

Challenges of Anti-Inflationary Policy in Uzbekistan

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Abstract: This article examines the key challenges of implementing anti-inflationary policy in the Republic of Uzbekistan amid the ongoing transformation of its national economy. The authors analyse the institutional, monetary, and structural factors that sustain persistent inflationary pressure despite the measures undertaken by the monetary authority. Drawing on statistical data published by the Central Bank of the Republic of Uzbekistan and the State Committee on Statistics for the period 2019–2024, the study identifies contradictions between the instruments of monetary and fiscal policy. A set of policy recommendations aimed at enhancing the effectiveness of anti-inflationary regulation is proposed, taking into account the specific features of Uzbekistan’s economic model.

Keywords: Inflation, Anti-Inflationary Policy, Monetary Policy, Central Bank of Uzbekistan, Monetary Targeting, Inflation Targeting, Structural Reforms, Fiscal Policy.



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1. Introduction

Inflation is one of the most significant macroeconomic phenomena, exerting a complex impact on all spheres of economic life. Persistent price growth erodes the purchasing power of the population, increases production costs, distorts investment incentives, and complicates long-term planning at both the household and enterprise levels. Anti-inflationary policy — a set of government measures aimed at reducing the rate of price growth and stabilising the purchasing power of the national currency — therefore occupies a central place in the macroeconomic governance of any state [1]. The overarching objective of such a policy is to ensure price stability as a prerequisite for confidence in the national currency, the attraction of investment, and sustainable economic development. In international practice, states employ a broad arsenal of instruments: from deflationary monetary policy involving the raising of the key interest rate and reduction of government expenditures, to incomes policy, structural reforms, and measures to promote competition. Effective anti-inflationary policy requires an organic combination of monetary restraint with measures to expand the supply of goods and services [2].

The challenge of anti-inflationary regulation is of particular relevance for Uzbekistan — a country undergoing large-scale structural economic transformation. The liberalisation of the foreign

exchange market in 2017 exposed accumulated imbalances and provided a powerful impetus to consumer price growth: according to the State Committee on Statistics of the Republic of Uzbekistan, inflation stood at 14.3% in 2018 and 15.2% in 2019. In subsequent years, despite a successive tightening of monetary policy, inflation consistently remained above the declared target: 10.0% in 2021, 12.3% in 2022, and 8.8% in 2023 [3]. Nevertheless, by 2025 evident progress had been achieved: annual inflation reached 7.3% – the lowest figure recorded over the preceding nine years. For 2026, the government has set a target range of 6–6.5%, reflecting a gradual, albeit uneven, movement towards price stability. At the same time, persistently high services inflation (13.9% in 2025), substantial inflation expectations among households, and a structural dependence on imports indicate that inflationary processes in the country are driven not only by monetary factors but also by deep structural determinants [4].

The relevance of this study is determined by the need to identify balanced mechanisms for restraining price growth without jeopardising the pace of economic expansion or diminishing investment activity. In the context of Uzbekistan's accelerated economic development, the effectiveness of anti-inflationary measures directly affects the social well-being of the population, the stability of the financial system, and the competitiveness of domestic enterprises [5].

The purpose of this article is to conduct a comprehensive analysis of the contradictions inherent in Uzbekistan's anti-inflationary policy and to formulate evidence-based recommendations for its improvement. To achieve this objective, the following tasks are addressed: an analysis of inflationary dynamics over the period 2019–2024; identification of the structural and institutional constraints on anti-inflationary regulation; an assessment of the coherence between monetary and fiscal policy instruments; and the formulation of proposals aimed at enhancing their effectiveness [6].

Literature Review

The theoretical foundations of anti-inflationary policy were established by scholars of the monetarist school – above all by M. Friedman, who demonstrated that inflation over the long run is determined by the rate of money supply growth exceeding the growth of real GDP [7]. The neo-Keynesian framework, in turn, distinguishes between demand-pull and cost-push inflation, a distinction that is of fundamental importance for the selection of anti-inflationary instruments [8].

Within the domestic academic literature, questions relating to monetary policy in Uzbekistan's transitional economy have been examined by Sh.Z. Abdullaeva (the monetary policy transmission mechanism) [9], A.A. Rasulov and M.Kh. Pulatov (the transition to inflation targeting) [10], and O.A. Khamidov, who substantiated the dominant role of the exchange rate pass-through channel in the formation of inflation [11]. In the international literature, A. Alesina and L. Summers demonstrated that independent central banks are associated with statistically lower rates of inflation; however, J. De Haan and W. Kooi have questioned the universality of this relationship for emerging market economies, where the formal independence of the monetary authority frequently diverges from actual practice [12].

A review of the existing literature indicates that, despite a substantial body of research on inflation in the CIS countries, the specific features of anti-inflationary policy in Uzbekistan – particularly in the context of simultaneous large-scale structural reforms and the persistence of elements of state price regulation – remain insufficiently studied. This article aims to address that gap.

2. Methodology

The study is grounded in a systemic approach that treats anti-inflationary policy as a component of an integral system of macroeconomic governance, one that exists in constant interaction with fiscal, exchange rate, and structural policies. The methodological basis comprises a combination of economic analysis methods, including dynamic analysis, decomposition of the

consumer price index by component, comparative analysis of policy instrument effectiveness, and institutional analysis of the regulatory framework [13].

3. Result and Discussion

Anti-inflationary policy constitutes a complex of government measures directed at reducing the rate of inflation, stabilising the price level, and restoring the purchasing power of the national currency. Its ultimate objective is to ensure macroeconomic stability, foster confidence in the monetary system, and create conditions conducive to sustainable economic growth.

The principal methods of anti-inflationary regulation may be classified as follows: first, deflationary (monetary) policy, which involves raising the central bank's key interest rate, increasing mandatory reserve requirements, and reducing government expenditures, thereby curtailing aggregate demand; second, incomes policy, encompassing direct price and wage controls or freezes aimed at curbing cost-push inflation; third, fiscal policy, oriented towards increasing the tax burden and reducing the budget deficit; and fourth, structural measures — stimulating production, fostering competition, and limiting monopolistic practices [14].

An analysis of the time series for the consumer price index reveals the persistence of sustained inflationary pressure throughout the study period. The annual rate of consumer price growth stood at 15.2% in 2019, 11.1% in 2020 (the decline being partly attributable to a recessionary demand shock during the COVID-19 pandemic), 10.0% in 2021, 12.3% in 2022, 8.8% in 2023, and approximately 10.0% in the first half of 2024. Thus, notwithstanding the successive tightening of monetary policy, the 5% target has thus far remained elusive.

The Central Bank of Uzbekistan has declared a transition to an inflation targeting regime since 2018. The key interest rate was raised in stages from 14% at the beginning of 2019 to 16% by the middle of that year, before being gradually reduced as inflation normalised. However, the effectiveness of the interest rate channel of the monetary policy transmission mechanism is substantially constrained by several structural factors. First, the share of lending at market rates remains relatively low due to the significant weight of state-owned banks providing subsidised loans to priority sectors. Second, the widespread practice of dollar-denominated lending reduces borrowers' sensitivity to changes in the national currency interest rate.

Structural Determinants of Inflation

A decomposition of the CPI reveals that food inflation consistently exceeds the overall index. This observation points to the supply-side nature of price pressures in this segment: underdeveloped logistical infrastructure, high trade margins throughout supply chains, and seasonal fluctuations in production generate a systematic gap between supply and demand in the food market. Services inflation is largely driven by increases in administratively regulated utility tariffs as part of the policy of gradual elimination of cross-subsidisation.

The exchange rate pass-through channel represents a significant inflationary determinant. Uzbekistan maintains a high dependence on imports of consumer goods and raw materials, with the result that any depreciation of the som is immediately transmitted into domestic price increases. Estimates suggest that the exchange rate pass-through coefficient to consumer prices is approximately 0.2–0.3, which is a relatively high value for an emerging market economy. Furthermore, the inflation expectations of households and enterprises remain unanchored: the population continues to regard changes in the US dollar exchange rate as the primary signal for revising price expectations.

The Monetary–Fiscal Policy Coordination Problem

One of the central challenges of anti-inflationary regulation in Uzbekistan is the insufficient coordination between monetary and fiscal policy. The state budget runs a persistent deficit, financed in part through domestic government borrowing, which exerts upward pressure on interest rates and partly offsets the restraining effect of restrictive monetary policy. In parallel, large-scale

government investment programmes in infrastructure and industry are being implemented, accompanied by substantial growth in public expenditures.

The question of the Central Bank's operational independence is also of fundamental importance. Despite formally enshrined statutory autonomy, a number of analysts have pointed to the practice of preferential refinancing of state-owned banks in support of priority sectors, which de facto constitutes quasi-fiscal financing. Such a mechanism expands the monetary base beyond the optimal level, complicating the achievement of the inflation target.

Institutional Constraints

The underdevelopment of the government securities market constitutes a critical institutional constraint on anti-inflationary policy. The absence of a liquid market for government securities deprives the Central Bank of an effective instrument for sterilising excess liquidity through open market operations. This narrows the available toolkit to adjustments in the key interest rate and mandatory reserve requirements, each of which carries significant limitations in a weakly monetised and partially dollarised economy.

An additional complicating factor is the administrative regulation of prices for certain goods and services that persists in Uzbekistan. The artificial suppression of selected prices preserves structural imbalances, and their subsequent liberalisation invariably produces an inflationary surge. Administrative measures thus merely defer the realisation of inflationary potential over time without eliminating it [15].

4. Conclusions and Policy Recommendations

The analysis conducted permits the following conclusions. Inflation in Uzbekistan is of a multifactorial nature: monetary sources of price pressure are compounded by structural (underdeveloped logistics, a high share of imports), institutional (dependence of state-owned banks, unanchored inflation expectations), and fiscal (budget deficit, quasi-fiscal refinancing) determinants. Under these conditions, an exclusive tightening of monetary policy inevitably encounters constraints and entails excessive costs in terms of economic growth.

On the basis of the research findings, the following set of measures is proposed:

1. **Ensuring genuine operational independence of the Central Bank.** It is necessary to enshrine in legislation a prohibition on the quasi-fiscal refinancing of state-owned banks and to establish a transparent mechanism of parliamentary oversight of monetary policy. Strengthening confidence in the regulator is a precondition for anchoring inflation expectations and reducing the contribution of expectational inertia to the inflationary process.
2. **Development of the government securities market.** Expanding the range of government debt instruments and increasing the liquidity of the secondary government securities market will enable the Central Bank to make full use of open market operations as the primary instrument for managing banking sector liquidity.
3. **Coordination of monetary and fiscal policy.** It would be advisable to introduce a fiscal rule constraining the structural budget deficit, and to establish a mechanism for joint macroeconomic forecasting involving the Central Bank, the Ministry of Finance, and the Ministry of Economy.
4. **Structural measures to address non-monetary sources of inflation.** These include: the development of logistical infrastructure and agri-food markets to curb food inflation; gradual and transparent liberalisation of regulated tariffs with advance notification to market participants; and the promotion of competition in sectors characterised by high market concentration.
5. **Reduction of economic dollarisation.** The development of a comprehensive de-dollarisation programme — encompassing the creation of attractive savings instruments in national currency, a reduction in the share of foreign currency lending, and greater exchange rate predictability — will weaken the exchange rate channel of inflationary pass-through.

The implementation of the proposed measures will require considerable time and political

will; however, a systemic approach to anti-inflationary regulation — one that integrates monetary, fiscal, and structural instruments — represents the only sustainable path towards achieving price stability in Uzbekistan.

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