

THE RELATIONSHIP BETWEEN MONETARY AND BUDGETARY POLICY

Sharipova Nigina Djurakulovna

Teacher of Samarkand Institute of Economics and Service

Annotation: The interconnection of monetary policy and budgetary policy plays an important role in the management of the economy. Both are aimed at ensuring economic stability, growth and inflation control, which will only give the expected positive results if conducted together and in a coordinated manner. Each of them has its own tools and mechanisms, but in terms of purpose they complement each other. This article provides detailed feedback and insights into the interrelationships of monetary and budgetary policies.

Keywords: Monetary policy, Budget Policy, economy, inflation, national currency, bank interest rates.

Monetary policy is usually conducted by the central bank. Its main function is to control inflation by managing the money mass and interest rates in the economy, to ensure the stability of the national currency and to support economic growth. The central bank achieves this by setting interest rates, changing reserve requirements, or conducting open market transactions. For example, when the inflation rate increases, the central bank raises interest rates, which reduces the flow of money in the economic system and reduces investment with consumption.

Budget policies, on the other hand, are conducted by the government and regulate the economy, mainly by setting taxes and managing government spending. Its main objective is to promote economic growth, reduce unemployment, promote social equality and maintain state financial stability. For example, the government can lower taxes to support the economy or allocate more funds to investment projects.

The interrelationships of these two types of policies are evident through their influence on each other's outcomes. If inflation increases in the economy, the central bank increases interest rates, while at the same time the government reduces budget costs, it will be possible to lower inflation faster. In contrast, during a period of economic downturn, the central bank would reduce interest rates, which would reduce costs on loans and encourage investment and consumption. At this time, the government also increases economic activity by lowering taxes or increasing government spending. In this case, the positive effect is enhanced as both policies move in the same direction.

However, if these policies are carried out in an incoherent state, their influence may decrease or even lead to negative consequences. For example, if the central bank raises interest rates to cool the economy, but the government simultaneously increases government spending, these two policies will move in the opposite direction. As a result, the movement of the central bank on lowering inflation is slowed down. Therefore, it is necessary to have constant

communication, information exchange and strategic cooperation between monetary policy and budgetary policy.

Monetary policy is closely interlinked with fiscal and trade policies. If the central bank aims to maintain a fixed exchange rate, it becomes impossible to conduct an independent domestic monetary policy. This is because, in order to sustain the exchange rate, the central bank has to adjust foreign currency reserves – either increasing or decreasing them – which directly affects the money supply in the economy.

There are also challenges associated with coordinating monetary and fiscal policies. For instance, if the government intends to support the economy by increasing public expenditures, the success of this approach heavily depends on the nature of the monetary policy. If these planned expenditures are financed by issuing debt instruments such as government bonds, the demand for money increases, which can lead to a rise in interest rates. As a result, investment expenditures may decrease.

Alternatively, if the central bank supports the government's policy by increasing the money supply to some extent, this may lead to the devaluation of money, or inflation. In general, a stable monetary policy does not always align with the fiscal policies pursued by the government. In both developed and developing countries, central banks commonly use a range of approaches, including inflation targeting, monetary targeting, exchange rate targeting, and regimes without a nominal anchor. Although achieving the main inflation target is considered a primary objective for most central banks, the methods mentioned above differ depending on the short-term and intermediate goals.

Monetary targeting regime:

In this approach to implementing monetary policy, the aim is to ensure price stability by controlling changes in monetary aggregates, reserve money, and the overall money supply. The effective application of this strategy requires a strong and consistent correlation between inflation indicators and monetary aggregates.

In this case, the target indicators of inflation are achieved by means of maintaining an acceptable level of the volume of monetary aggregates. A new stage of economic reform, which began in 2017, aimed at liberalizing the economy and increasing the role of market mechanisms, has set priorities for the development of the banking system and monetary policy in the medium term.

One of the important decisions in this direction was the practical steps associated with the gradual liberalization of the domestic currency market by introducing the principles of the formation of the national exchange rate on the basis of market mechanisms. The use of a completely new approach in the formation of the exchange rate, in turn, made it possible to improve monetary policy on the basis of focusing the main announcements of the central bank on price stability in the domestic market. At the same time, the successful implementation of reforms to liberalize the foreign exchange market is in many ways closely related to the effectiveness of measures to improve monetary policy, strengthen the activities of commercial banks and develop the banking system.

It follows that shortly after the publication of the decree of the president of the Republic of Uzbekistan on the first-line measures to liberalize the foreign exchange market, the decision of the president of the Republic of Uzbekistan on measures to further develop monetary policy more evolutionarily, and measures for the development of monetary policy in 2017-2021 and the step-by-step transition

The purpose of monetary policy, in accordance with the law on the Central Bank of the Republic of Uzbekistan, is one of the main tasks assigned to the central bank. The central bank is motivated by the goal of ensuring price stability in the development and implementation of monetary policy. Price stability refers to a low and consistent rate of inflation.

According to the decree of the president of the Republic of Uzbekistan PD-5877 "on improving monetary policy through gradual transition to the regime of inflationary targeting", a permanent target for inflation is set in the country, which is set at the level of 5 percent. The responsibility for achieving this goal is directly assigned to the central bank. The central bank helps to maintain the purchasing power of the population and entrepreneurs' income and savings by providing an inflationary target. In addition, this policy allows them long-term financial planning and provides favorable conditions for sustainable and inclusive economic growth.

The provision of consistently low inflation stimulates the entry of sustainable investments into the country, allows interest rates to fall as a result of the fall in the inflation premium, increases confidence in the national currency, and thereby reduces the economy's vulnerability to external risks. Effective monetary policy also provides an opportunity to prevent sharp and lasting deviations of the economy from its potential, to mitigate the negative effects that occur.

The Central Bank of the Republic of Uzbekistan began to implement monetary policy in an inflationary regime from 2020. The inflationary targeting regime assumes that the central bank sets a certain target index of inflation and focuses all political measures around that target. In this approach, the central bank uses the basic rate as the central instrument of monetary policy. The central bank independently develops its operating mechanisms and, depending on the need, improves them.

Each decision to be made is based on a comprehensive macroeconomic analysis and forecasts. Currency policy, on the other hand, is implemented under the conditions of a free floating exchange rate. Monetary policy is conducted in a transparent way, and each decision made is open to the general public and explained in detail.

Thus, the main goal of the Central Bank of Uzbekistan is to ensure economic stability by keeping inflation at a certain low level, improve the investment climate and create reliable economic conditions for citizens and business entities.

Effective policy coordination helps to prevent conflicting outcomes, such as a situation where expansionary fiscal policy (e.g., increased government spending) clashes with contractionary monetary policy (e.g., higher interest rates), which could neutralize the intended economic

impact. In advanced economies, regular dialogue between the central bank and the government helps align objectives, ensuring that monetary tools (like interest rates and open market operations) and fiscal tools (like taxes and public spending) work in synergy. In developing countries like Uzbekistan, strengthening institutional cooperation, increasing transparency, and improving the predictability of both monetary and fiscal actions are key to creating a stable macroeconomic environment conducive to investment and inclusive development.

In conclusion, monetary policy and fiscal (budgetary) policy function in close interconnection. Their coordinated implementation is essential for achieving economic stability and growth. Together, they serve as effective tools for controlling inflation, supporting economic expansion, and maintaining social balance. Therefore, the political and economic strategies of the government and the central bank must complement each other.

REFERENCES:

1. Decree of the President of the Republic of Uzbekistan "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020–2025", No. PF-5992, dated May 12, 2020. Link: <https://lex.uz/docs/4811025>
2. Law of the Republic of Uzbekistan "On Payments and Payment Systems", No. O'RQ-578, dated November 1, 2019. Link: <https://lex.uz/docs/4575786>
3. Sharipova Nigina Djurakulovna. (2025). ANALYSIS OF THE OBLIGATIONS OF A COMMERCIAL BANK. Ethiopian International Journal of Multidisciplinary Research, 12(03), 220–222.
4. Sharipova Nigina Jo`rakulovna. (2025). ANALYSIS OF ASSETS AND LIABILITIES OF A COMMERCIAL BANK. Ethiopian International Multidisciplinary Research Conferences, 155–156.
5. Шарипова Н.Д. ВАЛЮТНАЯ ПОЛИТИКА ЦЕНТРАЛЬНОГО БАНКА РЕСПУБЛИКИ УЗБЕКИСТАН. (2025). Journal of Uzbekistan's Development and Research, 248-251
6. Resolution of the President of the Republic of Uzbekistan "On Measures for the Further Improvement of Monetary Policy", No. PQ-3272, dated September 13, 2017. Link: <https://lex.uz/docs/3339554>
7. Omonov A.A., Qoraliyev T.M., "Money and Banks", Textbook. Tashkent: "Iqtisod-Moliya" Publishing House, 2019. – 461-P