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THE CONTRIBUTION OF SERVICES TO THE UNDERGROUND ECONOMY

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Annotation: The article analyzes the share of the service sector in the shadow economy, the reasons for its formation, and socio-economic consequences. Practical and theoretical aspects are highlighted based on statistical data for 2023-2025, decrees of the President of the Republic of Uzbekistan, scientific literature, and reports of international organizations (ILO, World Bank, IMF). The article outlines the scope of hidden services (household services, trade, transport, medical services, etc.), ways to reduce them, and priorities for ensuring transparency in the service sector.
Keywords: shadow economy, services, informal sector, statistics, government reforms, legalization.

Introduction. The shadow economy, as a large part of the economic process, has a significant share in many countries, especially in developing countries. In Uzbekistan, the service sector also accounts for more than 36% of the national gross domestic product (GDP), while a certain part of this segment belongs to the shadow economy [1].
According to 2023 data, the share of the shadow economy in the total economy of Uzbekistan was about 29.5% [2]. Of these, the service sector accounted for the largest share: about 40% of people working in the consumer services sector operate without official registration.
By the end of 2024, reports from the State Statistics Committee noted that unregistered labor resources in the service sector amounted to 1.2 million people [3].
In the calculations of IMF (International Monetary Fund) and ILO (International Labor Organization) experts for the first quarter of 2025, it was noted that the share of services in the shadow economy in Uzbekistan could be 13-14% [4].
Methodology. The following factors influence the formation of covert services:
1. Tax burden and bureaucracy - small service providers (hairdressers, workshops, local wedding attendants) often refuse to register officially to avoid taxes.
2. Illegal employment in the labor market - in regions with a high level of unemployment, the service sector appears as a shadow job.
3. The specific nature of the client-contractor relationship is not formalized due to the nature of certain types of services (domestic workers, childcare services) [5-6].
These processes align with the idea of "achieving efficiency by deviating from legislation," emphasized in the "informal economy" theory of the famous economist De Soto [7].
A number of reforms are being implemented in Uzbekistan to reduce the shadow economy in the service sector. Specifically:
- By Presidential Decree UP-5953 of February 24, 2020, the "Strategy for the Socio-Economic Development of the Republic of Uzbekistan for 2020-2025" set the task of diversifying the service sector and reducing the informal economy[8].
- Decree PF-35 of December 3, 2021, defined measures to support small businesses and the service sector based on a simplified tax regime[9].

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The "Transparency and Anti-Corruption" programs, adopted in 2022-2024, are aimed at implementing a digital reporting system in the service sector[10].

In conclusion, it can be said that the share of the shadow economy in the service sector remains high, and its share in GDP is observed to be around 13-14%. This leads to the loss of tax revenues to the state budget, violation of labor rights, and disruption of the competitive environment. Therefore:

-implementation of a simplified tax and licensing system in the service sector,

- formalization of services through digital platforms,

It is important to inform the population about the advantages of official registration in the provision of services.

Thus, it will be possible to gradually reduce the share of the shadow economy in the service sector.

Conclusion. The service sector plays a significant and often underestimated role in the expansion of the underground economy. Due to the intangible nature of services, ease of informal transactions, and challenges in monitoring and regulation, many service-based activities such as domestic work, informal transport, freelance labor, and small-scale repairs—are frequently conducted off the books. This not only reduces tax revenues and undermines labor rights but also distorts official economic statistics. Addressing the informal provision of services requires targeted policy measures, including regulatory simplification, improved enforcement, incentives for formalization, and greater public awareness. By tackling the service-related components of the underground economy, governments can strengthen economic transparency, improve working conditions, and boost inclusive growth.

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