



THE SIGNIFICANCE OF INFLATION TARGETING AT THE PRESENT STAGE OF THE FIGHT AGAINST PRICE GROWTH IN THE REPUBLIC OF UZBEKISTAN

Saitazhieva Khanuza

Khamrokhujaeva Sitorabonu

sitorabonu.khamrokhujaeva@gmail.com

Students, Tashkent Financial Institute

Abstract

This article discusses the theoretical aspects of the concept of inflation and inflation targeting at the present stage of economic development and analyzes the role of inflationary expectations in the monetary mechanism of the Republic of Uzbekistan, provides the main statements and recommendations of foreign international experts. It also presents a description of the role and importance of inflation expectations and inflation targeting in the fight against inflation.

Keywords: inflation, inflation targeting, inflation expectations, Central Bank, monetary policy.

Introduction

Directly the concept of inflation was first used in North America during the Civil War of 1861-1865 and meant an increase in paper money in circulation. To date, the term inflation is used to denote the hanging of the average (general) price level and the depreciation of the national currency as a result of the overflow of money circulation channels with excess money. [4, p.460-461]

During a period of inflation, the national currency depreciates against goods and services, stable foreign currencies, gold or other precious metals. This implies that inflation manifests itself in the following forms:

- excess of cash or financial assets in circulation over the existing supply of goods and services;
- decreased purchasing power of money;
- long-term general increase in the price level in the country.

Methodology

This work combines analytical, theoretical, as well as institutional research methods and, in turn, considers inflation as a process of depreciation of money as a result of the overflow of commodity circulation channels with money supply. At the same time,





all statistical data are based on reports of state bodies of the Republic of Uzbekistan published in the media. It should be noted that despite some difference (in tenths) between the inflation rates of the Central Bank and the State Committee on Statistics (which is taken from the calculation of the composite consumer price index in the country), in this paper, preference is given to the official inflation indicator of the year under consideration. [7]

Results and Discussion

The relevance of the issue of inflation targeting and reducing the inflation rate is due to the significant indicators provided by the Central Bank of the Republic of Uzbekistan since 2017, when this indicator was 14.4%, in 2018 at 14.3%, in 2019 - 15.2%. In 2020, the minimum since the period after 2017 was reached, and then the inflation rate was 11.1%. [1] Later, the inflation rate only increased.

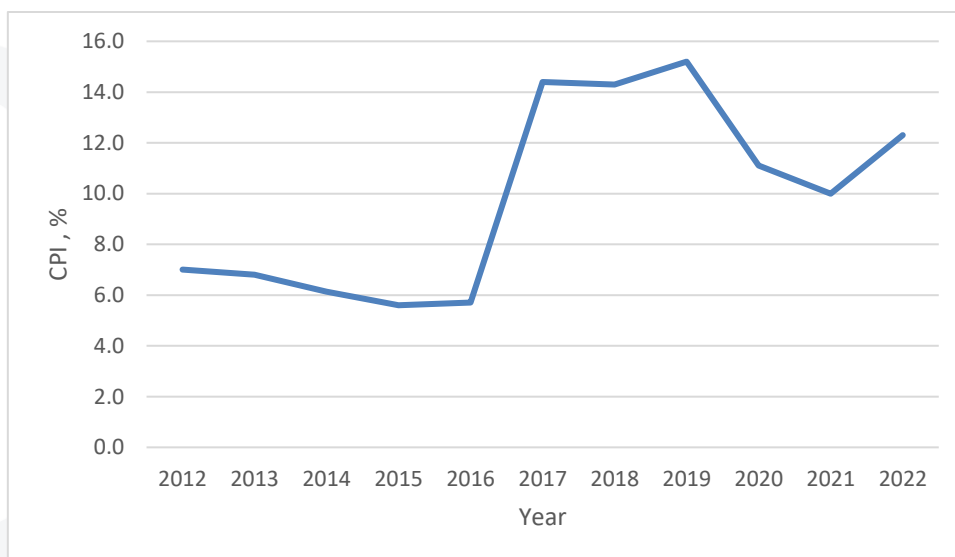


Fig. 1 Consumer price index in Uzbekistan, in % [8]

It should be noted that in the second half of 2017, the Central Bank tightened its credit and monetary policy in anticipation of the liberalization of the foreign exchange market in September, including by raising the refinancing rate from 9 to 14%. However, after that, for a long time, the Central Bank maintained a stable level of the nominal exchange rate and the refinancing rate. At the same time, the latter reached the level of 17% in 2022.

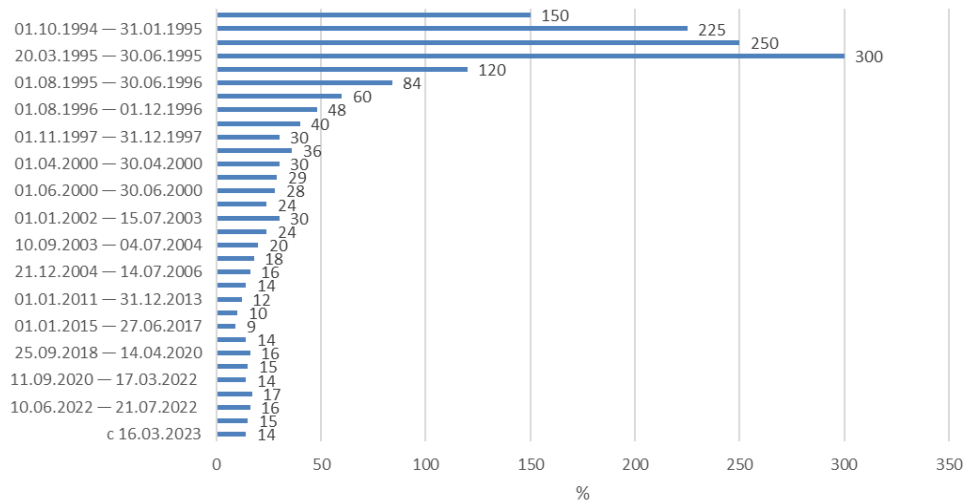


Fig.2 The level of the main interest rate of the Central Bank of the Republic of Uzbekistan [12]

In fact, past experience suggests that a high degree of central bank independence has a direct impact on positive inflation dynamics, but only after the price system has passed through the initial shocks caused by price liberalization. Other prerequisites for the transition to inflation targeting include the creation of an effective mechanism for the ways in which monetary policy can be influenced, the development of the practical capacity of the Central Bank, and clear information to the population about the measures of the current policy. [2]

Despite the fact that in most cases the question of the volatility of inflation in the case of its targeting remains open, it is possible to emphasize the importance of this monetary policy regime, in view of the significant stabilization of the process of changing the general price level in the country compared to the state in which another monetary mechanism with other priority goals for the development of the state economy. [3]

According to the Decree of the President “On Improving Monetary Policy with a Gradual Transition to the Inflation Targeting Mode”, an inflation rate of 5% will be reached in the country in 2023 [9] A certain goal (target) will be achieved through the appropriate monetary policy instruments [10] and, as a result, will contribute to price stability. [eleven]

The introduction of inflation targeting to ensure the stability of the national currency may be related to monetary policy, since a mechanism for targeting the economy through the interest rate policy of the Central Bank of the Republic of Uzbekistan is provided. This means lowering the priority of controlling the money supply in favor of regulating interest rates, and only in the money market (short-term credit



transactions). Such a change in the instruments of the unified state monetary policy in order to reduce inflation is likely to increase the inflationary consequences of the unregulated growth of the total money supply in excess of the needs of money and economic turnover.

In fact, the causes of inflation in the country, it is necessary to single out not only an increase in aggregate demand (resulting from an increase in the money supply), which in the short run is combined with an increase in real output, but remains unchanged in the long run; and a reduction in aggregate supply, which leads to a simultaneous decline in production and an increase in the price level [5, p.377-380], but also inflation expectations.

Inflationary expectation is one of the most significant reasons for the growth of the general price level in our country. This factor is a kind of hope for the subjects of the economy on which the forecast of the development of inflationary processes in the future is based. Moreover, inflation expectations directly affect the change in the interest rate and the need for money. In other words, if the interest rate is below the expected sluggish economy, then rational buyers will forego cash investment and hedge their savings in real assets. Inflationary expectations of the population and business entities for 2023 returned to the downward trend observed earlier and formed at the level of 14.4% and 14.1%, respectively. At the same time, the median assessment of inflation expectations of the population decreased to 11.5%, and business entities - to 11.4%. [13]

In a pronounced form, one can observe the impact of inflationary expectations on the labor market. Assuming an inflationary rise in prices, hired workers make demands in advance for an increase in their wages, which accordingly increases the cost of manufacturing products, i.e. increases the cost of the finished product. Thus, the massive expectation of a price increase that is greater than the real inflation rate leads to a decline in the economy due to a lack of circulation funds, while manufacturers, represented by organizations, are faced with too high cost of production services. At the same time, in the case when inflation expectations are less than inflation, the opposite picture is observed in the country's economy. [6]

Conclusion

Thus, it is advisable to increase the attention of the monetary authorities and the media to the need to reduce inflationary expectations and the irrational behavior of entrepreneurs and the population. It is important to improve the methodology of the State Committee on Statistics for determining the average annual inflation rate, as well as to develop mechanisms for conducting a high-quality monetary and monetary



policy by the Central Bank of the Republic of Uzbekistan, taking into account foreign experience and recommendations of international experts in this field. It is necessary to find and define new approaches to inflation regulation, which may have an advantage over inflation targeting, which is limited to the circulation sphere.

At the same time, it is precisely the construction of an effective mechanism for controlling inflationary expectations in the country that will become a significant component of state policy to combat inflation itself. In turn, the transparency and openness of monetary policy, the general availability of economic information, the development of confidence in the policies of the government and the Central Bank of the Republic of Uzbekistan will become the foundation for the successful conduct of these activities.

The reinforcing effect of regulating internal and external, monetary and non-monetary preconditions for the growth of the general price level should become the main factor in the economic development of the Republic of Uzbekistan and the stabilization of the national currency - the soum.

List of Literature:

1. Reports of the State Committee of the Republic of Uzbekistan on statistics for 2017-2020
2. Final statement of the mission of the International Monetary Fund delegation to the Republic of Uzbekistan in 2018
3. Nikolaos Antonakakis, Christina Christou, Luis A. Gil-Alana, Rangan Gupta, "Inflation-Targeting and Inflation Volatility: International Evidence from the Cosine-Squared Cepstrum", International Economics, 2021 URL: <https://doi.org/10.1016/j.inteco.2021.05.004>
4. Kh.S.Asatullaev, G.T.Khalikulova, Economic theory\Textbook; - T.: "Iqtisod - Moliya", 2020. - 560 p.
5. N.S. Kasymova, R.I. Mardanova, H.S. Khadjaev, M.A. Mirzaev, E.R. Zakirova, Microeconomics. Macroeconomics: Textbook; - T.: "Iqtisod-Moliya", 2019. - 612 p.
6. V.V. Fadeeva, E.S. Sergushina, A.P. Kichkina, The role of inflationary expectations in the fight against inflation // E-Scio. 2018. No. 4 (19). URL: <https://cyberleninka.ru/article/n/rol-inflyatsionnyh-ozhidaniy-v-borbe-s-inflyatsiy> (Date of access: 05/20/2021)
7. Press release of the State Committee of the Republic of Uzbekistan on statistics "Inflation in the consumer sector of the Republic of Uzbekistan in November 2020" dated November 30, 2020 URL : <https://www.stat.uz/ru/press->





- tseotr/novosti-goskomstata/6880- inflyatsiya-v-potrebitel-skom-sektore-respubliki-uzbekistan-v-oktyabre-2020-goda-2
8. Official website of the State Committee on Statistics of the Republic of Uzbekistan
URL : <https://stat.uz/ru/ofitsialnaya-statistika/prices-and-indexes>
 9. Presidential Decree No. UP-5877 dated November 18, 2019 “On Improving Monetary Policy with a Gradual Transition to the Inflation Targeting Regime”
 10. Khamrokhuzhaeva S., Mardanova R. The role and importance of inflationary mechanisms in the fight against rising prices at the present stage of economic development in the Republic of Uzbekistan International scientific journal Scientific Leader No. 24 / August 2021 p.12-15
 11. <https://finlit.uz/ru/articles/monetary-policy/inflation-targeting/>
 12. The graph was compiled by the author based on data from the Central Bank URL: <https://www.cbu.uz/ru/>
 13. Press release of the meeting of the Board of the Central Bank of the Republic of Uzbekistan dated May 4, 2023 URL: <https://cbu.uz/ru/monetary-policy/refinancing-rate/press-releases/996037/>

