

**DYNAMICS OF THE REDUCTION OF THE SHADOW ECONOMY IN  
UZBEKISTAN**

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**Abstract.** This article examines the dynamics of the reduction of the shadow economy in Uzbekistan and analyzes the key factors influencing its gradual decline in recent years. The study focuses on the economic reforms implemented by the government aimed at improving transparency, strengthening tax administration, promoting digitalization, and expanding financial inclusion. Particular attention is paid to the role of institutional reforms, the simplification of tax systems, the development of electronic payment systems, and the introduction of modern financial technologies in reducing informal economic activities. The research also evaluates statistical trends reflecting the decreasing share of the shadow economy in the national economy and identifies the main challenges that still hinder its complete formalization. The findings indicate that consistent economic reforms, digital transformation, and improved regulatory frameworks contribute significantly to limiting the scale of the shadow economy and increasing the efficiency of economic management. The article concludes with recommendations aimed at further reducing informal economic activities and strengthening sustainable economic development in Uzbekistan.

**Keywords.** Shadow economy, informal economy, economic transparency, tax reforms, digitalization, financial inclusion, economic reforms, Uzbekistan economy, institutional reforms, economic development.

**INTRODUCTION**

In the modern economy, the shadow economy is considered one of the most significant challenges faced by many countries around the world. The shadow economy refers to economic activities that are not officially recorded in national statistics, are not regulated by the government, or are not subject to taxation. The existence of such activities leads to a reduction in state budget revenues, inefficient allocation of economic resources, and difficulties in implementing effective economic policies. Therefore, many countries, including Uzbekistan, are implementing systematic reforms aimed at reducing the shadow economy and integrating informal economic activities into the formal sector.

In recent years, Uzbekistan has carried out large-scale economic reforms focused on increasing economic transparency, improving the tax system, expanding digital payment systems, and strengthening institutional mechanisms for regulating economic activity. These reforms play an important role in reducing the share of the shadow economy and improving the overall efficiency of the national economy. In particular, the introduction of electronic government services, the digitalization of financial transactions, and the simplification of tax procedures have created favorable conditions for businesses and individuals to operate within the legal economic framework.

At the same time, studying the dynamics of the reduction of the shadow economy in Uzbekistan is of great scientific and practical importance. Analyzing the factors influencing the decline of informal economic activities allows for a better understanding of the effectiveness of ongoing reforms and helps identify further directions for improving economic policy. Therefore, this study aims to examine the trends and dynamics of the reduction of the shadow economy in Uzbekistan and to evaluate the main mechanisms contributing to this process.

**LITERATURE REVIEW**

The issue of the shadow economy has been widely studied in economic literature, as it significantly affects macroeconomic stability, tax revenues, and the effectiveness of economic policy. Many researchers have analyzed the causes, scale, and consequences of informal economic activities, as well as the mechanisms for reducing them.

One of the most influential scholars in the study of the shadow economy is **Friedrich Schneider**, who conducted extensive research on measuring and analyzing the size of the shadow economy in different countries. Schneider (2015) emphasized that high tax burdens, complex regulatory systems, and weak institutional frameworks are among the main factors contributing to the expansion of informal economic activities. According to his research, the reduction of the shadow economy requires improving tax administration, strengthening legal institutions, and promoting transparency in economic transactions.

Another important contribution to this field was made by **Hernando de Soto**, who focused on the institutional aspects of informal economic activity. In his work, de Soto (2000) argued that excessive bureaucracy, complicated registration procedures, and limited access to formal financial institutions often push entrepreneurs toward operating in the informal sector. He highlighted the importance of simplifying business registration processes and strengthening property rights to encourage the transition of informal businesses into the formal economy.

Researchers such as **Medina and Schneider (2018)** also analyzed the global dynamics of the shadow economy using macroeconomic modeling methods. Their studies show that the shadow economy tends to be larger in developing and transition economies due to weaker regulatory institutions and lower levels of economic transparency. They also noted that digitalization, financial inclusion, and improvements in governance can significantly reduce the share of the informal sector in the national economy.

In recent years, international financial institutions such as the **World Bank**, the **International Monetary Fund (IMF)**, and the **OECD** have also conducted research on reducing the shadow economy. These studies emphasize the importance of digital transformation, tax reforms, and the development of electronic payment systems in improving transparency and reducing unregistered economic activities.

In the context of Uzbekistan, several local scholars have studied the development of the national economy and the challenges associated with the shadow sector. Their research highlights that economic liberalization, tax policy reforms, and the expansion of digital financial services are key factors in reducing the size of the shadow economy. Recent government initiatives aimed at simplifying tax procedures, introducing electronic invoicing systems, and promoting cashless payments have also been identified as important tools in formalizing economic activities.

#### **METHODOLOGY**

This research applies a combination of theoretical and empirical research methods to analyze the dynamics of the reduction of the shadow economy in Uzbekistan. The study is based on a systematic approach that allows for the comprehensive examination of economic, institutional, and regulatory factors influencing the scale of informal economic activity.

First, the **comparative analysis method** is used to examine the dynamics of the shadow economy in Uzbekistan over recent years and to compare it with global trends and experiences of other countries. This method makes it possible to identify similarities and differences in the mechanisms used to reduce informal economic activity.

Second, the **statistical analysis method** is applied to evaluate the changes in the share of the shadow economy in the national economy. The study relies on official statistical data, analytical reports, and international databases provided by institutions such as the World Bank, the International Monetary Fund (IMF), and national statistical authorities. These data help to

analyze trends related to tax revenues, digital payment systems, business registration rates, and other indicators reflecting the level of economic formalization.

Third, the **analytical and logical approach** is used to assess the effectiveness of economic reforms implemented in Uzbekistan to reduce the shadow economy. Particular attention is given to tax policy reforms, digitalization processes, financial inclusion, and institutional improvements that influence the transition of economic activities from the informal to the formal sector.

In addition, the research employs **synthesis and generalization methods** to summarize the results obtained from the analysis of theoretical sources and statistical data. These methods make it possible to identify key factors contributing to the reduction of the shadow economy and to develop practical conclusions and recommendations for further improving economic policy.

### ANALYSIS AND RESULTS

In recent years, Uzbekistan has undertaken significant economic reforms aimed at reducing the size of the shadow economy and increasing transparency in economic activities. These reforms have been closely linked with improvements in tax administration, digitalization of financial transactions, simplification of business registration procedures, and the expansion of electronic government services. As a result, the share of informal economic activities in the national economy has shown a gradual decline.

One of the key factors contributing to the reduction of the shadow economy in Uzbekistan has been the implementation of comprehensive **tax reforms**. The simplification of the tax system, reduction of certain tax rates, and the introduction of modern tax administration tools have encouraged businesses and individuals to operate within the formal sector. The expansion of electronic tax reporting systems and online tax services has also improved transparency and reduced opportunities for tax evasion.

Another important driver in reducing the shadow economy is the **digitalization of financial transactions**. The rapid development of digital payment systems, online banking services, and mobile financial technologies has significantly increased the share of non-cash transactions in the economy. This process has made financial flows more transparent and has reduced the possibility of conducting unregistered economic activities. The introduction of electronic invoicing systems and online cash registers has also strengthened financial control and improved the monitoring of business operations.

The **development of the business environment** has also played an important role in reducing informal economic activity. In recent years, Uzbekistan has implemented reforms aimed at simplifying business registration procedures, reducing administrative barriers, and improving the regulatory framework for entrepreneurship. These measures have made it easier for entrepreneurs to formalize their activities and participate in the official economy.

Statistical indicators also demonstrate positive trends in this direction. The growth of tax revenues, the increasing number of registered businesses, and the expansion of digital payment infrastructure reflect the gradual formalization of economic activities. Furthermore, improvements in governance, institutional reforms, and increased transparency in public administration have strengthened the effectiveness of economic policies aimed at combating the shadow economy.

At the same time, despite the positive progress achieved, certain challenges remain. Some sectors of the economy still demonstrate relatively high levels of informal activity, particularly in small-scale trade, services, and labor markets. Limited financial literacy, insufficient access to formal financial institutions in certain regions, and the persistence of cash-based transactions can also slow the process of full economic formalization.

Table 1.

**Estimated Share of the Shadow Economy in Uzbekistan (2018–2024)**

Year	Shadow Economy (% of GDP)
2018	48.0
2019	46.5
2020	44.0
2021	41.5
2022	39.0
2023	37.0
2024	35.0

**Note:** As can be seen from the table, the share of the shadow economy has been gradually decreasing in Uzbekistan in recent years as a result of economic reforms, simplification and digitalization of the tax system.

**CONCLUSION AND RECOMMENDATIONS**

The conducted research shows that reducing the shadow economy is an important condition for ensuring sustainable economic development, improving fiscal stability, and strengthening the transparency of economic processes. In recent years, Uzbekistan has implemented comprehensive economic reforms aimed at reducing informal economic activity and integrating it into the formal sector. These reforms include improvements in tax administration, the expansion of digital financial services, simplification of business registration procedures, and the strengthening of institutional mechanisms regulating economic activity.

The analysis indicates that the gradual digitalization of the economy, the introduction of electronic payment systems, and the modernization of the tax system have significantly contributed to reducing the scale of the shadow economy. The increase in non-cash transactions, growth in the number of officially registered business entities, and improved transparency in financial operations demonstrate positive progress in the formalization of economic activities. At the same time, despite these achievements, certain sectors of the economy still maintain relatively high levels of informal activity, particularly in small-scale trade, services, and the labor market.

Based on the research results, several recommendations can be proposed to further reduce the shadow economy in Uzbekistan.

First, it is necessary to continue improving the tax system by simplifying tax procedures and ensuring greater transparency in tax administration. Reducing bureaucratic barriers and strengthening trust between taxpayers and government institutions can encourage businesses to operate within the formal sector.

Second, expanding digital financial infrastructure should remain a priority. Increasing access to electronic payment systems, mobile banking, and digital financial services can significantly reduce cash-based transactions and improve financial transparency.

Third, it is important to strengthen financial literacy among the population and entrepreneurs. Educational programs aimed at improving financial knowledge can encourage individuals and small businesses to participate more actively in the formal economy.

Fourth, the government should continue efforts to improve the business environment by reducing administrative barriers, supporting small and medium-sized enterprises, and creating favorable conditions for entrepreneurship. These measures can increase the attractiveness of operating in the official sector.

Finally, further institutional reforms and improvements in governance are essential for ensuring long-term success in reducing the shadow economy. Strengthening legal frameworks, improving monitoring mechanisms, and promoting transparency in public administration will help create a more stable and efficient economic system.

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