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Practical Importance of Money-Credit Concepts

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A B S T R A C T

Improving monetary policy necessitates the study of the rules of leading monetary concepts and the formation of scientific and practical conclusions and recommendations that serve to justify their practical significance. The article examines the provisions of the leading monetary concepts and substantiates their use in improving the monetary policy of the Central Bank of the Republic of Uzbekistan.

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Introduction

According to the Law on the Central Bank of the Republic of Uzbekistan, the strategic goals of the Central Bank are to combat inflation, ensure the stability of the banking system and payment systems

[1]. To achieve this strategic goal, the inflation target and the growth rate of money supply are used as tactical goals of monetary policy.

At present, there are pressing issues related to the improvement of monetary policy in the country. The current problems in this area are the growth rate of money supply and the high rate of depreciation of the national currency, the low level of money supply to the economy, the relatively high interest rates on loans of commercial banks in the national currency.

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In turn, finding scientifically sound solutions to current problems related to the improvement of monetary policy makes it necessary to study the provisions of leading monetary concepts and assess their practical significance.

Literature review

The founder of the monetary concept of monetarism is M. Friedman, a professor at the University of Chicago in the United States and a Nobel laureate. M. Friedman was the first in the economic literature to scientifically substantiate the need to set the annual growth of the money supply as a firm indicator and to make the process of achieving it the object of control by the Central Bank. He concluded that the growth of the money supply should be based on the steady growth of the price of the final product over a long period of time [2].

J. Keynes believes that the interest rate plays an important role in the monetary concept and that it can have a direct impact on the unemployment rate and economic growth by influencing interest rates.

The transmission mechanism of monetary policy proposed by J. Keynes consists of three stages:

first stage: money supply - interest rate;

second stage: money supply - interest rate - investment;

third stage: money supply - interest rate - investment - national income [3].

According to J. Keynes’s transmission mechanism, firms and firms increase their planned investments as interest rates fall as a result, there is an unforeseen consumption of inventories, combined with the total amount of planned costs and firms and companies will increase production under such conditions and, as a result, national income will increase.

According to F. Mishkin, the open market operations of the Central Bank have the following advantages:

- open market operations are carried out at the initiative of the FZT and its volume is controlled by the FZT, there is no such control in the implementation of discount operations;
- high level of flexibility of open market operations, their volume can be changed at any time;
- open market operations have an easily reversible content, and if the FZT made a mistake in carrying out these operations, it can quickly cancel the operation [4].

J. Taylor's monetary rule allows the Central Bank to determine the possibility of changing interest rates in response to changes in prices and fluctuations in real production relative to its equilibrium level, and it has a stabilizing property, ie to minimize cyclical fluctuations in the economy [5].

However, practice has shown that the Taylor rule has certain drawbacks. In particular, GEP indicators of inflation and GDP information may not fully cover economic variables. Because, money aggregates, credit multiplier, exchange rate, budget deficit, etc. There are other important indicators that cannot be ignored for in-depth analysis.

According to McCallum, a factor complicating the use of money balances as an instrument of monetarypolicy is the instability of demand for money. This is partly explained by the fact that central banks prefer to use interest rates as an instrument of monetary policy [6].

T.Bobakulov's conclusion that the Central Bank should choose the growth rate of monetary aggregate M2 as an indicator of monetary policy is based on the following facts:

- Existence of legal bases for use of growth of money supply as an indicator of monetary policy;
- The existence of a direct link between cash circulation and economic activity in the country;
- The ability of the central bank to directly influence the money supply through the monetary base;
- The leading factor in the structure of inflation is the weight of non-monetary factors, the fact that the basic inflation rate is not used in the process of inflation targeting [7].

Research methodology

According to the new Law on the Central Bank of the Republic of Uzbekistan, the strategic goals of the Central Bank's monetary policy are to fight inflation, ensure the stability of the country's banking system and payment systems, inflation targets and money supply growth are the tactical goals of monetary policy [8].

Induction and deduction, trend analysis and expert evaluation methods were used in the research. The continuing devaluation of the national currency in the Republic of Uzbekistan, the relatively high level of inflation, the high level of money supply to the economy are important factors to consider in assessing the practical significance of monetary concepts.

Analysis and results

A number of provisions of the leading monetary concepts have been put into practice. In particular, the principle of controlling the growth rate of the money supply of the monetary concept of monetarism is used as a tactical goal of monetary policy in many countries around the world.

In Germany and France, the practice of controlling the growth rate of money supply by the Central Bank has been introduced since the 1970. In the United States, Congress passed a law in 1978 that mandated the Federal Reserve to control the growth of the money supply.

The results of the monetary policy of the United States, Japan and France to limit the growth rate of money supply show that this measure will ultimately lead to a decrease in production rates, a reduction in the supply of goods and services, but price stability will be achieved.

M. Friedman's scientific conclusion that the change in the money supply is not due to changes in the economic situation has not been proven in practice. The economic crisis in Southeast Asia in 1997-1998 and the global financial and economic crisis that began in 2008 showed a direct link between the volume of money supply and changes in economic conditions.

According to M. Friedman's theory of monetarism, the demand for money does not decrease in proportion to the growth of cash balances and nominal income, but remains unchanged. Because every change in the money supply affects not only the level of investment, but also the volume of personal consumption.

The volume of personal consumption, in turn, varies in proportion to the dynamics of nominal income. As a result, the demand for money remains constant over each individual period, and the money supply

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fluctuates constantly. This conclusion has been proven in the practice of many countries around the world.

It should be noted that J. Keynes's rule on the mechanism of monetary policy transmission is important for the practice of the Republic of Uzbekistan. This is due to the fact that the current high interest rates on loans from commercial banks in the Republic of Uzbekistan hinder the expansion of access to credit for companies and firms. This is because interest rates are the price of loans. The higher the interest rates on loans, the lower the access of individuals and legal entities.

Table 1. Annual inflation rate in the Republic of Uzbekistan, the annual rate of the Central Bank refinancing rate and the average annual interest rate of loans of commercial banks in the national currency, in percent[1]

Indicators	2018 y.	2019 y.	2020 y.
Inflation rate	14,3	15,1	11,1
Central bank refinancing rate	16,0	16,0	14,0
Interest rates on loans from commercial banks	20,5	24,2	22,3

According to Table 1, the high inflation rate in the country in 2018-2020 has led to the maintenance of the Central Bank's refinancing rate at a high level. This, in turn, has led to higher interest rates on loans of commercial banks in the national currency.
In turn, the high interest rates on commercial bank loans prevent companies and firms from expanding their access to commercial bank loans. The low level of monetary security of the economy of the Republic of Uzbekistan makes it necessary to implement an expansionary monetary policy (Figure 1).

Fig1.

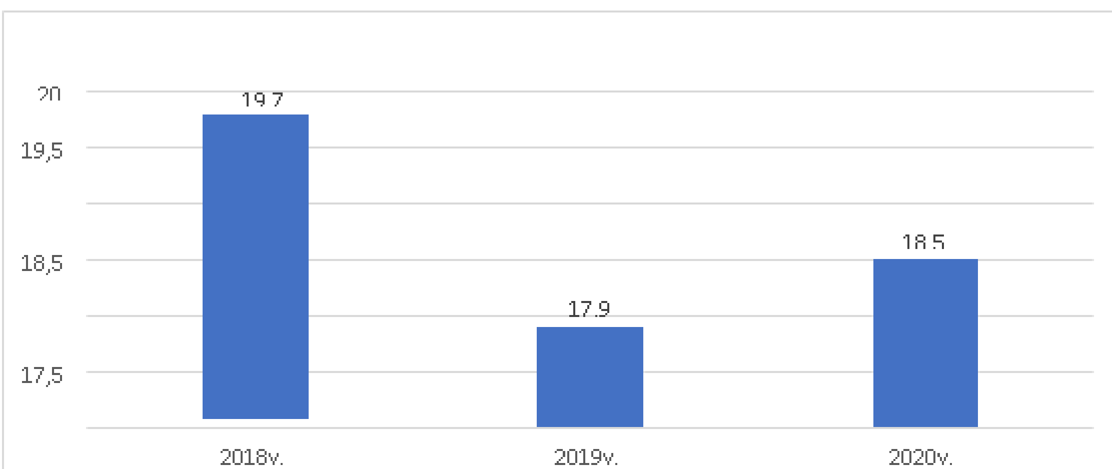

Figure 1. The level of monetary security of the economy of the Republic of Uzbekistan, in percent

It is clear from the data in Figure 1 that in 2018-2020, the level of monetary security of the economy of the Republic of Uzbekistan was low. This does not solve the problem of insolvency in the country's economy.

As of December 1, 2020, the total volume of receivables among enterprises of the republic amounted to 120.5 trillion soums. soums [9]. Another pressing issue is the improvement of monetary policy pursued by the Central Bank of the Republic of Uzbekistan - this is a high mandatory reserve rate.

[1] The table is compiled by the author on the website www.cbu.uz (Central Bank of the Republic of Uzbekistan).

The reserve requirement set by the Central Bank for foreign currency deposits of commercial banks is 14%. This is a very high rate, on top of which the amount of required reserves for foreign currency deposits is converted into soums at the exchange rate of the national currency and deducted from the representative account of banks in soums "Nostro". As a result, there is a strong negative impact on the liquidity of commercial banks.

The amount of required reserves can be left in the correspondent account of commercial banks "Nostro", but the Central Bank of the Republic deducts the amount of required reserves from the representative account of banks.

In developed countries, there are no problems with the Central Bank's required reserve policy. This is because the reserve policy is not the main instrument of monetary policy in these countries. One of the most pressing issues in improving monetary policy is the high level of volatility of the national currency - the nominal exchange rate of the soum.

Fig 2.

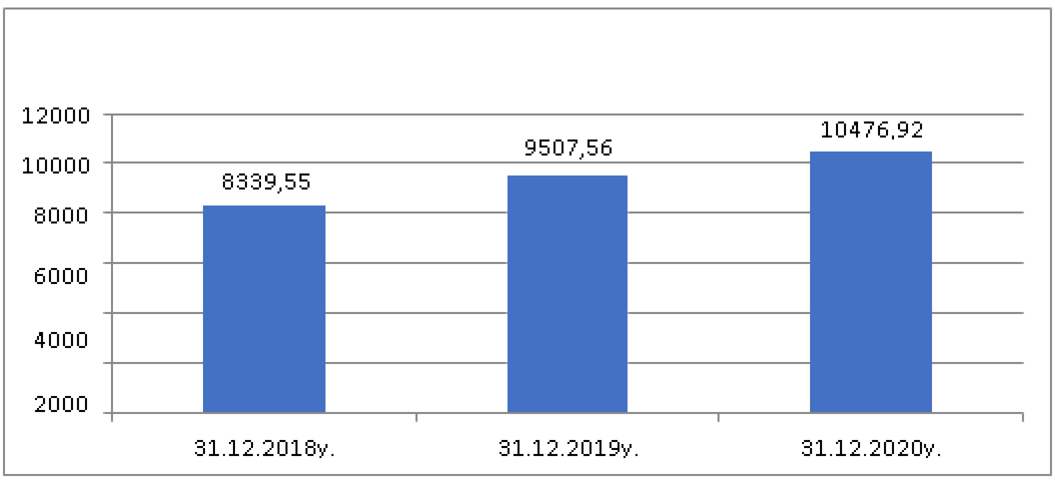

Figure 2. National currency - nominal exchange rate of soum against 1 US dollar, soum

Figure 2 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. In particular, in the context of high devaluation, the investment activity of enterprises and banks will decrease.

Conclusion

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

- The use of the growth rate of money supply as a tactical goal of monetary policy plays an important role in combating inflation, ensuring the stability of money supply;
- A decrease in interest rates will increase the volume of planned investments of firms and companies, which will increase national income;
- The ability of the central bank to change interest rates in response to changes in prices and fluctuations in real production relative to its equilibrium level allows minimizing cyclical fluctuations in the economy;

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- High inflation in the Republic of Uzbekistan in 2018-2020 led to the maintenance of the Central Bank's refinancing rate at a high level, which, in turn, led to higher interest rates on loans of commercial banks in the national currency;
- The low level of monetary security of the economy of the Republic of Uzbekistan in 2018 -2020 does not allow to solve the problem of insolvency in the country's economy;
- The high level of the reserve requirement of the Central Bank and the high level of volatility of the nominal exchange rate of the national currency - the soum are pressing issues for improving monetary policy.

In order to improve monetary policy through the application of the provisions of the leading monetary concepts in the practice of Uzbekistan, the following measures should be taken:

1. In order to improve the practice of using monetary policy instruments, first of all, it is necessary to reduce the required reserve ratio for deposits of commercial banks in foreign currency to the level of the required reserve ratio for deposits in national currency; second, the volume of open market operations of the Central Bank should be increased through the issuance of its bonds and government securities; third, it is necessary to form a special reserve fund to eliminate the risk of a sharp rise in interest rates on loans resulting from increased demand for credit resources; third, the Central Bank should control changes in interest rates through REPO auctions.

2. In order to increase the level of money supply of the economy by stimulating the credit expansion of commercial banks, first of all, it is necessary to ensure the stability of nominal interest rates on loans of commercial banks; second, it is necessary to increase the ability of the Central Bank to influence the interest rates on loans of commercial banks through open market operations by increasing the volume of government securities through the implementation of fiscal policy aimed at stimulating aggregate demand; third, in order to improve the resource supply of commercial bank loans, commercial banks should be allowed to use only a stable balance of transaction deposits.

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