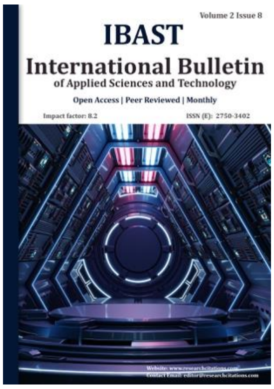

THE ROLE OF CENTRAL BANKS IN ECONOMIC STABILITY

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Annotation. This article provides an in-depth analysis of the role of Central Banks in economic stability. The main functions of the Central Bank in monetary policy, curbing inflation, stabilizing the national exchange rate, and strengthening the reliability of the banking system are highlighted. The article provides practical examples in areas such as inflation targeting, key rate, liberalization of the foreign exchange market, and ensuring financial stability. As a result, it is scientifically proven that the correct policy of the Central Bank can cause economic difficulties in the short term, but serve to ensure sustainable growth in the long term.

Keywords. Central bank, economic stability, monetary policy, inflation, exchange rate, financial system, international experience, key rate, banking system.

In the current era of globalization, ensuring economic stability is one of the most important tasks for every country. The more stable a nation's financial system is, the higher its investment attractiveness, the standard of living of its population, and the potential for business development will be.

Central banks play a decisive role in maintaining this stability. They are responsible for key functions such as implementing monetary policy, controlling the inflation rate, maintaining the stability of the national currency, and strengthening the reliability of the banking system.

The functions of central banks in the economic system can be divided into three main areas:

1.Conducting monetary policy – The central bank manages the flow of money in the economy by setting the key interest rate, controlling the money supply, providing loans to commercial banks, and attracting resources from them. Through these measures, it regulates liquidity in the financial system, influences inflation, and ensures overall economic stability.

2.Ensuring financial stability – Strengthening the reliability of the banking system, monitoring interbank settlements, and preventing financial crises are among the key responsibilities of the central bank. These measures help maintain public trust in the financial system, protect depositors' interests, and ensure the smooth functioning of the overall economy.

3.Implementing currency policy – Stabilizing the exchange rate of the national currency, facilitating foreign economic relations, and managing gold and foreign exchange reserves are integral parts of the central bank's activities. These actions help maintain external economic balance, support international trade, and protect the country from global financial fluctuations.

For example, in the United States, the Federal Reserve System aims not only to keep inflation around 2% but also to ensure a high level of employment. In contrast, the European Central Bank primarily focuses on controlling the inflation target.

Economic stability is the economy's ability to withstand the influence of internal and external factors while ensuring continuous growth. It is defined by three main criteria:

• Macroeconomic stability: maintaining a low and predictable inflation rate, keeping public debt under control, and ensuring steady and sustainable growth of the gross domestic product (GDP).

• Financial stability: ensuring that the banking system has sufficient liquidity and maintaining a high level of public confidence in the banking sector.

• Currency stability: the national currency should not experience sharp depreciation or excessive appreciation.

From this perspective, the main goal of central banks is to ensure this stability. If the central bank fails to control inflation, economic growth will be disrupted. If it does not regulate the exchange rate, negative consequences will arise in the foreign trade balance.

In recent years, the Central Bank of the Republic of Uzbekistan has been playing an active role in ensuring economic stability. For example:

a) The Central Bank of Uzbekistan's official website provides information about annual inflation rates and the target goal of maintaining inflation at 5%. [1]

b) The Central Bank of Uzbekistan recently announced in its official statement that the policy rate (refinancing rate) remains at 14%. For instance, on September 11, 2025, the Central Bank decided to keep the policy rate unchanged at 14%. [1]

By comparing the Central Bank of Uzbekistan with the central banks of other countries, it is possible to draw several general conclusions:

•The U.S. Federal Reserve System significantly increased its key interest rate during 2022–2023. For instance, starting from the spring of 2022, the Fed raised the rate in several stages, reaching a range of 5.25–5.50% by July 2023. This policy helped to reduce inflation; however, short-term slowdowns in economic activity were observed as a result. [3]

•The Central Bank of Turkey (TCMB), on the other hand, sharply raised interest rates throughout 2023 to combat soaring inflation. According to AP News, the Central Bank increased its key interest rate to 42.5%, while the annual inflation rate at that time was approximately 61.98%. This situation demonstrated that maintaining low interest rates for too long can be a mismanaged monetary policy, ultimately leading to increased price pressures in the economy. [4]

•The European Central Bank (ECB) has pursued a stable monetary policy, striving to maintain its medium-term inflation target at around 2%. This target is highlighted in the ECB’s strategic documents as a fundamental element of price stability, which serves as a key pillar for the European economy. [5]

Thus, international experience shows that mistakes or delayed decisions in central bank policies can have a negative impact on the entire economy.

The Central Bank of Uzbekistan has developed a baseline scenario and an alternative scenario based on the country’s economic situation and external economic factors.

Baseline Scenario

For the years 2020–2022, the main expected trends in economic processes include maintaining the current pace of economic growth, gradually continuing structural reforms, and a relative slowdown in global economic growth indicators.

According to this scenario, by the end of 2019, the real growth rate of GDP was estimated to be 5.6%. In 2020, this figure was projected to be in the range of 5.2–5.5%, while in 2021–2022, it was expected to accelerate to 5.5–5.8%.

Additionally, due to measures aimed at modernizing logistics systems, developing wholesale trade and storage infrastructure, increasing the number of industrial refrigerators, and improving agricultural productivity, food price growth rates were forecasted to slightly slow down in 2020 compared to 2019.

Alternative Scenario

However, economic slowdowns among major trading partners could reduce the volume of foreign investments entering Uzbekistan.

Unfavorable developments in global prices for major export goods and a decline in external demand may also negatively affect the country's balance of payments.

In such a situation, devaluation pressure on the national currency could increase, which, in turn, might impact domestic price dynamics and inflation expectations.

According to the alternative scenario, by the end of 2020, the annual inflation rate was projected to be around 19–20%, 15% in 2021, and 12% in 2022. [2]

Now, let us discuss the opportunities and challenges of the Central Bank’s policy.

First, we will look at its opportunities.

•Maintaining the purchasing power of the population through effective inflation control.

•Attracting investors by ensuring currency stability.

•Increasing savings and lending volumes by strengthening trust in the banking system.

Now, let's turn to the drawbacks.

•Excessively high policy rates can reduce economic activity.

•Artificially maintaining the currency exchange rate can lead to a decrease in gold and foreign exchange reserves.

•Inaccurate forecasts can undermine the confidence of investors and the general public.

In this regard, it can be said that the Central Bank of Uzbekistan faces several pressing challenges, including:

1. Reducing the inflation rate – crucial for strengthening the purchasing power of the population.

2. Digitalization of the banking system – necessary to expand access to financial services and improve efficiency.

3. International integration – the Central Bank’s credibility plays a decisive role in working with foreign investors and improving credit ratings.

In the future, the Central Bank should focus on enhancing its inflation-targeting policy, improving monetary policy instruments, and strengthening the stability of the banking system. These steps are essential for maintaining macroeconomic stability, increasing public trust in the financial system, and creating a favorable environment for sustainable economic growth.

In conclusion, central banks are among the most important institutions in ensuring economic stability. Their decisions have a direct impact on inflation rates, exchange rate fluctuations, the development of credit markets, and the overall economic sentiment within society.

The experience of Uzbekistan demonstrates that while a strict monetary policy by the Central Bank may cause short-term economic difficulties, it creates a solid foundation for long-term stability. International practice also confirms this view: an independent, professional, and transparent central bank is the key guarantee of sustainable economic stability and balanced growth.

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