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IMPROVEMENT OF CENTRAL BANK’S MONETARY POLICY

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ABSTRACT

The dissertation identifies problems associated with improving the regulatory framework of monetary policy and develops scientific proposals and practical recommendations aimed at solving these problems. This is due to the fact that in recent years in our country it has not been possible to ensure the investment attractiveness of financial assets, including shares, due to rising prices and high rates of depreciation of the national currency. The high growth rates of the money supply in recent years have undoubtedly stimulated the expansion of effective demand and contributed to the maintenance of positive GDP growth rates (although this has not always been possible). The current macroeconomic situation, including the current dynamics of inflation and forecast indicators, as well as the need to ensure stable and balanced economic growth, requires the central bank to take concrete and more effective measures to ensure price stability.

KEYWORDS: *Monetary Policy, Central Bank, Commercial Bank, Refinancing Rate, Required Reserve, Open Market Operations, Inflation, Devaluation, Exchange Rate, Money Supply, Demand For Money.*

INTRODUCTION

Improving the economic development of the country, ensuring the stability of the national currency, preventing the rise in inflation directly depends on the level of improvement of the Central Monetary Policy. The high growth rates of the money supply in recent years have undoubtedly stimulated the expansion of effective demand and contributed to the maintenance of positive GDP growth rates (although this has not always been possible). At the same time, the United States can pay off for the constant commitment of the FRS to stimulate the economy by expanding the money supply by increasing inflationary processes. In recent years, the Consumer Price Index (CPI) has increased annually by no more than 2.5-3% due to the expansion of the financial market, which absorbed the growth of the money supply. In a recession, there is a real threat that inflation will spiral out of control. A significant increase in the price level can lead to a breakdown of the monetary system, a decrease in the inflow of investment into the economy, and a further drop in GDP. [1].

Improving the regulation of the money supply by the Central Bank of Russia, including the elimination of excess liquidity in the banking system by increasing the flexibility of the base interest rate, increasing the volume of transactions on the open market, will allow keeping the annual inflation rate within the forecast range. for 2018, amounted to 3%) [2].

The strategy of actions in five priority areas of development of the Republic of Uzbekistan for 2017-2021 recognizes the improvement of monetary policy using instruments widely used in international practice as one of the necessary conditions for ensuring the stability of macroeconomic growth (PC ^ -2017). This, in turn, gives rise to the need to improve the regulatory framework of monetary policy [3].

MATERIAL AND METHOD

According to J. Tobin, the government and the Central Bank can influence the rate of return on capital acceptable to investors by controlling the demand for financial assets and their supply, influencing their profitability. If the monetary authorities want to lower the expected rate of return on capital, which is acceptable to investors, then as an investment in real capital, they can affect the market rate of return on shares [4].

The conclusion of J. Tobin is of great practical importance for the economy of Uzbekistan. This is due to the fact that in recent years in our country it has not been possible to ensure the investment attractiveness of financial assets, including shares, due to rising prices and high rates of depreciation of the national currency. In turn, the decline in inflation and the devaluation of the national currency are issues within the competence of the government and the Central Bank. Therefore, in the Action Strategy for five priority areas of development of the Republic of Uzbekistan for 2017-2021, ensuring the stability of the national currency and reducing inflation has become a necessary condition for ensuring macroeconomic stability.

M. According to Friedman, the Central Bank has sufficient potential to regulate the money supply, and inflation is not a multifactorial process when it is a purely monetary phenomenon. Consequently, inflation can be curbed by regulating the money supply, and this task can only be fulfilled by the Central Bank [5].

M. Friedman scientifically substantiated that the annual growth rate of the money supply should be set as a strict indicator, and the implementation of this indicator should be monitored by the Central Bank. He proposed to set the annual growth rate of the money supply at 4% and that the growth of the money supply should be based on a steady increase in the price of the final product over a long period of time.

While F. Mishkin evaluates the open market operations of the US Federal Reserve System (FRS), FRS is mainly within the framework of the open market policy. It explicitly acknowledges that the US government sells and buys securities and that it does not trade in securities of private companies in order to avoid conflicts of interest. [6]

B. McCallum and K. David proposed to consider an individual's decision in relation to money not in isolation, but on the basis of a general model of human well-being [7].

Taylor's monetary rule allows the central bank to determine the possibility of interest rate changes in response to price changes and fluctuations in real output relative to its equilibrium level, and it has a stabilizing property, that is, the ability to minimize cyclical fluctuations in the economy. 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.

Since there are other important indicators, such as monetary aggregates, credit multiplier, exchange rate, budget deficit, they cannot be ignored for a deeper analysis [8].

Uzbek economist O. Namozov studied the exchange rate of the national currency from the elements of the monetary system. According to his scientific conclusion, it is necessary to help solve the problem of liberalization of the over-the-counter foreign exchange market, ensuring the optimal unification of the exchange rate of the soum [9].

The scientific works of T. Bobakulov (Bobakulov, 2008) studied the issues of improving the practice of using the monetary policy instruments of the Central Bank of the country, ensuring the stability of the national currency. Based on the results of the study, he comes to the conclusion that the transfer of a part of the additional foreign exchange earnings to the Central Bank of the republic as a result of the conjunctural increase in prices for export from the country increases its ability to conduct foreign exchange interventions. and refinancing loans [10].

Results

The adoption of the new Law of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan" plays an important role in strengthening the regulation of the economy with the help of monetary instruments, improving the regulation of the money supply [11].

According to Article 5 of the Law, the main tasks of the Central Bank are:

- ensuring price stability;

- ensuring the stability of the banking system;

- ensuring the stability of payment systems.

Central bank actions to ensure the stability of the banking system should not adversely affect price stability.

Profit is not the goal of the Central Bank. According to article 13 of the Law "On the Central Bank of the Republic of Uzbekistan", the authorized capital of the Central Bank is one trillion soums.

The increase in the authorized capital is carried out by the decision of the Senate of the OliyMajlis of the Republic of Uzbekistan.

The authorized capital of the Central Bank cannot be transferred to other persons or used as collateral.

According to the law, the Central Bank develops and implements monetary policy through measures:

- Formation of forecasts of macroeconomic indicators, including inflation, as well as the establishment of its target indicator;

- development of the main directions of monetary policy for the next year;

- setting goals in terms of monetary indicators;

- setting the refinancing rate and base rate, as well as interest rates on monetary transactions of the Central Bank;

- the establishment of standards for the required reserves of banks in the Central Bank;
- operations to provide and withdraw liquidity in the money market;
- interventions in the domestic foreign exchange market;
- Carrying out the communication policy of the Central Bank.

The US Federal Reserve System makes extensive use of monetary policy instruments such as refinancing policy, open market policy, monetary policy, and deposit policy. FRS does not use reserve requirements as a monetary policy instrument.

FRS loans play an important role in providing liquidity to commercial banks. FRS offers commercial banks several types of centralized loans at the same time. In particular, discount loans, secured loans, overdrafts and overnight loans are widely used.

The large volume of US government securities issues allows the FRS to use open market policy as a key instrument of monetary policy.

The volatility of the US dollar also worries countries such as Japan, Germany, France, the UK and China.

Because most of their international foreign exchange reserves are formed in US dollars.

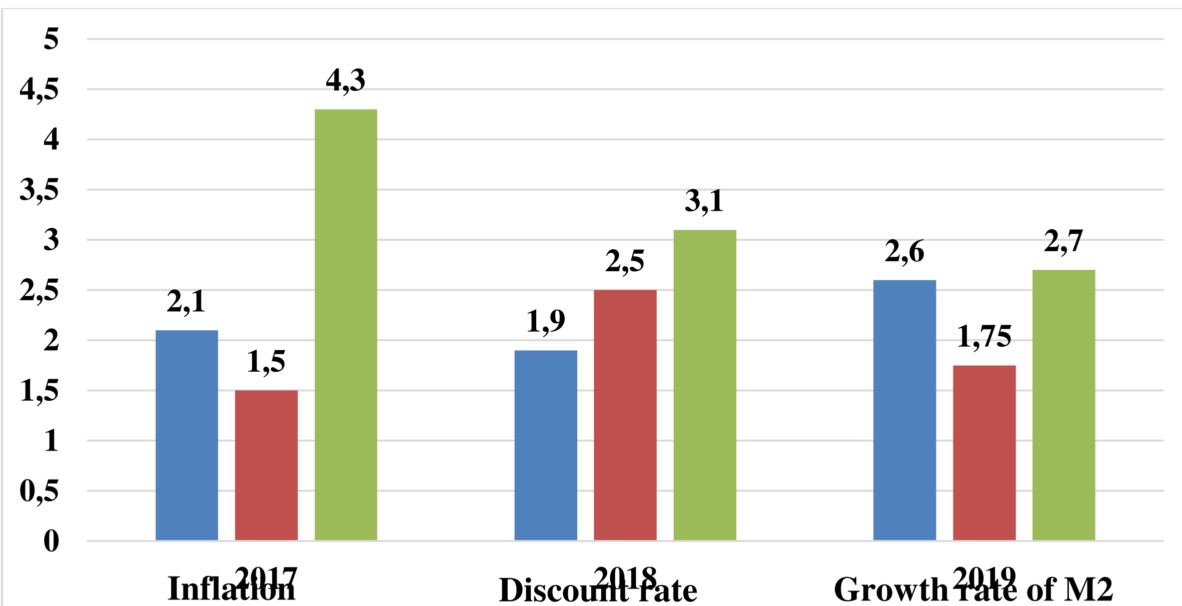

Figure 1. Annual inflation rate in the USA, discount rate of FRS and annual growth rate of money supply in percent [12]

Figure 1 shows that the annual inflation rate in the United States in 2017-2019 was moderate, that is, no more than 3 percent.

Figure 1 shows that the US FRS discount rate was increased by 1.0 percentage point in 2018 compared to 2017, but the discount rate was lowered in 2019 due to the country's slowdown in economic growth in 2019.

Figure 1 shows that in the USA in 2017-2019 there was a slowdown in the growth rate of the money supply.

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From October 1, 2018, the country introduced the procedure for the formation of required reserves only in national currency, unified reserve requirements for deposits of legal entities and individuals, i.e. reduced reserve requirements for deposits in national currency and increased reserve requirements for deposits in foreign currency.

In order to ensure the return of assets in national currency in the face of increasing direct and indirect pressures of external factors on inflation and the creation of monetary conditions aimed at preventing the impact of government spending, including raising monthly wages and liberalizing inflation prices. Expectations and ensuring positive real interest rates From September 25, the Central Bank raised the refinancing rate from 14% to 16% per annum.

In 2018, the Central Bank of the Republic of Uzbekistan developed the main directions of monetary policy for 2019 and 2020-2021. In accordance with these guidelines, a strategy has been developed for their implementation in 2019-2021, taking into account the inadequacy of existing monetary policy instruments (interventions, refinancing rate, required reserves, Central Bank loans), their inefficiency and limited ability to influence liquidity in the banking system within the established terms, revision of methods was provided.

TABLE 1 REFINANCING OF THE CENTRAL BANK OF THE REPUBLIC OF UZBEKISTANAND THE RATE OF REQUIRED RESERVES IN PERCENT [13]

Indicators	**2017 й**	**2018 й**	**2019 й**	**2020 й**	**2021 й**
Refinancing rate, annual	14	16	16	15	14
Mandatory reserve rate on deposits of commercial banks in national currency	12,5	9,0	4,0	4,0	4,0

The data in Table 1 show that the refinancing rate of the Central Bank of the Republic of Uzbekistan in 2018 and 2019 remained unchanged at the level of 16.0%. According to the data, in 2017-2021, there is a trend towards a decrease in the rates of required reserves established by the Central Bank of the Republic of Uzbekistan on deposits of commercial banks in national currency. This is a positive situation in terms of providing liquidity to banks.

According to Table 1, the refinancing rate of the Central Bank of the Republic of Uzbekistan in 2020 compared to 2019 decreased by 1.0 percentage points.

This decision was made in order to further reduce the dynamics of inflation, maintain real interest rates in the economy at a positive level, as well as create favorable conditions for the recovery of economic activity.

In 2021, the Central Bank, together with the government, will consider all necessary measures to achieve the intended target of inflation below 10 percent by the end of the year.

Since the second half of 2020, the relative stability of regulated prices, stagnant consumer demand and, in general, changes in macroeconomic conditions have contributed to a slowdown in the annual rate of price growth. By the end of 2020, the rate of inflation slowed from 15.2 percent in 2019 to 11.1 percent. [14]

The current macroeconomic situation, including the current dynamics of inflation and forecast indicators, as well as the need to ensure stable and balanced economic growth, requires the central bank to take concrete and more effective measures to ensure price stability. Based on this, the

Central Bank focused on determining the conditions of monetary policy by actively applying the inflation targeting regime at the new stage of structural reforms. Such as:

● 5 percent constant inflation target (target) from 2023);

● In 2021, the goal was to reduce inflation to 10 percent.

In the coming years, factors such as the continuation of the current dynamics of economic development, the gradual implementation of structural reforms and a slight slowdown in the global economy will be taken into account when developing the main directions for determining priorities aimed at achieving a constant and intermediate target level of inflation.

DISCUSSION

Our research and analysis is aimed at identifying aspects of the Central Bank's monetary policy related to ensuring economic stability, managing transactions and influencing the money supply. Although economists have conducted a number of scientific studies to ensure the effectiveness of central bank monetary policy, we see that their impact on the money supply through the correct choice of indicators of direct monetary policy is limited to scientific and theoretical aspects.

CONCLUSION

When writing a scientific article, the following topical issues were identified related to improving the regulatory framework of monetary policy pursued by the Central Bank of the Republic of Uzbekistan:

1. The current instructions of the Central Bank do not reflect the criteria for choosing a monetary policy indicator.

The best foreign experience shows that for the correct choice of a monetary policy indicator, it is necessary to clearly define the criteria for choosing an indicator.

2. The problem associated with improving the regulatory framework for the practice of regulating the money supply.

The crux of the problem is that, firstly, there is no similarity between the change in the refinancing rate and the change in the rates of required reserves; secondly, the methods of regulating the money supply, which is formed under the influence of non-monetary factors of inflation, have not been clearly reflected in the existing regulatory documents.

To improve the regulatory framework of monetary policy, it is necessary to take the following measures:

1. In the current instructions of the Central Bank, the following criteria for the selection of indicators of monetary policy should be clearly reflected in the current instructions:

* The possibility of preventing the growth of the real exchange rate of the national currency in the inflation targeting mode;

* The impact of fiscal policy on the indicators of monetary policy;

* The impact of monetary policy indicators on the creditworthiness of commercial banks;

* Requirements for a quantitative assessment of the impact of monetary policy indicators on macroeconomic indicators;

* Influence of factors outside the competence of the Central Bank on the indicator of monetary policy.

2. To improve the regulatory framework for regulating the money supply, it is necessary to take the following measures:

* The procedure for monitoring changes in interest rates on the loan capital market through the Central Bank REPO auctions should be reflected in the regulations;

* Given the high share of cash in the monetary aggregate M1, it is necessary to change the monetary policy indicator and make the monetary aggregate M1 the object of control of the Central Bank.

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