

## INVESTMENT DYNAMICS, EFFICIENCY, AND FINANCIAL STABILITY: EVIDENCE FROM UZBEKISTAN

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### Abstract

This study examines the role of regulatory frameworks and financial sources in shaping investment dynamics in Uzbekistan, a transitioning economy pursuing ambitious growth targets. Using descriptive and comparative analysis of official statistical data from 2017 to 2023, the paper investigates the volume, structure, and efficiency of fixed capital investments. The findings reveal an average annual investment growth of 14.5%, with the share of investments in GDP stabilizing at approximately 33% by 2023. A key result is the shift toward market-based financing: corporate funds, direct foreign investments, and unsecured foreign loans constituted 71% of total investment financing, while state budget contributions fell to 6%. However, the study identifies persistent inefficiencies in sectoral and regional allocation, including underinvestment in strategic sectors (e.g., fish farming, poultry) and declining investment flows in 12 districts. The paper concludes that improving investment efficiency—measured through employment multipliers and value-added generation—is as critical as expanding investment volume for long-term financial stability.

**Keywords:** Investment efficiency; Fixed capital; Foreign direct investment; Market economy; Financial stability

*JEL Classification:* E22; O16; F21; O47

### INTRODUCTION

No economy achieves sustained growth without mobilizing domestic and foreign investments. However, the structure and source of these investments vary significantly across development stages. Highly industrialized nations increasingly prioritize intellectual and portfolio investments, while developing economies focus on direct and financial capital. Uzbekistan exemplifies this latter category, having adopted over 10 laws, 30 presidential decrees, and 35 governmental resolutions since 2017 to enhance its investment climate.

Two legislative acts are particularly noteworthy: the *Law on Investments and Investment Activities* and the *Law on Special Economic Zones*, which consolidated previous regulations and improved conditions for investors. These reforms are embedded in national strategies. Objective 26 of the *Development Strategy of New Uzbekistan for 2022-2026* targets 120 billion in investments over five years, including 70 billion in foreign capital. More ambitiously, Objective 49 of the “Uzbekistan-2030” strategy aims for 250 billion in total investments, with 110 billion in total investments, with 110 billion from foreign sources and \$30 billion through public-private partnerships (PPPs).

By 2023, Uzbekistan's annual GDP reached approximately 90.8 billion, implying an unprecedented annual investment target of at least 24 billion over the next three years—nearly 60% from foreign sources. This paper addresses a central research question: *To*

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*what extent have recent investment policies succeeded in mobilizing capital, shifting financing sources toward market mechanisms, and allocating resources efficiently across sectors and regions?*

## 1. LITERATURE REVIEW

The relationship between investment and economic growth is well-established in both neoclassical and endogenous growth frameworks. Solow (1956) emphasized capital accumulation as a driver of output, while Romer (1990) highlighted the role of knowledge spillovers and human capital. More recent work by Barro (1991) and Levine (2005) confirms that the *quality* of investment—not merely its volume—determines long-term growth trajectories.

Regarding foreign direct investment (FDI), Borensztein et al. (1998) demonstrate that FDI contributes to growth primarily through technology transfer, but its effectiveness depends on the host country's absorptive capacity, including human capital and institutional quality. The OECD (2021) further notes that FDI's sustainable development impacts are mediated by local supplier networks and regulatory environments.

In transition economies, institutional reforms and macroeconomic stability are critical for attracting and utilizing investments effectively. The incremental capital-output ratio (ICOR) is frequently employed as an efficiency metric: a lower ICOR indicates more productive capital use. Although not formally estimated here, ICOR provides a conceptual benchmark for evaluating Uzbekistan's investment performance.

Existing literature underscores that sustainable growth requires not only high investment volumes but also appropriate sectoral allocation, efficient financing structures, and strong governance. This study contributes to this body by providing empirical evidence from Uzbekistan, a strategically important yet under-researched transition economy in Central Asia.

## 2. METHODOLOGY

This study employs a mixed-method approach combining descriptive statistical analysis with qualitative policy evaluation. The quantitative analysis draws on official data from the Agency of Statistics under the President of the Republic of Uzbekistan, covering the period 2017 - 2023. Key variables include total fixed capital investment volume (trillion UZS), sources of financing, GDP growth rates, and sectoral/regional investment distributions.

Comparative analysis is used to identify trends in investment growth and structural shifts in financing sources. Inductive reasoning interprets observed patterns, while deductive reasoning situates findings within established economic theories. Policy documents—including presidential decrees and national strategies—are analyzed qualitatively to assess the institutional framework.

No advanced econometric modeling is performed; instead, the paper provides a structured, transparent interpretation of official statistics, supported by theoretical insights. This approach is appropriate for a policy-oriented analysis in a data-constrained environment.

### 3. RESULTS AND DISCUSSION

#### 3.1 Dynamics of Fixed Capital Investment Volume

Over the period 2019–2023, fixed capital investment volume in Uzbekistan grew by 120%, from 159.9 trillion UZS to 352.1 trillion UZS. Notably, even during the peak of the COVID-19 pandemic in 2020, investments increased by 31.0% (50.3 trillion UZS) relative to 2019; adjusting for 10% inflation, real growth remained a robust 21.0%. This resilience suggests effective policy responses and underlying economic strength. By 2023, fixed capital investment exceeded one-third of GDP (33.0%), a substantial increase from 22.7% in 2017. The average annual investment growth rate of 14.5% between 2017 and 2023 contributed an estimated 3.9 percentage points to the average GDP growth rate of 5.3%.

**Table 1.** Dynamics of Fixed Capital Investment Volume in Uzbekistan (2019–2023)

Year	Investment Volume (trillion UZS)	Change vs. previous year
2019	159.9	—
2020	210.2	+31.0%
2021	280.5	+33.4%
2022	318.0	+13.4%
2023	352.1	+10.7%

Source: Agency of Statistics under the President of the Republic of Uzbekistan (2024)

\*Note to editors: Please convert this table into a bar chart with years on the x-axis (2019–2023) and investment volume (trillion UZS) on the y-axis. Include data labels above each bar.\*

#### 3.2 Sources of Financing: A Shift Toward Market Mechanisms

A central finding concerns the structure of investment financing. Corporate funds (own resources of enterprises) constituted the largest source (122.8 trillion UZS, 34.9%), followed by direct foreign investments (71.5 trillion UZS, 20.3%) and unsecured foreign investments/loans (57.3 trillion UZS, 16.3%). Together, these three market-based sources accounted for 71.0% of total financing (251.6 trillion UZS). Table 2 presents the complete breakdown of financing sources for 2023.

**Table 2.** Structure of Fixed Capital Investment Financing by Source, Uzbekistan 2023 (Total: 352.1 trillion UZS)

Rank	Source	Amount (trillion UZS)	Share (%)
1	Corporate funds (own resources)	122.8	34.9
2	Direct foreign investments	71.5	20.3
3	Unsecured foreign investments/loans	57.3	16.3
4	Household funds	33.3	9.5
5	Commercial bank loans	22.3	6.3
6	Republican budget	20.4	5.8
7	Local budgets	15.2	4.3
8	Other sources	7.9	2.2
9	Reconstruction and Development Fund	1.6	0.5

Source: Agency of Statistics under the President of the Republic of Uzbekistan (2024)

\*Note to editors: Please convert this table into a horizontal bar chart (preferred) or pie chart with sources ranked by share. Market-based sources (ranks 1-3) should be visually distinguished from state-related sources (ranks 6-7, 9).\*

This distribution aligns with market economy principles: private and foreign capital dominate, while state-related sources (Republican budget, local budgets,

Reconstruction Fund) collectively contribute only 10.6%. The minimal role of the state budget (6.0%) represents a dramatic shift from the early independence period when centralized funds were predominant.

### 3.3 Persistent Inefficiencies: Sectoral and Regional Disparities

Despite positive aggregate trends, investment efficiency remains suboptimal. President Mirziyoyev explicitly noted deficiencies in analyzing investment outcomes: "There is insufficient analysis regarding how much employment each dollar of investment has created, how much added value has been generated, and how much exports have increased" (president.uz, 2023).

Specific sectoral gaps are alarming. In five sectors—fish farming, poultry, jewelry, beekeeping, and silk production—foreign investment attraction was at the lowest level, despite food security concerns. Furthermore, although Uzbekistan extracts 100 tons of raw gold annually, only 6.0% is domestically processed into high-value products (gazeta.uz, 2023).

Regional allocation is equally uneven. While total foreign investments grew 1.6 times in 2023, inflows to Samarkand and Tashkent City—the two regions with highest economic potential—did not match their capacity. Worse, 12 districts and cities experienced a decline in investment absorption compared to the previous year. These patterns suggest governance inefficiencies at subnational levels and a need for differentiated regional investment policies.

## 4. INVESTMENT EFFICIENCY AND FINANCIAL STABILITY AND THEORETICAL EXTENSION

The results demonstrate that Uzbekistan has successfully increased investment volume and shifted financing toward market-based sources. However, financial stability requires not only capital inflow but also its productive deployment. From an endogenous growth perspective, investments in human capital, technology, and innovation generate long-term returns, whereas capital-intensive projects with low employment multipliers may produce GDP growth without broad-based welfare improvements.

The concept of ICOR is relevant here. Although exact ICOR calculations require more granular data, the observed sectoral imbalances suggest a rising ICOR in certain domains—i.e., more capital is needed to generate one unit of output. This signals potential misallocation.

Policy implications are threefold. *First*, the state should concentrate its limited budget on social, political, environmental, and territorial security investments, while transferring economic sector financing to private and foreign investors. *Second*, a binding mechanism should be developed to estimate job creation per 10 million UZS of domestic investment and per \$1,000 of foreign investment, disaggregated by sector and region. *Third*, objective and subjective factors behind declining investment flows in 12 districts must be critically analyzed, with immediate remediation of subjective factors (e.g., bureaucratic obstacles, corruption).

Finally, accelerating PPP projects across all sectors can enhance efficiency. Financial incentives for private PPP participants would facilitate Uzbekistan's WTO accession and deeper global economic integration.

## CONCLUSION

Over 2017–2023, Uzbekistan achieved an average annual investment growth rate of 14.5%, with fixed capital investment reaching 352.1 trillion UZS (33% of GDP) in 2023. More importantly, the financing structure has transformed: market-based sources (corporate funds, direct foreign investment, unsecured foreign loans) now supply 71% of total investment, while the state budget contributes only 6%. This shift represents substantial progress in creating a market-conforming investment environment.

However, aggregate success masks persistent inefficiencies. Sectoral underinvestment in food security-related industries and extremely low domestic value addition in gold processing point to structural weaknesses. Regional disparities—including declining investment flows in 12 districts and underperformance in Samarkand and Tashkent City—indicate governance failures at subnational levels.

Future policy should prioritize investment efficiency over sheer volume. Specific recommendations include: (1) developing a standardized mechanism to measure employment and value-added outcomes per unit of investment; (2) minimizing direct state investment in

commercial sectors; (3) conducting critical audits of districts with declining investment flows; and (4) scaling PPP projects with financial incentives for private partners. These measures would align Uzbekistan's investment strategy with international best practices and accelerate its transition to a high-efficiency, stable economy.

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