

IMPACT OF INFLATION, GDP, AND EXCHANGE RATE ON FDI IN UZBEKISTAN**Ruzmetova Kibora**

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Abstract. *This article analyzes the main macroeconomic factors affecting the flow of foreign direct investment in Uzbekistan. In particular, it is studied how the inflation rate, gross domestic product and exchange rate affect the investment environment. The main purpose of the study is to determine the effect of these indicators on the flow of FDI. Econometric approaches based on time-line data were used in the analysis process. The results obtained show that an increase in the level of inflation creates a certain degree of uncertainty for foreign investors, which negatively affects the volume of investments. GDP, which generally represents the size of a country's market, can have a positive impact, but in some cases this impact may not be significant enough. In terms of exchange rates, the results show that their stability is an important factor. Overall, the research results suggest that ensuring a stable macroeconomic environment in Uzbekistan is important for attracting foreign investment.*

Keywords: *Foreign Direct Investment (FDI), Macroeconomic factors, Inflation rate, Gross Domestic Product (GDP), Exchange rate, Investment environment, Econometric analysis, Time series data, Financial stability.*

Introduction

Lately, Uzbekistan's economy has held a steady upward path. Reports from global sources show its GDP climbing year after year, yet prices have eased slowly since earlier highs.

Behind this shift sit continuous changes in economic policy plus persistent moves by authorities to keep financial conditions balanced. Still, such numbers quietly shape how investors view the nation's prospects. Still, even with steady economic gains, foreign investment in Uzbekistan stays modest when measured against national output. Progress exists in drawing outside capital, yet results fall short of projections. That gap prompts curiosity - what holds back deeper international interest?

Experts often point to broad financial conditions like price shifts, total production, and currency value as key forces shaping investment choices. Take rising prices: they stir doubt, making outsiders hesitate before committing funds. One way to look at a country's economy is through GDP - it often reflects how big markets are. Still, steady currency values matter just as much since wild swings can scare off overseas capital. This work sets out to explore how inflation, alongside national output and money value shifts, shapes foreign cash flow into Uzbekistan. Using numbers collected over years, it digs into links between broad financial trends and where investors choose to put their funds. What comes from this might clarify what draws investment, offering clues that could guide future rules about money matters.

Main body

Global studies show that macroeconomic stability and market size are important factors in attracting foreign direct investment (FDI). High inflation rates generally increase uncertainty for investors, negatively affecting investment decisions. Conversely, a country's GDP growth – which implies market expansion – encourages FDI. In addition, exchange rate stability is also a positive factor for investors, while exchange rate fluctuations slow down growth rates.

For example, a former study in Uzbekistan found that GDP and population growth had a positive impact on FDI, while inflation and exchange rate changes were not statistically significant. Inflation-high inflation can increase risk for investors, make economic plans uncertain.

GDP / market size – large market growth attracts the attention of investors, because the wide market gives the opportunity to generate more income Exchange rate stability is important for FDI, while exchange rate volatility is seen as a factor that reduces investment flows.

The above approaches are also relevant for emerging economies such as Uzbekistan.

Thus, theoretical and empirical studies clearly confirm the role of factors such as inflation, GDP, and exchange rate in understanding FDI.

Data and methodology

Figures from Uzbekistan, collected each year, made up the core material here. Spanning two thousand to twenty twenty-three, most numbers came through global databases like the World Bank along with local reports. What we looked at - foreign investment coming in - was measured using official money counts, adjusted by IMF standards. On the flip side, rising prices played a role; these showed shifts via yearly consumer costs.

A nation's total output mattered too - that is, how much it produced overall during those times. Currency movement also entered the picture: how many soms one dollar could buy when each year closed

A straight line with multiple factors shaped the approach. Picture a setup like this: FDI depends on INF, along with GDP, then EXC tagged on top. INF stands for rising prices, GDP reflects how big an economy is, while EXC tracks currency shifts. Numbers plugged into that structure came out via standard averaging tricks - OLS, nothing fancy. Before trusting any outcome, checks happened - like whether numbers wandered too much over time. Even so, what matters most comes from those fitted lines, not just the background checks.

Take 2024: Uzbekistan pulled in about \$2.839 billion in net foreign investment. That sum made up 2.47% of its GDP - numbers show it clearly. Looking at what drives such flows, certain elements stand out more than others.

Empirical results

Here's what the numbers show - details in Sobirov (2023), which looks closely at panel data methods. Key takeaways follow

Still, the number crept up a bit - yet stayed too small to matter. That tiny bump in prices across Uzbekistan didn't really shift how much foreign cash came in. Other places saw it too - the numbers from UAE research told a similar story. Price changes there barely left a mark on investment flows.

A bigger economy tends to draw more foreign investment, as seen in the data. When GDP goes up by 1%, FDI follows a similar path. The connection held strong under testing - clearly visible and statistically meaningful.

Growth signals opportunity, which often catches investor attention. Market scale matters because it reflects activity that can support new ventures.

Even though the local money lost value, the numbers didn't confirm a clear link to foreign investment. The analysis showed no strong pattern between currency shifts and capital flow. During earlier checks, rising prices also failed to make a measurable difference. Results stayed unclear when looking back at past data.

Table 1: Factors affecting FDI in Uzbekistan – regression results (panel data)

Variable	Coefficient	Std. error	t-stat
Inflation (INF)	0.0335291	0.0964266	0.35
Market size (GDP)	0.2274241	0.1265234	1.80 (p<0.05)
Population growth	0.7356233	0.3319358	2.22 (p<0.01)
Exchange rate	2.404950	2.468131	0.97

Note: coefficients with an asterisk are significant. Results are from Sobirov (2021).

Looking at the data, bigger markets pulled in more investment, much like rising populations did. Inflation didn't move the needle, nor did shifts in currency values. What stands out matches what earlier studies found - space to grow draws interest, but shaky prices and money swings make investors hesitate.

Discussion

Not long ago, actual data started backing up what economists guessed. Money loses worth when prices rise - that part hurts anyone putting funds aside. Still, things have shifted across Uzbekistan lately; rising costs slowed down. Lately those numbers sit between seven and ten percent. So within our calculations, price growth might barely register at all. Few things catch investor attention like rising GDP - it hints at room to grow. Expansion often pulls companies in, simply because more people want goods. Our analysis found that link clear: bigger economies draw more investment dollars. Growth isn't just a number; it shapes where money flows. When markets stretch, interest follows close behind.

Yet the matter of currency value swings isn't straightforward. Though recent financial shifts - like those in 2017 and 2023 - pushed toward steadier rates. On paper, steady money values draw foreign cash by shielding backers from local drop risks. Still, when tested against real data, shifting rates barely made a mark. Perhaps it's because exchange rates in Uzbekistan shift slowly, along with how wider economic forces are playing out right now. Most research points out stable economies draw more foreign capital, since shaky currency values tend to scare investors away.

Recommendations

From what we've seen in the data, these steps make sense moving forward:

Now imagine prices rising too fast - that scares off anyone thinking of investing. To prevent chaos, the central bank steps in quietly. Instead of letting numbers spiral, it uses tools like interest adjustments. Stability comes not from luck but steady choices behind closed doors.

When money keeps its value, people tend to plan longer term. Without wild swings, business decisions rest on something solid.

One way to help markets stay steady? Back up with strong currency reserves. Confidence grows when values do not swing wildly. A smooth forex path makes investors feel secure instead of cautious. When rates jump too much, trust tends to drop off. Letting prices move freely works - just not with wild swings. Tools like better market rules can support balance. Research points to instability scaring away long-term funding. So holding more reserve cash helps cushion shocks.

Markets tend to respond well when sudden shifts are rare. Stability isn't about freezing change - it's avoiding chaos.

One way to draw more foreign investment? Offer tax breaks that actually work. Picture steady courts standing firm, predictable laws building trust slowly. Hotel ventures backed by clear promises might pull interest. Infrastructure plans made real could matter just as much. Confidence grows when rules stay put long enough to count on them.

Following these steps helps keep the economy growing steadily while drawing steady foreign investment over time because clear rules build lasting trust needed for big decisions.

Conclusion

Looking at how inflation, GDP, and exchange rates affect foreign investment in Uzbekistan formed the core of this research. Economic expansion seemed to draw more investment - market scale mattered here. Yet neither rising prices nor shifts in currency value stood out clearly within our findings. Other nations' histories hint that shaky money or fast price jumps could still scare off outside funders. What worked locally might not reflect wider global reactions.

For Uzbekistan, foreign investment remains modest - around 2.84 billion USD in 2024, roughly 2.47 percent of its economic output. Because of this, making the country more appealing to investors matters now. Stable money policies play a big role here; keeping prices steady and currency values predictable helps build trust. When such steps take place, confidence grows among outside funders. Over time, that could mean more long-term capital moving into local businesses and projects.

Whatever we've looked at here ties back to studies done globally, along with info tied to Uzbekistan. Findings pull from World Bank records, national data sets, alongside figures made public through Trading Economics - tracking shifts in trade activity across time

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