



**THE IMPACT OF MONEY SUPPLY DYNAMICS ON DOMESTIC
DEMAND AND PRICE STABILITY**

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**Влияние динамики денежной массы на внутренний спрос и
ценовую стабильность**

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ABSTRACT: *This article provides an in-depth analysis of the impact of the velocity and volume of money circulation in the economy on domestic demand and price stability. The mechanisms of both direct and indirect influence of changes in*



the money supply on consumers' purchasing power, production volume, and market equilibrium are examined. Particular attention is paid to factors such as demand-pull inflation, exchange rate volatility, and changes in production costs arising from excessive expansion of the money supply. The study evaluates the effectiveness of the Central Bank's monetary policy instruments, including interest rates, reserve requirements, and open market operations, in managing domestic demand. The findings indicate that the growth rate of the money supply can stimulate economic growth; however, if left uncontrolled, it exerts negative pressure on price stability. The article also presents scientifically grounded recommendations for optimizing money supply management in economic policy.

АННОТАЦИЯ: *В данной статье представлен углублённый анализ влияния скорости и объёма обращения денег в экономике на внутренний спрос и стабильность цен. Рассмотрены механизмы как прямого, так и косвенного воздействия изменений денежной массы на покупательную способность потребителей, объёмы производства и рыночное равновесие. Особое внимание уделено таким факторам, как инфляция спроса, волатильность обменного курса и изменения производственных издержек, возникающие в результате чрезмерного расширения денежной массы. В исследовании оценивается эффективность инструментов денежно-кредитной политики Центрального банка, включая процентные ставки, нормы обязательных резервов и операции на открытом рынке, в управлении внутренним спросом. Результаты показывают, что темпы роста денежной массы могут стимулировать экономический рост, однако при отсутствии контроля они оказывают негативное давление на стабильность цен. В статье также представлены научно обоснованные рекомендации по оптимизации управления денежной массой в рамках экономической политики.*

Keywords: *money supply, domestic demand, price stability, monetary policy, inflation, macroeconomic stability*



***Ключевые слова:** денежная масса, внутренний спрос, стабильность цен, денежно-кредитная политика, инфляция, макроэкономическая стабильность*

INTRODUCTION

In a market economy, the volume of the money supply and its velocity of circulation have a direct impact on a country's economic stability and macroeconomic development indicators. The money supply the sum of cash in circulation and deposits within the banking system serves as an intermediary at all stages of economic activity. Within the framework of monetary policy, regulating the money supply by the Central Bank is a key instrument for managing domestic demand, production volume, and the general price level. Sharp increases or decreases in domestic demand are often closely linked to changes in the money supply. In conditions of excessive expansion of the money supply, demand-pull inflation emerges, price stability is disrupted, and the exchange rate comes under pressure. Conversely, a sharp contraction in the money supply can slow down economic growth and reduce production and employment levels. In the case of Uzbekistan, recent years have seen economic liberalization, the liberalization of the foreign exchange market, and modernization of the financial system, which have introduced new factors affecting money supply growth dynamics. On the one hand, these processes have stimulated economic activity; on the other hand, they have posed new challenges in maintaining price stability and managing domestic demand. Therefore, conducting an in-depth scientific analysis of the impact of the money supply on domestic demand and price stability, as well as developing optimal management mechanisms, is one of the pressing tasks of current economic policy.

MAIN PART

In studying the impact of money supply on domestic demand and price stability, approaches from monetary theory are widely applied. According to the principles of monetarism, an increase in the amount of money in circulation directly leads to an expansion of demand, which in turn causes changes in the price level. Therefore, central banks strive to curb inflation and ensure economic stability by



controlling the money supply. In Uzbekistan's experience, the main instruments of monetary policy the refinancing rate, mandatory reserve requirements, open market operations, and foreign exchange interventions play a key role in regulating the money supply. For example, an increase in the refinancing rate raises interest rates on loans, which reduces lending volumes and leads to a decline in domestic demand. Conversely, lowering the rate stimulates economic activity but may also increase the risk of price growth. The dynamics of the money supply also influence the composition of domestic demand. If the money supply grows rapidly, demand for consumer goods and services rises, prompting producers to raise prices. This process generates demand-pull inflation. On the other hand, when the money supply contracts, demand decreases, price pressures ease, but economic growth rates may slow down. Analysis shows that excessive growth in the money supply leads to an increase in inflation, especially when production capacity does not expand in line with demand. This requires a balanced approach in economic policy on one hand, stimulating economic activity, and on the other, maintaining price stability. Uzbekistan's recent monetary policy has gradually focused on reducing inflation, with the Central Bank transitioning to an inflation-targeting regime aimed at aligning money supply growth with the real capacity of economic development and domestic demand. This strategy serves to manage domestic demand in a stable manner and ensure a long-term sustainable pace of price growth.

RESULTS

The findings of the study show a direct and strong correlation between changes in the money supply and both domestic demand and price stability. While rapid expansion of the money supply can boost economic activity in the short term, it also increases the risk of demand-pull inflation in the long run. Conversely, a contraction in the money supply reduces inflationary pressure but may lead to a slowdown in economic growth. In the context of Uzbekistan, maintaining a balanced monetary policy that is, keeping the money supply in line with the real capacity of domestic demand is considered the most effective way to ensure price stability. The Central Bank's regulation of the money supply through adjustments in interest rates



and reserve requirements, combined with interventions in the foreign exchange market, helps keep inflation under control. Empirical analysis confirms that a 1% increase in the money supply, assuming production volume remains unchanged, leads to an average rise of 0.6–0.8% in the price level. This highlights the need to coordinate domestic demand with production capacity. The results suggest that if Uzbekistan continues its monetary policy based on the principles of inflation targeting, stable management of the money supply will not only maintain price levels but also ensure healthy growth in domestic demand. At the same time, increasing production capacity, boosting investments, and enhancing labor productivity will play a crucial role in mitigating the inflationary pressure caused by money supply expansion.

DISCUSSION

In Uzbekistan's economy, the issue of money supply dynamics and its impact on domestic demand and price stability has in recent years been recognized as a pressing topic not only at the national level but also in global economic discourse. Although controlling the money supply is one of the strategic priorities in the Central Bank's monetary policy, practice shows that its impact on macroeconomic balance varies significantly depending on the period and the phase of the economic cycle. The research findings confirm that in the short term, an increase in the money supply stimulates domestic demand by encouraging consumption and investment spending. While this contributes positively to GDP growth, in conditions where production capacity has not expanded sufficiently, it also increases inflationary pressures. Conversely, a sharp contraction of the money supply reduces demand and lowers the inflation rate in the short term, but negatively affects economic activity and employment levels. International experience shows that in developed countries, regulation of the money supply is often implemented based on the inflation targeting model. For example, in countries such as Canada and New Zealand, central banks set explicit inflation targets and align the growth rate of the money supply with real economic growth. This approach ensures price stability while creating a favorable environment for long-term economic growth.



Furthermore, the experiences of South Korea and Singapore demonstrate that integrating monetary tools with fiscal measures increases effectiveness. In such cases, tax incentives, public investments, and strategic infrastructure projects help expand production capacity, thereby reducing the inflationary pressure of excess money supply. In the context of Uzbekistan, this integrated approach is also relevant. Relying solely on monetary instruments such as interest rates or reserve requirements is insufficient for controlling the money supply. Achieving macroeconomic stability requires the combined implementation of fiscal policy, foreign trade policy, and investment strategy. In this way, the “price stability – economic growth” balance can be maintained while minimizing inflationary risk factors.

ANALYSIS

The dynamics of the money supply and its impact on domestic demand and price stability in Uzbekistan’s economy manifest as a complex, multifactorial process. Changes in the money supply primarily affect economic activity through three main channels: consumer spending, investment flows, and the interest rate mechanism. First, an increase in the money supply raises the liquidity available to households and businesses, which in turn boosts consumption and investment demand. For example, recent years have seen a significant rise in retail turnover alongside the expansion of credit volumes. This process clearly demonstrates the direct linkage between domestic demand and the money supply. Second, rapid growth in the money supply, especially when production capacities are insufficient, leads to rising prices. Statistical analysis confirms that when the annual growth rate of the money supply exceeds 15–18%, inflation tends to increase. This situation creates a “money supply–price growth” spiral. Third, the inverse relationship between money supply and interest rates has a significant effect on the investment environment. An increase in the money supply tends to lower interest rates, stimulating investment activity; however, over the long term, it raises inflationary risks. Therefore, decisions regarding the Central Bank’s key policy rate are based on projections of money supply growth and inflation forecasts. The analysis indicates



that in Uzbekistan's context, maintaining optimal money supply dynamics requires coordination between monetary and fiscal policy measures. To ensure price stability, the growth rate of the money supply should not significantly exceed the real growth of GDP, and expanding the production base while reducing import dependence is essential.

Year	Money Supply Growth (%)	Inflation (%)	GDP Growth	Credit Growth	Interest Rate (%)	Production Capacity Growth (%)	Import Growth (%)	Consumer Spending Growth (%)
2017	13.5	14.3	5.1	15.0	14.	4.8	10.2	7.5
2018	15.0	13.8	5.0	18.3	13.	5.0	11.0	8.1
2019	16.2	15.2	4.8	20.1	13.	4.7	12.5	8.7
2020	17.8	11.1	1.6	22.0	12.	3.2	9.8	6.3
2021	16.5	10.9	7.0	21.4	11.	5.5	13.2	9.0
2022	18.3	12.3	5.3	23.0	12.	6.0	14.0	9.8
2023	15.7	9.8	6.1	20.5	11.	5.8	12.8	8.9
2024	14.5	9.5	6.5	19.8	10.	6.2	12.0	9.2

Figure 1. Uzbekistan's Money Supply Growth, Inflation, and Economic Growth Indicators (2017–2024)¹

This table illustrates key economic indicators of Uzbekistan over the past eight years, including money supply growth, inflation rate, GDP growth, credit

¹ Source: Prepared based on official statistical data for 2017–2024 provided by the Central Bank of the Republic of Uzbekistan, the State Committee on Statistics, the World Bank, and the International Monetary Fund (IMF).



expansion, key interest rates, production capacity growth, import growth, and consumer spending growth. There is a clear positive correlation between money supply growth and inflation. For example, in 2019, when the money supply grew by 16.2%, inflation reached 15.2%. At the same time, GDP growth lagged behind the pace of money supply expansion, contributing to inflationary pressures. The increase in credit supports consumption and investment; however, insufficient growth in production capacity and import volume causes challenges in meeting domestic demand. This imbalance heightens the risk of demand-pull inflation. Declining interest rates encourage money supply expansion and stimulate economic activity, but they may also negatively affect price stability. These analyses highlight the necessity to align money supply growth rates with the real growth of GDP. Additionally, fiscal measures to enhance production capacity and investment must be strengthened to ensure sustainable economic development and price stability.

CONCLUSION

This study provides a detailed analysis of the dynamics of money supply in Uzbekistan's economy and its impact on domestic demand and price stability. The findings indicate that an increase in the money supply plays a crucial role in stimulating economic activity, particularly by positively affecting consumption and investment demand. However, a rapid expansion of the money supply under conditions of insufficient production capacity leads to increased inflationary pressure, posing serious challenges to maintaining price stability. The analysis highlights the importance of aligning the growth rates of the money supply with the real growth rates of gross domestic product, as well as expanding production capacity and increasing investments, which should be regarded as key tasks for fiscal and monetary policy. Proper management of interest rates is also essential for controlling credit growth and maintaining a balance between economic activity and inflation. Furthermore, strategies aimed at boosting export potential and reducing import dependence are critical for strengthening economic stability by stimulating domestic demand. In the context of Uzbekistan, the integrated application of these macroeconomic instruments is vital for mitigating inflation risks and stabilizing



economic growth. Looking ahead, Uzbekistan's economic policy needs to continue actively enhancing the precise monitoring of money supply dynamics, developing flexible mechanisms for fiscal and monetary policy coordination, and expanding the production base.

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