

THEORETICAL ISSUES OF MONETARY POLICY INSTRUMENTS

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Abstract

In developed countries such as the United States, Japan and Germany, the central banks have accumulated many years of theoretical, practical and methodological experience in ensuring and strengthening economic growth, macroeconomic and financial stability based on increasing economic and investment activity through the effective use of monetary policy various monetary models are effectively used in its activities.

Improving the practice of using monetary policy instruments, in turn, is important in ensuring the stability of the national currency, prices, balance of payments, liquidity of the banking system and economic growth, development of financial markets, especially stock, capital, securities, money and foreign exchange markets, increasing investment efficiency earns.

Over the past years, the regulatory and methodological foundations of the banking system have been formed and strengthened in Uzbekistan. Innovative banking services and financial technologies began to be used. Also, the Decree of the President of the Republic of Uzbekistan dated September 13, 2017 No. PP-3272 “On measures to further improve monetary policy” provides for measures to improve coordination practices in the field of general economic, fiscal and monetary policy, the use of interest-bearing instruments used in monetary policy operations to provide and attract liquidity. urgent tasks are being set to improve monetary policy, such as expansion [1].

The issue of the use of monetary policy instruments has been thoroughly studied by economists in the economic literature and relevant scientific conclusions and practical recommendations have been formed. In particular, M. Friedman concludes that the central bank has sufficient capacity to manage the money supply, and at the same time concludes that inflation is not a multifactorial process [2]. This conclusion is based on the fact that the Central Bank can manage money supply and interest rates using open market operations and discount operations. Indeed, the purchase of securities by the Central Bank on the open market will lead to an increase in the reserves and monetary base of the banking system, an increase in the money supply and a decrease in short-term interest rates.

In particular, a group of economists has proposed the introduction of a 100% mandatory reserve requirement for deposits of commercial banks in order to actively use the reserve policy [3]. However, some economists have expressed a negative view of the mandatory reserve policy. For example, according to the well-known foreign economist F. Mishkin,

mandatory reserve requirements have many shortcomings, including the possibility of liquidity problems in banks [4].

McCallum, a foreign economist, argues that the demand for money is not stable, so the central bank's interest rate is the main instrument of monetary policy [5]. Foreign economist According to V. Yurovitsky, in the absence of mandatory reserve requirements, all issued money is an asset, which in turn leads to an increase in deposits of commercial banks [6].

According to one of the foreign economists S. Moiseev, open market operations are now the main tool of monetary policy in developed countries. Open market operations allow central banks to enter into transactions on their own initiative, that is, to be more flexible in determining the timing and volume of monetary operations [7].

Analysis of the structure of the broad money supply shows that since 2017, with the liberalization of monetary policy, the share of deposits in the structure of the broad money supply has increased significantly from 16.8 percent in 2016 to 35.1 percent in 2017 and for 6 years has been more than 30 percent on average. As a result of a significant increase in deposits in the national currency in the structure of the broad money supply to 56.0 percent in 2023, the share of deposits in foreign currency has significantly decreased to 22,5 percent. As of January 1, 2024, the level of cash supply to the Uzbekistan economy was 18.8%, the inflation rate was 8.8%, and the interest rate was 14% (Table 1).

Table 1 The structure of the Broad money (monetary aggregate M3) in the Republic of Uzbekistan [8]

| Years | The currency (monetary aggregate M0) | The deposits in national currency | The deposits in foreign currency |
|-------|--------------------------------------|-----------------------------------|----------------------------------|
| 2018 | 26,5 | 43,2 | 30,2 |
| 2019 | 25,5 | 44,6 | 29,9 |
| 2020 | 22,2 | 46,9 | 30,8 |
| 2021 | 19,7 | 49,0 | 31,2 |
| 2022 | 22,3 | 52,6 | 25,1 |
| 2023 | 21,5 | 56,0 | 22,5 |

It should be noted that indirect monetary policy instruments allow Central banks to increase the effectiveness of monetary policy. This can be seen in ensuring the stability of the national currency and prices, achieving economic growth, macroeconomic and financial stability.

A significant growth rate of the money supply and cash is associated with the liberalization of monetary policy conducted by the Government of Uzbekistan jointly with the Central Bank in 2017. As for the significant growth rate of the money supply and cash, it is associated with a significant increase in the nominal gross domestic product with a simultaneous increase in the

real demand for money and an increase in investment activity in the country in last years (Table 2).

Table 2 Change in the growth rate of the Broad money, currency and Interest rate in percentage in the Republic of Uzbekistan [9]

| Years | Growth rate of the Broad money (monetary aggregate M3) | Growth rate currency (monetary aggregate M0) | Change in the Interest rate |
|-------|--|--|-----------------------------|
| 2013 | 20,3 | 28,7 | 12,0 |
| 2014 | 15,7 | 22,0 | 10,0 |
| 2015 | 24,3 | 17,6 | 14,0 |
| 2016 | 23,5 | 24,0 | 9,0 |
| 2017 | 40,2 | 47, | 14,0 |
| 2018 | 14,1 | 14,0 | 16,0 |
| 2019 | 13,9 | 9,4 | 16,0 |
| 2020 | 17,7 | 2,8 | 14,0 |
| 2021 | 29,7 | 15,0 | 16,0 |
| 2022 | 30,2 | 47,3 | 15,0 |
| 2023 | 12,1 | 8,1 | 14,0 |

From the analysis and dynamics of monetary indicators, it is clear that in 2022 the growth rate of the money supply and cash was higher than the refinancing rate. But the Central Bank simultaneously used other monetary policy instruments to regulate the growth rate of monetary aggregates. For example, reserve requirement policy, exchange rate policy and open market operations. As a result, in 2023 the growth rate of the money supply and cash holdings was significantly lower than the refinancing rate.

The decision of the Central Bank of Uzbekistan to reduce the main rate by 0.5% to 13.5% per annum was made on July 25, 2024 in order to reduce the positive output gap and reduce inflationary pressure from the demand side. Some reasons for the decision: Lower prices for vegetables and fruits. This has helped to reduce the persistent components of inflation. The restraining influence of foreign markets. They helped to contain the rise in prices for imported goods.

Conclusion

In our opinion, it is expedient to take the following measures to address the above-mentioned problems:

1. In order to develop the secondary market in Uzbekistan, it is necessary to expand indirect monetary policy instruments, including pawn and overdraft mechanisms, currency swaps, overnight loans, REPO and REPO operations. This will help the Central Bank to attract excess liquidity in circulation, effectively regulate the money supply, reserve money, credit volume,

banking system and money market liquidity, have a direct impact on the real sector of the economy and further enhance the role of monetary policy in the economy.

2. The transformation of long-term bonds and certificates of deposit of commercial banks with a high level of liquidity into the object of open market operations will increase the volume of open market operations of the Central Bank. This, in turn, will ensure that the Central Bank has an effective impact on the money market and the liquidity of the banking system. Uzbekistan has sufficient opportunities and conditions for this. That is, there are commercial banks whose solvency and liquidity are at the level of demand. Second, there are large-scale issuance of certificates of deposit and long-term bonds by commercial banks.

3. In order to increase the role of monetary policy in the context of the Globalization, it is necessary to introduce the practice of the Central Bank issuing primary, secondary and seasonal discount loans to commercial banks. In particular, the conversion of open market operations into bonds and certificates of deposit of commercial banks with a current level of liquidity of 50% and above, in particular, the Central Bank's mandatory reserve rate on deposits in foreign currency attracted by commercial banks for more than 1 year. should be set at the rate level.

4. In order to increase the central bank's ability to influence the interest rates on loans from commercial banks, it is first necessary to ensure a moderate level of inflation (not exceeding the annual rate of 3%); secondly, it is necessary to ensure the continuity of the Central Bank's practice of issuing refinancing loans (discount loans, pawn loans, overdraft, term loans); third, it is necessary to influence the deposit offer of commercial banks by increasing the volume of placement of government securities on the condition of proper REPO.

In conclusion, the implementation of these scientific-theoretical proposals and practical recommendations will play an important role in further enhancing the role of monetary policy in modern Uzbekistan.

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