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WAYS OF EFFECTIVE IMPLEMENTATION OF MONETARY POLICY IN OUR COUNTRY

Abstract: When conducting an effective monetary policy in our country, it becomes necessary to introduce the systems used in developed countries and form scientific and practical conclusions and recommendations that serve to substantiate their practical significance. In this study, measures to study effective monetary policy have a scientific justification.

Key words: monetary policy, national currency, inflation, exchange rate, refinancing rate, required reserve ratio, open market policy.

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Introduction

In accordance with the Law on the Central Bank of the Republic of Uzbekistan, the strategic objectives of the Central Bank are the fight against inflation, ensuring the stability of the banking system and payment systems [1]. To achieve this strategic goal, the inflation target and the growth rate of money supply are being used as tactical goals of monetary policy.

At present, there are pressing issues related to the improvement of monetary policy in the country. Current problems include the growth rate of money supply and the high rate of devaluation of the national currency, the low level of money supply to the

economy, the relatively high interest rates on loans of commercial banks in the national currency.

In turn, finding scientifically sound solutions to current problems related to the improvement of monetary policy makes it necessary to study the provisions of leading monetary concepts and assess their practical significance.

The founder of the monetary concept of monetarism is M.Friedman, a professor at the University of Chicago in the United States and a Nobel laureate.

M.Friedman was the first in the economic literature to scientifically substantiate the need to set the annual growth of the money supply as a firm

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indicator and make the process of achieving it the object of control by the Central Bank. He concluded that the growth of the money supply should be based on the steady growth of the price of the final product over a long period of time [2].

J.Keynes believes that the interest rate plays an important role in the monetary concept and that it can have a direct impact on unemployment and economic growth by influencing interest rates.

The transmission mechanism of monetary policy proposed by J.Keynes consists of three stages:

* first stage: money supply - interest rate;

* second stage: money supply - interest rate - investment;

* third stage: money supply - interest rate - investment - national income [3].

According to J.Keynes's transmission mechanism, firms and firms increase their planned investments as interest rates fall, this results in an unforeseen consumption of inventories, combined with the total amount of planned expenditures, and firms and companies will increase production under such conditions, as a result, national income will increase.

According to F.Mishkin, the open market operations of the Central Bank have the following advantages:

- open market operations are carried out at the initiative of the FZT and its volume is controlled by the FZT, there is no such control in the implementation of discount operations;

- high level of flexibility of open market operations, their volume can be changed at any time;

- open market operations have an easy reversibility content, and if the FZT made a mistake in carrying out these operations, it can quickly cancel the operation[4].

J.Taylor's monetary rule allows the Central Bank to determine the possibility of changing interest rates in response to changes in prices and fluctuations in real output relative to its equilibrium level, and it has a stabilizing property, ie minimizing cyclical fluctuations in the economy [5]. However, practice has shown that the Taylor rule has certain drawbacks. In particular, GEP inflation indicators and GDP information may not fully cover economic variables. Because there are other important indicators such as monetary aggregates, credit multiplier, exchange rate, budget deficit, it is impossible to ignore them for in-depth analysis.

According to McCallum, a factor complicating the use of money balances as an instrument of monetary policy is the instability of demand for money. This is partly explained by the fact that central banks prefer to use interest rates as an instrument of monetary policy [6].

T.Bobakulov's conclusion that the growth rate of the monetary aggregate M2 should be chosen as an

indicator of monetary policy of the Central Bank of the Republic is based on the following facts:

- The existence of a legal framework for the use of money supply growth as an indicator of monetary policy;

- The existence of a direct link between cash circulation and economic activity in the country;

- The ability of the central bank to directly influence the money supply through the monetary base;

- The leading factor in the structure of inflation is the weight of non-monetary factors, the fact that the basic inflation rate is not used in the process of inflation targeting [7].

According to the new Law on the Central Bank of the Republic of Uzbekistan, the strategic goals of the Central Bank's monetary policy are to fight inflation, ensure the stability of the country's banking system and payment systems, while inflation targets and money supply growth rates are tactical goals of monetary policy [1].

Induction and deduction, trend analysis and expert evaluation methods were used in conducting the research.

The continuing devaluation of the national currency in the Republic of Uzbekistan, the relatively high level of inflation, the high level of money supply to the economy are important factors to consider in assessing the practical significance of monetary concepts.

A number of provisions of the leading monetary concepts have been put into practice. In particular, the principle of controlling the growth rate of the money supply of the monetary concept of monetarism is used as a tactical goal of monetary policy in many countries around the world [8; 9; 10; 11].

In Germany and France, since the 1970s, the practice of controlling the growth rate of the money supply by the Central Bank has been introduced. In the United States, Congress passed a law in 1978 that mandated the Federal Reserve to control the growth of the money supply.

The results of the monetary policy of the United States, Japan and France to limit the growth rate of money supply showed that this measure will ultimately lead to a decrease in production rates, a reduction in supply of goods and services, but price stability will be achieved.

M.Friedman's scientific conclusion that the change in the money supply is not due to changes in the economic situation has not been proven in practice. The economic crisis in Southeast Asia in 1997-1998 and the global financial and economic crisis that began in 2008 showed a direct link between the volume of money supply and changes in the economic situation.

According to M.Friedman's theory of monetarism, the demand for money does not decrease in proportion to the growth of cash balances and

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nominal income, but remains unchanged. Because every change in the money supply affects not only the level of investment, but also the volume of personal consumption. The volume of personal consumption, in turn, varies in proportion to the dynamics of nominal income. As a result, the demand for money remains constant for each individual period received, while the money supply fluctuates constantly. This conclusion has been proven in the practice of many countries around the world [12; 13; 14; 15].

It should be noted that J.Keynes's rule on the mechanism of transmission of monetary policy is important for the practice of the Republic of Uzbekistan. This is due to the fact that the current high interest rates on loans from commercial banks in the Republic of Uzbekistan hinder the expansion of access to credit for companies and firms. This is because interest rates are the price of loans. The higher the interest rates on loans, the lower the chances of individuals and legal entities to use them.

Table 1. The main indicators of monetary policy, in percent

Indicators	2018	2019	2020	2021	2022 1-st quarter
Inflation rate	14,3	15,2	11,1	10	9,8
Central bank refinancing rate	16,0	16,0	14,0	14	17
Interest rates on loans from commercial banks	20,5	24,2	22,3	22,5	-

According to Table 1, the high inflation rate in the country in 2018-2020 led to the maintenance of the refinancing rate of the Central Bank. This, in turn, has led to higher interest rates on loans of commercial banks in the national currency. In turn, high interest rates on commercial bank loans prevent companies

and firms from expanding their access to commercial bank loans.

The low level of monetary security of the economy of the Republic of Uzbekistan makes it necessary to implement an expansionary monetary policy (Pic. 1).

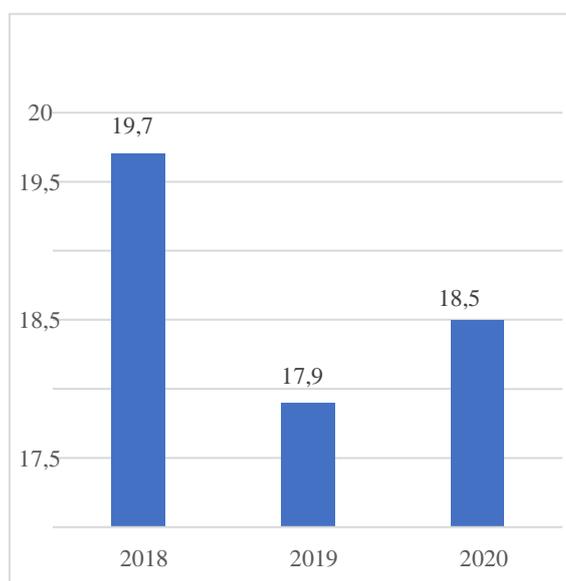


Fig. 1. The level of cash supply of the economy, in percent

It is clear from the data in Pic. 1 that in 2018-2020, the level of monetary security of the economy of the Republic of Uzbekistan was low. This does not solve the problem of insolvency in the country's economy.

As of December 1, 2020, the total amount of receivables among enterprises of the country amounted to 120.5 trillion soums [21].

Another pressing issue in improving the monetary policy pursued by the Central Bank of the

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Republic of Uzbekistan is the high level of required reserves.

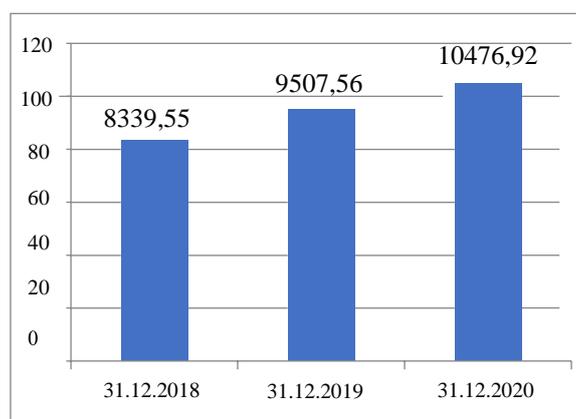
The reserve requirement set by the Central Bank for foreign currency deposits of commercial banks is 14%. This is a very high rate, on top of which the amount of required reserves for foreign currency deposits is converted into soums at the exchange rate of the national currency and withdrawn from the representative account of banks in soums "Nostro". As a result, there is a strong negative impact on the liquidity of commercial banks.

The amount of required reserves can be left in the correspondent account of commercial banks

"Nostro", but the Central Bank of the Republic will deduct the amount of required reserves from the representative account of banks [16; 17; 18; 19; 20].

In developed countries, there are no problems with the Central Bank's required reserve policy. This is because the reserve policy is not the main instrument of monetary policy in these countries.

One of the most pressing issues in improving monetary policy is the high level of volatility of the national currency - the nominal exchange rate of the soum.



Pic. 2. National currency - the nominal exchange rate of the soum against 1 US dollar, soums

Pic. 2 shows that in 2018-2020, the level of volatility of the nominal exchange rate of the national currency against the US dollar in the country was high, amounting to 25.6%.

The high level of volatility of the national currency, in particular, its high level of devaluation, has a negative impact on the stability of macroeconomic growth rates. In particular, in the context of high devaluation, the investment activity of enterprises and banks will decrease.

Conclusions and suggestions.

The analysis carried out during the writing of the scientific article showed that:

* The use of the growth rate of money supply as a tactical goal of monetary policy plays an important role in combating inflation, ensuring the stability of money supply;

* a decrease in interest rates will increase the volume of planned investments of firms and companies, which will increase national income;

* The ability of the central bank to change interest rates in response to changes in prices and fluctuations in real production relative to its equilibrium level allows minimizing cyclical fluctuations in the economy;

* High inflation in the Republic of Uzbekistan in 2018-2020 led to the maintenance of the Central

Bank's refinancing rate at a high level, led to higher interest rates on loans of commercial banks in the national currency;

* The low level of monetary security of the economy of the Republic of Uzbekistan in 2018-2020 does not allow to solve the problem of insolvency in the economy;

* The high level of the reserve requirement of the Central bank and the high level of volatility of the nominal exchange rate of the national currency - the soum are pressing issues for improving monetary policy.

In order to improve monetary policy through the application of the provisions of the leading monetary concepts in the practice of Uzbekistan, the following measures should be taken:

1. In order to improve the practice of using monetary policy instruments, first of all, it is necessary to reduce the required reserve ratio for deposits of commercial banks in foreign currency to the level of the required reserve ratio for deposits in national currency; second, the volume of open market operations of the Central Bank should be increased through the issuance of its bonds and government securities; third, it is necessary to form a special reserve fund to eliminate the risk of a sharp rise in interest rates on loans resulting from increased demand for credit resources; fourth, the Central Bank

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should control changes in interest rates through REPO auctions.

2. In order to increase the level of cash supply of the economy by stimulating the credit expansion of commercial banks, first of all, it is necessary to ensure the stability of nominal interest rates on loans of commercial banks; secondly, it is necessary to increase the ability of the Central Bank to influence

the interest rates on loans of commercial banks through open market operations by increasing the volume of government securities through the implementation of fiscal policy aimed at stimulating aggregate demand; third, in order to improve the resource supply of commercial bank loans, commercial banks should be allowed to use only the stable balance of transaction deposits.

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