IMPROVING DEBT MANAGEMENT IN UZBEKISTAN

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- Uzbekistan: brief overview
- Opening up, transparency and reform agenda
- Improving Debt Management: DMFAS, MTDS, capacity building, etc.
Uzbekistan’s Strategic Location

In the heart of Eurasia, the Republic benefits from access to markets with over 3.3 billion people within 950 km.

Area
448,978 sq. km
Comparable in size to California or Spain

Population
33.5 million [1]
Most populous country in Central Asia
> 130 nationalities
> 16 religious confessions

GDP
USD 50.5 billion [2]
Comparable in output to Slovenia or Macao

Capital
Tashkent

Urbanisation
~51%

Official currency
{"quote":"Soum"}[3] or UZS; UZS/USD = 8,427.58[4]

Languages
Uzbek (official), Russian (commonly used)
English (increasingly popular)

Political system
Presidential, multi-party democratic republic

Natural Resource Endowment

Abundant and diverse mineral resources

- **Gold**
  - Reserves (global rank): 3rd
  - Production (global rank): 2nd
  - Production (rank in CIS): 9th

- **Natural Gas**
  - Production (global rank): 15th
  - Production (rank in CIS): 3rd

- **Copper**
  - Reserves (global rank): 11th
  - Production (global rank): 5th
  - Production (rank in CIS): 19th

- **Uranium**
  - Reserves (global rank): 12th
  - Production (global rank): 2nd

- **As well as**
  - Oil, Zinc, Silver, Non-Ferrous and Precious Metals

Diversification of energy sources

- **Hydropower [1]**
  - Installed Capacity: 1,839 MW
  - Potential Output: 27.4 bn KWh
  - Modernisation of hydropower generation facilities and construction of new HPPs worth $890 mn
  - Current investment project
    - New and renovated hydroelectric facilities (over $2.0 bn by 2025)

- **Solar [1]**
  - Installed Capacity: 4 MW
  - Potential Output: over 525 bn KWh
  - Over 2,650 sunlight hours annually
  - Photovoltaic solar panel installation for power generation (c.$1.5 bn)

- **Wind [1]**
  - Installed Capacity: 0.85 MW
  - Potential Output: 1 tn KWh
  - Estimated potential capacity of wind power industry is more than 520,000 MW
  - Current investment project
    - European multinational investing in 100MW wind power generation (c.$100 mm)

**Human Capital - Strong Potential for Growth**

### Age structure of the population

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Men</th>
<th>Women</th>
<th>Working-age population</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td>1,186</td>
<td>1,197</td>
<td>2,383</td>
</tr>
<tr>
<td>5-9</td>
<td>1,426</td>
<td>1,416</td>
<td>2,842</td>
</tr>
<tr>
<td>10-14</td>
<td>1,069</td>
<td>1,096</td>
<td>2,165</td>
</tr>
<tr>
<td>15-19</td>
<td>1,097</td>
<td>1,156</td>
<td>2,253</td>
</tr>
<tr>
<td>20-24</td>
<td>903</td>
<td>906</td>
<td>1,809</td>
</tr>
<tr>
<td>25-29</td>
<td>771</td>
<td>781</td>
<td>1,552</td>
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<tr>
<td>30-34</td>
<td>547</td>
<td>554</td>
<td>1,101</td>
</tr>
<tr>
<td>35-39</td>
<td>241</td>
<td>236</td>
<td>477</td>
</tr>
<tr>
<td>40-44</td>
<td>373</td>
<td>385</td>
<td>758</td>
</tr>
<tr>
<td>45-49</td>
<td>348</td>
<td>356</td>
<td>704</td>
</tr>
<tr>
<td>50-54</td>
<td>254</td>
<td>271</td>
<td>525</td>
</tr>
<tr>
<td>55-59</td>
<td>225</td>
<td>272</td>
<td>497</td>
</tr>
<tr>
<td>60-64</td>
<td>176</td>
<td>193</td>
<td>369</td>
</tr>
<tr>
<td>65-69</td>
<td>117</td>
<td>131</td>
<td>248</td>
</tr>
<tr>
<td>70-74</td>
<td>59</td>
<td>96</td>
<td>155</td>
</tr>
<tr>
<td>75-79</td>
<td>38</td>
<td>84</td>
<td>122</td>
</tr>
<tr>
<td>80-84</td>
<td>32</td>
<td>66</td>
<td>98</td>
</tr>
<tr>
<td>85+</td>
<td>4</td>
<td>8</td>
<td>12</td>
</tr>
</tbody>
</table>

**Employment by sector as of 1H2019**

- **Agriculture, forestry and fishery**: 26.6%
- **Industrial production**: 13.7%
- **Trade**: 10.5%
- **Construction**: 9.1%
- **Education**: 8.5%
- **Transportation and storage**: 4.8%
- **Health and social services**: 4.6%
- **Other**: 22.1%

**Sources:** The Ministry of Employment and Labour Relations, State Committee on Statistics, World Bank


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**Uzbekistan is pursuing reforms to more productively and positively leverage its main asset—its human capital.**

- The most populous nation in Central Asia (pop. 33.5 million)
- The largest workforce (14.8 million) in the region
- Policy geared towards expanding education and channelling excess agricultural labour into industrial employment
- Literacy rate approaching 100%; 91 institutions of higher learning with 11 branches of foreign universities
- Low average retirement age at 57.5 years, providing sufficient headroom for future pension reforms
In December 2016, Shavkat Mirziyoyev won democratic presidential elections, receiving 88.6% of the vote. One defining characteristic of this administration has been the initiation of wide-reaching reforms.

### Development of state governance
- Administrative reforms
  - Restructured 20 public authorities
  - Revised structure of ministries
  - 46 government bodies reshaped or merged: 6 were abolished
- Adoption of anticorruption laws
  - Realisation of a joint program with the UNDP
  - Strengthened control over the main causes of corruption
- Human rights priorities
  - Creation of an agency for the protection of human rights
  - Virtual reception by the President received 2.2mm appeals (2.1mm satisfied)
  - 207 public complaints reception offices received 1.5mm appeals in a year (and satisfied 1.4mm)
- Introduction of e-Government

### Rule of law and legal reforms
- Transparency of and public involvement in regulations
  - Increasing transparency of political decision-making
  - Discussion of normative act projects via national portals
- Refinement of the judicial system
  - Adopted the presidential decree on the enhancement of normative activity
  - Enhancement of rule-setting mechanisms
  - Directed legislative regulation stability provision
- Improving administrative, criminal, and civil economic legislation

### Development and liberalisation of the economy
- Foreign currency liberalisation
  - Abolished surrender requirements and barriers to current account transactions
- Trade liberalisation
  - Foreign trade turnover in 2018 rose by 27.3% and import tariffs followed roadmap to join WTO
- Prioritisation of price stability
  - Transition to inflation targeting
- Improved investment and business climate
  - Doing Business rating jumped from 166 (2012) to 69 (2019)
- Agricultural reforms
  - Cluster system, intensive gardens and resource saving technologies
- Tax reform
- Reduction of administrative interference in the economy
  - Bread and flour price liberalised
  - Increased tariffs on gas and electricity
- Transparency of economic data
  - Joined IMF e-GDDS
- Innovation Strategy 2019-2021

### Development of the social sphere
- Improving the quality of education and health services
  - The ministry of pre-school education founded
- Increasing the presence of private and international institutions in academia
- Extending the coverage of and targeting of social protection services
  - 54.5% of budget expenditure is spent on the social sphere
- Real income and employment growth
  - Annual increase in job creation at around 350-450 thousand per year
  - New Tax Code stipulates lessening of tax burden for individuals
  - Public sector salary indexation to CPI levels
  - Self-employment support programs

### Security, religious tolerance and interethnic harmony, foreign policy
- Protection of sovereignty and territorial integrity
- Improvement of information security systems
- Strengthening of interethnic concord
- Strengthening of international defense and cybersecurity capabilities
- Improvement of the foreign policy base

### Completed developments, 2017 - 2018
- Reform of state-owned enterprises, particularly in the aviation, chemical and energy sectors
- State-owned enterprise reform

### Areas of focus for development, 2018 - 2021
- Modernisation of the economy, technological development, promotion of FDI and the investment climate, private property protections, development of the tax system, and investment in efficient infrastructure

Sources: “Development Strategy for 2017-2021”, Uzbekistan Ministry of Finance
Priority international ratings and indices for Uzbekistan

- Sovereign credit rating
- Global Innovation Index
- Doing Business, Worldwide Governance Indicators, Logistics Performance Index, Statistical Capacity Indicators.
- Country risk classification
- Democracy Index
- Global Competitiveness Index
- Human Development Index
- E-Government Development Index

❖ Since 2012 most significant changes occurred to Starting a Business, Getting Electricity, Getting a Credit, Paying Taxes and Registering Property;
❖ The World Bank named Uzbekistan one of the top 20 global improvers and ranked at 69th position in latest report.
Strong Fundamentals Support Growth and Reform

Economic expansion remains robust, following the foreign exchange liberalisation and structured reforms

Moderate budget deficit is anticipated in 2019

Consolidated Budget, UZS tn, % of GDP

Sources:
Ministry of Finance, Central Bank of the Republic of Uzbekistan, State Committee on Statistics, Ministry of Economy and trade

Government debt remains at sustainable levels

External Public Sector Debt, USD bn

Adequate Foreign Exchange Reserves

USD bn, 1H2019

Sources: Ministry of Finance, Central Bank of the Republic of Uzbekistan, State Committee on Statistics, Ministry of Economy and trade
Low public debt levels with favorable funding structure

The government’s domestic obligations are predominantly guarantees backing SOEs and public sector-linked entities. The government’s external debt is all owed to international financial institutions and sovereign creditors.

**Government debt structure**

USD bn, 1H2019

- Domestic public debt: 29% (of total debt)
- Bilateral creditors: 33%
- International financial institution creditors: 33%
- Eurobonds: 5%

**Total external public debt**

External PPG debt, USD mn

<table>
<thead>
<tr>
<th>Year</th>
<th>External PPG Debt</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>6.5</td>
<td>7.9%</td>
</tr>
<tr>
<td>2017</td>
<td>7.5</td>
<td>12.8%</td>
</tr>
<tr>
<td>1H2018</td>
<td>7.1</td>
<td>17.1%</td>
</tr>
<tr>
<td>2018</td>
<td>9.9</td>
<td>19.6%</td>
</tr>
<tr>
<td>1H2019</td>
<td>13.1</td>
<td>23.5%</td>
</tr>
</tbody>
</table>

**External debt currency mix**

1H2019

- USD: 60.1%
- JPY: 13.5%
- SDR: 10.9%
- EUR: 5.3%
- Other (incl. RMB): 10.2%

Sources: Ministry of Finance, Central Bank of Uzbekistan, State Committee on Statistics

[1] Until 26 December 2018, the Government of Uzbekistan had no direct domestic debt. On that date, the government announced it would issue domestic notes with face value of one million sums with maturities of 6 months, 1 year and 3 years. [2] Total public and publicly guaranteed (PPG) debt = external public and publicly guaranteed debt + domestic publicly guaranteed debt.
Uzbekistan Issued Sovereign Eurobond

The purpose of the transaction was two-fold:
- establishing a benchmark curve for the state-owned entities;
- creating a reference point that can foster Foreign Direct Investment into the country.

The transaction marks a number of landmark achievements:
- the lowest-ever yield level for a debut sovereign transaction out of the region (CIS and Turkey);
- very high order book coverage of 8.5x at peak;
- very strong yield tightening during book building of 62.5bps for both 5-and 10-year new issue tranches.

Allocation by investor type:
- 20.0% for SWFs, Insur. & Pension Funds
- 75.0% for Banks & PBs
- 16.0% for SWFs, Insur. & Pension Funds
- 78.0% for Banks & PBs
### Distribution of Local Government Bonds Portfolio by Tenor

<table>
<thead>
<tr>
<th>Tenor</th>
<th>Nominal Value (bn. UZS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 6 months</td>
<td>700 000,0</td>
</tr>
<tr>
<td>1 year</td>
<td>650 000,0</td>
</tr>
<tr>
<td>1.5 years</td>
<td>200 000,0</td>
</tr>
<tr>
<td>2 years</td>
<td>200 000,0</td>
</tr>
<tr>
<td>3 years</td>
<td>400 000,0</td>
</tr>
<tr>
<td></td>
<td>2 150 000,0</td>
</tr>
</tbody>
</table>
## Domestic Treasury bills and notes

<table>
<thead>
<tr>
<th>Date of issuance</th>
<th>Tenor</th>
<th>Amount, (thousand)</th>
<th>Total nominal value of securities placed to auction, (UZS bn)</th>
<th>Orderbook, (UZS bn)</th>
<th>Total nominal value of securities issued, (UZS bn)</th>
<th>Average annual yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>26.12.2018</td>
<td>6M</td>
<td>200.0</td>
<td>200.0</td>
<td>239.3</td>
<td>184.1</td>
<td>14.10%</td>
</tr>
<tr>
<td>27.12.2018</td>
<td>1Y</td>
<td>200.0</td>
<td>200.0</td>
<td>229.3</td>
<td>203.1</td>
<td>14.22%</td>
</tr>
<tr>
<td>28.12.2018</td>
<td>3Y</td>
<td>200.0</td>
<td>200.0</td>
<td>221.5</td>
<td>204.9</td>
<td>14.86%</td>
</tr>
<tr>
<td>19.02.2019</td>
<td>1Y</td>
<td>60.0</td>
<td>60.0</td>
<td>123.3</td>
<td>60.9</td>
<td>13.33%</td>
</tr>
<tr>
<td>27.02.2019</td>
<td>1Y</td>
<td>40.0</td>
<td>40.0</td>
<td>83.3</td>
<td>40.7</td>
<td>12.98%</td>
</tr>
<tr>
<td>05.03.2019</td>
<td>1Y</td>
<td>30.0</td>
<td>30.0</td>
<td>30.0</td>
<td>30.0</td>
<td>14.94%</td>
</tr>
<tr>
<td>12.03.2019</td>
<td>1Y</td>
<td>40.0</td>
<td>40.0</td>
<td>109.5</td>
<td>40.2</td>
<td>14.54%</td>
</tr>
<tr>
<td>19.03.2019</td>
<td>1Y</td>
<td>80.0</td>
<td>80.0</td>
<td>142.8</td>
<td>81.5</td>
<td>12.94%</td>
</tr>
<tr>
<td>08.05.2019</td>
<td>1Y</td>
<td>100.0</td>
<td>100.0</td>
<td>504.0</td>
<td>104.1</td>
<td>11.02%</td>
</tr>
<tr>
<td>15.05.2019</td>
<td>1Y</td>
<td>100.0</td>
<td>100.0</td>
<td>478.7</td>
<td>104.1</td>
<td>10.47%</td>
</tr>
<tr>
<td>22.05.2019</td>
<td>18M</td>
<td>100.0</td>
<td>100.0</td>
<td>295.1</td>
<td>106.5</td>
<td>10.04%</td>
</tr>
<tr>
<td>04.06.2019</td>
<td>18M</td>
<td>100.0</td>
<td>100.0</td>
<td>240.8</td>
<td>106.8</td>
<td>9.82%</td>
</tr>
<tr>
<td>12.06.2019</td>
<td>1Y</td>
<td>100.0</td>
<td>100.0</td>
<td>339.8</td>
<td>110.3</td>
<td>8.93%</td>
</tr>
<tr>
<td>19.06.2019</td>
<td>2Y</td>
<td>100.0</td>
<td>100.0</td>
<td>521.1</td>
<td>112.6</td>
<td>7.73%</td>
</tr>
<tr>
<td>05.07.2019</td>
<td>3Y</td>
<td>100.0</td>
<td>100.0</td>
<td>403.7</td>
<td>111.2</td>
<td>10.11%</td>
</tr>
<tr>
<td>12.07.2019</td>
<td>3Y</td>
<td>100.0</td>
<td>100.0</td>
<td>187.9</td>
<td>110.5</td>
<td>10.41%</td>
</tr>
<tr>
<td>17.07.2019</td>
<td>5M</td>
<td>200.0</td>
<td>200.0</td>
<td>202.1</td>
<td>189.4</td>
<td>12.72%</td>
</tr>
<tr>
<td>19.07.2019</td>
<td>5M</td>
<td>200.0</td>
<td>200.0</td>
<td>435.0</td>
<td>281.6</td>
<td>14.89%</td>
</tr>
</tbody>
</table>

**As of 3Q2019**

<table>
<thead>
<tr>
<th>Total</th>
<th>2 150.0</th>
<th>2 150.0</th>
<th>4 318.7</th>
<th>2 182.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding</td>
<td>1 950.0</td>
<td>1 950.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Establishment of Debt Management Office

Ministry of Finance

Debt Management Office

Bond Issuance (Front office)
- Issuing local debt securities
- Issuing sovereign Eurobonds
- Analyzing and executing transactions
- Managing relationships with investors, rating agencies, legal counsels & investment banks
- Producing monthly newsletters
- Updating investor presentation together with Middle Office
- Team of 8 people

Loans & Guarantees (Front office)
- Managing IFI & bank relationships
- Reviewing feasibility studies of projects financed by public debt
- Negotiating the terms of loans with counterparties
- Reviewing requests for government guarantees and managing the guarantee issuance process
- Monitoring projects together with line ministries & agencies
- Manage on-lending activities
- Team of 9 people

Analytics (Middle Office)
- Collecting, analyzing and disseminating of macroeconomic and statistic data
- Formulating public debt management strategy (MTDS) together with Back Office
- Risk/cost modeling
- Liability management
- Working on the new edition of law on Public debt
- Working with international rating agencies
- Liaising with IMF/WB on MTDS and capacity improvement
- Team of 4 people

Public Debt Statistics & Debt Service (Back Office)
- Managing settlements, reconciliation and payments processes of public and publicly guaranteed debt and on-lending operations/transactions
- Forming public debt database in DMFAS 6 system
- Disseminating debt data and statistics to IMF, WBG, ADB, President’s Administration (including Chamber of Accounts), Central Bank of Uzbekistan, Cabinet of Ministries, Management body of MOF and etc.
- Liaising with relevant Departments of MOF for the smooth execution of public and publicly guaranteed debt (external and domestic) and cash management operations
- Team of 12 people

Introduction of annual debt limits on external debt;
Increased debt transparency by implementing UNCTAD’s Debt Management and Analysis System (DMFAS 6);
Further improvement of staff technical capacity;
Capacity building through technical assistance from US Treasury, ADB and others.
**MTDS objectives:**

Fulfilment of Government financing needs at the lowest possible cost, subject to an acceptable degree of refinancing risk, exchange rate risk, interest rate risk.

1. Differences between Strategies are marginal due to high proportion of portfolio predetermined (future IFI disbursements) and limited direct borrowing needs;

2. Main tradeoff cost/reduction of FX exposure;

3. Domestic market development:
   - diversification of investor base (appetite);
   - lengthening the maturity (3Y, 5Y);
   - building yield curve for local government securities;
   - exploring new instruments (5Y and inflation linked bonds);

But: Refinancing risk may increase in pursuing DM objective
During the past period of 2019, 80% of all loans raised by the Ministry of Finance officials on behalf of and under the Government's guarantee have been included in the DMFAS-6 software package.

Work is underway to complete and complete Phase 1.

Achievements:

- Accounting, monitoring and analysis of public debt;
- Creation of a comprehensive database that meets international standards based on automation of public debt reporting;
- Analysis of debt portfolio, including calculation of financial indicators (average interest rate, average repayment period, etc.); debt ratios (debt to GDP, etc.),
- determining the sensitivity of debt to its dependence on changes in exchange rates and interest rates;

Plans for the future:

- Successfully deploy and advance effective debt analysis and efficient management systems;
- Enhance transparency and reporting;
- Improve operational risk management;

DMFAS usage:
DMFAS trainings

**UNCTAD mission** “Basic functional training on the use of modules of DMFAS-6” held on 10-19 December 2018

- provided training on installation and maintenance of DMFAS;
- delivered training, testing, data entry and solutions on certain issues whilst using DMFAS-6;
- technical and functional missions have successfully been finalized and key steps to improve of debt management have been agreed.

**UNCTAD advanced mission** “DMFAS-6 Data Validation and Advanced Functional Training on April 2019

- delivered the DMFAS-6 advanced functional training covering advanced reporting including user defined reports and the analysis modules;
  - provided training on Database Validation, including the validation queries available in DMFAS;
  - gave necessary recommendations to ensure the database is properly validated and managed in the long-term;
  - Assisted DMO in resolving any encountered functional issues such as data problems, recording complicated loan agreements, and etc.
Thank you!