



INFLATION AND SUSTAINABLE DEVELOPMENT OF THE ECONOMY IN UZBEKISTAN

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Abstract

In this article, the concept of increase of inflation in Uzbekistan, the devaluation of the currency, the increase in the price of goods and services, and the introduction of technologies are presented. Additionally, there discussed the findings of other researchers that point to devaluation as a significant factor contributing to the economic situation in our country.

Keywords: Sustainable development, inflation, GDP, inflation, economic reforms, environmental protection, resource extraction, inflationary expectations, monetary policy, central bank, sustainable development goals (SDGs).

Introduction:

Sustainable development, as championed by the Brundtland Commission (1987), necessitates achieving economic growth that meets the present needs without jeopardizing the ability of future generations to meet their own. However, inflation, a persistent rise in the general price level, throws a wrench into these well-laid plans. It disrupts this delicate balance, potentially posing a



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threat to long-term sustainability efforts in Uzbekistan, a nation undergoing significant economic reforms. This paper delves into the multifaceted relationship between inflation and sustainable development, with a particular focus on the case of Uzbekistan. Uzbekistan presents a compelling case study due to its recent economic reforms, including liberalization of the foreign exchange market and tax reform initiatives. However, these reforms have coincided with fluctuations in the Uzbek sum and periods of inflation.

By drawing upon the perspectives of various scholars and the specific economic context of Uzbekistan, this paper explores how inflation can impact the country's pursuit of sustainable development goals. The analysis will consider the potential effects of inflation on government spending for environmental protection programs and infrastructure maintenance, which are crucial for safeguarding the environment for future generations. Additionally, the paper will examine the potential for inflation to incentivize unsustainable resource extraction practices in Uzbekistan, jeopardizing long-term environmental well-being. Furthermore, the concept of inflationary expectations, as described by Gordon (2011), will be incorporated into the analysis. This framework will explore how such expectations can influence economic behavior in Uzbekistan, potentially creating a self-fulfilling loop that perpetuates inflation even if initial triggers have subsided.

This paper aims to contribute to a broader understanding of the complex challenges faced by developing nations striving for economic growth while safeguarding their environmental future. By examining the case of Uzbekistan through the lens of inflation and sustainable development, the paper offers valuable insights. The concluding section will propose potential policy recommendations for Uzbekistan to navigate the intricate relationship between inflation and sustainable development.

Literature review:

One of the most influential explanations for inflation comes from Nobel laureate Milton Friedman and Anna Schwartz (1971)¹ in their seminal work, "A

¹ Friedman, M., & Schwartz, A. (1971). A monetary history of the United States, 1867-1960. Princeton University Press.



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Monetary History of the United States, 1867-1960." They posit a strong relationship between the money supply and the price level, suggesting that excessive growth in the money supply is the primary driver of inflation. This theory emphasizes the role of central banks in controlling inflation by regulating the money supply through monetary policy instruments. Blanchard and Amati (2003) acknowledge the validity of both demand-pull (excessive money supply) and cost-push (rising production costs) explanations for inflation in their textbook, "Macroeconomics: A European Perspective."² They propose a spectrum where inflation can arise from either excessive demand or supply-side shocks, with the relative dominance of each factor depending on the specific economic context. Sustainable development, as defined by the Brundtland Commission, strives for economic growth that meets the needs of the present without compromising the ability of future generations to meet their own (World Commission on Environment and Development, 1987).³ However, inflation, a persistent rise in the general price level, can disrupt this delicate balance, posing a potential threat to long-term sustainability efforts. This paper explores the multifaceted relationship between inflation and sustainable development, drawing upon the perspectives of various scholars and offering a critical analysis of their arguments. David I. Stern (2013) presents a comprehensive analysis of the interplay between inflation, environmental protection, and sustainable development in his work, "The Rise and Fall of Environmental Kuznets Curves." He contends that high inflation can have severe repercussions on government budgets, leading to cutbacks in environmental protection programs and neglect of infrastructure maintenance. This pattern of austerity measures, he argues, can result in accelerated environmental degradation and undermine the attainment of sustainable development goals. Moreover, Stern (2013) asserts that inflation can encourage short-sighted resource extraction practices as a means of generating quick revenue, thus compromising long-term environmental sustainability.⁴ The Federal Reserve's methodology of supplying liquidity to financial markets after market tensions, known as the "Greenspan put," was

² Blanchard, O., & Amati, A. (2003). *Macroeconomics: A European perspective* (2nd ed.). Oxford University Press.

³ World Commission on Environment and Development. (1987). *Our Common Future*. Oxford University Press.

⁴ Stern, D. I. (2013). The rise and fall of environmental Kuznets curves. *Ecological Economics*, 89, 147-159.



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identified as one of the reasons contributing to the formation of the speculative bubble prior to 2007-2007.⁵ In recent years, fundamental measures have been implemented in the economy of Uzbekistan. strengthening of private property for economic reforms aimed at improving the efficiency of market mechanisms. Given a substantial surge in the number of currently employed population, the country's highest priority is to create new jobs and improve working conditions. Uzbekistan has carried out the first wave of important economic reforms, including liberalization of the foreign exchange market, tax reform and serious improvements in statistics, and has influenced the infiltration and sustainable development of the as a result of which it has led to the depreciation of the Uzbek sum. The main problem in the field of short-term macroeconomic stability is the Prevention of a credit explosion, which can lead to excessive external deficit and increase⁶. Economist Robert J. Gordon (2011) emphasizes the role of inflationary expectations in his work, "The Long Run of Economic Growth."⁷ He argues that inflationary expectations can become self-fulfilling, where businesses and consumers anticipate future price increases and adjust their behavior accordingly. This can lead to a feedback loop where price hikes become embedded in economic decision-making, perpetuating inflation even if initial triggers have subsided. One of the most familiar words in economics is. Inflation has caused countries to become unstable for a long time. Central banks often seek to prevent infiltration."inflation massacres."Politicians won elections with promises to fight inflation, power only after the loss did not do it. Inflation is the rate of increase in prices at a given price time period. Inflation is usually a broad measure, such as the total increase in prices or living in the country as an increase in price. But it can also be narrower calculated-for some goods, such as food or services, such as hairstyles. Whatever the context, inflation means how much more expensive the corresponding set is goods and / or services have become available over a certain period⁸. Before COVID-19, the

⁵Girdzijauskas, S., Streimikiene, D., Griesiene, I., Mikalauskiene, A., & Kyriakopoulos, G. L. (2022). New approach to inflation phenomena to ensure sustainable economic growth. *Sustainability*, 14(1), 518.

⁶https://iqtisodiyot.tsue.uz/sites/default/files/maqolalar/13_Kurpayanidi.pdf

⁷ Gordon, R. J. (2011). *The long run of economic growth*. Princeton University Press.

⁸https://scholar.google.com/scholar?q=related:I2jvHHuo5MAJ:scholar.google.com/&scioq=what+is+inflation&hl=ru&as_sdt=0,5#d=gs_cit&t=1713944223351&u=%2Fscholar%3Fq%3Dinfo%3AI2jvHHuo5MAJ%3Ascholar.google.com%2F%2



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development of the pandemic slowed down, and we were not on the way to achieving goals until 2030, including the report on Sustainable Development Goals for 2020 and the latest data. Income was visible: the rate of teenage and child absenteeism was declining, many infectious diseases were relatively rare, the use of clean drinking water improved, and the number of women in leadership positions was increasing. The natural environment continued to suffer at a terrible level, there was a constant excessive imbalance in all regions, and the number of people experiencing food safety went at the same time. And as a result of this, sustainable development is much slower and leads to an increase in infiltration.⁹ One of the most vital indicators of the nation's economic health is inflation, which pertains to the macroeconomic stability measure. A steady rise in the mean price of services and goods, leading to a fall in a monetary unit's buying power, is a sign of how the whole economy is doing. It has been compared as economists to temperature, which is a sign of a number of diseases. Like to temperature, a lot of economic factors impact inflation. The inflation rate is a prevalent result of inflation. This is a percentage fluctuation of the total price index, continually the CPI (Consumer Price Index), which is calculated on a yearly basis. A quantitatively weighted ranking of a particular collection of products and services' prices is dubbed the CPI (the Consumer Price Index).¹⁰ Starting from February 2013 a ban on purchasing cash in foreign currency was introduced in Uzbekistan. From now on foreign currency banknotes can be obtained only through non-cash operations as a prepayment order on the bank account. On February 4, regional mass media reported that Uzbekistan's government was ordered to reduce the quantity of imported goods, and to substitute these with locally produced ones. These currency regulations of Uzbekistan's National Bank could signal an upcoming devaluation of Uzbekistan's currency. An alternative interpretation is that the measure aims to preserve Uzbekistan's hard currency reserves and to protect the business interest of local entrepreneurs. The devaluation of the currency in Uzbekistan refers to a

6output%3Dcite%26scirp%3D0%26hl%3Dru%26scioq%3Dwhat%2Bis%2Binflation:~:text=Oner%2C%20Ceyda.%20%22What%20is%20inflation.%22%20Finance%20%26%20Development%2047.1%20(2010)%3A%2044.

⁹ <https://unstats.un.org/sdgs/report/2020/>

¹⁰ <https://www.mdpi.com/2071-1050/14/1/518>



situation where the value of the Uzbekistani som (UZS) decreases in comparison to other currencies, particularly major international currencies like the US dollar, euro, or British pound. Currency devaluation can occur due to various factors such as economic instability, inflation, or the government's monetary policy.

Results

In recent years, Uzbekistan has experienced periods of currency devaluation. The country has a managed floating exchange rate system, where the central bank intervenes to influence the value of the som. In September 2017, Uzbekistan decided to switch to a floating exchange rate regime to allow the currency to fluctuate more freely in response to market forces, leading to a significant devaluation of the some.

The devaluation of the Uzbekistani som can have a significant impact on the economy. It can make imports more expensive, contributing to inflation, and potentially reducing the purchasing power of the population. However, a weaker currency can also make exports more competitive and potentially boost the country's export sector. To mitigate the impact of currency devaluation, the Uzbekistani government and central bank may implement various measures such as intervening in the foreign exchange market, implementing monetary policies, and enacting structural reforms to stabilize the economy and maintain the value of the currency.



1.1-picture. Devaluation percentage of Uzbek som against US dollar in 2019 announced

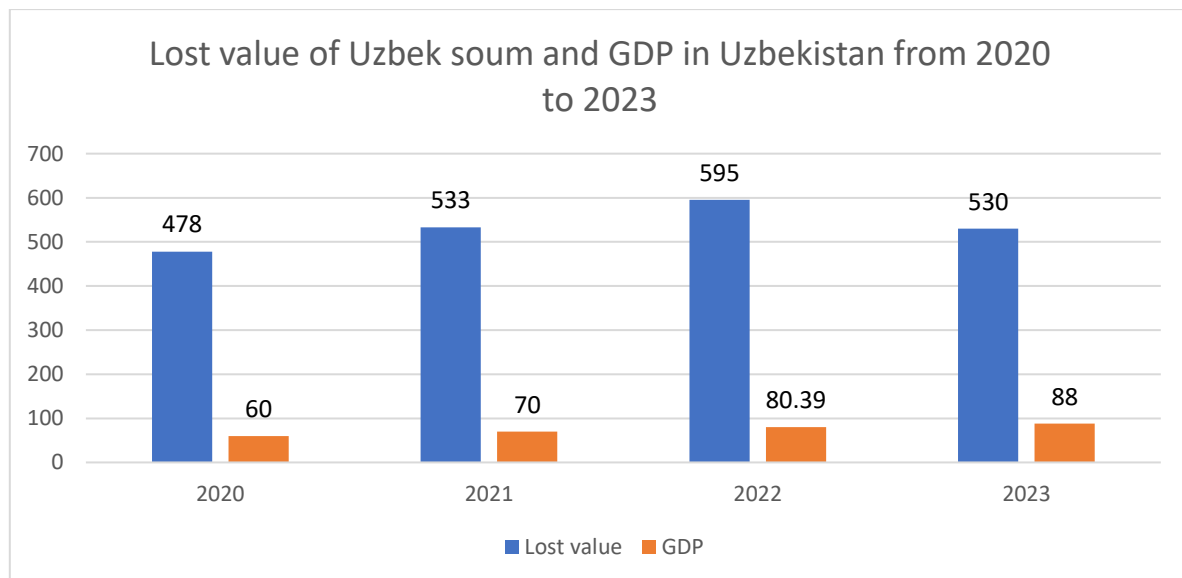


According to the data of Figure 1.1. The dynamics of the national currency exchange rate in 2019 was influenced by internal and external factors, based on the current supply and demand ratio in the foreign exchange market.

Central Bank's review of the domestic foreign exchange market and its development trends in 2019 reveals that during the first half of the year, under conditions of moderate growth in demand and supply within the foreign exchange market, due to the relatively low volume of interventions in comparison with targeted sales, the national currency depreciated by 2.8% against the US dollar in exchange trading sessions. The expansion of state budget revenues has decelerated significantly

In 2023, state budget revenues increased by 14.8 percent. For comparison, even in 2020, when the pandemic occurred, budget revenues grew at a higher rate than that. Revenues from land, property, and personal income taxes saw a substantial increase last year. On the other hand, turnover tax revenue decreased, while income tax revenue grew by only 8.5 percent.

Chart 1



According to the information provided in Figure 1.2, we can observe the significant fluctuations in the value of money experienced by Uzbekistan between 2020 and 2023. As depicted in this graph, the sum of Uzbekistan's financial situation has undergone substantial transformation during these three years. It is imperative to note that the presented data should be interpreted with



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due consideration to potential confounding variables and the limitations of the source material. Nonetheless, the visual representation serves as a valuable tool for gaining insights into the complex interplay of economic factors that shape the monetary landscape of Uzbekistan over time.

Discussion:

The Uzbek soum has been experiencing a depreciation rate of approximately 6-7% annually, as disclosed by Chairman of the Central Bank, MamarizoNurmurodov, during a press conference held on July 27. In response to a query regarding the soum's depreciation since the start of 2023 and the factors contributing to its fluctuation, MamarizoNurmurodov asserted that the notion of currency value is relative. He elucidated, "The value of the soum is assessed in different ways. For instance, those engaged in foreign trade measure it against the exchange rate, while in daily life, people perceive it in relation to inflation and prices. If we consider our major trading partners, the soum has depreciated by 3.2% against the dollar over the past six months. On the other hand, if we look at the situation in Turkey, Russia, and China, everything is relative. To claim that their national currencies are more valuable than ours is an unfounded comparison." The head of the organization further emphasized that the value of a currency is influenced by the overall economy of a nation, as well as its engagement in foreign economic activity. He added, "The economy determines the value of the national currency, not only in Uzbekistan but throughout the world. That is, the stable growth of the economy, its inclusive development in foreign economic activity is the main indicator that determines the value of the national currency. If we analyze the change of the exchange rate in Uzbekistan since 2017, that is, since the liberalization of the foreign exchange market until today, ours is much lower than the currency devaluation in many countries. From this point of view, our national currency has been depreciating by 6-7% on average for more than four years. This means that there is no reason to say that the currency is depreciating when inflation is above 10 percent.



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Conclusion:

Transitional periods are invariably fraught with challenges, as their very essence precludes the possibility of smooth progression. The economic transformations that commenced three years ago are now confronted with new obstacles, which may result in short-term losses. Decentralization within the industry has led to increased prices, consequently fueling inflation and further escalating the cost of living. These factors were the primary drivers of the current situation. It is heartening to note that, much like any other malady, there exists a remedy for the issues at hand. By adopting appropriate measures within the economic sphere, it is possible to achieve price stability. A salubrious economy is not without its balms: the solvency of citizens will be maintained, and the general public can look forward to a more secure financial future. We acknowledge the present inflation as a transient phenomenon and are hopeful that it will abate with time.

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