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The impact of the monetary policy of the Central Bank on the balance of payments

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Abstract : Monetary and credit policy is very important in the regulation of economic activity. For example, central banks regulate the country's foreign exchange market by setting exchange rates and create conditions necessary for the stability of the economic system. This article presents the results and analysis of scientific research on the impact of the monetary policy of the Central Bank on the balance of payments .

Key words : monetary policy, currency income,

Introduction: In the world economy, as a necessary condition for increasing the effectiveness of the Central Bank's monetary policy instruments, attention is being paid to the high-level organization of the stock market, money market, and bank credit and deposit operations . In particular, "in developed countries, taking the interbank money market interest rate as an indicative interest rate for commercial banks, the share of bank assets in GDP is higher than 80 percent, and the ability to dramatically influence consumer purchases through consumer loans increases the effectiveness of monetary policy instruments."

PF-60 dated January 28, 2022 of the President of the Republic of Uzbekistan "On the development strategy of New Uzbekistan for 2022-2026", PF-6079 dated October 5, 2020 On approval of the "Digital Uzbekistan-2030" strategy and measures for its effective implementation", dated May 12, 2020 No. PF-5992 "Banking system of the Republic of Uzbekistan for 2020-2025 on reform strategy", No. PF-5296 of January 9, 2018 "On radical improvement of the activities of the Central Bank of the Republic of Uzbekistan", No. PF-5877 of November 18, 2019 " Decrees on improving the monetary credit policy by gradually moving to the inflation targeting regime, PQ-3270 of September 12, 2017, "Measures to further develop and increase the stability of the banking system of the Republic" "On" and other normative legal documents in this field, this dissertation serves to a certain extent to implement the tasks.

The main part: Concept of implementation of monetary policy - the new stage of economic reforms aimed at the liberalization of the economy and increasing the role of market mechanisms, which began in 2017, determined the priorities for the development of the banking system and monetary policy in the medium term.

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this direction was practical steps related to the gradual liberalization of the domestic currency market by introducing the principles of formation of the national currency exchange rate based on market mechanisms.

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 regarding the liberalization of the foreign exchange market is closely related to the improvement of the monetary policy, strengthening of commercial banks, and the effectiveness of measures to develop the banking system.

Based on this, immediately after the announcement of the Decree of the President of the Republic of Uzbekistan "On the first measures to liberalize the currency market" "On measures" was adopted and the Complex of measures on the development of monetary policy in 2017-2021 and gradual transition to the inflation targeting regime was approved.

One of the next important steps in this regard was the adoption of the Decree of the President of the Republic of Uzbekistan dated January 9, 2018 "On radical improvement of the activities of the Central Bank of the Republic of Uzbekistan" .

and appropriate measures are provided to ensure the independence and institutional development of the Central Bank . The concept of development and implementation of monetary policy of the Central Bank of the Republic of Uzbekistan in the medium-term perspective was developed taking into account the leading role of the communication channel in the formation of public opinion and the implementation of the inflation targeting regime .

The purpose of this Concept is to convey to the general public and explain in detail the conceptual foundations of the transition to inflation targeting and the medium-term plans for creating the necessary conditions for the successful implementation of this monetary policy regime.

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.

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)	Base 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)	Prime 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% (upper limit)	Attracting structural excess in banking system liquidity

A number of scientific and practical results were obtained as a result of researches on the improvement of the methodological foundations of the use of monetary policy instruments by the world's leading scientific research centers, including the following scientific and practical results: availability of additional instruments for In particular, it was noted that a sufficient reduction of the main nominal interest rate by the central banks and, as a result, a negative real interest rate will limit the ability of the central banks to use the interest policy to provide economic stimulus . In such a situation, central banks are advised to focus on long-term interest rates, other asset prices or securities to stimulate the economy (Federal Reserve System) . The distribution of central banks' monetary policy decisions to

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gross consumption was studied in the Italian and US economies. Economists have analyzed the impact of three channels of monetary policy, namely, income heterogeneity channel from income inequality, Fisher channel from unexpected inflation and interest rate channels on aggregate expenditure. According to the results of the analysis , conclusions were drawn that all three channels increase the impact of monetary policy on economic growth (Stanford University). He compared the effect of mandatory reserve policy on the probability of bank failure and bank capital requirements. Although these two requirements have the same effect on banks' balance sheets and loan interest rates, these requirements have different effects on the bank's financial stability . When the frequency of interest on bank deposits is short , high reserve requirements increase their indirect costs (Technische Universität München). Losses (losses) on the central bank's balance sheet through open market policies of changes in inflation and gross output originally described the general neutrality feature and described the theoretical conditions supporting it (University of Cassino and Southern Lazio). The role of the mandatory reserve instrument in influencing the liquidity of commercial banks and the percentage of loans of the central banks of developing countries is analyzed. That is, although monetary policy in developing countries uses the mandatory reserve instrument to affect the lending period of banks , but its transmission mechanism has not yet been sufficiently revealed, they reduce the liquidity of banks with the increase of the mandatory reserve, and this leads to a new transmission that reduces the lending capacity. researched the mechanism channel (Bülent Ecevit Üniversitesi). Scientific centers of the world are conducting a number of studies on improving the scientific-theoretical, methodological and practical foundations of ensuring the stability of the money supply through the instruments of the monetary policy of central banks, including in the following priority directions: conducting open market policy and its basics of sustainable operation; improving the quality of the account rate and pawn loans in ensuring the stability of the money supply through monetary instruments; the relationship between banking system stability and monetary policy; ways to ensure the liquidity of the banking system through monetary instruments and, as a result, to ensure the stability of banks, etc. The central bank's monetary policy is spread throughout the economy through commercial banks. It is the healthy state of commercial banks , their liquidity and high lending potential that opens wide opportunities for the Central Bank. Through central bank instruments , it affects the liquidity of commercial banks and subsequently their lending capacity and banks' interest policies . We used two different models in the econometric analysis evaluating the impact of monetary policy instruments on the liquidity and lending

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capacity of commercial banks. The first model is a least square model , while the second is a structural vector autoregression model.

Monetary policy means measures aimed at changing the amount of money in circulation in order to reduce or eliminate the effect of inflation on the production of the gross national product under conditions of full employment. The monetary policy is determined by the state and implemented by the Central Bank. With its help, any state implements the task of ensuring economic stability in the country. employment, the ultimate goals of implementing the monetary policy are to ensure economic growth, full prices and stability of the balance of payments. In order to achieve these goals, it is necessary to maintain the optimal values of the national currency in circulation, the interest rate, and the national currency exchange rate. To fulfill these tasks, the Central Bank uses a number of tasks.

Three main instruments of monetary policy are distinguished:

1. Account rate;
2. Norm of mandatory reserves;
3. Open market operations. With their help, the Central Bank affects the money supply or interest rate in the form of money or mainly bank deposits, changes its supply and thereby regulates the monetary and credit circulation. One of the tools of monetary and credit policy is the policy of changing the mandatory bank reserve ratio. Mandatory reserves are the part of bank deposits that are not used for lending purposes. Monetary policy instruments do not necessarily need to be used separately. On the contrary, several tools are often used at once, that is, complex policy implementation is often encountered in practice. So what are the implications for monetary policy? The monetary policy implemented by the government has a direct impact on the level of GDP, employment and prices. Suppose that output in the economy is decreasing and the number of unemployed is increasing. In such conditions, the state tries to increase the money supply through the Central Bank using the tools we discussed above. As a result, the money supply will increase, and the interest rate will decrease. This increases the demand for investments and, in turn, leads to an increase in the amount of GDP. In this way, the state will achieve its goal in a certain period of time, the backwardness of production will stop, the number of unemployed will decrease, and the income of the society will increase. When talking about the consequences of monetary policy, it is necessary to distinguish between short-term and long-term consequences of this policy. If in the short term the increase in the state money supply stimulated the growth of the GDP and achieved a certain level of efficiency, in the long term the effectiveness of these measures may decrease.

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Discussion: The impact of the Central Bank's monetary policy on the balance sheet can be observed during the pandemic. In 2020, in order to ensure a balance between the tasks of mitigating the impact of the pandemic situation on the economy, supporting economic activity and ensuring price stability, the main rate of the Central Bank was reduced from 16% to 14%, and the monetary credit conditions were slightly was softened and transferred to a relatively solid phase. In 2021, these conditions remained unchanged , and real interest rates on deposits in the money market are formed at an average level of 2-3 percent based on the general liquidity situation in the banking system. Only in May-July of this year, a significant decrease of these interest rates was observed due to a sharp increase in the volume of total liquidity. But this gained temporary significance, due to the necessary changes made to monetary policy instruments, interest rates returned to the level envisaged under relatively strict conditions starting from August. Also, nominal interest rates on time deposits of individuals in national currency, calculated by indexation with their inflation expectations, were also formed at a positive level of 2-3 percent. Taking into account the characteristics of the national economy, the analysis of specific aspects and effectiveness of monetary policy regimes shows that the inflation targeting regime is very suitable for the task of achieving price stability as a priority goal of the Central Bank in the medium-term perspective. Based on this, the necessary legal bases and basic economic conditions were created for the gradual orientation of the principles and methods of monetary policy implementation to inflation targeting .

In particular, measures to ensure the liberalization of the currency policy and the formation of the exchange rate in market conditions, the clear definition of the priority goals and practical independence of the Central Bank, the transition to the active stage of the implementation of the monetary policy, the improvement of the methods of calculating and evaluating inflation, as well as transparency practical measures such as increase and strengthening of communication policy create basic conditions for transition to inflation targeting.

At the same time, existing risks and obstacles make it difficult to implement the inflation targeting regime.

In turn, the Central Bank focuses on strengthening the forecasting and analytical base, improving monetary policy instruments and strengthening their channels of influence, developing communication policy and increasing public confidence.

will combine efforts and work in cooperation with the relevant ministries and agencies in the implementation of measures for the gradual transition to this regime .

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In general, the transition to inflation targeting requires a radical revision and improvement of all aspects of monetary policy. This, in turn, means a qualitatively new stage in ensuring macroeconomic stability, which is the basis of long-term sustainable economic growth.

Conclusion: In order to increase the impact of Central Bank's monetary policy instruments on the economy, based on the results obtained above, it is appropriate to implement the following:

- central banks, when using monetary policy instruments, initially aim to influence the situation in the money market. Therefore, it is desirable to further increase the impact of changes in instruments on the money market, as well as the formation of the real interest rate.

- the results of the analysis showed that the increase in the money supply by the Central Bank does not affect the interest rate in the money market. With this, we can say that the exit channel of excess change in the money supply to the money market remains closed. That is, the increase in the money supply also increases the representative account number of commercial banks in the Central Bank in national currency. This resource does not bring interest to commercial banks, and therefore it is desirable to ensure the movement of these resources in the money market.

- It is desirable to increase the influence of the central bank refinancing interest rate on the interest rates of deposits and loans of commercial banks. Fourthly , it is desirable to reduce the influence of the administrative arms of the Central Bank in the formation of market interest rates in our country.

- in order to further develop the stock market, increase its level of capitalization, and expand the participation of individuals and legal entities in the stock market, it is advisable to widely introduce financial instruments such as exchange traded funds and crowdfunding instruments in order to develop an open market policy.

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