

## THE ROLE OF THE STATE IN REGULATING THE MARKET ECONOMY

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**Abstract.** This article provides an in-depth analysis of the role, methods and mechanisms of the state in regulating a market economy. There are theoretical views that a market economy is a system operating on the basis of free competition, private ownership and the laws of supply and demand, in which state participation should be limited, and at the same time, practice shows that without the active and effective participation of the state in the economy, it is difficult to achieve such important indicators as macroeconomic stability, a fair competitive environment, social protection, infrastructural development and economic growth. The main functions of the state in regulating the economy are studied in the course of the study - the formation of a regulatory framework, budgetary and tax policy (fiscal policy), monetary policy, coordination of foreign economic activity and mechanisms for supporting social sectors. In particular, the need for state intervention in eliminating "failures" in a market economy is highlighted. The article attempts to define the role of the state in the effective functioning of a market economy, not only as a controller, but also as a developer, regulator, and protector, as well as to draw scientifically and theoretically based conclusions on how these processes can be organized in the context of the national economy.

**Keywords:** market economy, state regulation, economic policy, fiscal policy, monetary policy, free competition, macroeconomic stability, social protection, economic growth, regulatory framework, foreign economic activity, economic control, developmental role, economic mechanisms, national economy.

**Аннотация.** В статье дается глубокий анализ роли, методов и механизмов государственного регулирования в рыночной экономике. Существуют теоретические взгляды, согласно которым рыночная экономика — это система, функционирующая на основе свободной конкуренции, частной собственности и законов спроса и предложения, в которой участие государства должно быть ограничено. Однако практика показывает,

что без активного и эффективного участия государства в экономике сложно достичь таких важных показателей, как макроэкономическая стабильность, справедливая конкурентная среда, социальная защита, развитие инфраструктуры и экономический рост. В исследовании рассматриваются основные функции государства по регулированию экономики — формирование нормативно-правовой базы, бюджетно-налоговая политика (фискальная политика), денежно-кредитная политика, координация внешнеэкономической деятельности, механизмы поддержки социальных отраслей. В частности, подчеркивается необходимость государственного вмешательства для устранения «провалов» рыночной экономики. В статье предпринята попытка определить роль государства в эффективном функционировании рыночной экономики не только как контролера, но и как разработчика, регулятора и защитника, а также сделать научно и теоретически обоснованные выводы о том, как эти процессы могут быть организованы в контексте национальной экономики.

**Ключевые слова:** рыночная экономика, государственное регулирование, экономическая политика, фискальная политика, денежно-кредитная политика, свободная конкуренция, макроэкономическая стабильность, социальная защита, экономический рост, нормативно-правовое регулирование, внешнеэкономическая деятельность, экономический контроль, роль развития, экономические механизмы, национальная экономика.

### Introduction.

The market economy is today the chosen direction of development of many developing and developed countries. Its main principles are the primacy of private property, free competition, price formation based on supply and demand, freedom of entrepreneurship and openness. Nevertheless, the market economy cannot solve all socio-economic problems on its own. The distortion of the competitive environment, the strengthening of monopolies, environmental problems, infrastructure deficiencies and social inequalities are among the issues that are difficult to eliminate without state intervention. Therefore, the regulatory, developmental and coordinating role of the state in a modern market economy is of great importance. After gaining independence, the Republic of Uzbekistan determined the formation of a socially oriented market economy as its path of development. In this direction, in the initial stages, important reforms such as privatization, price liberalization, reform of the financial and banking system, and liberalization of foreign trade policy were gradually implemented. In

particular, since 2017, a new stage of economic reforms has begun in the country. Under the leadership of our President Shavkat Mirziyoyev, fundamental changes have been implemented to modernize the economy, improve the business environment, liberalize the foreign exchange market, and create favorable conditions for investors.

The forms and mechanisms of state participation in a market economy can be different. They are mainly implemented through: adoption of regulatory legal acts, fiscal policy (tax and budget policy), monetary policy (monetary policy), regulation of foreign economic activity, development of the social protection system, ensuring economic security, and support for vulnerable groups of the population. All this is aimed at ensuring the consistent and effective functioning of market mechanisms by the state. The process of forming and regulating a market economy in Uzbekistan is being carried out based on a well-thought-out legal framework. The legal framework necessary for the development of the economy on the basis of market principles in the country has been gradually formed. In this regard, first of all, the Law "On the Basic Principles of Transition to Market Relations", adopted in 1992, is of particular importance, which legally determined the path of transition to a market economy in the Republic of Uzbekistan. On the basis of this law, the foundation stone of economic reforms was laid in the country. Later, in order to liberalize the economy and actively support the private sector, the Law "On Protection of Private Property and Support of Entrepreneurship" was adopted. This document guaranteed the inviolability of private property rights, created a fair and stable legislative environment for business entities. Since the market economy is a system based on competition, the formation of a healthy and fair competitive environment has become one of the pressing issues. In this regard, the Law "On Competition" serves as an important legal basis. This law is aimed at ensuring freedom of competition, preventing monopolies and protecting the interests of consumers. Economic reforms are being consistently continued in our country. In particular, on the initiative of President Shavkat Mirziyoyev, the "Action Strategy" was adopted, approved by Decree No. PQ-4947 on February 7, 2017. This strategy sets out specific directions such as liberalization of the economy, reform of public administration, support for the private sector, improvement of the tax system and improvement of the investment climate, and as a result of their consistent implementation, market relations are deepening. Another important stage was the adoption of the "Development Strategy of New Uzbekistan" for 2022-2026. This strategy identifies the improvement of market mechanisms, digitalization of the economy, revision of the regulatory role and functions of the state, as well as the creation of a competitive economic environment as priority tasks. Thus, laws and

strategies aimed at legally strengthening the market economy in Uzbekistan ensure the active and consistent participation of the state in regulating the economy. Through these legal documents, institutions are being formed in the country that will form the basis for a stable and effective market economy.

### **Main part.**

A market economy is a system based on free competition, private property, and the laws of supply and demand, and is considered a self-regulating mechanism. However, historical and practical experience shows that the market mechanism is not enough to solve all economic and social problems. Therefore, state intervention in the economy and its regulation are of great importance. The state actively participates in maintaining balance in the economic system, ensuring macroeconomic stability, creating a competitive environment, strengthening social protection, developing infrastructure, attracting investments, and regulating foreign economic relations. The first task of the state in a market economy is to create a legal framework. Through this, property rights, contractual relations, competition conditions, and financial procedures are determined. In the Republic of Uzbekistan, these processes are legally consolidated through the Law “On the Basic Principles of Transition to Market Relations”, the Law “On Protection of Private Property and Support of Entrepreneurship”, the Law “On Competition” and many other regulatory documents. In addition, the state uses fiscal and monetary instruments to conduct economic policy. Fiscal policy forms the state budget, sets tax rates, and influences the economy through budget funds. Monetary policy, through the Central Bank, is aimed at regulating the money supply, inflation rate, exchange rate, and interest rates. One of the most important factors in a market economy is the presence of a competitive environment. Free and healthy competition is the main guarantee of economic efficiency, product quality and price stability. Therefore, the state develops this environment by supporting competition, limiting the activities of monopolies and creating equal conditions for all entities. Since 2017, market reforms in Uzbekistan have entered a new stage. The “Action Strategy” and “Development Strategy of New Uzbekistan”, adopted at the initiative of President Shavkat Mirziyoyev, include areas such as improving market mechanisms, simplifying public administration, reducing corruption, reforming the tax and customs system, and liberalizing foreign trade. These reforms demonstrate that the state is withdrawing from direct economic activity and acting as a regulatory and development institution. The state performs its functions not as an obstacle to the market, but as a complement and balancing one. In particular, it seeks to ensure economic and social stability by financing infrastructure projects, developing education and healthcare,

and providing social protection for vulnerable groups of the population. In addition, the state is trying to attract private sector and foreign investment by improving the investment climate. In recent years, incentive mechanisms have been introduced for foreign investors through guarantees, tax incentives, customs relief, and free economic zones. The state is also actively pursuing a policy of expanding cooperation with international economic organizations and integrating into the world market. In a market economy, sometimes there are "failures". In such cases, state intervention is necessary. For example, areas such as environmental issues, healthcare, public goods, or digital infrastructure may not be adequately financed by the market. The state can address market failures by directly spending or subsidizing them. However, state intervention may not always be beneficial. Excessive control, bureaucracy, or corruption can restrict market freedom and slow down economic growth. Therefore, the state must conduct its intervention based on the principles of efficiency, transparency, and accountability. Modern approaches support a balanced partnership between the state and the market. That is, the state regulates institutions, not the economy. By ensuring the rule of law, increasing transparency, and introducing information technologies, the state directs market forces in the right direction. Thus, the role of the state in a market economy is complex, but important and necessary. It acts not only as a controller, but also as a guarantor of stability, equality, and progress.

#### **Analysis and results:**

In 2024, the economy of the Republic of Uzbekistan continued to follow the path of sustainable development. The volume of gross domestic product (GDP) reached 1.45 quadrillion soums, and economic growth amounted to 6.5 percent. This is higher than the 6.3 percent growth in the previous year, indicating the effectiveness of economic reforms. GDP per capita amounted to 39.1 million soums (about 3,093 US dollars). A 6.5 percent growth was recorded in the industrial sector. This is mainly due to the modernization of large industrial enterprises, the introduction of new technologies, and an increase in production capacity. The construction sector also showed high growth - 6.8 percent, which indicates an increase in the volume of infrastructure projects and housing construction. The services sector grew by 6.8 percent, making the largest contribution to GDP growth - 3.4 percentage points. Reforms in the banking and financial sector, digital services, logistics and trade contributed to the growth in this sector. The agricultural sector recorded a growth of 3.6 percent. Water-saving technologies, high-yield seeds and subsidy programs in this sector yielded positive results. The volume of investments increased by 27.6 percent in 2024. Foreign direct investment accounted for 30.5% of total investments. This was due to the favorable business environment created for investors,

tax incentives and guarantees provided by the state. Foreign trade turnover increased by 5.9%. Exports increased by 9%, and imports by 3.9%. However, the high growth of imports relative to exports leads to an imbalance in the trade balance. This, in turn, indicates the need to develop the production of import-substituting products. As of the end of 2024, Uzbekistan's external debt amounted to 64.1 billion US dollars. This is equal to 55.7% of GDP, which indicates an increasing financial burden on the state. Of this, 33.9 billion dollars is state external debt, which accounts for 29.5% of GDP. Such a high level of debt requires strengthening fiscal discipline and effective use of borrowed funds.

The inflation rate is expected to be around 8.8 percent in 2024. Although this is moderate, it will affect the purchasing power of the population. Therefore, ensuring price stability through monetary policy remains an important issue.

### **Conclusion.**

The effective functioning of current economic systems depends on many factors, among which the specific role of the state is of particular importance. Although the economy operates independently, a certain level of management and coordination is important to ensure its consistent and sustainable development. In today's era of globalization, economic systems are faced with various internal and external risks, market failures, social inequality, and environmental problems. In such conditions, the state appears not only as a manager, but also as an institution that maintains balance, guarantees order, and ensures social justice. Historically observed experiences also show that the absolute application of economic freedom ultimately leads to various social and economic imbalances. The needs of the population, the stability of the business environment, the formation of modern infrastructure, the consistent functioning of the financial sector - all this requires a coordinated and carefully targeted state policy. Such an approach is especially important for developing countries, in particular, for transformational economies such as Uzbekistan. After all, the market does not come to equilibrium on its own; in some cases, non-state initiatives may not be effective, and differences between social groups may deepen. In such cases, state governance mechanisms become a necessary tool. Looking at the example of Uzbekistan, it can be seen that the reforms implemented in recent years, along with the liberalization of the economic system, are also aimed at strengthening it on an institutional basis. The legal and regulatory framework is being improved, fiscal and monetary policy mechanisms are being modernized, and digital solutions that serve to increase economic

efficiency are being implemented. This means that state governance is being implemented not only through decrees and laws, but also through strategic decisions.

Analysis shows that more investments are being attracted to sectors where the state is involved, social protection programs are expanding, and favorable conditions are being created for the introduction of new technologies. This process is yielding positive results not only economically, but also socially. For example, the rational use of water resources in agriculture, the expansion of export potential, and the transition of the banking system to digital services are closely related to state policy. Of course, there are certain limits to state intervention. The growing external debt burden, the imbalance between imports and exports, and the persistence of relatively high inflation are issues that require a balanced approach in state policy. Therefore, scientifically based, strategic decisions are necessary to increase the effectiveness of state regulatory mechanisms. That is, the state should not only manage the market, but also become a mechanism that correctly directs, develops, and protects it from risks. In the future, as the processes of reforming the economy in areas such as advanced technologies, sustainable development principles, and human capital development continue, the role of the state will become more innovative, institutional, and strategic. In particular, areas such as the digital economy, green energy, innovative clusters, startups, and artificial intelligence-based management systems require a reconsideration of the state's participation in the new economic order. Thus, the role of the state is not only necessary but also strategically important for the successful management of a market economy. The main task is to find a balance that does not restrict economic freedom, but ensures social justice and stability. For Uzbekistan, this path means taking a bold step towards innovative development, combining global experience with national characteristics.

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