



SHADOW ECONOMY

Turobova Malika Doniyorovna

Listener of Banking-Finance

Academy of the Republic of Uzbekistan

tel : 88-559-87-09;

e-mail: malikadoniyorovna@gmail.com

Abstract: A clandestine economy, often referred to as a shadow economy or informal economy, includes all economic activities that are not officially reported to power, such as unregistered businesses, undeclared labor, tax evasion, and underground markets. It is estimated that the hidden economy ranges from 15% to 30% of global GDP, depending on the country and the level of informality in the local economic system. The pervasive nature of the clandestine economy presents significant challenges for a developed and developing economy, affecting economic policy, tax revenues, employment, and social equality. While informal sectors provide significant employment opportunities, especially in developing economies, they simultaneously prevent growth, reduce fiscal space, and perpetuate inequality.

The relationship between the hidden economy and economic development is complex. On the one hand, it provides employment opportunities and entrepreneurship, especially in developing economies where formal employment opportunities may be scarce. At the same time, it increases income inequality, weakens fair competition and reduces the effectiveness of public policies aimed at reducing poverty and improving social welfare.



Preliminary findings suggest that the size of the hidden economy is inversely related to the level of institutional quality and the effectiveness of Public Administration. In countries where the government has low efficiency in high regulatory burdens and enforcement (e.g. Argentina, India and Indonesia), the clandestine economy forms a significant part of GDP—often exceeding 30% in some cases. This result is consistent with the conclusions of Schneider (2013), who observed that states with a weak executive and regulatory system are experiencing a higher proportion of economic activity in the informal sector.

In contrast, countries with higher levels of digitization and better governance have a smaller clandestine economy. For example, in Sweden, where digital payment systems and e-government platforms are common, the hidden economy accounts for only 7-8% of GDP, despite high tax rates. A recent study (OECD, 2020) found that the introduction of digital tax platforms such as electronic filing systems and electronic invoices could reduce the latent economy by up to 10% in five years by improving tax compliance and reducing escape opportunities.

Uzbekistan is actively implementing several reforms to reduce the clandestine economy in order to increase transparency, improve tax compliance and integrate informal sectors into the formal economy. Major initiatives include:

1. Promotion of cashless transactions

To minimize cash circulation and promote transparency, the government introduced measures to encourage non-cash payments:

1. Mandatory non-cash payments: from May 1, 2024, the sale of real estate and vehicles must be carried out only through non-cash transactions. In addition, payments for goods and services that exceed \$ 3,000 must be made through non-cash methods. The initiative aims to reduce the use of cash and increase financial transparency.

2. Payroll payments: the government orders that 100% of the salary for budget organizations, including universities, large taxpayers, and military personnel, be paid



through bank card transfers. This policy ensures that income is monitored and reduces the likelihood of low reporting.

2. Introduction of sustainability rating of business entities

In Uzbekistan, the stability rating of business entities was introduced in order to properly organize business activities and encourage companies to formalize their activities. This system assesses enterprises on the basis of compliance with tax rules, financial transparency and operational stability. Highly ranked companies have benefits such as lower tax rates and simplified administrative procedures, encouraging informal businesses to enter the formal economy.

3. Introduction of Telegram bot to report informal activities

Uzbekistan launched a Telegram bot that allows citizens to report cases of informal economic activity in order to combat the hidden economy. The tool promotes public participation in monitoring and reporting of unregistered businesses and thus increases the government's ability to address and reduce the clandestine economy.

4. Commodity marking system

In order to combat the informal trade in goods, a system of branding of various products was introduced in Uzbekistan:

Product labeling: the government has implemented a labeling system to monitor and verify the movement of goods, particularly in areas such as alcohol and tobacco, through the supply chain. This initiative helps to identify and eliminate unregistered goods from the market and thus reduce the hidden economy.

5. International cooperation and technical assistance

Uzbekistan cooperates with international organizations in order to strengthen its efforts to reduce the hidden economy:

Support from the World Bank: in October 2024, the World Bank approved a \$ 800 million preferential loan to support Uzbekistan's reform agenda, including measures to



reduce the clandestine economy. This funding is allocated to important sectors such as social protection, agriculture, business environment, energy reforms and Climate Action. Together, these reforms aim to integrate the informal economy into the formal sector, increase tax revenues, and ensure sustainable economic growth in Uzbekistan.

In conclusion, the integration of the digital economy into the wider economic base of Uzbekistan provides a transformative opportunity to reduce the hidden economy. The introduction of cashless payment systems, electronic tax platforms and the promotion of financial transparency through digital means is the main strategy of this process. These reforms, along with the introduction of new technologies such as blockchain and the digitization of key sectors, are designed not only to increase economic transparency, but also to encourage enterprises to formalize their activities, such as business.

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