

# Global **Markets** Special Report

## Uzbekistan

Focus on Capital Markets and  
Sustainable Development



In association with



**Ministry of Finance**  
of the Republic of Uzbekistan

And



**UzAuto**



MINISTRY OF ECONOMIC DEVELOPMENT  
AND POVERTY REDUCTION OF THE  
REPUBLIC OF UZBEKISTAN



O'ZMILLIYBANK







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# CAPITAL MARKETS AND SUSTAINABILITY KEY PILLARS OF UZBEKISTAN'S GROWTH AND DEVELOPMENT PLAN

Uzbekistan is committed to improving its productive capacity and institutional strength on the way to achieving sustainable economic development.

Since late 2016 under President Mirziyoyev's leadership, Uzbekistan has embraced numerous economic reforms, such as foreign exchange, and trade liberalisation, as well as institutional, state-owned enterprise and banking sector reforms. In addition, the country has sought to strengthen the business environment, fiscal and monetary policy, and introduced public private partnerships (PPP).

Moreover, the President — at the end of last year — outlined the 2021 reform agenda, indicating the year would be foundational for further market liberalisation. Core to this is creating a more competitive and efficient corporate sector by transforming state-owned enterprises and state-owned banks, as well as pushing forward on privatisation.

Perhaps most promising for the country's future is the ambitious programme being undertaken to expand its capital markets footprint. By strengthening the equity markets within the country, affordable capital will ultimately become accessible to companies across all industry sectors.

In addition, a financial literacy programme aimed at creating generations of savvy retail investors will go a long way toward expanding investment portfolios and diversifying retirement portfolios.

As the economic liberalisation programme progresses, significant emphasis is also being placed on sustainability issues. Repairing irrigation systems, enhancing efficiency in electricity generation, and focusing attention on sub-soil conditions, are all parts of a programme aimed at

achieving an environmental balance in the country. Significant investments in wind and solar round out the sustainability programme.

Schools and teachers are coming in for investment to bring them up to modern standards and the entire book system within the public school system is being completed, revamped and transformed.

Covid-19 has had a severe economic impact on many countries, but thanks to the President's leadership, anti-crisis initiatives and swift public health response by the government, Uzbekistan's economy grew by 1.6% last year, making it one of the few countries to record economic growth.

In addition, measures such as the introduction of a government debt ceiling, annual limits on public and publicly guaranteed debt commitments, as well as initiatives to increase public investment management and coordination, have helped maintain low risk of debt distress in Uzbekistan. In parallel, contingent liabilities and fiscal risk assessment is being enhanced to cover state-owned enterprise debt and PPPs. Obtaining ratings from international credit rating agencies was also crucial to increase accountability and transparency.

Owing to the measures targeted at reducing inflation level, inflation gradually started to decline in 2020 reflecting strong anti-inflationary commitment to curb inflation levels. The ultimate objective is to bring consumer price inflation close to their medium-term target of 5%.

Furthermore, Uzbekistan is opening up to international investment. In



Deputy Prime Minister Jamshid Kuchkarov

2019 the country successfully issued \$1bn of Eurobonds for the first time. Last year, it followed that up by issuing the equivalent of \$750m in Eurobonds denominated in soum and other foreign currencies. In addition, with the direct support of the Ministry of Finance (MoF), Sanoatqurilishbank (SQB), NBU, Ipoteka Bank and UzAuto Motors all successfully issued inaugural Eurobonds. In turn, these transactions help attract foreign investors to the domestic capital market.

The success of these Eurobonds, including strong demand for the local currency transactions, is testament to investors' confidence in Uzbekistan's economy, future growth prospects, and the progress the government is making on reforms.

Importantly, Uzbekistan has also issued a 2 trillion soum (\$200m) denominated Eurobond for the first time, which qualified as development finance. Indeed, the JP Morgan Development Finance Institution described

“Perhaps most promising for the country's future is the ambitious programme being undertaken to expand its capital markets footprint. By strengthening the equity markets within the country, affordable capital will ultimately become accessible to companies across all industry sectors.”



## 16 | UZBEKISTAN SPECIAL REPORT FOREWORD: By H.E. Jamshid Kuchkarov



President Shavkat Mirziyoyev addressing the 75th session of the UN General Assembly

**“ Covid-19 has had a severe economic impact on many countries, but thanks to the President’s leadership, anti-crises initiatives and swift public health response by the government, Uzbekistan’s economy grew by 1.6% last year, making it one of few countries to record economic growth in 2020. ”**

the transaction as high level development finance, contributing to the UN Sustainable Development Goals (SDGs) 1, 3, 4, 5, 6, 8 and 9. More specifically, the transaction will support projects to combat poverty, ensure healthy lives, promote quality education, advance gender equality, ensure access to clean water, promote decent work and economic growth, and foster infrastructure resiliency.

In order to improve the efficiency and transparency of the use of borrowed funds and measuring the ultimate impact of the transaction, a memorandum of understanding has been signed between MoF and UN Development Programme (UNDP), which will serve to ensure better alignment of the issuance of Eu-

robonds with efforts to achieve the SDGs. It will also build transparency and accountability for the Uzbek public and investors.

As part of this, an annual report on progress of the selected projects will be published online by the MoF in cooperation with UNDP and JP Morgan DFI. The report will reflect the impact of the implemented projects on improving the living standards of the population.

In addition, the MoF will continue its cooperation with the UNDP in developing the SDG bond framework, project selection procedures, including use of SDG budget tagging, monitoring the implementation of the projects as well as measuring impact. The development of the capital markets is now under the management of the MoF, which sees the development of a government securities market as a key driver in this effort. Capital market initiatives designed to support this objective include seeking to diversify the investor base, attracting foreign investors, diversifying financial in-

struments, stimulating a secondary market, and introducing international standards and principles.

Special attention is also given to transforming the governance and financial reporting of state-owned enterprises (SOEs) and state-owned banks. As such, measures are being taken to implement IFRS, as well as appoint independent members with international experience to the supervisory boards and executive management. Also important is attracting reputable international consultants to participate in this transformation process. Ultimately, SOEs and SOBs must be efficient, transparent, and accountable, to help drive private sector growth, as well as sustained and inclusive economic growth.

Over the next three years, it is anticipated that 15 SOEs and SOBs will IPO or SPO, which would support the development of the local capital markets. In preparation for this, we need to have in place the best infrastructure as well as clear and robust legislation, among other important crucial elements.

All in all, under President Mirziyoyev’s multifaceted reform agenda, the development of Uzbekistan’s capital markets is accelerating in tandem with the economic liberalisation of the country and transformation of its SOEs and SOBs. The country is on a sustainable path to achieve its aim of developing the capital markets as part of a modern, efficient and stable financial system. ●





# Capital markets reform the engine of Uzbekistan's transformation

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An ambitious and multifaceted reform programme is underway to take an already sound economy and open it to international markets

By John Anderson

**U**zbekistan is a country today on a clear-cut path to further opening its economy while gaining a stronger foothold in the international capital markets.

While such observations could have been made about scores of other emerging countries over the years, Uzbekistan is in a better position than most to actually achieve its goals.

There are a host of reasons for that, but there are two that stand out the most.

First, the drive for liberalisation has the whole-hearted support of President Shavkat Mirziyoyev and numerous governmental departments, which are well under way executing the fast-moving transformation programme.

Second, and just as importantly, the development of the capital markets was recently placed under the aegis of the Ministry of Finance, which involved integrating it into the overall economic infrastructure build. This should increase its chance of success.

“The capital market is an integral part of the modern, stable financial system that we aim to develop under the country’s transformation programme,” says Timur Ishmetov,

Uzbekistan’s Finance Minister. “Crucial to achieving this is ensuring: macroeconomic stability; consistency in our approach to developing the capital markets and wider financial system; and putting in place a robust legal framework. We are very focused on addressing these issues to achieve our aim.”

Underpinning the liberalisation initiative is the fact that the Uzbekistan economy is in good condition; the country was one of only three economies in Europe and Central Asia that maintained positive economic growth despite the pandemic-related lockdowns last year.

This year, GDP is expected to be 5.5%, increasing to 5.8% in 2022 — respectable growth rates consistent with emerging economies that are in decent shape. Inflation this year is high at 10%, but it is being managed down. Current forecasts are for it to fall to 9% in 2022 and 5% in 2023, which if achieved, would bring it in line with the central bank’s annual target.

Just as powerful as economic growth is Uzbekistan having one of the most diversified economies in Central Asia, with significant mineral and metals wealth, including gold, as well as textiles and services. The

country also has the largest population in the region.

Importantly, Uzbekistan is attracting greater foreign direct investment (FDI) flows, which is crucial in for job creation and economic growth more widely. For instance, net FDI was \$2.3bn in 2019, more than triple that in 2018, according to data from the Central Bank of Uzbekistan.

Given these positive credentials, and the country’s economic potential, it is perhaps little surprising that analysts at Raiffeisen Research described Uzbekistan as the “Poland of Central Asia” in a recent research report.

In the main, the Raiffeisen analysts said this was due the connection between the country’s successful economic performance and positive outlook with its resolute economic reform course, which has been consistently pursued since 2016/2017.

Such policy consistency, and progress, is something that foreign institutional investors appreciate. They also appreciate investment opportunities and generating returns.

According to Raiffeisen, the key interest rate in the country is to remain well above 10% in 2021 and 2022. In addition to containing

President Shavkat Mirziyoyev



*"The capital market is an integral part of the modern, stable financial system that we aim to develop under the country's transformation programme. Crucial to achieving this is ensuring: macroeconomic stability; consistency in our approach to developing the capital markets and wider financial system; and putting in place a robust legal framework. We are very focused on addressing these issues to achieve our aim."*

—Timur Ishmetov, Finance Minister, Uzbekistan



*"We believe that our local domestic market cannot develop in isolation. It should develop hand-in-hand with international markets with the support of international investors."*

—Odilbek Isakov, Uzbekistan's Deputy Minister of Finance



*"We are excited about what the future holds. I can see the day when we are trading sukuk, derivatives, foreign exchange and bonds"*

—Bekzod Usmonov, director of the TSE



inflation and the strong lending cycle, the analysts argue rates at this level would also flag the opening of the local capital market to foreign investors, and at the same time may help to avoid strong currency fluctuations.

#### ACCESSING INTERNATIONAL INVESTORS

Few developments flag a country is open to international investors more than a debut Eurbond issue by the sovereign.

For Uzbekistan, its inaugural Eurobond issue two years ago was a blowout success, announcing the country's arrival on the international capital markets. Investors flocked to the \$1bn deal, swelling the orderbook and enabling the sovereign to print a debut Eurobond with the lowest ever yield for a debut sovereign transaction out of CIS and Turkey.

The significance of the transaction was not lost on Odilbek Isakov, Uzbekistan's Deputy Minister of Finance. "Offshore issuances will hopefully pave the way to de-

velop our local currency market domestically, because we believe that our local domestic market cannot develop in isolation," he says. "It should develop hand-in-hand with international markets with the support of international investors."

Indeed, the debut bond issue was strategically important for the country, demonstrating several key attributes to international investors, including the economic potential and stable sovereign risk of the country. Additionally, the bond issue helped diversify the country's sources of external financing, and its trading on the secondary market provides a barometer of sustainable economic policy. Importantly, the transaction also created a benchmark for local commercial banks and companies to access the international capital markets for the first time.

Keen to seize this opportunity, Ipoteka Bank successfully issued 785bn (\$75m) of soum denominated three-year Eurbonds in April this year.

"It is issuance like that that serves to reduce dollarisation and currency risks and to ensure the central bank's long-term liquidity norms in the local currency," says Jasur Karshibaev of the Finance Ministry's Debt Management Department.

Together with this, such issuance is also important for the growth and development of Uzbekistan's local capital markets. This is a strategically important issue for the country, and one supported by a presidential decree – signed several months ago – that is designed to help accelerate the pace of capital market reform across all markets, from debt to equities.

An interesting litmus test for the success of this reform programme will be the extent to which some major Uzbek companies – listed on the Tashkent Stock Exchange (TSE)

—graduate to the MSCI Frontier Index.

There is a general acknowledgement among market participants that if a substantial number of Uzbek companies are added, it would be a positive inflection point for the country's economic future.

However, the size of the challenge Uzbekistan faces here should not be underestimated. Some of the fundamental issues the country needs to deal with, include: a low free-float among listed companies; a deficiency of professional participants in the stock market and limited investor base; low financial literacy of the public; and a lack of legal and regulatory frameworks that are consistent with international standards.

According to analysis by institutional investment firm Uzbekistan Equity Fund (UEF), the free-float on the TSE is currently estimated at 0.4% of GDP, or less than 4% of total market capitalisation of the exchange, while the current market capitalisation of the exchange to GDP is 11.5%.

As such, UEF says that if the free-float is to equal 5% of GDP, this would equate to roughly \$2.6bn of equity value, or 43% of the current market capitalisation of the stock exchange.

UEF adds that in order for the Uzbek government to achieve its goal, it needs to expedite its privatisation process of fully state-owned enterprises as well as sell its participating stakes in already listed equities.

In fact, UEF argues that if this can be achieved, it would be a "game-changer" for the investment landscape in Uzbekistan, creating a significantly more liquid market with a much larger local and foreign investor base, which they believe will help transform Uzbekistan's capital markets into the largest in Central Asia.

Bekzod Usmonov, director of the TSE, points out that the exchange has experienced

## Prime Uzbek privatisation candidates

- **Uzmetkombinat** a listed steel producer which is slated for an international dual listing
- **Almalyk Mining** a significant gold, silver and copper miner
- **Navoi Metallurgical Mining Kombinat** a mining conglomerate that owns the largest open-cast gold mine in the world – Muruntau
- **Uzbekistan Airways** the national airline
- **Uzbekneftegaz** the state-owned oil and gas monopoly
- **Uztransgaz** a natural gas distribution/pipeline operator
- **Xalq Bank**
- **Agrobank**
- **Microcreditbank**
- **Uzagrosugurta** a top five insurance company with the largest branch network
- **Kurilishmashlizing** a construction machinery leasing business
- **Uzavtosanoat** state-owned auto manufacturer and producer of Chevrolet cars



# UZBEKISTAN'S LEADING BANK IS AT THE HEART OF THE COUNTRY'S GROWTH AND DEVELOPMENT



Alisher Mirsoatov, Chairman of the board of NBU

**GlobalMarkets:** Your president has made it clear that he expects the country's banks to improve their efficiency as part of the overall economic liberalisation programme. What is the NBU doing to accomplish this task?

**Alisher Mirsoatov:** Today the National Bank is the largest bank of the country. For over 30 years, we have been the main state agent in the development of major investment projects and support of social programmes aimed at modernising the industry, increasing production capacity, the welfare of the country. The Bank, first of all, builds its work on the principle of customer focus, within the framework of satisfaction of requests from our clients. At the end of last year, President Shavkat Mirziyoyev addressed the Senate and the Legislative Chamber of the Oliy Majlis (the Uzbekistan Parliament), emphasising the need for banks to adhere to international best practices. We have responded to that call.

The main goal of the bank's "Strategy 2021-2025" is not only to remain the leading bank in Uzbekistan, but also to transform the bank both organisationally and technologically. Among the specific objectives: to increase the loan portfolio by 2.5 times with an increase in high-margin loans; increase the bank's profitability ratio to 22%; increase net profit to 3.8 trillion soums; increase the active customer base to 1m customers.

“ Our strategic goal is not just to keep the leading position in the banking sector of Uzbekistan, but to become the best bank in the country. ”

**GM:** The liberalisation programme has caused many of the country's financial institutions to alter their ongoing strategies. What has it meant for NBU?

**AM:** In light of the government's strategy to liberalise the economy and open up the capital markets, we at NBU have decided to move forward with a strategy that we think best supports the government's intentions.

There are many primary components of that strategy.

They include lending to large investment projects in primary sectors of the economy, facilitating foreign credit facilities, access to international capital markets, and funds from foreign investors.

Also important is providing banking services to small businesses and private entrepreneurs, developing retail banking services, and introducing new types of digital banking services. Other key components include the bank diversifying its sources of financing, developing products and supporting the country's trade and export potential, as well as providing investment banking services to corporate clients, including the issue and placement of securities on domestic and foreign markets.

Our strategic goal is not just to keep the leading position in the banking sector of Uzbekistan, but to become the best bank in the country.

**GM:** NBU has been around for 30 years, but its significance to the economy of Uzbekistan isn't fully understood. Please explain how significant the bank is to the country.

**AM:** The Bank was established in accordance with the Decree of the President of the Republic of Uzbekistan on September 7, 1991. We are the same age as our country's independence. NBU is defined as a systemically important bank, whose activities are focused on banking services for strategically important enterprises and investment projects, as well as on providing a wide range of banking products, in particular on support of small businesses and private entrepreneurship. The stability of the bank is recognised by international ratings agencies Standard & Poor's (BB-), Fitch Ratings (BB-) and

Moody's Investors Service (B1). NBU's ratings are at the same level as the Republic of Uzbekistan. Today NBU stands as the largest bank in Uzbekistan and the second largest in Central Asia. In particular, NBU is the leading universal bank of the Republic of Uzbekistan, providing both corporate and retail banking as well as investment banking services.

NBU occupies the leading position in the banking sector of Uzbekistan. The value of NBU's assets is double the value of assets at other large banks in the country. In fact, as of today, NBU accounts for 21% of assets, 22.9% of the loan portfolio and 23.3% of the capital of the country's banking system.

**GM:** What are the drivers of NBU's stability and financial performance?

**AM:** The foundation of our stable production process is the bank's clients. As of January 1, 2021, the bank had over 187 thousand corporate and just under 4 million retail customers. As part of revenue generation, we do commercial lending to the real sector of the economy which are small businesses. As an agent of the state, the bank serves and finances the country's largest industries in all strategic sectors of the economy: mining and metallurgy, oil and gas, and energy industries; transport; telecommunications and communications.

In October 2020, NBU issued its debut Eurobonds, underwritten by Citi, Natixis, SMBC Nikko and Gazprombank. The successful issue was a vote of confidence in the bank and country, and helps diversify our funding sources, which supports our stability.

In addition, despite the impact of the pandemic, NBU continued to increase its loan portfolio (in 2020 the growth was 19.3%). At the same time, the bank began to focus on increasing the share of high-margin loans, and thanks to a conservative risk management policy, the NPL ratio remains at a fairly low level of 3% for NBU's total loan portfolio.

Stable asset growth also ensures a steady increase in the bank's net profit. At the end of 2020, the bank generated a profit of 900bn soums. ●



a very steady increase in terms of both transactions and total value over the past five years.

“We are excited about what the future holds. I can see the day when we are trading sukuk, derivatives, foreign exchange and bonds,” says Usmonov.

Late last year, in a preliminary step toward capital markets modernisation, the government announced it intended to privatise fully or partially more than 600 state-owned companies, including the largest cement plant in Uzbekistan, Qizilqum Cement, and glass manufacturer Kvarts, among many others [See box on page 18].

### CAPITAL MARKETS REFORM

There are various keys pillars of the capital markets reform and development programme, but one of the most important priorities in this initial stage is developing the government bond market.

This is crucial because a well-functioning and liquid government bond market provides a stable source of funding, improves the overall risk profile and helps reduce the country’s reliance on external debt. Just as important is the need to enhance secondary market liquidity, diversify financial instruments, introduce international standards and enlarge the investor base by providing foreign investors with access to the local market.

The Ministry of Finance has been consistently developing the government securities market in collaboration with international financial institutions and governments, including the Interna-

tional Monetary Fund, World Bank, Asian Development Bank and the US Treasury. As a result of these efforts, the volume of issued government bonds has increased threefold over the last two years and this year five-year bonds have been placed for the first time.

Another essential part of the capital markets reform programme is the initiative to increase financial literacy within the country. Last August, for example, the central bank launched the Finlit.uz website aimed at educating citizens about the fundamentals of finance. The user-friendly website is broken down in various segments covering articles, study materials, online services and projects.

“Enlarging the investor base by upgrading financial literacy in the country is an important initiative for all of us who want to see Uzbekistan meet this opportunity head on,” says Sarvarbek Ahmedov, director of the Ministry of Finance’s Capital Markets Development Department.

Such an important initiative is only one of many being pursued under President Mirziyoyev’s decree, which deserves credit for how comprehensive and ambitious it is [See box 2].

In truth, it needs to be ambitious as there is so much to do in the next few years, especially in developing and enhancing key pieces of financial markets infrastructure.

Sherali Abdjabborov, director of the State Central Depository System, is acutely aware of this and says the need to construct an up-to-date system is critical to the success of the overall reform programme.

“Ultimately we need to connect with the much larger systems like Euroclear and Clearstream,” he says, adding that his organisation benefits from a close working relationship with their partner in the Korean Stock Exchange. “Any technical issues that arise we know we can count on them for help.”

An area that has come in for special consideration is the information and communication technologies necessary for a modern capital markets platform.

The elements that are being looked at include a communications back-up centre, the development of a mobile capability for conducting

securities transactions, and the launch of software enabling the Ministry of Finance to carry out its control functions. The government has also acknowledged that its current legal and regulatory frameworks are not robust enough for this new environment.

Accordingly, the decree calls for a redrafting of the various regulations necessary to develop and maintain an advanced capital market. Key to that is creating the right frameworks to support investor participation, which is another key focus of the reform programme. In fact, the President laid out a series of initiatives he wanted embraced to ensure there would be sufficient number of investors ready for the day they have something to invest in.

These initiatives include creating additional opportunities for non-residents of Uzbekistan to acquire securities of domestic issuers, to having the country included in various indices, encouraging participation of insurance companies in the capital markets, and creating investment funds in cooperation with international financial institutions.

The stock exchange will inevitably play a major role in enabling investor participation, but similarly important for facilitating foreign exchange trades is the Uzbekistan Currency Exchange, which is the largest securities exchange in the country.

Rashid Usmanov, general director of the Currency Exchange, says that despite the pandemic, trade volumes and value have continued to grow over the past two years. Most recently the value of trades on the exchange reached \$35bn – more than three times the level in 2018. “By the end of this year we intend to be offering a future market for FX and other asset classes,” says Usmanov.

### BUILDING FOR THE FUTURE

The capital market development plan is not only comprehensive, it has very clear and well-defined goals. These include increasing the Uzbek market capitalisation (based on free float) to 45 trillion soums; increasing the total value of securities in the free float to 5% of GDP; increasing the total value of corporate bonds issued to 3.94

## Key pieces of the President’s deadline-driven capital markets reform agenda

- Development of a corporate bond market by March 2022.
- Introduce sukuk bonds in accordance with Islamic finance principles. Appropriate legislation in place by April 2022.
- Bring the central securities depository up to international standards by December 2022.
- Create a unified portal for corporate information by May 2022.
- Create a non-state, self-regulated association of professional market participants. Draft legislation ready by March 2022.
- Upgrade the stock exchange in terms of listing rules, OTC policies and implement training programmes with international experts.
- Reduce the government share in the stock exchange through new share issuance.

*Continued on page 25*



# STATE-OWNED AUTOMOTIVE CHAMPION A PRIME CANDIDATE FOR PRIVATISATION

**GlobalMarkets:** How is Uzavtosanoat benefitting from the economic reforms in the country?

**Azizbek Shukurov:** As the biggest state-owned company in Uzbekistan we feel very positive what we see taking place with the economic liberalisation programme. At the moment, we have a dominant 95% market share in the country. We realise that as the country opens up, we are going to have to work hard to maintain our market position. It is not something we can take for granted.

**GM:** Given Uzbekistan's friendly relations with its neighbours it is not surprising you've managed to make strong inroads into the export market?

**AS:** Growth in exports has been a real bright spot for us. Last year, exports accounted for only 7% of our profits; this year we are looking at that figure to rise to around 20%. Kazakhstan is a good example of our export strength. Last year, we had a 24% share of the Kazakhstan market; this year we expect to see that climb to 50%.

**GM:** The global auto industry has undergone a great deal of change in the last decade, particularly in the areas of supply change management and operational efficiency. How has Uzavtosanoat kept up with those changes?

**AS:** I'd like to think we are staying as current as possible to the global trends in our industry. In 2016 we implemented a rigorous efficiency programme that paid off quite well in 2019 when we managed to report profits of \$350m.

**GM:** It's hard to imagine running an automobile assembly operation in the face of rigorous Covid-19 measures. How is Uzavtosanoat managing in the midst of the pandemic?

**AS:** I'm very proud of our company in that respect. We implemented all the necessary measures while keeping all the manufacturing operations running without any interruption.

**GM:** Everywhere one looks in Uzbekistan there is some form of education on offer. How important is education to your industry?

**AS:** Very important. The more knowledgeable our work force is, the higher quality product we are going to produce. Our education runs along two main tracks. Since 2009, Turin Polytechnic, one of the leading European engineering schools, has operated a campus in Tashkent. We are not the only industry to benefit from that arrangement, but it does give us access to the recent graduates in engineering. We also benefit from the close working relationship we have with General Motors. We will send our people to GM locations in Korea and Thailand and GM sends people from various plants to Uzbekistan. It is a very mutually beneficial relationship.

**GM:** In April of this year, your company issued a \$300m Eurobond. Did the reception the bond got in the market surprise you?

**AS:** We were very pleased with the reception it got. To be more than four times oversubscribed is a clear indication of our standing in the international markets.

**GM:** Can you take us through what the proceeds will be used for?

**AS:** The proceeds will fund capex projects involving two new cars to come off our assembly line. In 2022 we will be building the new Chevy Tracker, a smaller version of an SUV.

The following year we will be making the innovative three-cylinder Onix. The three-cylinder engine is capable of producing the same amount of power as the four-cylinder version while being more fuel efficient and more environmentally friendly.

**GM:** There have been reports that Uzavtosanoat would be among the early companies selected for privatisation. I would assume given your focus on economic matters within the company that would mean a lot of work for you?

**AS:** I think what gives a lot of us pleasure in this country is knowing that any privatisation programme will be carried out properly and not like what we saw in Russia in the early 1990s when a handful of people walked away with the prime assets. I imagine us doing an IPO within the next two years but it will be done with the proper governance and fiscal discipline.

**GM:** Economists look at heavy industries such as yours and calculate the benefit that accrues to all the secondary businesses that you rely. Just how big is your supply chain?

**AS:** We have between 130 and 140 parts suppliers, some of those are in Korea. We rely upon those companies for all sorts of component pieces that need to meet our stringent quality standards. ●



Azizbek Shukurov, Deputy Chairman of Uzavtosanoat

“We realise that as the country opens up, we are going to have to work hard to maintain our market position. It is not something we can take for granted.”



22 | UZBEKISTAN SPECIAL REPORT INTERVIEW: Sakhi Annaklichev, chairman of SQB

# SQB: IN PURSUIT OF AN AMBITIOUS TRANSFORMATION STRATEGY



Sakhi Annaklichev, chairman of SQB

**GlobalMarkets: SQB has been identified as an upcoming privatisation candidate. That usually requires a lot of work to get an institution ready for that process. What is SQB doing to prepare itself?**

**Sakhi Annaklichev:** The next two years are going to be a time of organisational and operational change as the bank readies itself for privatisation. Our goal is to transform the

bank into a competitive, client-oriented, market-based mechanism, attractive to both clients and investors. Among the priorities in that transformation, are: improving operational efficiency; improving the quality of customer service; diversification of the loan portfolio and resource base; modernisation of information technology infrastructure; compliance of the risk management system with international standards; improving the financial literacy of clients and the skills of bank employees; improving our credit policy and introducing innovative and remote services.

**GM: What is all of that going to mean for the clients?**

**SA:** From the client's perspective, it is our intention to offer enhanced services. So, for our corporate clients, we will provide an individual approach, a high quality service and structured financing. For the SME clients, we will provide an individual approach, a high speed service, and individual credit and deposit products, and packaged offers. Lastly, for our retail clients, we will provide modern online banking, multi-currency deposits, credit cards, and installment cards.

**GM: What is the area with the greatest growth potential?**

**SA:** Our corporate client base provides the greatest potential for growth. One of our advantages in the market is the

“Our corporate client base provides the greatest potential for growth. One of our advantages in the market is the strong expertise we have in the corporate segment.”

strong expertise we have in the corporate segment. By providing them with a high quality service we expect to see a gradual increase in our market share. We also expect to see good growth across our corporate business over the next few years. For instance, we forecast our corporate loan portfolio to grow from 25.6 trillion soums (\$2.4bn equivalent) in 2021, to 27.9 trillion in 2022, and 29.3 trillion (\$2.8bn) in 2023. In addition, we forecast profits to increase from 520bn soums (\$49m) in 2021, to 598bn in 2022, and 637bn (\$60m) in 2023. Lastly, we forecast that deposits will grow from 8.5 trillion soums (\$802m) in 2021, to 9.7 trillion in 2022 (\$915m), and 10.6 trillion in 2023 (\$1bn).

**GM: Uzbekistan is a signatory to the Paris Agreement and sustainability programmes can be seen all over the country. What is SQB doing on the environmental front?**

**SA:** Green banking is a very important part of our product offering. At the end of July 2019, the bank, together with experts from the International Financial Corporation, defined the actions and tasks to create a green bank. As a result of this, the green banking department within our bank was created, and an effective platform for “green” financing was built.

As part of this, we have been implementing the UN Sustainable Development Goals, and not just statements and formal procedures. For instance, the bank, under these goals, has been working on changing its entire philosophy and relationships with partners, customers, employees, and broader society.

Importantly, the bank last year introduced some specialised energy efficiency products into its credit lines for corporate, small and medium-sized retail businesses. These use long-term target lines of all major financial institutions represented in the EBRD. This has become a significant contribution to the development of a sustainable and reliable energy supply, as well as the fight for the environment. Today, the volume of energy efficiency projects financed by the bank exceeds \$70m and by the end of the year it is expected to be over \$100m.

In addition, the bank will also actively develop programmes aimed at energy efficient housing improvements

and the purchase of household appliances, including on preferential terms. We also plan to establish business relations with “green” funds, which are intended for investment in projects in the field of renewable energy sources, increasing resource and energy efficiency, waste recycling.

**GM: The liberalisation programme has to have been quite a shift change for many in the Uzbekistan banking industry. How do you think it is coping with the change?**

**SA:** The programme of economic liberalisation has turned out to be a noticeable shift from the principles that governed the banking system since the signing of the decree on priority measures for the liberalization of currency policy. As a result, the rules of the game changed from banks following soft budget constraints to accommodating hard budgets, which mean they start seeking funds on international financial and debt capital markets rather utilising state funds. As such, SQB was first to issue Eurobonds – in the amount of \$300m – and attract funds without government guarantee. The liberalisation programme implies that banks would limit their participation in the state programmes involving subsidies and lower than market interest rates. SQB has managed to replace state guaranteed low margin loans with a competitive high return portfolio. This is accompanied with introduction of new methods in loan processing such as scoring models, and underwriting.

**GM: One of the component pieces of the liberalisation is increasing financial literacy. What is your bank doing to help in that regard?**

**SA:** I am very proud of the work we are doing in the field of educating and training specialists as well as clients. We have our own education centre for training employees. In fact, we recently organised some training, in cooperation with the Asian Development Bank, on trade finance for all our loan officers. Also, the EBRD has conducted online training platform where specialists can improve their knowledge in various spheres. In addition, our specialists at head office constantly share their knowledge with employees of the branches. ●





# Uzbekistan making progress on the UN Sustainable Development Goals

The country's pursuit of achieving a more sustainable and equitable society has coincided with an ambitious economic reform agenda that, together, are delivering results

By John Anderson

Opening-up the economy is not the only profound initiative underway in Uzbekistan. The government is no less focused on ensuring that all Uzbeks have a good quality of life, a mission tied closely to the creation of a more sustainable environment.

This is an area of particular sensitivity to the nation, due in part to the scars of the past. Under the Soviet Union, for instance, the massive stocks of water feeding the Aral Sea were used heavily in the 1960s as an irrigation source to grow cotton in the surrounding arid plains. The Soviet Union's belief back then that they could tame nature to its own aims ultimately led to the sea drying up.

In his speech last year to the United

Nations General Assembly, President Shavkat Mirziyoyev highlighted climate change as an acute problem of our time. "Today, every country feels the negative effects of this process. Unfortunately, such negative developments also pose a great threat to the sustainable development of Central Asia."

He added: "The Aral Sea region became the centre of an environmental tragedy. To mitigate the current situation, we are carrying out an enormous work to create two million hectares of new plantations and forests, to form a layer of soil."

The President also expressed concern about the reduction in the flow of trans-boundary rivers and biodiversity in Central Asia, which is also one of the most serious

problems in the region.

However, on a more positive side, the president also noted that the widespread introduction of green technologies and the implementation of green energy projects in Uzbekistan should more than triple the share of renewable energy sources in the country over the next decade.

To support this mission, the Uzbek government in May approved a presidential decree to establish a strategy to boost development of renewable and hydrogen energy.

## RENEWABLE POWER GENERATION

In reality, the government is taking on the environmental challenge on several different fronts. It has a goal, for instance, of generating 25% of its energy from renewable sources by



*"Today, every country feels the negative effects of this process. Unfortunately, such negative developments also pose a great threat to the sustainable development of Central Asia."*

*—President Shavkat Mirziyoyev at the United Nations General Assembly*

2030. To do that it is encouraging greater investment in both wind and solar power.

With the help of international development institutions, the government has already successfully kickstarted its plan for alternative energy generation. The International Finance Corporation (IFC), for example, has started its Scaling Solar programme in the country, which will support the government's grand plan to generate 1,000 MW of solar energy. The IFC programme is essentially a "one-stop-shop" initiative for governments to rapidly mobilise privately funded grid-connected solar projects at competitive tariffs.

A similar programme is being undertaken by the Asian Development Bank, whereas the European Bank for Reconstruction and Development has agreed to assist the government in securing 1,000 MW of wind energy projects under public-private partnership.

On top of this, agreements have been signed with ACWA Power of Saudi Arabia to construct a 500-1,000 MW wind power plant, with the UAE's Masdar to build a 500 MW wind power plant in the Navoi region, and with TOTAL Eren to construct a 100 MW solar power station in the Samarkand region.

Such examples show how serious a focus renewable power generation is. Just as important is the sustainable use of natural assets, such as water. The old irrigation systems are woefully out of date and leaking. To remedy that, the country is working with the ADB and the World Bank to install modern systems. Other areas of focus include protecting the groundwater quality and quantity that supports country's wheat crop – one of its biggest exports – as well as minimising the leakages in the country's gas pipeline.

#### **FINANCING THE SUSTAINABILITY AGENDA**

Applying such a dedicated focus to sustainability across the economy is to be applaud-

ed. Yet part of the challenge for the Uzbek government is financing its efforts.

In the UN Development Programme's Development Finance Assessment report, it said that for Uzbekistan to hit its sustainability targets by 2030, the country would need invest \$6bn annually each year.

To be sure, creating a vibrant capital market will help the government provide the proper budgetary support to all the various sustainability initiatives. And there are many of them. Uzbekistan, as other countries, is pursuing 16 national Sustainable Development Goals.

Capital markets financing will certainly help pay for some of these initiatives, a funding channel in which Uzbekistan has already had success. The country issued a soum denominated Eurobond late last year that qualified as development finance with a high development impact. Importantly, the government is planning to report progress on the development outputs through an annual report published on its website.

The proceeds from the Eurobond are intended to fund the projects associated with the 16 national SDGs. Some of the projects include those focused on building and reconstructing schools and healthcare institutions, drinking water and sewage pipelines, and roads. Other projects focus on providing financial assistance to women and families in difficult social situations.

Uzbekistan has focused a great deal of energy on tackling these issues as well as poverty and the myriad of health and social issues that are linked to it.

In fact, to ensure people are not falling through the government's safety net, an online social register has been developed with the help of UNICEF to identify people in need of assistance. Throughout the pandemic, the number of individuals obtaining assistance has doubled from 600,000 to 1.2m.

#### **EDUCATION AND HEALTHCARE IN FOCUS**

Education offers a route out of poverty, which is part of the reason why Uzbekistan is focusing so much on improving education and is backing that up with investment. Accordingly, the government has set aside 20% of the national budget for education.

There are certain examples that illustrate this commitment to education, such as the country doubling the salaries of teachers in the past year – a move that will be the envy of teachers worldwide – as well as schools across the country being upgraded, with the installation of high-speed fibre optic cable.

In tandem with education, great strides have also been made on the health front. The government has been working closely with international partners to develop effective healthcare programmes, many of which have focused on population health management, where family physicians with a team of nurses will play a central role in prevention of chronic diseases, early detection and long-term care.

This approach is beginning to show signs of effectiveness. More broadly, the government is embarking on a far-reaching and ambitious reform agenda with an overall objective of improving the health of the whole population through universal health coverage.

While much has still to be achieved, Uzbekistan is making good progress on all its SDGs. This is partly due to the implementation of the goals coinciding with the reform programme under the government's national action strategy.

This strategy, and its five priority areas, has increased the probability of Uzbekistan achieving the SDGs. Work is underway to integrate the SDGs into national and regional development strategies and programmes, including an initiative called the concepts of comprehensive socio-economic development of the Republic of Uzbekistan until 2030.





Importantly, the government is assessing the results of the reforms through monitoring 24 global ratings, including the global SDG Index, where Uzbekistan is currently ranked 77th.

Ultimately, the country's long-term vision is to become a high middle-income country by 2030, which would mean reducing poverty and inequality.

### REFORMS COINCIDE WITH SUSTAINABILITY DRIVE

To achieve this, Uzbekistan is implementing structural reforms to strengthen the market economy, the currency, the tax system, and agricultural industry.

Moreover, a range of measures have been taken to improve the business climate, stimulate entrepreneurship and formal employment, including among youth and women, as well as to attract investment and promote innovation.

However, challenges remain. These include ensuring sustainable employment for youth and women, as well as improving the effectiveness of the social welfare system.

In addition, in healthcare, measures are

being taken to improve the quality and accessibility of services through improving the financing and insurance system, improving the training and professional development of medical personnel, as well as developing medical science and the widespread introduction of e-health.

Some of the key priorities in education include improving the quality and coverage of education at all levels, as well as encouraging increasing public and private investments.

The reforms in Uzbekistan are guided by one principle: "Human Interests Are Above All". This principle is closely aligned with the country's Agenda 2030 core principle of: "Leaving No-one Behind."

Importantly, since the adoption of the SDGs, Uzbekistan has made significant progress in improving the protection of human rights and strengthening rule of law. In addition, administrative reform continues apace, e-government is being improved, and reforms are being implemented to ensure the independence of the media to enhance the role of civil society.

The country has also prioritised strengthening the role and protecting the rights of

women. Recently, laws have been adopted on gender equality and the protection of women from violence, the proportion of women in parliament has doubled, and women have been promoted to leadership positions at all levels of state and local authorities.

Uzbekistan pursues a foreign policy of openness, cooperation, and peace. In recent years, the country has opened borders and is deepening cooperation with the Central Asian countries in the areas of rational use of trans-boundary resources and trade. Collaboration with UN agencies and international financial institutions is being strengthened.

In the environmental area, Uzbekistan prioritizes mitigation and adaptation to climate change (including under the Paris Agreement) with a special focus on the Aral Sea region, conservation and the efficient use of water, land and energy resources, as well as biodiversity conservation.

Uzbekistan has embarked on an ambitious plan to reform its financial, health care, environmental and educational systems.

That would be a tall order for any country, but Uzbekistan has the ingredients to make this work. **GM**

### Building forward better

Drought resistant plants part of the afforestation of the Aral Sea; The first electric bus in Tashkent; An exhibition dedicated to environmental protection at Samarkand School No. 33

## Capital Markets Reform Continued from page 20

trillion soums; and increasing the share of projects financed by issuing securities in the regional investment programmes by 5%.

But how does Uzbekistan look to those outside the official governmental circles? For someone like Sardor Koshnazarov, a director at Silk Capital, the country is long on potential – a potential that needs to be unlocked in a clear and professional way.

"When you count up all our assets – natural resources, a workforce that is young, intelligent and eager to work, a stable government – there is

no reason we couldn't be the most attractive investment target in Central Asia. We need to use technology to leapfrog other countries around us," he says.

For Karen Srapionov of Avesta Investment Group, a certain amount of growth in the country is being held back due to the high cost of capital.

"The banks could grow three times over every year if the cost of capital was running around 23%," he says. "We also need to figure out how to make the senior managers of some local companies comfortable with giving up control

through IPOs and SPOs."

Uzbekistan is embarking on an ambitious programme at an interesting time in world affairs. Looked at objectively though it has the wind at its sails for a variety of reasons.

First, there is a stable government seeking to provide for increased opportunities for all Uzbekistan and peaceful and prosperous relations with its neighbours.

Second, there is an inclination to embrace educational opportunities as a way to advance economic development.

And third, a relationship with major development agencies, including Asian Development Banks, World Bank, European Bank for Reconstruction and Development as well as the Islamic Development Bank, should prove helpful in the challenges ahead.

Uzbekistan deserves credit not only for what it is doing but why it is doing it. It is well accepted and well demonstrated that countries with high GDP per capita are better positioned for a sustainable future when they encourage greater participation in their capital markets. **GM**

## 26 | UZBEKISTAN SPECIAL REPORT INTERVIEW: Elyor Inomjonov, Chairman, Ipoteka Bank

# FROM A MORTGAGE POWERHOUSE TO A DIVERSIFIED BANKING BUSINESS

**GlobalMarkets:** With such a large share of the mortgage market, it doesn't seem you have much of an impetus to expand your product offerings?

**Elyor Inomjonov:** Actually, it is because we have such strength in the mortgage sector that we are capable of readjusting our strategy over the next two years. We are not backing down from the mortgage market, but we are stepping up our work with private businesses and retail clients. The retail strategy is built around providing alternative sales channels while the face off to small and medium-sized businesses will be in the hands of customer service managers.

**GM:** Various reforms are being proposed in the mortgage market, including reducing down payments and increasing subsidies. What impact will that have on your business?

**EI:** As a result of the implementation of reforms in the mortgage market, there is a tendency for the rapid development of this sector. As of January 2021, the bank's share in the mortgage market was more than 30%. Maintaining this market share is one of our main strategic goals. According to the forecasts, the balance of the commercial mortgage loans is expected to increase by several times in the following three years, today this goal is being successfully implemented.

What we've found is that clients who have received a mortgage loan are long-term and reliable partners of the bank, which makes it possible for the bank to offer them other types of banking products. That is a wonderful opportunity for further market penetration that we have to take advantage of.

**GM:** In comparison to developed countries Uzbekistan has a low availability of banking services. What is being done about that?

**EI:** There is certainly going to be an increase in the number of banking products offered to customers in the retail segment. In particular, within the framework of a salary project, the bank plans to increase the volume of the retail business. Today, Ipoteka Bank is the leading bank in the country in terms of

the volume of loans to customers in the retail segment, and we are working to strengthen this leadership. In addition, the demand for remote services is increasing among retail customers. As part of our strategy, it is planned to increase the number of users of mobile applications to 650,000.

**GM:** Are there any client segments that your leadership in mortgages naturally lead you to?

**EI:** It makes sense if we are helping people to get into a home, that we would also be close to the people who build those homes. So naturally, we plan to update the level of interaction with business entities in the construction industry. They will be provided with banking products suitable and convenient in all respects.

**GM:** The economic liberalisation programme now underway is going to put a great deal of pressure on financial institutions to help achieve the objectives? What is the impact on Ipoteka Bank?

**EI:** Currently, our country's economic reforms are aimed at reducing the role of the state in the economy and expanding the participation of the private sector. As a result of economic liberalisation, an increase in the privatisation and economic activity of large state-owned enterprises and companies is expected, followed by the development of the banking business. Along with this, significant reforms are being carried out in our country to open and run a business, guarantee property rights, and as a result, new business entities appear. They are potential new clients for banks.

**GM:** Looking specifically at the mortgage market, what changes can we expect?

**EI:** The demand is increasing as a result of the liberalisation of the construction and mortgage markets. The activity of the private sector in the construction industry is growing. In the past, this industry functioned mainly on the basis of government-backed orders. In recent years, the number of entrepreneurs in



Chairman Elyor Inomjonov

the construction industry, as well as citizens in need of housing, continues to grow steadily. This, in turn, creates additional opportunities for development for banks, including for Ipoteka Bank.

**GM:** The government has made it clear that if liberalisation is going to work the population must have a higher degree of financial literacy. What is Ipoteka Bank doing to help that initiative?

**EI:** We are involved in a number of programmes, but one that we are particularly proud of involves supporting women's entrepreneurship. Among the areas we are specifically taking part in is the organizing of classes on financial literacy for women entrepreneurs. Additionally, the European Bank for Reconstruction and Development (EBRD), in cooperation with Ipoteka Bank, has launched the Woman in Business CA programme. The Woman in Business CA project is aimed not only at financing, but also at organising training seminars in each region with the involvement of qualified specialists to provide non-financial services to women entrepreneurs, develop their business skills and increase financial literacy. ●

“ Ipoteka Bank is the leading bank in the country in terms of the volume of loans to customers in the retail segment, and we are working to strengthen this leadership ”