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# The Firm Aspects and Conditions Providing the Qualities of Economic Growth in Uzbekistan

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### Abstract

The basic distinctions between the most known theoretical methods of investigating the content of category "economic growth" - by reproductive and functional-macroeconomic approaches were revealed; the intrinsic content of a category « quality of economic growth » as one of characteristics of the economic progress reflecting an effective combination of factors of manufacture was specified. The quality of economic growth is represented as totality and the relationship of the indicators of economic development, which ensure rational structure the GDP [Gross Domestic Product], the competitive ability of the end product, progressive shifts in the branch structure of the economy; the classification of the growth factors on the meaningful signs and the forms of economic impact was developed and the indices, which influence a qualitative growth in the economy of Uzbekistan were determined; multifactor regression models, on the forecasting paces of growth in the economy taking into account quality indicators were proposed. Consists in that key points and results of research, conclusions and offers can be used by administrative structures at the decision of the problems connected with growth of economy and in development of long-term forecasts and special-purpose programs directed on improvement of quality of economic growth.

## 1. Introduction

Investigation objects: the factors and indicators of the quality of economic growth for economy's transformational stage in the condition of modernization.

Purpose of the work: coming up scientific- practical recommendations that were considered to improve the quality of economic growth in the condition of modernizing Uzbekistan's economy as well as extending and developing theoretical rules.

Investigation methods: analysis and calculation were implemented on the basis of systematical, financial, economical-mathematical correlation-regression, economical-statistical methods.

Making the new economical system requires, on the one hand, scanning the traditional factors of economical growth — collecting financial resources, naturally increasing the number of population capable for work, the technical progression and growth of labor productivity, on other hand, providing effective gather of main factors of economic development including person, nature and physical capital. At this, despite existent opportunities, in order to use them in the way of developing national interest, it is required to create new high quality mechanisms which give opportunity to use real and potential possibilities providing high tempos of economic growth in Uzbekistan. In the

condition of independent countries' passing period, the problems for obtaining economic development were widely elucidated in our and foreign literatures. But, because of the complexity of problems that are being solved, these attempts don't include unanimous solutions for the practice on managing economy in new conditions. Several matters were remained at the position of ways that reflect some steps in periodical development of leader countries and were not related to crossing economy. Others were come from national and social peculiarities of some countries in Commonwealth of Independent States (CIS) and do not answer to the most important questions of economic growth qualities of transformational strings. Important aspects of this problem, particularly, the significance of economic growth quality, the

inter-connectedness between growth qualities and economic development, marking the firm directions of state politics concerning optimal growth problem and others, have not been sufficiently learnt yet. Researches that were carried out by authors show that, there were appeared two main approaches on understanding the occurrence of economic growth in economic theory and they are repeatedly manufacturing approach and functional-economic approach.

## 2. Method

Initially being based on the works of J. M. Keynes and his followers as a whole, later the functional-economic approach developed as a "main flow" of economic thought table 1.

*Table 1. Comparative description of repeatedly manufacture and functional-macroeconomic approach doing research in the economic growth.*

Comparative criteria	The approach of repeatedly manufacturing	The approach of functional-macroeconomics
Preliminary methodical factors	In the most amous views — dialectic method, labor theory of value	Systematical-functional method, theory of manufacture factors
Base of economic growth (EG)	EG — Result of collecting capitals and repeat manufacture of all products in a widened way.	EG —the result of work macroeconomic system, long-lasting priority way of final product growth being equalized with growth in potential manufacturing (gross domestic product).
Structure of social product	Definite dependence between value structure and natural-financial structure of total products, as a result, saving necessary rates between collecting and filling consumption in both sections.	In total product structure, existence of definite ratios according to followings: expenditure, income, being added value. The most important role of precision between investments and money collected.
Differentials of EG kinds	The main emphasis — differentiating extensive and intensive kinds of growth from each other.	Dividing growth into kinds of potential and factual growth.
Factors of manufacturing	This is differentiated by the following way: source of creating value — factors of manufacturing product and social necessary labor — labor, capital, natural resources.	Subordination is not being carried out among manufacture factors. Labor, capital, natural resources, labor in economic growth models, capital, natural resources, Science-Technology Progress (STP) and other line of factors are being carried out instead.
The degrees of economy that are being looked over. Manufacturing field being looked over.	Mutual dependence between individual and social repeatedly manufacturing.	Macro level of economy.
Period being observed.	Usual field on financial manufacturing.	Producing goods and services.
Indicators which describe main results of manufacturing.	EG is not linked to certain period. Difference between long-lasting and short-lasting periods is not shown clearly.	EG is being noticed on the long-lasting point of view as a result of economic potential growth, whereas rate of factual growth is being observed in annual calculation.
Manufacturing and economic growth fruitfulness.	Total social product, national profit, net social profit, accumulation of repeatedly manufacturing	Gross domestic product, net domestic product, net profit, personal profit, personal possession profit, calculation methodology on the basis of National Accounting System (NAS)
	It is being given a great attention to manufacturing and economic growth fruitfulness. The indicators of technological, social-economic and social fruitfulness differ from each other.	The indicators of manufacturing fruitfulness are usually being observed in terms of manufacturing theory instead of economic growth range. Social fruitfulness of growth is being looked over as growth of gross domestic product's volume and maximization of consuming volume for per person.

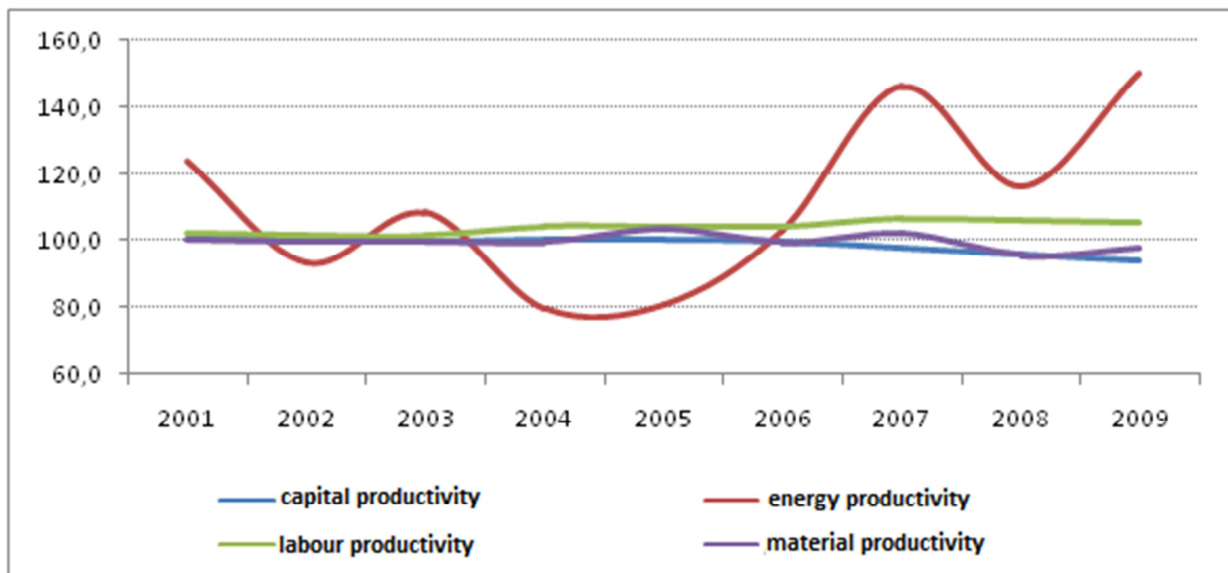
Shown approaches were not appropriate and did not accept each other. They were not taken with systematical comparing. However, this condition, generally, did not decrease the quality of researches in accordance with problems combination belongs to economic growth. In this work observing these differences is shown on the 1<sup>st</sup> table. There are superiorities and defects of every given approach. The advantages of functional –macroeconomic approach depend on definiteness of forms that reflect economic growth dynamic and completely taking into account the portion of manufacturing factors on shaping final product in economy. The defects of this approach are: methodological inaccuracy in defining main ideas, emphasis among main sectors of

economy is only directed to final results of economic activity and dividing process of final product and disregarding complex mutual inner inter-connectedness in manufacturing process. According to our opinion, in order to research economic growth, both approaches — repeatedly manufacturing approach and functional-macroeconomic approach should be used in a complex way, because as these approaches fill each other, it gives an opportunity for better showing of mutual link between economic growth and other types of economical dynamic, causing subordination of growth factors and manufacturing, also quantitative pricing the added portion of distinct factors to economic growth. There are a number of approaches throughout marking and

determining economic growth quality: structural approach, approach based on marking rivalry strengthens and quality of final product, approach based on marking resources quality, social approach. In addition to this, each of them gives its attention only to one (structural, technological, social and etc.) peculiarity of growth. This does not give conception about variety of this occurrence essence. Instead, this equalizes growth and development to each other. In this, features of growth quality become features of economic development process. These conditions give the chance to authors to come to the conclusion that economic growth quality is positive dynamic of living quality in current and future periods, saving life environment is rapid growth feature of Gross Domestic Production providing to strengthen National Security. Our research shows that, in order to measure growth quality, integral indicator should be used and this indicator may be defined as synthetic indicator vector of modernization level and living quality, this vector may include such as living standard, ecology and national security. In this, change of economic growth quality may be marked as decreasing coordinates belong to vector than normative values. As these values, indicators in basis period of developed countries or mentioned countries may be used. Being as an objective estate, criterion of economic growth quality may take part in as one of forms that define manufacturing attitudes. Its specialty is that it can be the most important base for manufacturing economic system of the whole country and its separate structural sectors, planned and accounted indicative system of economic activity. In this condition, criterion of economic growth works as one of elements of country economic strategy. Criterion of

economic growth quality depends on parameters of the whole economic growth and providing factors of its level. In the prediction practice of economic growth rate, certainly, it is used from long and short periodical models. Short periodical models are usually flexible. They give the chance of including a number of factors providing and effecting quality economic growth. However, their defect is that, it may be difficult to predict explaining factors for long time. Therefore, manufacturing alternative models begins becoming important. Using such kind of models gives the opportunity to answer quickly to the changes that are happening not only in the national economy but also, all around the world and this, in one's turn, gives the chance of ascending to balanced level of economic growth. Conditions and factors of reaching quality economic growth can be counted as the initial aspect in accordance with original aim in creating it.

The analysis done on research shows that, if growth that has been reached is marked by its quality, not only positive but also negative tendencies exist in economy. In one side, fruitfulness of using separate resources got better considerably: particularly, decreasing of energy capacity of GDP (figure 1) happened at the same time with decreasing of capital change and material change. Relative growth was observed on populations' income at the level which labor productivity was not high. At the same time, economic growth gained during the last years occurred with significant progresses in economic structure and in this, portion of manufacturing and cultural economy corresponded at least two thirds portion of increase in GDP. In current period (from 2007 till now), at least 40 percent of the whole growth in GDP is provided by increase in added value in service sector.



Source: calculation of authors based on the information of state statistics committee in Republic of Uzbekistan.

**Figure 1.** Growth rate of national economics fruitfulness indicators during the years between 2001 and 2009 (compared with the previous year%).

Such kind peculiarity of growth, firstly, does not limit perspective related to development of manufacturing and constructing. Indicators of expected average life expectancy and high quality which is appraised on the basis of budget funds directed to developing educative and social sector should be emphasized. High rate of mutual dependence in average life expectancy and budget expenditure indicators is shown on the table 2.

*Table 2. Average life expectancy and budget expenditure indicators in CIS countries.*

Ukraine	Uzbekistan	Azerbaijan	Turkmenistan	Kazakhstan	Russia	Belorussia
Life expectancy						
67,7	66,8	67,1	62,6	65,9	65,0	68,7
Portion of health protection investment in GDP						
6,6	5,3	4,3	4,4	3,7	5,5	6,6

Source: WDI/2008

*Table 3. The results of checking stationary with the help of ADF test.*

Indicators	ADF statistics	5% critic value	Specification	
			1 <sup>st</sup> difference	Constanta /Trend
GDP	6.24	2.94		
Directly tax	3.01	2.93		
Deflation of GDP	1.18	2.94	–	–
Expenditure in possession	5.26	3.55		
Wages	5.13	3.15		
Product circulation	4.85	3.85		
Export	5.35	3.53		
Import	6.76	3.58		
Manufacturing industry	3.48	2.06		

Source: authors' calculations based on information of Economy Ministry of Uzbekistan Republic.

By value of international organization, the most important achievement was the growth on development index of person capital. According to information of the UNO, development index of person potential rose from 0.59 in 2005 to 0.62 in 2009. In this period, volume of Gross National Income per head of population in Uzbekistan increased to 43%. Progress in economic structure and resources that are used affect to dynamic of economic growth quality considerably. In Uzbekistan, average annual growth of manufacturing industry products reached from 2-3% to 8-10%, rates of manufacturing services increased considerably. And 7% in the years which macroeconomic changeableness rate was the highest reached to 12-15% in 2009. In Uzbekistan, analyzing fruitfulness of using manufacturing factors shows that although it was observed positive dynamic of growth in raising fruitfulness level of the period between 2007 and 2010, this process stayed discrepant to each other. Based on econometric results reached by author, in this scientific work, the conclusion is that intensive factors don't affect economic growth sufficiently. On the basis of using many dimensional regression models, we found out the most important aspects of growth quality in current conditions. They are investment level, income in population's possession, development rates of manufacturing and so on. The indicators used in model show that delimiting the model corresponded 78.3% for occurring economic processes, 21.7% for factors that were not taken into attention in accounting. When model data was tested in terms of accordance with history, it was confirmed that taken results were checked at a high level. On the basis of determined problems on the subject of providing economic growth quality, scenario conditions of economic growth rates were determined. Econometric models of providing economic growth quality in short and long-term perspective were put into practice and based. Predictable levels of reaching economic growth quality in Uzbekistan were valued. In the aim of making strategy and macroeconomic policy, in

many countries it is one of the important tasks to work out scenario model which provides analyzing and embracing all fields of economic activity, also gives the chance of working scenario variant of prediction in short and long-term perspective. In order to analyze and make short-term model, it is used the correlation between quarter rate of growth and proper quarter of the previous year. Using such kind of rows gives the opportunity of lessening the affects of seasonal factor. One of the advantages of this approach is that, taken quarter rows in terms of relevant year take to average annual estimation by all indicators and sources of economic growth. Because of using annual growth rates in long-term model, this approach gives the chance of embodying short and long-term models with the least expenditure. It is easier to predict annual rates of growth and take more exact prices by prediction. The approach that embodies demand and supply factors, also macroeconomic stableness factors, is used as methodological base of costing model. This approach gives the opportunity to take stock of factors in maximal quantity, as well as balanced state between manufacturers and consumers. Creating model means that all indicators must be distributed at a normal level, be adjusted to seasonality and be stable. By normal distribution, proper tests were carried out, then adjusted to seasonality, that is, indicators were cleared from seasonal factor. As mentioned above, the most important condition of getting hold of believable values is ADF test and this test gives the opportunity to appraise stationer of rows or to make them stationary. Because only stationary rows give a chance to take believable, fruitful, pending values and on the basis of these values, it may be talked about correction of chosen model and future reliable prediction. Based on reached econometric results, we can say that apart from deflation of GDP which can't be come to stable condition, most of rows are stationary (table 3). However, in order to convince of trustworthiness of this factor, co integration test must be done. If this test comes to

that conclusion in indicative analysis of economic growth even it is not stationary when is taken separately, this test will give the opportunity to talk about stationary of rows. This kind of test shows existence of co integrating between GDP rows and GDP deflation. Therefore, taken coefficient values may be described as reliable.

### 3. Result

After all done tests and corrections, some equations, which give opportunity to appraise affecting level of economic growth, were made. In order to get hold of flexibility coefficient, all indicators are presented in logarithmic form. The first reached equation is below:

$$\text{Log (GDP\_SA)} = 3.43 + 0.08*\text{log (EX\_SA)} + 0.18*\text{log (TAX\_SA)} \quad (1)$$

P- value (0.00) (0.00) (0.01)  
 $R^2 = 0.42$  DW =2.09

There, GDP\_SA – Gross Domestic Production; EX\_SA – export; TAX\_SA – Directly tax; SA - seasonal adjustment.

The most effective factor which influences GDP extremely is direct tax that has 0.18 flexibility coefficient and this coefficient means that if direct tax is gone up to 10 units, GDP increases approximately to 2 units. About export factor it can be said that if this factor is gone up to 10%, economic growth of country increases about to 1 unit. These two factors together may clarify condition of GDP for 42% and this means model sufficiently has high clarification ability. As a mentioned above, factors in equation were chosen in the manner that factors of supply and demand if possible, indicators of macroeconomic stableness must be exist in that. The second reached equation has answer to all these criterions and has following view:

$$\text{Log (GDP\_SA)} = 1.82 - 0.14.*\text{log (Def\_SA)} + 0.30*\text{log (DI\_SA)} + 0.31*\text{log (Ind\_SA)} \quad (2)$$

P- Value (0.11) (0.07) (0.01) (0.10)  
 $R^2 = 0.32$  DW =2.18

There, Def\_SA – level of inflation by GDP deflation; DI\_SA – profit in population's possession; Ind\_SA – manufacturing industry product.

From the second equation, it can be said that reached coefficients are important with 90% of possibility and reached signs are logical. Thus, on the basis of reached results, it can be said that inflation is increased to 10 units by GDP deflation, economic growth of country decreases to 1.4 units, there is positive inter-connectedness in 0.3 coefficient of profit in possession, this means that if profits are gone up to 10 units, GDP increases to 3 units. Increase by demand causes to increase of supply. It can be seen from model that increasing to 10 units of supply by factor of manufacturing industry product has the same ratios with demand, that is, in this case GDP of country goes up to 3.1 units%. Currently, this ratio demonstrates about existence of balance between demand and supply, as a mentioned above, this is one of the

criterions of quality economic growth.

In the third equation, all factors were tried to be added, however, in this equation coefficients taken from indicators such as GDP deflation, profits in possession and also industry did not give important inter-connectedness with respect to statistics. In order to notice effect of these factors to economic growth and to get hold of predictive values, approximation method is used. The reached equation has following view:

$$\text{Log (GDP\_SA)} = 1.57 + 0.14.*\text{log (WAGE\_SA)} + 0.19*\text{log (TAX\_SA)} + \text{P-Value (0.05) (0.04) (0.03)} + 0.17*\text{log (EX\_SA)} - 0.08*\text{log (IM\_SA)} + 0.29*\text{log (TURN\_SA)} - (0.06) (0.03) - 0.04*\text{log (INV\_SA)} \quad (3)$$

(0.02)

$R^2 = 0.64$  DW =1.6

There, WAGE\_SA – wage; EX\_SA – export; TAX\_SA – direct tax; IM\_SA – import; TURN\_SA – circulation of retail goods; INV\_SA – investments.

On the basis of this equation it may be said that, gained indicators, which have 95% reliability by all indicators, have high 64% explanation ability. According to econometric analysis, the most influential factor in economic growth is circulation of retail goods that has 0.29 coefficient of elasticity, in other words, 10 units expansion of demand by population increases economic growth to 0.29 directly. As the second equation, gained coefficient is approximately equal to income in possession (as one of the factors that can expand demand). And this demonstrates sufficient stable connection of demand to country's economic activity (also the reliability of gained coefficients and chosen specification's authenticity of model) and this demand has potential of stimulating high economic growth. Percent rate and exchanging course did not reflect in model, because, for them any important statistic inter-connectedness was not gained, this demonstrates their influence to economic growth. Gained coefficients by tax prove correction of gained coefficients: thus, this coefficient was 0.18 in the first equation and in third equation, it only moved forward to just 0.01 towards growth. This is considered as decline that may be occurred. It can be said about relatively higher difference among gained coefficients by export, because of not being import factor in model, this indicator may be declined in the first equation. Illogical mark was gained for invest factor, however, it was taken with 98% sufficient high possibility. Perhaps, this depends on doing fruitless investments to separate sectors. In order to reach unique GDP, as a mentioned above, approximation method is put into practice and it gives the chance to calculate each factor by equations in the case that weight is taken into consideration. In order to avoid calculation of bilateral factor, only two: the 2<sup>nd</sup> and 3<sup>rd</sup> equations are approximated. Because exact these equations include maximal information about factors that affect to level of economic growth. In this case, explaining ability of equations or  $R^2$  is participated as weight criterion. Thus, weight for factors by the 2<sup>nd</sup> equation is equal to 0.32, for the 2<sup>nd</sup> equation is 0.64. Using this approach gives the

opportunity to avoid mistakes. Predicting practice shows that making fruitful strategy of economic development requires creating several alternative scenarios based on taking found out objective and subjective factors into account in every respect. Three scenarios of economic development were listed in dissertation:

Basic — it implies carrying out to develop national economy based on formed tendency.

Mobilization within measure — it refers gradual development that includes ways of program against crisis.

Modern (investment) — investments (in the case of taking their fruitful structure into account) are based on dynamic development of economy which is main factor of economic development. In this, also ways being carried out against crisis are taken into consideration.

Theory which allows to opinion about alternatives in using sources and factors of economic growth are only related to strategy of reforming and ordering economy, also to external conditions of developing economy was accepted by authors. In this, two main alternative scenarios were shown separately:

— Basic— refers to invariableness of directedness of rates of reforming economy and economic strategy inherent to the last three-four years;

— Modern— comes from necessity of speeding seriously up shaped rates of reforming national economy. Investments directed to modernizations and innovations that are able to provide economic growth quality in long-term perspective organize its base.

In accordance with using scenario conditions and this model, short-term prediction of economic development was carried out for 2012 year. Basic scenario includes saving macroeconomic tendencies formed in 2009:

— In whole prediction period, inflation level that is measured with GDP deflator was saved the same as the level in 2009 year. Mainly, this was come from as a result of firm aspects of credit-money and currency policies that are held by Central Bank of Republic of Uzbekistan.

— Incomes in population's possession, also wage were saved at the level of basic.

— Demand by potential exporters refers to increase the costs of energy carriers, valuable metals, also cotton slightly. Cost factor may be shown as the main reason for this instead of increasing of export physic volume. Import doesn't increase as compared with the last year and this condition is elucidated with self-sufficiency of national economy;

— Investments' dynamics — 23%;

— Increase of industry —9.5%;

—Collectiveness of taxes was analyzed with the degree of 2009;

—The growth of population profits considers stable increase of commodity circulation to 14%.

Coming from these conditions, predictable increase of GDP in 2012 was 109.3% and this was suitable with the prediction of GDP on long-term model.

Second and third scenarios, as mentioned above, include measures that are contrary to regression and noticeable on supporting export, raising profits, increasing commodity

circulation, also increasing competitiveness of national manufacturing which is expressed by accelerating the growth tempo of industry products. In order to do modernization “investment” scenario following requirements were used:

—Deflator of GDP comprises 18% on the whole predictable period, and being based on demands of raising profits and widening demand, this also considers growth of investments;

—The tempo of profit growth on population possessions accepted with 25% degree, whereas the growth of salary with 23%, and these tempos depend on performance of program against the regression in terms of saving the degree of salary and increasing indeclinable profits of population;

—Approximates improving external conjecture conditions in payment for raise of demand and a few revivals from foreign world which are connected with coming out from regression in some countries (China, South Korea) that accepted the program against regression. Also aims increasing the export to 10% and the demand on import by 8% degree;

—The speed of increase in investments—up to 25%;

—The speed of increase in industry—11%, it appears in payment for increase of demand in inner as well as outer market;

—Collectiveness of taxes is planned with 2 units increase that is not large compared to previous scenario.

—The growth of population profits demands saving and widening the growth of commodity circulation to 16%.

According to the 3<sup>rd</sup> scenario, predictable increase of GDP in 2012 was 112.6%, and this was suitable with the prediction of GDP on long-term model. Obtained results show that, prediction of the GDP by three scenarios in short-term future is almost the same. This condition is linked with the connection between performance of the program against the regression and innovational-investment factors, and the influence of these factors on the economic growth must be marked via long-periodical future. Dynamic of long-term prediction also testifies for this (Figure 2).

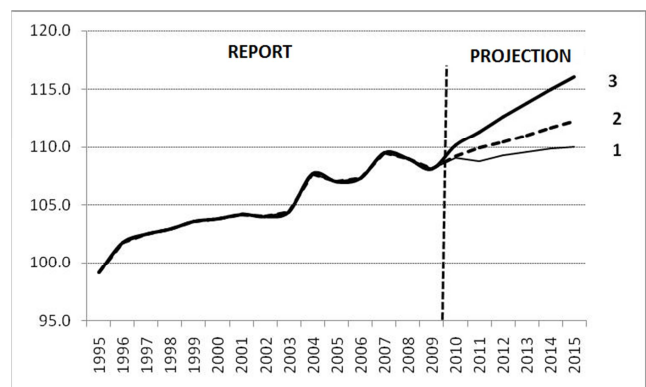


Figure 2. Growth dynamic of the GDP by three scenarios for 2012-2015 years during the prediction period in the Republic of Uzbekistan.

Source: the calculation of the author based on the information of the government statistics committee of the Republic of Uzbekistan.

As it is obvious from the picture 2, during the prediction period the highest rate of the GDP growth is being taken by

the third scenario. There is a considerable difference between rates: according to the basic scenario it was 10% in 2015, whereas it reached to 16% by investment scenario. This is only provided by reaching work and capital competitiveness. Exact these indicators create conditions for stable revolution and guarantee strengthening of long-lasting rivalry advantages in the world shops. In this situation, as the role of investments increases, they not only improve conditions for capital competitiveness, but also create place for increasing labor fruitfulness. Thus, it may be said about direct influence of investments on improving the economic growth of real sector and technological equipments, also indirect influence of them on increasing of demand in labor bazaar.

Prediction of author about the economic growth in long-lasting perspective (in the aim of conforming short-lasting and long-lasting predictions) is based on those three scenarios.

Information for calculation of prediction in terms of basic scenario in the aim of elucidating inflation degree on consumption costs index was taken on the basis of auto regression model. This model demands predictions based on the tendencies that formed during the historical period. This degree was calculated as experts by conditions which take account of carrying out measures against crisis for the second and third scenarios. In calculations the reduction indicator of inflation (in accordance with the second and third scenarios) was adopted by 4-5%. Table 4.

**Table 4.** The main predictive factors that were accepted for doing calculating scenarios of GDP by 2012-2015 years in Uzbekistan.

Indicators	2009 Report	var №	PREDICTION			
			2012	2013	2014	2015
GDP	108,1	1	109,3	109,5	109,8	110,0
		2	110,5	111,1	111,7	112,2
		3	112,6	113,8	115,0	116,2
The number of employed people	102,7	1	102,7	102,8	103,0	103,0
		2	103,5	103,8	103,9	104,0
		3	104,5	105,0	106,0	106,5
Investments that take into account the innovational founders	124,8	1	126,0	125,0	126,0	124,0
		2	129,0	130,0	130,0	130,0
		3	130,0	135,0	135,0	135,0
GDP deflation	117,7	1	118,0	117,8	117,5	117,0
		2	114,5	113,0	112,1	109,0
		3	112,2	110,5	109,0	107,2

Source: calculations of author.

## 4. Conclusion

Final calculations in using model of economic growth show that degree of economic growth quality is more pleasing by third modern scenario. The most important initial term for creating conditions that provide economic growth quality is innovative factor. Thus, if rates of technological equipping rise to 25-15% per year, in case that all conditions of third scenario by economic growth quality index are followed, country will reach to positive level in 2012 year. Improving economic growth quality in long-lasting perspective should be steady task for macroeconomic politics of republic. In order to reach level of positive economic growth quality, scenario based on chosen social-economic steady trends should be made.

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