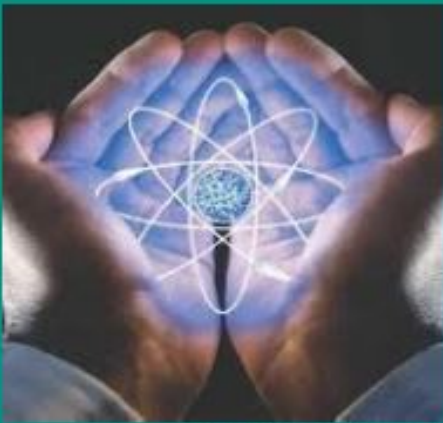


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Monetary Policy Challenges and Central Bank Independence in Uzbekistan's Inflation Targeting Transition

Tantangan Kebijakan Moneter dan Independensi Bank Sentral dalam Transisi Penargetan Inflasi di Uzbekistan

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Abstract

This article examines second language learning ability by analyzing second language development. It also examines the age factor in learning a language other than the mother tongue and attempts to clarify whether there is currently sufficient evidence to show that young people undergo real changes in their language skills.. Research such as inspiration for the learning climate, as well as exposure and behavior in the language will also be addressed and data analyzed to assess if they play an essential role in encouraging students to achieve effective second language skills. It was widely known to create a big improvement in language learning when you are young to study a second language. However, the findings show that this is not completely applicable in all situations, provided that other considerations such as language sensitivity and enthusiasm influence the effective accomplishment of second-language learning. If vocabulary is lacking, therefore this could discourage students from studying the language effectively. However, it is worth noting that factors such as motivation and exposure play a more important role in the learning stage than the aging factor. This empowers the learner because, regardless of his age, it is extremely important for him to be motivated enough and have enough language exposure from the beginning.

Highlights:

Analyzes second language development and age factor in language learning.
Highlights motivation, exposure, and behavior's impact on effective language skills.
Motivation and exposure outweigh age in successful second-language acquisition.

Keywords: Uzbekistan, Inflation Targeting, Monetary Policy, Central Bank Independence, Monetary Policy Transmission, Financial System Health

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Introduction

In this background, this paper examines the policy shift towards inflation targeting in Uzbekistan as a significant move towards rejuvenating the country's Monetary policy structure amidst structural change. After adopting a currency board system and maintaining it for many years, Uzbekistan started adopting IT regime from 2017. This was done at the backdrop of other liberalisation measures such as the elimination of controls on foreign exchange institutions and passing of new law to strengthen central bank autonomy. Inflation targeting is the practice adopted in many countries with the purpose of managing inflation expectations with a view to achieving price stability, and it is within this context that the process of Uzbekistan's transition to this framework may be conceptualised as encapsulating the difficulties of transition of, or indeed the challenges and possibilities for, a transitional economy.

Main theoretical assumptions on which inflation targeting policy is based include independence of the institutions maintaining it, stability of macroeconomic environment, and efficient channels of monetary policy operations. But Batini and Laxton (2005) and Roger and Stone (2005) mentions these prerequisites were necessary to have before undertaking IT implementation exercise. Specifically in Uzbekistan, objectives of reforming have been to bolster the CBU's governance and autonomy, to increase transparency and to build up the financial market. Nevertheless, key issues which are still core problems of the Kazakhstan's economy include the domination of SOEs, the financial sector's dollarization as well as structural inelasticities indicators.

One of such gaps is found in the lack of understanding the extent to which Uzbekistan's reforms of its monetary policy were executed and the results achieved. Reviewing the previous literature on transition economies, Sløk (2000) notes that inflation targeting is rather delicate if only some part of structural changes is still in performing and competition is hardly evident - the key element of any market. The CBU has addressed some of these commendable progresses but there's need to undertake more analysis to see more about the extent of monetary policy transmission and if inflation expectations are well anchored. This study use institutional assessment indices and vector autoregressive (VAR) models to assess the remaining institutional and structural flaws in Uzbekistan's Move to IT. It also looks at the efficiency of monetary policy transmission changes after reforms, use of government intervention in the financial markets, and CBU's communication strategy efficacy. The expectation is that though, there has been lot of improvement, further enhancements will be required in the structure of its financial markets and institutional autonomy to meet the inflationary outlook set by the CBU at 5 per cent by 2023.

At the same time, the results reveal continuing problems with regard to SOEs and the financial markets, and the inertial factors affecting inflation. Policy makers can derive useful lessons from these findings which underlines the obligation to sustain reforms to encourage efficient operations and minimize state intervention in the operating financial markets. In conclusion the success of inflation targeting regime over the period depends on the consistent pursuit of structural changes as well as flexibility of the monetary policy to the structural changes of the economy

Methods

In reviewing Uzbekistan's shift to inflation target, this paper uses both qualitative and quantitative research methodologies. Using the quantitative framework of institutional indices, including the Modified Cukierman Index of Central Bank Independence and other quantitative measures of technical infrastructure, health of financial system, and economic structure to identify institutional and structural deficiencies. These indices are calculated and compared for two points in time: before and after the implementation of inflation targeting That gives some understanding of the enhancements of monetary policy autonomy, regulation, and openness. The study also analyses monetary policy transmission mechanisms with the aid of cross-sectional econometrics techniques such as VAR and OLS regressions.

The VAR models examine how the monetary policy rates affect inflation, retail interest rates and exchange rates by the analysis of the impulse response function as well as examining the dynamic interactions between these key variables. OLS regressions are employed to determine the extent to which retail interest rates respond to changes in the policy rate in order to establish an indication of the strength of interest rate transmission. Because of data restriction, the analysis of how policy rates impact short-term retail lending and deposit rates omits the broken down passes through the interbank and government securities markets.

Moreover, the study also employs endogenous evaluation of qualitative changes and policy developments by the CBU comprising of enhancement in transparency, forecasting and communication of monetary policy. These associated qualitative aspects are then used in conjunction with the quantitative findings to give an assessment of the problems and development in the adoption of inflation targeting. The hope is that whereas, there has been a move toward more independence and transparency in monetary policymaking, financial market development and institutional reforms are still important for augmenting policy impact and attaining inflation goal.

Result and Discussion

Assessing the experience of Uzbekistan in the transition to the IT regime can be seen as evidence of positive changes in several critical and relevant directions, but serious problems deserve attention. As the above visualization demonstrates, there is both significant improvement with regard to the technical infrastructure and institutionalization of the CBU, as well as a plethora of indicators of the financial health of the system and the economic structure that remain problematic.

The largest advancement occurred in the Technical Infrastructure dimension, such a score rising from pre-adoption level of 0.29 to the post adoption level of 0.83. This improvement can be attributed to better establishment of the CBU in the preparatory work of short-term forecast models, availability of more data and new analytical means for analysis of the monetary policy. Such enhancements help the CBU provide better monetary policy decisions for the formulation of the appropriate currency value and enhancing the understanding of public on inflation expectations.

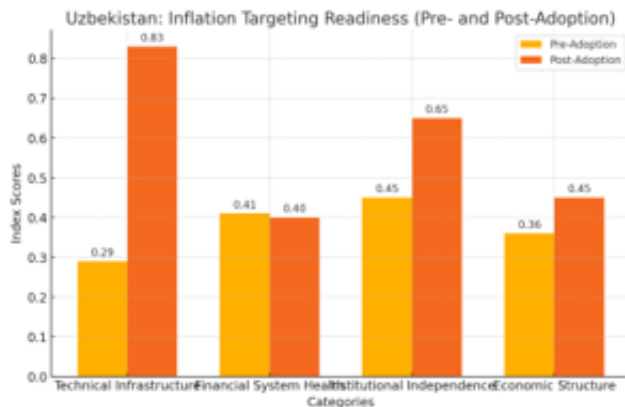


Figure 1. Uzbekistan: Inflation Targeting Readiness(Pre- and Post-Adoption)

Institutional Independence also increased from 0.45 to 0.65. Out of this, the early accomplishments of the CBU that aim at achieving price stability that was made possible by the new central bank law enacted in 2019 that enhanced the operational independence of this institution. Nevertheless, there are still deficiencies in governance practices and board independence which can be critical to the monetary policy measures credibility and predictability.

As for the remaining descriptive variables, only Financial System Health registered for a trivial change: it reduced from 0.41 to 0.40. These include the limited autonomy of monetary policy authority, the discretion and the dominance of state-owned banks, the weaknesses of the legal structure, elevated level of non-performing loans, the existence and practices of preferential lending, low level of financial and capital market development. This has been made worse by the fact that over 40% of both deposits and loans in the region are in US dollars, and this distorts the pass through of policy rates to market rates. This continues to be a big challenge in order to realize the targeted inflation rates.

The measure labelled as Economic Structure also received a minimal increase from 0.36 to 0.45. Some of the perennial bottlenecks examined include exchange rate pass through, large role of SOEs, and structural inflexibilities. All these factors argues for inflation stickiness and restricts the capacity for changes in monetary policy to affect inflation. Other features that confuse the conventional transmission mechanism include the persistence of administered prices and continued use of government interventions in financial markets.

Improve Knowledge and Know More: Knowledge Gaps

Further investigation of the Monetary Policy Transmission in Transitional Economies: The Prospect of State-Owned Enterprises and Market Liberalization should be done in the future. Higher frequency data was suggested that might enable researchers to make a prognosis of the sensitivity of retail interest rates to policy rates. Further, there was room for richer specifications of the model such as the so-called Structural VARs, which could provide cleaner identification of monetary policy shocks from other sources of macroeconomic disturbances.

Consequently, there is a clear theoretical justification for scholarly analysis of the relationship between institutional changes and monetary policy performance. Other studies done with other Central Asian economics in a similar process of shifting to IT including Kazakhstan and Georgia can provide lessons for Uzbekistan.

Practical Implications

To sustain and deepen the ongoing reform agenda in the allocation of credit to the private sector, policy makers should focus on measures that promote competition in the financial sector and hence increase the role of the private financial institutions especially the state owned banks. It also requires measures to discipline the dollarisation process, for example in form of incentive for using national currency and creation of hedging

instruments. This understanding means that further enhancements to the communication of the governmental strategies and increased targets for transparency will facilitate better control of inflation expectation.

Therefore, despite improvements in the attainment of inflation targeting in Uzbekistan it is noted that the inflation target of 5% would only be possible through relentless efforts for institutional development, market liberalizing and reform of the financial sector in the country. Filling these gaps of knowledge with further empirical work and comparisons will be necessary for the further evolution of the monetary policy framework in the country.

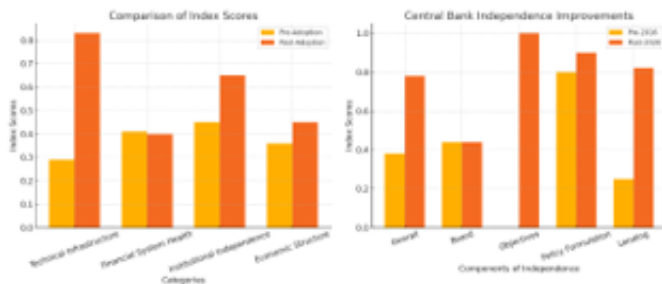


Figure 2. Central Bank Independence Improvements

1. Comparison of Index Scores (Left Chart):

The bar chart below presents scores of four crucial factors namely technical infrastructure, financial system health, institutional independence, and economic structures concerning IT before and after the adoption of the policy. The best performance has been observed in the TI and II indices, with a slight deterioration in FSH and only minimal changes in ES.

2. Central Bank Independence Improvements (Right Chart):

As can be seen in this chart, the Central Bank Independence Index can be separated into the Overall, Board, Objectives, Policy Formulation, and Lending before 2016 and after 2020. An improvement is noted in Overall Independence, Objectives, Policy Formulation, and Lending. Nonetheless, Board governance retains the status of no significant changes suggesting the imperativeness of more socially appropriate changes

Conclusion

The analysis of the IT experience in Uzbekistan identifies the advancements in the technical factors and the institutional reforms together with the deficiencies remaining in the sphere of the financial system and the structure of the economy. The forecast indices, transparency, and the operational independence of the Central Bank of Uzbekistan (CBU) have been significantly enhanced as the Central Bank Independence Index has raised from 0.38 to 0.78. Though, the state owned banks, high levels of dollarization and the underdeveloped financial market are acting as a barrier to the proper working of monetary policy transmission. These findings suggest that as the setting for IT has been established, further structural changes including liberalization of financial markets, as well as lowering government interference in the economy are necessary for the inflation target of 5% to be attained. More empirical research could be conducted in order to study the outcomes of IT beyond the transitional environment, and pay specific attention to the role that institutional changes and market-based policy implementation channels may play. Conducting a comparative analysis with other CA economies that also integrated IT can add further texture to what works and what needs to be addressed for the country that needs to follow policy recommendations to improve its monetary policy system in Uzbekistan.

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