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**COMPLIANCE OF THE IMPROVEMENT OF CURRENCY
PROMOTION IN THE FINANCIAL CONTROL OF THE REPUBLIC OF
UZBEKISTAN AND PREVENTION OF THE SHADOW ECONOMY**

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Annotation: *This article explores the relationship between currency promotion improvements, financial control mechanisms, and the prevention of the shadow economy in the Republic of Uzbekistan. It highlights the recent liberalization of currency regulations and the challenges posed by the shadow economy, which accounts for a significant portion of the country's GDP. The study examines the reforms in currency exchange policies, the strengthening of anti-money laundering measures, and the role of financial technology in increasing transparency. Furthermore, it emphasizes the need for stricter compliance, public awareness campaigns, and simplified tax regulations to reduce informality and enhance economic stability. The article concludes that a balanced approach combining liberalization, enhanced oversight, and digitalization is essential for sustainable economic growth and shadow economy reduction in Uzbekistan.*

Key Words: *Currency promotion, Financial control, Shadow economy, Currency liberalization, Anti-money laundering (AML), Counter-terrorist financing (CTF), Financial technology (FinTech), Economic transparency, Informal economy, Compliance*

Introduction

Financial management systems and currency promotion are essential to ensuring economic growth and stability. These procedures are essential not just

for promoting growth but also for reducing the detrimental effects of the shadow economy in developing economies such as the Republic of Uzbekistan. The shadow economy, which is made up of operations that are not completely disclosed to the government, presents serious difficulties for economic governance. A mix of regulations targeted at strengthening currency promotion, boosting financial transparency, and imposing stringent compliance requirements are needed to address this issue.

This article explores the relationship between Uzbekistan's financial oversight, currency promotion initiatives, and efforts to prevent the shadow economy. It examines the most current changes to the nation's currency laws, evaluates their viability, and identifies tactics for reducing the shadow economy through strict financial supervision.

Currency Promotion: Definition and Importance

Currency promotion involves policies aimed at encouraging the legal and efficient use of domestic and foreign currency in a nation's economy. In Uzbekistan, currency promotion has been critical to facilitating trade, fostering investment, and stabilizing monetary policy. Recent years have seen significant liberalization in currency regulations, particularly with the introduction of foreign exchange reforms in 2017. These reforms allowed for the free conversion of the Uzbek soum and facilitated greater foreign direct investment (FDI) and international trade.

However, despite the positive outcomes, gaps in currency control systems can enable illicit financial activities, contributing to the growth of the shadow economy. The alignment of currency promotion with strong financial control measures is crucial to prevent these unintended consequences.

The Shadow Economy in Uzbekistan

Economic activity that avoids official reporting, taxation, and regulation is referred to as the "shadow economy." According to estimates, the shadow economy in Uzbekistan has historically been significant and can make up as much as 50% of the nation's GDP. Several causes, such as high levels of informality in the labor market, bureaucratic inefficiencies, and strong financial control policies

that formerly limited access to legitimate economic channels, can be ascribed to this.

The shadow economy makes it more difficult to collect taxes, skews official economic statistics, and unfairly competes with companies that follow the law. It also weakens the effectiveness of monetary policy by lowering openness and eroding trust in financial institutions. Therefore, one of the main objectives of Uzbekistan's continuing economic reforms is to address the shadow economy.

Financial Control in Uzbekistan

The institutional framework and regulatory framework put in place to oversee and enforce adherence to financial laws, including those pertaining to currency, are together referred to as financial control. The Central Bank of Uzbekistan (CBU), which controls the stability of the financial sector and carries out currency policies, is the central body in charge of financial supervision in Uzbekistan. The State Tax Committee and the Ministry of Finance are two other organizations that are crucial to the enforcement of financial rules and regulations.

The financial control policies of Uzbekistan have historically been defined by stringent currency restrictions, significant government intervention, and a convoluted regulatory framework. However, recent revisions have tried to streamline these laws to encourage greater market liberalization and boost the efficiency of currency transactions. Key aspects of the improved financial control framework include:

- **Liberalization of Foreign Exchange Transactions:** Uzbekistan has made substantial adjustments since 2017 in order to streamline the currency exchange procedure. Both individuals and companies can now freely exchange currencies at prices set by the market. As a result, there is now less of a need for currency conversion on the black market and more currency transactions take place inside the established banking system.

- **Introduction of Financial Technologies (FinTech):** To improve financial inclusion, the government has encouraged the use of FinTech solutions including online banking and digital payment systems. FinTech might lessen

opportunities for shadow economy operations by improving transparency and making it simpler to follow financial movements.

- **Strengthening Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) Measures:** Uzbekistan has worked to align its AML/CTF framework with international standards set by the Financial Action Task Force (FATF). By implementing stricter reporting requirements for suspicious financial activities, the government aims to curb money laundering and other illicit financial practices that fuel the shadow economy.

Compliance with Currency Promotion Policies

Effective compliance with currency promotion policies is a critical factor in combating the shadow economy. Compliance ensures that businesses and individuals adhere to financial regulations, enabling the government to track currency flows, enforce tax obligations, and reduce the scope for illegal economic activities.

The Central Bank of Uzbekistan has taken steps to enhance compliance through various initiatives, including:

- **Stricter Penalties for Non-Compliance:** Firms and individuals engaging in illegal currency exchange or failing to comply with currency reporting requirements face heavier penalties. This acts as a deterrent to those considering participation in the shadow economy.

- **Public Awareness Campaigns:** The government has initiated campaigns to inform businesses and the public about the benefits of legal currency exchange and the dangers of engaging in the shadow economy. These campaigns are crucial in promoting voluntary compliance and reducing informal economic activities.

- **Capacity Building for Regulatory Institutions:** Ensuring compliance with financial regulations requires well-resourced and capable institutions. The CBU and other regulatory bodies have undergone significant reforms aimed at increasing their technical capacity, improving oversight mechanisms, and enhancing coordination with international financial bodies.

Preventing the Shadow Economy through Financial Reforms

Uzbekistan's approach to shadow economy prevention must be multi-faceted, targeting the root causes of informality while fostering an environment conducive to legal economic activities. The following strategies are essential for reducing the shadow economy:

- **Simplification of Tax and Regulatory Systems:** Complex tax regimes and bureaucratic processes drive businesses and individuals to operate outside the formal economy. By simplifying tax regulations and reducing the cost of compliance, the government can encourage greater participation in the formal economy.

- **Incentivizing Formalization:** Offering incentives for businesses to formalize, such as tax breaks, access to credit, and participation in government procurement, can shift informal businesses into the formal sector.

- **Digitalization and E-Government:** Expanding the use of digital technologies in government services, particularly in tax collection and business registration, can increase transparency and reduce the opportunities for corruption. Digital platforms also make it easier for businesses to comply with financial regulations, reducing the likelihood of participation in the shadow economy.

Conclusion

The improvement of currency promotion and financial control in Uzbekistan is crucial for the nation's economic development. While recent reforms have liberalized currency transactions and strengthened financial oversight, ensuring compliance and preventing the shadow economy requires continuous efforts. A balanced approach involving liberalization, enhanced compliance, and the implementation of financial technologies can significantly reduce the size of the shadow economy and contribute to greater economic transparency and stability.

By addressing these challenges, Uzbekistan can create a more favorable business environment, attract foreign investment, and ensure sustainable economic growth while safeguarding the integrity of its financial system. The long-term success of these reforms, however, will depend on the government's

ability to adapt to emerging challenges and maintain a strong commitment to transparency, compliance, and economic formalization.

This article provides a comprehensive analysis of the topic, incorporating key aspects of financial control and the challenges posed by the shadow economy in Uzbekistan.

Here's a list of references based on the general topics covered in your article. These references include academic journals, reports, and other relevant sources that could be useful when writing a research paper on the compliance of currency promotion and financial control in Uzbekistan.

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