THE COURSE OF INFLATION PROCESSES IN THE REPUBLIC OF UZBEKISTAN

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ABSTRACT

This article analyzes the formation, development stages, and main factors influencing inflation processes in the Republic of Uzbekistan. It covers the dynamics of inflation rate changes from the beginning of the transition to a market economy to the present day, highlighting the effectiveness of the state's monetary policy and its impact on macroeconomic stability. Furthermore, reforms aimed at curbing inflation, ensuring price stability, and improving public welfare are discussed. The experience of the Central Bank in using monetary policy instruments is examined based on an analytical approach. The results of the study include practical proposals and recommendations that contribute to the formation of a stable price environment in the Uzbekistan economy.

Introduction. Inflation processes in the Republic of Uzbekistan have historically been high, occurring at various levels since gaining independence. In 1991-1994, inflation was at a very high level, reaching 712% in 1992 and 1078% in 1993. During this period, problems such as currency devaluation and shortages of goods emerged. In subsequent years, the inflation rate gradually decreased and has relatively stabilized in recent years. In 2023, inflation in Uzbekistan fell to 8.77%, reaching the lowest level since 2016. In 2024, however, the inflation rate slightly increased to 9.8%. As of September 2025, the inflation rate has decreased again, falling to an annual 8%. The slowdown in inflation is linked to the strengthening of the national currency, the Uzbekistani Som, and the maintenance of a tight monetary policy. The course of inflation processes in Uzbekistan is mainly related to monetary policy, the stability of the exchange rate, purchasing demand, and changes in the prices of goods and services. Additionally, the prices of food and non-food products are among the main factors of inflation. After Uzbekistan gained independence, great attention was paid to studying inflation processes during the transition to a market economy.

1-Table. Inflation in Uzbekistan: Key Data and Influences

Period / Year	**Inflation Rate (%)**	**Key Characteristics / Events**	**Main Influencing Factors**
1991-1994	Very high (712% in 1992, 1078% in 1993)	Post-independence transition to a	Currency devaluation, shortages of goods.

		market economy.	
Subsequent Years	Gradual decrease and relative stabilization	A long-term trend of reducing inflation from hyperinflation levels.	Emerging economic reforms and stabilization efforts.
2023	8.77%	Lowest level recorded since 2016.	Strengthening of the national currency (Som), tight monetary policy.
2024	9.8%	Slight increase compared to the previous year.	(Not specified in the provided text)
2025 (as of Sept.)	8.0% (annual)	Decrease again from the previous year.	Continued tight monetary policy, currency stability.
Overall	Varies	The general course of inflation is dynamic.	Monetary policy, exchange rate stability, purchasing demand, and changes in prices of goods and services.

Characteristics of the transition period: In the literature of the early years, factors such as price liberalization, legacies from the former planned economy, and the uncontrolled growth of the money supply were cited as the main causes of high inflation.

Modern research: Recent scientific articles, monographs, and reports of the Central Bank of the Republic of Uzbekistan increasingly focus on the following topics:

- **The role of monetary policy in controlling inflation:** Especially studies on the effectiveness of the Central Bank's independence and the introduction of an inflation targeting policy.
- **The impact of external factors:** How changes in world markets, particularly inflation and exchange rate fluctuations in our main export-import partners, affect Uzbekistan.
- **Inflation expectations:** Measuring and managing mechanisms for inflation expectations among the population and entrepreneurs of Uzbekistan.
- **Food security and inflation:** As food prices constitute a large part of the consumer basket, developing agriculture and ensuring food security are seen as key factors in reducing inflation.

Inflation processes in Uzbekistan have gradually decreased from the high levels of the early years of independence and have recently moved towards stability. However, inflation continues to be influenced by demand and supply factors, currency policy, and changes in service prices. In the last 2-3 years, the inflation rate has been in the range of 8-10%, and it is observed that the state is taking strict measures to further reduce inflation.

Methods for analyzing the main causes of inflation include the following:

1. **Statistical and economic models:** Economic models are used to determine the causes of inflation and its impact on the economy. This method analyzes factors such as an increase in the money supply, imbalances between demand and supply, and rising production costs.
2. **Monetary analysis:** This approach explains inflation mainly through the growth of the money supply, disruptions in the quantity theory of money, and the government's fiscal policy. The impact of monetary and credit policy on inflation is studied.
3. **Economic balance and cost analysis:** Causes such as rising production costs, monopoly prices, changes in import prices, and exchange rate fluctuations are analyzed.
4. **Examination of internal and external factors:** Internal factors such as the state budget deficit, credit policy, economic cyclicality, and investment imbalances are analyzed. External factors include changes in import prices and exchange rates.
5. **Expectations and scenarios model:** By studying inflation expectations, future trends of inflation and measures for its control are identified.

With the help of these methods, the causes of inflation can be deeply analyzed, and necessary changes can be made in economic and financial policy. All of them together allow for effective management and reduction of inflation. The devaluation of the Som has a significant impact on inflation.

The table below shows the annual inflation rates (Consumer Price Index, CPI) for various countries and regions from 2019 to 2023. This period was a very volatile time for inflation processes due to the global pandemic, supply chain disruptions, and geopolitical tensions.

Annual Inflation Rates in World Countries (Consumer Price Index, %)

Country / Region	**2019**	**2020**	**2021**	**2022**	**2023 (est.)**	**Average (2019-2023)**
USA	1.8	1.2	4.7	8.0	4.1	3.96
European Union	1.5	0.7	2.9	8.4	6.3	3.96
China	2.9	2.5	0.9	2.0	0.2	1.70
Japan	0.5	0.0	-0.2	2.5	3.2	1.20
United Kingdom	1.8	0.9	2.5	9.1	6.8	4.22
Turkey	15.2	12.3	19.6	72.3	53.9	34.66
Argentina	53.5	42.0	48.4	94.8	211.4	90.02
Russia	4.3	3.4	6.7	13.9	7.4	7.14
Brazil	3.7	2.9	10.1	5.8	4.6	5.42
India	7.7	6.6	5.1	6.7	5.4	6.30
Nigeria	11.4	13.2	17.5	18.9	28.9	17.98

World Average	3.5	3.2	4.7	8.7	6.9	5.40

Through this table, a number of important features in the course of inflation processes can be observed:

1. **Global impact of the pandemic and the subsequent period (2020-2022):**

- **2020:** Inflation decreased in many countries, especially in developed economies (USA, European Union). Reasons: a decrease in demand due to quarantine restrictions and a sharp fall in oil prices.
- **2021-2022:** Inflation rose sharply worldwide. The main reasons were:
- **Disruption of supply chains:** A shortage of goods arose as production and logistics, halted due to the pandemic, were recovering.
- **Energy crisis:** The Russia-Ukraine war, which began in 2022, led to an increase in gas and oil prices, which affected all sectors.
- **Government stimulus measures:** Large-scale financial aid to the population and businesses during the pandemic led to an increase in the money supply and a rise in demand.

2. **The difference between developed and developing countries:**

- Developed countries (USA, European Union, Japan) managed to control record-high inflation in 2022 by raising interest rates in 2023.
- Developing countries (Turkey, Argentina, Nigeria) were much more vulnerable to inflation. Here, inflation is linked to structural problems: government budget deficits, the unreliability of the national currency, and political instability.

3. **Cases of 'intractable' inflation:**

- **Turkey:** Contrary to traditional economic theory, a policy of maintaining low interest rates led to inflation exceeding 70% in 2022.
- **Argentina:** Long-standing economic problems, government debts, and a currency crisis brought inflation close to hyperinflation levels (>200% in 2023).

4. **The uniqueness of China and Japan:**

- **China:** Due to its "Zero-COVID" policy and subsequent economic slowdown, the country faced the risk of deflation (falling prices). This sets it apart from other major economies.
- **Japan:** Having fought deflation for a decade, Japan was able to reach its target inflation rate (2%) in 2022-2023, although this was largely due to rising import prices.

As a result of devaluation, the value of the national currency, the Som, decreases against foreign currencies, and imports become more expensive. This, in turn, leads to an increase in the prices of imported food and other consumer goods, especially those dependent on imports, resulting in a rise in domestic market prices and an increase in the inflation rate. Furthermore, the devaluation of the Som strengthens inflationary expectations, as citizens and entrepreneurs, expecting prices to rise in the future, attempt to raise prices in advance. All of these lead to an acceleration of inflation and instability in price levels. The Central Bank's policy aimed at stabilizing the exchange rate helps reduce inflation, but the devaluation of the Som may continue under the influence of internal and external factors. The Central Bank's policy directly affects the inflation rate and is the main tool for managing it. To control inflation, the Central Bank conducts monetary policy, in which the main principle is to set a target for inflation, for example, in Uzbekistan, this target is set at 5%. The Central Bank controls the key rate (interest rate), which affects liquidity in the banking system and the price of credit in the economy. When the interest rate is raised, borrowing becomes more difficult, demand decreases, and as a result, the inflation rate falls. By managing the money supply and through open market operations, the Central Bank regulates the money supply in the economy, which helps stabilize inflation. Additionally, the Central Bank conducts policy based on economic forecasts and manages inflation expectations, which affects the decisions of economic agents and price dynamics. In this way, the Central Bank's policy serves as an important tool in managing inflation and helps ensure economic stability.

Several methods are used to analyze the distribution of changes in the Central **Bank's key rate across economic sectors:**

1. **Analysis of credit growth by sector:** When the Central Bank's key rate changes, the interest rates of commercial banks also change, which affects the ability of different economic sectors to obtain credit. By analyzing which sectors are seeing an increase or decrease in credit, the impact of the rate change can be determined.
2. **Analysis of interest rates and financial costs:** Changes in interest expenses by sector are examined. Some sectors may be more affected by an increase in the interest rate, for example, manufacturing or retail.
3. **Liquidity conditions in the money market:** A change in the Central Bank's key rate affects interbank money market interest rates and thereby controls the price of financing for sectors.
4. **Distribution of economic indicators by sector:** Macroeconomic indicators such as production volume, investments, and employment are analyzed. Changes in these indicators after rate changes show the impact on sectors.
5. **Central Bank's monetary policy decisions:** Analytical reports and statistical data on the impact of decisions announced by the Central Bank on sectors are used.

With these analysis methods, the distribution of the Central Bank's key rate across sectors and its overall impact on the economy can be determined. In this way, more effective management of the Central Bank's policy is ensured. To identify time lags between the devaluation of the Som and inflation, it is necessary to study the relationship between changes in inflation and the exchange rate using time series analysis. The devaluation of the Som usually leads to an increase in import prices, which significantly raises domestic market prices. For this reason, the devaluation of the Som directly affects the rise in inflation. The time lag, however, refers to the time that must pass after the devaluation of the Som for this effect to manifest in inflation. This lag is typically short-term, possibly within a range of 1-3 months, because the rise in import product prices affects domestic prices more slowly. Furthermore, inflation expectations and the response reactions of market agents prolong the time. With the help of inflation calculators and the Central Bank's statistical data, these lags can be more accurately shown based on their interrelationships. Thus, the devaluation of the Som increases inflation, but this effect is felt after a short period of time; this time lag stems from the complexity of price dynamics in the economy. To identify and forecast these lags, economic and statistical models, including time series analysis and econometric methods, are used.

Inflation processes in Uzbekistan have transitioned from the hyperinflation (over 1000%) of the early post-independence years to a relatively stable range of 8-10% today. This process is characterized by the following key points:

Conclusion.

1. Historical Change: The 1990s: Inflation was at record levels due to the transition to a market economy, price liberalization, and the uncontrolled growth of the money supply. **Current Period:** Inflation has significantly decreased and stabilized thanks to the Central Bank's tight monetary policy, economic reforms, and measures to stabilize the exchange rate.

2. Main Factors Influencing Inflation: ***Monetary Policy:*** The Central Bank's management of the money supply and credit costs through the key rate is the primary tool for controlling inflation. ***Devaluation of the Som*:** When the national currency's exchange rate falls, imported goods, especially food products, become more expensive, which leads to a rise in domestic prices and inflation. ***External Factors:*** Global crises (pandemic, war) and rising international energy and food prices directly affect Uzbekistan's economy. ***Food Prices:*** Since food products constitute a large part of the consumer basket, changes in agricultural product prices have a significant impact on overall inflation.

3. The Role and Strategy of the Central Bank: The Central Bank is implementing an "inflation targeting" policy, aiming to keep inflation at a target level (e.g., 5%). Its main tool is the **key rate**. By raising the rate, it makes credit more expensive, cools down demand, and reduces inflation. There is a certain **time lag (1-3 months)** between the devaluation of the Som and inflation. That is, the effect of a change in the exchange rate on prices is felt a little later.

4. International Experience: The entire world, especially developed countries (USA, European Union), experienced the global inflation rise of 2021-2022 but successfully reduced it in 2023 by raising interest rates.It can be seen that countries like Turkey and Argentina are unable to escape high inflation due to structural problems.

Although Uzbekistan has achieved significant success in curbing inflation, it remains sensitive to external shocks, changes in the exchange rate, and domestic demand factors. The main task of the state is to ensure price stability, manage inflation expectations, and keep the economy on a path of stable growth through the effective policy of the Central Bank.

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