

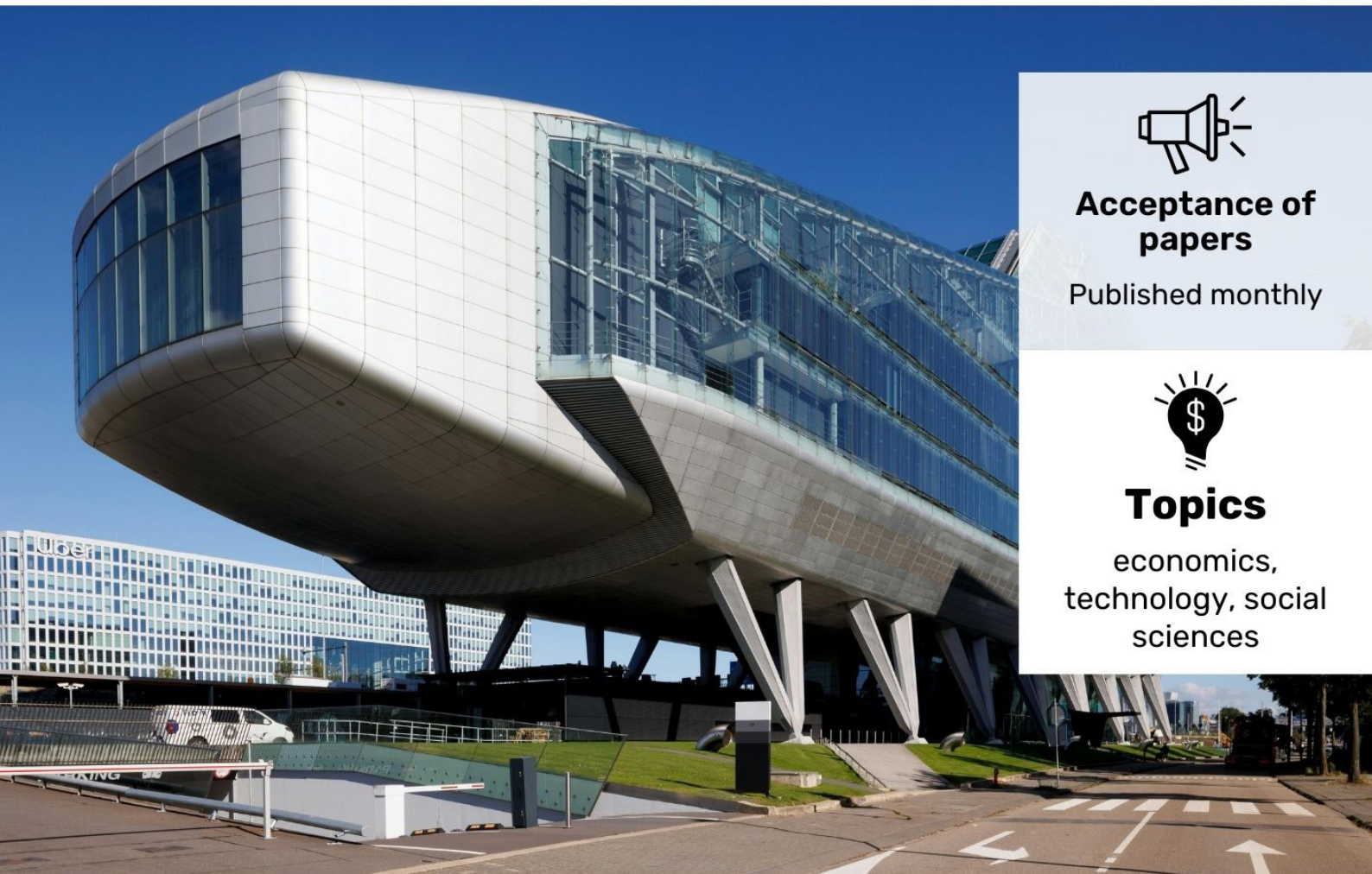
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CENTRAL BANKS AND FINANCIAL STABILITY: GLOBAL EXPERIENCES IN THE POST- PANDEMIC PERIOD



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Abstract: The pandemic period posed an unprecedented challenge to the global financial system. In response, central banks swiftly implemented monetary easing measures drastically reducing key policy rates and launching liquidity provision programs to avert a systemic crisis. This article analyzes central bank policies and issues related to financial stability in the post-pandemic era, focusing specifically on the refinancing (key) interest rate as a principal policy tool.

Drawing on a comparative analysis of experiences in emerging economies such as India, Indonesia, Brazil, South Africa, and Türkiye, the article examines how changes in the key policy rate affect inflation, exchange rates, and financial stability. The discussion is supported by statistical data and graphical illustrations. Concluding remarks are framed in the context of Uzbekistan, offering practical recommendations aimed at strengthening financial stability in the country.

Key words: central bank, financial stability, pandemic, refinancing rate, monetary policy, emerging markets, Uzbekistan.

INTRODUCTION

The COVID-19 pandemic delivered an extraordinary shock to the global financial system in 2020. Economic activity contracted worldwide, and markets fell into disarray. In response, central banks implemented swift measures to contain the financial crisis and support economic growth. Among major central banks, such as the U.S. Federal Reserve and the European Central Bank, key policy rates were sharply reduced, and quantitative easing (asset purchase) programs were significantly expanded. Emerging-market central banks likewise lowered their policy rates to historically low levels in an effort to stimulate economic recovery. However, in some economies, overly aggressive rate cuts risked capital flight and depreciation of national currencies. Consequently, central banks faced the delicate task of maintaining balance when selecting appropriate monetary policy measures during the pandemic.

The primary tool of monetary policy is the refinancing rate (also referred to as the key policy rate), which influences short-term interest rates across the economy and helps maintain inflation near target levels. During crises, cutting this rate allows central banks to inject cheaper financial resources into the economy, easing liquidity constraints. At the onset of the pandemic, when economic activity collapsed abruptly, rate reductions

not only made borrowing more affordable but also helped alleviate market panic and support the functioning of financial institutions. However, as the global economy began to recover, inflationary pressures mounted, compelling central banks to shift toward tightening by raising key policy rates. Thus, in the post-pandemic era, the critical challenge for central banks has been to use the key rate as a tool to strike a balance between curbing inflation and ensuring financial stability.

The objective of this paper is to examine how central banks have utilized the key policy rate in the post-pandemic period and to assess its impact on financial stability. For this purpose, the experiences of emerging markets such as India, Indonesia, Brazil, South Africa, Türkiye, and others are analyzed through a comparative lens. Lessons drawn from these countries serve as the basis for conclusions and policy recommendations applicable to Uzbekistan.

LITERATURE REVIEW

Research on central bank policy in the post-pandemic era indicates that most countries initially focused on stimulating economic recovery, but from 2021–2022 onward, central banks began tightening monetary policy due to inflationary risks. According to English and co-authors (2024), global inflation in 2021–2022 rose to its highest level in four decades, testing central banks' commitment to price stability. At first, major advanced-economy central banks viewed inflation as "transitory" and hesitated to raise rates but later found themselves compelled to tighten quickly and sharply. This, in turn, introduced new financial stability risks, such as an elevated public-debt burden and adverse effects on bank balance sheets.

Emerging markets, by contrast, generally sensed inflation risks earlier, prompting them to tighten monetary policy more quickly. According to the International Monetary Fund (IMF), major emerging-market central banks raised policy rates by an average of 780 basis points during the post-pandemic period, compared to around 400 points in developed countries. By acting preemptively, some emerging-market economies were relatively insulated from external pressures. Indeed, IMF analysts note that when U.S. Treasury yields began to climb in 2022–2023, the impact on emerging Asian and Latin American bond markets was notably milder than during the "taper tantrum" in 2013 those markets' sensitivity to U.S. yields dropped to about two-thirds and one-half of previous levels, respectively. Analysts attribute this resilience to improved macroeconomic management, particularly enhanced central bank independence and credibility.

Indeed, countries like Brazil and Mexico reacted aggressively to inflationary pressures as early as 2021, but some, such as Türkiye, pursued unorthodox approaches by continuing to cut rates despite high inflation. Brazil's central bank, for example, raised its key rate from 2% in March 2021 to 13.75% by September 2022. Scholars suggest that Brazil's decisive moves contributed to the drop in its annual inflation rate from 12.1% in April 2022 to 3.16% by June 2023. Similar success in reining in inflation is observed in several other emerging economies. In India and Indonesia, inflation peaked around 7–8% in 2022 but began to subside in 2023 as monetary authorities introduced stricter policies. In South Africa, after successive hikes in the base rate from late 2021, inflation fell from around 7% in mid-2022 to 5% in 2023.

In contrast, in Türkiye, policy rate cuts in late 2021 triggered an inflationary spiral. Between September and December 2021, under political pressure, the Central Bank of the Republic of Türkiye lowered its policy rate from 19% to 14%, and further reductions throughout 2022 brought it down to 9%. As a result, the national currency depreciated rapidly, and annual inflation exceeded 80% by the end of 2022—the country's highest in 24 years. According to Reuters, this "unconventional easing" generated a currency crisis and sharply increased the cost of living. This example underscores the importance of central bank independence and adherence to conventional inflation-targeting frameworks for preserving financial stability.

It should also be noted that during the pandemic, many emerging-market central banks deployed unconventional tools. For instance, Poland, Indonesia, and the Philippines introduced direct bond-purchase programs or provided forward guidance about future policy rates. These measures stabilized financial markets in the short term but required a clear and timely exit strategy. Economies with sufficient foreign-exchange reserves and more flexible exchange-rate regimes were found to be more resilient to external shocks. In particular, some Central Asian and other economies responded to the external threats arising from the Russia–Ukraine conflict by employing foreign-exchange interventions and capital-flow restrictions.

In sum, the global financial system has transitioned to an era of "higher interest rates" in the post-pandemic context, and central banks face the complex dual mandate of supporting economic growth while ensuring price stability. The experience of countries where central banks are more independent and are resolute in combating inflation (Brazil, Mexico, India, etc.) shows they have generally maintained financial stability and weathered external shocks with less difficulty. By contrast, delayed or inconsistent monetary policy responses—such as in Türkiye can exacerbate financial instability and provoke currency crises.

RESEARCH METHODOLOGY

This paper employs comparative and empirical approaches to analyze central bank monetary policies in the post-pandemic period. First, secondary data on the effects of the pandemic on the financial system and central bank responses were collected from open sources—central bank reports, IMF and World Bank publications, and academic research. An extensive literature review was then conducted.

Next, selected emerging economies (India, Indonesia, Brazil, South Africa, and Türkiye) were examined to compare their key interest rates before (2019) and after (2020–2023) the pandemic. Using official data from each country's central bank and related statistical bulletins, a timeline of changes in these countries' key rates was compiled and illustrated graphically. The impact of these rate changes on inflation, GDP growth, exchange rates, and capital flows was also analyzed.

For the empirical component, statistical data were processed and visualized using MS Excel and Python, yielding graphs and tables. Comparative analysis highlighted similarities and differences among countries, while trend analysis described changes over time. The tables and figures presented in the paper are based on the author's own calculations and publicly available data sources, providing a visual narrative of the distinguishing characteristics of post-pandemic monetary policy.

Finally, a dedicated case study focuses on Uzbekistan, assessing the policy stance of its central bank and offering recommendations based on international experience.

ANALYSIS AND RESULTS

In the early stages of the pandemic, central banks in all the countries under review rapidly cut their key rates. This approach aimed to mitigate the economic downturn and maintain financial-market stability. Table 1 and Figure 1 show that policy rates, which stood at around 5–6% at the end of 2019, plummeted to historically low levels during 2020. For example, in Brazil, the rate dropped from 4.5% at the end of 2019 to just 2.0% by late 2020 – a record low. India's Reserve Bank lowered its repo rate from 5.15% to 4.00%, while Bank Indonesia cut its rate from around 5% pre-pandemic to 3.50% in 2021. In South Africa, the refinancing rate was reduced from 6.5% to 3.5% in 2020. Uzbekistan's Central Bank also made a moderate cut, from 16% to 14%. In short, emerging-market economies adopted maximally expansionary monetary policies to cushion the pandemic shock.

Table 1. Key policy rate dynamics in selected emerging economies (in percentages).

Country	End of 2019	Lowest in 2020	Highest in 2022–23	Rate in Early 2024
India	5.15%	4.00%	6.50%	6.50%
Indonesia	5.00%	3.50%	5.75%	5.75%
Brazil	4.50%	2.00%	13.75%	12.75%
South Africa	6.50%	3.50%	8.25%	8.25%
Türkiye	12.00%	8.25%	30.00%	30.00%
Uzbekistan	16.00%	14.00%	17.00%	15.00%

The figures above illustrate how monetary policy evolved in the post-pandemic period. After hitting record lows in 2020, policy rates began to climb in 2022. The increases in Brazil and Türkiye were particularly sharp: Brazil's rate reached 13.75% in 2022, while Türkiye's soared above 30% in 2023. In India and Indonesia, rates rose more moderately, returning close to their pre-pandemic levels by 2023 (6.5% in India and 5.75% in Indonesia). South Africa followed a gradual trajectory, moving from a low of 3.5% in 2020 up to 8.25% by late 2023.

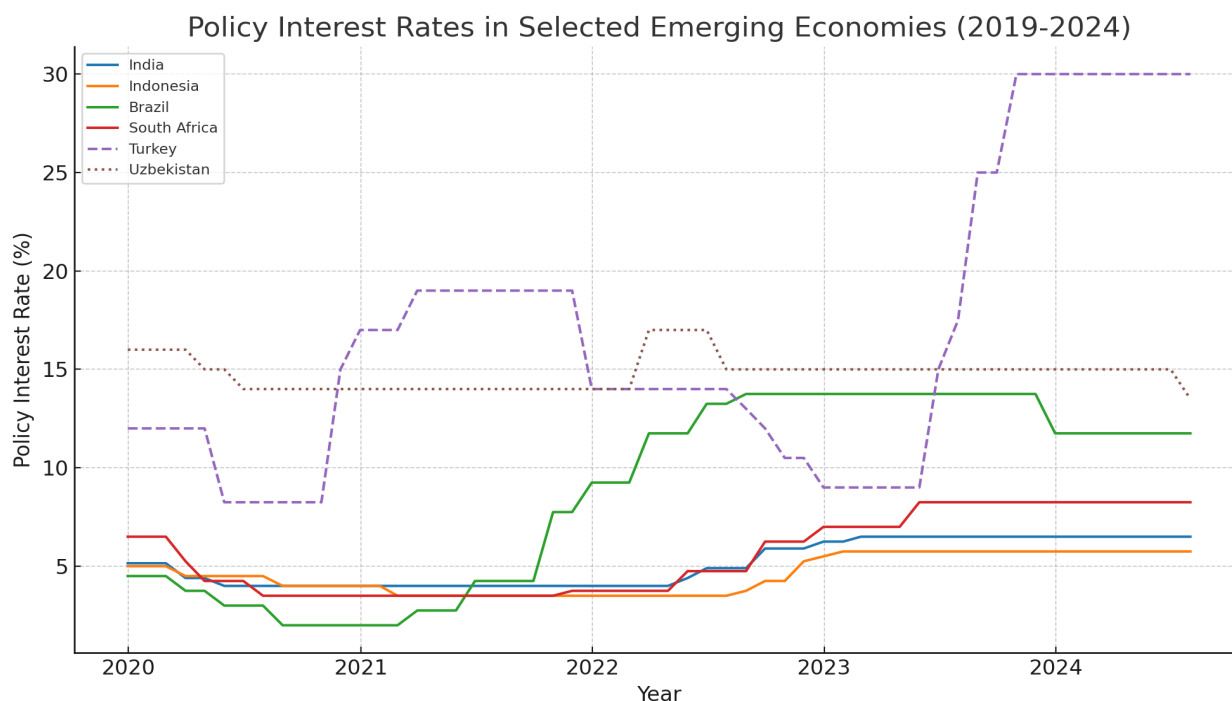


Figure 1. Changes in key policy rates in selected emerging economies (2019–2024).

Figure 1 presents these data in visual form, spanning late 2019 to early 2024. The lines for India, Indonesia, Brazil, and South Africa trace out a U-shaped pattern: first declining in 2020 and then rising from 2021–2022. For example, the green line (Brazil) shows a steep drop in 2020 followed by a sharp upswing in 2021–2022. The blue line (India) dipped by only 1.15 percentage points and then rose steadily from 4% to 6.5% once inflationary pressures emerged in 2022. The dark red line (South Africa) reflects a 3-point cut in 2020, followed by hikes totaling 4.75 points between late 2021 and 2023. The turquoise (brownish) dotted line (Uzbekistan) shows a slight reduction of 2 points during the pandemic and a subsequent 3-point hike in 2022 in response to global risks, settling at around 15% throughout 2023.

The purple dashed line shows the most extreme movements – the policy rate of the Central Bank of the Republic of Türkiye, which reveals a highly erratic trajectory. In 2020, Türkiye lowered its rate from 12% to 8.25% (more than other countries), raised it back to 19% by March 2021, then cut it again to 14% by year's end. Throughout 2022, Türkiye continued cutting rates to 9% despite rising inflation and severe currency depreciation. In 2023, after inflation had spiraled, the newly appointed leadership abruptly reversed course – raising the rate first to 25% in August and then to 30% in October. These fluctuations underscore the policy volatility that contributed to Türkiye's financial instability. As inflation reached 80% in 2022, the sharp rate reductions in the preceding period clearly played a role.

The evidence suggests that while ultra-low rates helped restart economic activity after the pandemic shock, the surge in inflation in 2021–2022 forced central banks to reverse course. Emerging-market economies led the tightening trend; for example, the central banks of Brazil and Russia rapidly raised rates (starting in March and April 2021, respectively) once inflation exceeded targets. Such swift measures proved effective: foreign investors did not exit these markets en masse, and their currencies stabilized relatively quickly. According to the IMF, emerging-market bond funds did not experience major outflows in 2022; some even continued to attract foreign capital. This is partly attributed to a rising interest-rate differential that made these markets more appealing to global investors.

Countries that tightened policy early also generally maintained greater financial stability. As seen in Brazil, aggressive measures helped tame inflation within a relatively short time. South Africa and India, by gradually raising rates, steered inflation back toward their targets. By year-end 2023, inflation in these countries stood at around 5% and 6%, respectively – down from peaks of 7–8% in 2022. Indonesia's inflation exceeded its 4% target briefly, hitting 6% in 2022 but reverting to 4% in 2023.

In contrast, unbalanced monetary policy exacerbated financial instability in Türkiye. The political decision to cut rates throughout 2021–2022, despite high inflation, led to further currency depreciation and spiked inflation to over 80%. The financial and corporate sectors were exposed to increased risk. Consequently, the authorities were compelled to take abrupt measures in 2023 – tripling the policy rate from 9% to 30% within a few months.

Such abrupt policy swings not only stressed the banking system but also slowed economic growth, which is expected to drop to around 1–2% in 2023 (down from over 5% in 2022).

Turning to Uzbekistan, the Central Bank cut its key rate slightly at the height of the pandemic (from 16% to 14%), and inflation moderated to around 11% in 2020 and approached 10% in 2021. However, in early 2022, when geopolitical risks intensified, the Central Bank sharply raised the rate by 3 percentage points to 17% to safeguard financial stability and shore up the national currency (the soum). While the soum briefly dipped in March 2022, it soon stabilized for the remainder of the year. Annual inflation closed 2022 at 12.3%. Although this was a climb from previous levels, the Central Bank's decisive monetary tightening contained further escalation. In July 2022, as external pressures eased, the rate was cut from 17% to 15% and remained there throughout 2023. In July 2024, with inflation trending downward, the Central Bank lowered the rate by 0.5 points to 13.5% to support economic growth. Overall, Uzbekistan pursued a balanced monetary approach in the post-pandemic period: moderate easing during the global crisis, a strong move to tightening when external risks rose, and a cautious loosening once conditions stabilized. This policy mix helped preserve financial stability, maintain adequate banking-sector liquidity, protect the exchange rate from severe volatility, and guide inflation onto a gradual downward path.

In summary, central bank policies during and after the pandemic proved decisive in overcoming the “lockdown recession.” While deeply accommodative measures were warranted initially, galloping inflation in 2021–2022 forced many central banks to pivot toward monetary tightening. In numerous countries, this approach succeeded in bringing inflation down and preventing severe financial crises. Yet unorthodox experiments (e.g., in Türkiye) eroded central bank credibility and imposed heavy economic costs.

CONCLUSION AND RECOMMENDATIONS

This study confirms that the key policy rate has been a crucial instrument for ensuring financial stability in the post-pandemic period. Evidence from emerging economies shows that central bank independence and timely decision-making have effectively mitigated economic shocks and helped contain inflation. Transparent communication and predictable policy measures around the key rate strengthened investor confidence, as reflected in the fact that many emerging markets did not experience significant capital flight. However, excessively sharp rate hikes can put pressure on financial institutions—for example, by deteriorating the quality of bank loan portfolios or increasing public debt servicing costs. Thus, a prudent, gradual approach is preferable to abrupt adjustments.

Drawing on global experiences, several practical recommendations are proposed for Uzbekistan. Monetary policy must be shielded from political influence and driven solely by macroeconomic data. The Central Bank's mandate for price stability should be fully supported, and market participants must have strong confidence in its policy stance. This requires transparent and consistent communication, including regular public statements explaining the rationale for policy decisions. Despite various external shocks, inflation in Uzbekistan remains above the 5% target. In the coming years, continued coordination between fiscal and monetary policy is essential for further disinflation. Key policy rate decisions should reflect inflation expectations—rates should rise in response to inflationary pressures and be cautiously reduced when inflation slows. The aim is to maintain a positive and stable real interest rate (key rate minus inflation), which encourages savings and investment in local currency. In a high-interest-rate environment, banks and other financial institutions may face elevated risks. The Central Bank should monitor credit quality, liquidity, and capital adequacy closely. When necessary, temporary relief measures—such as loan restructuring or reserve requirement adjustments—may be implemented. These macroprudential tools complement the key policy rate in preserving financial system stability. Sizable reserves and flexible exchange-rate arrangements enhance resilience against external shocks.

Uzbekistan's pandemic-era experience demonstrated that targeted interventions can reduce excessive currency volatility; however, such actions must not distort market mechanisms. Monetary and exchange-rate policies should remain coordinated to minimize inflationary spillovers from exchange rate fluctuations. In line with international best practices, Uzbekistan's Central Bank may consider adopting unconventional tools—such as secondary market bond purchases or forward guidance—under extraordinary conditions. However, these measures should be temporary and accompanied by a clear exit strategy. The primary focus must remain on conventional tools, particularly the key policy rate, to regulate money supply and ensure price stability. Still, having a flexible policy toolkit is vital to navigate unexpected liquidity shocks or external vulnerabilities. In conclusion, the lessons of the pandemic highlight the importance of well-planned and consistently implemented monetary policy. Such an approach not only fosters financial and economic stability but also strengthens public and business confidence in the country's long-term economic trajectory.

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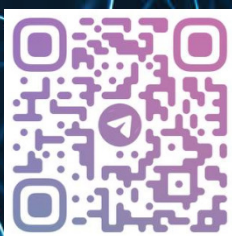
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