

## THE IMPACT OF MONETARY POLICY ON DISTRIBUTION IN UZBEKISTAN AND THE "FELT INFLATION" CONCEPT

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**Abstract.** This thesis analyzes the distributional effects of monetary policy in Uzbekistan based on the concept of "felt inflation." The study examines the economic nature of the gap between official headline inflation indicators and inflation perceived by households in real life. It is shown that low-income households experience a higher effective inflation rate than the general CPI due to the high share of food products in their consumption basket. In the case of Uzbekistan, high volatility in food inflation, the liberalization of energy tariffs, and the dynamics of the "plov index" significantly affect inflation expectations of the population. The findings suggest the need to develop income-group-specific inflation indices and to coordinate monetary and fiscal policies in order to improve the effectiveness of monetary policy.

**Keywords:** felt inflation, monetary policy, headline inflation, heterogeneous inflation, inflation targeting, food inflation, plov index, Central Bank, CPI, Uzbekistan economy.

### Introduction

Today, inflation processes in the global economy are considered one of the most important areas of monetary policy. In particular, the introduction of inflation targeting by central banks is regarded as one of the modern mechanisms for ensuring price stability. In Uzbekistan, within the framework of economic liberalization, inflation targeting has been gradually implemented since 2020. The main objective of this policy is to ensure macroeconomic stability by keeping inflation at the target level of 5 percent in the long run.

In recent years, although official headline inflation indicators have shown a declining trend, public perceptions of inflation remain relatively high. This indicates a certain discrepancy between official statistical data and the price increases experienced by households in daily life. In particular, due to the high share of food and energy expenditures in low-income households, the actual inflation they experience is higher than the overall CPI. This phenomenon is explained in economic literature by the concept of "felt inflation."

The concept of felt inflation is an important theoretical approach in analyzing the distributional consequences of monetary policy. Inflationary processes generated by monetary policy do not affect all population groups equally. Due to differences in consumption baskets, income levels, and expenditure structures, the real inflation burden varies across different groups. Therefore, evaluating monetary policy solely based on aggregate headline inflation may not fully reflect actual changes in household welfare.

The relevance of this thesis is explained by the insufficient study of distributional effects of monetary policy and the felt inflation concept in Uzbekistan. High volatility of food prices, liberalization of energy tariffs, and global inflationary pressures create a significant economic burden for certain population groups. This requires new approaches to assessing the effectiveness of inflation targeting policy conducted by the Central Bank.

The aim of this thesis is to analyze the distributional effects of monetary policy in Uzbekistan based on the felt inflation concept, to explain the economic nature of the gap

between headline and felt inflation, and to develop scientific and practical recommendations for improving monetary policy effectiveness.

To achieve this goal, the following tasks were set:

- to study the theoretical foundations of monetary policy and inflation targeting;
- to analyze the economic essence of the felt inflation concept;
- to assess the structure of the consumption basket and food inflation dynamics in Uzbekistan;
- to identify the gap between headline and felt inflation;
- to analyze the impact of monetary policy on income groups;
- to develop recommendations for coordinating monetary and fiscal policy.

The object of the study is the monetary policy implemented in Uzbekistan and inflation processes, while the subject is the distributional effects of monetary policy and economic relations associated with felt inflation.

The study employs economic-statistical analysis, comparative analysis, scientific generalization, and analytical approaches. The data sources include the Central Bank of Uzbekistan, the Statistics Agency, the World Bank, and international academic literature.

### **Main Body**

#### **Distributional Effects of Monetary Policy and the Felt Inflation Concept**

In modern monetary theory, inflation is usually treated as a single aggregate indicator. However, in practice, due to differences in consumption baskets across income groups, the real impact of inflation also varies. In particular, low-income households allocate a large share of their expenditures to food and basic necessities, resulting in a higher perceived inflation rate. In this regard, the concept of “felt inflation” plays an important role in assessing the distributional consequences of monetary policy.

In Uzbekistan, since the introduction of inflation targeting in 2020, the Central Bank has strengthened measures aimed at reducing headline inflation. As a result, CPI indicators have shown a declining trend. However, household spending behavior and inflation expectations remain relatively high. This indicates a discrepancy between official headline inflation and perceived inflation.

#### **Consumption Basket Structure and Food Share in Uzbekistan**

For low-income groups, food products constitute a very large share of the consumption basket, which is the main source of felt inflation. The following table shows the share of food expenditures in Central Asian countries.

**Table 1**

#### **Share of Food Expenditures in Central Asian Countries**

<b>Household group / country</b>	<b>Food share (%)</b>	<b>Source</b>
Uzbekistan, low-income households	69	Statistics Agency / World Bank
Uzbekistan, average households	~30	Numbeo aggregates
Tajikistan, average households	37	CIS Statistical Committee
Kyrgyzstan, average households	42	CIS Statistical Committee
Kazakhstan, average households	51	Finprom.kz

As shown in the table, food products account for 69% of the minimum consumption basket in Uzbekistan. This implies that during periods of high food inflation, low-income

households experience significantly higher inflationary pressure. In contrast, average households experience more stable inflation due to a lower share of food expenditures.

### **Food Inflation and the “Plov Index” Dynamics**

Food inflation is one of the most volatile components of the Uzbek economy. In particular, price increases in meat, rice, vegetable oil, and vegetables have a strong impact on household purchasing power. The “plov index” published by the Statistics Agency serves as an indicator of food price dynamics.

In April 2026, the plov index increased by about 2.84% within a single month, reflecting high food inflation dynamics. The main drivers were rising meat prices exceeding 100,000 UZS and increasing costs of vegetable oil and other ingredients. This directly affects the daily expenditures of low-income households.

### **Calculation of the Felt Inflation Gap**

Felt inflation is calculated using the following formula:

$$\pi_t^h = \sum_k \omega_k^h \cdot \pi_{k,t}$$

Where:

- ❖  $\omega_k^h$  — share of product category k in the consumption basket of household group h;
- ❖  $\pi_{k,t}$  — inflation rate of product category k at time t.

This approach allows estimating separate inflation rates for different income groups.

### **Table 2**

#### **Illustrative Calculation of Felt Inflation in Uzbekistan**

<b>Household group</b>	<b>Food share (%)</b>	<b>Non-food share (%)</b>	<b>Felt inflation (%)</b>
Average household	30	70	7.80
Low-income household	69	31	10.14
Felt inflation gap	—	—	+2.34

Note: Calculations are based on 12% food inflation and 6% non-food inflation.

The results show that low-income households experience inflation that is 2.34 percentage points higher than that of average households. This indicates that monetary policy does not affect all groups equally.

### **Transmission Channels of Monetary Policy Distributional Effects**

The distributional effects of monetary policy occur through the following main channels:

- consumption basket channel;
- income channel;
- wealth and debt channel.

In Uzbekistan, the consumption basket channel is the most important. Rising food prices disproportionately affect low-income groups. Therefore, a decline in headline inflation does not necessarily imply an improvement in welfare for all households.

To improve monetary policy effectiveness, the following measures are recommended:

- developing income-group-specific CPI indices;
- strengthening monitoring of food and energy prices;
- coordinating monetary and fiscal policies;
- adapting social protection systems to food inflation dynamics.

Targeted compensation and indexed social support systems are particularly important for mitigating the negative effects of felt inflation among low-income households.

## Conclusion

This thesis analyzed the distributional effects of monetary policy in Uzbekistan and the concept of “felt inflation,” focusing on the gap between headline inflation and inflation perceived by households. The results show that inflation does not affect all income groups equally, and low-income households experience significantly higher inflationary pressure.

In Uzbekistan, the sharp differences in consumption baskets—especially the high share of food expenditures in low-income households—are the main driver of higher felt inflation. High volatility in food prices leads to inflation perceptions that exceed headline inflation for these groups.

Illustrative calculations show that the felt inflation gap is approximately 2–3 percentage points. This indicates that evaluating monetary policy solely based on aggregate indicators does not fully capture welfare changes across all population groups.

The main conclusions are:

- headline inflation does not have the same economic meaning for all households;
- low-income groups consistently experience higher felt inflation;
- food inflation is the key determinant of the felt inflation gap;
- distributional effects of monetary policy are insufficiently considered.
- The following recommendations are proposed:
  - introduction of income-group-specific inflation indices;
  - inclusion of felt inflation indicators in Central Bank communication;
  - strengthening monitoring of food and energy prices;
  - improving social protection through coordination of monetary and fiscal policy.

Overall, the concept of felt inflation provides a more realistic framework for evaluating monetary policy effectiveness in Uzbekistan. Future research should empirically extend this approach using household budget survey microdata, construct CPI indices by income quintiles, and model the distributional effects of monetary shocks.

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