World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 27, October, 2023
ISSN: 2749-3628,

THE ROLE OF MONETARY POLICY IN ENSURING MACROECONOMIC STABILITY AND DEVELOPMENT

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Article history:

Received: 8th August 2023
Accepted: 8th September 2023
Published: 11th October 2023

Abstract:

The first element of monetary policy that affects inflation is aggregate demand, which depends on the price level at the national level. The transmission mechanism of monetary policy explained above mainly considers the impact on GDP through aggregate demand. In this, an approach is taken to the current state of GDP, and to the short- and medium-term periods of total demand. It should be noted that in this situation there is also a potential GDP indicator that reflects non-monetary factors. The difference between the potential and current GDP, as well as the increase in direct aggregate demand, can cause inflation at the state level. Production as a result of inflation.

Keywords: Monetary policy, budget-financial goals, inflation targeting.

INTRODUCTION

The first element of monetary policy that affects inflation is aggregate demand, which depends on the price level at the national level. The transmission mechanism of monetary policy explained above mainly considers the impact on GDP through aggregate demand. In this, an approach is taken to the current state of GDP, and to the short and medium term periods of total demand. It should be noted that in this situation there is also a potential GDP indicator that reflects non-monetary factors. The difference between the potential and current GDP, as well as the increase in direct aggregate demand, can cause inflation at the state level. Inflation is explained by an increase in demand, which leads to an increase in production costs and an increase in prices by enterprises as a result of an increase in the volume of production.

The second element of monetary policy that affects inflation is called the channel of production costs, arising from the previous element. This includes wages and expenses for importing raw materials. A decrease in the national currency exchange rate leads to an increase in the price of imported raw materials and finished products. In addition, devaluation reduces the solvency of consumers and creates the need to raise wages.

Another element of monetary policy that affects inflation is inflation targeting. In turn, the increase in inflationary risks caused by the weakening of the state's anti-inflation policy leads to an increase in economic activity and an increase in the level of domestic prices.

MATERIALS AND METHODS

There is also a classical monetary approach to the transmission mechanism of monetary policy, which is expressed through the law of money circulation. According to it, the product of the volume of money in circulation and the speed of circulation of money corresponds to the product of the price level and the total volume of emission. Also, questions such as how flexible the considered monetary policy elements are and at what time they affect the intermediate target indicators of monetary policy are of particular importance. In the long run, the monetary impulse covers only indicators such as inflation and the nominal exchange rate. It affects not only the real parameters (such as GDP and unemployment) but also the average level of the real exchange rate. In the short and medium term, it is considered appropriate to carry out a quick anti-inflation policy through monetary means. Anti-inflationary policy can be divided into two types according to the target indicators: hard inflationary policy (ultimate target indicator - achieving an acceptable level of inflation), soft inflationary policy (ultimate target indicator - ensuring stable economic growth). In general,

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inflation targeting can be understood as setting future targets for domestic price changes.

Inflation targeting may not always be able to determine the actual inflation rate, as the dynamics of monetary aggregates depends on intangible factors. The essence of this mechanism is reflected in the following five rules:

1. Absence of other nominal financial lags (except inflation rate).
2. Existence of state obligations in achieving a stable price.
3. Prioritization of monetary goals over budgetary and financial goals.
4. Monetary levers to implement inflation targeting absolute freedom of choice.
5. Transparency of the ongoing inflationary policy.

The classical form of strict inflation targeting has its positive aspects as well as some negative ones. For example, in the practice of countries with an open economy, the rapid mechanism of inflation targeting policy is limited to the exchange rate transmission channel explained above. In this situation, if the level of inflation increases for one reason or another, the government tries to change the export and import prices in order to stabilize the dynamics of the consumer price index by changing the exchange rate. This policy, in turn, may lead to changes in interest rates, nominal and real exchange rates of the currency, as well as negatively affect the stability of economic growth and the well-being of the population.

The policy of flexible inflation targeting is aimed not only at achieving an acceptable level of inflation, but also at stabilizing economic cycles. In practice, the target inflation parameter is reached within two to three years, and deviations from the set target inflation level are allowed in short-term periods. This approach often relies on the transmission channel of aggregate demand for money rather than the exchange rate. Based on this, it can be said that the policy of soft inflation targeting as a priority of monetary policy is a relatively effective method. Correlation between the optimal level of inflation and total emissions becomes especially relevant in the context of unexpected short-term fluctuations in the world trade and financial system, as well as global financial waves.

CONCLUSION

In general, the main aspects of soft inflation targeting policy are reflected in the following:

The central bank sets targets for inflation and aggregate output, but it may take several years to reach these targets.

1. Before making each important decision (for example, every quarter), the monetary authorities assess the current state of the economy based on the transmission mechanism of the selected monetary policy and, based on the results, make predictions and determine the levers of monetary policy that serve to achieve the target indicators of inflation and total emission.
2. The central bank will develop a set of measures that will reduce the government's expenditure on achieving mutually compatible levels of inflation and aggregate output, and align it with the long-term strategic objectives of monetary policy.
3. The Central Bank selects the levers of monetary policy in order to implement its programs. This program is implemented until the next important decision needs to be made.

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