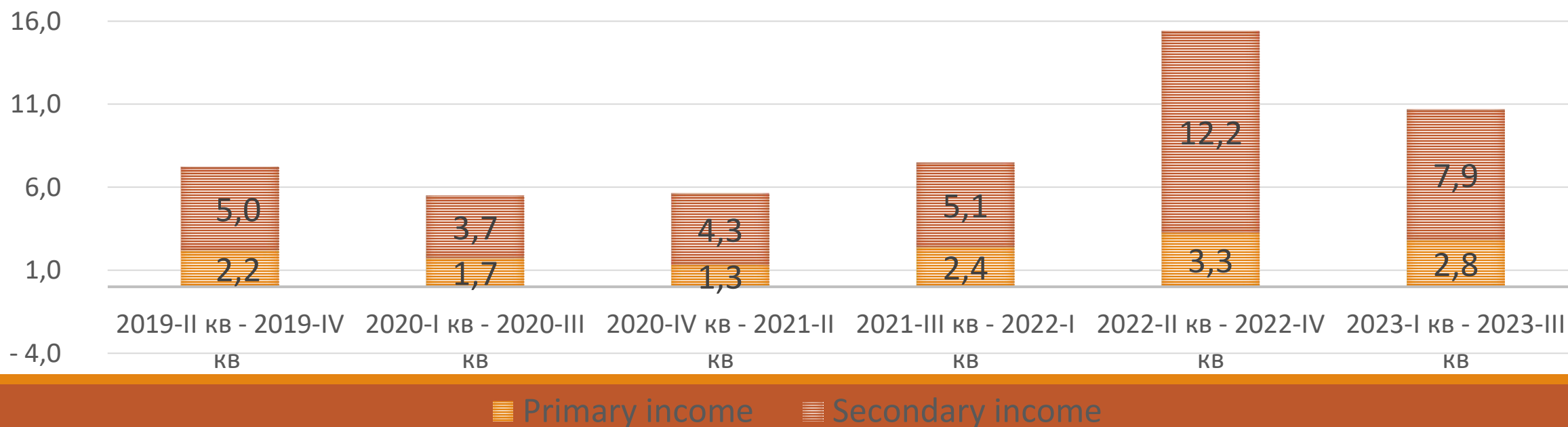
Number of foreigners visiting Uzbekistan including Russians, thousands of persons.



External Monetary Income and Remittances

Significant growth in remittances to Uzbekistan is a major apparent consequence of the war in Ukraine. External remittances increased by 139% in the first three quarters after the war had broken out. In the first three quarters of 2023, they fell by 35% against the previous period, but still exceed the pre-war level by 43%. Remittances from Russia accounted for the bulk of this increase: a) relocants who transferred money for their expenses in Uzbekistan, and b) payments by Russians for imported products purchased through Uzbekistanis.

Primary and secondary income in the balance of payments of the Republic of Uzbekistan by periods in 3 quarters, in USD billion.

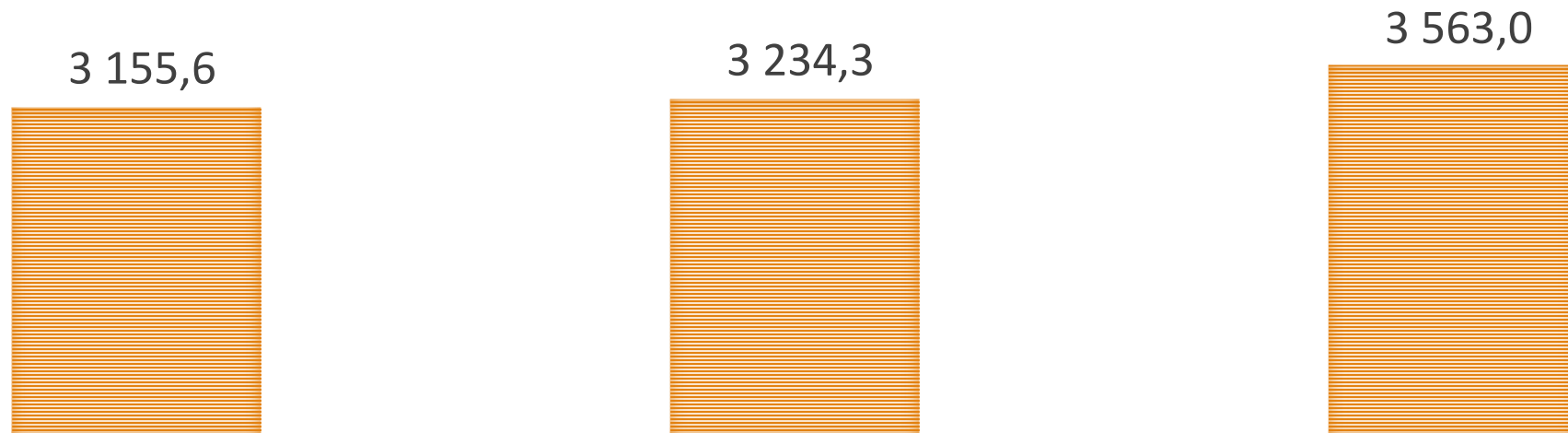


Foreign Investments

The war in Ukraine had no detrimental effect on the inflow of **foreign direct investment** into Uzbekistan. Russia, China, and Turkey account for the largest number of enterprises and organizations with foreign capital involvement. These three countries also account for the bulk of foreign investment and loans.

At the same time, the **investment climate** suffers from the fact that Uzbekistan is located in a zone of geopolitical instability and there is a risk of secondary sanctions.

Foreign direct investment in Uzbekistan by 6-month periods, in USD million.



2019-II KB - 2020-III KB

2020-IV KB - 2022-I KB

2022-II KB - 2023-III KB