

# Economic issues, trends and developments in Uzbekistan

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# **Uzbek Economy: what do we know about it?**

# Uzbek economy at a glance

What we often hear:

- Growth: 8% average growth rate for 2005-14
- Inflation: CPI – 6.5% in 2014; GDP deflator - 17%
- Exports: 15.03 bln USD in 2014
- Large consolidated budget surplus (inc. Fund for Reconstruction and Development): 5% of GDP in 2013
- Minimum wage: annual average increase by 25-30% in 2009-14
- Real wage: annual 20% increase, 4 times increase since 2009

What do don't hear often:

- Remittances: about 6.5 bln USD in 2014, 15% lower than in 2013
- Devaluation of soum by 62 percent since June 2014
- Much higher consumer price increases. For example, UNDP food price index shows that food prices increased by 27.6% in 2014

# State Budget

- Strong social orientation is maintained
- Between 2011 and 2014, almost 60% of the state budget expenditures have been directed to social needs
- But state budget expenditures are skewed heavily towards education (35% of them goes to education and only 13% to health care)
- Salary of millions of teachers and health care workers is directly paid from the budget
- Apart from the state budget, off-budget school education fund has also spent around 2.3% of the budget equivalent funds spent for reconstruction of schools and their re-equipment.
- Is this sustainable in the medium and long-run? If not, what should government's priorities be?
- Is government spending effective?

# Economic growth: hoax or real?

## Hoax:

- GDP deflator for 2014 – 17%
- Consumer Price Index - 6.5%
- It is not possible to have such large discrepancy
- CPI estimates by IMF: 15% in 2010 and 14% in 2011

## Real:

- Favorable international prices for the country's main export items: natural gas, copper, gold and cotton
- Remittances have increased tremendously since 2009

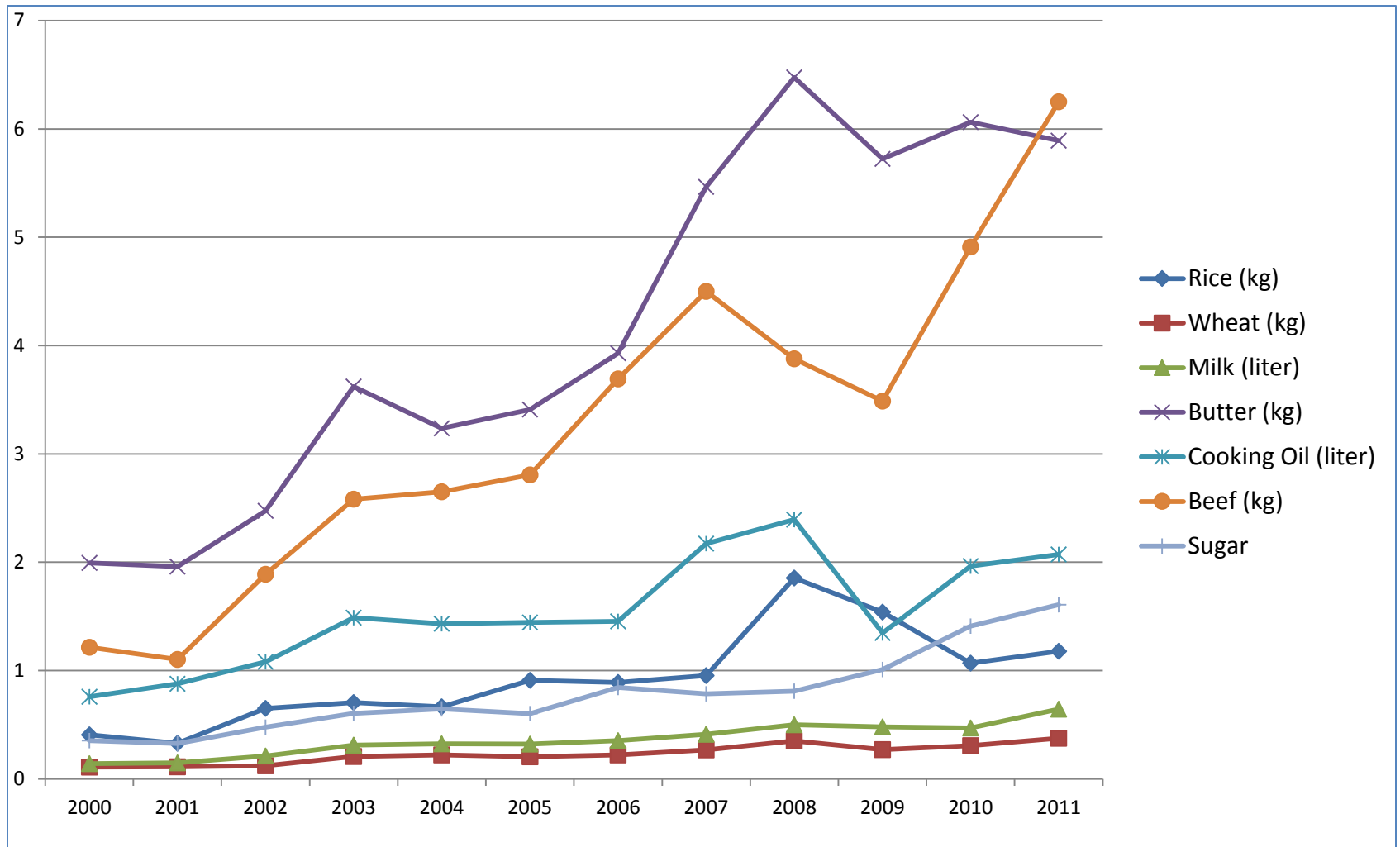
# Sources of inflation

- On average, 25-30% increase in public sector wages, pensions and benefits since 2009
- Annual current account balance's surplus is almost 5 bln USD, majority of which was saved as international reserves. This means that the amount of local currency i.e. *soums* in circulation will increase more rapidly.
- Export-related foreign exchange inflows, combined with all-time high remittances have put pressure on the Central bank to print money.
- Multiple exchange rate system and dollarization
- International food prices have increased significantly since late 2000s

# Price changes for selected foodstuff

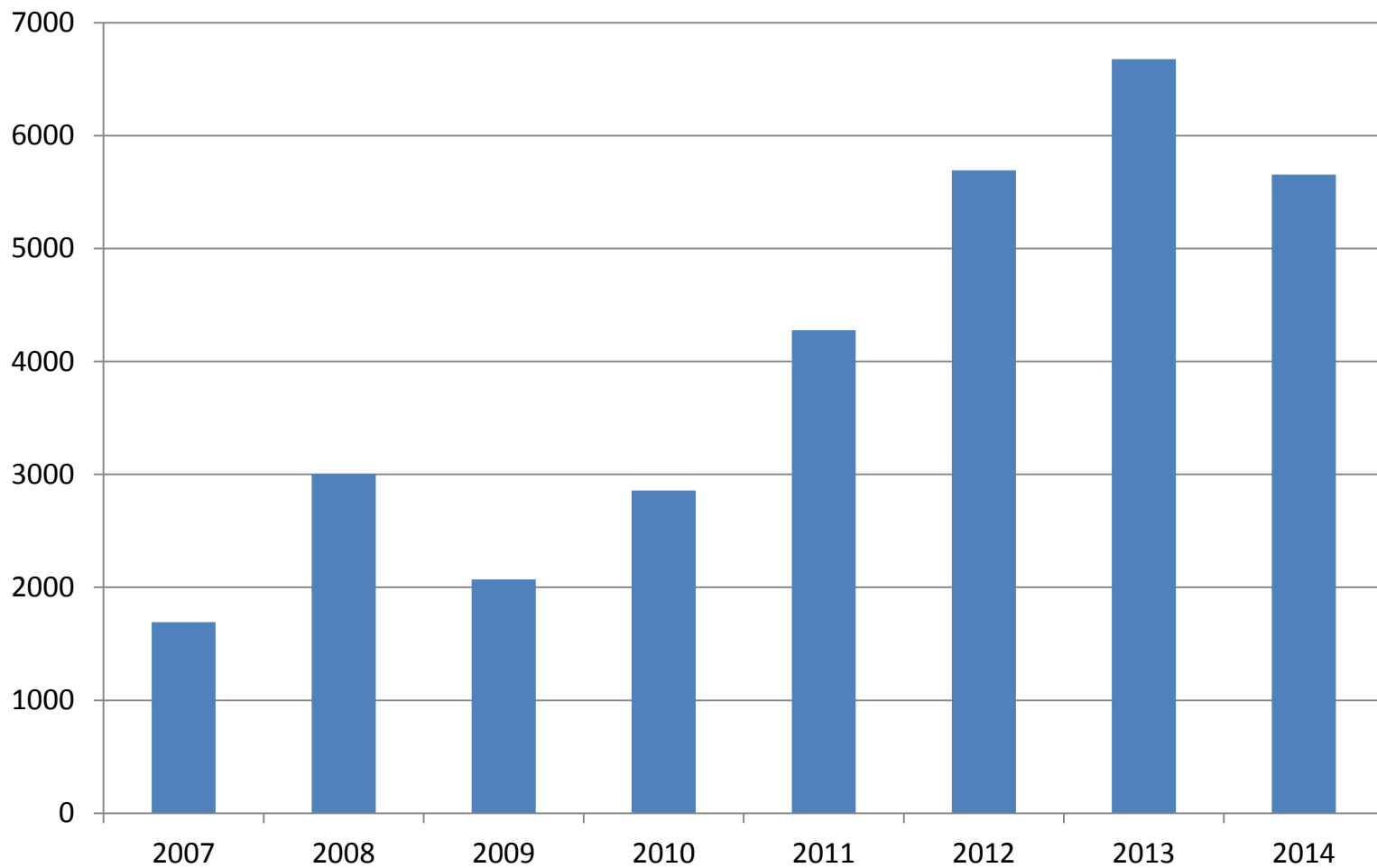
	Rice	Flour (imp)	Flour (dom)	Wheat (dom)	Milk	Egg	Butter	Cooking Oil	Beef	Lamb	Potato	Carrot	Onion	Sugar
2007	12.5	52.4	25.9	25.9	22.2	20.7	46.0	56.8	27.9	30.4	-4.3	66.7	-10.0	-2.3
2008	115.7	30.3	46.1	46.1	34.5	11.5	17.8	22.4	4.3	2.4	23.9	50.0	230.0	14.3
2009	16.4	2.6	7.7	7.7	35.1	-5.0	5.8	-21.1	26.1	15.7	-13.6	50.0	-31.8	75.0
2010	-21.9	29.2	28.6	28.6	10.0	31.6	5.5	64.3	58.6	61.3	68.4	33.3	11.1	57.1
2011	86.7	29.0	22.2	45.8	63.6	40.0	15.6	26.1	52.2	48.0	25.0	66.7	100.0	36.4
2012	-25.0	20.0	13.6	9.5	13.9	-1.4	8.1	8.6	-4.3	-9.5	80.0	-27.5	-30.0	-21.9
2013	0.0	-10.4	0.0	4.3	22.0	10.1	37.5	-4.8	31.3	34.3	-16.7	37.9	-28.6	-3.2
2014	37.1	11.6	20.0	16.7	8.0	5.3	45.5	8.3	22.7	24.4	-13.3	20.0	300.0	2.9

# Change in \$ price for selected foodstuff

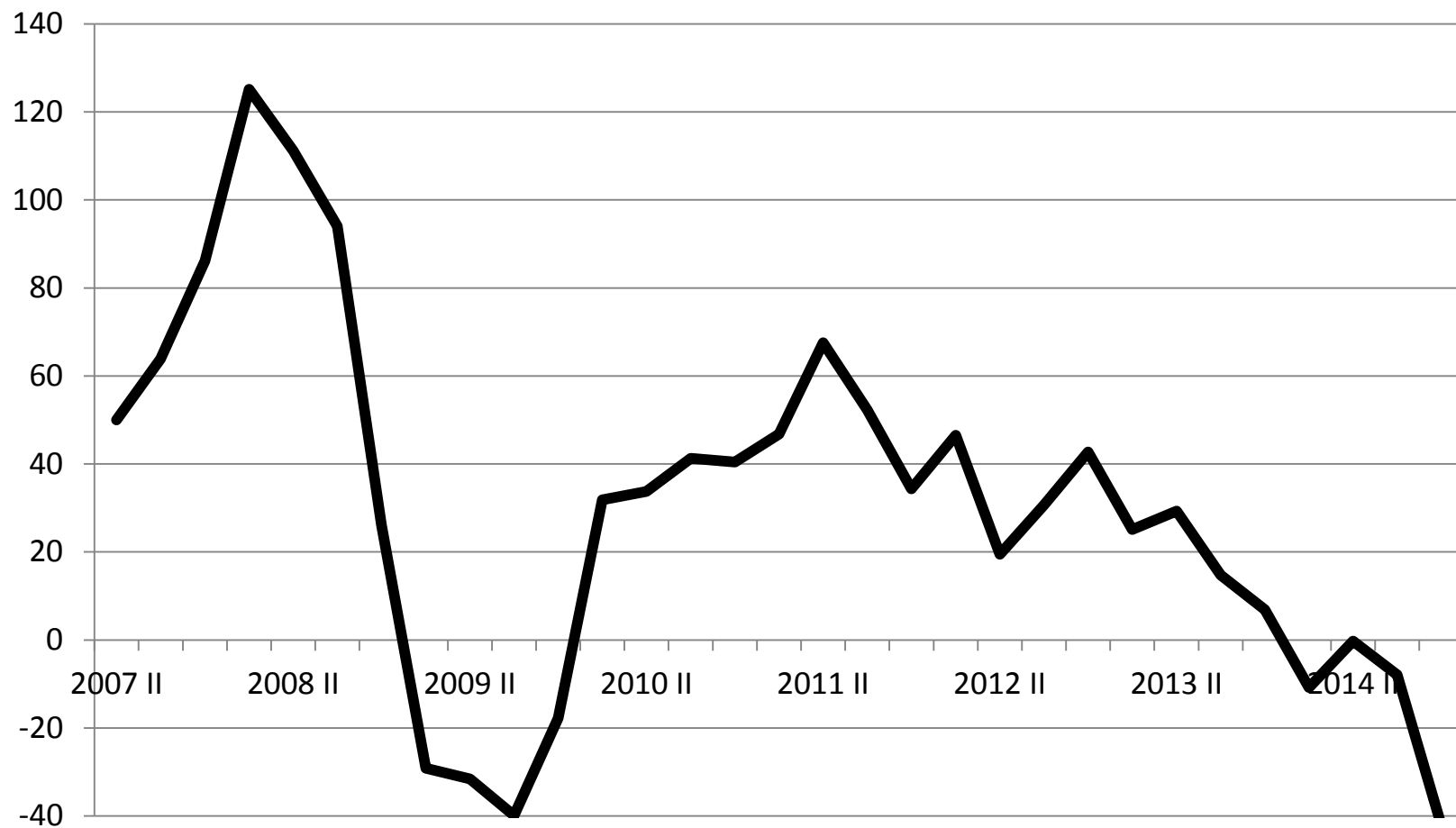




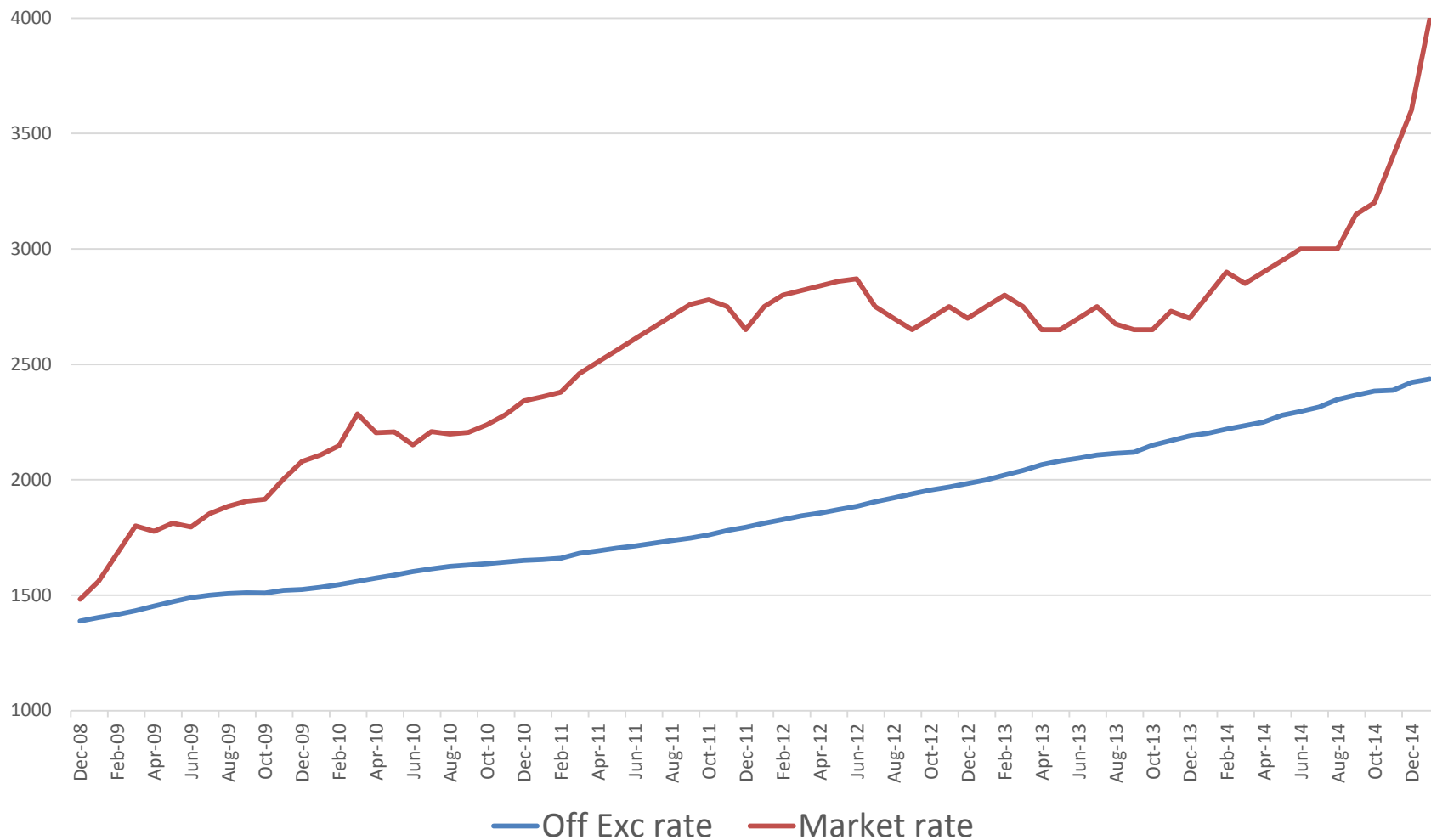
## Remittances from Russia to Uzbekistan, mln USD



# Quarter-to-quarter change in remittances



# Official and market exchange rates

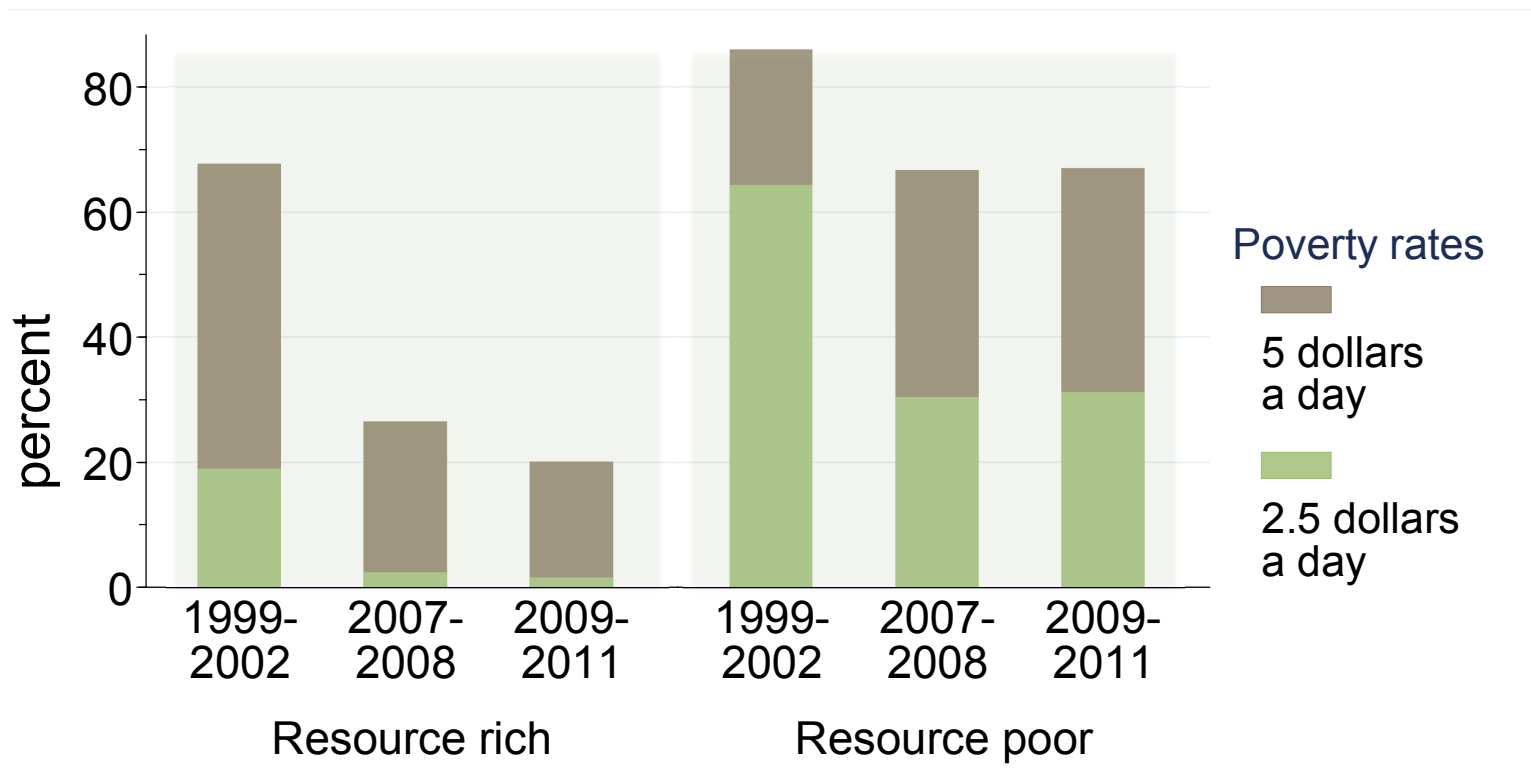


# Poverty and inequality in Central Asia

# STEADY POVERTY REDUCTION WAS OBSERVED IN THE REGION, 2000-2011

## Poverty has fallen to half of what it was in the 1990s

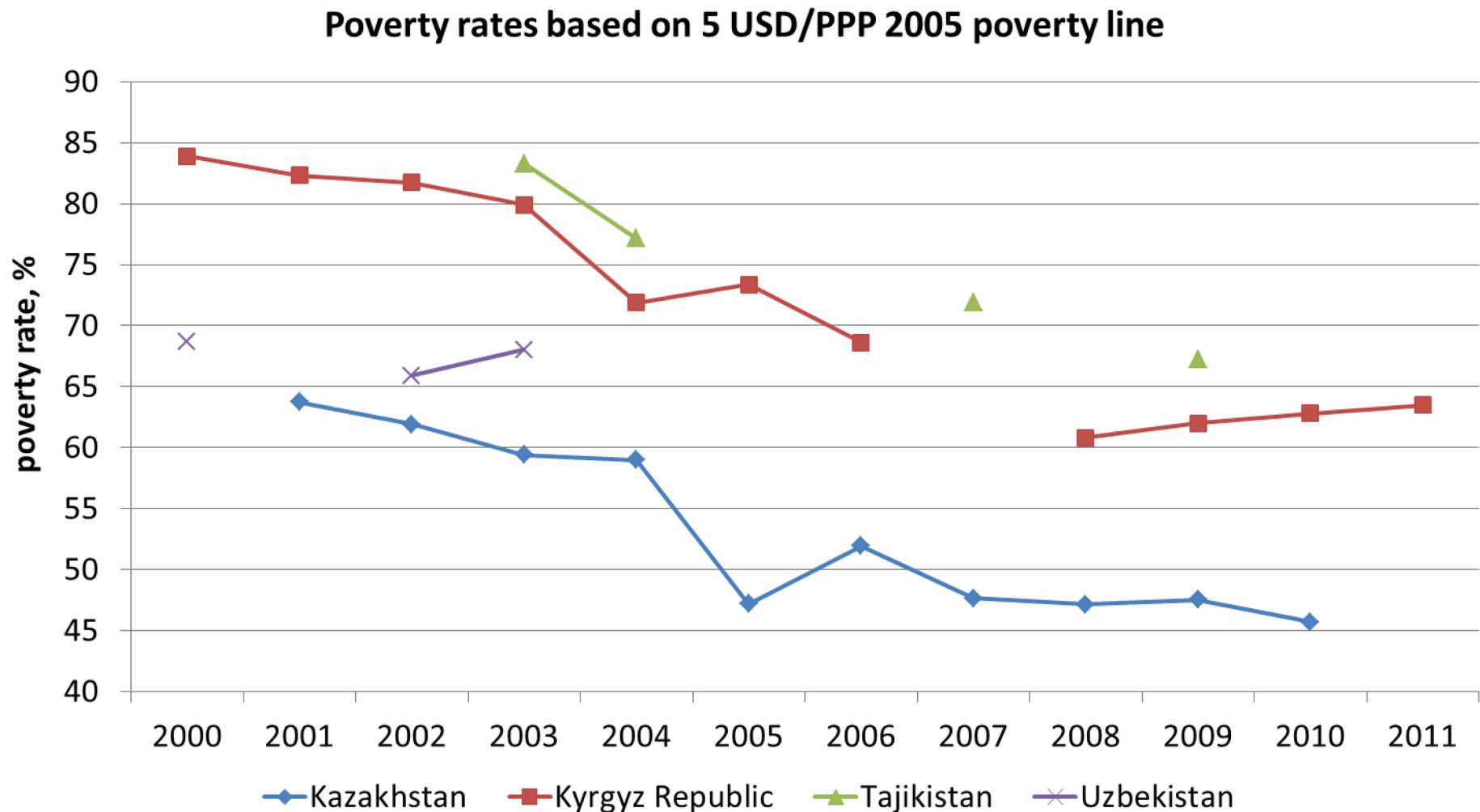
(headcount poverty rates in Eurasia at 5 dollars a day and 2.5 dollars a day, 1999–2011)



Note: Simple averages of countries belonging to respective groups are shown.

Source: World Bank staff calculations, based on World Bank ECAPOV database; see **chapter 1**.

# IN PARTICULAR, POVERTY WAS FALLING IN CENTRAL ASIA RAPIDLY

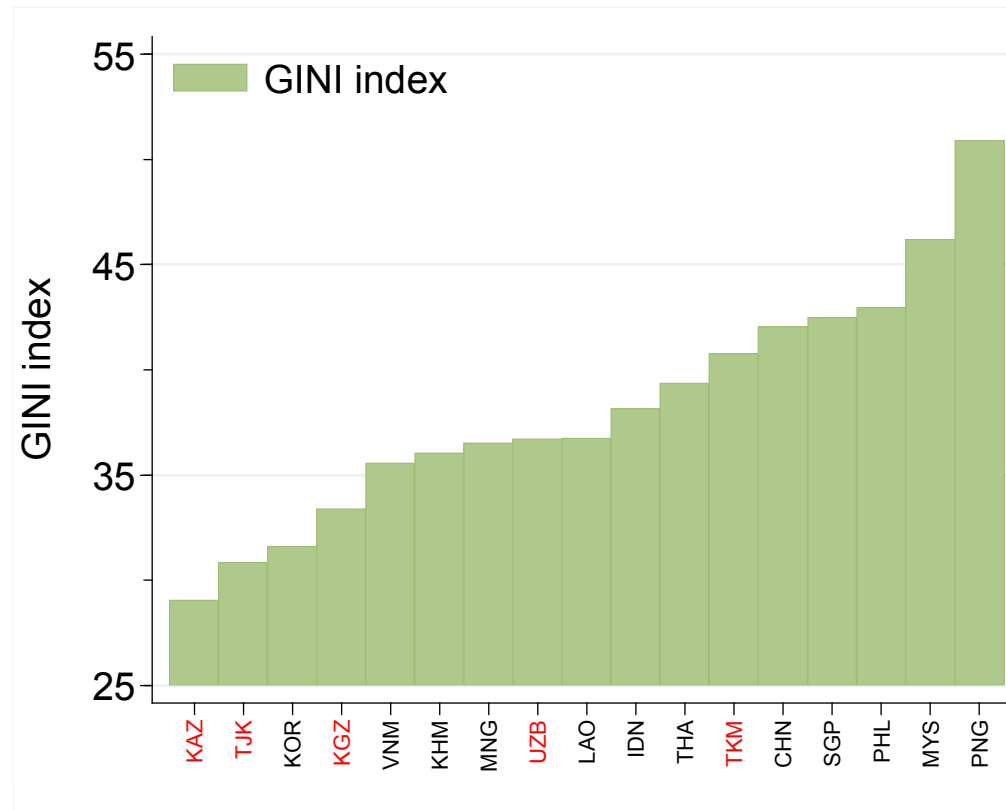


Source: Europe and Central Asia Statistical Team for Development, World Bank. Date of extraction March, 21, 2014.

Note: Data for Turkmenistan is not available. Poverty rates are calculated only for those years for which micro-data is available.

# INEQUALITY LOW

Inequality remains lower than in relevant comparators  
(GINI index)

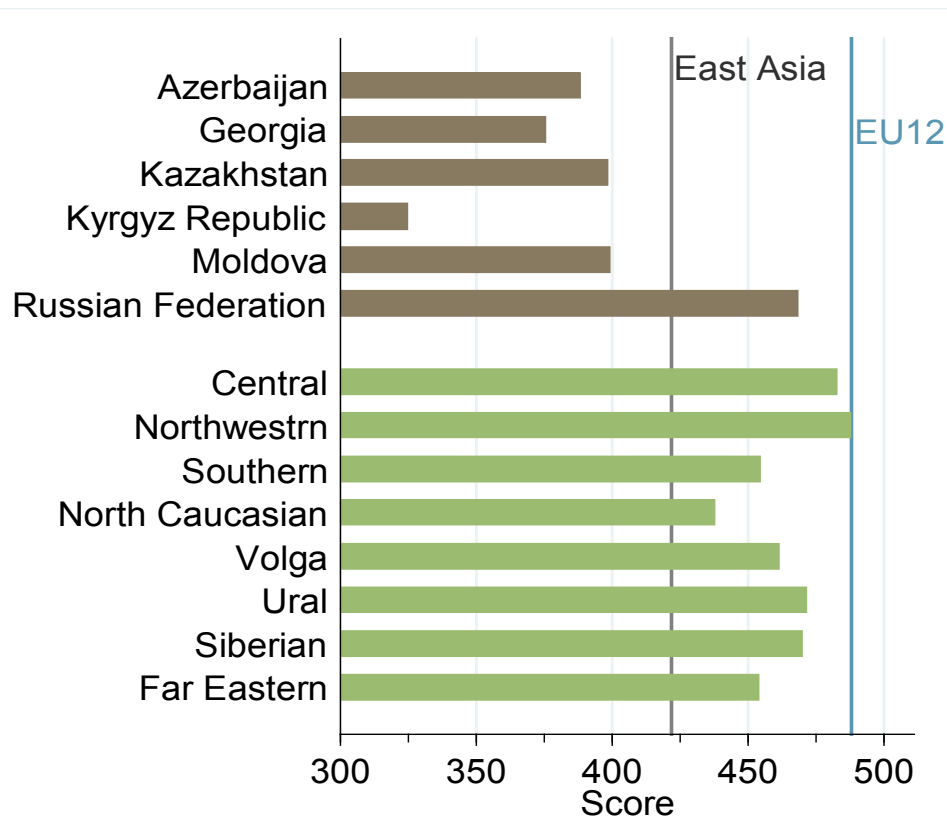


Note: KGZ, IDN in 2011, THA in 2010, KAZ, TJK, CHN, KHM, MYS, PHL in 2009, LAO, MNG, VNM in 2008, UZB in 2003, TKM, KOR, SGP in 1998 and PNG in 1996

# POOR EDUCATION QUALITY

## Russia's education outcomes are the exception

(PISA score, 2009, in Eurasian countries and Russia's regions)



Note: The score is an average of math, science and reading scores. The median values of East Asian and EU12 countries are presented. Shanghai is not included in the former group.

Source: World Bank staff calculations, based on PISA dataset.



# Jobs, Skills and Migration in Uzbekistan

- World Bank/GIZ Uzbekistan Jobs, Skills and Migration Survey (2013)
- First survey in Central Asia to include modules testing cognitive and socio-emotional skills directly.
- Sample size of 1,500 households with a total of 8,622 individuals.
- One individual per household sampled randomly for skill modules.
- The skill modules were answered by 1,500 individuals.

# Which skills are measured?

## Cognitive

Involving the use of logical, intuitive and creative thinking

Raw problem solving ability vs. knowledge to solve problems

Verbal ability, numeracy, problem solving, memory (working and long-term) and mental speed

## Social and Behavioral

Soft skills, social skills, life-skills, personality traits

Openness to experience, conscientiousness, extraversion, agreeability, emotional stability

Self-regulation, perseverance, decision making, interpersonal skills

## Technical

Involving manual dexterity and the use of methods, materials, tools and instruments

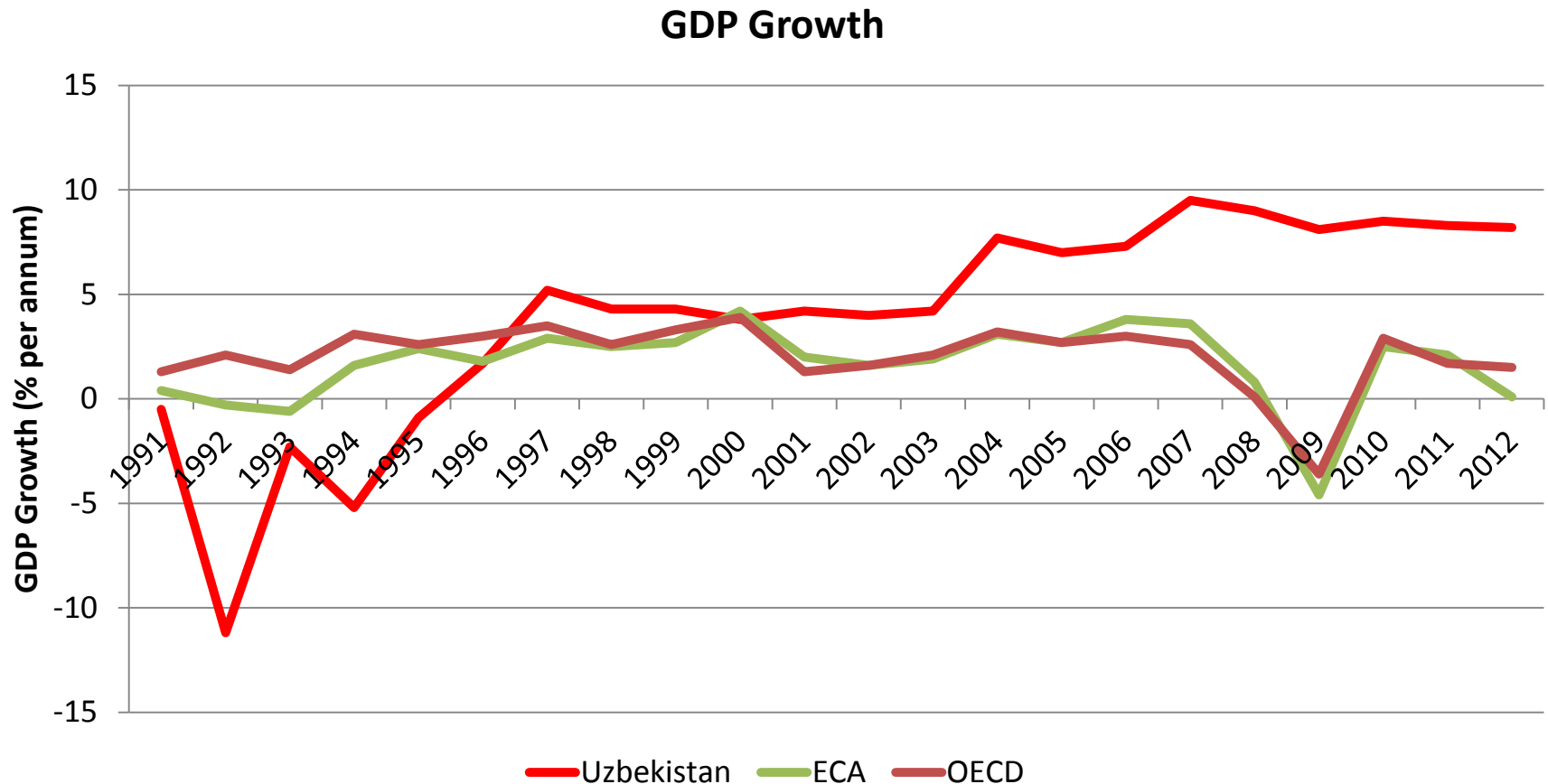
Technical skills developed through vocational schooling or acquired on the job

Skills related to a specific occupation (e.g. engineer, economist, IT specialist, etc)

# Labor Market Outcomes

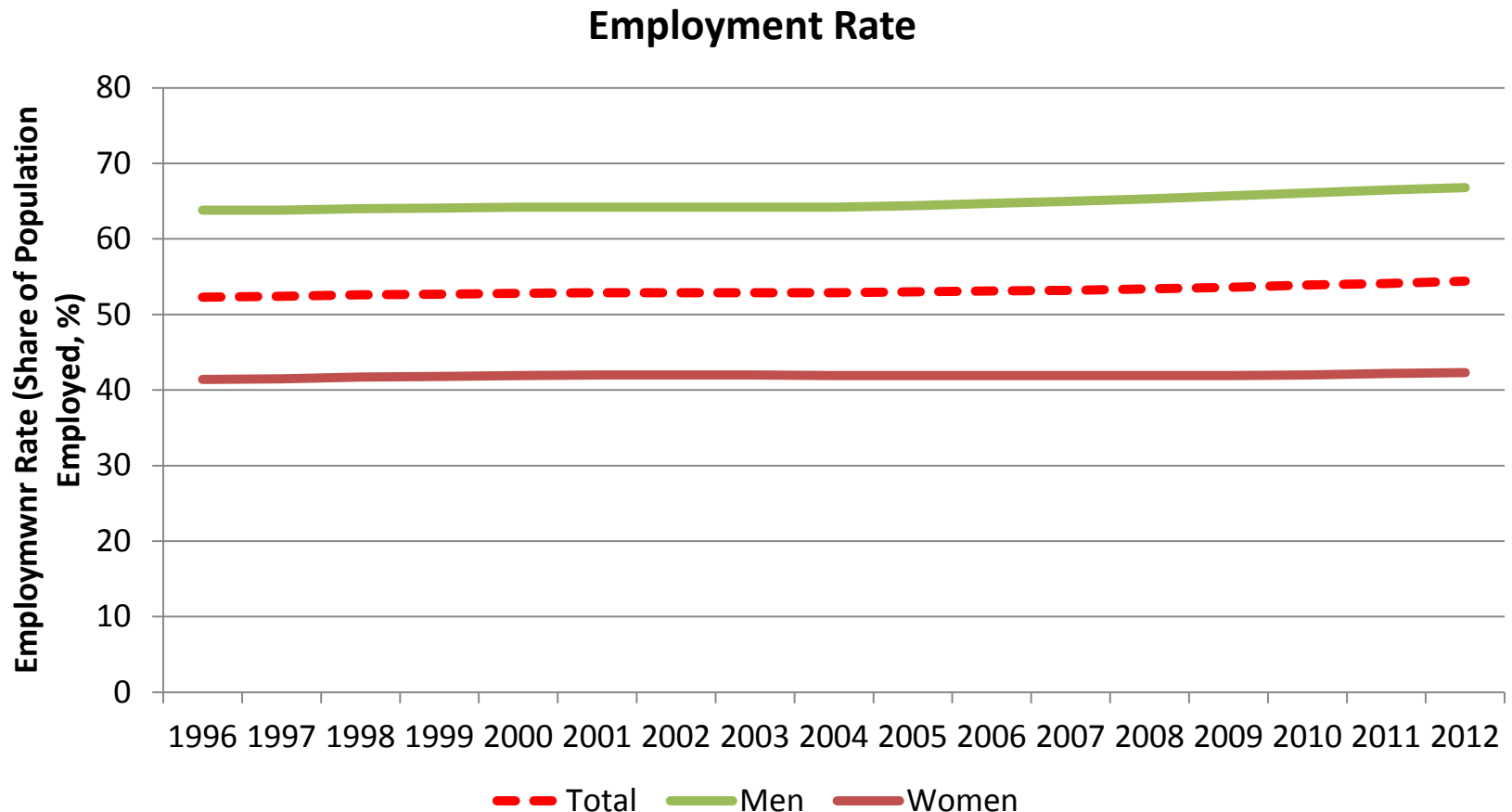
*What is the nature of the  
labor market in Uzbekistan?*

# Economic growth in Uzbekistan has been among the highest in the world in the last decade



Source: World Bank, World Development Indicators 2013.

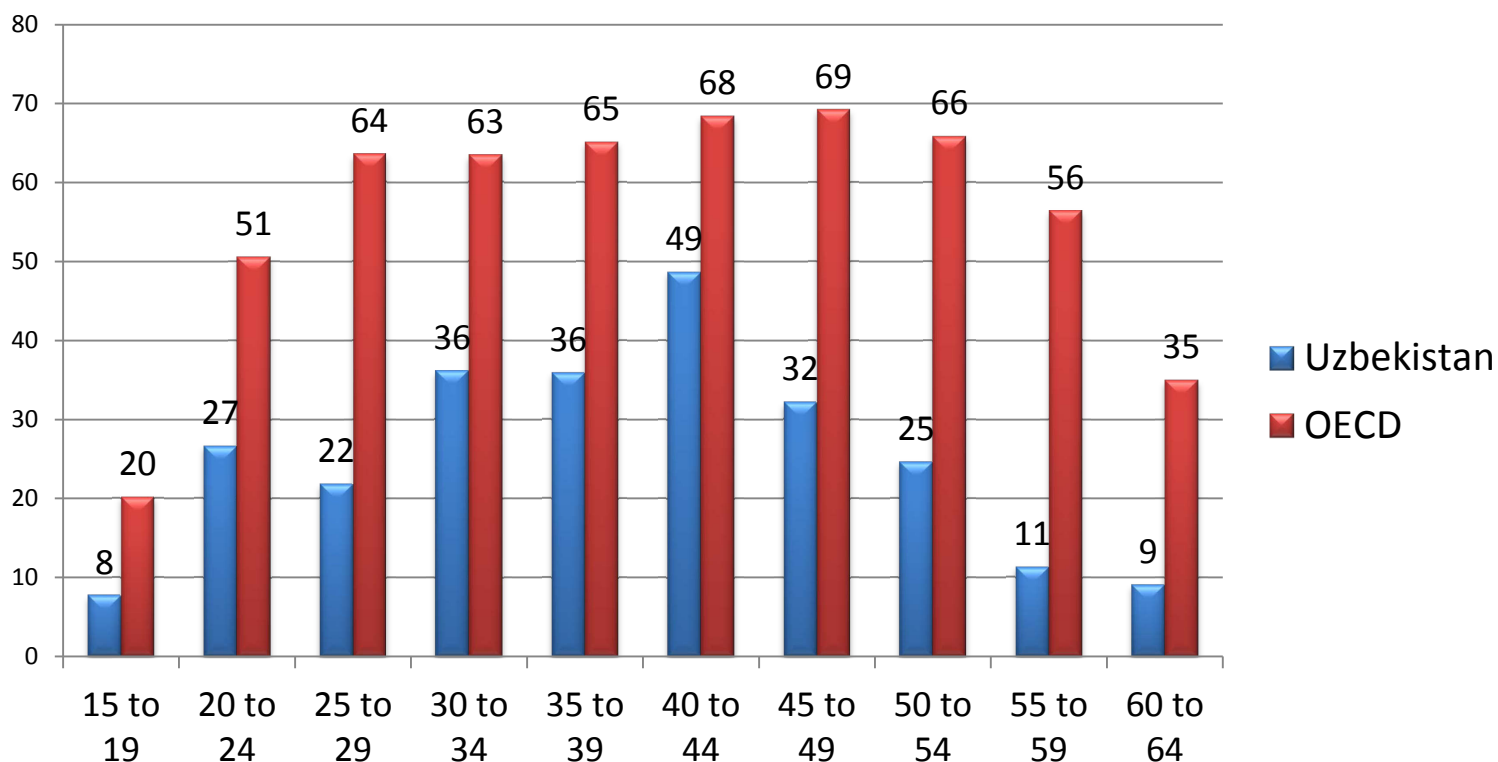
# However, employment rates have increased only modestly



Source: World Bank, World Development Indicators 2013.

# Female employment rates are low across all age groups

Female employment rate approximately 26%. OECD average 57%



Source: GIZ 2011 Labor Survey WB Calculations; survey done in September-October.

Activating groups

Entrepreneurship

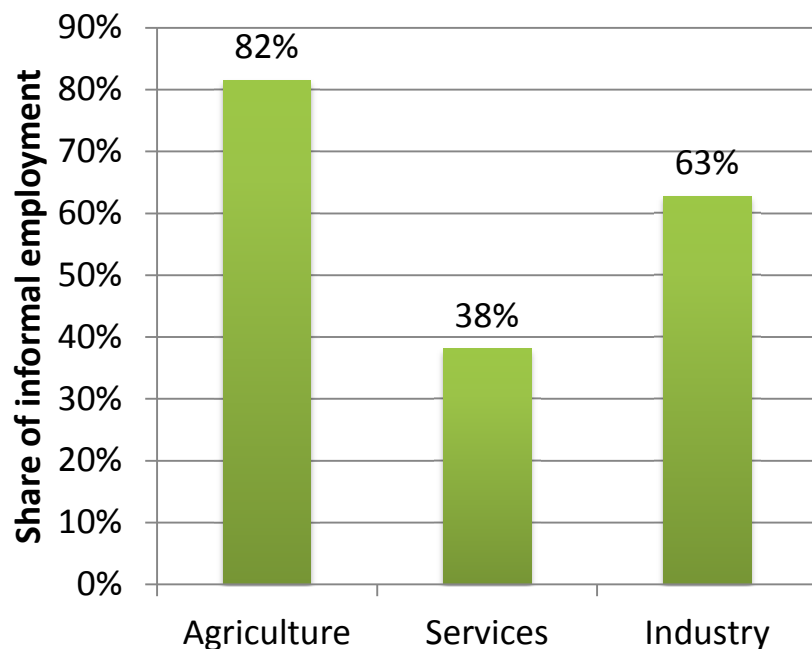
Productivity

Labor Force Participation

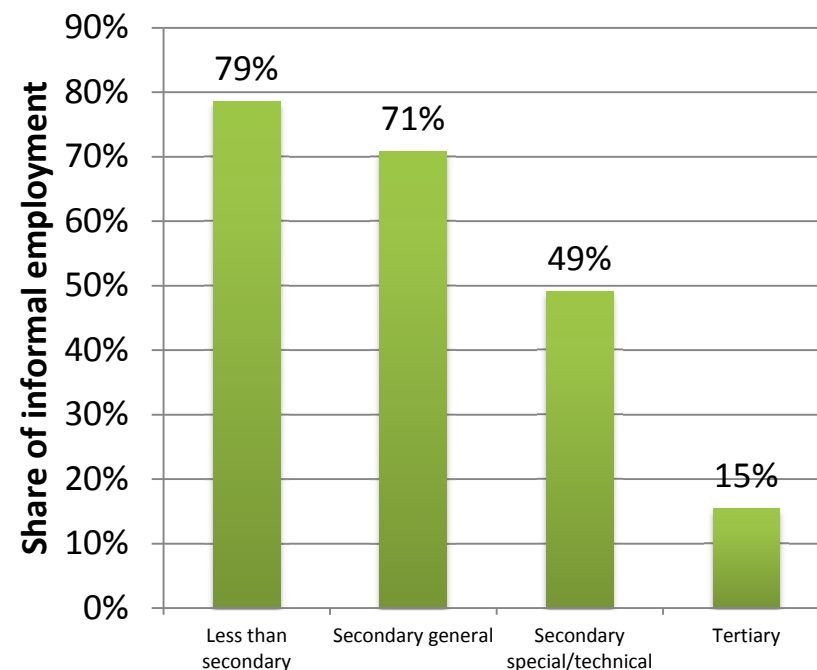
Social Protection

# Informality is widespread, leading to concerns about job quality

**Informality by sector**



**Informality by education level**



Note: informal sector workers are those who lack an employment contract, are unpaid family workers, or are self-employed in businesses with fewer than six employees.

Source: World Bank/GIZ Uzbekistan Jobs, Skills, and Migration Survey (2013).

# Skills in the Labor Market

*Are skills important for getting a decent job  
in Uzbekistan?*



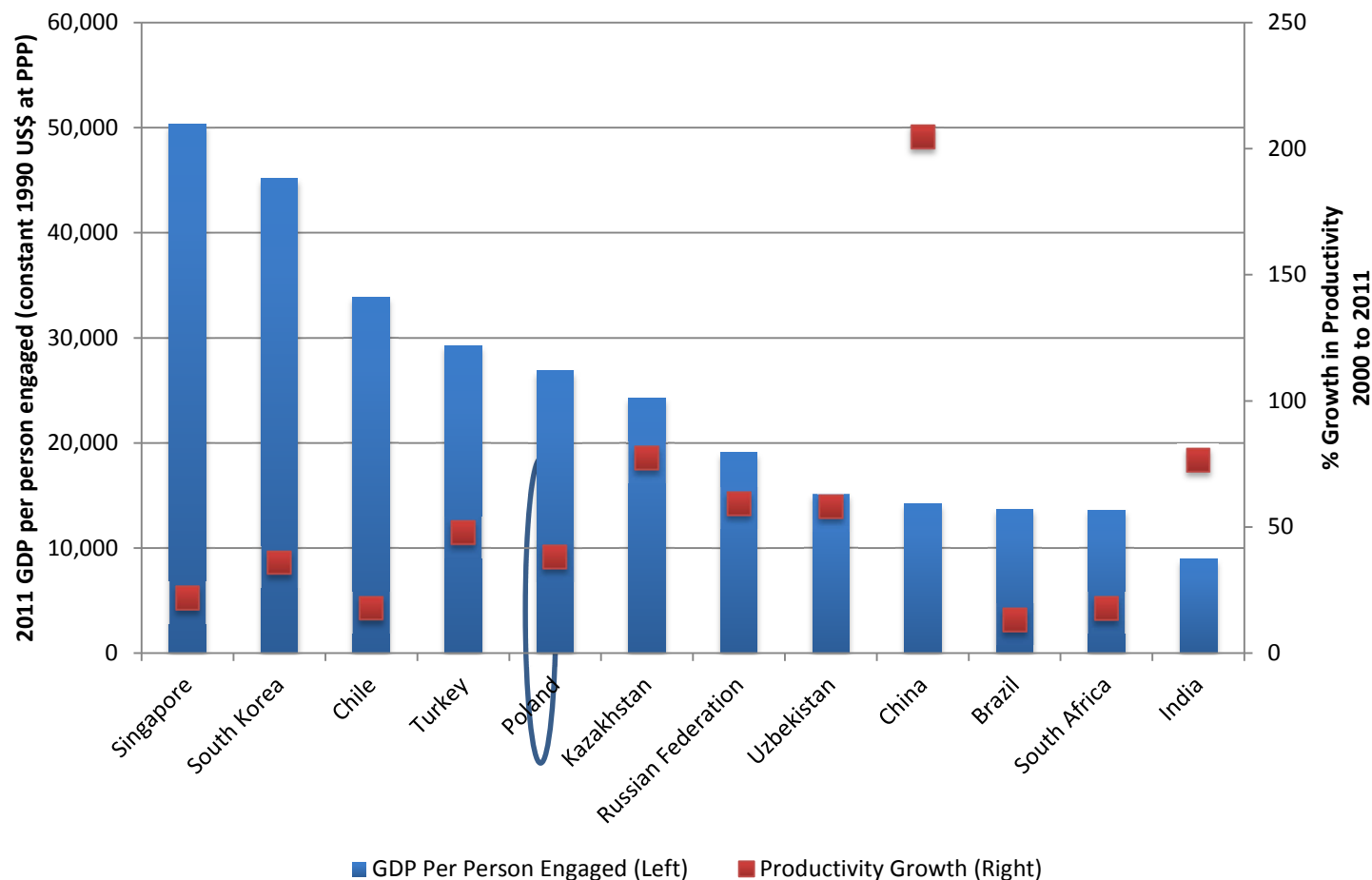
# Skills matter for employability in Uzbekistan

Regression results show that:

- Employment is positively correlated with:
  - memory and numeracy outcomes (cognitive skills); as well as
  - workplace attitude and decision making (socio-emotional skills).
- The same cognitive and socio-emotional skills also matter for the quality of a job.
  - Quality of the job is measured by having a formal job in the government, state owned enterprise, or private sector with more than 6 employees.

Note that these results only hold for jobs in the industry and services sector, not in agriculture.

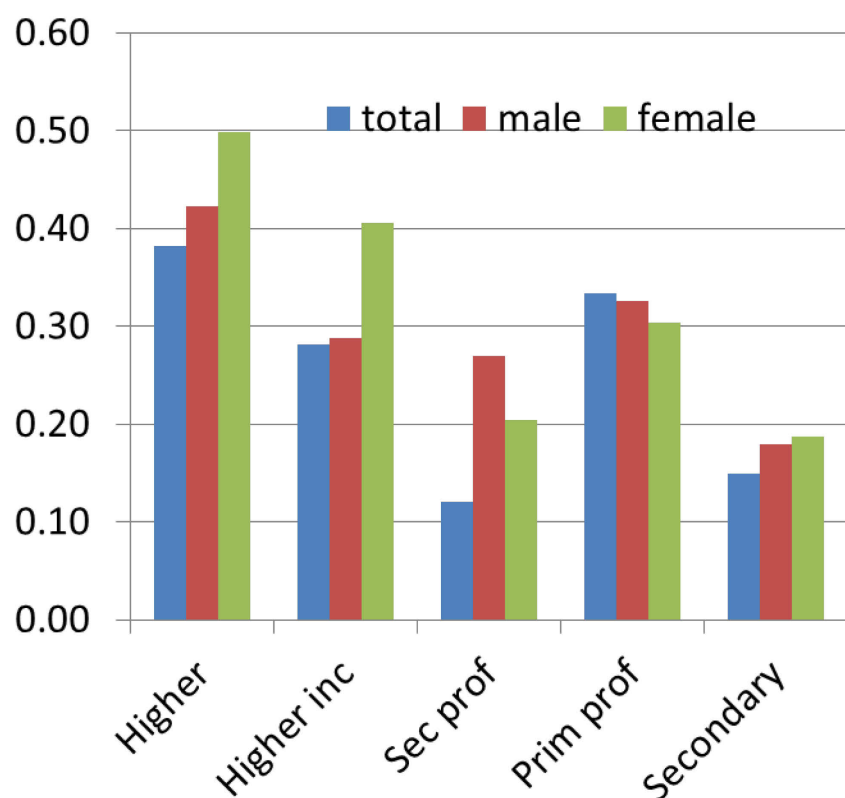
# Labour productivity per worker in Uzbekistan is relatively low



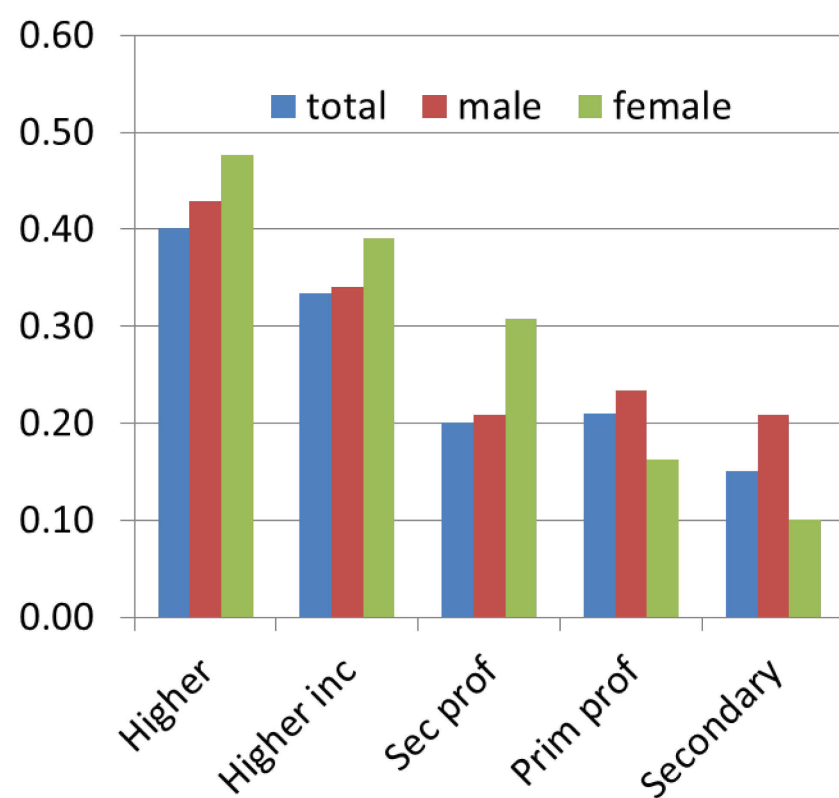
Source: ILO KILM 2013

# RETURNS TO EDUCATION: CASE OF KYRGYZSTAN

**2008**



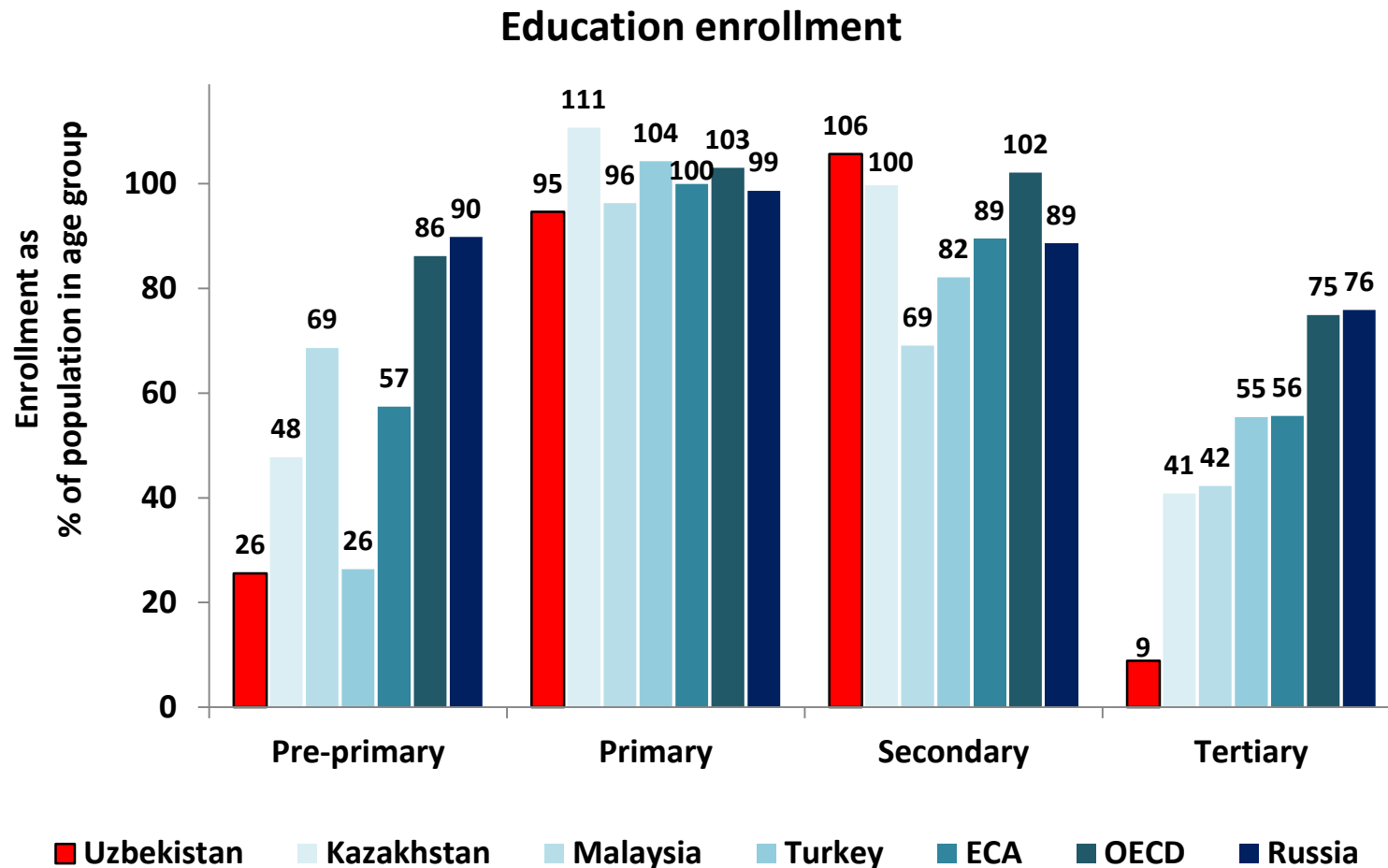
**2012**



Source: KIHS, authors' calculations.

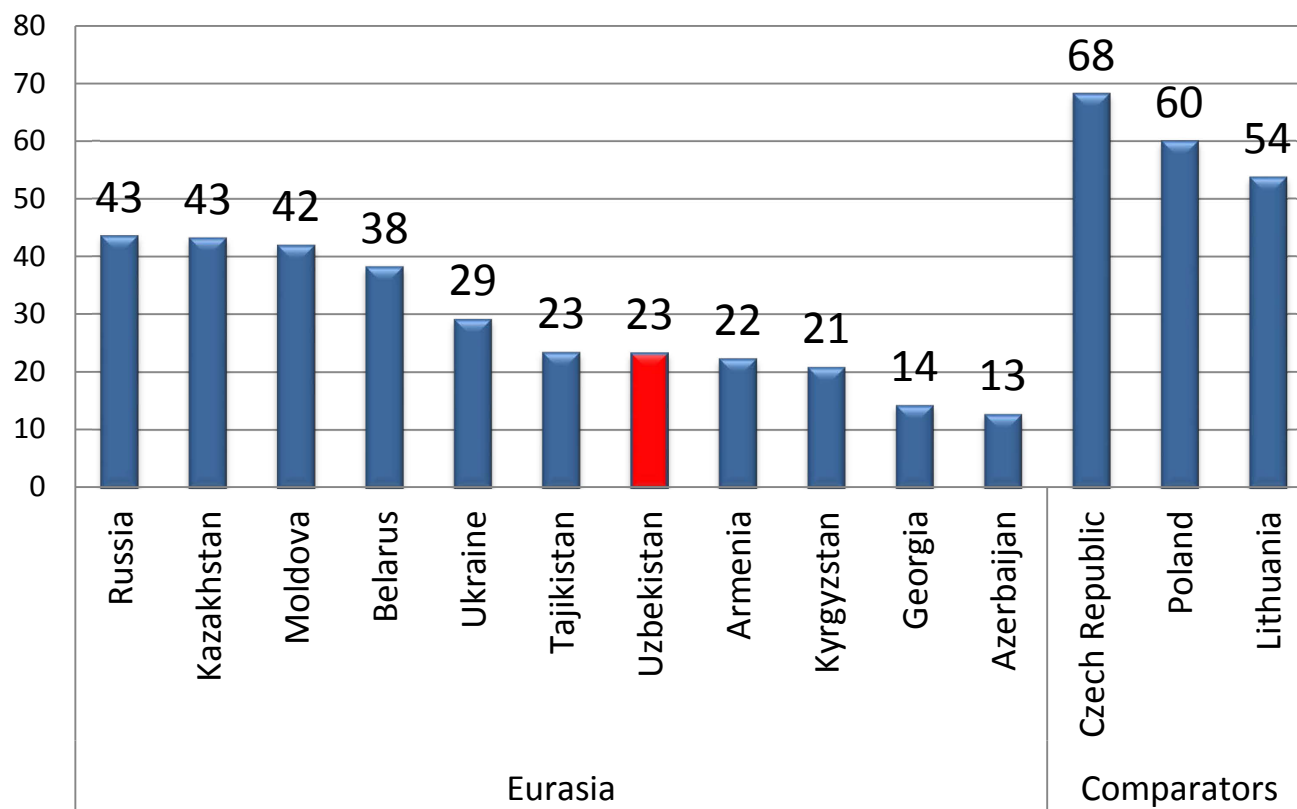
Notes: Sample includes population +15 with non-zero labor earnings locally employed.

# Enrolment in pre-primary and tertiary education is low

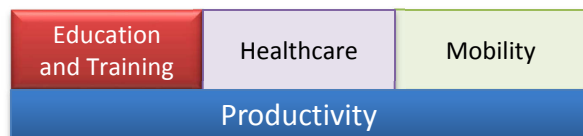


Source: World Bank Edstat.

# On-the-job training is relatively low in Uzbekistan



Source: World Bank staff calculations, based on the EBRD-World Bank Business Environment and Enterprise Performance Surveys (BEEPS) (2009) in "Human Capital in Eurasia" (2013); forthcoming

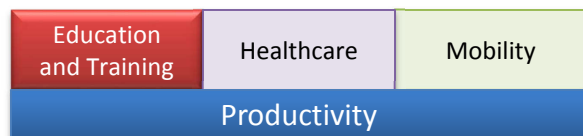


Labor Force Participation

Social Protection

# How to achieve higher human capital?

- **Access to education:** Expand pre-school and tertiary enrollment rates to increase productivity of future workers
- **Quality of education:** Enroll in international student assessment systems (e.g., PISA or TIMSS) and develop a national quality assessment system
- **Relevance of skills for the labor market:** Align curricula with employers' needs by establishing partnerships between businesses and educational institutions, enhancing on-the-job training, and providing information on labor market prospects
- **Employ evidence-based policymaking:** emphasize the collection, analysis, and dissemination of data to inform policy decisions



Labor Force Participation

Social Protection

# Key findings

- Overall, respondents in Uzbekistan performed well on basic numeracy and literacy questions.
- Higher educated men did not perform better than men with a lower education attainment.
- However, the higher end of basic cognitive skills were not tested meaning that it did not distinguish well between high and very high skilled people.
- Yet, it is striking that almost half of all adults with a tertiary education could not answer the basic literacy question in this test.

## **There is a positive association between schooling and cognitive skills, but only for women**

- Overall, respondents in Uzbekistan performed well on basic numeracy and literacy questions.
- Higher educated men did not perform better than men with a lower education attainment.
- It is striking that almost half of all adults with a tertiary education could not answer the basic literacy question in this test.



# Key findings

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## **1. Labor Market Outcomes**

Economic growth has been strong, but employment growth has been moderate

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Jobs are distributed unevenly across groups, and quality of employment is a concern

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## **2. Skills in the Labor Market**

Skills matter for employability, and higher skilled workers use their skills more on the job

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Few people seem to have the ability to effectively search for jobs or signal their qualifications and skills

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## **3. Skill Formation**

The association between educational attainment and cognitive and socio-emotional skills is mixed

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Preschool and tertiary coverage are low