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Monetary Stabilization Policy During the Financial Crisis

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Abstract. In light of contemporary circumstances, the essay focuses on a study of the monetary policy of various countries throughout the world. When the economy is in a state of crisis, it is necessary to do a study of the monetary policies of other countries. Specifically, the article demonstrates how monetary policy may have an effect on the increase of gross domestic product as well as the economy of the country. The Republic of Azerbaijan's official monetary policy is broken down into its most essential principles and priority areas, which are outlined in this paragraph. In light of the findings presented in this article, suggestions were made on the formulation of the nation's monetary policy in the context of the unstable state of the global economy. One of the practical limitations of the study is that it does not have access to a more extensive dataset of relevant information. A number of methods, including induction, deduction, scientific abstraction, and logical generalization, were utilized in the research.

Keywords: Economic Policy, Monetary Policy, Monetary Aggregates, Money Circulation, Commodity-Money Relations, Commercial Banks, Central Bank, Stock Market

1 Introduction

The relevance of the article is due to a number of objective reasons characteristic of the global and national economies in the 21st century. The processes of globalization occurring in the world economy have led to significant changes in its various spheres, including the financial one.

Factors such as the transformation of the world economy and the rapid development of information technologies have led to the emergence of new trends in the global financial system. These new trends have been observed mainly in the direction of strengthening prudential regulation and supervision, digitalization of financial services, expansion of alternative banking, changes in population behavior patterns, increasing demands for new knowledge and skills, and changes in the operating models of financial institutions [1].

As a result, the interdependence of various monetary and financial markets has increased. Changes in the world economy have begun to influence national economic policy, including monetary regulation.

The frequency of financial crises in 1998, 2008, which occurred in the world and in Azerbaijan, indicate insufficient development of theoretical and practical aspects of the state's monetary policy, taking into account the specifics of the development of the world financial system, and, in particular, the globalization of financial markets.

Therefore, the study of issues of improving monetary policy in the context of globalization remains relevant. Azerbaijan, as a component of the world economic community, must take the necessary measures, choose an appropriate strategy to improve the effectiveness of monetary policy. Reforming the instruments of the state's monetary policy is designed to overcome the most acute problems of the development of the banking sector and the monetary sphere. In accordance with the scenario conditions and the main parameters of the forecast of the socio-economic development of Azerbaijan for the coming period, the solution of issues related to the clarification of the goals, principles, priorities of monetary policy, including in the banking system and banking supervision, payment system, in the financial market system, becomes relevant.

The modern realities of the development of the world economy and the new period of functioning of the national economy have determined the need to revise the theoretical foundations and practical

analysis of monetary policy, which determined the main directions of this study, increasing its relevance and significance.

2 Method

The theoretical and methodological basis of the study was the work of domestic and foreign economists on the implementation of stabilization monetary policy during the financial crisis.
Despite numerous studies in this area, issues of increasing the effectiveness of the state's monetary policy are mainly considered one-sidedly from the point of view of monetary regulation.
The issues of setting goals for monetary policy need more careful study, taking into account the rapidly changing economic situation, since existing possible deviations from these goals lead to undesirable results. In general, the importance and development of the banking system, the features of the financial market of Azerbaijan in the current conditions are not reflected in the studies, despite the fact that these elements are an integral part of state regulation of the economy.
The theoretical and methodological basis of the research in the article are the works of domestic and foreign authors in the field of money circulation and credit, legislative and other regulatory documents, publications in periodicals, monographs of leading economists of the country and reference, statistical and decrees and orders of the President of the Republic of Azerbaijan in this area, laws adopted by the Milli Majlis of the Republic of Azerbaijan, relevant legal and regulatory acts of the Cabinet of Ministers of the Republic of Azerbaijan.
The methodology of the research is based on general scientific methods: analysis and synthesis; system, logical and comparative analysis; sample surveys; economic and mathematical modeling; graphical method. constitute the theoretical and methodological basis of the research.It is important to note that all these indicators are analyzed for Azerbaijan.

3 Results and Discussion

External shocks can affect the domestic economy as a result of negative changes in the global economy associated with changes in the economic policy. The Central Bank of Azerbaijan implements monetary policy in conditions where changes in world energy prices predetermine the parameters of the money supply, since the regulator is forced to buy up foreign currency to prevent a sharp strengthening of the national currency. In such conditions, the goals of the monetary authorities to achieve target indicators become difficult to achieve due to the uncertainty regarding the dynamics of energy prices.
According to theoretical concepts of monetary policy, its operational goals are achieved as a result of the transmission mechanism, i.e. a system of connections that ensure the transmission of a signal (information) from the central bank to economic entities.
Currently, the transmission mechanism is not used actively enough in our country. This is due to the current raw material orientation of the domestic economy, therefore, the formation of the money supply in the domestic economy is predetermined by the influx of foreign currency into the country [2]. Its purchase into the reserves of the central bank means an increase in the monetary base. The expansion of the latter affects the formation of monetary aggregates that ensure the functioning of the payment system. At the same time, there is a shortage of medium- and long-term credit resources in the economy, since bank liabilities are formed mainly at the expense of short-term resources. The transformation of such liabilities into medium- and long-term assets leads to an increase in the risks of illiquidity and insolvency of banks. In this regard, banks in the pre-crisis period were forced to attract foreign loans, which were relatively inexpensive.
The parameter reflecting the effectiveness of monetary regulation in Azerbaijan is the money multiplier. The size of the multiplier is inversely related to the share of reserves (both mandatory and voluntary) in deposits of the banking system and the ratio of cash to deposits, depending on the preferences of the population.
Regulation of the money supply remains an effective regime of monetary policy. With the help of mandatory reserves, the Bank of Azerbaijan has the opportunity to influence the size of the monetary

base and through it manage inflation. The assessment of the demand for money cannot be a strictly defined value and should not exclude the possibility of the money supply going beyond the forecast value. The destabilizing influence of external and internal factors (falling energy prices, instability of the banking sector) results in a greater demand for internal sources of liquidity. The Bank of Azerbaijan is required to promptly revise its approach to regulating the money supply. During periods of low energy prices, the central bank will be forced to more actively act as the lender of last resort. Accordingly, the capacity of mandatory reserves to regulate the monetary base is reduced.

The values of mandatory reserve ratios will be at a minimum level. During financial crises, mandatory reserve ratios for all categories of commercial bank liabilities are reduced, and the Bank of Azerbaijan retains the capacity to regulate the monetary base through other monetary policy instruments. Given that it occupies the position of a creditor, mandatory reserves will be replaced by credit operations. Based on the set of monetary instruments, the required amount of lending can be achieved through direct repo transactions, issuing loans secured by assets and guarantees, as well as organizing auctions to provide unsecured loans.

The modern system of money circulation, money emission and accumulation is designed in such a way that the excess issue of money into the economy does not immediately lead to a corresponding increase in consumer prices. There are reservoirs that absorb this surplus first. These are the financial market, real estate prices, naturally limited and monopoly goods. Overflow of these channels causes processes that lead to crisis phenomena and shifts in the price structure [3].

In the stability of the monetary unit, one can distinguish between internal and external stability, which is very important for countries with an open economy and a high level of foreign currency presence (dollarization). Monetary policy is aimed at maintaining the stability of the national currency. The most widespread are exchange rate targeting, monetary targeting and inflation targeting. All these monetary regimes are only a particular manifestation of the solution to the problem of ensuring the stability of the monetary unit and, depending on the specific situation, can be reduced to targeting one indicator (inflation, exchange rate, monetary aggregate, etc.). In that case, If the goal of monetary policy is the stability of the currency, and the latter has an internal and external component, then the goal is divided into two components: prices and the exchange rate. Each goal is relatively independent and separate and at the same time dependent on the other. The relationship is expressed in the process of combining separate goals into one - the stability of the currency.

Achieving such a goal is determined on the basis of targeting the stability of the currency. The stability of the currency is expressed in the purchasing power of money.

The concept of targeting the stability of the currency is a common basis for the modes of targeting the exchange rate, monetary targeting and inflation targeting. In an open economy, this concept is of great importance, especially in conditions of instability, when a situation arises to monitor changes in the situation and, depending on the circumstances, transfer acceptances from external to internal instability and vice versa. On the one hand, a transition to inflation targeting is possible, and on the other hand, due to the high level of dollarization of the economy and the traditional orientation of the population to assess stability by the exchange rate, the latter remains an important goal of monetary policy. Therefore, the solution to the problem of reducing the inflation rate is combined with a controlled floating exchange rate.

The modern model of development of the Azerbaijani economy focuses on the development of the social sphere, technical modernization, innovative structure, increasing competitiveness, increasing energy security and modernization of the energy sector, updating regional policy, and not only on natural resources. One of the conditions for the implementation of these important tasks is the stabilization of the manat [3].

In modern economic relations, monetary authorities are increasingly choosing price stability as the ultimate goal of monetary policy, which contributes to the fact that countries strive to pursue a policy of economic growth. In a period of stable development, when the economy does not experience frequent internal and external shocks, concentrating the efforts of monetary authorities on counteracting inflation best contributes to ensuring conditions for maintaining economic activity and raising the standard of living of the population, even though its downside is a higher level of

unemployment and moderate growth rates.

At the same time, when economic dynamics slow down, the efforts of monetary authorities to maintain price stability may lose their effectiveness. In the conditions of the financial crisis, many countries, including a number of developed countries, have retreated from the policy of maintaining price stability in favor of the policy of stimulating economic growth. At the same time, the declared final goals of monetary policy will not change, so as not to increase inflationary pressure on national economies.

Many parameters of monetary policy are determined by the state of the real and financial sectors of the economy [4]. However, monetary authorities, having some freedom of action, predetermine the flexibility of the monetary system and the ability to manage it. The development of approaches to determining the required level of provision of the economy with money of different liquidity and methods of regulating the structure of the money supply would allow monetary authorities to increase the effectiveness of monetary policy and achieve the goals of long-term non-inflationary economic growth in the country.

The catalyst for inflationary processes is the discrepancy between the money and commodity supply. Unlike the abstract monetary approach, there is a connection here: goods - inflationary balance of the economy - macroeconomic instability. In the future, the damage to the real sector and the shortage of goods, lack of investment - further reduction in production - financial instability - financial crises. The rest are accompanying factors. Hence the conclusion - it is necessary to develop the real sector of production. Thus, in the conditions of Azerbaijan reality, one of the factors in the development of inflation is the purchase by the Bank of Azerbaijan of revenues in foreign currency received from export operations, which leads to the emergence of excess money supply in the economy.

The purchase of currency by the government is effective if the government withdraws to the budget the bulk of additional revenues arising from the increase in prices for exported goods. The advantage of this method is the double stabilization effect on the monetary system: fiscal and currency. At the same time, excess money is withdrawn from circulation and government reserves are accumulated, which prevents the strengthening of the national currency. The use of reserves in unfavorable years (for example, during crises) is equivalent to the inflow of capital and at the same time maintains the balance of payments. As a result, fluctuations in the external environment do not have a noticeable impact on the country's economy, making macroeconomic indicators stable. In Azerbaijan In current conditions, this mechanism is not capable of providing macroeconomic protection from fluctuations in the external environment. The reason is that the current tax system does not ensure the transfer to the budget of a significant part of the excess income of the oil and gas sector, formed due to high prices. As a result, the mechanism used can only be used to partially solve the problem of preventing the strengthening of the manat with a significant strengthening of the trade balance.

To solve the same problems, the government can buy up currency and thereby repay the external debt early. But such actions spin up inflation and this method must be combined with some other approaches.

Another way to sterilize excess money supply is to increase the reserves of the Central Bank. The effect of these actions depends on the ratio of the degree of improvement in the terms of trade, the growth in demand for money and the ability of the Bank of Azerbaijan to sterilize excess liquidity. Export products provide an influx of foreign currency and replenish the foreign market with goods. Consequently, the manats issued for exchange and entering the economic turnover are excessive in comparison with the real need, which causes inflationary processes. The inflationary pressure exerted by currency interventions could be avoided by using such a monetary regulation instrument as open market operations, i.e. prompt sale of government securities by the Bank of Azerbaijan to commercial banks. The use of this instrument leads to the fact that the additional money supply received as a result of interventions is promptly withdrawn and, accordingly, there is no inflationary effect. Meanwhile, the underdevelopment of the stock market, the unattractiveness of government securities for commercial banks as an instrument of short-term speculative investments make it impossible to use open market operations to sterilize the money supply. The impact of currency interventions on the inflation rate would not be so great if the excess money supply was effectively used in the real sector of the economy. On the other hand, the monetization coefficient of the Azerbaijani economy remains at a low level for normal economic development. The real sector of the economy is in dire need of credit resources. If the money supply emitted as a result of currency interventions did not settle in

accounts, but entered the real sector, currency interventions would not have a significant impact on the inflation rate, and on the other hand, conditions for economic growth would be created. In economically developed countries, excess money supply is sterilized through the stock market, and since the stock market is not developed in Azerbaijan, this mechanism does not work very effectively and needs to be improved. The problem of excess money supply, which is sterilized, is the inability to transform the ruble supply entering the economy through currency interventions into investments.

Without the development of the national economy, it is impossible to maintain the stability of the national currency. In this regard, one of the main conditions for the effectiveness of monetary policy is the stimulation of the development of the production sector [5]. One of the methods of such stimulation, carried out by the central bank, is the provision of a loan to commercial banks for targeted investment at a relatively low interest rate. These funds are used to update the main means of production. Large-scale investment lending carries a certain inflationary risk: the money supply increases. To prevent the inflationary spiral from unwinding, loans should be used to purchase equipment, including abroad, which partially sterilizes the money supply. If the inflow of currency is reduced and mass purchases of currency by the central bank are limited, then loans can be issued with greater intensity. Thus, inflation management will be effective when budget, tax, and monetary policies are linked to achieve the common goal of economic growth and overcoming inflation. Budget and tax policy should ensure the development of production, and monetary policy should ensure effective management of the money supply. The growth in the level of monetization is explained by a stable rate of economic growth and an increase in the intensity of demand for money.

The decrease in the rate of inflation from 2006 to 2023 led to a decrease in the velocity of money circulation and an increase in the propensity to save, so interest rates on bank deposits decreased. At the same time, the decrease in interest rates on bank deposits was reflected in the growth of demand for liquidity. At the same time, there is an increase in market capitalization, reflecting the growth of the replacement cost of companies and the formation of financial bubbles. The money supply serves not only the real sector of the economy, but also transactions in the financial sector of the economy, real estate transactions and up-sale of business. GDP takes into account only the income of intermediaries in these markets, but does not take into account their turnover. These factors lead to an increase in the demand for money (real and inflationary). Crises contribute to a decrease in the degree of provision of the economy with money, which is associated with the outstripping growth of inflation, a fall in real GDP, and a decrease in market capitalization. This phenomenon was observed in 2015-2016. However, in 2015, there was an increase in the level of monetization with a fall in GDP and a decrease in the money supply. This suggests that the fall in GDP was faster than the decrease in the monetary base.

The money multiplier in Azerbaijan grew throughout the stabilization period, which indicates an increase in the efficiency of the monetary system. However, its value is still far from the value of developed countries, where the multiplier value varies within 5-8 [5].

The rate of inflation in the national economy is influenced by financial globalization. In 2008, the Heads of the Bank of Azerbaijan stated that “for all central banks in the world, price stability and inflation control are the main reasons for their existence” [5] Inflation targeting is characterized by an analytical model that includes two components. The first component is a submodel that describes how the economy functions and how monetary policy influences it. The second component is a submodel of the central bank’s ultimate goal, which is given priority (target function).

In the submodel of the economy, the central bank can influence GDP, which changes in the next period after applying one of the monetary policy instruments, such as the refinancing rate. In turn, changes in GDP (or the deviation of actual GDP from its potential value) affect inflation after another period. As a result, adjusting the interest rate leads to a change in aggregate supply and demand, and with some lag, to a change in inflation. This lag is called the “control horizon” or “control lag” of monetary policy. In the model, the control horizon is usually set as an exogenous variable and cannot change as a result of the central bank's actions. In practice, the control lag is often 1-2 years. It can be determined by calculating the period of time over which monetary policy has the greatest impact on the economy.

The second component of the analytical model - the target function of the central bank - is used in two

directions. First, the central bank seeks to stabilize inflation around a certain target level. Second, the central bank has the ability to stabilize economic growth at the level of maximum potential growth. Based on the analytical model, monetary authorities adhere to a certain behavior: interest rates are set in such a way that the expected deviation of inflation from the target and the expected deviation of GDP from its potential value are as small as possible. Thus, in accordance with the target function of the central bank, losses to society are minimized. But since a change in the interest rate affects inflation with a certain lag, the central bank must calculate an inflation forecast. It adjusts the interest rate so that the forecast inflation is as close as possible to the target level. The same applies to GDP. The inflation forecast can be considered as an intermediate goal of monetary policy.

The main strategic goal of monetary policy is necessarily price stability. The goal of price stability is realized by limiting price movements at an "acceptable level of inflation" instead of achieving zero inflation [6].

Ideally, price stability means zero inflation, but for a number of technical reasons, including statistical errors and delays in updating information, central banks do not strive to achieve zero price growth. In practice, price stability means not so much zero as a small positive value of the price index growth, up to 3.5% over a long period. The central bank strives to reduce the rate of price growth to the desired level and in the future maintain low, stable and predictable inflation.

Price stability and financial stability are constituent elements of the macroeconomic stability of the state. In certain circumstances, monetary policy may face a trade-off in the short term between price stability and financial stability. However, in the long term, a synergistic, mutually reinforcing interaction between price and financial stability can be expected to prevail. In the long term, the boundaries between the concepts of price stability and financial stability may blur if financial asset prices are included in the concept of price stability or if interest rates are considered as a attributed exclusively in the context of financial market stability.Monetary policy for the central bank is not completely autonomous, since the ultimate goals of monetary regulation coincide with the fundamental goals of the state's macroeconomic policy.

As a result of the analysis of monetary policy methods that stabilize the economic situation during a financial crisis, it is possible to identify the main criteria for the effectiveness of monetary policy. This classification includes criteria that have quantitative benchmarks (formalized), as well as those reflecting the effectiveness of monetary policy more broadly at the level of financial markets and financial institutions (non-formalized).

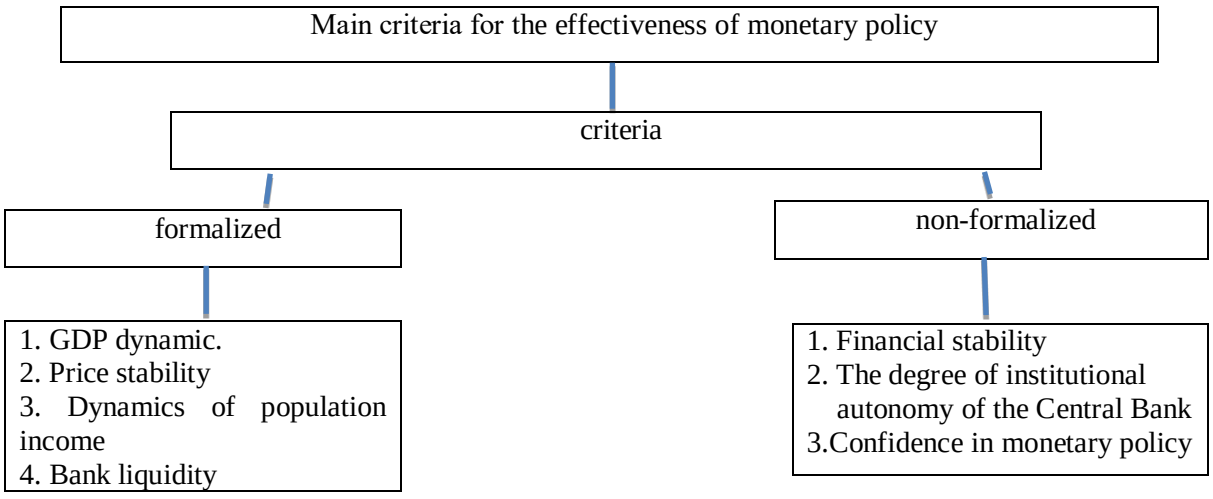

Fig. 1. Classification of the main criteria for the effectiveness of monetary policy

The main criteria for the effectiveness of the state's monetary policy include the following list of criteria: GDP dynamics; price stability; population income dynamics, bank liquidity.

Since 2016, these indicators have gradually begun to recover by 2023.

Non-formalized criteria that do not have a quantitative measurement: financial stability, the degree of institutional autonomy of the Central Bank, trust in the monetary policy pursued by the monetary

authorities (see Fig. 1).

For a more in-depth analysis of the criteria, let us consider the most significant indicators of financial stability (qualitative criterion) and liquidity of credit institutions (quantitative criterion) in Azerbaijan for the period from 2006 to 2023 (see Table 1) [7]. In the period from 2006 to 2016, there was a steady increase in cash flows for current operations. 2015, the period of the financial crisis, naturally had a negative impact on the decrease in the current account indicator by 47% compared to 2014.

Table 1. Significant indicators of financial stability

Years	Inflation rate, %	Change in exchange rate	
		Dollar to manat	Euro to Manat
2006	8,3	0,87	1,14
2008	20,8	0,80	1,13
2010	5,7	0,80	1,06
2014	1,4	0,78	0,95
2015	4.0	1,56	1,70
2016	12,4	1,77	1,86
2019	2,6	1,70	1,90
2020	2,8	1,70	2,09
2021	6,7	1,70	1,93
2022	13,9	1,70	1,81
2023	8,8	1,70	1,88

Source: Data of the State Statistics Committee

The inflation rate has tended to increase since 2006, which leads to deepening imbalances in the economy. 2015, despite large-scale changes in the country, showed a decrease in the inflation rate by 66%. The exchange rate, relative to the dollar and the euro, had a sharp jump from 2015 to 2014.

Table 2. Liquidity indicators of credit institutions, million manat.

Years	Correspondent accounts in the Central Bank of Azerbaijan	Required reserves	MO (cash)
2006	384,3	210,6	1311,3
2008	306,0	231,5	4145,7
2010	704,6	20,9	5455,8
2014	1013,1	228,0	10152,5
2015	2137,2	47,4	4775.9
2016	2258,7	147,7	6376,9
2019	2708,6	165,4	9501,1
2020	3204,2	149,5	10773,4
2021	7440,0	173,4	10940,8
2022	6169,7	1389,2	13297,5
2023	6521,1	5050,8	15873,3

Source: Data of the State Statistics Committee

In general, characterizing financial stability, according to these indicators, we can conclude that an increase in the inflation rate and, consequently, an increase in prices reduces the competitiveness of

national goods, making it difficult to export them, encourages the import of goods and contributes to the "flight" of capital abroad.

The current account is a key concept of the balance of payments and the international economy as a whole, showing, on the one hand, the result of the country's interaction with the rest of the world over a certain period of time, and on the other hand, the balance of domestic investment and savings.

Along with the multi-aspect methodology, a single-aspect methodology is used, where the criterion is the quantitative indicators of some parameter. For example, the establishment by the central bank of a quantitative indicator of acceptable inflation and ensuring price growth within the established range when implementing an inflation targeting strategy or the characteristics of bank liquidity (see Table 2) [7].

In the period from 2006 to 2010, the balances on correspondent accounts with the Central Bank of Azerbaijan increased by 320.3 mln man, and mandatory reserves had a sharp downward trend. In 2010, liquidity reached a critical level, which subsequently led to the need to apply additional monetary policy instruments and measures to maintain banking liquidity (for example, issuing unsecured loans, increasing the refinancing rate, etc.). In the period from 2010 to 2014, mandatory reserves increased by 207.1 mln man, which reduced banking liquidity. The sharp decrease in the amounts of mandatory reserves in 2015 is associated with the impact of the global financial crisis, which led to a decrease in the number of depositors and, accordingly, funds in bank deposit accounts. A decrease in the amounts of mandatory reserves leads to a weakening of the Central Bank's control over the money supply, the liquidity potential deteriorates, etc.

Analyzing the most liquid indicator of the monetary aggregate MO in the period from 2006 to 2023, we can quite clearly say about the increase in the volume of cash in circulation from 2006 to 2023.

Characterizing the banking liquidity of credit institutions in the period under study, we can confidently say that these indicators directly depend not only on the actions of the Central Bank of Azerbaijan, but also on the correct management of the liquidity of the credit institutions themselves, taking into account their specifics and policies.

The central and commercial banks face many potential risks of the internal and external environment. One of the types of risk is reputational risk. The trust of business entities and the population is the main banking capital. Loss of reputation by a credit institution leads to the flight of resources to competitors, including abroad. For central banks, loss of reputation leads to the fact that economic participants have doubts about the consistency of the monetary policy, its motives and effectiveness, and the professionalism of the management. To maintain reputation and trust of the population, the central bank must carry out its activities in such a way as not to tarnish its name, inform about its activities, and effectively solve the tasks set before it. Gaining trust is one of the main tasks of the central bank. Confidence in monetary policy can be defined as the confidence of the private sector that the monetary authorities will successfully achieve their goals. A responsible approach by the regulator to achieving target benchmarks eliminates market participants' uncertainty about the central bank's policy. The higher the confidence and the more significant the reputation of the central bank, the more flexibly it reacts to shocks. For example, uncertainty makes the population and economic entities, all other things being equal, raise their inflation expectations. At the same time, the more market participants know about the predictable future actions of the central bank, the lower the inflation expectations.

Meanwhile, price stability can be achieved by a combination of responsibility and independence of the central bank. Central banks are granted a high degree of institutional autonomy from the government in order to protect monetary policy from the influence of political aspirations of state structures. According to the Law "On the Central Bank (Bank of Azerbaijan), the Central Bank of Azerbaijan is recognized as independent, other bodies have no right to interfere in its activities. But at the same time, the autonomy of the Central Bank from the government and the budget is limited by target guidelines, within which the Central Bank can freely and independently choose the instruments of influence, which is especially important in the field of anti-inflation policy. Thus, the monetary policy for the central bank is not completely autonomous, since the ultimate goals of monetary regulation coincide with the fundamental goals of the state's macroeconomic policy.

The independence of the central bank can be considered as formal and as actual. The factors that determine it are political and economic. Political factors include the structure of national banks, the procedure for appointing their management and their relationship with the executive branch.

Economic factors include the tasks of the central bank determined by law, the possibility of the central bank providing loans to the government, the place of banking supervision in the activities of the central bank and the procedure for its financial reporting.

Currently, there is no single generally accepted definition of the independence of the Central Bank. As a rule, the following is used to describe independence: a number of characteristics of monetary authorities are distinguished. In particular, the researcher J. de Haan (Haan, 1995) identified the following criteria that can be used to determine the degree of independence of central banks:

- the presence of an openly declared monetary policy goal;
- the procedure for determining the inflation goals that the central bank strives to achieve;
- the source of legal norms on the basis of which the central bank operates;
- the degree of interference of the government or other authorities in the decision-making process of the central bank;
- the procedure for appointing officials in the central bank.

Currently, economic theory distinguishes between several types of independence of the central bank:

- independence in setting monetary policy goals;
- operational independence;
- independence in the choice of monetary policy instruments.

Taken together, the analysis of the rules regulating the issue of the degree of independence of the Central Bank of Azerbaijan allows us to assess it as low. This applies to both the personnel and economic independence of the Central Bank of Azerbaijan, and political independence, as well as independence in matters of monetary policy.

It can be argued that the degree of influence of representative bodies on its activities has decreased in recent years, while the degree of influence of the executive branch has increased 64.

At the same time, the obtained results of scientific research reflect only formal independence. As for the place of Azerbaijan, the Bank of Azerbaijan is characterized by an average level of independence among the countries considered.

Increasing the independence of the central bank is associated with an improvement in the economic situation in the country in terms of slower price growth. Consequently, the trend of decreasing independence of the Central Bank in Azerbaijan creates obstacles to reducing inflation in the country, which still remains significant than in countries with a comparable level of economic development. Given the current state of the Azerbaijani economy, the low level of independence of the central bank can be used by the country's authorities to solve current problems [8].

4 Conclusion

Considering the above, it can be noted that in modern conditions, the Central Bank is faced with credit problems and, at the same time, with high volatility of oil and raw material prices. As a result, it can be concluded that the Central Bank in an open economy is also responsible for financial stability, acts as a regulator of commercial banks, and is responsible for the stability of the entire banking system. This is the main challenge that the central bank faces: to ensure economic growth, low inflation and financial stability using monetary policy instruments.

In addition, the central bank also faces technical challenges, for example, although it has formal independence, it is nevertheless influenced by various political forces. Even within the framework of its statutory operational independence, it is limited by another implicit goal - the exchange rate. Keeping the exchange rate within the specified limits constrains its actions when the central bank is trying to fulfill its immediate task - to curb the growth of inflation.

The activities of the central bank can be effective if they are aimed at achieving price stability. Low inflation has significant macroeconomic benefits - GDP growth is stabilized, and business entities and households make long-term inflation plans. Monetary policy plays a key role, encouraging investment in fixed assets, production growth, and thereby guaranteeing macroeconomic stability.

To determine the assessment of the effectiveness of monetary policy, we can propose an algorithm based on the analysis of the relationship between various socio-economic indicators, taking into account the goals set in the implementation of this policy:

1. Identify the criterion for assessing the effectiveness of monetary policy.
2. Identify internal and external factors influencing the goals of the state's monetary policy.
3. Determine the indicator indicators for assessing the effectiveness of monetary policy.
4. Identify the risks affecting macroeconomic stability.
5. Calculate quantitative indicators or give a qualitative assessment of the criteria for the effectiveness of monetary policy based on a comparative analysis for a certain period of time.
6. Based on the result obtained, apply an instrument or several instruments of monetary policy;
7. Assess the effectiveness of the state's monetary policy in accordance with the target benchmark.

In a modern open economy, the criteria for assessing monetary policy should be linked to the socio-economic development of the country. Thus, the main criteria for the effectiveness of monetary policy will be the criteria that contribute to ensuring macroeconomic stability.

For an objective assessment of monetary policy, it is possible to use multi-aspect methods that include a system of indicators. These indicators can be interrelated, while single-aspect methods suffer from incomplete reflection of the policy pursued by monetary authorities and take into account the influence of a limited number of factors on the effectiveness of monetary policy.

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