IMPORTANCE OF MONETARY CIRCULATION, CREDIT SYSTEM AND BANKS IN COUNTRY'S ECONOMIC DEVELOPMENT

M. G. Xudoyberdiyeva
Student of Tashkent State University of Economics

PhD N. F. Akhmadaliyeva
Scientific Supervisor

ABSTRACT:
In this thesis, the objectives of the theoretical analysis of the monetary circulation, credit system and banks in the national economy, the liabilities of the government, commercial banks, and other national institutions are used as money. The majority of monetary operations are carried out without cash, through checks and financial assets equivalent to them.

Keywords: Money system, monetary circulation, money market, types of credit, credit system and banks.

In today's global economy, the concepts of **monetary circulation**, the **credit system**, and **banks** play a fundamental role in shaping financial stability and economic growth. One of the main indicators and factors of the economic development of any country is the stability and efficiency of the financial system. Money circulation, credit system and banks act as the circulatory system of the economy and coordinate production, consumption, investment and other economic processes. If money circulation ensures a balance in the market of goods and services, the credit system provides economic entities with additional financial resources. Banks play a central role in allocating capital, maintaining it, and supporting economic growth. In this work, the role and importance of money circulation, credit system and banks in the development of the economy of Uzbekistan is analyzed in depth.

Money circulation is an integral part of the economy and is a necessary tool for the timely exchange of goods and services. In Uzbekistan, the stability of the national currency, the sum, plays an important role in ensuring economic stability. The monetary and credit policy implemented by the Central Bank is aimed at controlling the level of inflation in the economy and increasing the efficiency of money circulation.

The credit system is the basis of investment processes in the economy. This system serves to provide financial resources for enterprises and citizens, to increase the volume of production, create new jobs and ensure general economic activity. In Uzbekistan, the importance of loans provided by commercial banks and other financial institutions in the development of agriculture, industry and entrepreneurship is increasing.

Banks play a central role in controlling the flow of economic resources and their efficient distribution. As part of the development of the financial market of Uzbekistan, large-scale reforms are being carried out to strengthen the capital base of banks, introduce digital technologies and ensure compliance with international standards. These measures strengthen the role of banks not only in economic growth, but also in improving the socio-economic well-being of society. These components are intricately linked and serve as the backbone of financial systems worldwide.

Monetary Circulation: Monetary circulation refers to the movement and flow of money within an economy. It includes all forms of money in circulation, such as coins, banknotes, and digital currencies, which are used for trade, savings, and investment. Effective monetary circulation is essential for maintaining liquidity in the market, ensuring that goods and services can be bought and sold efficiently.

Credit System: The credit system encompasses the mechanisms through which individuals, businesses, and governments borrow and lend money. It involves financial institutions, such as commercial banks, that provide loans to borrowers and, in return, earn interest. Credit facilitates economic activity by enabling consumption and investment beyond immediate cash availability. The proper functioning of the credit system ensures that money flows smoothly throughout the economy, fostering growth and development.

Banks: Banks are the central institutions within the credit system. They act as intermediaries between savers and borrowers, offering a variety of financial services, including deposit accounts, loans, and investment products. Banks create money through the lending process, a function known as the "money multiplier." They also play a critical role in managing monetary policy, overseeing inflation, and stabilizing financial markets.

Together, these elements—monetary circulation, the credit system, and banks—are integral to the financial infrastructure of any country. They provide the means for efficient financial transactions, support economic expansion, and help mitigate risks associated with economic downturns. Understanding their interaction is crucial for both policymakers and participants in the economy to ensure a stable and thriving financial environment.

A **monetary system** refers to the set of institutions, policies, and practices that govern the creation, circulation, and management of money within an economy. It is a framework designed to regulate the value, supply, and exchange of money, and it plays a key role in maintaining economic stability and fostering growth. The monetary system encompasses various elements such as currency, central banks, commercial banks, and the broader financial infrastructure that allows for transactions, savings, and investments.

Functions of the Monetary System: **f**acilitating transactions, store of value,unit of account, economic stabilization. Money has the characteristic of absolute liquidity. All other assets have this characteristic to a lesser or greater extent. The lower the liquidity of a financial asset, the higher the risk for its owner of losing the ability to access the required money at the necessary time. The amount of money required for circulation is also related to the use of money as a means of payment. Often, goods are sold on credit, and their payment is made in future periods according to the agreement. Therefore, the necessary amount of money decreases accordingly. On the other hand, during this period, the time comes to pay for goods that were previously sold on credit. This increases the need for money.

The amount of money required for circulation is determined based on **Fisher's Equation of Exchange**, which is expressed as:

MV = PQ

Where:

- **M** = Money supply
- **V** = Velocity of money (the rate at which money circulates in the economy)
- **P** = Price level
- **Q** = Quantity of goods and services exchanged in the economy (real output)

In this equation, **Q** represents the quantity of goods and services exchanged, while **M** represents the amount of money in circulation, and **P** and **V** influence the overall money demand. Fisher's equation highlights the relationship between the money supply, its velocity, the price level, and the volume of transactions in an economy.

There are several theories regarding monetary circulation in the economic framework. The main ones are as follows: classical theory, quantity theory, and the Fisher approach.

Classical theory: The **Classical Theory** of money, developed by economists like Adam Smith and David Ricardo, emphasizes that money is a medium of exchange that facilitates trade but does not affect real economic variables in the long run. According to this theory, changes in the money supply only lead to proportional changes in the price level (inflation or deflation) and do not influence output or employment in the long term.

Quantity Theory: The **Quantity Theory of Money** is a theory that explains the relationship between the money supply and the price level in an economy. It suggests that changes in the money supply have a direct, proportional effect on the price level, assuming the velocity of money and the quantity of goods and services in the economy remain constant.

Fisher's Approach

Fisher's version of the equation is:

MV=PQ

Where:

- **M** = Money supply (the total amount of money in the economy)
- **V** = Velocity of money (the average frequency with which a unit of currency is used to purchase goods and services within a given period)
- **P** = Price level (the average price of goods and services in the economy)
- **Q** = Real output (the total quantity of goods and services produced in the economy, typically measured by real GDP).

The **credit system** is the mechanism by which individuals, businesses, and governments borrow and lend money. It enables borrowers to access funds or goods upfront and repay the money over time. In return for lending money, creditors (banks, financial institutions, or individuals) typically charge interest as compensation for the risk involved and the opportunity cost of not using the money elsewhere. Understanding how the credit system works is key to managing finances, building wealth, and accessing opportunities.

Banks are financial institutions that provide a wide range of services to individuals, businesses, and governments. They are critical to the functioning of modern economies by facilitating the movement of money, supporting economic growth, and maintaining financial stability. The primary functions of banks include accepting deposits, providing loans, and facilitating payments. Banks play a key role in creating credit, managing risk, and acting as intermediaries in financial markets.

The banking system in Uzbekistan has undergone significant reforms in recent years as the country has modernized its financial infrastructure and moved toward a more market-oriented economy. The banking system plays a central role in facilitating economic development, supporting private sector growth, and improving financial inclusion. The government and regulatory authorities have taken steps to strengthen the financial sector, improve governance, and encourage competition within the banking industry.

CONCLUSION

Money circulation, credit system and banks as an integral part of the economy are necessary factors for the stable development of the country. As part of the economic reforms implemented in Uzbekistan in recent years, great attention is being paid to ensuring the stability of the financial system. As a result of the monetary and credit policy, the fair distribution of credit resources and the modernization of the banking sector, significant positive changes are observed in every branch of the economy. This study serves to develop proposals aimed at deepening the understanding of the role of financial institutions in ensuring the economic development of Uzbekistan and increasing their efficiency.

REFERENCES

1.Campbell R. Mcconnell "Economics" Principles, Problems and Policies

2.Gregory Mankiw. Principles of economics, Boston, MA, USA: Cengage Learning 2018

3.Economics: principles, problems and policies. Stanley L., Brue, Campbell P.Mc Connell, seventeenth edition.