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Issues of Macroeconomic Sustainability and Increasing Investment Activity in Uzbekistan

Khusanova Gulchekhrakhon Rakhmatjonovna

Independent researcher, Uzbekistan

A B S T R A C T

Increasing macroeconomic stability and investment activity in the economy of any country is one of the most important issues today. Macroeconomic stability and foreign investment are among the most important parts of the global economy.

A R T I C L E I N F O

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Introduction

The issues of macroeconomic stability and increasing investment activity are also of paramount importance in the economy of Uzbekistan. Especially in recent years, these areas have become the main areas of the country's economy. Uzbekistan is undergoing a number of reforms to ensure macroeconomic stability.

However, some macroeconomic indicators in the country's economy have a negative impact on the level of economic stability. In other words, the high level of inflation in the country's economy and, as a

E-mail address: info@researchparks.org

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result, the high interest rate have a negative impact on the favorable business environment in the country.

In addition, it can be said that there are some problems in the distribution of income among the population. It is impossible to increase the welfare of the population in the country without regulating the distribution of income among the population. Because a large part of the income will remain in the hands of the deficit population.

This in itself leads to low incomes for the majority of the population in the country. This can lead to an increase in poverty in the country. Based on the above, it follows that ensuring macroeconomic stability in the economy of Uzbekistan today is one of the most pressing issues.

On the other hand, “Foreign direct investment is a major driver of globalization and plays the most important role in the current global economy. It provides additional capital to countries ’production processes and increases economic growth” (Hui-Ching Hsieh; Sofia Boarelli; Thi Huyen Chi Wu, 2019). It follows that the development of the Uzbek economy requires the active attraction of foreign investment in the economy.

The experience of developed countries shows that in order to ensure economic growth of more than 6% per year, national funds should account for at least 25% of GDP and investment 30%. It follows that today it is important to actively attract investment to the economy for the development of the Uzbek economy.

Literature review

Today, the main focus is on macroeconomic stability and investment. In this direction, foreign and Uzbek scientists and researchers are conducting research on the example of different countries, in different ways and drawing scientific conclusions. We will look at a few of these below.

“The effects of economic policy uncertainty on outward foreign direct” published by Vietnamese scholars Hui-Ching Hsieh, Sofia Boarelli, ThiHuyen Chi Wu in the International Review of Economics and Finance. investment) [2] (Hui-Ching Hsieh; Sofia Boarelli; ThiHuyen Chi Wu, 2019) analyzes the impact of unsustainable economic policy on foreign direct investment. The Economic Policy Uncertainty Index (EPU Index) was used to assess economic instability (uncertainty) in the analysis.

The analysis revealed that economic instability has a strong impact on foreign direct investment. The article also identifies through analysis that democratic institutions have both positive and negative effects on foreign direct investment. Studies show that the higher the Economic Policy Uncertainty Index (EPU Index), the higher the volatility of capital markets, the lower the return on capital, the greater the risk control, the lower the correlation between bonds and investments, and the lower the GDP growth. and the level of investment by firms decreases.

Scientists make 3 hypotheses in the article. The first hypothesis suggests that the U.S. Economic Policy Uncertainty Index (EPU Index) has a positive effect on gross U.S. foreign direct investment inflows. The second hypothesis states that the Economic Policy Uncertainty Index (EPU Index) of developing countries has a negative impact on the inflow of US foreign direct investment into these countries. In the third hypothesis, the inflow of U.S. foreign direct investment causes the Economic Policy Uncertainty Index (EPU Index) to lag behind.

In general, this article analyzes the impact of unsustainable economic policies on foreign direct investment. As a result of their research, scientists have found that there is a strong correlation between the Economic Policy Uncertainty Index (EPU Index) and outward foreign direct investment (outward

FDI flow). This is true not only for the United States, but for other countries as well. The results of the study show that if the index of economic instability increases, the volume of foreign direct investment in the country will decrease.

The article used the works of scientists such as Baker, Alesina, Tabellini, Pindyck, Jensen, Julio, Yook, Dixit, Rivoli, Salorio and Wang.The Journal of Development Economics published an article by Michael F. Bleaney, a British scholar, entitled “Macroeconomic Stability, Investment and Growth in Developing Countries” [1] (Bleaney, 1996). “Reliable macroeconomic policies help create a secure environment for private sector investment decision-making. Evidence suggests that good macroeconomic governance promotes rapid investment growth.”

The article assesses the impact of macroeconomic instability on investment and analyzes economic growth on the example of developing countries. As a result, the level of macroeconomic governance is a key factor influencing economic growth.

Macroeconomic instability affects the quality of investments, there is a large proportion that incorrect investment decisions lead to the formation of an unstable environment.

Main part

The article considers fiscal policy as the main tool of macroeconomic management.The main factors influencing macroeconomic stability are the fiscal balance, the real exchange rate, inflation and external debt.

As macroeconomic instability is a major tool that negatively affects investment and growth in developing countries, weak macroeconomic policies reduce investment, and analyzes show that macroeconomic instability also reduces the efficiency of investment.

In the article Barro, R.J., Bruno M., G. Di Tella, R. Dornbusch, S. Fischer, Mankiw N.G, Cottani, J., D.F. Cavallo, M.S. Scientists such as Khan, Pindyck R., and Rodrick, D. have used their scientific work.

In the Future Business Journal, Pakistani scholars Yahya Waqas, Shujahat Haider Hashmi, and Muhammad Imran Nazir, “Macroeconomic Factors and Foreign Portfolio Investment Volatility: A Case in South Asian Countries” [3] (Yahya Waqas; Shujahat Haider Hashmi; Muhammad Imran Nazir, 2015).

The article reads, “Macroeconomic factors are foreign to the countryplays a very important role in attracting investment. Analyzes show that there is a very large correlation between macroeconomic factors and the variability of foreign portfolio investments.

Therefore, low volatility in international portfolio investment flows in the analyzed countries is a stimulus for high interest rates, currency devaluation, foreign direct investment, low inflation and high GDP growth, and the stability of the country's macroeconomic environment for foreign portfolio investors is in focus. It will happen. ”

The article analyzes four countries: China, India, Pakistan and Sri Lanka.Foreign private investment is divided into two main components: foreign direct investment and foreign portfolio investment. Foreign direct investment is considered to be more stable than foreign portfolio investment, and foreign portfolio investment is also called "hot money". Therefore, developing countries want to achieve economic development on the basis of increasing foreign capital.

The term volatility is defined as the desire of international investors to make short-term returns on their investments and to recoup their investments under uncertain conditions.

The devaluation that is taking place in the country will motivate foreigners to invest.The inflation rate in the country also has a big impact on foreign portfolio investment. If the inflation rate is high, the return on investment from the investor will be low and the investor will try to invest in another country, which is the country with the lowest inflation rate. If the inflation rate in a country is low, this will motivate investors to invest in this country.

In the article, scientists have developed several hypotheses:

The first hypothesis is that there is a strong correlation between the real exchange rate and the volatility (risk) of foreign portfolio investments.

The second hypothesis is that there is a strong correlation between the inflation rate in the country and the variability (risk) of foreign portfolio investment.

The third hypothesis is that there is a strong correlation between the state of the financial market in the country and the variability (risk) of foreign portfolio investment.

The fourth hypothesis is that there is a strong correlation between the growth rate of industrial production and the variability (risk) of foreign portfolio investment.

The fifth hypothesis is that there is a strong correlation between the rate of GDP growth in a country and the variability (risk) of foreign portfolio investment.

The sixth hypothesis is that there is a strong correlation between the volume of foreign direct investment entering the country and the variability (risk) of foreign portfolio investment.

The article discusses the impact of macroeconomic factors on the variability (risk) of foreign portfolio investments. These factors include the exchange rate, the inflation rate, the state of the financial market, the growth rate of industrial production, the growth rate of GDP and the volume of foreign direct investment.

Uzbek scientists N.G.Karimov and R.H.Khojimatov also conducted research in this area. These authors co-authored a textbook "Investment" [4] (Karimov NG, Khojimatov RH, 2019).

The textbook covers important concepts such as investment, its classification, economic concept of foreign investment, real and financial investments, their characteristics, real sector and its components, investment policy, investment project, project profitability, its calculation methods, innovation and intellectual investment. theoretical and practical knowledge.

The role and need for investment in the implementation of priorities such as modernization of the economy, innovative re-equipment, ensuring the continuity of global integration for the rapid development of our country were also revealed.

In developing countries such as China and South Korea, the average value of the share of savings was 30% during the period of economic growth averaged 10% observed over the last 15 years. The experience of developed countries shows that in order to ensure economic growth of more than 6% per year, national funds should account for 25% of GDP and investment for 30%.

Management of investment activities by the state is carried out through targeted programs based on the implementation of a number of measures and their implementation. These measures include:

1. Simplification of the tax system, ie stratification of tax subjects, objects and rates and granting of tax benefits.

2. Implementation of the depreciation policy, including the application of the accelerated depreciation policy and the provision of depreciation benefits.
3. Assistance through subsidies, grants, subventions for the development of certain regions, industries.
4. Development of credit policy, antitrust measures of state norms and standards, privatization of state property and pricing policy.
5. Determining the conditions of use of land and other natural resources.
6. Introduction of state programs for examination of investment projects.
7. Monitoring and development of a mechanism for investment projects.
8. Suspension, restriction or termination of investment activities, if necessary or in accordance with the law.

In order to expand the inflow of foreign direct investment, it would be expedient to exempt foreign investors from all forms of customs duties, taxes and levies until they have mastered the production capacity. It is advisable to apply the preferential taxation procedure for each foreign direct investment after they have fully mastered the production capacity.

Fig 1. World bank indicators

Country Context

Uzbekistan	2020
Population, million	34.2
GDP, current US$ billion	59.9
GDP per capita, current US$	1,751
Life Expectancy at Birth, years	71.7

Uzbekistan has achieved substantial progress in transforming its economy and society since 2017. The Government is now moving on to the next stage of economic reforms to address structural constraints, such as the absence of factor markets and the state’s economic dominance in the economy.

Despite the COVID-19 pandemic, thanks in part to reforms to liberalize prices and remove barriers to domestic and international trade, the country’s economy was one of the few in the Europe and Central Asia (ECA) region to avoid negative growth in 2020.

The Government has announced its intention to halve poverty by 2026 and achieve upper-middle-income status by 2030. These ambitious goals will require even greater efforts to accelerate Uzbekistan’s economic transition to a sustainable and inclusive market economy.

E-mail address: info@researchparks.org
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Over the medium term, in addition to growth and faster poverty reduction, the Government will also need to invest in stronger safety nets, better labor market conditions, and improved health and education services for citizens.

In 2021, the country's GDP is expected to accelerate to 6.2 percent as the authorities strengthen pandemic management. Success will depend on improved global economic conditions and progress on structural reforms to increase private sector growth, reduce state dominance in the economy, and increase economic inclusion[1].

If we analyze the GDP for 2009-2019, we can see the following: In 2009, the volume of GDP amounted to 48097.0 billion. soums, in 2010 - 61831.2 bln. soums, in 2011 - 77750.6 bln. soums, in 2012 it was 96589.8 bln. soums, in 2013 - 118986.9 bln. soums, in 2014 - 144867.9 bln. soums, in 2015 - 171369.0 bln. soums, in 2016 199325.1 bln. soums, in 2017 - 302536.8 bln. soums, in 2018 - 406648.5 bln. soums and in 2019 511838.1 bln. soums. It is self-evident that the highest figures are those of recent years. This is natural for developing countries.

In addition, the inflation rate has also had an impact on GDP formation. Today, GDP is growing steadily. This indicates that the country's economy is developing rapidly. In addition, the potential of Uzbekistan is sufficient to reach a higher level. It is only necessary to properly assess the existing opportunities and situation and establish a system of their effective use.

Public investment policy is a set of mechanisms and methods aimed at developing and supporting priority sectors of the economy, the transition from a centralized investment process to a decentralized investment process, support for priority investment projects.

The priorities of public investment policy are:

creation of a favorable legal framework for investments, their movement, relations of participants in investment activities, their regulation, improvement of the existing legal framework;

implementation of radical economic reforms, implementation of targeted investment policy;

improving the investment process and increasing the activity of all participants in the investment process, attracting foreign investment;

further improvement of the control functions of public administration bodies, government organizations [5]

As a result of reforms aimed at creating a favorable investment climate in the country, the volume of investment in the economy is growing.

Conclusion

In 2019, investments in fixed assets relative to GDP amounted to 37.1%, an increase of 6.5 percentage points compared to 2018. This figure was 23.9% in 2017 and 30.6% in 2018. The high growth rates of foreign direct investment and loans were the main factors in achieving high growth rates of investments in fixed capital. They increased by 3.9 times compared to 2018, accounting for 31.0% of total investments in fixed assets, of which 19.6% (or 3.6 times increase) of foreign direct investment.

The article assesses the volume of investments in the Uzbek economy and its impact on the country's GDP. In addition, the factors influencing the formation of a favorable investment climate in the country were analyzed. We consider the impact of investment on economic development (GDP growth) on the basis of correlation-regression analysis.

[1]https://www.worldbank.org/en/country/uzbekistan/overview

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