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MACROECONOMIC STABILITY AS A DRIVER OF FOREIGN DIRECT INVESTMENT: LESSONS FROM UZBEKISTAN

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Abstract

This article examines the impact of macroeconomic stability on attracting foreign direct investment (FDI), using Uzbekistan as an example. The paper examines the theoretical aspects of FDI, the types and forms of investment, and the importance of macroeconomic stability as a key factor for long-term investment. It also analyzes the macroeconomic situation in Uzbekistan, including GDP dynamics, inflation, foreign exchange policy, fiscal discipline, and institutional reforms. To complement the conceptual discussion, the study introduces an empirical analysis using recent macroeconomic data for Uzbekistan, providing quantitative evidence on the relationship between macroeconomic stability and FDI inflows.

Keywords: Macroeconomic stability, foreign direct investment (FDI), economic growth, inflation, foreign exchange policy, investment climate, Uzbekistan.

Introduction

Foreign Direct Investment (FDI) plays a crucial role in the economic development of both developed and developing countries. It represents a form of international capital movement in which an investor from one country acquires a lasting interest and a significant degree of influence in the management of an enterprise located in another country. According to the definition of the

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International Monetary Fund (IMF), FDI refers to an investment made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, with the purpose of having an effective voice in the management of the enterprise. Usually, ownership of at least 10 percent of the voting power is considered the threshold for establishing a direct investment relationship.

FDI differs from portfolio investment in that it involves long-term participation, managerial control, and active involvement in production processes. This feature makes FDI particularly valuable for host countries, as it not only brings financial capital but also contributes to technology transfer, human capital development, productivity growth, and integration into global value chains. The importance of FDI for emerging economies is especially high. Many developing countries face limited domestic savings, underdeveloped capital markets, and technological gaps. In such conditions, FDI serves as an alternative source of financing economic growth and modernization. Moreover, foreign investors often introduce modern management practices, innovative technologies, and international standards, which improve the competitiveness of domestic firms (Borensztein, De Gregorio and Lee, 1998; Dunning, 1993).

For Uzbekistan, FDI has become a strategic component of economic policy. Since the initiation of large-scale economic reforms, the government has prioritized attracting foreign investors as a means of accelerating industrial development, diversifying the economy, and increasing export potential. These policy priorities are reflected in the recent dynamics of FDI inflows and macroeconomic indicators, summarized in **Table 1** (World Bank, 2025; UNCTAD, 2024).

1. Forms and Motivations of Foreign Direct Investment

Foreign direct investment can take various forms depending on the investor's objectives, the host country's regulatory framework, and the structure of the investment project. One of the most common forms of FDI is greenfield investment, where a foreign investor establishes a new enterprise from scratch.

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This type of investment is particularly beneficial for host countries because it creates new production capacity, generates employment, and contributes directly to economic growth. In Uzbekistan, greenfield investments are often observed in manufacturing, energy, and infrastructure projects.

Another form is brownfield investment, which involves mergers and acquisitions (M&A) of existing firms. This type of FDI allows investors to enter the market more quickly by acquiring established enterprises. However, its impact on employment and production capacity may be less significant compared to greenfield investments. FDI can also be classified according to its motivation: market-seeking, resource-seeking, efficiency-seeking, and strategic asset-seeking (Dunning, 1988; Dunning, 1993). In the case of Uzbekistan, market-seeking and resource-seeking FDI dominate, particularly in sectors such as energy, mining, textiles, and agriculture. Recently, efficiency-seeking investments have increased due to improvements in infrastructure and labor market reforms.

3. Macroeconomic Stability and FDI: Theoretical Perspective

Macroeconomic stability is a fundamental condition for sustainable economic growth and investment attractiveness (Fischer, 1993; Rodrik, Subramanian and Trebbi, 2004). It refers to a state of the economy characterized by stable prices, sustainable public finances, balanced external accounts, and predictable economic policies. In economic theory, macroeconomic stability is usually associated with low and predictable inflation, sustainable economic growth, stable exchange rates, sound fiscal policy, and manageable public debt.

According to neoclassical investment theory, investors allocate capital to countries where expected returns are high and risks are low (Asiedu, 2002; Busse and Hefeker, 2007). Macroeconomic stability reduces uncertainty and lowers risk premiums, making investment projects more attractive. The eclectic paradigm (OLI framework) developed by John Dunning also emphasizes the importance of location advantages in attracting FDI (Dunning, 1988). From an institutional

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economics perspective, macroeconomic stability reflects policy credibility and institutional effectiveness, which positively shape investor expectations.

4. Macroeconomic Developments in Uzbekistan

Since gaining independence, Uzbekistan has undergone a complex transformation from a centrally planned economy to a market-oriented system. In the early years of transition, the country faced significant macroeconomic challenges, including high inflation, limited foreign exchange reserves, weak financial institutions, and low levels of foreign investment.

In recent years, however, macroeconomic conditions have improved substantially. Uzbekistan's GDP growth has remained positive, supported by industrial expansion, infrastructure development, and diversification of the economic structure. Inflation has gradually declined following monetary policy reforms and the transition toward inflation targeting. Exchange-rate liberalization has increased transparency and reduced distortions in the foreign exchange market. Fiscal reforms have improved budget discipline while allowing increased investment in infrastructure, education, and healthcare (World Bank, 2025; Uzbekistan National Statistical Committee, 2025).

The evolution of key macroeconomic indicators and FDI inflows over 2016–2024 is presented in **Table 1**, while summary statistics are shown in **Table 2**.

5. Data and Methodology

To empirically assess the role of macroeconomic stability in attracting FDI, this study uses annual data for **2016–2024**, compiled from the World Bank and UNCTAD (World Bank, 2025; UNCTAD, 2024).

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Table 1. Uzbekistan macroeconomic indicators and FDI (2016–2024)

Year	FDI inflows (% of GDP)	GDP growth (%)	Inflation (%)	Exchange rate (UZS/USD)	Fiscal balance (% of GDP)	Government debt (% of GDP)	Current account balance (% of GDP)
2016	1.9	5.9	8.0	2,965.3	3.8	5.4	0.2
2017	2.6	4.4	12.5	5,113.9	1.4	11.6	2.1
2018	1.1	5.6	17.5	8,069.6	2.7	12.0	−6.1
2019	3.4	6.8	14.5	8,836.0	0.4	17.4	−5.0
2020	2.6	1.6	12.9	10,055.8	−1.7	25.2	−4.6
2021	3.3	8.0	10.8	10,610.0	−3.4	24.1	−7.0
2022	3.2	6.0	11.4	11,051.2	−3.5	24.6	−3.5
2023	2.4	6.3	10.0	11,735.8	−4.9	27.4	−7.6
2024	2.4	6.6	9.6	12,652.7	−3.2	32.9	−5.0

Source: World Bank; UNCTAD

Table 2. Descriptive statistics (2016–2024)

Variable	Observations (N)	Mean	Standard Deviation	Minimum	Maximum
FDI inflows (% of GDP)	9	2.589	0.784	1.10	3.40
GDP growth (%)	9	5.689	1.925	1.60	8.00
Inflation (%)	9	11.911	2.875	8.00	17.50
Exchange rate (UZS/USD)	9	9,232.8	3,137.5	2,965.3	12,652.7
Fiscal balance (% of GDP)	9	−0.933	3.052	−4.90	3.80
Government debt (% of GDP)	9	20.067	8.356	5.40	32.90
Current account balance (% of GDP)	9	−4.056	3.220	−7.60	2.10

Source: World Bank; UNCTAD. Annual data.

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The dependent variable is foreign direct investment inflows as a percentage of GDP. Explanatory variables include GDP growth, inflation, public debt, and exchange-rate depreciation, which jointly capture key dimensions of macroeconomic stability.

The econometric specification is as follows:

$$FDI_t=\alpha+\beta_1 GDPG_t+\beta_2 INF_t+\beta_3 DEBT_t+\beta_4 FXDEP_t+\varepsilon_t$$

6. Empirical Results

The regression results are reported in **Table 3**. Across specifications, GDP growth is positively associated with FDI inflows, indicating that stronger economic performance increases market potential and investor confidence (Asiedu, 2002; Campos and Kinoshita, 2003). Inflation enters with a negative coefficient, suggesting that price instability discourages long-term foreign investment.

Table 3. Baseline OLS results (dependent variable: FDI inflows, % of GDP)

Variables	Model (1)	Model (2)	Model (3)
Constant	2.649*** (0.383)	3.137*** (0.524)	3.057*** (0.642)
GDP growth (%)	0.175** (0.068)	0.195** (0.072)	0.190** (0.090)
Inflation (%)	-0.113** (0.045)	-0.113** (0.045)	-0.112* (0.057)
Government debt (% of GDP)	-	-0.019 (0.020)	-0.016 (0.026)
Exchange rate depreciation (% YoY)	-	-	-0.003 (0.010)
Observations	9	9	8
R-squared	0.644	0.666	0.676
Adjusted R-squared	0.525	0.499	0.460

Source: Author's calculations based on World Bank and UNCTAD data

Public debt and exchange-rate depreciation are not statistically robust in the short sample, which may reflect limited time variation and the presence of structural reforms during the observation period. Overall, the empirical findings are

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consistent with the theoretical argument that macroeconomic stability enhances investment attractiveness.

7. Figures

To visually illustrate the relationships discussed above, **Figures 1–3** present key macroeconomic trends.

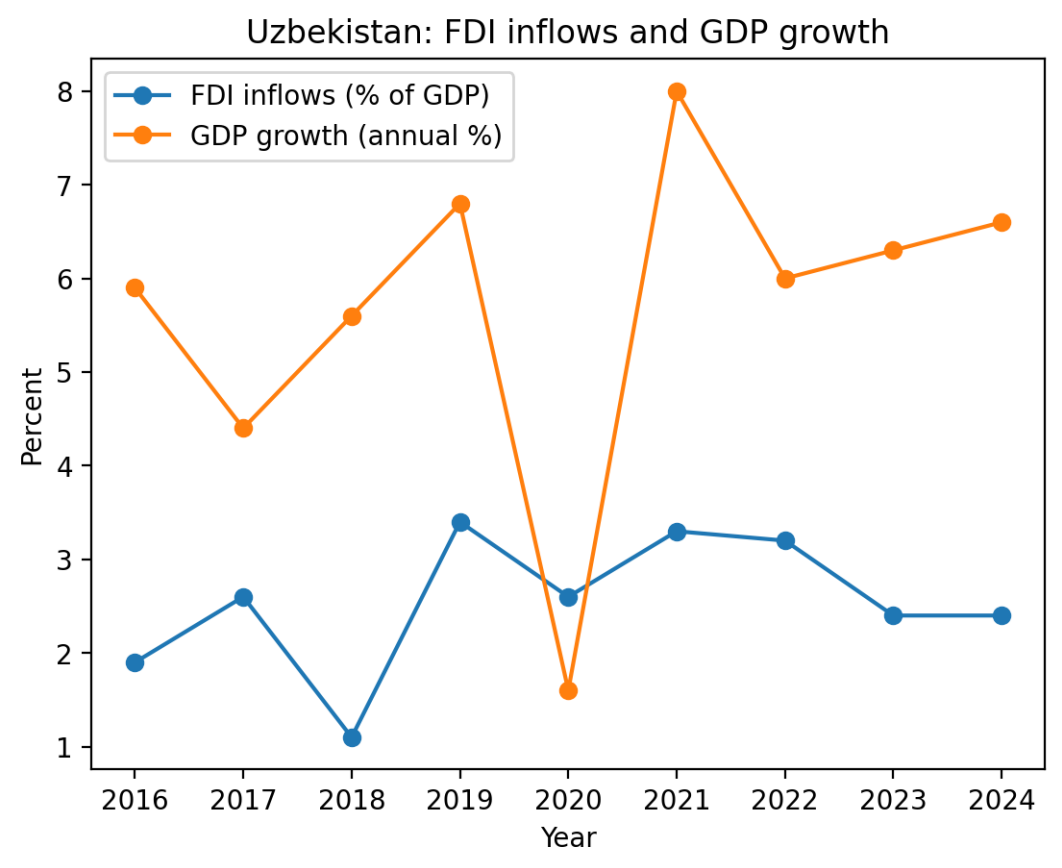

Figure 1. FDI inflows and GDP growth in Uzbekistan (2016–2024)

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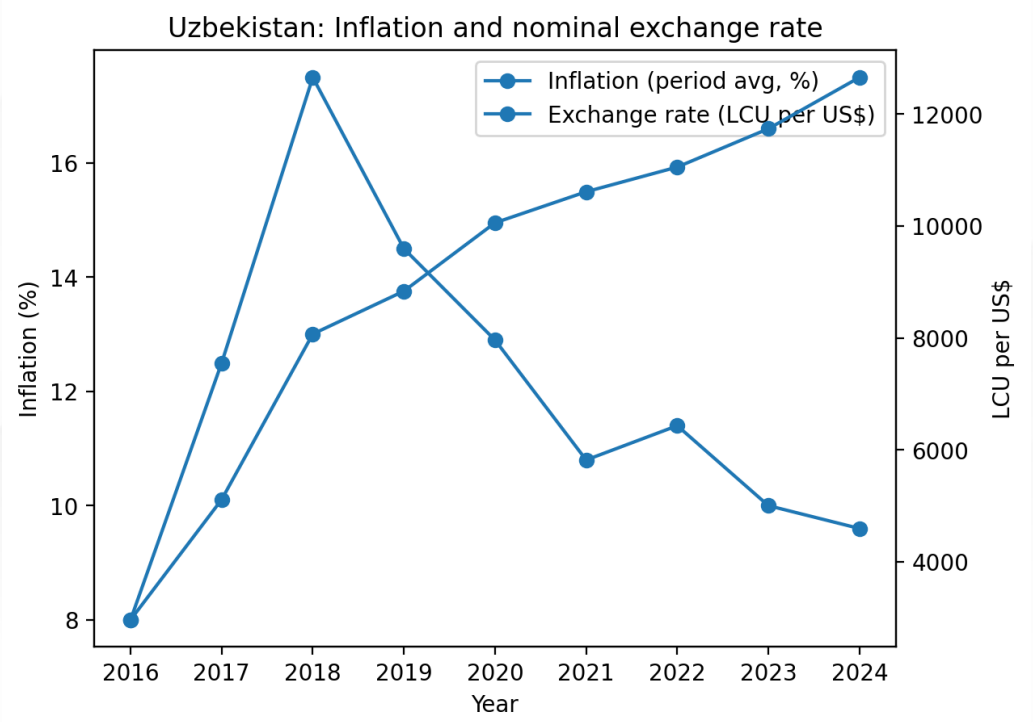

Figure 2. Inflation and nominal exchange rate dynamics (2016–2024)

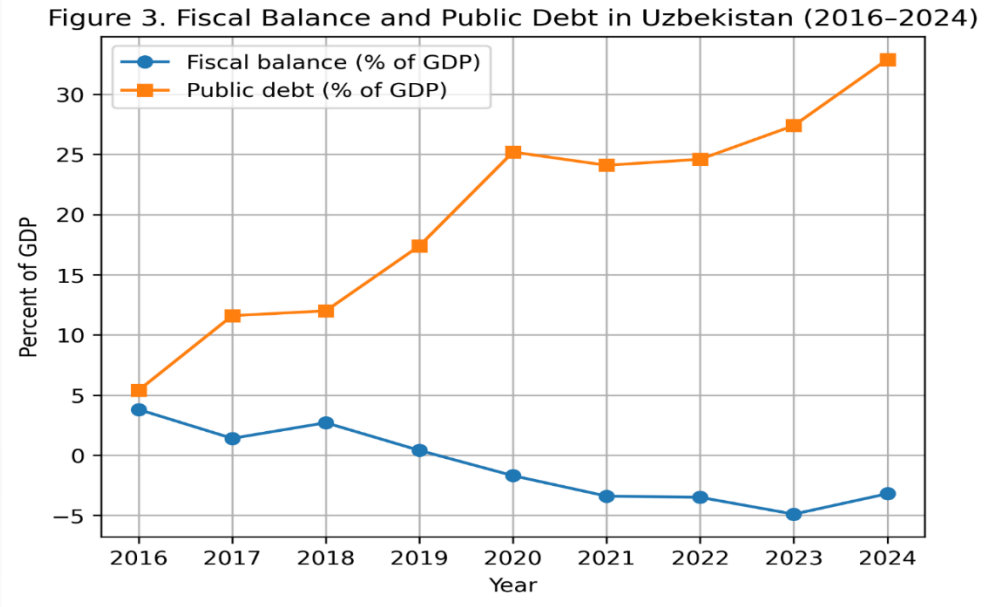

Figure 3. Fiscal balance and public debt trends (2016–2024)

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Source: World Bank, World Development Indicators; IMF, World Economic Outlook database

These figures highlight the co-movement between growth and FDI, gradual disinflation, and evolving fiscal conditions.

8. Conclusion

The conducted study analyzed the role of macroeconomic stability in attracting foreign direct investment (FDI) in Uzbekistan. The theoretical review highlighted the importance of macroeconomic stability characterized by sustainable economic growth, controlled inflation, stable exchange rates, and sound fiscal policy as a key determinant of foreign investment decisions. The empirical analysis provided quantitative evidence supporting these arguments, particularly with respect to the roles of economic growth and inflation.

The findings indicate that macroeconomic stability is not only a prerequisite for attracting FDI but also a mechanism for sustaining long-term economic growth, technological advancement, and competitiveness in global markets. For Uzbekistan, maintaining macroeconomic stability while continuing institutional reforms is essential to attract high-quality investment and achieve sustainable development goals.

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