

THE ROLE OF MONETARY POLICY IN ECONOMIC DEVELOPMENT

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ABSTRACT. This article examines the role and significance of monetary policy in economic development. The study analyzes the theoretical foundations of monetary policy, its main instruments, and its role in ensuring macroeconomic stability. In addition, the effectiveness of monetary policy reforms being implemented in Uzbekistan aimed at curbing inflation, maintaining the stability of the national currency, stimulating investment activity, and supporting economic growth has been studied. During the research process, methods of statistical analysis, comparative analysis, induction, and deduction were used. The results showed that monetary policy is an important factor in ensuring economic growth, financial stability, and the well-being of the population. At the end of the study, scientific and practical recommendations were developed to improve the effectiveness of monetary policy.

Keywords: monetary policy, Central Bank, inflation, economic growth, interest rate, credit policy, macroeconomic stability, investments, financial system, economic development.

INTRODUCTION. Today, monetary policy is one of the important macroeconomic management tools in ensuring stable economic development of countries. The acceleration of globalization processes, changes in international financial markets, and the emergence of economic crises require states to pursue effective economic policies to maintain economic stability. In such conditions, monetary policy implemented by the Central Bank plays an important role in

controlling inflation, ensuring the stability of the national currency, stimulating investment activity, and supporting economic growth.

Monetary policy affects various sectors of the economy by regulating the volume of money supply, interest rates, and the supply of credit resources. The effective implementation of this policy contributes to increasing production volumes, raising employment levels, and improving the well-being of the population. At the same time, incorrect or insufficiently justified monetary policy can lead to increased inflation, decreased economic activity, and financial instability.

In the Republic of Uzbekistan, in recent years, large-scale reforms have been implemented to improve monetary policy, gradually transition to an inflation targeting regime, and develop financial markets. These reforms are aimed at ensuring economic growth, strengthening macroeconomic stability, and improving the investment environment.

The purpose of this article is to study the role of monetary policy in economic development, and to analyze its main mechanisms and impact on economic growth. In addition, the importance of monetary policy in ensuring economic stability and directions for its further improvement are considered.

Research Methodology. In this study, various methods of scientific knowledge were used to examine the role of monetary policy in economic development. During the research process, special attention was paid to analyzing economic phenomena and processes based on a systematic approach, identifying their interrelationships, and elucidating theoretical and practical aspects.

The methodological basis of the study consisted of scientific views on economic theory, monetary policy, and macroeconomic regulation. Methods of analysis and synthesis, comparative analysis, statistical analysis, induction, and deduction were used to cover the topic. In particular, the main instruments of monetary policy and their impact on economic growth were theoretically analyzed and summarized on the basis of existing scientific sources.

In addition, data from the Central Bank of the Republic of Uzbekistan, state statistical bodies, and international financial organizations were used in the study. Based on statistical data, the relationship between inflation rates, interest rates, credit volumes, and economic growth indicators was studied. Based on the results obtained, the impact of monetary policy on economic development was assessed and relevant scientific conclusions were formulated.

In order to ensure the reliability of the study, scientific works of local and foreign scholars, regulatory and legal documents, as well as official statistical data were analyzed. As a result, scientifically grounded conclusions were developed regarding the importance of monetary policy in ensuring economic stability and long-term economic development.

Results and Discussion. Monetary policy plays an important role in supporting the economic development of the country and ensuring macroeconomic stability. This policy, pursued by the Central Bank, directly affects the inflation rate, economic growth rates, employment indicators, and the stability of the financial system. Monetary policy is one of the effective tools used to support economic development. Controlling inflation ensures the healthy functioning of the economy by maintaining price stability, stimulating economic growth creates favorable conditions for expanding investments and production volumes, reducing unemployment creates new jobs and increases the income of the population, ensuring financial stability strengthens the reliability of the banking system and credit markets, and stabilizing the exchange rate supports economic development by preventing the devaluation of the national currency and maintaining the export-import balance.

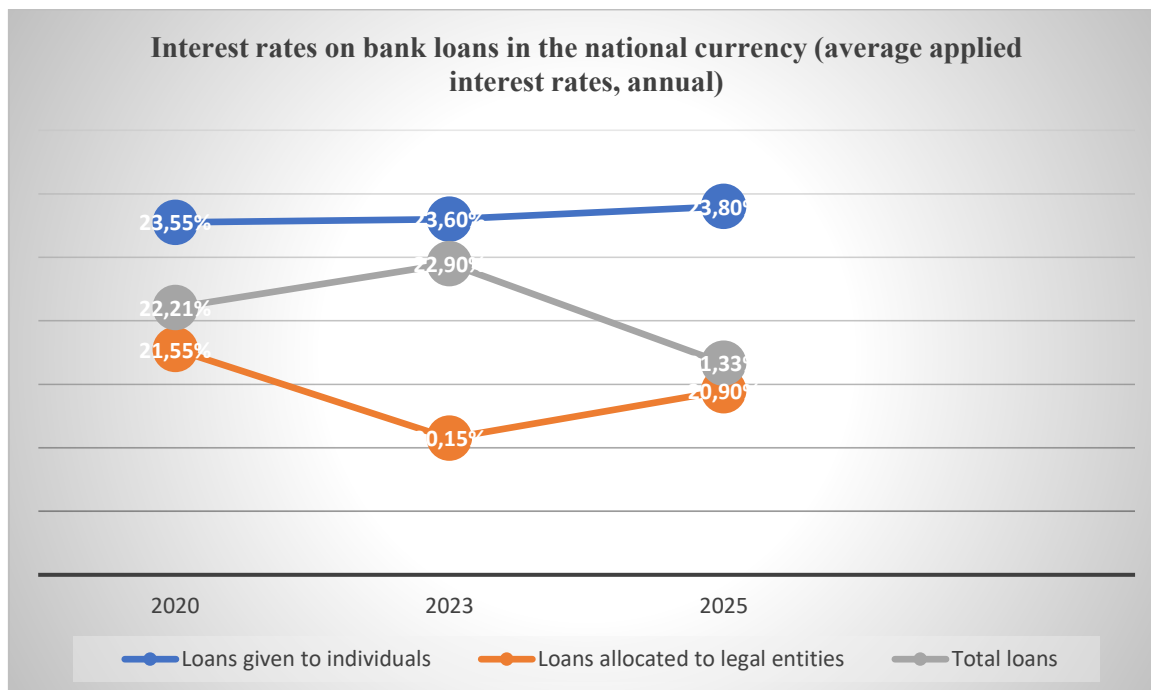


Diagram 1. Interest rates on bank loans in national currency (weighted average interest rates, annualized)¹

According to the diagram, the trend of changes over time in the weighted average interest rates on bank loans issued in national currency during 2020–2025 is shown. Interest rates on loans extended to individuals, legal entities, and total loans are compared.

Interest rates on loans extended to individuals were the highest throughout all years. In particular, this figure was 23.55 percent in 2020, reached 23.60 percent in 2023, and 23.80 percent in 2025. This situation is explained by the high level of risk, repayment terms, and inflationary factors of loans issued to the population. At the same time, the cautious policy of banks in extending credit to individuals is causing the high interest rates to persist.

Interest rates on loans extended to legal entities were observed at a relatively lower level. This figure was 21.55 percent in 2020 and declined to 20.15 percent in 2023. During this period, a declining trend in interest rates was observed as a result of measures aimed at supporting the development of the real sector, accelerating investment projects, and creating favorable financing conditions for business

entities. However, in 2025, this figure rose to 20.90 percent, which may be related to inflationary pressure and the strict monetary policy of the Central Bank.

A variable dynamic is also observed in the average interest rates on total loans. In 2020, the average interest rate on total loans was 22.21 percent. It increased to 22.90 percent in 2023, but declined to 21.33 percent in 2025. This trend is explained by changes in the composition of the credit portfolio, increased interbank competition, and transformational processes in economic policy. Interest rates on bank loans over the years have been shaped under the influence of macroeconomic factors, inflation rates, the key interest rate of the Central Bank, and credit risks. In particular, the persistence of high interest rates on loans issued to individuals indicates the high level of risk and demand in the consumer credit segment. In legal entity loans, relatively low interest rates were observed as a result of the policy of supporting the economy.

This shows that the volume of credit investments in the economy is growing, with loans in national currency in particular taking a leading position. This trend can be assessed as one of the important factors serving to ensure macroeconomic stability in the country, reduce currency risks, and support the real sector of the economy.

The mechanisms of the impact of monetary policy on economic development are expressed in the cheapening of loans by the Central Bank lowering interest rates. As a result, enterprises and the population are attracted more to obtaining credit, and the volume of investment and consumption expands. An increase in interest rates reduces economic activity and helps curb inflation. Balance between supply and demand is maintained by directing a certain amount of money into the economy. An increase in the money supply gives impetus to economic growth, while excess emission can lead to inflation and currency devaluation. As a result of the Central Bank's soft monetary policy, financial resources for small and medium-sized business entities expand, and a positive impact on economic development is exerted. Conversely, when credit resources are limited, business activity may slow down. Monetary policy serves to curb excessive growth of inflation, forming favorable conditions for long-term economic progress. Monetary policy influences the volume

of exports and imports, ensuring the stability of the national currency. A stable exchange rate creates a reliable environment for investments and supports economic growth. Ensuring macroeconomic stability, smoothing fluctuations in the economy, helps achieve long-term growth. If credit resources are expanded, enterprises increase production volumes and new jobs are created. The flexibility of interest rates creates a favorable environment for investors, increasing the volume of investments, increases the purchasing capacity of the population, supports domestic demand. Keeping inflation at a stable level, preventing sharp changes in prices, creates a favorable business environment for business entities.

CONCLUSION. The results of the study showed that monetary policy is one of the important macroeconomic tools in ensuring the economic development of the country. Monetary policy implemented by the Central Bank directly affects economic growth by controlling the level of inflation, maintaining the stability of the national currency, ensuring the reliability of the financial system, and stimulating investment activity.

Analyses show that effective monetary policy ensures price stability in the economy, creating a favorable macroeconomic environment for business entities and investors. As a result, production volumes increase, new jobs are created, and the standard of living of the population improves. At the same time, rational management of the money supply and interest rates serves to maintain balance in the economy.

Monetary policy reforms being implemented in Uzbekistan, in particular, the introduction of inflation targeting principles and the improvement of monetary mechanisms, are serving to strengthen economic stability. In the future, to further improve the effectiveness of this policy, developing financial markets, enhancing the transparency of monetary policy, widely introducing modern digital technologies, and effectively using international experience are of great importance.

In general, monetary policy is one of the important factors of economic development, and its effective implementation serves to ensure the country's long-

term economic growth, macroeconomic stability, and the well-being of the population.

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- 16.¹ Compiled by the author based on statistical data of the Central Bank of the Republic of Uzbekistan for 2020–2025.

