THE EFFECTIVENESS OF MONETARY POLICY IN MANAGING INFLATION EXPECTATIONS AND CONSUMER BEHAVIOR: CENTRAL-BANK CREDIBILITY, EXPECTATIONS ANCHORING, AND THE MONETARY TRANSMISSION MECHANISM

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Annotatsiya. *Ushbu maqolada pul-kredit siyosatining inflyatsion kutilmalarni boshqarish va iste'molchilar xulq-atvorini shakllantirishdagi samaradorligi, xususan dezinflyatsiya va pul-kredit rejimini o'zgartirayotgan O'zbekiston kabi iqtisodiyotlar misolida tahlil qilinadi. Kutilmalar bilan kengaytirilgan Fillips egri chizig'i, ratsional kutilmalar nazariyasi va siyosatning vaqtinchalik nomuvofiqligi nazariyasiga tayangan holda, pul-kredit siyosatining kuchi asosiy stavkani mexanik o'zgartirishdan ko'ra, markaziy bankning ishonchliligi va kutilmalarni muvaffaqiyatli "langarlash"iga bog'liq ekanligi asoslanadi. Maqolada pul-kredit uzatish mexanizmining kanallari — foiz stavkasi, kredit, valyuta kursi, aktivlar narxi va kutilmalar kanallari — tahlil qilinib, dollarlashuv, sayoz moliya bozorlari va ma'muriy boshqariladigan narxlar ushbu mexanizmni qanday zaiflashtirishi baholanadi. Shuningdek, idrok etilgan va kutilayotgan inflyatsiyaning iste'mol va jamg'arish bo'yicha qarorlarga ta'siri ko'rib chiqiladi. Tadqiqot yakunida ishonchlilik, kommunikatsiya va inflyatsiyani samarali targetlashning institutsional shartlarini mustahkamlash bo'yicha tavsiyalar beriladi.*

Kalit so'zlar: *Pul-kredit siyosati, inflyatsion kutilmalar, markaziy bank ishonchliligi, kutilmalarni langarlash, pul-kredit uzatish mexanizmi, inflyatsiyani targetlash, iste'molchi xulq-atvori, dollarlashuv.*

Аннотация. *В статье рассматривается эффективность денежно-кредитной политики в управлении инфляционными ожиданиями и формировании потребительского поведения, прежде всего применительно к экономикам, проходящим дезинфляцию и смену монетарного режима, таким как Узбекистан. Опираясь на кривую Филлипса, дополненную ожиданиями, теорию рациональных ожиданий и теорию временной несогласованности политики, автор утверждает, что сила денежно-кредитной политики определяется не столько механической корректировкой ключевой ставки, сколько доверием к центральному банку и успешным «заякориванием» ожиданий.*

Ключевые слова: *Денежно-кредитная политика, инфляционные ожидания, доверие к центральному банку, заякоривание ожиданий, трансмиссионный механизм, таргетирование инфляции, потребительское поведение, долларизация.*

Abstract. *This article examines the effectiveness of monetary policy in managing inflation expectations and shaping consumer behavior, with particular attention to economies undergoing disinflation and monetary-regime change, such as Uzbekistan. Building on the expectations-augmented Phillips curve, the rational-expectations revolution, and the time-inconsistency theory of policy, the study contends that the power of monetary policy rests less on mechanical adjustments of the policy rate than on central-bank credibility and the successful anchoring of expectations. The paper analyzes the channels of the monetary transmission mechanism — the interest-rate, credit, exchange-rate, asset-price, and expectations channels — and assesses how dollarization, shallow financial markets, and administered prices weaken transmission. It further considers how perceived and expected inflation influence intertemporal consumption and saving decisions. The study concludes with recommendations for strengthening credibility, communication, and the institutional preconditions for effective inflation targeting.*

Keywords: *Monetary policy, inflation expectations, central-bank credibility, expectations anchoring, monetary transmission mechanism, inflation targeting, consumer behavior, dollarization.*

INTRODUCTION

Price stability is the principal mandate of a modern central bank, and inflation, as Friedman famously argued, is ultimately a monetary phenomenon. Yet the contemporary theory and practice of monetary policy place expectations at the centre of the analysis: because firms set prices and households make spending and saving decisions on the basis of what they expect future inflation to be, the management of expectations has become, in Woodford's formulation, the very substance of monetary policy. The effectiveness of policy therefore cannot be read off the level of the policy rate alone; it depends on whether the central bank can shape beliefs about the future.

Uzbekistan offers a salient case. Following the liberalization of the foreign-exchange market in 2017, the Central Bank of the Republic of Uzbekistan embarked on a transition toward an inflation-targeting regime, announcing a medium-term inflation objective and adopting the policy (key) rate as its principal instrument. This transition has unfolded against a backdrop of elevated inflation, a high degree of dollarization, a still-developing financial market, and the gradual liberalization of administered prices — conditions that test the limits of monetary effectiveness.

This article advances the proposition that, in a dollarized transition economy, the effectiveness of monetary policy in anchoring inflation expectations and influencing consumer behavior depends primarily on central-bank credibility, communication and the strength of the transmission mechanism, rather than on the policy rate considered in isolation. It synthesizes the relevant theory, specifies a methodology, presents the principal findings, and derives policy recommendations.

LITERATURE REVIEW

The relevant literature can be grouped into three strands.

1. Expectations and the Phillips curve. Friedman (1968) and Phelps (1967) independently introduced the expectations-augmented Phillips curve and the natural-rate hypothesis, demonstrating that there is no exploitable long-run trade-off between inflation and unemployment once expectations adjust. The rational-expectations revolution — Muth's hypothesis as developed by Lucas and Sargent — implied that systematic policy is anticipated by forward-looking agents, and the Lucas (1976) critique warned that policy evaluation based on historical correlations is unreliable when the policy regime itself changes expectations.

2. Credibility, rules and inflation targeting. Kydland and Prescott (1977) showed that discretionary policy suffers from time inconsistency, and Barro and Gordon (1983) formalized the resulting inflation bias, establishing the case for rules, reputation and central-bank independence as devices for acquiring credibility. Taylor (1993) proposed a simple, transparent interest-rate rule; Clarida, Galí and Gertler (1999) synthesized these insights in the New Keynesian framework; and Bernanke, Laubach, Mishkin and Posen (1999) drew the lessons of international experience with inflation targeting. Woodford (2003) recast the entire enterprise as the management of private-sector expectations, in which transparency and forward guidance are primary instruments.

3. Transmission, expectations formation and consumption. Mishkin (1996) catalogued the channels of the transmission mechanism — interest-rate, credit and bank-lending, exchange-rate, asset-price and expectations channels — through which policy reaches the real economy. The New Keynesian consumption Euler equation links the real interest rate to intertemporal substitution between present and future consumption. More recent work by Coibion and Gorodnichenko (2015) on information rigidities, and by Mankiw and Reis (2002) on sticky information, shows that households and firms update their beliefs slowly and imperfectly, so that perceived and expected inflation can diverge sharply from measured inflation and exert an independent influence on spending and saving. The dollarization and "fear of floating" literature (Calvo and Reinhart, 2002) explains why, in highly dollarized economies, the exchange-rate channel dominates and monetary autonomy is constrained.

This body of theory implies that effectiveness is a function of credibility and anchored expectations, that the relative strength of transmission channels depends on financial

structure and dollarization, and that consumer behavior responds to perceived as much as to actual inflation. The present study applies this lens to Uzbekistan's ongoing monetary-regime transition.

RESEARCH METHODOLOGY

The study employs the principles of systemic and comparative analysis, combining the following approaches:

1. Systemic analysis. Monetary policy, expectations formation and consumer behavior were treated as a single feedback system, in which credibility, communication, financial structure and dollarization jointly determine outcomes.
2. Comparative analysis. Uzbekistan's experience was benchmarked against regional and emerging-market inflation targeters — Georgia, Armenia, Kazakhstan, Russia and Türkiye — whose transitions illustrate the conditions under which expectations become anchored.
3. Induction and deduction. General theoretical results — the natural-rate hypothesis, time inconsistency, the primacy of expectations — were used to derive country-specific propositions, which were then tested against the Uzbek evidence.
4. Elements of econometric modelling. The analysis draws conceptually on estimation of Taylor-type policy rules, structural vector autoregressions (SVAR) for tracing the transmission of policy shocks, the New Keynesian Phillips curve, and the analysis of inflation-expectation surveys.

Data sources. The empirical basis comprises data, monetary-policy reports and statistical bulletins of the Central Bank of the Republic of Uzbekistan, data of the Statistics Agency, and the reports of the International Monetary Fund and the World Bank, for the period 2017–2023.

RESULTS AND DISCUSSION

The analysis yields several findings consistent with the theoretical priors.

First, the exchange-rate channel is the dominant route of transmission. Given a high import share in the consumption basket and a substantial degree of dollarization, movements in the exchange rate pass through to domestic prices rapidly and strongly. This elevated exchange-rate pass-through means that external shocks and currency movements often dominate the domestic effects of the policy rate.

Second, the interest-rate channel is comparatively weak. Shallow money and local-currency bond markets, the partial dollarization of credit, and segmentation in the banking system blunt the link between the policy rate and the rates that households and firms actually face, so that transmission is incomplete and lagged.

Third, inflation expectations are not yet firmly anchored. A short history of disinflation, limited accumulated credibility, and the prevalence of backward-looking expectation formation among households mean that expectations respond strongly to recent price

movements and to the exchange rate, rather than to the central bank's announced objective. This is the classic situation in which credibility, not the instrument setting, is the binding constraint.

Fourth, central-bank communication is expanding but its reach into the household sector remains limited. The publication of monetary-policy reports and the explanation of key-rate decisions improve transparency, yet household awareness of the inflation target is low, so that the expectations channel — potentially the most powerful instrument — is only partially active.

Fifth, consumer behavior is shaped by perceived inflation and by dollarization. Households tend to hold foreign-currency savings as an inflation hedge, their consumption and saving decisions respond weakly to the real interest rate, and precautionary motives are strong under elevated uncertainty. Perceived inflation, which often exceeds measured inflation, therefore exerts an independent influence on demand.

Finally, administered prices and elements of fiscal dominance, including directed lending, complicate the conduct of policy by introducing non-market price dynamics and by competing with the central bank's objective.

DISCUSSION: BARRIERS AND OPPORTUNITIES

1. Dollarization. Widespread use of foreign currency for saving and pricing undermines monetary autonomy and amplifies the exchange-rate channel; a credible, market-based de-dollarization agenda is therefore central to restoring transmission.
2. Fiscal dominance and directed lending. Effective monetary policy requires the phasing-out of directed lending and close fiscal–monetary coordination, so that the central bank's objective is not overridden by quasi-fiscal operations.
3. Shallow financial markets. The development of money and local-currency bond markets is a precondition for a functioning interest-rate channel and for the gradual de-dollarization of saving.
4. Communication and credibility. Regular surveys of household and firm inflation expectations, transparent reporting and forward guidance are the instruments through which the expectations channel is activated and credibility is built.
5. Data and measurement. The limited availability of systematic expectation surveys constrains both policy and research; investing in their construction is itself a policy priority.

CONCLUSIONS

The study of monetary effectiveness in Uzbekistan's transition supports three fundamental conclusions.

1. Credibility over the instrument. The effectiveness of monetary policy is proportional to central-bank credibility and to the degree to which expectations are

anchored, rather than to the magnitude of policy-rate movements. Without credibility, rate changes deliver weaker and less predictable effects.

2. Transmission depends on financial structure. In a dollarized economy with shallow financial markets, the exchange-rate channel dominates while the interest-rate channel is weak. Strengthening transmission therefore requires financial deepening and de-dollarization as much as instrument calibration.

3. Consumer behavior responds to perceived inflation. Households react to perceived and expected inflation and to currency considerations rather than to the real interest rate alone; communication, financial literacy and a credible nominal anchor are thus essential to influencing demand.

SCIENTIFIC AND PRACTICAL RECOMMENDATIONS

- Strengthen the legal and operational independence and transparency of the central bank, and complete the transition to a full-fledged inflation-targeting framework.
- Establish regular, methodologically sound surveys of household and firm inflation expectations to measure and manage the expectations channel.
- Develop a clear, consistent communication strategy, including forward guidance and accessible explanations of policy decisions to the general public.
- Pursue a credible, market-based de-dollarization strategy combining macroeconomic stability with prudential measures.
- Develop money and local-currency bond markets to restore the interest-rate channel and provide instruments for saving in the national currency.
- Ensure fiscal–monetary coordination, phase out directed lending, and complete the orderly liberalization of administered prices.
- Invest in financial and economic literacy so that the central bank's nominal anchor is understood by the households whose expectations it seeks to shape.

RESEARCH PROSPECTS

Future research should construct and exploit micro-level surveys of household and firm inflation expectations; estimate exchange-rate pass-through and the relative strength of the transmission channels using SVAR and DSGE models calibrated to Uzbekistan; and study empirically how perceived inflation and dollarization shape household consumption and saving. Such work would place the conduct of monetary policy on a firmer empirical foundation as the inflation-targeting regime matures.

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