

ECONOMICAL TENDENCY AND PERSPECTIVES OF UZBEKISTAN

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ANNOTATION

This article explores the economic tendencies and development perspectives of the Republic of Uzbekistan over the last years. It provides a comprehensive analysis of macroeconomic indicators such as GDP growth, inflation rates, employment, and foreign direct investment (FDI). Special attention is given to structural reforms initiated by the government, their effects on economic liberalization, and the potential for sustainable growth. Additionally, the study reviews sectoral performance in agriculture, industry, and services, while identifying both challenges and future opportunities in the context of regional integration and globalization.

KEYWORDS

Uzbekistan, economic development, GDP growth, inflation, structural reforms, investment climate, FDI, sustainable economy, economic indicators, regional integration.

АННОТАЦИЯ

Статья посвящена анализу экономических тенденций и перспектив развития Республики Узбекистан за последние года. В работе рассматриваются ключевые макроэкономические показатели, включая рост ВВП, уровень инфляции, занятость и объем прямых иностранных инвестиций. Особое внимание уделяется структурным реформам, проводимым государством, их влиянию на либерализацию экономики и обеспечение устойчивого роста. Также освещается деятельность в основных секторах экономики — сельском хозяйстве, промышленности и сфере услуг, а также выявляются вызовы и возможности в условиях региональной интеграции и глобализации.

КЛЮЧЕВЫЕ СЛОВА

Узбекистан, экономическое развитие, рост ВВП, инфляция, структурные реформы, инвестиционный климат, ПИИ, устойчивая экономика, макроэкономические показатели, региональная интеграция

ANNOTATSIYA

Ushbu maqolada O'zbekiston Respublikasining so'nggi yillardagi iqtisodiy tendensiyalari va rivojlanish istiqbollari chuqur tahlil qilinadi. Asosiy makroiqtisodiy ko'rsatkichlar — YaIM o'sishi, inflyatsiya darajasi, bandlik holati hamda to'g'ridan-to'g'ri xorijiy investitsiyalar hajmi o'rganilgan. Shuningdek, davlat tomonidan amalga oshirilgan tuzilmaviy islohotlar, iqtisodiy liberallashtirishga ta'siri va barqaror o'sishga erishish imkoniyatlari yoritilgan. Qishloq xo'jaligi, sanoat va xizmatlar sohalari faoliyati tahlil qilinib, mintaqaviy integratsiya va globallashuv sharoitidagi muammolar va istiqbolli yo'nalishlar ko'rsatib o'tilgan.

KALIT SO'ZLAR

O'zbekiston, iqtisodiy rivojlanish, YaIM o'sishi, inflyatsiya, tuzilmaviy islohotlar, investitsiya muhiti, TTXI, barqaror iqtisodiyot, makroiqtisodiy ko'rsatkichlar, mintaqaviy integratsiya.

Uzbekistan has implemented bold reforms in recent years, liberalizing its economy and improving prospects for private sector development. Since 2017, with an average GDP growth of



5.3% annually, the country has become one of the world's top reformers, outperforming many lower-middle-income economies.

Nevertheless, job creation has lagged with just 1.1% average growth over the last five years. However, the country needs to accelerate this as population growth averaged 2% over the same period, with a projected yearly net increase of 250,000 in the working-age population.

To achieve sustainable, job-rich economic growth, Uzbekistan needs to sustain its reforms focused on reducing state dominance in the economy, liberalizing key sectors, and improving the environment for trade, business, and investment. Building the right skills for the fast-growing economy is also an essential area for public investment.

In 2023, Uzbekistan adopted the National Development Strategy 2030, aiming to become an upper-middle-income country (UMIC) by the end of this decade. The country also plans to make progress in the following priority areas: empowering citizens; ensuring the population's well-being through sustainable economic growth; protecting the environment and conserving natural resources; and developing public services with a focus on people's needs.

The World Bank Group remains committed to its collaboration with the government to assist Uzbekistan in realizing its key development objectives by 2030.

The Uzbek economic model

As an independent state, Uzbekistan appeared on the world map in 1991. The country launched reforms that were supposed to create a base for running a market economy. In 1996, however the course of the economy was radically shifted towards intensification of state intervention in the economy and the implementation of an import substitution policy. To accelerate industrial development, the state redistributed huge flows of material, financial, monetary and labour resources through:

- Direct allocation of resources, administrative regulation of commodity prices, interest rates and exchange rates;
- High taxes and government expenditures;
- Restricted access to the official exchange rate which is beneficial for currency buyers (usually two to three times different from the market rate);¹
- Establishment of artificial monopolies by limiting the access to markets for new players and provision of tax, credit and other benefits to certain enterprises or groups of enterprises;
- Direct ('manual') business management; and
- Limitation of imports by tariff and non-tariff barriers.

The result was the extremely low level of economic efficiency and economic growth rates, high unemployment and external labour migration, and rampant corruption.

Due to the policies pursued, market reforms were curtailed and market mechanisms were partially replaced by command and administrative regulation. Limited competition, high business costs, and insecurity of property rights and deals hampered the creation of competitive manufacturing and other businesses. The incredibly large benefits and high level of monopolism stimulated corruption, rapid unearned incomes and the export of monetary capital.

The artificial cheapening of capital (conversions at the lucrative official exchange rate, cheap loans, and tax exemptions) and expensive labour (due to high payroll taxes) led to utilisation of capital-intensive industries instead of labour-intensive ones, which, amongst other factors, contributed to extremely low employment in the formal sector. As the results of a sociological survey conducted in the summer of 2018 showed (no earlier data is available), with

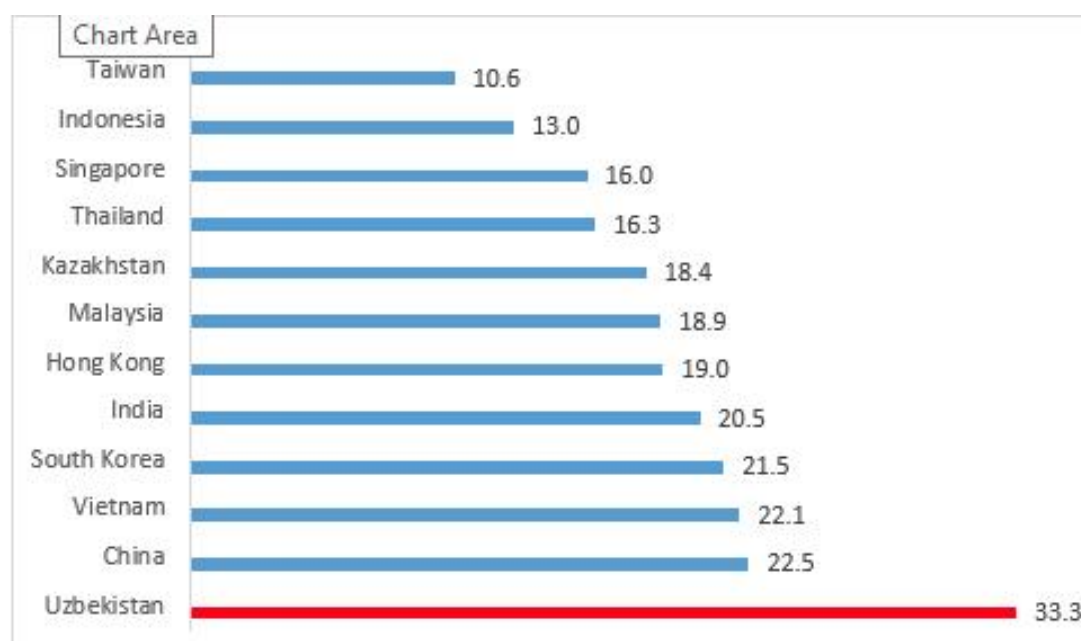
¹ The currency was distributed at the official exchange rate not on the free market and between 'selected' buyers in accordance with decisions of officials who were guided by: a) the development priorities of certain industries defined by state programs, b) corruption interests.



about 18.8 million people employed, employment in the official sector of the economy amounted to 5.3 million people (less than 30 per cent of the workforce), while in the informal sector – also about 5.3 million people (including 1.6 million employed in temporary one-off and seasonal jobs), the number of external labour migrants exceeded 2.6 million people².

A very high level of direct government intervention in the economy has been established. The vast majority of large-scale enterprises and financial institutions are state-owned. Many enterprises are controlled by the state through controlling stakes or so-called ‘golden shares’. The scale of state ownership is impossible to estimate due to the lack of respective statistics, but according to some estimates it exceeds 50 per cent of the country’s total production assets. The state also owns more than 80 per cent of all the assets in the banking sector.³ At the end of 2018, the expenditures of the consolidated budget of Uzbekistan amounted to 35.2 per cent of GDP in 2018, and considering quasi-fiscal expenditures of state enterprises, the volume of state expenditures amounted to no less than 41.2 per cent of GDP. These two figures are one and half to two times higher than similar figures of successfully developing countries with comparable GDP per capita and even higher than analogous figures of some advanced countries in the world (see Figure 1).

Figure 1. Revenues of the state budget and extra-budgetary funds to the GDP of individual Asian countries, in percentage, in 2015



The whole structure of public institutions in Uzbekistan needs to be replaced, and the country's economy needs basic, systematic, and persistent reforms. The main objective is to establish the conditions necessary for efficient market processes to function normally.

Economic reforms in Uzbekistan started as soon as the new president took office. From an economic standpoint, the most significant reforms are as follows:

² Kun.uz, 7.9 million Uzbeks work in informal sector, October 2018, <https://kun.uz/ru/69289201>; The figure for external migrants seems to be substantially underreported.

³ Nuz.uz, Banking sector transformation: strategic challenges for Uzbekistan, January 2020, <https://nuz.uz/ekonomika-i-finansy/45851-transformaciya-bankovskogo-sektora-strategicheskie-vyzovy-dlya-uzbekistana.html>



- Liberalization of the foreign exchange market, conversion for existing operations, and unification of exchange rates (summer to autumn 2017);
- Removal of various administrative barriers to cross-border movement of people and goods (mainly with Uzbekistan's neighbors);
- Reforms of the banking sector and money circulation (2017-18);
- Radical tax reform (2019); and - Reduction of various administrative costs of doing business.

Reforms in a number of other crucial sectors, including administrative reform, agrarian reform, state enterprise restructuring and privatization, a new phase of banking reform, and more, have already been announced for 2020. The COVID-19 epidemic, however, cast doubt on the timeline and extent of these measures.

The monetary system was fragmented, and there were strict restrictions on the circulation of cash, which resulted in different values for different types of money. Prior to 2017, the bank credit sector was one of the most heavily regulated sectors of the Uzbek economy. The Central Bank heavily reorganized its operation in terms of controlling and regulating commercial banks, regulating the currency market, and regulating the establishment of interest rates. The banks also became more client oriented, and the cost of banking services significantly decreased.

Nevertheless, more than 80 per cent of bank assets are still owned by the state, and the government is actively providing 'soft' and 'bad' loans (imposed by government agencies) through banks primarily to state enterprises.⁴ The credit sector competition is still underdeveloped, new players (both domestic and international) have limited access, and the non-banking sector is represented by only a small number of microfinance institutions and pawnshops.

Nonetheless, the government states that it intends to denationalize the industry, privatize a portion of state banks' assets, stop the practice of concessional lending, and expand foreign banks' access to the industry. In 2020, a number of significant improvements were scheduled to be implemented. But these strategies are being undermined by the coronavirus outbreak. It is particularly risky for the intended reforms to maintain the practice of concessional lending and administrative meddling in the granting and extending of loans, which is frequently nearly unavoidable during severe economic crises.

Administrative Reform

Excessive centralization of decision-making and a lack of self-regulation institutions define Uzbekistan's current state administration model, which results in "manual management" of the nation's political and socioeconomic activities. The legislative and judicial branches of government have a substantial informal reliance on the executive branch, and checks and balances are not functioning well.

The primary problem with Uzbekistan's state administration and economic policy is that the executive branch still actively employs managerial techniques that are incompatible with a market economy's ability to function effectively. The primary cause of high transaction costs for local businesses, pervasive corruption, and, as a result, low domestic product competitiveness is active government engagement.

⁴ Currently, the share of bank liabilities to the private sector in total liabilities comprises 28 per cent. Decree of the President of the Republic of Uzbekistan, On the strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025, Uza.uz, May 2020, <http://uza.uz/ru/documents/o-ctategii-reformirovaniya-bankovskoy-sistemy-respubliki-uz-12-05-2020>



Uzbekistan needs a fundamental administrative reform based on consideration of international experience and functional analysis that will result in:

- Reconsideration and redistribution of the structure, tasks, functions and responsibilities of central authorities, as well as of administrative bodies at the sectoral level;
- Reduction, simplification and optimisation of procedures for public service delivery;
- reconsideration of the principles of social sector financing (combined with the reforms of education, health care and pension system);⁵
- Fundamental transformation of the public service system; and
- Redistribution of functions, powers and financial resources between central and local governments. At the same time, it is necessary to conduct a fundamental reform of the local government itself, including addressing the issues of the separation of powers at the local level and increasing the responsibility of local authorities towards the population.

Unfortunately, only some elements of administrative reform have been implemented in Uzbekistan so far. The coronavirus pandemic is inevitably introducing some adjustments into the government's plans to intensify the reforms in 2020.

Traditions of "manual management" of the economy, as well as the ideology and practice of import substitution and protectionism, continue to have a significant impact on the nation's leadership. It is not well acknowledged how crucial it is to keep government operations distinct from commercial operations and how the government must serve as a "arbitrator" who establishes the rules of the game for industry rather than actively participating in it. There isn't a cohesive group of reformers who all have a clear and equal understanding of the objectives, paths, and strategies of changes. On the other hand, industrial and private lobbyists hold strong positions in favor of corporate and private interests.

Many challenges are related to the very low average level of professionalism, initiative and economic literacy of civil servants. For a long time:

- a) the existing system of selection and promotion of personnel,
 - b) lack of political competition, and
 - c) low salaries in government bodies (with the exception of law enforcement agencies),
- caused 'negative selection' of officials, leaving in management positions the unsolicited performers of someone else's will with low qualifications and high degree of inclination to corruption. It is extremely difficult to carry out fundamental reforms with such personnel potential and to expect a significant improvement in the quality of public administration.

Even though they are not always constant and methodical, the nation is nevertheless undergoing reforms. There is hope for the development of more or less effective inclusive market institutions, the establishment of circumstances for sustained economic growth, the emergence of a "middle class," and civil society if at least some of the required reforms are executed with some degree of success. Civil society and the "middle class" will eventually serve as a social foundation for more political, legal, and economic reforms.

CONCLUSION

Uzbekistan's economic journey over recent years showcases both the successes and the complexities of transition toward a market economy. Structural reforms, such as currency liberalization, tax restructuring, and public service improvements, have laid the foundation for future growth. However, substantial challenges remain, particularly in job creation, reduction of state intervention, and the improvement of business competitiveness.

⁵ Financing of the social sphere is currently carried out in accordance with the staffing table and is not tied to the performance of institutions.



Despite ambitious reforms, excessive government control, a high share of state-owned enterprises, and a limited competitive banking sector continue to hinder the development of an inclusive and efficient economy. Administrative inefficiencies, corruption, and weak local governance have slowed progress. The COVID-19 pandemic further delayed reform timelines, demonstrating the need for resilient institutions and adaptive governance mechanisms.

Looking ahead, the success of Uzbekistan's economic transformation will depend on its ability to institutionalize reforms, reduce state dominance, and foster a vibrant private sector. Investing in human capital, improving governance, and promoting transparency will be key in achieving long-term sustainable development and fulfilling the goals outlined in the National Development Strategy 2030.

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