



grew 2.1 times, including due to centralized investments - 2.8 times. The share of investments in the structure of gross domestic product increased from 21 percent in 2016 to over 38 percent at the end of 2020. The volume of foreign trade turnover for this period increased by 1.7 times.

High investment and foreign trade activity had a stimulating effect on the growth of industrial production by 1.24 times, construction - by 1.44 times, and their share in the structure of gross domestic product increased from 24.1 to 33.2 percent [1].

At the same time, the global coronavirus pandemic continues to have a restrictive impact on the production activity of enterprises in a number of industries and sectors of the economy due to the disruption of cooperative ties, a decrease in demand for products and their markets.

The pandemic had a significant impact on the economies of the "Central

Asian Four" (we do not consider Turkmenistan due to the closeness of this state and questions about the quality of statistics) - through the fall in oil prices (Kazakhstan) and a sharp decline in demand for workers from these countries and the closure of borders (Kyrgyzstan, Tajikistan, Uzbekistan). At the same time, the accumulated reserves (Kazakhstan) and the large internal potential (Uzbekistan) will make it possible to reach growth rather quickly. The rest of the countries depend on the restoration of migration flows and political stabilization (Kyrgyzstan).

The greatest investment potential is in Kazakhstan and Uzbekistan. In the first case, there is a more developed financial market, which includes an extraterritorial multifunctional center and membership in the EAEU, and in the second, a rapidly opening economy, underinvested in previous decades, and a cheap labor force. At the same time, the macroeconomic situation will remain rather difficult.

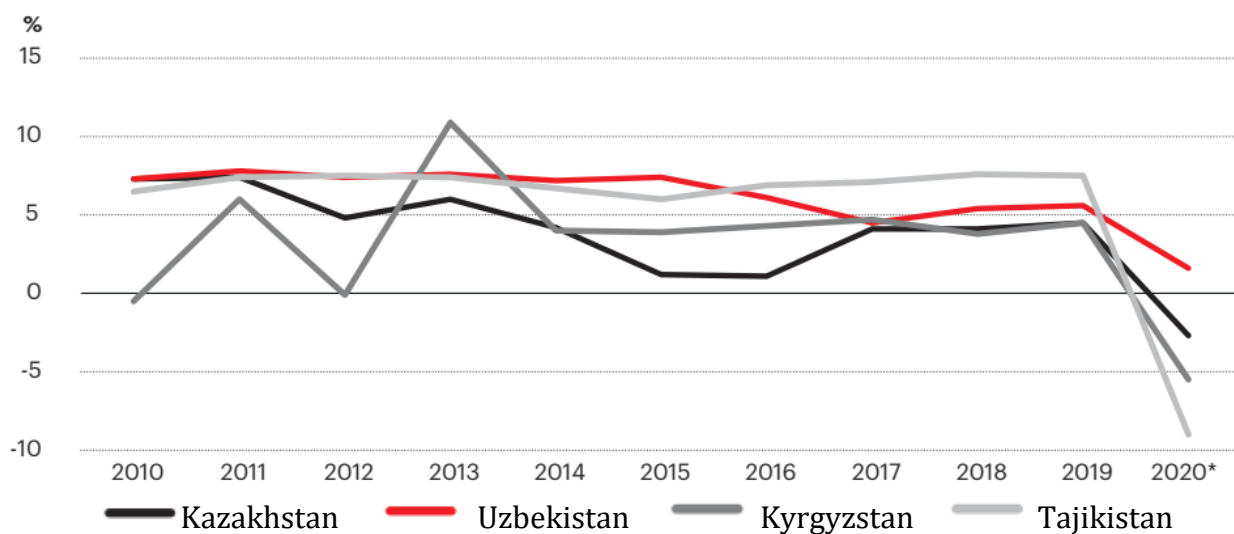


Figure 1. Rates of economic growth in Central Asian countries [6].

Uzbekistan is the second largest economy in the region, although it is



significantly smaller than Kazakhstan, GDP per capita is slightly more than 1.9 thousand dollars (population - 34.5 million people as of 01.01.2021). Over the past years (2017-2019), Uzbekistan has carried out structural reforms aimed at opening the economy and liberalizing trade, the growth rate remained at the level of 5%. Structural reforms have ensured an increase in investment activity, primarily due to public investment.

The Central Bank of Uzbekistan also has an inflation targeting policy. The final phase of the transition began in 2019, including the transition to a floating currency regime in August 2019. The goal for 2021 is to reduce inflation below 10%, transition to a target of 5% by 2023. For 2019, inflation was 15%, the "pandemic" 2020 did not contribute to the fight against inflation.

In recent years, the state budget of Uzbekistan has been in deficit; the deficit is financed by increasing the state debt within 160% of budget revenues. A significant share of Uzbekistan's public debt is external, 40% consists of loans from international development banks, but Uzbekistan also has Eurobonds (first issue in 2019, issues in 2020).

Trade liberalization from 2016-2017 has gradually reduced the foreign trade balance: the growth rate of imports outstripped the growth rate of exports, and also worsened the current account balance. A significant component of the current account is transfers of individuals, mainly (by 72%) from Russia. The inflow of foreign investment into the country is quite volatile, which is typical of developing economies.

External financial stability is good, despite medium-sized external debt, thanks to huge gold and foreign exchange reserves. Internal stability is also good, so there are no credit risks in the foreseeable future.

The COVID-19 pandemic had a limitedly negative impact on the economy of Uzbekistan: GDP growth remained positive, although it decreased to + 1.6%, inflation did not fall as planned, but did not rise too much amid a softening monetary policy (15.6%). Uzbekistan managed to place Eurobonds in 2020 with a rate lower than planned. To implement measures to counter the economic crisis, the Anti-Crisis Fund was created, support was provided to low-income groups of the population and enterprises. The Central Bank of Uzbekistan pursued a mitigating monetary policy and lowered the base rate.

Economic growth and rates of industrial production. Uzbekistan is the second largest economy in the region, although it is significantly smaller than Kazakhstan. A few years before the COVID-19 pandemic - from 2017 - Uzbekistan, with the change of government, began to carry out structural reforms aimed at increasing the openness of the economy, strengthening international relations (both with neighbors and with Western countries), and liberalizing trade. The reforms boosted investment activity and restored robust economic growth, but the recovery was interrupted by the ensuing pandemic. It should be noted that GDP per capita at the end of 2019 remained very low - about \$ 1.8 thousand per person.

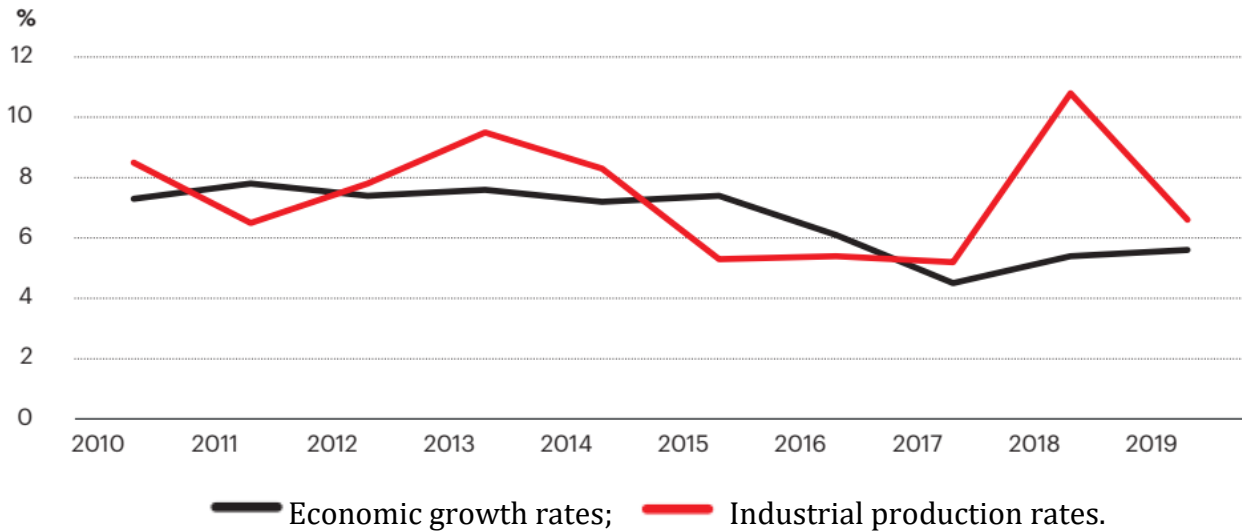


Figure 2. Rates of economic growth and industrial production growth in Uzbekistan in 2010-2019 [6].

Over the past 30 years, the structure of Uzbekistan's GDP has undergone significant changes: the share of agriculture has decreased due to the growth in the share of industry. A significant part of Uzbekistan's GDP is made up of the mining and manufacturing industries, also related

to the extraction of natural resources: Uzbekistan ranks 13th in the world in natural gas production, 9th in gold production, 7th in uranium production, 20 e place in copper mining. The volume of industrial production over the past 10 years has been growing by an average of 8.4% annually.

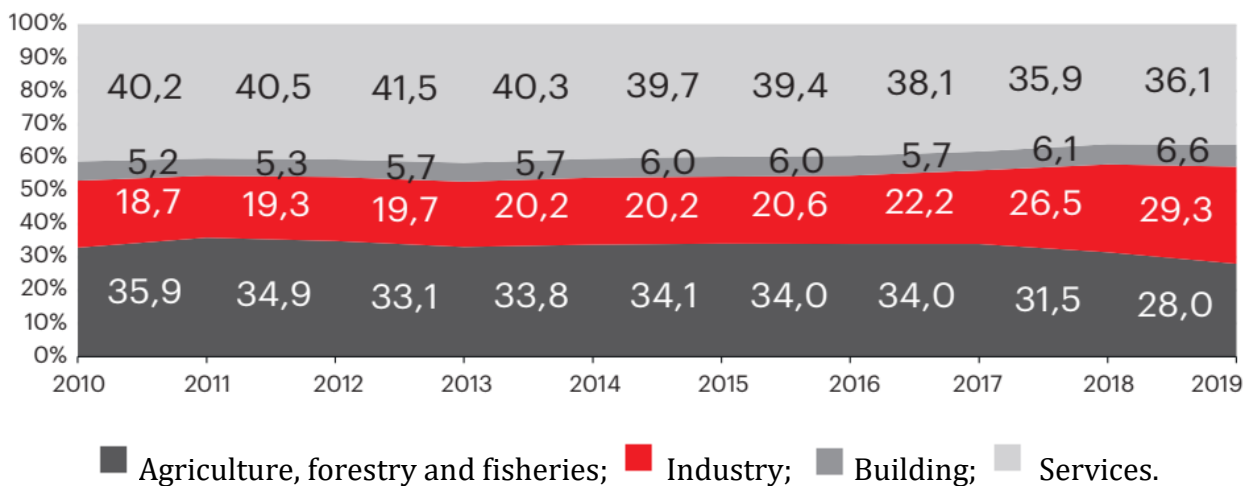


Figure 3. Structure of GDP of Uzbekistan, 2010-2019 [8].

In 2020, the economy of Uzbekistan also showed slight growth - Uzbekistan's GDP increased by 1.6%. GDP growth was driven by growth in agriculture (+ 3%) and

growth in construction (+ 9%), while the mining industry contracted by almost 22%.

Investment and lending activities.

The dynamics of investments in fixed assets grew at a moderate pace in the

period from 2010 to 2015, a decrease in the volume of investments was observed in 2016-2017, however, in 2018, investment activity began to recover due to structural reforms.

About a third of all investments in fixed assets are in the manufacturing industry - the production of textiles, non-metallic mineral products, and the metallurgical industry. One tenth of investment in fixed assets goes to the

mining industry, of which three quarters are investments in oil and natural gas production.

It should be noted that there is a downward trend in the use of own funds to finance investments in fixed assets: the share of own funds in sources of investment fell from 54% in 2016 to 29% in 2019. This is probably due to the state lending program to finance investments in fixed assets.

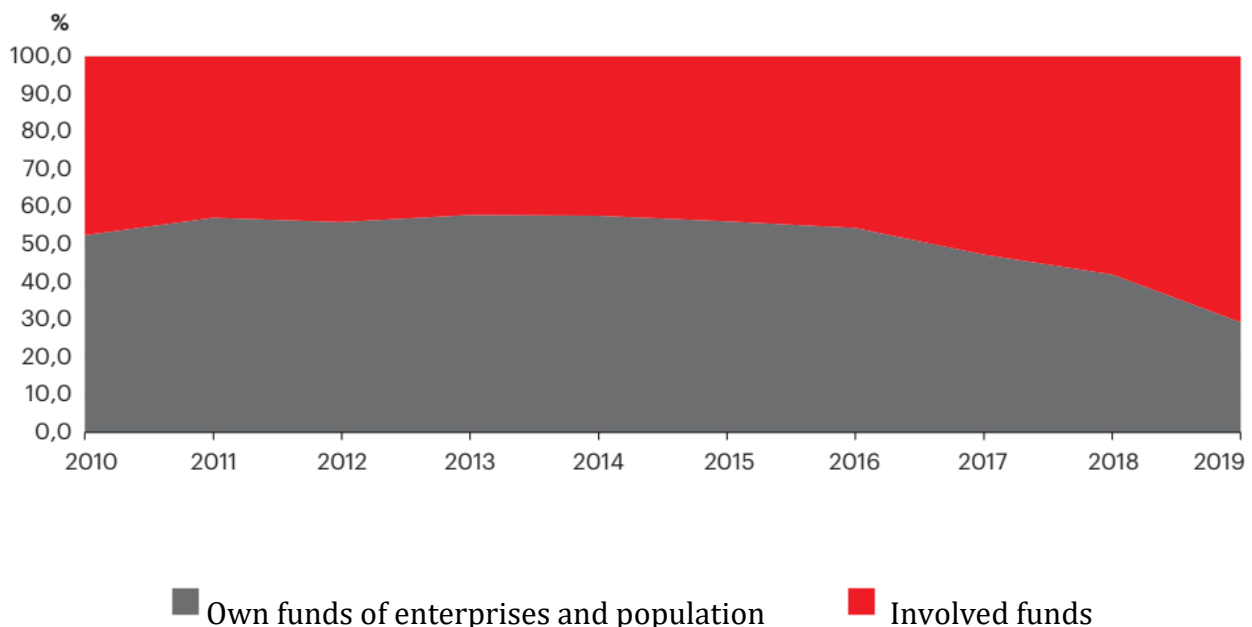


Figure 4. Investment in fixed assets in Uzbekistan in 2010-2019 by sources [8].

Additional lending support was introduced in 2020 as part of the fight against the economic crisis caused by the COVID-19 pandemic. In particular, credit holidays were introduced and anti-crisis credit lines were provided. The measures introduced made it possible to increase the volume of lending by 23.2% in 9 months of 2020. The main borrowers were agricultural companies (an increase in the

volume of issued loans by 48%) and industrial companies (+ 27%).

Inflation and Monetary Policy. Monetary policy of Uzbekistan is aimed at maintaining price stability. In 2019, the need for a complete transition of monetary policy to an inflation targeting regime was recorded. According to the "Guidelines for Monetary Policy for 2021 and the Period 2021-2023", a gradual transition to inflation targeting is expected: a decrease in inflation below 10% in 2021 and an inflation target of 5% by 2023.

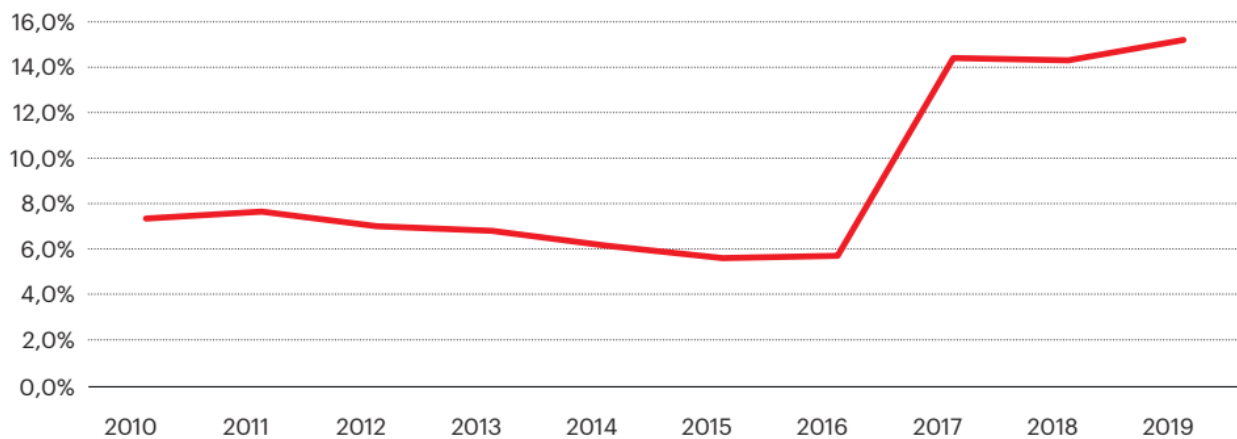


Figure 5. Growth rate of inflation in Uzbekistan in 2010-2019 (based on the consumer price index) [8].

The dynamics of the consumer price index (CPI) showed a moderate decline in the period 2010-2016, however, since 2017, the CPI began to grow sharply. The central bank of Uzbekistan responded by raising the base rate from 9% to 14%, which, however, did not lead to a decrease in the money supply.

The main reason for the jump in inflation was the sharp depreciation of the national currency, which in turn occurred against the background of trade liberalization and the opening of the economy within the framework of structural reforms. In August 2017, Uzbekistan established a floating exchange rate amid high volatility of the soum. By 2021, the depreciation of the national currency continues, but at a slower pace.

At the end of 2020, the inflation rate was 11.2%, however, despite the approach of the inflation rate to the planned target, the inflationary expectations of the population do not correspond to the

planned inflation rate. In 2020, the Central Bank of Uzbekistan began cutting the base rate to stimulate the economy amid the economic crisis caused by the COVID-19 pandemic.

The public debt of Uzbekistan has been growing over the past five years, with the bulk of the public debt being external debt. First of all, the borrowed funds are directed to the energy sector (28% of the debt as of 01.10.2020), to budget support (16%), transport (12%), agriculture (11%) and housing and communal services (11%). More than 40% of external public debt was received from international development financial institutions - the Asian Development Bank, the World Bank, and the Islamic Development Bank. In addition, Uzbekistan has bonded loans, including in dollars, and the demand for Eurobonds placed in 2019 on the London Stock Exchange significantly exceeded expectations, despite Uzbekistan's credit rating at BB-. In 2020, two more tranches were placed for \$ 750 million, demand also exceeded expectations.



Foreign economic relations. With the opening of the economy and the beginning of trade liberalization (officially launched in 2016), Uzbekistan's foreign trade activity is growing, while the foreign trade balance is falling: if before liberalization the volume of exports exceeded the volume of imports, then since 2017, imports have been growing at a much faster pace than exports.

Uzbekistan exports ferrous and non-ferrous metals, oil products and energy carriers, foodstuffs, also imports ferrous and non-ferrous metals, chemical products, machinery and equipment.

The main export partners of Uzbekistan are Russia, China, Kazakhstan, Turkey, Kyrgyzstan. The main import partners are China, Russia, Korea, Kazakhstan, Turkey, Germany, USA.

For 9 months of 2020, Uzbekistan's foreign trade turnover decreased by 12% compared to the same period last year and amounted to \$ 27.5 billion, while exports decreased by 6% and imports by 16.5% compared to the same period in 2019.

After the start of trade liberalization, the current account balance went into negative territory. A significant part of the current account is made up of remittances of individuals to the country, for example, in 2019, individuals transferred more than \$ 6 billion to Uzbekistan. In January-September 2020, the inflow of remittances to the country amounted to \$ 4.3 billion, down 4.4% compared to the same period last year. Most of the remittances were made from Russia - 72.1% (\$ 3.1 billion).

The main foreign investors in Uzbekistan are Russia, China, Germany and Turkey.

External debt and financial stability. Uzbekistan has a small external debt in relation to exports and transfers. Before the pandemic, it did not exceed 100% of exports and transfers, and only the decline in 2020 was able to raise its value above this mark. At the same time, gold and foreign exchange reserves are approximately equal to the volume of the entire debt, which removes risks from the external sector for the coming years. In general, the financial stability of the external and internal sectors is assessed positively [4].

Pandemic response. The main measures of the government to support the economy were the creation of an Anti-Crisis Fund, support for low-income segments of the population, the provision of tax incentives for enterprises and households most affected by the pandemic, business support (provision of guarantees and compensation for interest rates on loans issued for the production of socially important goods - 49.3 million dollars). In addition, measures were introduced to support enterprises, in particular, credit and tax holidays, anti-crisis credit lines were opened, and interest-free budget loans were allocated to repay loans to strategic enterprises (\$ 78.9 million) [7].

The main directions of monetary policy were to maintain price stability and support a stable flow of loans to the real economy. The Central Bank of Uzbekistan decided to reduce the base rate to 15% per annum, two-week deposit auctions were



launched in order to attract excess liquidity of the banking system.

Modern Uzbekistan is a leading state in the Central Asian region, ensuring stability and economic development of the region as a whole. Among the advantages that the modern economy of Uzbekistan offers for foreign companies are political and macroeconomic stability, favorable natural and climatic conditions, hospitable and hardworking people and many others.

In Uzbekistan, the achieved macroeconomic stability, deepening economic and institutional reforms, improving the investment climate in the country contributed to a significant intensification of investment activities and an increase in the volume of capital investments in the economy.

In our country, the following priority areas of attracting foreign investment in the republic's enterprises have been identified: the organization of environmentally friendly industries for the extraction and processing of medical raw materials, including oil and natural gas; organization and development of production of science-intensive and competitive products on world markets, including modern information and telecommunication systems; development of transport and telecommunications infrastructure; development of agricultural processing spheres based on compact, cheap equipment and technologies; production of resource and energy saving installations and equipment; production of medicines, machinery and equipment; development of the tourism industry.

Thanks to the favorable investment climate, the activities of foreign investors

are developing, the number of enterprises with the participation of foreign investors is growing. But at the same time, there are several problems that hinder the widespread attraction of foreign investment. In particular, there are regional disparities in the placement of investments. Thus, 73.5% of all operating joint ventures are located in the capital of the republic. This is explained by the insufficient development of infrastructure in the regions. This means that the development of production and market infrastructure in the regions of the republic is required in a short time.

In addition, in order to intensify the attraction of foreign investment to the economy of the republic, careful monitoring of enterprises with the participation of foreign capital is required to eliminate problems in their activities. The Government of the Republic has already taken significant steps in this direction. So, starting from 2021, within the framework of programs for the development of social and industrial infrastructure of the Republic of Uzbekistan, funds are provided for financing the following activities as a separate line: a) provision of engineering and communication infrastructure for free economic zones, small industrial zones and large industrial projects with the participation of foreign direct investment...[2].

The European Bank for Reconstruction and Development (EBRD) expects the economy of Uzbekistan to grow by 5.6% in 2021 and by 6% in 2022. The country is also forecast to recover in private consumption and investment. This is stated in the new report of the bank



"Regional Economic Prospects". According to the report, key sectors of the national economy such as services, general industry, construction and agriculture have shown growth this 2021. The report notes that, despite the pandemic, market reforms continue in the country, including the privatization of state-owned enterprises and banks.

The overall outlook for Central Asia has also been revised for the better, even though the recovery is far from uniform. The region's economy is projected to grow by 4.5% in both 2021 and 2022 due to higher prices for raw materials, which benefit exporters of raw materials, and the recovery of remittances.

"While the revised forecasts are encouraging, there is still considerable

uncertainty about the future development of the COVID-19 delta variant, which poses a serious risk for countries that have made less progress in vaccination, as well as for economies in highly dependent on international tourism", - said the chief economist of the European Bank for Reconstruction and Development Beata Javorczyk [9].

Summing up, we can say that the implementation of the above measures will give effective results in attracting foreign capital. In addition, a good effect will be provided by the provision of consulting, legal services to domestic entrepreneurs interested in cooperation with foreign investors, the creation of a permanent, relevant and wide database of foreign businessmen.

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