



MONETARY POLICY REFORMS IN UZBEKISTAN AND THEIR IMPACT ON ECONOMIC STABILITY

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Abstract

Monetary policy reforms in Uzbekistan play a significant role in the Central Bank's efforts to strengthen its independence and transparency, transition toward inflation targeting, and liberalize the exchange rate. The monetary policies of the Central Bank of Uzbekistan include mandatory reserve requirements for commercial banks, the discount rate, open market operations, and currency interventions. Through these policies, the Central Bank ensures price stability and inflation control. These policies contribute not only to Uzbekistan's overall economic growth but also to the welfare of Uzbek households. This article examines the Central Bank of Uzbekistan's 2017 monetary policies and their influence on overall economic activity and Uzbekistan's economic growth by analyzing key macroeconomic indicators such as GDP growth rate, inflation rate, tax revenue, policy rate, and trade balance. The analysis is based on a quantitative approach using a regression model applied to time-series data. However, the regression analysis indicates that the results are not statistically significant due to limited data, as monetary policy reforms in Uzbekistan started in 2017. These findings underscore the importance of strengthening data availability and institutional capacity to enhance the effectiveness of monetary policy implementation in Uzbekistan. The article also presents policy recommendations offered by IMF staff to the Central Bank regarding both fiscal and monetary policy, highlighting the steps toward inflation targeting. Despite several interventions

to lower inflation, the inflation rate increased due to external shocks, such as the coronavirus pandemic, which caused an increase in economic uncertainty. Following the emergence of COVID-19 in Uzbekistan, inflation began to rise, and therefore, the IMF suggested maintaining high interest rates and continuing the transition toward inflation targeting.

Key words: Monetary policy, Inflation rate, macroeconomic indicators, Central bank of Uzbekistan, IMF recommendations, inflation targeting.

Introduction

Monetary policy plays a vital role in shaping the overall economic growth of a country. Macroeconomic indicators such as GDP growth, inflation rates, and unemployment significantly influence monetary policy decisions. To maintain economic stability, central banks use various policy instruments, including interest rate adjustments, reserve requirements for commercial banks, and open market operations. These instruments help regulate the money supply and prevent excessive inflation or deflation while supporting sustainable economic growth.

According to the Law on the Central Bank of the Republic of Uzbekistan, the Central Bank is responsible for developing and implementing monetary policy, including exchange rate policy, intending to maintain

price stability [1]. In recent years, the Central Bank of Uzbekistan has introduced several important monetary policy reforms. For example, such as, since 2017, the government of Uzbekistan decided to put alternative variation in monetary policy reforms, including, transitioning from a strictly managed system to a market-based approach. Those reforms are consisted of liberalizing the foreign exchange market, adopting an inflation-targeting regime aimed at 5%, and enhancing the Central Bank's operational independence. These measures aimed to stabilize Uzbek national currency "Som", reduce inflation rate and increase efficiency in banking system, which aim to strengthen macroeconomic stability and promote economic development [2].

The main objectives of this research paper are to examine the impact of recent monetary policy reforms in Uzbekistan on economic stability. The study analyzes key macroeconomic indicators such as GDP growth, inflation rate, policy rate, foreign investment and external debt indicators. The research is based on data provided by the Central Bank of Uzbekistan, the International Monetary Fund, the World Bank, the Asian Development Bank, and academic sources available through Google Scholar.

Literature review

The Central bank of Uzbekistan highlights the policy rate in order to manage the inflation rate, achieve inflation targets, stabilize the currency and influence economic activity [3].

The World Bank has also highlighted the importance of macroeconomic stability for sustainable economic growth. Its data shows that Uzbekistan has achieved increases in both the constant-GDP rate and overall GDP growth, despite external uncertainties that have caused several economic downturns. This demonstrates that monetary

policy reforms have supported the country's economic development.

According to data provided by the IMF, despite Uzbekistan's strong economic performance, which has been ongoing since the year of 2017 - marked by rising GDP growth, support for domestic production, a lower current account deficit, growth in non-gold exports, reduced imports, and a more balanced trade position – inflation rate has risen. An increase in inflation came from less government spending and more borrowing from foreign countries, which led to the higher prices. Therefore, the IMF's Article IV Consultation report emphasizes that the government should keep strengthening fiscal, monetary, and exchange rate policies, while also ensuring financial sector stability [4].

Methodology

This study examines the impact of monetary policy reforms implemented in Uzbekistan between 2017 and 2024. Using a quantitative econometric approach based on secondary macroeconomic data, the research analyzes the relationship between key macroeconomic indicators, tax revenues, and their influence on overall economic growth in Uzbekistan. The analysis relies on open data provided by the Central Bank of Uzbekistan, the World Bank, and the International Monetary Fund. During the period 2017–2024, several monetary policy reforms were introduced, including the liberalization of the foreign exchange market, the adoption of an inflation-targeting framework by the Central Bank of Uzbekistan, and measures to strengthen the independence of the CBU [5].

Regression model:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$$

Where:

Y – tax revenues

X1 – GDP growth

X2 – inflation rate

X3 – policy rate

X4 – exports and imports

Both monetary and fiscal policies play a crucial role in shaping economic sustainability. Tax revenues serve as the foundation of fiscal capacity for governments, while monetary policy manages inflation through interest rate adjustments. Together, these policies are considered the main tools for controlling inflation and liquidity to achieve stable economic growth. When these mechanisms are effectively coordinated, they strengthen stability; however, poor alignment may trigger negative economic shocks. Therefore, this article aims to explain how each macroeconomic indicator influences government tax revenues and how monetary instruments set by central banks can safeguard the economy.

1. **GDP Growth.** As GDP expands, government tax revenues also increase due to higher production, employment, and sales. Conversely, when GDP declines, tax revenues fall as a result of reduced consumer spending, weaker business activity, and rising unemployment.
2. **Inflation Rate.** If tax revenues rise steadily, inflation may also increase, reducing purchasing power and undermining confidence in the national currency among citizens.
3. **Policy Rate.** In periods of high inflation, the central bank raises the policy rate to maintain economic stability. The policy rate is a short-term interest rate set by the central bank to curb inflation and manage growth. When the policy rate rises, commercial banks face higher borrowing costs, which leads to increased loan interest rates. This

reduces consumer spending and helps slow inflation.

4. **Trade Balance (Exports and Imports).** According to economic principles, trade can benefit all parties and make the balance of exports and imports vital for sustainable development. When a country exports more goods, revenues from corporate income tax, customs duties, and sales tax increase. Similarly, governments collect customs duties or VAT on imported goods, so rising imports can also boost tax revenues. The World Development Report estimates that the administrative costs of levying trade taxes range between 1 and 3 percent of the revenue collected, while the corresponding costs for VAT and income taxes are estimated at 5 percent and 10 percent. [6].

Result

Regression analysis

The regression analysis was applied in order to understand the relationship between the macroeconomic indicators and tax revenue in Uzbekistan from 2017-2024. The results indicate that $R^2 = 0,96$, meaning 96% of the variation in the dependent variable, which is tax revenue, is explained by macroeconomic indicators given in the table 1. Despite the high explanatory value, the statistical significance of the model is limited. The p-value = 0,095 represents that the overall model is not statistically significant at the 5% significance level, which could be because of short-term data collection, which is over 8 years, as we study the monetary reform of 2017.

The coefficients show combined relationships between variables. The GDP growth rate and inflation rate show a negative relationship with tax revenue, as they have negative coefficients. However, policy rate,

exports and imports represent a positive relationship, although their effects are relatively smaller than inflation and GDP growth rates. Yet not any independent variable is statistically significant, as their p-value = 0,095 represents that the overall model is not statistically significant at the 5% significance level, which could be because of short term data collection, which is over 8 years, as we study the monetary reform of 2017. The coefficients show combined relationships between variables. The GDP growth rate and inflation rate show a negative relationship with tax revenue, as they have negative coefficients. However, policy rate, exports and imports represent a positive relationship, although their effects are relatively smaller than inflation and GDP

growth rates. Yet not any independent variable is statistically significant, as their p-values are larger than the 0.05 significance level. This shows the fact that the influences of those macroeconomic indicators cannot be considered statistically reliable.

Year	Tax revenue (bln soms)	Inflation rate %	GDP growth rate %	Policy rate	Export (mln \$)	Import (mln \$)
2017	44540	14,4	4,4	9	12412	16470,2
2018	69600	14,3	5,56	14	14135,1	23443,6
2019	97784,7	13,5	6,78	16	17025,7	26587,7
2020	112892,3	11,1	1,56	15	14536,5	22638,1
2021	138257,2	9,9	8,03	14	16442	27935,9
2022	159750,1	12,3	6	14	20965,9	35643,3
2023	184508,9	8,7	6,29	13,5	25049,6	42646,4
2024	215537	9,8	5,52	14	26173,3	43624,2

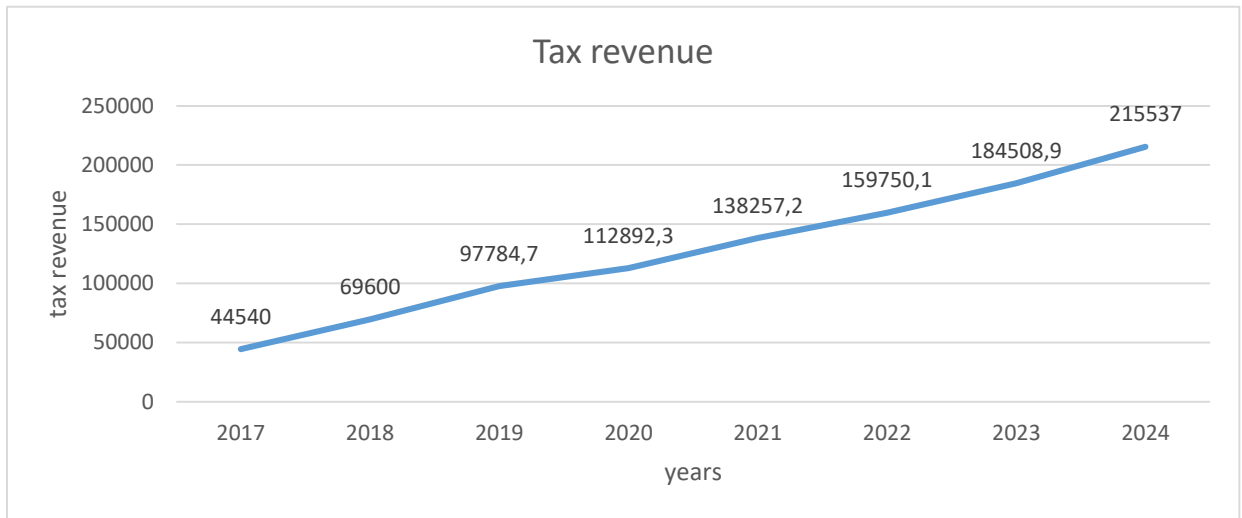
Table 1. Data set of macroeconomic indicators and tax revenue

As shown in Table 1, the time-series dataset illustrates how the dependent variable - tax revenue has changed over the years in relation to independent variables, namely key macroeconomic indicators such as the inflation rate, GDP growth rate, policy rate, and trade flows (exports and imports) during the period 2017-2024. These macroeconomic indicators were selected to examine the relationship between monetary policy

variables and fiscal outcomes in Uzbekistan throughout the era of monetary reforms.

Trend analysis

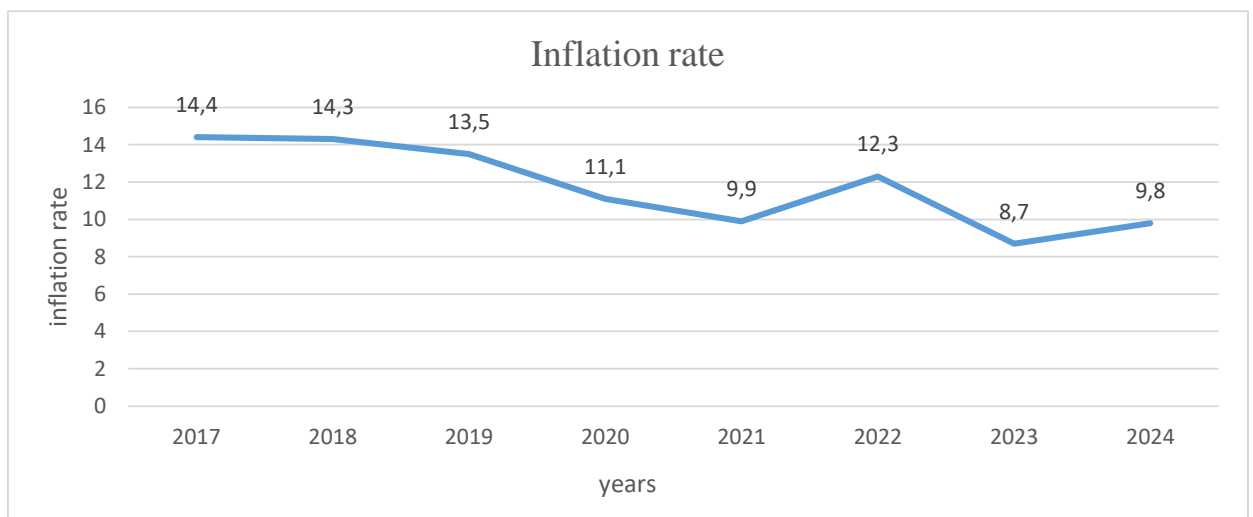
Trend analysis demonstrates how each independent and dependent variables have changed during the period of time. By doing so, it will be clearly visible to understand whether it is decreasing, increasing or remaining stable.



Graph 1. Tax revenue after monetary reforms between 2017-2024

The graph demonstrates that following the monetary policy reforms implemented in Uzbekistan, tax revenue showed a steady increase from 2017 to 2024. Specifically, tax revenue rose from 22,540 billion soums to 215,537 billion soums. This

growth reflects several improvements in economic activity, including increased public investment aimed at enhancing the efficiency of the country's infrastructure system and the expansion of human capital.



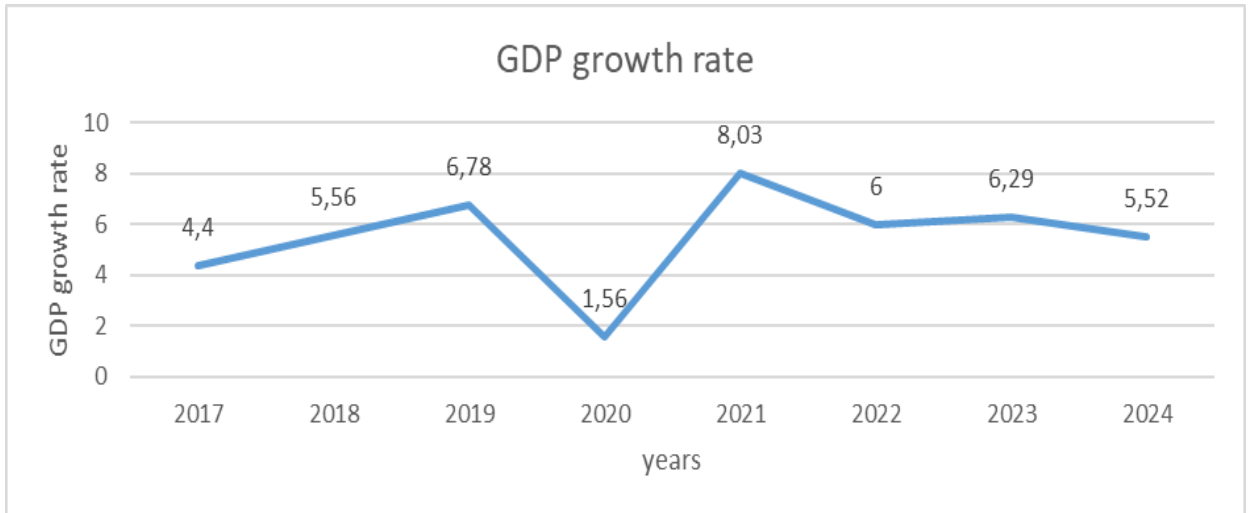
Graph 2. Inflation rate after monetary reforms between 2017-2024

The graph indicates that following the monetary policy reforms in Uzbekistan, the inflation rate experienced a slight decline

between 2017 and 2021, falling from 14.4% to 9.9%. However, during 2021-2022, the

inflation rate started to increase. After 2022, the inflation rate began to fluctuate, reflecting ongoing challenges in price stability. Overall, since the Central Bank of Uzbekistan (CBU)

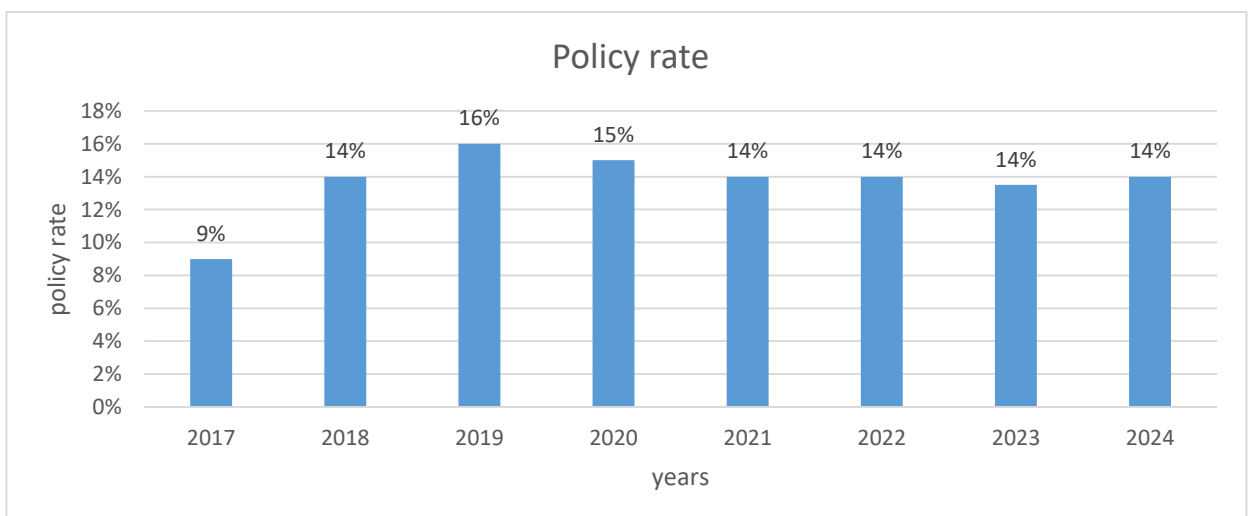
implemented tighter monetary reforms, inflation has decreased noticeably, demonstrating the effectiveness of these measures in curbing price growth.



Graph 3. GDP growth rate for monetary policy reforms of Uzbekistan between 2017 and 2024

The line graph represents the growth rate between 2017 and 2024. The growth rate of Uzbekistan after the monetary policy reforms of 2017 was increasing until 2020.

Due to Covid 19, the GDP growth rate has decreased noticeably, and in 2021, it showed a significant upward trend and till now it has been fluctuating slightly



Graph 4. Policy rate of Uzbekistan after monetary policy reforms between 2017-2024

The bar chart illustrates the policy rate set by the Central Bank of Uzbekistan (CBU) to maintain economic stability by controlling inflation and regulating money supply. As shown in the chart, the policy rate increased

from 9% to 14% over the eight years following the monetary policy reforms. This tightening of monetary policy contributed to a noticeable decrease in the country's inflation rate.



Graph 5. Trade balance inside Uzbekistan after monetary policy reforms

The graph presents visual data on Uzbekistan's trade balance over the eight-year period. As shown in the histogram, both exports and imports increased steadily during this timeframe, following the implementation of monetary policy reforms. This upward international trade contributed to the strengthening of the country's trade balance, which in turn supported overall economic growth in Uzbekistan.

Overall, Uzbekistan has experienced sustained economic growth and stabilization since 2017, largely due to the implementation of monetary policy reforms. These reforms strengthened key macroeconomic indicators, leading to higher tax revenues, lower inflation, and an expansion of international trade. Collectively, these outcomes highlight the effectiveness of monetary policy in supporting fiscal capacity and promoting long-term economic development.

Discussion

Monetary Policy Reforms of 2017. In 2017, Uzbekistan introduced a series of monetary policy reforms aimed at improving macroeconomic stability and enhancing the effectiveness of monetary policy. These reforms included the liberalization of the foreign exchange market, the transition to an inflation-targeting regime, and granting greater operational independence to the Central Bank of Uzbekistan (CBU) [7].

Transition to Inflation Targeting. According to the Central Bank of Uzbekistan's forecast, the target inflation rate is expected to reach 5% by 2030. To achieve this goal, the CBU has implemented six key strategies [8]:

- 1) Setting and prioritizing inflation targeting – The CBU evaluates the economy's potential, demand and supply dynamics, macroeconomic

forecasts, and international standards to establish inflation targets. Since setting the 5% target, all monetary decisions have been directed toward achieving this benchmark.

- 2) Policy rate adjustments – The policy rate serves as the main monetary instrument to control inflation. By raising interest rates for commercial banks, borrowing becomes more expensive, reducing consumer spending and helping to lower inflation.
- 3) Independence of the CBU – Operational independence is essential for selecting appropriate monetary tools to achieve inflation targets.
- 4) Data-driven decision-making – Monetary policy decisions are based on macroeconomic analyses and forecasts to ensure credibility and effectiveness.
- 5) Free-floating exchange rate regime – The exchange rate is determined by market supply and demand rather than fixed by the CBU, allowing for more effective monetary policy.
- 6) Transparency and communication – The CBU provides open access to its decisions and reasoning through press releases, publications such as the Monetary Policy Guidelines and Monetary Policy Review, and public briefings. This transparency builds trust between the CBU and citizens, encouraging price and wage-setting behavior consistent with stable, low inflation.

Liberalization of the Foreign Exchange Market. Exchange rate liberalization was one of the most significant reform steps. On September 5, 2017, authorities abolished foreign exchange surrender requirements for companies, eased

access for individuals, devalued the official rate by 50%, and unified it with the black-market rate. Although daily fluctuations were initially limited to 5%, the reforms reduced the black market's role. The exchange rate of the Uzbek som is now determined by supply and demand in the domestic market, with the CBU refraining from setting target levels. A freely determined exchange rate acts as a "shock absorber," preventing external risks from destabilizing the domestic economy. This mechanism is crucial for ensuring macroeconomic stability, attracting investment, promoting foreign trade, and supporting effective economic policy [1].

Following the monetary policy reforms since 2017, Uzbekistan has experienced several changes and improvements in macroeconomic indicators. Such that, the slight increases in GDP, policy rates and trade balance, the decrease in the inflation rate. However, there were external uncertainties in overall economic activities, especially during Covid-19 [9]; therefore, the IMF has suggested several actions towards the inflation targeting and the continuation of steps toward lower inflation and economic growth. According to the IMF's 2025 Article IV Mission, Uzbekistan's GDP grew rapidly after 2024, while the external current account deficit narrowed. Government spending was reduced, lowering aggregate demand, but state-owned enterprises continued to spend less due to restrictions on foreign borrowing. This contributed to inflation rising to 10% in 2025. The IMF recommended that until inflation falls to the 5% target, the CBU should maintain a tight, data-driven monetary policy. Exchange rates should be allowed to fluctuate widely to reflect market conditions, attract foreign direct investment, and reduce depreciation expectations. These measures are essential for consolidating

macroeconomic stability and achieving long-term inflation targets [4].

Conclusion

This study has examined the monetary policy reforms introduced in Uzbekistan in 2017 and their impact on overall economic growth through the interaction of macroeconomic indicators and fiscal policy, particularly tax revenues. The findings suggest that reforms such as the liberalization of the foreign exchange market and the transition toward an inflation-targeting framework have significantly influenced the country's macroeconomic stability, affecting tax revenues, inflation, government spending, and broader economic activity.

Between 2017 and 2024, Uzbekistan's tax revenues increased substantially, strengthening the government's fiscal capacity to invest in infrastructure and support economic development. However, rising tax revenues also carried the risk of fueling inflation. To counter this, the Central Bank of Uzbekistan (CBU) exercised independent authority to adjust the policy rate and stabilize the national currency. The implementation of these reforms contributed

to notable improvements, including reduced inflation, a more stable policy rate, and an enhanced trade balance with international partners.

The CBU has also emphasized six core principles of monetary policy to achieve its long-term inflation target of 5% by 2030. These include prioritizing inflation targeting, adjusting the policy rate, ensuring operational independence, basing decisions on macroeconomic analysis, liberalizing the foreign exchange market, and fostering public trust through transparency. Nevertheless, challenges remain. Increased borrowing by state-owned enterprises from abroad has contributed to higher prices and inflationary pressures.

Therefore, it is recommended that the CBU maintain a tight and data-driven monetary stance until clear signals of declining inflation emerge. Overall, Uzbekistan's economy has benefited from the 2017 monetary policy reforms, which have strengthened economic stability. Yet, sustained vigilance is required to address structural issues and ensure the successful achievement of the inflation-targeting strategy by 2030.

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