

THE IMPACT OF THE HIDDEN ECONOMY ON THE SOCIO-ECONOMIC DEVELOPMENT OF REGIONS

Madaminova Dilfuza Iminjanovna

*Chief Adviser, Department for Socio-Economic Development of Regions and Budgetary Affairs,
Senate of the Oliy Majlis, Republic of Uzbekistan*

mdilm150427@gmail.com

Abstract: This article analyzes the theoretical foundations of the shadow economy, the factors influencing its formation, and its socio-economic consequences. Comparative experiences of Uzbekistan and foreign countries are examined, and recommendations for reducing the shadow economy are proposed.

Keywords: shadow economy, tax system, digital economy, social consequences, economic reforms.

Introduction. The shadow economy is considered a serious threat to economic development and fiscal stability on a global scale. Its growth leads to a reduction in tax revenues, the distortion of the competitive environment, and the intensification of social inequality. According to data from the World Bank and the International Monetary Fund (IMF), in developing countries the shadow economy accounts for 20–40 percent of gross domestic product (GDP).

In Uzbekistan, large-scale economic reforms and regional development strategies are creating a foundation for sustainable economic growth. However, the shadow economy continues to exert a strong influence as one of the country's key challenges. The shadow economy results not only in incomplete tax collection for the budget, but also in significant consequences such as distortions in the labor market, deterioration of the investment climate, rising social inequality, and declining public trust in state institutions. The aim of the research conducted on this topic is to analyze the root causes of the shadow economy in Uzbekistan, reveal its socio-economic consequences, and develop practical recommendations for its reduction.

On the initiative of the President of the Republic of Uzbekistan, in recent years measures have been implemented aimed at tax reform, digitalization, and reducing the administrative burden of doing business. However, according to data from the State Statistics Committee and international organizations, the share of the shadow economy in the country remains high, with some estimates placing it at 30–40 percent of GDP. This phenomenon manifests differently across regions and is observed most prominently in areas with weak economic infrastructure.

The issue of the shadow economy has been studied in world economic literature by various schools of thought. F. Schneider, D. Kaufmann, A. Kaliberda, and other scholars have proposed different methodological approaches for estimating its scale and analyzing its economic consequences. Scholars' attitudes toward the shadow economy also vary. Some view it entirely negatively, blaming it for hindering economic development, undermining state economic governance, and providing a basis for criminal activity. Others, however, acknowledge it as a driver of new directions in the economy and as a foundation for innovations that initially develop informally and later progress into the formal sector.

In international practice, the MIMIC model, monetary methods, and econometric analysis are widely applied. Although scientific research also exists in Uzbekistan, an in-depth analysis of

the impact of the shadow economy on regional development has not yet been sufficiently developed.

The study employed methods of economic-statistical analysis, comparative analysis, normative-legal analysis, and economic modeling. As data sources, reports of the State Statistics Committee of the Republic of Uzbekistan and the Ministry of Finance were used, as well as international analytical materials from the World Bank and the International Monetary Fund (IMF)

In addition, the following methodological foundations were applied during the research process:

- monetary analysis – assessing the scale of the shadow economy based on money circulation and the share of cash;
- MIMIC model – a comprehensive study of the causes and indicators of the shadow economy;
- econometric methods – identifying the impact on GDP, budget revenues, employment, and investment indicators;
- regional analysis – illustrating interregional differences through maps and diagrams.

The shadow economy refers to economic activity that develops outside of state accounting and control and therefore is not reflected in official statistics. The shadow economy is not only a complex socio-economic phenomenon encompassing economic and social structures and relations within society, but, above all, it represents activity that cannot be controlled by society, carried out to satisfy the personal and group interests of a portion of the population. In other words, it involves obtaining substantial additional income (profit) by concealing such activity from state governance and oversight, and by making use—often illegally—of state and non-state property, economic resources, and entrepreneurial abilities.

The many forms of the shadow economy (for example, tax evasion and informal employment) are explained by shortcomings in state regulation, such as bureaucratization of governance, high tax rates, and similar factors.

Moreover, the modern shadow economy has not arisen solely as a result of restrictions on market freedom, but also from the very nature of market relations. Market economies are formed on the basis of prioritizing profit above all else.

The functioning of the shadow economy poses both potential and real threats to national economic security. It affects normal economic processes, the formation and distribution of income within the official economy, as well as international trade, investment, and economic growth.

On the one hand, there is an antisocial redistribution of society's income in favor of relatively small privileged groups. On the other hand, the centralized system of economic management becomes disrupted: falsified reporting creates a misleading sense of prosperity within the government, while "hidden" employment hinders the accurate assessment of reforms aimed at creating new jobs.

As a result of the expansion of the shadow economy, the country's budget system becomes disrupted, leading to restrictions or reductions in its revenues and expenditures.

The shadow economy leads to the covert redistribution of profits. The growth of hidden incomes gives rise to non-productive structures designed to conceal them. As a result, the sectors of the economy and the social sphere that ensure the well-being of the majority of the population (such as the production of consumer goods, healthcare, education, and others) face crisis.

The analysis revealed that in Uzbekistan the shadow economy accounts for approximately 25–30 percent of gross domestic product (GDP). The main causes are identified as a high tax

burden, excessive bureaucratic obstacles to doing business, unemployment, and the low level of financial literacy among the population.

Table 1. Dynamics of the Shadow Economy and Tax Revenues in Uzbekistan

Year	Shadow economy (%)	Tax revenues (trillion UZS)
2020	32	110
2021	30	125
2022	29	145
2023	27	160
2024	25	180

Figure 1. Share of the Shadow Economy in Uzbekistan (%)

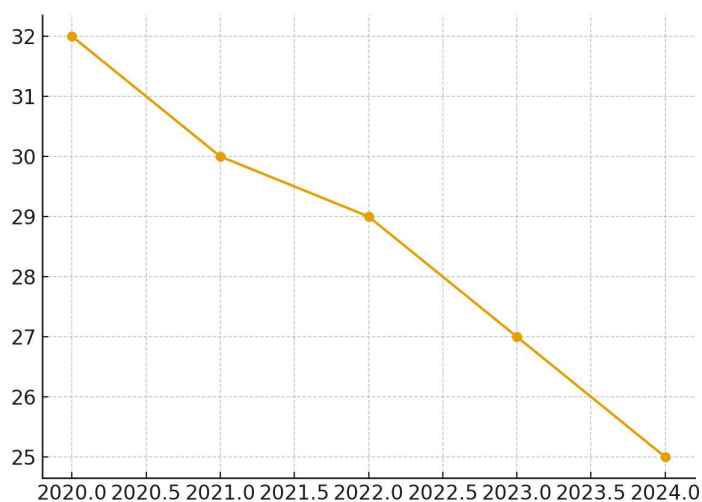


Figure 2. Growth of Tax Revenues in Uzbekistan (trillion UZS)

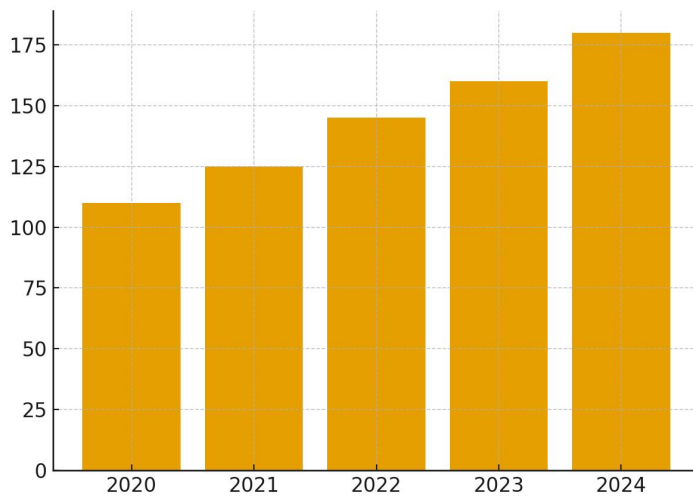


Table 2. Macroeconomic Impact of the Shadow Economy in Uzbekistan

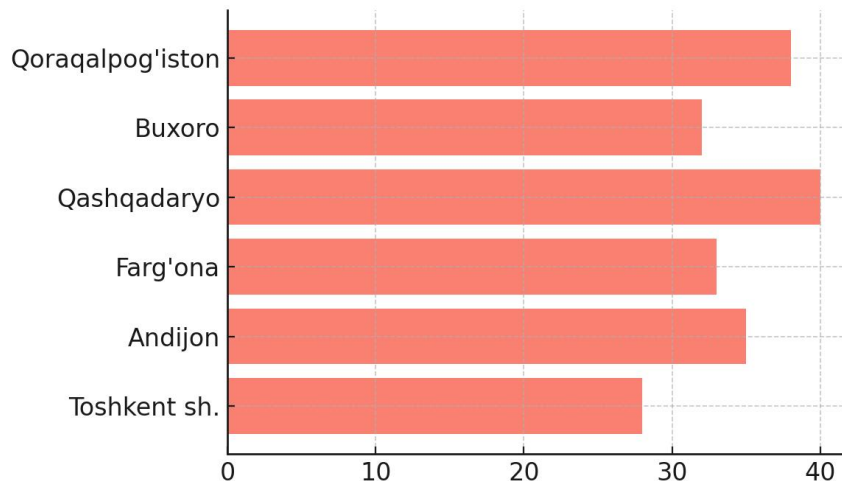
Indicator	Impact of the Shadow Economy
GDP (growth rate)	-2.1%
State budget revenues	-15%
Investment attractiveness	-10%
Informal employment	+25%

The analysis shows that the share of the shadow economy in Uzbekistan is particularly high in the construction, transport, agriculture, and service sectors.

Figure 3. Share of the Shadow Economy in Uzbekistan by Sectors (%)



Figure 4. Share of the Shadow Economy in Uzbekistan by Regions (%)



For example, in the Fergana region in 2024, the activities of more than **3.8 thousand** jobs held by informally employed workers within business entities were legalized. In addition, **1.8 thousand** entrepreneurs who had previously been operating in the shadow sector were transferred to the formal sector.

The research also revealed a high prevalence of the shadow economy in **geology and subsoil use**, which constitute one of the foundations of the construction sector, indicating the need to establish special control in this area.

In recent years, in the Fergana region, the owners of **25** non-residential properties illegally reclassified these properties as residential in order to pay lower tax rates. As a result, **118 million** UZS in property and land taxes were not paid to the budget. In the pharmaceutical sector, due to the shadow turnover of **82** entities engaged in production, wholesale, and retail trade, nearly **21 billion** UZS in revenues were not collected for the budget.

In addition, in the region, out of nearly 16,000 freight transport vehicles, only 28.3 percent were officially registered as providing cargo services, meaning that roughly one in three was engaged in shadow activity.

Conclusion and Recommendations. Based on the results of the research, the causes of the shadow economy are multifaceted and linked to economic, legal, and institutional factors. Its consequences are reflected in the reduction of state budget revenues and the distortion of the competitive environment.

In Uzbekistan, the shadow economy has been exerting a serious negative impact on regional development processes. According to the analysis, its reduction would ensure the stability of the state budget, improve the investment climate, strengthen social equity, and increase trust in state institutions. International experience demonstrates that reducing the tax burden, introducing a digital economy, formalizing the labor market, and improving financial literacy are effective ways to combat the shadow economy. Therefore, comprehensive institutional measures, digitalization processes, and effective tax policies are considered essential conditions for the country's sustainable development.

To reduce the share of the shadow economy, it is proposed to simplify the tax system, introduce digital tax monitoring, and encourage the formalization of small businesses.

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