The relationship between private sector development and economic growth in Uzbekistan

Dilsabokhon Djurayevna Rustamova
ORCID: 0009-0001-1296-6326
dilsaborustamova@gmail.com
Tashkent State University of Economics Andijan Faculty

Abstract: *This study provides a comprehensive assessment of the relationship between private sector development and economic growth in Uzbekistan based on official statistical data for the period 2010-2025. The study proposes the concept of the "private sector paradox" in the Uzbek economy: a decline in the relative share of small businesses in GDP does not necessarily indicate an absolute decline in the economic role of the private sector. Rather, it may occur alongside structural transformation of the economy, the expansion of large capital-intensive industries, and the qualitative transformation of private businesses. The study employs descriptive statistics, dynamic and comparative analysis, regional comparison, and correlation analysis. Particular attention is paid to the methodological limitations of measuring the contribution of the private sector solely through its share in GDP. The findings suggest that the contribution of the private sector to economic growth should be examined through multiple channels, including investment, exports, employment, labor productivity, competition, access to finance, and innovation. The analysis demonstrates that the declining relative share of small businesses in GDP has occurred simultaneously with increasing export activity, a persistently high contribution to employment, growing investment, and an expansion of services. This indicates that the transformation of the private sector should be assessed not only in quantitative terms but also in terms of productivity, competitiveness, technological upgrading, and integration into international markets.*

Keywords: *private sector, economic growth, small business, private investment, entrepreneurship, productivity, exports, competition, state-owned enterprises*

Introduction

The role of the private sector in economic growth is one of the most important areas of contemporary economic research. Under market economy conditions, private firms become important drivers of economic growth by allocating capital efficiently, creating employment, introducing innovations, strengthening competition, and entering international markets.

However, the impact of the private sector on economic growth is not identical across countries. In particular, in economies where the public sector has traditionally played a substantial role, market institutions are still developing, and structural transformation is underway, the relationship between private sector development and economic growth tends to be complex.

Uzbekistan is of particular academic interest from this perspective.

Since 2017, the country has implemented large-scale reforms aimed at liberalizing the economy, improving the business environment, liberalizing the foreign exchange market, reforming state-owned enterprises, promoting privatization, and attracting private investment.

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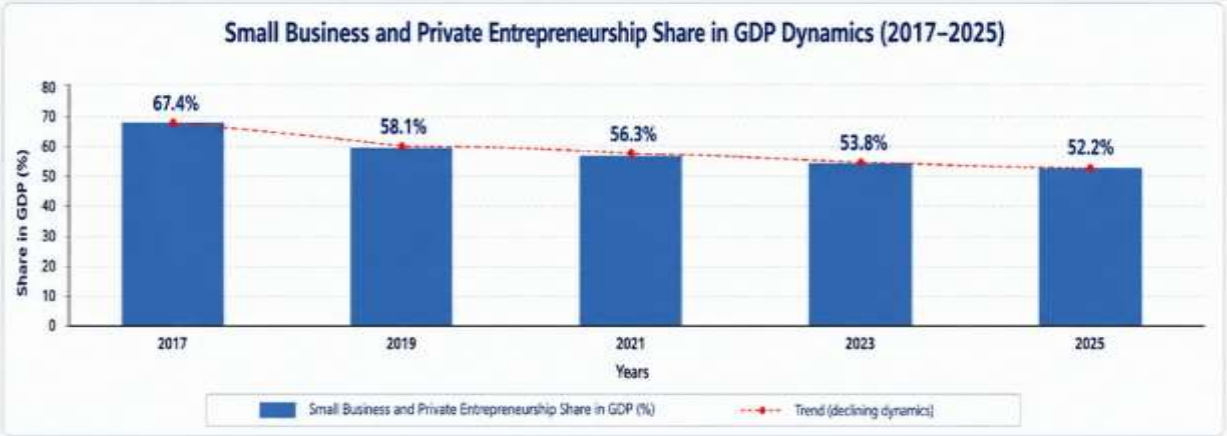
According to the World Bank's 2025 Uzbekistan Country Economic Memorandum, Uzbekistan recorded average annual growth of 4.2% in value added per capita during 2010-2022. At the same time, economic growth was significantly dependent on capital accumulation, making improvements in total factor productivity an increasingly important objective for the next stage of development.

In 2025, Uzbekistan's GDP reached UZS 1,849.7 trillion at current prices, while real economic growth amounted to 7.7%. At the same time, the share of small business and private entrepreneurship in GDP continued to decline.

According to data from the National Statistics Committee, the share of small businesses in GDP declined substantially during the period under consideration.



Thus, between 2017 and 2025, the share of small businesses in GDP decreased by 15.2 percentage points.

At the same time, the national economy grew by 7.7% in 2025.

This situation raises the central research question of the article:

How can the continued high rate of economic growth in Uzbekistan be explained at a time when the share of small businesses in GDP has been declining?

Answering this question by simply stating that "the private sector does not affect economic growth" would be methodologically inappropriate.

Instead, this situation demonstrates the need to reconsider the methodology used to measure the contribution of the private sector to the economy.

Two seemingly contradictory trends can therefore be observed:

Trend 1: Economic growth remains high.

Trend 2: The share of small businesses in GDP is declining.

To understand the relationship between these two trends, it is necessary to examine more closely the nature of the "share in GDP" indicator.

For example, if small businesses account for 52% of GDP while other sectors account for 48%, this does not necessarily mean that the absolute volume of small-business activity has declined.

If total GDP grows rapidly, the value added generated by small businesses may also increase. However, if other sectors grow faster, the relative share of small businesses will decline.

Therefore:

A decline in relative share ≠ absolute contraction.

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From this perspective, the scientific novelty of the study lies in interpreting the relationship between private sector development and economic growth in Uzbekistan not merely through changes in sectoral shares, but through the processes of structural transformation and productivity growth.

Literature Review

The impact of the private sector on economic growth has been extensively examined in economic theory and empirical research. The issue has mainly been studied through the interrelationships among entrepreneurship, investment, capital accumulation, innovation, competition, labor productivity, exports, and the institutional environment.

J. Schumpeter closely associated economic development with entrepreneurial activity and innovation. According to his approach, entrepreneurs generate a process of "creative destruction" by introducing new products, new production methods, new markets, or new sources of resources.

Within neoclassical growth theory, R. Solow identifies capital accumulation, labor resources, and technological progress as major determinants of economic growth. Subsequent endogenous growth theories have interpreted technological progress, human capital, and innovation as internal sources of long-term economic growth. P. Aghion and P. Howitt analyzed the role of innovation in economic growth and emphasized the importance of quality-improving innovations in explaining long-term growth and convergence processes [1].

Another major strand of the literature focuses on the relationship between institutional quality and economic growth. D. Acemoglu, S. Johnson, and J. Robinson identify economic institutions as fundamental determinants of long-term economic development. They emphasize that economic institutions establish incentives and constraints for economic agents, protect property rights, and create conditions conducive to investment and economic activity [3].

M. Ayyagari, T. Beck, and A. Demirgüç-Kunt examined the role of small and medium-sized enterprises using data from 76 countries. The authors associated the contribution of SMEs to GDP and employment with the business environment and demonstrated that factors such as lower business-entry costs and better credit-information sharing are related to the development of the SME sector [5].

In the case of Uzbekistan, recent research suggests that private sector development should be examined in conjunction with institutional and structural changes in the economy. The World Bank's 2025 Country Economic Memorandum for Uzbekistan emphasizes the importance of increasing total factor productivity, reducing regulatory barriers, addressing market distortions, expanding access to technologies, and developing human capital during the next stage of economic growth. The report also identifies the large presence of state-owned enterprises as an important factor affecting the competitive environment faced by private businesses.

The 2026 World Bank Group-IFC Country Private Sector Diagnostic similarly notes that market-oriented reforms have accelerated in Uzbekistan since 2017. However, the fact that state-owned enterprises account for more than 30% of GDP and maintain dominant positions in sectors such as energy, transport, and metallurgy keeps the issue of ensuring a level competitive environment for private businesses highly relevant. The report also

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identifies access to finance, the tax burden, and shortages of skilled workers as important constraints on private enterprise growth.

Thus, a review of the existing literature indicates that the contribution of the private sector to economic growth should be viewed not as a single-factor relationship but as a multichannel process.

This relationship can be represented through the following conceptual chain:

Private Sector Development → Private Investment → Technology and Innovation → Labor Productivity → Product Competitiveness → Exports → Employment → Economic Growth.

However, the effectiveness of this chain depends on factors such as the institutional environment, the level of competition, the position of state-owned enterprises in the economy, access to financial resources, and human capital.

Research Methodology

The study employs descriptive statistics, dynamic analysis, comparative analysis, regional comparison, and correlation analysis.

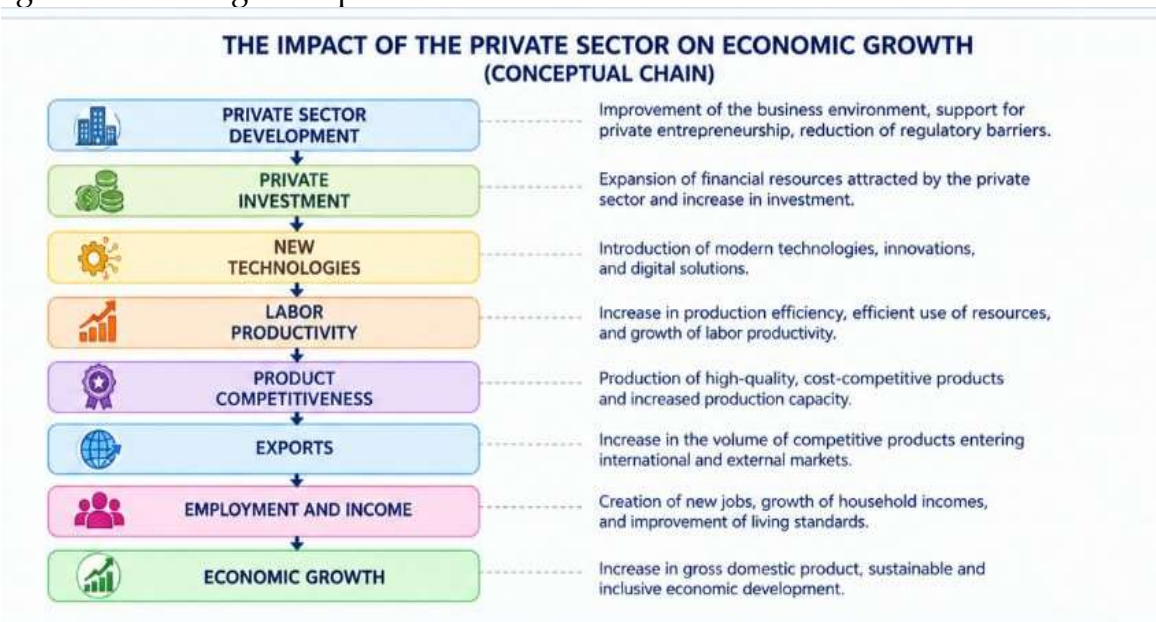
The methodological limitations of measuring the contribution of the private sector solely through its share in GDP are also examined. The analysis indicates that the contribution of the private sector to economic growth is formed through several channels, including investment, exports, employment, labor productivity, competition, access to financial resources, and innovation.

The study does not rely on a regression or econometric model. Instead, it focuses on the interpretation of official statistical indicators and their structural relationships over time.

This approach makes it possible to examine not only changes in the quantitative share of the private sector but also changes in its economic functions and qualitative characteristics.

Analysis and Results

The impact of private sector development on economic growth can be represented through the following conceptual chain:



However, two major institutional factors influence this chain:

1. State-owned enterprises + regulatory environment
2. Access to finance + human capital

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Accordingly, the conceptual model of the study can be expressed as follows:

Private Sector Development → Investment → Productivity → Export → Employment → Economic Growth

with this relationship moderated by:

Institutions + Competition + Finance + Human Capital.

In 2025, Uzbekistan's GDP amounted to UZS 1,849.7 trillion, while real economic growth reached 7.7%. This result demonstrates that the country's economy not only recovered from the pandemic shock of 2020 but also returned to a relatively high-growth trajectory.

The World Bank emphasizes that during the next stage of Uzbekistan's economic development, increasing total factor productivity, in addition to capital accumulation, will be increasingly important.

From this perspective, the role of the private sector becomes even more significant.

Private firms operating under competitive market conditions have stronger incentives to obtain maximum returns from their capital, improve productivity, adopt technologies, and respond to changing market demand.

Table 1.

Main Trends in Small Business and Economic Growth

Indicator	2017	2021	2023	2024	2025
Small business share in GDP, %	67.4	56.3	53.8	53.5	52.2
GDP growth, %	4.7	8.2	6.3	6.7	7.7
Small business exports, USD billion	-	3.3	6.9	9.3	12.4
Small business services, UZS trillion	-	231.5	378.0	477.9	595.1

The share of small businesses in GDP declined from 67.4% in 2017 to 52.2% in 2025. At the same time, small-business exports increased from USD 3.3 billion in 2021 to USD 12.4 billion in 2025.

Thus, two processes have been occurring simultaneously: a decline in relative share + an increase in absolute economic activity.

This indicates a transformation of the private sector within the national economy.

In 2025, exports by small-business entities reached USD 12.4 billion, equivalent to 36.6% of the country's total exports.

This result is particularly important because exporting requires a number of qualitative capabilities, including:

- product competitiveness;
- compliance with international standards;
- productivity;
- adaptation to external market requirements.

Therefore, instead of evaluating the private sector only through its share in GDP, another important question should be considered:

"How many private enterprises are capable of competing in international markets?"

According to World Bank data, approximately 6% of firms in Uzbekistan exported in 2022. Consequently, increasing the proportion of firms capable of exporting remains an important objective of private sector policy.

According to National Statistics Committee data, the share of small businesses in total employment was 74.3% in 2010 and 74.5% in 2024.

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This is a significant finding.

In other words:

Share in GDP: 60.8% → 52.2%

Share in employment: 74.3% → 74.5%

There is a substantial difference between these two indicators.

This suggests that small businesses play a considerably larger role in Uzbekistan's labor market than their share in GDP alone would indicate.

This observation raises another important research issue: the "productivity paradox."

The private sector:

- creates a large number of jobs;
- accounts for a high share of employment;
- is increasing its participation in exports;

while at the same time its share in GDP is declining.

This makes labor productivity and capital intensity in the private sector central objects of analysis.

In 2025, investment in fixed capital in Uzbekistan amounted to UZS 591.1 trillion, representing an increase of 10.5% compared with 2024. Compared with 2021, the volume of investment increased by approximately 1.8 times.

This represents a positive factor for economic growth.

However, alongside the volume of investment, it is important to consider:

- whether the investment originates from private or public sources;
- which sectors receive the investment;
- its productivity;
- whether it introduces new technologies;
- its export potential.

Therefore, for Uzbekistan's future development, the issue is not simply "more investment," but rather "higher-return private investment."

In 2026, IFC estimated that the unmet financing needs of micro, small, and medium-sized enterprises in Uzbekistan amounted to approximately USD 10.5 billion.

This represents one of the most important structural constraints on private sector development.

Through an IFC-supported mechanism in 2026, approximately USD 100 million equivalent in financial support was envisaged for the MSME loan portfolio through Ipak Yuli Bank. IFC's exposure of up to USD 18 million was expected to mobilize an additional USD 82 million in lending.

This situation demonstrates the importance of blended finance and guarantee mechanisms in expanding access to finance for private enterprises.

According to World Bank data, in 2020 Uzbekistan had more than 2,000 centrally controlled state-owned enterprises, with revenues equivalent to approximately 32% of GDP. Approximately 80% of these enterprises operated in sectors in which the private sector could potentially compete effectively.

The 2026 Country Private Sector Diagnostic further notes that state-owned enterprises account for more than 30% of Uzbekistan's GDP and continue to occupy dominant positions in key sectors such as energy, transport, and metallurgy.

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Therefore, an important issue for private sector development is not simply reducing the number or size of state-owned enterprises, but ensuring competitive neutrality.

Regional Differences in Private Sector Development. The share of small businesses in regional gross value added varies substantially across Uzbekistan.

In 2025:

Region	Small business share in regional gross value added, %
Jizzakh	71.2
Bukhara	71.0
Andijan	70.1
Qashqadaryo	69.2
Navoi	21.1
Uzbekistan	52.2

The difference between Navoi and Andijan is close to 49 percentage points.

This is a substantial disparity. It cannot be explained solely by differences in the entrepreneurial environment.

The regional differences are also associated with:

- industrial specialization;
- the presence and scale of large enterprises;
- the resource base;
- urbanization;
- the structure of services;
- infrastructure.

Consequently, regional private sector policy should account for differences in economic structure rather than relying on a uniform national approach.

The next stage of Uzbekistan's private sector can be conditionally divided into three periods:



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The next stage of development of Uzbekistan's private sector can conditionally be interpreted as a transition from an emphasis on the quantity of entrepreneurship toward the productivity and competitiveness of enterprises.

This represents one of the central conceptual conclusions of the study:

Uzbekistan's private sector policy should move from an "entrepreneurship quantity" model toward an "enterprise productivity and competitiveness" model.

The 2026 World Bank Group-IFC Country Private Sector Diagnostic identifies three sectors of particular importance for Uzbekistan:

1. Logistics

The relevant reforms have the potential to generate approximately USD 950 million-1.05 billion in private investment and up to 108,000 direct and indirect jobs.

2. Tourism

The tourism sector has the potential to attract USD 3.1-4.2 billion in private investment and generate approximately 180,000 jobs.

3. Pharmaceuticals

The sector has the potential to attract up to USD 188 million in additional private investment and create up to 20,000 jobs.

The combined potential of these three sectors is therefore estimated at approximately:

USD 5.2-6.4 billion in private investment and more than 300,000 jobs.

These opportunities demonstrate that private sector development can contribute not only to the expansion of entrepreneurship but also to structural transformation, productivity enhancement, export diversification, and employment generation.

Conclusion

The relationship between private sector development and economic growth in Uzbekistan is considerably more complex than a simple linear relationship.

Between 2017 and 2025, the share of small businesses in GDP declined from 67.4% to 52.2%. However, this does not necessarily indicate a decline in the economic importance of the private sector. On the contrary, the private sector continues to play an important role in exports, services, and employment.

In 2025, GDP growth of 7.7%, investment in fixed capital of UZS 591.1 trillion, and small-business exports of USD 12.4 billion demonstrate that substantial opportunities for private sector development remain within the Uzbek economy.

At the same time, the fact that state-owned enterprises account for more than 30% of GDP, the estimated unmet financing needs of private businesses of approximately USD 10.5 billion, and the demand for skilled labor represent important institutional and structural constraints on the next stage of private sector development.

Therefore, private sector policy in Uzbekistan should enter a new stage.

The main development formula can be expressed as:

More enterprises → higher productivity → more innovation → greater exports → higher-quality employment → sustainable economic growth.

In other words, future policy attention should focus not merely on the quantitative expansion of the private sector, but on strengthening its qualitative characteristics, particularly productivity, competitiveness, technological capabilities, innovation, and access to international markets.

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The 2026 World Bank Group-IFC diagnostic also identifies logistics, tourism, and pharmaceuticals as areas where targeted reforms could potentially generate USD 5.2-6.4 billion in private investment and more than 300,000 jobs.

From this perspective, private sector development in Uzbekistan should not be viewed merely as a supporting element of economic growth. Rather, it can be considered a central institutional mechanism for economic modernization toward 2030, particularly through productivity growth, competitive markets, private investment, innovation, export development, and high-quality employment.

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