

INNOVATION SCIENCE AND TECHNOLOGY

ISSUE 8, PART 1 / AUGUST 2026

 Acceptance of papers



**Acceptance of
papers**

Published monthly



Topics

economics,
technology, social
sciences





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THE SCIENTIFIC-POPULAR ELECTRONIC
JOURNAL **"INNOVATION SCIENCE AND
TECHNOLOGY"** HAS BEEN REGISTERED
UNDER THE NUMBER **C-5669633** BY THE
AGENCY FOR INFORMATION AND MASS
COMMUNICATIONS (AOKA) OF THE
REPUBLIC OF UZBEKISTAN, EFFECTIVE
FROM OCTOBER 9, 2024.

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The scientific electronic journal "Innovation Science and Technology" has been included in the list of scientific publications recommended for the publication of main scientific results of dissertations for the award of PhD and DSc degrees in economics and technical sciences, in accordance with the Resolution No. 370 of the Presidium of the Higher Attestation Commission of the Republic of Uzbekistan, dated May 8, 2025.

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DIRECTIONS FOR IMPROVING THE THEORY OF ENSURING NATIONAL CURRENCY STABILITY

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Annotatsiya. O'zbekiston Respublikasi sharoitida milliy valyuta barqarorligini ta'minlash nazariyasini takomillashtirish masalalari tadqiq etilgan. Global inflyatsion bosimlar, tashqi shoklar va moliyaviy globallashuv sharoitida milliy valyuta barqarorligini nafaqat nominal almashuv kursi, balki narxlar barqarorligi, monetar transmissiya, institutsional ishonch va inflyatsion kutilmalarni o'zida mujassam etuvchi integrallashgan tizim sifatida talqin qilish zarurligi asoslangan. Milliy valyuta barqarorligini ta'minlashga oid klassik, monetaristik, keynscha, yangi keynscha va inflyatsion targetlash nazariyalari qiyosiy tahlil qilinib, O'zbekiston sharoitiga mos takomillashtirilgan nazariy modelni ishlab chiqishga alohida e'tibor qaratilgan. Tadqiqotning metodologik asosini tizimli va qiyosiy tahlil, dinamik qatorlar tahlili hamda kontent-tahlil usullari tashkil etadi. Ma'lumotlar bazasi O'zbekiston Respublikasi Markaziy bankining rasmiy statistik byulletenlari hamda 2020–2026-yillardagi pul-kredit siyosati sharhlari asosida shakllantirilgan.

Kalit so'zlar: milliy valyuta barqarorligi, inflyatsion targetlash, almashuv kursi, pul-kredit siyosati, Markaziy bank mustaqilligi, monetar transmissiya, dollarlashuv, inflyatsion kutilmalar, real foiz stavkasi, valyuta bozori, pul agregatlari, narxlar barqarorligi, makroiqtisodiy muvozanat, tashqi shoklar, institutsional ishonch.

Аннотация. Исследованы вопросы совершенствования теории обеспечения стабильности национальной валюты в условиях Республики Узбекистан. В условиях глобального инфляционного давления, внешних шоков и финансовой глобализации обоснована необходимость рассматривать стабильность национальной валюты не только с позиции номинального обменного курса, но и как интегрированную систему, включающую ценовую стабильность, монетарную трансмиссию, институциональное доверие и инфляционные ожидания. Проведён сравнительный анализ классической, монетаристской, кейнсианской, новокейнсианской теорий и теории инфляционного таргетирования, направленных на обеспечение стабильности национальной валюты, с особым акцентом на разработку усовершенствованной теоретической модели, адаптированной к условиям Узбекистана. Методологическую основу исследования составили системный и сравнительный анализ, анализ динамических рядов и контент-анализ. Информационная база сформирована на основе официальных статистических бюллетеней Центрального банка Республики Узбекистан и обзоров денежно-кредитной политики за 2020–2026 годы.

Ключевые слова: стабильность национальной валюты, инфляционное таргетирование, обменный курс, денежно-кредитная политика, независимость Центрального банка, монетарная трансмиссия, долларизация, инфляционные ожидания, реальная процентная ставка, валютный рынок, денежные агрегаты, ценовая стабильность, макроэкономическое равновесие, внешние шоки, институциональное доверие.

Abstract. The issues related to improving the theory of ensuring national currency stability in the Republic of Uzbekistan are examined. Under conditions of global inflationary pressures, external shocks, and financial globalization, the necessity of interpreting national currency stability not only in terms of the nominal exchange rate but also as an integrated system encompassing price stability, monetary transmission, institutional confidence, and inflation expectations is substantiated. Classical, monetarist, Keynesian, New Keynesian, and inflation-targeting theories of national currency stability are comparatively analyzed, with particular emphasis on developing an improved theoretical model adapted to the conditions of Uzbekistan. The methodological framework of the research comprises systemic and comparative analysis, time-series analysis, and content analysis. The database is compiled from official statistical bulletins of the Central Bank of the Republic of Uzbekistan and monetary policy reviews covering 2020–2026.

Keywords: national currency stability, inflation targeting, exchange rate, monetary policy, central bank independence, monetary transmission, dollarization, inflation expectations, real interest rate, foreign exchange market, monetary aggregates, price stability, macroeconomic equilibrium, external shocks, institutional confidence.

INTRODUCTION

In the context of the globalization of the world economy, national currency stability has become a central element of a country's macroeconomic stability. During 2020–2024, the COVID-19 pandemic, global food and energy crises, and the active monetary tightening policies pursued by central banks in developed countries resulted in considerable inflationary pressures and exchange rate volatility in many developing economies, including Uzbekistan.

Following the currency liberalization reform implemented in Uzbekistan in 2017, the Uzbek soum entered a new stage of market-based exchange rate formation, contributing to the gradual development of a more flexible and adaptive foreign exchange market. In 2022, the consumer price index reached 12.3 percent, followed by a decline to 8.8 percent in 2023 and a level of approximately 9.7 percent in 2024. At the same time, ongoing measures aimed at anchoring inflation expectations and achieving the Central Bank's target level of 5 percent continue to support the strengthening of price and national currency stability.

Ensuring national currency stability is of decisive importance not only for the proper functioning of the price system, but also for protecting household savings, improving the investment environment, promoting economic growth, and maintaining social stability.

The concept of national currency stability has often been associated primarily with the dynamics of the nominal exchange rate. However, a broader interpretation allows the economic substance of currency stability to be reflected more comprehensively. In modern macroeconomic theory, national currency stability is viewed as the result of the complex interaction between price stability, the real exchange rate, domestic and external confidence, inflation expectations, monetary discipline, and financial stability.

Existing theoretical approaches in Uzbekistan provide a basis for further integrating these components into a comprehensive theoretical model. Such integration can contribute to improving the theoretical framework for assessing and forecasting the effectiveness of monetary policy in ensuring national currency stability [1].

LITERATURE REVIEW

Among the representatives of the classical school of economics, David Hume, in 1752, advanced the ideas of monetary neutrality and the quantity theory of money. Based on Fisher's 1911 equation, ($MV = PT$), a direct relationship between the quantity of money and the price level was established: when the money supply increases, prices rise proportionally, while real variables remain unchanged. Pigou, in 1917, proposed the cash-balance approach, demonstrating that the demand for money depends on real asset wealth and the level of income. These theories explain the value of a national currency through the price level and the quantity of money, while contemporary approaches complement them by incorporating short-term dynamics and institutional factors (Mishkin, 2019).

Milton Friedman, the founder of monetarism, developed the concepts concerning the role of monetary policy and the natural rate of unemployment during 1963–1968, defining inflation as fundamentally a monetary phenomenon. Friedman and Schwartz, in their 1963 work *A Monetary History of the United States*, demonstrated that a sharp contraction in the money supply contributed to the Great Depression. Brunner and Meltzer, in 1993, demonstrated the potential of monetary rules, including the k-percent rule, for maintaining currency stability. The monetarist approach places the control of monetary aggregates at the center of monetary policy, while modern economic conditions also require consideration of changes in the velocity of money (McCallum, 2012).

In *The General Theory of Employment, Interest and Money*, Keynes, in 1936, substantiated the impact of the interest rate channel on aggregate demand and the price level. According to Keynesian theory, monetary policy can have real effects in the short run because of price and wage rigidities. New Keynesian economists, including Woodford in 2003 and Clarida, Gali, and Gertler in 1999, analyzed the interest rate channel, the IS–LM–PC framework, and the management of inflation expectations within the New Keynesian model. Blanchard and Gali, in 2007, examined price rigidities and monetary transmission mechanisms from a new perspective. This theory emphasizes the importance of central bank credibility and communication in maintaining currency stability [2].

Bernanke and Mishkin, in 1997, systematically analyzed the inflation-targeting regime and demonstrated its role in ensuring currency stability. During 1997–2000, Svensson described the relationship between inflation targeting and optimal monetary policy through a formal model. Mishkin, in 2000, analyzed the advantages and limitations of inflation targeting for developing countries. Berg, Karam, and Laxton, in 2006, used the IMF's Forecasting and Policy Analysis System (FPAS) for a Small Open Economy Model to model targeting policies for small open economies similar to Uzbekistan. Freedman and Otter-Robe, in 2010, demonstrated the role of central bank communication in managing inflation expectations.

Mundell, in 1963, and Fleming, in 1962, substantiated the “impossible trinity” in an open economy, describing

the relationship among the exchange rate, capital mobility, and monetary independence. Obstfeld and Rogoff, in 1996, analyzed the effects of exchange rates and the balance of payments within the framework of modern open-economy macroeconomics. Calvo and Reinhart, in 2002, examined the phenomenon of “fear of floating,” according to which many developing countries that officially adopt floating exchange rate regimes may continue to intervene actively in foreign exchange markets. This concept is particularly relevant to countries such as Uzbekistan.

Calvo and Vegh, in 1996, analyzed the phenomenon of dollarization in the context of developing countries and demonstrated that lower confidence in the national currency and a history of relatively high inflation can encourage economic agents to use foreign currencies. Ize and Levy-Yeyati, in 2003, identified the distinction between currency substitution and asset dollarization and examined the theoretical conditions for addressing them. Edwards, in 2001, demonstrated that maintaining positive real interest rates is an important condition for increasing the attractiveness of deposits denominated in the national currency and reducing dollarization [3].

RESEARCH METHODOLOGY

The following scientific methods were applied in the research (Table 1):

Table 1. Research Methods and Their Purposes of Application¹

Method	Purpose of Application
Systematic analysis	To examine the factors affecting national currency stability as an integrated system and to identify the interrelationships among them.
Comparative analysis	To compare classical, monetarist, Keynesian, and inflation-targeting theories and to compare Uzbekistan's experience with international practices.
Time-series analysis	To examine the dynamics of inflation, the policy rate, the exchange rate, monetary aggregates, and reserves over 2020–2026.
Statistical and graphical analysis	To assess trends in indicators based on Central Bank data and identify structural changes.
Structural analysis	To analyze the structural elements of monetary policy and the functional relationships among them.
Correlation-logical analysis	To identify logical relationships among the policy rate, inflation, the exchange rate, and the composition of deposits.
Inductive-deductive approach	To move from empirical observations to theoretical generalizations and from theoretical foundations to practical conclusions.
Content analysis	To conduct a substantive analysis of the Central Bank's monetary policy reviews, press releases on the policy rate, and official documents.

ANALYSIS AND RESULTS

The dynamics of the Consumer Price Index in Uzbekistan during 2020–2024 are presented in Table 1. In 2020, inflation amounted to 11.1 percent under the influence of the COVID-19 pandemic. In 2021, it reached 10.0 percent due to strong aggregate demand and pressure from import prices. In 2022, inflation rose to 12.3 percent under the influence of global energy and food crises, representing the highest level recorded in recent years. In 2023, as a result of the Central Bank's active restrictive monetary policy, inflation declined to 8.8 percent. According to final data for 2024, inflation was recorded at approximately 9.7 percent (Central Bank of the Republic of Uzbekistan, 2024) [4] (Table 2).

Table 2. Key Macroeconomic Indicators in Uzbekistan, 2020–2024 [5]²

Indicator	2020	2021	2022	2023	2024
Inflation, year-end, %	11.1	10.0	12.3	8.8	~9.7
Core inflation, %	9.8	9.4	11.7	8.2	~8.9
Policy rate, year-end, %	14.0	14.0	17.0	14.0	13.5
USD/UZS exchange rate, year-end	10,465	10,814	11,248	12,284	~12,700
M2 growth, %	29.5	27.8	22.4	18.6	~17.0
International reserves, USD billion	26.6	27.5	30.3	33.1	~35.0

¹ Source: Author's work.

² Source: Author's work.

Inflation dynamics demonstrate continued progress toward the Central Bank's 5 percent target, highlighting the importance of further measures to strengthen national currency stability. The slightly lower level of core inflation compared with headline inflation reflects the role of the import-price component and provides additional opportunities for enhancing the effectiveness of measures aimed at maintaining price stability.

In February 2022, the Central Bank raised the policy rate sharply from 14 percent, and by May 2022 it had reached 17 percent, the highest level recorded in Uzbekistan. As global inflationary pressures eased, the policy rate was gradually reduced during 2023–2024: to 14 percent by the end of 2023 and to 13.5 percent by the end of 2024. At the same time, the real interest rate, calculated as the nominal interest rate minus inflation expectations, has remained positive in practice, which plays an important role in maintaining the attractiveness of deposits denominated in Uzbek soum.

Following the currency liberalization reform of 2017, the exchange rate of the Uzbek soum gradually adapted to market-based mechanisms, contributing to the development of a more flexible foreign exchange market during 2017–2020. From 2020 onward, exchange rate dynamics became relatively more stable, with the annual depreciation of the soum remaining within the range of 3–8 percent. During 2023–2024, the Central Bank undertook certain interventions in the foreign exchange market and used international reserves. By the end of 2024, the exchange rate stabilized at approximately UZS 12,700 per US dollar. At the same time, the significant role of imports in the national economy highlights opportunities for further strengthening mechanisms aimed at maintaining price and national currency stability.

During 2020–2022, the M2 monetary aggregate increased significantly, with growth reaching 29.5 percent in 2020. This became one of the important factors contributing to inflationary pressures. During 2023–2024, as a result of the Central Bank's active restrictive monetary policy, M2 growth slowed to 17–18 percent. The share of deposits denominated in the national currency has been increasing: while national currency deposits accounted for approximately 40 percent of total deposits in 2020, their share rose to 55–58 percent by 2024. This indicates a positive trend toward lower dollarization and a gradual strengthening of the role of the national currency in the structure of bank deposits [6] (Tables 3 and 4).

Table 3. Classification of Factors Affecting National Currency Stability [7]³

INTERNAL FACTORS	EXTERNAL FACTORS
Money supply and credit expansion	Global food and energy prices
Interest rate and policy rate policy	Imported inflation and external price shocks
Fiscal discipline and budget position	Volume of remittances
Banking system liquidity	Macroeconomic conditions in trading partner countries
Level of dollarization	Capital flows and foreign investment
Household inflation expectations	Gold prices and export revenues
Attractiveness of savings in Uzbek soum	Geopolitical risks and external uncertainty
Central Bank communication	Conditions in international financial markets

Table 4. Integrated Theoretical Model of National Currency Stability [8]⁴

Block	Name	Main Components	Measurement Indicators
Block I	Price stability	Inflation, core inflation, inflation expectations, rate of price growth	5% inflation target, anchoring of expectations, price forecasts
Block II	Monetary transmission mechanism	Policy rate → money market rates → deposit/loan rates → demand → inflation → confidence in the national currency	Transmission speed and effectiveness, UZONIA–policy rate spread
Block III	Foreign exchange market and external stability	Exchange rate, balance of payments, international reserves, export/import ratio, capital flows	Exchange rate volatility, reserve adequacy sufficient to cover 3–6 months of imports
Block IV	Institutional confidence	Central Bank independence, targeting regime, quality of communication, transparency, market expectations	Survey indicators of inflation expectations, confidence indices

Block I: Price Stability

³ Source: Author's work.

⁴ Source: Author's work.

The first block includes inflation dynamics, core inflation adjusted for temporary factors, and inflation expectations. In Uzbekistan, inflation expectations demonstrate further potential for gradual convergence toward the Central Bank's 5 percent target. This indicates that the anchoring of expectations can be further strengthened. Ensuring price stability constitutes the foundation of national currency stability and has a positive influence on the other three blocks.

Block II: Monetary Transmission Mechanism

The second block covers the complete monetary transmission chain: changes in the policy rate → money market rates (UZONIA) → commercial bank deposit and lending rates → aggregate demand → inflation → confidence in the national currency. In Uzbekistan, the effectiveness of this chain is continuing to develop: reductions in the policy rate are reflected in commercial bank lending rates with a lag of 3–6 months. The continued development of market-based competition in the banking system can further enhance the effectiveness and speed of monetary transmission.

Block III: Foreign Exchange Market and External Stability

The third block integrates external sector indicators. According to 2024 data, Uzbekistan possesses more than USD 35 billion in international reserves, sufficient to cover approximately 6–8 months of imports, which constitutes an adequate buffer in accordance with international standards. At the same time, the export–import structure can be further diversified: The significant contribution of gold to merchandise exports provides an important source of foreign exchange earnings, while further export diversification can contribute to strengthening exchange rate resilience. Remittances, which amounted to USD 16.9 billion in 2023, continue to play an important stabilizing role in the external sector.

Block IV: Institutional Confidence

The fourth block represents the innovative element of the proposed model. Central Bank independence, the quality of communication, policy consistency, and transparency constitute the institutional foundations of confidence in the national currency. Since 2017, the Central Bank of the Republic of Uzbekistan has been gradually transitioning toward an inflation-targeting regime. Communication has been improving through forward guidance, inflation reports, and open press conferences. Continued enhancement of institutional independence and transparency in accordance with international standards can further strengthen confidence in the monetary policy framework.

The assessment of national currency stability should not be limited solely to the exchange rate. Indicators of price stability, real interest rates, the effectiveness of monetary transmission, and institutional confidence should also be taken into account.

Inflation expectations and real interest rates are key factors determining confidence in the national currency. In Uzbekistan, maintaining a positive real interest rate is of decisive importance for ensuring the attractiveness of deposits denominated in Uzbek soum.

The effectiveness of monetary policy is reinforced by credible communication. Enhancing the transparency of the Central Bank, developing forward guidance, and improving inflation reports contribute to the more effective anchoring of expectations.

External-sector buffers, including international reserves and remittances, perform an important stabilizing function for national currency stability. These buffers can be further strengthened through export diversification.

A reduction in the level of dollarization can be achieved not only through administrative measures but also through the maintenance of positive real interest rates, price stability, and stronger confidence in the banking system.

First, the classical quantity theory and the monetarist approach correctly demonstrate the relationship between the money supply and inflation. In Uzbekistan, the rapid growth of M2 during 2020–2022 occurred simultaneously with increased inflationary pressures. At the same time, controlling the money supply alone may be complemented by additional policy instruments, since the velocity of money can vary and financial innovations, including digital payments and electronic wallets, make the measurement of monetary aggregates increasingly complex.

Second, the New Keynesian approach plays an important role in the context of Uzbekistan. The operation of the interest rate channel is evident, as increases in the policy rate contributed to a slowdown in credit growth. At the same time, the effectiveness of this mechanism can be further strengthened by reducing transmission lags and expanding market-based mechanisms within the banking system. The management of inflation expectations, which constitutes a central element of New Keynesian theory, also offers further opportunities for policy development in Uzbekistan.

Third, inflation-targeting theory is broadly consistent with the policies implemented by the Central Bank of Uzbekistan during 2019–2024. An inflation target has been established, the policy rate is used as the main monetary policy instrument, and communication practices continue to improve. As Bernanke and Mishkin noted in 1997, a fully developed inflation-targeting regime is supported by a high degree of central bank independence,

a well-developed financial market, and firmly anchored expectations. These institutional and market-based foundations are continuing to develop in Uzbekistan.

Fourth, the “impossible trinity” approach is particularly relevant to a small open economy such as Uzbekistan. Uzbekistan’s approach to capital mobility is aimed at maintaining an appropriate balance between monetary independence and exchange rate stability. This resembles the “fear of floating” phenomenon identified by Calvo and Reinhart in 2002 and highlights the importance of continued institutional development for long-term stability.

Fifth, from the perspective of dollarization theory, the increase in the share of national currency deposits in Uzbekistan during 2020–2024 represents a positive trend. Positive real interest rates, declining inflation, and stronger confidence in the banking system contributed jointly to this outcome, which is consistent with the theoretical predictions of Ize and Levy-Yeyati in 2003.

The principal conclusion of the discussion is that national currency stability can be explained most comprehensively through an integrated theoretical approach that combines monetary factors with expectations, communication, institutional confidence, real interest rates, and external-sector stability. The proposed integrated model, which combines these four blocks, provides a comprehensive theoretical framework for interpreting national currency stability [9].

CONCLUSION AND RECOMMENDATIONS

National currency stability is a multidimensional economic phenomenon and cannot be determined solely by the dynamics of the nominal exchange rate. Price stability, the real exchange rate, inflation expectations, monetary transmission, and institutional confidence are equally important components of national currency stability.

During 2020–2024, the Central Bank of Uzbekistan’s gradual transition to an inflation-targeting regime played a positive role in strengthening national currency stability: inflation declined from 12.3 percent in 2022 to 8.8 percent in 2023, while the share of deposits denominated in Uzbek soum increased.

Maintaining positive real interest rates is a key condition for strengthening confidence in the national currency. In Uzbekistan, during 2022–2024, maintaining the policy rate above the inflation rate played an important role in encouraging savings denominated in Uzbek soum.

The monetary transmission mechanism in Uzbekistan continues to develop: changes in the policy rate are reflected in lending and deposit rates with a lag of approximately 3–6 months. Further enhancement of competition in the banking system can contribute to accelerating and strengthening the monetary transmission process.

The decline in dollarization from approximately 60 percent in 2020 to about 42–45 percent by 2024 demonstrates a positive trend toward strengthening the role of the national currency and creates favourable conditions for its further gradual reduction. This process should be supported not only through administrative measures, but also through competitive deposit rates in Uzbek soum, price stability, and increased confidence in the banking system.

External sector stability, including international reserves, remittances, and export revenues, performs an important buffer function in maintaining national currency stability. Uzbekistan’s international reserves exceeding USD 35 billion and annual remittance inflows of approximately USD 16–17 billion constitute an important financial safety buffer.

The quality of Central Bank communication is becoming increasingly important in managing inflation expectations. Forward guidance, quarterly inflation reports, and open press conferences represent effective instruments for shaping and anchoring market expectations.

The proposed four-block integrated model—price stability + monetary transmission + foreign exchange market/external stability + institutional confidence—provides a new theoretical framework for assessing national currency stability and improving monetary policy.

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Proofreader: Zokir ALIBEKOV

Layout and Designer: Oloviddin Sobir ugli

2026. № 8

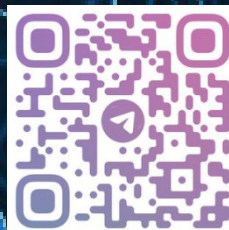
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