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TRANSITION OF ENERGY TARIFFS TO MARKET PRICES: IMPACT ON INFLATION AND HOUSEHOLD WELFARE

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Abstract: The article analyzes the theoretical foundations of energy price liberalization in a market economy and the impact of the electricity and natural gas tariff reform implemented in Uzbekistan in 2024–2026 on inflation, the state budget and household welfare. Based on official data, the dynamics of tariffs, social consumption norms, the volume of energy subsidies and inflation indicators are

examined. Proposals for reducing the social costs of the reform and improving energy efficiency are developed.

Key words: market economy, energy tariffs, subsidies, social norm, inflation, energy efficiency, household welfare, price liberalization.

INTRODUCTION

In a market economy, prices perform three fundamental functions: they transmit information about scarcity, they create incentives for producers and consumers, and they allocate resources among competing uses. When prices for a basic good are fixed administratively far below its cost, all three functions are distorted. Energy is the most important example of such a distortion in many post-Soviet and resource-rich economies, where electricity, natural gas and heating were for decades supplied to households and firms at prices that covered only a fraction of production and delivery costs.

Uzbekistan inherited exactly this model. For many years electricity and gas tariffs were kept at very low levels, and the gap between costs and revenues was financed by the state budget and by the accumulated losses of state-owned energy companies, a typical manifestation of the “soft budget constraint” [6; 7]. According to estimates based on International Energy Agency data, energy subsidies in Uzbekistan amounted to about 6.6% of GDP in 2020 [5; 11]. Low prices encouraged wasteful consumption, discouraged investment in generation and networks, and led to recurring shortages of gas and electricity during cold winters. Paradoxically, cheap energy did not protect the poor effectively, because the largest absolute benefits went to households with large homes and many appliances.

Against this background, the government launched a comprehensive energy tariff reform. On 1 May 2024, after a five-year freeze, tariffs were raised substantially and a system of social consumption norms was introduced: households pay a base tariff for consumption within the norm and higher tariffs above it [9; 10]. A second stage followed on 1 May 2025, and from 2026 tariffs are adjusted annually, with increases capped at 10% [9]. The government has announced its intention to phase out energy subsidies by 2028 [9].

The reform is one of the most significant steps toward a market economy since the liberalization of the foreign exchange market in 2017. At the same time, it directly affects every household, raises consumer prices and therefore carries considerable social and political sensitivity. This makes a careful assessment of its consequences necessary.

The purpose of this article is to analyze the impact of the transition of energy tariffs to market prices on inflation and household welfare in Uzbekistan and to develop proposals for minimizing the social costs of the reform while preserving its efficiency gains. The objectives of the study are: to summarize the theoretical arguments for and against energy price liberalization; to examine the dynamics and design of the 2024–2026 tariff reform; to assess its impact on inflation and the budget; and to evaluate the adequacy of social protection mechanisms.

LITERATURE REVIEW

The economic literature on energy pricing rests on a broad consensus that underpricing energy is inefficient and, in most cases, regressive. D. Coady, I. Parry, N.-P. Le and B. Shang, in a widely cited International Monetary Fund study, estimated global fossil fuel subsidies and showed that, once environmental and health costs are included, their scale reaches several percent of world GDP [1]. The authors argue that energy price reform can generate large fiscal savings, reduce pollution and improve the allocation of resources, provided that a part of the savings is used to compensate vulnerable groups.

J. Arze del Granado, D. Coady and R. Gillingham reviewed evidence from developing countries and found that fuel subsidies are highly regressive: the richest 20% of households capture on average about six times more of the benefits than the poorest 20% [2]. This finding undermines the main political argument in favour of subsidies, namely that they protect low-income households. In the authors' view, targeted cash transfers protect the poor at a much lower cost than universal price subsidies.

The theory of public utility pricing, going back to the work of F. Ramsey and later developed in regulatory economics, holds that tariffs should at least cover the long-run marginal cost of supply, otherwise the sector cannot attract investment and service quality deteriorates [3]. Increasing block tariffs, in which a low price applies to a basic volume of consumption and higher prices apply above it, are often recommended as a compromise between efficiency and social protection, although they may poorly target large poor households.

From the macroeconomic perspective, administered price increases are a typical source of "cost-push" inflation. As noted in the inflation targeting literature, central banks generally "look through" the first-round effects of such one-off price adjustments but must prevent second-round effects on wages and inflation expectations [4].

Uzbek economists have also discussed the reform. M. Xolboyev argued that the best time for energy price liberalization is "now", since losses grow every year, subsidies give consumers no incentive to save and their benefits mostly go to higher-income groups, while the funds could be redirected to education and health care [11]. The Central Bank of Uzbekistan has repeatedly emphasized in its monetary policy documents that regulated price adjustments are among the main factors keeping inflation above the 5% target [8; 12].

The literature review shows that the theoretical arguments for energy price reform are strong, but its success depends on the design of compensation mechanisms and on the coordination of tariff policy with monetary policy. The empirical consequences of the Uzbek reform after its second and third stages have not yet been studied comprehensively, which this article seeks to address.

METHODOLOGY

The study is based on a combination of the following methods:

– theoretical analysis of the literature on energy pricing, subsidies and their distributional effects;

– comparative analysis of electricity and gas tariffs before the reform (2023) and after each stage (2024, 2025, 2026);

– dynamic analysis of inflation indicators of the Central Bank of Uzbekistan and the National Statistics Committee for 2023–2026;

– budget analysis of the volume of energy subsidies in the state budget;

– incidence analysis on a qualitative basis, assessing which household groups bear the main burden of the reform;

– SWOT analysis to identify the strengths, weaknesses, opportunities and threats of the reform.

The data sources are government resolutions on tariffs, publications of the Ministry of Energy, the Central Bank of Uzbekistan and leading national news agencies.

RESULTS AND DISCUSSION

Design and stages of the reform. The tariff reform was implemented in three stages. In the first stage, from 1 May 2024, the base electricity tariff for households within the social norm of 200 kWh per month rose from 295 to 450 soums per kWh (+52.5%), while the gas tariff within the norm rose from 380 to 650 soums per cubic metre (+71%) [9; 10]. For consumption above the norms, significantly higher block tariffs were introduced: for example, household electricity consumption of 201–1,000 kWh was charged at 900 soums per kWh, and gas consumption of 500–2,500 cubic metres in the heating season at 1,500 soums [10].

In the second stage, from 1 May 2025, the base electricity tariff rose to 600 soums per kWh (+33.3%) and the gas tariff to 1,000 soums per cubic metre (+53.8%); at the same time the tariff for the second consumption block (201–500 kWh) was reduced from 1,000 to 800 soums [9]. The third stage, from 1 June 2026, raised tariffs on average by 9.9% in line with the new indexation rule [13].

Table 1.

Dynamics of household energy tariffs within the social norm in Uzbekistan

Period	Electricity, soums/kWh	Change	Gas, soums/m³	Change
Before May 2024	295	—	380	—
From 1 May 2024	450	+52.5%	650	+71.1%
From 1 May 2025	600	+33.3%	1,000	+53.8%
From 1 June 2026	650	+8.3%	1,100	+10.0%
Cumulative change	| +120%	| +189%		

As Table 1 shows, within roughly two years the base electricity tariff more than doubled and the gas tariff almost tripled. Nevertheless, the social norms play a key role in mitigating the burden: the norm of 200 kWh per month for electricity and up to 500 cubic metres of gas in the heating season covers the basic needs of a typical household [10]. Thus, the largest price increases fall on high consumption, which corresponds to the principle that subsidies should not be directed to wealthier households with high energy use.

Fiscal dimension. The reform is primarily motivated by the need to reduce the fiscal and quasi-fiscal burden of the energy sector. Even after the first stage, the 2025 state budget allocated 12.3 trillion soums (about USD 956 million) to subsidize gas, electricity and heating [9]. The government plans to phase out these subsidies completely by 2028 [9]. Compared with the subsidy level of about 6.6% of GDP estimated for 2020 [11], this represents a fundamental shift in fiscal policy that frees resources for education, health care and infrastructure.

Table 2.

Key parameters of the energy tariff reform

Parameter	**Value**
Energy subsidies (2020, IEA estimate)	~6.6% of GDP
Budget allocation for energy subsidies (2025)	12.3 trillion soums (~USD 956 million)
Target year for phasing out subsidies	2028
Social norm for electricity	200 kWh per month
Social norm for gas (heating season)	up to 500 m³
Annual indexation rule (from 2026)	linked to inflation, capped at 10%

Impact on inflation. Administered energy price increases had a noticeable impact on inflation in 2024–2025. Annual inflation reached 9.8% at the end of 2024 compared with 8.8% in 2023 [14]. In May 2025, the Chairman of the Central Bank stated that inflation of about 10% was mainly caused by large-scale price liberalization and that, with the completion of the energy tariff reform, inflation could fall to 8% by the end of the year [12]. Indeed, inflation declined to 7.3% in December 2025 [14] and to 5.5% in May 2026; analysts explained this decline largely by the fading of the base effect of the energy tariff increases introduced a year earlier [15].

This dynamic confirms the theoretical expectation: a one-off administered price increase raises the price level but does not produce persistent inflation, provided that monetary policy remains sufficiently tight. The Central Bank maintained its policy rate at 14% from March 2025 onwards, preventing second-round effects on inflation expectations [15]. Moreover, the transition to small annual indexation capped at 10% makes future tariff changes predictable, which reduces their impact on inflation expectations compared with large, irregular adjustments.

Impact on household welfare. The impact of the reform on households is uneven. Households with consumption within the social norms faced a moderate increase in absolute expenditure, while large consumers — owners of large houses, households heating with electricity or using gas extensively — experienced much larger increases. In regions where gas supply is unstable and households rely on electric heating in winter, the burden may be particularly heavy. The 2025 adjustment, which reduced the tariff for the second consumption block and extended the gas norm in winter, reflected the government’s response to these concerns [9].

The main risk for welfare is that the system of social norms is linked to the dwelling (the meter) rather than to the number of people living in it. A large low-income family living in one house may exceed the norm and pay high tariffs, while a small high-income household may stay within the norm. This is precisely the targeting problem noted in the literature [2].

Table 3.

SWOT analysis of the energy tariff reform (author's development)

Strengths	**Weaknesses**
• Gradual, pre-announced stages • Social norms protecting basic consumption • Predictable indexation rule (≤10% per year) • Substantial reduction of fiscal subsidies	• Norms linked to the meter rather than household size • Higher burden in regions with unstable gas supply • Limited targeted compensation for vulnerable households
Opportunities	**Threats**
• Investment in generation and grids on a commercial basis • Energy-saving technologies and renewable energy • Redirecting subsidies to education and health • Privatization of energy companies	• Second-round inflation effects • Growth of payment arrears and illegal connections • Social discontent if service quality does not improve • Rising costs for small businesses

The SWOT analysis indicates that the reform has a sound macroeconomic logic and a reasonably careful design, but its social sustainability depends on improving the targeting of support and on visible improvements in the reliability of energy supply. Households are more willing to accept higher tariffs if they see that power cuts and gas shortages become less frequent.

CONCLUSION

The study shows that the transition of energy tariffs to market prices in Uzbekistan in 2024–2026 was implemented gradually and with a number of social protection elements. Within two years, the base electricity tariff for households more than doubled and the gas tariff almost tripled, budget subsidies are planned to be eliminated by 2028, and from 2026 tariffs are indexed annually with a 10% cap. The reform caused a temporary acceleration of inflation in 2024–2025, but, thanks to tight monetary policy, inflation subsequently declined to 7.3% at the end of 2025 and to 5.5% in May 2026. The main unresolved problem is the targeting of social protection: the current system of social norms does not take into account household size and income.

Based on the analysis, the following proposals are put forward:

1. Link social consumption norms to the number of registered household members, using data from the unified social protection registry, so that large families are not penalized.

2. Introduce targeted cash compensation for low-income households registered in the "Social Protection Single Registry" to offset part of the tariff increases, financed from the savings on universal subsidies.

3. Direct part of the released budget resources to programs for thermal insulation of housing, energy-efficient appliances and small-scale solar installations for households.

4. Publish an annual report on the use of funds saved from subsidy reduction and on improvements in the reliability of energy supply, to increase public trust in the reform.

5. Strengthen coordination between the Ministry of Energy and the Central Bank so that the timing of tariff indexation is taken into account in inflation forecasts and communication.

6. Accelerate the attraction of private investment in generation and distribution under transparent long-term tariff rules, so that higher tariffs are accompanied by improved service quality.

In conclusion, energy price liberalization is a necessary condition for a well-functioning market economy, efficient use of resources and sustainable public finances. Its long-term success, however, depends on whether the state can combine market pricing with effective, targeted protection of vulnerable households and visible improvements in the quality of energy services.

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DEVELOPMENT OF THE CAPITAL MARKET: ATTRACTING THE POPULATION TO INVESTMENT THROUGH IPOS AND THE NATIONAL INVESTMENT FUND

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Abstract: The article analyzes the role of the capital market in a market economy, its relationship with economic growth and privatization, and the current state of capital market development in Uzbekistan. Using the example of the initial public offering (IPO) of the National Investment Fund of Uzbekistan (UzNIF) on the Tashkent and London stock exchanges in 2026, the mechanism of public placement of state assets, the investment activity of the population and the structural problems