# Analysis of the State's Macroeconomic Policy

Konstantin Kurpayanidi[1*]; Nilufar Nabiyeva[2]; Shokhistakhon Akhunova[3]; Mukhayyo Tukhtasinova[4]

[1*]PhD, Professor RANS, Fergana Polytechnic Institute, Fergana, Uzbekistan.

[1*]konstantin@ferpi.uz

[2]PhD, Fergana Polytechnic Institute, Fergana, Uzbekistan.

[3]PhD, Fergana Polytechnic Institute, Fergana, Uzbekistan.

[4]Senior Lecturer, Fergana Polytechnic Institute, Fergana, Uzbekistan.

## Abstract

*In this article, the authors propose to bring macroeconomic policy to the level of state policy by studying various approaches to the concept of macroeconomic policy in order to reduce unemployment and inflation, support an increase in macroeconomic indicators, prevent economic crises and ensure sustainable functioning of the economy. An analysis based on the example of Uzbekistan shows what measures are being taken by the government to digitalize the economy during a pandemic and what needs to be done by the government. Based on the analysis of the branches of macroeconomic policy on the example of the Republic of Uzbekistan, some measures are proposed for the optimal solution of problems associated with macroeconomic policy.*

**Key-words:** Macroeconomics, Unemployment Rate, Budget, Trade Balance, State Debt, Macroeconomic Policy of the Uzbekistan.

## 1. Introduction

In the modern economy, the macroeconomic policy of the state plays an important role in determining the rate of the structure and scale of development.

The relevance of this article is the optimal solution to the problem for macroeconomic policy on the example of the Republic of Uzbekistan during the coronavirus pandemic [1,2,3]. The article examines the types of macroeconomic policy, analysis of the structure and content of the macroeconomic policy of the Republic of Uzbekistan and government measures during a pandemic [3,4].

## 2. Literature Review

Macroeconomic policy is a well-studied area for the country's economy, but the development of new problems that contribute to a decrease in the growth rate of the economy of a particular country require new methods of solution. So, it is worthwhile to study existing research, which creates certain restrictions to study. Many specialists have their own point of view, assuming and analyzing economic resources in their scientific works.

These are the works of such local scientists as Khadzhiev B.D., Mambetzhanov K.K., from the CIS countries such as Balabanova G.G., Zhuravleva L.I. [5], Nosova S.S. [6], Vechkanov G.S. [7] and from far foreign countries such as N.G. Mankew and others [8,9, 13].

## 3. Research Methodology

The methodological basis of the study is made up of research, analog, mathematical, situational approaches, as well as methods of logical and comparative analysis, observation methods and statistical methods

## 4. Analysis and Results

In a modern economy, macroeconomic policy plays an important role in determining the pace, structure and scale of development. The development of the economy in macroeconomic policy is the main problem that one has to face when it comes to attracting investment to the state. This raises the problem of the development of macroeconomic policy. This problem is being addressed to the field of development of macroeconomic policy sectors.

First of all, in order to give a definition of the concept of macroeconomic policy, it is necessary to have an idea of what macroeconomics is. According to the authors of the book "Macroeconomics", "macroeconomics is the doctrine of the general level of national output, unemployment and inflation; deals with the properties of the economic system as a whole, studies the factors and results of the development of the country's economy as a whole. " The author of the book "Economic Theory" Nosova S.S. believed that "macroeconomics as a science reveals the general patterns and trends existing in all national economies" [6, 13]. According to the author of the book "Macroeconomics" N. Gregory Mankew, "macroeconomics studies the forces that affect the economy as a whole." So, Khazhiev B.D. and Mamarakhimov B.E, who are the authors of the book "Economic Theory", believed that "macroeconomics is a system of national economy that unites spheres,

industries, territorial structures of the economy operating at the country level in interconnection and interdependence" [8,9]. All these views in general mean: "macroeconomics is a science which studies the patterns and tendencies which unite spheres, branches and territorial structures of economy into one whole subject".

For exact analysis of the concept of macroeconomic policy and analysis of their structure and content in modern economy it is necessary to formulate the essence of macroeconomic policy. For this purpose, it is necessary to give several points of view of scientists-economists concerning the economic essence of resources.

According to the authors of the book "Economic Theory" S.S. Nosov, macroeconomic policy is an economic policy, which is a set of measures or decisions made by the government regarding what the economy should be and what are its economic goals. So, by definition Balabanov G.G. and Davydenko T.A., who are the authors of the book "Economic Theory: Practice: Textbook" believed that macroeconomic policy is an instrument of state regulation of the economy [5-9]. According to the Russian economist M. I. Tugan-Baranovsky, macroeconomic policy is a practical political economy [10].

Thus, the following definition would be the most correct: "Macroeconomic policy is state policy, the main purpose of which is to limit the levels of unemployment and inflation, support macroeconomic indicators, prevent economic crises, ensure the stable functioning of the economy, adopted relatively by the government".

The year 2020 has undoubtedly brought many difficulties to every country in the world. Governments were forced to completely reconsider their economies, some countries faced poverty. Developing countries were forced to attract huge funds to keep their economies afloat.

Table 1 - Macroeconomic Indicators

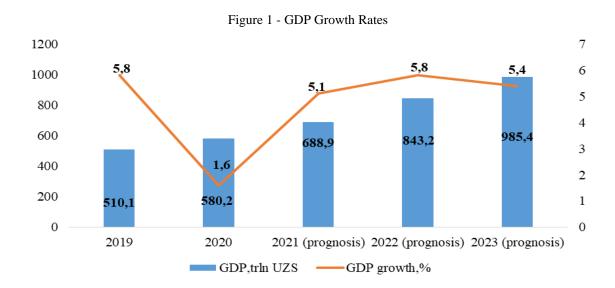| Macroeconomic indicators | 2019 | 2020 | 2021 (prognosis) |
|---|---|---|---|
| GDP growth | 5,7 % | 1,6% | 5,1% |
| Inflation | 15,2% | 11,1% | 9-10% |
| Unemployment rate | 9% | 11,1% | absent |
| CPI | 13,5% | 12,5% | 9-10% |
| External trade balance | $41,8 billion | $38,6 billion | $41,9 billion |
| Foreign direct investment | $6,51 billion | $6,63 billion | $7,81 billion |

According to (Table 1), national economic growth slowed down significantly to 1-1.5% last year in the crisis. In order to support the economy, the Government adopted a Practical Action Plan to restore economic growth and continue structural reforms in Uzbekistan (Table 2.).

Table 2 - Action Plan for Restoring Economic Growth and Continuing Structural Reforms

| *The action plan provides for the coordination of the efforts of the government, ministries, agencies, business associations and local public authorities to* | | |
|---|---|---|
| overcoming the negative effects of the coronavirus pandemic on the economy and population (recovery growth) | creating the conditions for continued systemic reforms | identifying new opportunities and reserves that can give further impetus to economic development ("growth points") |
| I STAGE – stabilisation and recovery growth until the end of 2020 | STAGE II - Continuation of systemic reforms to ensure a sustainable economic growth rate of 5.0-5.5% from 2021 | |

In 2021, with macroeconomic stabilisation measures and the continuation of systemic structural reforms, economic growth is expected to recover to the 5.1% level. This takes into account that uncertainty remains high in the context of the ongoing pandemic [11].
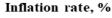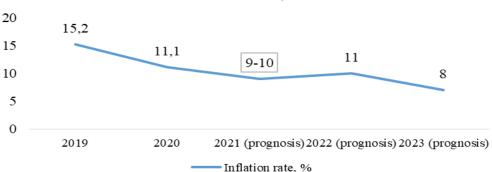
Figure 1 - GDP Growth Rates



Quarantine restrictions have negatively affected all sectors of the economy by reducing their growth rates (Fig. 1). In 2021-2023, economic sectors are predicted to gradually recover to their pre-crisis growth rates.

Inflation in 2020 is projected at 11.0-11.5%, its decline compared to 2019 due to a number of factors: the decline in economic activity, increased demand for food products and necessities, the growth of credit investments and money supply, and the devaluation of the national currency. In 2021 and the next two years, the inflation rate is projected at 8-11% (Fig. 2).

Figure 2 - Inflation Rate

**Inflation rate, %**



Border closures, transport and logistics restrictions on the supply of raw materials and components, and the suspension of certain enterprises have had a significant impact on the volume of foreign trade. In 2020, imports fell by 14.0% compared with 2019 and export growth slowed significantly, including due to lower demand and prices for commodities, in particular natural gas and copper. As the global economy gradually recovers and foreign trade operations resume, foreign trade is prognosed to increase in 2021 to pre-crisis values in 2019.

Figure 3 - Foreign Direct Investment and Credits, Million USD



By the end of 2020, the rate of increase in foreign direct investment and credits has slowed to 1.8% (Table 5). In 2021-2023, the volume of attracted funds is projected to gradually recover to pre-crisis levels, with their main focus remaining on industrial, agricultural and large infrastructure projects.

A decline in business activity and a slowdown in economic growth during the coronavirus pandemic in 2020 led to a fall in tax income. In 2021, all categories of income (except subsoil use tax and other income) are projected to grow due to a recovery in economic activity and growth, as well as changes in tax policy. The reduction in income from the tax on subsoil use is due to the reduction of the rate on gold and silver from 20% to 15% (for AGMK and NGMK).

The prognosis of state budget income approved for 2021 is based on:

- The prognosis of socio-economic development of the republic for 2021, which envisages a GDP growth of 5.1% with an inflation rate of 9-10%.

- The tax policy targets for 2021 for the reduction of the tax burden from 26.2% to 24.5% for the Consolidated Budget and from 22% to 21.3% for the State Budget; abolition of the tax and customs privileges, etc.

- Prognosing changes in prices on world markets for certain types of strategic goods.

In order to ensure the stability of state budget income, the following rates will be maintained in 2021.

- Tax for added value - 15%

- income tax - 15%

- personal income tax - 12%

- tax commodity circle- 4%

- dividend income tax - 5%

- corporate property tax-2%

- agricultural land tax-0.95%

- social tax - 12% / 25%

Indirect taxes are expected to account for 42.6% of state budget income and 9.1% of GDP.

Excise tax is projected to increase rates on alcohol and tobacco products and to unify rates on domestically produced and imported goods. Excise tax rates, which are set in absolute terms, are subject to annual indexation not lower than the rate of inflation. In 2021, excise tax rates will be indexed in two stages.

Table 3 - Excise Tax Rates Indexation

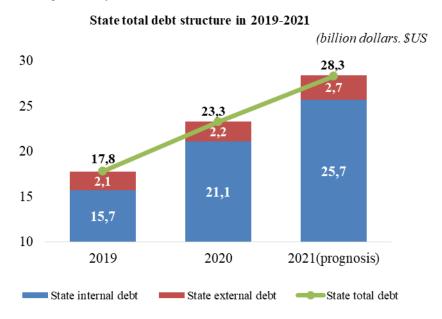| № | Products | 2020 | 2021 |
|---|---|---|---|
| 1 | Alcohol products | in a fixed amount (10 liter vodka - 98,000 sum, l beer - 10,600 soums) | 01.02.2021 (average + 13,5%) 01.10.2021 (average + 7%) |
| 2 | Cigarettes - flat rate rate | 163 500 UZS. for 1000 pieces | 01.02.2021 – 172 000 UZS (+ 5,2%) 01.10.2021 – 185 500 UZS. (+ 7,6%) |
| 3 | Cigarettes - ad valorem rate | 9% | 10% |
| 4 | Sales of gasoline, diesel fuel and gas to end users | 285 soum. per 1 liter | 01.02.2021 – 350 UZS per liter |
| 5 | Liquefied gas (propane) | 285 UZS per 1 liter | 01.02.2021 – 350 сум. за 1 литр |
| 6 | Compressed gas (methane) | 1 cubic meter-435 UZS | 02/01/2021 - 1 cubic meter-500 UZS |
| 7 | Gasoline (AI-80) | 200 000 UZS for per liter | 02/01/2021 - 240,000 UZS / ton |
| 8 | Gasoline (AI-90, 92.93.95 and higher) | 250 000 UZS | 02/01/2021 - 275,000 UZS/ ton |
| 9 | Aviation kerosene | 180 000 UZS/ton | 02/01/2021 - 200,000 UZS/ ton |
| 10 | Diesel fuel | 200 000 UZS/ton | 02/01/2021 - 240,000 UZS/ ton |
| 11 | Diesel fuel ECO | 180 000 UZS/ton | 02/01/2021 - 216,000UZS/ ton |
| 12 | Motor oil for diesel or carburetor (injection) engines | 280 000 UZS/ton | 02/01/2021 - 340,000 UZS/ ton |

**Conclusion:** In 2021, excise tax rates are expected to increase in 2 phases in order to restore stability to state budget income. At the same time, the main receipts (75%) of indirect taxes will come from VAT and an increase in excise tax income. VAT is projected at 47.0 trillion UZS, a 38.4 per cent increase comparing with the expected income for the current year [14,15].

Total state debt at the end of 2021 is prognosing at 28.4 trillion USD (44.9% of GDP). The cumulative state debt is prognosed at USD 28.4 billion by the end of 2021 (44.9% of GDP). Despite the growth dynamics, state debt remains moderate, at a level safe for macroeconomic stability (Table 7) [13-16].

Figure 4 - Dynamics of State Debt (End of Year), in % of GDP

**State total debt structure in 2019-2021**

*(billion dollars. $US*



In 2020, the growth of state debt is associated with the attraction of external borrowings to finance additional budget expenditures to overcome the negative effects of the COVID-19 pandemic (Table 8). For these purposes, the Anti-Crisis Fund was created at the expense of concessional loans from international financial institutions.
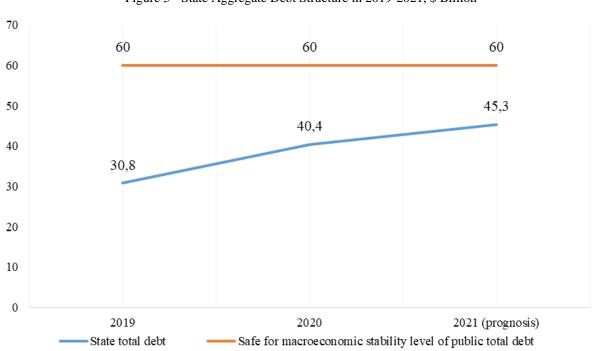
Figure 5 - State Aggregate Debt Structure in 2019-2021, $ Billion

At the end of 2021, public foreign debt is prognosed at $25.5 billion. The state's foreign debt is prognosed to be $25.5 billion by the end of 2021. The state's foreign debt will be 7.5 billion USD under the guarantee of the Republic of Uzbekistan.

From 2020, restrictions are imposed on the attraction of external loans on behalf of the Republic of Uzbekistan or under the guarantee of the Republic of Uzbekistan. The limit on the total amount of newly signed agreements to attract external borrowing on behalf of or under the guarantee of the Republic of Uzbekistan is set at $4 billion. However, given the coronavirus pandemic, the government has been forced to revise the limits for external borrowing. This year, the value of newly signed agreements on foreign borrowing is prognosed at 5.5 billion USD. In 2021, it is projected to be in the range of $5 billion [13-18].

According to the main directions of the monetary policy of the country for 2021, which were developed by the Central Bank, the main task of the regulator is to achieve the target inflation rates below 10% in 2021 and 5% in 2023.

Given the degree of uncertainty and the specific channels of influence, macroeconomic prognoses were developed based on 3 different scenarios - the main one (providing for a gradual economic recovery), optimistic (a more rapid recovery) and risky (a slower recovery).

Meanwhile, S&P Global Ratings on December 6 affirmed Uzbekistan's long-term and short-term foreign and local currency sovereign credit ratings at 'BB-/B'. The outlook on the ratings remains negative.

The 'Negative' outlook reflects the possibility that external and expanded government debt in Uzbekistan could continue to rise rapidly.

S&P Global Ratings said the agency could lower the ratings in the next 12 months if it believes that the rapid growth of the state's external debt, seen in recent years, will not slow down as expected, for example if current investment needs result in a larger-than-expected budget deficit or external deficit.

Uzbekistan's economy returned to a solid growth trajectory at the end of the first quarter. Gross Domestic Product (GDP) increased 3 percent in the first three months of 2021.

Uzbekistan's inflation rate continues to slow, with price growth of 2.5% in the first quarter, compared to 2.8% for the same period in 2020. - 2,8%. Food prices are still the main driver of inflation - they increased by 3.1% in December 2020, however, with a slowdown compared to the same period last year (by 4.3% in the first 3 months of 2020). The growth of prices for non-food products remained at the level of 1.7%, but the prices for services were growing faster than in the

same period last year - by 2.7% in the first three months of this year against 1.5% in the same period last year [13-18].

In general, the macroeconomic policy of Uzbekistan actively seeks to return to the pre-crisis dynamics. GDP in the first three months of 2021 increased by 3%. The main element of inflation remains the growth of food prices - increased by 3.1% by December 2020. The increase in prices for non-food products remained at 1.7%, but the prices of services were growing faster than in the same period last year - by 2.7% in the first three months of this year against 1.5% in the same period last year. At the end of the first quarter, the economic development of Uzbekistan continued to be affected by the global crisis, which is reflected in the slowdown of growth rates of some sectors of the economy compared to the first quarter of last year, a decline in foreign trade (which is largely due to the termination of exports of gold).

From the above-mentioned directions for optimal allocation of economic resources we can notice that the main attention is paid to cattle breeding, fish farming, development of silkworms, fruit and vegetable growing, as well as allocation of additional money to prevent crisis during the pandemic.

Also, the current pandemic situation in Uzbekistan may affect the amount of state debt, and the government's measures in such situations will show how prepared the country has been for emergencies.

## 5. Conclusion

Thus, the study showed that macroeconomic policy plays an important role in the economy of the country. The article analyzed the macroeconomic indicators of the Republic of Uzbekistan 2019-2023 and the impact of digitalization of the economy in the macroeconomic policy of the state. In general, the macroeconomic policy of Uzbekistan actively seeks to return to pre-crisis dynamics. GDP grew by 3% in the first three months of 2021. The main element of inflation remains the growth of food prices - increased by 3.1% by December 2020. The increase in prices for non-food products remained at 1.7%, but the prices of services were growing faster than in the same period last year - by 2.7% in the first three months of this year against 1.5% in the same period last year. At the end of the first quarter, the economic development of Uzbekistan continued to feel the impact of the global crisis, which is reflected in the slowdown in growth rates of individual sectors of the economy compared to the first quarter of last year, a decline in foreign trade (which is largely due to the cessation of exports of gold). All large-scale and relevant projects and tasks through digitalization of

the economy are undoubtedly important for the socio-economic development of Uzbekistan in the coming years, because the future of our country is inextricably linked to the widespread introduction and application of digital technologies. Also, the measures of the Government of the Republic of Uzbekistan during the pandemic to optimally solve the problems with macroeconomic policy showed how the state was prepared for emergencies. One of the solutions of this macroeconomic policy of the state is to achieve reorientation of all branches of economic policy in the country to the goals of economic recovery, quantitative stimulation of economic growth, infusion of substantial state capital into the market. And all goals like "inflation targeting", "money supply regulation" should be relegated to the back burner. Anything that works to revive the economy should be welcomed. The Ministry of Economic Development and Poverty Reduction should play a leading role in the development and implementation of economic policy.

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