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Investment Risks and Methods of Reducing Them

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Abstract: This article analyzes the main types of risks that arise in the process of investment activities, their economic essence and impact on the activities of the enterprise. Mechanisms for identifying, assessing and effectively managing investment risks are considered. Also, methods of reducing risks used in various fields, including diversification, insurance, hedging and the use of modern financial instruments, are analyzed based on experience. The article substantiates the relevance of taking risks into account when making investment decisions and gives recommendations for minimizing risks.

Keywords: investment risk, diversification, risk management, insurance, hedging, investment decision, risk analysis, financial instruments.

INTRODUCTION

The deepening of market relations and the expansion of economic freedom have significantly increased the role of investment activity. Investments serve not only as a key tool for the creation of new production capacities, but also as a key tool for achieving many strategic goals, such as the introduction of innovations, increasing competitiveness, expanding export potential, and creating new jobs. Therefore, the stability and security of the investment environment in any country is of paramount importance.

However, investment activity is characterized by its own level of risk. Investment risk is the probability of a decrease or complete loss of the expected return on investment. These risks arise from various sources: macroeconomic changes, changes in tax policy, exchange rate instability, disruption of political stability, restrictions on the activities of financial institutions, technological changes, and even climatic factors can negatively affect the security of investments.

Investment risks are equally important for private investors, large companies, banks, international financial institutions, and government agencies. Especially in the current conditions of close interconnection of global markets, an economic or political crisis in one country can affect investment projects in other countries.

In this regard, identifying, assessing and effectively managing investment risks is one of the main issues in modern financial management and strategic planning. Traditional and modern methods of risk reduction - diversification, insurance, hedging, portfolio analysis, the use of modern financial instruments - are widely used.

This article analyzes the theoretical and practical aspects of investment risks, their classification, assessment methods, and best practices in risk reduction. Special attention is also paid to the political and institutional reforms being carried out in the economic environment of Uzbekistan to reduce investment risks.

LITERATURE REVIEW

The issue of investment risks is one of the most relevant topics for entities operating in various sectors of the economy today, and a number of scientific studies have been conducted in this direction. Extensive scientific theories have been developed by world and domestic scientists on the nature, classification, assessment and management of investment risks.

In particular, foreign scientists F. Modigliani and M. Miller in their theoretical works on capital structure and risks have deeply analyzed the factors influencing investment decisions. G. Markowitz's portfolio theory is based on the concept of reducing investment risks through diversification, and is widely used as one of the main principles of modern investment management. A methodology for assessing investment portfolios in terms of risk and return using the Sharpe, Treynor and Jensen indices has been proposed.

Domestic scientists G. T. Toshmatov, A. Q. Qodirov, R. G. Economists such as Kholboev in their research have proposed scientific approaches to the investment climate in Uzbekistan, risk reduction strategies and their impact on the national economy. In particular, A. Kadyrov emphasizes the need to reduce investment risks through insurance and improving the legal environment.

Also, annual reports and analytical reviews of such authoritative international financial organizations as the World Bank, the International Monetary Fund, UNCTAD, OECD are an important source for assessing the investment climate and risk factors. Based on statistical data from the Ministry of Investments, Industry and Trade of the Republic of Uzbekistan and the Central Bank, the level of investment risks in the republic and policies to reduce them are being analyzed.

The reviewed literature shows that, along with theoretical knowledge, the use of modern financial instruments, institutional reforms and state support are important for effective management of investment risks. This article, along with analyzing existing theories, focuses on linking them to national practice.

METHODOLOGY

In this study, a comprehensive approach was used to reveal the economic content of investment risks, identify methods for their classification, assessment and reduction. The following main methods were used in the course of scientific research:

- The method of analysis and synthesis - was used to study the theoretical foundations of investment risks, their formation factors and impact on the economic system. The approaches of different scientists were compared, their common and different aspects were analyzed.
- The method of induction and deduction - was used to draw specific conclusions from general theoretical views and, conversely, to generalize theoretical foundations from practical cases.
- The method of statistical analysis - was used to assess the level and dynamics of investment risks based on official statistical data on the investment environment of the Republic of Uzbekistan and foreign countries.
- Graphic and tabular methods - were used to visually reflect statistical data, compare and analyze them.
- Expert assessment method – based on the opinions of experts in the process of making investment decisions, proposals were developed to assess risks and reduce them.

- Empirical approach – using the example of Uzbekistan, the current situation in investment risks and their reduction was analyzed, and conclusions were drawn using real-world examples.

The study also analyzed international experience and paid attention to assessing the investment risk management strategies used in advanced countries and their suitability for the conditions of Uzbekistan.

ANALYSIS AND RESULTS

Investment activity, while being one of the most important factors in economic development, is also characterized by a high level of risk. Analysis shows that, despite the implementation of a number of reforms to improve the investment climate in Uzbekistan today, the risks faced by investors remain. Investment risks can manifest themselves in various forms: economic instability, disruptions in the financial system, political uncertainty, insufficiently stable legal environment, as well as technological and operational problems - all of which negatively affect the success of investment projects.

The most common investment risks in the Uzbek market include insufficient macroeconomic stability, exchange rate volatility, limited sources of financing, uncertainties in the taxation system, and frequent changes in the regulatory framework. Also important risk factors are improper project planning, lack of qualified labor, and insufficient introduction of modern technologies.

Analysis conducted during 2020–2024 shows that the bulk of foreign investment is directed to large infrastructure projects guaranteed by the state. This indicates that the level of risk for the private sector remains relatively high. In response, a number of measures are being taken to reduce risks. In particular, diversification of investment risks, that is, the distribution of investments across different sectors and regions, is recognized as one of the most effective approaches. At the same time, modern financial instruments such as insurance and hedging (covering risks through financial instruments) are also being used.

Banks are expanding the practice of insuring risks on investment loans, and large industrial enterprises have begun to use forward and futures contracts to reduce currency risks. In turn, the state is introducing simplified permit procedures to create favorable conditions for investors, providing investment guarantees for strategic projects. This makes it possible to share risks between the state and the private sector.

Based on the above, it is clear that investment risks are an integral part of economic development, and they can be effectively managed, assessed and minimized, rather than completely eliminated. For this, cooperation between state policy, financial institutions, business entities and scientific analytical centers is of great importance. By using international experience and modern approaches to risk management, it is possible to increase investment activity and ensure economic growth.

CONCLUSION

Investment activity is of crucial importance in the growth of any economy, but the risks associated with it have a serious impact on the effectiveness of this process. The economic reforms being implemented in Uzbekistan and measures aimed at improving the investment climate show that reducing investment risks is one of the priority areas for the national economy.

Analyses show that investment risks are associated with several factors - macroeconomic, political, legal, financial and technological instability. To reduce them, it is important to develop effective management strategies, provide state support, and use modern financial instruments. In particular, diversification of investments, development of insurance mechanisms, use of hedging methods, and implementation of projects based on public-private partnerships are recognized as the most effective methods.

Also, a reliable environment for investors can be created by adapting foreign experience and advanced approaches to investment risk management to national conditions. This will not only increase domestic investment, but also stimulate the inflow of foreign capital. In general, through systematic approaches and comprehensive measures to minimize investment risks, it is possible to ensure economic stability, create new jobs, and increase the country's competitiveness.

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