



**MACROECONOMIC STABILITY IS AN MAIN FACTOR INVESTMENT ATTRACTIVENESS FOR
SUSTAINABLE ECONOMIC GROWTH IN UZBEKISTAN**

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ABSTRACT. The level of economic development of any state largely depends on foreign investment. In Uzbekistan, appropriate measures are being taken in order to interest potential investors to invest in the economy of our republic. But in accordance with the modern economic development models and to plans have been shown that free trade, liberalization of the national economies, transparency investment policy and cooperation with world class organization like WB, IMF, OPEC, EU, UN, and Bloomberg and etc., give much more advantage to provide sustainable economic prosperity at any regions of the world countries. So, achievements on proper sectors are now not too easy due to very high level of competition. Any foreign investor is extremely careful and seeks to eliminate any risks when investing their capital in any project. It has been requested that iron guarantees that his investments will not only remain safe and sound, but will also bring profit to both sides. The best solution is providing macroeconomic stability with the cooperation and partnership of world initiatives organizations.

KEYWORDS. Macroeconomic stability, international cooperation, foreign investors, indicators, economic growth



1. INTRODUCTION

Uzbekistan has seen few effects from the global economic downturn due to its relative isolation from the global financial markets, and continued its strong performance, registering 8% growth in 2015. GDP growth was driven mainly by favorable trade terms for its key export commodities like copper, gold, natural gas, cotton, and government's macro-economic management (World Bank file, 2016). Although the global financial crisis has hardly affected the domestic financial sector directly, it has slowed exports, remittances, and investment due to slower economic growth in Russia, Kazakhstan and certain other Uzbekistan's large trading partners [1].

Economic Development In February 2017, the new government initiated a comprehensive reform program with the adoption of the National Development Strategy for 2017-21. This strategy reiterated the authorities' commitment to ensuring macroeconomic stability, improving the quality of life of households, and achieving inclusive growth, especially in rural and remote areas of the country. The Strategy includes five priority areas: improving public administration and state-building; ensuring the rule of law and judiciary reform; maintaining economic growth and liberalizing the economy; enhancing social safety nets; and ensuring security and implementing a constructive foreign policy[2].

2. METHODS AND MATERIALS

In this research paper work we used secondary source data collection quantitative method. Statistical and comparative analyses has been distributed data from international organization like World Bank, International Monetary Fund, PWC annual report 2016 and etc.

3. RESULTS

According to the investor considerations

- Uzbekistan is situated in the center of Central Asia
- Uzbekistan is double-landlocked
- Uzbekistan offers young and generally well-educated workforce
- Uzbekistan is a very attractive consumer market with 33 mln. population
- Transport and communication systems are well developed [3].

Figure 1. Ease of Doing Business in Uzbekistan (2008-2018)



Source: Official data of trading economics

Uzbekistan is ranked 74 among 190 economies in the ease of doing business, according to the latest World Bank annual ratings. The rank of Uzbekistan improved to 74 in 2017 from 87 in 2016. Ease of Doing Business in Uzbekistan averaged 127.30 from 2008 until 2017, reaching an all-time high of 166 in 2011 and a record low of 74 in 2017 [4].

This is highly relevant creation of the National Agency for Project Management under the President of Uzbekistan (NAPU) in Uzbekistan. “For example, any investor, before investing his capital in the economy of Uzbekistan, first of all, according to various sources, studies the state of the business environment in the republic. And one of such authoritative sources is the report of the World Bank and the International Finance Corporation “Doing Business”.

The strategic goal of the ongoing reforms in the field of improving the investment climate has been defined, which is to create in Uzbekistan the most favorable conditions for business activities and foreign investments corresponding to the level of the top twenty countries of the world by 2022.

Western world experience shows that opportunities for scaling up investments in almost all sectors. It is important that in the regions they will change their attitude and turn to investors, they will begin to create all the conditions not to think about interdepartmental issues, but to think about how to increase the country's potential with the help of these investments, accelerate development and improve the image [5].

Investor considerations

- Economy is highly regulated by the state
- Low level of copyright protection
- Plenty of office space available

The role of investment attractiveness in small business and private entrepreneurship in the country's GDP and economy is gradually going up. In 2015, this sector generated 56.7% of the GDP and created 77.9% of employments to the population.

Figure 2. Uzbekistan Employed Persons (2008-2018)



Source: Official data of trading economics

The number of employed persons in Uzbekistan increased to 13520 Thousand in 2017 from 13294 Thousand in 2016. Employed Persons in Uzbekistan averaged 10305.11 Thousand from 1991 until 2017, reaching an all-time high of 13520 Thousand in 2017 and a record low of 8255 Thousand in 1991[6].

REGULATORY AUTHORITIES

The principal regulatory authorities are the Cabinet of Ministers (responsible for the overall regulation of the economy), the Ministry of Finance (responsible for fiscal and taxation policy), the Central Bank (responsible for regulation of banks and monetary policy), the State Tax Committee (responsible for collection of taxes), the State Customs Committee (responsible for collection of customs payments), the Ministry of Economy (responsible for development and implementation of long-term social and economic strategies of the state) and the Ministry of Foreign Economic Relations, Investment and Trade (responsible for foreign trade and attraction of foreign investment).

Figure 3. Uzbekistan Exports (2008-2018)



Source: Official data of trading economics

Exports in Uzbekistan increased to 13953 USD Million in 2017 from 12178.70 USD Million in 2016. Exports in Uzbekistan averaged 4200.85 USD Million from 2006 until 2017, reaching an all-time high of 14084 USD Million in 2014 and a record low of 1386.80 USD Million in 2006 [7].

Figure 4. Uzbekistan Industrial Production

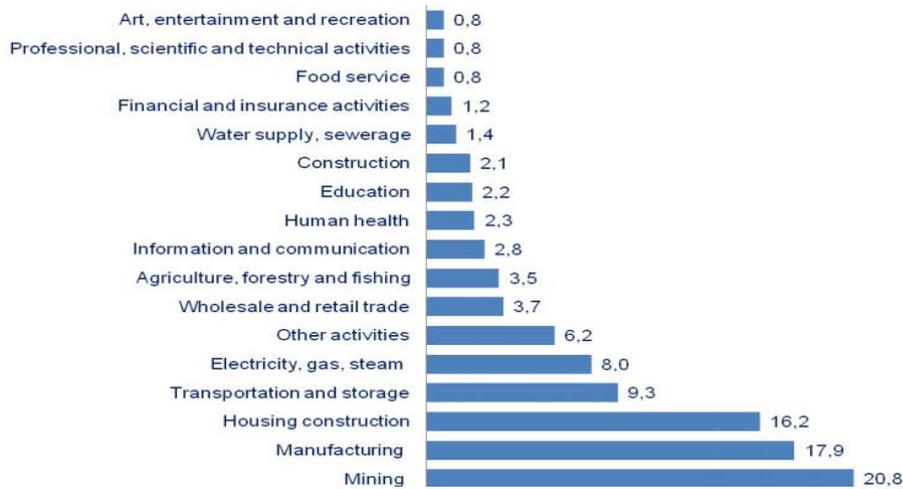


Source: Official data of trading economics

Industrial Production in Uzbekistan increased 10.70 percent in the second quarter of 2018 over the same quarter in the previous year. Industrial Production in Uzbekistan averaged 18.77 percent from 2004 until 2018, reaching an all-time high of 41.12 percent in the second quarter of 2006 and a record low of 4.70 percent in the second quarter of 2016.

Figure 5. Investments in fixed capital by economic activity in 2017

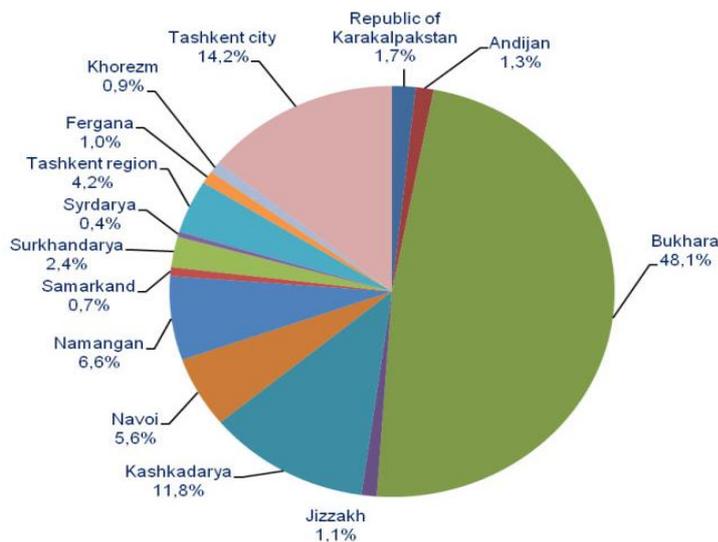
(as% of total)



Source: Official data of stat.uz

Compared to 2016, the share of investments in the fixed capital of the mining industry increased by 5.9 percentage points of the total volume of investments. Of which: extraction of crude oil and natural gas by 4.3 percentage points, extraction of metal ores by 0.6 percentage points.

Figure 6. Share of regions in total volume of foreign investments and credits across the republic of Uzbekistan in 2017

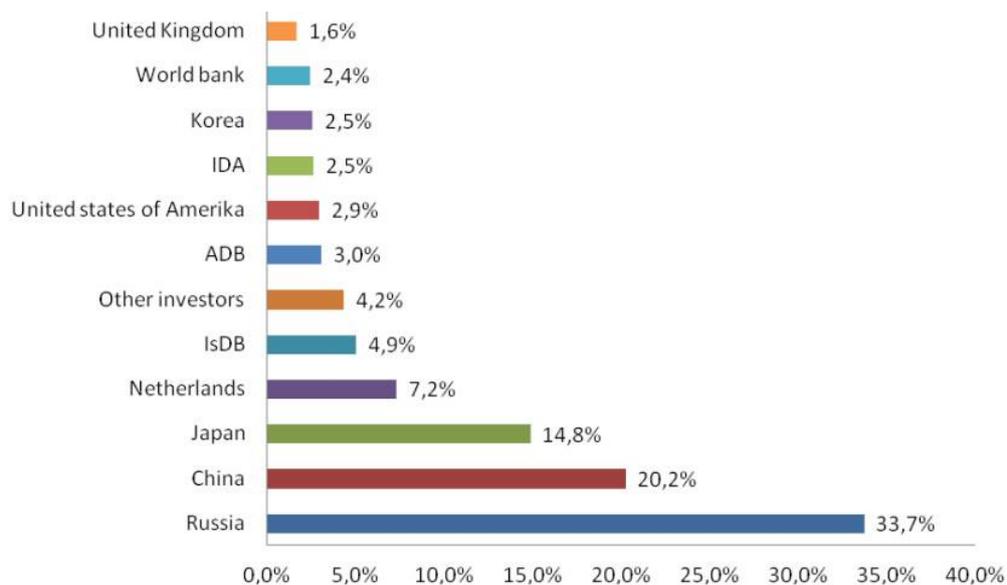


Source: Official data of stat.uz

Due to direct and other foreign investments and credits the following major investment projects were financed: construction of a gas processing plant complex and development of the Kandym group of deposits, development of hydrocarbon fields and production in the Gissar investment block

and Ustyurt region, organization of textile complex in Karshi district, expansion of the cellular communication system, creation of a network of a national mobile operators.

Figure 7. Share of foreign investors in total volume of foreign investments and credits in 2017



Source: Official data of stat.uz

With the participation of the country's capital investments were made in the following types of activities: crude oil and natural gas production - 9016.3 billion soums, information and communication -467.4 billion soums, production of other non-metallic mineral products - 10.5 billion soums, metallurgical industry - 10.4 billion soums and many others [8].

4. DISCUSSION

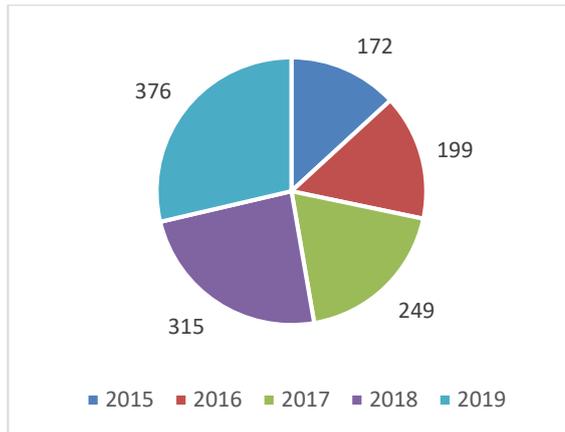
Specialised financial institutions

A number of international financial institutions cooperate with Uzbekistan and have presence in Tashkent. These include Asian Development Bank (ADB), Islamic Development Bank (IDB), World Bank Group (WB), European Bank for Reconstruction and Development (EBRD) and International Monetary Fund (IMF). Depending on their priorities and investment programmers, these institutions participate in various projects in Uzbekistan. The number of insurance companies currently operating in Uzbekistan comprises 31, the biggest players being: Uzbekinvest, Uzagrosugurta, Kafolat, Alfa Invest, SZA O INGO Uzbekistan (ex. Standard Insurance Group), Kapital Sugurta [9].

Under this development strategy, robust growth and job creation are expected to continue. Economic growth slowed from 7.8 percent in 2016 to 5.3 percent in 2017 due to FX adjustments, but strong investment has remained a key driver of growth. During 2018-19, the authorities expect

economic growth to be around 6 percent, supported by favorable external demand and commodity prices, a pickup in agriculture due to reform measures and the normalization of harvests, and a buoyant construction sector building houses and public infrastructure

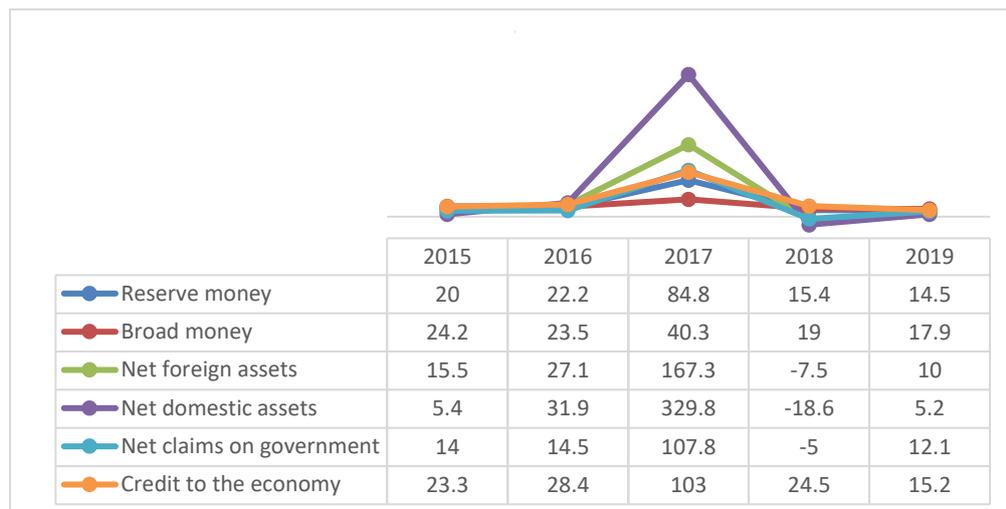
Figure 9. Nominal GDP, 2015-2019, (in trillions of sum)



Source: IMF official data

Exchange Rate Policy. A key economic reform was the liberalization of foreign exchange regulations in September 2017. The authorities unified the official and parallel market FX rates, depreciating the official exchange rate by 50 percent. As a result, individuals and entities can freely buy and sell foreign currency, and the requirements for compulsory sale of foreign currency by exporters have been removed. The exchange rate is now determined by the market.

Figure 10. Money and credit (Annual percent change)

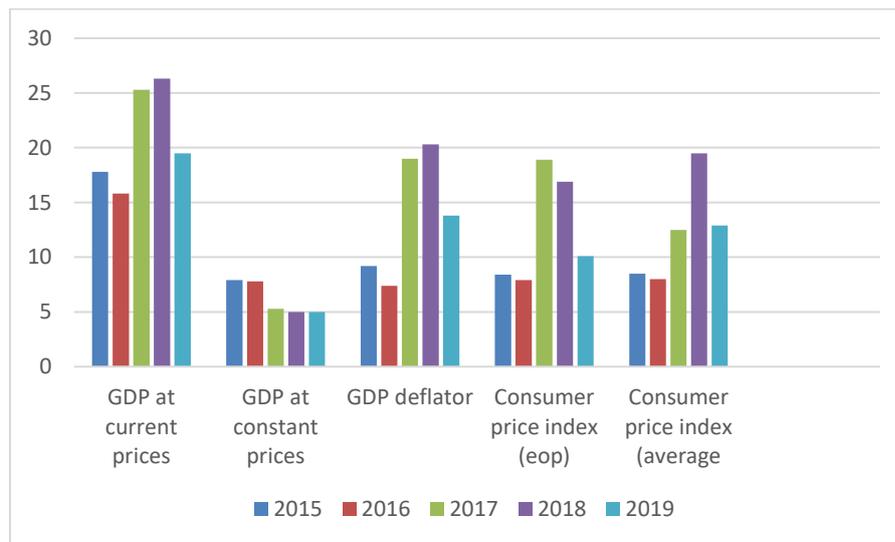


Source: IMF official data

Monetary Policy. The Central Bank of Uzbekistan (CBU) has taken considerable steps to improve its monetary and exchange rate policies. Monetary policy was tightened before the start of the FX

market reforms and the CBU has been able to effectively manage anti-inflationary policies and ensure the stable functioning of the banking system during this period of liberalization. Starting in 2018, the CBU has been implementing a new strategy based on the principle of foreign reserves neutrality. This aims to sterilize additional liquidity from the CBU's direct purchase of gold by supplying the appropriate amount of FX into the market.

Figure 11. Real sector (Annual percent change)



Source: IMF official data

Fiscal Policy. Despite the challenges of reform, the authorities have continued their efforts to maintain a prudent fiscal policy, and tax reform is a top priority. The authorities will conduct a tighter fiscal policy by reducing on-lending operations. They will also focus budget spending on mitigating the impact of the exchange rate adjustment on the vulnerable, supporting critical public enterprises to gradually converge toward greater sustainability and cost recovery, and sustaining the public investment program. The authorities have made significant efforts to consolidate on- and off-budget transactions in the fiscal data. They have recently launched tax reforms to improve the tax system and tax administration.

Structural Reforms. The authorities remain committed to their goal of achieving upper-middle-income status by 2030, by increasing the economy's competitiveness, improving the business environment, and developing the infrastructure to support rapid job creation. Broad structural reforms began in 2017. These included the FX market reforms, liberalization of the visa regime, more independence for the CBU, an assessment of banking sector resilience, the implementation of financial recovery plans in key SOEs, plans to resume the accession process to the WTO, and new legislation to promote competition and public-private partnerships. The recommendations of the

consulting group on SOE governance will be ready in July, providing an opportunity to draw up a comprehensive plan to deal with SOE issues.

Figure 12. Uzbekistan Interest Rate (2010-2018)



Source: Official data of trading economics

The benchmark interest rate in Uzbekistan was last recorded at 16 percent. Interest Rate in Uzbekistan averaged 32.47 percent from 1994 until 2018, reaching an all time high of 300 percent in March of 1995 and a record low of 9 percent in January of 2015 [10].

The authorities thought that staff's growth projections were on the pessimistic side as the recent improvements in the investment climate could pay off quickly. The authorities also argued that staff's inflation outlook assumes too much persistence in the recent shocks to inflation. Based on its internal models, the Central Bank of Uzbekistan (CBU) projected consumer price inflation will decline by end-2018 to the range of 12-14 percent and decline further into single digits by end-2019[11].

RECOMMENDATIONS

Fiscal Policy:

- **Near-term fiscal policy** should be adjusted, as required, to manage external shocks.
- A credible **medium-term fiscal framework** is needed to better manage resource revenues.

Monetary Policy:

- **Monetary policy** should be tightened, to consolidate the reduction in inflation and to anchor expectations.
- The **monetary framework** should focus on monetary aggregates. Excess liquidity should be managed via sterilization and positive real interest rates.

Table 1. Uzbekistan: Selected Economic Indicators, 2015-2019

	2015	2016	2017	2018	2019
			Est.	Proj.	Proj.
	(Share of GDP)				
GDP	100.0	100.0	100.0	100.0	100.0
Final consumption expenditures	75.0	76.8	76.1	76.8	75.1
Private	57.4	60.7	61.0	61.2	59.8
Public	17.5	16.1	15.1	15.5	15.3
Gross investment	26.9	24.9	24.9	29.0	31.0
Net exports	-1.8	-1.8	-1.0	-5.8	-6.1
Exports of goods and services	19.6	19.0	29.0	38.9	34.3
Imports of goods and services	21.5	20.8	30.1	44.7	40.4
Gross national savings	27.6	25.7	28.6	29.2	30.0
Savings-investment balance	0.7	0.7	3.7	0.2	-1.0
	(Annual percent change)				
GDP at constant prices	7.9	7.8	5.3	5.0	5.0
Final consumption expenditures	16.9	16.1	2.5	6.1	3.5
Private	20.4	21.1	0.8	3.2	2.1
Public	6.7	0.0	9.0	16.6	7.9
Gross investment	-2.1	-3.6	9.5	11.3	11.2
Exports of goods and services	-3.3	-13.1	0.6	8.7	2.9
Imports of goods and services	11.8	3.5	-4.5	20.8	5.4
Prices					
CPI (average, in percent)	8.5	8.0	12.5	19.5	12.9
CPI (end-of-period, in percent)	8.4	7.9	18.9	16.9	10.1
Minimum wage (in thousands of sum)	122	135	150	173	201
Average wage (in thousands of sum)	1,177	1,298	1,496	1,723	2,002
Average wage growth	16.2	10.3	15.3	15.2	16.2
Employment					
Domestic employment growth (percent) 1/	1.0	0.8	0.6	1.0	1.0
Employment rate (share of working-age population)	57	57	56	56	56
Unemployment rate (percent)	5.2	5.2	4.5	4.5	4.6
Registered labor migrants (millions)	1.0	1.1	1.3	1.4	1.5

Source: Sources: Uzbekistan authorities and IMF staff estimates and projections.

Foreign Exchange & Exchange Rate Policies:

- Accelerating nominal **exchange rate** depreciation would help reverse excessive real exchange rate appreciation.
- The **foreign exchange market** should be liberalized by easing surrender requirements and discontinuing moral suasion.

Financial Sector Policies:

- Market-based **credit intermediation** should replace directed lending to support banks and promote financial deepening and inclusion.

Other Recommendations

- The government should improve **data quality** and dissemination of macroeconomic statistics.

5. CONCLUSION

Taking into account current research is studied detail macroeconomic analyses which provide stability of the national economy and raising attractiveness of the foreign direct investment in



Uzbekistan. Sustainable economic growth will be supported by strong commodity prices and trading-partner demand, reforms that boost agriculture, and the government's housing and infrastructure and other programs in accordance with international relations. Current discussions with private sector representatives suggested that for now foreign investors remain on the sidelines, waiting to see whether reforms continue and prove irreversible.

Domestic employment growth will likely pick up to not only manufacturing sector but also in service sectors are really relevance of the research area. Finally macroeconomic stability will provide net new job creation; price control and exchange rate status are mainly responsible for FDI for development of small businesses. As for the Uzbekistan is the considerable as emerging markets in continent. Reforms by the government are directed professional and transparency cooperation with many international institutions, such as societies and organizations. We hope in shortly investment attractiveness will give its enormous effects by productivity and efficiency in regions, sectors and companies.

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