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THE IMPACT OF INFLATION ON HOUSEHOLD LIVING STANDARDS AND MECHANISMS FOR ITS CONTAINMENT: EVIDENCE FROM UZBEKISTAN

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A R T I C L E I N F O.

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Abstract

Persistent inflation erodes purchasing power, redistributes wealth and raises uncertainty, and its burden falls unevenly across households. Uzbekistan has experienced a prolonged disinflation since 2025 but still operates above its 5% target. To assess how inflation affects household living standards and to evaluate the mechanisms used to contain it, using Uzbekistan as a case. A desk-based, mixed analytical design was applied: a structured literature review, a descriptive analysis of publicly reported Central Bank of Uzbekistan (CBU) inflation and policy-rate data for 2025–2026, and a criteria-based assessment of containment mechanisms. Annual inflation slowed from 9.9% in January 2025 to 7.2% in January 2026 and to 6.4% in September 2026, while core inflation stood at 5.5%. The key rate has been held at 14% since March 2025, which implies a clearly positive ex-post real policy rate. Residual pressure comes from strong domestic demand, fiscal stimulus, rapid retail lending, regulated-price and tariff adjustments, and external food and energy prices. The CBU expects inflation of about 7% at end-2026 and a decline to 5% by end-2027.Disinflation has supported real incomes, but gains are fragile because food and regulated-price items weigh heavily in poorer households' budgets. Durable containment requires coordination of tight monetary policy with fiscal discipline, supply-side measures, anchored expectations and targeted social protection.

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1. Introduction

Stable prices are a precondition for rising living standards. When prices grow faster than nominal incomes, households can buy less with the same money; savers holding cash or low-yield deposits lose wealth; and borrowers and lenders face distorted incentives. Classical and modern studies show that inflation is costly even when moderate, because it creates relative-price distortions, shortens planning horizons and complicates contracts [1]. Evidence also suggests that inflation hits the poor harder, since their consumption baskets are dominated by food and other necessities and they hold fewer inflation-

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protected assets [2]. Surveys of public attitudes further indicate that people dislike inflation largely because they fear it will erode their real incomes and standard of living [3].

Emerging economies pursuing structural reforms often face a trade-off: price liberalization, tariff adjustments, credit expansion and fiscal stimulus support growth, but can also push inflation above target. Uzbekistan illustrates this situation. After the liberalization of prices and the exchange rate in the late 2010s and subsequent energy and utility tariff reforms, the CBU moved toward an inflation-targeting framework, with a medium-term goal of 5% [4].

Despite a large policy and media discussion of inflation, there is limited integrated analysis that links the dynamics of inflation to household living standards and then evaluates the instruments used to contain it. This article addresses that gap.

Aim and research questions. The aim is to assess the impact of inflation on household living standards and to evaluate mechanisms of inflation containment. The study asks: (1) How has inflation evolved recently in Uzbekistan? (2) Through which channels does inflation affect household welfare? (3) Which containment mechanisms are in use, and what constraints limit their effectiveness?

2. Materials and Methods

2.1 Study design

The study uses a desk-based, mixed analytical design that combines (a) a structured literature review, (b) a descriptive time-series analysis of published inflation and policy-rate indicators, and (c) a criteria-based qualitative assessment of containment mechanisms. No primary household survey was conducted.

2.2 Data sources

The empirical material consists of official and secondary publicly reported data for January 2025 – November 2026: annual consumer price inflation, core inflation, inflation expectations, the CBU key policy rate and the CBU's written rationale for rate decisions, as reported in CBU releases and in news agencies that reproduce them (Interfax, KUN.UZ, Daryo, Trend, Trading Economics, bne IntelliNews). Where agencies reported different values for the same indicator, official CBU wording was given priority. Theoretical and empirical literature was drawn from standard monetary-economics sources (see References).

2.3 Analytical framework

Household living standards were analyzed through three transmission channels:

1. **Real income channel:** real income = nominal income / price index. If inflation exceeds nominal income growth, real income falls.
2. **Wealth and savings channel:** the real return on savings = nominal deposit rate minus inflation. Negative real returns reduce the real value of savings.
3. **Relative-price and uncertainty channel:** rapid or uneven price changes in food, transport and regulated services affect consumption choices, especially for low-income groups.

The stance of monetary policy was approximated by the ex-post real policy rate: key rate minus latest annual inflation. Containment mechanisms were evaluated against four criteria: (i) clarity of the nominal anchor, (ii) transmission to market rates and demand, (iii) coordination with fiscal and regulated-price policy, and (iv) protection of vulnerable households.

3. Results

3.1 Inflation dynamics

Annual inflation in Uzbekistan declined substantially over the observation window. It was 9.9% in January 2025 and 7.2% in January 2026, a fall of 2.7 percentage points year on year [5]. Inflation was 7.5% in November 2025 and 7.3% in December 2025 [6]. In 2026 it stayed close to 7% in the first months

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and reached 7.0% in April, reported as the lowest level in ten years at that time [7]. By August it was 6.2%, and in September 6.4%, with core inflation at 5.5% [8].

Period	Annual inflation, %	Source
January 2025	9.9	KUN.UZ (2026a)
November 2025	7.5	Trading Economics (2025)
December 2025	7.3	KUN.UZ (2026b)
January 2026	7.2	KUN.UZ (2026a)
March 2026	7.1	UzDaily (2026)
April 2026	7.0	Daryo (2026)
August 2026	6.2	Trading Economics (2026a)
September 2026	6.4	Daryo (2026)

The path was not perfectly smooth. In February 2026 headline inflation edged up by 0.1 percentage point to 7.3%, with food prices rising 5.9% year on year, about double the previous year's pace, and a sharp monthly increase in transport fares [9]. The CBU also noted that the share of goods and services with annual price growth above 5% has increased, showing that pressure remains broad [10]. In its latest outlook the CBU expects inflation of about 7% at the end of 2026, above its earlier forecast of 6.5%, before declining to 5% by the end of 2027 [11].

3.2 Effects on household living standards

Applying the framework, three conclusions can be drawn.

Real incomes. Each percentage point of inflation reduces the purchasing power of a fixed nominal income by roughly the same percentage. The fall of annual inflation from 9.9% to around 6–7% therefore means a smaller annual erosion of purchasing power than a year earlier. The benefit is largest for households whose incomes are slow to adjust, such as pensioners, public-sector employees and recipients of fixed transfers. However, the effect on real wages could not be quantified here without wage data [12].

Savings. With the key rate at 14% since 24 March 2025, and deposit and loan rates close to it, the CBU states that real rates on deposits and loans remain positive [13]. A simple ex-post calculation (14% minus 6.4%) gives a real policy rate of about 7.6 percentage points, which protects the real value of savings and encourages saving over consumption.

Relative prices and uncertainty. Food and regulated services (transport, utilities) strongly influence household budgets. The February 2026 data show that food and transport prices can move faster than headline inflation, which means inflation experienced by low-income households can be higher than the average figure. This is consistent with international evidence on the regressive incidence of inflation [14].

3.3 Containment mechanisms in use

Monetary policy and the nominal anchor. The CBU applies inflation targeting with a 5% goal, which it aims to reach by the end of 2027, and uses the key rate as its main tool. The rate was raised from 13.5% to 14% on 24 March 2025 and has been unchanged since, through meetings in January, March, April, June, July, September and November 2026 [15]. In November 2026 the board discussed both holding the rate at 14% and cutting it to 13.5% before choosing to hold [16]. The CBU has linked possible easing to a steady decline in inflation and inflation expectations.

Expectations management. Households' inflation expectations fell to 11.2% in January 2026, well above actual inflation but lower than in earlier periods. Regular communication of decisions and forecasts is intended to reduce this gap.

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Demand-side moderation. Tight monetary conditions, positive real rates and a gradual normalization of lending growth are intended to balance aggregate demand with productive capacity (Interfax, 2026).

Exchange rate and imports. The CBU cited a stronger national currency and lower import prices as supportive of disinflation in late 2025.Constraints and risks

The CBU identifies several factors that slow disinflation: strong aggregate demand supported by fiscal stimulus and rapid growth in retail lending; second-round effects of regulated-price and tariff adjustments; and external volatility in food and energy markets, which affects domestic prices through imports, production and transport costs. As a result, the CBU keeps a tight stance and says it is ready to tighten further if inflation risks intensify.

4. Discussion

The findings show that Uzbekistan's disinflation since 2025 has improved the environment for household welfare, but the improvement is incomplete. Inflation has fallen by around three percentage points in under two years, yet it remains above target, and the upward revision of the end-2026 forecast to about 7% indicates that the last stage of disinflation is harder than the first. This pattern is typical for economies where headline inflation has declined but sticky components, regulated prices and demand-driven items remain elevated.

From the welfare viewpoint, the key insight is distributional. Average inflation understates the burden on households that spend a large share of their income on food, transport and utilities. Evidence from other countries suggests that such households also have fewer ways to hedge, which supports the argument that price stability is a pro-poor policy. At the same time, tariff and regulated-price reforms, although needed for fiscal sustainability, raise short-term costs for these households, so their timing and scale should be coordinated with social protection.

The containment toolkit is consistent with the international inflation-targeting model: a clear numerical target, a policy rate as the main instrument, and public communication. Rate setting follows the logic of a Taylor-type rule, where real rates should stay positive when inflation exceeds target and demand is strong. The cost of this approach is higher borrowing costs, which can slow investment and consumer credit, so the central bank must balance disinflation against growth. The November 2026 discussion between holding and a small cut shows that this balance is being actively weighed.

The results also show that monetary policy alone is not sufficient. When fiscal stimulus and tariff changes add to demand and costs, the central bank has to maintain a tighter stance than otherwise. Therefore, coordination between monetary, fiscal and regulated-price policy is a central condition for success.

5. Conclusion

Inflation reduces household living standards through erosion of real incomes, a lower real value of savings and distorted relative prices, with the heaviest burden on lower-income groups. In Uzbekistan, annual inflation declined from 9.9% in January 2025 to 6.4% in September 2026, supported by a tight monetary stance, a 14% key rate and positive real interest rates. Yet inflation remains above the 5% target and is expected to stay near 7% at the end of 2026. Sustained containment requires a coordinated package: credible inflation targeting, fiscal discipline, predictable regulated-price policy, supply-side improvements, and targeted social protection that preserves real incomes during the transition to price stability.

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