

**THE CONTENT OF THE CENTRAL BANK'S MONETARY POLICY AND ITS ROLE
IN THE ECONOMY**

Tursunboyev Davlatjon Zaynitdinovich

Master of "Monetary Regulation of the Economy"

Master's degree of the Academy of Banking

and Finance of the Republic of Uzbekistan

Abstract: This article presents the nature of the financial and banking system in our country, theoretical views and practical approaches to the monetary and credit policy of the Central Bank. In addition, the impact of the monetary policy of the Central Bank on the development of the country's economy was studied by the author.

Key words: Monetary policy, Central Bank, economy, monetary policy.

The use of a completely new approach to the formation of the exchange rate, in turn, provides an opportunity to improve the monetary policy while focusing the main attention of the Central Bank on the stability of prices in the domestic market.

At the same time, the successful implementation of the reforms on the liberalization of the foreign exchange market is closely related to the improvement of the monetary policy, the strengthening of the activities of commercial banks, and the effectiveness of the banking system development measures.

The task of ensuring price stability in the domestic market requires a clear strategy and detailed plan for the implementation of monetary policy, as well as effective instruments and mechanisms for achieving target indicators.

Methods widely used by central banks of developed and developing countries include inflation targeting, monetary targeting, exchange rate targeting, and nominal anchor regimes.

Although the task of achieving target inflation indicators is considered the main goal for most central banks, the above-mentioned methods differ mainly depending on the immediate and intermediate goals. In order to ensure price stability, this method of monetary and credit policy involves control of changes in the volume of money aggregates, reserve money and money supply. The effective use of this strategy requires a strong permanent relationship between inflation indicators and monetary aggregates. In this case, the target indicators of inflation are achieved by keeping the volume of money aggregates at an acceptable level. The monetary targeting regime was actively used in the 1970s and 1980s in the USA, Canada, Great Britain, Germany, Switzerland and other developed countries.

At the same time, the unstable level of demand for money due to the development of financial markets and the implementation of new financial instruments in recent years has led to a decrease in the effectiveness of this method. As a result, it was observed that the ability of central banks to effectively influence changes in the money supply and to ensure inflation targets was limited. Due to the weakening of the relationship between monetary aggregates and the level of inflation, most central banks abandoned the practice of targeting monetary aggregates and introduced the inflation targeting regime.

The monetary targeting regime was widely used as an effective strategy in the early years of economic development in developing and transition countries, where sharp changes in money supply and demand were observed. In this case, the goals of stimulating economic growth were taken into account when setting the appropriate indicators for inflation.

The application of the exchange rate targeting regime is closely related to the following conditions:

- the ability of central banks to ensure that the exchange rate is within the target indicator depends on the volume of gold-currency reserves. Insufficient reserves lead to undervaluation of the exchange rate, which increases expectations of devaluation and inflation in the future. This, in turn, causes an increase in import prices and, as a result of restrictions on the domestic currency market, the emergence of a secret currency market and different exchange rates in the economy;
- when the planned devaluation of the national currency exchange rate is carried out several times, there is a risk of an increase in the inflation rate due to the increase in devaluation and inflationary expectations;
- in conditions where the nominal exchange rate is fixed, an increase in the real exchange rate leads to a worsening of the balance of payments and an increase in devaluation risks in the economy;
- increased pressure on price levels and exchange rates creates uncertainty about the ability of central banks to ensure financial stability. In this situation, stability is achieved by increasing interest rates. This, in turn, has a negative impact on the development of the real sector of the economy.

The experience of foreign countries, including the countries of the Commonwealth of Independent States, shows a significant decrease in gold-currency reserves, a decrease in the competitiveness of local producers due to the artificial maintenance of the exchange rate, a slowdown in the development of the export sector, and an increase in the economy's sensitivity to external factors. shows that it can cause a number of negative consequences.

Table 1

Inflation rate in Uzbekistan for 2020-2023

| Months | Compared to last month (%) | Compared to the same month last year (%) |
|----------------|-----------------------------------|---|
| November 2023 | 1,1 | 8,8 |
| October 2023 | 1,0 | 9,0 |
| September 2023 | 0,2 | 9,2 |
| August 2023 | 0,5 | 9,0 |
| July 2023 | -0,2 | 8,9 |
| June 2023 | -0,3 | 9 |
| May 2023 | 0,5 | 10,4 |
| April 2023 | 0,8 | 11,0 |
| March 2023 | 1,0 | 11,7 |
| February 2023 | 0,5 | 12,2 |
| January 2023 | 0,8 | 12,2 |

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| | | |
|----------------|------|------|
| December 2022 | 1,2 | 12,3 |
| November 2022 | 1,3 | 12,3 |
| October 2022 | 1,2 | 12,2 |
| September 2022 | 1,0 | 12,2 |
| August 2022 | 0,5 | 12,3 |
| July 2022 | -0,1 | 12,3 |
| June 2022 | 0,9 | 12,2 |
| May 2022 | 1,0 | 11,0 |
| April 2022 | 1,5 | 10,4 |
| March 2022 | 1,5 | 10,5 |
| February 2022 | 0,5 | 9,7 |
| January 2022 | 0,9 | 9,8 |
| December 2021 | 1,3 | 10,0 |
| November 2021 | 1,2 | 10,3 |
| October 2021 | 1,3 | 10,6 |
| September 2021 | 1,1 | 10,8 |
| August 2021 | 0,5 | 11,1 |
| July 2021 | -0,2 | 11,1 |
| June 2021 | -0,2 | 10,9 |
| May 2021 | 0,5 | 10,9 |
| April 2021 | 1,5 | 10,7 |
| March 2021 | 0,8 | 10,9 |
| February 2021 | 0,6 | 11,4 |
| January 2021 | 1,0 | 11,6 |
| December 2020 | 1,6 | 11,1 |
| November 2020 | 1,5 | 11,3 |
| October 2020 | 1,4 | 11,5 |
| September 2020 | 1,4 | 11,7 |
| August 2020 | 0,5 | 11,7 |
| July 2020 | -0.3 | 14.4 |
| June 2020 | -0.2 | 14.2 |
| May 2020 | 0.3 | 14.0 |
| April 2020 | 1.7 | 14.5 |
| March 2020 | 1.3 | 13.6 |
| February 2020 | 0.8 | 13.5 |
| January 2020 | 0.6 | 14.3 |

Monetary and credit operations are carried out in order to increase the effectiveness of the transmission mechanism and the interest channel in the economy, which is the main goal of the Central Bank's activity, to ensure price stability. Monetary and credit operations are aimed at managing short-term interest rates by regulating the general liquidity of the banking system. These operations are carried out by the Central Bank on the basis of the interest corridor

mechanism and ensure the formation of money market interest rates in a ± 2 percent corridor compared to the main rate.

Table 2

The operational mechanism of the Central Bank

| The purpose | Instrument | Conditions | Interest rate | The task |
|---------------------|------------------------------|---|----------------------------------|---|
| Providing liquidity | REPO auctions | 7 days (every Monday) (11:00 - 11:30) | Basic rate | Covering the temporary deficit in the liquidity of the banking system |
| | SWOP auctions | 7 days (every Monday) (11:30 - 12:00) | | |
| | Overnight REPO transactions | 1 day (10:00 - 16:00) | Basic rate + 2% | Covering the daily deficit in the liquidity of the banking system |
| | Overnight SVOP operations | | | |
| Attract liquidity | Overnight deposit operations | 1 day (10:00 - 16:00) | Basic rate - 2% | Attracting the daily surplus in the liquidity of the banking system |
| | Deposit auctions | 7 days (every Thursday) (11:00 - 11:30) | Basic rate | Attracting a temporary surplus in the liquidity of the banking system |
| | Central bank bonds | Up to 12 months (depending on the schedule) (11:00 - 11:30) | Basic rate + 2% (yuqori chegara) | Attracting structural excess in banking system liquidity |

Based on the above information, the following proposals were developed to improve the monetary and credit policy, which plays an important role in the economy of our country:

- it allows to quickly and effectively reduce the level of inflation during periods of economic crisis. In this case, the monetary policy is directed only to ensure the target level of the exchange rate. In particular, when the exchange rate depreciates, a strict monetary policy is implemented, and when the value of the currency exceeds the target level, a soft monetary policy is implemented.
- although the features of implementation of the inflation targeting regime differ in different countries, in general, the achieved results indicate that this method is effective in developed countries, as well as countries with economies in transition.

- the clear determination of the goals and main directions of the monetary policy of the Central Bank, as well as the obligations to achieve the target indicators of inflation, serves the formation of positive economic expectations in the society.

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