



## CENTRAL OF THE BANK MONETARY AND CREDIT POLICY AND ITS MACROECONOMICS IMPORTANCE

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**Аннотация:** Мақолада Ўзбекистон Республикаси Марказий банки томонидан амалга оширилаётган пул-кредит сиёсати воситалари орқали тижорат банклари фаолиятини тартибга солиш амалиётини такомиллаштириш билан боғлиқ долзарб масалалар белгилаб берилган ва уларни ҳал этиш бўйича илмий таклифлар ишлаб чиқилган.

**Калит сўзлар:** Тижорат банки, Марказий банк, пул-кредит сиёсати, пул-кредит воситалари, ликвидлик, кредит, қайта молиялаш ставкаси, мажбурий захира, очиқ бозордаги операция.

**Аннотация:** В статье определены актуальные вопросы, связанные с совершенствованием практики регулирования деятельности коммерческих банков посредством инструментов денежно-кредитной политики, реализуемых Центральным банком Республики Узбекистан, и разработаны научные предложения по их решению.

**Ключевые слова:** Коммерческий банк, Центральный банк, денежно-кредитная политика, денежные инструменты, ликвидность, кредит, ставка рефинансирования, обязательные резервы, операции на открытом рынке.

**Annotation:** The article identifies current issues related to improving the practice of regulating the activities of commercial banks through the instruments of monetary policy pursued by the Central Bank of the Republic of Uzbekistan and develops scientific proposals to address them.

**Keywords:** Commercial bank, Central bank, monetary policy, monetary instruments, liquidity, credit, refinancing rate, required reserve requirement, open market operation.

**Enter.** In the development strategy of New Uzbekistan for 2022-2026, approved by the Decree of the President of the Republic of Uzbekistan No. PF-60 dated January 28, 2022, to complete the transformation processes in commercial banks with a state share, to increase the share of the private sector in bank assets to 60 percent by the end of 2026, the resource potential of banks and strengthening financial stability recognized as one of the necessary conditions for rapid development of the national economy and ensuring high growth rates. This, in turn, creates the need to create financial conditions necessary for the development of commercial banks. One of the necessary financial conditions for the development of banks is the improvement of the practice of regulating their activities [1].

The central bank, in the implementation of monetary policy, focuses on fully meeting the demand for money with the projected real growth rates of the economy in our country and stimulating investment processes in the real sector. In conducting macroeconomic policy in our country, the economic processes taking place in the world and partner countries are taken into account, by preventing their negative impact on the economy of our country, by

stimulating domestic demand and investment activity in the real sector, by creating favorable conditions for entrepreneurial activity and by ensuring the expansion of production volumes in all sectors. the main focus is on achieving balanced economic growth rates.

**Material and method.** In economic literature and international banking practice, the concepts of "monetary policy" and "monetary policy" are widely interpreted as synonymous concepts. For example, famous Russian economists-scientists - S. Moiseev, O. Lavrushin, I. Mamonova, M. Malkina, G. Fetisov widely use the concept of "monetary policy". This situation can be clearly seen in the textbooks and training manuals published by them on "Organization of Central Bank Activities", "Monetary Policy: Theory and Practice", "Inflationary Processes and Monetary Regulation in Russia and Abroad".

The concept of "monetary policy" is used in textbooks and scientific articles published by American, Japanese and European economists. For example, the well-known economist, President of the Federal Reserve Bank of the USA B. Bernanke used only the concept of "monetary policy" in his research and scientific articles [2]. Also, A. The same situation can be observed in Burns[3].

M. Malkina defines the monetary policy as follows: "Monetary policy is a complex measure by the Central Bank to manage the money supply and the value of money, which is implemented in order to ensure the stability of prices and the national currency in the country and to stimulate economic growth" [ 4 ].

According to S.Moiseev, the monetary policy is one of the important directions of the state's policy on regulating the economy, and the demand and supply in the money market is its object[5].

In the textbook "Financial-monetary economy" (Finansovo-denejnaya ekonomika), published under the co-authorship of D. Vinogradov and M. Doroshenko, monetary policy is recognized as a policy aimed at regulating the levels of money supply and interest rates [6].

R. Miller and D. In the textbook "Modern money and banking" co-authored by Van Hoose, monetary policy is interpreted as a set of measures aimed at controlling money emission and money supply[7].

Well-known economist N. Menkiu interpreted the monetary policy of the US FZT as the implementation of control over the money in circulation in the economy [8]. From the conclusions and definitions mentioned above, it can be seen that the monetary policy by most economists is the measures aimed at regulating and controlling the demand for money and the supply of money. recognized as a set.

**Results.** Within the framework of the structural reforms implemented at the new stage of the economic development of our country, the goals and tasks of the Central Bank of the Republic of Uzbekistan, and the institutional structure have been fundamentally revised. Monetary policy was logically conducted on the basis of new principles. In particular, the task of ensuring the stability of domestic prices in the country was defined as a priority goal of the Central Bank. The measures implemented in the field of currency policy and regulation of money circulation, the conditions forming in the macroeconomic sphere in the new reality became the basis for the implementation of important changes in the monetary policy.

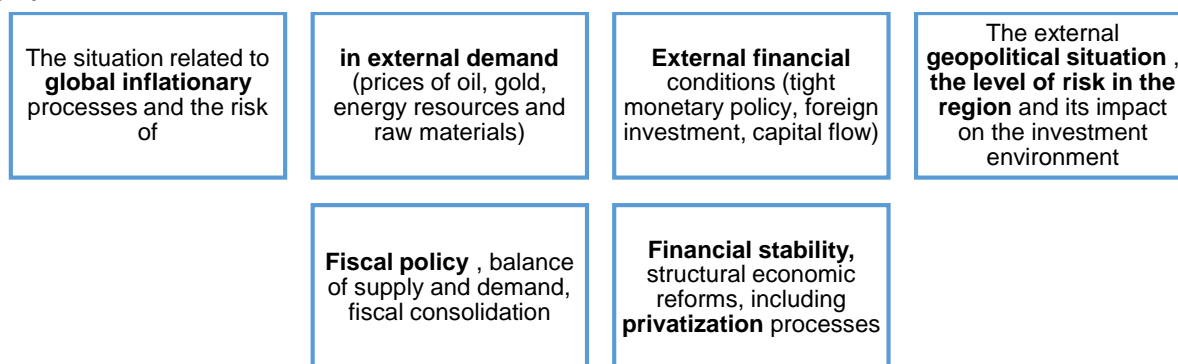
Ensuring a low and stable level of inflation in the medium-term perspective is an important factor of macroeconomic balance and creates the necessary conditions for improving the social situation in the country, developing investment activity and implementing structural reforms. Along with ensuring the stability of internal prices in the economy, the measures

implemented by the Central Bank on the development of the banking and payment system in our country will support economic growth in the future. It is worth noting that only monetary policy reforms cannot be the main source of economic growth. Monetary and credit measures are mainly of short-term importance and serve to mitigate short-term fluctuations in the volume of aggregate demand and supply in the economy and reduce production differences.

The main directions of monetary policy for the Central Bank is considered a program document in the medium-term perspective. Through this document, the Central Bank announces its goals in the field of money and credit to the general public. In the main directions, the principles and methods of monetary policy are explained, internal and external conditions of economic development and inflationary processes are evaluated, analysis and forecasts of macroeconomic indicators are recognized. In the medium-term perspective, the central bank is paying attention to the creation of necessary conditions for the transition to the inflation targeting regime, along with reducing the inflation level in conducting the monetary policy. From this point of view, it is assumed that the monetary policy of the Central Bank will be implemented in the "transitional" monetary policy regime in the medium term.

Medium-term macroeconomic development scenarios and main directions of monetary policy. In the main directions of monetary policy for 2023 and 2024-2025

- Measures to be implemented in the field of money and credit in the medium-term perspective, the Central Bank's reaction and response measures to changes in external and internal economic conditions, and approaches to conducting monetary policy are reflected.
- In the coming years, the main attention in the implementation of the monetary policy will be focused on the goals of ensuring price stability in the economy and reducing the inflation level to the 5 percent target level.
- Medium-term macroeconomic forecasts were developed by the Central Bank based on 2 scenarios. Differences in external and internal conditions, the course of economic processes and expectations regarding the implementation of reforms were identified as the main criteria.



**Figure 1. The main factors of the future macroeconomic situation [9]**

Risks and uncertainty remain in the global economy due to high inflation rates, tight global monetary and financial conditions, moderate activity in major economies, and rising geopolitical tensions.

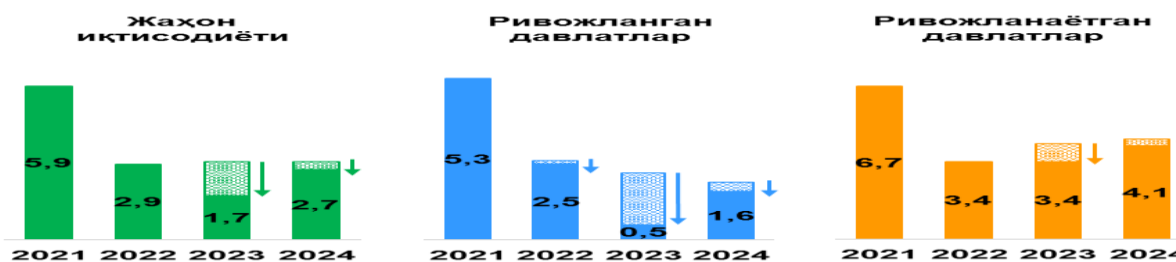


Figure 2. Global economic growth prospects [10]

In the latest forecasts of the World Bank, the forecasts of economic growth in all our main trade partners are considered downward .

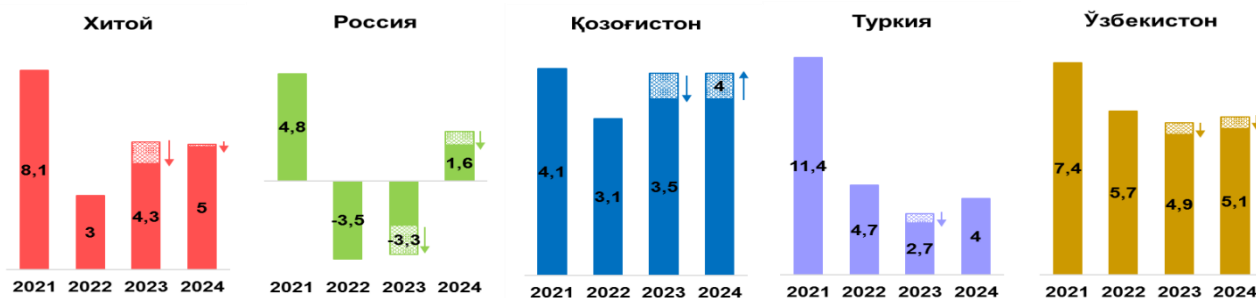
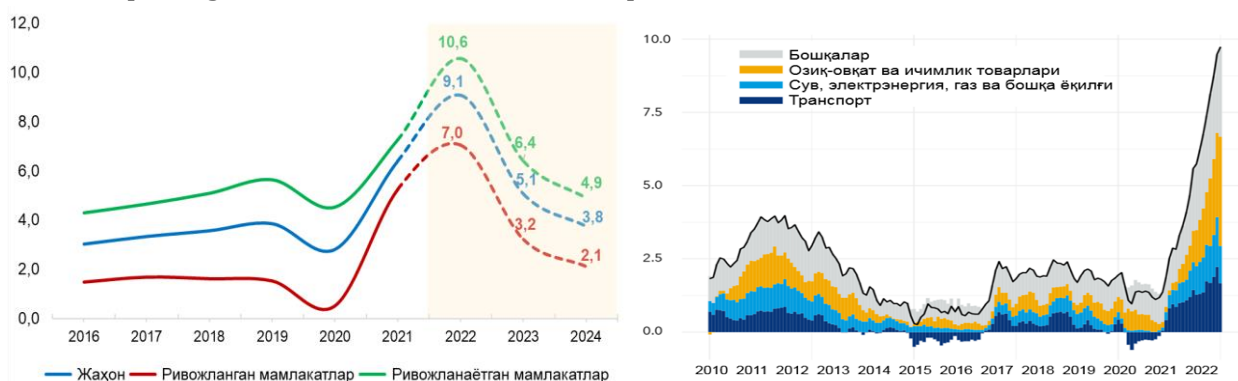


Figure 3. Expected activity in our trading partners [11]

the full opening of China after the start of the pandemic .



#### Глобал инфляция прогнози

Figure 4. Global inflation processes

According to IMF forecasts, global inflation is expected to remain high for longer than expected, with most countries reaching targets by the end of 2024.

Table 1

Macroeconomic indicators [12]

Indicators	2021 (fact)	2022 (wait-n)	Basic scenario projections		
			2023	2024	2025
Annual inflation rate	10	12-12.5	8.5-9.5	5-6	5
Real GDP	7.4	5.2-5.8	4.5-5.0	5-6	6-6.5
Final consumer spending	9.7	10-11	5-6	8-9	7-8
- households	11.6	12-14	5-6	9-10	8-9
- state management bodies	3.4	2-3	3-4	5-6	4-5

<b>Investments in fixed capital</b>	5.2	5-6	9-10	12-13	10-11
<b>- centralized investments</b>	-3.6	-(10-15)	1-2	9-10	6-7
<b>- decentralized investments</b>	7.4	10-14	11-12	14-15	11-12
<b>of which, foreign direct investment</b>	-3.4	5-6	20-30	20-25	10-15

The economic growth rate of Uzbekistan during the period 2012-2019 (excluding 2017 and 2018) was higher than the weighted average growth rate of the main trading partners, and in 2017 and 2018, the real growth rates were 4.4 and 5.4 percent, respectively. The economy of Uzbekistan grew by 1.9% in 2020, and by 7.4% in 2021, as a result of the easing of monetary and credit policy during the pandemic and the implementation of supportive policies by the government. Taking into account that the impact of changes in external economic conditions will be weaker than expected, the activity in economic sectors will increase, and the volume of foreign trade will grow at a high rate, the Central Bank is forecasting the real growth rate of GDP for 2022 at around 5.0-5.5 percent.

According to the decree of the President of the Republic of Uzbekistan dated November 18, 2019 No. PF-5877 "On improving the monetary and credit policy by gradually transitioning to the inflation targeting regime", the Central Bank of the country was instructed to reduce the inflation rate to 10 percent in 2021 and to maintain a constant inflation rate of 5 percent in 2023 . by setting a target, starting from January 1, 2020, the task of ensuring the gradual transfer of monetary policy mechanisms to the inflation targeting mode was assigned.

**Table 2**

**Refinancing and required reserve rates of the Central Bank of the Republic of Uzbekistan and the inflation rate and the average annual interest rate of commercial banks' loans in national currency[13]**

Indicators	2017	2018	2019	2020	2021
Refinancing rate	14.0	16.0	16.0	14.0	14.0
Required Reserve Rate	12.5	9.0	9.0	9.0	9.0
Annual rate of inflation	14.4	14.3	15.2	11.1	10.0
Average interest rate of commercial bank loans	18.5	20.5	24.2	22.3	20.8

It can be seen from Table 2 that the refinancing rate of the Central Bank of the Republic of Uzbekistan decreased by 2.0 percentage points in 2020 compared to 2019, and remained unchanged at 14% in 2021. This is explained by the fact that the annual level of inflation in this period has a tendency to decrease.

It can be seen from the data of Table 2 that the average level of the mandatory reserve rate of the Central Bank remained unchanged at the level of 9% in 2018-2021.

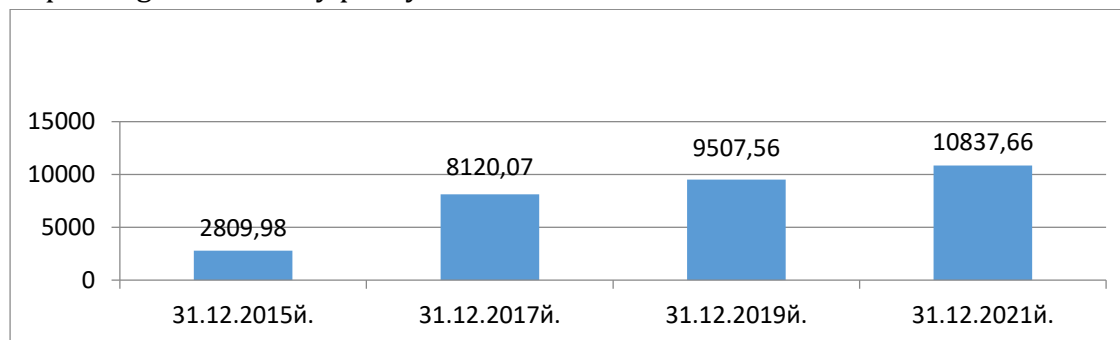
From the data of Table 2, it can be seen that the average annual interest rate of commercial banks' national currency loans in 2019-2021 had a decreasing trend. This is explained by the reduction of the refinancing rate of the Central Bank during this period.

Admittedly, the small volume of open market operations of the Central Bank of the Republic prevents expanding the possibility of influencing the liquidity of commercial banks through



this instrument. In turn, the small size of the Central Bank's open market operations is explained by the small size of commercial banks' investments in securities. As of January 1, 2022, the share of investments in securities in the total assets of republican commercial banks was only 4.4 percent.

The high volatility of the nominal exchange rate of the national currency in our republic, that is, the high rate of depreciation of the national currency, indicates that there is a problem of improving the currency policy of the Central Bank.



**Figure 5. National currency - nominal exchange rate of soum against 1 US dollar, soum[14]**

From the data presented in Figure 1, it can be seen that in 2015-2021, the volatility of the nominal exchange rate of the national currency, the soum, against the US dollar was high.

**Debate.** There are problems related to the improvement of the monetary policy: There are urgent problems that prevent the sustainable development of the country's economy and have not yet found their solution. Among them, the following can be listed as the main ones:

1. The extremely low level of financing the economy of the Republic of Uzbekistan.

The low liquidity level of the country's economy does not allow solving the problem of non-payment in the economy and hinders the growth of macroeconomic growth.

2. The rate of depreciation of the national currency of Uzbekistan is high.

When the national currency was put into circulation (July 1994), in the first currency trade, the nominal exchange rate of the soum against 1 US dollar was 7.00 soums. By October 2023, its exchange rate exceeded 11,365.00 soums.

3. Lack of improvement in the practice of using monetary policy instruments of the central bank.

The absence of open market operations and discount and pawnshop loans of the Central Bank of the Republic of Uzbekistan indicates the lack of improvement of its monetary policy. The reason for the lack of open market operations of the Central Bank of the Republic of Uzbekistan is that the Central Bank of our Republic uses only government securities as objects of its open market operations.

In conclusion, since the years of independence, the role of the Central Bank of the Republic of Uzbekistan in the stable development of the national currency and our economy has increased, and the trust of the population in banks and state administrations is increasing, which has had a positive effect on the improvement of the economic situation in the following years. The sale of Eurobonds by the Central Bank to international markets will increase the volume of investments entering our country.

The analysis of best practices of developed countries shows that the monetary policy has improved over the years under the influence of innovative ideas. In the history of the world economy, monetary policy has played an important role in solving financial or economic

crises observed in various countries, and it has always been improved on the basis of innovative ideas. In particular, the object of open market operations of Central Banks when it first appeared was only securities issued by the government. Over the years, the number of its objects has increased based on innovative ideas. In particular, in the current period, from deposit certificates (the central banks of the Netherlands, Denmark, Spain, the European Central Bank), financial bills (the Central Bank of England, the Swedish Riksbank, the German Bundesbank, the Central Bank of Japan), corporate bonds (South Korea, Chile, Russia M arkazi banks) are used as the object of these operations. Meanwhile, the serious macroeconomic problems of the global crisis, such as the unemployment rate, the balance of payments, the budget deficit, and the growth of foreign debts, which have not found their solution, are worrying most countries, influential financial and credit organizations, politicians and analysts. This situation requires the modernization and further development of the economy in each country based on innovative ideas. Monetary policy plays an important role in solving these problems and it creates favorable conditions for achieving the priority goals of each state policy. In particular, the monetary policy has a direct impact on the volume of money and credit, the liquidity of the banking system and the money market, the real sector, and the balance of payments. Therefore, it will always remain the most important and effective means of regulating the economy in every country.

Another innovative idea in the field of monetary policy is a proposal to increase the efficiency of reserve management and improve the currency policy of the Central Bank by accumulating the official gold and currency reserves in the balance sheet of the Central Bank . promoting the circulation of government securities; Consider ways to ensure that REPO interest rates are higher than inflation; Based on Russian and foreign practice, it is necessary to consider the possibility of commercial banks applying exemptions to the income from REPO operations.

**Summary.** The monetary and credit policy of the Central Bank and its macroeconomic importance allow to increase.

Solving these problems includes:

1. The scope of work aimed at increasing the effectiveness of monetary policy instruments in effectively curbing inflation requires the full implementation of the necessary economic and legal (independence) foundations in connection with the gradual transition to the inflation targeting regime in the medium term.
2. Ensuring the transition of the banking system to the path of innovative development requires prompt provision of liquidity of commercial banks. There are problems in the banking practice of our republic. In particular, the non-availability of the Central Bank's account and pawnshop loans does not allow quick provision of liquidity.
3. Currently, there are no open market operations of the Central Bank in Uzbekistan. The reason was that its object was considered only the securities of the government of Uzbekistan - short-term state bonds and medium-term state treasury obligations. Since the state budget has been operating with a surplus since 2005, the issuance of short-term state bonds was stopped in 2010, and from January 1, 2013, the issuance of medium-term state treasury obligations was stopped. Today, that is, despite the fact that it is allowed to be issued from 2019, in our opinion, it is necessary to start open market operations of the Central Bank using other types of securities, in particular, certificates of deposit and long-term bonds of commercial banks as objects. There are sufficient opportunities and conditions for this. That

is, there are commercial banks whose solvency and liquidity are in demand. Second, there is a large-scale issuance of certificates of deposit and long-term bonds by commercial banks.

4. In our republic, there are some urgent problems related to further increasing the role of financial intermediaries of banks. In particular, the level of mandatory reserve requirements remains high. In particular, as a result of the Central Bank not providing refinancing loans to commercial banks, it has a negative effect on the promotion of credit expansion and current liquidity of banks.

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