



Legal Alert

Overview of key legislative changes in Uzbekistan in May 2020

Notification procedure for foreign investors to apply a guarantee

Regulation No. 264 of 30 April 2020 introduced a procedure whereby to obtain the guarantees stipulated in article 19 of the Investment and Investment Activities Law, specifically, the right to apply legislation in force on the investment date for 10 years, investors should notify the responsible body in writing of:

- the introduction of requirements complicating the repatriation of profit - the servicing bank;
- investment amount restrictions or additional requirements - bodies responsible for the state registration of legal entities;

- the introduction of additional procedures for issuing and renewing visas for foreign investors - Ministries of Foreign Affairs and Internal Affairs;
- an investment agreement providing an investor with additional support - Ministry of Investment and Foreign Trade.

Investors can send written notification outlining how, they believe, a new legislative act and legislative act valid on the investment date worsen investment conditions. Any such notification is the basis for applying legislation in force at the investment date and is considered effective from the moment an act worsening investment conditions is adopted.

The authorised body may apply to the Ministry of Justice for an opinion on the legality of applying the guarantee.

Rules for issuing and using electronic cash approved

A Law *On Payments and Payment Systems* and Rules for issuing and circulating electronic cash have been developed.

Under the new rules, the Central Bank considers bank applications to issue electronic cash and registers them on its official website. The issuing bank then enters into an agreement with the user, after which the electronic cash is credited to the user's electronic wallet and can be used to purchase goods and services. Each electronic cash transaction is confirmed by a receipt sent by SMS or e-mail.

Electronic cash can be exchanged for cash or transferred to the wallet owner's bank account.

Procedure for concluding investment agreements approved

Resolution of the Cabinet of Ministers No. 264 of 30 April 2020 regulates the procedure for concluding, amending, terminating and implementing investment agreements between foreign investors and the Uzbekistan Government.

The new procedure does not apply to the right of the Tashkent and regional khokims (heads of local administrations) and the Council of Minister of Karakalpakstan to conclude investment agreements if the foreign investment share does not exceed the equivalent of 10 million US Dollars.

Foreign investors, independently or together with their project initiators, should submit the following to the Ministry of Investment and Foreign Trade or its Foreign Investment Promotion Agency:

- a statement of experience in implementing investment projects;
- a standard draft investment agreement;
- a project business plan based on a feasibility study.

A draft investment contract and any related materials are considered within 15 days of the date of receipt.

Realisation of the right to lease agricultural land

The President signed Resolution No. PP-4700 on 1 May 2020 allowing businesses to lease up to 5 hectares of land for a period of up to 10 years on the basis of an electronic auction subject to the prepayment of all expenses.

Banking sector changes

In a Resolution from 12 May 2020, the President approved the Banking System Reform Strategy for 2020-2025, establishing implementation targets, such as:

- an increase in the non-state share of bank assets in total banking system assets from 15% to 60% by 2025;
- an increase in the share of bank liabilities to the private sector in total liabilities from 28% to 70% by the end of 2025;

- attracting at least three strategic foreign investors with the relevant experience, knowledge and reputation to at least three banks with a state share by 2025;
- an increase in the share of non-bank credit organisations in total lending from the current 0.35% to 4% by 2025.

According to the resolution, the state share in Ipoteka Bank, Uzpromstroybank, Asaka, Alokabank, Kishlok Qurilish Bank and Turonbank will be privatised once their activities have been transformed.

However, state shares in National Bank for Foreign Economic Affairs, Agrobank and Microcreditbank will be retained to support the banking services system during reforms.

The resolution also stipulates the consolidation of individual banks based on regulatory requirements, and the economic feasibility of their reorganisation based on a review of their activities and assessment of their financial condition.

State support for tourism

In a resolution from 28 May 2020, the President has implemented a number of measures to rebuild tourism in the country as the pandemic situation improves.

Priorities include:

- the resumption of domestic tourism and the activities of industry organisations, such as tour operators and agencies and others, with strict observance of established sanitary and hygiene standards and "green" and "yellow" category requirements from 1 June 2020;
- the phased resumption of inbound tourism in conjunction with a list of countries whose citizens are allowed to enter Uzbekistan.

Tour operators, travel agents and accommodation facilities will be entitled to:

- a 50% reduction in income tax from 1 June until 31 December 2020;
- transfer losses from 2020 and 2021 without the limits stipulated by the Tax Code;
- suspend the accrual and payment of tourist (hotel) tax until 1 January 2021.

Accommodation facilities will also be able to defer interest-free the local fee to carry out the retail sale of alcohol products until 1 January 2021, after notifying the state tax authorities and subsequently paying them in equal instalments within 12 months.

The resolution approves additional financial support measures from the Tourism Support Fund, including targeted interest-free loans to tour operators and accommodation facilities, grants, and the partial subsidisation of start-up projects and innovative business ideas.

The resolution also extended principal payment deadlines on loans to build accommodation facilities to commercial banks from 1 October 2020 for a period of 18 to 24 months.

Extending government support for export activities

In a resolution from 7 May 2020, the President outlines measures to further expand state support for exporters.

For example, the mechanism for providing subsidies to compensate up to 50% of transportation costs in product exports, introduced in accordance with the Presidential Resolution No. PP-4337 from 24 May 2019, now also applies to the road and air transportation of products for export.

Likewise, the practice of checking for tax and payment arrears and court orders in respect of individuals and legal entities related to the customs clearance of goods for export should be cancelled by 1 January 2021.

The resolution also stipulates the Export Promotion Agency under the Ministry of Investment and Foreign Trade returning insurance premiums for exporters using insurance as collateral.

Cement import resumed

To ensure an uninterrupted supply of scarce building materials, Cabinet of Ministers Decree No. 309 from 22 May 2020 resumes cement import (HS codes 2523210000 and 2523290000) from 23 May 2020, which were previously suspended due to a decrease in demand in connection with the coronavirus pandemic.

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