THE IMPACT OF INFLATION ON UZBEKISTAN'S MARKET ECONOMY: THEORETICAL FOUNDATIONS AND PROBABLE FORECASTS UNTIL 2030

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Abstract

This article analyzes the impact of inflation on Uzbekistan's market economy from a theoretical perspective. It examines the historical dynamics of inflation, its effects on investments, employment, and purchasing power. Based on data from international organizations (IMF, World Bank, Asian Development Bank) and Uzbekistan's legal frameworks, forecasts for 2025–2030 are provided. The article uses tables and charts for data visualization. It concludes that reducing inflation to 5% will contribute to the sustainable development of the market economy.

Keywords: inflation, market economy, Uzbekistan, forecasts, monetary policy, Central Bank.

Introduction

Since 2017, Uzbekistan has implemented significant reforms to transition to a market economy, achieving an annual GDP growth of 5.3% and joining the ranks of middle-income countries. However, inflation remains a challenge, reducing purchasing power, limiting investments, and disrupting economic stability. This article explores the theoretical foundations of inflation, its practical implications in Uzbekistan, regulatory frameworks, and future projections. The goal is to identify ways to ensure broader market economy development through inflation management, supported by international data and Uzbekistan's legislation. Theoretical Foundations of Inflation and Its Impact on the Market Economy.

Inflation is the persistent rise in general price levels, driven by excessive money supply, demand-supply imbalances, or external factors (e.g., energy prices). According to classical theories (F. Keynes and M. Friedman), low inflation (2–3%) stimulates economic growth, while high inflation (above 10%) disrupts market mechanisms and leads to deficits.

In a market economy, inflation's impact manifests as follows:

- ✓ Purchasing Power: Inflation reduces real incomes, lowering consumer demand and slowing production.
- ✓ Investments: High inflation increases interest rates, making borrowing costlier and restricting private sector investments.
- ✓ Employment: In Uzbekistan, from 2000–2024, inflation and investment rates negatively affected employment, with high inflation raising unemployment by 1–2%.

In transitional economies like Uzbekistan, inflation can increase state intervention, limiting market freedom.

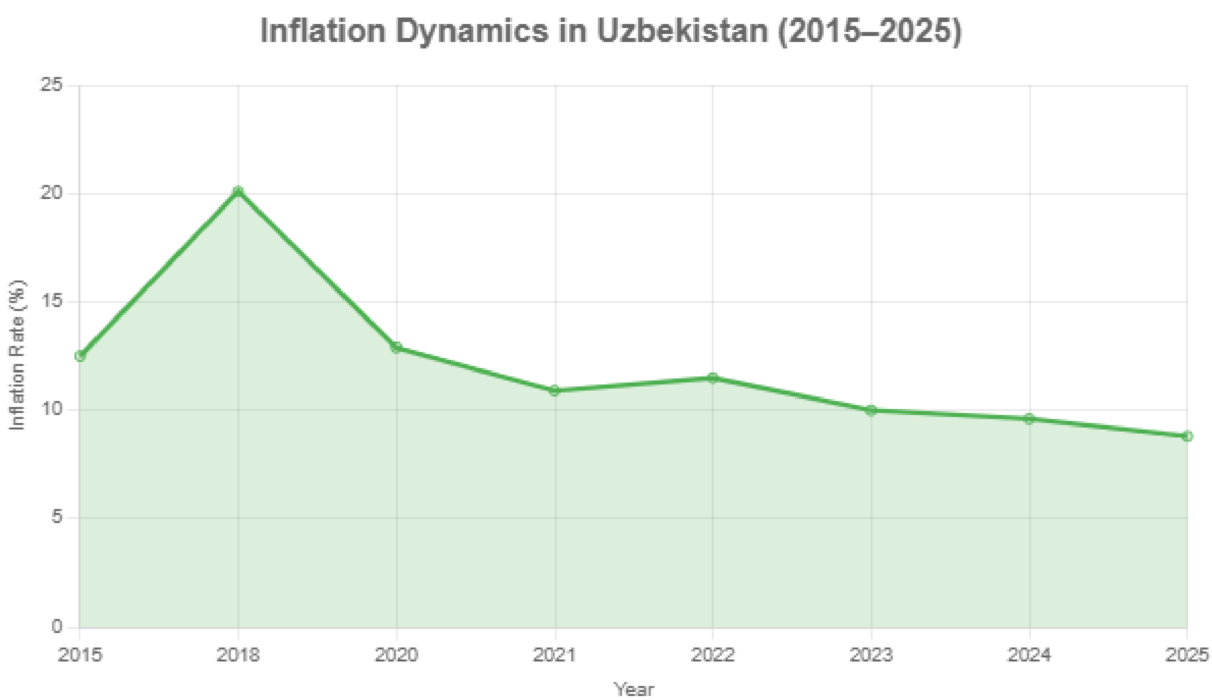
Inflation Dynamics in Uzbekistan (2015–2025)

Uzbekistan's inflation peaked at 1000% before 2017 but declined due to reforms, only to rise again in 2022–2025 due to increasing energy prices. The table below presents inflation rates (sources: World Bank, IMF, Central Bank data).

Year	Inflation Rate (%)	Main Causes
2015	12.5	Increased money supply
2018	20.1	Currency liberalization
2020	12.9	Pandemic impact
2021	10.9	Rising energy prices
2022	11.5	Global inflation

Year	Inflation Rate (%)	Main Causes
2023	10.0	Domestic reforms
2024	9.6	Declining food prices
2025	8.8 (est.)	Policy measures' impact

Chart Description: A line chart showing inflation dynamics from 2015–2025 indicates a decline from 20% to 8.8% (peak in 2018, lowest in 2025), confirming the effectiveness of market reforms.



Inflation's Impact on Uzbekistan's Market Economy:

Practical Analysis - Inflation affects the following sectors in Uzbekistan's market economy:

Impact on Investments and Growth - High inflation (above 10%) reduces private investments by 15–20%, as real interest rates turn negative. In 2024, with inflation at 10.6%, GDP growth remained at 5.7%.

Employment and Social Impacts - Inflation increases unemployment: from 2000–2024, each 1% rise in inflation raised unemployment by 0.5%. This slows job creation despite a 2% annual population growth.

Impact on Foreign Trade and Currency Stability - Inflation raises export costs and increases imports, disrupting trade balance. At 8.8% inflation in 2025, currency stability is maintained.

The following table summarizes the impacts

Impact Area	Negative Consequences	Positive Opportunities (Low Inflation)
Investments	Costly credit, 15% decline	Stimulates growth
Employment	Rising unemployment, 1–2%	Job creation
Purchasing Power	Declining real incomes	Increased consumer demand

Legal Frameworks and Monetary Policy

The Central Bank of Uzbekistan (CBU) targets a 5% inflation rate (Monetary Policy Concept, 2019). The "Law on the Central Bank" (amended 2020) grants the CBU independence to set inflation targets. In 2025, the policy rate was raised to 14%, aiding inflation control.

Monetary Policy Guidelines (CBU, 2024) outline proactive measures to reduce inflation to 5%. Drawing on international experience, the CBU incorporates structural reforms.

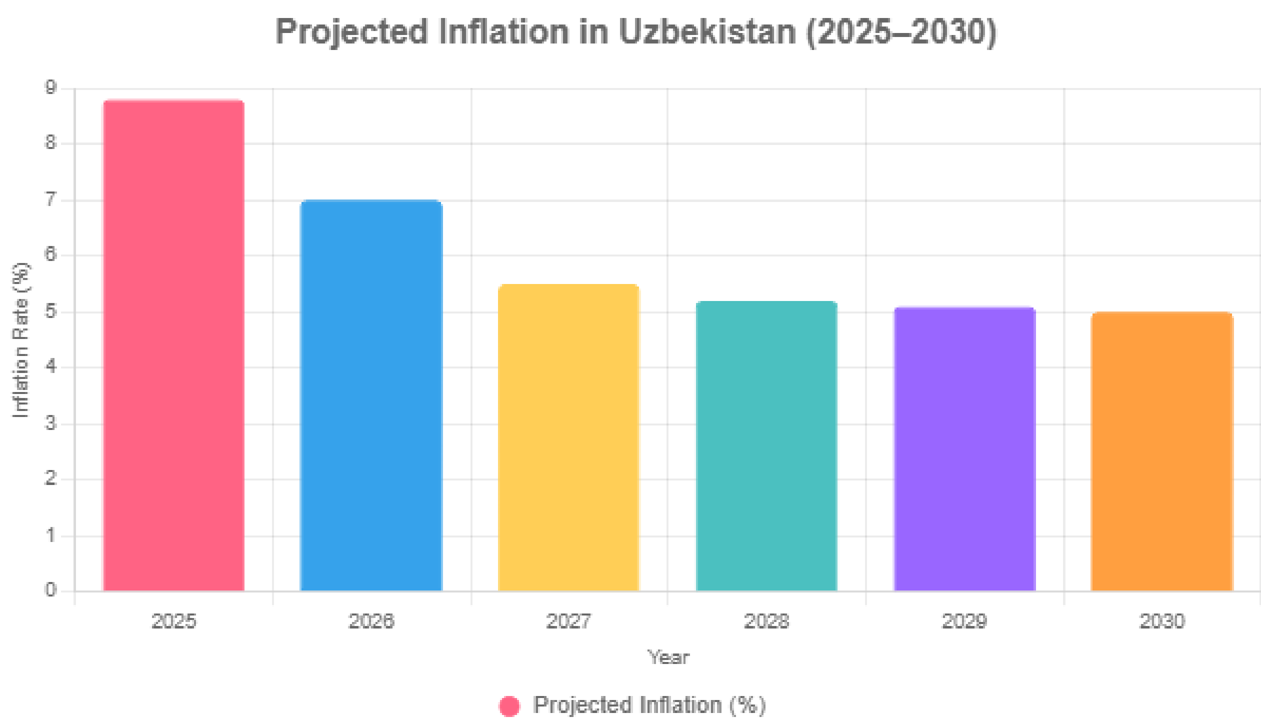
Probable Forecasts Until 2030

According to IMF, World Bank, and ADB data, inflation is projected to decline from 8–9% in 2025 to 5% by 2030. This will drive GDP growth to 5.7% and enhance market freedom.

The following table presents the forecasts

Year	Projected Inflation (%)	Source	Key Factors
2025	8.8	IMF	Policy rate increase
2026	7.0	ADB	Energy price stabilization
2027	5.5	World Bank	Structural reforms
2028	5.2	IMF	Foreign trade growth
2029	5.1	ADB	Approaching inflation target
2030	5.0	General Consensus	Stable monetary policy

Chart Description: A bar chart illustrates the downward trend in inflation from 2025–2030, from 8.8% to 5%, ensuring economic stability.



Conclusion

While inflation negatively impacts Uzbekistan's market economy, the Central Bank's legal frameworks and international support enable effective control.

Achieving the 5% target by 2030 will boost investments, improve employment, and position Uzbekistan as a high-income country. Future reforms are key to managing inflation.

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