

Monetary Policy in Uzbekistan: Current Status, Challenges, and Prospects

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Abstract: This article examines key aspects of the monetary policy of the Republic of Uzbekistan amid accelerated economic growth and inflationary pressures. It analyzes the Central Bank's instruments, the dynamics of the key interest rate, inflation targeting, and the banking sector's lending activity for the period 2022–2025. Recommendations are proposed to improve the effectiveness of the monetary policy transmission mechanism and achieve the inflation target of 5%.

Key words: Monetary Policy, Central Bank, Inflation, Inflation Targeting, Policy Rate, Lending, Transmission Mechanism, Banking Sector, GDP, Macroeconomic Stability



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1. Introduction

Against the backdrop of Uzbekistan's rapidly developing economy, monetary policy has taken on particular importance as a tool for ensuring price stability and sustainable growth. According to data from the Statistics Agency, the country's GDP exceeded \$121 billion in 2024 and reached a record high of \$145 billion in 2025, reflecting a high rate of economic growth—approximately 6.5–7% per year. At the same time, sustained demand and the liberalization of energy tariffs have led to persistent inflationary pressures, making the implementation of a balanced monetary policy a top priority for the state.[1]

The Central Bank of the Republic of Uzbekistan (CBRU) switched to an inflation targeting regime in 2020, setting a long-term inflation target of 5%. [2]However, achieving this goal is fraught with a number of structural difficulties: non-monetary factors driving price growth, the high share of state-owned banks in the financial system, the weakness of the transmission mechanism, and a significant volume of directed lending. In this regard, examining the current state and prospects of Uzbekistan's monetary policy represents a pressing scientific and practical task.[3]

Literature Review

Issues related to monetary policy and inflation targeting are actively studied in the global economic community. Authors such as Bernanke, B., Mishkin, F., and Svensson, L. view the inflation-targeting regime as the most effective tool for ensuring price stability in an open economy [4]. Among Russian economists, S.R. Moiseev and A.V. Ulyukaev examine the specifics of applying monetary policy instruments in transition economies [5]. In domestic scholarship, significant contributions have been made by R.A. Ubaidullaeva, T.Sh. Shodiev, and M.T. Khasanov, who

analyze the specifics of the formulation and implementation of Uzbekistan's monetary policy in the context of structural reforms and financial sector liberalization [6]. At the same time, issues regarding the effectiveness of the transmission mechanism and the interrelationship between monetary and fiscal policy in the context of Uzbekistan's accelerated economic growth remain insufficiently studied.[7]

2. Research Methodology

This study employs methods of comparative analysis, statistical comparisons, and a systematic approach, as well as economic and mathematical methods for modeling the dynamics of inflation and interest rates. The research was based on official data from the Central Bank of the Republic of Uzbekistan, the Statistics Agency under the President of the Republic of Uzbekistan, the Ministry of Economy and Finance, as well as materials from the IMF and the World Bank.[8]

3. Analysis and Results

The key monetary policy instrument of the Central Bank of Uzbekistan is the key interest rate, which determines the cost of short-term funds in the interbank money market (UZONIA). Since 2020, the refinancing rate has been replaced by the key rate, which serves as the operational benchmark for monetary policy.[9] In 2022, in response to global inflationary pressures, the Central Bank of Uzbekistan maintained tight monetary conditions. In 2023–2024, the rate was lowered from 15% to 14%, and by September 2024, to 13.5% per annum, reflecting a gradual slowdown in inflation.[10]

Inflation trends in Uzbekistan paint the following picture: annual inflation stood at 12.2% at the end of 2022, 8.8% in 2023, and 9.8% in 2024, exceeding the Central Bank's initial forecast (8–9%).[11] The main factors driving the acceleration of inflation in 2024 were rising energy prices, high consumer demand driven by rising household incomes, and inflation in the services sector (annual growth of 26.7%). [12] Inflation slowed at the beginning of 2025: by the end of the first quarter, quarterly price growth stood at 2.1%, and by September 2025, annual inflation had fallen to 8%. According to the Central Bank's forecast, the 5% target is expected to be reached by the end of 2027 [13].

An important indicator of the state of the monetary and credit sector is the banking sector's lending activity.[14] In 2024, the volume of loans issued to economic sectors and the population amounted to 287.1 trillion soums, exceeding the previous year's figure by 35.8 trillion soums. [15]

Conclusion

The analysis conducted indicates that Uzbekistan's monetary policy is showing positive trends: the transition to an inflation-targeting regime has been completed, the transparency and predictability of the Central Bank's decisions have been enhanced, and a regulatory framework for medium-term monetary planning has been established. At the same time, systemic challenges remain that require comprehensive solutions. In this regard, the authors consider it advisable to implement the following measures:

- Accelerating the reform of state-owned banks and gradually reducing directive preferential lending in order to strengthen the interest rate channel of the monetary policy transmission mechanism;
- Strengthening the coordination of monetary and fiscal policies to prevent the pro-inflationary impact of expansionary fiscal policy on aggregate demand;

- Developing tools to manage inflation expectations among the public and businesses through the expansion of the central bank's communication policy, regular publication of inflation reports, and surveys;
- Stimulating household savings by maintaining positive real interest rates on deposits in the national currency, which will help reduce excess consumer demand and de-dollarize savings;
- Introducing modern analytical models (including dsge) to improve the quality of inflation forecasting and assess the impact of monetary shocks on the real sector of Uzbekistan's economy.

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