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THE ROLE OF EFFECTIVE IMPLEMENTATION OF MONETARY POLICY IN A PANDEMIC CONDITION

Abstract: *In the context of a pandemic that is plaguing the world economy, it is affecting the economies of countries around the world, including manufacturing, banks and other financial infrastructure. Our research to reduce the negative effects of this impact has shown that there is a potential for economic recovery through the effective use of key monetary policy instruments.*

Key words: *pandemic, economic growth, money supply, monetary policy, commercial banking, required reserve ratio, money issue, inflation rate, monetary policy, monetary aggregates.*

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Introduction

The coronavirus pandemic has had a strong negative impact on the Uzbek economy. In particular, the cash flow of pandemic-affected entities has weakened, the probability of non-repayment of loans from commercial banks has increased, and the national currency has depreciated as a result of declining foreign exchange supply. This makes it necessary to reconsider the role of monetary policy in a pandemic.

To study the impact of mandatory reserve policy and exchange rate policy on the activities of commercial banks, which are traditional instruments of monetary policy, to assess the practice of controlling the growth rate of money supply, to study the possibility of ensuring the stability of national exchange rates plays an important role in mitigating the effects of the pandemic[1].

The issue of increasing the role of monetary policy in the development of the national economy has been studied in the scientific work of foreign and Uzbek economists, and relevant scientific conclusions and practical recommendations have been formed.

According to Friedman [2], an increase in the money supply at the rate of 3-5% per year will increase economic activity in the economy. If the growth of money supply is higher than 3-5% per year, then inflation will start to grow, if the growth of money supply in the economy is less than 3-5%, the growth rate of gross national product will start to decline.

In Keynes's monetary conception [3], the interest rate plays an important role, believing that it is possible to have a direct impact on the unemployment rate and economic growth by influencing interest rates. The transfer mechanism of monetary policy proposed by him consists of three stages: the first stage: the money supply – the interest rate; second stage: money supply – interest rate - investment; third stage: money supply - interest rate - investment – national income.

According to Tobin [4], the government and the Central Bank can influence the rate of return

acceptable to investors by managing the demand for financial assets and their supply, influencing their profitability. If the monetary authority is expected to capital and investors, consistent with the reduction of the income balance, then, the real capital investments as stock market can affect the normalization of revenue.

According to McCallum's monetary rule [5], the first is the main instrument of monetary policy, which is the regulation of monetary aggregates; second, the monetary base is regulated depending on the dynamics of nominal GDP and the velocity of money circulation; third, the Central Bank can influence the money supply through the monetary base.

According to Shomurodov's proposal, in order to fully meet the real demand of the economy for money, increase the liquidity of commercial banks and the efficiency of settlements in the banking system, combine the funds of commercial banks in correspondent accounts and required reserves.

The results of the analysis conducted by Berdinazarov show that there are some inconsistencies between the existing monetary policy indicators, which need to be coordinated [7]. In particular, such imbalances include imbalances between the volume of deposits and loans, such as imbalances in elasticity, the imbalance between the money multiplier coefficient and its effect on the money supply, real money supply and GDP growth rates [8], [9]. Measures to combat the coronavirus pandemic are primarily aimed at mitigating the negative impact of the pandemic on the activities of business entities.

Decree of the President of the Republic of Uzbekistan dated April 3, 2020 PD-5978 "On additional measures to support the population, sectors of the economy and businesses during the coronavirus pandemic" [10] support of strategic enterprises by allocating three-year budget loans for the implementation of primary costs, reimbursement of part of the transportation costs of foreign trade entities, support of commercial banks in case of deterioration of the quality of loan portfolios caught in the act. It should be noted that one of the measures to combat the coronavirus pandemic is the provision of credit vacations to the population and businesses.

Decree of the President of the Republic of Uzbekistan dated March 19, 2020 PD-5969 "On priority measures to mitigate the negative impact of the coronavirus pandemic and the global crisis on sectors of the economy" [11] ra, payments on loans of legal entities and individuals, individual entrepreneurs facing financial difficulties by commercial banks have been postponed until October 1, 2020. This has a strong negative impact on the liquidity of commercial banks. This is due to the fact that according to the Decree, the Central Bank of the Republic of Uzbekistan will provide 2.0 trillion soums to commercial banks for a period of three years.

However, the amount of overdue loans of commercial banks amounted to 19.6 trillion soums. From which financial source will the rest of the unbalanced liquidity in banks be replenished? This question is open.

One of the current issues of monetary policy in the context of the coronavirus pandemic is the mandatory reserve policy. The central bank's required reserve policy has a direct and strong impact on the liquidity of commercial banks. Therefore, in the current context, where there is a serious threat to the liquidity of commercial banks, it is necessary to increase the incentive role of required reserve policy.

From October 1, 2018, the procedure for the formation of required reserves only in the national currency was introduced, the reserve requirements for foreign currency deposits were increased and set at 14% [12]. The 14% required reserve rate is a rate set by the Central Bank without recognizing any calculations or expert opinions, and its level is very high. This is because the annual interest rate on loans in US dollars (LIBOR) as of April 29, 2020, was 0.8986 percent [13].

Another topical issue of monetary policy is to ensure the stability of the nominal exchange rate of the national currency. This is because a significant decrease in the nominal exchange rate of the national currency, ie a high rate of its devaluation, leads to a negative devaluation expectations of the population and businesses. As a result, the demand for foreign currency will increase sharply, or in other words, "dollar fetishism" will increase.

On September 5, 2017, due to the liberalization of monetary policy, the nominal exchange rate of the national currency - the soum against the US dollar almost halved, ie the national currency depreciated twice: the value of 1 US dollar in soums from 4210.00 soums to 8100, Increased by 00 soums. However, this exchange rate could not be maintained either (Figure 1).

Figure 1 shows that on September 5, 2017, the national currency depreciated almost twice against the US dollar. This was explained by the Central Bank to businesses and the population as a "market rate" of the national currency in connection with the liberalization of monetary policy. The population, businesses and foreign investors have been watching to see if the Central Bank will be able to maintain this "market rate". If the Central Bank had not allowed this exchange rate to depreciate sharply, then devaluation expectations would not have been negative, that is, confidence in the national currency would have emerged. Unfortunately, it was not possible to ensure the stability of the nominal exchange rate of the national currency.

On January 1, 2021, the nominal exchange rate of the national currency against 1 US dollar amounted to 10,476.92 soums. This is primarily explained by the fact that the devaluation expectation is negative. In

other words, foreign exchange market participants did not believe that the Central Bank would ensure the stability of the nominal exchange rate of the national currency. In this case, even intensive currency intervention does not give the expected effect.

This is because the effectiveness of foreign exchange intervention is determined by the confidence of foreign exchange market participants in the Central Bank. Without such confidence, foreign exchange intervention will not be effective. In other words, the central bank sells currency to the US dollar amount of how much market participants as they buy large amounts of US dollars.
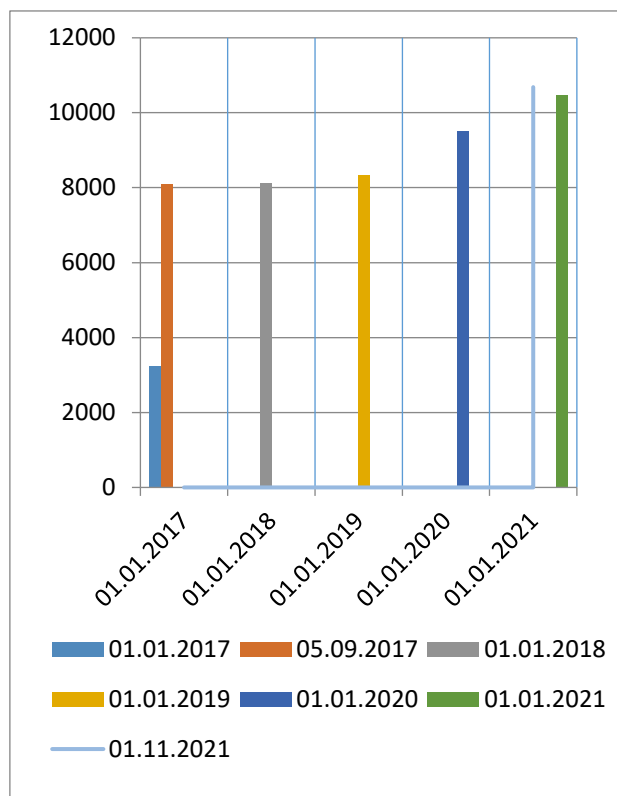

Figure 1. Nominal exchange rate of the national currency soum against 1 US dollar[12]

In the context of the coronavirus pandemic, it is advisable to take the following measures to increase the role of monetary policy in mitigating the effects of the pandemic:

1. In order to eliminate the negative impact of the central bank's required reserve requirements on the liquidity of commercial banks and the strength of the resource base, first of all, it is necessary to abolish the procedure for forming required reserves in foreign currency against commercial banks' foreign currency deposits; secondly, the reserve requirement rate for deposits in foreign currencies should be set at the level of the required reserve ratio (4%) for deposits in the national currency and the amount of reserve requirements should not be deducted from the banks' Nostro correspondent account. As a result, commercial banks "Nostro" correspondent accounts (10501) account cash balances, increase the resource base of the picnic.

2. The conditions of the coronavirus pandemic term deposits of commercial banks had been limited to the possibility of attracting businesses through the current hisobarqamlari increase in the

volume of payments (loans and budget loans to enterprises in order to finance the cost of cash) and the structure of the monetary aggregates M1. Given its high weight, it is necessary to change the indicator of monetary policy and make the monetary aggregate M1 the object of control by the Central Bank.

This proposal following facts are based on:

- the share of demand deposits in the total volume of deposits of commercial banks is relatively high. As of January 1, 2019, this figure was 51.8 percent [14];

- high proportion of cash in the structure of pullarning M1 that.

As of January 1, 2020, the share of cash in the M1 monetary aggregate in the country was 56.8% [12]. This is a relatively high level. For comparison: as of January 1, 2020, the share of cash in the M1 monetary aggregate was 34.7% in Russia [15] and 38.9% in Kazakhstan [16].

Typically, a sharp increase in the amount of cash and an increase in the share of cash in the money supply make it necessary to control the M1 monetary aggregate. For example, the use of the M1 monetary

aggregate by the US Federal Reserve as an indicator of monetary policy in the 1990s is explained by the increase in the share of cash in this monetary aggregate: "In the US, the importance of cash as money and as a component of the M1 monetary aggregate has increased. In 1973, for example, the United States had $ 325 per capita in cash, but by 1993 that figure had risen to $ 1,050. The share of cash in the M1 monetary aggregate rose from 20.5 percent in late 1960 to more than 30 percent at the end of 1992"[17] Currently, the Central Bank of the Republic of Uzbekistan uses the monetary aggregate M2 as an indicator of monetary policy.

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