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Article

The Necessity of Transitioning to International Financial Reporting Standards (IFRS) and the Advantages of Using IFRS in Economic Development

Narzullayeva Ozoda Qahramon qizi*1

1. Samarkand Institute of Economics and Services, Oriental University

Abstract: *In the context of globalization and increasing integration of national economies into the international financial system, the transition to International Financial Reporting Standards (IFRS) has become an objective necessity. This article analyzes the key reasons for adopting IFRS and examines its role in enhancing economic development. The study highlights that the use of IFRS ensures transparency, comparability, and reliability of financial information, which significantly improves the investment climate and strengthens trust among foreign and domestic investors. Furthermore, the paper emphasizes that the implementation of IFRS contributes to the modernization of corporate governance, increases the efficiency of financial management, and facilitates the integration of the national economy into global financial markets. The findings suggest that the consistent application of IFRS can serve as an important institutional tool for sustainable economic growth and the long-term competitiveness of the economy.*

Keywords: *International Financial Reporting Standards (IFRS), financial transparency, economic development, investment climate, financial reporting quality, corporate governance, global integration*

Introduction

In recent decades, the globalization of financial markets and the integration of national economies into the international economic system have significantly increased the demand for transparent, comparable, and reliable financial reporting. The adoption of International Financial Reporting Standards (IFRS) has emerged as a crucial step for countries seeking to improve the quality of their financial information, attract foreign investment, and strengthen their economic competitiveness. IFRS provides a unified framework that enhances the clarity and consistency of financial statements, enabling investors, regulators, and other stakeholders to make well-informed decisions [1]. For emerging economies, the transition to IFRS is not merely a technical adjustment but a strategic tool for economic modernization. By implementing international standards, enterprises can improve corporate governance, increase operational efficiency, and align their financial reporting with global best practices. This alignment facilitates cross-border investments, supports economic growth, and builds confidence in domestic

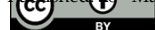
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financial markets [2], [3]. Furthermore, IFRS adoption contributes to reducing information asymmetry between companies and investors, which is essential for fostering a stable and transparent investment environment. Despite the evident benefits, the transition to IFRS involves challenges, including the need for professional training, adaptation of accounting systems, and changes in corporate culture [4]. However, countries that successfully implement IFRS often experience enhanced access to international capital markets and improved financial discipline across industries. This paper aims to examine the necessity of adopting IFRS, explore its role in economic development, and highlight the advantages of integrating these standards into national financial reporting systems [5]. Understanding these dynamics is critical for policymakers, business leaders, and academics who seek to strengthen the financial infrastructure and ensure sustainable economic growth.

Methodology.

The transition to International Financial Reporting Standards (IFRS) represents one of the most significant transformations in modern accounting and financial management. Its implementation is essential for improving the quality and reliability of financial reporting, which is a cornerstone of economic development. Transparent and comparable financial information allows stakeholders, including investors, regulators, and creditors, to evaluate corporate performance accurately and make informed decisions. In many emerging economies, the adoption of IFRS is a strategic measure to enhance credibility in both domestic and international financial markets. One of the primary advantages of IFRS is its contribution to financial transparency. By standardizing reporting practices, IFRS reduces discrepancies and inconsistencies in financial statements, making it easier to compare performance across different companies and sectors. This comparability is particularly important for attracting foreign investment, as investors often rely on consistent financial data to assess potential risks and returns. Countries that successfully implement IFRS experience a stronger investment climate, which in turn stimulates economic growth and supports the development of capital markets. Moreover, IFRS adoption strengthens corporate governance by promoting accountability and disciplined financial management. Companies adhering to international standards are more likely to follow rigorous internal controls, establish clearer reporting procedures, and maintain higher levels of financial integrity. This enhances the confidence of stakeholders and encourages long-term investments. Improved corporate governance also reduces the risk of financial fraud, mismanagement, and economic instability, which are critical factors for sustainable economic development. Another significant benefit of IFRS is its facilitation of integration into global financial markets. In a globalized economy, enterprises and financial institutions frequently interact across borders. Standardized reporting enables seamless communication of financial information, easing cross-border mergers, acquisitions, and partnerships. It also allows domestic companies to benchmark their performance against international competitors, adopt global best practices, and enhance operational efficiency. Despite these advantages, the transition to IFRS presents challenges. Organizations must invest in professional training, update accounting systems, and adjust corporate practices to align with international standards. Resistance to change, limited expertise, and the costs associated with implementation can slow the adoption process. However, these challenges are often offset by long-term gains, including improved investor confidence, access to international financing, and a more robust financial infrastructure. Furthermore, the adoption of IFRS can positively influence national economic development beyond individual enterprises. Transparent financial reporting facilitates better policy-making by providing governments with accurate economic data. This enables more effective allocation of resources, identification of market trends, and timely responses to economic challenges. Additionally, it encourages a culture of financial discipline

across industries, which supports overall economic stability and growth.

Results and Discussion

The analysis of the transition to International Financial Reporting Standards (IFRS) reveals several significant outcomes that have both practical and strategic implications for national economic development [6]. First, the adoption of IFRS substantially enhances the transparency and reliability of financial reporting. Enterprises that implement these standards provide stakeholders with consistent and comparable information, reducing uncertainty in investment decisions and improving the overall confidence in financial markets. This outcome is particularly critical for attracting foreign direct investment and fostering cross-border economic collaboration [7]. Second, IFRS adoption strengthens corporate governance structures across organizations. The application of international standards promotes accountability, standardized reporting procedures, and disciplined financial management practices. This, in turn, reduces the risks associated with mismanagement, financial fraud, and information asymmetry, ensuring that businesses operate more efficiently and responsibly [8], [9], [10]. The evidence indicates that companies adhering to IFRS demonstrate higher levels of operational transparency, which positively affects their reputation among investors and regulators. Third, the transition to IFRS facilitates the integration of domestic enterprises into global financial markets. By providing a uniform reporting framework, IFRS enables companies to communicate financial information clearly and comparably on an international scale [11]. This integration promotes access to foreign capital, encourages international partnerships, and allows domestic firms to benchmark themselves against global best practices. The results demonstrate that organizations implementing IFRS experience increased competitiveness and improved strategic positioning in the global economic environment. Fourth, the use of IFRS contributes to national economic development beyond individual organizations [12]. Accurate and comparable financial data support policymakers in making informed decisions, optimizing resource allocation, and identifying economic trends. Furthermore, the implementation of these standards encourages a culture of financial discipline and transparency throughout industries, fostering a stable and resilient economic environment. In summary, the results of this study demonstrate that adopting IFRS is a comprehensive institutional mechanism that strengthens financial management, corporate governance, and market confidence. The evidence confirms that the benefits of IFRS adoption—enhanced transparency, improved investment climate, operational efficiency, and global integration—far outweigh the challenges associated with implementation [13], [14]. Consequently, IFRS serves as a critical tool for ensuring sustainable economic growth and long-term competitiveness of the national economy.

Good policies and international standards can help countries attract the investments they need

The OECD sets standards on various aspects of investment policy. They represent a broad consensus on the most effective policy frameworks, tailored to implement them in diverse country and regional contexts. They also help to foster international cooperation around peer learning across countries.

- The Declaration on International Investment and Multinational Enterprises, and related policy toolkits provide the framework and standards for attracting more, better, and safe investment. More than 50 OECD and non-OECD governments have adhered to the OECD Investment Declaration.
- The Codes of Liberalisation of Capital Movements facilitate open markets while ensuring macroeconomic stability.
- The Policy Framework for Investment and the FDI Qualities Recommendation and Policy Toolkit assist governments in improving their climates for domestic and foreign investment that supports inclusive and

sustainable development.

- The 2009 Guidelines on Investment Policies concerning National Security provides governments with principles to ensure investment policies safeguard national security interests [15]. The Guidelines strike a balance between openness to foreign investments and managing associated security risks.

Modest growth in global FDI flows in 2024 masks weaker underlying trends

Global FDI flows were up by 1% in 2024, to USD 1 485 billion, but fell by 9% when excluding large fluctuations from selected European economies.

Over half of OECD economies saw lower inflows, particularly in EU countries. FDI flows to G20 non-OECD economies also dropped by 30%. The People's Republic of China saw a continued decline for the third consecutive year.

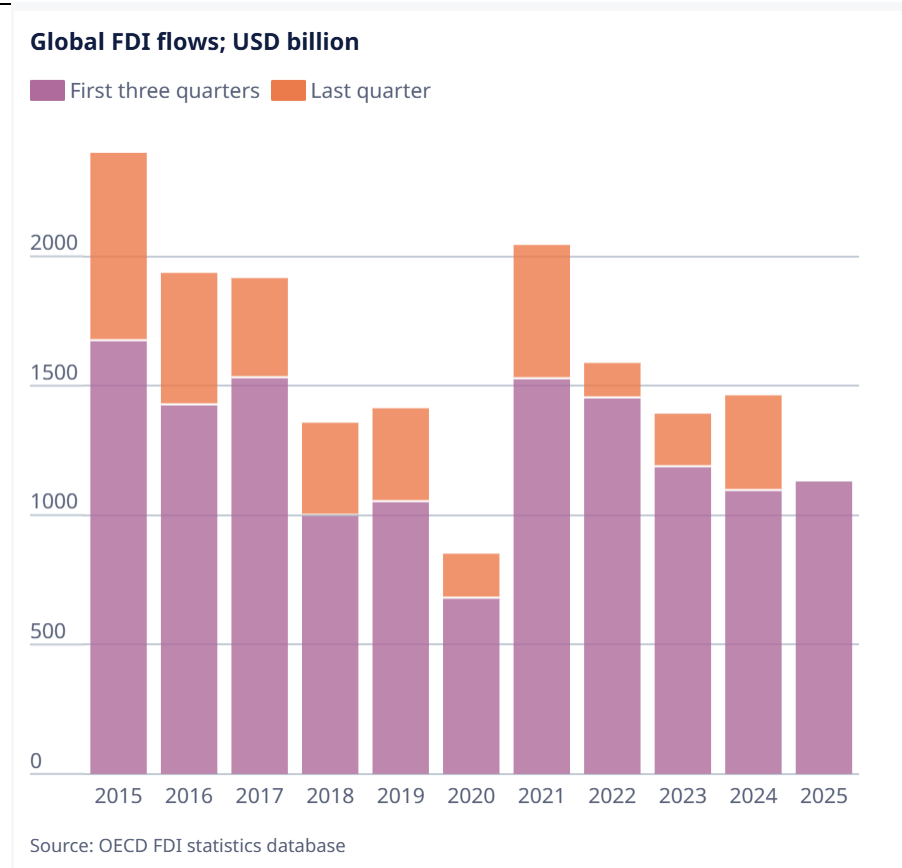
The United States, Luxembourg and Canada were the top three FDI destinations worldwide in 2024.

Cross-border M&A activity is recovering slowly from a decade low, with advanced economies showing more resilience than emerging markets. Greenfield investment in 2024 show weak momentum. Although project counts rose slightly by 2%, overall capital spending dropped by 6%.

Foreign Direct Investment (FDI) lies at the heart of globalisation and serves as an important conduit for the transfer of capital, goods, services, and information across economies. Measuring FDI helps us better understand how countries are interconnected and integrated into today's global economy. The OECD provides operational guidelines on how FDI activity should be measured and sets global standards for collecting FDI statistics. The OECD also disseminates comprehensive and comparable FDI data as well as in-depth insights into global FDI trends to support economic analysis and inform policy decisions and enhance investment strategies.

FDI in the first 9 months of 2025

- **In Q3 2025, global FDI flows^[1] doubled compared to Q2**, following large fluctuations in the first half of the year with a strong Q1 and a weak Q2. Overall, in the first nine months of 2025, FDI flows were 3% higher than in the first nine months of 2024.
- In Q3 2025, the United States received USD 90 billion in FDI inflows, making it the **world's largest recipient**. In the same period and for the same amount, the United States was also **the leading source of FDI outflows globally**.
- **OECD FDI inflows more than doubled in Q3 2025 compared to Q2**, partly reflecting rebounds from negative inflows in some European countries. Overall, in the first nine months of 2025, FDI flows to OECD countries were 21% higher than in the same period of 2024.
- **OECD FDI outflows surged in Q3 2025 from very low levels in Q2**, largely driven by rises from negative outflows from the United States and, to a lesser extent, from the Netherlands and Switzerland.^[2] However, over the first nine months of 2025, OECD FDI outflows were comparable to the same period in the previous year.
- **FDI flows into non-OECD G20 economies decreased by 21% in Q3 2025** compared to Q2. However, these economies received 63% more FDI inflows in the first nine months of this year compared to the same period in 2024. This is largely due to increases in China, from negative levels of FDI inflows recorded in both Q2 and Q3 2024.
- **FDI outflows from non-OECD G20 economies rose by 20% in Q3 2025** compared to Q2, driven by higher FDI outflows from China. However, in the first nine months of 2025, FDI outflows from these economies were 8% lower than in the first nine months of 2024.



Conclusion and Recommendations.

The study demonstrates that the adoption of International Financial Reporting Standards (IFRS) is a strategic necessity for enhancing the transparency, comparability, and reliability of financial information within national economies. The consistent application of IFRS strengthens corporate governance, fosters investor confidence, and improves the overall efficiency of financial management practices. Based on the findings, it is recommended that policymakers and regulatory bodies prioritize the development of comprehensive training programs for accounting professionals to ensure a smooth and effective transition to IFRS. Organizations should invest in modernizing their financial reporting systems, adopt standardized internal controls, and encourage a corporate culture that values accountability and transparency. Furthermore, government institutions can facilitate the integration of domestic enterprises into global financial markets by providing guidance, incentives, and clear regulatory frameworks that support the widespread implementation of IFRS. It is also advisable to establish monitoring mechanisms that track compliance with these standards and identify areas for continuous improvement. The integration of IFRS into national financial reporting not only improves the quality of financial statements but also contributes to the broader economic development by attracting foreign investments, reducing information asymmetry, and promoting a stable and resilient financial environment. In conclusion, the systematic adoption of IFRS is both a necessary reform and a practical tool for sustainable economic growth, long-term competitiveness, and modernization of financial management, and careful attention to training, system upgrades, and regulatory support will ensure that the benefits of this transition are fully realized across industries and sectors.

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