Uzbekistan paves way for Central Asia business reforms

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The 15th edition of the World Bank's "Doing Business" report, which surveys tens of thousands of entrepreneurs, lawyers and accountants for on-the-ground insight into commercial and regulatory conditions across a dozen categories, showed Uzbekistan as one of the top 10 reformers over the past year among the 190 countries tracked.

The favorable publicity for Uzbekistan was soon overshadowed by the fallout over a truck attack in New York City allegedly by an immigrant from that Central Asian country, but the World Bank's report extended a record of top subregional performances, as Azerbaijan, Kazakhstan and Mongolia were also cited for making strides.

Kazakhstan's No 36 ranking was just behind Russia, while Tajikistan was at the bottom of the pack in 123rd place. In the neighboring Caucasus region, Georgia is a perennial rule-change frontrunner, and in the top 10 of the overall ease of doing business index led by advanced and big emerging economies New Zealand, Singapore, Denmark and South Korea.

Uzbekistan's new president, Shavkat Mirziyoyev, unleashed a reform wave after decades under the authoritarian control of the late Islam Karimov, including freeing the currency, and courted foreign investors at September's United Nations General Assembly. He spurred advances in half of the World Bank's focus areas, such as a "turnkey" electricity connection at the state utility and faster approvals of construction permits.

His government acknowledges short-term adjustment costs and recently admitted that the longtime 7% growth target might not be reached. The International Monetary Fund (IMF) reinforced this wariness in its companion economic update issued during the October annual meeting, as it listed "deeprooted" weaknesses in the banking system, fiscal and monetary policy and private-sector development offsetting relative micro-level company progress. In the 2016-17 reporting period, property rights strengthened in Kazakhstan with public disclosure of land ownership.

In Mongolia a new movable-property law went into effect allowing leases and titles as collateral to be entered into modern registries.

Azerbaijan clarified corporate governance and transparency norms to include multiple board service, executive compensation, and formal independent audits.

Kazakhstan's stock market was a top 40% gainer on the MSCI frontier index through October, aided by expanded shareholder lawsuit scope for investor protection.

Uzbekistan also introduced online tax payment, and Georgia further increased creditor insolvency power.

Tajikistan, despite its ranking in the lower half of all countries, updated labor practices by raising minimum severance pay for dismissal and simplified business licensing.

Azerbaijan's banking crisis, where state giant International Bank of Azerbaijan is in debt restructuring estimated to equal one-tenth of gross domestic product as smaller competitors try to recapitalize, sparked a flurry of improvements in credit reporting and bankruptcy reorganization.

After 2.5% growth in 2016, another 1% pick-up is forecast for Central Asia and the Caucasus this year and the medium-term trend will be 4-4.5%, around half the early 2000s average, according to the IMF.

Hydrocarbon exporters Azerbaijan, Kazakhstan and Turkmenistan have stabilized with higher world prices and decent agriculture and construction backstops, but were urged to diversify further. Oil importers could see 4% growth in 2017 on Russia remittance rebound and boosted gold output in the Kyrgyz Republic.

However, financial-sector damage lingers beyond Azerbaijan, as Kazakhstan merged the two largest banks and injected 4% of GDP this year, and Tajikistan's government mounted a similar bailout. Consolidation has also taken place in Georgia in the face of steep bad-loan ratios, while credit growth is flat or negative with the exception of Turkmenistan, where the rapid pace invites "future quality risks," in the IMF's view.

Azerbaijan and Kazakhstan issued foreign debt to cover fiscal deficits, and despite drastic exchange-rate adjustment, such as with Uzbekistan's official and parallel rate unification where the som lost half its value against the US dollar, the region's current-account gap will improve only "gradually" from last year's 6.5% of GDP.

With currency no longer the monetary-policy anchor, central banks were encouraged to adopt inflation-targeting and more liquid and longer-term local treasury bonds.

With a nod toward the Doing Business attention, the IMF outlook praised "comprehensive initiatives" on competitiveness and the commercial environment, but lamented the lack of state-enterprise privatization and anti-corruption and foreign investment promotion steps otherwise.

It warned that "complacency" in headline reform movement may hamper fits with China's Belt and Road and other global integration programs where rulebooks call for more thorough trade and financial reorientation.