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Some Aspects Of Improving The Level Of Internal Balancing Of Uzbekistan

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ABSTRACT

The article defines the essence of the economic categories "domestic savings" - "gross capital formation". Analyzed the dynamics of changes in the macro-proportions of the SNA "domestic savings" - "gross capital formation" and "gross national savings" in the national economy for 2010-2020, and developed effective proposals to improve the level of internal balancing of Uzbekistan in the near future.

KEYWORDS

Macro-proportions of the SNA, domestic savings, gross capital formation, gross national savings, internal balance.

INTRODUCTION

During the two centuries associated with the formation and development of the world industrial society, crises occurred in the economies of many countries, during which there was a sharp decline in production, an increase (accumulation) or shortage of goods in the markets, a fall or rise in prices, the destruction of the system of mutual settlements between economic entities, the crisis of commercial and industrial enterprises,

the growth of unemployment, and other negative phenomena. Also, it was observed a bankruptcy/crash of insurance and financial institutions in the financial and banking system, a sharp devaluation of national monetary units (currencies) and the collapse of the banking system, an outflow of foreign capital from the national economy, and countries' default on the payment of external debt.

It should be emphasized that from the beginning of the 21st century to the present day, there were several large-scale financial and economic crisis in the world. The global financial and economic crisis of 2008-2009, the economic crisis resulted from the global spread of the Covid-19 virus and the adoption of the pandemic, continuing from November 2019 to the present, along with a sharp decline or recession in production, led to a decrease in the population, an increase in poverty and unemployment, the reduction in the supply of goods and services, the increase in prices in the national economies of the countries of the world.

It should be noted that in order to restore the national economy and ensure its sustainable growth, investing in a large volume of capital resources in priority spheres and sectors of the economy is one of the priority tasks during the crisis.

And this, together with the internal savings of the formed national economy, requires attracting foreign investment and borrowing funds from abroad. It is worth mentioning that during the global economic crisis, the inflow of foreign investors into the economies of developing countries is sharply reduced. This is inextricably related to a decline in production in developing countries, rising inflation, and devaluation of the national currency, which leads to a sharp decline in the cost of capital of foreign investors and the decision to withdraw them.

A sharp increase in external debt and an increase in the likelihood of a country's default will slow down the process of allocating financial resources to developing countries by international financial

institutions, and will have a negative impact on the volume of borrowings.

In this regard, developing countries, including the Republic of Uzbekistan, need to increase the volume of domestic savings in the national economy and reduce the country's dependency on foreign capital and external debt. It requires a study of the factors affecting the volume of formation of domestic savings in the national economy of Uzbekistan, identification of problems, and the development of measures to solve them.

Despite the positive shifts in the economy of the Republic of Uzbekistan in recent years, there are still problems with the formation of domestic savings and their transformation into long-term investments. In particular, a decrease in the rate of domestic savings, an increase in the external debt of enterprises and banks in the national economy, a deficit of the state budget, high inflation, a decrease in demand for domestic products in foreign markets, a decline in export prices for raw materials and hydrocarbons, and much more have a negative effect on the formation of domestic savings.

The elimination of factors that negatively affect the formation of domestic savings, the rational use of the internal and external potential of the republic, the development of a mechanism to stimulate the formation of savings and their transformation into investments plays an important role at the current stage of economic development, associated with reforms to develop an innovative and digital economy, modernization of the real sector countries, the introduction of new technology and modern technology.

ESSENCE AND METHODOLOGY FOR CALCULATING GROSS NATIONAL SAVINGS, DOMESTIC SAVINGS, INVESTMENTS, AND GROSS CAPITAL FORMATION.

The portion of a country's gross national income that is not spent on final consumption is gross national savings. According to the methodology of the system of national accounts, the gross national savings (GNS) is determined by subtracting the final consumption (FS) from the gross national disposable income (GNDI).

$$\text{GNS} = \text{GNDI} - \text{FS} \quad (1)$$

It is worth mentioning that the difference between the capital transfers (net) received from other countries and transferred to them in the country, along with the gross national savings, is the amount of resources needed to invest non-financial assets and reflects its scale.

Thus, the greater the gross national savings are, the more capacious the volume of investments can be directed to spheres and sectors of the national economy. In this regard, it should be noted that ensuring a balance between the gross national savings and investment is an ideal position from the point of view of the country's macroeconomic equilibrium. However, in statistics, it is very difficult to come across to data that indicates the position of the ideal balance, i.e., a zero balance between the gross national savings and investment. In the real situation with an open economy, there is no balanced position between the gross national savings and investments. There is an unequal flow of capital resources movement between the

domestic economy and the "rest of the world" and vice versa.

In economic theory, "investment" means capital investments in various sectors of the national economy (financial and non-financial assets, infrastructure, social programs) and other activities to generate income in the future. Firstly, these are investments in production (buildings, equipment, roads, transport, raw materials and materials, original works of art, etc.) and non-production (natural resources, patents, "goodwill", etc.), assets, and secondly, investments in financial resources.

In the system of national accounts, "gross capital formation" is the actual value of financial resources spent on non-financial assets in the economy (the actual amount of investment costs directed by economic entities). More precisely, there is an increase in national wealth through financing investments in the national economy, which is reflected in the accumulation of fixed assets and other assets.

"In investments in fixed assets" the volume of produced fixed capital (cars, buildings, roads, original works of art, etc.) and the volume of funds allocated to non-productive assets are taken into account. And gross fixed capital formation is an investment by resident units of funds in objects of fixed capital to create new income in the future by using them in production. Gross fixed capital formation includes the following components: a) the acquisition, less disposal, of new and existing fixed assets; b) the cost of major improvements in manufactured tangible assets; c) the cost of improving non-produced tangible assets; and d) expenses in connection

with the transfer of ownership of non-produced assets. [3].

In contrast to the above indicators, the gross domestic savings (GDS) represent the potential volume of domestic (domestic and foreign) investment. In the methodological plan, to determine gross domestic savings, it is necessary to turn to the approach to calculating the GDP by the end-use method.

To show the formula for determining the gross domestic product, it is useful to first recall the methodological approach to calculating the GDP by the end-use method.

According to the SNA methodology, GDP is calculated as the sum of expenditures of households, state and non-profit enterprises serving households on the final consumption of goods and services, gross capital formation, and net exports.

$$GDP^D = FC + GCF \pm Nex \quad (2)$$

Accordingly, the gross domestic saving is calculated by deducting the final consumption expenditure (FC) from GDP. As presented above, the structure of final consumption expenditure (FC) is the sum of expenditure by households (Cd), government (G), and non-profit institutions serving households (C_{NPISH}).

$$GDS = GDP - FC \quad (3)$$

Subtracting final consumption expenditure (FC) from the use-based GDP leaves a gross domestic saving equal to the gross capital formation (GCF) and net exports (Nex).

$$GDS = GCF + Nex \quad (4)$$

Although “gross capital formation” is part of “gross domestic saving,” in terms of volume, there is a difference between them. Net

exports (Nex) acts as a balancing factor between the two indicators.

$$GDS - GCF = Nex \quad (5)$$

$$\text{or } GDS - GCF = Ex - Im \quad (6)$$

From 6 formulas, the following can be calculated.

$$\text{If, } GDS \geq GCF, \text{ then } Ex \geq Im \quad (7)$$

$$\text{Or, if } GDS \leq GCF, \text{ then } Ex \leq Im \quad (8)$$

Thus, the fact that the volume of gross domestic savings is greater than or equal to gross accumulation means that part of the unspent income (savings) generated in our country was sufficient (greater than or equal to) the volume of investments invested in the national economy. The outstripping of the volume of the gross domestic savings from the gross accumulation means that financial resources, along with savings, are directed to increase the volume of "export" products. On the contrary, an insufficient part of "gross domestic saving" for "accumulation" is covered by the volume of "imports", most of which for developing countries is in machinery and equipment financed by foreign investment.

From the above, we can conclude that the indicator of gross domestic savings covers the volume of both the domestic and foreign investments in the national economy. It should be noted that in the SNA, the national economy, through the use of macroeconomic proportions and indicators, is presented in the form of a balance of goods and services, as well as financial flows. At the same time, financial flows of foreign investment only in material (commodity) form are reflected in gross savings. The intangible part of foreign capital, like financial investments in securities, is not reflected in the national accounts or in the indicator of total accumulation.

EMPIRICAL STATISTICAL ANALYSIS.

The formation of gross domestic savings in the economy of the Republic of Uzbekistan is directly related to GDP and final consumption. It is known from economic theory that the more newly created incomes are consumed at the level of the national economy (GDP), the less savings remain necessary to ensure economic growth in the near future. In turn, a relatively small amount of savings reduces the investment potential of the country and leads to insufficient accumulation to ensure sustainable economic growth.

An analysis based on data from 2010-2020 shows that the share of the final consumption in GDP is slightly higher (on average 75.1%) in Uzbekistan. The share of the final consumption in Uzbekistan ranged from 68.8% (2011) to 77.9% (2016) relative to GDP. Accordingly, the share of gross domestic savings to GDP for the analyzed period averaged 24.9%.

It should be noted that by investing gross domestic savings, gross capital formation is generated. In addition to gross capital formation, the volume of gross domestic savings includes an indicator - "foreign trade balance". A positive or negative indicator of the "foreign trade balance" determines the role of a country in the world community as a lender or borrower in the global investment process.

Macroeconomic comparison of the volumes of "gross domestic savings" and "gross accumulation" in the economy of the Republic of Uzbekistan for 2010-2014 had a "positive" and in 2015-2020, "negative" value. The empirical analysis in the period 2010-2014 shows that the gross domestic savings were sufficiently formed to implement the gross capital formation in the national economy of Uzbekistan, and excess funds were directed

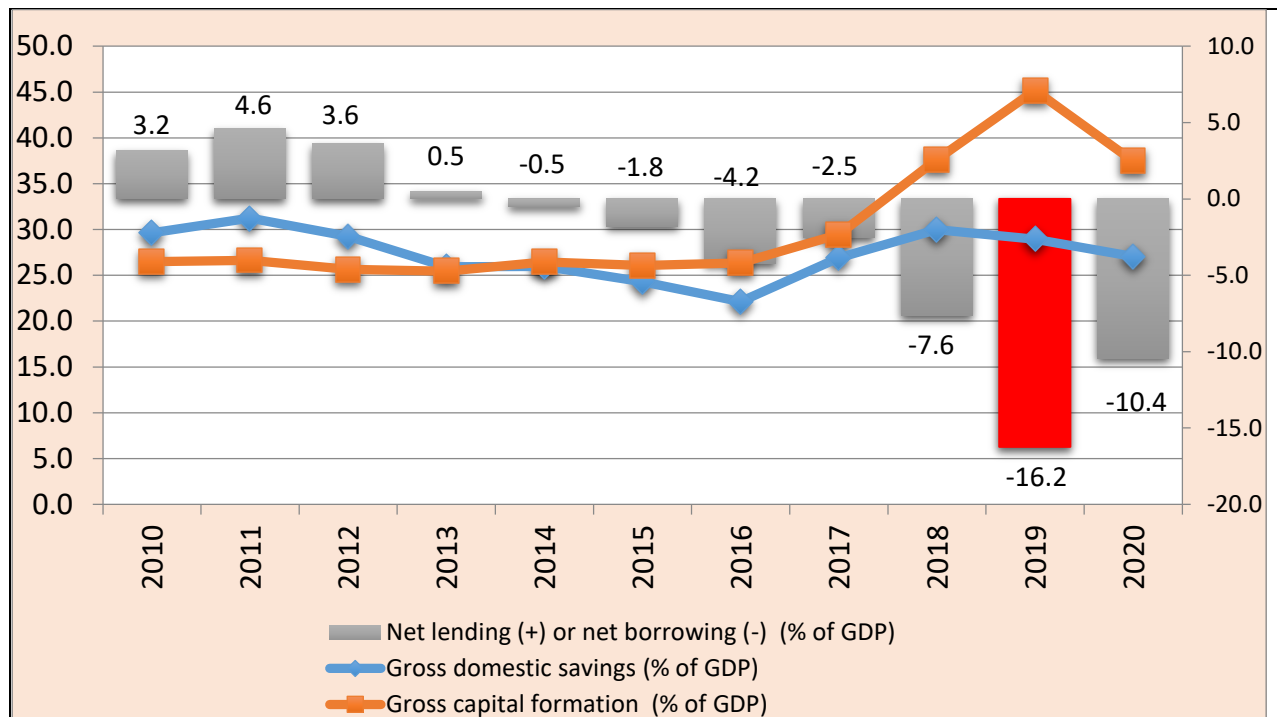
to the accumulation of export products. In the second period of economic analysis (2015-2020), there was a fact where imports exceeded exports, a sign that in addition to the gross domestic savings, the "outside world" also participated in the gross capital formation of our country.

In the first period of empirical analysis, Uzbekistan was able to create the necessary investments for the national economy and acted as a creditor to the state in the world community, and in the second period, it acted as a debtor or borrower country, which formed part of gross capital formation at the expense of foreign capital (external debt) (1 diagram).

It should be noted that an insufficient part of the gross domestic savings formed in the national economy for the gross accumulation in the country is covered by the gross national savings. It should be noted that several factors influence the formation of the difference between the gross national saving and the gross domestic saving. First of all, the difference between income from the property transferred "to the outside world" and received from the "outside world", or in other words, the indicator of "net income from property". Second, the difference in the value of current transfers sent to and received from the "outside world" or "current net transfers" is also cited as an important factor in generating gross national savings. Third, the wage fund, formed in foreign countries under the influence of national factors (total wages paid to employees and the amount of taxes charged by them), also does not participate in the formation of domestic savings but is included in the gross national savings.

In 2017, the difference between the volume of gross national savings and domestic savings in the national economy of Uzbekistan

amounted to 28,358.4 billion soums or 9.4% of GDP.



1 diagram. Dynamics of gross domestic savings and gross capital formation in Uzbekistan

Source: Author's calculations based on data from the State Committee of the Republic of Uzbekistan on Statistics

According to the State Statistics Committee of the Republic of Uzbekistan, in 2017, income from the property from the "outside world" amounted to 624.2 billion soums (121.9 million US dollars), income from the property transferred "to the outside world" amounted to 6,999.5 billion soums (1,366.8 million US dollars). According to the analysis, the value of "net profit from property" amounted to 6,375.3 billion soums (1,244.9 million US dollars) with a negative value, which is equal to 2.1% of GDP. This means that the income of foreign investment in the economy of Uzbekistan is much higher than the income of national factors from the outside world. It should be noted that this is a typical situation for the economies of developing countries in need of foreign capital.

It should be noted that the most significant factor in the formation of the gross national savings in 2017 was the difference in the value of current transfers transferred and received from the "outside world", which amounted to 22,138.4 billion soums or 4.3 billion US dollars. This result amounted to 7.3% of GDP, which is 3.1 percentage points exceeded the third factor, national factors abroad, more precisely, the wage fund of external labor migrants, which had a positive impact on the formation of the gross national savings.

It should be noted that according to the Central Bank of the Republic of Uzbekistan, in 2020, the volume of income received by citizens of our country abroad through short-term employment reached 15,083.7 billion soums or 1.5 billion US dollars. This indicator amounted to 2.6% of the GDP of Uzbekistan in

2020. It should be noted that in 2019, the size of the wage fund for foreign labor migrants in the Republic of Uzbekistan was equal to 2.7 billion US dollars.

In 2020, the difference in the amount of current transfers from Uzbekistan to the "outside world" and those received from it reached 5.1 billion US dollars. In 2019, this figure was \$ 5.5 billion.

In 2020, income from the property of residents of the country received from the "outside world" amounted to \$ 147.8 million, and transferred to the "outside world" were equal to \$ 1,808.0 million.

It should be noted that during the analyzed period, foreign investors refinanced 55% of the income received in the domestic economy. This testifies to the growth of investor confidence in the economy of Uzbekistan. The Gross domestic savings are the basis for sustainable financing of investments in the national economy. However, it should be noted that ensuring sustainable economic growth of the national economy depends not only on the total volume of the gross domestic savings, but also on the indicators of its efficiency.

Analysis of the efficiency of the gross domestic saving in the economy of Uzbekistan for 2010-2020 shows that it is undergoing various changes (Table 3).

Table 3.

Indicators of efficiency of gross domestic savings on Uzbekistan

	2010	2015	2016	2017	2018	2019	2020
Average economic growth rate corresponding to a 1% share of gross domestic saving to GDP (percentage point)	0,246	0,307	0,275	0,166	0,182	0,200	0,061
GDP growth, per 1 soum increase in gross domestic savings, soums.	2,6	6,5	12,3	2,2	2,6	4,0	7,6
The required volume of gross domestic savings for an increase in the volume of GDP by 1 soum, soum	0,301	0,153	0,081	0,463	0,389	0,248	0,132
Source: Author's calculations based on data from the State Committee of the Republic of Uzbekistan on Statistics							

For example, the economic growth rate corresponding to 1% of the share of the gross

domestic saving in GDP was 0.246 percentage points in 2010, 0.307 percentage points in

2015, and 0.200 percentage points in 2019, then in 2020 due to the pandemic, it decreased to 0.061 percentage point. The analysis shows that over the past five years, economic growth corresponding to each relative share of the gross domestic saving in GDP has tended to decline.

However, the outstripping high annual growth rates of the gross domestic saving compared to the annual GDP growth rates in 2010-2020 ensured positive values of efficiency indicators. During the period under review, the amount of additional growth in gross domestic savings, necessary to achieve additional growth rates of GDP per 1 som, had

a positive value. In 2011, the amount of additional growth in gross domestic savings required to achieve an additional increase in GDP per 1 som amounted to 0.364 tiyin, in 2019 - 0.248 tiyin, in 2020 - 0.132 tiyin.

Foreign countries that have achieved high levels of economic growth have mainly focused on increasing the level of domestic savings. A dynamic analysis of the macroeconomic indicators of stably developing countries of the world showed that there is an inextricable link between the share of domestic savings in GDP and the rate of economic growth (Table 4).

Table 4.

**Dynamics of gross domestic product and GDP growth
in developing countries with high rates of economic growth**

	GDP growth rate (annual average)			Gross domestic savings (% of GDP annual average)		
	1990- 2000 yy.	2000- 2010 yy.	2010- 2018 yy.	199 0- 200 0 yy.	200 0- 201 0 yy.	201 0- 201 8 yy.
China	10,0	10,3	7,8	39,7	44,5	48,8
Hong Kong	3,6	4,2	3,4	32,0	31,6	25,0
India	5,7	6,3	7,0	23,9	29,9	31,5
Indonesia	4,1	5,1	5,5	28,4	28,3	33,9
The Republic of Korea	7,0	4,7	3,3	38,0	33,8	35,1
Malaysia	7,1	4,7	5,4	40,6	43,0	34,7
Singapore	7,2	5,3	5,1	49,0	48,0	53,6
Source: World Development Indicators 2019, World Bank						

The newly industrialized countries, which mainly unite the states of East Asia,

demonstrated consistently stable and high growth rates in 1990-2018 (GDP growth rates

amounted to 3.3-10.3%) had a share of the gross domestic savings in GDP of 28, 3% to 53.6%. It is noteworthy that the People's Republic of China and Singapore consumed half of the income generated over the years, and the remaining half was accumulated for economic growth. In 1990-2018, the correlation coefficient, which represents the relationship between the share of domestic savings in GDP and the economic growth rates of Hong Kong, Indonesia, and the Republic of Korea, was 0.66, 0.71, and 0.77, respectively. During the analyzed period, among the newly industrialized countries, India turned out to be the country with the strongest positive correlation between the above indicators, which was equal to 0.93.

CONCLUSION

Summarizing the above analysis, it should be noted that in order to further increase the level of Uzbekistan's internal balance in ensuring a balanced state of macroeconomic ratios "domestic savings - gross capital formation" in the near future, it is necessary to carry out the following work.

First, for the Republic of Uzbekistan by 2030 (2017-2029) to become part of the "countries of the world with an upper middle income", it is necessary to increase the annual economic growth to an average of 105.5% in order to double the country's GDP. It should be noted that in 2017-2020, the GDP growth rate of Uzbekistan averaged 4.33%. As can be seen from the data presented, the current GDP growth rates are much lower than the planned economic growth corresponding to the strategic development goals of Uzbekistan. Our calculations show that in order to cover the lost economic growth rates in the previous period and bring the GDP volume to the strategic goals by 2030, it is

necessary to increase the average economic growth rate by 5.84% in 2021-2029.

Second, to ensure a certain level of GDP growth (5.84%) in the national economy, an appropriate rate of the gross domestic savings is required. Based on the analysis of the effectiveness of domestic savings in the economy of Uzbekistan for 2017-2019, the obtained average economic growth rate (0.184), corresponding to 1% of the share of the gross domestic savings to GDP, allowed us to determine the rate of domestic savings in the near (2021-2029) perspective. It should be noted that the rate of domestic savings for 2021-2029 was calculated based on the conclusion that "current trends in the national economy will continue in the forecast period". Our calculations show that to ensure an average economic growth rate of 5.84% in 2021-2029, it is necessary to increase the rate of gross domestic savings (in relation to GDP) to an average of 32.1%.

Third, the positive correlation between the rate of economic growth of the "newly industrialized countries" in the East Asia region and the share of gross domestic saving shows that developing countries should reduce consumption as much as possible and channel savings into national economies. In 2010-2020, the average consumption level in Uzbekistan was 75.1%, which is much higher than the indicators of the "newly industrialized countries". In our opinion, on the basis of a relative decrease in the consumption rate in society, it is necessary to increase the share of domestic savings to GDP with their subsequent financing in investment projects to ensure sustainable economic growth in the near future.

Fourth, the analysis of the macroeconomic proportion of "domestic savings" - "gross savings" in the economy of the Republic of

Uzbekistan showed that in 2015-2020 the gap between them had a "negative" value. This means that domestic savings created in the national economy cover a certain part of savings in Uzbekistan, and the rest was financed through external borrowing.

This situation, on the one hand, indicates the need for effective use of the domestic investment potential of the national economy, and on the other hand, requires a prudent policy regarding external debt. On the first issue, in our opinion, it is necessary to improve the mechanism for investing the savings of the population, enterprises, and other economic entities, to increase the role of commercial banks and other financial institutions in transforming savings into investments, to develop economic levers to reduce the outflow of national savings outside the country.

On the second issue, in our opinion, at the macro level, it is necessary to organize monitoring of the volume, interest, and timing, as well as the payment of the bulk of the external debt received by national economic entities. It should be noted that monitoring of the state external debt is carried out by the Ministry of Finance of the Republic of Uzbekistan. On the part of commercial banks, it is necessary to monitor the volume and maturity of the external debt of national economic entities, and it is also advisable to generalize and analyze its results in the Central Bank of the Republic of Uzbekistan. Also, at the macro level, it is necessary to develop a mechanism for the effective use of external debt by both the state and the subjects of the national economy.

The solution of the above tasks will lead to the achievement of a balance of macroeconomic proportions "domestic savings" - "gross

consumption", which in turn will ensure the internal balance of the economy of Uzbekistan in the near future.

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