



Uzbekistan: Post-COVID Economic Recovery Strategy

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Abstract. This article examines the challenges faced by Uzbekistan in striking a balance between controlling the pandemic and reviving its economy. It analyzes the impact on macroeconomic balances, identifying declines in imports, remittances, and exports. The government's focus is on stimulating domestic demand through cash support for households, aiding small businesses, and providing targeted sector-specific assistance. Effective management of investments and consumer behavior, along with fostering collaboration among private, public, and non-profit sectors, are highlighted. With pragmatic responses and regulatory measures, Uzbekistan aims to navigate post-COVID economic challenges and achieve a robust recovery.

Keywords: Uzbekistan, post-covid economic recovery, government intervention, fiscal policy

Introduction

Given the high likelihood of the second wave of the COVID-19 outbreak, countries still face a choice between the people and the economy. Today the task of reducing the spread rate of infections directly contradicts the task of limiting the depth of the economic recession accompanied. In other words, a slowdown in the process of reaching the peak of infection can occur only when the economy will not operate at full capacity. In this case, the removal of workers from their jobs, social distancing of consumers reduces economic activity, which affects economic growth negatively, and through the channel of economic expectations – to the levels of investment and consumption.

Estimations show that without government intervention (containment policy), with an initial mortality rate of 2 % and reproduction rate of 50% in overloaded health systems, 1% of the world's population can die (76 million people). However, if the quarantine and self-isolation policies are activated for a short period of time (a month or two) and 50% or more people may not be able to work, GDP may decrease by 6.5-10%.

It should be emphasized that most countries choose the intervention policy in order to smooth the epidemiological curve (the first wave was in February-April, the second one is possibly in the coming autumn) in order to avoid beds and mechanical ventilation device shortage problems in infectious diseases hospitals.

Therefore, economic recession during the fight against the spread of COVID-19 is recognized as a necessity, and at the same time, it can cause long-term economic damage, because many firms and banks may go into bankruptcy, job places may be reduced and a large number of people may fall below the poverty line, and national balances loose balances. Consequently, governments can and should try to smooth out the curve of economic downturn, through their anchors of economic intervention.



1. Impact of pandemic on the macroeconomic balances of Uzbekistan

The following were observed based on preliminary results of the first quarter of 2020, compared with the previous year:

- a decline in the imports of consumer goods and medicines (according to Chinese statistics, in the first quarter of 2020, China's exports to Uzbekistan decreased by 14.3%);
- a decrease in migrant remittances (according to World Bank forecasts remittances will decrease by 20%, the number of citizens who could not go to work abroad amounted to 143 thousand people);
- slowdown in the import of technologies, semi-finished products and raw materials (due to the temporary delays in international transportation);
- a decrease in the export of goods and services (as a result of a decrease in external demand and prices for basic commodities, according to Chinese analysis Uzbekistan's exports to China in the first quarter of 2020, decreased by 31.2%);
- decrease in budget revenues (as a result of reduced economic activity);
- increase in unemployment (according to opinion polls 21% of people temporarily lost their jobs);
- decrease in demand for durable goods and services (as shown by a survey by the *Center for Economic Research and Reforms*, 68 % of the population believes that now it is not the time to buy durable goods, against 13 %);
- decrease in saving and investment;
- an increase in the share of non-performing debts and bank liquidity;
- increase in the social responsibility of the government and pressure on the budget, government debt (the government intends to attract loans of international financial institutions which amounts to \$3.1 billion).

Given the interrelations and interdependence among sectors and agents of the economy, **without an economic intervention policy, an economic recession can turn into a financial crisis** (due to the problems in liquidity in the banking system), **a debt crisis** (due to an increase in additional debts) or a **foreign currency crisis** (due to the decrease in foreign trade).

2. Government policy objectives and tools

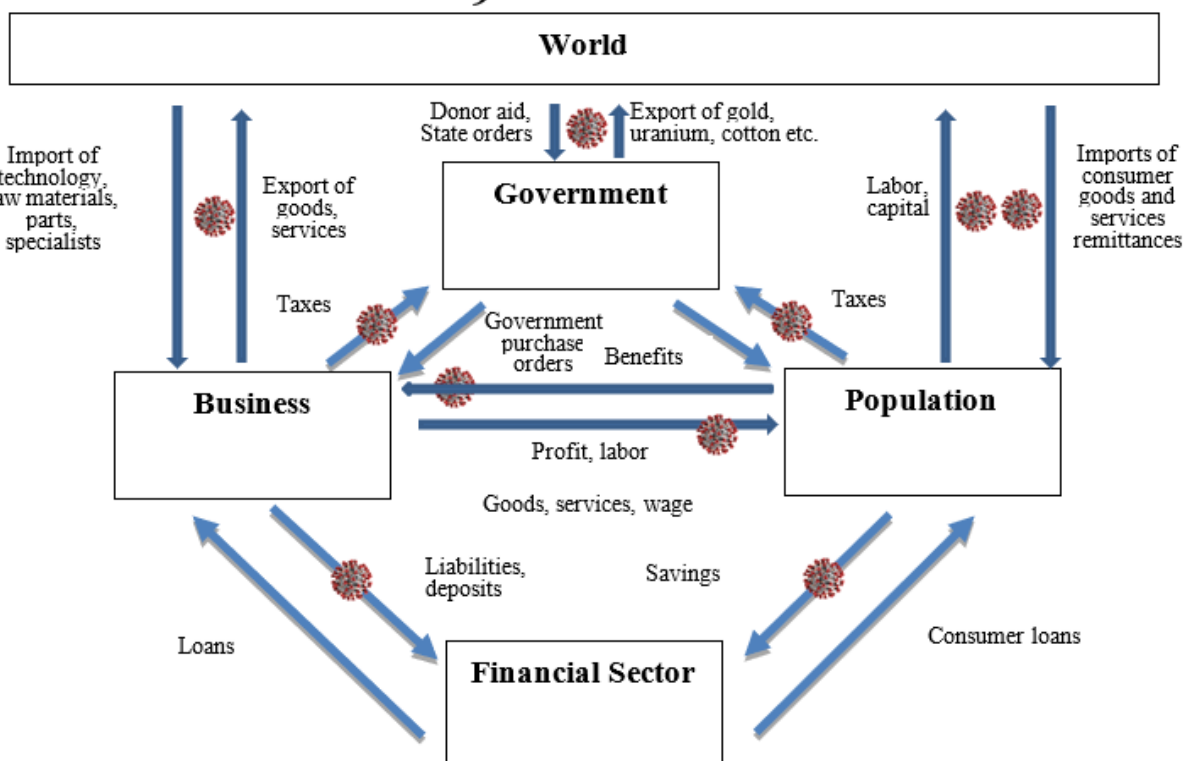
The primary task of the government is to minimize the level of economic downturn and neutralize its negative consequences.

An analysis of world experience shows that macroeconomic tasks of many countries are aimed at stimulating, first of all, domestic demand, in particular:

- *providing households with cash and partial compensation for mortgage/rent payments;*
- *providing temporarily dismissed or remotely working workers with salary for the period of quarantine;*
- *ensuring that firms have sufficient cash to pay employees, suppliers, to fulfill obligations to creditors and tenants, especially small and young enterprises, in order to avoid bankruptcies.*
- *support banks to avoid the transformation of the health crisis into a financial crisis.*



How does Covid-19 affect main macroeconomic balances?



Where in, alternative stimulation tools can be:

1. Increased government spending on the public health sector (fiscal policy).
2. Tax exemption, tax reduction, tax holidays and other types of benefits (tax policy).
3. Announcement of tax credits and providing the population with temporary universal income and companies with cash grants (social policy).
4. Reducing interest rates, launching quantitative easing policy and lending schemes (monetary policy)
5. Support new sectors of the economy that are not affected by the virus spread (industrial policy).

Most countries take measures in accordance with the point 3.

3. Recovery policy priorities

So far, the Republic of Uzbekistan has adopted 12 decrees of the President on counteracting the negative consequences of the pandemic for the population and enterprises, aimed at supporting strategic sectors, small businesses, ensuring the stability of the state budget, ensuring the provision of medicine to the population. Meanwhile, given the high level of uncertainty in the global economy, it is expected the adoption of additional regulatory acts in the form of pragmatic responses to the development of events.

Given the interconnectedness and interdependence between sectors and agents of the economy, as well as the limited financial recourses, it is important that state support entities having the greatest influence on the recovery



process. It is assumed that this effect depends on two main indicators: (i) the multiplier effect of the industry/agents on the entire economy and (ii) the depth and volume of the decline of the industry/agents because of quarantine measures. At the same time, state support, focused on these areas, has a relatively large direct and indirect (through increased activity in other sectors) stimulating effect on the entire economy.

1. Since the adverse effects of demand factors on the economy are more tragic than the effect of supply factors it is preferable to support, to a greater extent, households (measures to increase household incomes and the creation of additional demand for locally produced goods and services) and to a lesser extent enterprises (measures to compensate rents and obligations to banks).

The analysis of the households shows that out of 80% of the population employed in the private sector 33% are self-employed (i.e., taxi drivers, hairdressers, builders), who completely lose their sources of income during the quarantine. Therefore, in particular, it is necessary until the end of the year to maintain the measures used to stimulate domestic demand through broad measures to support incomes (benefits to low-income households, motivation for self-employment, community service, implementation of additional infrastructure projects and others).

2. Small businesses are expected to suffer the most, as they often own more vulnerable structures, have less access to insurance and other means of financing, fewer chances to choose their location, and have limited ability to mitigate consequences and provide preparedness for shocks. At the same time, in Uzbekistan, small businesses account for three-quarters of the employed population and more than half of the GDP. Taking into account the importance of SME, it is suggested:

- to develop financial support mechanisms for small business workers in regions highly dependent on the activities of small enterprises in order to ensure adequate demand for products;
- to take measures to resume the activities of transport and non-food trade (especially computers and communication sectors) in accordance with rules of disinfection;
- to consider issuing interest-free or government-guaranteed loans to small businesses (with the exception of newly created enterprises);
- comprehensive support for the activities of small exporting firms;
- technical and technological support for possible types of remote work (business consulting, banking and finance, insurance, trade) and measures to expand the reach of digital technologies and the Internet.

3. Domestically oriented enterprises, whose buyers lose most of their income as a result of the quarantine, as well as enterprises producing durable goods (automobiles, electrical appliances, furniture) and strategic enterprises that incur losses before shocks occur. The leading sectors of the service sector will suffer the most losses from the current situation: tourism, catering, non-food goods trade, air transportation, rail and road passenger transport, non-food consumer goods production (textiles, shoes, electrical equipment, etc). In addition, the interconnection and interdependence analysis of the sectors of the economy shows that sectors with the highest multiplier effect and the least degree of dependence on imports include educational, financial, health, travel services, information support, research and development services, accommodation, development of computer programs, repair of



household appliances and computers, forestry, agriculture, gas clothing. Consequently, active support of these sectors of the economy is offered.

4. At the same time, it is important the behavior of the agents receiving financial support from the government. From this point of view, it is necessary to control the investment activity of enterprises and the consumer behavior of the population. It is considered to develop indexes of business activity and consumer sentiment. In particular, *the Center for Economic Research and Reforms (CERR)* has already developed indices for changes in consumer sentiment, business climate and business activity. At the moment, the issue of developing such indices in regions of the country is planned to be studied.

5. At the same time, the relative combination of the roles of the private, public and non-profit sectors will allow us to study how various main sectoral groups can work effectively with minimal duplication of roles and without conflict.

In particular, under the Presidential Decrees, measures were taken to support the business, which provided funds in the amount of 3.7 trillion sums. Within the framework of the nationwide “Charity and Support” (Saxovat va Ko’mak) movement, which is designed to efficiently dispose of sponsorship and charitable funds of enterprises, 101 thousand enterprises provided social assistance to a total of more than 361 thousand families. In addition, international organizations such as the World Bank, the United Nations Development Project and others are actively conducting research to identify hot spots for the negative impact of the pandemic

6. Non-economic important tasks of the state that are crucial for economic recovery include restoring public order and market infrastructure, ensuring the availability of capital, labor, natural resources, uninterrupted provision of public services and spiritual/ethical values of the society.