



STATE-OWNED ENTERPRISES IN UZBEKISTAN: FINANCIAL PERFORMANCE, CHALLENGES, AND FUTURE PROSPECTS

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Abstract

State-owned enterprises (SOEs) play a crucial role in Uzbekistan's economy, contributing significantly to GDP, employment, and public services. Despite ongoing reforms, the financial performance of SOEs remains a pressing concern, with a substantial number experiencing operational inefficiencies, losses, and reliance on state support. This study analyzes SOE trends from 2019 to 2023, focusing on their financial health, sectoral performance, and the extent of government interventions. While some SOEs, particularly in the mining and metallurgy sectors, have remained profitable, others, especially in the energy sector, have struggled due to inefficiencies and state-mandated social obligations.

Key words: State-Owned Enterprises, Financial Performance, Privatization, Public Sector Reforms, Economic Efficiency, Government Subsidies, Uzbekistan Economy, Employment, Debt Sustainability, Corporate Governance

The role of SOEs in Uzbekistan is significant. According to statistics, the number of SOEs in Uzbekistan is more than 2000 during 2019-2023. While the number of SOEs is decreasing on annual basis, their number remains significant. During 2019-2023, the number of SOEs reduced by around 28% (Figure 1). However, the reason why SOEs are decreasing on annual basis is yet to be unknown. Whether many of them were bankrupt or privatized is a matter of further analysis into the situation in SOE sector of the country.

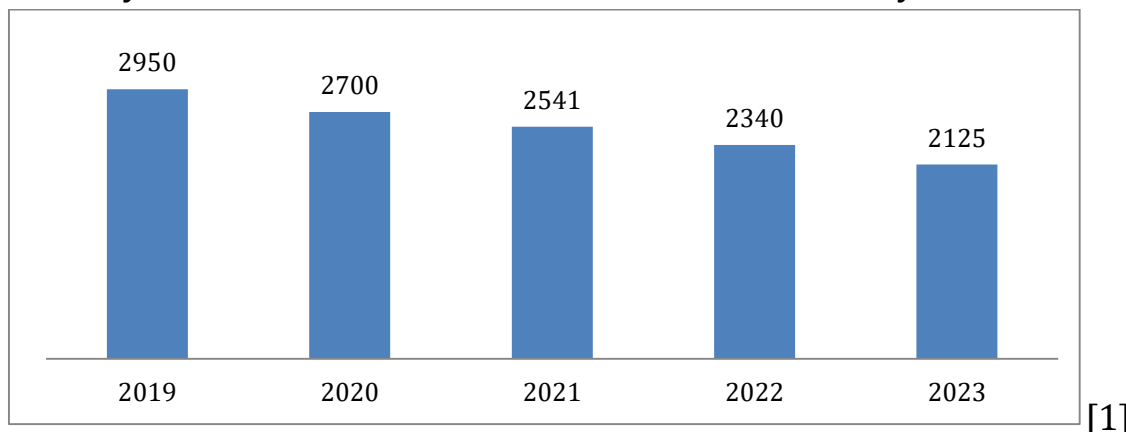


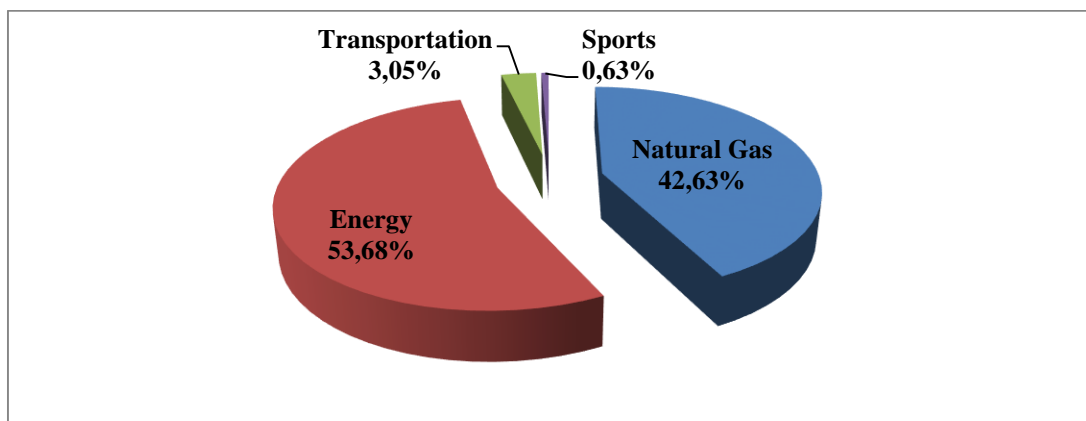
Figure 1. Number of SOEs in Uzbekistan during 2019-2023

Overall, total number of SOEs is calculated based on the number of active, in-active (at the stage of liquidation or bankruptcy) and bankrupt enterprises. Table 1 illustrates the total number of SOEs with a state share exceeding 50% of ownership. According to the table, total of 2125 SOEs were operating in the country as of 2023. Active SOEs which are operating without any possibilities of bankruptcy and liquidity problems were 1833 which is 86.26%. The number indicates that not all of the SOEs are operating financially healthy and without any financial problems in the country. About 14% of SOEs are either inactive or are on the stage of bankruptcy and low liquidity position in the country.

Situation about SOEs performance in 2023 changed for better. In 2021, Top 10 SOEs generated 33.08 trln. UZS and Top 30 SOEs in the country generated 38.64 trln. UZS. [4]

This included both non-financial and financial (e.g. state-owned commercial banks) SOEs in the respective years. However, about 439 SOEs in the country ended the fiscal year 2022 with losses. Total loss of Top 20 SOEs in Uzbekistan as of 2022 was 13.17 trln UZS which is twice the situation compared to 2021.

Figure 3 illustrates loss-making SOEs in 2021 grouped into the industries. Figure illustrates that majority of loss-making SOEs fell into energy (53.68%) and natural gas (42.63%). These are the two key sectors of the economy that government has full ownership and control of the enterprises in order to provide energy supply to the population and industry at reasonable prices. However, this lead to lowering the revenue from sales energy and natural gas SOEs which ultimately resulted in ending their financial year with losses. One of the key reasons why energy sector SOEs experienced losses were that many of the thermal power plants with its regional plant companies were inefficient in terms of power generation process.



[7]

Figure 3. Top 10 unprofitable SOEs by sector



Top 10 most profitable SOEs were largely from mining and metallurgy sector which accounted 75.4% of all SOEs total profits in 2021. SOEs operating in Oil and Gas (14.4%) exploration and sale were also mostly profitable during 2021. Chemicals (4.9%) and Telecommunication (2.1%) were also mostly profitable sectors in which SOEs operated.

Loss-making SOEs often receives financial support from various sources. These include explicit (e.g. external organizations, external debt) and implicit (e.g domestic commercial bank loans and UFRD loans). Explicit liabilities are those of loans received by government from external sources where government guarantees for external organizations (e.g. ADB, World Bank) and where creditor is the state or UFRD. Table 5 illustrates the source of lending to SOEs during 2020. According to the Table 5, majority of loans provided to loss-making SOEs were provided with sovereign guarantees and state-owned commercial banks (SOB) that amounted 10.5% of GDP simultaneously while SOEs liabilities in front of UFRD was 3.4% of GDP.

Non-guaranteed external loans were 7.9% of GDP. This is the type of loans provided to SOEs without government guarantee and if debtor (SOE) goes bankrupt, government is not obliged to fund these liabilities. However, if SOBs incur losses on their loans which are large enough to deplete their capital below statutory minimum levels, the Government would be obliged, as the owners of the SOEs, to recapitalize them. Moreover, when SOES is unable to meet its obligations to repay its external debts, government face pressure to bail out such SOEs not only it influences on country's sovereign credit rating but also access to external capital.

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