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INSTITUTIONAL AND ECONOMIC MECHANISMS FOR ENSURING FINANCIAL SECURITY UNDER INFLATIONARY CONDITIONS

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Abstract: This article examines the impact of inflationary processes on national financial security, the role of institutional governance and economic mechanisms in ensuring macroeconomic stability, and the priority directions for their improvement. In particular, the study analyzes the interrelationships between changes in inflation rates, the effectiveness of monetary policy, the purchasing power of the national currency, the stability of the banking and financial system, investment activity, and household real incomes. Special attention is given to the inflation-targeting policy of the Central Bank of the Republic of Uzbekistan, macroprudential regulatory instruments, bank capital and liquidity management, financial risk monitoring, and coordination of public financial institutions. The study also considers recent macroeconomic developments presented in the International Monetary Fund's 2026 analytical materials on Uzbekistan and the Central Bank's Monetary Policy Review for the second quarter of 2026. Furthermore, the article explores scientific and practical approaches to reducing inflationary risks, strengthening the resilience of financial institutions, improving the financial system's capacity to withstand economic shocks, and developing institutional mechanisms aimed at ensuring financial security under inflationary conditions.

Keywords: inflation, financial security, macroeconomic stability, institutional mechanisms, monetary policy, inflation targeting, financial risks, banking system, macroprudential regulation, financial stability, investment activity

INTRODUCTION

The global economy is currently experiencing increasing economic uncertainty caused by geopolitical tensions, fluctuations in international trade relations, changes in energy resource prices, and instability in financial markets. These developments contribute to inflationary pressures and create new challenges to the stability of national financial systems. Under such circumstances, inflation is not merely a macroeconomic indicator reflecting the general increase in the prices of goods and services; it is also an important economic factor that directly affects a country's financial security, the purchasing power of its national currency, banking system stability, the real value of household savings, and the investment environment. In particular, prolonged periods of high inflation restrict the ability of economic agents to make effective financial decisions, increase the risk of depreciation of savings, influence the cost of credit resources, and create structural imbalances within the financial system.

Ensuring financial security represents one of the strategic priorities of modern economic development. It involves maintaining the stable functioning of the monetary and financial system, ensuring the efficient allocation of public financial resources, preserving the solvency of banking institutions, strengthening the stability of the national currency, and increasing the economy's resilience to internal and external economic threats. From this perspective, the effective regulation of inflationary processes cannot be limited exclusively to monetary policy instruments. Rather, it requires the development of a coordinated system involving fiscal policy, banking supervision, institutional governance, financial monitoring, and structural economic reforms. In Uzbekistan, strengthening macroeconomic stability, controlling price increases, and ensuring the sustainability of the financial system are among the principal priorities of state economic policy. In particular, Presidential Decree No. PF-5877, dated November 18, 2019, entitled "On Improving Monetary Policy through the Gradual Transition to the Inflation Targeting Regime," established an important institutional foundation for the modernization of the country's monetary policy. The decree outlined key directions for introducing inflation targeting mechanisms, ensuring price stability, improving the monetary policy instruments of the Central Bank, and strengthening macroeconomic forecasting mechanisms. Furthermore, Presidential Decree No. PF-60, dated January 28, 2022, entitled "On the Development Strategy of New Uzbekistan for 2022–2026," identified several important objectives, including ensuring macroeconomic stability, gradually reducing annual inflation, controlling the state budget deficit, and supporting sustainable economic growth. This strategic approach demonstrates that inflation management should not be considered solely a monetary process but rather a comprehensive economic objective closely associated with public finance, the investment environment, and population welfare. Another significant institutional framework for the development of the country's banking and financial system is Presidential Decree No. PF-5992, dated May 12, 2020, entitled "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025." The decree identified priority objectives such as ensuring the financial stability of the banking system, improving the operational efficiency of banks, reducing state ownership in the banking sector, enhancing the quality of financial services, and improving prudential supervision mechanisms. These strategic directions are particularly important for maintaining banking sector stability and reducing systemic risks under conditions of increasing inflationary pressure.The consistent implementation of these policy directions is also reflected in the Central Bank of the Republic of Uzbekistan's monetary policy guidelines for 2026–2028. These guidelines identify reducing inflation to the medium-term target of 5%, adjusting monetary conditions in accordance with macroeconomic developments, moderating credit growth, and managing inflation expectations as major policy priorities. At the same time, achieving price stability is closely associated with structural reforms aimed at developing competition, ensuring trade openness, strengthening energy security, and improving the financial sector. According to information presented to the President of the Republic of Uzbekistan on November 12, 2025, concerning measures to contain inflation and ensure macroeconomic stability, annual inflation had decreased to 7.8% as of November 1, 2025. The objectives included reducing this indicator to 7% in 2026 and approximately 5% in 2027. These developments demonstrate the importance of not

only reducing inflation but also systematically managing its impact on other components of the national economy.

At the same time, several challenges remain in ensuring financial security under inflationary conditions. In particular, fluctuations in the prices of imported goods, external price shocks, increasing demand for credit resources, exchange rate volatility, inflation expectations among households, and growing credit risks within the banking system may negatively affect financial stability. Moreover, the unequal impact of inflation on income distribution, particularly its adverse effects on the real purchasing power of households with fixed incomes, makes the issue of socioeconomic security increasingly important. In this context, financial security mechanisms should focus on the early identification of economic risks, assessment of their potential consequences, and timely implementation of appropriate institutional measures.

Inflation is one of the most important macroeconomic factors affecting the financial security and sustainable development of national economies. It represents a continuous increase in the general price level of goods and services, leading to a decline in the purchasing power of money. Inflationary processes may arise from excessive growth in aggregate demand, expansion of money supply, rising production costs, exchange rate fluctuations, external economic shocks, and structural imbalances in the national economy. Therefore, inflation should be considered not only as a monetary phenomenon but also as a complex economic process that directly influences financial stability, investment activity, household welfare, and the efficiency of financial institutions. Financial security under inflationary conditions refers to the ability of the national financial system to maintain stability, preserve the purchasing power of the national currency, ensure the reliable functioning of banking institutions, and withstand internal and external economic threats. High inflation can negatively affect financial security by reducing the real value of savings, increasing uncertainty in financial markets, weakening investment incentives, and creating additional risks for commercial banks. Furthermore, persistent inflation may increase the cost of credit resources and reduce the financial capacity of households and businesses. One of the primary mechanisms for ensuring financial security is the implementation of an effective monetary policy. The Central Bank plays a significant role in controlling inflation through interest rate regulation, liquidity management, open market operations, and inflation expectation management. The introduction of inflation targeting in Uzbekistan has strengthened the institutional foundations of monetary regulation and created conditions for improving price stability. In this regard, maintaining the credibility of monetary policy, improving economic forecasting, and strengthening the transmission mechanism of monetary instruments are essential for reducing inflationary risks. Institutional mechanisms are equally important in ensuring financial security. These mechanisms include the activities of the Central Bank, the Ministry of Economy and Finance, commercial banks, and other financial regulatory institutions. Effective coordination among these institutions contributes to the timely identification of financial risks, improves the consistency of economic policy, and strengthens the resilience of the financial system. In particular, coordination between monetary and fiscal policies is essential because excessive government expenditure and budget deficits may intensify inflationary pressures and weaken the effectiveness of monetary regulation.

The banking sector represents another important component of financial security. Under inflationary conditions, commercial banks may face increased credit risks, liquidity constraints, and changes in the repayment capacity of borrowers. Therefore, improving prudential supervision, maintaining adequate capital reserves, strengthening internal risk management, and implementing regular stress testing are important measures for ensuring banking system stability. The development of macroprudential regulation also makes it possible to identify systemic risks and prevent excessive credit expansion. Another important factor is the relationship between inflation and exchange rate stability. In economies that depend considerably on imported goods and production inputs, national currency depreciation may increase domestic prices and generate additional inflationary pressure. This situation can negatively affect production costs, investment decisions, and the competitiveness of domestic enterprises. Consequently, effective exchange rate management, diversification of export potential, development of domestic production, and strengthening of foreign exchange market mechanisms are important elements of financial security. International experience demonstrates that successful inflation management requires a comprehensive combination of monetary discipline, institutional independence, fiscal sustainability, and effective financial supervision. The practices of countries implementing inflation-targeting regimes indicate that transparent monetary policy decisions, reliable macroeconomic forecasting, and consistent regulatory frameworks contribute to controlling inflation expectations and maintaining financial stability. At the same time, international approaches should be adapted to the structural and institutional characteristics of each national economy. In Uzbekistan, improving financial security under inflationary conditions requires the further development of market-based financial mechanisms, strengthening the banking sector, improving the efficiency of public expenditure, and reducing structural factors that contribute to inflation. Particular attention should be given to improving the allocation of credit resources, increasing competition in financial markets, expanding long-term investment instruments, and strengthening the institutional independence and analytical capacity of financial regulatory authorities. Furthermore, digital technologies create new opportunities for improving financial risk management. The application of artificial intelligence, big data analytics, automated monitoring systems, and digital financial reporting can improve the accuracy of inflation forecasting and facilitate the early identification of potential financial threats. However, the development of digital financial infrastructure should be accompanied by effective cybersecurity measures and reliable data protection mechanisms. From a scientific perspective, ensuring financial security under inflationary conditions requires an integrated approach in which monetary, fiscal, institutional, banking, and technological mechanisms operate in coordination. The effectiveness of these mechanisms should be assessed not only through changes in the inflation rate but also through their impact on the purchasing power of the population, the stability of financial institutions, the sustainability of public finances, and the resilience of the national economy to external and internal economic shocks.

Thus, the improvement of institutional and economic mechanisms for ensuring financial security should be considered a strategic priority for sustainable economic development. Strengthening institutional coordination, improving monetary policy effectiveness, developing

macroprudential regulation, and increasing the resilience of financial institutions will contribute to reducing inflationary risks and maintaining long-term financial stability in Uzbekistan.

CONCLUSION

The research findings demonstrate that inflation has a significant impact on national financial security, monetary stability, and the sustainable development of the economy. Persistent inflation reduces the purchasing power of the national currency, weakens household savings, increases financial risks, and negatively affects banking system stability. Therefore, ensuring financial security requires the coordinated implementation of effective monetary and fiscal policies, strengthening institutional mechanisms, and improving banking supervision. In this regard, it is essential to enhance inflation-targeting mechanisms, strengthen coordination between financial institutions, improve macroprudential regulation, and expand digital financial monitoring. Furthermore, developing domestic production, increasing market competition, and improving the efficiency of public expenditure can contribute to reducing inflationary pressures.

In conclusion, improving institutional and economic mechanisms for ensuring financial security under inflationary conditions is an important prerequisite for maintaining macroeconomic stability, strengthening the resilience of the financial system, and achieving sustainable economic development in Uzbekistan.

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