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# THE IMPACT OF OPEN BANKING ON THE MONETARY POLICY TRANSMISSION MECHANISM: THE CASE OF UZBEKISTAN

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**Abstract:** This paper examines how the introduction of open banking affects the monetary policy transmission mechanism in Uzbekistan, where the interest-rate channel has traditionally been weak while the exchange-rate channel dominates. Drawing on data from the Central Bank of the Republic of Uzbekistan, the World Bank and recent empirical studies, the article argues that open banking—launched nationally in September 2025—strengthens the interest-rate and credit channels by increasing competition, price transparency and the speed of rate pass-through, while accelerating the shift to cashless settlement. The study systematises the channels of influence, presents statistical evidence on policy rates, inflation and digital payments, and offers policy recommendations for aligning open-banking regulation with the inflation-targeting regime.

**Keywords:** open banking, monetary policy, transmission mechanism, interest-rate channel, inflation targeting, digital payments, financial inclusion, Uzbekistan.

**Аннотация.** В статье анализируется, как внедрение открытого банкинга (open banking) влияет на механизм трансмиссии денежно-кредитной политики в Узбекистане, где процентный канал традиционно слаб, а валютный канал доминирует. На основе данных Центрального банка Республики Узбекистан, Всемирного банка и новейших эмпирических исследований обосновывается, что открытый банкинг, запущенный в сентябре 2025 года, укрепляет процентный и кредитный каналы за счёт роста конкуренции, прозрачности цен и скорости переноса ставок.

**Ключевые слова:** открытый банкинг, денежно-кредитная политика, механизм трансмиссии, процентный канал, инфляционное таргетирование, цифровые платежи, финансовая инклюзия, Узбекистан.

## Introduction

Over the past decade the financial sector of Uzbekistan has undergone a far-reaching modernisation. Since 2017 the country has moved from a state-directed banking model towards a market-based system, adopting an inflation-targeting framework, liberalising the foreign-exchange market and privatising state-owned banks. In January 2020 the Central Bank of the Republic of

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Uzbekistan (CBU) introduced the policy rate as the principal instrument of monetary policy, replacing the older refinancing-rate regime and signalling a shift towards interest-rate-based management of monetary conditions. Yet the effectiveness of this instrument depends on the strength of the monetary policy transmission mechanism—the chain through which changes in the policy rate reach deposit and lending rates, credit volumes, asset prices, aggregate demand and, ultimately, inflation.

A recurring finding in the literature is that this mechanism remains underdeveloped in Uzbekistan. The interest-rate channel is weak because of high dollarisation, the continued dominance of state-owned banks, limited competition and a large share of cash in circulation, so that changes in the policy rate are transmitted slowly and incompletely to the real economy. Against this background, open banking—a regulatory and technological model in which banks share customer data and payment functionality with licensed third parties through secure application programming interfaces (APIs)—has become one of the most discussed reforms. Uzbekistan launched open banking nationally in September 2025 as part of a broader plan to become a regional financial-technology hub by 2030.

The central question of this study is therefore the following: how does the introduction of open banking affect the monetary policy transmission mechanism in Uzbekistan? The paper argues that open banking does not create a new transmission channel of its own, but reinforces the existing interest-rate and credit channels by intensifying competition, improving price transparency, lowering switching costs for borrowers and depositors, and accelerating the displacement of cash by traceable digital settlement. The analysis combines a review of the relevant literature, official statistics from the CBU and the World Bank, and a qualitative mapping of the mechanisms of influence.

**Literature review**

The monetary transmission mechanism is conventionally decomposed into several channels: the interest-rate channel, the credit (bank-lending and balance-sheet) channel, the exchange-rate channel, the asset-price channel and the expectations channel. In advanced economies the interest-rate and credit channels are usually the strongest, whereas in low-income and transition economies institutional weaknesses often impair them. The Bank for International Settlements has documented that in many emerging-market economies shallow financial markets, imperfect competition and high dollarisation blunt the interest-rate channel and shift the burden of transmission onto the exchange rate.

Empirical work on Uzbekistan confirms this pattern. A recent structural vector-autoregression study finds that the exchange-rate channel is the most responsive to monetary-policy shocks, while consumer prices show virtually no reaction to interest-rate shocks, indicating a dysfunctional interest-rate channel. The authors attribute this to high dollarisation, the dominance of state-owned banks and administrative controls over deposit and lending markets, and recommend privatisation and the reduction of administrative intervention as preconditions for a stronger interest-rate channel.

A separate but rapidly growing strand of literature concerns open banking and open finance. Following the European Union's revised Payment Services Directive (PSD2), open banking has been adopted or piloted in more than fifty jurisdictions. Studies emphasise that mandated data-sharing lowers information asymmetries, reduces customer switching costs and stimulates competition among incumbents and new entrants, which tends to compress interest-rate margins and improve the

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responsiveness of retail rates to policy signals. The intersection of these two literatures—open banking and monetary transmission—remains under-explored, especially for Central Asian economies, which is the gap this paper addresses.

**Materials and methods**

The study relies on secondary quantitative data and qualitative analysis. Quantitative indicators—the policy rate, annual inflation, dollarisation ratios, the share of state-owned banks in sector assets, and payment-system statistics—were collected from official publications of the Central Bank of the Republic of Uzbekistan, the World Bank's Global Findex and Digital Finance databases, and peer-reviewed empirical studies covering the period 2020–2026. The qualitative component uses a channel-mapping approach: each recognised transmission channel is assessed for the structural frictions that weaken it in Uzbekistan, and for the specific mechanisms through which open banking is expected to mitigate those frictions. The method is descriptive and analytical rather than econometric, because open banking was introduced only in September 2025 and the post-reform time series is not yet long enough for formal estimation; the paper therefore focuses on identifying and systematising the transmission pathways that future empirical work can test.

**Results and discussion**

**The state of monetary policy transmission in Uzbekistan**

Since 2020 the CBU has conducted monetary policy through the policy rate, reviewed eight times a year, with a permanent medium-term inflation target of 5 per cent. As Table 1 shows, the rate has been kept relatively high—between 13.5 and 17 per cent—throughout the period, reflecting persistent inflation well above target. Inflation eased from a peak of around 12.3 per cent in 2022 to roughly 8.7 per cent at the end of 2025 and 7.3 per cent by early 2026, but the CBU chairman has acknowledged that the 5 per cent target, originally set for 2023, is now expected only around 2027.

*Table 1. Policy rate and annual inflation in Uzbekistan, 2020–2026*

| Year | Policy rate, % (year-end) | Annual inflation, % | Inflation target, % |
|---|---|---|---|
| 2020 | 14.0 | 11.1 | 5 |
| 2021 | 14.0 | 10.0 | 5 |
| 2022 | 15.0 | 12.3 | 5 |
| 2023 | 14.0 | 8.8 | 5 |
| 2024 | 13.5 | 9.8 | 5 |
| 2025 | 14.0 | 8.7 | 5 |
| 2026* | 14.0 | 7.3 | 5 |

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** Policy rate and inflation as of February 2026 (year-on-year). Source: Central Bank of the Republic of Uzbekistan; State Statistics Committee.*

The persistence of a large gap between the policy rate and the inflation target illustrates the weakness of transmission. If the interest-rate channel worked efficiently, a double-digit nominal policy rate maintained over several years would exert stronger downward pressure on prices. Figure 1 visualises the co-movement of the policy rate and inflation and shows that, although inflation has trended down, it has done so slowly and with limited apparent sensitivity to the essentially flat policy rate.

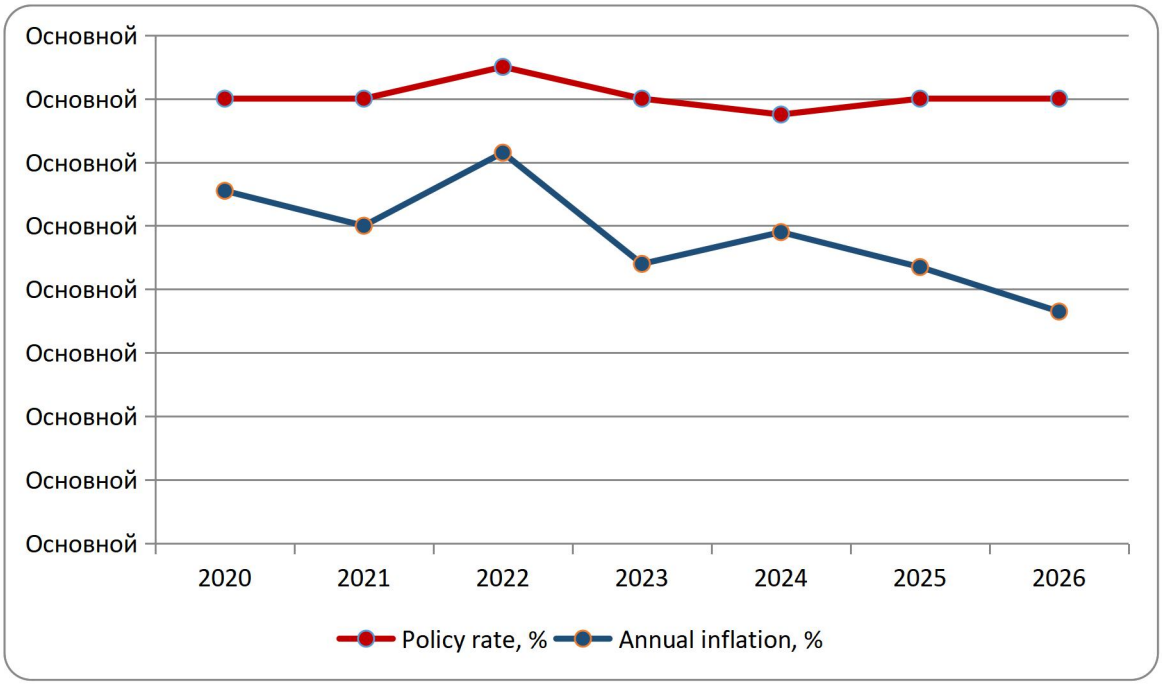



*Figure 1. Dynamics of the policy rate and annual inflation, 2020–2026, %*

The structural reasons for weak transmission are summarised in Table 2. High dollarisation means that a large part of deposits and, especially, loans is denominated in foreign currency and is therefore insensitive to the soum policy rate. The dominance of state-owned banks—about 65 per cent of sector assets—limits price competition, while a still-substantial share of cash in the money supply weakens the link between bank rates and household behaviour.

*Table 2. Structural frictions in the interest-rate channel and the mitigating role of open banking*

| **Structural friction** | **Indicator (2024–2025)** | **How open banking mitigates it** |
|---|---|---|
| Loan dollarisation | 42.9% of loans (Jan 2025) | Data-driven soum lending products and stronger price competition reduce reliance on FX loans |

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| | | |
|---|---|---|
| Deposit dollarisation | 25% of deposits (Jan 2025) | Comparison services and higher deposit-rate competition raise the appeal of soum savings |
| State-bank dominance | ≈65% of sector assets | Open APIs cut switching costs and let fintechs and private banks contest the customer base |
| Weak rate pass-through | Prices barely react to rate shocks | Real-time price transparency speeds the transmission of policy-rate changes to retail rates |
| Limited inclusion | ≈60% account ownership (2024) | API-based onboarding and fintech services widen the population reached by policy signals |

*Source: compiled by the author from CBU data, World Bank Global Findex and the empirical literature.*

**Development of open banking and digital payments**

Uzbekistan's payment landscape has changed rapidly. The domestic card systems Uzcard and Humo, mobile wallets and QR payments have driven a steady rise in cashless settlement. As Table 3 shows, the share of terminal payments in total payments rose from 40 to 43 per cent between 2024 and 2025, and in trade and services from 44 to 48 per cent; card-payment turnover increased about 1.4 times to 279 trillion soums, while the share of cash in the money supply fell to 18.1 per cent. Peer-to-peer transfers through Uzcard and Humo had already grown roughly 1.5 times during 2023.

*Table 3. Selected digital-payment indicators, 2024–2025*

| **Indicator** | **2024** | **2025** |
|---|---|---|
| Terminal payments, share of total payments, % | 40 | 43 |
| Terminal payments in trade and services, % | 44 | 48 |
| Card-payment turnover, trillion soums | ≈199 | 279 |
| Share of cash in money supply, % | 19.2 | 18.1 |

*Source: Central Bank of the Republic of Uzbekistan (2025).*

Building on this base, the authorities approved a Roadmap for further enhancing bank regulation and supervision for 2025–2028 and launched open banking nationally in September 2025. Open banking allows the secure exchange of customer data and payment initiation between banks, payment firms and other licensed fintech players through standardised APIs. It is accompanied by a regulatory sandbox operated jointly by the CBU and the National Agency for Project Management, a token-based payments regime, and pilots of distributed-ledger settlement—together forming the institutional

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backbone of the 2030 fintech-hub strategy. Figure 2 illustrates the accelerating shift towards cashless settlement.

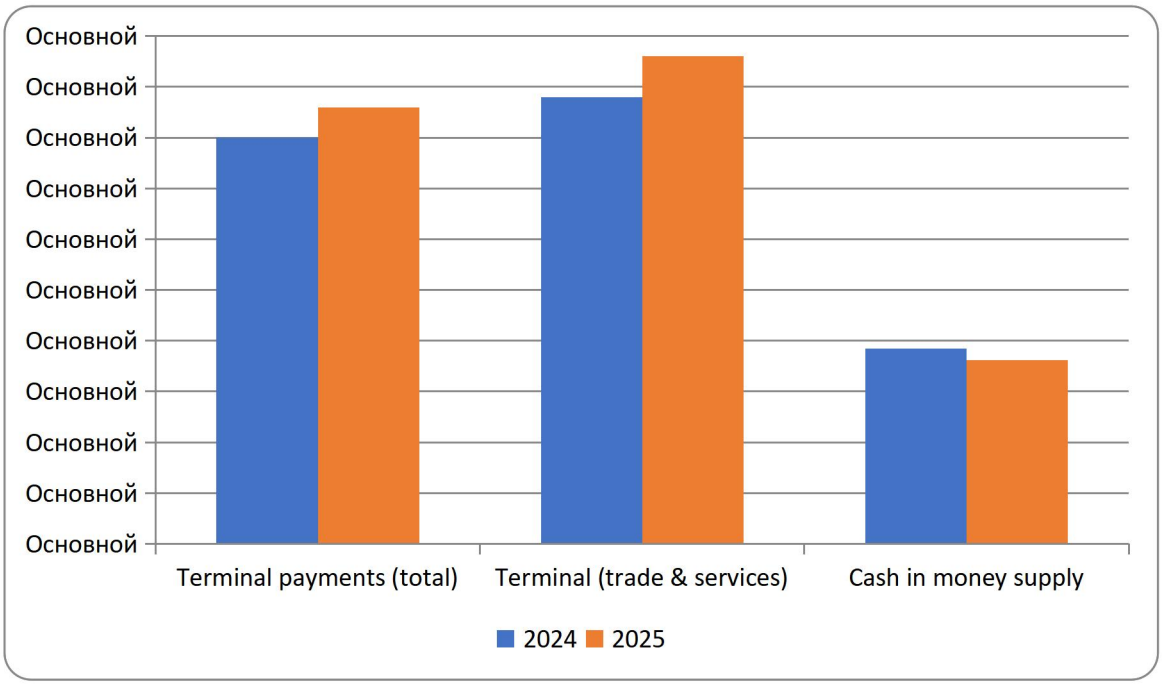



*Figure 2. Indicators of cashless-payment penetration, 2024–2025, %*

**Channels through which open banking affects transmission**

Open banking influences monetary transmission through four inter-linked pathways. First, the competition and interest-rate pathway: by giving customers portable access to their own account data and letting third parties initiate payments, open banking lowers the cost of comparing and switching between providers. This erodes the pricing power of large state-owned banks—currently around 65 per cent of assets—and compresses the spread between the policy rate and retail deposit and lending rates, so that a given change in the policy rate passes through to the economy more fully and more quickly.

Second, the credit and information pathway: standardised access to transaction data reduces information asymmetries, improves credit scoring and widens access to soum-denominated credit for households and small firms that were previously excluded. A broader, better-informed pool of soum borrowers strengthens the bank-lending channel and reduces the economy's dependence on dollar credit, which today accounts for almost 43 per cent of loans and is largely insensitive to the domestic policy rate.

Third, the cashless-settlement pathway: by making it easier to build digital payment and account-based services, open banking reinforces the ongoing displacement of cash. As the share of cash in the money supply falls—from 19.2 to 18.1 per cent in a single year—a larger part of household

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and firm balances sits in interest-bearing, rate-sensitive bank accounts, tightening the link between the policy rate and spending decisions.

Fourth, the inclusion and expectations pathway: API-based onboarding brings into the formal financial system part of the roughly 40 per cent of adults who in 2024 still lacked an account. As the reach of the banking system widens, monetary-policy signals affect a larger share of economic agents, and greater transparency of prices and rates helps anchor inflation expectations—an essential complement to the CBU's inflation-targeting regime. Figure 3 places the principal structural frictions in perspective and indicates the direction in which open banking is expected to move them.

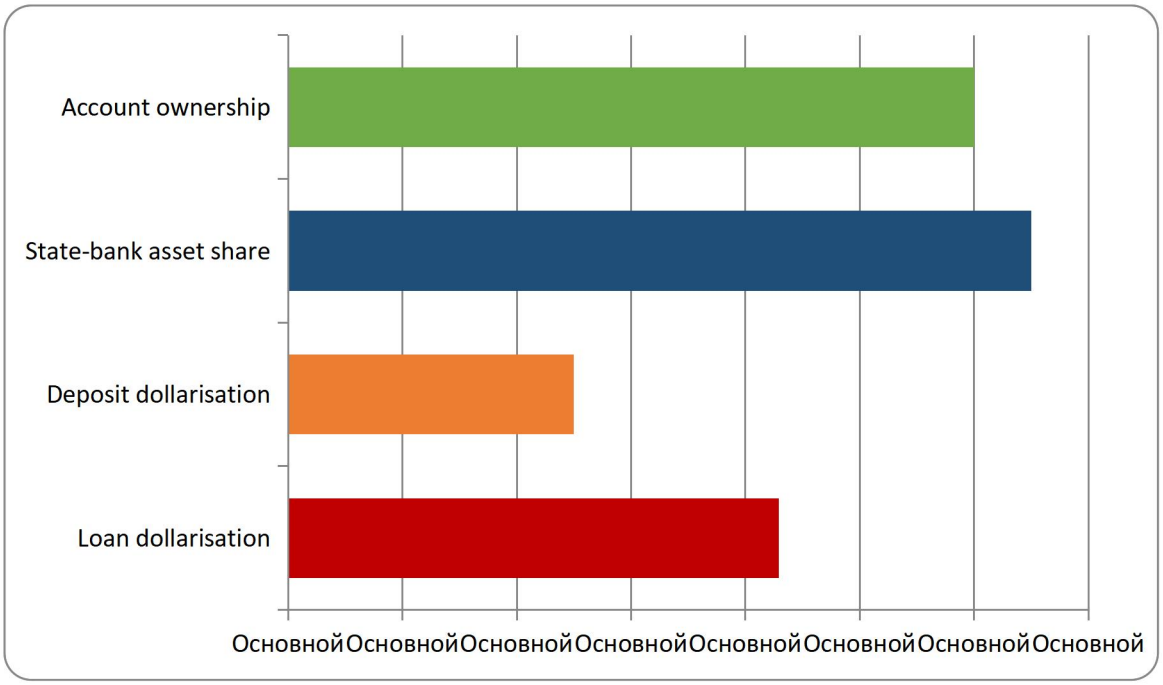



*Figure 3. Structural constraints on the interest-rate channel, % (Jan 2025)*

Taken together, these pathways imply that open banking is best understood not as a fifth transmission channel but as an enabling infrastructure that strengthens the interest-rate and credit channels the CBU is trying to activate. Its impact, however, is conditional. Without parallel progress on de-dollarisation, the privatisation of state-owned banks and robust data-protection and cybersecurity rules, the potential gains could be muted or offset by new risks—data misuse, concentration among a few large fintech platforms, or financial-stability concerns.

**Conclusion and recommendations**

The monetary policy transmission mechanism in Uzbekistan continues to rely heavily on the exchange-rate channel, while the interest-rate and credit channels are weakened by high dollarisation, the dominance of state-owned banks and a large cash economy. This paper has argued that open banking, introduced nationally in September 2025, can materially strengthen these channels by intensifying competition, improving price transparency, widening access to soum credit and

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accelerating the displacement of cash. The empirical indicators reviewed—rising cashless-payment shares, growing card turnover and a falling cash share in the money supply—are consistent with a gradual strengthening of the conditions on which effective transmission depends.

On this basis the following recommendations are proposed. (1) The CBU should align open-banking technical standards and licensing explicitly with the inflation-targeting regime, treating improved rate pass-through as a policy objective. (2) De-dollarisation and the privatisation of state-owned banks should continue in parallel, so that greater competition translates into genuine rate sensitivity. (3) Data-protection, consent and cybersecurity frameworks should be strengthened to sustain public trust. (4) The CBU should begin collecting granular data on open-banking activity now, so that within a few years the transmission effects identified qualitatively in this paper can be tested econometrically. Aligned with these measures, open banking can become an important instrument for building a modern, competitive and monetary-policy-responsive financial system in Uzbekistan.

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