



International Congress on Economics, Management and Business Studies

Hosted Online from New York, USA

Date: 23rd June , 2026

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STABILITY OF UZBEKISTAN'S EXTERNAL SECTOR: AN ANALYSIS OF THE DYNAMICS OF INTERNATIONAL RESERVES AND EXTERNAL DEBT

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Abstract

The thesis analyzes the stability of Uzbekistan's external sector through the example of the dynamics of international reserves and external debt. Based on the International Monetary Fund's 2026 Article IV Consultation report and theoretical research on capital flows to emerging markets, quantitative indicators of the country's external stability — the reserve import-coverage ratio, the average annual growth rate, and the dynamics of external debt — are calculated. The results show that international reserves grew at an average annual rate of 22.8% over 2022–2025, and that the import-coverage ratio of reserves stands at 20 months, significantly above the international norm, which represents an important factor of resilience to global financial shocks.

Keywords: banking supervision, Basel Core Principles, FSAP, financial stability, capital adequacy, central bank independence, Uzbekistan.

Introduction

For small open economies, resilience to external shocks is one of the key conditions of macroeconomic stability. Recent international research on capital flows to emerging markets shows that sovereign spreads and the volume of capital flows are largely determined by the global financial cycle and aggregate



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credit-supply shocks, while national fundamentals have a stronger effect on the volume of flows than on their pricing. From this perspective, the domestic macroeconomic “line of defense” — international reserves and a manageable level of external debt — plays an important role in limiting the transmission channel of external shocks. The purpose of this thesis is to carry out a quantitative analysis of the dynamics of Uzbekistan's international reserves and external debt and to assess the level of external stability using mathematical methods.

Analysis and results

International practice for assessing external stability includes several theoretical approaches. The traditional approach evaluates reserves relative to import volume (the import-coverage ratio), while the modern IMF methodology — the Reserve Adequacy Assessment metric — uses a composite indicator that jointly accounts for short-term external debt, portfolio liabilities, broad money, and export volume. Recent international research on capital flows to emerging markets shows that sovereign bond spreads and the volume of capital flows are largely determined by the global financial cycle and aggregate credit-supply shocks, whereas national fundamentals exert a stronger influence on the volume of flows than on their pricing. This conclusion underpins the importance of reserves and managed external debt as an alternative policy instrument for strengthening the domestic “line of defense” of small open economies. [1]

The study uses official statistical data for 2022–2027 presented in the IMF's 2026 Article IV Consultation report (IMF Country Report No. 26/152). The average annual growth rate of reserves was calculated using the CAGR formula, and the import-coverage ratio using the following formula: [2]

$$\text{Import coverage (months)} = \text{Reserves} / (\text{Annual imports} \div 12)$$



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Table 1. Uzbekistan's external sector indicators, 2022–2027 [3]

Indicator	2022	2023	2024	2025	2026*	2027*
International reserves, USD bn	35.8	34.6	41.2	66.3	69.8	70.6
External debt, % of GDP	46.7	50.8	53.1	54.2	51.8	49.5
Current account balance, % of GDP	-7.3	-4.7	-3.9	-3.2	-3.6	-3.9
Real effective exchange rate (2015=100)	59.9	56.9	58.7	61.4	60.3	59.3
External debt service, % of GDP	7.8	8.0	9.6	9.4	7.1	6.6

Chart 1. Dynamics of Uzbekistan's international reserves and external debt, 2022–2027

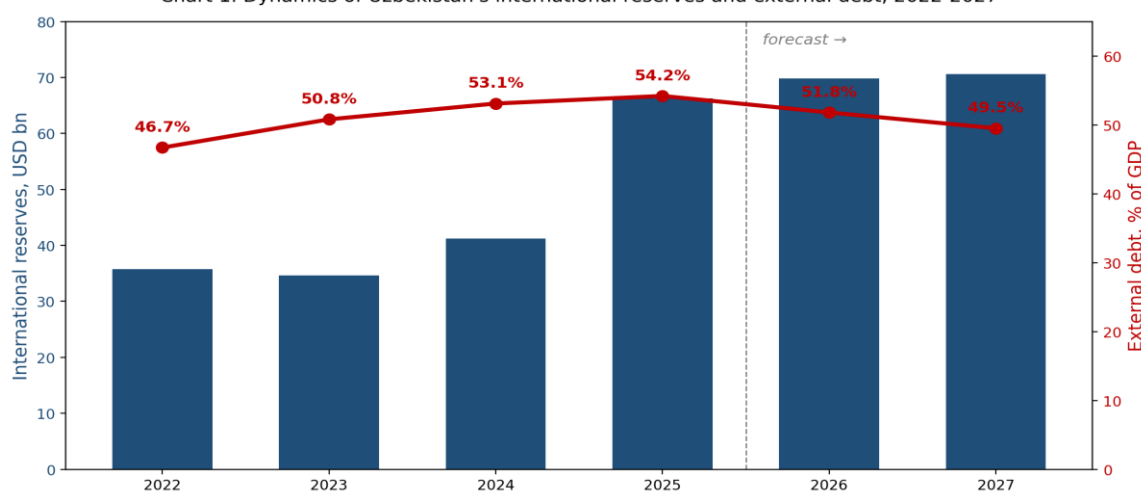


Chart 1: Dynamics of Uzbekistan's international reserves and external debt, 2022–2027. [4]



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The table and chart data show that over 2022–2025 international reserves grew from USD 35.8 bn to USD 66.3 bn. The average annual rate of this increase is:

$$\text{CAGR} = (66.3 / 35.8)^{(1/3)} - 1 = 22.8\%$$

The import-coverage ratio calculated on the basis of 2025 data is as follows:

$$\text{Import coverage} = 66.3 / (40.3 \div 12) = 19.7 \text{ months}$$

This indicator is roughly 6.5 times the minimum safety threshold recommended by the International Monetary Fund (3 months) and about 3.3 times the generally accepted normative threshold (6 months), confirming that the country's external payment capacity is backed by a substantial reserve buffer. At the same time, the ratio of external debt to GDP rose by 7.5 percentage points, from 46.7% to 54.2%, over 2022–2025; however, according to IMF forecasts this indicator is expected to enter a downward trend in 2026–2027, falling to 49.5% by 2027, driven by the gradual narrowing of the current account deficit and export earnings supported primarily by elevated gold prices.

According to IMF assessments, as of 2025 Uzbekistan's international reserves stood more than three times above the ARA composite metric, which further corroborates the import-coverage calculation above and indicates that the country's reserve buffer falls into the “highly adequate” category by international standards. At the same time, the external debt-service burden is projected to decline from its peak of 9.6% in 2024 to 6.6% by 2027, reflecting a gradual improvement in the maturity structure and currency composition of the debt portfolio. [5]

Thus, Uzbekistan's external stability profile is twofold in nature: on the one hand, the large foreign-currency reserve buffer provides considerable resilience to external shocks; on the other hand, the upward trend in external debt — although it has stabilized in recent years — remains a risk factor requiring cautious management over the long term. As international research on emerging markets



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emphasizes, in such conditions increasing the flexibility of the national exchange rate is an additional tool that further strengthens the capacity to absorb external shocks; this is the reform implemented in Uzbekistan since April 2025 and reclassified by the IMF as a “floating” regime. Such a regime, first, reduces the need for discretionary foreign-exchange interventions, and second, creates the necessary conditions for the effective operation of an inflation-targeting regime.

Conclusion

The analysis carried out shows that Uzbekistan's international reserves grew at a high average annual rate of 22.8% over 2022–2025, and that the import-coverage ratio is several times above international safety norms at 20 months, and three times above the ARA metric. At the same time, the ratio of external debt to GDP is moving from an upward trend to a stabilization phase in recent years, while the debt-service burden is on a declining trajectory.

The following recommendations are proposed to further strengthen external stability: first, maintaining the flexible floating exchange-rate regime and limiting discretionary interventions through a risk-based strategy; second, diversifying the export structure to reduce dependence on gold-price volatility; third, prudently managing the currency and maturity composition of the external debt portfolio, in particular monitoring the relative share of unguaranteed commercial debt; fourth, regularly updating the reserve-adequacy analysis based on the ARA metric and integrating it with macroprudential policy decisions.



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