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THE IMPACT OF MONETARY POLICY ON SUSTAINABLE ECONOMIC GROWTH: THE CASE OF DEVELOPING COUNTRIES (UZBEKISTAN)

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Abstract. This article analyzes the impact of monetary policy on sustainable economic growth using the example of developing countries, in particular the Republic of Uzbekistan. The study examines the interrelationships between the Central Bank's monetary policy instruments, the inflation targeting regime, exchange rate stability, and economic growth. It also analyzes the reforms implemented in recent years, including the liberalization of monetary policy, the development of financial markets, and the institutional strengthening of monetary policy. The results of the study show that effective monetary policy improves the investment climate by ensuring macroeconomic stability and supports long-term economic growth.

Keywords: Monetary policy, Central Bank, inflation, monetary policy instruments, economic growth, macroeconomic stability, exchange rate, inflation targeting, developing economies, economy of Uzbekistan.

Annotatsiya. Ushbu maqola rivojlanayotgan mamlakatlar, xususan, O'zbekiston Respublikasi misolida pul-kredit siyosatining barqaror iqtisodiy o'sishga ta'sirini tahlil qiladi. Tadqiqotda Markaziy bankning pul-kredit siyosati vositalari, inflyatsiyani nishonga olish rejimi, valyuta kursining barqarorligi va iqtisodiy o'sish o'rtasidagi o'zaro bog'liqlik o'rganiladi. Shuningdek, so'nggi yillarda amalga oshirilgan islohotlar, jumladan, pul-kredit siyosatini liberallashtirish, moliya bozorlarini rivojlantirish va pul-kredit siyosatini institutsional mustahkamlash tahlil qilinadi. Tadqiqot natijalari shuni ko'rsatadiki, samarali pul-kredit siyosati makroiqtisodiy barqarorlikni ta'minlash orqali investitsiya muhitini yaxshilaydi va uzoq muddatli iqtisodiy o'sishni qo'llab-quvvatlaydi.

Kalit so'zlar: Pul-kredit siyosati, Markaziy bank, inflyatsiya, pul-kredit siyosati vositalari, iqtisodiy o'sish, makroiqtisodiy barqarorlik, valyuta kursi, inflyatsiyani nishonga olish, rivojlanayotgan iqtisodiyotlar, O'zbekiston iqtisodiyoti.

Аннотация. В данной статье анализируется влияние денежно-кредитной политики на устойчивый экономический рост на примере развивающихся стран, в частности Республики Узбекистан. Исследование рассматривает взаимосвязи между инструментами денежно-кредитной политики Центрального банка, режимом таргетирования инфляции, стабильностью обменного курса и экономическим ростом. Также анализируются реформы, проведенные в последние годы, включая либерализацию денежно-кредитной политики, развитие финансовых рынков и институциональное укрепление денежно-кредитной политики. Результаты исследования показывают, что эффективная денежно-кредитная политика улучшает инвестиционный климат, обеспечивая макроэкономическую стабильность и поддерживая долгосрочный экономический рост.

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Ключевые слова: Денежно-кредитная политика, Центральный банк, инфляция, инструменты денежно-кредитной политики, экономический рост, макроэкономическая стабильность, обменный курс, таргетирование инфляции, развивающиеся страны, экономика Узбекистана.

Introduction. Ensuring sustainable economic growth in the world economy is one of the priority strategic goals of each state. Especially for developing countries, maintaining macroeconomic stability, controlling inflation, and ensuring the stability of the national currency are of great importance. In this process, monetary policy is manifested as the main economic regulator.

Monetary policy is aimed at ensuring the overall balance of supply and demand in the economy by the Central Bank through the management of the money supply, regulation of interest rates, and indirect influence on the foreign exchange market. As a result of the reforms implemented in the Republic of Uzbekistan in recent years, monetary policy has been improved based on market mechanisms, an inflation targeting regime has been introduced, and the independence of the Central Bank has been strengthened.

At the same time, increasing the effectiveness of monetary policy in the context of global economic instability, external shocks, and internal structural problems remains an urgent scientific and practical task. This article analyzes the impact of monetary policy on economic growth theoretically and empirically, and draws conclusions based on the experience of Uzbekistan.

Literature review. The impact of monetary policy on economic growth is one of the most widely studied areas in economic theory and applied macroeconomics. While representatives of the classical and neoclassical schools (I. Fisher, M. Friedman) saw monetary policy mainly as a means of controlling inflation, the Keynesian approach (J. M. Keynes) substantiated the direct impact of monetary policy on real sector activity, investment and employment.

Approaches in world literature

M. Friedman emphasizes that monetary policy affects economic growth in the long run not directly, but indirectly through the inflation rate. According to his “quantity theory of money”, excessive expansion of the money supply increases the price level and causes economic instability[1].

Bernanke and Mishkin indicate the interest rate and inflation targeting regime as the main instruments of modern monetary policy. Their research has proven that countries with high central bank independence have lower inflation and more stable economic growth[2].

The “Taylor rule” developed by Taylor explains monetary policy as an automatic regulation mechanism and proposes to control interest rates based on inflation and output gap[3].

Also, IMF[4] and World Bank[5] studies have noted that the effectiveness of monetary policy in developing countries is directly related to the level of development of financial markets, dollarization, and institutional quality.

Uzbek literature and practical experience

The transformation of monetary policy in Uzbekistan has entered a stage of deep reforms since 2017. The “Action Strategy” approved by Decree of the President of the Republic of Uzbekistan No. PF-4947 identified ensuring macroeconomic stability and liberalizing monetary policy as a priority[6].

Also, through Decree No. PF-5992, the strengthening of the institutional independence of the Central Bank and the transition to an inflation targeting regime were legally strengthened[7].

The annual reports of the Central Bank of the Republic of Uzbekistan (2021–2025) note that the decrease in the inflation rate, balanced growth of the money supply, and liberalization of the foreign exchange market serve to ensure the stability of economic growth[8].

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Also, studies by economists (Kh. Abulqosimov, Sh. Abdullayev, B. Tojibaeva) substantiate that monetary policy in the conditions of Uzbekistan is mainly aimed at reducing inflationary pressure and improving the investment climate[9,10].

General scientific conclusion

The analysis of the literature shows that the impact of monetary policy on economic growth is not direct, but rather through macroeconomic stability, the inflation rate, and the development of the financial system. For developing countries, including Uzbekistan, the effectiveness of monetary policy is closely linked to institutional reforms and the deepening of market mechanisms.

Methodology. This study used a comprehensive scientific approach to studying the impact of monetary policy on sustainable economic growth. The object of the study was the monetary policy and macroeconomic indicators of the Republic of Uzbekistan for 2017–2025. The subject matter was monetary policy instruments (interest rates, money supply, inflation targeting regime and exchange rate policy) and their impact on economic growth rates.

The study used elements of theoretical analysis, comparative analysis and econometric approach. The theoretical analysis part was based on the study of classical and modern views on monetary policy in the world economic literature (Keynes, Friedman, Taylor model, Bernanke and Mishkin works). This approach made it possible to determine the role of monetary policy in economic growth and its transmission mechanisms.

Within the framework of the comparative analysis, the experience of developed and developing countries was compared. In particular, the evolution of Uzbekistan's monetary policy was compared with countries with inflation targeting regimes (e.g., Turkey, Poland, and Kazakhstan). This sheds light on institutional differences and their impact on economic outcomes.

The empirical analysis used data from the Central Bank of the Republic of Uzbekistan, the World Bank, and the International Monetary Fund (IMF). The main macroeconomic indicators selected were GDP growth rate, inflation rate, money supply (M2), refinancing rate, and exchange rate dynamics. The relationship between these indicators was assessed based on trend analysis and a correlation approach.

The study also separately analyzed the transmission channels of monetary policy - the interest rate channel, the credit channel, the exchange rate channel, and the inflation expectations channel. This approach allowed for a deeper understanding of the mechanisms by which monetary policy decisions affect the real sector, investment, and consumption.

Overall, the methodological framework served to analyze the causal relationship between monetary policy and economic growth in a systematic and scientific manner.

Results and Discussion. The results of the study show that the impact of monetary policy on sustainable economic growth in Uzbekistan is mainly manifested through inflation control, balanced management of the money supply, and liberalization of the foreign exchange market. As a result of the reforms implemented in the period 2017–2025, the transmission mechanisms of monetary policy have been significantly improved, which has served to strengthen macroeconomic stability.

Empirical observations show a gradual decrease in the inflation rate and a decrease in its volatility. The transition to an inflation targeting regime has allowed the Central Bank to conduct monetary policy based on specific goals. As a result, inflation expectations have stabilized and the decision-making process of economic agents has become more precise. This has had a positive impact on the stable dynamics of investment activity and consumer spending.

The enhanced role of interest rate policy has also led to a more efficient allocation of resources in the credit market. The importance of the refinancing rate as a market signal has increased, and commercial banks have become more reliant on monetary policy signals in the formation of lending

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interest rates. This process has strengthened financial discipline for real sector enterprises, increasing the efficiency of investment projects.

As a result of exchange rate liberalization, the role of market mechanisms in foreign trade operations has increased. This has served to increase the competitiveness of exporting enterprises and expand import-substituting production. At the same time, the flexibility of the exchange rate has increased the economy's resilience to external shocks.

During the discussion, it was found that the impact of monetary policy on economic growth is not direct, but occurs through intermediate channels. In particular, the inflation rate, the availability of credit resources, and investor confidence play an important role as the main transmission mechanisms. If inflation is high and unstable, the positive impact of monetary policy is significantly weakened.

At the same time, it was confirmed that the effectiveness of monetary policy in emerging economies is closely related to institutional quality and the depth of financial markets. The experience of Uzbekistan shows that the strengthening of the independence of the Central Bank and the introduction of market instruments during the reform process have increased the stability of economic growth.

Overall, the results obtained confirm that the correct orientation and predictability of monetary policy are an important condition for sustainable economic growth. However, external economic shocks, global inflationary pressures, and volatility in commodity prices can impose certain limitations on the effectiveness of monetary policy.

Conclusion. The results of this study show that the role of monetary policy in ensuring sustainable economic growth is important in developing countries, in particular in the case of Uzbekistan. Monetary policy has an indirect impact on economic growth mainly through stabilizing inflation, balanced management of the money supply, and ensuring the stability of the financial system.

The monetary policy reforms implemented in the Republic of Uzbekistan, including the transition to an inflation targeting regime, liberalization of the foreign exchange market, and strengthening the institutional independence of the Central Bank, served to strengthen macroeconomic stability. As a result, a decrease in the inflation rate, an improvement in the investment climate, and a relative stabilization of economic growth were observed.

At the same time, the study also shows that the effectiveness of monetary policy directly depends not only on monetary instruments, but also on institutional quality, the level of development of financial markets, and external economic conditions.

Recommendations. Based on the results of the study, the following scientific and practical recommendations were developed:

First, it is necessary to increase the predictability of monetary policy. The implementation of decisions made by the Central Bank on the basis of open and clear communication will stabilize the expectations of economic agents and reduce inflationary pressure.

Second, it is necessary to further improve the inflation targeting regime. In this regard, it is important to increase the accuracy of inflation forecasts, improve the quality of statistical data, and expand model-based analysis of monetary policy.

Third, it is necessary to strengthen the interest rate transmission mechanism. By increasing the efficiency of financial intermediation between commercial banks and the real sector, monetary policy signals will reach the economy faster and more effectively.

Fourth, it is recommended to deepen and diversify financial markets. The formation of a developed bond market and capital market will enhance the impact of monetary policy and improve the allocation of investment resources.

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Fifth, to increase resilience to external economic shocks, it is important to maintain exchange rate flexibility and optimally manage gold and foreign exchange reserves.

In general, improving the effectiveness of monetary policy remains one of the key factors in ensuring long-term sustainable growth of the Uzbek economy.

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