

# STATE LOANS AS A SOURCE OF DEVELOPMENT OF ENTERPRISES IN THE REPUBLIC OF UZBEKISTAN

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**ABSTRACT--***The article considers the investment opportunities of the Republic of Uzbekistan in both traditional and new sectors of the economy. The government is fully aware of the importance of investments for the development of the country and is now developing strategies to attract them. This is reflected in comprehensive political, economic and legal reforms recognized to make Uzbekistan more competitive and attractive to investors. The country's market opens up to foreign capital as the government takes measures aimed at removing legal, regulatory, procedural and institutional barriers that adversely affect the life cycle of investments and business. These measures, combined with the existing economic potential of Uzbekistan, make it a profitable direction for investors seeking to diversify the portfolio.*

**Key words--** *investments, development, industries, companies, reforms, incomes, economic sector.*

## I. INTRODUCTION

In the context of accelerated reforms, investment opportunities appear in both traditional and new sectors of the economy. Traditional sectors of the economy of Uzbekistan, which include the oil and gas and mining sectors, agriculture and the textile industry, rely mainly on natural resources. These sectors are already holding steady positions, but their investment potential has not yet been fully realized. On the other hand, global trends, such as digital transformation, rising incomes and expenditures of the population, as well as the current demographic trajectory, create significant development potential in relatively new sectors for Uzbekistan - financial and banking sectors, construction industry, telecommunications and tourism.

## II. RESEARCH METHODOLOGY

This article is research and analytical. The study is based on the study of indicators of economic development of Uzbekistan. They are collected from various national and international sources, such as: scientific articles, official website of the State Committee of the Republic of Uzbekistan on statistics, ministries of foreign economic relations, investments and trade of the Republic of Uzbekistan, report of the international company BCG, etc. The number of investments, sources of financing, types of investments and directions of financial investments are analyzed. The

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methods of statistical and economic analysis, the method of expert evaluation and the method of calculating economic efficiency are used.

### III. DISCUSSION

Based on the positive macroeconomic situation, the country is implementing large-scale reforms aimed at ensuring further growth and improving the investment climate. In recent years, the business climate of Uzbekistan has improved significantly - in the World Bank's Doing Business ranking, the republic rose from 166th place in 2012 to 76th place in 2019 [1].

**Table1:** Doing business 2020

Ease of doing business ranking		
Rank	Economy	DB score
1	New Zealand	86.8
2	Singapore	86.2
3	Hong Kong SAR, China	85.3
4	Denmark	85.3
5	Korea, Rep	84.0
6	United States	84.0
7	Georgia	83.7
8	United Kingdom	83.5
9	Norway	82.6
10	Sweden	82.0
...		...
63	India	71.0
64	Ukraine	70.2
65	Puerto Rico (U.S.)	70.1
66	Brunei Darussalam	70.1
67	Colombia	70.1
68	Oman	70.0
69	Uzbekistan	69.9
...		...
190	Somalia	20.0

*Source: Doing Business database.*

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digital transformation, rising incomes and expenditures of the population, as well as the current demographic trajectory, create significant development potential in relatively new sectors for Uzbekistan - financial and banking sectors, construction industry, telecommunications and tourism.

Since the end of 2016, the new leadership of Uzbekistan announced numerous plans to carry out systemic economic reforms and create favorable conditions for investors. The government is fully aware of the importance of investments for the development of the country and is now developing strategies to attract them. This is reflected in comprehensive political, economic and legal reforms designed to make Uzbekistan more competitive and attractive to investors. The government is aware of the problems facing Uzbekistan, but is confident in its huge potential and is actively trying to remove barriers for investors, considering the reform of the investment climate one of the key priorities. President of Uzbekistan Shavkat Mirziyoyev, elected in December 2016, proclaimed that private business and foreign investment should be the main factors for future growth. This new approach has not yet been fully implemented, and the country has only to develop and carry out a number of reforms, but the first results are already visible.

In 2017-2018, BCG conducted a series of interviews on the investment climate of Uzbekistan with foreign and local investors, representatives of international organizations, state enterprises and state bodies of Uzbekistan. Respondents represented a wide range of industries, including agribusiness, construction, the oil and gas sector, finance, technology and IT, the pharmaceutical industry, retail, the chemical industry, the food industry, the textile industry, and the banking sector.

#### IV. RESULTS

In recent years, foreign direct investment agreements have been concluded for a total of \$ 15 billion, including \$ 2.4 billion in 2017. According to the State Statistics Committee of the Republic of Uzbekistan, as of January 1, 2019, 7560 enterprises with foreign participation were operating in the country[2]. According to the State Investment Committee of the Republic of Uzbekistan, at the beginning of 2018, the investment portfolio included more than 300 projects in various industries with a total value of \$ 9 billion [3]. At the same time, the growth trend of foreign direct investment flows into regional projects has strengthened, the total value of which in 2019 amounted to \$ 4.8 billion (of which \$ 4.2 billion was in fixed assets), an increase of 4 times compared to the same the period of 2018 and 24 times compared with 2017.

**Table 2:** Distribution of investments in fixed assets by sources of financing

	Billion soums	Growth rate, %	% of total
Investments in fixed assets	134029,4	146,0	100,0
including:			
foreign loans guaranteed by the government	19630,4	166,2	14,6
foreign direct investment and loans	32940,6	3,2 p	24,6
including::			
foreign direct investment	21448,3	3,1 p.	16,0

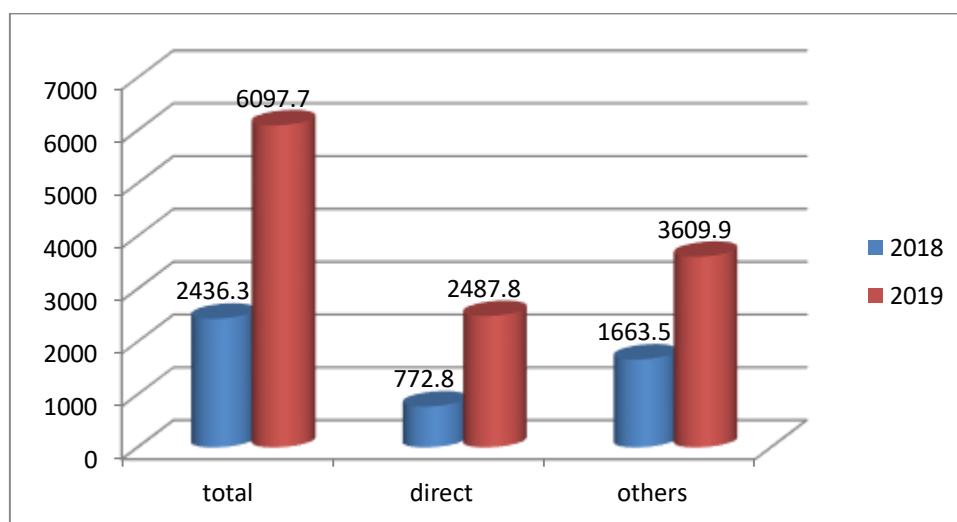
commercial Bank loans and other borrowed funds	20983,0	116,5	15,7
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In the regions, with the participation of foreign capital alone, 167 projects with a total value of \$ 858.5 million were put into commercial operation [3].

Some of the pioneering projects have become examples of successful investments in the economy of the republic. For example, Daewoo Motors built a car assembly plant in Uzbekistan in 1996. General Motors followed suit. Following this success story, the State Investment Committee of Uzbekistan and the South Korean company Evergreen Motors signed a memorandum in November 2017 stipulating the launch of serial production of Hyundai commercial vehicles in Uzbekistan. In November 2018, an investment agreement was signed and construction began. The total project budget is \$ 200 million. It is expected that the first plant in Namangan region will release its first products in September 2019. In addition, Evergreen Motors will launch production of forklift trucks with a total value of more than \$ 50 million. During the visit of Russian President Vladimir Putin to Uzbekistan, a number of agreements were signed with Russia, including the construction of a nuclear power plant together with Rosatom. The project cost is about \$ 11 billion, construction will be completed by 2028. Also, the Russian agricultural holding Eco-Culture intends to create the largest tomato production in Uzbekistan. The area of greenhouses will be 314 hectares, about \$ 472 million is supposed to be invested in the project. International development organizations are also trying to restore or expand their presence in Uzbekistan. This is evidenced by the return to the country of the European Bank for Reconstruction and Development (EBRD) in 2017. The World Bank also helps Uzbekistan's economic development by supporting 16 projects worth \$ 2 billion. The projects cover agriculture, water management, the energy sector, transport, healthcare, education, urban planning, water supply and sanitation. In January 2018, the World Bank Board of Executive Directors approved the allocation of additional funding for a project to develop the agricultural sector of Uzbekistan in order to expand access to the domestic and world markets and increase agricultural productivity through a loan of \$ 500 million from the International Bank for Reconstruction and Development. The increase in the volume of capital per employee and the moderate growth in the aggregate productivity of factors of production (SPP) played a positive role in the intra-industry changes in labor productivity. Due to the high growth of investments from 1996 to 2016, capital in the economy increased 18 times at constant prices, and the capital-labor ratio increased almost 12 times at constant prices. SPPP (net of interindustry flows) grew over the same period by only 16.4%, and interindustry flows as a whole had a small negative impact on the growth of value added per capita over this period. This is due to the fact that some cross-industry flows contributed to the growth of labor productivity, and as a result, workers moved from industries and industries with labor productivity below the national average (for example, cotton growing and wheat cultivation) to industries with labor productivity above the national average (for example, transport and information and telecommunication services, as well as trade and catering). However, other intersectoral shifts included the transition of workers from industries with higher than average labor productivity (such as manufacturing and mining) to industries with lower than average labor productivity either abroad or from industries with lower than average, labor productivity in the country (for example, agriculture) to other sectors with labor productivity also lower than average (such as "other services" and construction).

## V. CONCLUSION

The country's market opens up to foreign capital, as the government takes measures aimed at removing legal, regulatory, procedural and institutional barriers that adversely affect the life cycle of investments and business. Total amount of foreign investments and loans disbursed in us dollars the equivalent was 6097.7 million US dollars. 2487.8 million US dollars of these, foreign direct investment, or 16.0 % of their total volume



**Figure 1:** Development of foreign investments and loans (millions of dollars USA)

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