THE IMPACT OF INFLATION ON THE PURCHASING POWER OF THE POPULATION IN UZBEKISTAN

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Abstract

This article scientifically analyzed the impact of inflation on the purchasing power of the population in Uzbekistan using a macroeconomic approach. The study evaluated the relationship between inflation dynamics, the consumer price index, real household income, and consumption expenditures based on official statistical data and reports from international organizations. It also systematically examined the effects of monetary policy, fiscal measures, and social protection mechanisms on price stability and household welfare. The findings demonstrated opportunities to maintain stable inflation, protect real incomes, strengthen social support mechanisms, and enhance macroeconomic stability. The study provided a reliable scientific basis for improving the effectiveness of economic policy and supporting sustainable household welfare.

Keywords: inflation, purchasing power, consumer price index, real income, monetary policy, fiscal policy, macroeconomic stability, social protection.

Annotatsiya

Mazkur maqolada inflyatsiyaning O‘zbekiston aholisining xarid qobiliyatiga ta’siri makroiqtisodiy yondashuv asosida ilmiy tahlil qilindi. Tadqiqotda inflyatsiya dinamikasi, iste’mol narxlari indeksi, real daromadlar va uy xo‘jaliklari iste’mol xarajatlari o‘rtasidagi bog‘liqlik rasmiy statistik ma’lumotlar hamda xalqaro tashkilotlar hisobotlari asosida baholandi. Pul-kredit siyosati, fiskal choralar va ijtimoiy himoya mexanizmlarining narxlar barqarorligi hamda aholi farovonligiga ta’siri tizimli ravishda yoritildi. Olingan natijalar inflyatsiyani barqaror darajada ushlab turish, aholining real daromadlarini himoya qilish, ijtimoiy qo‘llab-quvvatlash mexanizmlarini takomillashtirish va makroiqtisodiy barqarorlikni mustahkamlash imkoniyatlarini ko‘rsatdi. Tadqiqot xulosalari iqtisodiy siyosat samaradorligini oshirish uchun ilmiy asos yaratdi.

Kalit so‘zlar: inflyatsiya, xarid qobiliyati, iste’mol narxlari indeksi, real daromadlar, pul-kredit siyosati, fiskal siyosat, makroiqtisodiy barqarorlik, ijtimoiy himoya.

Аннотация

В статье было научно проанализировано влияние инфляции на покупательную способность населения Узбекистана на основе макроэкономического подхода. В исследовании были оценены взаимосвязи между динамикой инфляции, индексом потребительских цен, реальными доходами и расходами домашних хозяйств с использованием официальной статистики и материалов международных организаций. Также были системно рассмотрены влияние денежно-кредитной политики, фискальных мер и механизмов социальной защиты на ценовую стабильность и благосостояние населения. Полученные результаты подтвердили возможности поддержания стабильного уровня инфляции, защиты реальных доходов населения, совершенствования системы социальной поддержки и укрепления макроэкономической устойчивости. Выводы исследования создали научную основу для повышения эффективности экономической политики.

Ключевые слова: инфляция, покупательная способность, индекс потребительских цен, реальные доходы, денежно-кредитная политика, фискальная политика, макроэкономическая устойчивость, социальная защита.

INTRODUCTION

Inflation is one of the most significant macroeconomic indicators influencing economic stability, household welfare, and sustainable economic development. As a persistent increase in the general price level, inflation directly affects the purchasing power of money and determines the quantity of goods and services that households can obtain with their income. Moderate inflation is generally regarded as a normal feature of a growing economy; however, prolonged and high inflation reduces the real value of wages and savings, weakens consumer confidence, increases income inequality, and creates uncertainty for both households and businesses. Consequently, understanding the relationship between inflation and purchasing power has become an important issue in modern macroeconomic research.

The consequences of inflation are particularly pronounced in developing and transition economies, where the growth of household incomes often lags behind increases in consumer prices. Under such conditions, rising prices of food, housing, transportation, healthcare, and energy place additional financial pressure on households, especially those with low and middle incomes. Since these essential expenditures account for a substantial share of household budgets, inflation reduces real disposable income and forces consumers to modify their spending behaviour by postponing non-essential purchases, substituting expensive products with cheaper alternatives, or reducing overall consumption. Therefore, inflation influences not only macroeconomic performance but also the everyday economic decisions of households.

In recent years, inflation has become a global economic challenge due to a combination of external and domestic factors. The economic consequences of the COVID-19 pandemic, disruptions in global supply chains, fluctuations in international energy and food prices, and geopolitical uncertainties contributed to increasing inflationary pressures in many countries. In response, central banks implemented tighter monetary policies aimed at restoring price stability and anchoring inflation expectations. Nevertheless, inflation continued to affect household purchasing power, particularly in emerging economies that are more vulnerable to external economic shocks and international market fluctuations.

Uzbekistan has also experienced significant inflationary pressures during its transition toward a market-oriented economy. Economic reforms, including price liberalization, exchange-rate liberalization, modernization of the financial sector, and broader structural transformation, contributed to changes in domestic price dynamics while simultaneously supporting long-term economic development. In addition, fluctuations in global commodity prices and regional economic conditions influenced the country's inflation process. Maintaining price stability while ensuring sustainable economic growth has therefore remained one of the primary objectives of the Central Bank of Uzbekistan and national macroeconomic policy.

Although nominal wages, pensions, and social benefits have increased over time, rising consumer prices have continued to influence the real purchasing power of households, particularly regarding expenditures on food, housing, transportation, utilities, and healthcare. These developments highlight the importance of examining the relationship between inflation and household welfare in order to provide evidence-based recommendations for economic policy and sustainable development.

Although numerous international studies have investigated inflation, monetary policy, and household welfare, relatively limited attention has been devoted to assessing the direct impact of inflation on the purchasing power of Uzbekistan's population. Most existing studies have focused primarily on inflation forecasting, monetary policy, or aggregate price dynamics rather than on household welfare and consumer purchasing behaviour. This research sought to address this gap by examining recent inflation trends in Uzbekistan, evaluating their influence on household purchasing power and consumption, and identifying policy approaches that could contribute to maintaining price stability while protecting household welfare. The study combined established macroeconomic theories with recent statistical evidence to provide a comprehensive assessment of inflation and purchasing power in the context of Uzbekistan's ongoing economic transformation.

LITERATURE REVIEW

Historically, inflation and purchasing power have become important themes in economic research due to the power they have on both household welfare and consumer behaviour as well as on macroeconomic stability. There is much work on the origins of inflation, and its impact on real income and living standards, and how inflation is linked to transmission mechanism. While the theoretical underpinnings and effects are sound, the intensity and nature vary from country to country depending on their economic structure and institutions, economic market characteristics and monetary policies.

In classical economics, inflation is almost always considered to be a monetary phenomenon that affects the real value of money and the purchasing power of the household. One of the more important was the work of Irving Fisher, who had stressed the quantity theory which related the general price level to the money supply[5]. From the point of view of this theory, an unwarranted rise in the supply of money, if it does not occur simultaneously with increases in output, leads to higher prices and a fall in the purchasing power of money. Although today's economies are much more complicated than those of the original quantity theory, Fisher's study offers a significant theoretical basis for the study of inflation.

Milton Friedman further developed the concept between inflation and monetary policy by proposing that it is essentially a monetary phenomenon; and that it is paramount to keep the growth rate of the money supply under control to keep the price level stable[6]. Friedman has argued that continued inflation always undermines real incomes and hurt the welfare of the home economy, if wage increases don't rise as fast as prices. This had major implications for development of modern inflation-targeting frameworks that many central banks followed. Friedman and Schwartz also emphasized the long-run relationship between money supply and inflation through their historical analysis of monetary developments[7].

John Maynard Keynes, on the other hand, argued that inflation can also be caused by a shift in the level of aggregate demand[9]. However, if output capacity has been limited relative to increased demand, then, according to the Keynesian view, increased demand could come about through some combination of increase of consumer-demand or an expansion of output through the use of monetary policy or fiscal policy. Keynes also acknowledged that during the phases of economic growth and rising employment levels there could be moderate or moderate to high inflation, but too much inflation causes uncertainty to investors and decreases household purchasing power in real terms.

Modern macroeconomic research suggests that several factors can affect inflation, such as monetary expansion, inflation expectations, production costs, exchange rate fluctuations, supply chain disruptions, among others. According to Mankiw, there should not be any single economic variable that determines inflation, as the inflation ought to be a product of the interaction of the aggregate demand, supply and monetary policy[10]. This wider view has grown even more important after the outbreak of COVID-19 which resulted in both supply-side limitations and high price increases for energy in developed and developing countries, elevating inflation.

There has also been a great deal of empirical research on the interdependence between inflation and purchasing power. Consumer purchasing power is the amount of goods and services that the consumers can afford by using their income. As prices rise faster than income and earnings, real purchasing power decreases and household consumption and living standards declines. International studies, such as by the International Monetary Fund (IMF), the World Bank and the Organisation for Economic Co-operation and Development (OECD), have consistently found that low-income groups are disproportionately affected by inflation because they spend a greater percentage of their income on basic necessities like food, housing, transportation and utilities[8],[12],[15],[16].

METHODOLOGY

This study employed a qualitative analytical research design to examine the impact of inflation on the purchasing power of the population in Uzbekistan. The research was based entirely on secondary data obtained from academic publications, official statistical reports, and analytical materials issued by national and international institutions. The use of secondary sources was considered appropriate because they provide reliable, consistent, and comparable macroeconomic indicators for evaluating inflation trends, household income, and purchasing power over time.

The empirical basis of the study consisted of official statistical information published by the Statistics Agency under the President of the Republic of Uzbekistan and the Central Bank of the Republic of Uzbekistan. Additional data and analytical reports were collected from international organizations, including the World Bank, the International Monetary Fund (IMF), the Asian Development Bank (ADB), and the United Nations. These sources provided internationally comparable information on inflation, consumer prices, living standards, and macroeconomic performance, allowing a comprehensive assessment of recent economic developments in Uzbekistan.

A systematic review of the scientific literature was conducted using internationally recognized databases, including Scopus, Web of Science, Google Scholar, ScienceDirect, SpringerLink, Emerald Insight, and Taylor & Francis Online. The reviewed studies focused on inflation theory, purchasing power, household welfare, monetary policy, consumer behaviour, and macroeconomic stability. Particular attention was given to recent studies addressing inflation dynamics in developing and transition economies, as these provide an appropriate theoretical framework for analysing the current inflationary environment in Uzbekistan.

Document analysis served as the principal research method. Official government reports, central bank publications, international economic assessments, and peer-reviewed scientific articles were systematically examined to identify the main determinants of inflation and their implications for household purchasing power. Information obtained from different sources was compared and cross-checked to improve the reliability and validity of the findings through methodological triangulation. Descriptive and comparative analytical methods were subsequently applied to evaluate inflation trends, consumer price dynamics, household income, wage growth, and purchasing power. The conceptual framework of the study was grounded in the Quantity Theory of Money, Keynesian economics, and Monetarist theory, together with the concept of real income, providing a comprehensive analytical basis for interpreting the relationship between inflation and household purchasing power in Uzbekistan. Although the research relied exclusively on secondary data and did not include household surveys, the adopted methodology ensured a robust and evidence-based assessment of the research problem and provided a reliable foundation for future empirical investigations.

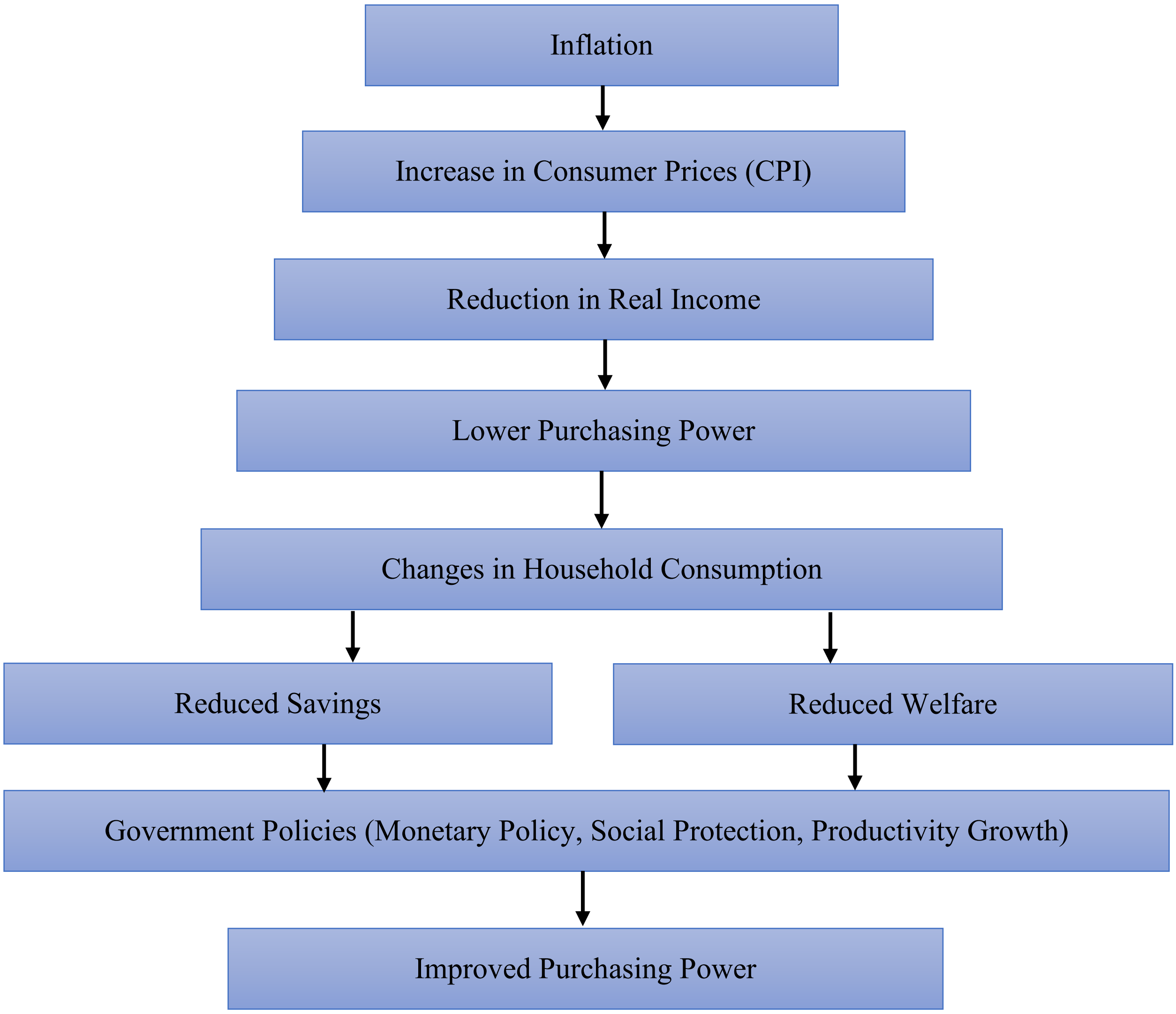

Figure 1. Conceptual framework illustrating the relationship between inflation and household purchasing power in Uzbekistan.

ANALYSIS AND RESULTS

The analysis of recent macroeconomic developments indicated that inflation remained one of the key factors influencing economic conditions and household purchasing power in Uzbekistan during the period of ongoing structural transformation. The implementation of market-oriented reforms, including price liberalization, exchange-rate adjustments, energy tariff reforms, and broader economic modernization, contributed to changes in domestic price dynamics while supporting the country's long-term economic development objectives. Although inflationary pressures gradually moderated compared with the initial stages of economic liberalization, consumer prices continued to influence household welfare through changes in the cost of living. According to official statistics, the annual Consumer Price Index (CPI) increased by 9.8% in 2024 compared with 8.8% in 2023, while annual inflation declined to 7.3% during 2025, indicating positive progress toward strengthening price stability under the inflation-targeting framework implemented by the Central Bank of Uzbekistan.

The findings further demonstrated that inflation affected expenditure categories unevenly. Prices for housing, electricity, natural gas, water supply, transportation, and several public services increased more rapidly than many other consumer goods, whereas food prices and non-food products exhibited comparatively more moderate dynamics. Because essential goods and services account for a substantial share of household expenditure, particularly among low- and middle-income families, changes in these categories exerted a stronger influence on household purchasing power than the overall inflation rate alone. Consequently, evaluating the composition of inflation proved to be as important as assessing aggregate inflation indicators when analysing household welfare.

The analysis also indicated that domestic and external economic factors jointly influenced inflation dynamics. Domestic demand expansion, administered price adjustments, wage growth, and infrastructure reforms contributed to internal price movements, while international commodity prices, exchange-rate fluctuations, and developments in global energy and food markets affected imported inflation. Uzbekistan's increasing integration into international markets reinforced the transmission of global price movements into the domestic economy, highlighting the importance of maintaining a balanced macroeconomic policy framework capable of responding to both domestic and external inflationary factors.

The results showed that the inflation-targeting framework adopted by the Central Bank of Uzbekistan contributed to improving macroeconomic stability by supporting price stabilization and strengthening monetary policy transmission mechanisms. The gradual decline in annual inflation during 2025 suggested that these measures were producing positive outcomes. Nevertheless, continued policy coordination remained important for achieving long-term inflation objectives and preserving sustainable economic growth.

Household purchasing power was found to depend not only on nominal income growth but also on changes in consumer prices. Although wages, pensions, and household incomes increased over recent years, inflation influenced real purchasing power by reducing the quantity of goods and services that households could purchase with their available income. Rising expenditures on utilities, transportation, healthcare, and housing represented a significant component of household budgets and affected consumption patterns across different income groups. Lower-income households experienced relatively greater sensitivity because essential expenditures constituted a larger proportion of their total income, whereas higher-income households generally possessed greater flexibility in adjusting their consumption decisions.

The study further revealed that inflation influenced household behaviour beyond its direct impact on income. As consumer prices increased, households increasingly compared prices, postponed non-essential purchases, selected lower-cost alternatives, and prioritized essential consumption. These behavioural adjustments were consistent with established economic theory, which suggests that declining real income encourages consumers to reallocate expenditures toward essential goods while reducing discretionary spending. Inflation therefore affected both the volume and composition of household consumption.

Another important finding concerned household savings and financial planning. Persistent inflation reduced the real value of cash savings and encouraged households to adopt alternative financial strategies aimed at preserving purchasing power. Depending on their income level, financial literacy, and access to financial services, households adjusted their saving and investment behaviour through interest-bearing financial instruments or real assets. These responses demonstrated the close relationship between inflation expectations and long-term household financial decisions.

The analysis also indicated that periodic adjustments in public-sector wages, pensions, and social benefits contributed to supporting household welfare and mitigating inflationary pressures, particularly for socially vulnerable population groups. At the same time, maintaining a balanced relationship between income growth and inflation remained essential for preserving the effectiveness of social protection measures and sustaining real household purchasing power over time.

Consumer expectations regarding future inflation also played an important role in shaping household behaviour. When households anticipated continuing price increases, they tended to modify their purchasing decisions by bringing forward durable-goods purchases, increasing precautionary expenditures, or adjusting long-term saving behaviour. These responses emphasized the importance of maintaining transparent monetary policy communication and strengthening public confidence in macroeconomic policy.

Overall, the results confirmed that inflation continued to influence household purchasing power in Uzbekistan despite improvements in macroeconomic stability and sustained economic reforms. The findings suggested that maintaining price stability, strengthening productivity growth, supporting sustainable income expansion, improving social protection mechanisms, and enhancing monetary policy effectiveness would collectively contribute to preserving household welfare and supporting long-term economic development.

CONCLUSION AND SUGGESTIONS

Inflation remained one of the principal macroeconomic factors influencing household welfare and sustainable economic development in Uzbekistan. Based on theoretical approaches, official statistical data, and recent macroeconomic developments, this study evaluated the relationship between inflation and household purchasing power during the country's ongoing economic transformation. The findings demonstrated that although macroeconomic reforms contributed to strengthening economic stability and supporting long-term development, inflation continued to influence the real purchasing power of households through changes in consumer prices and living costs.

The analysis confirmed that increases in the prices of essential goods and services, particularly food, utilities, transportation, and healthcare, affected household expenditure patterns and consumption behaviour. Lower-income households experienced comparatively greater pressure because a larger proportion of their income was allocated to essential consumption. As a result, households increasingly prioritized necessary expenditures, compared prices more carefully, and postponed discretionary purchases. These behavioural changes highlighted the close relationship between inflation, real income, and household decision-making.

The study also confirmed that both monetarist and Keynesian theoretical approaches provided an appropriate framework for explaining inflation dynamics in Uzbekistan. Monetary policy contributed to maintaining price stability, while fiscal measures, structural reforms, productivity growth, and income development collectively supported household welfare and long-term macroeconomic stability. The findings therefore emphasized the importance of coordinated macroeconomic policies aimed at simultaneously preserving price stability, supporting sustainable income growth, and strengthening economic resilience.

The research generated several practical implications. Continued improvement of the inflation-targeting framework, enhancement of social protection mechanisms, expansion of competitive domestic markets, and support for productivity-enhancing sectors could further strengthen household purchasing power. In addition, promoting financial inclusion, improving digital public services, strengthening food security, and encouraging investment in human capital would contribute to increasing household resilience against inflationary pressures and supporting inclusive economic development.

Several limitations should also be acknowledged. The research relied exclusively on secondary information obtained from official statistical publications, international organizations, and academic literature. Consequently, the study did not directly evaluate household perceptions or behavioural responses using primary survey data. Furthermore, regional income disparities, informal employment, demographic characteristics, and changing consumption preferences were beyond the scope of the present analysis and may also influence purchasing power. Future research could incorporate household surveys, econometric modelling, and comparative analyses involving other Central Asian economies to provide a more comprehensive understanding of inflation and household welfare.

Overall, the findings indicated that preserving household purchasing power remained an important component of sustainable economic development. Maintaining price stability, encouraging productivity-based income growth, strengthening effective social protection mechanisms, and continuing structural reforms would collectively contribute to improving household welfare and supporting long-term macroeconomic stability. These complementary policy directions provide a sound foundation for promoting inclusive economic growth and enhancing the resilience of Uzbekistan's economy under changing domestic and international economic conditions.

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