



## THE LEGAL FRAMEWORK OF INSOLVENCY IN UZBEKISTAN

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<b>Received:</b> 8 <sup>th</sup> July 2025 <b>Accepted:</b> 7 <sup>th</sup> August 2025	The article examines the legal framework of insolvency in Uzbekistan, focusing on both theoretical aspects and practical application. It analyzes the current legislation governing insolvency proceedings, including the Bankruptcy Law, which is the new regulatory act "On Insolvency" and recent reforms aimed at improving efficiency and creditor protection. Special attention is paid to the judicial procedure for the consideration of cases, mechanisms for monitoring the actions of debtors and creditors, as well as government support measures aimed at stabilizing the financial system. The main aspects of legal regulation that contribute to reducing the risk of abuse and ensuring transparency of procedures have been identified, which is an important element in maintaining the trust of market participants.

**Keywords:** Insolvency, bankruptcy, Uzbekistan, insolvency law, corporate insolvency, creditor's right, restructuring, bankruptcy procedure, legal reforms.

In recent years, Uzbekistan has undertaken significant reforms in the field of commercial law, with particular emphasis on strengthening the regulation of insolvency. The adoption of the new edition of the Law on Insolvency reflects the country's efforts to modernize its legal framework and bring it closer to international standards. Unlike earlier versions, the revised law introduces clearer procedures for insolvency proceedings, enhances the rights of creditors, and establishes mechanisms for corporate restructuring rather than focusing solely on liquidation.

From 2003 to 2022, the state policy of the Republic of Uzbekistan was governed by the Law "On Bankruptcy." However, on September 30, 2021, during the forty-eighth plenary session of the Senate, a new law titled "On Insolvency" was approved. This law was signed by the President on April 12, 2022, and came into force on January 1, 2023, thereby repealing the previous law. Several factors may have prompted this legislative action. In particular, bankruptcy was traditionally perceived as a negative process that signified the complete cessation of the activities of an individual or legal entity.<sup>1</sup>

The reform reflects Uzbekistan's broader economic strategy, which aims to create a more transparent and investor-friendly business environment. By addressing long-standing challenges such as delays

in court procedures, inefficient enforcement mechanisms, and limited opportunities for debt restructuring, the new legislation seeks to balance the interests of both debtors and creditors. Furthermore, the law incorporates modern approaches to insolvency, including preventive measures, early financial recovery tools, and improved protection of stakeholders' rights.

The recognition of an enterprise as insolvent does not imply its total failure and does not entail the civil liability of its owner. Temporary financial difficulties can be overcome by timely and effective measures, allowing the organization to restore its solvency and continue its operations.

However, insolvency is not merely a financial problem; it is a more complex legal and organizational category. Unlike temporary insolvency, the formal recognition of an enterprise as insolvent is based on a court decision, which carries legal and managerial consequences by establishing a special status for the debtor and restricting certain rights.

Thus, insolvency may represent a temporary crisis from which a company can recover with proper management, whereas formal insolvency is an officially recognized state leading to profound organizational changes, potentially culminating in the liquidation of the enterprise

<sup>1</sup> Размахова А.В. Оценка неплатежеспособности и несостоятельности предприятий // Теория и практика общественного развития. 2015. No24.

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In the Republic of Uzbekistan, the signs of insolvency are categorized as follows:

— temporary Insolvency – the inability of a debtor to satisfy the monetary obligations of its creditors and/or to fulfill its tax and fee obligations on the date of filing a lawsuit, if such obligations are not met within three months from the due date, or within six months in the case of a leading enterprise or enterprises equated to it;

— permanent Insolvency – if the debtor's obligations exceed the value of its assets on the date of filing the lawsuit and in the reporting period at the beginning of the year in which the lawsuit is filed, as well as in the reporting period at the beginning of the previous year, if the debtor files the lawsuit in the first quarter of the year.<sup>2</sup>

In international practice, multilateral international treaties on bankruptcy are frequently encountered, such as the 1933 Convention (with participants including Denmark, Finland, Ireland, Norway, and Sweden), the Private International Law Treaties concluded in Montevideo in 1889 and 1940, the 1928 Havana Convention on Private International Law, the 1928 Bustamante Code, and the 1990 Istanbul Convention on Certain International Aspects of Bankruptcy. It is worth noting that these international treaties are regional and are based on similarities in geography, language, morality, and political formations.

As stipulated in the Law "On Insolvency" of the Republic of Uzbekistan, the institutions of insolvency include:

- the rights, obligations, and responsibilities of the parties;
- state regulation;
- procedures for insolvency and pre-trial rehabilitation;
- the procedure for judicial review of insolvency cases;
- the invalidation of transactions entered into with the debtor;
- the liability of the defaulting party;
- the procedures for monitoring, judicial rehabilitation, external management, and liquidation proceedings or the conclusion of a settlement agreement.<sup>3</sup>

It is important to note that the participants in these procedures may include the founders of the

debtor (a legal entity), the owner of the debtor's property, creditors, public associations, judicial managers, state authorities, and interested parties.

Legal and economic consequences are provided for in the recognition of an entity as insolvent. Specifically, when bankruptcy is declared, the debtor loses control over its assets, which are then managed by an arbitration manager (in the case of competitive proceedings) or another person appointed by the court (in the case of external management). In certain cases, the enterprise may undergo reorganization (under external management procedures) or liquidation (under competitive proceedings). The managers of the debtor enterprise may be removed from their positions or have their powers significantly curtailed, thereby imposing restrictions on the execution of certain transactions. The debtor's assets may be sold to satisfy the claims of creditors, and in accordance with Article 56 of the Civil Code of the Republic of Uzbekistan, claims arising from labor relations, alimony, and payments under copyright agreements are prioritized, as well as claims related to liability for harm caused to life and health through the capitalization of appropriate time-based payments.

To prevent the insolvency of a debtor, both theory and legislation provide for several measures:

First, pre-trial rehabilitation, which is a method of restoring the solvency of an organization initiated by creditors, owners, or other interested parties. Under this procedure, the debtor enterprise receives financial support aimed at repaying mandatory payments and debts, as well as restoring its financial stability;

Second, trust management, which is carried out under a trust management agreement. In this arrangement, one party—the management founder—transfers its property to another party, i.e., the trust manager, for a specified period. The trust manager is then obliged to manage the transferred assets in the interests of the founder or an appointed beneficiary. In the legislation of the Republic of Uzbekistan, this is defined as external management and is applied by the court to the debtor.<sup>4</sup>

Thus, financial rehabilitation is envisaged as a set of actions aimed at restoring or enhancing the financial stability of an enterprise. It is important to note that such measures are applicable not only to already insolvent organizations but also to solvent ones, with the aim of improving their financial condition. A key stage of financial rehabilitation is the analysis of the

<sup>2</sup> "On Insolvency" Law of the Republic of Uzbekistan, от 12.04.2022 г. № LRU-763 <https://lex.uz/ru/docs/6352957>

<sup>3</sup> "On Insolvency" Law of the Republic of Uzbekistan, от 12.04.2022 г. № LRU-763 <https://lex.uz/ru/docs/6352957>

<sup>4</sup> "Тўловга қобилиятсизлик аломатлари". Yuristlar malakasini oshirish markazi, 21.11.2023, URL: [uzmarkaz.uz/uz/news/tolovga-qobiliyatsizlik-alomatlari](https://uzmarkaz.uz/uz/news/tolovga-qobiliyatsizlik-alomatlari) (дата обращения: 04.04.2025).



causes of insolvency, which are divided into external and internal factors. External causes are related to the influence of the market environment—consumer demand, supplier actions, as well as state policy. Internal causes primarily pertain to ineffective management, affecting all areas of activity, including production, sales, personnel management, and finance.

In the context of global economic challenges and unstable financial markets, the differentiation between the concepts of temporary insolvency and formal insolvency plays a crucial role, as it allows for more precise application of financial rehabilitation measures. The new legislation provides for judicial review of cases, the possibility of debt restructuring, and mechanisms for controlling the actions of debtors and creditors, thereby reducing the risk of abuses and maintaining the trust of market participants.

In conclusion, the updated insolvency legislation of Uzbekistan demonstrates a strategic shift toward balancing economic stability with the protection of creditors' and debtors' rights. By introducing mechanisms for restructuring and financial recovery, the law aims to reduce the disruptive impact of insolvency on the business environment while fostering long-term economic resilience. These reforms are not only a response to the challenges of modern commerce but also a step toward harmonizing national practice with international standards. Ultimately, the effectiveness of the new legal framework will depend on its consistent implementation and the ability of institutions to ensure fair, transparent, and efficient insolvency proceedings.

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