
ENSURING MACROECONOMIC STABILITY AND INCREASING INVESTMENT ACTIVITY (A case of Uzbekistan)

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Annotation

This article analyzes the issues of macroeconomic stability and increasing investment activity in Uzbekistan. The article also reviews foreign scientific articles on the subject, as well as local scientific literature and draws scientific conclusions.

In addition, the current state of the Uzbekistan's economy was analyzed and the importance of investment in the economy was determined on the basis of econometric analysis. At the end of the article, based on the findings of the study, scientific conclusions and recommendations were developed to increase macroeconomic stability and investment activity in Uzbekistan.

Keywords: macroeconomic stability, investment, investment activity, economy, investment policy.

Introduction

Today, increasing macroeconomic stability and investment activity in the economy of any country is one of the most important issues. Macroeconomic stability and foreign investment are among the most important parts of the global economy. The issues of macroeconomic stability and increasing investment activity are also of paramount importance in the Uzbekistan's economy. Especially in recent years, these areas have become the mainstay 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 continue to have a negative impact on the level of economic stability. In other words, high inflation in the country's economy and, as a result, high interest rates have a negative impact on the favorable business environment in the country. In addition, there are some problems in the distribution of income among the population. It is impossible to increase the welfare of the population without regulating the distribution of income among the population. Because most of the income goes to the poor. This, in turn, means that most people in the country have low incomes. This will increase the level of poverty in the country. Based on the above, it follows that ensuring macroeconomic stability in the Uzbekistan's economy 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 today's global economy. It will provide additional capital to countries' production processes and increase economic growth"(Hui-Ching Hsieh; Sofia Boarelli; Thi Huyen Chi Wu , 2019). Therefore, the development of the Uzbekistan's economy requires the active involvement of foreign investment in the economy.

The experience of developed countries shows that in order to achieve economic growth of more than 6% a year, national funds must account for at least 25% of GDP and investment for 30%(Karimov N; Khojimatov R , 2019). It follows that today it is important to actively attract investment to the economy in order to develop the Uzbekistan's economy.

Literature review

Today, macroeconomic stability and investment are in the spotlight. In this direction, foreign and Uzbekistan's scientists and researchers are conducting research in different countries, using different methods and drawing scientific conclusions. Here are some of them.

"The effects of economic policy uncertainty on outward foreign direct investment"(Hui-Ching Hsieh; Sofia Boarelli; Thi Huyen Chi Wu , 2019) published in the International Review of Economics and Finance by Vietnamese scholars Hui-Ching Hsieh, Sofia Boarelli and Thi Huyen Chi Wu analyze the impact of unsustainable economic policy on foreign direct investment. The Economic Policy Uncertainty Index (EPU Index) was used in the analysis to assess economic instability (uncertainty). The analysis found that economic instability has a strong impact on foreign direct investment. The article also analyzes the positive and negative impact of democratic institutions on foreign direct investment. Studies show that the higher the Economic Policy Uncertainty Index (EPU Index), the higher the volatility of the capital market, the lower the return on capital, the greater the risk control, the greater the correlation between bonds and investments. "interactions" will decrease, GDP growth will be hampered, and the level of investment by firms will decrease. Scientists make 3 hypotheses in the article. The first hypothesis states that the Economic Policy Uncertainty Index (EPU Index) has a positive effect on gross U.S. foreign direct investment. The second hypothesis states that the Economic Policy Uncertainty Index (EPU Index) of developing countries has a negative impact on the inflow of foreign direct investment from the United States. 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. Researchers have found a strong link between the Economic Policy Uncertainty Index (EPU Index) and outward foreign direct investment (FDI flow). This applies not only to the United States, but to other countries as

well. Research shows that if the index of economic instability increases, the volume of foreign direct investment in the country will decrease.

The article used works by 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”(Bleaney, 1996). “Reliable macroeconomic policies help create a secure environment for private sector investment decision-making. Evidence suggests that good macroeconomic governance encourages 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, and there is a large proportion that bad investment decisions lead to an unstable environment.

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 wrote “Macroeconomic Factors and Foreign Portfolio Investment Volatility: A Case in South Asian Countries”(Yahya Waqas; Shujahat Haider Hashmi; Muhammad Imran Nazir, 2015) published an article entitled. Macroeconomic factors play a very important role in attracting foreign investment to the country. The analysis shows that there is a strong correlation between macroeconomic factors and the volatility of foreign portfolio investment. Therefore, low volatility in international portfolio investment flows in the countries under analysis is a stimulus for high interest rates, currency devaluation, foreign direct investment, low inflation and high GDP growth. The stability of the country’s macroeconomic environment will be the focus of attention for foreign portfolio investors.

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 flexible than foreign portfolio investment, and foreign portfolio investment is also called “hot money”. That is why developing countries want to achieve economic development by increasing foreign capital.

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

The devaluation in the country will motivate foreigners to invest.

Inflation in the country also has a significant impact on foreign portfolio investment. If the inflation rate is high, the return on investment will be low and the investor will try to invest in

another country, which has the lowest inflation rate. If a country has a low inflation rate, it will motivate investors to invest in the 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 country's GDP growth rate 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 examines the impact of macroeconomic factors on the variability (risk) of foreign portfolio investments. These factors include the exchange rate, 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.

The article concludes that policies aimed at developing the structure of the financial market, improving the country's infrastructure, strengthening institutions and reducing the instability of macroeconomic factors in the country will reduce the volatility (risk) of foreign portfolio investment and increase foreign portfolio investment.

The article used the scientific work of scientists such as Bleaney M., Greenaway D., Hymer S., Hansen P. R., Lunde A., Ahmed T., Malik S. U., Bekaert, Harvey, Ghura D., and Goodwin B.

The topic of investment activity and macroeconomic stability has also been the subject of several scientific studies by Uzbekistan's scientists. The scientific works of Sh.I. Mustafakulov are especially distinguished from them. The monograph "Attractiveness of the investment environment: theory, methodology and practice" (Sh.I., 2017) authored by Sh.I. Mustafakulov provides scientific information on the investment climate in the country and ensuring investment activity in the country. The monograph defines the concepts of investment, investment climate, investment image and investment attractiveness as follows:

An investment is any object of civil rights, expressed by investors, which is included in the relevant type of activity and expressed in money by investors in order to achieve their goals.

The investment climate is the general economic, political and financial conditions that affect the inflow of domestic and foreign investment.

The country's investment attractiveness is the sum of objective economic, social and natural characteristics, tools, opportunities and restrictions that determine the inflow of investment into the region and are assessed by investment activity.

Uzbekistan's scientists N. Karimov and R. Khojimatov also conducted research in this area. This authors have co-authored a textbook called "Investment" (Karimov N; Khojimatov R, 2019). The textbook covers 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 aimed at highlighting important concepts. 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 fund's share has been 30% over the past 15 years, with an average economic growth rate of 10%. 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 investments for 30%.

The 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:

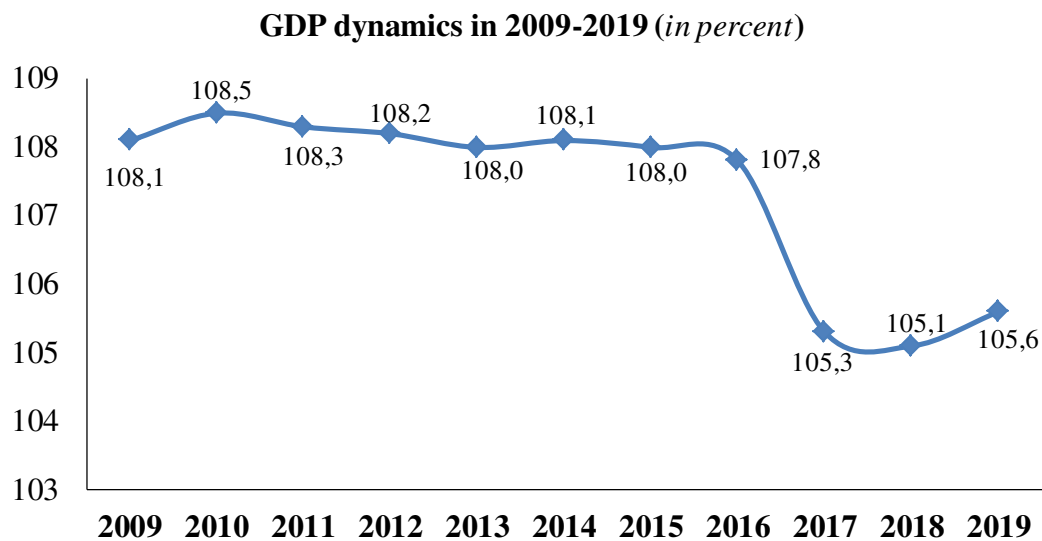
1. Simplification of the tax system, the classification of tax subjects, objects and rates and the provision of tax benefits.
2. Implement a depreciation policy, including an accelerated depreciation policy and the provision of depreciation benefits.
3. Assistance through subsidies, grants, subventions for the development of certain regions and sectors.
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. Introduce state programs for the examination of investment projects.
7. Monitoring and development of a mechanism for investment projects.
8. Suspend, restrict or terminate investment activities, if necessary or in accordance with the law.

In order to increase 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.

Data and methodology

Macroeconomic stability is directly explained by the fact that GDP is growing at a steady pace. Investment activity is also directly linked to macroeconomic stability. If the country has macroeconomic stability, the inflow of investments into the country will increase. If the country does not have macroeconomic stability, investors will have a higher risk of investing in the country and low confidence in the expected rate of return. As a result, investors are reluctant to invest in this country. If we focus on the dynamics of GDP in Uzbekistan, we can see the following.

Graph 1

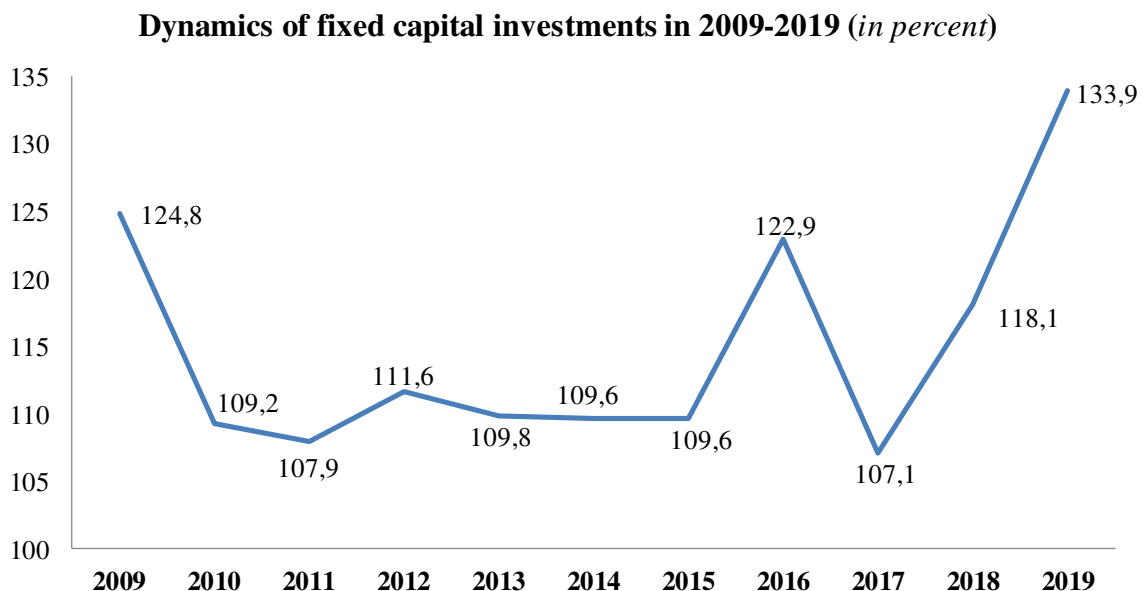


Source: Compiled according to the State Committee on Statistics of the Republic of Uzbekistan. - URL: <http://www.stat.uz>

The dynamics of GDP in 2009-2019 shows a steady increase in GDP during this period. In the dynamics of GDP, 108.1% growth in 2009, 108.5% growth in 2010, 108.3% growth in 2011, 108.2% growth in 2012, 108.0% growth, 108.1% growth in 2014, 108.0% growth in 2015, 107.8% growth in 2016, 105.3% growth in 2017. swelling, an increase of 105.1% in 2018 and 105.6% in 2019. Between 2009 and 2015, the growth rate did not fall below 8%.

The inflow of fixed capital investments into the country's economy is growing year by year. This can be observed on the basis of the dynamics of investments in fixed assets.

Graph 2



Source: Compiled according to the State Committee on Statistics of the Republic of Uzbekistan. - URL: <http://www.stat.uz>

During the period under review (2009-2019), fixed capital investment focused on growth rates, while growth rates of at least 7% were achieved during this period. The highest rates were achieved in 2009, 2016 and 2019, ie 124.8% in 2009 and 122.9% in 2016, while the highest rate in

2019 was 133.9%. The growth rate has been increasing in recent years. Especially in 2019, 189.9 trillion. UZS (USD 21.5 bln. equivalent) or 133.9% compared to 2018.

In 2019, fixed capital investment accounted for 37.1% of GDP, 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 assets. They increased by 3.9 times compared to 2018 and accounted for 31.0% of total investments in fixed assets, including 19.6% (or 3% of foreign direct investment. , An increase of 6 times).

The linear correlation coefficient is determined using the following formula:

$$r_{yx} = \frac{\sum_{i=1}^n (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_{i=1}^n (x_i - \bar{x})^2 \sum_{i=1}^n (y_i - \bar{y})^2}}$$

The significance of the correlation coefficient is determined using the Student's t-test:

$$t_{his} = r_{yx} \sqrt{\frac{n - k - 1}{1 - r_{yx}^2}}$$

The general form of the one-factor regression equation is defined as follows:

$$y_x = a_0 - a_1 x_i$$

Here, the values of the parameters a_0 and a_1 are determined using the following formulas:

$$a_1 = \frac{\sum_{i=1}^n (x_i - \bar{x})(y_i - \bar{y})}{\sum_{i=1}^n (x_i - \bar{x})^2}$$

$$a_0 = \bar{y} - a_1 \bar{x}$$

To check the significance of the regression equation, Fisher's F-criterion is used:

$$F_{his} = \frac{r_{yx}^2}{1 - r_{yx}^2} (n - k - 1)$$

Analysis and results

We conduct a one-factor correlation-regression analysis between GDP and Investment. In this case, we define GDP as a result indicator, and investment as a factor indicator. That is, we define Y - GDP and the factor influencing it - X - investment.

Based on the analysis, it was found that $\bar{x} = 54822,46$ and $\bar{y} = 213984,09$. The correlation coefficient was found to be $r_{yx} = 0,94$. It is known that the correlation between the factors is strong, as this value is between ± 0.7 and ± 1 .

Based on the analysis, it was found that $a_1 = 2,35$ and $a_0 = 85151,309$.

It turned out that the regression equation is as follows:

$$y_x = 85151,309 - 2,35x_i$$

If this equation is analyzed, the result, which is not affected by any factors, is 85151.309 billion UZS GDP. If fixed capital investment in GDP increases by 1 unit, the resulting GDP will increase by 2.35 units. That is, if the investment is \$ 1 billion. As a result, the GDP will increase by 2.35 billion UZS. This means that investment is the key to GDP growth, and investment is a key driver of economic growth. Based on this econometric analysis, we found that there is a strong correlation between investment growth and economic growth in the Uzbekistan's economy.

Conclusion and recommendations

Ensuring macroeconomic stability and investment activity is one of the most pressing issues in Uzbekistan. It is an objective fact that the situation in other areas of the country cannot be improved without developing the economy. Therefore, the first step in assessing the level of development of a country is the level of economic development. Therefore, it is important today to develop the economy of Uzbekistan. Economic development requires an increase in investment and macroeconomic stability in the country. In order to increase the volume of investments in the economy, it is necessary to create a favorable investment climate in the country. With the creation of a favorable investment climate, investors will be more interested in investing in this country. As a result, the volume of investments in the country will increase. The following conclusions can be drawn from the research of foreign researchers:

- Unstable economic environment has a negative impact on the volume of investment in the economy of this country;
- Reliable macroeconomic policy will help create a safe environment for private sector investment decision-making. Good macroeconomic governance encourages rapid investment growth;
- Real exchange rate with foreign portfolio investments, inflation rate, financial market situation, growth rates of industrial production, GDP growth rate in the country, foreign direct investment in the country. There is a strong gap between factors such as the size of the investment.

Based on the above research and our own analysis, we make the following recommendations aimed at creating a favorable investment climate in Uzbekistan, ensuring macroeconomic stability and increasing investment in the country's economy:

✚ First, to create a favorable business environment for investors by positively influencing the economic, social and legal factors that affect the formation of a favorable investment climate in the country;

✚ Second, there is a need to develop measures to curb inflation, which has a negative impact on both portfolio and direct investment. Currently, Uzbekistan still has a high level of inflation. Accelerate the Central Bank's transition to inflation targeting, which is one of the measures to reduce inflation;

✚ Thirdly, the biggest factor influencing the volume of portfolio investments in the country is the state of financial markets. Therefore, to analyze the state of the financial market in Uzbekistan and take measures to improve the financial market;

✚ Fourth, the installation of high-tech, modern equipment that saves energy and is less harmful to the environment; introduction of advanced foreign technologies in accordance with local conditions, promotion of our inventions and investment in the knowledge economy;

✚ Fifth, continuous improvement of legal, socio-economic and other conditions that will ensure the attraction of direct capital investment in the economy of the republic.

Based on the implementation of the above proposals, it is possible to create a favorable investment climate in the country and increase investment in the economy. The increase in investment is a key factor in ensuring macroeconomic stability in the country. Macroeconomic stability and investment activity are always interrelated economic factors. These two factors are always complementary and interrelated in economic processes.

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