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INTERRELATION BETWEEN INFLATION AND EXCHANGE RATE POLICY IN ENSURING MACROECONOMIC STABILITY

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Abstract: This article analyzes the interrelation between inflation and exchange rate policy in ensuring macroeconomic stability in Uzbekistan. The study covers the period 2020–2024 and examines the dynamics of inflation, changes in the Uzbek soum's exchange rate against the US dollar, and the key monetary policy measures implemented by the Central Bank.

The findings show that the decline in inflation and the relative stability of the exchange rate are the results of coordinated fiscal and monetary policies. The study also highlights how the inflation–exchange rate mechanism affects economic growth and real household income.

Keywords: inflation, exchange rate policy, macroeconomic stability, monetary policy, Central Bank, Uzbekistan economy.

1. Introduction

In recent years, one of the main priorities of Uzbekistan's economic policy has been maintaining macroeconomic stability — specifically, reducing inflation and preserving the stability of the national currency. In a market economy, inflation and the exchange rate are directly interconnected, and fluctuations in these indicators significantly influence national economic security.

Since 2020, the Central Bank of Uzbekistan has adopted an inflation-targeting regime to ensure price stability. At the same time, measures have been taken to liberalize the foreign exchange market, increase international reserves, and establish a real market-based exchange rate.

Between 2020 and 2024, the inflation rate in Uzbekistan decreased from 14.5% to 8.8%, while the exchange rate of the soum against the US dollar remained relatively stable. These outcomes can be attributed to the coordination of monetary, fiscal, and external balance policies.

2. Research Methodology

The study applies a descriptive and correlation-based analysis using statistical data from the Central Bank of Uzbekistan, the State Statistics Agency, and international sources such as the IMF World Economic Outlook (2024).

The period under review (2020–2024) captures key macroeconomic indicators, including the inflation rate, the base interest rate, the exchange rate, and official reserve levels.

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A correlation coefficient (r = 0.68) was calculated to measure the relationship between inflation and the exchange rate, while descriptive analysis helped assess the broader impact of monetary policy measures on price stability.

3. Inflation Dynamics and Monetary Policy

Between 2020 and 2024, Uzbekistan experienced a steady decline in inflation — from 14.5% in 2020 to 8.8% in 2024. This trend reflects the gradual introduction of the inflation-targeting framework by the Central Bank.

The tightening of monetary policy, including the reduction of the **key policy rate** from **16% to 13%**, and improved liquidity management helped mitigate inflationary pressures.

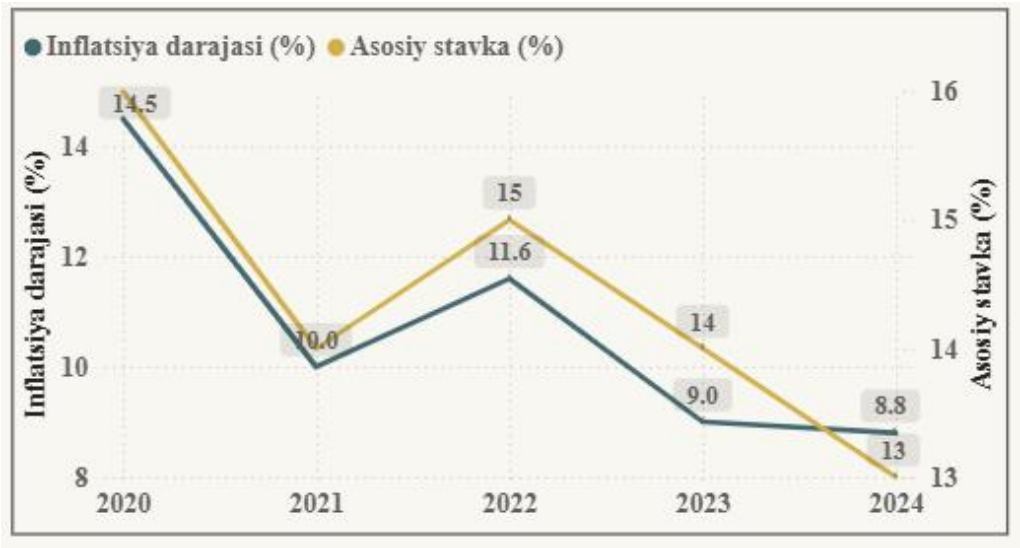

Figure 1. Inflation rate and key policy rate in Uzbekistan (2020–2024) (Data source: Central Bank of Uzbekistan, 2024)[1]

The inverse relationship between inflation and the key rate indicates that periods of higher interest rates corresponded with reduced inflation, confirming the effectiveness of monetary tightening in maintaining macroeconomic equilibrium.

4. Exchange Rate and Foreign Exchange Reserves

A stable national currency is a critical component of macroeconomic balance. During 2020–2024, the Uzbek soum depreciated moderately — from 10,365 UZS/USD to 12,420 UZS/USD — while foreign exchange reserves increased from USD 32.6 billion to USD 36.1 billion.

[1] **Author's work. Source:** Central Bank of the Republic of Uzbekistan (www.cbu.uz), Statistics Agency, IMF Country Data (2024).

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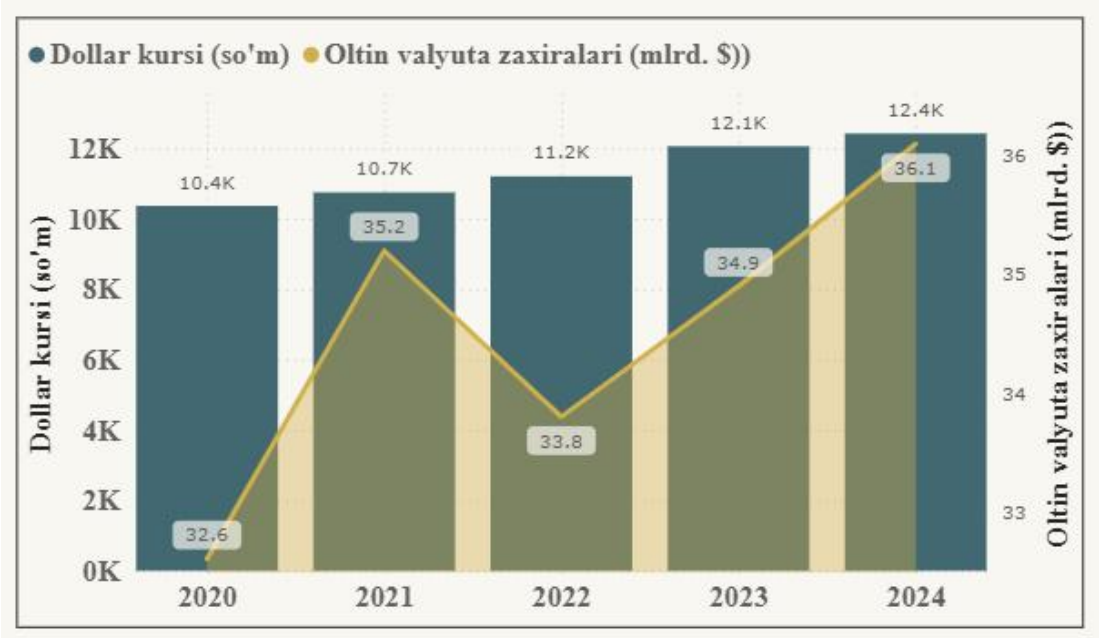

Figure 2. Exchange rate of the Uzbek soum and gold-foreign reserves (2020–2024)[2]

The parallel increase in reserves alongside a controlled currency depreciation demonstrates effective management of foreign reserves and targeted central bank interventions. This pattern also reflects the maintenance of external balance and investor confidence in the foreign exchange market.

5. Correlation Between Inflation and Exchange Rate

The empirical results show a moderate positive correlation (r = 0.68) between the inflation rate and the soum's exchange rate during 2020–2024.

This means that while currency depreciation contributed to higher price levels, the relationship remained non-linear and moderate, indicating that the Central Bank's policies effectively contained inflation despite external pressures.

[2] **Author's compilation. Source:** Central Bank of the Republic of Uzbekistan; World Bank, *World Development Indicators (WDI)*, 2024.

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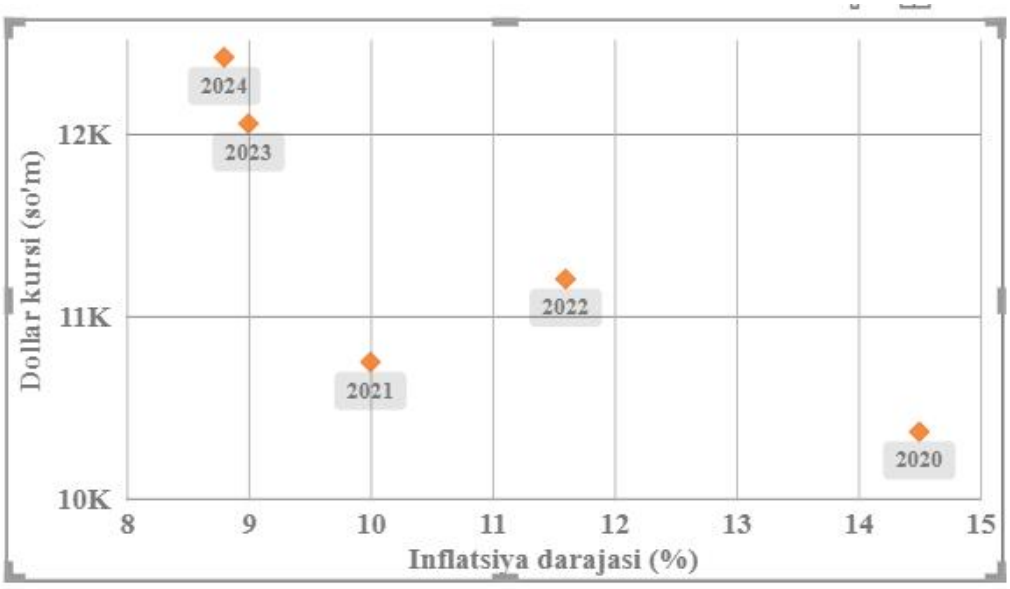

Figure 3. Correlation between inflation and exchange rate (2020–2024)[3]

Overall, the inflation–exchange rate interaction in Uzbekistan suggests that monetary stability was achieved through a coordinated mix of exchange rate management, inflation targeting, and reserve accumulation.

6. Conclusion

The analysis confirms that during 2020–2024, Uzbekistan successfully strengthened control over inflation and maintained relative exchange rate stability. The increase in gold-foreign reserves, improved fiscal transparency, and the introduction of digital payment systems supported macroeconomic equilibrium.

These outcomes demonstrate that coordinated monetary, fiscal, and exchange rate policies play a decisive role in ensuring macroeconomic stability.

In the future, enhancing the efficiency of inflation forecasting models, further diversifying reserve assets, and increasing policy transparency will remain key priorities for sustainable growth.

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