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Financial Instruments for Protecting Household Savings in Inflationary Conditions

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Abstract: This article examines modern financial instruments and mechanisms for protecting household savings from depreciation under inflationary conditions. The study provides a comparative analysis of the effectiveness of bank deposits, the securities market (stocks and bonds), real estate, gold assets, and diversified investment portfolios. In addition, proposals and recommendations are developed to improve financial literacy among the population and to manage inflation expectations.

Keywords: Inflation, savings, real interest rate, nominal interest rate, time value of money, purchasing power, static loss, dynamic loss, bank deposits, real estate, rental income, capital growth, diversification, investment portfolio, risk management, liquidity, currency diversification, economic stability.

Annotatsiya: Ushbu maqolada inflyatsiya sharoitida aholi ixtiyoridagi pul jamg'armalarini qadrsizlanishdan himoya qilishning zamonaviy moliyaviy instrumentlari va mexanizmlari tadqiq etiladi. Tadqiqot davomida bank omonatlari, qimmatli qog'ozlar bozori (aksiya va obligatsiyalar), ko'chmas mulk, oltin aktivlari hamda diversifikatsiyalangan investitsiya portfellarining samaradorligi qiyosiy tahlil qilingan. Shuningdek, aholining moliyaviy savodxonligini oshirish va inflyatsion kutilmalarni boshqarish bo'yicha taklif va tavsiyalar ishlab chiqilgan.

Kalit so'zlar: Inflyatsiya, jamg'armalar, real foiz stavkasi, nominal foiz stavkasi, pulning vaqt bo'yicha qiymati, xarid qobiliyati, statik yo'qotish, dinamik yo'qotish, bank depozitlari, ko'chmas mulk, ijara daromadi, kapital o'sishi, diversifikatsiya, investitsiya portfeli, risklarni boshqarish, likvidlik, valyuta diversifikatsiyasi, iqtisodiy barqarorlik.

Аннотация: В данной статье исследуются современные финансовые инструменты и механизмы защиты денежных сбережений населения от обесценивания в условиях инфляции. В ходе исследования проведен сравнительный анализ эффективности банковских вкладов, рынка ценных бумаг (акций и облигаций), недвижимости, золотых активов и диверсифицированных инвестиционных портфелей. Также разработаны предложения и рекомендации по повышению финансовой грамотности населения и управлению инфляционными ожиданиями.

Ключевые слова: Инфляция, сбережения, реальная процентная ставка, номинальная процентная ставка, временная стоимость денег, покупательная способность, статические потери, динамические потери, банковские депозиты, недвижимость, доход от аренды, прирост капитала, диверсификация, инвестиционный портфель, управление рисками, ликвидность, валютная диверсификация, экономическая стабильность.

Today, global economic processes, geopolitical changes around the world, and disruptions in supply chains are causing inflation rates to rise. This situation is having a significant impact not only on the global economy but also on the economy of



Uzbekistan. Inflation is no longer merely a statistical indicator; it has become an important factor directly affecting people's daily lives and financial stability.

As prices continuously increase, the purchasing power of the population declines, while money savings accumulated over many years gradually lose their value. In economic theory, inflation is often described as the "hidden depreciation" of money. This is because its effects may not be immediately noticeable, but over time it reduces the real value of savings. If the inflation rate exceeds the growth rate of household incomes or the interest rates offered on bank deposits, savers experience real financial losses. Therefore, keeping money simply in cash can no longer be considered a sufficient or rational solution under current conditions. It is important for people to use various financial instruments to protect their savings from inflation and preserve their value by developing effective financial management strategies.

Today, inflation is not only a theoretical economic concept but also a real factor directly affecting every household budget. In particular, instability in global markets, disruptions in logistics chains, and fluctuations in energy prices have intensified inflationary pressure. In recent years, inflation rates in many countries have ranged between 8–12%, while in some states they have reached 15–20%. In Uzbekistan as well, inflation has remained at double-digit levels for several years. This creates a need not only to save money but also to manage it effectively.

Under inflationary conditions, the principle of the time value of money becomes especially evident. The amount of goods that can be purchased today with 1 million Uzbek soums will decrease after one year. For example, if annual inflation is 10%, the real purchasing power of 1 million soums will decline to approximately 900 thousand soums within a year. This is called a static loss, meaning the depreciation caused by keeping money in cash.

Dynamic loss is even more complex. If the annual return on a bank deposit is 12%, while inflation is 14%, the investor suffers a real loss of 2%. Although this difference may appear small, it creates a substantial gap over the long term. For instance, a 2% real loss every year for 10 years significantly reduces the overall purchasing power of savings. Therefore, the real interest rate, rather than the nominal rate, should be the main criterion. The most common financial instrument among the population is bank deposits. In Uzbekistan, annual interest rates on bank deposits usually range between 14–20%, and they are protected by state guarantees. If inflation remains around 10–12%, the real interest rate can be positive. This makes bank deposits a relatively safe and liquid instrument for preserving savings.

However, for long-term wealth creation, many economists recommend investing in real assets. The securities market, particularly stocks, can generate relatively high returns during inflationary periods. Historical data show that the long-term average annual real return in developed countries' stock markets has been around 7–10%. Since companies can increase product prices in line with inflation, their revenues and stock values also tend to grow.

Bonds, especially inflation-indexed bonds, are considered a suitable option for investors seeking security and stability. Because their interest payments are linked to inflation rates, they help preserve real returns.

Gold has historically been regarded as a “safe haven.” During global crises over recent decades, gold prices have often risen sharply. For example, during periods of financial instability, gold prices have increased by 20–30% within a few years. In Uzbekistan, gold bars and commemorative coins are also being offered as long-term protective instruments for the population.

Real estate investment is another widely used method of protection against inflation. Due to urbanization and population growth, housing prices in major cities have shown a long-term upward trend. Rental income also rises along with inflation, providing investors with a stable cash flow. However, this sector requires large initial capital and has low liquidity, meaning that assets cannot be sold quickly.

The most important rule during inflationary periods is risk diversification. Placing all funds into a single type of asset creates high risk. An effective portfolio usually consists of several types of assets: one part for liquidity and urgent needs (bank deposits), one part for protection (gold or stable foreign currencies), and the remaining part for growth (stocks, investment funds, or real estate). In practice, many financial advisors recommend allocating around 20–30% to liquid assets, 20–30% to protective assets, and 30–40% to growth assets.

Currency diversification is also important. Keeping savings not only in the national currency but also in stable international currencies helps reduce currency risk. In some periods, depreciation of the national currency may further intensify inflation.

In conclusion, inflation is one of the main factors reducing the real value of household savings. If income or deposit interest rates are lower than inflation, savers suffer real financial losses. Therefore, keeping money in cash is considered ineffective. The most important approach is to take real interest rates into account and distribute funds among various financial instruments. While bank deposits are liquid and secure, stocks and real estate provide long-term growth opportunities. Gold serves as a protective asset during periods of inflation and economic instability. The most effective strategy is diversification — distributing funds across several assets and currencies. Financial literacy and conscious investment decisions are the key conditions for preserving and increasing savings.

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