

# WAYS TO INCREASE THE EFFECTIVENESS OF THE MONETARY SYSTEM UNDER THE CONDITIONS OF SUSTAINABLE DEVELOPMENT OF THE NATIONAL ECONOMY

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**Abstract-** *This article analyzes the role and tasks of monetary policy in improving the effectiveness of ongoing large-scale reforms in the country at the present stage of economic development.*

**Key words:** *monetary policy; innovative components of economic development; stability of the national currency; economic growth; domestic sources of investment; banking sector; economic regulator; monetary policy instruments.*

## I INTRODUCTION

In a relatively favorable economic situation, the role and importance of monetary policy as an important component of the economic policy of the state is growing. Implementation of well-thought-out monetary policy will create favorable conditions for effective interaction of economic entities and banking sector, and will help to effectively solve socio-economic problems facing the government. The current stage of development of the national economy requires a qualitative revision of monetary policy, which is not only economic but also combines with the socio-economic policy of the state. The main task facing the government and the scientific community today is to develop new monetary policy mechanisms and prioritize them in the long run. In particular, according to the World Bank report: “In Uzbekistan, GDP per capita will reach \$ 1532 in 2018, it is necessary to increase per capita income by at least double in 2030 to make the country a highly developed middle-income country. Renewal of fixed assets and consistent introduction of innovative technologies in sectors and sectors of the economy should become the main channel of social and economic development of Uzbekistan, production, productivity and job creation for the foreseeable future. This approach will help Uzbekistan reach the level of countries with average labor productivity and per capita GDP in the near future.” [6].

One of the main problems in the implementation of modern monetary policy is to radically revise the methods and means of influence of monetary policy on the economy and approaches to it. Effective monetary policy by the Central Bank will ensure stable low inflation in the economy and prevent sharp price fluctuations, which in turn will improve the welfare of the population and create a favorable business environment. The “Strategy of actions” for further development of the Republic of Uzbekistan approved by the Decree of the

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President of the Republic of Uzbekistan dated February 7, 2017 № PF-4947, improvement of monetary policy using the tools of international best practices, as well as gradual introduction of modern market mechanisms of currency regulation. ensuring the stability of the national currency Aruru as one of the conditions.

## **II THEORITICAL BACKGROUND**

In order to solve these tasks set in the “Strategy of actions”, the Decree of the President of the Republic of Uzbekistan “On Priority Measures for Liberalization of the Foreign Exchange Policy” dated September 2, 2017, No. P-5177. In accordance with this Decree, the priorities of the state economic policy in the area of currency policy liberalization are:

- to fully realize the rights of legal and physical persons to freely buy and sell foreign currency and to freely dispose of their own funds;
- use only market mechanisms in determining the national currency exchange rate;
- increasing the role of market instruments in the use of foreign exchange resources, creating equal competition conditions for all businesses in the foreign exchange market, enhancing the role of foreign exchange policy in promoting non-traditional sectors, and strengthening regional and international economic cooperation;
- Improvement of the business and investment climate that will attract foreign direct investment, knowledge and technology in all sectors of the economy to directly promote high-quality jobs and high value added products;
- implementation of tight monetary policy aimed at ensuring the stability of the national currency, active and well-coordinated use of monetary instruments, development of the government securities market, as well as implementation of open market operations and operations on issuance of government securities by banks;
- preventing excessive growth of the money supply by coordinating monetary and fiscal policies and ensuring that the state budget is balanced;
- increasing the stability of the banking system and increasing its risk tolerance, including through the adoption of effective measures to mitigate the potential negative effects of liberalization of the foreign exchange policy;
- to take necessary measures for the state support of the enterprises of base industries in the new foreign exchange policy conditions;
- implementation of comprehensive measures of social support for socially vulnerable segments of the population, which will minimize the negative effects of foreign exchange policy liberalization. [4].

## **III MAIN PART**

With stable domestic prices in the country, the population and business representatives will have the opportunity to maintain wages, pensions and other incomes, as well as the value of savings in national currency. This gives them a sense of confidence in their cost planning for both the short and long term. High inflation rates lead to devaluation of the population's income and increased social stratification in society. In this context, maintaining a low inflation rate is an important prerequisite for social stability.

Ensuring stability of domestic prices in the economy is also a favorable condition for entrepreneurial activity. In the event of low inflation, borrowing opportunities for businesses will expand. High and volatile inflation also create unfavorable conditions for banks to operate efficiently.

The tightening of monetary policy can lead to a decrease in investment activity in the economy. Its unjustified softening and a sharp increase in lending, along with stimulating consumer and investment demand, will also lead to a sharp rise in inflation.

It should be noted that monetary policy alone cannot be a major source of sustainable economic growth of the country. In the long run, the key factors that will drive economic growth are the implementation of long-term structural reforms aimed at improving the competitive environment in the economy, increasing efficiency of labor and energy consumption, enhancing internal and external competitiveness of the economy through the development of infrastructure. In turn, ensuring the stability of the national currency, successful introduction of market mechanisms of currency policy regulation requires improvement of monetary policy. In this regard, the adoption of the Resolution of the President of the Republic of Uzbekistan dated September 13, 2017 No PQ-3272 "On Measures for Further Improvement of Monetary Policy" is an important event.

According to this resolution:

- - the Program of complex measures on further improvement of the monetary policy for 2017-2021, approved by the Central Bank of the Republic of Uzbekistan, the Ministry of Finance, the Ministry of Economy in cooperation with other interested ministries and agencies was approved;
- - gradual transition to inflation targeting;
- - improving the practice of coordination of economic, fiscal and monetary policies;
- - expanding the range of effective monetary policy instruments to maintain banks' liquidity;
- - Improvement of macroeconomic analysis and forecasting models based on the best international practices;
- - increasing the transparency and foresight of the monetary policy. [5]

The central bank cannot directly influence the development of technological factors or technological development with the use of monetary policy instruments. At the same time, measures in the monetary sphere are aimed at short-term regulation of the economy, balancing seasonal and seasonal fluctuations and preventing economic growth rates from slowing down.

The current macroeconomic conditions under the aforementioned factors show that the rapid growth of lending to the economy in a short period of time has stimulated inflationary processes, stimulating investment and consumer demand.

In particular, the launch of new production facilities and increased labor productivity in order to increase supply volumes to meet aggregate demand will require a period of time, during which inflationary pressures in the economy will be intensified.

At the same time, the increase in domestic demand under the conditions of insufficient supply of local goods (due to salary growth and expansion of lending) will lead to higher prices. Also, the insufficient amount of domestic goods in the domestic market will increase demand for imported goods, thus leading to devaluation of the national currency exchange rate and, eventually, inflation.

In turn, acceleration of inflation will reduce the real value of income of the population and businesses, lead to greater consumption, and create unpredictable situations for economic decisions.

Also, amid rising prices in the economy, depositors are reluctant to place their funds on bank deposits at low interest rates and the bank deposit will have to raise interest rates. As a result, the value of bank liabilities increases at a faster rate than the yield of assets.

In order to cover the increased costs of attracted deposits, banks also prefer to provide high interest rates and short-term loans to reduce business risks. This limits the ability to finance investments in the economy and has a negative impact on economic growth. At the same time, due to the underdeveloped market of long-term resources in our country, it may further limit the possibilities for financing investments.

Low and stable inflation will reduce interest rates in the form of interest rates and increase long-term loans to lenders. At the same time, not only commercial banks, but also local and foreign investors prefer long-term financial resources to economies with low inflation rates. In general, all of the above factors require the creation of a medium- and long-term development model based on the peculiarities of our national economy, effective macroeconomic policy coordination, and a cautious approach to conducting monetary policy. [7]. Monetary policy should be understood in a narrow and broad sense. In a broader sense, monetary policy is characterized by low inflation, the economy's focus on combating unemployment and poverty by providing affordable credit resources, improving the well-being of the population and ensuring sustainable economic growth. In a nutshell, monetary policy envisages maintenance of the price level and stability of the national currency in the country. Monetary policy should be characterized by clear socio-economic orientation, in close contact with other economic policy directions. The basis of the monetary policy is to ensure stable and balanced functioning of the country's monetary system (Central Bank) with a view to improving the welfare and economic growth rates of the population, expanding the positive impact of the banking sector on the economic structure and developing the banking sector. strategy and tactics. We recommend that you consider monetary policy in two ways:

1) Concept and methodology of scientific knowledge aimed at explaining the regularities of the monetary and credit sphere;

2) a program document that outlines the main goals and objectives, approaches, methods and means of implementing monetary policy.

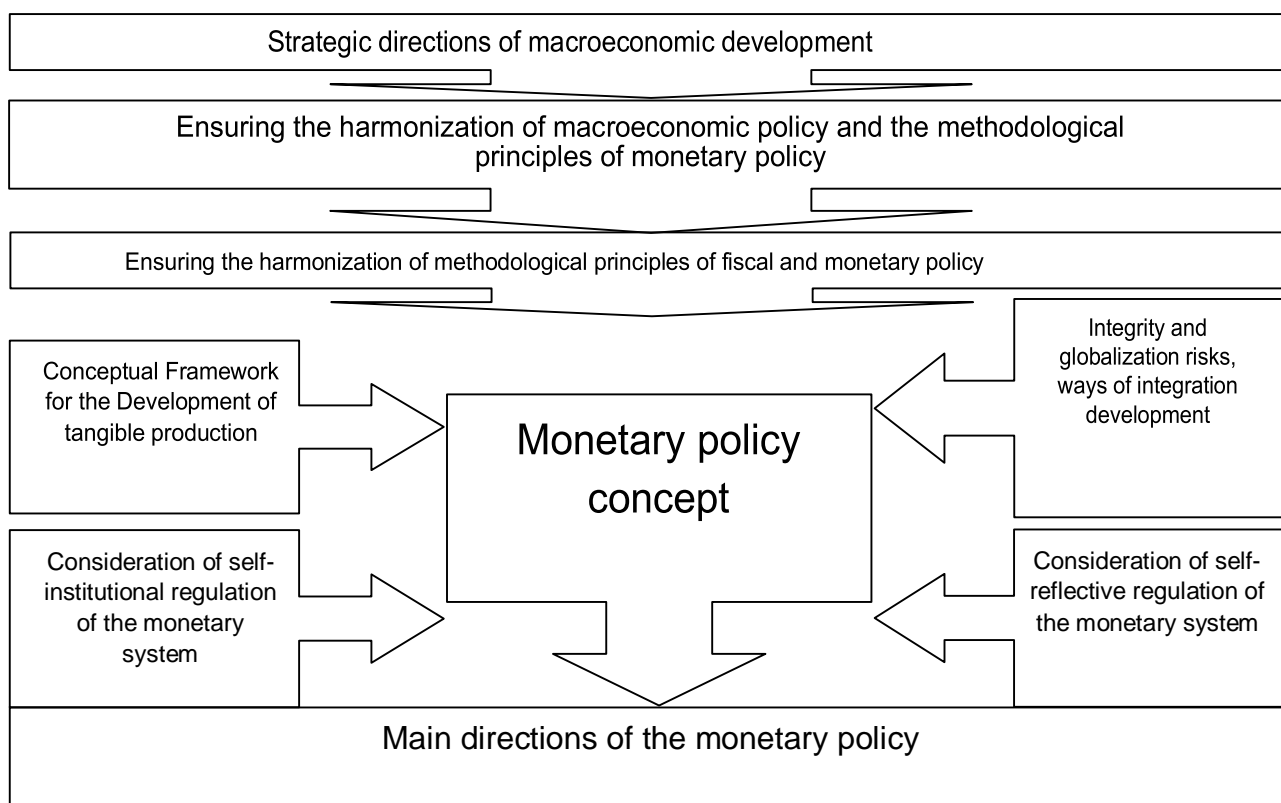
An analysis of the objectives of the monetary policy shows that there is no universal prescription for their use. They differ in different countries according to the possibilities and development levels of the financial markets. The optimal goals for any country and their structure may change over time. When selecting a target: the central bank must make two levels of choice. First, it is necessary to choose the main purpose of the monetary policy that describes the situation in the monetary sphere and is acceptable to the monetary authorities. In some countries, the ultimate goal is the combination of low and stable inflation (eg, the eurozone), while in others, a combination of macroeconomic indicators such as inflation, unemployment and economic growth (eg, the US) is the ultimate goal. Second, it is important to distinguish intermediate (private) goals that are essentially some of the key steps that will help achieve the ultimate goal. The intermediate objectives include the growth rate of money supply and the rate of exchange rate fluctuations.

Based on the study of the world and local experience of effective monetary policy implementation, the factors determining the effectiveness of the modern central bank's monetary policy have been identified. These factors include: domestic and foreign economic conditions; socio-economic policy of the country; structural changes in the economy; state of the public sector; uncertainty of data; financial market development and degree

of liberalization; processes of globalization. The effectiveness of the monetary policy demonstrates the dependence of complex socio-economic state policies, including the implementation of budget, tax, structural, customs and tariff policies.

In pursuing monetary policy, the Central Bank has to take measures to ensure the necessary conditions for sustainable economic growth and reduce inflation. At the same time, we believe it is important to achieve the optimal balance between the ultimate and intermediate objectives of monetary policy, and take into account the social consequences of the Central Bank's efforts to regulate the monetary system. That is why one of the main tasks of the Central Bank is the constant analysis of the socio-economic situation in the national economy and the development of various forecasts based on the analysis.

In the context of systematic measures aimed at ensuring the practical implementation of the tasks outlined in the "Strategy of actions", the most important macroeconomic indicator - the sum of the basic macroeconomic indicators, which determines the level of inflation, unemployment, economic growth and the welfare of the population. It is advisable to focus on the level of retention. At the same time, we should strive to maintain a passive base of financially stable banks while simultaneously cleaning up the banking system from low-cost credit institutions. At the same time, banks with a high state share need to be gradually transferred to the private sector. Today, along with lowering inflation rates, ensuring sustainable economic growth should be a key priority for monetary policy.



**1-illustration. The concept of monetary policy implementation**

**Note: author-based research**

In this regard, we propose to develop a concept of monetary policy implementation (illustration 1). In our view, the development of this concept, based on administrative reforms in the country, will require the use of market tools in the implementation of monetary policy, and the administrative intervention of central banks and

other government agencies. Within the framework of the proposed concept it is necessary to observe the following general principles of monetary policy implementation:

- 1) use synergistic methodology, that is, take into account synergetic management (purpose, prudence, graduality, motivation and communicative communication) in the implementation of monetary policy;
- 2) economy, which envisages the effectiveness of monetary policy within the given indicators of the money supply;
- 3) scenario-based approach to the development of alternative monetary policy options, taking into account the potential risks for the development of the monetary system;
- 4) strategy of monetary policy envisaging creation of favorable conditions for growth of investments in national currency, increase of competitiveness of national economy, improvement of qualitative indicators of economic growth;
- 5) ensuring the harmonization of monetary and fiscal policies;
- 6) establishing communications with other participants of the monetary system;
- 7) enhancing the responsibility of the monetary regulator in improving the efficiency of monetary policy.

#### **IV CONCLUSION**

In conclusion, the main focus in pursuing monetary policy should be to increase the investment in the national currency while ensuring the stability of the monetary system and, ultimately, increasing the competitiveness of the national economy.

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