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INVESTMENT RISK ASSESSMENT AND FORECASTING IN THE SERVICE SECTOR: EVIDENCE FROM UZBEKISTAN

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Abstract: This article examines investment risks, their main types, underlying factors, and approaches to risk mitigation. It provides a brief overview of the concept of investment risk and analyzes the potential risks faced by investors and enterprises, including financial risks, operational challenges, financial market risks, and political and social changes. Particular attention is given to the factors that may increase investment uncertainty and the potential approaches to reducing their negative effects on investment activities.

Keywords: Investment risks, systematic and unsystematic risk, interest rate risk, exchange rate risk, financial risks, political risks, market uncertainty, market risk, financial hazards.

INTRODUCTION

Investment is currently regarded as one of the key drivers of economic development. Governments and business entities continuously rely on investment to strengthen their financial capacity, develop modern projects, and ensure sustainable economic stability. In the context of globalization and digital transformation, the service sector has become one of the important drivers of economic growth. In particular, services provided in trade, finance, transport, education, healthcare, tourism, and other sectors not only satisfy domestic demand but also contribute to strengthening a country's economic potential through the attraction of domestic and foreign investment. However, investment activities and the processes associated with investing in these sectors are also exposed to various risks. Such risks may result in the loss of investors' financial resources or prevent them from achieving the expected future returns. Investment risks may arise from a variety of factors. These risks may be associated with financial instability, economic downturns, market uncertainty, political changes, legal problems, or military conflicts. In other words, risks are inherently present within the structure of various influencing factors and have a probabilistic nature. Their effects may directly or indirectly influence the processes and developments taking place within the financial market environment. This situation, in turn, confirms the high relevance of the problem of financial market risks. Instability in the competitive environment, political and social factors, changes in legislation, and technological developments can all increase the level of risk faced by investors.

Therefore, forecasting risks in advance when attracting investment to the service sector, making appropriate decisions based on their assessment, and minimizing potential losses have become integral components of modern investment strategies. Studying the scientific, methodological, and practical aspects of improving socio-economic efficiency through the effective utilization of the service sector is essential for addressing these challenges. In this regard, the present article examines the major risks that may arise during investment activities in the service sector, discusses approaches to their identification and forecasting, and provides practical recommendations for optimizing the investment risk management process.

LITERATURE REVIEW

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The concept of risk is relatively new within the system of economic sciences, and its fundamental foundations have been primarily developed in the research of foreign scholars. During the Soviet period, the term "risk" was considered a "bourgeois" concept that was incompatible with the prevailing socio-economic system. This circumstance contributed to insufficient research into methods of risk management, analysis, and assessment in the economic literature of that period. Nevertheless, contemporary economic theory has developed certain conceptual foundations of economic risk, including various definitions proposed by both foreign and domestic researchers.

Modern economic literature contains numerous attempts to investigate risk as an economic category; however, many of these approaches do not fully reflect the multidimensional nature of economic risk. Such studies are often characterized by a relatively narrow focus associated with the specific research area of the respective author. For example, the Russian scholar R. M. Kachalov considers economic risk as a complex economic category associated with uncertainty in production relations and the mechanisms for overcoming such uncertainty [5]. G. I. Tamoshina examines the essence of economic risk through the economic relationships of business entities. According to her approach, risks under market conditions are stochastic, irregular, and probabilistic in nature and therefore involve a certain degree of uncertainty [6].

L. N. Tepman provides a categorical definition of economic risk as a system of economic relations associated with the uncertainty inherent in the reproduction process and with the entrepreneur's ability to use particular elements of this uncertainty creatively in order to obtain additional profit or income [7]. I. T. Balabanov [8] and E. S. Stoyanova [9] regard economic risk as an event that may or may not occur. If such an event occurs, it may result in three possible economic outcomes: negative outcomes in the form of losses or damages, a zero outcome, or positive outcomes in the form of income, profit, or gain. Thus, these researchers primarily focus on the probabilistic nature of risk and the possibility of different economic outcomes.

Risk as a scientific category has been a traditional subject of research among economists for a long historical period. Richard Cantillon, regarded as one of the pioneers in developing the concept of entrepreneurship, was among the first economists to incorporate the concept of risk into the analysis of entrepreneurial activity. In his view, an entrepreneur purchases goods whose prices are relatively certain but sells them under conditions of uncertain prices, thereby assuming risk and adapting supply to demand [10].

Two major approaches can be identified in the theoretical study of economic risk [11]. Representatives of the classical theory, including J. S. Mill and N. W. Senior, considered entrepreneurial income as consisting of remuneration for labour and a payment for assuming risk. Within this approach, risk was primarily associated with the possibility of economic loss.

Another important contribution to the theory of risk was made by J. M. Keynes, who emphasized the need to consider "risk costs" associated with deviations between expected and actual returns. Keynes identified three major types of risk that should be considered in economic activity: entrepreneurial risk, credit risk, and market risk [12]. This classification remains relevant for contemporary investment analysis because these three categories encompass many of the risks faced by investors and enterprises.

Paul Heyne, in his work *The Economic Way of Thinking*, emphasized the relationship between uncertainty and profit, arguing that profit emerges partly because economic actors operate under conditions of uncertainty. If all factors affecting profit opportunities were completely known to everyone, all available profit opportunities would be fully exploited and economic profit would

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tend toward zero [13]. This perspective highlights the importance of uncertainty as a fundamental condition underlying entrepreneurial and investment decisions.

The relationship between the concepts of "uncertainty" and "risk" occupies an important position in the theoretical analysis of risk. The American economist Frank H. Knight made a fundamental distinction between these two concepts. According to Knight, risk can be quantitatively assessed through probability, whereas uncertainty cannot be measured quantitatively in the same manner [14]. Thus, risk can be understood as a form of uncertainty that is capable of quantitative assessment. This distinction is particularly important for investment risk forecasting because measurable risks can be incorporated into econometric and statistical models.

D. N. Ushakov interprets the term "risk" as a potential loss or failure that may arise in commercial activity as a result of changes in market conditions [15]. However, defining risk solely from a linguistic perspective does not fully capture its contemporary content and significance as an important category of enterprise management. In modern market economies, the economic meaning of risk has expanded considerably and has acquired a multidimensional character, encompassing financial, operational, market, political, legal, technological, and other forms of uncertainty.

Accordingly, under market economy conditions, the economic content of entrepreneurial risk has become broader and more complex. Risk may have multiple meanings and, in certain cases, may be interpreted from different or even contradictory perspectives. In particular, V. V. Cherkasov notes that the economic literature distinguishes more than 40 classification criteria for risks and over 220 different forms of risk. This demonstrates the complexity and multidimensional nature of the risk phenomenon and highlights the need for a systematic approach to its classification, assessment, and forecasting, particularly in the context of investment activity in the service sector.

METHODOLOGY

The study employs systematic analysis and statistical analysis to scientifically examine the research topic, ensure logical consistency, and conduct a comprehensive assessment of the issues under investigation. The article analyzes the development trends of investment risks in the service sector and evaluates their significance within the broader economic system. Based on the results of the analysis, scientific proposals and practical recommendations are developed to improve the assessment, management, and forecasting of investment risks in service industries.

ANALYSIS AND RESULTS

Risk management in service-sector enterprises has developed as a distinct area of scientific research focused on identifying, analyzing, assessing, and effectively managing potential risks arising in the economic activities of organizations. In a broader sense, risk management encompasses the process of identifying potential threats in advance, assessing their possible consequences, and selecting effective management mechanisms and instruments to minimize their negative effects.

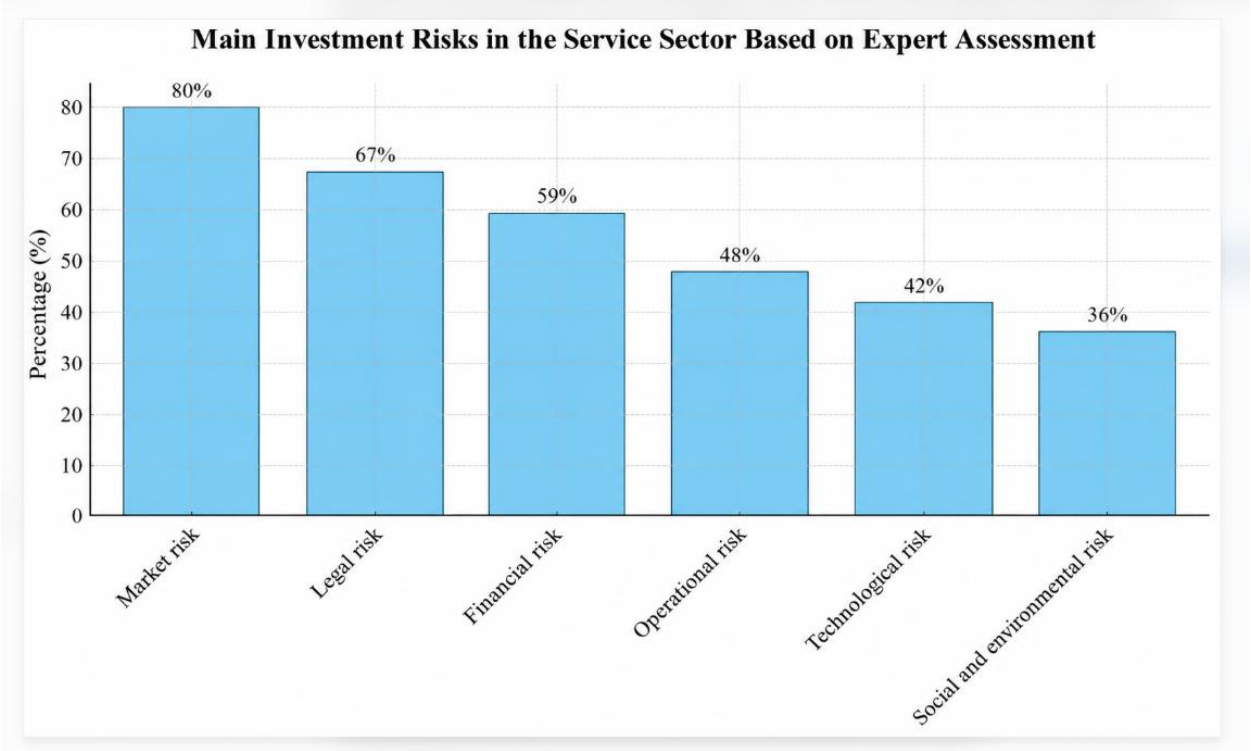
The importance of risk management has increased significantly in today's global business environment. Enterprises need to consider not only financial and operational risks but also technological, legal, environmental, and social risks. Therefore, risk management systems are closely interconnected with strategic planning, market analysis, and the improvement of

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competitiveness. A comprehensive risk management system can be viewed as consisting of two interconnected subsystems: the **managed system (object of management)** and the **management system (subject of management)**.

Within the risk management system, the objects of management include risks, risky capital investments, and the economic relationships arising among economic entities in the implementation of risky processes. These relationships may involve partners and competitors, borrowers and creditors, as well as insured parties and insurers. The subjects of risk management consist of specialized groups of personnel, including entrepreneurs, financial managers, risk managers, insurance specialists, and other relevant professionals. Through various management methods and approaches, these subjects exert targeted influence on the objects of management in order to identify, assess, control, and minimize potential risks.



The service sector occupies a dominant position in the economies of countries that have transitioned to a market-based economic system. The structure of the services market is continuously improving through the development of new and promising types of services, including banking and financial services, insurance, information and communication services, and household services.

As President of the Republic of Uzbekistan Shavkat Mirziyoyev emphasized, it is essential to deeply understand the crucial role played by small businesses and private entrepreneurship specializing in the service sector in creating modern economic structures capable of responding to rapidly changing market demands, generating new jobs, and increasing household incomes. Changes in the global economy require the service sector, like other sectors of the Uzbek

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economy, to be developed as a priority. Therefore, under the conditions of deepening economic reforms in the country, the development of the service sector remains one of the key priorities.

At the same time, it is important to highlight several significant shortcomings in the development of this sector. In particular, the potential of the service sector is still underutilized as a promising source of employment growth, increased household incomes, and increased revenues of local budgets. The existing challenges associated with creating favorable conditions for the rapid development of services and the service industry, increasing its share in the economy, expanding employment in service-sector activities, thereby raising household incomes, and filling the domestic consumer market with modern, high-quality, and diverse services demonstrate the relevance and importance of the selected research topic under current conditions. The study shows that despite the rapid growth of the service sector, the risks associated with attracting investment into these sectors are not always adequately forecasted. This increases the level of risk faced by investors. Therefore, the introduction of modern risk assessment and forecasting mechanisms in the service sector is becoming an increasingly important issue.

CONCLUSION

Forecasting risks associated with attracting investment into the service sector is an integral part of a sustainable and effective investment policy. Expanding beyond a country's domestic market can reduce dependence on fluctuations in market demand and, accordingly, increase the number of customers. This, in turn, reduces the vulnerability of a project or business activity, even in the event of losing one or several customers. However, it should be emphasized that diversification across different stocks, goods, services, customers, and other areas does not always necessarily lead to a reduction in risk.

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