THE IMPACT OF INFLATION ON THE PURCHASING POWER OF THE POPULATION OF UZBEKISTAN: CAUSES, CONSEQUENCES, AND ECONOMIC MECHANISMS FOR INCOME PROTECTION

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Abstract: Consumer price dynamics determine the real economic opportunities of households, even during periods of rapid nominal income growth. This study aims to assess the impact of inflation on the purchasing power of Uzbekistan's population during 2020–2026. The research employs comparative analysis of official data from the Central Bank of Uzbekistan, the National Statistics Committee, the International Monetary Fund (IMF), and the World Bank, decomposition of the Consumer Price Index (CPI), and comparison of nominal and real wage growth. Annual inflation declined from 12.3% in 2022 to 7.3% in 2025 and 6.5% in October 2026. Real wages increased by 9.3% in 2025 and 10.9% in the first half of 2026. However, these gains have been distributed unevenly across economic sectors, regions, and forms of employment, while persistent inflationary pressures originate from services, regulated tariffs, and fuel prices. Protecting purchasing power requires a transition from broad price containment policies toward targeted income protection measures.

Keywords: inflation, purchasing power, real income, consumer prices, Uzbekistan's economy, living standards.

Introduction

Inflation reduces the purchasing power of money: when nominal income remains unchanged, households can purchase fewer goods and services. This issue remains particularly relevant for Uzbekistan, where annual price growth did not fall below 7% during 2020–2025, despite the Central Bank's inflation target of 5% (International Monetary Fund [IMF], 2026). At the same time, the country's economy has been expanding rapidly, with gross domestic product (GDP) increasing by 7.7% in 2025. Furthermore, reforms of regulated energy prices have increased the significance of price dynamics for household welfare (National Statistics Committee of the Republic of Uzbekistan, 2026).

The primary objective of this study is to evaluate the impact of inflation on the real purchasing power of Uzbekistan's population during 2020–2026. The specific research objectives are to examine the theoretical foundations of inflation and purchasing power, analyze inflation dynamics and their composition, compare inflation with income growth across different population groups, and propose measures to protect household incomes. The central research question is: To what extent have declining inflation and rising nominal wages contributed to real improvements in purchasing power, and which population groups have benefited the least from these developments?

2. Theoretical Foundations of Inflation and Purchasing Power

Inflation is defined as a sustained increase in the general price level. Depending on its underlying causes, inflation may be classified as demand-pull inflation, cost-push inflation, or inflation resulting from increases in regulated prices. Inflation is measured using the Consumer Price Index (CPI), which reflects changes in the cost of a fixed basket of goods and services. Since 2026, Uzbekistan's headline CPI has been calculated using a modified arithmetic Young index formula, while the geometric formula has been employed exclusively for analytical purposes (Umarov, 2026).

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Real income growth can be approximately calculated as: g_real = (1 + g) / (1 + π) − 1, where g represents nominal income growth and π represents inflation. The distinction between nominal and real economic variables can be traced to Fisher (1930).

Various economic theories provide different explanations for inflation. The monetarist approach emphasizes the growth of the money supply and the role of inflation expectations (Friedman, 1968). The Phillips curve establishes a relationship between nominal wage growth and labor market conditions (Phillips, 1958). The Taylor rule describes how central bank interest rates respond to deviations of inflation from the target level (Taylor, 1993). The relationship between inflation and poverty has also been examined by Cardoso (1992). In the present study, this relationship is analyzed through the structure of household incomes and expenditures.

3. Analysis of Inflationary Processes in Uzbekistan

Annual inflation, measured on a December-to-December basis, reached 11.1% in 2020, 10.0% in 2021, 12.3% in 2022, 8.8% in 2023, 9.8% in 2024, and 7.3% in 2025. In October 2026, annual inflation stood at 6.5%, following a minimum of 5.5% recorded in May (Central Bank of the Republic of Uzbekistan [CBU], 2026; Figure 1). Multiplying the annual inflation rates for 2021–2025 indicates cumulative price growth of approximately 58% (author's calculation). During January–October 2026, consumer prices increased by an additional 4.8% (Umarov, 2026). Consequently, despite the slowdown in inflation, the overall price level increased by approximately one and a half times over five years.

Figure 1. Annual Inflation in Uzbekistan, %. Note: October 2026 is compared with October 2025. Source: Central Bank of the Republic of Uzbekistan (2026).

The composition of inflation changed considerably throughout the analyzed period (Table 1). In 2022, inflation was primarily driven by food prices, which increased by 15.6%, and imported inflation. Inflation accelerated in Russia and Kazakhstan, which accounted for approximately 20% and 11% of Uzbekistan's imports, respectively (Kun.uz, 2023). In 2024, food prices increased by only 2.4%, whereas service prices rose by 26.7%, contributing 6.2 percentage points to the overall inflation rate of 9.8% (National Statistics Committee of the Republic of Uzbekistan, 2025). The IMF attributes the slowdown in inflation during 2025 to the fading effects of the May 2024 energy price increases, a 6.9% appreciation of the Uzbek soum, and tight monetary policy (IMF, 2026). In 2025, food, housing and utilities, and transportation collectively contributed 5.51 percentage points to the overall inflation rate of 7.3%, representing approximately 75.5% of total inflation (National Statistics Committee of the Republic of Uzbekistan, 2026).

Table 1. Price Growth by Major Categories, % (2022, 2024, 2025: December-to-December; 2026: October-to-October)

Category	2022	2024	2025	Oct. 2026
Overall CPI	12.3	9.8	7.3	6.5
Food products	15.6	2.4	5.4	6.4
Non-food products	10.7	7.7	5.1	5.6
Services	8.4	26.7	13.9	7.3

Sources: Kun.uz (2023); National Statistics Committee of the Republic of Uzbekistan (2025, 2026); Umarov (2026).

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In 2026, inflationary pressures shifted toward utility services and fuel prices. In October, annual price growth in the category of housing, water, electricity, gas, and other fuels reached 11.8%, compared with overall inflation of 6.5%. Gasoline prices increased by 19.5%, liquefied petroleum gas prices by 44.7%, and mutton prices by 19.5% (Umarov, 2026; Table 2). During January–October 2026, food, housing, and transportation contributed 3.36 percentage points to the total CPI increase of 4.82 percentage points, accounting for approximately 70% (Umarov, 2026). The temporal coincidence between tariff increases and accelerating service prices is consistent with the IMF's explanation. However, this relationship does not establish causality, since service prices were also influenced by demand and production costs.

Table 2. Annual Price Growth by CPI Division, October 2026, %

CPI Division	Price Growth (%)
Insurance and financial services	44.5
Housing, water, electricity, gas, and other fuels	11.8
Transportation	7.6
Restaurants and hotels	7.4
Food, alcoholic beverages, and tobacco	6.4
Clothing and footwear; healthcare	3.1
Overall CPI	6.5

Source: Umarov (2026).

4. The Impact of Inflation on the Population

For employed individuals, wages represent the principal mechanism for protecting purchasing power. In 2025, nominal wages increased by 18.9%, while real wages grew by 9.3%, with the average monthly wage reaching approximately UZS 6.4 million. During the first half of 2026, nominal wage growth amounted to 18.4%, real wage growth reached 10.9%, and the average monthly wage increased to UZS 7.1 million (Sultanov, 2026; Tuxsinov, 2026). The population's real income increased by 8.1% in 2024 (Sultanov, 2026). According to the Central Bank, improvements in real income growth are increasingly attributable to declining inflation rather than accelerating nominal wage growth (Tuxsinov, 2026).

For low-income households, the overall effect has been positive. According to World Bank estimates, Uzbekistan's poverty rate declined from 17.0% in 2021 to 5.8% in 2025. Wage growth accounted for 6.1 percentage points of the 8.4-percentage-point reduction in poverty during 2022–2025, while the real wages of low-paid workers increased by at least 11–12% annually (Aliakbarova, 2026). Nevertheless, approximately 22% of the population remains economically vulnerable. Around 60% of poor male wage workers are employed in the informal sector. Regional disparities are substantial: the proportion of economically vulnerable individuals is approximately 2% in Tashkent and 32% in Andijan. Meanwhile, the share of the middle class increased from 37% to more than 72% (Aliakbarova, 2026).

Significant differences also exist across economic sectors and regions. In 2025, real wage growth reached 13.1% in Namangan Region but only 4.6% in Andijan Region. In the construction sector, real wage growth amounted to just 0.6% (Sultanov, 2026). During the first half of 2026, the average monthly wage in the financial sector reached UZS 19.1 million, approximately 5.5 times higher than the UZS 3.5 million recorded in agriculture (Tuxsinov, 2026; author's calculation). Annual inflation in October 2026 ranged from 5.5% in Syrdarya Region to 7.4% in Tashkent (Umarov, 2026).

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Perceived inflation differs significantly from officially measured inflation. In December 2025, respondents estimated average annual price growth at 12%, compared with the official inflation rate of 7.3%. Among households earning more than UZS 30 million, perceived inflation reached 17.5%, while households earning up to UZS 2 million estimated inflation at 10.5% (Spot, 2026). These figures are based on survey responses and reflect perceptions rather than actual measured price increases. The sources used in this study do not contain detailed information on household expenditure structures for 2025–2026. It may therefore only be hypothesized, subject to verification using household budget surveys, that faster increases in utility tariffs and fuel prices have raised the share of essential expenditures in household budgets.

5. Analysis and Discussion of the Results

Inflation affects different population groups unevenly due to four principal factors: consumption patterns (utility tariffs and fuel prices have increased faster than the overall price level); income sources (the Central Bank associates accelerated wage growth beginning in the second half of 2025 with salary indexation in the public sector (Sultanov, 2026)); regional differences; and the ability to accumulate savings under substantially positive real interest rates (IMF, 2026).

Wage growth does not necessarily translate into improved living standards. Average wage indicators conceal significant inequalities, as illustrated by real wage growth of only 0.6% in the construction sector. Furthermore, broad-based public-sector wage indexation during periods of strong demand may intensify inflationary pressures. Accordingly, the IMF recommends limiting unplanned budget expenditures in 2026 (IMF, 2026). The Central Bank's policy interest rate has remained at 14% since March 2025. During this period, inflation declined from 9.8% to 7.3%, while core inflation reached 5.6% in October 2026 (IMF, 2026; CBU, 2026). However, the appreciation of the Uzbek soum and the fading effects of the energy price shock also contributed to disinflation. Therefore, the observed decline in inflation cannot be attributed exclusively to monetary policy. The disinflation process has also experienced periods of slower progress. Core inflation returned to 6.3% in February 2026, while in November the Central Bank revised its year-end 2026 inflation forecast upward from 6.5% to 7%, citing increases in heating and hot water tariffs (Caspian Post, 2026).

According to the author's assessment, the principal achievement of the analyzed period has been disinflation without a decline in real wages. The remaining 1.5–2 percentage points separating inflation from the target are associated with factors that are relatively insensitive to policy interest rates, including regulated prices, fuel costs, and service prices. Consequently, preserving improvements in purchasing power depends on effective coordination among monetary, tariff, and fiscal policies. Conclusions regarding the distribution of economic gains remain preliminary because the study does not employ household-level microdata disaggregated by income group.

6. Possible Solutions and Policy Recommendations

1. Introduce transparent schedules for regulated tariff adjustments. Changes in regulated tariffs should be announced in advance and accompanied by targeted financial compensation for economically vulnerable households. Such measures would be preferable to broad subsidies and general price controls, which the IMF considers costly and difficult to phase out (IMF, 2026).

2. Index social benefits to actual inflation. Social transfers should be adjusted according to actual inflation while consolidating social assistance programs, in line with the IMF's recommendations. The specific proposal to introduce inflation-based indexation is advanced by the author.

3. Strengthen fiscal discipline. Unplanned government expenditures should be restricted, while public-sector wage indexation should be linked more closely to productivity improvements.

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4. Maintain appropriately tight monetary conditions. Restrictive monetary conditions should be maintained, with interest rate reductions considered only when core inflation and inflation expectations demonstrate sustained declines.

5. Reduce informal employment and strengthen market competition. Policies should focus on reducing informal employment and promoting competition in food markets, particularly the meat market.

6. Improve inflation statistics and household expenditure monitoring. Official institutions should publish CPI indicators disaggregated by household income groups, together with detailed information on household expenditure structures. Such data would enable a more accurate assessment of the unequal effects of inflation across population groups.

Recommendations 3–6 represent the author's proposals based on the findings of the present study.

Conclusion

During 2022–2026, inflation in Uzbekistan declined from 12.3% to 6.5%. Nominal wages increased at more than twice the rate of consumer prices, contributing to improvements in workers' real purchasing power and reductions in poverty. Nevertheless, cumulative consumer price growth during 2021–2025 reached approximately 58%. The benefits of economic growth and disinflation have been distributed unevenly across economic sectors, regions, and forms of employment. Persistent inflationary pressures continue to originate from regulated tariffs, fuel prices, and services. The findings provide the following answer to the central research question: inflation has not, on average, prevented real income growth in Uzbekistan. However, workers in low-paid sectors and regions, informally employed individuals, and economically vulnerable households have benefited the least from these improvements. This conclusion is based on aggregate statistical indicators and requires further verification using household-level microdata. Furthermore, the study does not establish causal relationships between individual policy measures and observed changes in inflation dynamics.

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