

## SHIFTS IN UZBEKISTAN'S ECONOMY

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**Annotation:** This article examines the changes in the economy of Uzbekistan in recent years and notes the country's shifts predicting economic growth.

**Keywords:** MInternational Monetary Fund (IMF), Asian Development Bank (ADB), gross domestic product (GDP), foreign investment, inflation.

Before Uzbekistan's independence, the country's economy was hypertrophied. In this regard, no changes in GDP were observed. But even after the declaration of sovereignty, the country was largely dependent on other-producing countries. A multi-pronged reform was required in the structure of infrastructure and the economy as a whole. Long-term work on improving the economic situation has borne fruit. GDP growth in previous years and its expected increase in the country can be observed below.

According to the International Monetary Fund (IMF), real GDP growth in 2018 was 5.4%, and in 2019-5.6%. Despite the decline in this indicator to about 0.7% in 2020 during the pandemic, the IMF forecasts GDP growth in the region of 5.5-6% until 2025. Uzbekistan is one of the three CIS countries that maintained positive growth rates in 2020.

Uzbekistan's GDP per capita grew from \$ 1,540 in 2018 to \$ 1,740 in 2019. The annual percentage change in consumer prices (inflation) in 2018 was 17.5%, and in 2019 it decreased to 14.5%, and according to the IMF estimates, it is expected to further decrease to 5.1% by 2025.

According to the Asian Development Bank (ADB), the current account balance in 2018 and 2019 was -7.1% and -5.6% of GDP. Total gold and foreign exchange reserves in 2019 increased by \$ 2 billion, compared to 2018, and amounted to \$ 29.2 billion. At the end of 2019, Uzbekistan ranked 2nd among the CIS countries and 48th in the world in terms of gold and foreign exchange reserves (Table 1) [1]

**Table # 1. GDP growth in 2020, in CIS countries CIS reserves for 2020**

Countries	GDP growth, %
Turkmenistan	1.8
Tajikistan	1.0
Uzbekistan	0.7
Kazakhstan	-2.7
Belarus	-3.0
Azerbaijan	-4.0
Russia	-4.1
Armenia	-4.5
Moldova	-4.5

Ukraine	-7.2
Kyrgyzstan	-12.0

Place	of Country	Reserves( US\$)
1	Russia	555 179 461 639
2	Uzbekistan	29 291
3	Kazakhstan	28 957509 931
4	Ukrainea	25 317 002 927
5	Belarus	9 393 817 369
6	Azerbaijan	7 042 996 710
7	Moldova	3 059 660 617
8	Armenia	2 849 645 182
9	Kyrgyzstan	2 428 567 694
10	Tajikistan	1 466 304 531

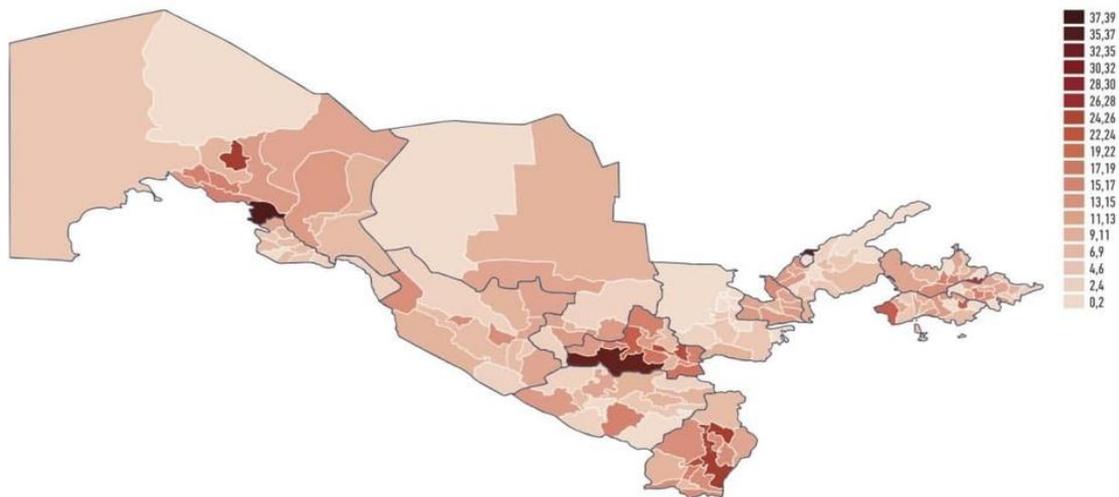
**Source:** World Bank

According to the Central Bank of the Republic of Uzbekistan, the volume of total external debt by the end of 2019 was \$ 24.5 billion, of which \$ 15.8 billion belonged to the state, and \$ 8.7 billion was accounted for by the private sector. It should be noted that in 2019, the ratio of public debt to GDP was 30.6%, which remains below the 60% limit recommended by the IMF for Uzbekistan. In addition, servicing of Uzbekistan's total external debt in relation to exports of goods and services was 15.2% in 2019, down from 19.5% in 2018. This ratio is expected to remain stable, as exports of goods continue to grow at a moderate pace: in 2018-11.4%, in 2019-28.6%, in 2020, due to the pandemic, there was a reduction (-13.4%), in 2021, the growth was within 2.1%. The above-mentioned macroeconomic indicators reflect the sustainable nature of Uzbekistan's economic development.

There are other factors of stability of the Uzbek economy. Uzbekistan is the ninth largest producer of gold with an annual production of 100 tons and the seventh largest producer of uranium in the world (2385 tons per year, which is 3.9% of world production). Uzbekistan reduces direct exports of cotton fiber from year to year, and today Uzbek companies export textile products to more than 50 countries around the world. In recent years, foreign investment in various sectors of the domestic economy has been actively attracted. According to the Ministry of Investment and Foreign Trade (MICT), the volume of foreign direct investment (FDI) in 2020 amounted to \$ 6.6 billion, mainly due to the implementation of 197 major projects under the Investment Program, thanks to which 38 thousand jobs were created. In 2021, FDI is expected to increase to \$ 7.5 billion.

This multifaceted development has had a positive impact on the life of the population. Reducing unemployment, poverty, and improving the quality of life are not all benefits!

A new important factor in the ongoing socio-economic policy is the beginning of a large-scale struggle for poverty reduction, which reflects the political will of the country's leadership. Thus, according to World Bank experts, the poverty rate in Uzbekistan in 2018 was 9.6%. Values corresponding to the international poverty line (US \$ 3.2 per day per person) were observed in the Samarkand, Surkhandarya, Syrdarya, and Andijan regions and the Republic of Karakalpakstan [2].



On January 24, 2020, the President of the Republic of Uzbekistan in his Address to the Oliy Majlis for the first time raised the issue of poverty in the country. "According to various estimates, this figure is 12-15% –" Shavkat Mirziyoyev said. – We are talking about 4-5 million residents of our country." The Message also noted that poverty reduction requires the implementation of a comprehensive economic and social policy-from stimulating entrepreneurial activity to mobilizing the abilities and potential of the population. In this regard, they were invited to develop a Poverty Reduction Program together with international organizations, including the World Bank and the United Nations Development Program.

And already in March 2020, the President signed a decree "On measures to radically update the state policy in the field of economic development and poverty reduction", which provided for a radical improvement in the level and quality of life of the population, the creation of stable jobs and the necessary conditions to increase the competitiveness of all sectors and spheres of the economy.

In particular, the Ministry of Economy and Industry of the Republic of Uzbekistan was transformed into the Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan, and it is planned to develop a Poverty reduction program with the participation of all interested parties. A draft concept of poverty reduction in Uzbekistan has already been developed, which includes criteria and methods for calculating poverty, effective tools for its reduction based on international experience.

These changes have made Uzbekistan one of the fastest growing countries in the world. This has attracted the attention of a number of other countries not only in terms of investment, but also in terms of establishing economic relations.

Particularly noteworthy is the liberalization of foreign trade, including the elimination of non-tariff barriers, excise taxes and the non-convertibility of the national currency. There have also been significant changes regarding trade facilitation. For example, in some cases, exporters may operate without export contracts. In addition, other measures include the introduction of state subsidies for transport costs of exports up to 50%, the abolition of customs duties on all types of exported goods and services, simplification of the export licensing system, reduction of customs duties to 6.45%, the creation of a "one window" website for conducting export and import operations, and others. The results of such easing are not long in coming. According to the World Bank, if in 2016 exports of goods and services accounted for 15% of GDP, then in 2019 this figure reached 31%. Among the CIS countries, the highest growth in the share of exports in GDP for 2016-2019 was observed in Uzbekistan [3].

Countries	2016	of 2016-2019	Change
Uzbekistan	15 %	31 %	16 %
Armenia	34 %	41 %	8 %
Kazakhstan	32 %	36 %	4 %
Belarus	63 %	66 %	4 %
Tajikistan	13 %	16 %	3 %
Azerbaijan	46 %	49 %	3 %
Russia	26 %	28 %	2 %
Kyrgyzstan	36 %	37%	2 %
Moldova	32 %	31%	-1 %
Ukraine	49 %	41 %	-8 %

If in 2017 the foreign trade turnover of Uzbekistan was \$ 26.9 billion, in 2019 it reached \$ 42.2 billion, an increase of \$ 15 billion. These are the highest indicators of the country in its entire history. During the period 2017-2019, there were also significant changes in the structure of exports (Figure 2). In particular, the share of food products increased by 1.5%, energy carriers and petroleum products by 1.3%, ferrous metals and products made from them by 0.8%. At the same time, there was a decrease in the share of cotton fiber by 2.2%, chemical products by 2.1% and non-ferrous metals by 0.8%. This diversification of the export structure is explained by the increase in exports of domestic finished products.

Strong performance in foreign trade also required major changes in monetary policy. This area is the most important in managing the money supply in the country. In this regard, there were also large-scale reforms in the country's monetary policy. In recent years, measures have been taken to stabilize the inflation rate. After the devaluation of the soum in 2017 and the introduction of free conversion, inflation in 2018 and 2019 remained in the range of 14-15%, but in 2020 it fell to 11%.

In 2019, the President of Uzbekistan signed a decree "On improving monetary policy with a gradual transition to the inflation targeting regime". The transition to inflation targeting made it possible to reduce the inflation rate to 10% in 2021. Today, the inflation targeting regime is used by a number of developed countries, such as the United Kingdom, Canada, New Zealand, Australia, etc. It is worth noting that inflation targeting indirectly affects other economic indicators. Thus, according to the estimates of the chief economist of the Central Bank of Iceland G. Petursson, after the introduction of inflation targeting by countries, fluctuations in economic growth rates are reduced, with the greatest effect observed in emerging market economies.

Страны	Средние колебания за 5 лет до принятия режима	Средние колебания после принятия режима	Средние колебания за 1981-1990 гг.	Средние колебания за 1991-2002 гг.
Австралия	2,1	1,6	2,7	2,1
Бразилия	1,6	1,8	3,3	1,9
Канада	2,2	2,0	3,0	2,0
Чили	1,8	3,3	5,9	3,3
Колумбия	2,8	1,0	1,4	2,4
Чехия	2,4	1,5	-	3,4
Венгрия	0,7	0,4	3,2	3,9
Исландия	2,6	2,8	5,4	3,6
Израиль	3,0	3,8	2,9	3,7
Корея	3,1	6,5	2,8	4,7
Мексика	3,9	2,7	2,8	2,9
Новая Зеландия	3,9	2,9	4,6	2,8
Норвегия	2,7	1,9	2,5	2,5
Перу	3,5	1,7	10,8	5,6
Филиппины	1,4	2,0	4,4	1,9
Польша	11,8	4,9	5,7	14,5
Южная Африка	1,5	0,4	3,0	2,1
Швеция	1,9	1,8	2,0	2,3
Швейцария	1,1	1,5	1,9	1,3
Таиланд	5,6	1,6	3,0	5,0
Великобритания	2,5	1,5	2,1	1,9
Все страны	3,0	2,3	3,3	3,5

Источник: Тораринн Г. Петурссон. «Инфляционное таргетирование и его влияние на макроэкономические показатели», 2005

Consequently, the success of monetary policy in Uzbekistan requires the full implementation of inflation targeting not only from the point of view of price stabilization, but also from the point of view of improving the overall macroeconomic stability of the country [4].

In 2017-2021, the Government implemented a number of reforms in Uzbekistan, including currency exchange rate reform and regulation of foreign trade, as well as liberalized prices for various goods and services. Currently, the authorities' attention is focused on removing structural barriers to GDP growth. For example, underdeveloped factor markets and the dominant role of state-owned enterprises and banks in the country's economy.

The next stage of socio-economic reforms will create a larger and more competitive private sector. This is necessary to dismantle an inefficient system with broad state participation in various sectors of the economy, which creates a small number of jobs.

In 2021, about 17% of Uzbek citizens lived below the World Bank's poverty line for lower-middle-income countries. Many of them live close to this line and are at high risk of losing their income, in which they may find themselves behind it. In every sixth household in the country, one of the family members works abroad, mainly in Russia.

Reforms to improve the provision of social assistance to citizens, launched during the COVID-19 pandemic, will help expand the coverage of the population with the social protection system and programs to support citizens in the labor market. These measures will help prevent a sharp increase in poverty in the country.

Russia's invasion of Ukraine is projected to slow Uzbekistan's GDP growth to 3.6% in 2022. This is due to the halving of migrant workers' remittances and their return home, record-high global oil and

food prices, as well as disruptions in international trade logistics chains, investment inflows, and banking systems.

Additional programs of social protection and support of citizens in the labor market will be required to prevent the growth of poverty among the population. A tighter monetary policy of the Government, higher revenues from commodity exports, and lower spending on public investment in the economy will create fiscal opportunities to meet current needs and support macroeconomic stability.

According to the published report on the Bertelsmann Transformation Index (ITB) for 2020, Uzbekistan has significantly improved its performance compared to the last report of 2018. In particular, the final index increased from 3.73 points in 2018 to 4.08 points in 2020, and the indicator of economic transformation increased by 0.25 points to 4.54 points [5].

"President Mirziyoyev's unprecedented reforms have created a new political, social and economic environment both in the country and in the region," the Bertelsmann Transformation Index Project website says of the changes of the past two years in Uzbekistan.

The improvement of Uzbekistan's position in such international rankings is of particular importance and reflects the qualitative changes in all spheres of society and state life over the past few years. In this regard, this article provides an analysis of key changes in the socio-economic sphere of the country over the past two years, which made it possible to improve the position in the ITB index.

In conclusion, I would like to note that the large-scale reforms carried out by the Government of Uzbekistan are evaluated and supported by the international community. Among these estimates is the Bertelsmann Index, whose growth reflects many aspects of the economic transformation taking place in Uzbekistan in recent years. Strengthening the country's position in the global economy leads to economic sustainability. Uzbekistan is still in the leading positions in terms of economic development and GDP growth among the CIS countries, but such problems as inflation are still present in the country. After all, despite the decline in inflation in 2021, its increase in 2022 is a clear fact. Although it is worth noting that the increase in the percentage of inflation did not affect the quality of life of some segments of the population. 17% of the country's citizens lived below the poverty line at the end of 2021, and in 2022 this figure decreased by more than a million people and amounted to 14%. The country has achieved this result by increasing the entrepreneurial potential of its citizens. In this regard, there is a great demand for labor. Together, this is what led to an increase in GDP in the state. Further goals for the future will be directly related to ensuring employment of the population. This approach to business gives freedom to business. Uzbekistan has many aspects of the economy to improve, but it has a lot of potential. In the future, the country will certainly have a huge impact on the global economy and solve global problems in it.

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