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THE RELATIONSHIP BETWEEN INFLATION AND BANK INTEREST RATE POLICY IN UZBEKISTAN

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Abstract. This scientific article analyzes the relationship between the inflation rate and the interest rate policy of commercial banks in Uzbekistan, based on economic theory and practical statistical data. The study examines the impact of inflation on loan and deposit interest rates, the mechanisms for regulating monetary policy through the Central Bank's policy rate, and the role of interest rate policy in ensuring price stability. Additionally, it provides a scientific assessment of the monetary policy reforms implemented in Uzbekistan in recent years, the transition to an inflation-targeting regime, and its impact on the banking sector. The research findings indicate that a rise in the inflation rate leads to an increase in bank interest rates, which directly affects credit activity and investment processes. Concurrently, an effective interest rate policy is one of the key instruments for curbing inflation and ensuring macroeconomic stability. The article develops scientific and practical proposals and recommendations for achieving a balance between inflation and interest rate policy in the context of Uzbekistan.

Keywords. Central Bank, inflation, credit system, exchange rate, monetary policy, targeting policy

Introduction. In the current conditions of globalization and a market economy, inflation is considered one of the main factors directly affecting the macroeconomic stability of any nation's economy. A high level of inflation leads to a decrease in the real income of the population, a deterioration of the investment climate, and a weakening of the national currency's stability. For this reason, controlling inflation and maintaining it at an optimal level is regarded as a priority of state economic policy in Uzbekistan, as it is in other countries around the world. The monetary policy implemented by the Central Bank, particularly its interest rate policy, plays a crucial role in regulating inflation. Interest rates are one of the primary tools for managing inflationary processes, influencing the money supply, lending activity, investment flows, and consumption levels within the economy. When the Central Bank raises its policy rate, credit resources become more expensive and excess demand in the economy is reduced, resulting in lower inflationary pressure. Conversely, lowering interest rates stimulates economic activity. In recent years, Uzbekistan has been undertaking processes to liberalize the economy, float the national currency exchange rate, and gradually transition to an inflation-targeting regime. These reforms are having a significant impact on the functioning of the banking system and the effectiveness of interest rate policy. The period after 2017, in particular, saw improvements in monetary policy mechanisms that initiated a new stage in curbing inflation and ensuring price stability. The purpose of this academic article is to economically analyze the relationship between inflation and bank interest rate policy in Uzbekistan, assess their impact on macroeconomic stability, and identify existing problems. The study will examine the relationships between the inflation rate, the Central Bank's policy rate, and the loan and deposit rates of commercial banks, based on scholarly and statistical data. Furthermore, scientific and practical recommendations for implementing an effective interest rate policy in the country will be developed.

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Literature Review. The relationship between inflation and interest rate policy is one of the most important research areas in economic theory. Foreign and domestic economists have developed various scientific perspectives and theories on this matter. In particular, the classical, Keynesian, and monetarist approaches are of special significance in studying the impact of monetary policy on inflation. The American economist Milton Friedman defines inflation as "always and everywhere the result of an excessive increase in the money supply." According to his monetary theory, an excessive increase in the economy's money supply leads to a rise in the general price level. For this reason, the regulation of interest rates by the Central Bank is seen as the primary tool for curbing inflation. Friedman's scientific views play a crucial role in shaping the theoretical foundations of modern monetary policy. The English economist John Maynard Keynes, on the other hand, viewed interest rates as an important economic instrument for managing investment and aggregate demand. According to Keynes's theory, a decrease in interest rates increases the volume of investment, which in turn stimulates economic growth. However, an excessive expansion of demand in the economy can intensify inflationary pressure. In this respect, interest rate policy is an important tool for maintaining economic equilibrium. In modern economic research, inflation-targeting policy is being studied in particular. Research conducted by experts from the International Monetary Fund and the World Bank has emphasized that the independence of the Central Bank and the effective use of the key interest rate are important factors in reducing inflation. Specifically, it has been noted that the implementation of a strict monetary policy in developing countries strengthens the stability of the national currency and reduces inflationary expectations.

Methodology. This academic article employs modern economic and methodological approaches to examine the relationship between inflation and bank interest rate policy in Uzbekistan. The study harmoniously applies both theoretical and practical analytical methods to comprehensively investigate the impact of inflationary processes on bank interest rates and the effect of monetary policy on macroeconomic stability. The theoretical framework of the research is founded on the theories of monetarism, Keynesianism, and modern monetary policy. Specifically, Milton Friedman's monetary theory and John Maynard Keynes's scholarly views on the relationship between interest rates and investment served as the methodological basis. The research utilized methods of statistical analysis, economic comparison, dynamic series analysis, induction, and deduction. Data on the inflation rate, the Central Bank's policy rate, and the loan and deposit interest rates of commercial banks in Uzbekistan for the period 2017–2025 were examined, and the correlation between them was analyzed. By analyzing statistical data, the study assessed the impact of the inflation rate on interest rate policy and lending volumes.

The information base for this study was comprised of reports from the Central Bank of the Republic of Uzbekistan, the Statistics Agency of the Republic of Uzbekistan, the International Monetary Fund, and the World Bank. Additionally, scientific articles, monographs, and analytical economic sources relevant to the topic were extensively used.

To more clearly illustrate the results of the analysis, the article examines trends in economic indicators through graphical and logical analysis. The study assesses the effectiveness of interest rate policy in managing inflation in Uzbekistan and develops scientific and practical conclusions for improving monetary policy.

Analysis and Results. In recent years, Uzbekistan has pursued a tight monetary policy to curb inflation and ensure price stability. In particular, the gradual adjustment of the policy rate by the Central Bank of the Republic of Uzbekistan has emerged as a key measure aimed at reducing inflationary pressure in the economy.

Following 2017, as a result of the liberalization of the national currency exchange rate and broader economic reforms, the inflation rate reached high levels for a certain period.

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Consequently, the Central Bank tightened its monetary policy instruments and implemented a policy of curbing excess demand in the economy through interest rates. As a result, the increase in the policy rate raised the cost of credit resources and served to reduce inflationary pressure to some extent.

The following table shows the dynamics of the inflation rate and the Central Bank's policy rate in Uzbekistan in recent years.

Table 1

Years	Inflation Rate (%)	Central Bank Policy Rate (%)
2022	12.3	15.0
2023	8.8	14.0
2024	9.8	13.5
2025	8.7–10.3	14.0

Inflation Rate and Policy Rate by Year

As the table data indicates, the Central Bank maintained a high policy rate during periods of increased inflation. Specifically, in March 2025, the policy rate was raised from 13.5% to 14% due to mounting inflationary pressure. This decision was explained by rising domestic demand, rapid price growth in the services sector, and persistently high inflationary expectations. Analysis shows that an increase in the policy rate also directly affects the lending rates of commercial banks. The higher cost of credit reduces consumer spending and the investment activity of business entities. Consequently, the excess money supply in the economy decreases, and the rate of inflation slows. However, maintaining high interest rates for a prolonged period can increase the financial burden on real sector enterprises and may negatively affect economic growth rates. As a result of the tight monetary policy pursued by the Central Bank in 2024–2025, a relative decrease in the annual inflation rate was observed. As of May 2025, annual inflation stood at 8.7%. At the same time, the Central Bank has set the primary objective of reducing inflation to its 5% target in the medium term. Based on the research findings, it can be concluded that there is a strong correlation between inflation and banking interest rate policy in Uzbekistan. The Central Bank's decisions regarding the policy rate have a significant impact on inflationary processes. Therefore, in the future conduct of monetary policy, it is crucial to maintain a balance between inflationary expectations, real household incomes, and economic growth rates.

Recommendations and Conclusions. The findings of a study on the relationship between inflation and bank interest rate policy in Uzbekistan indicate that monetary policy instruments, particularly the Central Bank's policy rate, play a crucial role in ensuring price stability in the economy. The monetary policy implemented in recent years has served to reduce inflationary pressure and strengthen the stability of the national currency. At the same time, it has been observed that high interest rates can have a certain negative impact on economic activity and investment processes. Based on the research findings, a number of scientific and practical recommendations have been developed. First, to reduce inflation, it is necessary not only to rely on interest rate policy but also to harmonize it with fiscal policy and measures to stimulate production. This is because the root causes of inflation are sometimes linked to insufficient domestic production, dependence on imports, and supply-side constraints in the market. Second, it is advisable for the Central Bank to further refine its inflation-targeting policy. In this regard, increasing the openness and transparency of monetary policy is vital for lowering the inflationary expectations of the public and business entities. Communicating the Central Bank's policy rate decisions to economic agents in a simple and understandable manner will strengthen the confidence of market participants.

Third, commercial banks must set loan interest rates based on the capacities of the real sector of the economy. In particular, expanding preferential credit mechanisms for enterprises engaged in production, export, and innovative activities will serve to support economic growth. Furthermore, increasing the share of long-term investment loans will help expand production volumes in the country.

Fourth, strengthening the competitive environment in the banking system and improving the efficiency of financial services will ensure the flexibility of interest rate policy to adapt to market mechanisms. Increased competition will lead to the optimization of the cost of credit resources and the expansion of financial opportunities for the public and business entities. In conclusion, there is a direct and strong correlation between inflation and bank interest rate policy in Uzbekistan. The monetary policy conducted by the Central Bank serves as a crucial tool in controlling inflation. However, to ensure long-term macroeconomic stability, it is necessary to conduct monetary policy in harmony with the real sector of the economy, the investment climate, and public income. Through an effective interest rate policy and prudent monetary management, it is possible to sustainably reduce the inflation rate and ensure economic growth in Uzbekistan.

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