THE INVESTMENT CLIMATE OF UZBEKISTAN AND ITS IMPACT ON ECONOMIC GROWTH

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Abstract

This study examined the evolution of Uzbekistan's investment climate since 2017 and its relationship with economic growth. Drawing on national legislation, official statistics and the reporting of international organisations, the study assessed the effects of currency liberalisation, tax and customs reform, privatisation, investor protection and the reduction of administrative barriers on investment activity. The preferences available to investors, including special economic zones, tax and customs exemptions and individually negotiated investment agreements, were systematised, and the outcomes of the Tashkent International Investment Forum were evaluated by distinguishing announced agreements from utilised resources and balance-of-payments inflows. The findings showed that the improvement of the investment climate coincided with a sustained expansion of fixed capital formation and an acceleration of output growth, while the two reporting systems used for foreign investment diverge substantially. The study proposed practical recommendations for raising the quality, transparency and developmental impact of investment policy.

Keywords: investment climate, foreign direct investment, economic growth, investment policy, special economic zones, tax incentives, investment agreement, Uzbekistan.

Annotatsiya

Mazkur tadqiqotda Oʻzbekiston investitsiya muhitining 2017-yildan buyon qanday oʻzgargani va ushbu jarayonning iqtisodiy oʻsish bilan bogʻliqligi tahlil qilindi. Milliy qonunchilik hujjatlari, rasmiy statistika maʼlumotlari hamda xalqaro tashkilotlar hisobotlari asosida valyuta siyosatini erkinlashtirish, soliq va bojxona islohotlari, xususiylashtirish, investorlar huquqlarini himoya qilish va maʼmuriy toʻsiqlarni qisqartirish choralarining investitsiya faolligiga taʼsiri baholandi. Investorlarga beriladigan imtiyozlar tizimi, jumladan erkin iqtisodiy zonalar, soliq va bojxona imtiyozlari hamda investitsiya kelishuvlari umumlashtirildi. Toshkent xalqaro investitsiya forumi natijalari imzolangan shartnomalar va amalda oʻzlashtirilgan mablagʻlar oʻrtasidagi farq nuqtayi nazaridan koʻrib chiqildi. Tahlil natijalari investitsiya muhitining yaxshilanishi asosiy kapitalga investitsiyalarning barqaror oʻsishi va iqtisodiy oʻsish surʼatlarining tezlashuvi bilan bir vaqtga toʻgʻri kelganini koʻrsatdi.

Kalit so‘zlar: investitsiya muhiti, to‘g‘ridan-to‘g‘ri xorijiy investitsiyalar, iqtisodiy o‘sish, investitsiya siyosati, erkin iqtisodiy zonalar, soliq imtiyozlari, investitsiya kelishuvi, O‘zbekiston.

Аннотация

В исследовании была проанализирована эволюция инвестиционного климата Узбекистана с 2017 года и ее связь с экономическим ростом. На основе национального законодательства, официальных статистических данных и материалов международных организаций было оценено влияние либерализации валютной политики, налоговой и таможенной реформ, приватизации, защиты прав инвесторов и сокращения административных барьеров на инвестиционную активность. Систематизированы льготы для инвесторов, включая свободные экономические зоны, налоговые и таможенные преференции и инвестиционные соглашения, а итоги Ташкентского международного инвестиционного форума рассмотрены с разграничением подписанных соглашений и фактически освоенных средств. Результаты показали, что улучшение инвестиционного климата совпало с устойчивым ростом инвестиций в основной капитал и ускорением экономического роста.

Ключевые слова: инвестиционный климат, прямые иностранные инвестиции, экономический рост, инвестиционная политика, свободные экономические зоны, налоговые льготы, инвестиционное соглашение, Узбекистан.

INTRODUCTION

The investment climate is the combination of legal, macroeconomic, institutional and infrastructural conditions that determines the expected risk and return on invested capital, and it decides whether an economy can finance its own structural transformation. For lower-middle-income countries with limited domestic savings, foreign direct investment (FDI) matters not only as a source of finance but as a channel for technology, managerial capability, quality standards and entry into global value chains [1]; [2].

Uzbekistan has become one of the more instructive cases in this respect. Since 2017 the country has moved from an administratively managed and largely closed model towards an openly reform-oriented one, and the macroeconomic results have been strong. Real GDP grew by 7.7 per cent in 2025, the highest rate in five years, and nominal GDP reached 1,849.7 trillion soums; unemployment fell to 4.8 per cent and inflation slowed to 7.3 per cent [3]; [4]. Investment in fixed capital reached a record 591.1 trillion soums, of which more than ninety per cent was financed from non-centralised sources [5].

The figures used to describe foreign investment, however, differ sharply depending on the measurement system applied. National reporting places the volume of foreign investment utilised in 2025 at USD 43.1 billion, whereas balance-of-payments inflows recorded by UNCTAD for the same year amount to roughly USD 4.4 billion [6]; [7]. Any credible assessment of whether an improving investment climate has translated into real capital formation must therefore separate announced agreements, utilised resources and balance-of-payments flows.

This article examines how Uzbekistan's investment policy has evolved since 2017, systematises the preferences available to investors, and analyses the relationship between the investment climate, investment activity and economic growth.

LITERATURE REVIEW

Research on the determinants of investment consistently finds that the quality of the regulatory environment, the security of property rights and macroeconomic predictability matter more for long-term capital allocation than the generosity of fiscal incentives. Work on FDI in transition economies indicates that inflows respond primarily to market size, factor costs, institutional quality and openness, while tax holidays operate as a marginal instrument that redistributes investment among otherwise comparable locations rather than creating it [2]; [7].

A second strand examines the conditions under which FDI contributes to growth, and concludes that the relationship is conditional rather than automatic. Productivity spillovers depend on absorptive capacity, workforce skills, the depth of domestic supplier networks and the intensity of competition. Where foreign capital concentrates in extractive or capital-intensive enclaves, its effect on aggregate productivity and employment remains limited even when inflows are large [1]; [2].

Studies of Uzbekistan have documented the scale of post-2017 liberalisation, including exchange-rate unification, tax reform and the recodification of investment law. The OECD investment policy review concludes that the legal framework has become substantially more modern and transparent, while identifying persistent constraints: the weight of state-owned enterprises in output and employment, their preferential access to land, finance and incentives, high informality among small and medium-sized enterprises, and weaknesses in contract enforcement and dispute resolution [2]. International financial institutions similarly note that growth has so far been more capital-intensive than job-rich [1].

Two gaps remain. The architecture of preferences available to investors is rarely systematised within a single framework, and the investment figures most widely cited in policy discussion are seldom disaggregated by measurement basis, which makes the link between the investment climate and realised capital formation difficult to evaluate. This article addresses both.

METHODOLOGY

The study applies a qualitative analytical approach supported by secondary data analysis. The evidence base comprises legislative acts of the Republic of Uzbekistan published in the national legal database, statistical releases of the Statistics Agency under the President of the Republic of Uzbekistan, reporting of the Ministry of Investment, Industry and Trade, and analytical publications of the World Bank, the International Monetary Fund, UNCTAD and the OECD. Official documentation of the Tashkent International Investment Forum was used to establish the volume and composition of the agreements concluded.

Three methods were combined. Legal-analytical review identified the acts that produced the principal changes in the investment regime and classified the resulting preferences by instrument, legal basis and eligibility condition. Descriptive statistical analysis was applied to the 2017-2025 series on growth and fixed capital formation. Comparative analysis reconciled the divergent measures of foreign investment. The observed association between reform and investment activity is treated throughout as coincidence in time rather than as an identified causal effect, since no counterfactual is available.

ANALYSIS AND RESULTS

The evolution of investment policy since 2017. The Action Strategy approved by Presidential Decree No. DP-4947 of 7 February 2017 established the political framework for reform [8]. Its most consequential measure for investors followed in the same year: Presidential Decree No. DP-5177 of 2 September 2017 liberalised currency policy and unified the exchange rate, removing the parallel-market distortion that had made the repatriation of profits the central obstacle to foreign investment [9]. The subsequent recodification of economic law converted that decision into a durable framework. The Law on Currency Regulation (No. ZRU-573 of 22 October 2019) guarantees the free transfer abroad of capital and profits associated with direct investment, while the Law on Investments and Investment Activity (No. ZRU-598 of 25 December 2019) consolidated investor guarantees, prohibited discrimination on grounds of nationality, residence or origin, and provided protection against uncompensated expropriation [2]; [10]; [11]. The new Tax Code simplified the system substantially, with corporate income tax at fifteen per cent and value added tax at twelve per cent [12].

Table 3.

Major presidential decrees, resolutions and laws supporting investment policy[1]

Act	Date	Subject	Significance for the investment climate
DP-4947	07.02.2017	Action Strategy for the Further Development of the Republic of Uzbekistan (2017-2021)	Established the political framework and sequencing of economic liberalisation
DP-5177	02.09.2017	Priority measures for the liberalisation of currency policy	Unified the exchange rate and removed the principal obstacle to profit repatriation
ZRU-573	22.10.2019	Law on Currency Regulation	Statutory guarantee of the free transfer of investment-related funds
ZRU-598	25.12.2019	Law on Investments and Investment Activity	Consolidated investor guarantees, non-discrimination

[1] Source: Compiled by the author based on the national legal database of the Republic of Uzbekistan and [2]; [8]; [9]; [10]; [11]; [13]; [15]; [16].

Act	Date	Subject	Significance for the investment climate
			and protection from expropriation
ZRU-604	in force 19.05.2020	Law on Special Economic Zones	Unified statutory basis for zones and definition of five categories
DP-60	28.01.2022	Development Strategy of New Uzbekistan for 2022-2026	Medium-term reform programme covering privatisation and market opening
DP-459	28.12.2022	National Investment Programme for 2023-2025	Structured pipeline of 768 projects valued at USD 55.4 billion
DP-158	11.09.2023	Uzbekistan - 2030 Strategy	Long-term objectives for output, exports and investment attraction

Reform then continued along three lines. Special economic zones were placed on a unified statutory basis by the Law on Special Economic Zones (No. ZRU-604, in force from 19 May 2020), which replaced the fragmented regime inherited from 1996 [13]. State dominance was reduced through privatisation and capital-market transactions, most visibly the dual listing of the National Investment Fund in Tashkent and London, which raised close to USD 700 million against demand exceeding USD 2.8 billion [2]; [14]. Administrative barriers were lowered by digitalising registration, permits and customs procedures, by opening real estate acquisition partially to non-residents under Decree No. DP-101 of 8 April 2022, and by consolidating promotion functions within the Ministry of Investment, Industry and Trade [2]. Strategic direction was set by Decree No. DP-60 of 28 January 2022 and the Uzbekistan - 2030 Strategy (Decree No. DP-158 of 11 September 2023) [15]; [16]. Table 3 summarises the principal acts.

Preferences and incentives. The incentive architecture rests on four pillars: territorial regimes, general tax and customs treatment, individually negotiated investment agreements, and statutory guarantees. More than twenty free economic zones now operate, alongside technoparks, small industrial zones and sectoral regimes such as the IT Park [17]. Within the zones, exemption from profit tax, property tax, land tax and the tax on water resource use is granted for periods of three to ten years, calibrated to the volume of investment [13]; [18]. Table 2 sets out the system.

Table 2.

Main investment preferences and incentives available to investors in Uzbekistan[1]

Instrument	Legal basis	Main content	Eligibility
Free / special economic zones	Law No. ZRU-604 (2020); Resolution	Exemption from profit tax, property tax, land tax and water-use tax for 3 years (USD 0.3-3 mn), 5 years	Zone residents under agreement

[1] Source: Compiled by the author based on [2]; [10]; [11]; [12]; [13]; [17]; [18].

Instrument	Legal basis	Main content	Eligibility
	No. DP-4853 (2016)	(USD 3-5 mn), 7 years (USD 5-10 mn) and 10 years (above USD 10 mn)	with the zone administration
Customs preferences	Law No. ZRU-604; Tax Code; Customs Code	Exemption from customs payments on imported equipment, raw materials and components used in production within the zone; special customs regime	Zone residents; localisation projects
General tax regime	Tax Code (2020, as amended)	Corporate income tax 15 per cent; VAT 12 per cent; unified reporting and digital administration; VAT refund mechanisms	All taxpayers, including foreign-invested firms
Investment agreements	Law No. ZRU-598 (2019); agreement with the Government	Individually negotiated tax, customs and land preferences together with state guarantees for large-scale or strategic projects	Large-scale and strategic investors
Statutory investor guarantees	Laws No. ZRU-598 and No. ZRU-573 (2019)	Non-discrimination, protection against uncompensated expropriation, free repatriation of profits and capital, legal stability	All foreign investors
Sectoral regimes	Presidential decrees on IT Park, technoparks and data-centre projects	Tax exemptions for IT Park residents; exemption from corporate income tax for qualifying non-resident exporters of IT services (2025-2030); subsidised infrastructure	Residents of the relevant regime
Access to real estate	Decree No. DP-101 of 8 April 2022	Partial opening of real estate acquisition to non-residents subject to minimum investment thresholds	Foreign investors

Investment activity and economic growth. Table 1 places the growth and investment series side by side. Between 2017 and 2025 real GDP growth averaged approximately six per cent a year [1]. Investment in fixed capital rose from 60.7 trillion soums in 2017 to 591.1 trillion soums in 2025, with a contraction in nominal terms only in 2022 and an acceleration from 2023 onward [5]; [19]; [20].

Table 3.

Key investment and economic growth indicators of Uzbekistan, 2017-2025[1]

Year	Real GDP growth, %	Investment in fixed capital, trillion soums	Investment growth index, % (comparable prices)
2017	4.4	60.7	121.9
2018	5.4	n.a.	n.a.
2019	6.0	195.9	n.a.
2020	2.0	210.2	n.a.
2021	7.4	239.6	n.a.

[1] Source: Compiled by the author based on data of the Statistics Agency under the President of the Republic of Uzbekistan [3]; [5]; [19]; [20] and the World Bank [1]. Values marked n.a. are not available on a consistent basis in the published releases used.

Year	Real GDP growth, %	Investment in fixed capital, trillion soums	Investment growth index, % (comparable prices)
2022	5.7	226.2	n.a.
2023	6.3	352.1	122.1
2024	6.7	493.7	127.6
2025	7.7	591.1	110.5

The sequence is broadly consistent with the analytical logic set out above: the currency and legal reforms of 2017-2020 preceded the acceleration of capital formation from 2023, and the fastest growth year of the period coincided with record investment, with investment expanding by 10.5 per cent in real terms alongside private consumption growth of 9.2 per cent [1]; [5].

Consistency in timing is not evidence of causality. Part of the nominal increase reflects inflation and exchange-rate movement, and part of the 2024-2025 acceleration reflects favourable commodity prices, particularly for gold, rather than the regulatory environment. Composition also matters: manufacturing absorbed 27.2 per cent of fixed capital investment in 2025, electricity and gas supply 14.0 per cent and mining 10.8 per cent, a structure that generates output more readily than employment [5]. The World Bank observes that job creation has lagged output growth and that some ten million additional and better-paid jobs will be required over the next seven to ten years [1].

The Tashkent International Investment Forum. Held annually since 2022, the forum is the principal instrument for presenting the national project pipeline to international capital. Its reported output has grown rapidly: agreements worth USD 26.6 billion in 2024; USD 30.5 billion in 2025, at an event attended by more than 8,000 participants from 97 countries; and USD 43.1 billion in 2026, comprising 166 agreements of which 139 were new projects valued at USD 31.8 billion, with 3,802 foreign delegates from 102 countries [14]. The forum has also produced institutional outputs, including the Foreign Investors Council and a package of reform proposals covering banking, energy, capital markets and corporate governance [14].

These figures should be read as a project pipeline rather than as capital inflow: signed agreements are multi-year intentions conditional on financing, feasibility and licensing, while realised inflows are recorded separately and on a different basis. For 2025 the Ministry of Investment, Industry and Trade reported USD 43.1 billion of foreign investment utilised in the economy, of which USD 38.2 billion was classified as direct investment and USD 4.9 billion as financing from international financial institutions [6]. UNCTAD, applying the balance-of-payments definition, records Uzbekistan’s FDI inflows for 2025 at approximately USD 4.4 billion and the accumulated FDI stock at USD 26 billion, against USD 20.5 billion a year earlier [7]. The divergence arises because the national indicator captures all foreign resources absorbed into projects, including non-guaranteed loans, supplier credits and intra-group financing, whereas the balance-of-payments measure counts only equity, reinvested earnings and specified intercompany transactions. Both are legitimate within their own definitions; using them interchangeably overstates the equity component of foreign participation by an order of magnitude.

Remaining challenges. Four constraints limit the conversion of investment interest into productive capital. State-owned enterprises still account for a substantial share of output and employment and retain preferential access to land, finance and incentives, which distorts competition [2]. Contract enforcement and dispute resolution remain weak, so that investor outcomes depend in part on administrative support rather than predictable adjudication [2]. The incentive system is fragmented across zones, sectors and individual agreements, creating fiscal cost, unequal treatment and scope for rent-seeking. Finally, absorptive capacity is limited by skills mismatches, informality and interregional infrastructure disparities [1]; [2].

CONCLUSION AND SUGGESTIONS

Uzbekistan's investment policy since 2017 has followed a coherent sequence: currency liberalisation removed the binding constraint on repatriation, the recodification of investment, currency and tax law made guarantees statutory rather than discretionary, territorial and sectoral regimes created targeted incentives, and promotion platforms such as the Tashkent International Investment Forum built a visible project pipeline. This sequence has coincided with a sustained expansion of fixed capital formation and an acceleration of output growth to 7.7 per cent in 2025. The evidence supports a strong association rather than a demonstrated causal effect, and the headline foreign investment figures require careful interpretation, since the national and balance-of-payments measures differ by roughly a factor of ten.

Five recommendations follow. First, publish a single reconciled investment statistic that reports announced agreements, utilised resources and balance-of-payments inflows separately, with a standing methodological note, so that policy debate rests on comparable figures. Second, shift the incentive system from broad tax holidays towards cost-based instruments such as accelerated depreciation and investment allowances, and subject all incentives to periodic cost-benefit review and public reporting. Third, accelerate competitive neutrality by removing preferential access of state-owned enterprises to land, finance and incentives, and by continuing privatisation and capital-market listings. Fourth, strengthen the enforcement side of the framework through specialised commercial adjudication, wider use of arbitration and mediation, and an operational investor grievance mechanism, so that legal guarantees are matched by remedies. Fifth, link investment promotion explicitly to employment and skills outcomes by prioritising projects with local supplier development and workforce training commitments, thereby narrowing the gap between capital-intensive growth and job creation.

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