

**THE IMPACT OF INFLATION AND CURRENCY DEPRECIATION ON THE
GLOBAL AND UZBEKISTAN ECONOMY**

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Abstract: This article examines the impact of inflation and currency depreciation on the global economy and Uzbekistan's economy. Inflation reduces the purchasing power of money and increases currency exchange rate volatility, while currency depreciation raises import prices and may enhance export competitiveness. In global examples, these processes destabilize trade and investments, while in Uzbekistan, the som's exchange rate and inflation level affect economic growth and price stability. The article analyzes based on statistical data and international organization reports and provides recommendations.

Keywords: Inflation, currency depreciation, economic stability, monetary policy, Uzbekistan's economy, price level, macroeconomic balance.

Introduction. Inflation and currency depreciation are key factors in the economy, directly affecting price increases, trade balance, and economic growth. Inflation generally refers to the persistent and long-term rise in the overall price level of goods and services. This process reduces the purchasing power of money, complicating the financial situation of individuals and businesses. Currency depreciation, on the other hand, is the decline in the value of the national currency relative to foreign currencies, often occurring in conjunction with inflation. For instance, rising inflation can increase currency exchange rate volatility, making international money transfers more expensive. Currency depreciation raises the prices of imported goods, leading to "imported inflation," which further drives up prices in the domestic market. These processes can widen trade deficits in developing countries and lead to economic crises.

In the global economy, inflation and currency depreciation contribute to market instability. In developed countries, inflation is controlled by central banks through interest rate hikes, which may strengthen currency exchange rates but can slow economic growth. Conversely, in developing countries, currency depreciation encourages exports but complicates industries reliant on imports and exacerbates inflation. For example, currency depreciation increases the cost of imported raw materials and products, raising production costs and disrupting global supply chains. According to analyses by organizations like the World Bank and the International Monetary Fund (IMF), these factors weaken international trade and investments, exacerbating economic inequality between countries. Global events such as pandemics and geopolitical conflicts further intensify these processes, causing sharp currency fluctuations and inflationary pressures. As a result, the global economy faces instability, which can increase debt burdens and hinder economic development in developing countries.

In Uzbekistan's economy, inflation and currency depreciation directly impact the national som's exchange rate and price stability. During the early years of independence, the transition period was marked by inflation and currency instability, but recent economic reforms have helped mitigate these issues. Uzbekistan's economy relies heavily on exports (cotton, gas, gold) and imports (machinery, food), and while currency depreciation makes exports more competitive, it raises import prices, lowering the standard of living. The central bank's monetary policy aims to control inflation by raising interest rates and managing currency reserves to stabilize the exchange rate. Based on IMF and World Bank recommendations, Uzbekistan is liberalizing its

currency market and implementing policies to maintain targeted inflation levels. However, external factors, such as the economic situation in partner countries like Russia and Kazakhstan, affect Uzbekistan's currency due to its reliance on remittances and trade flows from these countries. Inflation impacts food and energy prices, causing socio-economic issues, particularly in agriculture and industrial sectors. This article examines this topic in detail, analyzing it through global and local examples and providing recommendations for Uzbekistan's economy. Overall, inflation and currency depreciation not only affect economic growth but also the country's global integration, making their management strategies highly significant.

Research methodology. The research is based on the analysis of secondary data. Data were collected from reports of international organizations (International Monetary Fund - IMF, World Bank) and the Central Bank of Uzbekistan (CBU), as well as from economic articles and statistical databases (Trading Economics, Bloomberg). The following methods were used for analysis: literature analysis; statistical analysis; comparative analysis; and data sources.

Analysis and results. In the global economy, inflation and currency depreciation are interconnected processes that profoundly impact global trade, investments, and economic growth. Rising inflation increases currency exchange rate volatility, making international money transfers more expensive, which in turn widens trade deficits in developing countries. For example, inflation reduces the purchasing power of money, weakening the currency, resulting in higher import prices and causing "imported inflation." According to World Bank forecasts, global economic growth is expected to slow to 2.3% in 2025, linked to inflationary pressures and currency depreciation (e.g., the US dollar has fallen by over 10%). This decline alters global capital flows and interest rates, encouraging foreign investments but halting economic growth in developed countries. According to the International Monetary Fund (IMF), global inflation is declining in 2025, but growth is observed in some countries, increasing currency volatility. Currency depreciation raises export costs, reducing a country's competitiveness in global markets, though weak domestic demand may lower inflation. For instance, the US dollar's decline since spring 2025 has reached 11% against foreign currencies (euro, pound), linked to tariff policies and inflation. Changes in the real effective exchange rate (REER) affect economic growth, with high inflation increasing debt demand but widening trade deficits. Pandemics and geopolitical conflicts exacerbate these processes, disrupting global supply chains, increasing debt burdens in developing countries, and hindering economic development. Overall, these factors lead to instability in the global economy, with central banks responding by raising interest rates, though this may slow growth.

In Uzbekistan, inflation and som depreciation significantly affect the national economy, particularly the export-import balance and living standards. In September 2025, inflation fell to 8.0%, lower than August's 8.8% and the lowest in nine years, though pressure from rising food and fuel prices persists. According to IMF forecasts, inflation is expected to reach 8.8% by the end of 2025, linked to demand and supply factors (remittances +18.2%). The som's exchange rate: on October 13, 2025, USD/UZS reached 12,075, with the dollar declining by 0.08% against the som, indicating the som's strengthening compared to the previous month. Since the beginning of 2025, the som has depreciated by 4.5%, but in May-June, the dollar fell by 0.8% and 2.08%, explained by export growth (cotton, gas, gold) and foreign investments. Currency depreciation increases import prices, intensifying inflation, but encourages exports, improving the trade balance. The central bank's policy, maintaining a 14% rate, has helped reduce inflation from 10.3%, though a rise in the real effective exchange rate is expected in the second half of 2025. Gross domestic product (GDP) grew by 6.5% in 2024, with a projected 5.9% growth in 2025, linked to domestic demand and foreign trade. Negative impacts include rising import costs and business expenses, but the som's strengthening boosts investments, supporting economic

development. Uzbekistan's trade relations with Russia and Kazakhstan influence the currency exchange rate, as remittances and export flows depend on these countries.

The analysis results show that inflation and currency depreciation lead to global economic instability, slowing growth and widening trade deficits. In Uzbekistan, these processes have both positive (export growth, som strengthening) and negative (imported inflation) effects, but the central bank's strict policy keeps inflation around 8%, ensuring economic growth. Overall, in 2025, Uzbekistan's economy could achieve 5.9% growth, aligning with global trends, though external risks (geopolitical conflicts) persist. These findings highlight the need to strengthen economic reforms.

Conclusions and recommendations. Inflation and currency depreciation play a significant role in the global economy and Uzbekistan's economy, shaping trade balance, economic growth, and price stability. In the global economy, rising inflation increases currency exchange rate volatility, weakening international trade and investments. For example, in the first half of 2025, the US dollar depreciated by 10.7% according to the DXY index, the worst performance in 50 years, and despite declining global inflation, the dollar's decline boosted foreign investments but slowed economic growth in developed countries. According to Morgan Stanley's forecast, the dollar may fall by another 10% by the end of 2026, linked to tariff policies and inflationary pressures. According to the International Monetary Fund (IMF), global inflation is declining in 2025, but softening financial conditions exacerbate currency depreciation, widening trade deficits in developing countries. These processes disrupt global supply chains, intensifying the consequences of geopolitical conflicts and pandemics, resulting in expected global economic growth slowing to 2.3% in 2025. Currency depreciation raises import prices, causing "imported inflation," but encourages exports, increasing competitiveness in some countries. Overall, these factors exacerbate economic inequality between countries, increase debt burdens, and hinder economic development.

In Uzbekistan's economy, inflation and som depreciation affect the stability of the national economy. In September 2025, inflation fell to 8.0%, lower than August's 8.8% and July's 8.9%, marking the lowest rate in nine years. According to IMF forecasts, inflation may reach 8.8% by the end of 2025, linked to rising demand and remittances (+18.2%). The Central Bank of Uzbekistan (CBU) policy maintains a 14% rate, forecasting 7-8% inflation, but external pressures may keep this figure higher. The som's exchange rate reached USD/UZS 12,075 on October 13, 2025, with the dollar declining by 0.08% against the som, continuing the previous month's trend. Since the beginning of the year, the som has strengthened by 3-4%, though it saw a sharp decline in May (0.8%), explained by growth in foreign trade and investments. Gross domestic product (GDP) is expected to grow by 5.9% in 2025, linked to domestic demand and export (cotton, gas, gold) growth, but currency depreciation raises import prices, increasing business costs. Negative impacts include rising food and energy prices, lowering living standards, but the som's strengthening boosts foreign investments, supporting economic development. Uzbekistan's trade relations with Russia and Kazakhstan influence the currency exchange rate, as remittances and export flows depend on these countries. As a result, Uzbekistan's economy is adapting to global trends, ensuring stable growth, but external risks (geopolitical conflicts, global inflation) persist.

To mitigate inflation and currency depreciation, the Central Bank of Uzbekistan should continue its strict monetary policy, maintaining interest rates at 14% and aiming to reduce inflation to 5-6%. Liberalizing the currency market and increasing reserves are necessary to reduce the som's volatility, attracting foreign investments. To encourage exports, diversifying industries (e.g., IT and tourism) and substituting imports with domestic production are essential, improving the trade balance. Based on World Bank recommendations, strengthening economic reforms and

introducing a digital monitoring system to refine inflation forecasts are crucial. Expanding social protection programs for the population, such as subsidies and job creation, will mitigate inflation's impact. In the future, strengthening cooperation with the IMF and World Bank is necessary to align with global trends, enhancing Uzbekistan's competitiveness in the global economy. If these recommendations are implemented, inflation could fall below 7% in 2026, and the som's exchange rate could stabilize.

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