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THE ROLE OF MONETARY POLICY IN ENSURING MACROECONOMIC STABILITY AND DEVELOPMENT OF UZBEKISTAN

Abstract: The article examines the role of monetary policy in ensuring macroeconomic stability and economic development in Uzbekistan. It analyzes the measures taken by the Central Bank of Uzbekistan to manage inflation, stabilize the currency, and stimulate growth, including interest rate regulation and money supply control. The impact of these measures on GDP, employment, and investment is considered. Attention is given to challenges such as external shocks and structural issues. Recommendations are offered to enhance policy effectiveness and achieve long-term prosperity.

Keywords: Monetary policy, macroeconomic stability, economic development, inflation control, interest rates, exchange rate management.

Introduction:

Maintaining price stability plays a crucial role in ensuring macroeconomic and social stability in a country and is an essential condition for the successful advancement of economic reforms and socio-economic development programs. A low and stable level of inflation significantly influences balanced economic growth, enhances production competitiveness, and improves the population's living standards. Therefore, reducing and stabilizing inflation rates should be a major priority of state economic policy. A sustainably low inflation rate also contributes to economic development by creating conditions for converting savings of individuals and companies into long-term investments. It also ensures more efficient allocation of available economic resources by eliminating price distortions in the market.

Research methodology: During the research process, statistical, analytical, comparative, observational, inductive, deductive, logical, monitoring, express assessments and other methods of analysis are used. As a result, the topic of the literature being studied was fully disclosed. Reforms carried out during changes with foreign countries are considered. The tables have been compiled and presented accordingly.

Analysis and results:

In recent years, significant structural changes have been implemented in Uzbekistan's economy, aimed at liberalizing foreign trade, tax, and financial policies, supporting entrepreneurship, and ensuring the protection of private property. Within the framework of new reforms based on the active use of market mechanisms, increasing the efficiency of efforts to reduce government intervention, and expanding the role of the private sector, it is necessary to introduce an effective economic management system focused on achieving final goals [2].

In January 2021, the Development Strategy of New Uzbekistan for the period from 2022 to 2026 was adopted. This document set an ambitious goal of increasing the gross domestic product per capita by 1.6 times within five years. This is to be achieved by ensuring consistently high growth rates in various sectors of the economy. By 2030, the goal is to reach a GDP level of \$4,000 per

capita, which will create the conditions for the country to transition into the category of "upper-middle-income countries[3]."

The Presidential Decree No. 60 of January 28, 2022, "On the Development Strategy of New Uzbekistan for 2022-2026," laid the foundation for the country's further development, specifically providing for:

- Increasing the significance of the private sector in the economy, encouraging entrepreneurship, improving the investment environment, and creating a healthy competitive atmosphere;
- Reducing the tax burden for businesses and ensuring financial resources, taking into account the characteristics and opportunities of various regions;
- Developing and implementing measures to maintain macroeconomic stability and control inflation;
- Creating sustainable production systems and ensuring food security using water- and resource-saving technologies in agriculture;
- Expanding trade and economic and investment cooperation with partner countries, promoting competitive products in foreign markets, and developing transport and logistics systems to ensure connectivity [3].

According to the current law "On the Central Bank of the Republic of Uzbekistan," the main goal of the Central Bank is to ensure the stability of the national currency. The concept of "stability of the national currency" can be interpreted as the stability of the exchange rate of the national currency against foreign currencies as well as the stability of its internal purchasing power [1].

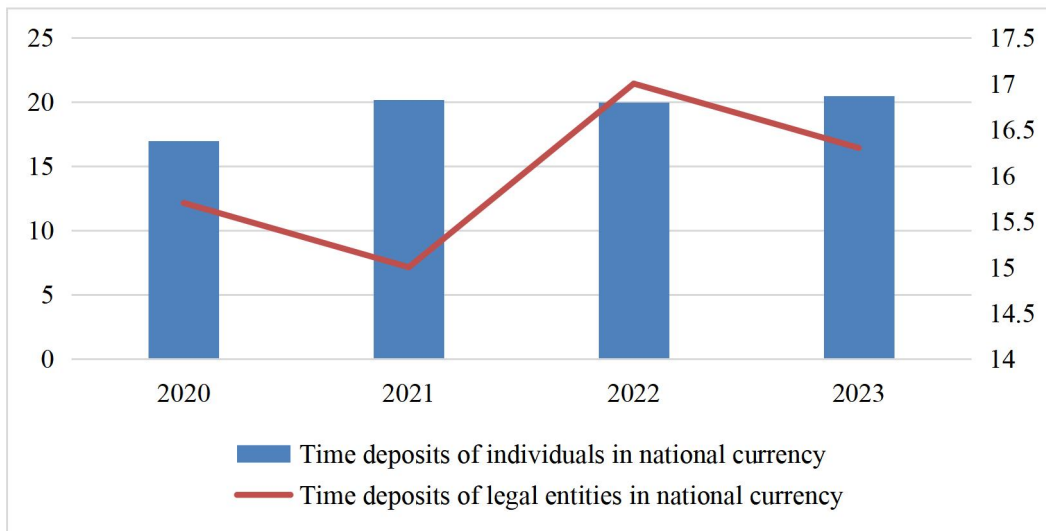
When applying inflation targeting, the primary instrument of monetary policy is the management of the central bank's interest rate (e.g., refinancing rate, key rate, base rate, etc.). However, for this regime to function effectively, well-developed financial institutions and markets are necessary.

In the first quarter of 2023, the total volume of deposits in the national currency in Uzbekistan decreased by 1.5% (1.5 trillion sums), and in foreign currency, it decreased by 9.8% (equivalent to 4.9 trillion sums). This reduction in deposit volumes is due to seasonal factors and a sharp increase in demand for foreign currency by legal entities for import operations [4].

Aggregate deposits of individuals during the reporting period increased by 3.3% to 60.5 trillion sums. Deposits in the national currency increased by 3.6% (1.6 trillion sums), while time deposits increased by 10.8% (2.4 trillion sums) [4].

The diagram below shows the nominal interest rates on time deposits in the national currency for individuals and legal entities in Uzbekistan from 2020 to 2023.

Diagram-1



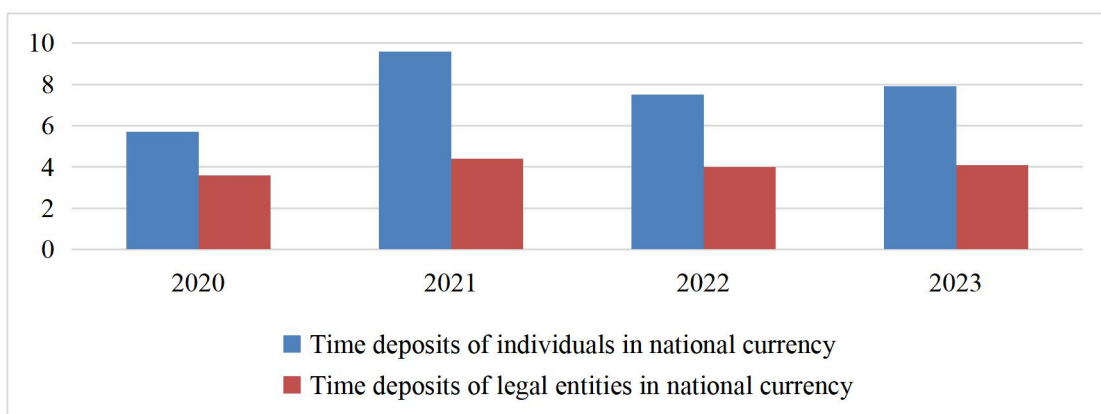
Nominal interest rates on deposits in national currency in Uzbekistan¹

The interest rates for time deposits of individuals in the national currency have shown stability with a slight increase from 2020 to 2022, peaking at around 17%. In 2023, there is a slight decrease, bringing the rates back to 16.5%. Interest rates for time deposits of legal entities started at around 12.5% in 2020 and then declined in 2021 to about 11%. There was a sharp increase in 2022, reaching approximately 22%, followed by a decrease to 17% in 2023[4].

The interest rates on time deposits for individuals have remained relatively stable with slight increases, indicating consistent monetary policy and economic stability for personal savings. The significant fluctuations in rates for legal entities highlight a more dynamic response to economic conditions, suggesting a need for careful monitoring and adjustment by the Central Bank to maintain overall economic stability.

Below is a diagram showing the nominal interest rates on time deposits in the national currency for individuals and legal entities in Uzbekistan from 2020 to 2023.

Diagram-2



¹ The diagram was compiled by the author based on the data presented on the site <https://cbu.uz/ru/statistics/rates/>

Nominal interest rates on deposits in national currencies in Uzbekistan²

There is a noticeable increase in interest rates of time deposits of individuals from 6% in 2020 to 9% in 2021, indicating an effort to attract more individual deposits. The rates decreased slightly in the following years, with 8% in 2022 and 7.5% in 2023. The interest rates for legal entities show a different pattern, starting at 4.5% in 2020 and dropping to 3.5% in 2021. The rates then increased to 5% in 2022 and further to 5.5% in 2023, indicating a more gradual increase compared to the rates for individuals [4].

Since the beginning of 2020, the Central Bank of Uzbekistan has been implementing a monetary policy aimed at achieving target inflation. In the medium term, it will continue to work to improve the mechanisms of this policy in accordance with the principles of inflation targeting.

Inflation targeting is a monetary policy regime in which the central bank announces a medium-term inflation target and focuses all its efforts on bringing current inflation to its target level using monetary policy instruments. This method of inflation targeting is widely used in both developed and developing countries. It is considered an effective means of reducing fluctuations and inertia in inflation, which helps create favorable conditions for sustainable and balanced economic growth in the medium term.

Within the framework of inflation targeting, the Central Bank adheres to a policy of a freely floating exchange rate determined by market demand and supply. This is because a controlled exchange rate can limit the bank's independence. The current currency strategy of the Central Bank is based on a free exchange rate, and market interventions are carried out to maintain the "neutrality of gold and foreign exchange reserves."

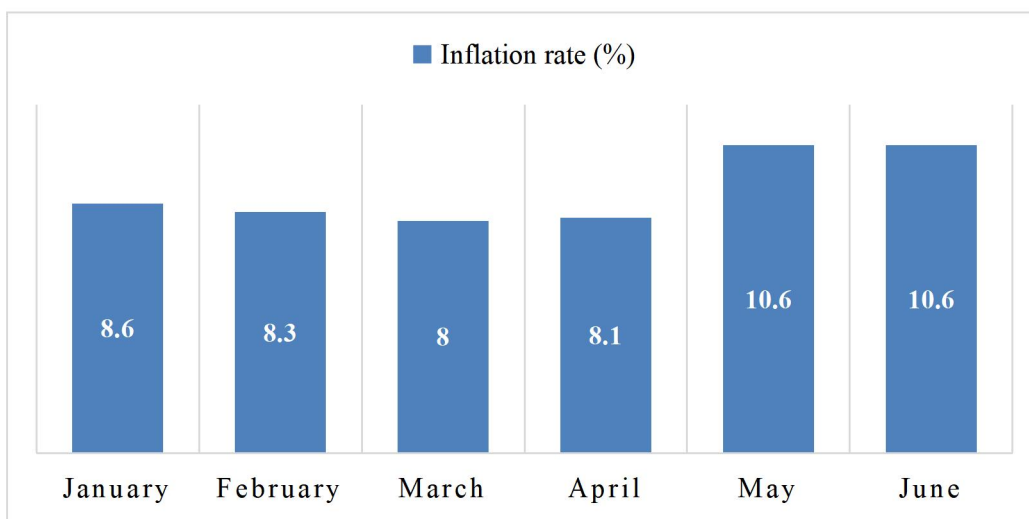
The bank acts as the main buyer of domestic monetary gold and conducts interventions in the domestic foreign exchange market to sterilize excess liquidity arising from the purchase of gold from local producers. The currency received from gold exports is returned to the economy through interventions in the domestic foreign exchange market, without affecting the main trend of the exchange rate.

In the future, the Central Bank will adhere to the principle of "neutrality" in its interventions in the foreign exchange market, not influencing the main trends of the exchange rate but only limiting sharp fluctuations by setting daily intervention volumes.

Below is a diagram showing the annual inflation rate in the Republic of Uzbekistan from January to June 2024

Diagram-3

² The diagram was compiled by the author based on the data presented on the site <https://cbu.uz/ru/statistics/rates/>



Inflation rate in Republic of Uzbekistan³

The period from January to March exhibits a relative stability in inflation, ranging from 8.0% to 8.6%. This suggests potential success in the Central Bank's efforts to maintain inflation within their target range. A significant upward shift occurs in May and June, with inflation reaching 10.6% in both months. This represents a 2% increase compared to the earlier months. While the initial stability hints at progress towards the targeted inflation range, the sharp rise in May and June raises concerns. Further investigation into potential causes and potential policy responses from the Central Bank is crucial.

Fiscal policy plays a key role in the economic strategy of a state, as correctly defined budget parameters affect various aspects of public life. These aspects include the level of social support for citizens, the possibilities for government investment, the country's influence on the world stage, and the entrepreneurial activity of citizens. The subjects of fiscal policy are the state authorities at all levels responsible for the development, approval, implementation, management, and control of the budget. The objects of fiscal policy are the legislation in the field of budget and taxes, the budget system, and the mechanism for its execution.

Uzbekistan's economy skillfully navigates between two key instruments of macroeconomic regulation: monetary policy and fiscal policy. Monetary policy, under the careful guidance of the Central Bank, is responsible for the health of the national currency (the sum) and price stability. Through interest rates, reserve requirements, and other tools, the Central Bank regulates the amount of money in circulation, thereby influencing inflation and economic activity.

Fiscal policy, implemented by the Ministry of Economy and Finance, focuses on state revenues and expenditures. Taxes, fees, and customs duties replenish the treasury, while expenditures are directed towards financing social programs, infrastructure projects, and other state needs. Fiscal policy is used to stimulate economic growth, redistribute income, and maintain macroeconomic stability [5].

Although the public sector plays a significant role in Uzbekistan's economy, recent years have seen a trend towards reducing direct government intervention in regulation. This is reflected in the privatization of state-owned enterprises, deregulation of certain industries, and granting greater freedom to private businesses.

³ The diagram was compiled by the author based on the data presented on the site <https://cbu.uz/ru/statistics/rates/>

It is important to note that the process of reducing government intervention should be gradual and well-thought-out. Conditions must be created for the development of market mechanisms, while simultaneously ensuring social protection for the most vulnerable segments of the population. Uzbekistan is on the path to building a modern, dynamic, and competitive economy. The combination of active macroeconomic policy with elements of liberalization allows the country to achieve sustainable growth, reduce inflation, and improve the standard of living for its population.

Despite the significant progress, Uzbekistan faces challenges in its monetary policy implementation. The transition from a centrally planned to a market-oriented economy requires continuous reforms and adjustments. Ensuring transparency, enhancing communication strategies, and improving the policy framework are essential steps for the Central Bank. Moving forward, the Central Bank of Uzbekistan must remain vigilant to global economic trends and domestic economic conditions. Adopting advanced analytical tools, strengthening institutional capacities, and fostering international cooperation will be key to navigating future challenges.

Conclusion:

Monetary policy is a cornerstone of Uzbekistan's macroeconomic strategy, playing a vital role in ensuring stability and promoting development. Through prudent management of inflation, exchange rates, and the financial sector, the Central Bank of Uzbekistan contributes to a stable and growing economy. As the country continues its journey towards a modern and dynamic economy, effective monetary policy will remain crucial in achieving sustainable economic development and improving the standard of living for its citizens.

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