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# Monetary Policy Of The Uzbekistan And Its Improvement Ways In Implementing

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## ABSTRACT

*In world practice, the main goal of the activities of almost all central banks is to ensure the stability of national currencies and achieve price stability. The monetary policy of the central bank affects not only the money supply and interest rates, but also the overall level of economic development, that is, the well-being of every citizen in our country. Today, the world's central banks, Uzbekistan the main criterion of the Central Bank's activity is price control, inflation control. The generally accepted view today is that price management, economic education, and employment management are the necessary conditions. Prolonged periods of high inflation in a country can have dangerous consequences for the economy. This article presents scientific proposals and practical recommendations for the study and improvement of the monetary policy of the Central Bank of the Republic of Uzbekistan.*

## KEY WORDS

*Monetar policy, central bank, market economy, economic policies, inflation, ultimate goals, intermediate goals.*

## 1. INTRODUCTION

The basic rule of a market economy is that the state is economic pursues various fiscal and economic policies to ensure stability. The experience of developed countries shows that the main forms of policy are monetary and fiscal. Monetary policy is the economic policy of a state that influences the amount of money in circulation in order to ensure price stability, full employment and real output growth. The specificity of the economic and organizational basis of monetary policy is determined by the characteristics of its objects and subjects. The objects of monetary policy are supply and demand in the money market. The subjects of monetary policy are, first of all, the Central Bank, banks and other monetary authorities that interact with it, participate in the functioning of the financial system.

The founder of the theory of modern monetarism M.Friedmen and his followers say that the mass of money is the main indicators of monetary instruments they count. In their opinion, the function of demand for money is expenditure and it is much more stable than its function. Hence the mass of money is desirable to take as the main indicator of their instruments it is appropriate. As you know, the main indicator of monetary instruments is basically two the opinion that it is necessary to have an important feature in the economic literature very common. That is, first of all, the indicator is the influence of monetary instruments amount must be clearly defined from the quality, secondly, it must be inextricably linked with the objectives of government economic policy. In a modern market economy, money supply is provided by the banking system (the country's central and commercial banks). The central bank issues banknotes and coins of various denominations. Commercial banks are financial intermediaries that deliver cash flows from fund owners to borrowers. If commercial banks lend to their customers, the money supply increases and, conversely, decreases if customers repay their loans to commercial banks. Money supply is the amount of money in circulation in a country's economy. The money supply is determined by the money multiplier and the money base. The central bank must change the amount of the monetary base or the money multiplier to change the level of money supply. According to economic theory, the main goal of monetary policy should be in the best interests of society. The ultimate goal (s) of monetary policy are set out in law and explained to the public. Milton Friedman, a professor at the University of Chicago for many years and a 1976 Nobel laureate in economics, once said, "Inflation is always and everywhere a monetary phenomenon." Indeed, the theory of the quantity of money forces us to recognize that the growth of the quantity of money is a key factor in determining the rate of inflation. Although the monetary policy is implemented by the Central Bank, the financial stability of commercial banks, the high level of capitalization, the breadth of the resource base are the factors that determine the success of this policy.

## **2. MAIN PART**

The central bank has specific goals in conducting monetary policy. To achieve these goals, it uses monetary policy instruments. The problem is how the central bank can use the instruments it directly controls to achieve its goals. This is because there are a number of unpredictable stages between the ultimate goal and the instruments. Therefore, the central bank sets intermediate targets - the macroeconomic variables that are closest to the goals for which it has no direct control but which it seeks. The main objectives of monetary policy are to ensure the stability of the national currency, reduce inflation at reasonable exchange rate and interest rates, increase the efficiency of credit and ensure sustainable economic growth. Monetary policy should be conducted in two directions. The first direction is credit expansion, which is carried out by stimulating the issuance of money and credit, which means that it is possible to achieve development in the current situation when production rates fall. The second direction is credit restriction policy, which is based on the reduction of money and credit emissions during economic growth. Intermediate and final, based on the main purpose of monetary policy goals can be separated. The final and intermediate goals and objectives of the monetary policy concept can be seen in Table 1.

Final and intermediate goals of the monetary policy concept (table 1)

Monetary policy direction	Ultimate goals	Ultimate goals2	Intermediate goals	Intermediate goals2
	Indicator	Institutional Sector	Indicator	Institutional Sector
Inflation decline	Inflation rates	Economy in general	Gross money supply	Economy in general
Balance quoted payment balance	Exchange rate	External Sector	Real conversion courses; State reserves	money-credit governments; banking system;
Financial system development and stability	Money lending degree	Banking system	Asset structure and volumes; obligations structure and dimensions; financial intermediation indicators	Banking system
Sustainable economy growth	Real GDP growth	General economy	Demand for money	General economy
Structural reforms	New and superior network growth	New and superior networks	New and superior network banking	New and superior networks
Large and medium businesses finances stabilization	Businesses profitability and increase in financial stability	Main large and medium businesses	Volume of bank loans	The main giant and medium enterprises

Source: O.Yu.Rashidov, R.R.Tojiev, U.Sh.Do`sqobilov. "Monetary Policy of the Central Bank". Tashkent, TSU Publishing House, 2010, 284 p

The table above shows that the intermediate goals of monetary policy are to ensure the stability of the national currency, to regulate the money supply, to ensure the stability of the financial system, and the ultimate goals are to achieve economic growth, full employment, prices and to maintain a stable balance of payments. This, in turn, means that the ultimate goal can be achieved by achieving the intermediate goals of monetary policy. In order to achieve its goals and objectives, as well as the set levels of macroeconomic indicators, the Central Bank will take the following measures in the field of monetary policy.

- ✚ The Central Bank conducts monetary policy in coordination with fiscal policy.
- ✚ The Central Bank regulates the dynamics of monetary aggregates in accordance with the current and expected inflation rate and the exchange rate indicators.
- ✚ Reserve money, loans provided by the Central Bank to the government and commercial banks are identified as operational indicators of monetary policy. Quarterly and monthly targets are set for these indicators and their implementation is monitored on a regular basis.
- ✚ The refinancing mechanism of the Central Bank serves as a priority for financing investment programs aimed at meeting the demand for credit resources of the manufacturing sector and ensuring structural change.
- ✚ The refinancing rate of the Central Bank shall be determined based on the supply and demand in the money market and the current and expected inflation rate.
- ✚ Carries out monitoring of the liquidity of the banking system and the formation of the monetary base in order to manage the proposed amount of money.

On the basis of decrees and resolutions of the President of the Republic of Uzbekistan aimed at further liberalization and deepening of the reform of the banking system, radically strengthen the banking system, expand their lending capacity and authorized capital by attracting free funds. Particular attention will be paid to the transformation of small businesses into real partners, the further expansion of cooperation with foreign banks.

The Central Bank will further develop open market operations, including secondary market operations, in order to increase the effectiveness of monetary policy. It will also take measures to attract free funds of the population to the financial market through commercial banks and increase confidence in commercial banks.

Each central bank develops a clear monetary policy strategy based on the target values of a number of variables. Achieving these target values is consistent with strategic goals. After the central bank approves inflation and unemployment targets, it sets a list of indicators (intermediate targets) that directly affect employment and price levels. However, central bank instruments do not directly affect even intermediate targets. Therefore, it defines a set of other variables - operational (tactical, instrumental) goals. Using intermediate and operational goals, the central bank can ensure the correctness of monetary policy without affecting inflation and unemployment. Table 2 shows the central bank's monetary policy instruments and strategic, intermediate, and also operational interrelationships of the goals are shown.

Instruments and objectives of monetary policy (table 2)

Money-credit policy instruments	Strategic goals	Intermediate goals	Operation goals
Open market operations	High level of employment Economic growth Price stability	Nominal interest rate	Interest rates on federal funds
Discount policy	Stability of interest rates Sustainability of financial markets	Money mass	Unsustainable reserves
Backup requirements	Stability of foreign exchange markets	Nominal income	Debt reserves

Source: O.Yu.Rashidov, R.R.Tojiev, U.Sh.Do'sqobilov. "Monetary Policy of the Central Bank." Tashkent, TSU Publishing House, 2010, p. 284.

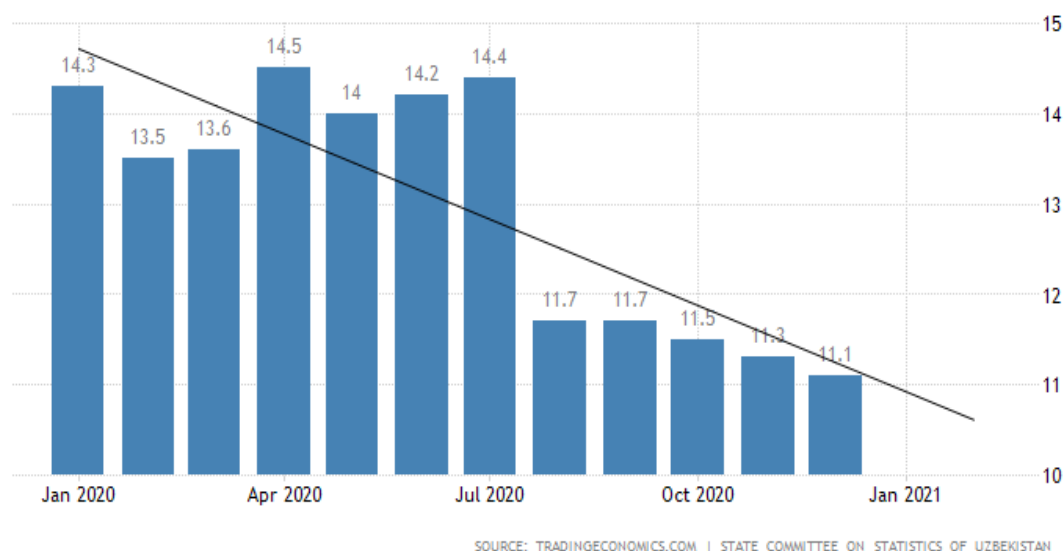
Through its monetary policy, the central bank ensures, first of all, the stability of the national currency, pursues prudent exchange rate and interest rate policies, takes measures to curb inflation, increases the efficiency of credit and provides legal criteria and guidelines for sustainable economic growth. develops standards. In short, along with the development of the financial and banking sector, the existing legal norms in the field will be improved. This means achieving a modern trend of integrated economic development while ensuring the stability of the banking system.

### 3. RESEARCH AND ANALYSIS

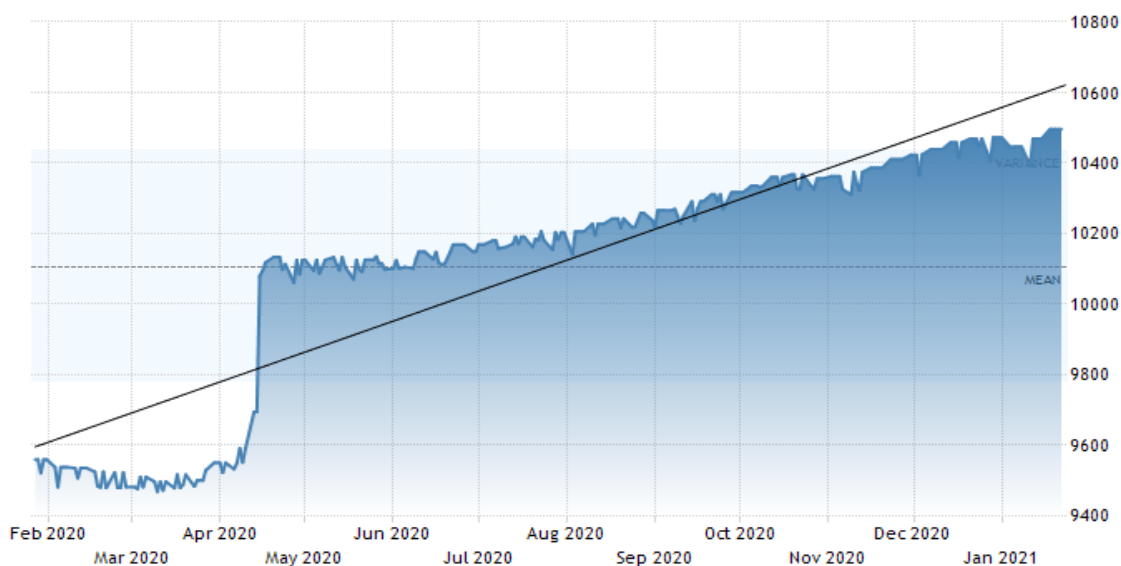
In Uzbekistan, as in other countries, the Central Bank is responsible for ensuring the stability and effective management of the national currency, achieving the target levels of monetary

policy instruments, increasing the liquidity of the banking system and the efficiency of financial markets. Central banks do not have direct control over inflation. Instead, they try to control inflation indirectly by influencing interest rates, the money supply, or the amount of credit in the economy. Due to the implementation of a comprehensive set of measures aimed at liberalizing economic, financial and monetary policy in our country, a slight decline in inflation has been achieved. In particular, the inflation rate was 14,3% in January 2020, 11,1% in January 2021. (Figure 1).

Changes in the inflation rate in the Republic of Uzbekistan dynamics (figure 1)



As a result, the inflation rate during the analyzed period did not exceed the forecast and amounted to 11,1 %, which, in turn, allowed to further stimulate exports by influencing the national currency. In 2020, the monetary policy was based on its main principles, namely, the stability of the national currency, the soum, and the balance of supply and demand in the domestic foreign exchange market. In 2020, the monetary policy was based on its main principles, namely, the stability of the national currency, the soum, and the balance of supply and demand in the domestic foreign exchange market.



Generally, it is clearly seen that there was a considerable increase in the the nominal exchange rate of the national currency from February 2020 to May 2020. And then the line rose gradually from June 2020 to January 2021. And also 1 US dollar was approximately 9500 soums in Feb 2020 and historically, the Uzbekistan soum reached an all time high of 10495.81 in January of 2021.

Considering that the main part of the foreign trade operations of our country is carried out in US dollars, the exchange rate of the soum against the US dollar was used as an operational target in determining the exchange rates of the soum against other foreign currencies. Accordingly, the exchange rates of the soum against foreign currencies other than the US dollar were formed under the influence of the dynamics of the exchange rates of these currencies against the US dollar in the foreign exchange markets and the exchange rate of the soum against the US dollar in the domestic currency market.

#### 4. CONCLUSION

Proper implementation of monetary policy in a market economy will lead to the stability of the country's monetary system and, consequently, to the overall economic stability. At the same time, the main goal of the Central Bank's monetary policy is to ensure the stability of the national currency, reduce inflation based on reasonable exchange rate and interest rates, increase the efficiency of credit and ensure sustainable economic growth. In order to achieve this, it is necessary to coordinate the money supply by influencing supply and demand in the money market. The central bank should gradually liberalize the use of required reserves, given that it has only recently targeted money supply and will fully target inflation in the near future, as well as the rapid increase in lending due to the inflow of foreign capital. The incomplete formation of the capital market and the shortage of long-term funds in our country hinder the development of the Central Bank's open market operations. In order to solve these problems, it is necessary to increase the issue of short-term and medium-term government securities and bonds of the Central Bank.

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