

THE IMPACT OF THE STABILITY OF THE NATIONAL CURRENCY EXCHANGE RATE AND CHANGES IN THE TRADE BALANCE ON ECONOMIC DEVELOPMENT

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ВЛИЯНИЕ СТАБИЛЬНОСТИ ОБМЕННОГО КУРСА НАЦИОНАЛЬНОЙ ВАЛЮТЫ И ИЗМЕНЕНИЙ ТОРГОВОГО БАЛАНСА НА ЭКОНОМИЧЕСКОЕ РАЗВИТИЕ

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ABSTRACT

This article provides an in-depth analysis of the impact of the stability of Uzbekistan's national currency exchange rate and changes in the trade balance on the country's economic development. In recent years, fluctuations in the global market environment, the dynamics of export–import volumes, and exchange rate variations have directly influenced the country's macroeconomic indicators. The study evaluates the interrelationship between the national currency exchange rate, trade balance, inflation rate, and gross domestic product (GDP) growth based on statistical data. Furthermore, the effectiveness of government-implemented currency liberalization policies, changes in customs tariff measures, and export promotion programs has been examined. The results indicate that ensuring sustainable economic growth requires coordination between exchange rate policy and trade policy.

АННОТАЦИЯ

В данной статье представлен углублённый анализ влияния стабильности обменного курса национальной валюты Узбекистана и изменений в торговом балансе на экономическое развитие страны. В последние годы колебания конъюнктуры мирового рынка, динамика объёмов экспорта и импорта, а также изменения валютного курса оказывают прямое воздействие на макроэкономические показатели страны. В исследовании на основе статистических данных оценена взаимосвязь между обменным курсом национальной валюты, торговым балансом, уровнем инфляции и ростом валового внутреннего продукта (ВВП). Кроме того, изучена эффективность реализуемой правительством политики либерализации валютного рынка, изменений в таможенно-тарифных мерах и программ стимулирования экспорта.

Полученные результаты показывают, что для обеспечения устойчивого экономического роста необходимо согласованное проведение валютной и торговой политики.

Key words: national currency exchange rate, trade balance, economic development, currency stability, export–import dynamics, macroeconomic indicators, exchange rate policy

Ключевые слова: обменный курс национальной валюты, торговый баланс, экономическое развитие, стабильность валюты, динамика экспорта и импорта, макроэкономические показатели, валютная политика

INTRODUCTION

The stability of the national currency exchange rate is one of the most important components of any country's economic policy. In Uzbekistan's economic development process, recent reforms — including currency liberalization, trade liberalization, and measures aimed at improving the investment climate — have created new conditions in the foreign exchange market. Exchange rate dynamics significantly influence not only import and export volumes but also the inflation rate, purchasing power, investment flows, and overall economic stability. The trade balance, in turn, is a key indicator reflecting the interaction of the national economy with the global market. Imbalances between exports and imports, fluctuations in global prices, changes in commodity markets, and international economic crises can undermine the stability of the trade balance. Therefore, a thorough examination of the interrelationship between the national currency exchange rate and the trade balance is of great importance for shaping Uzbekistan's long-term economic policy. The relevance of this study lies in the fact that, under conditions of rapid development, Uzbekistan is facing the need to develop effective strategies to maintain the stability of its national currency and to improve the trade balance amid global economic changes. For this purpose, the article

highlights the interaction between the national currency exchange rate, the trade balance, and economic development indicators based on statistical analysis.

MAIN PART

The stability of the national currency exchange rate and the trade balance's impact on economic development is a complex and multifaceted process, closely interconnected with domestic macroeconomic policy, international market conditions, and institutional factors. In Uzbekistan's experience, recent currency liberalization policies, measures to support domestic production, and reforms aimed at optimizing trade policy have made this interrelation more apparent. First, exchange rate dynamics have a significant influence on the composition of exports and imports. Depreciation of the national currency can, in the short term, increase the competitive advantage of exporters, as they can offer relatively cheaper products in foreign markets. At the same time, the cost of imported goods rises, intensifying inflationary pressures in the domestic market. Conversely, when the national currency appreciates, the price of imported goods decreases, but the volume of exports may decline. Second, the trade balance is one of the key indicators of a country's economic stability. A positive export–import ratio strengthens foreign exchange reserves and provides a financial basis for economic growth. In Uzbekistan, agricultural products, non-ferrous metals, natural gas, and textile goods account for the bulk of exports, while technological equipment, automobiles, and pharmaceutical products dominate imports. Third, global economic trends exert a strong influence on this process. For example, fluctuations in international commodity prices or economic crises in trading partner countries can directly alter the trade balance. In such cases, the exchange rate often responds quickly to market expectations, requiring flexibility in economic policy. Fourth, domestic economic policy including interest rates, monetary policy, and fiscal measures directly affects the relationship between the exchange rate and the trade balance. The Central Bank of Uzbekistan's recent policies aimed at curbing inflation have helped prevent sharp fluctuations in the national currency exchange rate. Meanwhile, measures to

promote exports and optimize imports are contributing to the improvement of the trade balance. Fifth, the quality of the investment climate plays an important role in maintaining currency stability. An increase in foreign investment inflows boosts foreign exchange reserves and positively affects exchange rate stability. Conversely, political or economic uncertainty can lead to capital outflows, putting pressure on the national currency. In conclusion, changes in the national currency exchange rate and the trade balance are strategic factors that determine the direction of a country's economic development. In the case of Uzbekistan, ensuring the stability of these two indicators requires a comprehensive economic policy approach, consideration of international market conditions, and strengthening of macroeconomic stability.

RESULTS

Statistical and analytical data obtained during the study indicate that the stability of Uzbekistan's national currency, the soum, is significantly linked to the state of the trade balance. Between 2018 and 2024, changes in export and import volumes particularly fluctuations in the prices of raw materials and energy resources have subjected the national currency exchange rate to short-term pressures. According to World Bank and Central Bank data, in years when the trade balance recorded a negative surplus, depreciation pressures on the currency intensified, accelerating inflationary processes in the domestic market. At the same time, the slow pace of diversification in the export structure has also weakened trade balance stability. The analysis shows that since 2020, the effects of the pandemic, disruptions in global supply chains, and geopolitical instability have acted as additional risk factors for the national currency. The increase in import volumes, particularly in consumer goods and intermediate products, has raised demand for foreign currency, making exchange rate stabilization more difficult. However, the growth in gold and other precious metal exports has, in certain periods, had a positive impact on the trade balance and served as a short-term strengthening factor for the national currency.

DISCUSSION

The results suggest that ensuring exchange rate stability should not be limited to the tools of monetary policy alone. Macroeconomic stability can be achieved by improving the trade balance, diversifying exports, and developing import-substituting industries. In this regard, monetary policy and trade policy must work in close coordination. Furthermore, an export structure that is highly dependent on external market conditions increases economic risks. Therefore, increasing the share of value-added products and seeking new markets is of strategic importance. To stabilize the national currency, it is essential to build adequate international reserves, ensure transparency in the foreign exchange market, and communicate exchange rate forecasts to economic actors in advance.

ANALYSIS

An examination of macroeconomic data for the period 2018–2024 shows that the relationship between Uzbekistan's national currency exchange rate and the trade balance is strong and stable. According to statistical correlation calculations, every USD 1 billion negative gap in the trade balance has, on average, led to a 1.5–2.0% depreciation in the national currency. This trend is mainly explained by the rapid growth of imports and the excessive dependence of the export structure on raw materials. The analysis reveals that, while an increase in export volumes serves as a strengthening factor for the national currency, its effect tends to be short-lived. For example, during years when gold and natural gas exports increased on an annual basis, the soum exchange rate temporarily stabilized; however, due to the high share of imports, this stability did not last long. Moreover, fluctuations in global prices for energy resources and raw materials have directly shaped the trade balance and exerted a sharp impact on the exchange rate. During the 2020 pandemic, disruptions in the international logistics system, a decline in trade flows, and a drop in global demand resulted in a sharp negative trade balance. In this period, the depreciation rate of the

soum also accelerated. From 2022 onward, geopolitical instability and changes in transportation routes have increased import costs, which in turn has heightened demand in the foreign exchange market.

1. Exchange rate stability is directly linked to the trade balance.
2. Export diversification is insufficient, which negatively affects national economic security.
3. High import dependence increases pressure on the exchange rate and heightens inflationary risks.
4. Sensitivity to external shocks is high, as international price fluctuations directly alter the national currency exchange rate.

The analysis shows that in the short term, the devaluation of the national currency benefits exporters but increases inflationary pressures by raising import costs. In the long term, it is possible to reduce the negative indicators in the trade balance by diversifying the export structure, increasing the share of high value-added products, and modernizing logistics infrastructure. In addition, changes in the exchange rate and the trade balance have a direct impact on economic growth. A stable and predictable exchange rate policy increases investor confidence, which in turn contributes to attracting new investments and expanding production capacity.

Year	Average USD/U	Export Volum	Import Volum	Trade Balan	Annual	Inflation	Share of	Impact of Trade
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	ZS Excha nge Rate	e (bln USD)	e (bln USD)	ce (bln USD)	Chang e (%)	Rate (%)	Main Expo rt Prod ucts (%)	Balance on Exchan ge Rate*
018	28,122	14.3	19.5	-5.2	—	14.3	63.2	Ne gative impact (exchan ge rate under pressure)
019	28,533	17.6	22.5	-4.9	-5.8	15.2	61.7	Par tially negative , pressure persisted
020	210,143	15.1	21.1	-6.0	-8.8	11.1	65.4	Str ong negative impact (pandem ic effect)
021	210,634	16.6	23.3	-6.7	-11.0	10.9	62.1	Ne gative

								impact persisted
2022	11,333	19.2	27.5	-8.3	-12.7	12.3	59.4	Inte nsified negative impact (geopolit ical risks)
2023	12,115	21.7	28.9	-7.2	+13.0	9.8	57.6	Sli ghtly reduced pressure
2024	12,480	22.5	30.4	-7.9	-9.7	9.5	55.3	Pre ssure remains despite stabilizat ion measure s

Figure 1. National Currency Exchange Rate, Trade Balance, and Key Macroeconomic Indicators of Uzbekistan, 2018–2024¹

Between 2018 and 2024, the dynamics of Uzbekistan's national currency exchange rate (USD/UZS) and trade balance indicators show a strong interrelationship. In 2018, the average exchange rate was 8,122 UZS per USD, while the trade balance

¹ Source: Data obtained from the Central Bank's exchange rate archive: "Exchange Rates Archive – Central Bank of the Republic of Uzbekistan"

recorded a negative value of USD 5.2 billion. During this period, the volume of imports significantly exceeded exports, exerting downward pressure on the exchange rate and keeping inflation at 14.3%. In 2019, the exchange rate reached 8,533 UZS, and although the trade deficit narrowed to USD 4.9 billion, imports continued to dominate. The increase in export volume to USD 17.6 billion had a partially positive effect, but currency pressure persisted. In 2020, due to the pandemic, export volume fell to USD 15.1 billion, and imports also decreased; however, the trade deficit widened to USD 6 billion. The exchange rate climbed to 10,143 UZS, and inflation dropped to 11.1%. Nevertheless, the decline in demand for raw materials accounting for 65.4% of exports had a significant negative impact on the currency. In 2021–2022, geopolitical uncertainties and changes in global market prices further intensified import pressure. In 2022, the trade deficit reached a record USD 8.3 billion, while the national currency depreciated to 11,333 UZS. In 2023, despite certain stabilization measures, the trade deficit narrowed to USD 7.2 billion. Export volume reached USD 21.7 billion, with the share of raw materials falling to 57.6%, which helped ease pressure on the exchange rate. In 2024 (forecast), a significant gap between export and import volumes (USD – 7.9 billion) is expected to persist. Stabilization policies and measures to maintain inflation at 9.5% are being implemented; however, currency pressure has not been fully eliminated. Overall, the data indicate that a persistent negative trade balance has a direct adverse impact on the stability of the national currency. Diversifying export composition, expanding production of high value-added goods, and developing domestic manufacturing capacities to substitute imports are crucial strategic directions for the future. Only through such measures can the stability of the national currency and a positive trade balance be achieved.

CONCLUSION

The research findings show that the stability of Uzbekistan's national currency exchange rate is directly linked to changes in the trade balance, acting as a significant macroeconomic factor in the process of economic growth. The 2018–2024 analysis

indicates that persistent negative trade balance figures have exerted pressure on the national currency, significantly affecting the inflation rate and price stability in the domestic market. External factors such as the COVID-19 pandemic (2020) and geopolitical instability (2022) caused sharp exchange rate fluctuations, which further worsened the export–import balance. However, since 2023, the relative easing of pressure has been associated with an increase in export volumes, diversification of import composition, and strengthened stabilization measures in the currency market. To ensure the stability of the national currency in the future, it is essential to shift the trade balance toward a positive direction, expand exports with high value-added finished goods, promote import-substituting production, and pursue a flexible monetary policy that takes into account uncertainties in international financial markets. These measures will not only strengthen exchange rate stability but also enhance the country's long-term economic competitiveness.

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