

**Small Business by Commercial Banks
Improving the Practice of Lending to the Subjects
(In the Example of the Regions of the Republic)**

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Abstract

The article analyzes the measures implemented by commercial banks to ensure the stability of the national currency through the development of lending practice. Practical proposals and recommendations are given for regulating the national currency market and ensuring the stability of our national currency.

Keywords: *commercial banks, lending practice, foreign exchange market, national currency, market rate, commercial banks, central bank, foreign trade, export-import.*

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Introduction

It is known that the third direction of the "Action Strategy for the five priority areas of development of the Republic of Uzbekistan is aimed at liberalization of the economy. One of the important tasks is to introduce a new stage, to ensure the stability of the national currency.

The Decree "On priority measures to liberalize the exchange rate policy" signed by the President of the Republic of Uzbekistan Sh. Mirziyoyev in the framework of this Action Strategy, literally served as a legal basis for reforming the country's currency system, its further liberalization (Decree, 2021).

This Decree of the President of the Republic of Uzbekistan is primarily aimed at radically reforming the existing system of currency regulation, liberalizing foreign exchange policy, creating equal conditions for all business entities in foreign trade. However, at the same time, there is a lot of work to be done by the Central Bank to regulate the foreign exchange market and ensure the stability of our national currency. In particular, how can the stability of the national currency be achieved through the formation of a term foreign exchange market?

How should the central bank conduct intervention in ensuring currency stability? What tools and instruments would you prefer to use to improve the futures market?

The problems listed above are currently pending in our currency. We, on the other hand, tried to find answers to the questions raised during this study.

Critical analysis of the literature on the subject

In the process of studying the topic, we have studied the research conducted by a number of our foreign and local scientists in this direction. For example, Khatyushchenko (2017) stated in his research that the liberalization of the foreign exchange market clearly increases the risks in the country's foreign exchange market, so foreign exchange market participants and the Central Bank should diversify monetary market instruments to help overcome periods of instability in financial markets. The removal of currency restrictions will not only facilitate and expand cross-border capital flows, but also increase the vulnerability of national financial markets in the face of deteriorating external economic conditions.

Liberalization of the foreign exchange market to the country's capital market shows its effect. On the one hand, the lifting of restrictions on capital operations will promote capital flows by increasing the country's investment attractiveness and increase the volume of foreign investment, including direct investment in the non-governmental sector. The positive effects of liberalization can also be attributed to the ongoing "de-dollarization" process, which in turn indicates the strengthening of the national currency and increases the value of capital inflows (Terenteva, 2008).

According to Tokhliev (2018), the liberalization of the foreign exchange market is a major event related to the international image of the country. But if they are not strictly controlled, as well as emissions, remittances from abroad, there is no doubt that the real growth of the economy and the amount of money in circulation will lead to inflation, which will always appear as the difference between growth rates.

The main strategic goal of the state's financial-economic and monetary policy is to attract foreign investment into the national economy by liberalizing foreign economic activity and expanding the domestic foreign exchange market (Ernazarov and Kadyrova, 2017).

Reliance on market mechanisms in the formation of the exchange rate of the soum against leading foreign currencies in the foreign exchange market may also lead to an increase in exchange rate fluctuations, as it fully responds to the liberalization policy pursued in the foreign exchange sector. This requires the Central Bank to be able to influence supply and demand in the foreign exchange market in order to prevent sharp fluctuations in exchange rates and to provide sufficient foreign currency assets for this purpose (Bekmurodov and Jumaev, 2019).

In an article by Uzbek economic analyst Yusupov (2017) on the benefits of liberalizing the country's foreign exchange market, if the exchange rate depreciates through the liberalization of the foreign exchange market, economic growth will increase due to export growth and unemployment will decrease. According to some economic theories, even inflation can boost economic growth in the short term.

Research methodology

Methods such as economic-statistical analysis, grouping of statistical data, comparative analysis, sample observation, economic-mathematical modeling are widely used in the research process. Within the framework of the research topic, the analysis of the work done by foreign and Uzbek scientists in the field of foreign exchange policy, and on this basis, our conclusions and recommendations were formed.

Analysis and results

The main participants in the futures market are commercial banks, foreign trade companies, currency and stock exchanges and brokerage companies. Types of currency transactions: forward, swap, option, futures and others. Forward and swap transactions are mainly carried out by commercial banks, while options and futures are mainly carried out in the stock segment.

Term currency transactions have a number of features, in particular:

- there is a time interval between the conclusion and execution of the transaction;
- the term, rate and amount are set at the time of the transaction, but no amount is placed in the accounts until the deadline;

The growth of any country's economy is explained by the fact that ensuring the stability of prices in the country, as well as many indicators of macroeconomic development are directly related to the stability of the national currency. The successful implementation of the tasks set in the field of liberalization of the economy and deepening reforms in order to create a developed market economy in the Republic of Uzbekistan depends in many respects on the level of consistent stability and appreciation of the national currency - the soum.

The results of a well-founded study on the formation of the futures market can help economists make decisions on this situation, as well as achieve economic growth, ensure the stability of the national currency, stimulate exports, attract foreign investment and thus develop national production.

The practical significance of our research is that at the current stage of economic development of the republic can be applied in practice foreign exchange operations in the foreign exchange and interbank markets and contribute to the improvement of this mechanism.

The most basic convenience of the smallest squares method is:

- easy to understand and simple to calculate;

➤ calculations are very fast.

However, caution is required when using this method because the quality of the indicators does not lead to the desired goal due to errors in modeling when the smallest squares method is used. This method can be summarized as follows:

$$Y_t = \alpha_0 + \alpha_1 x_{1t} + \dots + \alpha_n x_{nt}$$

Here:

α_0 and $\alpha_{1\dots n}$ – constant i.e. coefficients;

Y_t – subject variable;

$X_{1\dots n}$ – an independent variable can take any value.

Our study analyzes the top 5 foreign trade partners of Uzbekistan. They are China, Russia, Kazakhstan, Korea and Turkey.

The vast majority of researchers around the world have done research using the above model. This model shows us how changes in their exchange rates, changes in GDP, and changes in prices across each country affect the volume of exports and imports made by our state to them. We compile our above model separately for each country and analyze it using the Stata 13 program

Today, the growing integration of our country into the world economy, the growth of foreign trade turnover, the wider use of foreign investment and funds, and the growing level of dollarization in the economy increase the sensitivity of the economy to currency risks.

The impact of fluctuations of foreign exchange rates against the national currency on the financial performance of enterprises engaged in export and import activities, their income and expenses, especially the financial condition of business entities with foreign currency liabilities.

Due to the fact that the futures market is not formed in the Republic of Uzbekistan and potential participants are importers and exporters, we consider it expedient to conduct an econometric analysis of the impact of the national currency on the country's export potential. We perform analyzes based on the data collected in this section.

The analysis is based on annual data for 1996-2019. We also study the impact of major foreign trade countries on the foreign trade potential of our country.

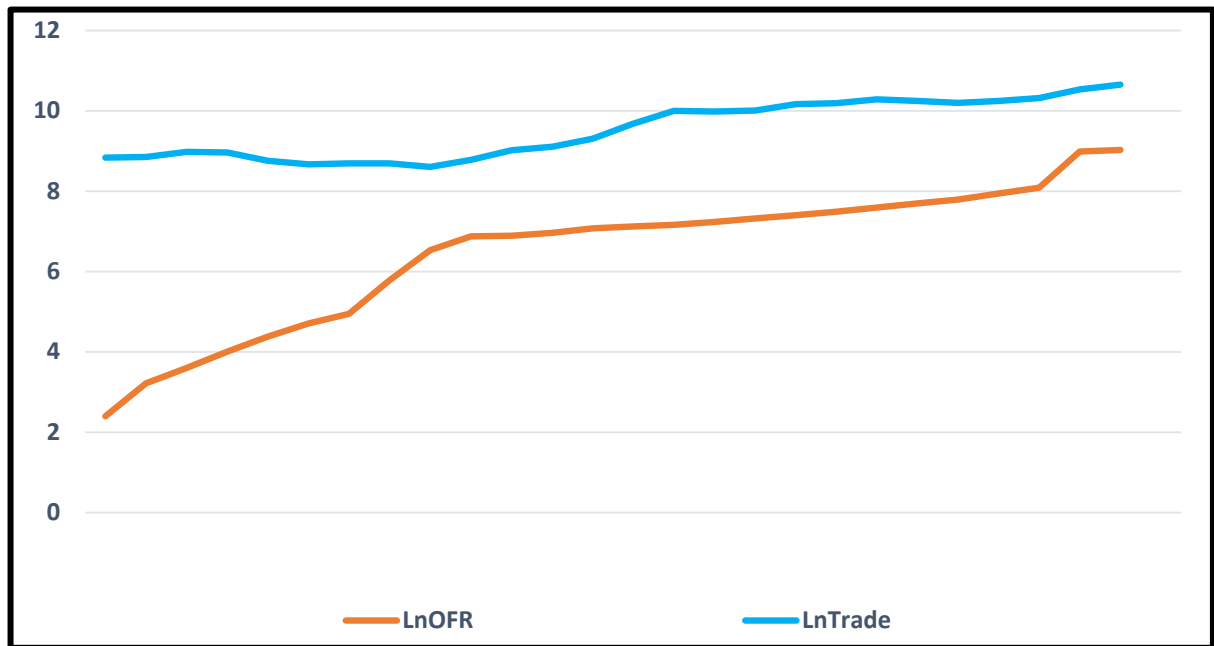


Figure 1. Foreign trade and official exchange rate dynamics of the Republic of Uzbekistan in 1996-2022, Ln.¹

The picture above shows the volume of foreign trade and the dynamics of the official exchange rate of our country for 1994-2019.

In this regard, it can be said that the devaluation of the exchange rate has also led to an increase in the country's foreign trade. To analyze this more accurately, we consider the regression of the indicators of the states listed above in a computer program.

We analyze the above result as follows. When we look at China, we first evaluate the square R, and it has a very strong correlation of 91 percent, i.e., the coefficient of determination is 91 percent, which means that the correlation between the indicators is very strong. This means that the sample also covered 91 percent of the population.

Our second coefficient is a value of P, which indicates the importance of the relationship between the variables. Typically, we can consider the relationship to be significant when this coefficient is also less than 0.05. In our equation, this coefficient is less than 0.005 .. (excluding Turkey) i.e. the relationship between our variables is statistically significant.

Table 1. The impact of the GDP of partner countries on the foreign trade of the Republic of Uzbekistan with partner countries ²

№	Country's	R²	P value	F statistics
1	China	0.9186	0.005	0.000
2	Russia	0.5186	0.013	0.002
3	Kazakhstan	0.9531	0.000	0.000
4	Korea	0.6677	0.001	0.000
5	Turkey	0.7693	0.506	0.285

¹ Prepared by the author based on IMF and UzStat.

² Prepared by the author in a computer program based on data from worldbank.org and the IMF.

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Our third coefficient F is a statistic that indicates the probability of a relationship between variables. When this coefficient is typically less than 0.05, the regression equation can be considered positive. As a result, the F statistic is less than 0,000 ... This means that our equations are more likely to interact.

Table 2. Influence of exchange rates of the Republic of Uzbekistan on foreign trade with partner countries ³

№	Country's	R²	P value	F statistics
1	China	0.9186	0.002	0.000
2	Russia	0.5186	0.041	0.002
3	Kazakhstan	0.9531	0.005	0.000
4	Korea	0.6677	0.009	0.000
5	Turkey	0.7693	0.149	0.285

As for the rest of the countries, Russia, Kazakhstan and Korea are also in the norm, the probability is high and the connection is important.

Turkey's GDP is strongly related to the foreign trade of our country ($R^2 > 0.7$) and the remaining results are negative, ie greater than 0.05.

The exchange rate against the currencies of China and Kazakhstan is very strong ($R^2 > 0.9$) and the rest of the results are positive. The connection between them is significant and highly probable.

The correlation between the exchange rate of the Russian and Korean currencies and the foreign trade of our country is significant ($R^2 > 0.5$), the probability is high and the correlation is significant. That is, $0.5 < R^2 < 0.7$, $P < 0.05$, and $F < 0.05$ based on the results.

The exchange rate against the Turkish currency was strongly correlated with the foreign trade of our country ($R^2 > 0.7$) and the remaining results were negative ($P > 0.05$ and $F > 0.05$).

In conclusion, the impact of the exchange rate on the foreign currencies of our country against the currencies of the Turkish state was insignificant.

Discussion of research results

If we discuss the econometric analyzes mentioned above, first of all. construct the regression equations. We will consider the impact of the GDP, exchange rates and relative prices of partner countries on the volume of foreign trade of our country. The following table shows the regression equations.

³ Prepared by the author in a computer program based on data from worldbank.org and the IMF..

Table 3. Regression equations based on the factors affecting the volume of foreign trade of the Republic of Uzbekistan with partner countries⁴

№	Country's	Regression equations
1	China	$\text{LnX} = -17,93 + 2,09Y_f + 0,82\text{RER} + 0,73P$
2	Russia	$\text{LnX} = 3,30 + 0,64Y_f + 0,10\text{RER} - 1,80P$
3	Kazakhstan	$\text{LnX} = -15,82 + 1,95Y_f + 4,40\text{RER} - 4,87P$
4	Korea	$\text{LnX} = -7,91 + 2,02Y_f - 0,65\text{RER} - 0,11P$
5	Turkey	$\text{LnX} = -11,72 + 0,19Y_f + 2,78\text{RER} - 2,25P$

1. China's GDP growth will increase our foreign trade, ie exports and imports by one unit, ie China's GDP growth will increase our foreign trade by 2.09 units. We can see that the real exchange rate also has a positive effect. That is, the devaluation of the exchange rate will increase our foreign trade against the Chinese yuan. Relative prices also have a positive effect, i.e. the increase in the price of Chinese products will increase the demand for our product and consequently increase our foreign trade.

2. An increase in the GDP of the Russian Federation will increase the share of our foreign trade by one unit, ie an increase in the GDP of Russia will increase our exports by 0.64 units. We can see that the real exchange rate also has a positive effect. That is, the devaluation of the exchange rate will increase our foreign trade against the Russian ruble. The effect of relative prices is insignificant.

In terms of Kazakhstan, the growth of Kazakhstan's GDP will increase our foreign trade by one unit, that is, the growth of Kazakhstan's GDP will increase our foreign trade by 1.95 units. We can see that the real exchange rate also has a positive effect. In other words, the devaluation of the exchange rate will increase our exports to the currency of Kazakhstan, and as a result will increase foreign trade turnover. The effect of relative prices is insignificant.

According to the Korean government, the increase in the GDP of the Korean state will increase our foreign trade by one unit, that is, the increase in the GDP of Korea will increase our foreign trade by 2.02 units. At the same time, the increase in Korean GDP has led to a decrease in exports of our country (1.81 units). While the real exchange rate led to a slight increase in exports, it led to a significant decline in imports. As a result, we can see that it has a negative impact on the volume of foreign trade. In other words, the appreciation of the exchange rate, the revaluation has reduced the volume of our imports against the Korean currency and led to a decrease in the volume of foreign trade. Similarly, the effect of relative prices has become insignificant, i.e., an increase in the price of products by the Korean government will reduce the demand for our product.

Turkey's GDP growth across the Turkish state increased our exports by 0.48 units, while our imports decreased by 0.27 units. As a result, the increase in our foreign trade, that is, the increase in Turkey's GDP by one unit, will increase our foreign trade by 0.19 units. At the same time, our exports increased and our imports decreased. We can see that the real exchange rate also has a positive effect. In other words, the devaluation of the exchange rate will increase our exports to the Turkish currency. The effect of relative prices is insignificant.

⁴ Prepared based on the results of econometric analyzes provided by the author.

Our analysis and results show that we need to increase strong analysis in order to develop our foreign relations, especially our foreign trade. Analysis of exchange rate changes should be performed daily. We have seen that the impact of the exchange rate on foreign trade is positive for some countries and negative for some countries. Just because devaluation increases exports can also hurt the state. In addition, the economies of partner countries should be regularly analyzed and studied.

Conclusions and suggestions

An important aspect of stimulating the development of the term currency market is to provide the market with information. According to the calculations of a number of leading scientists, the lack of information transparency of the term market is a major factor hindering its development. The main directions of the policy of increasing the information transparency of the term foreign exchange market are prompt disclosure of information on upcoming changes in financial legislation, regular publication of policy materials on current priorities of state regulation of the derivatives market, as well as statistical information on key segments of the foreign exchange market. is to go.

An effective means of state regulation of the futures currency market is also the direct participation of government agencies in trading in the derivatives market. Such operations will effectively address the problems of short-term market regulation, mitigate the fluctuations of quotations, ensure market liquidity, influence the current situation in the foreign exchange market.

Procedures, methods and tools and mechanisms of all organizational, legal, economic and political relations used by the Central Bank in the development and implementation of the structure of the foreign exchange market are the sum of monetary policy.

The exchange rate regime and the effective choice of exchange rate policy, which are instruments of monetary policy, determine the effectiveness of its other instruments (devaluation, revaluation, intervention, diversification, currency restrictions, currency control, etc.).

In the development of the concept of long-term development of monetary policy in the context of Uzbekistan (2017-2021) and the "Road Map":

- a) establishment of specific targeted measures for the transition to a free exchange rate regime;
- б) creation of an expanded and improved infrastructure of currency operations;
- в) full realization of the right of economic entities to free access to their foreign exchange resources inside and outside the country;
- г) improvement of communication channels of monetary and monetary policy instruments;
- д) further optimization of the system of currency benefits and preferences provided to economic entities;

In our opinion, the Mandell-Fleming model of studying the impact of monetary policy on macroeconomics is of paramount importance. Given that this model is widely used in the practice of many developed and developing countries, it is important to creatively use the approaches presented in it to improve the methodology of the country's monetary policy.

In conclusion, balancing the supply and demand for money in the economy is one of the most important priorities of monetary policy. Achieving such a balance depends directly on the type, shape, number, scope and efficiency of monetary instruments.

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