

FOREIGN EXCHANGE RESERVES OF UZBEKISTAN: THEIR FUNCTIONS, OPTIMAL LEVELS, AND MECHANISMS TO PREVENT ECONOMIC CRISES

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Annotation

This article analyzes Uzbekistan's gold and foreign exchange reserves, their composition, key functions, and role in maintaining macroeconomic stability. Based on statistical data from 2018 to 2025, the study examines the dynamics of reserve accumulation, the level of import coverage, and the interrelation between reserves and external debt sustainability. The findings indicate that the increase in reserves has largely been driven by rising global gold prices, while the high share of gold in the export structure poses certain long-term economic security risks. The article also provides specific recommendations on reserve management, export diversification, and mechanisms for preventing economic crises.

Keywords

gold and foreign exchange reserves, macroeconomic stability, export diversification, exchange rate, external debt, import coverage, economic security.

INTRODUCTION

It is well recognized that the economic stability and external financial security of countries largely depend on the volume, composition, and quality of management of their foreign exchange reserves. Gold and foreign exchange reserves are considered a strategic resource that enables the state to meet its external payment obligations, support the national currency exchange rate, and ensure resilience against economic shocks. Under conditions of globalization, the increasing volatility of capital flows, the intensification of geo-economic risks, and the dynamic nature of international markets further enhance the importance of foreign exchange reserves. In recent years, Uzbekistan has paid particular attention

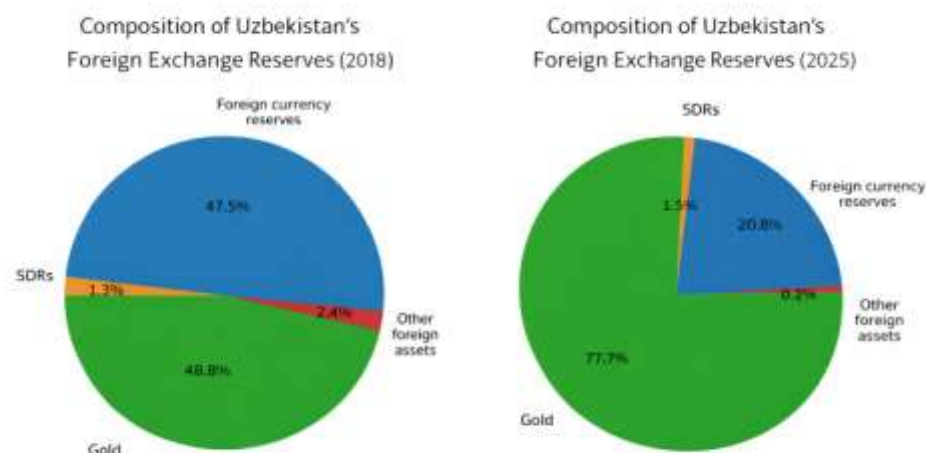
to issues of foreign exchange reserve management amid economic liberalization, the liberalization of the foreign exchange market, changes in the structure of exports and imports, and shifts in external debt dynamics. The formation of reserves at a sufficient and optimal level is one of the key prerequisites for maintaining the stability of the national currency, financing imports, strengthening investor confidence, and mitigating the impact of financial crises. This study provides an in-depth analysis of the composition of Uzbekistan's foreign exchange reserves, their main functions, internationally recognized criteria for determining optimal reserve levels, as well as the role of these reserves in preventing and mitigating economic crises. In addition, the strategic importance of foreign exchange reserves within the national economic security system, the principles of their effective management, and existing challenges are examined. Based on the findings of the research, practical recommendations are proposed to improve the management of Uzbekistan's foreign exchange reserves.

Uzbekistan, like many other countries, possesses a set of gold and foreign exchange reserves as well as liquid assets inflowing from abroad. The country's main reserve components include monetary gold, assets held in foreign currencies, deposits with international financial institutions, and other highly liquid international assets.

| years | total reserves (billion) | foreign currency reserves (on US \$) | IMF net position | SDRs | Gold (bln) | Other in cur.assets |
|-------|-----------------------------|--|---------------------|---------|------------|------------------------|
| 2018 | 28.1456 | 13,6639 | 0.00001 | 0,3789 | 14.0341 | 68.7 |
| 2019 | 27.149 | 12,0706 | 0.00001 | 0,3701 | 14.6407 | 68.1 |
| 2020 | 29.3506 | 12.4749 | 0.00001 | 0.368 | 16.3292 | 0.1785 |
| 2021 | 35.0147 | 14.3039 | 0.00001 | 0.3833 | 20.2167 | 110.7 |
| 2022 | 35.3829 | 13.0776 | 0.00001 | 1.1129 | 20.9497 | 0.2437 |
| 2023 | 35.835 | 11.6454 | 0.00001 | 1.0573 | 23.0648 | 0.0675 |
| 2024 | 34.651 | 9.3695 | 0.00001 | 0.56299 | 24.6322 | 0.0863 |
| 2025 | 41.2602 | 8.5977 | 0.00001 | 0.5473 | 32.0367 | 0.0786 |

The data presented above represent figures reported in January of each respective year, as provided by the Central Bank of Uzbekistan (CBU)¹⁰.

¹⁰ <https://cbu.uz/en/statistics/intlreserves/2416622/>



As can be observed from the table and charts, Uzbekistan's international foreign exchange reserves have demonstrated steady growth in recent years, increasing from USD 28.1 billion in 2018 to USD 41.2 billion in 2025. A significant structural shift in the composition of reserves is evident: the volume of assets held in foreign currencies has decreased by more than half, while gold reserves have increased sharply. The substantial rise in gold reserves has occurred not primarily due to an increase in the physical quantity of gold, but rather as a result of the growth in gold's nominal monetary value. According to 2018 data, the global market price of gold ranged between USD 1,200 and USD 1,300 per ounce, whereas in 2025 it reached approximately USD 4,330–4,550¹¹. This increase reflects a rise in the nominal value of gold denominated in US dollars, thereby elevating the current valuation of the reserves.

| years | Gold export (billion US \$) | Gold share in total export (%) |
|-------|-----------------------------|--------------------------------|
| 2020 | 5.8 | 44 |
| 2021 | 4.1 | 29 |
| 2022 | 4.11 | 18.8 |
| 2023 | 8.15 | 33 |
| 2024 | 7.48 | 27.8 |
| 2025 | 9.9 | 37.1 |

Statistics for the period 2018–2025 indicate that Uzbekistan's economy remains strongly dependent on the gold sector in terms of export revenues, with

¹¹ <https://goldprice.org>

approximately 25–40% of total exports generated by gold¹². While this dependence provides foreign currency inflows and supports reserve stability in the short term, it also intensifies commodity-related risks that may undermine economic security in the long run. The sharp increase in gold exports during 2023–2025 is not attributable to growth in real production, but rather to the rise in global gold prices.

Like all countries, Uzbekistan possesses gold and foreign exchange reserves, which play a strategic role in ensuring the country's external financial stability. The primary function of foreign exchange reserves is, first and foremost, to support the stability of the national currency—the Uzbek som—and to prevent sharp fluctuations in the exchange rate. In addition, these reserves enable Uzbekistan to cover its import requirements for a period of 3–6 months, thereby guaranteeing the continuity of external trade operations. Timely servicing of external debt obligations is another crucial function of foreign exchange reserves, as it helps preserve the country's international financial reputation. Moreover, in the event of global economic crises or market shocks, foreign exchange reserves act as a “financial safety cushion,” mitigating economic shocks and maintaining macroeconomic stability. The availability of an adequate level of reserves also strengthens foreign investor confidence, positively affects the country's credit rating, and facilitates additional inflows of investment into the economy.

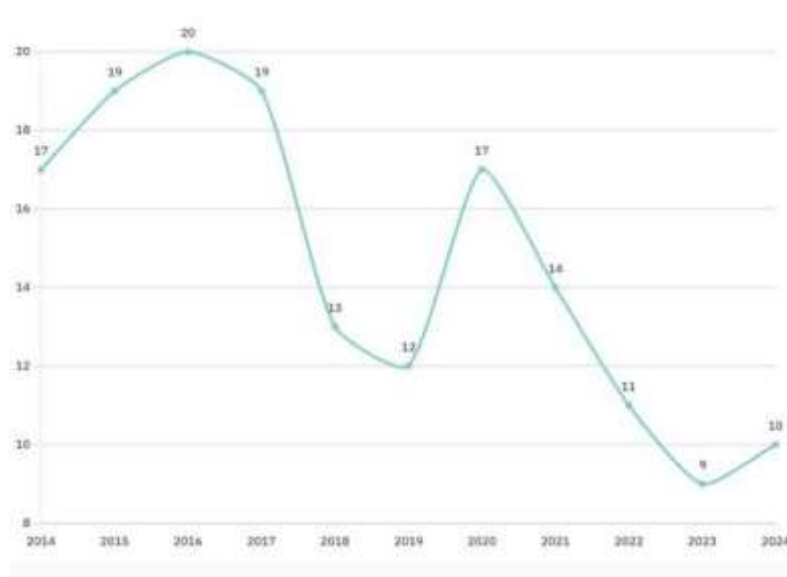
Countries strive to maintain exchange rate stability because exchange rate volatility has a significant impact on inflation, price stability, and economic growth. Sharp fluctuations in the exchange rate lead to higher import prices, which in turn increase the overall price level—namely inflation—and reduce the purchasing power of the population. In the case of Uzbekistan, following the liberalization of the foreign exchange regime, inflation initially reached around 18.8 percent and was subsequently reduced through monetary policy measures, reflecting efforts aimed at maintaining the stability of the Uzbek som¹³. A stable exchange rate also enhances investor confidence and strengthens external economic relations, as firms and foreign investors, facing lower currency risk, are more inclined to make long-term investments. When inflation is controlled and prices are stable over time, interest rates in the domestic credit market also tend to remain stable, thereby stimulating economic activity.

The figure below illustrates the number of months of imports that can be covered by the country's total reserves¹⁴.

¹² <https://kun.uz/en>

¹³ <https://cyberleninka.ru/article/n/mamlakatlar-kesimida-inflatsiya-darajasining-iqtisodiy-o-sishga-ta-siri>

¹⁴ <https://data.worldbank.org>



As noted above, if existing reserves are sufficient to cover 3–6 months of a country’s imports, the economy is generally considered financially secure, as this ensures the absence of significant constraints on external trade and economic development. These data demonstrate the extent to which Uzbekistan’s foreign exchange reserves are adequate for financing the country’s import needs. During the period 2013–2016, reserve coverage was exceptionally high, at around 15–20 months, indicating a very strong level of external financial stability. From 2018 onward, the indicator declined due to rapid growth in imports, the liberalization of exchange rate policy, and an increase in external debt servicing obligations. Although reserve coverage reached its lowest level in 2022–2023, at approximately 9–10 months, this still suggests that Uzbekistan is not highly vulnerable to external trade shocks—including fluctuations in energy prices, global inflation, and disruptions in logistics—but rather demonstrates a moderate level of resilience.

It is also worth emphasizing that foreign exchange reserves enable a country to meet its external debt obligations in a timely manner. In 2024, Uzbekistan’s public external debt amounted to USD 31.6 billion; nevertheless, the existing level of reserves was sufficient to ensure the safe execution of external payments. This factor was positively assessed by international credit rating agencies. In particular, in 2024, **Fitch Ratings** affirmed Uzbekistan’s sovereign credit rating at **BB- (Stable)**, identifying the adequacy of foreign exchange reserves as one of the key positive factors¹⁵. In 2024, Uzbekistan’s external debt stood at USD 31.6 billion, while foreign exchange reserves reached USD 34.6 billion—meaning that reserves were sufficient to cover approximately 110% of external debt¹⁶. This represents a very strong financial “buffer.” Such a ratio indicates that Uzbekistan is capable of

¹⁵ <https://www.fitchratings.com/>

¹⁶ <https://data.worldbank.org>

servicing its debt obligations on time, faces a low risk of foreign currency shortages, maintains strong confidence in the national currency (the som), and presents a relatively low risk profile for foreign investors.

Like other countries, Uzbekistan employs various mechanisms to increase its reserves and stabilize the national currency in order to prevent financial crises. The primary mechanism is aimed at increasing foreign currency inflows from exports. In other words, the country exports goods and services and, in return, receives foreign currency and gold. Following the introduction of foreign exchange liberalization after 2018, Uzbekistan revised its export structure, which contributed to an increase in reserve accumulation, enhanced exchange rate stability, and strengthened investor confidence¹⁷. The second mechanism was actively applied starting in 2018. After the liberalization of the foreign exchange market, periods of heightened demand prompted the **Central Bank of Uzbekistan** to conduct foreign exchange interventions. Such interventions were intensified during the COVID-19 period in 2020¹⁸. This approach was primarily implemented to prevent excessive currency depreciation and to contain inflationary pressures. In addition, inflation targeting, reforms aimed at attracting foreign direct investment (including foreign exchange liberalization, tax reforms, the establishment of free economic zones, and privatization), as well as external debt management mechanisms, have played an important role in increasing reserve levels. Collectively, these measures have contributed to achieving exchange rate stability and reducing the risk of financial crises in Uzbekistan.

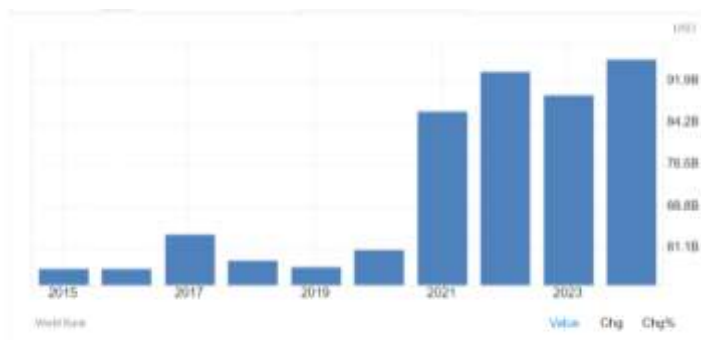
We now turn to an analysis of the mechanisms employed by other countries. As is well known, Singapore is considered one of the developed economies and utilizes distinctive mechanisms to strengthen its economic position and avoid sovereign default. Singapore has established internationally renowned sovereign wealth funds such as **GIC** and **Temasek**. The country manages its existing reserves primarily through these two funds.

The **Government of Singapore Investment Corporation** (GIC), founded in 1981, currently manages assets exceeding USD 900 billion—an amount greater than the annual GDP of many developing countries by a wide margin. GIC invests national reserves globally across more than 40 countries, allocating funds to a diversified portfolio that includes government and corporate bonds, equities, real estate, infrastructure projects, and capital markets. This long-term, globally diversified investment strategy allows Singapore to preserve and grow its reserves

¹⁷ <https://www.uzdaily.uz/>

¹⁸ <https://cbu.uz/en/monetary-policy/concept/>

while maintaining financial stability and resilience against external economic shocks¹⁹



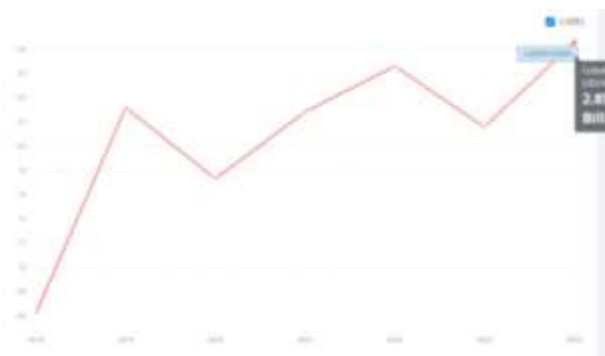
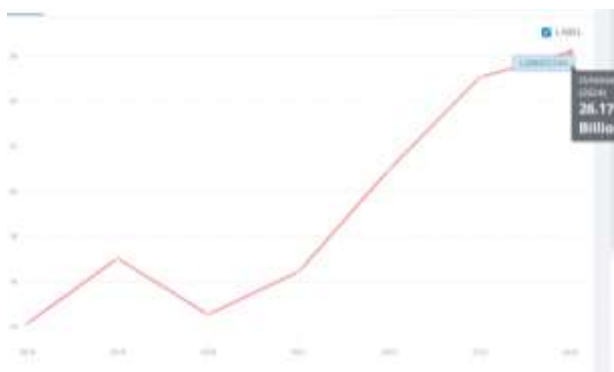
Temasek Holdings is a similar fund, established in 1974, and currently manages assets worth approximately SGD 403 billion. Moreover, this institution holds significant stakes not only in Singaporean companies but also in major corporations across 12 countries, including **China Construction Bank**, **Singtel**, **DBS Bank**, **Alibaba**, and **Adani Ports**, among others²⁰. This implies that Singapore's reserves are not held passively in foreign currency treasuries; instead, they are actively transformed into income-generating global investments. At times, the question arises as to whether this model could be fully applicable to Uzbekistan. In practice, it would not be entirely suitable. This is because Singapore's balance of payments has typically recorded a surplus. In other words, Singapore does not need to draw on its reserves to finance deficits, as such deficits do not exist, nor does it need to borrow externally for this purpose. On the contrary, it is more rational for Singapore to utilize its reserves efficiently to expand its asset base. The accompanying graph illustrates that Singapore's balance of payments has consistently remained in surplus²¹.

However, Uzbekistan's economic conditions differ fundamentally. The country is more export-oriented, has a relatively limited capital base, and relies on exports as the main driver of economic growth. For this reason, foreign exchange reserves are primarily accumulated and utilized as a key instrument to guarantee import financing and to cover balance of payments needs.

¹⁹ <https://www.gic.com.sg/our-business/what-we-do/>

²⁰ <https://www.temasek.com.sg/en/who-we-are/company-profile>

²¹ <https://tradingeconomics.com/singapore/current-account-balance-bop-us-dollar-wb-data.html>



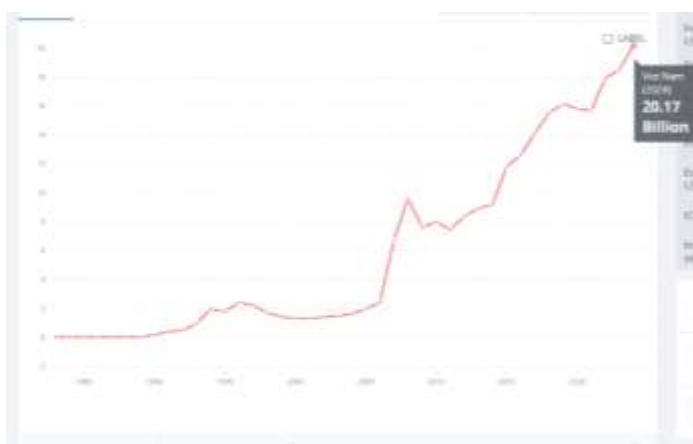
As can be observed from the graphs, capital inflows into Uzbekistan—particularly foreign direct investment (FDI)—remain relatively low. While the country’s export volume amounted to USD 26.17 billion, FDI inflows reached only USD 2.85 billion²². In addition, Singapore’s institutional quality is exceptionally high: it ranks among the top countries globally in combating corruption, is consistently placed first or second in terms of business environment quality, possesses a highly skilled civil service, and operates a number of independent and effective institutions. By contrast, Uzbekistan continues to face relatively high levels of corruption, institutional instability, and a shortage of professional fund managers. From a broader economic perspective, Singapore is highly attractive to capital inflows, not least due to its geographical advantages, including direct access to seas and oceans, which facilitates the import and export of goods and services for foreign investors. This significantly enhances investor inflows. Moreover, beyond its location, Singapore stands out for its open economy and ease of market entry. These characteristics are far less applicable to Uzbekistan. Under such conditions, directly replicating Singapore’s sovereign wealth fund (SWF) model would be risky for Uzbekistan.

Another mechanism that has proven to be highly effective is Vietnam’s **“Export-Led Industrialization + FDI-Driven Growth”** model. Under this approach, Vietnam has for decades oriented its economy toward production and exports through foreign direct investment (FDI). The implementation of this model began in 1986, when Vietnam transitioned to a market-oriented economic system. Subsequently, during 1990–1993, the government introduced a series of legal and institutional reforms that significantly facilitated FDI inflows²³. These included the enactment of the Law on Foreign Investment in the early 1990s and the establishment of exclusive investment zones in 1993. As a result, a solid institutional foundation for the FDI-led growth model was created, providing a favorable environment for investors. Key measures included greater economic

²² <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=UZ&start=2018&view=chart>

²³ <https://www.adb.org/sites/default/files/publication/28956/vietnam-fdi.pdf>

openness, privatization, protection of investor rights, and reforms related to land ownership and usage. From 2000 to 2007 onward, Vietnam made a deliberate strategic commitment to expanding FDI inflows and technology-intensive exports. During this period, the government actively encouraged FDI by offering stable and preferential tax regimes for technology firms, removing restrictions on capital and technology inflows and outflows, and introducing customs incentives for export-oriented enterprises. These policies made it considerably easier for major global technology manufacturers such as **Samsung** and **LG** to acquire large land plots for the establishment of mega-production facilities. As a result, Vietnam successfully integrated into global value chains and strengthened its export capacity through sustained FDI-driven industrialization²⁴.



Vietnam's accession to the **World Trade Organization** in 2007 is considered one of the major turning points that accelerated the growth of this model. At this stage, the export-led development strategy was formally integrated into the global economic system. The subsequent phase, spanning

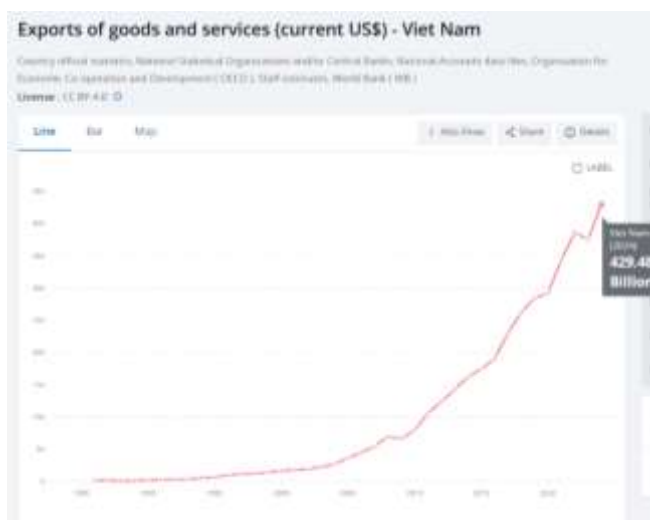
from 2010 to the present, represents the period during which the model has functioned most effectively. Evidence of this can be seen in the fact that Vietnam's electronics exports reached approximately USD 100 billion, alongside the large-scale entry of global corporations such as **Samsung**, **Intel**, **LG**, and **Foxconn**²⁵. The figure presented above further demonstrates that foreign direct investment inflows have shown a consistent upward trend over the years, confirming the effective operation of the FDI-driven, export-oriented growth model.

In 2024, Vietnam's export volume reached USD 429.48 billion, representing an annual growth rate of 14.3 percent²⁶. The main export categories included electronics, textiles, machinery, and other manufactured industrial products.

²⁴ <https://en.vietnamplus.vn/>

²⁵ <https://en.vietnamplus.vn/electronics-exports-hit-record-high-despite-global-trade-headwinds-post333315.vnp>

²⁶ <https://www.vietnamexportdata.com/blogs/vietnam-trade-balance-2024-25-latest-import-export-data>



Overall, the effectiveness of this model is evident, as demonstrated by the growth trends in exports and FDI shown in the accompanying graphs. This approach is based on leveraging an open economy to attract foreign direct investment, incentivizing technology manufacturers through customs privileges and low tax rates, and, in turn, channeling these investments toward expanding export capacity.

Would this mechanism be effective if applied in Uzbekistan? In my view, it could work only partially. As noted above, Uzbekistan is a landlocked country, surrounded by land on all sides, and does not have direct access to the sea. This geographical constraint may create difficulties for investors in exporting their products. Since maritime transport is generally cheaper than other modes of transportation, many transnational and international companies tend to seek locations that offer both low labor costs and convenient access to transport routes, and they allocate their capital accordingly. Nevertheless, Uzbekistan is planning to accede to the **World Trade Organization**, is implementing FDI-oriented reforms to attract foreign investors, and is making efforts to ensure exchange rate stability and to increase the level of foreign exchange reserves. These ongoing reforms suggest that, although structural constraints remain, elements of the export-led, FDI-driven growth model could still be adapted to Uzbekistan's specific economic conditions.

Conclusion and recommendations

During the period 2018–2025, Uzbekistan's gold and foreign exchange reserves demonstrated steady growth, thereby ensuring the country's external financial stability. This growth was largely driven by rising gold prices in global markets, while gold has continued to account for a significant share of both exports and the reserve structure. The fact that existing reserves are sufficient to cover imports well above internationally accepted benchmarks and to finance external debt obligations indicates that Uzbekistan's economy is relatively resilient to external shocks. However, the high degree of dependence on the gold sector poses certain risks to long-term economic security.

On this basis, it is advisable to implement the following specific mechanisms:

- to gradually increase the share of liquid assets denominated in foreign currencies within the reserve structure, without sharply raising the proportion of gold;

- to channel a portion of foreign currency inflows from gold exports toward financing exports of processed and higher value-added industrial products;
- to link tax and customs incentives for export-oriented projects aimed at attracting foreign direct investment (FDI) to clearly defined timeframes and performance outcomes;
- to limit foreign exchange interventions to periods of sharp exchange rate volatility, while reducing routine interference in day-to-day market equilibrium.

As a result, foreign exchange reserves can serve not only as a short-term stabilizing tool, but also as an effective long-term mechanism that supports economic diversification and sustainable development.

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