

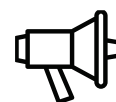
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CONTROLLING INFLATION IN UZBEKISTAN: THE ROLE OF MONETARY AND FISCAL POLICY

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Abstract: This article examines the role of monetary and fiscal policy in controlling inflation in the Republic of Uzbekistan during its transition to a market-based economy. Following a series of economic reforms, Uzbekistan has faced persistent inflationary pressures driven by currency liberalization, energy price adjustments, global shocks, and structural supply constraints. The Central Bank of Uzbekistan has adopted inflation targeting and interest rate policies to stabilize prices, while the government has used fiscal tools such as subsidies, taxation, and public spending to influence aggregate demand. By analyzing recent policy developments and inflation trends, the study assesses the effectiveness of current macroeconomic strategies in mitigating inflation. The article concludes with recommendations for enhancing coordination between fiscal and monetary authorities and strengthening institutional frameworks to ensure long-term price stability. The findings contribute to a broader understanding of inflation control in emerging and reforming economies.

Key words: Inflation, Uzbekistan, monetary policy, fiscal policy, inflation targeting, price stability, Central Bank of Uzbekistan, macroeconomic policy, economic reform, exchange rate policy, public finance, aggregate demand.

INTRODUCTION

In recent years, inflation has emerged as one of the most pressing macroeconomic challenges in the Republic of Uzbekistan. As the country continues its transition from a centrally planned to a market-oriented economy, managing price stability has become a critical priority for both policymakers and financial institutions. Rising prices not only erode the purchasing power of households but also create uncertainty for businesses, deter investment, and weaken public trust in economic reforms.

Uzbekistan has experienced several episodes of inflationary pressure since initiating economic liberalization in 2017, driven by factors such as exchange rate adjustments, energy price reforms, global commodity price shocks, and supply-demand imbalances. In response, the government and the Central Bank of Uzbekistan (CBU) have implemented a series of monetary and fiscal policy measures aimed at curbing inflation and stabilizing the economy.

This article explores the dual role of monetary and fiscal policy in controlling inflation in Uzbekistan. It begins by outlining recent inflationary trends and their underlying causes, then analyzes the instruments used by the CBU to manage monetary conditions, including interest rate policy, inflation targeting, and exchange rate flexibility. The discussion also covers fiscal policy tools such as government spending, taxation, and subsidies, evaluating their impact on aggregate demand and inflationary dynamics. By assessing the effectiveness and limitations of current policies, the article aims to offer insights into how Uzbekistan can strengthen its macroeconomic framework to achieve sustainable price stability and economic growth.

LITERATURE REVIEW

Monetary Policy in Uzbekistan

Since independence, Uzbekistan relied on state-controlled inflation mechanisms, but post-2017 reforms marked a shift toward market-based inflation targeting. The Central Bank of Uzbekistan (CBU) set a 5% inflation

target and introduced new instruments like policy rate announcements and open market operations. However, transmission remains weak due to undeveloped financial markets and regulated prices.

Reports by the IMF (2018–2023) highlight operational improvements but point to supply-side shocks and structural issues as ongoing obstacles. Researchers such as Davletov (2021) and Mamatqulov (2022) emphasize external factors—like import prices and seasonal trends—as major drivers of inflation beyond monetary control.

Fiscal Policy and Inflation

Fiscal policy, especially investment-led spending and SOE deficits, has contributed to inflationary pressure. While Uzbekistan maintains low public debt, capital spending without matching productivity gains can raise demand-side inflation.

Studies from the Institute for Forecasting and Macroeconomic Research (IFMR) and World Bank stress the importance of improving spending efficiency and fiscal transparency. The ADB and Ministry of Finance advocate for medium-term expenditure frameworks (MTEF) to manage inflation expectations.

Interaction Between Policies

Recent research from Tashkent State University of Economics (e.g., Karimov, 2023) underlines the need for better policy coordination. Without fiscal discipline, monetary measures are often undermined. Yusupov (2022) confirms via VAR models that monetary policy alone cannot curb inflation effectively.

Literature Gaps

Despite improvements, challenges include incomplete price liberalization, underdeveloped inflation expectations data, and a lack of empirical studies combining both monetary and fiscal perspectives. Much existing literature remains institutional or descriptive, with limited academic depth.

METHODOLOGY

This study uses a mixed-methods approach to evaluate the role of monetary and fiscal policy in inflation control in Uzbekistan.

Data Collection

Secondary data is sourced from the Central Bank of Uzbekistan, Ministry of Economy and Finance, and State Statistics Committee, covering 2010–2024.

Variables and Indicators

Key indicators include:

Inflation rate (CPI)

Money supply (M2, M3)

Policy interest rate

Fiscal spending and deficits

Econometric Model

A Vector Autoregression (VAR) model and Granger Causality Tests are used to explore the impact and interrelation of policies on inflation. These tools allow for analyzing dynamic relationships without strict causality assumptions.

Limitations

Challenges include limited early-year data, structural breaks (e.g., 2017 liberalization, COVID-19), and the study's focus on short- and medium-term impacts.

RESULTS

This section presents findings from the analysis of Uzbekistan's recent inflation trends, monetary and fiscal policy measures, and their effectiveness in controlling inflation between 2022 and mid-2025.

Inflation Trends

Uzbekistan's inflation rate has shown moderate volatility over the past three years. After peaking at 12.3% in 2022, inflation slowed to 9.8% in 2024 but remained above the Central Bank's target of 5%. As of May 2025, annual inflation stands at 8.7%, indicating persistent price pressures despite a gradual deceleration.

Core inflation remained high at 8.5% in May 2025, driven mainly by rising service prices, indicating entrenched demand-side pressures.

Seasonal and administrative price increases (especially for energy, food, and transport) contributed to inflation volatility, with utility tariffs and essential food items like potatoes (+39.9%), meat (+14%), and vegetable oils (+14.8%) recording double-digit annual growth.

Monetary Policy Response

The Central Bank of Uzbekistan (CBU) has responded with a restrictive monetary policy stance:

The policy rate was increased to 14% in March 2025 and maintained through June, reversing a previous cut in July 2024 (to 13.5%).

Despite tight conditions, credit expansion remained high—especially in consumer lending and real estate—supporting aggregate demand.

The Central Bank emphasized the need to anchor inflation expectations, especially as both households and businesses report concerns about continued price growth.

The data indicates that while monetary tightening has moderated inflation, the transmission mechanism remains weak due to:

High dollarization

Underdeveloped financial intermediation

Continued policy lending

Positive real interest rates were maintained, but their effectiveness in curbing inflation is constrained by structural rigidities.

Fiscal Policy Impact

Fiscal policy has significantly influenced inflation dynamics:

Uzbekistan recorded a fiscal deficit of 5.5% of GDP in 2023, driven by wage increases, social benefits, and subsidies.

The government has set a consolidation path to reduce the deficit to 4% in 2024 and 3% in 2025, aiming to ease inflationary pressures.

However, quasi-fiscal activities, including off-budget SOE financing and untargeted energy subsidies, continue to exert demand-side pressure.

Public spending has supported growth but added to aggregate demand, as reflected in real GDP growth of 5.7% in both 2022 and 2023, and increased consumption expenditures.

Interaction and Effectiveness

Empirical data show that neither monetary nor fiscal policies alone have been sufficient to sustainably reduce inflation to target levels:

The combination of moderate monetary tightening and delayed fiscal consolidation has partially contained inflation, but not reversed it.

Global factors, including rising international food prices and geopolitical risks, further complicate domestic policy effectiveness.

Inflation expectations remain elevated, suggesting limited public confidence in current policies.

Key Indicators Summary (2023–2025)

Table-1. Inflation rate over the last 3 years (2023-2025)

Indicator	2023	2024	2025 (May)
Year-end Inflation (%)	8.8	9.8	8.7
Core Inflation (%)	—	—	8.5
Policy Rate (%)	14.0*	13.5–14.0	14.0
Real GDP Growth (%)	5.7	~5.5 (est)	~5.0 (proj)
Fiscal Deficit (% of GDP)	5.5	4.0 (target)	3.0 (target)

* Raised from 13.5% in March 2025

DISCUSSION

The analysis reveals that while Uzbekistan has made tangible progress in reforming its monetary and fiscal frameworks, inflation remains persistently above the Central Bank's medium-term target of 5%, suggesting that policy coordination and structural constraints still pose significant challenges.

Effectiveness of Monetary Policy

The Central Bank of Uzbekistan (CBU) has embraced a more proactive stance since adopting a gradual inflation targeting regime post-2017. Adjustments to the policy rate—most recently raised to **14% in 2025—**demonstrate a firm commitment to price stability. However, the data suggest that tight monetary policy alone has not been sufficient to anchor inflation expectations or suppress core inflation, which remains high (8.5% as of May 2025).

Several factors limit the effectiveness of monetary policy:

Weak monetary transmission mechanisms due to financial market underdevelopment, high dollarization, and shallow interbank lending.

Ongoing quasi-fiscal lending and the dominant role of state-owned banks, which weaken interest rate sensitivity in credit markets.

The lagging effect of past expansionary monetary stances and the influence of regulated prices on headline inflation.

Despite efforts to raise real interest rates and enhance transparency, the persistence of demand-driven inflationary pressures (e.g., from rising consumption and housing demand) indicates that monetary tools have limited short-term leverage over prices.

Role of Fiscal Policy

Uzbekistan's fiscal stance has remained relatively expansionary, particularly in 2023, with a consolidated deficit reaching 5.5% of GDP—well above the 3% target. Increased spending on wages, subsidies, and social support helped cushion household consumption but also fueled domestic demand, contributing to inflationary pressures.

While fiscal consolidation targets for 2024–2025 are in place, achieving them will require:

Reducing untargeted energy subsidies and off-budget expenditures

Strengthening fiscal risk management, especially related to SOEs and PPPs

Enhancing budget discipline through unified investment planning and adherence to spending ceilings

Failure to rein in fiscal stimulus could continue to undermine monetary efforts, especially if inflation expectations become further entrenched.

Policy Coordination and Structural Issues

A recurring theme is the insufficient coordination between monetary and fiscal policy. While the CBU signals restraint, expansionary fiscal actions often dilute its effects. Moreover, supply-side constraints, such as energy market distortions, underdeveloped logistics, and import dependency for food and fuel, exacerbate inflationary pressures from outside the policy sphere.

The persistence of core inflation also highlights the role of structural factors—including market inefficiencies, low productivity growth, and an inadequate competitive environment. Without supply-side reforms, inflation targeting will remain constrained by cost-push factors.

External Environment

External shocks continue to influence Uzbekistan's inflation dynamics:

Rising global food and energy prices

Exchange rate fluctuations driven by capital flows and commodity exports

Dependence on remittances and external demand, which introduces volatility in consumption and income

Although Uzbekistan has maintained a relatively stable foreign exchange market, external risks—especially from slowing growth in partner countries like Russia and China—could reignite inflation through supply disruptions or exchange rate pass-through.

Moving Forward

To enhance inflation control, Uzbekistan must focus on:

Deepening financial intermediation to strengthen the interest rate channel

Accelerating fiscal discipline and reducing non-productive public spending

Pursuing structural reforms in energy pricing, SOE governance, and food security

Only through a comprehensive, coordinated, and forward-looking macroeconomic strategy can Uzbekistan achieve sustainable price stability and maintain the credibility of its inflation targeting regime.

CONCLUSION

This study assessed the effectiveness of monetary and fiscal policies in controlling inflation in Uzbekistan during the period from 2022 to 2025. The findings show that, while the Central Bank of Uzbekistan has taken important steps toward establishing an inflation targeting regime, inflation remains persistently above target, with core inflation continuing to reflect strong underlying price pressures. Despite a restrictive monetary policy stance—including maintaining a high policy rate and positive real interest rates—structural weaknesses in the financial system, limited policy transmission, and expansionary fiscal measures have constrained the effectiveness of monetary control. On the fiscal side, budgetary stimulus and untargeted subsidies have contributed to aggregate demand pressures, particularly in a context of recovering consumption and investment activity.

In sum, inflation in Uzbekistan remains driven by a mix of demand- and supply-side factors, as well as external shocks. Without deeper reforms and stronger policy coordination, the 5% medium-term inflation target will remain difficult to achieve.

Policy Recommendations

To improve inflation control and move toward sustainable price stability, the following policy recommendations are proposed:

1. Enhance Monetary Policy Transmission

Deepen financial intermediation and reduce dollarization to strengthen the impact of interest rate changes. Improve the effectiveness of open market operations and develop secondary financial markets to better manage liquidity.

2. Accelerate Fiscal Consolidation

Adhere to planned deficit reduction paths (from 5.5% in 2023 to 3% by 2025) through improved spending efficiency.

Phase out untargeted energy subsidies and reduce off-budget fiscal operations.

Improve budget planning and enforce expenditure ceilings to align with inflation targets.

3. Strengthen Policy Coordination

Establish formal coordination mechanisms between the Ministry of Finance and the Central Bank to avoid policy conflicts.

Ensure macroeconomic forecasts and policy assumptions are aligned across institutions.

4. Reform Pricing and Market Structures

Liberalize administered prices (e.g., energy, utilities) in a phased and predictable manner to reduce cost-push inflation.

Promote competition and reduce the dominance of state-owned enterprises to enhance supply responsiveness.

5. Anchor Public Expectations

Strengthen communication strategies to explain inflation targets, risks, and policy responses to the public.

Improve data collection and dissemination, especially on inflation expectations and price indices.

6. Mitigate External Vulnerabilities

Maintain exchange rate flexibility to absorb external shocks.

Diversify export markets and strengthen domestic food and energy security to reduce import-driven price volatility.

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