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Assessment of Uzbekistan's Sovereign Credit Rating: An Analysis of Economic Reforms, Gold and Foreign Exchange Reserves, and Fiscal Risk Factors

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ABSTRACT

Objective: *This study evaluates the factors underlying Uzbekistan's sovereign credit rating improvement by examining the relationship between recent economic reforms, macroeconomic performance, gold and foreign exchange reserve accumulation, and fiscal risk indicators. The research aims to identify the principal drivers supporting the country's upgrade to a "BB" sovereign rating while assessing the vulnerabilities that may constrain future rating improvements.* ***Method:*** *A mixed-method approach is employed, combining qualitative analysis of S&P Global Ratings' sovereign assessment framework with descriptive analysis of key macro-financial indicators covering the period 2019–2025. The study examines trends in economic growth, external balances, public debt, fiscal performance, inflation, and international reserves, while also evaluating the influence of global gold price dynamics on Uzbekistan's external liquidity position.* ***Results:*** *The findings indicate that sustained economic reforms, stronger institutional credibility, robust GDP growth, declining inflation, and the sharp increase in gold and foreign exchange reserves significantly strengthened Uzbekistan's external resilience and contributed to the sovereign rating upgrade. However, persistent current account and fiscal deficits, rising public debt, and contingent liabilities associated with state-owned enterprises and public–private partnership projects continue to represent important structural risks. The analysis further shows that the recent surge in gold prices substantially enhanced reserve adequacy and external liquidity, reinforcing the country's ability to withstand external shocks.* ***Novelty:*** *Long-term improvements in creditworthiness will depend not only on favorable commodity market conditions but also on the sustainability of structural reforms and macroeconomic policy credibility.*

INTRODUCTION

Uzbekistan's upgrade to a "BB" sovereign credit rating is widely interpreted as a meaningful milestone, indicating that recent reforms are translating into stronger policy credibility and more stable external fundamentals. In its assessment, S&P Global Ratings points to several drivers behind this shift: a deeper adoption of market-based mechanisms across the economy, gradual gains in institutional effectiveness, and ongoing changes in the energy sector especially reforms to tariff-setting and pricing practices. In parallel, efforts to raise transparency and improve the investment climate have supported the broader reform narrative and helped strengthen the rating outlook [1].

A particularly important cushion has been built on the external side. Benefiting from a supportive global gold-price cycle, Uzbekistan has significantly increased its stock of international reserves—both in gold and foreign currency. This accumulation has

improved the country's capacity to meet import needs and external payment obligations, and it provides a stronger liquidity buffer in the event of adverse external shocks [2].

However, the upgrade does not remove key vulnerabilities. External and fiscal pressures remain visible, including ongoing current account and trade deficits, a still-present budget gap, a gradual upward drift in public debt, and potential contingent obligations related to state-owned enterprises and large public–private partnership (PPP) projects. Using a set of macro-financial indicators, this article reviews these risks and draws practical conclusions on how to protect the durability of the rating path going forward [3].

Sovereign ratings summarize a government's debt-repayment capacity and commitment, turning many economic and institutional signals into a score markets can price. Research finds ratings align closely with income, inflation, external debt, and default history, while variables like growth or balances relate less directly because they are influenced by policy and market access [4].

Top sovereign raters use the same core pillars economy, institutions, fiscal/debt, and external strength then adjust using scenarios and committee judgement. S&P formalizes this in sovereign criteria, Fitch adds a structured qualitative overlay to quantitative metrics, and Moody's uses a scorecard mapping fundamentals and event risk into a rating [5].

A key implication of these frameworks is that "improvements" in ratings often require persistent advances in fundamentals and credibility particularly institutions, policy predictability, and external resilience rather than short-lived cyclical boosts. This is consistent with methodological evaluations arguing that agency outputs reflect both measurable indicators and judgement, and that inter-agency correlation can be high even when exact weighting differs [6].

Building on early evidence, later studies refine how determinants matter over time and across regimes. For instance, an influential line of work distinguishes short-run vs long-run drivers: fiscal variables and growth can matter in the short run, while governance quality, external debt, foreign reserves, and default history often emerge as long-run anchors [7]. Related research also shows that the importance (i.e., implicit weights) of determinants may shift after major stress episodes; comparing pre- and post-crisis periods, some factors such as fiscal balance and financial stability can gain salience during/after crises [8].

Methodologically, the literature spans ordered response models, panel approaches, and machine-learning/case-based reasoning. Comparative evidence suggests that even with different techniques core drivers such as GDP level/income and inflation remain robust, while adding proxies for "modernization" (e.g., technology diffusion) can improve predictive performance [9]. A broader message is that sovereign ratings are not "purely macro": institutional capacity and credibility frequently explain why similar macro numbers can translate into different rating outcomes across countries and over time [10].

Multilateral research shows governance upgrades can meaningfully lower sovereign borrowing costs, not just improve macro outcomes. It also highlights "sovereign ceilings," where sovereign risk spills over to corporates and public borrowers. IMF-style assessments and methodological reviews note that ratings can be slow to change, so sustained reform credibility matters [11].

Local studies increasingly adapt global rating "pillars" to Uzbekistan, connecting reforms and buffers especially gold/FX reserves, fiscal discipline, and debt management to upgrade prospects. Sindarov emphasizes reserves and policy credibility, while other work argues for a coordinated agenda: institutional strengthening, fiscal transparency, and lower vulnerability from external debt and contingent liabilities [12].

Recent Uzbekistan-specific studies that explicitly benchmark the country against S&P's criteria also reinforce this agenda by showing that strong growth and sizeable buffers can support ratings, but that external imbalances and fiscal-risk channels can constrain the pace of upgrades if not managed through credible medium-term frameworks [13]. For the current research topic, these local contributions are valuable because they (i) translate global methodologies into measurable Uzbekistan indicators, (ii) highlight reform transmission mechanisms into rating outcomes, and (iii) identify policy-relevant constraints consistent with the international evidence [14].

The literature broadly agrees: upgrades are driven by credible reforms, institutional strength, sustainable fiscal policy, and strong external buffers, not by short-term cyclical gains alone. For Uzbekistan's "BB" path, the key gap is building a single narrative that ties reform sequencing, gold/FX buffers, and fiscal risks from SOEs/guarantees/quasi-fiscal activity into one consistent explanation motivating a methodology-aligned country assessment [15].

RESEARCH METHOD

This study follows a mixed-method design that is explicitly aligned with sovereign rating practice. First, it reviews S&P Global Ratings documents and sovereign criteria to clarify how the agency frames upgrade drivers and the main constraints in its assessment. Second, it tracks key macro-financial indicators over 2019–2025 covering economic performance, the external position, fiscal outcomes, and monetary conditions using descriptive trend analysis and incorporating baseline projections where they exist. To better explain movements in external buffers, the analysis also links reserve accumulation to global gold-price dynamics. Finally, the study conducts an interpretive risk assessment of the most relevant vulnerabilities, including current account and budget deficits, the structure of public debt and associated currency risk, and contingent liabilities tied to state-owned enterprises and PPPs. Across these steps, quantitative patterns are triangulated with the rating narrative to produce policy-relevant conclusions.

RESULTS AND DISCUSSION

Results

This section provides a structured assessment of how Uzbekistan's macro-financial indicators have changed and what these shifts imply for the sovereign rating outlook. Drawing on S&P Global Ratings baseline data for 2019–2025, supplemented with the most recent available updates, we begin by summarizing the main real-economy trends growth, investment, savings, and employment presented in Figure 1. We then examine the external position in Figure 2, focusing on the current account, the trade balance, and reserve adequacy [16].

The next subsections extend the analysis in three directions. Figure 3 introduces daily gold-price movements to show how commodity-price tailwinds supported the accumulation of international reserves. Figure 4 evaluates public debt dynamics, with particular attention to composition and sustainability, including the growing share of liabilities denominated in so'm. Finally, Figure 5 reviews the effects of tighter monetary policy on inflation and credit conditions. Taken together, this multi-pillar approach links gold-price shocks, fiscal and debt developments, and macro policy choices to the recent rating upgrade and sets the foundation for the detailed discussion that follows.

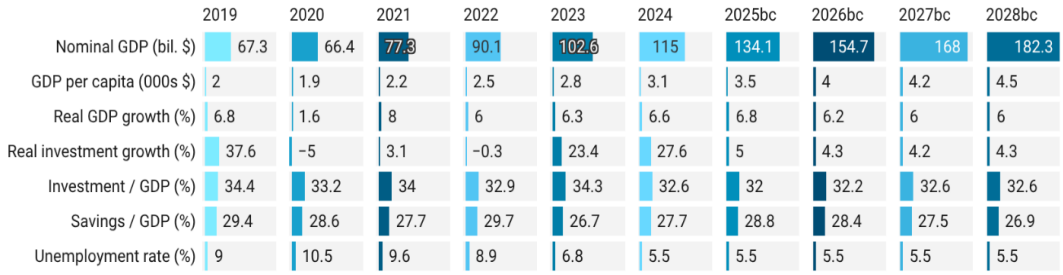


Figure 1. Economic indicators (%)

Figure 1 depicts a clear improvement in Uzbekistan's macro backdrop. Nominal GDP is projected to almost double, rising from roughly US$67 billion (2019) to about US$134 billion. The pandemic shock is visible in 2020, when real growth drops to 1.6%, but the recovery is relatively fast, with growth returning to around 5–6% over 2022–2025. Investment activity also rebounds after the 2020 setback; combined with persistently high savings and investment ratios (both remaining above 30% of GDP), this points to a sustained domestic investment cycle rather than a short-lived bounce. Labor-market conditions improve in parallel, with unemployment gradually falling from about 9% to roughly 5.5% by 2024/25. Overall, the pattern is consistent with reforms and large-scale investment programs supporting a broad-based recovery and stronger employment outcomes.

	2019	2020	2021	2022	2023	2024	2025bc	2026bc	2027bc	2028bc
Current account balance / GDP (%)	−5	−4.6	−6.3	−3.2	−7.6	−5	−3.2	−3.8	−5.1	−5.7
Trade balance / GDP (%)	−10.8	−9.4	−11.3	−12.9	−14.5	−11.8	−9.6	−9.8	−10.5	−10.3
Net FDI / GDP (%)	3.4	2.6	3	2.9	2.1	2.5	2.6	2.6	2.6	2.6
Gross external financing needs / CARs + usable reserves (%)	81.7	77.3	77.3	78.9	93.2	87.6	80.7	68.4	72.6	86
Narrow net external debt / CARs (%)	−23.8	−12.5	9.5	21.6	46.5	45.4	11.5	26.7	67.2	94.9
Usable reserves (mln $)	18,212	24,395	26,540	27,197	28,069	35,071	55,190	53,643	41,047	36,490

Figure 2. External indicators (%)

Figure 2 summarizes Uzbekistan's external position and highlights a mixed picture. Both the current account and trade balance stay in deficit throughout the period, with the gap peaking at close to –12% of GDP in 2023 before easing slightly in the 2024–2025 baseline path. Net FDI remains relatively steady around 2–3% of GDP on average consistent with large inflows linked to energy and investment projects. At the same time, gross external financing needs increase (measured against current-account receipts plus usable reserves), signaling greater rollover and funding requirements even as inflows remain supportive.

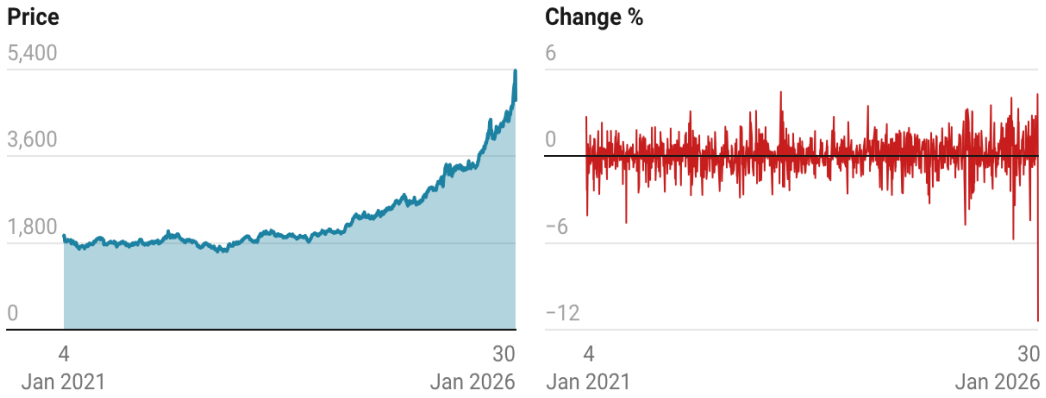


Figure 3. Gold price and its daily change dynamics

The debt dynamics also shift. Narrow net external debt moves from a negative position in 2019 to a positive balance by 2022, and rises to roughly 30% of current-account receipts by 2025 a sign that external leverage is building. On the buffer side, usable reserves climb from about US$18 billion to roughly US$28 billion by 2023. However, the baseline figures appear to understate the late-2025 outcome, since they do not capture the sharp reserve increase observed after the jump in global gold prices. Taken together, the indicators suggest that Uzbekistan entered the mid-2020s with persistent external deficits and rising external debt, but also with strengthening reserve buffers with the actual 2025 buffer likely stronger than the baseline implies.

The baseline path in Figures 2–3 was quickly overtaken by what happened in global commodity markets. In 2025, gold entered a powerful rally: it first reached US$4,000/oz on 8 October 2025, then pushed above US$4,500/oz in late December, setting a fresh record intraday. Over the year, benchmark measures put gold's gain at

roughly about 60–65% (i.e., around "two-thirds"), underscoring how exceptional the shock was.

For Uzbekistan, this mattered directly because higher gold prices inflated the valuation of gold holdings and expanded overall reserve buffers. By late 2025, S&P Global Ratings had already noted that reserves had more than doubled since 2023, reaching about US$54 billion (44% of GDP) by end-October 2025. Subsequent official reporting indicates the acceleration continued: reserves reportedly rose by US$25.1 billion in 2025 to a record US$66.3 billion, with December showing an additional jump in the value of gold reserves and a rise in physical gold holdings (about 12.2m → 12.6m troy ounces).

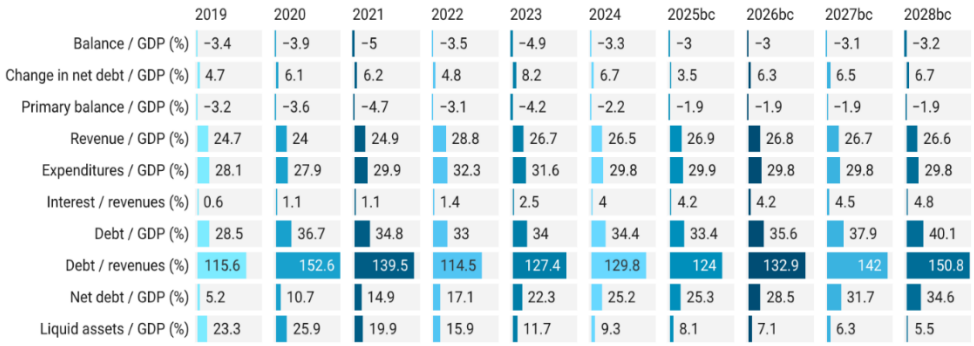
The implication for the rating narrative is straightforward: the gold shock did not just lift reserve values on paper it materially strengthened foreign-currency liquidity and import/external-payment buffers, an area rating agencies treat as especially important for a small open economy exposed to external financing and current-account pressures.

Rising reserve buffers can partially counterbalance Uzbekistan's sizable current-account gaps and the gradual build-up of external debt by strengthening the country's ability to cover imports, meet external payments, and absorb exchange-rate pressure. In rating terms, larger and more liquid reserves reduce "sudden-stop" risk, support confidence in the currency, and give policymakers more room to smooth short-term volatility.

This channel appears to have mattered for the November 2025 upgrade: on 21 November 2025, S&P Global Ratings raised Uzbekistan's long-term sovereign rating from BB- to BB and explicitly linked the stronger external position to record gold prices that had helped double international reserves between 2023 and 2025.

At the same time, policy advice from international institutions stresses that commodity-linked windfalls should not automatically translate into higher spending. International Monetary Fund has urged the authorities to limit spending increases when revenues overperform, avoid pro-cyclical fiscal expansion in a high-gold-price environment, and build fiscal buffers to reduce volatility if gold prices reverse. Asian Development Bank, in its Uzbekistan outlook discussions, also highlights the need to strengthen macro stability and diversify exports, given continued external vulnerabilities.

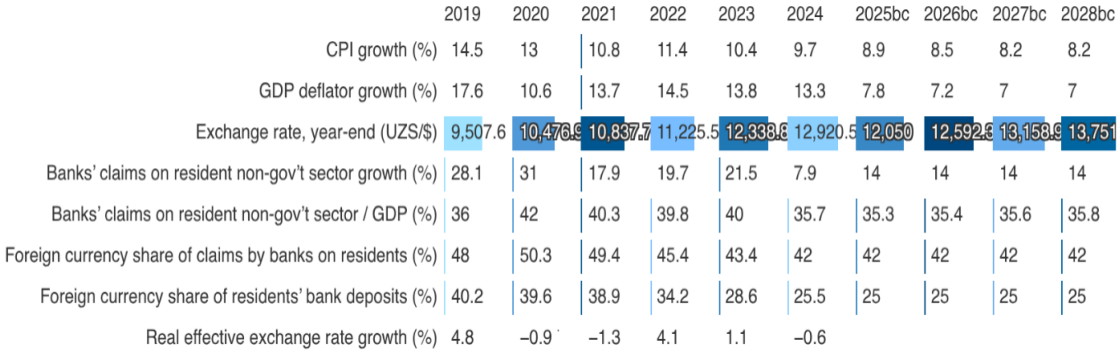
Despite the growing local-currency component, most outstanding loans (around 82%) are still foreign-currency denominated. The currency mix is heavily weighted toward the US dollar (about 63%), while the share in UZS is rising (around 11%). Shifting toward domestic-currency debt can reduce exchange-rate exposure, but it also brings new risks: local borrowing often carries higher yields and shorter maturities, increasing interest-rate sensitivity and refinancing (rollover) pressure.



	2019	2020	2021	2022	2023	2024	2025bc	2026bc	2027bc	2028bc
Balance / GDP (%)	-3.4	-3.9	-5	-3.5	-4.9	-3.3	-3	-3	-3.1	-3.2
Change in net debt / GDP (%)	4.7	6.1	6.2	4.8	8.2	6.7	3.5	6.3	6.5	6.7
Primary balance / GDP (%)	-3.2	-3.6	-4.7	-3.1	-4.2	-2.2	-1.9	-1.9	-1.9	-1.9
Revenue / GDP (%)	24.7	24	24.9	28.8	26.7	26.5	26.9	26.8	26.7	26.6
Expenditures / GDP (%)	28.1	27.9	29.9	32.3	31.6	29.8	29.9	29.8	29.8	29.8
Interest / revenues (%)	0.6	1.1	1.1	1.4	2.5	4	4.2	4.2	4.5	4.8
Debt / GDP (%)	28.5	36.7	34.8	33	34	34.4	33.4	35.6	37.9	40.1
Debt / revenues (%)	115.6	152.6	139.5	114.5	127.4	129.8	124	132.9	142	150.8
Net debt / GDP (%)	5.2	10.7	14.9	17.1	22.3	25.2	25.3	28.5	31.7	34.6
Liquid assets / GDP (%)	23.3	25.9	19.9	15.9	11.7	9.3	8.1	7.1	6.3	5.5

Figure 4. Fiscal indicators (general government %)

In S&P Global Ratings's baseline, the general government balance remains in deficit (roughly 3–5% of GDP) and debt continues to edge up. More recent fiscal data, however, indicate consolidation progress: the consolidated budget deficit reportedly narrowed to 2.1% of GDP in 2025 (from 3.2% in 2024), with revenues rising 31% and expenditures 23.5%, and about 51% of spending directed to social development. Even so, both the International Monetary Fund and the Asian Development Bank stress that medium-term debt sustainability depends on continued fiscal discipline, stronger tax collection, and careful control of contingent liabilities—particularly those linked to SOEs and PPP projects. For that reason, domestic borrowing should be embedded in a credible medium-term debt strategy that explicitly accounts for repayment capacity, interest-rate risk, and the depth of local financial markets.



	2019	2020	2021	2022	2023	2024	2025bc	2026bc	2027bc	2028bc
CPI growth (%)	14.5	13	10.8	11.4	10.4	9.7	8.9	8.5	8.2	8.2
GDP deflator growth (%)	17.6	10.6	13.7	14.5	13.8	13.3	7.8	7.2	7	7
Exchange rate, year-end (UZS/$)	9,507.6	10,476.9	10,837.7	11,225.5	12,338.8	12,920.5	12,050	12,592.8	13,158.9	13,751
Banks' claims on resident non-gov't sector growth (%)	28.1	31	17.9	19.7	21.5	7.9	14	14	14	14
Banks' claims on resident non-gov't sector / GDP (%)	36	42	40.3	39.8	40	35.7	35.3	35.4	35.6	35.8
Foreign currency share of claims by banks on residents (%)	48	50.3	49.4	45.4	43.4	42	42	42	42	42
Foreign currency share of residents' bank deposits (%)	40.2	39.6	38.9	34.2	28.6	25.5	25	25	25	25
Real effective exchange rate growth (%)	4.8	-0.9	-1.3	4.1	1.1	-0.6				

Figure 5. Monetary indicators (%)

Uzbekistan has kept monetary conditions tight to bring inflation down and cool rapid credit expansion. At its 11 December 2025 meeting, the Central Bank of the Republic of Uzbekistan held the policy rate at 14%, noting that headline inflation had eased to ~7.5% in November 2025 while demand pressures and fast retail lending growth still posed risks. Inflation subsequently fell to 7.3% in 2025 (from 9.8% in 2024), the lowest reading in nine years helped by tighter policy and lower import-cost pressure. Earlier projections from the Asian Development Bank put inflation at 8.0% in 2025 and 7.0% in 2026, while the International Monetary Fund expects inflation to converge to the 5% target by end-2027. Disinflation alongside high real rates can strengthen monetary-policy

credibility and make local-currency saving more attractive useful when the state is expanding so'm-denominated financing.

On the fiscal side, consolidation has continued under a rules-based framing. Preliminary reporting for 2025 indicates the consolidated budget deficit narrowed to 2.1% of GDP (from 3.2% in 2024), with revenues up 31% and expenditures up 23.5%, and about 51% of spending allocated to social development. With the economy estimated to have grown 7.7% in 2025, the near-term debt dynamics look more favorable provided policy discipline is maintained.

This macro mix also fits how rating agencies frame sovereign risk. In its 21 November 2025 action, S&P Global Ratings upgraded Uzbekistan from BB- to BB and explicitly pointed to record gold prices and the associated reserve build-up as key support for the external position, while keeping the outlook stable amid still-elevated external and fiscal risks. Overall, the story is "better buffers + tighter policies," but further upgrades would likely depend on sustaining reforms, keeping debt and deficits on a controlled path, and reducing structural vulnerabilities especially reliance on commodity-linked windfalls and persistent external imbalances.

Discussion

The findings demonstrate that Uzbekistan's sovereign rating upgrade reflects a combination of structural reform progress, stronger macroeconomic fundamentals, and a substantial improvement in external liquidity rather than the effect of a single economic indicator. The sustained recovery of real GDP following the 2020 contraction, together with relatively high investment and savings ratios, indicates that economic activity has developed on a broader foundation. This supports the argument that sovereign creditworthiness is influenced not only by short-term growth performance but also by the credibility and persistence of institutional and economic reforms. Previous studies have similarly identified economic strength, governance quality, inflation performance, and policy credibility as important determinants of sovereign ratings [3], [7]. In Uzbekistan's case, the improvement in these dimensions provides greater confidence in the government's ability to maintain economic stability and meet its financial obligations.

A particularly important finding concerns the role of gold and foreign exchange reserves in strengthening Uzbekistan's external position. The sharp increase in international reserves, supported substantially by rising global gold prices, has strengthened the country's capacity to absorb external shocks, finance imports, and meet foreign-currency obligations. This development is particularly significant because Uzbekistan continues to record persistent current-account and trade deficits. Stronger reserves therefore operate as a counterbalancing mechanism against weaknesses in the external account. This finding is consistent with sovereign rating frameworks that consider reserve adequacy, external financing requirements, and foreign-currency liquidity as major components of sovereign risk assessment [8], [12], [15]. Nevertheless, the strong contribution of gold valuation also means that part of the improvement in external resilience remains exposed to fluctuations in global commodity prices.

The results further indicate that Uzbekistan's improved external buffers have not completely eliminated structural vulnerabilities. Persistent current-account deficits and the gradual increase in external indebtedness suggest that the country continues to depend on foreign financing to support investment and economic expansion. Although foreign direct investment contributes to financing these gaps, sustained external deficits may increase vulnerability if global financing conditions tighten or capital inflows weaken. This reinforces the importance of export diversification as a long-term strategy for reducing dependence on commodity-related revenues and strengthening the stability of foreign-exchange earnings. Previous sovereign rating research shows that external debt, foreign reserves, and structural economic resilience become particularly important determinants of creditworthiness over longer horizons [3], [13]. Therefore, Uzbekistan's future rating trajectory is likely to depend on whether stronger reserves are accompanied by improvements in the underlying current-account structure.

Fiscal developments present a similarly mixed picture. The narrowing of the consolidated budget deficit indicates progress toward fiscal consolidation and suggests that stronger revenue performance has helped improve short-term fiscal conditions. However, the continued accumulation of public debt and the significant share of foreign-currency-denominated obligations remain important sources of risk. Foreign-currency debt exposes public finances to exchange-rate movements, while the gradual expansion of domestic-currency borrowing may increase interest costs and refinancing pressures if domestic markets remain relatively shallow. These results support the literature emphasizing that fiscal balances and public debt dynamics can become more influential in sovereign rating assessments during periods of greater financial uncertainty [13]. Consequently, improving the currency and maturity structure of government debt should be considered as important as controlling the overall debt-to-GDP ratio.

Another important issue is the fiscal exposure generated by state-owned enterprises and public–private partnership projects. Even when these liabilities are not immediately reflected in headline government debt, guarantees, quasi-fiscal activities, and project-related obligations may eventually generate direct fiscal costs. This creates a potential discrepancy between reported fiscal indicators and the government's broader risk exposure. The finding is especially relevant to Uzbekistan because large-scale infrastructure and state-supported investment remain important components of the country's development strategy. Strengthening transparency, financial reporting, risk assessment, and governance of SOEs and PPP projects would therefore reduce uncertainty surrounding contingent liabilities and improve fiscal credibility. Such institutional improvements are consistent with evidence that better economic governance can reduce sovereign financing costs and strengthen perceptions of government creditworthiness [1].

Monetary developments also provide evidence of improving policy credibility. The decline in inflation while monetary conditions remained relatively tight indicates progress toward restoring price stability after the inflationary pressures observed earlier

in the period. Lower and more predictable inflation can strengthen domestic saving, support the development of local-currency financial markets, and reduce uncertainty for both domestic and foreign investors. This is relevant for sovereign creditworthiness because inflation has consistently been identified as one of the more robust quantitative determinants of sovereign ratings [7]. At the same time, maintaining high interest rates for prolonged periods may increase domestic financing costs and create additional pressure on borrowers. Monetary authorities therefore face the challenge of sustaining disinflation while gradually creating conditions that support investment and financial-market development.

Overall, the evidence suggests that Uzbekistan's transition from BB- to BB should be interpreted as an improvement in sovereign resilience rather than the elimination of sovereign risk. The combination of stronger reserves, sustained economic growth, declining inflation, and continuing economic reforms has improved the country's capacity to manage external and fiscal pressures. However, further rating improvements will depend increasingly on structural rather than cyclical factors. In particular, fiscal consolidation, prudent debt management, stronger governance of SOEs and PPPs, deeper domestic financial markets, and greater export diversification will be necessary to convert the benefits of high gold prices and reserve accumulation into lasting improvements in sovereign creditworthiness. This interpretation is consistent with the broader literature emphasizing that sustainable rating upgrades require persistent improvements in institutions, policy credibility, fiscal sustainability, and external resilience rather than temporary favorable economic conditions [4], [6], [14], [15].

CONCLUSION

Fundamental Finding: Uzbekistan's upgrade to "BB" signals improved policy credibility, steady reform progress, and most importantly a much stronger external liquidity position as high gold prices lifted reserves. Overall, the evidence points to firmer credit fundamentals: growth and investment have remained robust, inflation has eased under tighter monetary policy, and the gradual expansion of domestic (so'm-denominated) borrowing suggests incremental development of local debt markets. **Implication:** The key is to convert today's reserve strength into durable resilience through disciplined fiscal policy, a cautious debt strategy that actively manages foreign-exchange exposure, stronger SOE governance and transparency, and faster export diversification so that external buffers are supported by a broader and more stable earnings base not temporary windfalls. **Limitation:** Even so, the upgrade does not eliminate the main constraints. External imbalances remain material, with persistent current-account and trade deficits, while the fiscal position is still in deficit and the public-debt burden and its interest cost continues to rise. In addition, contingent liabilities linked to SOEs and PPP arrangements represent a meaningful source of fiscal risk that can surface quickly if projects underperform or guarantees are called. **Future**

Research: Maintaining an upward rating path will therefore require more than favorable commodity conditions.

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