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CONTACTS

Phone: **+998 50 737 87 88**

Website: <https://ist-journal.uz>

Email: innovationist2025@gmail.com

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THE IMPACT OF INFLATION ON THE ECONOMY AND WAYS TO REDUCE IT

Abdullaeva Zulfiya Izzatovna

Associate Professor, Department of "Real Economics"
Samarkand Institute of Economics and Service (SIES)
E-mail: abdullaevazulfiya70@gmail.com

Ashurova Jasmina Jora qizi

Student of the Samarkand Institute of Economics and Service

Abstract. This article examines the impact of inflation on the national economy and analyzes modern economic approaches to controlling it. The inflation rate has a direct influence on macroeconomic stability in many countries, including developing economies. According to the International Monetary Fund (IMF) and the World Bank, global inflationary pressure during 2023–2025 was mainly associated with fluctuations in energy prices, disruptions in supply chains, and the expansion of monetary policy.

The study analyzes the effects of inflation on the Consumer Price Index (CPI), real household incomes, the investment climate, and exchange rates. In addition, the dynamics of inflation and the monetary policy instruments of the Central Bank under the conditions of Uzbekistan were examined. The findings indicate that rising inflation reduces the purchasing power of the population, increases economic uncertainty, and negatively affects investment activity. The article proposes effective methods for reducing inflation based on monetary, fiscal, and structural reforms.

Keywords: inflation, CPI, monetary policy, Central Bank, credit and monetary policy, economic stability, real income, fiscal policy, exchange rate, supply and demand.

Annotatsiya. Mazkur maqolada inflyatsiyaning milliy iqtisodiyotga ta'siri hamda uni kamaytirishning zamonaviy iqtisodiy mexanizmlari tahlil qilingan. Inflyatsiya darajasi ko'plab mamlakatlarda, jumladan rivojlanayotgan iqtisodiyotlarda makroiqtisodiy barqarorlikka bevosita ta'sir ko'rsatadi. Xalqaro Valyuta Jamg'armasi (IMF) va Jahon banki ma'lumotlariga ko'ra, 2023–2025-yillarda kuzatilgan global inflyatsion bosim asosan energiya resurslari narxlarining o'zgarishi, ta'minot zanjirlaridagi uzilishlar hamda pul-kredit siyosatining kengayishi bilan bog'liq bo'lgan.

Tadqiqotda inflyatsiyaning iste'mol narxlar indeksi (CPI), aholi real daromadlari, investitsion muhit va valyuta kurslariga ta'siri o'rganilgan. Shuningdek, O'zbekiston sharoitida inflyatsiya dinamikasi hamda Markaziy bankning pul-kredit siyosati instrumentlari tahlil qilingan. Tadqiqot natijalari inflyatsiyaning oshishi aholining xarid qobiliyatini pasaytirishi, iqtisodiy noaniqlikni kuchaytirishi va investitsion faollikka salbiy ta'sir ko'rsatishini ko'rsatdi. Maqolada inflyatsiyani kamaytirishning pul-kredit, fiskal va tarkibiy islohotlarga asoslangan samarali usullari taklif etilgan.

Kalit so'zlar: inflyatsiya, CPI, pul-kredit siyosati, Markaziy bank, iqtisodiy barqarorlik, real daromad, fiskal siyosat, valyuta kursi, talab va taklif.

Аннотация. В данной статье рассматривается влияние инфляции на национальную экономику и анализируются современные экономические механизмы её снижения. Уровень инфляции оказывает непосредственное влияние на макроэкономическую стабильность во многих странах, включая развивающиеся экономики. Согласно данным Международного валютного фонда (МВФ) и Всемирного банка, глобальное инфляционное давление в 2023–2025 годах было в основном связано с колебаниями цен на энергоносители, сбоями в цепочках поставок и расширением денежно-кредитной политики.

В исследовании проанализировано влияние инфляции на индекс потребительских цен (CPI), реальные доходы населения, инвестиционный климат и валютный курс. Кроме того, рассмотрены динамика инфляции и инструменты денежно-кредитной политики Центрального банка в условиях Узбекистана. Результаты исследования показывают, что рост инфляции снижает покупательную способность населения, усиливает экономическую неопределённость и негативно влияет на инвестиционную активность. В статье предложены эффективные методы снижения инфляции, основанные на денежно-кредитной, фискальной политике и структурных реформах.

Ключевые слова: инфляция, CPI, денежно-кредитная политика, Центральный банк, экономическая стабильность, реальные доходы, фискальная политика, валютный курс, спрос и предложение.

INTRODUCTION

The theory of inflation and its impact on the economy is one of the most extensively studied areas in economic science. Classical and modern economists have analyzed the causes of inflation, its influence on economic growth, and its management mechanisms based on various approaches [4].

Milton Friedman, as a representative of the monetarist school, explained inflation as “always and everywhere a monetary phenomenon” caused by an excessive increase in the money supply. According to his theory, the primary instrument for controlling inflation is strict monetary policy management.

According to the Keynesian approach, inflation mainly arises when aggregate demand exceeds aggregate supply. J. M. Keynes emphasized that the government’s fiscal policy plays an important role in controlling inflation [5], [6].

Modern studies conducted by the IMF, World Bank, and OECD demonstrate that inflation is influenced not only by monetary factors, but also by global supply chains, energy prices, geopolitical risks, and labor market changes. In particular, global inflationary pressure during 2022–2024 has been explained by the consequences of the pandemic and logistics-related problems.

Research conducted on developing countries also confirms the negative impact of inflation on the investment climate [7]. A high inflation rate increases economic uncertainty and reduces long-term capital investments.

Scientific studies on the economy of Uzbekistan indicate that inflation is mainly linked to import prices, exchange rate fluctuations, and the growth of domestic demand. It is emphasized that the monetary policy of the Central Bank is aimed at gradually reducing inflation.

In general, the literature review demonstrates that inflation is a complex multifactor economic process, and its effective management requires the coordination of monetary, fiscal, and structural policies [8], [9].

Inflation is considered one of the most important and complex problems of modern macroeconomics. It affects all sectors of the economy through a continuous and sustained increase in the general price level. In recent years, the intensification of inflationary pressure in the global economy, especially in the post-pandemic period, has become one of the main economic challenges for many countries.

During 2022–2024, the average global inflation rate was recorded at around 6–8%, while this indicator was even higher in developing countries (IMF, 2024). According to official statistical data, the inflation rate in the Republic of Uzbekistan has shown a downward trend in recent years and has been formed at approximately 8–10% (Statistics Agency of the Republic of Uzbekistan, 2025) [1]. However, this level still represents significant pressure from the perspective of economic stability.

Inflation mainly arises due to the following factors: growth in aggregate demand, increases in production costs, rising import prices, and excessive expansion of the money supply. Together, these factors lead to an increase in the price level and a disruption of economic equilibrium.

Among the negative consequences of inflation are the decline in real household incomes, the reduction of savings and investments, instability in exchange rates, and the strengthening of economic uncertainty. Therefore, effective inflation management remains one of the priority objectives of every country’s macroeconomic policy [2], [3].

The purpose of this article is to analyze the mechanisms through which inflation affects the economy and to scientifically study modern monetary and fiscal methods for reducing it.

LITERATURE REVIEW ON THE TOPIC

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In general, the literature review demonstrates that inflation is a complex multifactor economic process, and its effective management requires the coordination of monetary, fiscal, and structural policies [8]

RESEARCH METHODOLOGY

This study employed several scientific approaches and analytical methods to examine the impact of inflation on the economy and identify ways to reduce it. In particular, comparative analysis, statistical data generalization, trend analysis, and macroeconomic indicator analysis methods were applied.

During the research process, data from the World Bank, the International Monetary Fund (IMF), the OECD, and the Statistics Agency of the Republic of Uzbekistan were used as the primary sources. Based on these data, indicators such as the Consumer Price Index (CPI), inflation rate, exchange rate fluctuations, real incomes, and investment activity were analyzed.

Furthermore, the method of economic reasoning analysis was applied to evaluate the influence of monetary and fiscal policy instruments on inflation. Using the example of Uzbekistan's economy, the study examined inflation dynamics in recent years and compared them with global trends.

This methodological approach made it possible to comprehensively assess the impact of inflation on economic processes and formulate scientifically grounded conclusions.

ANALYSIS AND RESULTS

The research findings indicate that inflation significantly affects all major macroeconomic indicators of the economy. In particular, the increase in the Consumer Price Index (CPI) leads to a decline in real household incomes, a reduction in savings, and changes in the structure of consumption. This situation causes an imbalance between supply and demand within the economy.

The analysis also revealed that high inflation negatively affects the investment climate. The level of uncertainty faced by investors increases, resulting in a decline in long-term capital investments [10]. According to data from the World Bank and the IMF, when inflation increases by 1–2 percentage points, investment activity in developing countries may decline by an average of 0.5–1%.

In the case of Uzbekistan, positive results have been observed from the monetary policy measures implemented in recent years to reduce inflationary pressure. Changes in the refinancing rate by the Central Bank, control of the money supply, and liberalization of the foreign exchange market have contributed to the gradual stabilization of inflation [11], [12]. However, fluctuations in import prices and high production costs remain factors that hinder the complete reduction of inflationary pressure (Table 1).

Table 1
Impact of Inflation on Investment and Policy Measures in Uzbekistan

Aspect	Analysis	Impact/Result
High Inflation and Investment Climate	High inflation increases uncertainty for investors and reduces confidence in long-term projects.	Decline in long-term capital investments.
Evidence from Developing Countries	According to World Bank and IMF data, a 1–2 percentage point increase in inflation can reduce investment activity.	Investment activity may decrease by 0.5–1% on average.
Monetary Policy Measures in Uzbekistan	Changes in the Central Bank refinancing rate, money supply control, and foreign exchange market liberalization.	Gradual stabilization of inflation and reduction of inflationary pressure.
Remaining Challenges	Import price fluctuations and high production costs continue to affect the economy.	Inflationary pressure has not been completely eliminated.

The discussion highlights that effective inflation management should not be limited solely to monetary policy. Strengthening fiscal discipline, optimizing government expenditures, and developing the production sector are also of great importance. In particular, reducing dependence on imports through the expansion of

domestic production plays a key role in ensuring price stability [13].

Moreover, the independence of the Central Bank and the transparency of monetary policy are important factors in controlling inflation. By managing inflation expectations, it is possible to positively influence the economic decisions of households and business entities.

Overall, the research findings confirm that inflation directly affects economic growth rates, public welfare, and the investment climate [14], [15]. Therefore, maintaining inflation at a stable level remains one of the key priorities of macroeconomic policy.

CONCLUSIONS AND SUGGESTIONS

The results of the study demonstrate that inflation is one of the key macroeconomic factors directly affecting the stable development of the economy. High inflation leads to a decline in real household incomes, deterioration of the investment climate, and increased economic uncertainty.

The analysis shows that effective inflation management requires not only monetary policy, but also fiscal discipline, development of the production sector, and reduction of import dependency. In particular, expanding domestic production and increasing supply play a crucial role in ensuring price stability.

In addition, the implementation of an independent monetary policy by the Central Bank, the management of inflation expectations, and the enhancement of financial market transparency are important factors in reducing inflation.

In general, maintaining inflation at a stable and low level is one of the essential conditions for ensuring economic growth, improving public welfare, and increasing investment attractiveness. In the future, the use of digital economy tools and the modernization of macroeconomic management will create opportunities for more effective inflation control.

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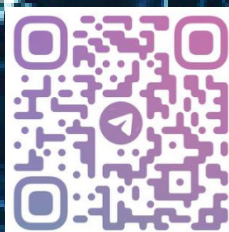
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