

Liberalization of forex policy

04 September 2017

On September 2, 2017, the President of Uzbekistan adopted a long-awaited decree on liberalization of the forex policy in Uzbekistan, which provides for high-priority measures for “opening” foreign currency conversion and dealing with possible negative consequences of such liberalization. The Decree expressly proclaims that the state forex policy must only be based on market mechanisms for the determination of foreign currency exchange rates.

The new forex policy comes into force starting from September 5, 2017.

Below we list the most significant changes provided by the Decree, the developments that followed from this Decree and describe the short and mid-term plans of the Government in this sphere.

Purchase of Forex:

Legal entities may freely purchase foreign currency at the market currency exchange rate from commercial banks to make payments under their current international operations (import of goods, works and services, profit repatriation, loan repayment, etc.).

Individuals – residents of Uzbekistan may freely sell and purchase foreign currency without any limitations. Purchased foreign currency will be transferred to these individuals' accounts tied with international payment cards.

Sole entrepreneurs and farmers are free to withdraw their foreign currency proceeds in cash from their servicing banks.

The servicing banks are independent in determining their commission fees for the sale and purchase of foreign currency.

Market Currency Exchange Rate:

The foreign currency exchange rate will be set daily on the inter-banking electronic trades of the Foreign Currency Exchange exclusively on the demand and supply basis. The exchange rate will be published at the website of the Foreign Currency Exchange. The participation of the Central Bank on these trades will be limited. In separate occasions, the Central Bank may sell and purchase the foreign currency to prevent excessive volatility of exchange rates.

The exchange rate set by the Central Bank of Uzbekistan will remain and be set each Monday. This exchange rate will be set as an average exchange rate fixed on the Foreign Currency Exchange for the previous week. The Central Bank exchange rate will be used for statistics and accounting purposes as well as for calculation of customs and other mandatory payments in the territory of Uzbekistan.

As of September 5, 2017, the Central Bank's exchange rate is set at UZS 8,100.00 to USD 1 and UZS 9,645.48 to EUR 1. Moreover, the Central Bank sets the exchange rate of Uzbek Soum to the national currencies of the neighboring countries.

Abolishment of Mandatory Forex Proceeds Sale and Forex Operation License for Banks:

The requirement for the mandatory sale of 25% of forex proceeds is abolished for all exporters.

Commercial banks no longer require a separate license for conducting foreign currency operations. They can now be carried out based on the general banking license.

Payment and Price Setting within Uzbekistan:

It is prohibited to make payments in foreign currency for goods (works, services) within the territory of Uzbekistan, unless the payment is made by means of international payment cards.

The Decree allows the repayment of foreign currency loans given by Uzbek commercial banks to be made either in foreign currency or the national currency, depending on the credit policy of the commercial bank and based on mutual agreement of the parties.

Prices and tariffs for goods, works and services as well as minimal requirements to the charter capital of companies must be set only in the national currency of Uzbekistan – Soum. Likewise, state fees, levies and other mandatory payments, except for consular fees, shall be set and charged in Uzbek Soums.

Stabilization of Prices:

The relevant state authorities shall: (i) strengthen the control over retail prices for main socially important goods, including pharmaceuticals, on a daily basis; (ii) prevent unreasonable overestimation of prices and tariffs for socially important goods and services; (iii) saturate regional markets of the country with food products at the account of the Fund for Stabilization of Prices and by creating special areas for farmers to sell their products directly to the population without intermediaries.

Further Steps:

Within one week, the Cabinet of Ministers of Uzbekistan shall develop:

- measures for ensuring financial stability of the Uzbek banking system;

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- measures for financial support of the key sectors of economy aimed at (a) ensuring uninterrupted supply of energy resources to the population and economy; (b) timely servicing of foreign loans; (c) improvement of mechanisms and principles of taxation; (d) provision of temporary state subsidies; (e) restructuring the Fund for Reconstruction and Development of Uzbekistan's loans and loans of commercial banks;
 - resolutions for optimization of customs duties aimed at the prevention of price increase for imported goods and services;
 - state measures for support of socially vulnerable population.

Within one month, the Ministry of Finance and the Central Bank of Uzbekistan shall develop amendments and supplements to the current legislation to reflect provisions of the Decree.

By the first half of 2018, the Central Bank of Uzbekistan shall develop a draft of a new Law "On Foreign Currency Regulation".

The Public Prosecutor's Office, the State Tax Committee, and the Ministry of Internal Affairs shall take effective measures for prevention of illegal operations with cash foreign currency.