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## Strategy New Uzbekistan

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During the last three weeks, President Mirziyoyev participated in two important events, which used to announce sufficient new steps in the liberalization of the economic environment in Uzbekistan:

- On August 20th, President had a first-ever “dialogue with entrepreneurs”, speaking for about 4 hours in the presence of a few hundred representatives of state authorities, private companies, and foreign investors. The entire event broadcasted live online and on national TV. Entrepreneurs were able to send questions online during a month before the event;
- On September 9th, Uzbekistan Liberal-Democratic Party had its X Congress, where Shavkat Mirziyoyev was appointed as a candidate from the party on coming President’s election, planned on October 24th;

Both events provided a mass of information about planned changes and developments in legislation, tax, economy, ecology and political life of the country.

The latest speech yesterday was called Strategy New Uzbekistan, outlined major changes in macroeconomic regulation and targets for the Government, including the following ideas:

### **1. Macroeconomics:**

- GDP could reach \$100 bln by 2026 and per capita GDP by the 2030 year should increase up to \$4,000;
- The main drivers for the growth are the increase of industrial output and labor efficiency, including such projects as copper production cluster, precious metals production, five new chemical and petrochemical clusters which should help to increase natural gas processing from 8% to 20% at least (energy balance will be compensated by the introduction of 5GW of renewable energy power generation);
- Uzbekistan will attract \$120 bln of investments in the next five years, including \$70 bln of foreign investments. At least \$14 bln will be attracted into infrastructure projects on the basis of PPP projects. SOEs have to start raising funds without state guarantees;
- The export potential could reach \$30 bln by the 2026 year, including a decrease in raw materials export from 46% to 23%;
- Inflation targeting remaining one of the key issues. The budget deficit will not exceed 2.5%, annual state borrowings are limited by \$5 bln and will not exceed 50-60% of GDP;
- Development Bank may be established with \$500 bln capital, but the share of private capital in the banking sector should increase up to 60% in long-term perspective;
- Telecommunication and IT sphere considered as one of the key drivers of the economy and could increase output up to \$4 bln, all residential apartments and highways will be connected to high-speed internet;
- Share of private business in medical services will increase from 12 to 25%;

### **2. Taxation:**

- VAT will be decreased from 15% to 12% in 2023;
- Property will be decreased from 2% to 1.5% in 2022;
- Unified “real estate tax” could be introduced instead of property and land tax for legal entities;

- Profit tax for banking, finance and telecommunication will be lowered from 20% to 15%;
- Subsoil use tax for nonmetallic materials and oil will be reduced twice, for natural gas by three times, for copper and gold down to 7% of cost;
- Introduction of tax benefits in amortization write-off;

### **3. Liberalization of economy, ecology and political process:**

- Monopoly for over 25 types of activity will be canceled, including road construction, heating, urban development, etc;
- Electricity and natural gas markets will be liberalized, but the vulnerable population will have additional social security measures;
- Uzbekistan will facilitate the process of entering into WTO and EEU;
- Heads of district and city administration will be promoted by the majority of the local elected bodies;
- Agenda of water supply and road construction will be transferred to local administrations, together with 100% redistribution of land use tax to local budgets;
- Special measures to decrease water waste, area of forests and green zones in cities and in general, massive construction projects to move to suburb areas;
- 10 thousand women in difficult situations will be provided with support and real estate;

These measures were greatly received by the business and finance community in the country and international organizations, as it was following the previous package of economic measures, which actually started land reform.

During his meeting with entrepreneurs, President Shavkat Mirziyoyev outlined important directions for solving the problems of private businesses and entrepreneurs. He highlighted urgent obstacles and presented the program of activities in the seven key areas, including:

#### **1. Business financing and lending:**

- \$600 million will be allocated from the Uzbekistan Fund for Reconstruction and Development (UFRD) to both state-owned and private banks;
- the planned amount of Eurobonds issues by local banks could reach 5 trillion UZS;
- the government will abolish the practice of limiting the term of bank loans funded by subsidized funds attracted from IFIs;
- loans of 6,000 entrepreneurs for \$1 billion will be converted from foreign currency into UZS-denominated loans. Businesses could save up to 5% of interest payments. A special entity will be established under the Ministry of Finance to hedge currency risks;
- all procedures starting from submission of documents for a bank loan will be transferred to online mechanisms;
- from October 1st, the licensing procedure for microfinance organizations will be completely canceled. MFO could issue bonds and raise funds from legal entities. Limits for microfinancing to MSME will be canceled too. MFOs will be allowed to provide payment services;

#### **2. Tax and customs duties:**

- raw materials imported for the production of export-oriented products will be exempted from import duties;
- the tax rate for the subsoil tax (such as sand, gravel, limestone, gypsum, dolomite) will be reduced by 2 times. It could save up to 500 billion UZS for construction materials producers, including cement plants;

- 13 thousand public caterings companies are exempted from payment of land tax and property tax by the end of the year. Travel agencies and hotels are exempted from tourist taxes for a period of 2 years;
- the imposition of fines on entrepreneurs who has receivables on foreign trade operations and the collection of fines imposed to date will be suspended until the end of this year;
- from January 1st, 2022, the tax authorities will launch an online service to help automatically generate business reporting. The procedure for applying financial sanctions for late submission of reports is completely canceled;
- starting from the next year, electronic databases of tax and customs authorities will be linked to each other when calculating VAT to speed up the tax refund processes. Pre-paid VAT might be used to pay other taxes without waiting for VAT return – it will decrease the need for working capital.

**3. Land rights:**

- a solid legal basis was created for the economic turnover of land, sale, collateral, and mortgage;
- all land plots were divided into 2 categories: agricultural and non-agricultural land. Agricultural land to be leased only through online auctions;
- from now on, land plots will be sold or leased only in private ownership and only at public online auctions;
- land currently occupied by businesses on the basis of ownership, use, or lease will be allowed for registration as their property;
- entrepreneurs who buy a building at auction also own the adjacent land as private property. In addition to the approved program, another 500 state assets will be put up for public auction by the end of the year.

**4. Infrastructure:**

- from 2022 year, the state will be fully responsible for electricity, natural gas, water supply, and road infrastructure connection for projects worth 200 billion UZS. So far, this privilege applied only to projects worth more than \$50 million;
- in the next 2 years an additional 200 industrial zones will be created throughout the country, and next year 2 trillion UZS will be allocated from the budget to provide infrastructure in these zones;
- by November 1 of this year, the replacement process of 4,000 electricity transformers, 35 substations, and 15,000 km of networks with a total cost of 3 trillion UZS will be completed. The additional generating capacity is expected to increase to 4,400 MW by 2023;
- connecting to power grids is being transferred to a fully electronic platform and all processes are simplified.

**5. Export:**

- from October 1, 2021, the VAT refund procedure will apply to disciplined exporters of all industries, before it was only to textile companies;
- companies exporting more than \$20 million a year will be provided with preferential loans for up to \$5 million;
- the practice of obtaining national certificates will be canceled for certified equipment and raw materials imported from some developed countries;
- Reduce in import duties on raw materials and semi-finished products is expected within a month.

**6. Transport and logistics:**

- customs preferences for the import of trucks were extended by additional 3 years;

- the Ministry of Transport will announce new tariffs for domestic and foreign rail services on January 1st, 2022. Tariffs for entrepreneurs on the import of raw materials not produced in our country will be at least 25% cheaper;
- the privilege provided to private entrepreneurs for the supply of wagons will be extended until January 1, 2025;
- At least four independent railroad cargo operators will be established. Uzbekistan Railways will remain responsible for infrastructure and locomotives power;

**7. Business simplification tasks:**

- starting next year, all permits for starting a business will be issued online. By the end of this year, the number of licenses and permits will be reduced by 30% with the introduction of notice only procedures;
- from November 1st, 2021, restrictions on the use of modern induction furnaces that fully meet all technical requirements will be lifted;
- The Chamber of Commerce and Industry, with the consent of the entrepreneur, has the right to participate in all inspections and establish effective public supervision.

Provided measures will allow companies significantly decrease time and financial expenses for administrating tax operations, working capital needs, debt service and direct costs. It also create a significant business opportunities in microfinance, transportation, real estate business. However, the most significant step is an actual start of land rights reform.

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