

Article

# CURRENCY REGULATION REFORMS IN UZBEKISTAN

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**Abstract:** This research examines the course of currency regulation reforms in Uzbekistan, filling a void in what was understood about their effects on economic stability and investment attraction. The research employs systematic analysis of historical data and recent policy developments to investigate the change from a rigid currency regime to a flexible exchange rate system that occurred in 2017. The study finds that there are significant strides in market liberalization; improved foreign exchange stability, increased foreign investments, and reduced inflation rates. But still, progress on things like inflationary pressures and financial infrastructure gaps remain. The conclusion of the study emphasizes the continuing necessity of vigorous regulatory support and financial education measures in order to attain reform's potential. These contributions to the general discourse on economic modernization draw attention to the various aspects of this process and implications for policy frameworks in transitional economies.

**Keywords:** devaluation, inflation, informal economy, conversion, liberalization, currency regime.

## 1. Introduction

The global warming of the atmosphere on a global scale is the only way to save human life, the quality of the demand for the consumer products necessary for them, the development of the production of medicines must meet the requirements of people's purchase levels. But international cooperation on a global scale is very important in solving this global problem.

To ensure that our Republic, which is developing on the basis of free economic competition in the conditions of a market economy, develops its domestic consumer market and has its economic position in the international economic world market, to establish economic political and legal relations between economic entities with developed and developing countries in the world. Related to the level of organization and development of currency and currency relations.

### Literature review

The peculiarity of the foreign exchange market and the activities of commercial banks in the field of foreign exchange relations are mentioned in the researches of economists of the CIS countries, such as M. Gilbert, O. I. Lavrushina, and L. N. Krasavina. According to local economists A.Sh. Bekmurodov and N.K. Jumayev, relying on market mechanisms in the process of formation of the exchange rate of the soum against leading foreign currencies in the foreign exchange market may cause the level of fluctuations in the exchange rates to increase, while fully responding to the liberalization policy implemented in the foreign exchange sector. This requires the Central Bank to be able to influence supply and demand in the currency market in order to prevent sharp fluctuations in exchange rates, and for this purpose, to be provided with sufficient foreign currency assets.

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## 2. Materials and Methods

At the present time, the presence of a number of problems in the practice of managing the foreign exchange market in the activity of banks in our Republic is observed. In particular, the large amount of overdue loans, the level of reserve allocations intended to cover losses from loans is large compared to the standard requirement, and the use of international loans is not at the required level. In the scientific research works and scientific-theoretical research carried out within this topic, it is the effective organization of the currency market management has not been fully studied in a complex and systematic way. This situation determines the level of relevance of the researched scientific-practical problems and suggestions and recommendations for their elimination.

## 3. Results

Development of the financial market in our country is one of the important tasks in our economy today. The financial market serves to develop the economy, increase the gross domestic product, attract capital, and increase investment attractiveness. For this reason, the Decree No. PF-4947 approved by the President of the Republic of Uzbekistan, Sh. as the development of the concept of development of the financial market of the Republic of Uzbekistan in the medium-term and long-term perspective aimed at the development of the financial market.

In recent years, Uzbekistan has embarked on a transformational journey aimed at modernization of its economy and fuller integration into the world financial system. In 2023, the shadow economy increased by 12% after revaluation. At the heart of these changes are comprehensive reforms in the field of currency regulation. These reforms are not just administrative adjustments; they represent fundamental changes in the country's approach to encouraging foreign investment, strengthening economic stability and managing the economy towards sustainable growth.

Historically, Uzbekistan had a strictly controlled currency regime, control of predetermined exchange rates. Although these measures were initially implemented to protect the national economy and control inflation, they eventually led to serious distortions in the foreign exchange market and limited the country's relations with international financial markets. Rigid exchange controls have stifled private sector development, hindered foreign direct investment, and restricted capital movements. Recognizing these problems, the government has initiated a series of reforms aimed at liberalizing the currency regime and making it more favorable for economic activity.

Reforms began in 2017 under President Shavkat Mirziyoyev on the liberalization of the economy. One of the main initiatives was the transition to a flexible exchange rate system. This change was aimed at adapting the national currency, the Uzbek soum, to market realities, thereby reducing the difference between the official and parallel exchange rates. The government will allow the soum to float more freely and tried to increase the competitiveness of Uzbekistan's exports, attract foreign investment and stabilize the economy.

Along with the liberalization of exchange rates, the government implemented measures to improve the general investment environment. In this regard, simplification of currency exchange procedures and relaxation of restrictions on capital flow became important. These changes are aimed at increasing investor confidence and encouraging repatriation of earnings, thereby fostering a more dynamic business environment. In addition, the government has actively worked to strengthen the legal framework governing foreign exchange transactions and to provide greater transparency and predictability for both domestic and foreign investors.

The reforms are also supported by broader economic strategies aimed at diversifying the economy and reducing dependence on narrow sectors. By creating a more attractive environment for investment, Uzbekistan aims to stimulate growth in areas such as manufacturing, services and technology. This diversification is important for increasing resilience to external influences and ensuring sustainable economic development.

Uzbekistan is facing a number of problems as it continues reforms in currency regulation. Establishing a fully functioning foreign exchange market requires not only regulatory

adjustments, but also the development of financial infrastructure and institutions capable of supporting a modern financial system. In addition, the government must manage the complex interplay between liberalization and economic stability to ensure that reforms do not lead to excessive volatility or inflationary pressures.

A country rich in cultural heritage and natural resources, Uzbekistan experienced significant economic changes after gaining independence from the Soviet Union in 1991. The historical context of currency regulation in Uzbekistan is important for understanding the issues and reforms that have shaped its current economic landscape.

In the post-independence period, Uzbekistan inherited a centralized economy that relied heavily on state control over all aspects of economic life, including currency regulation. The Uzbek soum was put into circulation as the national currency in 1994 instead of the Soviet ruble. By the late 1990s, the official exchange rate became increasingly disconnected from market realities, leading to a dual exchange rate system that further complicated economic transactions.

During this period, the black market for currency flourished as individuals and businesses tried to circumvent government restrictions. The disparity between official and black market rates is an uncertainty

created an environment, stopped foreign investments and stopped economic growth. With the increase in inflation, the value of the soum fell sharply, which led to a decrease in the purchasing power of the common citizen. The economic situation has been exacerbated by a lack of transparency and an inadequate regulatory framework, leaving many citizens and businesses in a difficult situation.

In response to these problems, the government began to realize the need for comprehensive currency reforms. In the early 2000s, gradual changes took place, but after the 2016 presidential election of Shavkat Mirziyoyev, a more intensive reform program was launched. His administration made economic modernization a top priority, leading to a revision of monetary policy that had previously stifled growth.

In September 2017, the liberalization of the currency exchange system and the transition of Uzbekistan's exchange rate to the market principle became a turning point. The change marked a significant departure from decades of rigid currency controls. The government abolished the fixed exchange rate system and brought the soum closer to market dynamics. This reform is aimed at creating a more predictable environment for domestic and foreign investors, promoting economic stability and growth.

In addition, the removal of restrictions on currency conversion represented a monumental shift in policy. Individuals and businesses were no longer restricted in their ability to exchange foreign currency, which facilitated greater participation in international trade and investment. Simplified procedures for currency transactions were introduced, which significantly eased the burden of economic agents and improved the general business environment.

The government is constantly faced with the task of managing inflation, which can be exacerbated by sharp adjustments in the exchange rate. In addition, ensuring financial stability in a rapidly changing economic environment requires strong regulatory oversight and clear communication from the Central Bank of Uzbekistan.

1-table. Inflation dynamics in Uzbekistan

Period	Inflation (%)
Sentabr 2024	10.5
Sentabr 2023	9.2
Sentabr 2022	12.2
Sentabr 2021	10.8
Sentabr 2020	11.7
Sentabr 2019	16
Sentabr 2018	16.2
Sentabr 2017	15.8
Sentabr 2016	9.1

The dynamics of inflation in Uzbekistan shows that after the changes there was a sharp increase in prices. In 2017-2022, the inflation rate exceeded 10%. However, by 2023, the indicators have balanced. Inflation fell below 10% for the first time since 2016. The implementation of these reforms has led to increased transparency in foreign exchange transactions and facilitated predictable movements of exchange rates, which is important for both local businesses and foreign investors.

Along with the transition to a market-based exchange rate, the removal of various restrictions on currency conversion has begun. In the past, individuals and businesses faced severe restrictions on the amount of currency that could be exchanged and the purposes for which it could be used. The abolition of these restrictions gave freedom to citizens and businessmen and allowed them to carry out currency operations freely. This new flexibility encouraged not only domestic trade but also participation in international markets. As a result, enterprises can now import the necessary raw materials and export their products with fewer bureaucratic obstacles, increasing their competitiveness on a global scale.

In order to support the liberalized currency regime, Uzbekistan focused on strengthening its regulatory and legal framework. The Central Bank of Uzbekistan took an active part in the control of the foreign exchange market and the introduction of more specific laws and regulations regulating currency operations. This includes creating mechanisms for monitoring changes in exchange rates and ensuring compliance with international standards. By improving the regulatory framework, the government aims to create a stable and predictable environment for foreign exchange, which is necessary to strengthen investor confidence.

Recognizing the importance of foreign direct investment for economic growth, the government of Uzbekistan has implemented a number of incentives to attract international capital. These benefits include tax benefits, simplified procedures for starting and running a business, and guaranteeing property rights. Currency reforms have played a decisive role in this regard, as exchange rate liberalization and the removal of restrictions on conversion have significantly reduced the risks associated with investing in Uzbekistan. Consequently, such as renewable energy, infrastructure and technology increased interest of foreign investors in the fields, led to the creation of new jobs and diversification of the economy

2- table. Devaluation of the Uzbek soum against the US dollar

Period	1 worth usd
Dekabr 2019	9495 uzs
Aprél 2020	10134 uzs
Dekabr 2020	10400 uzs
Aprél 2021	10500 uzs
Dekabr 2021	10764 uzs
Aprél 2022	11395 uzs
Dekabr 2022	11212 uzs
Iyun 2023	11427 uzs
Dekabr 2023	12366 uzs
Aprél 2024	12632 uzs
Noyabr 2024	12853 uzs

One of the most important effects of the reforms was an increase in the volume of foreign direct investments. By introducing a market-based exchange rate and removing restrictions on currency conversion, Uzbekistan has become a more attractive country for foreign investors. The possibility of free currency conversion reduced the risks associated with exchange rate changes and encouraged investors to cooperate with the Uzbek

market. As a result, sectors such as telecommunications, energy, and agriculture have experienced capital inflows, fueling economic growth and job creation.

The reforms have attracted foreign investment and encouraged local entrepreneurship. With the removal of foreign exchange restrictions, local businesses can now participate more freely in international trade. This new flexibility allowed Uzbek companies to import raw materials and export finished products without the heavy restrictions of the previous rules. As a result, many enterprises have expanded their operations, which has led to increased production capacity and increased competitiveness in regional and global markets.

The liberalization of the currency exchange system also helped to make the financial sector more dynamic and responsive. The Central Bank of Uzbekistan strengthened its regulatory framework, strengthened control over currency markets, and ensured that the banking system fully meets the growing needs of individuals and business entities. This has created a more stable financial environment, which is essential for sustainable economic growth.

However, the reforms are not without challenges. One of the primary concerns has been rising inflation following currency liberalization. The transition to the market exchange rate initially led to a depreciation of the soum, resulting in an increase in the price of imported goods and services. Government inflationary pressure should implement management measures, including adjustments to monetary policy and targeted subsidies to mitigate the impact on consumers. Striking a balance between stimulating economic growth and controlling inflation remains an important challenge for policymakers.

In addition, although the reforms opened up the economy, they also showed the need to increase the financial literacy of the population. As individuals and businesses navigate the complexities of a more liberalized foreign exchange environment, understanding the dynamics of foreign exchange markets is becoming increasingly important. The government has recognized this need and is working to promote financial education initiatives to equip citizens with the necessary knowledge to make sound financial decisions.

#### **4. Conclusion**

Currency regulation reforms in Uzbekistan are an important component of broader economic changes in the country. By moving to a more open and flexible currency regime, Uzbekistan aims to promote domestic economic growth and position itself as an attractive destination for international investment. The success of these reforms will depend on the government's ability to effectively implement them and address the challenges that will arise during this critical transition period. With the right policies and commitment, Uzbekistan has the potential to emerge as a key player in the regional and global economic landscape.

Reforms in the field of currency regulation in Uzbekistan are an important part of the country's economic evolution and reflect its striving for modernization and integration into the world economy. These changes, initiated in response to historical challenges, have paved the way for a more dynamic financial landscape. By liberalizing the exchange rate, improving investment conditions, and improving the legal framework regulating currency operations, Uzbekistan is showing itself to attract foreign direct investment and stimulate sustainable economic growth.

As Uzbekistan continues to implement these reforms, several results are already evident. The transition to a flexible exchange rate system began to stabilize the foreign exchange market and reduce the differences between the official and parallel exchange rates. This stabilization is essential not only to boost investor confidence, but also to strengthen a predictable economic environment. In addition, the relaxation of capital controls has encouraged the flow of foreign investments, facilitated the entry of international business and capital into the market of Uzbekistan.



Looking ahead, prospects for currency regulation reforms in Uzbekistan look promising, but they are not without challenges. The government should be vigilant in monitoring the impact of liberalization on inflation and economic stability. Flexible exchange rate while it can increase competitiveness, it can also create volatility that can affect local businesses and consumers. Therefore, effective monetary policy and regulatory oversight will be important to mitigate these risks and maintain economic stability.

One of the important areas of future development is the improvement of financial infrastructure. For the reforms to be truly successful, Uzbekistan must invest in building a strong financial system that supports activity in the currency markets. This includes strengthening banking institutions, improving payment systems, and developing financial products for local and international investors. A well-functioning financial market not only facilitates currency transactions, but also increases the overall efficiency of the economy.

In addition, the government should prioritize education and training for financial professionals to ensure that the workforce is equipped to navigate the complexities of a liberalized currency regime. Developing this human capital is critical to developing a financial ecosystem that can support rapid economic growth and adapt to changing global market conditions.

In addition, as Uzbekistan strives to diversify its economy, the role of currency regulation will be crucial in shaping the investment landscape in various sectors. By creating an enabling environment for investment in technology, manufacturing and services, governments can reduce reliance on traditional industries and build a more sustainable economy. This diversification also helps mitigate risks associated with externalities, such as changes in commodity prices.

International cooperation will be another key factor in the success of these reforms. Cooperation with international financial institutions, study of best practices in other countries and involvement of foreign experts can significantly improve the regulatory and legal framework and economic management of Uzbekistan. Strengthening this cooperation will also contribute to greater integration into global financial markets.

In conclusion, reforms in the field of currency regulation in Uzbekistan are a bold step towards modernization of the economy and global integration. It is necessary to create planned programs for the economy and ensure their implementation.

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