



Economic Policy Reforms in Uzbekistan: Achievements, Current Situation and Future Perspectives

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Abstract

The economy of Uzbekistan requires fundamental, systematic, and continuous changes, as well as the replacement of the whole structure of public institutions. The primary objective is to establish an atmosphere conducive to the regular operation of effective market processes. This article discusses some of the measures taken by the government of Uzbekistan to ensure efficient transformation of national economy into a more developed and robust economy which supports inclusive and sustainable development in the long-term.

Keywords: *Economic Indicators; GDP; GDP Per Capita; Economic and Social Reforms; Liberalization; Free Currency Conversion; Banking Sector; Tax Policy; Administration*

Introduction

Over the previous two decades, real GDP growth per capita in Uzbekistan has been around 5% each year. This comparatively high pace of growth has been sustained through a centrally planned and investment-led economic policy, which has been mostly funded by natural resource rents. This strategy's key components are still in use today.

Table 1

Main economic indicators (2021)	
GDP (current US\$)	69.24 billion
GDP per capita	\$1983,1
GDP growth (annual %)	7,4 %
Population	34,915,100
Unemployment rate	7,2 %
Inflation rate	12,3 %

Source: <https://data.worldbank.org/country/UZ>

Natural resource rents accounted for about 18 % of GDP in 2018 (more than 10% from natural gas alone), a modest decrease from an average of 21 % of GDP every year between 2000 and 2018. Uzbekistan is still more reliant on rentals than the Russian Federation (15.5 per cent), Tajikistan (6.8 per cent), and Kyrgyzstan (11.6 per cent), and is not far behind Kazakhstan (22.4 per cent). The capital stock of the economy has increased by about five times during the previous ten years as a result of a substantial state-led investment program that was launched with the goals of building infrastructure, diversifying the economy, and industrializing it.

Following the dissolution of the Soviet Union, the agricultural portion of GDP value added plummeted by up to 80 % in most transition countries (figure 1). However, Uzbekistan has remained a notable outlier to these tendencies. Agriculture’s proportion of GDP has remained dominating, decreasing just modestly from roughly a third at independence to a quarter of GDP in 2019.

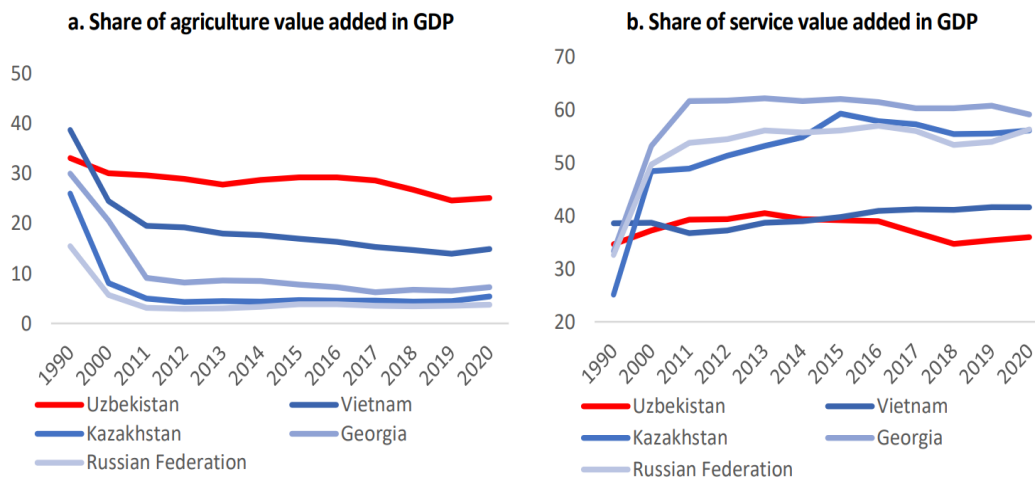


Figure 1

Source: “The Second Systematic Country Diagnostic for Uzbekistan: Toward a prosperous and inclusive future”, World Bank Report, 2022.

Although employment in services increased from around 34% in 1991 to almost 50% of the work force in 2019, the service sector’s contribution to GDP was actually somewhat lower in 2019 than it was at independence.

Methods and Materials. Research methods like generalization, grouping, comparison, induction, and deduction were used in the preparation of this article, as well as a selective review of the literature based on reports created by international financial institutions and scientific articles categorized according to the number of references in the Scopus and Web of Science databases.

Results and Discussion. Just months after his appointment in late 2016, President Shavkat Mirziyoyev announced a transformative agenda of economic and social reforms to reshape Uzbekistan. The country and its people have broken with the politics of statism and relative isolation and entered a new era of openness and international engagement. The early reforms quickly liberalized most prices, removed strict regulations governing business and trade, increased transparency, and relaxed policies that restricted personal choice and economic freedom. The reform agenda has also focused on people, which has helped build public support.

Liberalisation of Foreign Economic Activity. Up until 2017, the Uzbek government practiced aggressive protectionism, restricting imports through the absence of free conversion of the national currency, hefty customs charges, and non-tariff obstacles. Furthermore, there were major official and informal restrictions to cross-border free movement of people and capital.

The most significant accomplishments of the Uzbek reforms in 2017 were the government’s introduction of free currency conversion for current transactions, the removal of a number of administrative obstacles to the movement of persons and products, and the reduction of customs fees.

Although the government launched WTO membership preparations in 1994, the process was mostly ignored and subsequently placed on hold. Accelerated restart is an important component of the 2017–2021 Development Strategy. The impact of COVID–19 hampered progress, but it is likely to pick up in the medium future. Uzbekistan just become the ninth nation to be given entry to the European Union’s Generalized Scheme of Preferences Plus system, after a two-year negotiating process. The system provides unique incentives to nations who contribute to sustainable development and good governance by allowing zero-tariff access to European Union markets on two-thirds of tariff lines. Uzbekistan also belongs to the CIS Free Trade Zone, which it entered in 2014.

Reforms in Banking Sector. Reforms have concentrated on strengthening prudential monitoring and updating banking and central banking laws in order to get the banking industry ready for a higher percentage of private sector ownership. Almost all government-directed lending below reference interest rates has also been outlawed as a result of reforms, which limit government interventions to overt on-budget interest rate subsidies. This has aided in significantly reducing the quantity of preferential lending in the banking sector and increasing monetary policy transmission (Figure 2). Reforms to reorganize the financial system and privatize banks, on the other hand, are in their early stages.

However, the banking system is still extremely consolidated and dominated by the state, and it participates in below-market lending to state-owned entities (SOEs). At the end of 2020, 13 SOCBs controlled 85 percent of overall sector assets and accounted for 88 percent of total loans among the 32 commercial banks. Until recently, about half of the state-owned commercial banks (SOCB) loan portfolio consisted of loans to SOEs and government-aided organizations. Preferential financing was granted to priority areas defined in state industrial strategy (approximately 80% of total loans in 2018). Since 2017, preferential lending has expanded to include low-income housing as well as assistance for business, agriculture, and other sectors.

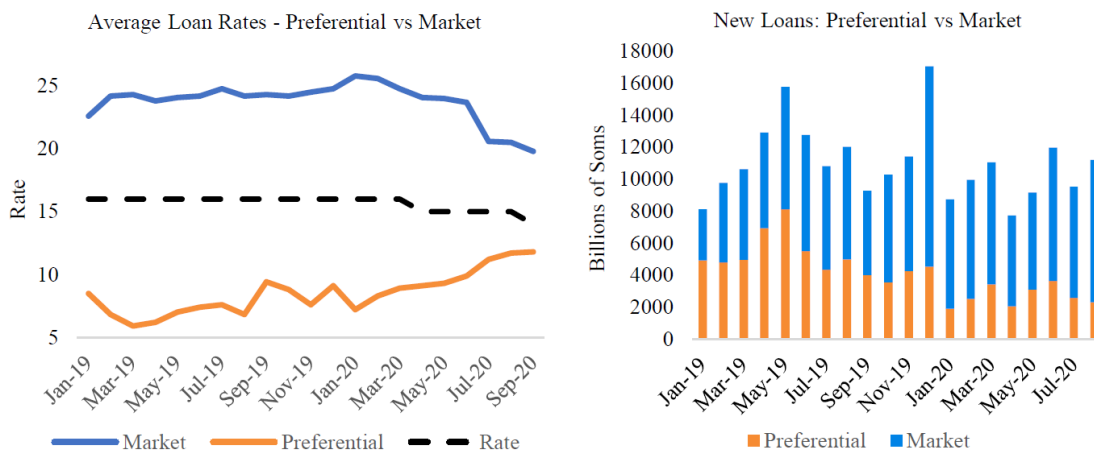


Figure 2. Market and Preferential Loan Rates and Amounts
Source: Central Bank of Uzbekistan

Tax Policy Reforms. A significant overhaul of tax policy unified and reduced the complexity of taxes on large and small enterprises, expanded the value added tax base, reduced mandatory social contributions, and strengthened tax administration procedures. Uzbekistan initiated a tax reform procedure on January 1, 2019, in which following accomplishments were particularly noteworthy:

- drastic reduction of taxation on labour (by one and half to two times);
- significant reduction in the general taxation regime’s tax burden on businesses (the most important ones are the reduction of the VAT rate from 20 to 15 per cent);
- a massive number of tax exemptions and privileges were eliminated in order to harmonize the taxation of all economic sectors.

Several mistakes in the preparation and initial phase of the reform were corrected by subsequent adjustments in the second half of 2019. In particular, VAT was reduced from 20 to 15 per cent, the refusal to provide tax benefits and exceptions began, and some mechanisms for paying VAT were improved.

Reforms in Agriculture. One of the main causes of Uzbekistan’s sluggish structural development was the state-led agriculture system. Through better methods and more effective land allocation, the country’s agriculture industry has enormous potential to boost value added and production. Horticulture is extremely productive and has a strong potential for employment generation. On just around 10% of total arable land, it now generates 50% of crop production value and 40% of overall agricultural output (World Bank 2020).

Since 2017, a number of changes have begun to unlock the agricultural sector’s vitality. After years of slow growth and a robust supply response to reforms, the industry increased by 3.1 percent in 2019, while agricultural land declined by 2.2 percent. Despite the epidemic, agriculture was the country’s largest contribution to economic development in 2020. Beginning with gradual reductions in cotton and wheat producing regions in 2017, a wave of changes in 2018 abolished practically all official horticultural export limitations and liberalized bread pricing. Cotton and wheat growing areas have also been reduced further.

Administrative Reforms. The primary problem with Uzbekistan’s state administration and economic policy is that the executive branch still actively employs management techniques that are incompatible with the efficient operation of a market economy. High transaction costs for local business, pervasive corruption, and the ensuing low competitiveness of domestic products are mostly caused by active government interference. Therefore, a considerable reduction in state involvement as well as changes to the roles and means of state control in the economy are the primary objectives of administrative reform.

A major administrative reform that takes into account global experience and functional analysis is required in Uzbekistan and should lead to:

- structure, duties, and tasks of central agencies as well as those of sector-level administrative organizations should be reevaluated and redistributed;
- streamlined, simplified, and optimized public service delivery processes;
- fundamentals of social sector finance should be reviewed (together with improvements to the education, healthcare, and pension systems);
- change of the public service system on a fundamental level;
- functions, authorities, and financial resources are redistributed between central and local governments. Simultaneously, a fundamental reform of local government is required, including resolving issues of separation of powers at the local level and enhancing local authorities’ duty to the community.

The administration adopted a comprehensive framework in January 2017 to improve public openness and reduce corruption in the public sector. Despite significant progress in putting this framework in place, there are still legal and regulatory loopholes and a risk of state takeover. For instance, it is said that conflicts of interest are commonplace within the public sector, although there is no rule that forbids them (Freedom House 2020). Public capture may happen through legal means while outdated legislation on privatization and the management of state assets and property is being updated. Uzbekistan’s anti–money laundering regulations are among the least sophisticated in Central Asia and Europe, and they are in the lowest third of all countries worldwide (Figure 3).

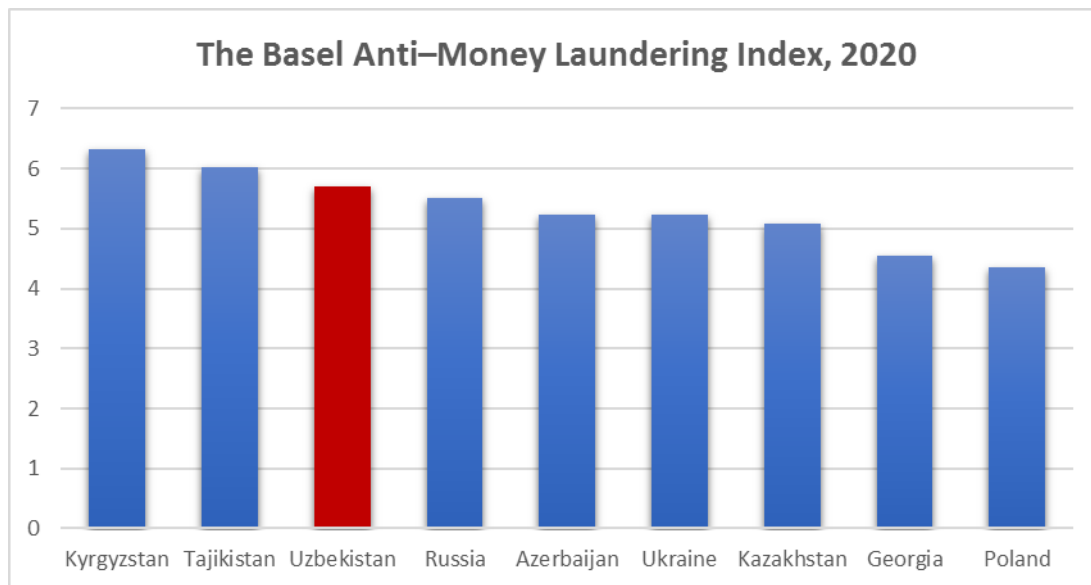


Figure 3

Source: Basel AML Index: 9th Public Edition, 2020 Report

Conclusions

Changes are being implemented throughout the country, but not always consistently and methodically. If at least some of the essential changes are executed somewhat effectively, there is hope for the building of more or less effective inclusive market institutions, the creation of circumstances for sustained economic development, the emergence of a “middle class” and civil society. In the future, the “middle class” and civil society will serve as a social cornerstone for further economic, legal, and political reforms.

Finally, the author would like to emphasize that there is an urgent objective need for expert and organizational assistance for changes in Uzbekistan from international organizations, foreign governments, and the international expert community. Without it, the country would struggle to develop and implement an effective reform plan that will allow it to design a fundamentally new socioeconomic structure.

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