



THE SIGNIFICANCE OF UZBEKISTAN RECONSTRUCTION AND DEVELOPMENT FUND'S FINANCIAL CAPITAL ON ECONOMIC GROWTH OF UZBEKISTAN

Jumaniyazov Inomjon Turayevich

Researcher of Tashkent Institute of Finance, Uzbekistan

inomjonscience@mail.ru

Abstract

In developed and developing countries the economic growth of the state depends on many factors. One of the institutions that have an impact on the economy is Sovereign wealth fund. These types of funds have different and at the same time similar objectives. This paper studies the activity of one of those Sovereign wealth fund i.e. the Uzbekistan Reconstruction and Development Fund, established in 2006. It analyzes the significance of the fund's expenditure in the economic growth of Uzbekistan. The study shows that fund's expenditure has positive correlation with GDP growth of the country. According to regression analysis, expenditure of the fund is significant variable for the GDP growth of Uzbekistan. Moreover it analyzes some Asian countries' experience and develops conclusions and proposals on the improvement of Uzbekistan Reconstruction and Development Fund.

Keywords: Sovereign wealth fund, Uzbekistan Reconstruction and Development Fund, GDP growth, expenditure, Uzbekistan

INTRODUCTION

The Uzbekistan Reconstruction and Development Fund, established in 2006 in accordance with the Decree of the President of the Republic of Uzbekistan on 05/11/2006, is a financial institution under the Cabinet of Ministers of the Republic of Uzbekistan designed to ensure the implementation of projects for the modernization and technical re-equipment of leading basic sectors of the economy, achieving a dynamic, sustainable and balanced socio-economic

development of the country, as well as the implementation of an effective structural and investment policy.

The Fund for Reconstruction and Development of the Republic of Uzbekistan also finances the implementation of national socially significant state programs and projects for the formation of production and non-production infrastructure, primarily in promising but insufficiently developed regions, modernization and development of transport and telecommunications infrastructure, creating the conditions for integration republic in the international network of communications, providing the shortest access to international transport corridors and the world stems markets. The Fund for Reconstruction and Development of the Republic of Uzbekistan can participate in organizing joint financing of projects with international financial institutions, credit institutions of the republic and foreign countries.

The founder of the Foundation is the Government of the Republic of Uzbekistan represented by the Ministry of Finance. The supreme governing body of the Foundation is the Council for the Management of the Foundation, headed by the Prime Minister of the Republic of Uzbekistan. As mentioned above main objective of this sovereign fund is to finance mostly social programs, however investment rate of return is not main target of the fund that needs achieving. Although the managers of the fund use the part of the funds to bank deposits and some other types of investments, still rate of return is not significant.

LITERATURE REVIEW

Sovereign wealth funds are financial vehicles owned by states which hold, manage or administer public funds, which can be invested in a wider range of assets of various kinds (Jing Yu 2012). Another definition is Sovereign Wealth Funds (SWF) as sovereign vehicles (returns enter the government's fiscal budget) with high foreign asset exposure, nonstandard liabilities (could be as simple as wage growth or as complicated as maintaining external purchasing power) with long (generation spanning) time horizon (Andreas Gintschel 2008). The object of strategic sovereign wealth fund is to maximize the whole country welfare through the SWF investing (You Miao 2011). SWFs also served as "investors of last resort" during the last crises, intervening to support their domestic financial markets (Clark G.L. 2010). (Jen 2007) wrote that SWFs are big and are growing fast, and their investments will have significant implications for financial asset prices around the world. However all issues regarding the management of sovereign wealth funds can be solved not only by hedging or investing in overseas projects. Sovereign wealth funds can address the issues of national wealth in two ways. The first is saving the gains from natural resources to future generation. The second way is earmarking the part of windfall to the fund to reduce the risk that government officials do not use that money for

their own needs (Shai Bernstein 2013). These researches show that there should be different approaches to manage the resources of the fund. In managing the financial resources of the fund, one of the issues is to optimize the investment portfolio of the fund. In order to achieve optimal investment portfolio several researchers have developed different models to maximize the investment return rate and optimize the investment portfolio of the fund. (Bodie Z. 2014) solves this problem theoretically that the optimal portfolio can be broken down into a performance-seeking portfolio and three hedging demand terms for the variability of the fiscal surplus and external and domestic debt. A bit different method is used by (You Miao 2011), she uses total risk of whole economy to show the optimal portfolio for the fund.

Foreign experience

There are many Sovereign Funds all over the world. Although their names are a bit different from each other, mostly they have similar objectives. Unlike the Uzbekistan Reconstruction and Development Fund, majority of those types of funds try to hedge their funds in order to decrease the level of the risk. Moreover they may invest in real and financial assets. There are approximately 80 Sovereign Wealth Funds in the world and their division across continents is shown in figure 1.

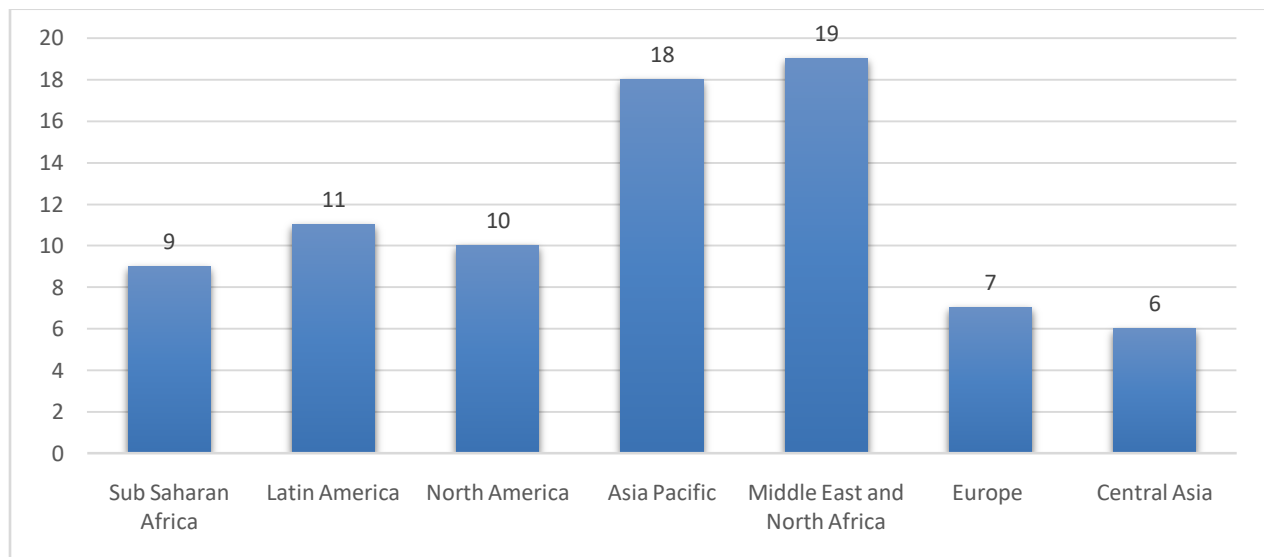


Figure 1. Division of Sovereign Wealth Funds across the continents

Source: <https://www.swfinstitute.org>

Including the one in Uzbekistan there are 6 Sovereign Wealth Funds in Central Asia, most Sovereign Wealth Funds are in Middle East and North Africa region.

In South Korea, one of the Sovereign Wealth Funds is Korea Investment Cooperation. It was founded in 2005 to increase national wealth and contribute to the growth of Korea's finance industry. It manages assets entrusted by the Korean government, Bank of Korea and public funds to contribute to advancing the domestic finance industry. In addition they aim to gain higher investment returns that exceed inflation rate in the country. Moreover they may invest some of their excess capital in overseas projects that promise higher returns. Korea Investment Cooperation boosts the competitiveness of the domestic finance industry through exchanges and cooperation with domestic and international financial companies, cultivate investment professionals and support overseas infrastructure development projects. In China there are several Sovereign Wealth Funds and one of those is called National Social Security Fund. Although the National Social Security Fund is an independent entity, different from the government of China, the National Council of the Social Security Fund, which manages it, is a ministerial government agency. "The National Social Security Fund" was established in August 2000. It is a national social security reserve fund composed of funds raised by the central government budget, state-owned capital transfer, fund investment income, and other forms of approval approved by the State Council. In order to continue their activity well they invest in financial market instruments and actively use derivatives to hedge their risks. By the end of 2016, yearly average investment rate of return made up 8.37% according to the information of the official website (<http://www.ssf.gov.cn/>) of the fund. It is almost 3 times higher than the inflation rate in the country.

ANALYSIS AND FINDINGS

First of all we would like to check correlation coefficient and relationship between the expenditure and revenue of the fund using the linear regression.

Table 1. The revenue and expenditure of the fund

Years	Fund revenue	Fund expenditure
2007	928.5	139.5
2008	1115.6	222.5
2009	762.9	354.2
2010	1529.7	1408
2011	1905.7	1368.3
2012	4747.6	1496.8
2013	2618.5	1545.1
2014	2335.9	1984.2
2015	2263.5	2454.5

2016	2936.5	2474
2017	2755.9	2309.1
2018	5463.5	8979
Mean	2446.983333	2061.266667
Median	2299.7	1520.95
SD	1441.325015	2330.191442
Correlation coefficient	0.782551959	

Table 1...

Source: Fund for Reconstruction and Development of the Republic of Uzbekistan

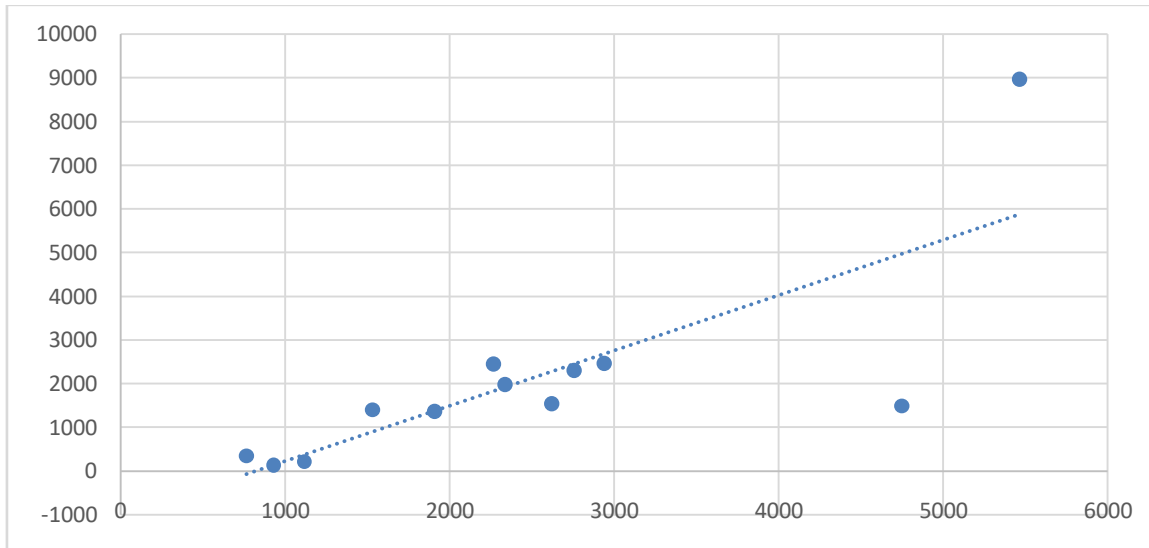


Figure 2. Linear regression on revenue and expenditure of the fund.

Correlation coefficient shows that there is a highly positive relationship between two indicators. In addition linear regression also proves that. However there is a big gap in 2018 among them. The fund has a great impact in the economy of Uzbekistan. We decided to determine the significance of the Fund for Reconstruction and Development of the Republic of Uzbekistan on the GDP growth of the country. After acquiring the results we are able to develop some conclusions on it. We have used the data of the World Bank and International Monetary fund and the data on the official website of the fund.

Table 2. Macroeconomic factors and expenditure of Fund for Reconstruction and Development of the Republic of Uzbekistan

T	Years	GDP growth	Population growth	Fund expenditure	FDI/GDP	Trade/GDP	Inflation
1	2007	9.92	1.4234749	8.32705227	3.16071691	74.41419298	12.2591944
2	2008	9	1.60532736	8.23638609	2.40715231	79.74799203	12.7145086
3	2009	8.1	1.68734097	8.73056427	2.49931553	68.6731422	14.1176471

4	2010	8.5	2.82284968	8.70907482	4.16052269	59.3062305	9.39963614
5	2011	8.3	2.68401551	8.84785634	3.56122877	63.48863951	12.804878
6	2012	8.2	1.47209999	8.87596944	1.08649822	59.81747444	12.1867322
7	2013	8	1.56190433	8.86531722	1.10018424	57.47960682	12.0017521
8	2014	7.79	1.68690036	8.74696874	1.2008776	54.57225204	11.0285491
9	2015	8	1.74425837	8.71505856	0.09938042	49.32409843	10.0035224
10	2016	7.8	1.73884926	8.97993515	0.19776841	51.15342106	13.896894
11	2017	5.3	1.67918372	9.28300481	0.19277725	68.51854233	14

Table 2...

Source: Author's compilation using the data of World Bank, IMF and Fund for Reconstruction and Development of the Republic of Uzbekistan

After determining and collecting all data we used logarithm to the column of expenditure of Fund for Reconstruction and Development of the Republic of Uzbekistan so the indicators become closer to each other. We would like to determine if the expenditure of the fund is significant to the GDP growth of the country.

Figure 3. Calculations using the data in table 2

Variables	GDP growth
Population growth	0.899 (0.557)
FDI/GDP	0.604** (0.213)
Trade/GDP	0.080** (0.023)
Inflation rate	-0.167 (0.121)
Expenditure of Fund for Reconstruction and Development of the Republic of Uzbekistan	3.213** (0.798)
Constant	39.739*** (6.264)
Observations	11
R-squared	0.939
Standard errors in parentheses	
*** p<0.01, ** p<0.05, * p<0.1	

From the above calculations, we can conclude that the factors analyzed for the growth of GDP growth are influenced by the flow of foreign direct investment, the degree of economic openness, and the level of savings expenditure change. That is, the increase in savings by 1% will increase the current rate of GDP growth by 3.2%. It means if the current GDP growth rate is

5 percent, an increase of fund expenditure by 1 percent will increase 5 percent GDP growth rate to 5.16(5x1.032) percent. At the same time, the statistical error rate was equal to $p < 0.05$, indicating a higher level of significance of funds expenditure on GDP growth.

CONCLUSIONS

According to the analysis and calculations the following questions have been developed:

- Fund for Reconstruction and Development of the Republic of Uzbekistan has a high influence in the economy of the country and this fund mostly invests in projects to improve the sustainability of the economy, however the fund's investment portfolio has been well diversified;
- There is not clear information about the rate of returns of the projects of the fund, and it does not allow to assess if the fund's capital has been allocated well;
- However, according to calculations we can conclude that expenditure of the fund has a significance to the GDP growth of the country.
- Fund for Reconstruction and Development of the Republic of Uzbekistan does not invest in financial assets i.e. it does buy stocks or bonds. From our point of view it would increase the profit and significance of the fund in the economy;

REFERENCES

- Andreas Gintschel, Bernd Scherer. 2008. "Optimal asset allocation for sovereign wealth funds." *Journal of Asset Management* 215-238.
- Bodie Z., Brière M. 2014. ""Sovereign Wealth and Risk Management: A Framework for Optimal Asset Allocation of Sovereign Wealth"." *Journal of Investment Management*.
- Clark G.L., Monk A.H.B. 2010. ""Government of Singapore Investment Corporation: Insurer of Last Resort and Bulwark of Nation State Legitimacy". *Pacific Review* 429-451.
- Jen, Stephen. 2007. "Sovereign Wealth Funds: What they are and what's happening." *WORLD ECONOMICS* 1-8.
- Jing Yu, Bin Xu, Haizhen Yang, Yong Shi. 2012. "The strategic asset allocation optimization model of sovereign wealth funds based on maximum CRRA utility & minimum VAR." *Procedia Computer Science* 2434-2440.
- Shai Bernstein, Josh Lerner, and Antoinette Schoar. 2013. "The Investment Strategies of Sovereign Wealth Funds." *Journal of Economic Perspectives* 219-238.
- You Miao, Han Liyan. 2011. "Sovereign Wealth Funds in China: The Perspective of National Energy Strategy." *Energy Procedia* 1187-1191.