



Monetary Policy of the Country

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Abstract

In this article, issues such as monetary policy, its role and importance in the country's economy, impact on export-import relations, inflation targeting, and measures taken by the Central Bank in this regard are studied. In this regard, opinions and suggestions were given on the effective use of monetary instruments, export and import opportunities, human capital and scientific potential in stabilizing, strengthening and improving the country's economy in a changing and global world.

Keywords: Monetary policy, structural changes in the economy, inflation targeting, money transfers, export and import, green monetary policy

Introduction

The economic potential of each country directly depends on its monetary policy. The structural and dynamic changes taking place in the world economy require consistent continuation of reforms in the monetary system, banking sector, and inflationary policy in Uzbekistan.

In recent years, the monetary and credit policy conducted by the Central Bank of the Republic of Uzbekistan is one of the important levers in the implementation of economic reforms.

Methods.

The country's monetary system, currency policy, relations in the credit and banking spheres have long been of interest to thinkers and scientists, encouraging them to study and research scientifically.

In particular, the Greek philosopher Aristotle, who lived before Christ, expressed his views about the economic essence of money. Classical economists A. Smith [1], U. Petty [2], modern economists J. M. Keynes [3], M. Friedman [4], F. Mishkin [5], Uzbek scientists Sh. Abdullaeva [6], A. Omonov, T. Koraliev [7] researches and works contain effective and necessary information on monetary policy and banking system.

The Constitution of the Republic of Uzbekistan, the Laws "On the Central Bank of the Republic of Uzbekistan", "On Banks and Banking Activities" legally regulate relations with the financial, monetary and banking system of our country.

Analysis and results.

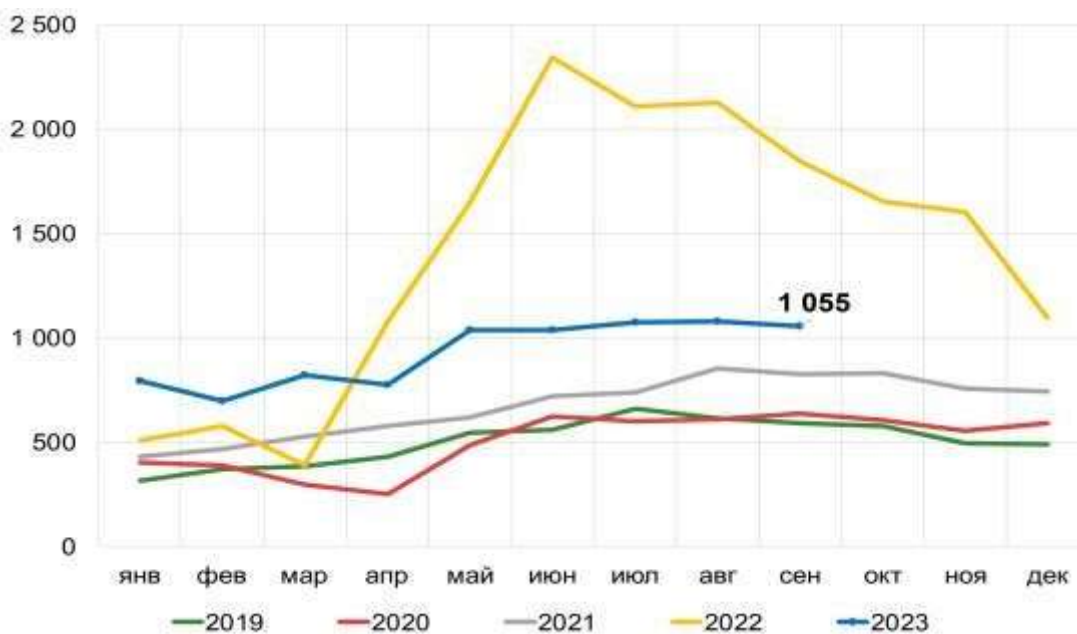
In recent years, the main attention in the implementation of the monetary and credit policy of Uzbekistan has been focused on ensuring the stability of prices in the economy and achieving the target of the inflation rate of 5 percent. It is for this purpose that measures to increase the gross domestic product created in our country, to ensure stable economic growth, and to coordinate money supply and circulation are of particular importance.

Central bank management has developed medium-term (nearly 3-year) main directions of monetary and credit policy, according to which the main goal of the bank is to ensure price and financial stability in all scenarios of macroeconomic development, flexible to external and internal changing conditions.

Also, taking into account that the short-term effects on general inflation will be significant during the period of structural changes, the decisions in this area will be primarily focused on reducing the base inflation.

After the pandemic, the amount of remittances entering our country has returned to its long-term trend. In particular, in January-September 2023, a total of 8.4 billion. remittances in the amount of USD increased by 45.5% compared to the corresponding period of 2021 (Fig. 1).

Fig. 1. The volume of foreign money transfers to Uzbekistan (million dollars)¹



By the end of 2023, taking into account the level of gross demand and supply in the economy, high

fiscal incentives, forecasts on the economy of partner countries, expectations on the world prices of the main export and import goods, the Central Bank revised the medium-term macroeconomic development forecasts. According to updated forecasts, economic growth in 2024 is expected to be around 5.5-6 percent, which was slightly higher than the previous results (October 2023). In the January 2024 "Global Economic Prospects" report of the World Bank Group, the economic growth of our country in 2024 is predicted to be 5.5 percent, slightly higher than previous estimates.

Also, 2023 of the International Monetary Fund (IMF). real GDP growth of Uzbekistan in the October report It is shown that it will be 5.5 percent in 2024-2025.

Higher fiscal incentives seen in 2023, the increase of private investments will be maintained this year as well positive effects of structural reforms in the real economy to be continued in 2024 supporting economic growth is one of the important factors.

In particular, structural reforms in the economy in 2024 reduction of production cost, added value and increasing labor productivity, privatization accelerating, reducing the hidden economy, foreign actively attract investments, increase exports and in the direction of using new opportunities in the economic spheres measures are important.

In 2024, the volume of exports (without gold) is forecast to grow by 10-12 percent due to the prices formed in the world markets, in particular, the prices of cotton and uranium, as well as the expected increase in the volume of copper and zinc production in the metallurgical industry.

It is expected that the growth of the import volume will decrease compared to the high level of recent years and will be around 10-12 percent this year. In particular, due to the high base effect, imports of machinery and equipment are expected to be lower than in 2023.

However, risks of rising energy resource prices and sea transportation costs may put upward pressure on import prices. The cost of transporting energy resources today is 166% more expensive than before the pandemic (2019).

At the same time, measures to limit the budget deficit to 4 percent in 2024 through the strengthening of fiscal discipline are expected to serve to reduce inflationary pressure in the economy.

According to updated forecasts, inflation is expected to be around 8-9 percent annually in 2024, within the target of 5 percent at the end of 2025 (Table 1).

Table 1

Macroeconomic indicators of Republic of Uzbekistan²
in percent

Indicators	Current				In future		
	2020	2021	2022	2023	2024	2025	2026
Inflation (annual)	11,1	10	12,3	8,8	8-9	5-6	5
Real GDP	2,0	7,4	5,7	6	5,5-6	5,5-6	6-6,5
General fiscal balance (relative to GDP)	-4,3	-5,5	-3,9	-5,5	-4	-3	-3

Author's development based on the data of the Statistics Agency and the Central Bank²

Export	-15,5	10,1	18,4	23,8	7-10	9-11	9-11
Exports (without gold)	-28,2	34,6	24,4	4,2	10-12	12-14	12-14
Import	-12,8	20,5	20,6	24	10-12	10-12	8-11

In 2023, the volume of remittances coming into our country, calculated from sources of income supporting the gross consumption demand of the population, returned to its long-term trend, and in 2024 it is forecasted to grow by 6-8 percent due to the high demand for labor force abroad.

Export volume increased by 23.8% in 2023. The increase in gold exports was the main factor supporting the overall export in the conditions of the favorable development of gold prices in the world. At the same time, the growth rate of non-gold exports was relatively low, equaling 4.2 percent.

The structural diversification of exports is slow, and the share of low-value-added raw materials and semi-finished products remains high. Therefore, although the volume of exports of non-ferrous and ferrous metals, textiles and chemical products remained almost unchanged, the decrease in global prices as a result of the weakening of global demand led to a decrease in the share of these goods in exports.

In general, "strict" monetary and credit conditions will be provided in 2024-2025 in order to curb inflationary processes in the economy and ensure price stability.

Discussion.

Firstly, the effectiveness of monetary policy is limited by the low level of effectiveness of interest rates in the money market in the formation of asset prices due to the insufficient development of financial intermediation, secondly, it is influenced by reasons such as high dollarization of deposits, loans and liabilities in the banking system, preferential lending practices, and unbridled inflationary expectations. may not be high.

A high level of dollarization has a negative impact on the achievement of the objectives of monetary and foreign exchange policies and their effectiveness. In particular, the realization of a certain part of transactions and deals in foreign currency in the economy has a negative effect on the interest channel of monetary policy transmission and increases the effect of the exchange rate on inflation.

Climate change or global warming factors also negatively affect the country's economy through various channels. In particular, due to climate change, there are mainly two types of risks: physical risks (floods, droughts, forest fires, etc.) and transition risks (risks arising in the economy as a result of measures taken to reduce the effects of climate change).

Physical hazards, i.e., extreme weather conditions, can cause damage to the supply chain in the economy and slow down the activities of economic entities. These risks are more effective mainly in developing countries, which increases the need to apply measures aimed at preventing the negative consequences of climate change [8].

Structural reforms, fiscal and monetary policies can also be used in the transition to a green economy. Fiscal policy measures include the introduction of carbon taxes, green subsidies and transfers, while monetary policy uses central bank instruments to support environmentally friendly economic activity. At the same time, structural reforms envisage regulation of energy consumption through legislation (introduction of energy efficiency standards) and "decarbonisation" of institutions (creation of carbon markets).

In the international experience, giving priority to climate change and environmental issues in the

conduct of monetary policy by central banks is called "green monetary policy".

In the world experience, there are various instruments of green monetary policy, and their working mechanism is built on the same basis. That is, the requirements for financial assets that can be used in monetary and credit operations of the central bank should now cover the issue of climate.

In the future, the institutional development of monetary policy will be carried out in a number of directions:

- Direction of the monetary policy strategy (starting from 2025, the main focus will be on announcing the conditional forecast of the main rate and discussing it with market participants, expanding the volume of repo operations in the money market);
- Macroeconomic analysis and forecasting (e-cpi forecasts are developed using machine learning models and online observations, coverage methods and scopes of inflation expectations and consumer and business sentiment studies are improved, inflation forecasts are made based on RLS and VECM models, based on MIDAS and FAMIDAS models GDP forecasts are developed);
- the direction of communication of monetary and credit policy (the communication instruments corresponding to the interest and needs of the target audiences are improved, the concept of multi-layer communication development is developed, the rules of communication discipline are introduced and enforced).

Conclusion.

In general, the improvement and effectiveness of the communication of the monetary and credit policy of the state is carried out in the following directions:

- 1) Increasing awareness and literacy of the population on monetary policy;
- 2) Improvement of communication instruments corresponding to the interests and needs of target audiences;
- 3) Improving the quality of published reviews and expanding the scope of analysis;
- 4) Conducting a green monetary policy in the future;
- 4) Develop a communication discipline and publication schedule.

In conclusion, we can say that in today's changing and global world, we need to effectively use monetary instruments, export and import opportunities, human capital and scientific potential to strengthen and improve the economy of our country.

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