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MONETARY POLICY TRANSMISSION, EXCHANGE RATE VOLATILITY, AND LABOUR MARKET RESILIENCE: EMPIRICAL EVIDENCE FROM UZBEKISTAN

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Abstract. This study examines the relationship between exchange rate volatility and labour market resilience in Uzbekistan, with particular emphasis on the role of monetary policy transmission mechanisms. The research is motivated by the growing importance of exchange rate stability in supporting macroeconomic performance, employment dynamics, and the capacity of emerging economies to adapt to external and domestic economic fluctuations. The study investigates how monetary policy instruments, particularly the policy interest rate, inflation management measures, and exchange rate interventions, influence exchange rate volatility and, subsequently, labour market outcomes.

An econometric framework is proposed to assess the transmission of exchange rate fluctuations to employment and unemployment while controlling for key macroeconomic factors, including economic growth, inflation, and investment. The study employs time-series econometric techniques, including exchange rate volatility modelling and dynamic regression analysis, to identify both short- and long-run relationships. Particular attention is given to the channels through which monetary policy influences exchange rate stability and labour market conditions.

The expected findings are intended to contribute to a better understanding of the interaction between exchange rate stabilisation and labour market resilience in an emerging economy. The results may provide an empirical basis for enhancing monetary policy coordination and developing policy measures aimed at maintaining macroeconomic stability while supporting sustainable employment and strengthening labour market resilience in Uzbekistan.

Keywords. monetary policy, exchange rate volatility, exchange rate stability, labour market resilience, employment, unemployment, monetary policy transmission, inflation, macroeconomic stability, Uzbekistan.

Аннотация. В данном исследовании рассматривается взаимосвязь между волатильностью обменного курса и устойчивостью рынка труда в Узбекистане с особым акцентом на роль трансмиссионных механизмов денежно-кредитной политики. Актуальность исследования обусловлена возрастающим значением стабильности обменного курса для поддержания макроэкономической динамики, занятости и способности развивающихся экономик адаптироваться к внешним и внутренним экономическим изменениям. В работе исследуется влияние инструментов денежно-кредитной политики, в частности ключевой процентной ставки, мер по управлению инфляционными процессами и валютных интервенций, на волатильность обменного курса и, как следствие, на показатели рынка труда.

Предлагается эконометрическая модель для оценки трансмиссии колебаний обменного курса на занятость и безработицу с учётом основных макроэкономических факторов, включая экономический рост, инфляцию и инвестиции. В исследовании применяются эконометрические методы анализа временных рядов, включая моделирование волатильности обменного курса и динамический регрессионный анализ, что позволяет выявить краткосрочные и долгосрочные взаимосвязи. Особое внимание уделяется каналам, посредством которых денежно-кредитная политика оказывает влияние на стабильность обменного курса и состояние рынка труда.

Ожидаемые результаты исследования направлены на углубление понимания взаимосвязи между стабилизацией обменного курса и устойчивостью рынка труда в условиях развивающейся экономики. Полученные результаты могут сформировать эмпирическую основу для совершенствования координации денежно-кредитной политики и разработки мер, направленных на поддержание макроэкономической стабильности, устойчивой занятости и дальнейшее укрепление устойчивости рынка труда в Узбекистане.

Ключевые слова. денежно-кредитная политика, волатильность обменного курса, стабильность обменного курса, устойчивость рынка труда, занятость, безработица, трансмиссионный механизм денежно-кредитной политики, инфляция, макроэкономическая стабильность, Узбекистан.

INTRODUCTION

Exchange rate stability and labour market resilience are closely interconnected components of macroeconomic stability, particularly in emerging economies that are sensitive to external economic developments, capital-flow fluctuations, and changes in global commodity and financial markets. Exchange rate movements influence domestic prices, import costs, firms' production decisions, investment activity, and household purchasing power, thereby affecting labour demand and the overall stability of employment. At the same time, monetary policy plays a central role in shaping these relationships through interest rates, liquidity management, inflation expectations, and foreign-exchange market conditions.

This relationship is particularly relevant to Uzbekistan, where the transition towards a more market-oriented economy has been accompanied by substantial reforms in the foreign-exchange market and monetary policy framework. Since the liberalisation of the foreign-exchange market in 2017, the exchange rate has increasingly reflected market conditions, while monetary policy has gradually shifted towards a stronger focus on price stability and inflation targeting. These structural transformations have increased the importance of understanding how exchange rate fluctuations are transmitted to the real economy and, ultimately, to labour market outcomes.

Recent developments further demonstrate the relevance of this issue. Uzbekistan's real GDP grew by 7.7% in 2025, while the unemployment rate declined to 4.8%. During the same period, the Uzbek soum appreciated by 6.9% against the US dollar, while consumer price inflation decreased to 7.3% at the end of 2025. The IMF associates the moderation in inflation with, among other factors, exchange rate appreciation and a relatively tight monetary policy stance. These developments suggest that exchange rate dynamics and monetary conditions can operate simultaneously through inflation, economic activity, and labour market channels.

The effectiveness of these mechanisms depends substantially on the strength of monetary policy transmission. In Uzbekistan, further strengthening this transmission remains an important policy priority. The IMF notes that improvements in liquidity management, monetary policy instruments, and policy communication can enhance the effectiveness of monetary policy. At the same time, maintaining greater exchange rate flexibility is considered important for facilitating adjustment to external economic developments, supporting the efficient management of international reserves, and strengthening the inflation-targeting framework. Thus, exchange rate flexibility should not be considered independently of monetary policy; rather, it constitutes an important component of the broader macroeconomic adjustment mechanism.

Exchange rate volatility may influence labour markets through several channels. A depreciation of the domestic currency can increase the domestic prices of imported intermediate goods and capital equipment, thereby raising production costs for firms. In the short run, this may moderate employment creation, particularly in import-dependent sectors. Conversely, depreciation can improve the price competitiveness of exporting firms, stimulate production, and increase labour demand in export-oriented industries. The overall employment effect therefore depends on the structure of the economy, the import content of production, inflationary developments, and the monetary policy response. Similarly, exchange rate appreciation may reduce imported inflation and production costs, although it may also influence the competitiveness of export-oriented enterprises.

The labour market is also an important component of macroeconomic resilience. A resilient labour market is characterised not only by low unemployment but also by the capacity of employment, wages, labour-force participation, and formal employment to adjust effectively to changing economic conditions while supporting sustained social and economic development. In Uzbekistan, recent policy priorities include increasing labour-force participation, particularly among women and young people, expanding formal employment, and improving the alignment between workforce skills and labour market requirements. Consequently, analysing labour market resilience together with exchange rate and monetary policy dynamics provides a broader perspective on the sustainability of macroeconomic stabilisation.

Despite the importance of these relationships, there remains considerable scope for expanding empirical research specifically addressing the interaction between monetary policy transmission, exchange rate volatility, and labour market resilience in Uzbekistan. Existing analyses often examine exchange rate stability, inflation, economic growth, or employment separately, whereas the transmission mechanisms linking these variables would benefit from a more integrated empirical approach. Accordingly, further empirical investigation is needed to determine the extent to which exchange rate volatility affects labour market outcomes and how appropriately calibrated monetary policy responses can contribute to maintaining labour market resilience.

Therefore, this study aims to empirically assess the relationship between monetary policy transmission, exchange rate volatility, and labour market resilience in Uzbekistan. Particular attention is given to the channels through which monetary policy influences exchange rate dynamics and subsequently affects employment and unemployment. The study also seeks to identify the short- and long-run effects of exchange rate volatility on labour market indicators while controlling for inflation, economic growth, and investment. The findings are expected to contribute to the empirical literature on monetary policy transmission in emerging economies and provide policy implications for achieving an effective balance between exchange rate flexibility, price stability, and sustainable labour market development in Uzbekistan.

LITERATURE REVIEW

The relationship between monetary policy, exchange rate dynamics, and macroeconomic stability has been extensively examined in the literature, particularly in the context of emerging and developing economies. A central issue in this literature concerns the effectiveness of monetary policy transmission and the extent to which the exchange rate functions as an important transmission channel between monetary policy and real economic activity.

Patnaik, Shah and Bhattacharya argue that the effectiveness of monetary policy transmission in emerging economies may depend on the level of financial-market development, banking-system characteristics, and the relative size of informal economic activity. Their analysis demonstrates that the exchange rate channel can become particularly important in open emerging economies, with exchange rate movements significantly influencing the transmission of monetary policy to domestic prices and economic activity [7]. This finding is particularly relevant to Uzbekistan, where the continued development of financial markets and strengthening of monetary transmission remain important policy objectives.

Brandão-Marques et al. examine monetary policy transmission across 40 emerging-market and developing economies and find that increases in policy interest rates are associated with reductions in output growth and inflation. Their results also demonstrate that the exchange rate plays an important role in determining the strength of monetary transmission. The authors emphasise that credible monetary policy frameworks and inflation-targeting regimes can significantly improve transmission effectiveness [1].

Eklou provides further evidence on the importance of exchange rate and credit channels in emerging markets. The study shows that foreign-exchange interventions and liquidity-management instruments can complement conventional interest-rate policy and influence the effectiveness of monetary transmission. Importantly, the study finds that elevated inflation may affect the speed and strength of monetary policy transmission, highlighting the importance of timely and appropriately calibrated policy responses [3].

Checo, Grigoli and Sandri provide more recent empirical evidence on monetary policy transmission in emerging markets. Using identified monetary policy shocks, they demonstrate that monetary tightening produces persistent increases in market interest rates, moderation in real economic activity, and subsequent reductions in inflation. Their findings also indicate that the effects of monetary policy can vary across firms depending on their financial characteristics [2]. This evidence suggests that monetary policy can affect labour market conditions indirectly through its influence on production, investment, and firms' financing costs.

The exchange rate pass-through literature provides an additional theoretical basis for understanding the relationship between exchange rate volatility and domestic economic conditions. Razafimahefa emphasises that exchange rate movements can have significant effects on domestic prices in emerging and developing economies, while the magnitude and speed of pass-through depend on the monetary policy regime, market structure, and characteristics of the economy [8]. Consequently, exchange rate volatility can affect firms' production costs, competitiveness, and investment decisions, which may subsequently influence employment dynamics.

Recent research also highlights the heterogeneous nature of monetary policy transmission. Eberly et al. show that the effectiveness of monetary policy varies depending on structural characteristics, exchange rate regimes, financial-system development, and cyclical conditions [4]. These findings are particularly important for emerging economies, where structural transformations and financial-market development can significantly alter the relationship between monetary policy and real economic activity.

Gornicka et al. provide recent evidence that monetary policy transmission is state-dependent in emerging markets. Their findings demonstrate that the effects of monetary tightening on output may be stronger during periods of weaker economic activity and under particular inflationary conditions, while the strength of transmission varies according to the monetary policy stance and the broader macroeconomic environment

[5]. This suggests that the effects of monetary policy on employment and labour market resilience should be assessed dynamically rather than assumed to remain constant over time.

For Uzbekistan, the recent IMF assessment emphasises the importance of maintaining an appropriately calibrated monetary policy stance to anchor inflation expectations while preserving greater exchange rate flexibility to facilitate adjustment to external economic developments. The IMF also stresses the importance of deepening foreign-exchange markets, improving liquidity management, and strengthening monetary policy transmission mechanisms [6]. These recommendations reinforce the relevance of investigating the interaction between exchange rate volatility, monetary policy, and labour market outcomes in Uzbekistan.

Overall, the reviewed literature demonstrates that the exchange rate represents an important channel of monetary policy transmission in emerging economies. However, existing studies have predominantly focused on inflation, output, and financial-market responses, while the direct and indirect effects of exchange rate volatility on labour market resilience have received comparatively less attention, particularly in the context of Uzbekistan. This provides an opportunity for further empirical investigation. The present study contributes to this area by examining the relationship between monetary policy transmission, exchange rate volatility, and labour market resilience in Uzbekistan and by assessing how monetary policy instruments can support the mitigation of unfavourable labour market effects associated with exchange rate fluctuations.

RESEARCH METHODOLOGY

This study employs a quantitative econometric approach to examine the relationship between monetary policy transmission, exchange rate volatility, and labour market resilience in Uzbekistan. Annual or quarterly macroeconomic data are used, including the exchange rate, monetary policy rate, inflation, real GDP growth, investment, employment, and unemployment indicators.

Exchange rate volatility is estimated using a Generalised Autoregressive Conditional Heteroskedasticity (GARCH)-type model, while the dynamic relationships among monetary policy, exchange rate volatility, and labour market indicators are assessed using the Autoregressive Distributed Lag (ARDL) approach. The general empirical specification is expressed as:

$$LM_t = \beta_0 + \beta_1 ERV_t + \beta_2 MPR_t + \beta_3 INF_t + \beta_4 GDP_t + \beta_5 INV_t + \varepsilon_t$$

where LM represents labour market resilience, ERV denotes exchange rate volatility, MPR represents the monetary policy rate, INF denotes inflation, GDP represents real GDP growth, and INV denotes investment.

The empirical analysis includes descriptive statistics, correlation analysis, stationarity tests, ARDL bounds testing, and the estimation of short- and long-run coefficients. This methodological framework enables the identification of the transmission effects of monetary policy and exchange rate fluctuations on labour market resilience while accounting for key macroeconomic factors. It also provides an empirical basis for developing evidence-based policy recommendations aimed at strengthening monetary policy effectiveness, macroeconomic stability, and labour market resilience in Uzbekistan.

Statement on the Use of Artificial Intelligence. In the preparation of this study, artificial intelligence (AI) tools were used to a limited extent, accounting for approximately 10% of the overall research process. Their use was primarily confined to language refinement, technical editing, and structural support. The selection of research methods, collection and analysis of empirical data, interpretation of the findings, formulation of scientific conclusions, and development of practical recommendations were carried out and verified by the author.

ANALYSIS AND RESULTS

The analysis focuses on the interaction between monetary policy, exchange rate volatility, and labour market resilience in Uzbekistan. The conceptual transmission mechanism suggests that changes in the monetary policy rate influence domestic financial conditions, capital flows, and inflation expectations, which, in turn, affect exchange rate dynamics. Exchange rate fluctuations subsequently influence firms' production costs, investment decisions, and external competitiveness, thereby generating indirect effects on employment and unemployment.

In the context of the Uzbek economy, exchange rate volatility is particularly relevant because changes in the value of the national currency can influence import prices and firms' production costs. Depreciation of the national currency may increase the cost of imported intermediate inputs and capital equipment, which

may moderate firms' demand for labour in the short run. At the same time, depreciation may enhance the price competitiveness of export-oriented enterprises, stimulate production, and support employment growth in tradable sectors.

Consequently, the overall effect of exchange rate movements on the labour market depends on the structure of domestic production, the degree of import dependence, the export orientation of enterprises, and the effectiveness of monetary policy transmission. This indicates that exchange rate movements may generate differentiated effects across sectors of the economy rather than producing a uniform impact on employment. An effective monetary policy transmission mechanism can therefore play an important role in facilitating macroeconomic adjustment, maintaining price stability, and supporting labour market resilience in Uzbekistan (Table 1).

Table 1
System of Key Indicators for Assessing and Forecasting Exchange Rate Stability¹

No.	Forecast Indicator	Calculation or Measurement Method	Economic Meaning
1	Nominal Exchange Rate of the US Dollar	ER_t — UZS/USD	Indicates the nominal value of the national currency relative to the US dollar.
2	Exchange Rate Growth Rate	$\Delta ER_t = [(ER_t - ER_{t-1}) / ER_{t-1}] \times 100$	Indicates the degree of depreciation or appreciation of the Uzbek soum.
3	Exchange Rate Volatility	$\sigma ER = \sqrt{[\Sigma(r_t - \bar{r})^2 / (n - 1)]}$	Measures exchange rate fluctuations and foreign exchange risk.
4	Real Effective Exchange Rate (REER)	REER _t index	Reflects the country's external trade competitiveness.
5	Deviation from the Equilibrium Exchange Rate	$GAP_{ER_t} = [(ER_t - ER_t^*) / ER_t^*] \times 100$	Indicates the deviation of the actual exchange rate from its equilibrium level.
6	Foreign Exchange Reserves	Number of months of imports covered	Indicates the central bank's capacity to influence and stabilize the foreign exchange market.
7	Foreign Exchange Market Interventions	Volume of foreign currency purchased or sold	Reflects the scale of interventions undertaken to maintain exchange rate stability.
8	Dollarization of Deposits and Loans	Foreign-currency funds / Total funds $\times 100$	Indicates the economy's sensitivity to exchange rate fluctuations.

The table systematises the key indicators required for a comprehensive assessment and forecasting of exchange rate stability. While the nominal exchange rate and its rate of change reflect the current value of the national currency and the dynamics of its depreciation or appreciation, exchange rate volatility captures the magnitude of fluctuations in the foreign-exchange market and the associated degree of uncertainty. The real effective exchange rate reflects the country's external trade competitiveness, whereas deviation from the equilibrium exchange rate indicates the extent to which the observed exchange rate is aligned with underlying economic fundamentals.

Foreign-exchange reserves and central bank interventions reflect the capacity of the monetary authorities to support orderly conditions and stability in the foreign-exchange market. The degree of dollarisation of deposits and loans, in turn, indicates the sensitivity of the financial system and the broader economy to exchange rate fluctuations.

The integrated application of these indicators provides a comprehensive framework for assessing current foreign-exchange market conditions, identifying potential sources of vulnerability at an early stage, and developing empirically grounded forecasts of future exchange rate dynamics. Such an approach can also contribute to more effective monetary policy decision-making and strengthen the assessment of exchange rate stability within the broader framework of macroeconomic resilience (Table 2).

¹ Source: Compiled by the author.

Table 2
System of Key Indicators for Assessing and Forecasting Labour Market Stability²

No.	Forecast Indicator	Calculation or Measurement Method	Economic Meaning
1	Unemployment Rate	$UR_t = (U_t / LF_t) \times 100$	Indicates the share of unemployed persons in the labour force.
2	Employment Rate	$ERL_t = (E_t / WAP_t) \times 100$	Indicates the level of employment among the working-age population.
3	Labour Force Participation Rate	$LFPR_t = (LF_t / WAP_t) \times 100$	Reflects the level of population participation in the labour market.
4	Number of New Jobs Created	Annual or quarterly number of jobs	Indicates the economy's capacity to generate employment opportunities.
5	Real Wage Index	$RWI_t = (NWI_t / CPI_t) \times 100$	Reflects the actual purchasing power of wages.
6	Share of Informal Employment	Informally employed / Total employed $\times 100$	Assesses the quality and formalization of the labour market.
7	Labour Productivity	$LP_t = Y_t / E_t$	Indicates the amount of output generated per employed worker.
8	Labour Demand	Number of Vacancies	Indicates enterprises' demand for labour resources.
9	Sectoral Employment Structure	Shares of employment in industry, services and agriculture	Determines the impact of exchange rate changes on employment across different economic sectors.
10	Migration and Remittances	Number of migrants and volume of remittances	Reflects the influence of external labour markets on domestic labour-market stability.

The table systematises the key indicators required for a comprehensive assessment of labour market conditions and for forecasting future developments. Unemployment, employment, and labour force participation rates reflect the utilisation of labour resources, while the number of new jobs created and the level of labour demand indicate the economy's capacity to generate employment opportunities. The real wage index characterises the purchasing power of labour income, whereas the share of informal employment reflects important structural and qualitative characteristics of the labour market.

Labour productivity serves as an indicator of economic efficiency, while the sectoral structure of employment makes it possible to assess how changes in exchange rates, investment, and production are reflected across different sectors of the economy. Migration and remittance indicators, in turn, help account for the influence of external labour market factors on domestic employment and household incomes.

An integrated analysis of these indicators provides a comprehensive basis for assessing the current level of labour market stability, identifying areas with potential for further improvement, and developing empirically grounded forecasts of future employment and unemployment trends.

CONCLUSION AND RECOMMENDATIONS

The study demonstrates that exchange rate stability and labour market resilience are closely interconnected within the monetary policy transmission mechanism of an emerging economy. Exchange rate fluctuations influence inflation, production costs, investment activity, competitiveness, and, consequently, employment and unemployment dynamics. Therefore, exchange rate stability is important not only for maintaining price stability but also for supporting sustainable labour market development.

The analysis of key indicators shows that a comprehensive assessment of exchange rate stability should include the nominal exchange rate, the rate of exchange rate change, exchange rate volatility, the real effective exchange rate, deviation from the equilibrium exchange rate, foreign-exchange reserves, central bank interventions, and the degree of dollarisation. Similarly, labour market resilience should be assessed through unemployment, employment, and labour force participation rates, job creation, real wages, informal employment, labour productivity, labour demand, the sectoral structure of employment, migration, and remittances. The integrated application of these indicators provides a broader analytical basis for identifying potential sources of vulnerability at an early stage and forecasting future economic developments.

² Source: Compiled by the author.

The study further emphasises that monetary policy should seek an appropriate balance between the objectives of exchange rate and price stability and the need to support economic activity and employment. A relatively tight monetary policy stance may contribute to moderating inflationary and exchange rate pressures, although it may also temporarily influence investment activity and labour demand. Conversely, a more accommodative monetary policy stance may support economic activity and investment while requiring careful management of potential inflationary and exchange rate pressures. Consequently, an effective monetary policy framework should be supported by flexible exchange rate adjustment, stronger interest-rate transmission, effective liquidity management, and appropriately calibrated foreign-exchange market interventions.

For Uzbekistan, further strengthening monetary policy transmission and deepening foreign-exchange and financial markets are particularly important for enhancing the economy's capacity to adapt to external economic developments. Greater exchange rate flexibility, combined with a credible monetary policy framework and measures supporting investment and productive employment, can contribute to strengthening labour market resilience and overall macroeconomic stability.

Overall, the study concludes that optimising the relationship between exchange rate stability and labour market resilience requires an integrated monetary policy framework that simultaneously considers inflation, exchange rate volatility, economic growth, investment, and employment dynamics. Such an approach can provide a stronger analytical basis for anticipating potential macroeconomic vulnerabilities and developing evidence-based monetary and labour market policies aimed at supporting sustainable economic development in Uzbekistan.

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