

MONETARY CREDIT SYSTEM OF THE REPUBLIC OF UZBEKISTAN: CURRENT STATUS, PROBLEMS AND STRENGTHENING WAYS

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Annotation: The article analyzes the current state of the monetary system of the Republic of Uzbekistan, identifies problems associated with its strengthening and develops scientific proposals to address them.

Keywords: Monetary system, exchange rate, Central Bank, inflation, devaluation, monetary policy, state budget deficit.

Strengthening the national monetary system is one of the necessary conditions to ensure the stability of macroeconomic growth. In particular, ensuring the stability of the national currency, achieving a moderate level of inflation, increasing the level of money supply of the economy play an important role in ensuring the stability of the national economy.

Therefore, a set of measures to reform and further develop the country's economy provides for the implementation of measures to strengthen the monetary system. In particular, the Decree of the President of the Republic of Uzbekistan dated September 2, 2017 PP-5177 "On priority measures to liberalize foreign exchange policy" Creating a level playing field for all economic entities in the market, increasing the stimulating role of monetary policy in the development of exports in non-traditional sectors, strengthening regional and international economic cooperation are recognized as priorities for monetary policy liberalization [2].

Therefore, the scientific study of the strengthening of the monetary system of the country is one of the urgent issues of science. In accordance with the new Law on the Central Bank of the Republic of Uzbekistan:

- The monetary system of the Republic of Uzbekistan includes the currency of the Republic of Uzbekistan, the organization and regulation of money circulation;
- Soum is the only unlimited legal tender in the Republic of Uzbekistan;
- The nominal value of the currency of the Republic of Uzbekistan is set by the Central Bank.
- The Central Bank organizes cash circulation in the territory of the Republic of Uzbekistan [7].

According to the Decree of the President of the Republic of Uzbekistan dated November 18, 2019 PP-5877 "On improving monetary policy through the gradual transition to inflation targeting", the Central Bank of the Republic of Uzbekistan to reduce inflation to 10% in 2021 and 5% in 2023.

The task is to ensure the gradual transition of monetary policy mechanisms to the inflation targeting regime from January 1, 2020 by setting an inflation target. [5]. Since one of the key elements of the national monetary system is the exchange rate, we assess the level of volatility of the national currency - the soum.

Fig 1.

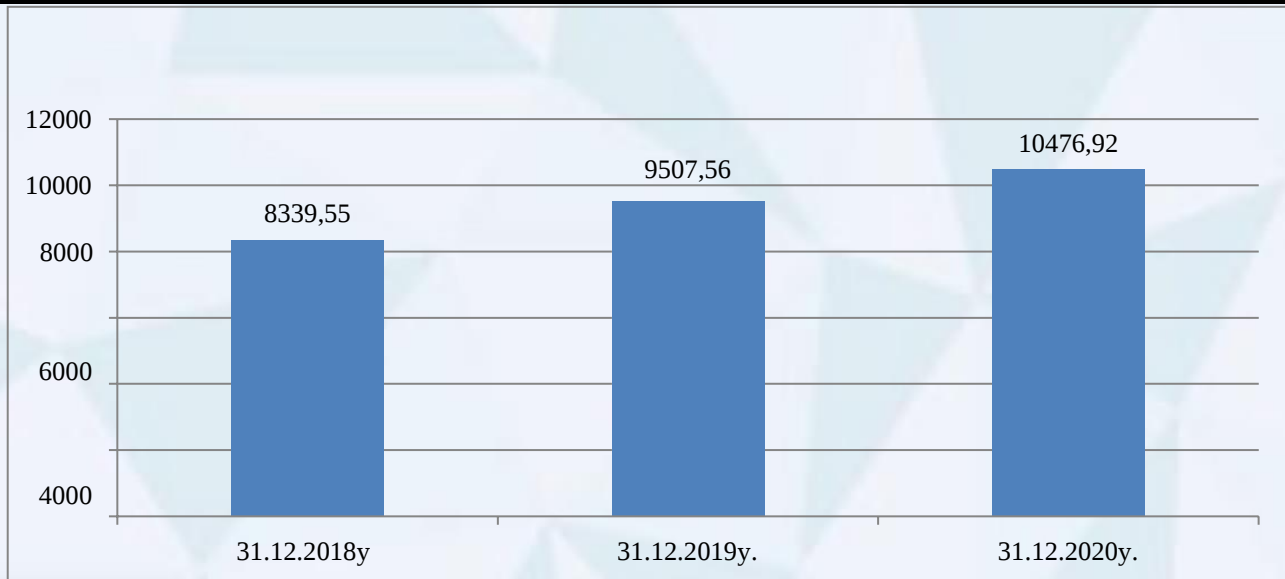


Figure 1. National currency - nominal exchange rate of soum against 1 US dollar, soum

Figure 1 shows that in 2018-2020, the level of volatility of the nominal exchange rate of the national currency against the US dollar in the country was high, amounting to 25.6%.

The high level of volatility of the national currency, in particular, its high level of devaluation, has a negative impact on the stability of macroeconomic growth rates. In particular, in the context of high devaluation, the investment activity of enterprises and banks will decrease. We assess the level of key macroeconomic monetary indicators below.

Table 1.

Key macroeconomic monetary indicators (in percent)

Monetary indicators	2018y.	2019y.	2020y.	Change in 2020 compared to 2018, in percent
Annual rate of inflation	14,3	15,2	11,1	3,2
The central bank's base rate	16,0	15,0	14,0	- 2,0
Annual growth of money supply speed	13,2	13,8	12,9	- 0,3
The level of monetary security of the economy	19,7	17,9	17,8	- 1,9

According to Table 1, the inflation rate in the Republic of Uzbekistan in 2020 decreased by 3.2 percentage points compared to 2018. This is a positive development in terms of strengthening the monetary system. However, in 2019, inflation is expected to increase significantly compared to 2018.

Also, in 2018-2020, the main rate of the Central Bank had a downward trend. This is a positive development in terms of stimulating the credit expansion of commercial banks.

The decline in inflation in 2020 compared to 2019 allowed the Central Bank to lower the key rate. According to Table 1, in 2018-2020, the annual growth rate of money supply in the country was high. This is a negative situation in terms of strengthening the monetary system.

According to Table 1, in 2018-2020 there is a downward trend in the level of cash supply to the economy of the Republic of Uzbekistan. This is a negative situation in terms of ensuring sustainable economic growth.

It should be noted that the high reserve requirements of the Central Bank have a strong negative impact on the liquidity of commercial banks in the country. At present, the required reserve rate set by the Central Bank for foreign currency deposits and savings of commercial banks is 14%.

The analysis carried out during the writing of the scientific article showed that:

- In 2018-2020, the level of volatility of the nominal exchange rate of the national currency - soum against the US dollar was high;
- The decline in inflation in the country in 2020 compared to 2018 is a positive situation in terms of strengthening the monetary system;
- The fact that the Central Bank has a downward trend in 2018-2020 is a positive factor in terms of stimulating the credit expansion of commercial banks;
- The high annual growth rate of money supply in the country in 2018-2020 is a negative situation in terms of strengthening the monetary system;
- The observed downward trend in the level of money supply of the economy of the Republic of Uzbekistan in 2018-2020 is a negative situation in terms of ensuring sustainable economic growth;
- Execution of the state budget with a large deficit is a serious threat to the stability of money supply growth.

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