



DIGITAL ECONOMY

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ABSTRACT

In this article, I discuss understanding digital transformation and the channels through which it influences the economy is therefore increasingly relevant for the conduct of monetary policy.

Keywords: Digital economy, monetary policy, Technologies, Companies, Smart systems.

While the pandemic hit Uzbekistan's economy especially hard in the first half of 2020 and inflicted considerable hardship, the recession was moderated by strong and timely containment and support measures. These included a forceful public health response and the deployment of a set of fiscal, monetary, and financial measures, made possible by substantial buffers owing to prudent macro-economic policies in preceding years, and thanks also to sizable international support. As a result, the economy rebounded sharply in the second half of the year and Uzbekistan was able to post positive overall growth in 2020, at a rate of 1.6 percent. Similarly, while the current account deficit at 5½ percent of GDP was almost equal in size as in 2019, trade flows were considerably depressed. Inflation continued to gradually decline in 2020, but higher increases in food prices kept overall inflation in the low double digits, ending the year at just over 11 percent.

Mitigated by the authorities' timely and strong policy response, the COVID-19 pandemic has, so far, had a relatively short-lived adverse impact on Uzbekistan's population and economy. Although the pandemic hit the economy hard in the first half of 2020 and inflicted considerable hardship, strong and timely containment and support measures moderated the recession. These included a forceful public health response and the deployment of a comprehensive set of fiscal, monetary, and financial measures, made possible by substantial buffers owing to prudent macro-economic policies in preceding years and to sizable international support. As a result, activity rebounded in the second half of 2020 and Uzbekistan was among the few countries posting positive growth in 2020. Uncertainty remains high, however, and continued near-term support is needed. The recovery will depend especially on the vaccine rollout, while new variants of the virus and surges in infections are key risks. Much will depend also on developments in Uzbekistan's main trading partners. The authorities rightly continue to focus on protecting lives and livelihoods and securing





enough vaccines for the population. The 2021 budget maintains an appropriate accommodative stance and ensures that the healthcare system and vaccine rollout are sufficiently resourced. If downside risks materialize, the authorities could use fiscal buffers to provide additional, targeted support to households and businesses.

Uzbekistan has pursued an ambitious initial set of trade and price liberalization reforms in recent years. However further reforms are needed to continue to spur productivity, private sector-led growth, and job creation. The focus should shift to addressing weak factor markets, high trade and transit costs, dominant state-owned enterprises, the weak regulatory environment, and further strengthening market incentives and sustainability in agriculture and across the economy.

The government recognizes the need for a more inclusive transition. According to the new national poverty line, about 17 percent of the population lived in poverty in 2021. The recent reform efforts to expand coverage and strengthen the targeting of social assistance will be key to supporting those who may otherwise fall behind.

Contractionary monetary policy is used to target a high level of inflation and reduce the level of money circulating in the economy. Inflation is a rise in prices, which can be translated as the decline of purchasing power over time. The rate at which purchasing power drops can be reflected in the average price increase of a basket of selected goods and services over some period of time. The rise in prices, which is often expressed as a percentage, means that a unit of currency effectively buys less than it did in prior periods. Inflation can be contrasted with deflation, which occurs when prices decline and purchasing power increases. While it is easy to measure the price changes of individual products over time, human needs extend beyond just one or two products. Individuals need a big and diversified set of products as well as a host of services for living a comfortable life. They include commodities like food grains, metal, fuel, utilities like electricity and transportation, and services like health care, entertainment, and labor.

Depending on the simultaneous occurrence of one or more of the risks considered in the forecasts, the duration of the economic difficulties and the negative impact on the national economy were assessed. Terms in the baseline scenario create preconditions for maintaining the current moderately tight monetary policy conditions, while in the case of the alternative scenario, measures may be taken to slightly ease monetary conditions and ensure a balance between price stability and support for economic activity. In the coming years, the Central Bank will focus on further improving the operating mechanism and developing the money market, as well as systematic work to implement the next phase of reforms in the domestic foreign exchange market, develop analytical and forecasting capacity and increase the efficiency of monetary





policy transmission mechanism. The task of increasing the efficiency of the transmission mechanism is related to the development of the financial market, in particular the government securities market, increasing the size of the private capital market and the development of non-bank financial intermediation institutions in the economy. An issue that should be given special attention in the coming years is the elimination of long-term stable factors of inflation. This requires, first of all, measures to develop competition in the consumer market, increase the production of consumer goods, reduce the concentration of imports of basic foodstuffs, develop trade and service infrastructure in the regions. Successful implementation of these structural reforms will allow for a gradual transition of monetary conditions to neutral conditions once inflation reaches the target level.

The persistence of the above-mentioned uncertainties in this scenario, in turn, creates difficulties in making macroeconomic decisions: on the one hand, against the background of a sharp rise in prices for basic foodstuffs, raw materials and energy resources, the current inflationary processes require the tightening of monetary and fiscal policies; on the other hand, the assumed severe pandemic situation requires the promotion of stimulus policies. According to the alternative scenario, the current monetary policy conditions in developed countries will remain the same in 2022, and tightening decisions will be postponed to 2023-2024.

In 2020- the first half of 2021, in the complex conditions caused by the pandemic, many developed and developing countries have taken fiscal stimulus measures in order to increase economic activity, social support and expand the capacity of the health care system. At the same time, high fiscal deficit indicators have led to a significant increase in the external debt of developing countries. As a result, in the context of worsening pandemic situation expected in 2022 under the alternative scenario, on the one hand, the opportunities for fiscal support of the economy are somewhat limited, external borrowing and overall fiscal deficit levels are expected to be lower than in 2020. On the other hand, developing countries are beginning to face difficulties in repaying their debts and the number of requests for debt review is increasing. This, in turn, reduces the ability of international financial institutions to support the global economy. At the same time, there are expectations that the volume of fiscal stimulus for states will decrease due to the fact that the pandemic situation is expected to worsen in 2022, and its impact may last longer than in 2020. Meanwhile, the slowdown in global economic growth due to the pandemic situation in 2022 will be less significant than in 2020. In particular, according to the International Monetary Fund's alternative scenario, the world economy is expected to grow by 3.4% in 2022, by 2.5% in 2023 and by 2.8% in 2024. At the same time, economic growth in





developed countries is expected to be 4.1% in 2022, 1-1.5% in 2023-2024, while economic growth in developing countries is expected to be around 4.7% in 2022 and 4% in 2023-2024. Globally, the deficit in aggregate supply will not be completely eliminated in 2022, and there will be no growth in world trade (depending on the level of development of the pandemic, foreign trade and aggregate supply may also decrease).

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