



THE IMPACT OF CURRENCY POLICY REFORMS ON CAPITAL ACCUMULATION

VALYUTA SIYOSATI ISLOHOTLARINING KAPITAL JAMG‘ARILISHIGA TA’SIRI

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Abstract Annotatsiya

Eng. - This article analyzes trends in the development of investments in fixed capital as a result of reforms implemented within the framework of liberalizing the currency system in the Republic of Uzbekistan. An analysis based on official statistical data shows that during 2010–2024 the share of state budget funds in the structure of investment financing has been steadily decreasing, while foreign investments, borrowed resources attracted by enterprises with state participation, and financing sources based on public–private partnership (PPP) mechanisms have been increasingly taking their place.

Uzb. - Ushbu maqolada O‘zbekiston Respublikasida valyuta tizimini liberallashtirish doirasida amalga oshirilgan islohotlar natijasida asosiy kapitalga investitsiyalarning rivojlanish tendensiyalari tahlil qilinadi. Rasmiy statistik ma’lumotlar asosida olib borilgan tahlil 2010–2024-yillar davomida investitsiyalarni moliyalashtirish tarkibida davlat budjeti mablag‘larining ulushi izchil kamayib, uning o‘rnini xorijiy investitsiyalar, davlat ishtirokidagi korxonalar tomonidan jalb etilgan qarz resurslari hamda davlat-xususiy sheriklik (DXSh) mexanizmlariga tayangan moliyalashtirish manbalari tobora egallab borayotganini ko‘rsatadi.

Keywords: Kalit so‘zlar:

❖ foreign direct investment, capital accumulation, banking sector, economic liberalization, public-private partnerships.
❖ to‘g‘ridan-to‘g‘ri xorijiy investitsiyalar, kapital jamg‘arilishi, bank sektori, iqtisodiy liberallashtirish, davlat-xususiy sheriklik.

Introduction.

In the current era of globalization and rapid economic transition, the relationship between exchange rate regimes and capital accumulation is a critical factor for the development of emerging economies. For international capital to enter a developing market whether through equity participation, debt financing, or technology transfer investors require a high degree of institutional and macroeconomic certainty, particularly with respect to currency convertibility. In the absence of a transparent, market-oriented

foreign exchange regime that guarantees the free repatriation of profits and capital, the effectiveness of the investment channel is significantly undermined. Under such conditions, the economy becomes structurally constrained to depend primarily on domestic savings and state budgetary resources to finance development and capital accumulation processes.

On September 2, 2017, the Presidential Decree “On priority measures to liberalize monetary policy” established a unified exchange rate and introduced free currency

convertibility. This paper argues that the reform constituted not merely a technical monetary adjustment, but rather a structural break that fundamentally transformed the financing architecture of the Uzbek economy by altering investment incentives, capital flows, and the composition of funding sources [1]. While many scientific studies focus on the inflationary pressure caused by the 2017 reform, less attention has been paid to the structure of the investment boom that followed. Looking only at nominal growth data in the national currency can be misleading due to the devaluation effects.

The purpose of this research is to conduct a comprehensive analysis of the investment dynamics from 2010 to 2024, assessing the real size and quality of the capital accumulation. The hypothesis is tested that the reform unlocked the investment channel, resulting in a shift in state financing from direct budget allocation to a complex mix of external corporate borrowing and Public-Private Partnerships. Furthermore, an analysis is conducted regarding how this shift has impacted the domestic banking sector and created new challenges regarding external debt management.

Literature Review.

Scientific research on the analysis and development of investment potential in transition economies has historically focused on the role of state-led industrialization. However, in the context of Uzbekistan, recent research has shifted toward understanding the impact of liberalization. Studies by local economists have analyzed how the pre-2017 currency restrictions were the primary obstacle to attracting Foreign Direct Investment (FDI). In particular, research findings indicate that the “valuation mismatch” caused by the dual exchange rate made non-strategic projects unprofitable. It has been noted by Uzbek scholars that during the pre-reform period, the main driver of investment was the Fund for

Reconstruction and Development of Uzbekistan (FRDU), rather than private market participants [2].

Moreover, several scientific sources emphasize the evolution of the “Soft Budget Constraint” a theory originally developed by Kornai to describe socialist economies. In the modern Uzbek context, it is argued that this constraint has shifted. Previously, the state covered enterprise losses through direct subsidies. In the “New Uzbekistan” model, State-Owned Enterprises (SOEs) use implicit state guarantees to borrow on international capital markets. This shift from internal subsidies to external debt is a major theme in recent financial literature regarding FDI impact [3].

Additionally, studies regarding the Khorezm region and other industrial hubs in Uzbekistan have analyzed the correlation between investment potential and export geography. These studies suggest that while the volume of investment has increased due to the open exchange rate, the efficiency of capital utilization remains a challenge. It is emphasized by economists such as Ibadullaev and others that it is necessary not just to attract capital, but to direct it toward “deep processing” of raw materials to create value-added chains. Without this, the investment boom risks merely increasing the debt burden without generating sufficient export revenue [4].

Finally, the literature regarding the banking sector highlights a transformation in the role of commercial banks. Current literature reviews suggest that the post-reform period has transformed banks into active intermediaries for foreign capital, notably in Islamic banking contexts [5]. This increases opportunities for modernization but also introduces “Currency Induced Credit Risk” (CICR), where borrowers earning in sums struggle to repay loans denominated in dollars. Theoretical foundations for this relationship between exchange rates and capital flows are

well-established in development economics [6].

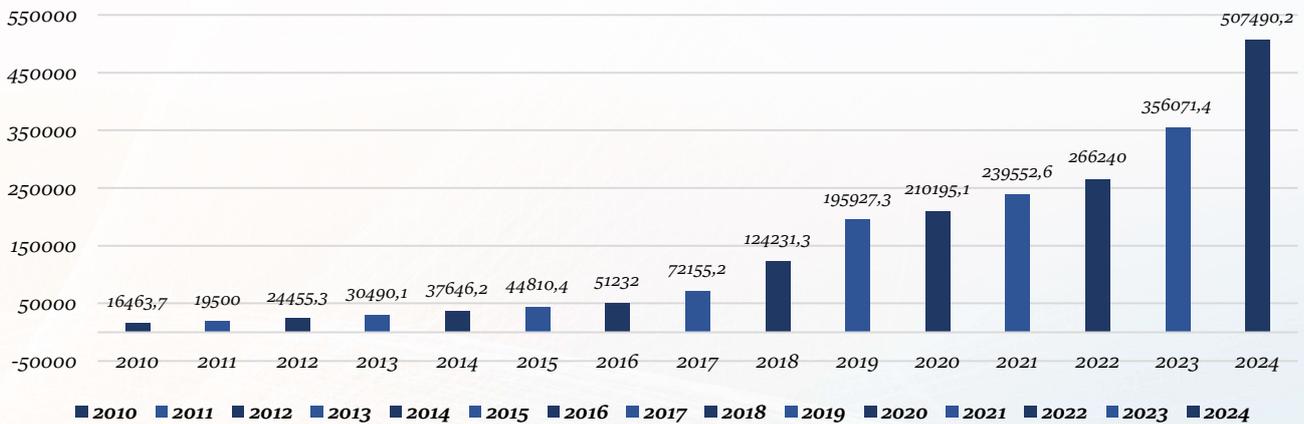
Research Methodology.

In this study, systematic, comprehensive, and comparative analysis methods were applied to assess the changes in capital accumulation and financing structures. The research covers the extensive period from 2010 to 2024, allowing for a clear comparison between the pre-reform (2010–2016) and post-reform (2017–2024) eras. The primary data sources included the open databases of the National Committee of the Republic of Uzbekistan on Statistics [7] and reports from the Ministry of Economy and Finance [8].

To identify the true scale of the “Investment Channel” a dual-valuation approach was employed. Nominal growth in the national currency (UZS) is heavily influenced by the 2017 devaluation and subsequent inflation. Therefore, investment volumes were analyzed in both nominal UZS and current USD.

Analysis and Discussion of Results.

The analysis of statistical data from 2010 to 2024 reveals a dramatic transformation in the volume of fixed capital investment in Uzbekistan. To understand the magnitude of this change, the nominal growth of investment in the national currency is examined first.



Picture 1. Dynamics of Fixed Capital Investment Volume in Uzbekistan (in billion UZS)

As presented in Picture 1, the volume of investment in fixed capital remained relatively low and stagnant during the period of 2010 to 2016. In 2010, the total volume was approximately 16,500 billion UZS. Between 2011 and 2016, although there was gradual nominal growth, the figures did not exceed 52,000 billion UZS. This period characterizes the “pre-reform” era, where the difficulty of converting currency and the high cost of importing technology at the parallel rate restricted capital accumulation. The data clearly shows that during these years, the economy was “starved” of necessary capital for modernization [7].

The structural break occurs clearly in 2017. Following the exchange rate unification,

the nominal value of investments began to rise sharply, reaching over 100,000 billion UZS by 2018. This upward trend accelerated rapidly in the subsequent years. By 2021, investment volumes exceeded 240,000 billion UZS, and by the end of 2024, the volume reached a historic peak of over 507,000 billion UZS. While this thirty-fold increase is partly due to inflation and devaluation, the analysis in USD terms confirms a massive real expansion. In real dollar terms, the capital capacity of the economy expanded approximately 5-fold, from roughly \$8 billion in 2016 to over \$40 billion in 2024. This growth is driven by the import of machinery, equipment, and technology for the energy, mining (NGMK/AGMK), and textile sectors, which became financially viable once

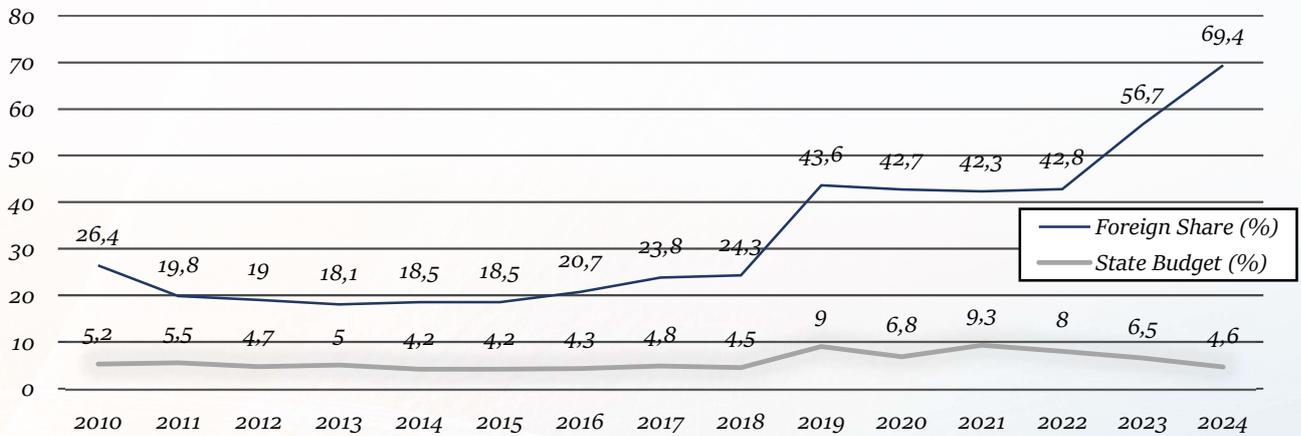
the exchange rate was unified. This aligns with broader digital economy trends in investment activities [13].

Most critically, the intensity of investment has shifted. In the pre-reform era, the Investment-to-GDP ratio averaged approximately 23–25%. Post-reform, this ratio has climbed steadily, reaching 34,9% in 2024. A ratio of nearly 35% places Uzbekistan among the highest capital-accumulating nations in the developing world, as noted in recent World Bank economic memorandums [10].

However, the most important finding of this research is not just “how much” money is

being invested, but “where” the money is coming from. The financing structure of the Uzbek economy has completely inverted over the last decade.

As can be seen from the trends in Picture 2 below, there is a clear divergence between foreign sources of financing (the orange line) and the state budget (the grey line). From 2010 to 2016, the share of foreign investment and loans declined, dropping to a low of approximately 20% in 2016. During this time, the economy relied heavily on internal sources and state funds because foreign investors faced high risks regarding profit repatriation.



Picture 2. Dynamics of Investment Financing Sources (in percentage)

The situation changed radically starting in 2017. The share of foreign investment began to rise sharply, crossing the 40% mark in 2019 and continuing to grow. By 2024, the share of foreign investment in the total financing structure reached nearly 70% (69.4%). This indicates that the modern Uzbek economy is primarily funded by external capital. It is important to note that this foreign investment category is a mix of three things: Foreign direct investment (FDI), loans under state guarantee (borrowed by SOEs), and foreign credit lines attracted by commercial banks [9].

Conversely, the share of the state budget has remained consistently low, hovering between 5% and 10% throughout the entire period. In 2024, the state budget accounted for less than 5% of total investment financing. This is a positive indicator of fiscal discipline. It

demonstrates that the government is not relying on budget to finance construction activities, rather, it is enabling the private sector and state-owned enterprises to access borrowing from international financial markets.

The gap between foreign investment and state budget financing represents the unlocking of the investment channel. The sharp rise in foreign financing specifically correlates with two major developments: the issuance of Eurobonds by major companies like Uzbekneftegaz, large-scale external borrowing by SOEs like NGMK, and the boom in Public-Private Partnerships (PPPs) in the energy sector (solar and wind power plants). The legal framework for these PPPs has been instrumental in attracting this specific type of investment [12]. By guaranteeing

convertibility, Uzbekistan secured billions in generation capacity without upfront public spending. This trend is also reflected in the growing diversity of financial instruments in the global market.

Conclusion and Recommendations.

The results of the analysis of the investment channel and exchange rate unification allow for the conclusion that the 2017 reform was successful in breaking the isolation of the Uzbek economy. The 5-fold real expansion in capital capacity and the rise of the investment-to-GDP ratio to nearly 35% prove that the barriers to entry for capital have been removed. The economy has successfully transitioned from a model reliant on domestic savings to one leveraged by global finance. The financing model has fundamentally shifted; the economy is now powered by a hybrid mix of SOE external debt and private PPP inflows.

However, this high reliance on foreign financing (nearly 70% share) creates new challenges related to debt servicing and exposure to global interest rates. The transition from "protected import-substitution" to "open, leveraged modernization" is complete, but the sustainability of this model depends on the efficiency of the new investments. The following proposals are made based on the research work:

❖ **Monitoring Contingent Liabilities:** While the State Budget share of investment is low (4.6%), the rise of SOE borrowing creates contingent liabilities. Strict monitoring of corporate debt levels is required as the state remains the ultimate guarantor for strategic entities. A centralized debt management office should oversee not just sovereign debt, but corporate debt of SOEs;

❖ **Development of the Local Capital Market:** Currently, much of the foreign investment can be considered as a debt. To reduce risk, the local stock market (Toshkent Republican Stock Exchange) must be developed so that companies can raise equity domestically rather than relying solely on foreign loans;

❖ **Managing Foreign Currency Exposure in Banking:** The opening of the investment channel has increased foreign currency lending. Higher reserve requirements for foreign currency liabilities should be considered by the Central Bank to mitigate this risk;

❖ **Focus on Localization and Productivity:** To maximize the benefit of the imported technology, policies should be implemented to support the localization of spare parts and maintenance services. Investment must generate sufficient returns to service the external obligations that funded it, particularly in the energy and infrastructure sectors.

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