

Analysis Of The Current State Of The Investment Climate In Uzbekistan

Khuramov Zafar Rajabaliyevich
Tashkent State University of Economics,
Independent Researcher

Abstract. In recent years, the investment climate in Uzbekistan has improved significantly. Investment legislation adopted by the government, tax incentives, and free economic zones have served to attract both foreign and domestic investors. In addition, the country's geostrategic location and the development of energy and transport infrastructure are considered important factors stimulating investment. However, the presence of legal guarantee issues and bureaucratic barriers in certain sectors continues to affect investment activity. Therefore, the continuous optimization of investment policy and the creation of competitive conditions are essential for accelerating Uzbekistan's economic growth.

Keywords: investment, investment climate, capital, tax incentives, foreign investor.

Introduction. Investments are a key factor in economic development and global competitiveness. International experience shows that a high-quality and stable investment climate plays a decisive role in economic growth, job creation, and the introduction of innovative technologies. In Europe, Asia, and other developed countries, favorable legislation, tax incentives, developed infrastructure, and political stability are considered the main factors in attracting investors.

In recent years, large-scale reforms aimed at improving the investment climate have been implemented in Uzbekistan. By simplifying investment legislation, establishing free economic zones, and introducing tax and customs incentives, the country is increasing its capacity to attract both foreign and domestic investments. At the same time, the development of transport and energy infrastructure, as well as public-private partnership projects, is contributing to transforming Uzbekistan into a stable and competitive investment destination.

In recent years, Uzbekistan's economy has demonstrated a trend of sustainable growth. In the first quarter of 2025, a total of 120.4 trillion soums of investments were made in the fixed capital of the country's economy and social sector from all sources of financing. This figure was 107.9 percent higher compared to the corresponding period of 2024. In absolute terms, total growth amounted to 15.9 trillion soums. A five-year dynamic analysis shows impressive results: during this period, investments in fixed capital increased by nearly 2.9 times.

By 2024, despite global challenges and macroeconomic uncertainties, Uzbekistan's economy maintained stable and moderate growth rates. The services sector, manufacturing and construction, as well as high levels of investment activity, played a leading role in this performance. At the beginning of 2025, economic activity continued to increase. The growth of the Business Activity Index serves as evidence of positive trends.

Analysis And Results. The Center for Economic Research and Reforms reported an 8.4 percent increase in January 2025 compared to the previous month. The intensity of raw material purchases at the commodity exchange rose significantly by 33.3 percent, and the number of operating economic entities increased by 1.1 percent. In 2025, factors supporting economic growth will include high investment activity, particularly large-scale infrastructure projects in renewable energy and transport infrastructure, as well as rising real incomes of the population.

Special attention is being paid to expanding exports, supported by stable remittance inflows that sustain consumer demand, along with stable prices for gold and other commodities. According to available data and indicators, Uzbekistan's GDP growth in the first quarter of 2025 is expected to reach 6.2 percent. The forecast range for economic growth varies from 6.0 percent to 6.4 percent.

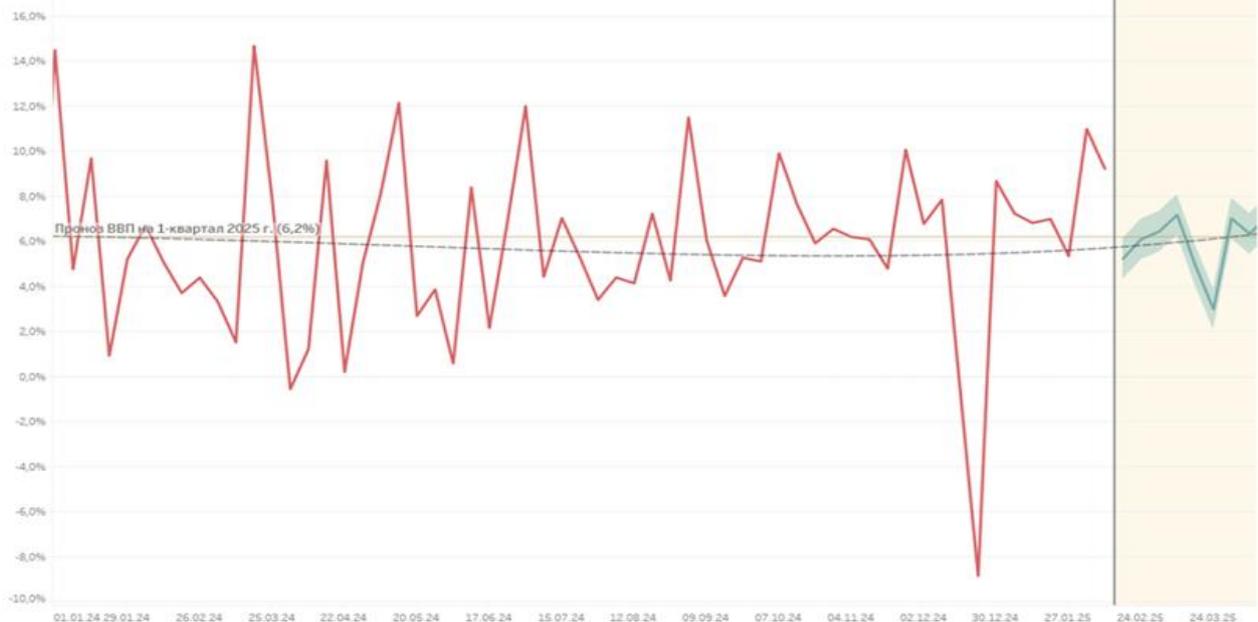


Figure 1. Forecast of Weekly Growth of Uzbekistan’s GDP in the First Quarter of 2025

International financial institutions give a positive assessment of the future of Uzbekistan’s economy. According to the World Bank, “Uzbekistan’s economy is projected to grow by 5.9 percent in 2025 and by 5.8 percent in 2026.” Similarly, the International Monetary Fund forecasts GDP growth at the level of 5.7 percent. This growth is driven by domestic demand supported by higher real wages, inflows of remittances, and increased investment activity. Improvements in the trade balance, supported by growth in gold, services, and manufactured exports, along with fiscal consolidation, are expected to keep the current account deficit at around 5 percent of GDP in the medium term.

In the first quarter of 2025, foreign direct investment increased significantly, reaching 44.1 trillion soums (36.6 percent of the total volume), which represents 124.3 percent compared to the same period of the previous year. In dollar terms, foreign direct investment reached USD 3.41 billion, with a growth rate of 127.8 percent. This indicates a growing level of confidence among international investors in Uzbekistan’s economy.

Investments from the state budget increased from 13.1 trillion soums in 2020 to 22.8 trillion soums in 2023; however, they slightly declined in 2024 to 20.4 trillion soums. The results indicate that capital investments contribute to government investment efforts and play an important role in supporting economic development. A stable trend is observed in the volume of funds allocated to investments by the population. This indicator increased from 18.1 trillion soums in 2020 to 33.3 trillion soums in 2024, almost doubling over the period. Thus, investment activity among the population has intensified, alongside growing interest in housing construction and entrepreneurial activities.

In contrast, investments in water supply and sewerage systems remain among the lowest indicators, amounting to approximately 1.7-2.9 trillion soums during 2020–2024, with a declining trend observed in 2023-2024. This highlights the need for increased investment in public utility services.

In Uzbekistan, the share of foreign investments and loans in the structure of fixed capital investment increased sharply during 2020–2024. The ongoing reforms implemented in the country are perceived as favorable by foreign investors, reflecting a growing level of confidence in Uzbekistan’s economy. However, investments in water supply and public infrastructure remain insufficient, indicating the need to attract additional funding and enhance cooperation between the public and private sectors to ensure smoother development in this area. Fluctuations in investments financed by commercial bank loans and other borrowed funds from 28.5 trillion soums in 2020 to 12.7 trillion soums in 2023 and 22.3 trillion soums in 2024 reflect changes in credit policy and instability in the real sector of the economy.

The services sector has proven its ability to overcome crises. It is developing due to the policies implemented in the country, a favorable environment for private sector growth, the introduction of digital technologies, and an economic development strategy focused on tourism, financial services, trade, and other

service industries. The growth of household incomes and the expansion of the middle class have also contributed to rising demand for services. These trends indicate that efforts to guide Uzbekistan's economy toward a post-industrial development path have begun with the expansion of the services sector. This represents another sign of a structural shift in the economic center, with the services sector remaining a key driver of economic growth.

This highlights the significant potential of the services sector in Uzbekistan, positioning it as an increasingly promising and influential player in the national economy. The sustained growth in service volumes reflects not only economic diversification but also the development of modern digital and financial services that meet contemporary needs. At the same time, a gradual slowdown in growth rates over the long term may signal the sector's maturity and a transition to more intensive stages of development. Improving service quality, introducing innovative services, and adopting international standards may become two of the most important directions for the future development of the services sector.

The activities of Uzbekistan and its economic entities are closely interconnected with overall economic development. Today, small, medium, and large enterprises represent a vital segment of the economy, generating employment and contributing to GDP growth. At the same time, the overall investment climate, sources of financing, state support mechanisms, and the processes they provide are designed to foster a more favorable investment environment that enhances the effective operation of these institutions.

In recent years, Uzbekistan has implemented reforms aimed at developing entrepreneurship, optimizing tax principles, improving banking infrastructure, strengthening the credit system, and enhancing the investment climate, including measures to increase investment inflows. In particular, small business and private entrepreneurship are regarded as the main pillars of the national economy. Significant efforts are currently underway to accelerate the development of this sector, support entrepreneurial activities, expand the number of entrepreneurs, and provide incentives for their growth.

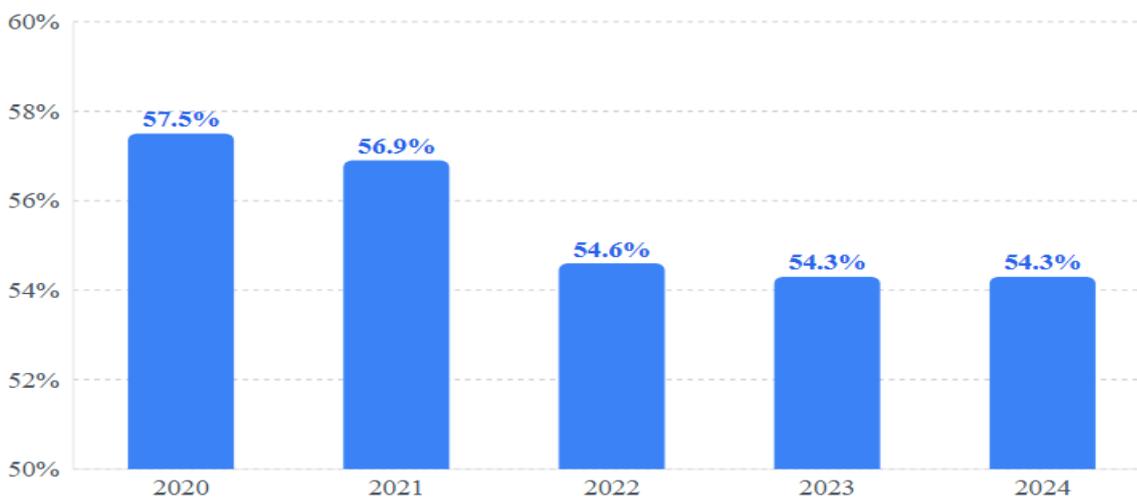


Figure 2. Dynamics of the share of small business entities in GDP

As can be seen from the diagram, during the period from 2020 to 2024, the percentage indicator shows a general downward trend. The highest value in the diagram corresponds to 2020, amounting to 57.5%. By 2024, it decreased to 54.3%, reflecting a decline of 3.2 percentage points. This trend can be explained by a number of factors. Notably, the economic crisis following 2020 or the impact of the COVID-19 pandemic – after the pandemic, economic growth slowed in many countries, and production and investment in some sectors decreased.

The investment climate in Uzbekistan has significantly improved in recent years, creating opportunities for economic development and attracting investment. Investment legislation, tax and customs incentives, free economic zones, and public-private partnership projects developed by the government serve to attract both foreign and domestic investors. In addition, the country's geostrategic location and the development of transport and energy infrastructure are important factors stimulating investment activity.

However, analyses indicate that certain sectors still face bureaucratic barriers, insufficient legal guarantees, and a weak system for monitoring the efficiency of investments. Therefore, enhancing the country's investment attractiveness requires improving legislation, simplifying bureaucratic procedures, and creating competitive conditions.

Uzbekistan, in recent years, has demonstrated significant progress in improving its investment climate, making the country increasingly attractive to both domestic and foreign investors. The government has undertaken comprehensive reforms aimed at creating a transparent, stable, and business-friendly environment. Key measures include the introduction of modern investment legislation, simplification of administrative procedures, and provision of tax and customs incentives. Additionally, the establishment of free economic zones and the development of public-private partnership projects have facilitated the attraction of long-term investments across various sectors of the economy.

Economic growth in Uzbekistan has been steady, supported by structural reforms in industrial production, agriculture, and the services sector. The country's strategic geographic location, connecting Central Asia to international markets, combined with investments in transport, logistics, and energy infrastructure, has strengthened its role as a regional investment hub. For example, improvements in road and railway networks, expansion of energy generation capacities, and modernization of communication systems have significantly enhanced the efficiency of doing business and reduced operational costs for investors.

The COVID-19 pandemic, however, has had a temporary negative impact on investment activity, causing a slowdown in certain sectors and reducing overall investment inflows. Despite this, the government's proactive measures, including financial support for businesses and the promotion of digitalization, helped stabilize the economy and restore investor confidence. Economic diversification policies have also encouraged investment in non-traditional sectors such as renewable energy, information technology, and tourism, thereby reducing dependency on traditional industries.

Nevertheless, several challenges remain. Bureaucratic obstacles, limited legal guarantees for investors, and underdeveloped mechanisms for monitoring investment efficiency continue to affect the overall investment climate. In some sectors, regulatory inconsistencies and delays in project approvals may discourage potential investors. Addressing these issues requires further legislative improvements, streamlined administrative processes, and the establishment of a robust investment monitoring system to ensure transparency and accountability.

Conclusion

In conclusion, Uzbekistan's investment climate is steadily improving, supported by government reforms, strategic infrastructure development, and favorable legal frameworks. The country offers considerable opportunities for investors seeking growth and diversification, particularly in sectors such as energy, manufacturing, agriculture, and technology. Ensuring a transparent, stable, and predictable investment environment remains critical for sustaining long-term economic growth, creating employment opportunities, and enhancing the global competitiveness of Uzbekistan's economy. Continued efforts to simplify procedures, strengthen legal protections, and attract both foreign and domestic investments will be essential in transforming Uzbekistan into a long-term regional investment hub.

Uzbekistan's investment environment is a key resource for sustainable development. By implementing effective investment policies and strategies, it is possible to foster economic growth, create new jobs, and enhance the global competitiveness of the national economy. At the same time, creating a safe and stable environment for investors is a fundamental condition for turning the country into a long-term investment hub.

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