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Article

Balance Between Private Investment and Household Income in Uzbekistan: Empirical Evidence for 2010–2025 and Projections to 2030

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Abstract: *Private investment is usually assessed by the volume a country attracts, and much less often by the share that reaches household budgets. This study examines the second question both theoretically and empirically. Building on classical, Keynesian, growth and post-Keynesian theory, we define the balance between private investment and household income as a two-way circuit. Capital formation raises real household income through jobs, wages and small-business earnings, and household saving and demand in turn flow back into investment. The two flows are balanced when they remain linked in the long run. We decompose the income response to investment, which shows why remittances weaken this link, and propose a two-step diagnostic that combines cointegration tests allowing for regime shifts with a threshold estimate. Using World Bank and national data for Uzbekistan over 2010–2025, we find that the ratio of real fixed investment to real household consumption rose from about 0.30 before 2018 to 0.56 in 2025. A simple autoregressive model shows that this regime shift is statistically significant. Over the same period, the share of investment financed from the own funds of enterprises and households fell to about one fifth. Bootstrap projections indicate that the post-2017 momentum will weaken: in the baseline scenario the ratio declines to about 0.50 by 2030, and investment growth slows to roughly 5 per cent a year. The experience of Japan, the Republic of Korea and Singapore shows that institutions, in addition to markets, played a decisive role in closing this circuit.*

Keywords: *private investment; household income; balanced growth; investment–consumption ratio; projections; remittances; Uzbekistan.*

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1. Introduction

In emerging economies the investment rate is one of the most closely monitored indicators. Governments publish it regularly, use it to rank regions and refer to it when attracting foreign investors. The underlying logic is well known: capital formation expands production capacity, new capacity creates jobs, and employment raises incomes. Yet the last link in this chain is examined far less carefully than the first. An economy may double its investment ratio while living standards improve only slowly. This can happen when new plants are capital-intensive, when profits are transferred abroad, or when the additional output is sold mainly to buyers other than the people who produced it. In such cases the capital stock grows faster than household income.

International evidence shows why this link deserves attention. In many countries the labour share of national income has been declining since the early 1980s [1], and in many

OECD economies real wages have grown more slowly than labour productivity [2]. Researchers attribute these trends to cheaper capital goods, automation and the rising weight of dominant firms [3][4]. Whatever the exact combination of causes, investment and household income do not necessarily grow at the same pace.

For Uzbekistan this question is of direct practical importance. After the economic liberalisation launched in 2017, gross fixed capital formation increased from about one fifth of GDP to 28–35 per cent. Over the same period, household final consumption fell from 67–72 per cent of GDP in 2012–2017 to 61–65 per cent since 2018 [5]. The Uzbekistan–2030 Strategy, adopted in 2023 and updated in 2026, sets the goal of growth that improves household welfare and requires measurable indicators for assessing progress [6][7]. Whether the current investment policy achieves this goal depends on how closely investment and household income are linked. The indicators used at present provide little information on this link.

The relationship between accumulation and income has been discussed since the early days of political economy. In Book I, Chapter VIII of *The Wealth of Nations*, Adam Smith observed that wages depend not so much on the wealth of a nation as on the rate at which this wealth grows [8]. In his account, causality runs from accumulation to labour income, and the relationship is dynamic. Marx [9] approached the issue from the opposite side. He argued that as the means of production take up a growing share of capital, accumulation reproduces a reserve army of the unemployed, which keeps wages low. His prediction of growing impoverishment was not confirmed, but his argument about the composition of investment remains relevant in the current debate on automation [3]. Keynes [10] reversed the direction of causality. In his theory, investment depends on expected demand and on the "animal spirits" of entrepreneurs, and it generates income through the multiplier. Samuelson [11] later combined the multiplier with the accelerator and showed that their interaction can produce cycles. Household income is therefore both a result and a determinant of investment.

Growth theory extended the analysis to the long run. Domar [12] emphasised the dual role of investment: it adds to aggregate demand in the current period and to productive capacity in the next. Solow [13] showed that growth can be stable, but his model also implies that a higher saving rate raises the level of income per capita without changing its long-run growth rate. Phelps [14] derived the saving rate that maximises consumption in the steady state. This was the first formal definition of an optimal proportion between accumulation and household welfare. Endogenous growth theory later showed that the composition of the capital stock matters as much as its size [15]. The Cambridge school brought income distribution back into the analysis. In Kaldor's model [16], workers and capitalists have different saving propensities, so income shares adjust to the rate of investment. Bhaduri and Marglin [17] showed that a higher wage share stimulates consumption but reduces profits. As a result, aggregate demand can be either wage-led or profit-led. Empirical studies find both regimes, sometimes in the same country in different periods [18][19]. For economies with a large rural or informal sector, Lewis [20] adds that investment first absorbs surplus labour and raises wages only at a later stage. Institutions also matter: secure property rights extend the planning horizon of investors [21], and inclusive institutions allow the gains from growth to be shared more widely [22].

Thus, each of these approaches explains only one direction of a two-way relationship. The golden rule, which comes closest to a balance condition, refers to aggregate saving in a steady state. The literature on demand regimes works with factor shares rather than with household budgets. The debate on rebalancing the Chinese economy treats the share of consumption as the target variable [23]. To our knowledge, none of these approaches traces private capital through to household disposable income in an economy that is still far from a steady state. This study addresses that question. We define the balance between private investment and household income, decompose the channels through which it operates,

propose a method for measuring it and apply this framework to Uzbekistan, with projections to 2030. The paper is organised as follows. Section 2 describes the materials and methods, Section 3 presents and discusses the results, and Section 4 concludes.

2. Materials And Methods

We define the balance between private investment and household income as a state with three properties: (i) private capital formation raises the real disposable income of households through employment, wages and productivity; (ii) household income returns to private investment through intermediated saving and through demand that makes new capacity profitable; (iii) the two flows remain linked in the long run, so that neither grows persistently at the expense of the other. This definition refers to flows over time. It should not be confused with the ex post identity of saving and investment, which holds by construction [10]. The definition refers to private rather than total investment, because investment decisions and claims on profit belong to private agents. Finally, balance is measured against household disposable income rather than GDP, since output can grow while family budgets stagnate [24].

Figure 1 presents this relationship as a circuit. In the forward arc, investment reaches households through new jobs, wages linked to productivity and earnings from small businesses. In the return arc, household income flows back as saving (in banks, securities or family firms) and as consumer demand. Part of the flow leaks out of the circuit through imports of capital and consumer goods, repatriation of profits, labour-saving technology and savings held idle in cash, foreign currency or real estate. Remittances enter the circuit from outside. They raise household income without passing through domestic capital.

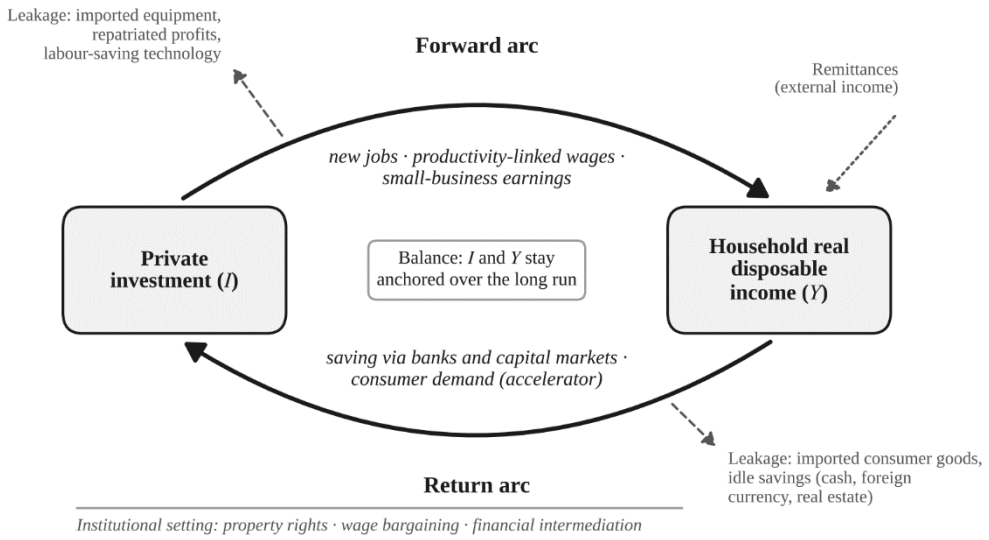


Figure 1. The investment–income circuit
Source: author's elaboration.

In logarithms, the two arcs can be written as

$$y_t = \alpha + \beta i_t + \gamma' x_t + u_t \qquad (1)$$

$$i_t = \delta + \varphi s_t + \psi \Delta y_t + \kappa' w_t + v_t \qquad (2)$$

where y_t is real household disposable income, i_t real private investment, s_t household saving, and x_t and w_t are controls. Balance requires β, φ and ψ to be positive and u_t to be stationary. Because household income is the sum of wages wL, mixed income M, remittances R and net transfers and property income T, the forward-arc elasticity can be decomposed as

$$\beta = s_W(\varepsilon_L + \varepsilon_w) + s_M\varepsilon_M + s_R\varepsilon_R + s_T\varepsilon_T \qquad (3)$$

where s_j are income shares and ε_j the elasticities of these components with respect to investment. Three conclusions follow from this decomposition. First, investment affects

income through employment, the wage rate and small-business income, and the employment channel dominates as long as surplus labour exists. Second, components that do not respond to domestic investment, above all remittances, reduce the measured β; a more accurate test therefore uses earned income, $W + M$. Third, labour-saving investment can raise ε_w for those who keep their jobs while pulling ε_L down. For this reason, a rising average wage is not sufficient evidence on its own. Imbalance can arise in either direction. Capacity may grow faster than household purchasing power, as Pettis [23] shows for China, or income may grow faster than domestic production because of transfers and remittances. Neither situation is sustainable, and in both cases the cost of adjustment eventually falls on households.

Two trending series may appear correlated even when they are unrelated [25]; a simple correlation therefore tells us little about balance. The first step of the diagnostic tests whether investment and household income share a common trend. If the long-run elasticity equals one, balance means that the log ratio $z_t = \ln(I_t/Y_t)$ is stationary; more generally, it means cointegration with slope β [26]. For short samples and regressors with different orders of integration, the bounds test of Pesaran et al. [27] is a suitable tool, provided that small-sample critical values are used. Since reforms can shift the relationship itself, the test should allow for a structural break. This can be done either by testing for cointegration with a break [28] or, once cointegration is established, by dating breaks in the long-run relationship [29]. The second step examines whether the strength of the link depends on the level of the investment ratio:

$$\Delta y_t = \mu + \theta_1 \Delta i_t \cdot 1(q_{t-1} \le \tau) + \theta_2 \Delta i_t \cdot 1(q_{t-1} > \tau) + \pi' x_t + e_t \qquad (4)$$

where $q_t = I_t/Y_t$, $1(\cdot)$ is the indicator function and τ is estimated from the data [30]. If θ_2 is considerably smaller than θ_1, the threshold marks the level beyond which additional investment contributes little to household income. The analysis is supplemented by two descriptive measures: the ratio q_t itself and the gap between the growth rates of investment and income over multi-year periods. This gap is preferred to the ratio of growth rates, because the ratio becomes unstable when income growth is close to zero.

The empirical analysis uses annual data for 2010–2025. Real gross fixed capital formation and real household final consumption at constant local-currency prices, their shares in GDP, real GDP growth and personal remittances are taken from the World Development Indicators [5]. The share of fixed investment financed from the own funds of enterprises and households is taken from the Statistics Agency under the President of the Republic of Uzbekistan [31]. The available data impose two limitations. First, after 2009 the World Development Indicators no longer divide fixed investment into private and public components, so total gross fixed capital formation is used as a proxy for private investment. Second, household disposable income is not published in national-accounts form, so real household final consumption is used instead. Consumption excludes saving; a rising saving rate therefore widens the measured gap.

Since only sixteen annual observations are available, the projection model is kept deliberately simple. Growth of household consumption is linked to GDP growth, and the logarithm of the investment–consumption ratio follows a first-order autoregressive process with a regime dummy:

$$\Delta c_t = a_0 + a_1 g_t + \nu_t \quad (5)$$

$$z_t = b_0 + b_1 D_t + \rho z_{t-1} + \eta_t \quad (6)$$

where c_t is log real household consumption, g_t real GDP growth and D_t equals one from 2018. Both equations are estimated by ordinary least squares over 2011–2025, and GDP growth is held at its 2018–2025 average of 6.1 per cent. Uncertainty is assessed with a recursive residual bootstrap in which both equations are re-estimated in each of 5,000 replications; 80 per cent intervals are obtained from the simulated paths [32]. To check out-of-sample accuracy, the model is estimated on data up to 2021 and used to project 2022–2025. In addition to the baseline, two alternative scenarios are considered: momentum, in which post-2017 growth rates persist, and investment stall, in which investment stops

growing and GDP growth falls to 4 per cent. Shares of GDP are projected from 2025 nominal shares under unchanged relative prices. All computations were carried out in Python.

3. Results

The main indicators are summarised in Table 1. Between 2010 and 2017, real investment and real household consumption grew at almost the same rate, close to 10 per cent a year, and the ratio between them remained around 0.30. After 2017, investment growth accelerated to 15.2 per cent a year, while consumption growth slowed to 7.5 per cent. The ratio moved to a higher and more volatile level, averaging 0.48 and reaching 0.56 in 2025 (Figure 2). In autoregression (6), the coefficient on the regime dummy is 0.30 (standard error 0.085). This implies an increase in the long-run ratio from about 0.30 to 0.50. Despite the short sample, the shift is unlikely to be due to chance. Since the model imposes a unit elasticity, it assumes the first step of the diagnostic instead of testing it. The estimate therefore shows that the long-run relationship has moved to a new level; it does not show that the relationship has broken down.

The structure of investment financing has also changed. The share of fixed investment financed from the own funds of enterprises and households was 52–58 per cent in 2010–2016. It averaged 33 per cent in 2018–2025 and fell to 21 per cent in 2025 [31]. Capital formation now depends much less on self-financing and much more on bank loans, foreign capital and budget funds. Whether the return arc has weakened depends on the extent to which these loans are funded by domestic deposits. Remittances have amounted to 10–16 per cent of GDP since 2018, and their weight in GDP was also raised by the 2017 devaluation [5]. According to equation (3), remittances blur the measured forward arc: they support consumption without passing through domestic capital. Most of these funds are spent on consumption, although part is invested in education and household businesses [33][34].

Table 1. Uzbekistan: the investment–consumption circuit before and after 2017

Indicator	2011–2017	2018–2025
Real gross fixed capital formation, average annual growth (%)	9.5	15.2
Real household final consumption, average annual growth (%)	9.8	7.5
Growth gap (percentage points)	−0.3	7.8
Real investment ÷ real household consumption (period mean)	0.30	0.48
Gross fixed capital formation (% of GDP)	20.5	31.9
Household final consumption (% of GDP)	68.4	63.7
Enterprises' and households' own funds in fixed investment (%)	55.2	33.4

Note: growth rates are compound annual rates for 2010–2017 and 2017–2025 at constant prices; the gap is computed from unrounded rates; other entries are simple averages over the years shown. Total gross fixed capital formation is used because the private component is not reported separately. Source: author's calculations based on data from [5] and [31].

The consumption elasticity a_1 is estimated at 2.09 (standard error 0.29) and the autoregressive coefficient ρ at 0.42 (0.18). In the out-of-sample check, the root mean squared error of the model for the ratio is 13.3 log points, compared with 15.4 for a random walk. The improvement is modest, and it rests on only four forecasts made from a single origin. For levels, a simple random walk with drift performs better (12.1 against 16.3 for investment and 4.2 against 4.9 for consumption). The level projections should therefore be given less weight than the projection of the ratio.

In the baseline scenario, the ratio declines from 0.56 to about 0.50 by 2030, with an 80 per cent interval of 0.43–0.56 (Figure 2). Real investment growth slows to about 5 per cent a year, while household consumption grows by about 7.5 per cent. With GDP growth of 6.1 per cent and no new structural break, investment grows faster than consumption in only 13 per cent of the bootstrap paths. At unchanged relative prices, investment would stabilise at about 32 per cent of GDP, and household consumption would rise to about 68 per cent. The baseline scenario thus also depends on remittances and foreign saving.

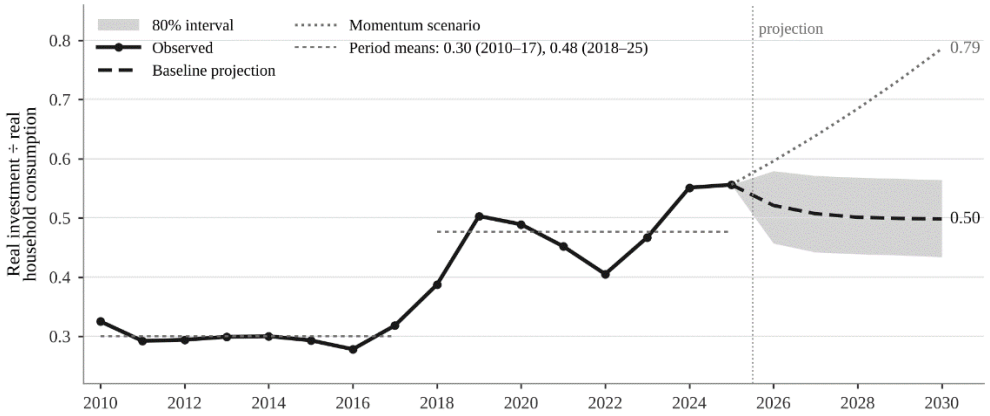


Figure 2. Uzbekistan: ratio of real fixed investment to real household consumption, 2010–2025, and projections to 2030

Note: constant prices; shaded area is the 80 per cent bootstrap interval of the baseline. Source: author's calculations based on data from [5].

Table 2 compares the two alternative scenarios with the baseline. If the post-2017 growth rates continued, the ratio would reach 0.79 and investment would account for about 51 per cent of GDP. Combined with household consumption of about 68 per cent of GDP, this would require an external deficit that no economy could finance for long. The momentum scenario is therefore not a realistic forecast. It shows that the gap has to narrow, and the real question is how this will happen. In the investment stall scenario the ratio ends at 0.48, close to the baseline, but household consumption grows by only 3 per cent a year. The same ratio can thus be reached either through faster consumption growth or through slower overall growth. For this reason, the ratio should be interpreted together with the forward-arc elasticity and with earned income. The results are subject to three limitations. The sample is short, total investment is used as a proxy for private investment, and the high consumption elasticity partly reflects fluctuations driven by remittances, such as the decline in 2020 and the recovery in 2021. The projections should therefore be seen as a stress test of the current policy course rather than as forecasts.

Table 2. Projections for 2026–2030 under three scenarios

Scenario	Assumption	Investment growth (% a year)	Consumption growth (% a year)	I/C ratio in 2030	Investment in 2030 (% of GDP)	Consumption in 2030 (% of GDP)
Momentum	Post-2017 growth rates persist	15.2	7.5	0.79	51.3	68.3
Baseline	Equations (5)–(6)	5.1 (2.5–7.9)	7.5 (6.3–8.7)	0.50 (0.43–0.56)	32.4 (28.6–36.9)	68.4 (64.8–72.3)
Investment stall	Investment flat; GDP growth 4%	0.0	3.0	0.48	28.0	61.2

Note: GDP growth is 6.1 per cent a year in the momentum and baseline scenarios; under investment stall, consumption follows equation (5). Central values are point projections; 80 per cent bootstrap intervals, conditional on the GDP assumption, in parentheses. Ratios at constant prices; shares of GDP projected from 2025 nominal shares

under unchanged relative prices. Investment is total gross fixed capital formation; consumption is household final consumption. Source: author's estimates.

Japan in 1955–1990, the Republic of Korea from 1962 until the 1997 crisis and Singapore in 1965–1997 provide a useful benchmark. All three are among the 13 economies that grew by 7 per cent a year or more for at least 25 years after 1950 [35]. They combined very high investment with rapidly rising real wages and avoided a sharp increase in inequality [36]. However, each country followed its own path. Japan relied on coordination around large firms. The productivity movement launched in 1955 promised job security, joint consultation and a fair distribution of productivity gains, and the annual spring wage negotiations (*shunto*) spread wage settlements from the leading industries to the rest of the economy [37]. The Korean state intervened more directly. Subsidised loans went to business groups that met export targets [38], and in the 1970s the *Saemaul Undong* movement combined modest public support with villagers' own labour and savings [39]. Singapore built the return arc deliberately. Its Central Provident Fund, established in 1955, turned part of every wage into compulsory saving, which was used to finance housing and infrastructure. The National Wages Council, created in 1972, kept wages broadly in line with productivity [40].

The failures of these economies are also instructive. In Japan, the credit boom of the late 1980s channelled funds into land and equities, and the "lost decade" that followed has been attributed to a slowdown in productivity [41]. In Korea, heavy short-term foreign borrowing turned the capital flight of 1997 into a collapse of investment and wages [42]. Against this background, the Uzbek data describe an economy that has raised its investment rate much as the East Asian economies did, but has not yet built the institutions that converted investment into household income there. We believe that the declining share of self-financing requires particular attention, because it was dependence on volatile external funding that broke the circuit in Korea. At the same time, the general principles behind East Asian institutions are easier to transfer than the specific institutions themselves [43].

Four policy measures could help ensure that the adjustment takes place through rising household incomes. First, the circuit should be measured. Regular publication of household disposable income and private fixed investment, together with monitoring of the investment–income ratio and the share of own funds among the indicators of the Uzbekistan–2030 Strategy, would make balance an explicit policy target. Second, investment incentives should be linked to job creation and wage growth, following the logic of performance-based reciprocity in Korea. Third, wages should be linked to productivity through tripartite social dialogue, as in Japan and Singapore. Fourth, household saving, including part of remittance inflows, should be channelled into long-term domestic investment through deposit, pension and capital-market instruments. Such a voluntary mechanism, similar in purpose to Singapore's provident fund, would also reduce dependence on external finance.

4. Conclusion

Investment statistics show how much capital an economy accumulates, but they do not show whether this capital raises household incomes. This study proposed a definition of this link, decomposed its income channels and developed a two-step diagnostic that allows for regime shifts. Applied to Uzbekistan, the framework indicates an investment-led regime. Since 2017 the ratio of real investment to real household consumption has moved to a considerably higher level, the share of self-financing has declined, and remittances support household spending from outside the domestic circuit. The projections suggest that this momentum will weaken by 2030. Whether the adjustment takes place through rising household incomes or through slower growth will depend on economic policy.

The study has several limitations. It relies on proxy variables and a short sample, and it treats households as a single sector. Future research based on regional panel data, firm-level data and harmonised household income series would make it possible to estimate the full diagnostic.

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