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EFFECTIVENESS OF THE CENTRAL BANK OF UZBEKISTAN'S ANTI-CRISIS MONETARY POLICY UNDER POLYCRISIS CONDITIONS

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Abstract

This article examines the effectiveness of the Central Bank of Uzbekistan (CBU) anti-crisis monetary policy during the 2020–2023 polycrisis period, characterised by the simultaneous impact of the COVID-19 pandemic, the geopolitical and economic repercussions of the Russia-Ukraine conflict, and the global inflationary surge. Drawing on macroeconomic time-series data from the CBU, the IMF, the World Bank, and the Bank for International Settlements, the study employs a multi-method research design combining serial case study analysis, interrupted time series (ITS) assessment, and a three-country comparative reference framework (Uzbekistan, Kazakhstan, Georgia). The findings reveal that the CBU achieved short-run macroeconomic stabilisation across all three shock episodes—maintaining positive GDP growth, preserving banking system solvency, and containing excessive exchange rate depreciation. However, three systemic weaknesses were identified: the absence of a sectoral monitoring mechanism within targeted refinancing operations; the reactive character of foreign exchange market interventions; and underdevelopment of the communication infrastructure required for effective inflation expectations management. The paper concludes with five evidence-based institutional recommendations calibrated to Uzbekistan's structural context and the specific demands of polycrisis monetary management.

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Keywords: Polycrisis; central bank anti-crisis policy; monetary policy effectiveness; Uzbekistan; inflation targeting; macroprudential regulation; foreign exchange intervention; interrupted time series

1. Introduction

The concept of a polycrisis—denoting a condition in which multiple systemic shocks interact, amplify one another, and produce aggregate effects exceeding the sum of their individual parts—has moved from the margins of academic discourse to the centre of macroeconomic policy debate within a remarkably short span (Tooze, 2022; Lawrence et al., 2022). The 2020–2023 period provided a definitive empirical test of this framework: the COVID-19 pandemic, the geopolitical and supply-side shocks stemming from the Russia-Ukraine conflict, and the most severe global inflationary episode since the 1970s converged in ways that neither the academic literature nor central bank operating frameworks had fully anticipated.

For emerging market economies at an advanced stage of institutional transition, this convergence posed a particular challenge. Uzbekistan represents a case of unusual analytical interest in this regard. Since 2017, the country has undergone a comprehensive structural transformation—liberalising its exchange rate, opening capital flows, and reorienting its monetary policy framework toward inflation targeting—that fundamentally altered both the transmission channels of monetary policy and the nature of its external vulnerabilities (IMF, 2021, p. 4). The polycrisis stress-tested this emerging architecture under conditions for which it had not yet fully matured.

Existing research on Uzbekistan's monetary policy response is fragmented. Mirzayev and Kholiqov (2021) evaluated the initial COVID-19 response but did not extend their analysis to the subsequent shocks. Ahunov and Yusupov (2022) examined monetary transmission channels comparatively but did not assess policy effectiveness in crisis episodes specifically. International organisation

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assessments (IMF, 2021; IMF, 2023a; World Bank, 2021) provide macroeconomic narrative but stop short of a structured, multi-episode effectiveness evaluation. No study to date has examined all three shock episodes sequentially within a unified analytical framework.

This paper addresses the following research question: How effective were the Central Bank of Uzbekistan's anti-crisis monetary policy instruments in maintaining macroeconomic stability during the polycrisis period of 2020–2023, and what institutional reforms does the evidence recommend? The article is structured as follows: Section 2 reviews the relevant literature; Section 3 describes the methodology; Section 4 presents empirical results across three shock episodes; Section 5 discusses implications; Section 6 concludes with policy recommendations.

2. Literature Review

2.1. Central Bank Policy Under Compound Shocks

The scholarly literature on central bank crisis management has evolved substantially since the 2008–2009 Global Financial Crisis (GFC). The canonical insight—that interest rate instruments alone are insufficient when financial intermediation breaks down—generated an extensive literature on unconventional monetary tools including quantitative easing, emergency credit facilities, and forward guidance (Bernanke, 2015; Blinder, 2010). The COVID-19 experience extended this literature to supply-side shocks and simultaneous demand collapses of a severity not previously encountered in peacetime.

Mishkin (2007) established that inflation targeting regimes derive their effectiveness not from the nominal commitment alone but from the communication infrastructure that makes central bank intentions legible to market participants (Mishkin, 2007, p. 89). This insight proves directly relevant to the Uzbekistan case, where inflation targeting was formally adopted only in 2023—after the polycrisis window under examination. The macroprudential dimension

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of crisis management was systematically mapped by Lim et al. (2011), who demonstrated that countercyclical capital buffers, loan-to-value caps, and reserve requirement adjustments operate as a complementary stabilisation layer that monetary instruments alone cannot replicate (Lim et al., 2011, p. 18).

Claessens and Kose (2018) extended this framework to the macro-financial linkages dimension, showing that financial vulnerabilities accumulated in tranquil periods are systematically amplified under multi-shock conditions—a dynamic central to the polycrisis context (Claessens & Kose, 2018, p. 6).

2.2. Emerging Market Constraints and the Trilemma

The structural constraints facing emerging market central banks are well-theorised. Rey (2015) demonstrated that under open capital accounts, the traditional Mundell-Fleming trilemma effectively collapses to a dilemma: independent monetary policy becomes difficult to sustain regardless of the exchange rate regime, because global financial conditions transmit directly into domestic credit cycles (Rey, 2015, p. 8). Obstfeld (2015) extended this analysis, arguing that the growth of cross-border capital flows has progressively eroded the policy autonomy of small open economies even without formally pegged exchange rates (Obstfeld, 2015, p. 23).

Eichengreen and Gupta (2016) provided granular evidence on sudden-stop dynamics in emerging markets, underscoring the vulnerability of economies with thin foreign exchange reserve buffers and shallow domestic financial markets (Eichengreen & Gupta, 2016, p. 8). Reinhart and Rogoff (2009) supply the long-run historical context: financial crises associated with currency stress and sovereign debt accumulation are recurrent, and their resolution rarely follows the trajectory projected at the outset (Reinhart & Rogoff, 2009, p. 291).

2.3. Uzbekistan-Specific Research Gap

Research specifically addressing Uzbekistan's monetary policy capacity has expanded since the 2017 reforms but remains thin. Mirzayev and Kholiqov (2021) assessed the CBU's 2020 pandemic response positively in terms of short-

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run stabilisation but noted limitations in sectoral credit channel management (Mirzayev & Kholiqov, 2021, p. 55). Ahunov and Yusupov (2022) applied VAR modelling across Central Asian economies, finding that the interest rate channel in Uzbekistan remains weaker than in Kazakhstan or Georgia, reflecting lower financial intermediation depth (Ahunov & Yusupov, 2022, p. 110). The present study fills the gap by providing the first structured multi-episode effectiveness evaluation covering the full 2020–2023 polycrisis window.

3. **Research Methodology**

3.1. Research Design

The study employs a multi-method research design combining three complementary analytical approaches. Methodological triangulation—the simultaneous deployment of multiple methods to compensate for individual limitations—underpins the design (Yin, 2018, p. 26).

First, serial case study analysis (Yin, 2018) treats each shock episode—the 2020 COVID-19 pandemic, the 2022 geopolitical and economic shock, and the 2021–2023 global inflationary wave—as a distinct analytical unit. For each episode, the study examines: (i) shock identification and transmission channels; (ii) CBU instrument selection rationale; (iii) implementation sequencing; and (iv) short-run macroeconomic outcomes. The serial format enables identification of cross-episode patterns and institutional learning effects.

Second, Interrupted Time Series (ITS) analysis treats CBU policy rate change dates as natural experiments. Pre- and post-intervention trends in monthly inflation and quarterly credit growth are compared to assess the direction, magnitude, and timing of policy effects (Bernal et al., 2017, p. 43).

Third, a three-country comparative reference framework benchmarks Uzbekistan's outcomes against Kazakhstan (inflation targeting since 2015; similar external shock exposure) and Georgia (full float exchange rate regime; inflation targeting since 2009). Comparators were selected to isolate institutional

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design effects while controlling for broadly comparable structural exposures (National Bank of Kazakhstan, 2021; National Bank of Georgia, 2021).

4. Results

4.1. Macroeconomic Context: Baseline and Shock Chronology

Uzbekistan entered the polycrisis window with a distinctive structural profile. The 2017–2019 reform dividend delivered GDP growth of 5.4–5.9 percent annually, but created concurrent vulnerabilities: a persistent current account deficit (5.7 percent of GDP in 2019); a rising credit-to-GDP ratio; elevated dollarisation in bank lending portfolios; and limited fiscal space (IMF, 2021, p. 8). These structural features determined both the transmission channels through which external shocks would propagate and the constraints within which the CBU could respond.

The first external shock struck in March 2020. Labour remittances—representing approximately 15 percent of GDP—contracted by 32 percent year-on-year in Q2 2020, equivalent to a loss of approximately 4.8 percent of GDP. Goods export volumes fell 18.3 percent in the first half of the year (CBU, 2020, p. 22). Tourism revenues collapsed to near zero. The composite demand shock compressed GDP growth to 1.9 percent—below trend but, critically, positive: a materially better outcome than the emerging market average of −2.1 percent in 2020 (IMF, 2021, p. 6).

The second external shock materialised in 2022 and was structurally distinct. The Russia-Ukraine conflict generated paradoxical effects: import prices rose sharply and supply chains were disrupted on the negative side, while remittance inflows initially surged as the rouble's nominal dynamics inflated the dollar value of transfers from Russia (IMF, 2023a, p. 18). This created a situation in which the CBU simultaneously faced appreciation pressure on the som from the remittance surge and inflationary pressure from import costs—two dynamics that required opposing policy responses.

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The 2021–2023 global inflationary surge transmitted primarily through import channels - food and energy prices - and through supply chain disruptions reducing domestic product availability. This kept consumer prices above the target corridor for an extended period (BIS, 2022, p. 41). The composite macroeconomic indicators for the full study period are presented in Table 1.

Table 1. Uzbekistan: Key Macroeconomic Indicators, 2018–2023

Indicator	2018	2019	2020	2021	2022	2023*
GDP growth, %	5.4	5.9	1.9	7.4	5.7	6.3
Inflation (year-end), %	14.3	15.2	11.1	10.0	11.4	8.8
CBU policy rate (year-end), %	16.0	16.0	14.0	14.0	17.0	14.0
USD/UZS (year-end)	8,069	9,450	10,574	10,769	11,270	12,438
International reserves, USD bn	26.9	28.3	32.9	35.1	35.4	38.0
Bank credit / GDP, %	36.0	42.1	48.6	50.1	52.3	51.8
Public debt / GDP, %	29.7	31.1	36.8	38.6	36.0	34.2
Current account / GDP, %	-7.0	-5.7	-5.3	-6.9	-4.0	-4.5

Note: * Preliminary data for 2023. CBU = Central Bank of Uzbekistan monetary policy rate (repo rate). Sources: CBU (2023); State Statistics Committee of Uzbekistan (2024); IMF WEO (2023).

Table 1 highlights two countervailing trends. International reserves grew continuously—from USD 26.9 billion in 2018 to USD 38.0 billion in 2023—demonstrating the CBU's deliberate buffer accumulation strategy. Against this, inflation persistently exceeded the target corridor of 5.0 ± 1.5 percent throughout 2020–2022, revealing the trade-off that characterised the polycrisis response (CBU, 2023, p. 5).

4.2. CBU Anti-Crisis Policy Instruments: Sequencing and Rationale

The CBU deployed instruments across four operational domains during the polycrisis period. The sequencing reflected a consistent pattern: interest rate adjustment as the first line of response, supplemented by targeted liquidity provision, exchange market operations, and macroprudential accommodations.

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Interest Rate Domain

The CBU reduced the monetary policy rate from 16.0 to 14.0 percent in two consecutive steps in March and April 2020—a total easing of 200 basis points, the largest single-episode reduction since the repo rate became the primary instrument in 2019 (CBU, 2020, p. 10). This decision reflected a judgment that demand compression risk outweighed near-term inflationary risk. The tightening cycle began cautiously in 2021 before the aggressive March 2022 pivot - +200 basis points in a single decision, the largest single increase in CBU history - aimed at containing capital outflow pressure and front-loading the credibility signal in the absence of a formalised inflation targeting framework (CBU, 2022, p. 7).

Targeted Credit Domain

The Anti-Crisis Fund allocated UZS 10 trillion in subsidised lending, directed primarily at manufacturing, agro-processing, and affected service sectors. A subsequent World Bank assessment found that actual disbursement fell approximately 12–15 percent short of planned allocation, attributable to the absence of a sectoral monitoring mechanism (World Bank, 2021, p. 29). Notwithstanding this shortfall, the programme contributed to employment retention in small and medium enterprises during the peak shock period.

Foreign Exchange Domain

The CBU operated as a net seller of foreign currency in H1 2020, deploying approximately USD 1.2 billion in interventions to contain som depreciation within a managed range of approximately 11–12 percent (CBU, 2020, p. 28). This represented an ex-post, reactive model: no pre-announced corridor or rule-based trigger had been established. In 2022, the situation reversed: appreciation pressure prompted the CBU to shift to net purchasing, accumulating reserves above USD 35 billion (IMF, 2023a, p. 21).

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Macroprudential Domain

The 2020 package included temporary loan classification forbearance, extended restructuring deadlines, and a required reserve ratio reduction from 15 to 13 percent (CBU, 2020, p. 31). These measures protected banking system capital adequacy and preserved lending capacity. By 2021–2022, the focus shifted to credit quality reinforcement through tightened provisioning requirements and updated stress-test protocols (CBU, 2022, p. 14). The Basel III countercyclical capital buffer (CCyB) had not yet been formally introduced.

Table 2. CBU Anti-Crisis Policy Measures: Chronology and Parameters, 2020–2023

Date	Measure	Parameter	Strategic rationale
Mar 2020	Policy rate cut (Step I)	16.0% → 15.0%	Counter demand compression from pandemic shock
Apr 2020	Policy rate cut (Step II)	15.0% → 14.0%	Stimulate credit channel activity
Apr 2020	Anti-Crisis Fund targeted lending	UZS 10 trn	Sector-targeted liquidity provision
May 2020	FX market intervention (net selling)	~USD 1.2 bn	Contain excessive som depreciation
Jun 2020	Required reserve ratio reduction	15% → 13%	Expand bank operational liquidity
Aug 2020	Loan classification forbearance	Temporary	Protect bank capital adequacy ratios
Feb 2021	Policy rate increase (preventive, Step I)	14.0% → 14.5%	Early signal of inflation risk
Oct 2021	Policy rate increase (preventive, Step II)	14.5% → 15.0%	Reinforce expectation management
Mar 2022	Aggressive policy rate increase	15.0% → 17.0% (+200bp)	Contain capital outflow; front-load credibility signal
Jun 2022	FX reserve accumulation operations	Reserves > USD 35 bn	Strengthen external shock buffer
Jan 2023	Formal adoption of inflation targeting	Target: 5.0 ± 1.5%	Anchor medium-term inflation expectations
Dec 2023	Policy rate easing cycle (sequential reductions)	17.0% → 14.0%	Calibrate to falling inflation outturn

Sources: CBU official monetary policy decisions, press releases, and annual reports (2020–2023), compiled by the author.

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4.3. Comparative Reference Analysis: Kazakhstan and Georgia

Kazakhstan provides the closest institutional comparator. With nine years of operational inflation targeting experience by 2020, the National Bank of Kazakhstan implemented targeted credit programmes through a more differentiated sectoral allocation mechanism and a more mature policy communication architecture (National Bank of Kazakhstan, 2021, p. 19). The outcome: Kazakhstan maintained average inflation 1.5–2.0 percentage points below Uzbekistan's throughout 2020–2022.

Georgia adopted a qualitatively different strategy. The National Bank of Georgia allowed the lari to float more freely in 2020, absorbing approximately 13 percent of the external shock through exchange rate adjustment while deploying its established inflation targeting communication framework to prevent depreciation pass-through into sustained inflationary expectations. The result was larger nominal depreciation but better inflation containment— a trade-off reflecting Georgia's decade-long investment in IT credibility (National Bank of Georgia, 2021, p. 14).

Table 3. Comparative Performance Indicators: Uzbekistan, Kazakhstan, and Georgia, 2020–2022

Indicator (2020–2022 avg.)	Uzbekistan	Kazakhstan	Georgia
Average inflation, %	10.8	9.1	7.4
Average GDP growth, %	5.0	3.9	6.1
Policy rate change (pp, 2020–2022)	-2→+3	-0.75→+7.5	-0.25→+3.25
Cumulative currency depreciation, %	31.8	19.6	18.4
Reserves / import cover (months)	9.8	8.2	5.6
Inflation targeting experience (years)	0*	7	13
Current account / GDP, %	-5.4	-2.8	-6.9

Note: * Uzbekistan formally adopted inflation targeting in January 2023. Sources: CBU (2023); National Bank of Kazakhstan (2021); National Bank of Georgia (2021); IMF WEO (2023), compiled by the author.

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Table 3 reveals three cross-cutting findings. Uzbekistan leads on reserve buffer adequacy—9.8 months of import cover versus 8.2 and 5.6 for the comparators—validating the pre-crisis reserve accumulation strategy. However, Uzbekistan records the highest average inflation and largest cumulative currency depreciation among the three, and—critically—the least inflation targeting experience, with formal adoption occurring only in 2023.

5. Discussion

5.1. Short-Run Stabilisation: What Worked and Why

The empirical record yields a consistent finding: CBU anti-crisis interventions achieved short-run macroeconomic stabilisation in each of the three episodes. GDP growth remained positive throughout the polycrisis window. The banking system sustained no systemic institution failures. Exchange rate depreciation was contained within ranges compatible with external debt servicing. The IMF's 2021 Article IV assessment characterised the CBU's monetary policy response as 'broadly appropriate and timely' (IMF, 2021, p. 3), a judgment the present analysis corroborates.

Three factors explain the short-run effectiveness. First, adequate reserve buffer: the deliberate accumulation strategy of the post-2017 reform period provided foreign exchange intervention capacity without triggering credibility concerns (CBU, 2020). Second, institutional speed: two consecutive 100-basis-point cuts within five weeks in March–April 2020 reflected a decision-making capacity that is not always present in transitional frameworks. Third, targeted credit reach: the Anti-Crisis Fund programme, notwithstanding its disbursement shortfall, reached a sufficient share of affected enterprises to prevent a credit-collapse spiral of the kind documented by Bernanke and Gertler (1995, p. 37) in historical crisis episodes.

5.2. Three Systemic Weaknesses

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Against the short-run stabilisation success, three structural deficiencies emerged with consistency across the polycrisis episodes. These are not specific policy errors but systemic features of the CBU's institutional architecture at its current stage of development.

First weakness—targeted refinancing design. The Anti-Crisis Fund credit programme was implemented without a differentiated sectoral monitoring mechanism or an incentive structure linking subsidised rate access to documented employment or output outcomes. The ECB's TLTRO-III programme provides a useful design benchmark: its architecture embedded a compliance-based rate subsidy—banks demonstrating net lending growth above a pre-specified threshold received an additional 25-basis-point reduction, making the monitoring function intrinsic to the programme design. The 12–15 percent disbursement shortfall in the CBU programme is a direct consequence of this design gap (World Bank, 2021, p. 29).

Second weakness—reactive exchange rate intervention model. Across both episodes, CBU interventions were activated in response to observed exchange rate movements rather than by pre-announced rules or corridor specifications. BIS research consistently finds that rule-based, pre-announced intervention frameworks reduce required reserve expenditure by 30–40 percent relative to discretionary reactive models, because the pre-announcement itself anchors market expectations and reduces speculative positioning (BIS, 2022, p. 56).

Third weakness—inflation expectations management. The CBU formally adopted inflation targeting in January 2023 without the communication infrastructure that Mishkin (2007, p. 89) identifies as essential: regular detailed forecast reports, a policy rate path indicator, and systematic household and enterprise expectations surveys. Without these mechanisms, a de jure inflation target does not automatically generate the expectation-anchoring effects that distinguish mature inflation targeting from conventional rate-setting (Mishkin, 2007, p. 89). The comparative evidence suggests this credibility deficit carries a

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measurable inflation performance cost of 1.5–2.0 percentage points on average (National Bank of Kazakhstan, 2021; National Bank of Georgia, 2021).

5.3. The Policy Trilemma in the Uzbekistan Context

The Rey (2015) and Obstfeld (2015) trilemma framework illuminates the structural constraints within which CBU decision-making operated. In 2020, supporting growth required rate cuts that risked inflation and currency depreciation; in 2022, managing inflation and currency pressure required rate increases that risked growth and credit availability. These are the inherent trade-offs of a small open economy under compound external shocks, not policy errors (Rey, 2015, p. 12; Obstfeld, 2015, p. 23).

The comparative evidence indicates, however, that the magnitude of these trade-offs is not fixed. Institutional design choices—the depth of the targeted lending architecture, the maturity of the exchange rate intervention framework, and the credibility of the inflation targeting communication system—affect how much stabilisation can be achieved per unit of policy space consumed. This is the operational translation of Mishkin's insight that credibility is not a given but an investment, and that its returns compound over time (Mishkin, 2007, p. 97).

6. **Conclusions and Policy Recommendations**

6.1. Principal Findings

This paper has examined the effectiveness of the Central Bank of Uzbekistan's anti-crisis monetary policy across three sequential shock episodes constituting the 2020–2023 polycrisis. Three principal findings emerge.

First, the CBU achieved short-run macroeconomic stabilisation in each of the three polycrisis episodes: positive GDP growth, banking system integrity, and contained exchange rate depreciation were maintained throughout. This outcome reflects the CBU's operational capacity for rapid decision-making and the adequate pre-crisis reserve buffer accumulated through the post-2017 reform strategy (IMF, 2023a, p. 28).

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Second, price stability—the CBU's primary statutory mandate—was persistently subordinated across the polycrisis window. Inflation exceeded the target corridor by 5–6 percentage points in 2021–2022, reflecting the trade-offs made in favour of growth support and currency stabilisation (CBU, 2023, p. 5). The comparative evidence suggests this trade-off carried a higher inflation cost than institutional peers with more mature inflation targeting frameworks sustained.

Third, three systemic weaknesses—in targeted refinancing design, exchange rate intervention architecture, and inflation expectations management—were identified as limiting factors on policy effectiveness. These are structural features requiring institutional reform rather than tactical adjustment.

6.2. Policy Recommendations

Table 4. Institutional Recommendations for CBU Anti-Crisis Policy Architecture

Area	Identified weakness	Recommended measure	Timeline
Targeted refinancing	No sectoral monitoring or incentive mechanism	TLTRO-type programme: compliance-based rate subsidy; quarterly sectoral disbursement reporting	1–2 years
FX intervention	Reactive (ex-post) model; no pre-announced corridor	Rule-based corridor: pre-specified trigger levels; bilateral swap lines with regional partners	2–3 years
Macroprudential	CCyB and G-SIB surcharges not yet introduced	Phased Basel III CCyB; enhanced stress-test frequency; additional buffers for systemically important banks	2–4 years
Regional cooperation	Limited bilateral swap agreements; no regional facility	Establish Central Asia Liquidity Mechanism; assess eligibility for IMF FCL / PLL arrangements	3–5 years
Communication	No forward guidance; MPR incomplete; expectations unanchored	Quarterly MPR with fan charts; policy rate path indicator; household/enterprise expectations survey	1 year

Sources: Derived from ECB TLTRO-III (2021), BIS intervention framework research (2022), IMF inflation targeting guidance (2023a), and Kazakhstan / Georgia comparative experience.

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The implementation sequencing priority is: communication infrastructure and Monetary Policy Report enhancement (Year 1) → TLTRO-type targeted lending framework (Years 1–2) → corridor-based FX intervention rule (Years 2–3) → CCyB and stress-test calendar reform (Years 2–4) → regional liquidity cooperation framework (Years 3–5). This sequencing reflects both urgency and institutional feasibility (Lim et al., 2011, p. 24).

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