AMERICAN JOURNALS
Open Access, Peer Reviewed Journals

American Journal of Pedagogical and Educational Research
**ISSN (E):** 2832-9791| Volume 7, | Dec., 2022

# IMPLEMENTING REFORMS FOR MACROECONOMIC, LABOR PRODUCTIVITY GROWTH AND INVESTMENT IN UZBEKISTAN

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| A B S T R A C T | K E Y W O R D S |
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| The essence of this issue is that the existing laws at the macroeconomic level, the problem and the decisions included in it, together with reforms aimed at reducing the number of unemployed in Uzbekistan, are an important role in investment and measures taken to increase the volume of investment. | Reforms, Macroecomics, Labor, Finance, Policy, Investment |

**Introduction.**

In the current developing countries, mainly their economic development is an important keasb, the reason is that improving the economy has its positive impact on many sectors. For this reason, the definition of such as the essence, forms, laws of Economics and the characteristics contained in them, the study of which is one of the important tasks for the current economy. At the same time, like large economic countries, Uzbekistan is taking a major step towards the development of its economic fronts, an example of which is the transition to a market economy, lowering the level of inflation, regulating market relations and carrying out huge targeted work aimed at increasing the way the population stands.

Since the beginning of the transition to market relations in the Republic of Uzbekistan, an in-depth study of the theoretical foundations of a market economy, summarizing its modern achievements and the experience of foreign countries, the development of improved market relations has become a period taboo, and in this case "Macroeconomics" plays an important role, the reason is that the regulation of the scientific; state budget status, the problem of financing the state budget deficit and the problem of public debt; balance of payments status and exchange rate problems; macroeconomic policy

The subject of microeconomics is the mechanism for making economic decisions at the level of households and firms under" established " economic conditions. [1]As an object of Microeconomic Analysis, the markets of individual goods, the markets of resources, the supply and demand in them are calculated, the interaction and interaction of the markets of Labor, money, goods and services at the level of the national economy in macroeconomics is analyzed. In microeconomics, many indicators that are perceived as" fixed", that is, not considered the subject of microeconomics research, including consumer income, savings, the dynamics of the interest rate and the factors that determine this, are studied by macroeconomics Macroeconomics studies the country's economy as a whole in terms of ensuring a stable increase in gross production, full employment of resources, low rates of inflation and balance of the balance of payments, and studies the economic mechanisms of its macroeconomic regulation.[2]

Uzbekistan is the most populous of the five Central West Asian republics. Its population reached more than 36 million in 2022. Its economy is dependent on primary exports and belongs to the International MonetaryFund's group of 29 resource-rich developing countries (RRDCs). [3]In the years immediately after gaining independence from the Soviet Union in 1991, Uzbekistan depended heavily on cotton production. In recent years, however, gold and natural gas have become its main exports while wheat, meat, and most manufactured goods are imported.

**1.1 Macroeconomics, economic growth, inflation, socio-economic developments.**

Uzbekistan is implementing ambitious market-oriented economic reforms. The authorities unified the exchange rate and liberalized the foreign exchange market starting in September 2017, began price and trade liberalization, [4]and made significant cuts to tax rates for both firms and individuals from January 2019. The country's opening to the world included elimination of entry visas to promote tourism and business and a renewed commitment to join the World Trade Organization (WTO). The government has expanded social safety net coverage and substantially improved the availability of economic statistics. Uzbekistan's progresshas been impressive and as a late reformer it can also benefit from the lessons learned by other transition economies. A surge in investment and a pickup in consumption boosted real GDP growth from

4.5 percent in 2017 to 5.1 percent in 2018 and further to 5.3 percent year-on-year in the first quarter of 2019. Growth is projected to rise to 6 percent in 2021, supported by market reforms to address production bottlenecks and liberalize the economy. Twelve-month inflation peaked at 20 percent in early 2018 before declining to 14.3 percent by December, resulting in an annual average rate of 17.5 percent for 2018. The consumer price inflation eased further to 13.7 percent year on year by April 2019. Inflationary pressures are likely to persist in 2019–20 due to: (i) the continued liberalization of administrative prices, including of energy and water; (ii) increased policy lending via state-owned banks to support investment growth, and (iii) public wage increases. Tightening of monetary and credit policies will be required for inflation to moderate by 2021.

[1] N. Gregory Mankiw. Macroeconomics. 8 th edition. Harvard University. (NY.: Worth Publishers, 2013):
[2] N. Gregory Mankiw. Macroeconomics. 8 th edition. Harvard University. (NY.: Worth Publishers, 2013):
[3] According to IMF (2012), RRDCs are classified as such based on two criteria: (i) low-income or lowermiddle-income status, based on the World Bank classification; and (ii) at least 20% of total exports are natural resources.
[4] Uzbekistan's average import tariff was reduced from 15 percent in August 2017 to below 3 percent in June 2018. However, it was raised modestly in December 2018.

**A. Recent Socio-Economic Developments**

**The government has initiated bold reforms.**

The authorities have undertaken ambitious reforms that have delivered improvements to Uzbekistan's business and investment climate and are likely to boost economic growth over the medium term. Reforms include changes to the currency and tax systems, the lifting of state monopolies in some sectors (for example, fruit and vegetable exports), and the opening of the banking sector to foreign investors. [5]The government has also opened the previously-closed borders with Uzbekistan's neighbors and has initiated regional transport links to foster new trade and investment opportunities in Central Asia. The government's medium-term economic reform priorities through 2021[6] include improving the business environment for the private sector; introducing public-private partnerships (PPPs)[7]; strengthening the corporate governance of state-owned enterprises (SOEs) and subsequently carrying out selected privatizations; reforming agriculture (reducing land under cotton cultivation, introducing direct contracts for cotton farms with textile companies, prohibiting the use of forced labor); improving statistics; strengthening the independence of the central bank and implementing banking sector reforms; deepening trade liberalization and resuming efforts for Uzbekistan's accession to the WTO; reforming tax policy and tax administration; and enacting public procurement, administrative, and social service reforms.

**Reform implementation gained momentum in 2018 and early 2019**

Significant tax reforms, which were implemented on January 1, 2019, included the establishment of a unified tax rate of 12 percent for personal income tax, corporate income tax, and payroll tax for both large and small firms. Other changes included the reduction of the unified tax rate for small firms to 4 percent, the property tax rate from 5 percent to 2 percent and the dividend tax from 10 percent to 5 percent.

**B. Economic growth and inflation**

After independence, Uzbekistan's output decline was moderate in comparison to that in other ex-Soviet economies (Figure 1.1). This relatively good output performance was aided by rising international prices for cotton, then Uzbekistan's major export good. Between 1997 and 2003, real GDP growth averaged 4.4%. From 2004 onward, Uzbekistan experienced economic growth rates above 7.0% every year until 2015. This rapid economic expansion was
driven by the global commodity price boom (Pomfret 2019). More recently, GDP growth rates decelerated to 4.5% in 2017 and 5.1% in 2018 due to a combination of falling commodity prices and a sharp decline in exports to the People's Republic of China and Kazakhstan. In summary,

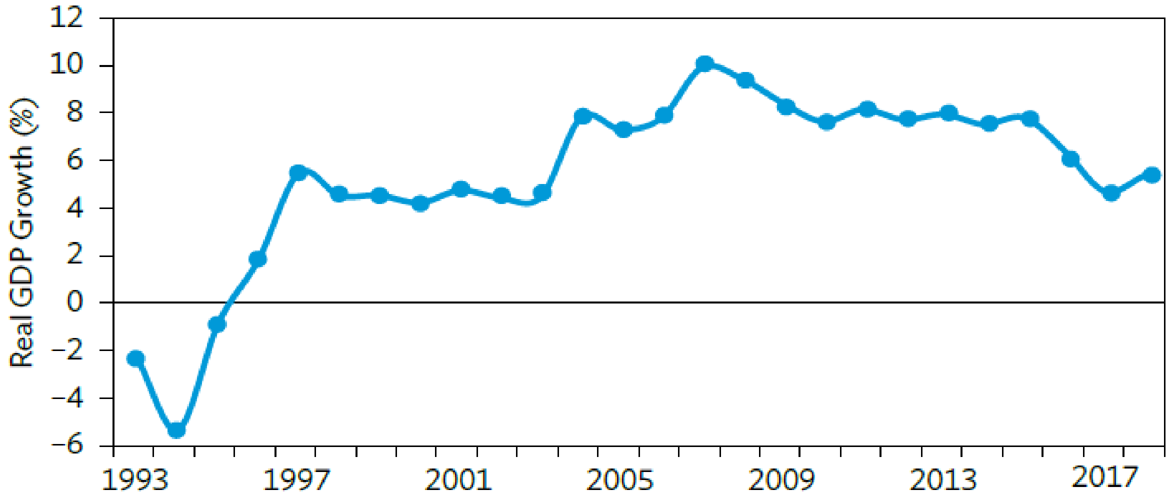
[5] According to Presidential Resolution #pp-4300 dated April 29, 2019 "On measures to further improve mechanisms of attracting foreign direct investment into the economy of the republic", 25 percent of state shares in each of the three commercial banks ("Alokabank", "Turonbank", and "Asia Alliance Bank") and in the "Kafolat" insurance company have been put on auction for foreign investors. This resolution also put for sale to foreign investors the shares (from 35 to 100 percent of stakes) in twenty-five SOEs in chemical, oil and gas, electricity, and food processing industries.

[6] In February 2017, President Mirziyoyev and the new government announced a dramatically different policy course—the "Strategy for action on five priority development areas of the Republic of Uzbekistan for 2017–21." These five areas are governance, judicial, social safety net, security and foreign policy, and economic reforms to boost development.

[7] The Law "On public-private partnerships" was approved by the Parliament of Uzbekistan on May 3, 2019.

Uzbekistan's economic performance remains dependent on world commodity prices despite its fairly closed economy.[8]

**Figure 1.1: Real GDP Growth, Uzbekistan, 1993–2018**
(% per year)




GDP = gross domestic product.
Sources: For 1993–2009, World Bank, World Development Indicators. http://www.databank.worldbank.org/, and for 2010–2018 Uzbekistan Statistics. http://stat.uz (both accessed 11 November 2019).

### 1.2 Employment, Job Creation, and Poverty

Uzbekistan's working age population has increased from 11 million in 1990 to almost 19 million in 2017. As the working age population increases and birth rates decline, the total dependency ratio—the ratio of the young (aged 0–14) plus old (over age 65) population to that of working age—has declined substantially, from 82% in 1990 to less than 50% in 2017. At present, Uzbekistan is on the threshold of what can be described as a golden age of economic growth, where labor participation will be at historically high levels and lead to record economic growth, placing Uzbekistan on the road to rapid economic development. A key to this will be the pace at which Uzbekistan engages skilled youth in place of its unskilled older workers. Taking advantage of the demographic dividend can lead not only to growth but also can push Uzbekistan's economy toward upper-middle-income status. Between 2010 and 2040, an additional 8.9 million labor entrants are expected, increasing Uzbekistan's labor supply to 27.8 million (Figure 1.2). Therefore, more jobs are needed to absorb the expected new labor entrants. The additional working age population will reduce the country's dependency ratio to 46.0% by 2040, possibly leading to additional economic growth or a demographic dividend. However, after 2040, the working age population is expected to start shrinking as the share of the older population increases more quickly, leading to a path similar to that experienced by the aging economies in Europe, with a shortage of young workers and a high dependency ratio (World Bank 2016a).[9]

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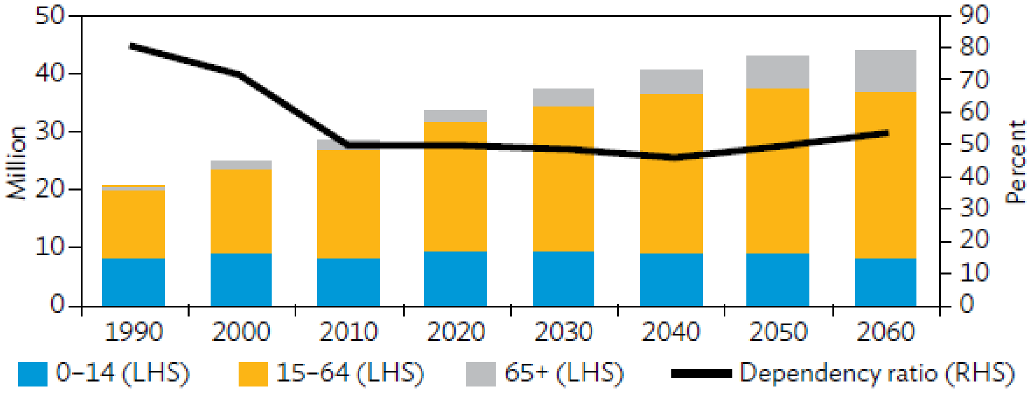
[8] Uzbekistan quality job creation as a cornerstone for sustainable economic growth, country diagnostic study Kym Anderson, Edimon Ginting, and Kiyoshi Taniguchi p5
[9] Uzbekistan quality job creation as a cornerstone for sustainable economic growth, country diagnostic study Kym Anderson, Edimon Ginting, and Kiyoshi Taniguchi p85

**Figu1.2:1: Population by Major Age Group and Dependency Ratio, Uzbekistan, 1990-2060**




LHS = left-hand scale, RHS = right-hand scale.
Notes: (i) 1990–2010 population based on estimates, 2020–2050 based on medium variant projections; as of 1 July of the year; (ii) dependency ratio is the ratio of dependents—people younger than 15 or older than 64—to the working age population—aged 15–64.
Source: UNDESA, Population Division (2019).

**The poverty rate has fallen substantially**

Although lack of access to official microdata since 2003 makes it difficult to confirm the poverty trend, it is estimated that the national poverty rate declined from 27.5 percent in 2001 to 11.5 percent in 2018.Estimates of the PPP-adjusted poverty rate (at the lower-middle income countries' line) was 9.6 percent in 2018. Poverty is higher than the national average in eight of Uzbekistan's provinces, [10]especially in the remote and sparsely populated rural provinces of Karakalpakstan, Khorazm, Jizzakh, Namangan, and Surkhandarya, where most households are employed in agriculture, and few receive remittances. Meanwhile, densely populated urban areas with remittance-receiving households— such as Tashkent city and Tashkent, Fergana, Bukhara, Samarkand, and Andijon provinces—have poverty rates below the national average. Income distribution has become more equitable over time in recent years—the official Gini coefficient fell from 0.39 in 2001 to 0.29 in 2013. School enrollment is universal, and electricity and natural gas networks reach households nationwide. Safe drinking water is available to 100 percent of the urban population and 85 percent of the rural population.[11]

Investment climate in Uzbekistan

Uzbekistan has the most diversified economy in Central Asia, with significant mineral and metals wealth, including gold, as well as textiles and services, and the largest population in the region.[12] The country also has a low, if rising, – level of debt, comfortable foreign-exchange reserves, and a robust public-investment and reform programme. All things considered, it has been doing reasonably well for a country trying to shake off its Soviet economic legacy. However, owing to the immensity of the

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[10] Chepel, S. 2014. Systemic Analysis and Modeling of Prospects for Sustainable Development of the National Economy *of Uzbekistan.* Tashkent: Institute of Forecasting and Macroeconomic Research.
[11] Uzbekistan - Toward a new economy - World Bank Group p16
[12] World Bank Group, Uzbekistan: Towards A New Economy, Summer 2019,

challenges and a lack of institutional and human capacity, some of the harder reforms have still to be achieved. And now, as well as embarking on the more challenging and substantive phase of development, including privatisation, the breakup of monopolies and reform of capital markets, the government will have to focus on tackling the impact of the COVID-19 pandemic and the related economic fallout including the collapse of global energy prices (gas comprises 8.3 per cent of the country's export portfolio), reduced Chinese demand and the return of labour migrants from abroad. [13]

At the end of 2019, President Mirziyoyev signed four laws aimed at improving the investment climate: on investment in the banking sector, on clarifying the tasks of a Foreign Investors' Council, on a revision of the tax code, and most significantly on investment and investment activities, which entered into force in January 2020. [14]The investment laws, which were developed over three years with the assistance of the United Nations (UN) Development Programme, deliver on the stated aim of easing the regulatory environment for foreign investors. However, as is common in markets with weak institutions, investors are set to face challenges with the interpretation and implementation of the investment laws when dealing with regulatory bodies and local administrations. With suspicion towards private enterprise, weak but improving protection of property rights and rent-seeking behaviour common within the executive branch at the national and local levels, the legislation will need to be accompanied with fundamental institutional change to have a major impact. Many of their guarantees and protections for foreign investors are drawn from existing legislation and have previously proven widely ineffective.

Following the enactment of the law on investment and investment activities, the Investment Ministry and its regional branches will be the sole interlocutor for foreign investors. This is a positive step to streamline the process of investment and to bring order to the bureaucratic maze that foreign investors typically face, but much more work is needed on the investment regime to unify how companies interact with the state and to create a more level playing field. While it is reassuring that the sclerosis of the Karimov presidency is nowhere to be seen, with plenty of dynamism in the regulatory environment and decrees issued quickly, the government often has to issue new decrees to clarify the first decrees. It also often resorts to one-off carve-outs and special preferences for specific investment projects, creating an uneven competitive environment. The capacity of government agencies needs to catch up with the pace of reforms, while the constant flow of new regulation is overwhelming for officials and creates uncertainty for investors, as was witnessed with surprise VAT announcements and backtracking towards the end of 2019. Some reforms are also getting lost in the long chain from presidential decree to implementation. All of this makes forecasting hard for investors.

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[13] OECD, GREEN Action Task Force, Environment Directorate Environment Policy Committee, September 2019,
[14] Law of the Republic of Uzbekistan, About Investment Activities, No.ZRU-598, December 2019, Lex.UZ, https://lex.uz/ru/docs/4664144

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