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KEY ISSUES OF REGULATING THE MONEY SUPPLY IN UZBEKISTAN

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A R T I C L E I N F O.

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Abstract

In connection with the transition to the inflation targeting regime in the Republic, there have been changes in the strategic goals and operational mechanism of the monetary policy. In particular, controlling the rate of growth of the money supply at the same time as the target rate of inflation has become a tactical goal of monetary policy.

In addition, ensuring the stability of the national currency is no longer considered a strategic goal of monetary policy.

In the article, the state budget deficit written in national currency should not be allowed to be imported; thirdly, the feasibility of neutralizing the impact of the deficit on inflation by covering it from the sale of commercial securities, improving the regulation of lending practices of banks from partner countries, and ensuring a low and stable level of the growth rate of the money supply is substantiated; it was based on the need to abandon the monetary aggregate M2 as an object of control and to make the monetary aggregate M1 an object of control, and it was recommended to increase the possibility of influencing the demand for foreign currencies by changing the mandatory reserve requirement of the Central Bank.

Introduction

In the Development Strategy of New Uzbekistan for 2022-2026, urgent macroeconomic tasks are defined, such as ensuring that the annual level of inflation does not exceed 5 percent, increasing the country's export potential, and ensuring that the state budget deficit does not exceed 3 percent compared to the nominal gross domestic product. [2]. This creates the need to ensure a low and stable level of growth of the money supply.

At the same time, the fact is that our republic has a large deficit in the foreign trade balance and the state budget, the inflation rate is in double digits, and the relatively high growth rate of the money supply indicates that the issue of regulating the money supply is urgent.

Literature review

The issues of improving regulation of money supply and combating inflation were researched by local and foreign economists on a scientific basis and appropriate scientific conclusions and practical recommendations were formed..

According to the conclusion of P. Graud and M. Polan, there is no direct relationship between the growth rate of money supply and inflation in countries with low inflation, that is, the correlation coefficient is close to zero. It was recognized as the reason that in countries with developed financial markets and a high level of trust in the government, the change in the speed of circulation of money occurs under the influence of exogenous factors. Hence, money supply adjusts to changes in money demand caused by exogenous factors [2].

L. Catao and M. According to Terronza's conclusion, there is a direct relationship between the rate of reduction of the public budget deficit and the inflation rate in countries with a high inflation rate, and in countries with an average annual rate of inflation close to 50%, a reduction of the weight of the public budget deficit in GDP by 1 percentage point leads to a decrease in inflation by 8.75 percentage points. [3].

According to M. Pivovarova, a low level of inflation stimulates economic growth, and the implementation of an anti-inflationary policy in such conditions leads to an increase in unemployment and a decline in the economy. [4].

According to the conclusion of IMF experts, the annual rate of inflation exceeding 3 percent in developed countries will lead to a significant slowdown in economic growth. [5].

According to M.Fridman's conclusion, the annual growth of the money supply at the level of 3-5 percent increases the economic activity in the economy. If the growth of the money supply is higher than 3-5 percent per year, then inflation starts to grow, if the growth of the money supply in the economy is less than 3-5 percent, the growth rate of the gross national product starts to decrease [6].

According to F.Mishkin's conclusion, open market and discount operations of the Central Bank play an important role in regulating money supply, and open market operations are characterized by the following advantages:

implementation of open market operations at the initiative of the Central Bank and full control of its volume by the Central Bank;

the fact is that it has a clear amount and flexibility of open market operations;

the fact is that open market operations have the content of easy reversibility [7].

According to J. Taylor's conclusion, the Central Bank has the ability to change nominal interest rates as a response to changes in the inflation rate and fluctuations in the real growth rate of production, that is, the Central Bank has the ability to minimize cyclical fluctuations in the economy [8].

However, according to some economists, this conclusion of Taylor is controversial, and Gap (an English word meaning difference) indicators of inflation and GDP may not fully reflect important monetary indicators (monetary aggregates, credit multiplier, exchange rate, budget deficit). [9].

According to the conclusion of R. Miller and D. Van-Huz, the use of the monetary aggregate M1 as an indicator of monetary policy by the US Central Bank in the 90s of the XX century is explained by the increase in the amount of cash in circulation: "In the USA, the importance of cash as money and as a component of the monetary aggregate M1 has increased. For example, in 1973, cash per person in the US was $325, and by 1993, this figure had reached $1,050. The share of cash in the monetary aggregate M1 rose from 20.5 percent at the end of 1960 to over 30 percent at the end of 1992. [10].

T. Bobakulov comes to the conclusion that the monetary aggregate M2 should be chosen as an indicator of monetary policy by the Central Bank of the Republic of Uzbekistan, and this conclusion is based on the following evidence:

availability of legal grounds for using the money supply growth indicator as an indicator of monetary policy;

existence of a direct relationship between cash circulation and economic activity in our republic;

The fact that the Central Bank has the ability to directly influence the money supply in circulation through the monetary base;

that the weight of non-monetary factors is leading in the composition of inflation-forming factors, that the base inflation indicator is not used in the process of inflation targeting [11].

According to U.Abdullaev's conclusion, M.Fridman's proposal to implement a restrictive monetary policy aimed at curbing the money in circulation is not suitable for the modernization of the economy of the Republic of Uzbekistan due to the presence of factors such as the low level of the monetization coefficient in our republic, the low level of credit issuance by commercial banks in our republic…[12].

Analysis and results

"In accordance with the Law on the Central Bank of the Republic of Uzbekistan, firstly, one of the strategic goals of the Central Bank's activities is to combat inflation, and secondly, the Central Bank determines the target goals for changes in one or more monetary and credit indicators based on the target indicators of inflation. [13].

In accordance with 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 Republic of Uzbekistan was tasked with reducing the inflation rate to 10% in 2021 and setting a constant inflation target of 5% in 2023, starting from January 1, 2020, to ensure the gradual transition of monetary and credit policy mechanisms to the inflation targeting regime. **In 2021, the inflation target was reached, that is, the annual rate of inflation was 9.98 percent. However, the inflation target in 2022 was not reached. In the main directions of the monetary policy for 2022 and 2023-2024, it was predicted that the annual inflation rate for 2022 would be at the level of 8-9% [14]. However, the annual rate of inflation in 2022 was 12.3 percent.**

The main reasons why the inflation target was not achieved in our republic in 2022 are as follows:

1. **The high increase in the prices of basic food and imported goods led to a sharp increase in the core inflation rate. In 2022, the base inflation rate was 13.8 percent.**
2. **High inflationary processes in the economy increase in the prices of fuel and energy resources, basic food products and imported raw materials led to negative inflation expectations in 2022.**
3. **The growth rate of the money supply was high. In 2022, the annual growth rate of the money supply in our republic was 30.2 percent.**

Also, in the main directions of the Monetary Policy for the period of 2022 and 2023-2024, it is planned to transfer the main monetary and credit operations from auctions to fixed rate full allotment operations, in which the current deposit auctions will be carried out in an unlimited amount instead of the current deposit auctions. [15].

Table 1 The situation of macroeconomic monetary indicators in the Republic of Uzbekistan [16]

in percent

	2018	2019	2020	2021
Annual growth rate of monetary aggregate M2	13,3	13,8	17,8	30,3
Annual rate of inflation	14,3	15,1	11,1	10,0
The annual level of the central bank refinancing rate				

	16,0	16,0	14,0	14,0
Average annual interest rate of commercial banks' loans in national currency	20,5	24,2	22,3	20,8

It can be seen from the table that the annual growth rate of the money supply in the Republic of Uzbekistan in 2018-2021 was relatively high. This shows that there are problems in improving the money supply regulation mechanism. Especially in 2021, the growth rate of the money supply was very high.

A decrease in the annual rate of inflation in 2020 and 2021 allowed the Central Bank to lower the refinancing rate. However, the average annual interest rate of commercial banks' loans in national currency remained high.

Admittedly, one of the main factors affecting the money supply is the deficit of the foreign trade balance.

Table 2 Foreign trade turnover of the Republic of Uzbekistan, billion USD [17]

Indicators	2018	2019	2020	2021	2022
Export	12,6	14,0	17,9	16,7	19,3
Import	14,0	19,4	24,3	25,5	30,7
Negative balance of foreign trade balance	- 1,4	- 5,4	- 6,4	- 8,8	- 11,4

From the data of the table, it can be seen that the volume of export and import in our republic had an increasing trend in 2018-2022. Also, the negative balance of the country's foreign trade balance had an increasing trend in 2018-2022. This is a negative situation from the point of view of increasing the country's export potential.

It should be noted that the high rate of devaluation of the national currency and the fact that the demand for foreign currencies is higher than the supply of foreign currencies leads to an increase in the money supply.

In 2022, the total volume of foreign currency supply in the domestic currency market of our country (excluding Central Bank interventions) will be 32.5 billion. In terms of US dollars, the demand for foreign currency exchange is 36.6 dollars. US dollars. Due to the high demand for foreign currency, the Central Bank will allocate 4.1 billion dollars during 2022. He was forced to implement a large-scale currency intervention [18].

Conclusions and suggestions

During the research, we formed the following conclusions:

the relatively high annual growth rate of the money supply in our republic in 2018-2021 indicates the existence of problems in improving the mechanism of money supply regulation;

In 2020 and 2021, the decrease in the annual level of inflation allowed the Central Bank of the country to reduce the refinancing rate, but the average annual interest rate of commercial banks' loans in national currency remained at a high level;

the volume of export and import in our republic had an increasing trend in 2018-2022;

the negative balance of the country's foreign trade balance had an increasing trend in 2018-2022.

In our opinion, the following measures should be implemented in order to improve the regulation of money supply in the context of the transition to the inflation targeting regime:

1. In order to successfully apply the inflation targeting regime, first, it is necessary to ensure low and stable growth rates of prices of products and services of natural monopolies; secondly, it is

necessary to neutralize the impact of the deficit on inflation by covering the state budget deficit from the sale of state securities denominated in the national currency; thirdly, inflation should not be imported from neighboring countries.

2. Taking into account the fact that the weight of the M0 monetary aggregate in the composition of the M2 monetary aggregate is high and the weight of demand deposits in the total volume of commercial bank deposits is high, it is necessary to abandon the M2 monetary aggregate as an object of control and take the M1 monetary aggregate as an object of control.

   As of January 1, 2022, the weight of the M0 monetary aggregate in the composition of the M2 monetary aggregate in the Republic of Uzbekistan was 30.2 percent, and the weight of demand deposits in the gross deposits of commercial banks was 42.3 percent [19].

3. In order to strengthen the process of transformation of commercial banks' time and savings deposits into assets and to reduce the impact of demand deposits on the demand for foreign currency, first, it is necessary to exempt commercial banks' time and savings deposits in national currency from the mandatory reserve requirement; secondly, it is necessary to double the required reserve rates for demand deposits in national currency.

   Currently, the lowest mandatory reserve rate (4%) has been established for deposits of commercial banks of our republic in national currency. The highest reserve rate (14%) is set for their foreign currency deposits. However, most of the impact on demand for foreign currencies comes from demand deposits.

Exemption of time and savings deposits in foreign currency from mandatory reserve requirements, firstly, creates an opportunity for commercial banks to increase interest rates on time and savings deposits. As a result, demand deposits in foreign currency will decrease, and the amount of term and savings deposits will increase. Secondly, the level of currency liquidity of commercial banks will increase.

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