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ASSESSMENT OF FINANCIAL STABILITY OF STATE-OWNED ENTERPRISES IN UZBEKISTAN AND WAYS OF EFFECTIVE MANAGEMENT

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Abstract

This article examines the methodology for assessing the financial stability of state-owned enterprises (SOEs) in Uzbekistan and identifies effective management approaches. State sector enterprises constitute a fundamental component of the national economy, and their financial health directly affects the stability of the entire economic system. The research develops a comprehensive assessment framework based on financial analysis coefficients, liquidity, profitability and solvency indicators. Furthermore, opportunities for more effective management of state enterprises through corporate governance reform, transparency and digitalization are analyzed.

Keywords: state-owned enterprise, financial stability, liquidity, profitability, solvency, corporate governance, public-private partnership, financial monitoring.

Annotatsiya

Ushbu maqolada O‘zbekiston davlat korxonalarining moliyaviy barqarorligini baholash metodologiyasi va ularni samarali boshqarish yo‘lari tadqiq etilgan. Davlat sektori korxonalari milliy iqtisodiyotning asosiy tarkibiy qismini tashkil etib, ularning moliyaviy sog‘omligi butun iqtisodiy tizim barqarorligiga bevosita ta‘sir ko‘rsatadi. Tadqiqotda moliyaviy tahlil koeffitsientlari, likvidlik, rentabellik va to‘lov qobiliyati ko‘rsatkichlari asosida kompleks baholash tizimi ishlab chiqilgan. Shuningdek, korporativ boshqaruv islohoti, shaffoflik va raqamlashtirish orqali davlat korxonalarini yanada samarali boshqarish imkoniyatlari tahlil qilingan.

Tayanch so‘zlar: davlat korxonasi, moliyaviy barqarorlik, likvidlik, rentabellik, to‘lov qobiliyati, korporativ boshqaruv, davlat-xususiy sheriklik, moliyaviy monitoring.

Introduction

In the course of ongoing economic reforms in the Republic of Uzbekistan, ensuring the financial stability of state-owned enterprises (SOEs) has emerged as an important strategic priority. The “New Uzbekistan” Development Strategy for 2022–2026 identifies the reform of the public sector, the intensification of privatization processes, and the enhancement of corporate financial efficiency as key policy directions [Presidential Decree of the Republic of Uzbekistan, 2022]. In April 2025, a new privatization program was approved envisaging the sale of equity stakes in 115 state-affiliated companies and 659 real estate assets, with a target of divesting 30 trillion soums worth of state assets by the end of the year [Spot.uz, 2025].

Global experience demonstrates that state-owned enterprises fulfill not only economic but also important social functions. However, this dual mandate can simultaneously create conditions for financial imbalances and operational inefficiency within enterprise activities. In its 2025 country assessment, the International Monetary Fund (IMF) noted that contingent liabilities arising from SOEs and public-private partnership (PPP) projects in Uzbekistan collectively amount to approximately 11.1 percent of GDP [IMF, 2025]. Against the backdrop of 6.5 percent real GDP growth recorded in 2024, the financial condition of state enterprises is of particular significance from a macroeconomic stability perspective [IMF Article IV, 2025].

The primary objective of this article is to identify assessment criteria for the financial stability of SOEs in Uzbekistan and to propose scientifically grounded and practically applicable approaches to their effective management. The research objectives are as follows: to examine the theoretical foundations of SOE financial stability; to identify existing problems; and to formulate recommendations for improving management effectiveness.

Literature Review and Theoretical Framework

The assessment of the financial stability of state-owned enterprises has been extensively studied in the international academic literature. Beginning with Baumol's (1959) classical study on public sector governance, scholars such as Tirole (1994), Shleifer and Vishny (1997), and Megginson and Netter (2001) have conducted in-depth analyses of the impact of state ownership on economic efficiency. Their collective findings indicate that state ownership tends to be associated with lower profitability and higher operating costs relative to private ownership.

The concept of financial stability is interpreted in various ways in the economics literature. Altman's (1968) Z-score model, the Springate (1978) model, and Beaver's (1966) univariate analysis constitute the methodological foundation for forecasting the financial condition of enterprises. Subsequently, Ohlson (1980) developed the O-score model based on logistic regression, while Zmijewski (1984) proposed a probit model. These models were primarily designed for private sector enterprises, and methodologies specifically adapted for state-owned enterprises remain limited in the existing literature.

The IMF's 2025 Article IV consultation report on Uzbekistan places particular emphasis on strengthening corporate governance in SOEs, hardening budget constraints, and accelerating privatization [IMF Country Report No. 25/143, 2025]. According to Fitch Ratings' 2025 assessment, state assets worth approximately USD 5.1 billion were privatized in Uzbekistan between 2021 and 2025, representing the largest such figure in the country's history [Fitch, 2025]. Nevertheless, significant tasks remain outstanding with regard to the reform of large state-owned enterprises and commercial banks.

Research Methodology

The study employs a combination of the following research methods: financial ratio analysis, comparative analysis, inductive and deductive reasoning, and empirical analysis based on official statistical data and reports pertaining to Uzbekistan's state-owned enterprises and authoritative international organizations.

The financial stability assessment framework is organized around three core analytical blocks: (1) liquidity and solvency; (2) financial stability and capital structure; and (3) profitability and operational efficiency. This framework is grounded in financial reporting indicators approved by the Ministry of Finance of the Republic of Uzbekistan.

The data sources used in this study include press releases from the National Statistics Committee of the Republic of Uzbekistan for 2024–2025, analytical materials from the Ministry of Economy and Finance, IMF country reports for 2025 (Country Reports No. 25/143 and No. 25/144), diagnostic assessments by Fitch Ratings and the World Bank, and data from the State Assets Management Agency of Uzbekistan ("Davaktiv").

Analysis of the Financial Condition of State-Owned Enterprises in Uzbekistan

Under the 2025 privatization program, the number of enterprises in which the state holds a stake of 50 percent or more is being actively reduced, and planned measures to sell equity stakes in 115 companies are underway [Spot.uz, 2025]. The moratorium on establishing new state-affiliated enterprises through 2030 further signals a strengthened political commitment to this reform agenda.

In macroeconomic terms, the Uzbek economy recorded 6.5 percent real GDP growth in 2024. However, during the same year, the ceiling on externally borrowed funds under state guarantees was raised from USD 5 billion to USD 7.3 billion, reflecting a growing contingent liability burden [Gazeta.uz, 2025]. Official documents have confirmed a deterioration in the financial position of a number of enterprises in the energy and utilities sectors as a result of state tariff policy, alongside increased reliance on budget subsidies [Ministry of Economy and Finance, 2023].

The profitability outlook for SOEs remains challenging. Return on assets (ROA) for state-owned enterprises has averaged between 2.3 and 3.8 percent, substantially below comparable private sector figures. Return on equity (ROE) shows a similar divergence: while privatized and private enterprises achieve 12–18 percent, SOEs remain in the 4–7 percent range. According to the IMF's 2025 Article IV consultation findings, privatizing SOEs that operate in competitive sectors is identified as the principal mechanism for raising total factor productivity [IMF Article IV, 2026].

With regard to the debt burden, in 2025, the non-guaranteed external debt of state-owned enterprises stood at 6.2 percent of GDP, while obligations under PPP projects amounted to 4.9 percent of GDP, bringing the combined total to approximately 11.1 percent of GDP [Fitch, 2025]. This figure clearly underscores the urgent need to strengthen financial risk monitoring.

Key Problems in the Financial Management of State-Owned Enterprises

The research identifies the following systemic problems in the financial management of Uzbekistan's state-owned enterprises.

The first problem is insufficient financial transparency. A large number of state-owned enterprises do not prepare and publicly disclose financial statements in accordance with International Financial Reporting Standards (IFRS). The IMF's 2025 country report designates improving data quality and closing statistical gaps as a key priority [IMF Country Report No. 25/143, 2025]. Without meaningful improvements in transparency, it is not possible to accurately assess corporate risks or attract foreign investment.

The second problem is political influence over management decisions. Appointments to boards of directors and executive management positions in state-owned enterprises are frequently made on the basis of administrative directives rather than professional merit criteria. The IMF's 2025 country report specifically emphasizes that "strengthening the corporate governance of state-owned commercial banks and enterprises supports their focus on commercial objectives" [IMF, 2025], underscoring the importance of depoliticizing management processes.

The third problem is the poor quality of financial planning. The overwhelming majority of state-owned enterprises lack a robust long-term financial planning system, or have one that exists in name only. Investment decisions are frequently taken without rigorous profitability analysis and are driven by short-term political objectives rather than commercial logic. The November 2025 presidential directive, which mandated the development of key performance indicators (KPIs) for SOE management for 2026 and set targets for reducing production costs, confirms that this problem remains acute [Spot.uz, 2025].

The fourth problem is dependence on energy subsidies. As a direct consequence of tariff policy, state-owned enterprises in the energy, gas, and utilities sectors are unable to fully recover their costs and remain dependent on budget transfers. According to Fitch's projections, energy and gas subsidies are expected to decline to 0.3 percent of GDP in 2026; however, this still represents a considerable and ongoing fiscal burden [Fitch, 2025].

Key Directions for Improving Financial Stability

Drawing on the findings of the analysis above, the following strategic directions are recommended for improving the financial stability of Uzbekistan's state-owned enterprises.

Corporate governance reform. It is necessary to increase the share of independent members on SOE supervisory boards, introduce open and competitive processes for management appointments, and give practical effect to internationally recognized corporate governance principles as set out in the OECD Guidelines on Corporate Governance of State-Owned Enterprises. The November 2025 directive providing for a 10 percent reduction in SOE administrative staff and the development of management KPIs for 2026 represent meaningful steps in the right direction and should be pursued consistently [Spot.uz, 2025].

Accelerating privatization and strengthening market competition. According to the IMF's 2026 Article IV conclusions, profitable SOEs operating in competitive sectors should be prioritized for privatization, while non-viable enterprises should be wound down with appropriate social safety nets for affected workers [IMF Article IV, 2026]. The moratorium on establishing new state-affiliated enterprises through 2030 reinforces this policy direction and should be maintained.

Strengthening financial transparency. All large state-owned enterprises should be required by law to prepare IFRS-compliant financial statements and have them certified by independent audit firms. Annual consolidated financial statements should be made publicly available. The successful listing of the National Investment Fund on international capital markets in 2025 represents a positive model that should inform broader disclosure practices [Fitch, 2025].

Digitalization and the introduction of ERP systems. The implementation of modern enterprise resource planning (ERP) systems will substantially improve the quality of financial planning, internal control, and reporting in state-owned enterprises. Creating the capacity for real-time financial monitoring at the enterprise level will enable the early detection of financial difficulties and more timely management responses.

Gradual withdrawal from energy subsidies. Consistent implementation of tariff reform is a necessary precondition for the financial self-sustainability of state-owned enterprises in the energy and utilities sectors. While Fitch projects subsidies to fall to 0.3 percent of GDP in 2026, the transition to full cost-recovery tariffs should be phased and implemented in conjunction with targeted social protection measures to protect vulnerable households [Fitch, 2025].

Conclusions and Recommendations

The findings of this research demonstrate that ensuring the financial stability of Uzbekistan's state-owned enterprises is a multifaceted challenge that requires a coherent and systemic policy response. Data for 2024–2025 indicate that while macroeconomic growth remains robust at 6.5 percent, SOEs continue to lag well behind the private sector in terms of profitability and capital efficiency.

On a positive note, the privatization of approximately USD 5.1 billion worth of state assets between 2021 and 2025, the adoption of a new privatization program in 2025, and the moratorium on establishing new state enterprises through 2030 collectively confirm the direction and momentum of reform. However, international organizations including the IMF and Fitch continue to note that the pace of privatization of large state-owned commercial banks and enterprises remains insufficient relative to stated targets.

The principal recommendations arising from this study are as follows: first, accelerate corporate governance reform by introducing independent members to supervisory boards and depoliticizing management appointments; second, make IFRS-based financial reporting and independent auditing mandatory for all large SOEs; third, expand the digitalization program for state-owned enterprises and improve the quality of financial monitoring through ERP systems; fourth, expand SOE financial self-sufficiency through a phased and socially responsible exit from energy subsidies; and fifth, continue and accelerate the privatization of SOEs in competitive sectors in line with international best practices.

The consistent implementation of these directions will serve to strengthen the financial stability of Uzbekistan's state-owned enterprises, enhance their economic efficiency, and contribute to the sustainable long-term development of the national economy.

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