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CAUSES OF INFLATION AND WAYS TO REDUCE IT: EVIDENCE FROM UZBEKISTAN

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Abstract: This article analyzes the economic substance of inflation, its underlying causes, and its impact on the population's living standards and macroeconomic stability. The study examines inflation drivers related to demand, supply, monetary policy, external factors, and expectations. Using the case of Uzbekistan's economy, the paper reviews specific factors influencing price increases and offers policy recommendations to curb inflation, focusing on monetary, fiscal, competition, and production policies.

Keywords: inflation, price level, monetary policy, demand-pull inflation, cost-push inflation, central bank, interest rate, consumer market.

Introduction

In a market economy, a certain degree of price fluctuation is natural. However, a sustained and rapid increase in the general price level constitutes inflation. Consequently, the purchasing power of money declines, the real value of household incomes decreases, and both savings and investment decisions are negatively affected. Inflation is not merely an economic issue but also a social one, as rising prices disproportionately impact the expenditures of fixed and low-income populations. Therefore, maintaining inflation at an optimal level is a crucial objective of state economic policy. In recent years, inflationary processes in Uzbekistan have been influenced by domestic demand, credit expansion, energy tariffs, service prices, imported goods, and external market prices. The Central Bank's primary target is to reduce inflation to 5 percent over the medium term. Inflation also influences employment, business activity, and investment decisions. When inflation remains stable and predictable, firms are more willing to expand production and create new jobs. Therefore, maintaining price stability contributes not only to macroeconomic balance but also to improving the welfare of society.

Literature Review

In recent years, inflation has emerged as one of the most pressing research areas in economics. Both international and local economists have analyzed the causes of inflation, its impact on economic growth and welfare, and the mechanisms for managing it from various perspectives. O. Blanchard, in his work Macroeconomics, characterizes inflation as a macroeconomic phenomenon closely linked to the imbalance between aggregate demand and aggregate supply, as well as to monetary policy.[1] N. G. Mankiw emphasizes the crucial roles of central bank independence, money

[1] Blanchard, O. Macroeconomics. 8th ed. Pearson Education, 2021.

supply, and interest rates in controlling inflation. F. S. Mishkin highlights the significance of inflationary expectations and monetary policy in ensuring economic stability.[2] C. Oner of the International Monetary Fund identifies increased demand, rising production costs, and excessive expansion of the money supply as primary causes of inflation.[3] World Bank reports stress that in developing countries, inflation is significantly affected by external prices, logistics costs, and exchange rate fluctuations. In Uzbekistan, inflationary processes are regularly analyzed in the monetary policy reviews and inflation reports of the Central Bank. These reports detail the impact of domestic demand, energy tariffs, service sector prices, imported goods, and inflationary expectations on price dynamics. The strategic objective remains to reduce inflation to 5 percent over the medium term. The reviewed literature indicates that successful inflation control requires strong institutional policies and coordination between monetary and fiscal authorities. Researchers also emphasize that transparent communication by central banks helps reduce inflation expectations and strengthens public confidence in economic policy.

Results and Analysis

Uzbekistan has implemented comprehensive reforms aimed at reducing inflation and ensuring economic stability.[4] These measures include enhancing the effectiveness of monetary and fiscal policies, promoting domestic production, and ensuring price stability. As a result of these efforts, the inflation rate has been gradually declining while economic growth has maintained positive momentum. The statistical analysis of these processes is presented below.

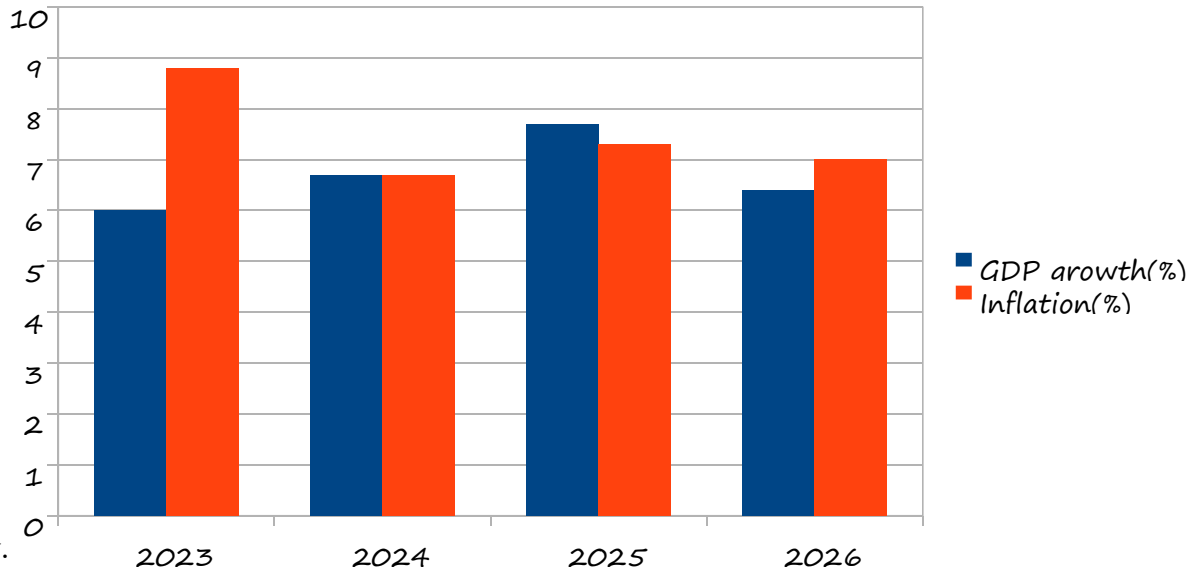


Table1.Analysis of the relationship between GDP growth and inflation

[2] Mishkin, F. S. The Economics of Money, Banking and Financial Markets. 13th ed. Pearson Education, 2022.

[3] Oner, C. "Inflation: Prices on the Rise". International Monetary Fund, Finance & Development.

[4] Central Bank of the Republic of Uzbekistan. "Monetary Policy Review – 2025 Q4". 2026.

The table above presents the dynamics of GDP growth and inflation in Uzbekistan for the period 2023–2026. In 2023, while the GDP growth rate was 6.0%, the inflation rate was considerably higher at 8.8%. This period was characterized by significant price increases, which negatively impacted real household incomes and purchasing power. In 2024, a notable improvement was observed as inflation decreased to 6.7%, aligning precisely with the GDP growth rate of 6.7%. This convergence indicates that a relative macroeconomic equilibrium was achieved. It also suggests that the coordinated macroeconomic policies implemented by the government and the Central Bank began yielding positive results in curbing inflation. By 2025, economic growth accelerated to 7.7%, while inflation remained at 7.3%. This scenario illustrates that the expansion of domestic demand, accompanying high economic activity, exerted some pressure on prices. Nevertheless, the fact that inflation remained below GDP growth demonstrates that economic expansion was relatively stable and sustainable. Looking ahead, the forecast for 2026 projects GDP growth at 6.4% and inflation at 7.0%. This implies a slight deceleration in economic growth while price increases persist at a moderate level. This forecast underscores the need to maintain a tight monetary policy stance, expand production capacity, and strengthen the competitive environment in the domestic market to achieve further disinflation. Overall, the analysis for 2023–2026 indicates that Uzbekistan has been successful in gradually reducing inflation while sustaining relatively high economic growth rates. This trend signifies a strengthening of macroeconomic stability and the creation of a favorable environment for long-term economic development.[5] The obtained results demonstrate that the gradual decline in inflation has been accompanied by relatively stable economic growth. This confirms the effectiveness of the government's macroeconomic reforms and the Central Bank's monetary policy measures. However, maintaining this trend requires continuous monitoring of domestic and external economic risks.

Conclusion

In conclusion, inflation is a key macroeconomic indicator significantly affecting a country's sustainable economic development. Its emergence is driven by an imbalance between aggregate demand and supply, rising production costs, monetary factors, and external economic conditions. High inflation can lead to reduced real incomes, decreased investment activity, and increased economic instability. Therefore, mitigating inflation requires a consistent and coordinated approach to monetary and fiscal policy, support for domestic production, the development of a competitive environment, and the improvement of logistics systems. Furthermore, the effective management of inflation expectations and the implementation of consistent measures to ensure price stability are essential components for enhancing economic growth and improving the overall welfare of the population. Overall, achieving low and stable inflation should remain one of the main priorities of economic policy in Uzbekistan. Continued structural reforms, effective monetary policy, and increased production capacity will help ensure long-term price stability and sustainable economic growth.

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