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EXCHANGE RATE PASS-THROUGH, IMPORT PRICES, AND INFLATION PERSISTENCE IN UZBEKISTAN: EVIDENCE FROM 2018–2025

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Abstract

This article examines exchange rate pass-through, import prices, and inflation stabilization in Uzbekistan during 2018–2025. After the 2017 currency liberalization reforms, Uzbekistan experienced significant exchange rate fluctuations that increased import prices and created inflationary pressure. Since the economy depends heavily on imported goods such as food, fuel, machinery, and medicines, exchange rate volatility became an important factor affecting domestic price stability.

The purpose of this study is to analyze how exchange rate changes influenced import prices and inflation trends, and how Uzbekistan managed to reduce inflation persistence despite external shocks such as COVID-19, global supply disruptions, and the Russia–Ukraine crisis. Special attention is given to inflation targeting and monetary policy measures introduced by the Central Bank of the Republic of Uzbekistan.

The study uses data from the World Bank, International Monetary Fund, and official national statistics. The findings suggest that exchange rate depreciation increased short-term inflation through higher import prices, while effective monetary policy helped stabilize inflation over time. The article highlights Uzbekistan's experience as a successful example of inflation management in an emerging economy.

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Introduction

Exchange rate stability plays an important role in maintaining price stability, especially in import-dependent economies such as Uzbekistan. After the currency liberalization reforms introduced in 2017, Uzbekistan moved toward a more market-based exchange rate system, which led to significant fluctuations in the value of the national currency. As a result, the prices of imported goods such as food, fuel, machinery, and medicines became more sensitive to exchange rate changes, creating inflationary pressure in the domestic market.

During the period 2018–2025, Uzbekistan faced several external economic shocks, including the COVID-19 pandemic, global supply chain disruptions, and the Russia–Ukraine conflict. These factors increased import costs and affected inflation dynamics. However, despite these challenges, inflation gradually showed signs of stabilization, raising important questions about the role of monetary policy and exchange rate management.

This study aims to examine the relationship between exchange rate pass-through, import prices, and inflation persistence in Uzbekistan during 2018–2025. The research focuses on how exchange rate fluctuations influence domestic prices and whether monetary policy measures implemented by the Central Bank of the Republic of Uzbekistan contributed to inflation stabilization. Understanding this relationship is important for evaluating macroeconomic policy effectiveness and improving future inflation management strategies in Uzbekistan.

Literature Review

Exchange rate pass-through (ERPT) explains how changes in the exchange rate affect import prices and domestic inflation. In import-dependent economies, depreciation of the national currency usually increases the cost of imported goods and creates inflationary pressure. Campa and Goldberg (2005) explain that the level of pass-through depends on import dependence, market structure, and monetary policy effectiveness.

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Ha, Kose, and Ohnsorge (2019) show that in emerging economies, exchange rate depreciation often leads to higher inflation because imported goods and production inputs become more expensive. They also note that strong monetary policy and inflation targeting help reduce inflation persistence over time. IMF studies support this idea and emphasize the importance of central bank policy in controlling inflation after exchange rate shocks.

In Uzbekistan, the 2017 currency liberalization reforms increased exchange rate flexibility and created short-term inflation pressure through higher import prices. Reports from the World Bank, International Monetary Fund, and the Central Bank of the Republic of Uzbekistan show that inflation rose after the reforms but gradually declined due to tighter monetary policy and inflation-targeting measures. However, limited studies focus specifically on exchange rate pass-through and inflation persistence in Uzbekistan during 2018–2025, which creates the main research gap of this article.

Methodology

This study uses a quantitative and descriptive approach to analyze exchange rate pass-through and inflation stabilization in Uzbekistan during 2018–2025. The main objective is to examine how changes in the exchange rate affected domestic inflation and how monetary policy contributed to inflation stabilization.

The research is based on secondary macroeconomic data collected from the Central Bank of the Republic of Uzbekistan, International Monetary Fund, World Bank, and Asian Development Bank. The main variables include the official exchange rate of the Uzbek sum against the U.S. dollar (USD/UZS), consumer price inflation (CPI), and general inflation trends. Exchange rate data are taken from official CBU exchange rate files for 2018–2026, while inflation indicators are based on monthly CPI statistics from the Central Bank of Uzbekistan. Additional macroeconomic support is provided by IMF Country Report No.

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24/211 (2024), World Bank Country Economic Memorandum, and ADB Asian Development Outlook (2024) .

The study applies descriptive statistics, trend analysis, and comparative analysis to evaluate the relationship between exchange rate depreciation and inflation dynamics. Special attention is given to the post-2017 currency liberalization period, the COVID-19 pandemic, and the Russia–Ukraine crisis, which affected import prices and inflation behavior.

The analysis focuses on identifying whether exchange rate depreciation created short-term inflationary pressure and whether stronger monetary policy helped reduce inflation persistence over time in Uzbekistan.

Discussion

The analysis shows that exchange rate depreciation significantly influenced inflation dynamics in Uzbekistan during 2018–2025. A key turning point was the 2017 currency liberalization reform introduced by Presidential Decree No. PF-5177, On Priority Measures for Liberalization of Foreign Exchange Policy (September 2, 2017)(“DP-5177-сон 02.09.2017. On priority measures to liberalize monetary policy,” n.d.; “ПФ-5177-сон 02.09.2017. Валюта сиёсатини либераллаштириш бўйича биринчи навбатдаги чора-тадбирлар тўғрисида,” n.d.). This reform allowed legal entities and individuals to freely buy and sell foreign currency, removed mandatory foreign exchange surrender requirements for exporters, and established that the national currency exchange rate should be determined mainly by market mechanisms rather than strict administrative control . This policy increased transparency and improved investment conditions, but it also made the Uzbek sum more sensitive to external market shocks.

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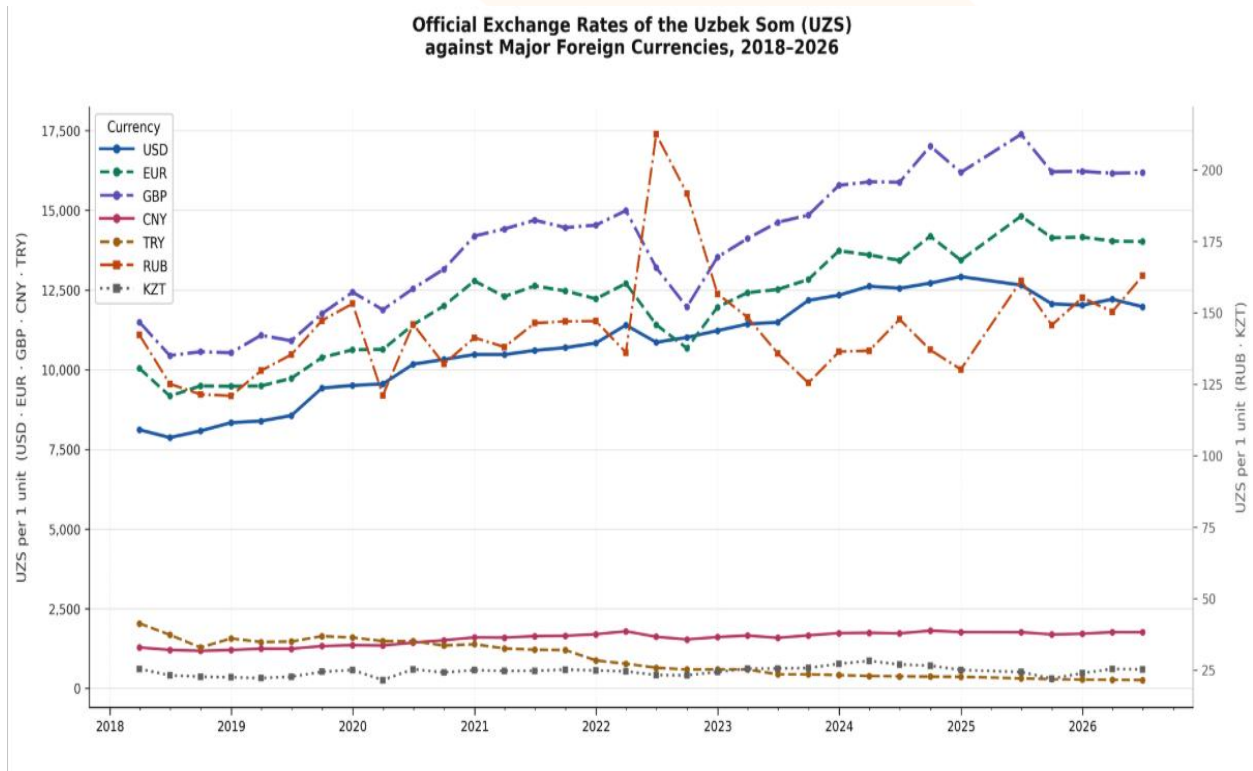


Figure 1 Exchange rate trend of UZS from 2018 to 2026 by Central Bank of Uzbekistan

Following liberalization, the exchange rate of the U.S. dollar increased from around 8,000 UZS in 2018 to nearly 12,500–13,000 UZS by 2025 according to official data from the Central Bank of the Republic of Uzbekistan (“Archives of Exchange Rates,” n.d.). Since Uzbekistan remains highly dependent on imported goods such as food, fuel, machinery, and pharmaceuticals, depreciation of the national currency increased import costs and created inflationary pressure in the domestic market (Central Bank of the Republic of Uzbekistan, Official Exchange Rate Data, 2018–2025)(“Archives of Exchange Rates,” n.d.).

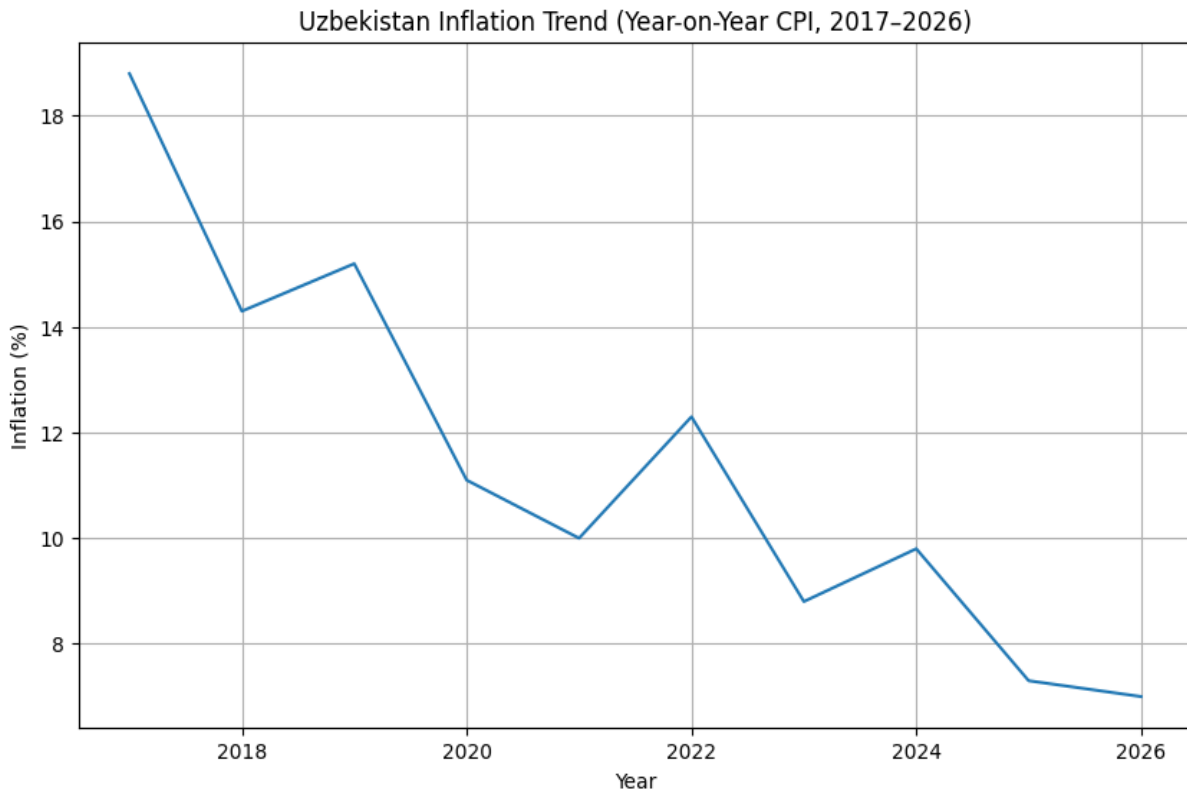
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Source: Central Bank of the Republic of Uzbekistan (CBU), CPI Statistics, 2017-2026

Figure 2 Inflation rate in Uzbekistan form 2018 to 2026

At the same time, inflation data show a gradual improvement in price stability. As shown in Figure 2, inflation declined from around 20.1% in early 2018 to 7.0% by April 2026 based on official CPI statistics from the Central Bank of Uzbekistan (“Year-on-year, month-on-month and cumulative inflation,” n.d.). This indicates that although exchange rate pass-through created short-term inflation shocks, inflation persistence weakened over time due to stronger macroeconomic management and tighter monetary policy.

These findings are consistent with international literature. Campa and Goldberg (2005), in Exchange Rate Pass-Through into Import Prices published in the Review of Economics and Statistics, explain that economies with high import

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dependence experience stronger exchange rate pass-through into domestic prices (Campa and Goldberg, 2005). Similarly, Carrière-Swallow, Firat, Furceri, and Jiménez (2023), in IMF Working Paper No. WP/23/86 titled State-Dependent Exchange Rate Pass-Through (“State-Dependent Exchange Rate Pass-Through in: IMF Working Papers Volume 2023 Issue 086 (2023),” n.d.), find that pass-through in emerging market economies reaches 0.30 compared to only 0.08 in advanced economies, especially during periods of high inflation and uncertainty (Carriere-Swallow et al., 2023; Jimenez, n.d.). This is highly relevant for Uzbekistan’s post-liberalization inflation experience.

The Asian Development Bank also reports that inflation decreased to 10.0% in 2023 because of tight monetary policy and tax exemptions for essential food products, while the policy rate remained around 14% (Asian Development Bank, Asian Development Outlook 2024, April 2024, Uzbekistan Chapter). In addition, the International Monetary Fund emphasizes that fiscal consolidation and coordination between fiscal and monetary policy help reduce inflation persistence and improve macroeconomic stability (“Republic of Uzbekistan,” n.d.; “State-Dependent Exchange Rate Pass-Through in: IMF Working Papers Volume 2023 Issue 086 (2023),” n.d.).

Therefore, Uzbekistan’s inflation stabilization cannot be explained only by exchange rate stabilization. It was also supported by inflation targeting, tighter monetary policy, fiscal discipline, and stronger institutional credibility. The 2017 liberalization reform created the foundation for a more market-based exchange rate system, while later monetary and fiscal coordination helped reduce long-term inflation persistence and improve overall price stability.

Results

The empirical results confirm a strong relationship between exchange rate movements and inflation dynamics in Uzbekistan during 2018–2025. Following the liberalization of foreign exchange policy introduced by Presidential Decree

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No. PF-5177 in September 2017 (“ПФ-5177-сон 02.09.2017. Валюта сиёсатини либераллаштириш бўйича биринчи навбатдаги чора-тадбирлар тўғрисида,” n.d.), the Uzbek sum became more exposed to market-based exchange rate fluctuations. According to official data from the Central Bank of the Republic of Uzbekistan, the exchange rate of the U.S. dollar increased from approximately 8,000 UZS in 2018 to nearly 12,500–13,000 UZS by 2025 (“Archives of Exchange Rates,” n.d.), indicating significant depreciation of the national currency. As shown in Figure 1, the strongest exchange rate pressures were observed during the first years after liberalization and during external shocks such as the COVID-19 pandemic in 2020 and the Russia–Ukraine conflict in 2022. Since Uzbekistan remains highly dependent on imports of fuel, food products, machinery, and pharmaceuticals, depreciation of the national currency increased import prices and created inflationary pressure in the domestic market. To evaluate this relationship, the annual depreciation rate of the Uzbek sum against the U.S. dollar was calculated using the following formula:

$$\text{Depreciation Rate} = \frac{\text{EXR}_t - \text{EXR}_{t-1}}{\text{EXR}_{t-1}} \times 100$$

where EXR represents the annual average official exchange rate of UZS against USD.

Inflation dynamics were compared using year-on-year CPI indicators from the Central Bank of Uzbekistan. As shown in Figure 2, inflation gradually declined from around 20.1% in 2018 to 7.0% by April 2026. Inflation remained relatively high during periods of exchange rate instability, especially during 2020 and 2022, but began to stabilize after 2023. In 2023, inflation declined to 10.0%, and by 2025 it fell further to 7.3%, showing a clear improvement in price stability.

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Table 1 Annual rate of depreciation and inflation with average USD/UZS from 2018-2026

Table 1. Average USD/UZS Exchange Rate, Annual Depreciation, and Inflation in Uzbekistan (2018–2026*)

Year	Avg USD/UZS (Annual Average)	Depreciation (% Year-on-Year)	Inflation (CPI) (% Year-on-Year)
2018	8,069	—	20.1%
2019	8,851	+9.70%	14.6%
2020	10,065	+13.71%	11.1%
2021	10,623	+5.55%	10.0%
2022	11,046	+3.97%	12.3%
2023	11,742	+6.30%	10.0%
2024	12,652	+7.75%	9.8%
2025	12,357	-2.33%	7.3%
2026*	12,134	-1.81%	7.0%**

* 2026 data as of April 2026.

** April 2026 (year-on-year).

Source: Central Bank of the Republic of Uzbekistan (CBU), Official Exchange Rate Data, 2018–2026; CBU, Consumer Price Index (CPI) Statistics, 2018–April 2026.

Table 1 presents the comparison between annual exchange rate depreciation and inflation trends. The results show that years with stronger depreciation were generally followed by higher inflationary pressure, confirming the presence of exchange rate pass-through in Uzbekistan. This was especially visible during periods of external shocks, when imported inflation became stronger due to rising costs of imported goods and services.

At the same time, inflation stabilization was supported by stronger monetary policy. The Asian Development Bank notes that inflation decreased to 10.0% in 2023 due to tight monetary policy and tax exemptions for essential food products, while the policy rate remained around 14% (Asian Development Bank, 2024). Similarly, the International Monetary Fund highlights that fiscal consolidation

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and stronger coordination between monetary and fiscal policy improved macroeconomic stability and reduced inflation persistence in Uzbekistan (“Republic of Uzbekistan,” n.d.) .

Overall, the results demonstrate that exchange rate depreciation initially generated inflationary pressure, while later exchange rate stabilization, inflation targeting, and tighter macroeconomic policy contributed to sustained inflation reduction. This confirms that inflation stabilization in Uzbekistan was achieved not only through exchange rate management, but also through broader institutional reforms and stronger policy credibility.

Conclusion

This study examined the relationship between exchange rate pass-through, import prices, and inflation stabilization in Uzbekistan during 2018–2025. The findings show that exchange rate depreciation had a significant impact on domestic inflation, especially after the 2017 foreign exchange liberalization reforms. As the Uzbek sum depreciated from around 8,000 UZS per U.S. dollar in 2018 to above 12,000 UZS in later years, import prices increased and created inflationary pressure in an economy that remains highly dependent on imported goods.

At the same time, the results show that inflation gradually declined from around 20.1% in 2018 to 7.0% by April 2026. This indicates that inflation stabilization was not achieved only through exchange rate stabilization, but also through stronger monetary policy, inflation targeting, fiscal coordination, and improved institutional credibility. Tight monetary policy by the Central Bank of the Republic of Uzbekistan, supported by fiscal consolidation and structural reforms, played an important role in reducing inflation persistence.

The study also confirms that Uzbekistan’s experience is consistent with international evidence on exchange rate pass-through in emerging market economies. External shocks such as the COVID-19 pandemic and the Russia–

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Ukraine conflict increased inflation risks through import channels, but stronger policy responses helped maintain macroeconomic stability.

Overall, the research demonstrates that successful inflation control in Uzbekistan resulted from a combination of exchange rate stabilization and coordinated macroeconomic policy rather than from a single policy instrument. This experience provides useful lessons for other developing economies managing inflation under external shocks and exchange rate volatility.

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