

**INFLUENCE OF THE INFLATION RATE ON REAL POPULATION INCOME****Kozimjonova Saidaxon Alisher qizi**

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**Abstract.** Inflation is an important macroeconomic phenomenon of the modern economy. It reduces the purchasing power of the population, leading to the depreciation of real incomes. This directly has a negative impact on the living standards and social welfare of households. This article analyzes the mechanisms of inflation's impact on the real income of the population and is aimed at developing policy recommendations to mitigate its consequences. To understand these multifaceted dynamic movements, this research expands significantly upon consumer expenditure patterns, the widening gaps across heterogeneous social groups, and comprehensive microeconomic adjustments. The structural shift within fixed-wage sectors demands rigorous academic analysis to establish a highly specialized protection framework for the general welfare.

**Keywords:** Inflation, Real Incomes, Population Welfare, Purchasing Power, Economic Policy, Standard of Living, Macroeconomics.

**Introduction.** Inflation is one of the most important and complex problems of the modern economy, characterized as a process that occurs as a result of the depreciation of money, meaning that the amount of paper money in circulation exceeds the volume of available goods and services. This complex monetary phenomenon operates not just as a statistical metric but as a pervasive socioeconomic element that restructures the foundational mechanics of market transactions, corporate strategies, and household survival matrices. This critical market situation leads to a general and stable increase in the prices of goods and services without quality changes, as well as the appreciation of gold and foreign currencies against the national currency. A general and stable increase in the price level in the economy reduces the purchasing power of money, meaning that every unit of the national currency commands a progressively smaller volume of tangible assets, essential commodities, or consumer services over time.

Inflation seriously affects not only financial markets but also the welfare of the population. Although a moderate level of inflation (for example, up to 7-10% annually) is considered a normal situation for developing economies and can even stimulate the economy by encouraging immediate investments and preventing liquidity traps, excessively high indicators (more than 10%) erode purchasing power and cause catastrophic economic instability. Under these high inflationary pressures, corporate planning models suffer from high volatility, long-term credit markets dry up, and nominal wage growth fails to keep up with spiraling product costs. The decrease in the purchasing power of money directly has a negative impact on the real incomes of the population, lowering their standard of living and widening inequality. This structural degradation necessitates a deep study of its impact on the ability to purchase goods and services across different social groups of households. Understanding the causes of inflation, its direct impact on real incomes, and changes in consumer spending is essential for ensuring economic stability and developing measures to protect the population. Furthermore, understanding inflation mechanisms and its broader impact on the household economy is necessary for individuals to make financial decisions, structure long-term debt, optimize everyday household consumption, and protect their lifetime savings from permanent systemic depreciation.

This article is aimed at comprehensively analyzing the impact of the inflation rate on the real income of the population, studying its mechanisms, consequences, and differential impact across various groups of the population. The research seeks to identify the main causes of

inflation, its direct impact on the real incomes of citizens, and changes in consumer models. The ultimate goal is to propose protective measures aimed at mitigating the negative consequences of inflation at the state and individual levels, thereby contributing to a better understanding of economic stability for households. The research systematically structures these phenomena through empirical validation and deep academic interpretation.

Studying economic theories of the relationship between inflation and real incomes, including monetary theory, Keynesian theory, and modern inflation models. This comprehensive theoretical analysis creates a solid basis for a deep understanding of the causes, types of inflation, and its impact mechanisms on the economy. Quantitative assessment of the inflation rate, nominal and real incomes, and consumer spending dynamics based on statistical data for the Republic of Uzbekistan. This analysis helps to identify the practical manifestations of inflation's impact on real incomes, specifically relying on the results of studies conducted by the Central Bank of Uzbekistan on households. Comparing the experience of Uzbekistan with the experience of other developing countries, evaluating the effectiveness of anti-inflation policies, and identifying best practices.

The article design includes descriptive and explanatory approaches. The descriptive approach is aimed at identifying the main trends in the dynamics of inflation and real incomes, as well as differences across various groups of the population. The explanatory approach seeks to explain the cause-and-effect relationships between inflation and real incomes, impact mechanisms, and their consequences. These approaches allow providing a complex answer to the research questions. This study relies mainly on secondary data. Data is collected from open sources of official statistical bodies of the Republic of Uzbekistan, the Central Bank, and international organizations. The following main data sources and methods for their collection were determined for the study: Consumer Price Index (CPI) and Producer Price Index (PPI) data: General inflation rate, as well as inflation indicators for food, non-food products, and services. This data serves as a basis for assessing price dynamics and changes in the purchasing power of money.

### Comparative analysis of Consumer and Producer price indexes

**Table 1**

Criteria	Consumer Price Index (CPI)	Producer Price Index (PPI)
Economic content	Change in the prices of the basket of goods and services purchased by the final consumer (population)	Change in the initial prices of goods and services produced by domestic producers and sold in the wholesale market
Object of evaluation	Retail prices (including VAT and other taxes as well as trade margins)	Wholesale and factory prices (excluding commercial margins, taxes, and transportation costs)
Element of observation	Final services such as food, clothing, rent, transportation, medicine, education	Raw materials (oil, metal, cotton), semi-finished products, electricity, means of production
Role in inflation	Shows current, real-time inflation affecting the population's pocket	It is considered an early warning (initial) indicator of future inflation.

Macroeconomic analysis and interconnection of indexes. These two indexes are not independent of each other but constitute the price chain in the economy. In their analysis, several important macroeconomic regularities are manifested: Time lag effect and forecasting. The

change in the Producer Price Index (PPI) always runs ahead of the Consumer Price Index (CPI) by 1 to 3 months. Chain reaction: If the price of raw materials (for example, fuel, metal, or grain) increases, the producer's cost of production rises, and the PPI index grows. The producer is forced to increase the price of the finished product in order not to suffer losses. After this product reaches retail trade, it leads to an increase in the Consumer Price Index (CPI) a few months later. Central banks, when forecasting inflation in the coming months and determining monetary policy (for example, the refinancing rate), primarily look at the dynamics of the producers' index.

To expand further on this macroeconomic transmission mechanism, we must evaluate how these indexes respond during structural adjustments in developing nations. When the global market experiences supply shocks, the PPI registers these imbalances instantaneously. This is because intermediate manufacturing operations rely heavily on international freight networks, bulk raw material acquisitions, and heavy energy inputs. If the central bank attempts to implement contractionary policies prematurely based solely on PPI changes, it risks suffocating economic growth. Conversely, ignoring a prolonged PPI surge guarantees that consumer-facing sectors will inevitably experience sharp inflationary spikes, drastically devaluing household budgets.

Identifying demand and supply inflation. The discrepancy between these two indexes determines the character of inflation in the economy. Supply inflation (Cost-push inflation): If the Producer Price Index (PPI) is growing faster than consumer prices (CPI), it means that production costs (energy resources, logistics, imported raw materials) are becoming more expensive in the economy. In such a situation, the profitability of enterprises decreases. Demand inflation: if the CPI indicator is growing at a higher rate compared to the PPI, it means that the purchasing power of the population and aggregate demand in the market are high. Due to the product being scarce or supply being insufficient, retailers are artificially increasing the price.

In-depth analysis reveals that demand inflation can be driven by expansionary fiscal policies, such as aggressive state credit injections or massive wage updates that outpace actual production capacity. Under such conditions, aggregate demand expands faster than aggregate supply can adjust. On the other hand, cost-push inflation is heavily driven by currency depreciation, which drives up the cost of imported machinery and raw elements. When analyzing developing regional markets, distinguishing between these two inflation types is critical for designing appropriate intervention policies. Applying a standard demand-side monetary squeeze to cure a supply-side cost-push structural imbalance can trigger stagflation, harming both corporate stability and employment levels.

Impact on enterprise profitability and household adjustments. Impact on enterprise profitability. If producer prices (PPI) increase sharply, but retail prices (CPI) do not grow due to low purchasing power of the population in the country, enterprises cannot pass the cost increase onto the final consumer. As a result, the net profit margin of enterprises shrinks, which can lead to a decline in production and, in the long run, a slowdown in economic growth. While the Consumer Price Index shows the real cost of living of the population and the depreciation of money, the Producer Price Index serves as a barometer that predicts the health of the business environment and future price pressures. When these pressures translate into CPI growth, real household income falls unless nominal wages are rapidly adjusted. For fixed-income earners, this causes an immediate compression of discretionary spending.

When households face persistent inflation, their entire behavioral matrix shifts. Families adjust by substituting higher-priced premium goods with lower-quality alternatives, minimizing long-term healthcare allocations, and postponing educational investments. This behavioral optimization protects immediate nutrition needs but compromises human capital development in the long run. At the corporate level, compressed profit margins force firms to downsize operations, freeze formal employment opportunities, and reduce wages. This dual pressure on both the earning potential and the purchasing side creates a challenging economic loop that requires highly calibrated fiscal and social policy configurations.

**Conclusion.** This article comprehensively analyzed the impact of the inflation rate on the real income of the population under the conditions of Uzbekistan. The article deeply studied the negative impact of inflation on real incomes by reducing the purchasing power of money, especially when nominal incomes are not indexed. Analyses showed that inflation disproportionately affects various groups of the population, in particular, low-income families and pensioners, because they spend a large part of their expenses on food. This lowers their standard of living and increases social inequality. Also, significant changes are observed in the structure of consumer spending in the article, and the share of basic necessity goods increases. Emphasizing the importance of monetary, fiscal, and social policies to combat inflation and protect the population, the article showed the need for a complex approach to ensure economic stability. State-level indexation of wages, targeted social dotations, and rigorous monetary regulation by the Central Bank are essential instruments to safeguard household welfare and support sustainable economic progress.

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