

**STRENGTHENING INVESTMENT ATTRACTIVENESS THROUGH TAX
GOVERNANCE AND POLICY EFFECTIVENESS IN UZBEKISTAN**

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Abstract: This study examines how tax policy contributes to investment attractiveness in a reforming emerging economy, using Uzbekistan as a country case over 2021-2025. Rather than treating tax relief as an autonomous determinant of investment, the article advances a tax-governance perspective: investment attractiveness depends on the combined credibility of tax rules, administrative efficiency, disclosure of incentive costs, and the ability to direct capital toward productive activity. The empirical component triangulates annual fixed-capital investment statistics, regional financing structures, tax-administration performance indicators and international policy assessments. Nominal fixed-capital investment increased from UZS 236.6 trillion in 2021 to UZS 591.1 trillion in 2025, equivalent to a 149.8 per cent rise and a compound annual growth rate of 25.7 per cent. The share of non-centralised financing increased from 80.8 per cent to 89.4 per cent, while foreign investments and non-guaranteed foreign loans represented 65.9 per cent of total fixed-capital financing in 2025. At the same time, tax administration indicators show improved collection efficiency: the tax collection cost ratio fell from a 1.53 per cent baseline in 2021 to 0.83 per cent in 2024. The findings suggest that Uzbekistan's investment performance is consistent with an improving fiscal-administrative environment, but the available data do not permit causal attribution to tax incentives alone. The paper argues for a transition from broad exemptions to transparent, performance-based and regularly evaluated investment tax instruments supported by tax-expenditure reporting.

Keywords: tax policy; investment attractiveness; tax incentives; foreign investment; tax administration; Uzbekistan; fiscal governance.

1. Introduction

The competition for productive investment has become increasingly demanding for emerging economies. Investors compare not only statutory tax rates, but also the predictability of legal rules, administrative costs, access to infrastructure, protection of property rights, availability of skilled labour and the credibility of public institutions. Within this wider choice architecture, tax policy remains a powerful but conditional instrument. A tax system can reduce the cost of investment and accelerate capital formation; it can also generate fiscal losses, unequal treatment and rent-seeking when incentives are broad, discretionary or weakly monitored.

Uzbekistan provides an analytically important case. Since the launch of large-scale market reforms, tax policy and tax administration have been reshaped alongside measures to liberalise investment, strengthen private-sector participation and expand foreign capital inflows. The revised Tax Code of 2020 consolidated a number of incentives and sought to simplify taxation and reduce the burden on businesses. More recently, fiscal reform has been linked to digital tax administration, sustainable investment priorities and the wider ambition of achieving upper-middle-income status by 2030 (OECD, 2025).

The analytical problem is that investment expansion should not automatically be interpreted as proof of the effectiveness of tax preferences. Investment responds simultaneously to exchange-rate conditions, public investment programmes, energy and infrastructure reforms, access to finance, commodity cycles and political-regulatory signals. Moreover, the concept of foreign investment in fixed-capital statistics is not identical to balance-of-payments foreign direct investment (FDI). A strong empirical assessment must therefore distinguish between observed investment dynamics, plausible policy mechanisms and causal effects that require a longer and more granular dataset.

This article addresses the following research question: how can Uzbekistan improve the contribution of tax policy to investment attractiveness while preserving fiscal sustainability and policy transparency? Its contribution is threefold. First, it systematises recent empirical evidence on fixed-capital investment and its sources of financing. Second, it links investment outcomes to measurable changes in tax administration rather than relying only on statutory tax incentives. Third, it develops a policy architecture for moving from exemption-centred competition to tax governance based on evaluation, transparency and performance conditionality.

2. Literature Review and Analytical Framework

2.1 Tax policy and investment location decisions

The international literature recognises that corporate taxation affects investment location decisions, particularly where countries are otherwise similar in market access and production conditions. De Mooij and Ederveen (2003), in a synthesis of empirical studies, report a median semi-elasticity indicating that FDI is negatively responsive to higher taxation, although estimates vary substantially across model specifications and investment types. This variation matters for policy: a lower tax rate may attract mobile profits or projects that would have occurred in any event, while having a weaker effect on long-term productive capital with substantial sunk costs.

Research on developing economies adds a crucial qualification. Klemm and Van Parys (2012) show that tax incentives are widely used in competitive investment strategies, but their economic effectiveness is not uniformly strong. Morisset and Pirnia (2000) similarly argue that incentives cannot compensate for severe weaknesses in institutions, infrastructure or administrative procedures. This implies that an emerging economy should not measure the success of its investment policy by the number or generosity of preferences granted, but by additionality: whether the policy induces productive investment, jobs, technology transfer or export capability that would not otherwise have occurred.

2.2 From tax incentives to tax governance

The concept of tax governance expands the analytical unit from a single tax preference to the entire institutional environment in which investment taxation operates. It covers the legal basis and stability of incentives, the administrative cost of compliance, the visibility of fiscal costs, the availability of appeal mechanisms, and the use of measurable eligibility conditions. This approach is particularly relevant in the post-Pillar Two environment, where international tax developments reduce the attractiveness of some income-based incentives for large multinational enterprises and reinforce interest in expenditure-based support such as accelerated depreciation, investment allowances and well-targeted credits (OECD, 2022).

For Uzbekistan, the OECD (2025) identifies corporate income tax incentives, customs and import duty concessions, land and property tax benefits and water-use tax concessions as

elements of the current incentive framework. The same assessment highlights the importance of tax-system transparency, administrative effectiveness and tax-expenditure reporting. This position is aligned with the IMF's 2025 Article IV assessment, which recommended rationalising ineffective exemptions and strengthening revenue mobilisation rather than expanding non-transparent reliefs.

2.3 National scholarship on investment attractiveness and fiscal incentives in Uzbekistan

Country-specific scholarship is indispensable for interpreting Uzbekistan's investment reforms. Jumayev and Nomonova (2021) analyse the attractiveness of the investment climate for foreign investment and argue that the institutional quality of the investment environment, international ratings and the simplification of taxation and external economic documentation are important for attracting foreign capital. Their approach is directly relevant to the present study because it frames investment attraction as a result of combined institutional and administrative conditions rather than as a response to a single fiscal instrument.

The financing dimension is developed by Jumayev and Karimov (2011), who examine the role of commercial banks in financing investment activity in Uzbekistan and emphasise the importance of a sufficiently capitalised and stable financial intermediation system for investment credit. Although their study predates the current tax reform cycle, it provides a national analytical basis for distinguishing between the fiscal attractiveness of investment and the financing capacity required for investment projects to materialise.

From the taxation perspective, Nurmatov (2023) explicitly reviews international experience in the use of tax benefits, including tax credits, tax holidays, deductions and exemptions, and considers their relationship with foreign direct investment. His analysis strengthens the rationale for the present paper's central proposition: Uzbekistan should assess tax incentives through their economic additionality and governance quality, rather than through the formal availability of exemptions alone.

3. Materials and Methods

3.1 Research design

The study applies an explanatory case-study design with quantitative descriptive analysis and institutional policy assessment. The approach is appropriate for two reasons. First, the reform episode is recent and annual observations are insufficient for a credible time-series causal model. Second, tax incentives in Uzbekistan are embedded in broader administrative and investment-policy reforms, making institutional triangulation necessary.

The quantitative analysis evaluates: (i) the scale and annual growth of fixed-capital investment; (ii) the movement from centralised toward non-centralised financing; (iii) the role and geographic structure of foreign investment and loans in fixed capital; and (iv) tax-administration performance indicators relevant to investor compliance costs. Computed indicators include percentage change, compound annual growth rate (CAGR), regional shares and a simple Herfindahl-Hirschman concentration index for regional fixed-capital investment.

4. Results

4.1 Scale and dynamics of fixed-capital investment

Uzbekistan's fixed-capital investment expanded markedly during 2021-2025. In nominal terms, the volume increased from UZS 236.6 trillion in 2021 to UZS 591.1 trillion in 2025. This corresponds to a cumulative increase of 149.8 per cent and a nominal CAGR of 25.7 per cent. Importantly, the National Statistics Committee also reports an official growth index of 110.5 per cent for 2025 compared with 2024, indicating continued expansion after the exceptionally high 2024 growth index of 131.3 per cent.

Year	Fixed-capital investment, trillion UZS	Official growth index, %	Non-centralised financing, %
2021	236.6	102.9	80.8
2022	266.2	100.2	84.3
2023	356.1	123.4	86.0
2024	507.5	131.3	89.7
2025	591.1	110.5	89.4

Source: National Statistics Committee of the Republic of Uzbekistan (2026); author's calculations for cumulative growth and CAGR.

Figure 1. Fixed Capital Investment in Uzbekistan, 2021-2025

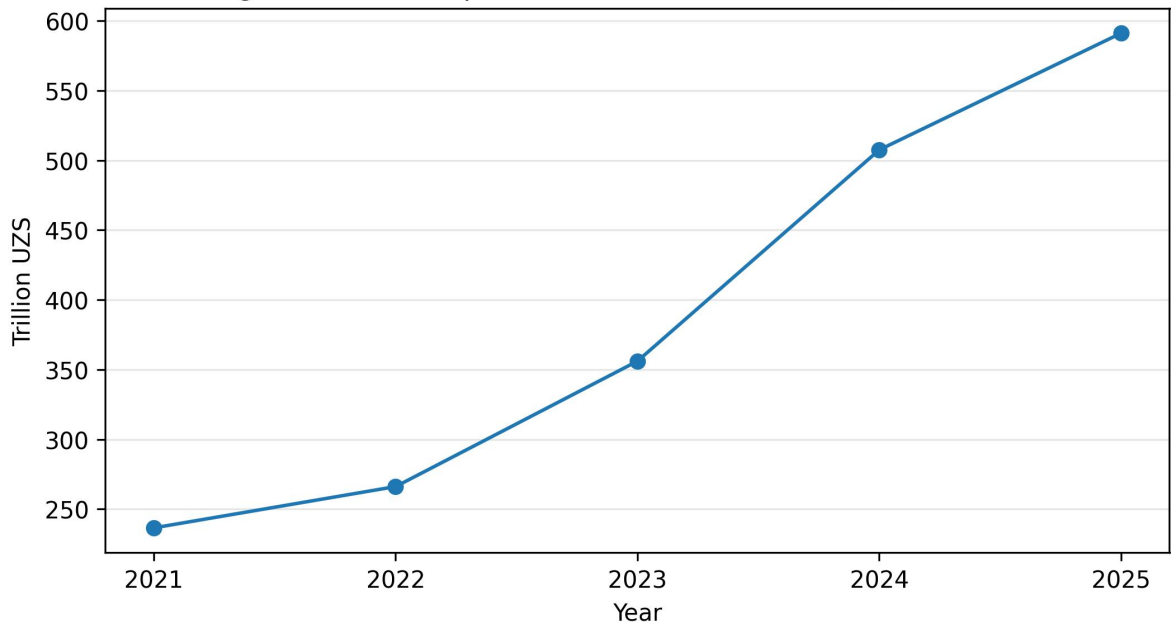


Figure 1. Fixed-capital investment in Uzbekistan, 2021-2025.

Source: Constructed by the author using National Statistics Committee data (2026).

The financing composition is as important as aggregate volume. The non-centralised financing share rose from 80.8 per cent in 2021 to 89.4 per cent in 2025, an increase of 8.6 percentage points. Although the share was marginally lower than in 2024, the five-year direction indicates a larger role for enterprise funds, household funds and externally attracted financing

relative to centralised resources. For an investment-climate assessment, this movement is meaningful: private and market-linked capital allocation is generally more sensitive to tax predictability, administrative burden and return expectations than centrally assigned funding.

4.2 Financing structure and the role of foreign capital

Source of financing, 2025	Billion UZS	Share of total, %
Centralised investments	62,618.6	10.6
Budget funds	28,002.0	4.7
Foreign loans guaranteed by Uzbekistan	32,507.1	5.5
Non-centralised investments	528,522.4	89.4
Enterprise funds	90,311.1	15.3
Household funds	37,472.2	6.3
Foreign investments and non-guaranteed foreign loans	389,589.6	65.9
Commercial bank loans and other borrowed funds	11,149.5	1.9

Source: National Statistics Committee of the Republic of Uzbekistan (2026).

In 2025, foreign investments and non-guaranteed foreign loans financed UZS 389.6 trillion of fixed-capital investment, accounting for 65.9 per cent of the total. This result signals the importance of external financing to current capital formation. However, it also strengthens the case for careful tax policy evaluation. If a large share of investment depends on foreign or externally linked financing, the policy framework should favour predictable rules, treaty clarity, efficient VAT administration and transparent eligibility criteria rather than fragmented discretionary exemptions.

The composition also suggests that tax incentives should be assessed jointly with financing risk. Tax relief may raise after-tax returns, but an investor exposed to exchange-rate volatility, administrative uncertainty or delayed VAT refunds may discount the benefit of a statutory exemption. Tax administration therefore affects investment through working capital, compliance time and the perceived credibility of the state as a counterparty.

4.3 Territorial pattern of investment attractiveness

Regional data reveal both diversification and spatial asymmetry. Tashkent city accounted for 17.9 per cent of national fixed-capital investment in 2025, followed by Tashkent region at 13.4 per cent and Namangan at 10.3 per cent. Together, these three territories represented 41.6 per cent. The calculated HHI of approximately 938 does not indicate extreme national concentration, yet the combined importance of the capital city and the surrounding region points to persistent locational advantages in infrastructure, market access and administrative connectivity.

Territory (largest seven)	Investment, billion UZS	National share, %
Tashkent city	105,708.3	17.9
Tashkent region	79,352.0	13.4
Namangan	61,125.3	10.3
Navoi	43,113.2	7.3

Territory (largest seven)	Investment, billion UZS	National share, %
Bukhara	42,916.0	7.3
Kashkadarya	39,876.0	6.7
Samarkand	38,281.9	6.5

Source: National Statistics Committee of the Republic of Uzbekistan (2026); author's calculation of shares.

Figure 2. Largest Regional Shares of Fixed Capital Investment, 2025

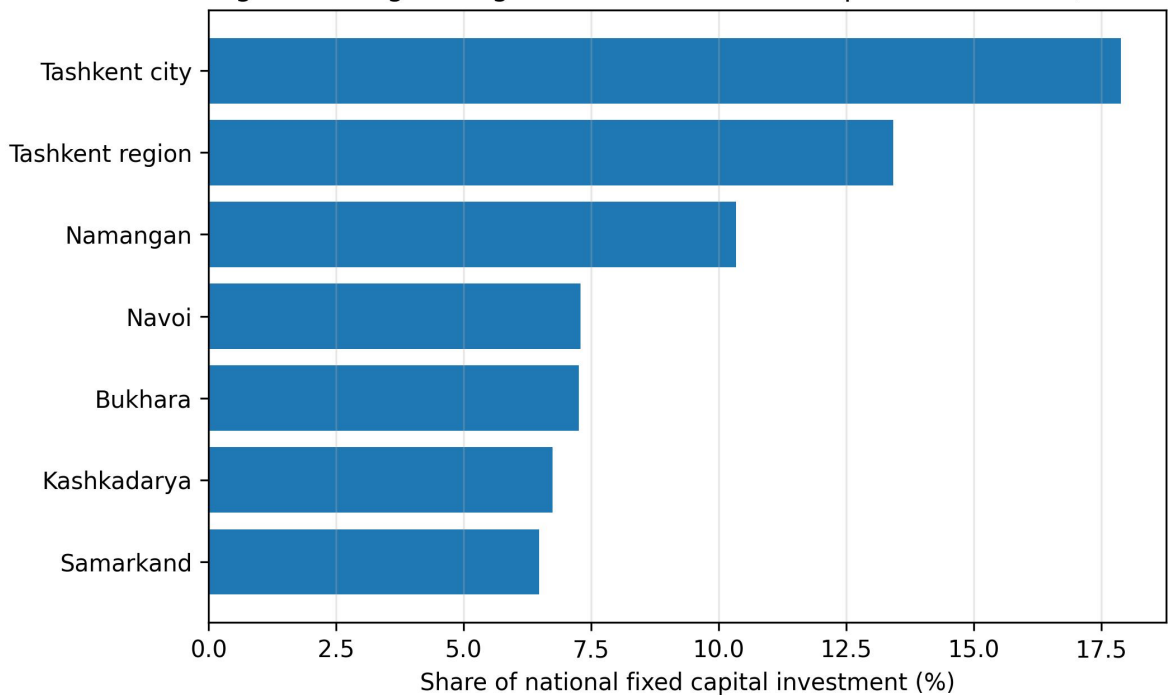


Figure 2. Leading territorial shares of fixed-capital investment, 2025.

Source: Constructed by the author using National Statistics Committee data (2026).

This regional pattern has direct implications for tax policy. Uniform nationwide preferences may reward projects that would already locate in well-connected regions. A more efficient strategy would connect selected incentives to additionality criteria in lagging regions, including verified job creation, export capacity, renewable-energy investment, local supplier development and infrastructure spillovers. Such targeting must be accompanied by public disclosure and sunset clauses to avoid transforming regional policy into permanent tax erosion.

4.4 Tax administration as an investment-attractiveness channel

Indicator	Baseline methodological note /	Reported result	Interpretation

Indicator	Baseline methodological note /	Reported result	Interpretation
Tax collection cost ratio	1.53% (Apr. 2021 baseline)	0.83% (2024 actual)	Administrative efficiency improved relative to baseline
Actual tax revenue collected	—	UZS 199,449.1 billion (2024)	Revenue mobilisation outcome reported by project
VAT compliance-gap indicator	Method revised	30.5% based on 2024 VAT data	Should be tracked consistently; not interpreted as a pure time-series reduction
Risk-based LTO audits with additional assessment	0% (Apr. 2021 baseline)	100% (2024 result reported in project)	Indicates more targeted audit administration

Source: World Bank (2025), Tax Administration Reform Project in Uzbekistan, Implementation Status and Results Report.

The administrative results are analytically significant because tax policy influences investors through two separate channels: the expected tax liability and the transaction cost of meeting tax obligations. The World Bank project reports that the tax collection cost ratio declined from a 1.53 per cent baseline in April 2021 to 0.83 per cent for 2024. Lower administrative cost on the state side does not mechanically prove lower compliance cost for firms; nevertheless, it is consistent with an administration becoming more operationally efficient.

The VAT compliance-gap indicator requires especially cautious interpretation. The World Bank report notes that the calculation method was revised, distinguishing the compliance gap from a broader total VAT gap. For 2024, the reported compliance gap was 30.5 per cent. A rigorous investment-policy framework should therefore publish a consistent annual series on VAT refunds, refund processing time, disputes and compliance gaps, because liquidity and uncertainty in VAT administration are material considerations for capital-intensive investors.

5. Discussion

5.1 What the observed investment expansion does and does not prove

The findings show that Uzbekistan experienced a substantial expansion of fixed-capital investment simultaneously with tax reform, digitalisation of administration and renewed investment-policy attention. The rise in non-centralised financing and the dominance of foreign-linked financing in fixed-capital formation are consistent with a business environment that has become more capable of mobilising market-based capital. The reduction in the tax collection cost ratio further indicates progress in administrative capacity.

However, this evidence should not be overstated. The analysis does not isolate the marginal effect of corporate income tax exemptions, reduced rates or customs benefits from other

determinants of investment. Infrastructure programmes, energy reforms, state guarantees, sector-specific projects and global financing conditions may all have influenced the observed results. In publication terms, this limitation is not a weakness if stated correctly; it is the basis for a defensible conclusion that the policy priority should be evaluation of incentive additionality rather than simple expansion of incentives.

This conclusion is also consistent with Uzbekistan-based scholarship. The emphasis of Jumayev and Nomonova (2021) on institutional quality and simplified taxation complements Nurmatov's (2023) focus on the design of tax benefits. Together with the financing perspective advanced by Jumayev and Karimov (2011), these national studies support an integrated interpretation in which tax policy, investment financing and administrative predictability jointly shape investment attractiveness.

5.2 Designing an evaluation-based tax incentive framework

Policy instrument	Economic rationale / risk	Recommended governance approach
Broad income-based tax holidays	Low transparency; windfall benefits; fiscal cost; profit-shifting risk	Limit new use; apply sunset provisions and public fiscal-cost reporting
Investment allowances / accelerated depreciation	Linked more directly to actual capital expenditure	Prioritise for productive, verifiable capital investment
Regional incentives	May support lagging areas, but risk displacement	Condition on additional employment, supplier linkages and infrastructure contribution
Green and digital incentives	Supports structural transformation	Use measurable technology, energy-efficiency or data-infrastructure criteria
Tax administration digitalisation	Reduces uncertainty and transaction cost	Measure refund timing, dispute resolution, service uptake and compliance cost

Source: Author's synthesis drawing on OECD (2022, 2025), IMF (2025) and World Bank (2025).

A first reform priority is tax-expenditure reporting. Every significant investment incentive should be reflected in a publicly available report stating its legal basis, beneficiaries by aggregate category, estimated revenue forgone, policy objective, duration and performance indicator. This is a minimum condition for comparing fiscal cost with investment additionality. It also enables parliamentary, academic and public scrutiny without disclosing protected commercial information.

Second, Uzbekistan should gradually reorient incentive design from income-based exemptions toward instruments tied to real expenditure and measurable outcomes. Accelerated depreciation or investment allowances reward firms that actually purchase equipment or build capacity, whereas tax holidays may produce benefits even where investment would have been made without the incentive. In the context of evolving international minimum-tax rules, a policy portfolio anchored in substance is also more robust than one centred on unusually low effective taxation of profits.

Third, the territorial element of tax incentives should be explicitly evaluated. The 2025 regional structure suggests that investment remains strongly attracted to Tashkent city and region,

even though important flows occur elsewhere. Regional relief should therefore focus on projects that remedy specific market failures: deficient logistics, lack of energy infrastructure, technology gaps or limited skilled employment. The outcome variable should not be only investment volume but also productivity, formal employment,

6. Conclusion

Uzbekistan's recent investment dynamics are substantial: between 2021 and 2025 fixed-capital investment increased from UZS 236.6 trillion to UZS 591.1 trillion, non-centralised financing became more prominent, and foreign-linked financing accounted for the largest share of capital investment in 2025. Simultaneously, indicators of tax administration show a decline in tax collection cost relative to the reform baseline. Taken together, these developments support the argument that fiscal administration and investment policy are becoming more aligned with a market-oriented investment environment.

The central conclusion is nonetheless more demanding than a simple pro-incentive narrative. Tax policy strengthens investment attractiveness not when it grants the widest possible exemptions, but when it offers credible rules, low administrative friction, transparent fiscal costs and incentives demonstrably connected to additional productive investment. For Uzbekistan, the next phase of investment-oriented fiscal reform should therefore be defined by tax governance: disclosure, evaluation, performance conditionality and careful coordination with regional, green and digital development objectives.

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