



Prospects for ensuring economic development by reducing risks inherent to the economy of Uzbekistan

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Abstract: This article is devoted to the analysis of the economic and financial situation of Uzbekistan based on the methodology of the International Country Risk Guide (ICRG). The study analyzes the financial and economic indicators of the country in recent years, such indicators as external debt, based on the main components of the ICRG model. The research is based on reports and statistical data from international financial institutions.

Keywords: ICRG methodology, real GDP growth rate, inflation rate, budget balance, current account balance, economic risk, foreign debt, exchange rate, financial risk.

Introduction: The economy of Uzbekistan has been experiencing significant growth in recent years. The economic reforms implemented in the country since 2016, in particular, measures aimed at liberalizing the economy and developing the private sector, have served to increase the country's reliability in international financial markets. The results of the economic reforms carried out in the country are also reflected in international ratings maintained by international rating agencies. At the same time, the state of real GDP growth, the level of inflation, the country's external debt, the current account balance, and risks to the country's economic and financial situation are constantly assessed by international financial institutions. In recent years, the risks associated with entering into international economic relations between countries have increased significantly, and their analysis and assessment have

become more complex for decision-makers in the economic, financial, and political spheres.

In such assessments, the "International Country Risk Guide" (ICRG) methodology, developed by the PRS Group (Political Risk Services Group), is used as an important tool. Established in 1979, the PRS Group operates as an organization specializing in political, economic, and financial risks on an international scale. It assists international investors, corporations, and government agencies in analyzing and evaluating risk levels across different countries.

The ICRG methodology is designed to analyze countries' political, economic, and financial risk categories, with each risk category comprising specific variables: 12 variables in the political risk category, 5 variables in the economic risk category, and 5 variables in the financial risk category. Analysis of political risk using its 12 variables is not carried out due to the lack of public information and limited access to data. Therefore, this study aims to analyze the country risks for Uzbekistan based on economic and financial risks. Furthermore, the purpose of the study is to analyze the country's risk based on macroeconomic factors. Consequently, the main data collected and analyzed are primarily based on economic and financial risk factors, with less emphasis placed on political risk factors.

The purpose of this article is to analyze Uzbekistan's economic and financial indicators based on the ICRG methodology, as well as to assess the country's current economic situation and future risks. The article examines Uzbekistan's economic and financial indicators over the past years and compares this data with the main components of the ICRG model.

Literature Review

Compared to local studies, research on country-specific risk analysis constitutes a significant area of investigation by international financial institutions and economic research centers. Within this domain, the political risk components utilized in the ICRG methodology assess the political stability of states and their readiness to fulfill financial obligations. Similarly, the financial risk components reflect a country's capacity to meet its financial commitments. Additionally, the economic risk indicators in the ICRG framework analyze risks associated with a country's ability to fulfill its financial, commercial, and trade obligations. Consequently, the ICRG methodology is widely recognized as a critical tool for analyzing country-specific risks. The literature developed based on this model primarily focuses on evaluating country risk through quantitative and qualitative analytical methods.

In the methodology published by PRS Group (2024), the document "International country risk guide" highlights the basic principles of the ICRG model. In this document, political, economic, and financial indicators are used in the analysis of the country's risk. Country risk is an indicator of a country's creditworthiness and represents its ability and willingness to fulfill its international financial obligations. As a result of the globalization of world trade and the liberalization of capital markets, the international financial community is experiencing financial crises in both developed and developing countries. These crises are inflicting significant financial damage on official institutions, private organizations, and market participants. The risk rating of countries helps these countries enter capital markets and provides official institutions and private market operators with the necessary tools for assessing and managing such risks (Hoti, 2014; Toshtemirovich & Ibrogimovich, 2024).

Reports published by the International Monetary Fund (IMF) and the World Bank are an important source of information when analyzing the external debt and solvency of developing economies. For example, the IMF report "Uzbekistan: 2022 Article IV Consultation" details Uzbekistan's economic reforms, the dynamics of external debt, and the state of foreign exchange reserves (IMF, 2022). Although this report positively assesses the country's external financial stability, import dependence and current account deficit are highlighted as risk factors.

Scientific articles on the analysis of credit risk in developing countries are also important for this study. *When is External Debt Sustainable?*, published by Kraay and Nehru (2006) in the *Journal of Development Economics*, examines the role of factors such as economic growth and export revenues in determining the level of stability of a country's external debt. This study served as a methodological basis for analyzing the dynamics of Uzbekistan's external debt, the volume of exports and imports.

There are also several studies examining Uzbekistan's economic situation in the context of Central Asian countries. For example, the "Central Asia Regional Economic Cooperation (CAREC) Program" report, published by the Asian Development Bank (ADB) in 2023, analyzes trade volumes and economic growth dynamics in the countries of the region (ADB, 2023; Mamadiyarov, 2024; Litamahuputty et. al., 2025). In this analytical report, special attention is paid to Uzbekistan's export potential and problems in managing external debt.

Analysis of the literature shows that the ICRG methodology is an effective tool for country risk

analysis, but its results should be interpreted taking into account local economic and political factors. Research in Uzbekistan is mainly focused on the country's economic reforms and financial stability, and there is insufficient specialized work on the application of the ICRG model in this context. This article aims to fill this gap and is an attempt to analyze Uzbekistan's financial and economic capacity based on the ICRG model (Singagerda et. al., 2025; Mamadiyarov, 2020; Mamadiyarov, 2019).

METHODOLOGY

In our research on ensuring economic development by reducing risks specific to Uzbekistan's economy, the ICRG methodology was employed as the primary tool. The political risk components used in the International Country Risk Guide analyze a country's political stability and its readiness to fulfill financial obligations, while financial risk indicators demonstrate a country's ability to meet its financial commitments (Hoti, 2014; Toshtemirovich, 2021).

It is impossible to calculate political risk with 12 variables due to the lack of public data and limited access to expensive data. Therefore, for Uzbekistan, the analysis of country risks is based only on economic and financial risks. In addition, the purpose of the study is to analyze the country's risk based on the country's macroeconomic factors, and therefore the main data collected and analyzed are based on economic and financial risk factors, with less emphasis on political risk factors.

As mentioned above, the ICRG model is based on a methodology that analyzes political, economic, and financial factors. Since the collected data on political factors in the country is insufficient for the study, we will try to implement the methodology based on the analysis of economic and financial factors. Firstly, according to this model, we analyze economic indicators that include economic factors, and secondly, financial indicators that include financial factors influencing the country's risk.

In conducting our research, we utilized economic reports on Uzbekistan from the International Monetary Fund (IMF), the World Bank (WB), and "PRS Group", as well as statistical data sources from the National Statistics Committee of the Republic of Uzbekistan and the Central Bank.

The analysis covers Uzbekistan's data from recent years, comparing key indicators of its economic and

financial situation with the criteria of the ICRG model. The study employed methods of statistical analysis, scientific abstraction, and the calculation of relative indicators.

RESULTS

Based on ICRG methodology, country risk analysis for Uzbekistan is conducted. Major data collected and analyzed were based on economic and financial risk factors with less focus on political risk factors.

Economic risk variable includes GDP per head, annual GDP growth rate, inflation rate, budget balance % of GDP and current account balance % of GDP. First variable is GDP per head, expressed in USD, as a percentage of average GDP of all countries. GDP per head in Uzbekistan was equal to \$94.43 billion in 2024. Average GDP covered by ICRG was \$102.65 billion in 2024 (Trading Economics, 2025a). Thus, GDP per head in Uzbekistan was equal to 92% of average GDP covered by ICRG. Therefore, Uzbekistan scored 3 point in this variable (PRS Group, 2022).

Second variable in economic risk analysis is real GDP growth rate. The latest data available for Uzbekistan's annual GDP growth rate was for 2023 and was equal to 6.3% which is high economic growth in the country. Therefore, there is low risk regarding economic growth in the country and Uzbekistan scored 10 (World Bank, 2025a).

Third variable in economic risk is inflation rate. Inflation rate in Uzbekistan, as of October 2024, was equal to 10.24 and annual change was -2.1% which is score of 3 on this factor (Trading Economics, 2025b).

Fourth dimension in economic risk analysis in ICRG is budget balance as percentage of GDP. According to statistical data, budget balance as percentage of GDP in Uzbekistan was equal to -3.5% for 2024. This is the score of 6 based on the rating of ICRG developed for economic risk analysis (Trading Economics, 2025c).

Fifth dimension is current account balance. Current account balance as percentage of GDP in 2024 was equal to -6.3%. The rating for this variable for Uzbekistan was 9.5 (Trading Economics, 2025d).

Based on the analysis, ratings for each of the economic variable were put in the table and calculated its relative weight in the overall economic risk. Based on the analysis it became evident that total component score for economic risk was equal to 31.50 (Table 1).

Table 1. Economic risk component analysis based on ICRG's framework

Economic	Points	% of individual index	% of composite
GDP per head	3	10%	0,3

GDP growth rate (annual)	10	20%	2
Inflation rate	3	20%	0,6
Budget balance % of GDP	6	20%	1,2
Current account balance % of GDP	9,5	30%	2,85
Total Economic Risk points	31,50	100%	6,95

Source: Authors own calculation based on the data calculated from ICRG framework.

According to ICRG classification, 31.50 indicates Moderate Risk. Therefore, it can be stated economic risk in Uzbekistan is moderate that high economic growth rate, sufficient budget balance and current account as percentage of GDP creates favorable environment for FDI in the country. However, high inflation rate in the country is one of the key economic risks which negatively impacts on business environment and therefore, appropriate monetary policies should be implemented in order to minimize the inflation rate and country risk as a whole (Table 1).

Financial risk analysis consists of five variables such as foreign debt to GDP, Foreign Debt Service as a Percentage of Export in Goods and Services, Current Account as a Percentage of Export in Goods and Services, Net International Liquidity as Months of Import Cover, Exchange Rate Stability.

First variable in financial risk analysis is foreign debt to GDP. According to 2023 data, gross external debt in Uzbekistan reached 61.3% of GDP or \$55.7 billion in value terms (Gazeta.uz, 2024). This is a rating of 4.5 in ICRG's financial risk score. Second variable is foreign debt service as percentage of exports which was equal to 76.1 in 2024 and rated as 1 according to ICRG's financial risk score. Moreover, it is also stated that

composite indicator score of Uzbekistan is 3.16 which showed strong debt carrying capacity (PRS Group, 2022).

Third variable is current account as percentage of export of goods and services of Uzbekistan. As of 2024, this measure was equal to -0.208%. According to ICRG's framework, this variable scored 12. Fourth dimension is net liquidity as months of import cover. As of August 31, 2024, net liquidity of Uzbekistan reached more than \$39 billion and represent 9 months of import cover. According to ICRG framework, this variable rated as 4 (Peng et. al., 2024).

Fifth and the last dimension in financial risk is exchange rate stability. Statistics showed that national currency against US dollars depreciated by 4.71% in 2024. This scored 10 base on ICRG's framework (Gazeta.uz, 2025).

Results of the financial risk variable analysis were inputted into the table and its relative weight is calculated to determine its composite risk rating. Results showed that overall point of financial risk was 31.5. According to ICRG's score classification 31.5 score indicated moderate risk (30%-34.9%). Therefore, financial risk in Uzbekistan is found to be moderate.

Table 2. Financial risk component analysis based on ICRG's framework

Financial	Points	% of individual index	% of composite
Foreign Debt to GDP	4,5	20%	0,9
Foreign Debt Service as a Percentage of Export in Goods and Services	1	20%	0,2
Current Account as a Percentage of Export in Goods and Services	12	30%	3,6
Net Liquidity as Months of Import Cover	4	10%	0,4
Exchange Rate Stability	10	20%	2
Total Financial Risk points	31,50	100%	

Source: Compiled by the author based on based on ICRG's framework.

Results also indicated that there is a challenge remain in foreign debt service as a percentage of exports and foreign debt to GDP (Table 2). This indicates the sovereign debt of the country is increasing annual basis. If foreign debt level exceeds 75%, then it will complicate service of debts using foreign currency. As foreign currency is earned from exports, then it is essential to increase the volume of exports and

diversification of export as main exports of the country is based on commodity exports nowadays. Moreover, it is also necessary to be cautious about the foreign debt level because as it increases, the cost of servicing it will increase and will be cost burden for future generations.

CONCLUSION

This study analyzed Uzbekistan's economic and financial

risks using the International Country Risk Guide (ICRG) methodology, focusing on economic and financial risk components due to limited access to political risk data. The analysis reveals that Uzbekistan's economy has shown notable progress in recent years, driven by reforms initiated since 2016 to liberalize the economy and bolster the private sector. These reforms have enhanced Uzbekistan's creditworthiness and reliability in international financial markets, as evidenced by improved ratings from international agencies. However, the study identifies moderate economic and financial risks, with a composite economic risk score of 31.50 and a financial risk score of 31.50, both classified as moderate under the ICRG framework.

Key findings indicate that Uzbekistan benefits from a robust real GDP growth rate of 6.3% in 2023, which reflects low economic risk and a favorable environment for foreign direct investment (FDI). The budget balance (-3.5% of GDP) and current account balance (-6.3% of GDP) also contribute positively to economic stability, though challenges persist. Notably, the high inflation rate of 10.24% in 2024 remains a significant economic risk, negatively impacting the business environment and necessitating targeted monetary policy interventions. On the financial risk side, Uzbekistan's foreign debt, reaching 61.3% of GDP (\$55.7 billion) in 2023, and a high foreign debt service ratio (76.1% of exports) highlight vulnerabilities in debt sustainability.

The analysis underscores that while Uzbekistan has made significant strides in economic development, persistent risks, particularly in inflation and foreign debt management, require careful attention. The moderate risk classification suggests that Uzbekistan is well-positioned to attract investment, but addressing these vulnerabilities is critical to sustaining long-term economic growth and financial stability.

To mitigate the identified economic and financial risks and ensure sustainable economic development, the following recommendations are proposed:

The Central Bank of Uzbekistan should implement tighter monetary policies, such as adjusting interest rates or reserve requirements, to curb inflationary pressures. Additionally, enhancing coordination between fiscal and monetary authorities can help stabilize prices and improve the business environment, making Uzbekistan more attractive for FDI.

The high foreign debt service ratio (76.1% of exports) and reliance on commodity exports highlight the need to diversify Uzbekistan's export base. Policymakers should prioritize investments in non-commodity sectors, such as manufacturing, technology, and agriculture, to increase export revenues and reduce

dependence on volatile commodity markets.

With foreign debt at 61.3% of GDP and rising servicing costs, Uzbekistan must adopt prudent debt management strategies. This includes prioritizing concessional loans with lower interest rates, improving debt transparency, and developing a comprehensive debt sustainability framework. Regular assessments, aligned with methodologies like those of the IMF and World Bank, can help monitor debt levels and prevent overburdening future generations.

The study was constrained by limited access to political risk data, which restricted a comprehensive ICRG analysis. To improve future risk assessments, Uzbekistan should enhance the availability and transparency of economic and financial data. Collaborating with international organizations like the PRS Group and improving local data collection by the National Statistics Committee can provide more robust datasets for risk analysis.

To support economic growth and reduce fiscal strain, Uzbekistan should expand PPPs in infrastructure and industrial projects. These partnerships can attract private investment, reduce the burden on public finances, and enhance economic diversification, thereby mitigating risks associated with budget deficits and external debt.

By implementing these recommendations, Uzbekistan can address its moderate economic and financial risks, strengthen its macroeconomic stability, and create a more resilient and attractive environment for both domestic and international investors. These measures will support the country's ongoing reforms and contribute to sustainable economic development in the long term.

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