

## The Role and Importance of Monetary Policy in the Country's Economy

Ibodullaev Abrorzhon Akhrorzhonovich <sup>1</sup>

Tursunov Elbek Eshnazar ugli <sup>2</sup>

### *Abstract*

*This article focuses on the monetary policy pursued by the Central Bank of the country to ensure the stability and efficiency of the money supply and credit sector, the ongoing reforms to improve the monetary system and measures to improve them. dedicated to. This article discusses the main directions of monetary policy, the analysis of existing problems and shortcomings, as well as a number of proposals and recommendations to address the problems and shortcomings in this area and to further improve the system.*

**Keywords:** *monetary policy, central bank, commercial banks, refinancing rate, inflation, inflation targeting.*

<sup>1</sup> Doctor of Philosophy in Economic Sciences (PhD, Tashkent Financial Institute, Department of Finance)

<sup>2</sup> Student, Tashkent Institute of Finance

## **INTRODUCTION**

After gaining independence, our country paid special attention to monetary policy, which is one of the most important directions of the transition to a free market economy. A number of important reforms have been made in this regard. As a practical proof of this, on July 1, 1994, Uzbekistan introduced its own independent national currency - the sum. This regulates the process of purchase and sale of all goods (works, services) in the territory of the Republic of Uzbekistan. December 21, 1995 Law “On the Central Bank of the Republic of Uzbekistan” (adopted in the new edition on November 5, 2019, №582). In order to develop monetary policy and bring it to a new level, to develop and implement a strategy and tactics of monetary and exchange rate policy, a separate state institution, the Central Bank of the Republic of Uzbekistan, was established is doing.

Judging by the last five years, a lot of reforms have been carried out regarding monetary policy. In particular, the head of our state Sh.M. Mirziyoyev said in Paragraph. 3.1 of the Decree №PF-4947 “Strategy for further development of the Republic of Uzbekistan”, dated February 7, 2017: as well as the gradual introduction of modern market mechanisms in currency regulation, ensuring the stability of the national currency and deepening and ensuring the stability of the banking system, increasing the level of capitalization and deposit base of banks, strengthening their financial stability and reliability, promising investment projects and further expansion of lending to small business and private entrepreneurship”. [2] In order to implement the above work, the Decree of the President of the Republic of Uzbekistan №PD-5177 of September 2, 2017 “On priority measures to liberalize the exchange rate” and №PD-3272 of September 13, 2017 Resolution “On measures to further improve monetary policy” was adopted. The Presidential Decree states that “monetary policy should expand the use of interest rate instruments used to provide and attract liquidity, expand the use of market mechanisms for the formation of interest rates by commercial banks, increase the transparency of monetary policy”. [5] Marked that, as in order to ensure the implementation of the above resolutions and decrees of the President and to bring the development of monetary policy to a new level through the implementation of economic reforms aimed at liberalizing the economy and enhancing the role of market mechanisms, the Central Bank developed the Concept of Monetary Policy. Through this Concept, the Central Bank will focus on improving monetary policy while ensuring price stability in the domestic market. As an integral part of these reforms, the Decree of the President of the Republic of Uzbekistan dated January 28, 2022 “On the Development Strategy of the New Uzbekistan for 2022-2026” №PF-60 reads: and a gradual reduction of annual inflation to 5 percent by 2023”. [4]

## **REVIEW OF THE LITERATURE ON THE SUBJECT**

In the economic literature and in international banking practice, the concepts of “monetary policy” and “credit theories of money” are widely interpreted as synonymous. For example, well-known Russian economists - S.Moiseev, O.Lavrushin, I.Mamonova, M.Malkina, widely use the concept of “Monetary policy”.

In particular, S.Moiseev and O.Lavrushin in their textbooks “Monetary Policy: Theory and Practice” said: “Monetary policy is one of the important directions of state policy to regulate the economy.” lib, money supply and demand are its object”. [8]

M. Malkina describes monetary policy in her textbook: “Inflation in Russia and Abroad and Regulation through Monetary Credit” which states: “It is a set of measures to manage the value

of money, aimed at ensuring prices in the country, the stability of the national currency and stimulating economic growth”.[9]

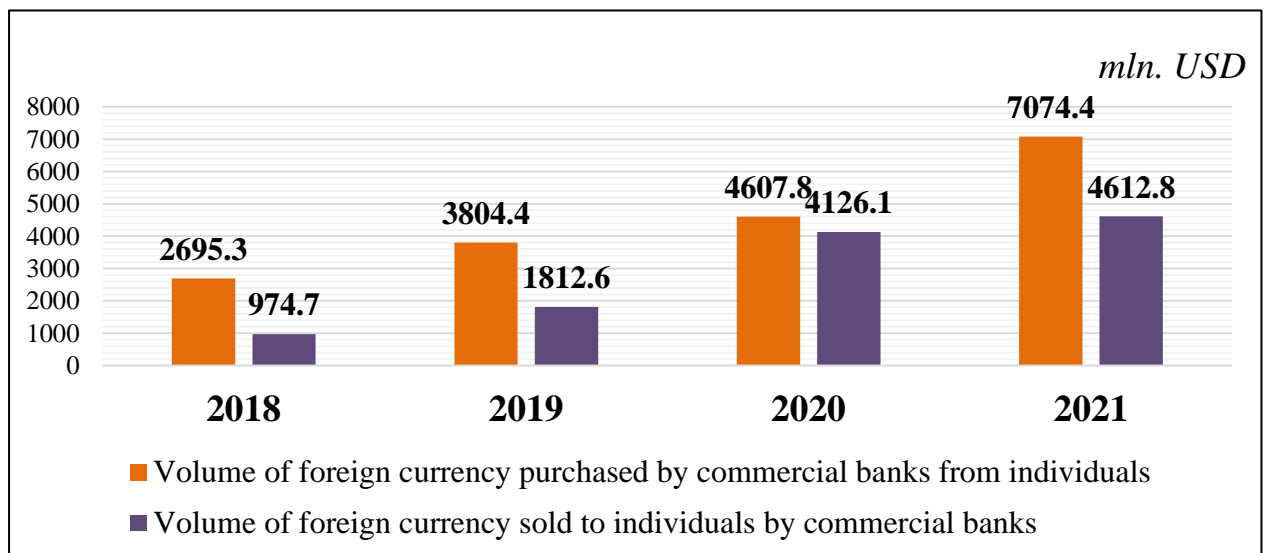
In the textbook “Financial and monetary economy” co-authored by D. Vinogradov and M. Doroshenko: “Monetary policy is a policy aimed at regulating the money supply and interest rates”.[10]

From the above conclusions and definitions, it is clear that most economists have recognized monetary policy as a set of measures aimed at regulating and controlling the demand for money and the money supply.[7]

### ANALYSIS AND RESULTS

Today, our country is pursuing an active monetary policy. A clear example of this is the fact that over the past five years, Uzbekistan has undergone significant changes in monetary and exchange rate policy. In particular, measures have been taken to fully liberalize public policy in this area.

Since 2017, the Central Bank of Uzbekistan has intensified its work on the development of the domestic foreign exchange market and increase its efficiency, as well as monetary policy aimed at improving the conditions for foreign economic activity of business entities. Previous restrictions on the sale, purchase and disposal of foreign currency by the population and businesses have also been lifted and a number of facilities have been created. For example, with the exception of exceptions established by government decrees, the export of foreign currency in cash up to the equivalent of \$ 10,000 is carried out without any restrictions. At the same time, the export and import of foreign currency in cash in the amount of up to the equivalent of \$ 2,000 will not be required. Let's look at the statistics on the results of currency exchange (Figure 1).



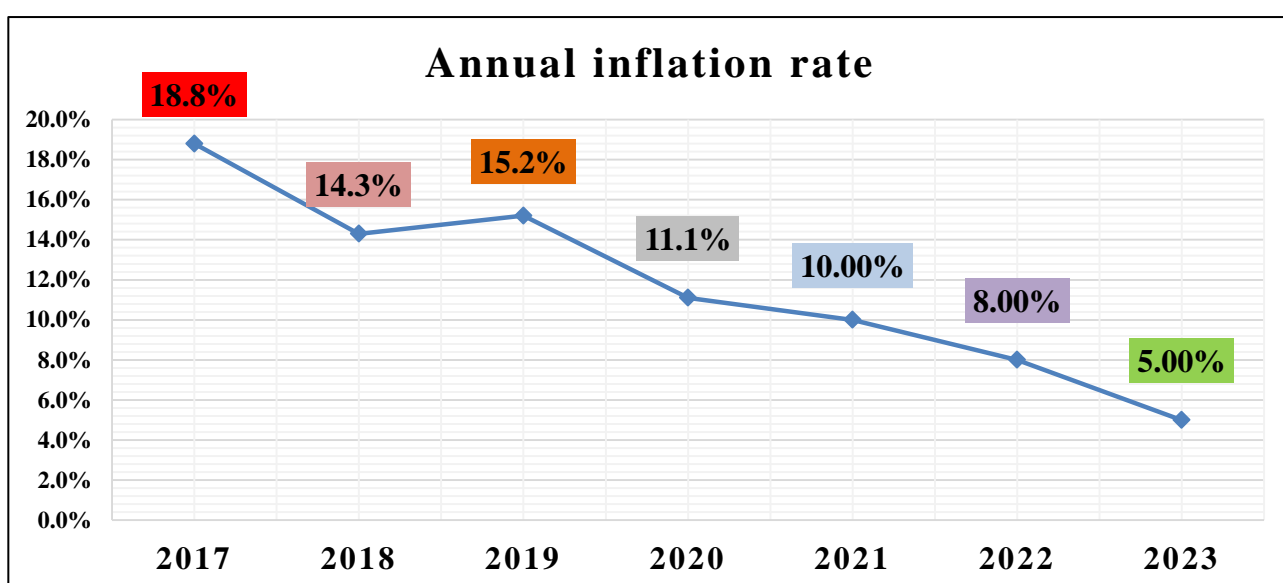
**Figure 1. Dynamics of foreign exchange transactions in 2018-2021 [11]**

As can be seen from the picture above, the volume of free currency exchange transactions by individuals is growing from year to year. The volume of purchases and sales of foreign currency by individuals by commercial banks amounted to \$2695.3 million and \$974.7 million in 2018, \$3804.4 million and \$1812.6 million in 2019, and \$4607.8 million in 2020, respectively. million and \$4126.1 million and in 2021 \$7074.4 million and \$4612.8 million, respectively. These

figures show that the results of monetary policy are improving.

It is known that the Central Bank can manage the money supply using interest rate (discount) policy, inflation targeting and other methods.

In particular, since 2017, a mechanism has been introduced to set the national exchange rate based on the supply and demand for foreign currency in the economy. In order to create more favorable conditions and opportunities for the population, all types of pensions, as well as the payment of salaries to government employees living in remote areas, social payments will be made in cash without any barriers. In addition, a set of measures to improve monetary policy in 2017-2021 has been developed, and for the first time in our country the practice of «inflation targeting» used by foreign central banks has been introduced, and from 2020 the Central Bank will switch to this mode ( Figure 2). It is no exaggeration to say that this is an important step in further developing our economy and improving the living standards of the population.



**Figure 2. Dynamics of inflation in 2017-2023 [12,13]**

Analyzing Figure 2 above, the annual inflation rate was 18.8% in 2017, 14.3% in 2018, and 15.2% in 2019. As a result of the central bank’s efforts to curb inflation, the inflation rate for 2020 slowed to 11.1% from 15.2% in 2019. During 2021, monetary conditions were maintained in order to reduce the monetary factors to inflation. At the end of the year, the inflation rate decreased by 1.1% compared to 2020 and amounted to 10.0%.

As part of its “inflation targeting” policy, the central bank plans to reduce inflation to 8% by 2022 and 5% in 2023.

In addition, the Central Bank actively uses the refinancing rate as a key leverage in managing its monetary policy. Through this financial instrument, the Central Bank influences the state of money circulation and credit relations.

- While pursuing a refinancing policy, the Central Bank will emerge as the final lender. According to the rules established by the Central Bank of the Republic of Uzbekistan, loans can be issued for up to 3 months with the following assets as collateral:

- gold, foreign currency, foreign exchange and other assets belonging to the category of international reserves;
- government debt obligations and other government-guaranteed debt instruments.

Let us focus on the Central Bank's key annual interest rate for the last seven years (Table 1).

*Table 1*

**On the refinancing rate set by the Central Bank of the Republic of Uzbekistan for 2017-2022**

**INFORMATION [13]**

<b>№</b>	<b>Validity period</b>	<b>Rates (%)</b>
1	28.06.2017 - 24.09.2018	14
2	25.09.2018 - 14.04.2019	16
3	15.04.2019 - 11.09.2020	15
4	12.09.2020 - 17.03.2022	14
5	18.03.2022 - ...	17

If we analyze Table 1 above, we can see that the Central Bank has set different rates in different periods depending on the state of the money supply in the economy. It manages the money supply in the country's economy through a financial instrument. This is seen as a key factor in reducing inflation.

The Central Bank will ensure macroeconomic and financial stability in the country by preventing unexpected devaluation and inflationary growth against the background of high uncertainties and tensions in the external economic environment, maintaining savings activity in the national currency and mitigating the impact of external risks on our economy. For the purpose of refinancing from March 18, 2022 increased the current base annual rate from 14% to 17%. The Central Bank said it would take all necessary measures to prevent a sharp rise in domestic prices and ensure the continuity and financial stability of the payment system.

### **CONCLUSIONS AND RECOMMENDATIONS**

In conclusion, while inflation has now fallen to the 10% annual target for 2021, risks such as basic food prices and high inflation expectations remain in the face of global inflation. The main reasons for this are the current external macroeconomic situation, accelerating global inflation as a result of significant increases in food and fuel and energy resources, and in response to the tightening of monetary conditions in most developed countries. One of the main risks is the impact of the COVID-19 pandemic in the last two years on market economic forecasts and decisions. At the same time, the current political instability in the world requires careful management of monetary policy. With this in mind, the country needs to pay more attention to its monetary policy. In particular, certain conditions must be created for the successful implementation of the "inflation targeting" method in practice, and it is necessary to curb inflation not only as a quantitative indicator, but also through the implementation of optimally effective reforms. This can be achieved by strengthening the production capacity of the economy, reducing the cost of production and ensuring competitiveness in world markets, eliminating monopolies and creating a healthy competitive environment in the markets.

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