Market Analysis of Automotive Vehicles in the Republic of Uzbekistan

Report

—

October 2024

Glossary

AIS “Notarius”	Automated Information System “Notarius”
BCV	Base calculation value
CAGR	Compound annual growth rate
CB Uzbekistan	Central Bank of the Republic of Uzbekistan
CBU	Completely built unit
CERR	Centre for Economic Research and Reforms
CIS	Commonwealth of Independent States
CKD and SKD	Complete knock-down and Semi Knocked Down
EAEU	Eurasian Economic Union
Electric vehicles	Vehicles powered entirely by electric engines
GDP	Gross domestic product
IMRS	Institute for Macroeconomic and Regional Studies
Light Commercial Vehicles	Passenger cars, with internal combustion engine with spark ignition (with cylinder displacement not exceeding 1,000 cubic centimeters, Damas DLX brand, with cylinder displacement exceeding 1,500 cubic centimeters but not exceeding 1,800 cubic centimeters , Volkswagen brand, with cylinder displacement not exceeding 1,000 cubic centimeters, for medical purposes, “Ambulance”)
Light Vehicles	Vehicles primarily designed for the transportation of people (excluding motor vehicles classified under commodity item 8702)
Roodell	Official distributor of such brands as Kia, CHERY, Haval, LADA, Renault, Hyundai Tracks in Uzbekistan
Stat.uz	The State Committee of the Republic of Uzbekistan on Statistics
STC	State Tax Committee of the Republic of Uzbekistan
USD	United States dollar
UzAuto Motors	Enterprise in Uzbekistan, which produces passenger cars of Chevrolet brand
UzAutoSavdo	Online platform for selection and purchase of cars produced by GM Uzbekistan.
RUz, Uzbekistan	Republic of Uzbekistan
UZS	Uzbek sum
Uzum Auto	Online platform that allows you to buy cars from various dealers in Tashkent.
VAT	Value Added Tax
WTO	World Trade Organization
IPO	Initial public offering

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Executive summary

Executive summary

545,000 units

Number of car sales in the primary market (under the conservative forecast scenario) by 2029

33%

Growth in car sales in 2023 in the primary market. In the secondary market, the indicator increased by 13% compared to 2022.

6 million units

Cars should enter the domestic market of Uzbekistan to reach the level of 240 cars per 1,000 people, at which, on average, each family will have one car

The total number of vehicles owned by individuals is 4 million units, of which 3.8 million are light vehicles

Analysis of market pricing practices in the primary and secondary markets shows that **the cost of "people's cars," such as the Chevrolet Cobalt, Lacetti, and Damas, is a key factor in determining car prices and often does not decrease in the first two years of operation**

An analysis of sales channels indicates that **the online car sales market is beginning to develop actively.** New platforms for purchasing vehicles have also emerged, **such as Uzum Auto and Alif**

By 2030, Uzbekistan plans to achieve a GDP per capita of $4,198. Achieving these goals will significantly improve the welfare of the population. However, to realise the objective of having one car per family, additional financing may be required. On average, this will amount to approximately $18.46 billion per year for vehicle purchases

456,300 units

Number of total new light vehicles sales, including imports in 2023

84%

UzAuto Motors market share in 2023

$ 3,116 million

total amount of car loans extended in 2023

87%

Growth of car loan issuance in 2023

02

Macroeconomic overview of Uzbekistan

Key macroeconomic indicators (1/2)

By the end of 2023

$90.8billion

Nominal GDP

6%

Real GDP growth

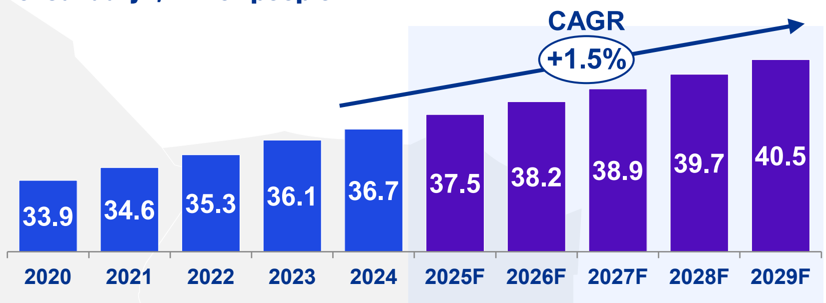
$30billion

Investments in fixed assets from all sources of financing

$7.2billion

Foreign direct investments (24% of total investments)

Number of permanent population in Uzbekistan from 2020 to 2029 as of January 1, million people



Note: F - forecast values

By the end of 2023

2.2%

Average annual population growth rate

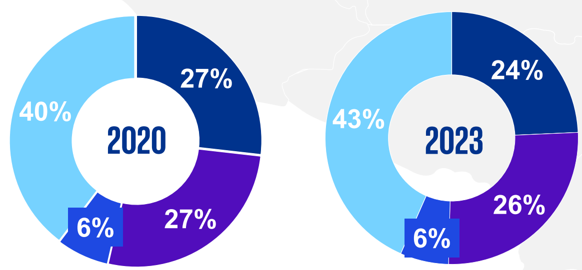
6.8%

Unemployment rate

$2,495

Nominal GDP per capita

Structure of GDP



Automotive industry

$0.9billion

Value added of the automotive industry to GDP, or 1.1% of total GDP

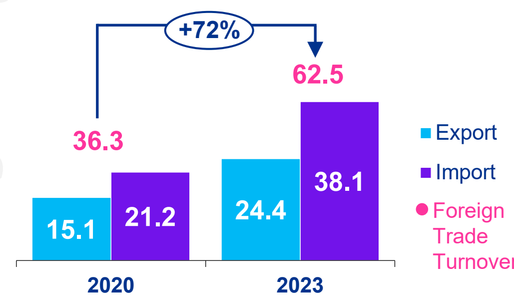
29,200

Employed in the automotive industry, or 0.1% of the total employed

$130.3million

Volume of implemented investments

Dynamics of foreign trade turnover, USD billion



Sources: Stat.uz, Ministry of Employment and Labor

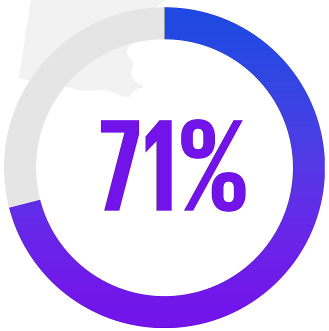
Note: The average exchange rate for 2023 of UZS/USD 11,737 has been used for all currency conversions

Key macroeconomic indicators (2/2)

By the end of 2023

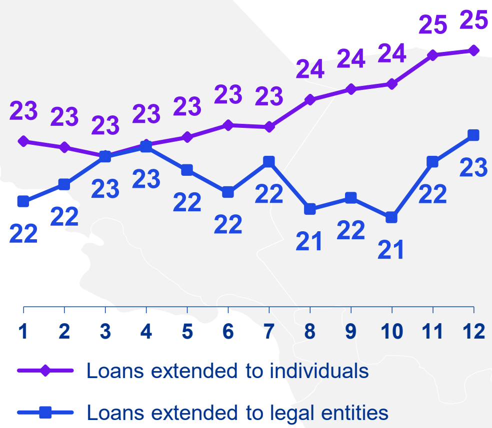
14%

Key rate set by the Central Bank of Uzbekistan



Share of gold in Uzbekistan's official reserve assets (increased by 6.7% compared to 2022)

Interest rates on bank loans in national currency, %



24%

Average interest rate on car loans

$34.6billion

Official reserve assets, including foreign currency reserves, gold, and others

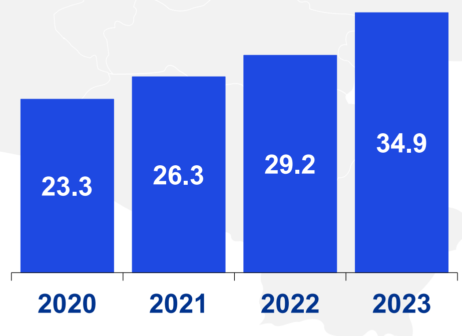
UZS11,737

Average exchange rate of the US dollar to the Uzbek sum

Government debt

According to the Law of April 29, 2023, the level of government debt must not exceed 60% of the annual forecasted GDP

Government debt of Uzbekistan, USD billion



8.8%

Average inflation rate (in % compared to the previous year)

The total outstanding loan portfolio of banks as of January 1, 2024, amounts to:

$38.2billion

Total volume of loans extended

31.5%

Volume of loans extended to individuals

Sources: Central Bank of Uzbekistan, Stat.uz

Note: The average exchange rate for 2023 of UZS/USD 11,737 has been used for all currency conversions

**Law of the Republic of Uzbekistan, dated 29.04.2023, No. 3PV-836*

03

Executive overview of the automotive industry

Development of the automotive industry

The automotive industry of Uzbekistan was established in 1994 and developed in four stages:

Stage 1: Initial steps in establishing the automotive industry

1994-1999

1994

- Establishment of “UzAvtoSanoat”

1996

- Start of CKD production of Daewoo cars in Asaka and establishment of “SamKochavto”

1999

- Launch of the “SamKochavto” in Samarkand (buses, pickups, trucks, and special-purpose vehicles)

Stage 2: New partnerships, launch of Chevrolet production

2007-2015

2007

- Start of Chevrolet production based on CKD and SKD

2008

- Establishment of “GM Uzbekistan”

2009

- Establishment of “Man Auto-Uzbekistan”

2012

- Launch of the “MAN” plant in Samarkand and establishment of “Uz-Auto Trailer”

2015

- Launch of the “Ravon” brand

Stage 3: Course towards liberalization of the automotive market

2018-2022

2018

- Acquisition of 25% stake by “UzAvtoSanoat” from GM

2019

- Establishment of “Uz Truck and Bus Motors”

2020

- ADM Jizzakh – **launch of SKD. The plant's capacity exceeds 100,000 vehicles per year**

2022

- Agreement with GM International to increase production capacity to 500,000 units

Stage 4: Production of electric vehicles

2023-2024

2023

- Beginning of official sales of BYD
- Launch of the EXEED Asaka Motors plant. **Initially, it is planned to assemble about 5,000 units per year, and later around 20,000**
- UzAuto Motors became the official partner of the Uzum Market marketplace

2024

- Start of BYD production. **In 2024, production capacity is planned to reach 50,000 units, and eventually up to 500,000 units per year**
- Launch of production of Hyundai Elantra, Tucson, Sonata, Santa Fe, Palisade, and Staria at the Asaka Motors
- Launch of production of the Kia Sonet crossover. **The enterprise plans to produce up to 100,000 units annually**

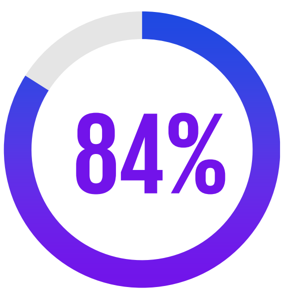
Sources: Official website of “Uzavtosanoat”

Current indicators of the light vehicles market

By the end of 2023

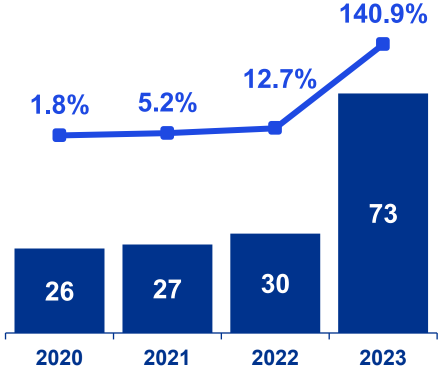
456,000 units
Total sales of new light vehicles, including imports

380,000 units
Sales of new light vehicles produced in Uzbekistan

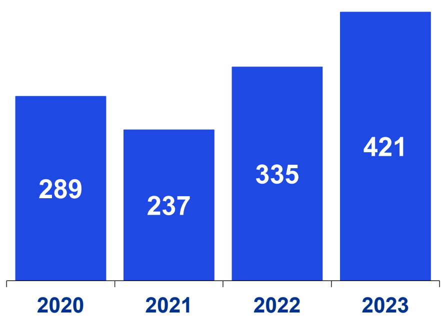


Share of UzAuto Motors in the automotive market

Import of light vehicles (excluding special-purpose vehicles) from 2020 to 2023, thousand units

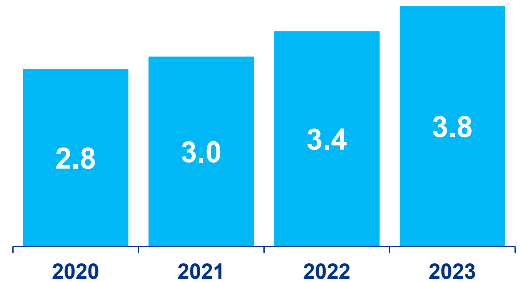


Production of light vehicles and light commercial vehicles from 2020 to 2023, thousand units



3.8 million units
Total number of light vehicles registered by individuals in 2023

Total number of light vehicles registered by individuals from 2020 to 2023, million units



Fleet volume by regions

Region	Quantity, units	Region	Quantity, units
Tashkent city	**597,931**	Bukhara	241,855
Samarkand	**417,165**	Surkhandarya	233,675
Tashkent	**414,645**	Khorezm	226,721
Fergana	354,858	Karakalpakstan	161,926
Kashkadarya	297,305	Jizzakh	109,657
Andijan	271,885	Navoi	109,274
Namangan	247,032	Syrdarya	75,116

Sources: Official website of "Uzavtosanoat", Stat.uz

04

Market analysis of light vehicles, light commercial vehicles, and electric vehicles

Scenarios of development of the primary and secondary markets of light vehicles (including light commercial and electric vehicles) up to 2029 (1/2)

In order to forecast the car market in the Republic of Uzbekistan, three scenarios were applied: target, dynamic and conservative.
The experts took the following key factors into account when modelling the three scenarios:

- The **Strategy "Uzbekistan - 2030",** in which one of the key priorities is to ensure the growth of welfare of the population through sustainable development of the country's economy, including **propelling country's GDP to $160 billion by 2030 and achieving a per capita income of $4,000.**
- **Level of development of car lending and alternative sources of financing** (leasing, instalment payments, etc.). **At the same time, the volume of lending in different scenarios depends on the activity of increasing the portfolio of car loans in the banks** (in the targeted scenario - the most active growth, in the dynamic and conservative scenarios - moderate and slow, respectively).
- **Forecasts are adjusted for US inflation and include a 5% increase in vehicle costs**.

1. Targeted scenario

The automobile market is expected to expand significantly. This scenario is based on the assumption that by 2030 every family will own a car, and the indicator of the number of cars per 1,000 people in Uzbekistan will approach the level of neighboring countries in the region. It is taken into account that successful realization of this scenario requires:

- conducting large-scale market reforms in the country
- high population growth rates
- active tax and credit support from the government and banks of Uzbekistan in order to increase purchasing power and create demand for cars

2. Dynamic scenario

The market will evolve, adapting to changing conditions and new opportunities

In the dynamic scenario, there is a tendency for the number of car owners to grow without saturating the market. However, as household incomes rise, the growth rate of car ownership will eventually slow down.

3. Conservative scenario

The market will develop gradually, with a focus on maintaining current performance and phased expansion

This scenario takes into account factors such as the level of market saturation, where the marginal growth in car ownership slows down, and reaching a cap on personal income growth, reaching a certain threshold where the rate of car purchases will also decline

Sources: KPMG analysis

Scenarios of development of the primary and secondary markets of light vehicles (including light commercial and electric vehicles) up to 2029 (2/2)

Scenario	Targeted scenario	Dynamic scenario	Conservative scenario
Indicators (forecast - 2029)	1	2	3
GDP per capita	$4,198	$4,198	$4,198
Average annual GDP growth rate	5 – 6%	5 – 6%	5 – 6%
Car loans and alternative sources of financing* (Primary and Secondary markets)	$18.46 billion	$12.05billion	$4.6billion
CAGR of the primary market of light vehicles (in quantitative terms)	18.8%	15.4%	7.4%
CAGR of the secondary market of light vehicles (in quantitative terms)	20.3%	16.8%	12.7%
CAGR of the primary market of light vehicles (in monetary terms)	24.2%	20.6%	11.8%
CAGR of the secondary market of light vehicles (in monetary terms)	25.7%	22%	17.3%
Number of cars per 1,000 people	**240**	**214**	**160**

Sources: KPMG analysis

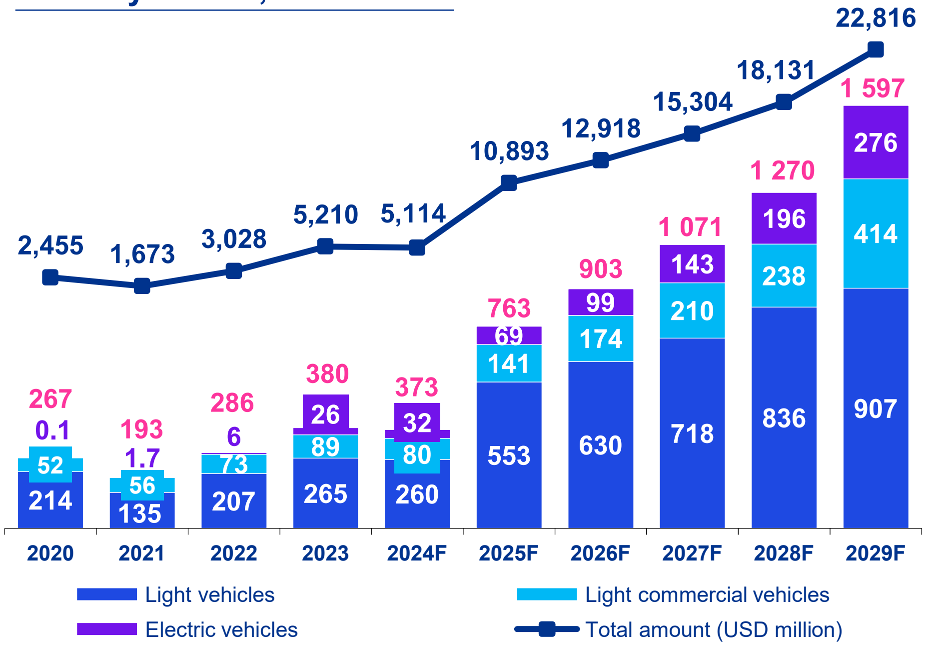
**Alternative sources include Leasing, Instalment Payments, Factoring*

Dynamics of the primary and secondary markets for light vehicles (including light commercial and electric vehicles) from 2020 to 2029 (1/3)

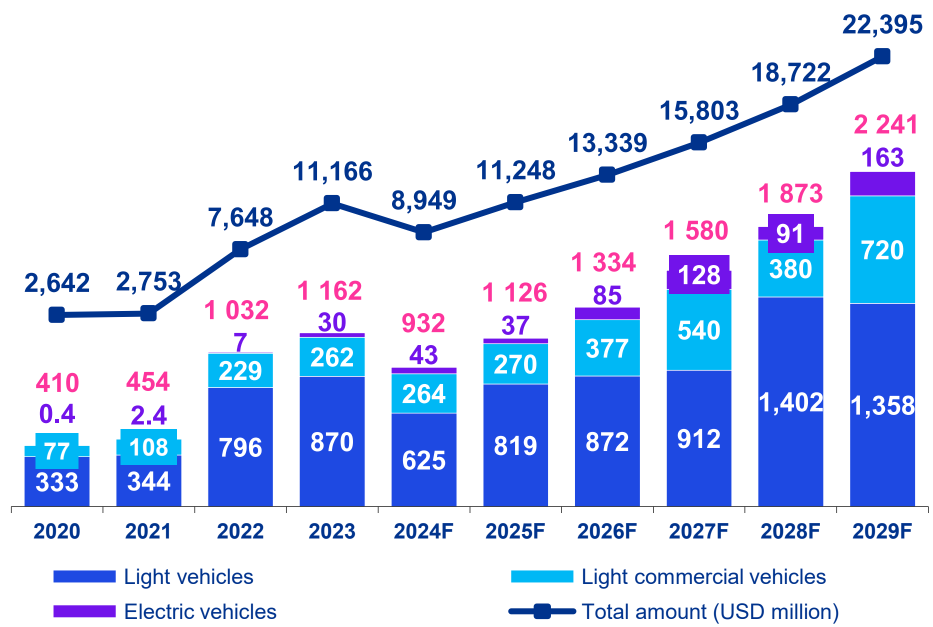
Targeted scenario

The implementation of this scenario is possible provided that by 2029 Uzbekistan will transition to the category of countries with upper-middle-income levels, reaching a **GDP per capita of $4,198**. The country will successfully implement large-scale market reforms. Economic growth will **average 5-6% per year**. The government and banks will provide tax and credit support to enhance purchasing power and create demand for cars. Car ownership will continue to grow actively, and by 2029 Uzbekistan will reach the level of neighboring countries in terms of vehicles per 1,000 people, approaching a **value of 240 vehicles**, despite the fact that more cities worldwide are introducing driving restrictions to address increasing parking issues and road congestion.

Primary market, thousand units



Secondary market, thousand units



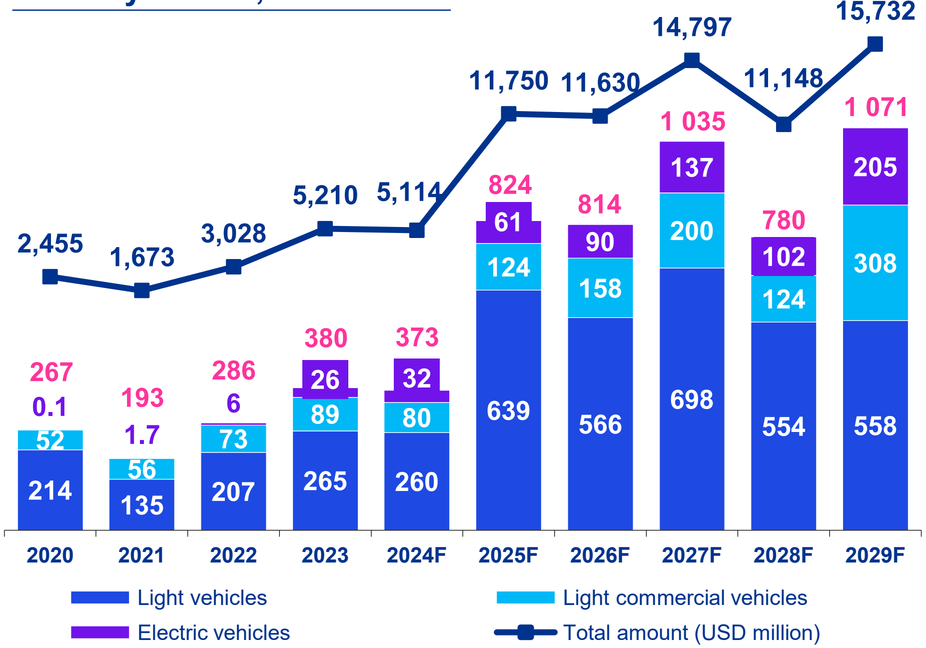
Sources: Stat.uz, KPMG Analysis

Dynamics of the primary and secondary markets for light vehicles (including light commercial and electric vehicles) from 2020 to 2029 (2/3)

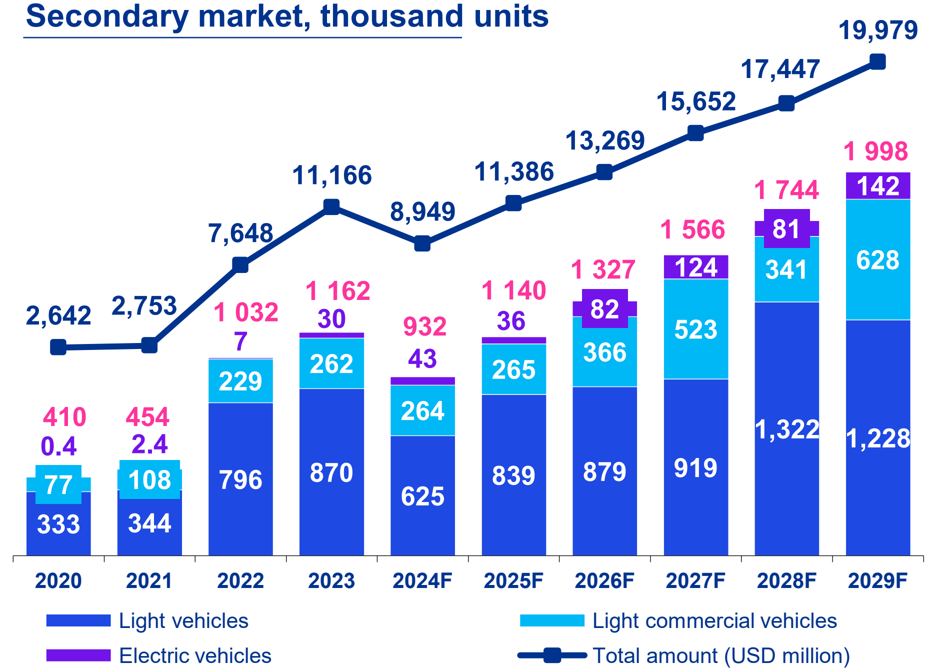
Dynamic scenario

Realisation of this scenario is possible provided that by 2029 **Uzbekistan's GDP growth averages 5 - 6%** and **GDP per capita is $4,198**. The population will continue to grow, but at a slower rate, and the rate of car ownership **per 1,000 people will reach a value of 214 units.** As the ratio of Generation Z to Generation Alpha grows, attitudes towards car ownership as a sign of social status will change. The environmental agenda will become even more urgent with the widespread introduction of various ecological zones.

Primary market, thousand units



Secondary market, thousand units



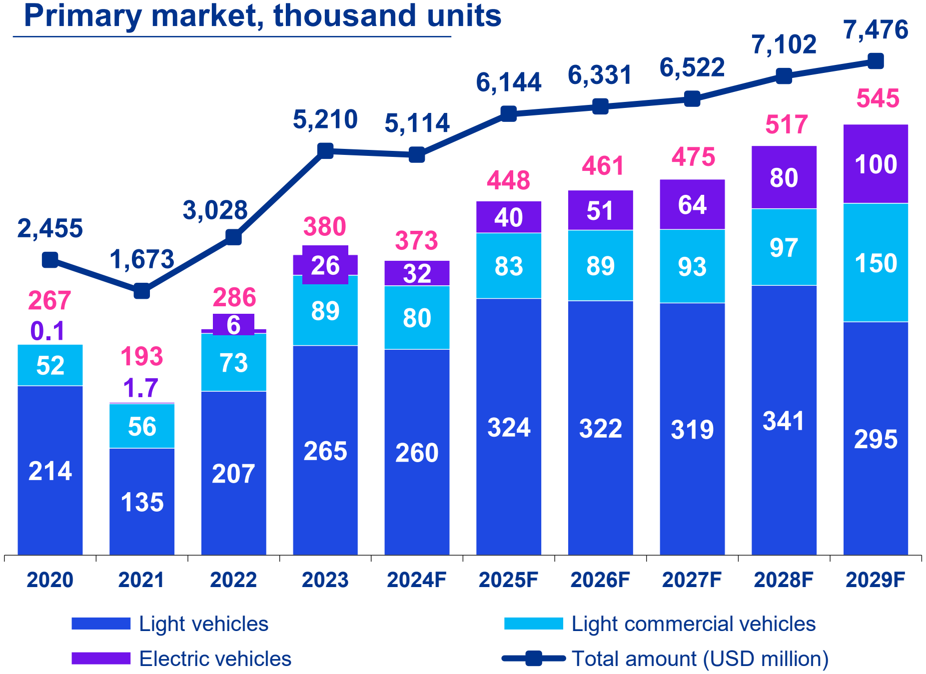
Sources: Stat.uz, KPMG Analysis

Dynamics of the primary and secondary markets for light vehicles (including light commercial and electric vehicles) from 2020 to 2029 (3/3)

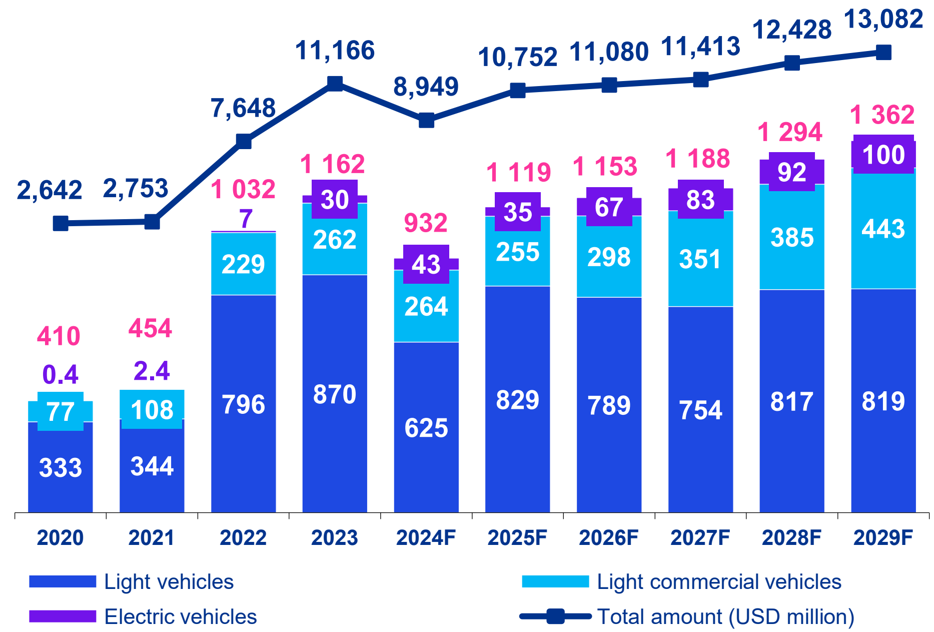
Conservative scenario

Realisation of this scenario is possible provided that by 2029 **Uzbekistan's GDP growth averages 5 - 6%** and **GDP per capita is $4,198.** Growth in car ownership will slow **to 160 cars per 1,000 people**, indicating that the market has reached maturity As the ratio of Generation Z to Generation Alpha grows, attitudes towards car ownership as a sign of social status will change. The impact of carsharing, unmanned vehicles and new taxi aggregators will be significant, but car market growth will slow down. This scenario adds the constraint that the **market will reach maturity by 2028.** Subsequently, this will lead to a slowdown in the marginal growth of car ownership and will affect the overall market dynamics.

Primary market, thousand units

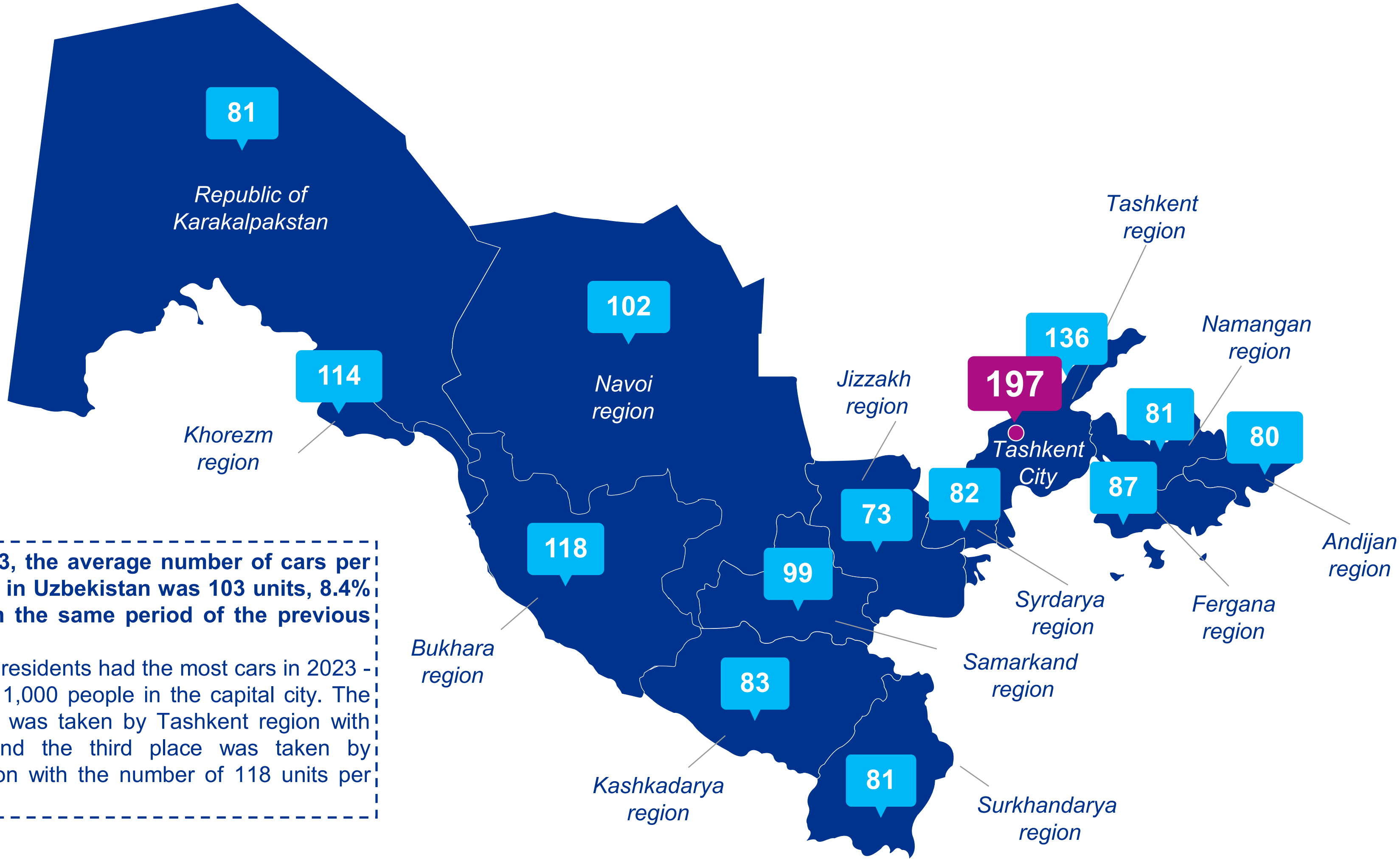


Secondary market, thousand units



Sources: Stat.uz, KPMG Analysis

Number of cars per 1,000 adults in 2023 by region

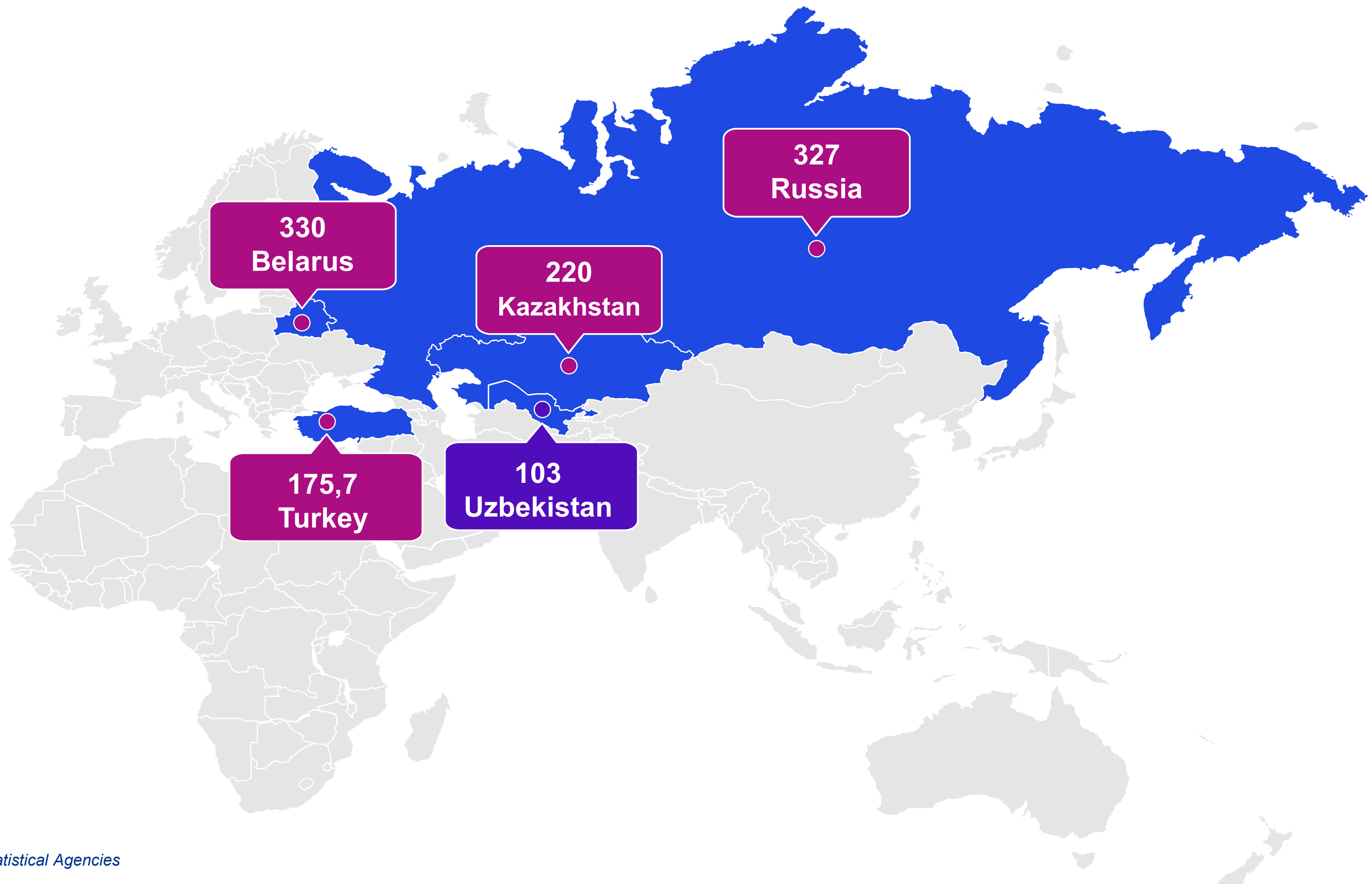


In 2023, the average number of cars per 1,000 people in Uzbekistan was 103 units, 8.4% more than in the same period of the previous year.
Tashkent city residents had the most cars in 2023 - 197 cars per 1,000 people in the capital city. The second place was taken by Tashkent region with 136 units, and the third place was taken by Bukhara region with the number of 118 units per 1,000 people.

Sources: Stat.uz

Market research on light vehicles, light commercial vehicles, and electric vehicles

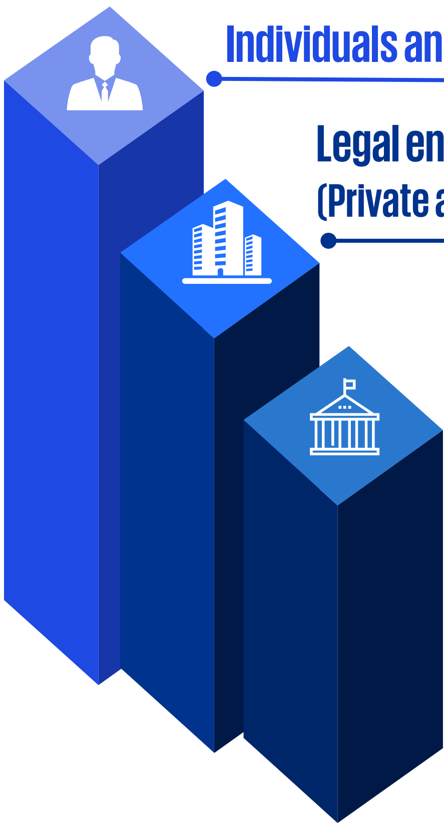
Number of cars per 1,000 people in the near abroad in 2023



Sources: Country Statistical Agencies

Analysis and structure of customer categories

By the end of 2023



Categories of customers	Number of cars	Purposes of use
Individuals and households	481,000 units	**For commercial purposes (taxis and transport of goods)** **Popular models:** Chevrolet Cobalt, Gentra, Nexia, Spark, Damas, Labo
	3,4 million units	**For personal purposes (family needs)** **Popular models:** Chevrolet Cobalt, Gentra, Nexia, Spark, Damas
Legal entities (Private and public companies)	28,000 units	**For commercial purposes (transport of people and goods)** **Popular models:** Chevrolet Labo, Damas
	284,000 units	**For official use** **Popular models:** Chevrolet Malibu
Ministries and agencies	13,000 units	**For official use** **Popular models:** Chevrolet Gentra, Malibu, Captiva, Mercedes S-class

Note: According to Cabinet of Ministers Resolution No. 258 dated 29.04.2021, the value of a company vehicle shall not exceed BCV 2,000.

Note: BCV=UZS 340,000 as of May 2024

Sources: Stat.uz, STC, Lex.uz, KPMG Analysis

Analysis of market practice of pricing on the primary market

Cost (of the people's car)

The cost **of Chevrolet Cobalt and Damas** is a key factor in determining car prices in Uzbekistan. Their role as benchmarks is due to their dominant position in the market **(the share of sales in 2023 was 55% of the total number),** affordability, government support, impact on the secondary market, and consideration of economic and social factors

Dealer's commission

Including warranty service (up to 5%)

Customs duties and certification*

When importing a foreign car, depending on the engine capacity, **the total amount of customs duties and payments can reach 70% or more of the value of the car.**

This amount includes climate testing and environmental certification (does not apply to electric vehicles).

Certification is done for the imported consignment and depends on the number of vehicles being imported: the larger the batch, the lower the consumption per vehicle unit **(forms 2-5% of the cost)**

Instalment sales programmes

Observations show that car **instalment sales programmes lead to an increase in its value by 10-15%**

Advertising expenses

Average expenditure on different types of **advertising and promotions is 1-2%**

Transport and insurance costs

Depending on the country from which the car is being transported and the value of that car, **transport and insurance costs can vary between 2-10%**

Margin

Depending on the brand and its marketing policy**, the total margin of the dealer**, the manufacturer and the car dealership **can reach up to 15% on average**

**Customs duties and certification form the price when importing a vehicle*

Sources: KPMG Analysis

Analysis of market practice of pricing on the secondary market

Amortisation (depreciation)

Prices of popular economy cars, such as Chevrolet Cobalt, Gentra and Damas, depreciate slightly (often not at all) over the first two years of ownership due to their limited primary market availability, while premium cars **depreciate by an average of 6% or more per year**

Equipment features

Having additional options and upgraded equipment can increase the cost of a car by 15-20%

Sale season

The timing of a sale also affects the price of a car. In winter, for example, prices may fall due to fuel shortages, while in autumn the car market is often stimulated by an increase in disposable income, leading to a price increase of 10% or more

Region of operation

The place where a car is used and sold on the secondary market affects **the value of the car by 3-5%.** For example, cars in Tashkent city are slightly more expensive than in other regions of the country

Mileage and technical condition

High mileage, along with wear and tear of mechanisms and the overall condition of the vehicle, significantly impacts its technical performance and can greatly reduce its value

Car colour

In the economy car segment, white is the most popular body colour. As a result, white cars tend to sell faster and are 3-5% more expensive than similar cars in other colours

Sources: KPMG Analysis

Sales structure by vehicle type*

1,2 million units

Light vehicles (including light commercial and electric cars) were purchased by the population at the end of 2023 in the primary and secondary markets **by cash**

295,000 units

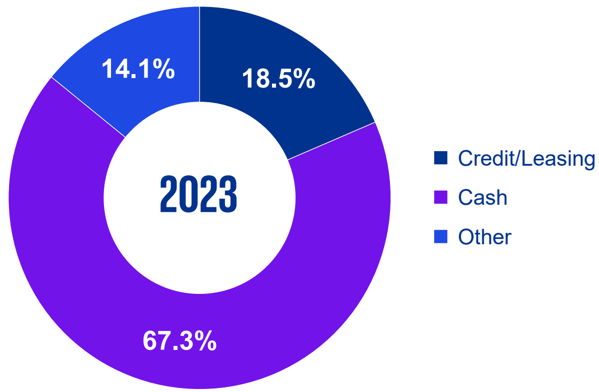
Light vehicles (including light commercial and electric cars) were sold in the primary and secondary markets **on credit/leasing** at the end of 2023

94,000 units

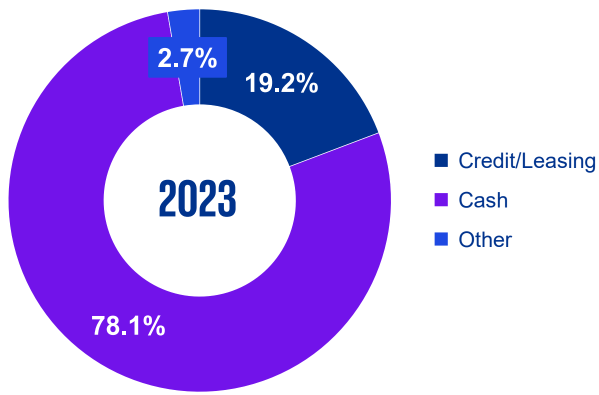
Light vehicles(including light commercial and electric vehicles) were sold at the end of 2023 in the primary and secondary markets **by other means**

Sales structure

Primary car market



Secondary car market



Cash

According to KPMG's analysis, in 2023, most car purchases in the primary market were made in cash. Cash transactions accounted for 67.3%, or 306,000 units, in the primary market, and 78.1%, or 859,000 units, in the secondary market

Credit/leasing

Car purchases on credit/leasing in the primary market accounted for 18.5%, or 84,400 units, and in the secondary market – 19.2%, or 211,000 units

Other

Car purchases by other means (e.g. microcredits) accounted for 14.1% or 64,000 units on the primary market, and 2,7% or 30,000 units on the secondary market

Sources: Stat.uz, KPMG Analysis

** The analysis is based on data from official sources, non-official transactions (shadow market data) are not included in the analysis.*

Top-level analysis of sales channels and potential changes in structure

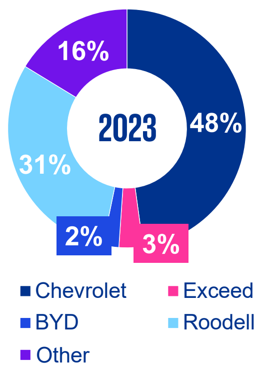
The customer journey to buy a car is becoming multi-channel, driving the expansion of players' online presence

Physical (Offline)

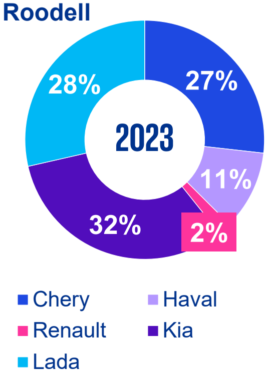
Official dealer networks

As of January 1, 2024, there are more than 190 official dealerships of various brands throughout Uzbekistan

The largest share (48%, or 88 centres) is occupied by the Chevrolet dealer network



Roodell



Multi-brand car dealerships

In 2018, Uzbekistan's first multi-brand car showroom was opened in the city of Nurafshon, Tashkent region

Informal markets and marketplaces

Sergeli is the largest car market in Uzbekistan

>1,1million

of cars sold on the secondary market by the end of 2023

Online

Official online platforms of manufacturers

UzAvtoSavdo – online and internet platform for selection and purchase of cars of GM Uzbekistan manufacturer

>170,000

contracts were concluded for Chevrolet Cobalt, Damas and Labo cars in December 2023

Online marketplaces

Uzum Auto – an online platform enabling to buy cars from different dealers in Tashkent city

Alif – an online platform for purchasing BYD cars in installments, offering terms that fully comply with Islamic finance principles

Advertising sites

In 2023, 50% of cars sold were listed on online classifieds platforms **OLX** and **Avtoelon.** By the end of the year, the number of advertisements was between 500,000 and 550,000

Sources: Official Websites of Dealerships, CERR

Analysis of changes in supply and demand trends in the domestic market of Uzbekistan in the period from 2020-2023

33%

New light vehicles sales growth in 2023 (in % compared to the previous year)

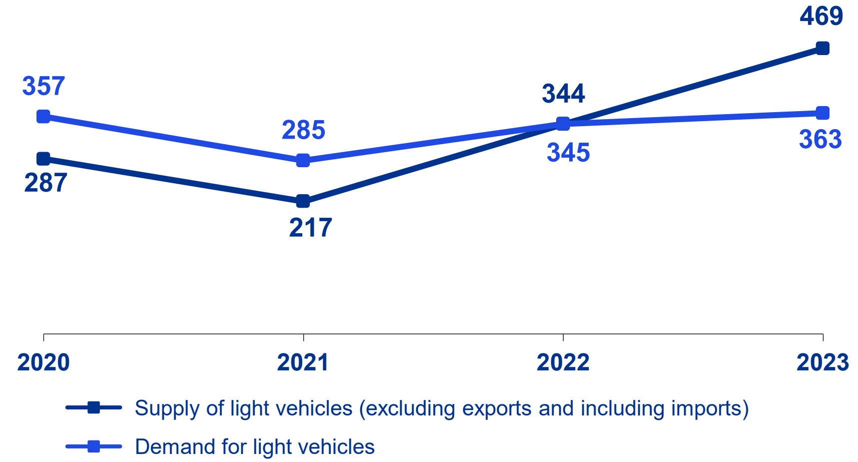
13%

Used light vehicles sales growth in 2023 (in % compared to the previous year)

26%

Growth in production of light vehicles (except special-purpose vehicles) by the end of 2023 (in % compared to the previous year)

Supply and demand for cars, thousand units



The growth of Uzbekistan's automotive market is closely linked to the improved economic wellbeing of the population, which has increased demand for personal vehicles and driven sales expansion within the national automotive industry.

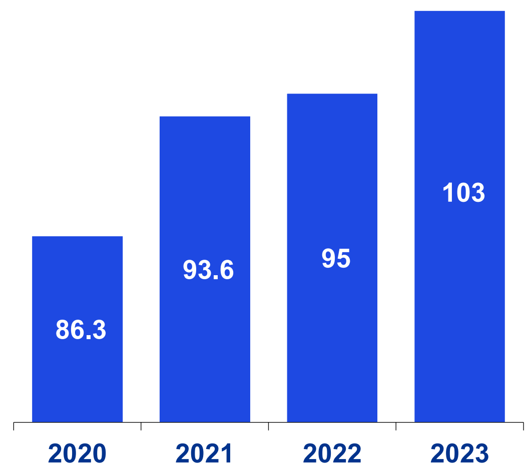
A significant increase in new car sales was recorded in 2023, up by a third compared to the previous year. This reflects increased demand for new vehicles. The growth in sales of both domestic and foreign car brands was also observed in the context of reduced tariffs.

However, a comparison of the number of cars per 1,000 people shows that **Uzbekistan has a high level of unsatisfied demand in the domestic market compared to neighbouring countries in the region.**

1 million units

It is planned to increase light vehicles production by 2030

The number of cars per 1,000 people increased steadily from 2020 to 2023, reaching a value of 103 units in 2023



Sources: Stat.uz, KPMG Analysis

05

Regulatory framework and taxation

Government support programmes

Date of Effective: March 2024

On measures to reduce the negative impact of vehicles on the atmospheric air

Purpose: Reduction of the negative impact of vehicles on the environment in the country, including the amount of harmful emissions into the atmosphere

- ✓ From 1 June 2024, the Eco-Transport system will be phased in, which is designed to monitor light vehicles compliance with the established standards for preventing air pollution from harmful emissions
- ✓ Division of regions into “clean”, “medium” and “harmful” ecological zones, based on real environmental conditions related to the purity of atmospheric air in these regions
- ✓ All vehicles will be diagnostically tested for the amount of pollutants emitted. Vehicles are categorised as “clean”, “medium” and “harmful”, marked with a “green”, “yellow” and “red” sticker
- ✓ Introduction of a system of subsidising consumption by the population as part of the replacement of “harmful” vehicles with “clean” ones
- ✓ At the first stage this system will be introduced in Tashkent city, at the second stage - in Nukus and regional centres, and at the third stage - in all other regions
- ✓ Introduction of environmental compensation payments for vehicles whose environmental category does not correspond to the environmental zone of the territory

Date of Effective: June 2023

On additional measures to meet the needs of the population for light motor vehicles

Purpose: Further development of a competitive environment in the domestic motor transport market and provision of the population with affordable light motor vehicles

- ✓ Until 1 January 2026, Uzbekistan has set new customs duty rates for imported new light vehicles: 0% for cars with engine displacement up to 1,000 cubic centimeters and 5% for those with displacement up to 1,200 cubic centimeters, provided that the vehicles are manufactured not later than one year before crossing the border

Sources: Lex.uz

Government support programmes

Date of Effective: December 2022

On measures to expand the infrastructure for the operation of electric vehicles

Purpose: Accelerating the transition to a "green economy", popularising the use of electric vehicles, and encouraging and developing the creation of a network of charging stations

- ✓ Approval of the Programme of Measures to increase the number of electric vehicles charging stations to at least 2,500 units by the end of 2024
- ✓ From 2023, business entities will have the right to sell electricity through electric charging stations and set their own charging prices
- ✓ From 2023 to 2026, charging stations were exempted from property and land taxes, and their equipment was exempted from customs duties. Revenues from charging electric vehicles are no longer subject to turnover tax, and companies specialising in this area are entitled to avoid paying income tax
- ✓ From 2024, it is mandatory to include charging stations in new retail, entertainment, hotel and infrastructure projects

Date of Effective: December 2022

On measures to provide state support for the organisation of the production of electric vehicles

Purpose: Active introduction of "green" technologies in all spheres, reduction of harmful gas emissions into the atmosphere by supporting the production of electric vehicles and their component parts

- ✓ Introduction of a system of benefits for manufacturers and consumers of electric and hybrid vehicles until 1 January 2030, including exemption from recycling duty and customs duties on components
- ✓ Exemption from state duty for a licence to transport passengers
- ✓ Permission for manufacturers to import hybrid and electric vehicles in the form of (SKD) or (CBU) kits without paying customs duty and recycling fee. Their quantity should not exceed 50% of the organised production capacity, but no more than 10,000 units per year.
- ✓ Compensation at the expense of the State Budget for the part of the interest rate exceeding the main rate of the Central Bank of the RUz, but not more than 10 percentage points on loans

Sources: Lex.uz

Government support programmes

Date of Effective:
November 2022

On measures to simplify state regulation of entrepreneurial activity

Purpose: Reducing the regulatory burden for business entities by defining specific goals and limits of business regulation, creating favourable conditions for them to introduce new products and types of services

- ✓ Cancellation from 1 January 2023 of the sale of new imported cars only by legal entities - official dealers of manufacturing companies

Date of Effective:
February 2022

On additional measures to stimulate the development of the domestic market for motor vehicles

Purpose: Further improve the effectiveness of measures taken in the area of creating competitive conditions and creating a favourable investment climate in the automotive industry

- ✓ Until the end of 2022, both the basic and specific rates are reduced; from 1 January 2023, only the specific rate will be reduced once again
- ✓ From 2022, the customs duty rate on new cars is halved and from 1 January 2023, the specific customs duty rate for engine displacement is reduced by 17-50% of the already reduced specific rate amount
- ✓ Customs duties apply only to new vehicles manufactured not more than one year ago at the time of their importation into the country

Date of Effective:
July 2019

On additional measures for accelerated development of the automotive industry of RUz

Purpose: Ensuring accelerated development and increasing the investment attractiveness of the automotive industry, introducing modern market mechanisms and management methods based on international best practices, and creating production that is competitive in domestic and foreign markets

- ✓ Increasing production to 350,000 cars per year
- ✓ Increasing the localisation level to 60% and expanding exports to 100,000 units.
- ✓ Renewing the model range and attracting investment through an IPO
- ✓ Cancellation of excise taxes on cars produced by UzAutoMotors JSC and introduction of TRADE-IN programme
- ✓ Raising at least $700 million in financing for project implementation

Sources: Lex.uz

Taxation

By the end of May 2024

New vehicles

1,5 BCV Payment for registration of electric vehicles, motor vehicles and trailers (UZS562,500)

6,84 BCV Payment for registration of all vehicles, except for electric vehicles, motor vehicles and trailers (UZS2.6 million)

Electric and hybrid vehicles manufactured in RUz are exempted from payment of utilisation fee until 2030

Used vehicles

0,1 BCV Payment for re-registration of motor vehicles, electric vehicles, motorbikes and trailers (UZS37,500)

3 BCV State duty rates for notarial acts (UZS1.13 million)

0,1 BCV Stamp duty (UZS37,500)

0,15 BCV For verification of the absence of ban and arrest on alienation of motor vehicles through AIS "Notary" (UZS56,250)

0,05 BCV For legal counselling in the performance of a notarial act (UZS18,750)

0,1 BCV Preparation of draft contract (UZS37,500)

3,5 BCV Rate for issuance of state number plates (UZS1.3 million)

0,7 BCV Issuance of technical passport (UZS262,500)

12%
Value Added Tax (VAT) rate

15%
Customs duty

30-480 BCV
Utilisation fee (UZS11.3 million – 180 million)

1-50 BCV
Customs clearance fee (UZS375,000 - 18,75 million)

From 0 to 40% of the customs value of the car + 0 to 3 USD per each cubic centimeter of engine displacement

Note: BCV= UZS375,000 as of October 2024

Sources: Lex.uz, STC

06

Market drivers and barriers

Possible consequences of Uzbekistan's accession to the WTO for the automotive industry

Growth in exports of motor vehicles. According to the German Economic Team, which provides economic consulting services to CIS countries, **exports of motor vehicles may grow by 7.3%, while imports may grow by 9.2%**

In case of Uzbekistan's accession to the EAEU and then to the WTO, the **sector productivity is expected to grow by 0.08%**

Access to lower-cost automotive equipment

Decrease in productivity of automobile manufacturers due to increased competition among imported cars

According to IMRS, Uzbekistan's accession to the WTO may lead to **a reduction of import tariffs on vehicles to 10.8%**

Under this scenario, **productivity in the automotive industry** is expected to **fall by 0.143%**

At the same time, Uzbekistan's accession first to the WTO and then to the EAEU may lead to a **1.27% drop in productivity of the automotive industry**

According to the German Economic Team, which is engaged in economic consulting in the CIS countries, the **drop in production in case of accession to the WTO may amount to 4.7%**

Experience of Kyrgyzstan

— Kyrgyzstan joined the WTO in 1998. The country did not stipulate for itself the status of a developing country, due to which it joined the WTO under more difficult conditions

Experience of the Russian Federation

— Russia joined the WTO in August 2012

— In September, the Russian government implemented protective measures to support domestic manufacturers by introducing a utilization fee on imported cars, effectively offsetting the reduction in import duties

— In addition, Russian legislation allows government agencies to purchase cars manufactured exclusively in Russia and EAEU member states

Experience of Kazakhstan

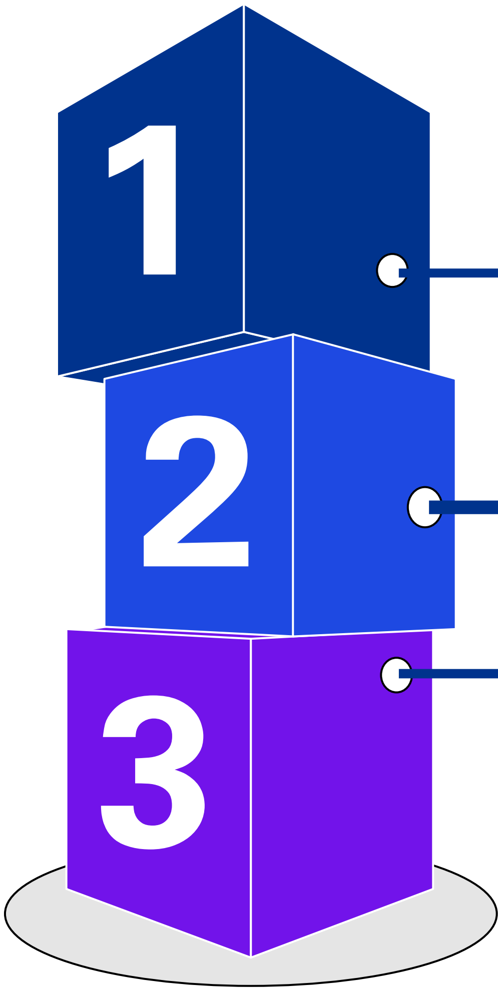
— Kazakhstan joined the WTO in 2015

— In 2015, Kazakhstan also introduced a utilization fee. Unlike in Russia, this fee applies to all vehicles, including those manufactured domestically. However, the utilization fee for domestically produced vehicles is subsidised by the government budget. As a result, the impact of these measures is similar to those implemented in Russia

— For 2024, the utilization fee in Kazakhstan is about $8 for one monthly calculation figure

Sources: WTO, Kun.uz, German Economic Team, CERR

Changes in customs legislation



Resolution of the President of the Republic of Uzbekistan No. 137 (21 February 2022)

Amendments and additions to the import customs duty rates established earlier. From February 22, 2022, the rate of customs duty on new vehicles is halved, and from January 1, 2023, the specific rate of customs duty for engine volume is reduced by 17-50% of the already reduced amount of the specific rate. These measures cover only new vehicles with the date of manufacture up to one year at the time of importation into Uzbekistan

Resolution of the President of the Republic of Uzbekistan No. 193 (16 June 2023)

Until January 1, 2026, the following rates of customs duties shall apply to the importation of new light motor vehicles manufactured not later than one year at the time of their crossing the customs border of the Republic of Uzbekistan: for new light motor vehicles with an engine cylinder displacement of not more than 1,000 cubic centimeters - 0%; for new light motor vehicles with an engine cylinder displacement of not more than 1,200 cubic centimeters – rate of 5%

Decree of the President of the Republic of Uzbekistan No. 244 (09 November 2022)

Cancellation from January 1, 2023 of the sale of new imported cars only by legal entities - official dealers of manufacturing companies

Source: Lex.uz

Main drivers of automotive market development in Uzbekistan

Economic growth and increase in household incomes

As incomes rise, automobiles are no longer considered luxury items and are becoming more accessible commodities for the middle class

Development of local production

Strategic investments in the automotive industry, including the launch of new plants (BYD, Exceed, Hyundai) have enabled significant expansion of production capacity

Government support

The tax benefits provided by the Government for value-added tax and excise duties for automobile manufacturers reduce the final cost of vehicles for consumers

Infrastructure development

Increasing the number of electric vehicle charging stations and service stations throughout the country. Inclusion of charging stations in new retail, entertainment, hotel and infrastructure projects

Underdeveloped public transportation

Insufficient development of public transportation significantly limits the mobility of the population, especially in remote and suburban areas, which forces residents to purchase personal vehicles

Accessibility of financial services

Increased access to financial services, including credit and leasing, makes it easier for a wide range of people to purchase cars

Service station development

Low maintenance and repair costs, along with the availability of spare parts, make certain brands and models more attractive to consumers by stimulating their demand

Regulatory changes

Legislative initiatives, such as changes in the taxation of cars or simplification of car registration procedures, can significantly influence the automotive market

Source: Lex.uz, Analysis of KPMG

Key barriers for development of the automotive market in Uzbekistan

Requirement for auto certification by local certifying authorities

The need for costly and time-consuming procedures, including climatic tests lasting 3 months with a mileage of 15,000 km, as well as verification of production processes at manufacturers' plants, often located in different countries

Import restrictions

Starting from April 1, 2024, Uzbekistan planned to tighten the import regulations for vehicles, specifically by introducing a ban on customs clearance for cars if the certificate of conformity is issued in the name of another individual. However, a final decision has not yet been made

Limited access to car loans

The limited access of potential buyers to financial resources may negatively impact market activity and sales volumes

Environmental regulations

The planned introduction of strict environmental regulations and requirements may create additional difficulties for the importation and production of vehicles that do not meet certain standards

High taxes and duties on car imports

The cumulative impact of high taxes and customs duties significantly increases the cost of imported cars for local buyers in Uzbekistan

Fuel issues

Unstable fuel supply and its poor quality during the cold season leads to increased vehicle maintenance costs, reducing its attractiveness to consumers

Source: Lex.uz, Analysis of KPMG

07

Analysis of global practices on permissible share of car loans in commercial banks' portfolios

Analysis of available restrictions on the share of car loans in Uzbekistan

87%

Growth of car loans issued to households in national currency
(in % compared to the previous year)

91%

Were made up by auto loans within the structure of consumer lending in 2023

$375million

This amount was used for car loans for August 2023 alone

In response to the increasing share of a car loans in the credit portfolios of commercial banks extended to individuals, and to mitigate the potential negative impact of risks on the stability of banks, the **regulator has introduced the following measures:**

01 **Starting from July 1, 2023,** risk levels have been established based on the ratio of the loan amount to the collateral value (the value of the automobile according to the collateral agreement):

- **Loan < 75% of collateral: 100% risk**
- **Loan 75-99% of collateral: 150% risk**
- **Loan ≥ 100% of collateral: 200% risk**

02 **From September 2023,** the share of car loans in the loan portfolio of banks **should not exceed 25%**

03 **From July 1, 2024**, lenders will be required to ensure that the **debt load** of their clients does **not exceed 60%** for all loans (including microloans)

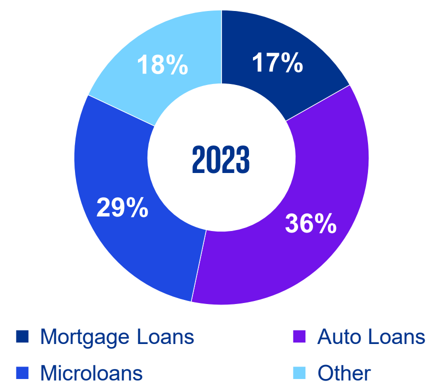
04 **From January 1, 2025,**
the debt ratio will be reduced to 50%

The regulator has given financial institutions a year to bring their loan portfolios into compliance with these new regulations

Car loans allocated to the population

- 2021 — $801million
- 2022 — $1,774million
- 2023 — $3,116million

Structure of lending to the population, in 2023



Source: Lex.uz, Analysis of KPMG

Note: The average exchange rate for 2023 of UZS/USD 11,737 has been used for all currency conversions

Review of bank regulation of car loans in developed and developing countries (1/3)

Country/Regulator	Rates/ Term	Development of car loans and restrictions
National Bank of the Republic of Kazakhstan	**4 – 23%** Up to 84 months	**Car loans:** The volume of the car loan market in Kazakhstan reaches KZT1.5 trillion, of which KZT100 billion is accounted for by preferential car loans. Since 2015, the government has actively implemented market-based mechanisms to support domestic automakers, such as preferential car loans. So from the end of 2021 to the middle of 2023 in Kazakhstan there were two programs of preferential car loans. The first program - through the Development Bank of Kazakhstan (KZT82 billion), and the second - through the Industry Development Fund (KZT100 billion) **Restrictions:** - the loan amount under the preferential car loan program is not more than KZT 15 million per car unit - a limited number of banks have access to preferential funds from the Industrial Development Fund, as the Fund distributed KZT100 billion among 4 second-tier banks and set financing limits (loan amount limits) for each manufacturer. This program from the end of 2023 is reoriented to the leasing financing of passenger buses **The impact of car loan restrictions:** **Automobile availability:** Limiting the loan amount has reduced the availability of more expensive cars, stimulating demand for mid-price segment cars and supporting domestic auto production **Concentration of credit risk:** Limiting the number of banks participating in the program has concentrated credit risks within a few institutions, which could impact their stability **Reorientation to lease financing:** From the end of 2023, the program was reoriented to lease financing for passenger buses, which improved public transport but reduced car loans for individuals
Central Bank of the Russian Federation	**4 – 20%** Up to 84 months	**Development of car loans:** Actively developing, with increasing availability of credit products **Credit programs:** Public and private banks offer credit programs that include partnerships with car manufacturers and dealers to facilitate preferential lending **Restriction:** The regulator has introduced stricter measures in the form of macroprudential surcharges on car loans, effective from 1 July 2024. These surcharges will apply to car loans to borrowers with a debt-to-income (DTI) ratio of more than 50% - where the DTI ratio is the borrower's average monthly payments on all loans relative to their average monthly income. For unsecured loans, add-ons will apply to all loans with a total cost above 25% (APRC, the annual percentage rate of charge, which includes all costs incurred by the borrower, including fees and insurance) and will be enforced on all borrowers regardless of their DTI level. **The impact of auto loan restrictions:** **Reduced credit availability:** Stricter conditions for car loans have reduced the number of borrowers who can meet the new requirements. This particularly affected people with high debt burden (HDB) and insufficient income, limiting their ability to access credit **Increased cost of credit:** The introduction of macro-prudential surcharges and stricter full cost of credit (FCC) requirements led to an increase in the cost of car loans. Banks began to compensate for the increased risks by raising rates and introducing additional fees **Improved quality of borrowers:** The restrictions improved the quality of borrowers as banks began to more carefully assess the creditworthiness of customers and select less risky borrowers, which reduced delinquency rates and improved the quality of banks' loan portfolios

Sources: Official websites of the Central Banks of the countries, KPMG analysis

Review of bank regulation of car loans in developed and developing countries (2/3)

Country/Regulator	Rates/ Term	Development of car loans and restrictions
National Bank of the Republic of Belarus	**8,5 – 14,5%** Up to 120 months	**Car loans:** There are various credit programs available from commercial banks, including for the purchase of a car on the secondary market, as well as car loan programs from the manufacturer (with relatively attractive terms) **Limitation:** No information regarding the introduction of macroprudential or other restrictions on auto lending was found in the public domain. This may be due to the fact that the share of car loans in the banks' portfolio does not cause concerns and risks for the regulator due to their balance. The balancing factor may be relatively high interest rates on car loans **Impact of restrictions on car loans: None**
The Financial Conduct Authority (FCA)	**2,7 – 15%** From 12 to 84 months	**Consumer protection:** The FCA emphasises consumer protection by requiring lenders to be fully transparent about loan terms and conditions and to advertise fairly **Advanced Financial Products:** Various forms of car loans, including leasing and residual value loans, are widely available **Limitation:** None **Impact of restrictions on car loans: None**
Federal Trade Commission (FTC) and Consumer Financial Protection Bureau (CFPB)	**5,6 – 21,5%** From 12 to 84 months	**Transparency and consumer awareness:** The Truth in Lending Act requires lenders to fully disclose the terms of a loan **Focus on credit history:** Access depends heavily on the borrower's credit history **Limitation:** The cost of a consumer loan for a servicemember and his or her dependent cannot exceed an annualised rate of 36%. **Impact of restrictions on car loans: None**

Sources: Official websites of the Central Banks of the countries, KPMG analysis

Analysis of global practices on permissible share of car loans in commercial banks' portfolios

Review of bank regulation of car loans in developed and developing countries (3/3)

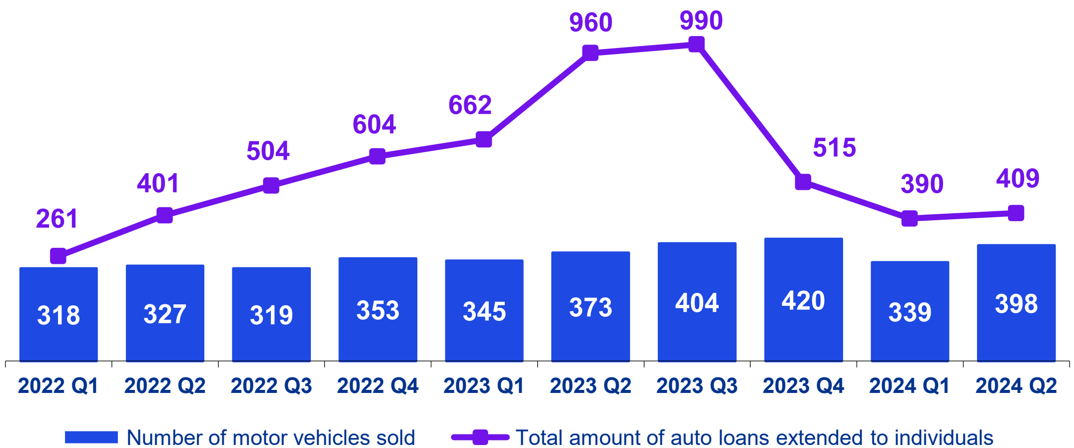
Country/Regulator	Rates/ Term	Development of car loans and restrictions
Banking Regulation and Supervision Agency	**6-50%** Up to 48 months	**Development of car loans:** In 2022, the auto financing market in Turkey was estimated at approximately $4.83 billion, and it is expected to grow at an annual rate of 5.95% from 2023 to 2028. Despite high car prices due to the depreciation of the Turkish lira and increased taxes, the demand for car loans remains strong **Restrictions:** For vehicles priced at: -up to 1.6 million lira, the loan amount cannot exceed 70% of the value; -from 1.6 million to 3 million lira, the loan amount cannot exceed 50%; -from 3 million to 4 million lira, the loan amount cannot exceed 30%; -from 4 million to 5 million lira, the loan amount cannot exceed 20%; -over 5 million lira, loans are not provided. **The impact of auto loan restrictions:** Loan restrictions for vehicles based on their value have reduced the creditworthiness of buyers, reducing demand for expensive vehicles and driving sales of mid-range cars
Central Bank of China National Financial Regulatory Authority	**4-10%** Up to 60 months	**Development of car loans:** China leads the global automotive market due to its substantial domestic manufacturing capabilities and high consumer demand for vehicles. The auto financing market in China is projected to reach $220.81 billion in 2024 and is expected to grow to $270.73 billion by 2029, increasing at an average rate of 4.16% during the forecast period (2024-2029) **Restrictions:** The People's Bank of China has announced a revision of auto financing conditions, allowing financial institutions to set their own minimum down payment requirements for gasoline-powered vehicles, electric cars, and hybrids. Currently, the down payment for internal combustion engine vehicles must be at least 20%, while for other vehicles it must be at least 15% **The impact of auto loan restrictions:** The relaxation of down payment requirements has reduced buyers' price sensitivity and eased apparent price competition between automakers
Reserve Bank of India	**8-14%** Up to 84 months	**Development of car loans:** The Indian auto financing market is projected to be valued at $24.46 billion in 2024 and is expected to reach $40.30 billion by 2029, growing at an average rate of 8.67% during the forecast period (2024-2029) **Restrictions:** Generally, banks require a down payment of 10-15% of the vehicle's value for new cars and around 20-30% for used cars. Additionally, the debt burden on the borrower is 72% **The impact of auto loan restrictions:** The debt burden level of 72% is considered high, making it difficult for borrowers to obtain additional loans, including car loans. To offset the increased risk, lenders set higher interest rates, which raises the cost of borrowing and leads to increased monthly payments

The results of the review of banking regulations in the above-mentioned countries showed that in some countries the restrictions had a negative impact mainly on expensive types of cars and, on the contrary, stimulated the market for mid-range cars. Similarly, the high-level benchmark analysis of regulatory policies in the above countries revealed no regulatory restrictions on the share of car loans in the total loan portfolio.

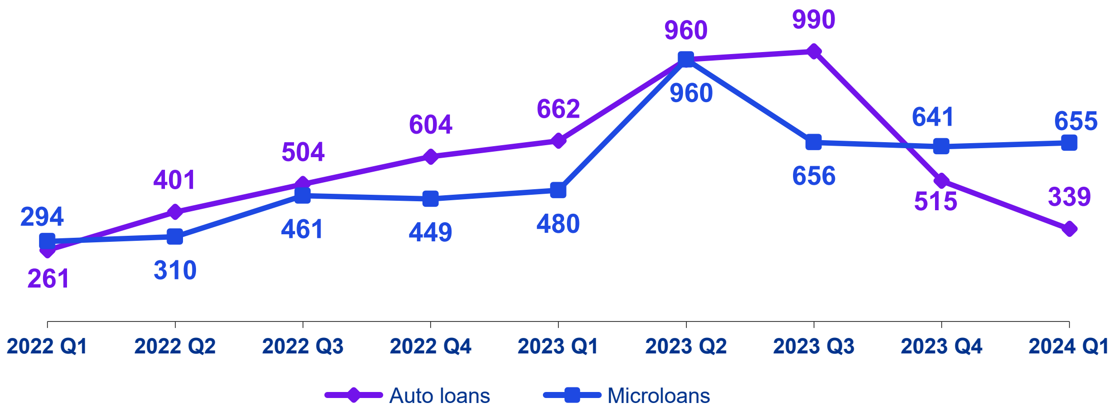
Sources: Official websites of the Central Banks of the countries, KPMG analysis

Impact of auto lending restrictions on the financial sector in Uzbekistan

Amount of car loans extended to individuals, USD million



Amount of car loans and microloans extended to individuals, USD million



- From July 1, 2023, risk grades are established based on loan to collateral ratios
- Introduction by the regulator of new requirements to the portfolio of commercial banks in terms of car loans
- From July 1, 2024, lenders will be required to ensure that their clients' debt burden does not exceed 60% for all loans (including microloans)
- From January 1, 2025, the debt ratio will be reduced to 50%

Probable results of the Regulator's restrictions on the Uzbek automotive market:

- some decrease in demand for cars and market prices is possible, but the Central Bank of Uzbekistan will take measures to maintain stability in the automobile market
- commercial banks offer alternative products of lending to the population (microloans, overdrafts, etc.)
- proposal by commercial banks of alternative lending channels (subsidiary leasing companies, online platforms, etc.) for lending to the population
- development of alternative sources of financing car purchases and the emergence of new private market players, such as leasing, instalment sales, etc.

Sources: Official websites of the Central Banks of the countries, KPMG analysis

Disclaimer: The analysis does not take into account the size of Uzbekistan's shadow economy, which is estimated at 25%-45% of GDP in 2023, according to official sources.

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Important Notice:

We used publicly available sources as part of our research. We did not verify the accuracy, reliability, or completeness of such information or sources. However, we assessed whether such information was broadly consistent with other information we used. In addition, we relied on information and data obtained through interviews with local industry experts. Please note that the results of the analysis based on expert interviews reflect the generalised opinions of respondents and thus cannot be considered statistical market data. Quantitative information may be limited or inaccurate with respect to specific market issues.

The study found that open sources, especially official websites of organisations, do not provide sufficient information on statistical and analytical data on the automotive industry in Uzbekistan.

Another factor for the limited data is that they differ from one another in different official sources.

This contradiction may cause doubts about the reliability and correctness of the information provided and, therefore, make it difficult to select statistical data.

This study is not an audit conducted in accordance with any generally accepted auditing standards and, therefore, does not imply the expression of any opinion on the reliability of the underlying information.

There are references to “KPMG Analysis” in our report. “KPMG Analysis” implies that we have performed certain analytical activities on the source data at appropriate places to obtain the information presented in the report. We are not responsible for the correctness or accuracy of the source data.

The information and conclusions presented in this report are current as of the date of this report. We undertake no obligation to update our draft report to reflect events or circumstances arising after that date.

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