FROM DISCRETIONARY INCREASES TO A RULE-BASED GUARANTEE: IMPROVING PENSION INDEXATION AND THE MINIMUM PENSION FLOOR IN UZBEKISTAN

Zokirova Gavhar Abdumannonovna
Independent Researcher, Department of Finance
Termez State University
E-mail: zokirovag@tersu.uz
ORCID ID: 0009-0002-4200-4424

Abstract. *The thesis analyses the adequacy of pensions in Uzbekistan through the ratio of the minimum old-age pension to the officially established minimum consumption expenditure and evaluates the institutional mechanism by which pensions are adjusted. Data for 2022–2026 show that the minimum pension exceeds the minimum consumption expenditure by 27–38 per cent, so the requirement of Article 46 of the Constitution is formally met. The favourable ratio, however, results from current policy decisions rather than from a legal guarantee: pensions are raised by separate presidential decrees, the annual increase has ranged from 7.1 to 15.0 per cent, and no statutory formula, frequency or responsible body is defined. A three-element mechanism is proposed, comprising a statutory floor of 130 per cent for the ratio of the minimum pension to minimum consumption expenditure, an automatic annual indexation rule based on inflation and half of real wage growth, and protection of the minimum consumption level in the case of deductions. Its fiscal implications are assessed using the approved 2026 parameters of the Pension Fund.*

Keywords: *pension adequacy, indexation, minimum pension, minimum consumption expenditure, constitutional guarantee, fiscal rule, predictability, Pension Fund, Uzbekistan.*

Pensions are set in nominal terms, while pensioners live in real terms. Whether an old-age benefit protects against poverty therefore depends as much on the way it is adjusted over time as on its initial level. International standards reflect this principle: ILO Convention No. 102 requires benefits in payment to be reviewed following substantial changes in the general level of earnings or the cost of living [8], and most OECD countries apply a formula that links pensions in payment to prices, wages or a combination of the two [10].

Uzbekistan has a particularly strong normative commitment in this area. Article 46 of the Constitution, in the wording adopted at the referendum of 30 April 2023,

stipulates that pensions and social benefits may not be lower than the officially established minimum consumption expenditure (MCE) [1]. Few constitutions tie pensions to a quantified poverty benchmark. Nevertheless, the legislation does not contain a mechanism that turns this norm into routine practice: no indexation formula is specified, the frequency of adjustment is not defined, and no body is made responsible for aligning the two indicators. Pensions are raised by separate decrees of the President, usually once or twice a year [3].

Table 1 presents the dynamics of the minimum old-age pension and the MCE for 2022–2026.

Table 1. Minimum old-age pension and minimum consumption expenditure in Uzbekistan, 2022–2026[1].

Indicator	2022	2023	2024	2025	2026*
Minimum old-age pension, thousand soums per month	633	725	834	918	983
Annual increase, %	–	14.5	15.0	10.1	7.1
MCE, thousand soums per month	498	568	648	669	715
Annual increase, %	–	14.1	14.1	3.2	6.9
Ratio of minimum pension to MCE, %	127.1	127.6	128.7	137.2	137.5

** As of July 1, 2026.*

The data lead to two conclusions. On the one hand, the minimum pension has remained above the MCE throughout the period, and the margin widened noticeably in 2025, when the pension rose by 10.1 per cent while the MCE increased by only 3.2 per cent. The constitutional requirement is therefore being met. On the other hand, three observations indicate that this protection is fragile. First, the size of the annual increase is decided anew each year and has halved from 15.0 per cent in 2024 to 7.1 per cent in 2026. Second, the adjustment is reactive: decisions are taken after inflation has already eroded purchasing power for several months. Inflation slowed to 8.8 per cent at the end of 2023, accelerated to 9.8 per cent in 2024 against the background of the energy tariff reform and fell to 7.3 per cent in 2025 [7], yet the timing of pension increases did not follow a predictable rule. Third, the minimum pension matters for a large part of the pensioner population: 47 per cent of pensioners receive between 820 thousand and 1 million soums a month, that is, they are concentrated in a narrow band around the

[1] Compiled and calculated by the author on the basis of Decrees of the President No. PF-128, PF-196, PF-108, PF-91 and data of the Statistics Agency of the Republic of Uzbekistan.

minimum [5]. For this group any lag of indexation behind prices translates directly into a lower standard of living

(Figure 1).

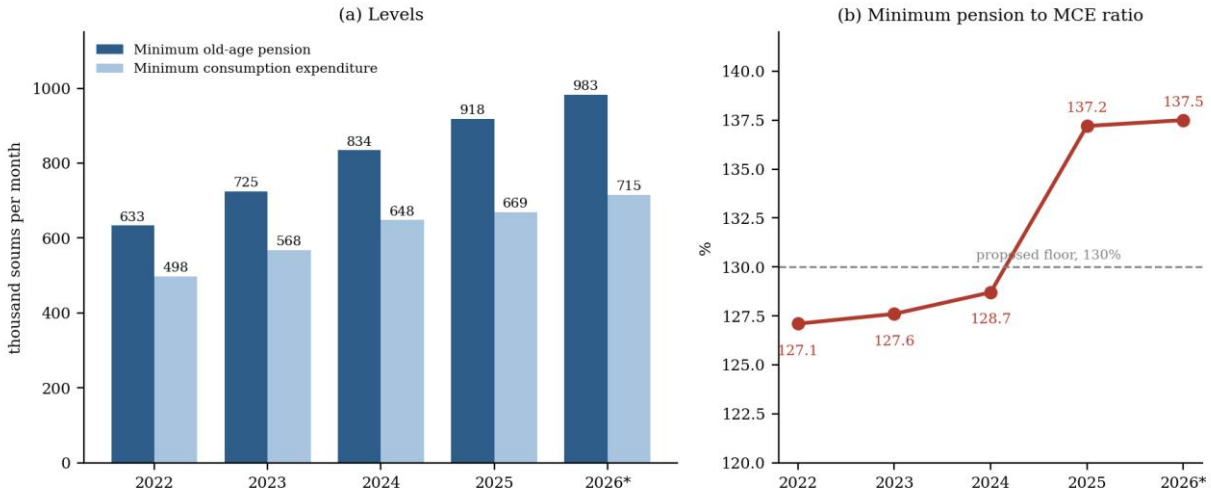


Figure 1. Minimum old-age pension, minimum consumption expenditure and their ratio, 2022–2026[2].

A simple calculation illustrates how quickly the present margin could disappear. If the MCE grew by 8 per cent a year while the minimum pension were raised by only 5 per cent, the ratio would fall from 137.5 per cent to about 130 per cent within two years and would approach the constitutional minimum of 100 per cent in about eleven years. The favourable ratio observed today is therefore the outcome of current policy, not an institutional guarantee. At the same time, adequacy relative to earnings remains low: the average pension equals roughly a quarter of the average wage, well below the 40 per cent benchmark set by the ILO for a standard beneficiary [8, 9].

Based on this diagnosis, a three-element mechanism for aligning the minimum pension with the MCE is proposed.

The first element is a statutory floor. The ratio of the minimum old-age pension to the MCE is fixed in the Law “On State Pension Provision of Citizens” at a level of no less than 130 per cent. If the projected ratio for the coming year falls below this threshold, an additional adjustment is triggered automatically rather than by a separate decision.

The second element is an automatic indexation rule. Pensions in payment are increased once a year from a fixed date by the index:

$$I_t = \pi_{t-1} + 0.5 \times g_{t-1}, \qquad (1)$$

where I_t is the indexation rate in year t, π_{t-1} is consumer price inflation in the previous year and g_{t-1} is the real growth of the average wage in the previous year. The formula

[2] Compiled by the author on the basis of Table 1. * As of July 1, 2026.

guarantees that the purchasing power of pensions is preserved and that pensioners share half of the gains from productivity growth. It is equivalent to a "mixed" index that gives equal weights to prices and nominal wages, an approach applied in a number of European pension systems [10, 11].

The third element protects the minimum level of consumption when deductions are made from a pension: after any deduction, the amount remaining at the pensioner's disposal may not be lower than the MCE. This element has already been introduced into practice, since monthly deductions are now limited to 50 per cent of the pension and must leave the pensioner no less than the officially established MCE [4].

Table 2 compares the current practice with the proposed mechanism.

Table 2. Current and proposed mechanisms of pension adjustment[3].

Parameter	Current practice	Proposed mechanism
Legal basis	Separate decree of the President each year	Law "On State Pension Provision of Citizens"
Formula	Not defined	Inflation plus half of real wage growth, formula (1)
Frequency and date	Once or twice a year, variable dates	Annually, fixed date
Ratio of minimum pension to MCE	Not fixed (137.5% in 2026)	Not less than 130%, with automatic top-up
Responsible body	Not specified	Ministry of Economy and Finance, with published calculation based on Statistics Agency data
Predictability for pensioners and budget	Low	High

The fiscal implications of the mechanism can be estimated from the approved 2026 parameters. The expenditures of the Pension Fund for 2026 amount to 86.1 trillion soums, so each percentage point of indexation costs about 0.86 trillion soums a year [5]. Applying formula (1) with inflation of 7.3 per cent in 2025 and an assumed real wage growth of 1.8 per cent gives an indexation rate of 8.2 per cent and a cost of about 7.1 trillion soums. This is lower than the cost of the 10.1 per cent discretionary increase of 2025 measured on the same base, about 8.7 trillion soums. A

[3] Developed by the author.

rule does not necessarily raise spending; its main value lies in predictability for both pensioners and budget planning. The 130 per cent floor requires no additional spending at present, because the actual ratio is higher; its purpose is to prevent future erosion. Since the Pension Fund already depends on transfers from the State budget, the indexation rule should be incorporated into the medium-term fiscal framework and taken into account when preparing the annual Fiscal Strategy [6].

In conclusion, Uzbekistan has already achieved a level of the minimum pension that exceeds the constitutional benchmark, but this achievement is not yet protected by law. Replacing discretionary increases with a transparent rule would transform the current favourable ratio into a lasting guarantee, strengthen the confidence of both current and future pensioners in the state system and make pension expenditure more predictable. The ongoing discussion of the pension reform draft decree of September 2026 [12] offers an opportunity to include the following provisions:

1. To fix in the law a lower limit of 130 per cent for the ratio of the minimum old-age pension to the MCE, with an automatic top-up when this limit is at risk.

2. To introduce annual automatic indexation of pensions in payment by the sum of the previous year's inflation and half of real wage growth, from a fixed date.

3. To assign responsibility for calculating and publishing the indexation rate to the Ministry of Economy and Finance, on the basis of Statistics Agency data, and to reflect it in the Fiscal Strategy.

4. To publish annually the ratios of the minimum and average pension to the MCE and to the average wage as official adequacy indicators of the pension system.

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