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FINANCIAL PROBLEMS OF THE FOREIGN EXCHANGE MARKET OF UZBEKISTAN AND ITS POSSIBLE WAYS OF STABILIZATION

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Abstract

This scientific article analyzes the influence of such factors as the growth rate of prices of gross domestic product, the growth rate of prices for goods, works and services during the year, the state of the foreign trade balance, the balance of the state budget on the rate of the national currency of Uzbekistan, while considering their positive or negative impact , as well as a forecast of its further changes. On the basis of the study, individual proposals were formulated to stabilize and strengthen the exchange rate of the national currency in Uzbekistan, among them the development and implementation of a fundamentally new economic policy with the orientation of market reforms in sectors whose share is small in the creation of the country's domestic product, to develop measures using market instruments to reducing the financial pressure of foreign currencies, which exert significant pressure on the domestic financial market, developing measures to increase the minting of gold coins and establishing the issuance of treasury gold bonds, active privatization of inefficient state assets, stimulating exports and expanding the localization of imports, as well as to achieve a positive balance of payments by market mechanisms , an increase in state budget spending on economic development by reducing spending on the social sphere, defense and management, and more.

Keywords: National currency exchange rate, inflation, gross domestic product, gross domestic product per capita, growth rates of prices for goods, works and services, foreign trade balance, balance of payments, exports, imports, state budget balance, deficit, surplus, treasury gold bonds, government assets, targeting.

Introduction

According to the chairman of the Central Bank of the Republic of Uzbekistan Mamarizo Nurmuratov, the exchange rate of the sum, which is currently the national currency, in relation to foreign currencies is set on the basis of a free-floating exchange rate, using market mechanisms, i.e. based on supply and demand in the domestic market. However, it should be noted that even after the liberalization of the souma exchange rate since September 2017, the exchange rate of the national currency has been constantly decreasing, and it is not known how long this process will continue.

The answer to this question remains open at the present time.

This situation presents a number of mysteries for all categories of the population, resident and non-resident legal entities (ordinary citizens and entrepreneurs, exporters, importers, foreign and domestic investors, and even economists). In short, this prevents the forecasting of long-term business projects and the development of real strategic financial plans, as well as investment projects.

In the Republic of Uzbekistan, in order to radically reform the current system of the domestic foreign exchange market and its regulation, liberalize foreign exchange policy, and create equal conditions for conducting foreign economic activity for all business entities, a decree of the President of the Republic of Uzbekistan "On priority measures to liberalize foreign exchange policy" was adopted [1].

In accordance with national legislation, the exchange rate for transactions involving the purchase and sale of foreign currency in the territory of the Republic of Uzbekistan is determined on a contractual basis, based on supply and demand for foreign currency. When determining the exchange rate of the Republic of Uzbekistan against a foreign currency, market mechanisms are exclusively used.

When establishing the procedure for the purchase and sale of foreign currency, the Central Bank provides for the creation of conditions for determining the exchange rate based on the demand for foreign currency and its supply. The Central Bank regularly sets the exchange rate for the purposes of accounting, statistical and other reporting on foreign exchange transactions, as well as for calculating customs and other mandatory payments on the territory of the Republic of Uzbekistan. [2].

Many international and domestic scientists and economists have tried to figure out which factors have the greatest impact on the exchange rate. Let's analyze the main ones. Let's start with foreign economists.

The American Economist R. J. Fisher suggested that the exchange rate depends on the amount of gold. In nominalist theory, G. Knapp considered the exchange rate solely as a creation of the state, for managing the country's economy. He denied the value basis of exchange rate ratios. [3].

J. Keynes in his book "The General theory of employment, interest and Money" described the theory of neutral exchange rates, the meaning of which is that the exchange rate is determined by the supply and demand of currency and is a consequence of exchange transactions. [4].

In another article, "The Future of exchange rates" (1935), J. Case also highlighted capital flows as a factor affecting the stability of the currency. [5].

J. Williamson found that the exchange rate is influenced by factors such as employment and inflation. [6].

In the 70s, the Mandell-Fleming model appeared, created independently by R. Mandell and M. Fleming. Using the model, it is possible to determine which factors of monetary (the level of the real interest rate, the balance of payments balance and the level of foreign direct investment) and fiscal (the volume of money supply and the level of taxes) affect the exchange rate. [7]

L.S. Padalkina in her textbook "World Economy" identifies structural and conjunctural factors (related to fluctuations in business activity in the country, the political situation, rumors and forecasts). [8].

E.V. Gruzinskaya highlighted in her textbook that with an increase in consumer demand for imported goods, the exchange rate of foreign currency increases, and the national currency, accordingly, falls. Conversely, an increase in demand for domestic goods will lead to a strengthening of the national currency. [9].

Mammadova B.A. in her article "The impact of changes in the exchange rate on the country's economy and methods of its regulation" additionally highlights the following determinants of the exchange rate: 1) Changes in demand for foreign securities, bank loans, and cash. With an increase in demand for foreign securities, bank loans and cash, the foreign currency will strengthen. Conversely, with the growing demand of foreign investors for the assets of a given country, its currency strengthens. 2) The preference of the population to keep savings in foreign or national currency. The currency in which the population prefers to keep their savings affects its demand. If the majority of the population keeps savings in foreign currency, then this negatively affects the exchange rate of the national currency. This demand is very difficult to regulate. Even if the Central Bank starts using any tools (for example, it introduces a restriction on the sale of currency or a commission for currency transactions), this, on the contrary, may lead to the emergence of a black market for foreign currency and excessive demand for it, which will negatively affect the exchange rate of the national currency. [10].

N. P. Belotelova considers economic growth rates (growth in gross domestic product, industrial production), inflation rates and inflation expectations, the state of the country's balance of payments, the level of interest rates and yields on securities, the degree of currency use in the world market to be among the main exchange rate-forming factors [11].

Thus, D. P. Udalishchev names the following factors: the supply and demand of currency, the rate of inflation, the level of interest rates and yields of securities, the state of the balance of payments [12].

According to L. P. Naumova, "under any circumstances, the most significant factors are the dynamics of GDP, inflation, money supply and the balance of payments" [13].

An analysis of various theoretical positions and views of scientists has shown that there is no consensus among domestic jurists on the importance of certain factors affecting the exchange rate of the national currency. Among the most significant course-forming factors, the authors (both theorists and practitioners) indicate a variety of different ones. Thus, some domestic economic scientists name among the main factors influencing the exchange rate: the deficit balance of payments, the state budget deficit, the monetary policy of the Central Bank, inflation, and the state external debt [14].

According to others, "the number of factors of an economic, political, structural, legal or psychological nature that directly or indirectly affect the dynamics of the exchange rate reaches several dozen" [15].

The main part

Therefore, in this scientific article, analyzing individual indicators, we will determine which factors positively or negatively affect the stabilization and development of the foreign exchange market as a whole and the strengthening of the national currency in developing countries, including our Republic, we will justify scientifically correct answers to the above questions.

The first factor

The rate of price growth of gross domestic product (GDP) (i.e. goods, works and services) produced during the year, excluding inflation and their quantity per capita. If we analyze the dynamics of official statistics over the past few years (Table 1) for this macroeconomic financial indicator, we will see that:

Table 1 Dynamics of changes in GDP per capita in Uzbekistan [16].

Years	Gross domestic product: total trillion soums	Per capita million soums
2017	254,0	7,8
2018	407,5	12,4
2019	511,8	15,2
2020	580,2	16,9
2021	734,6	21,0
2022	888,3	24,9
2023	1,07 кватрлн.	29,0
2024	1,3 кватрлн.	

The above data show that GDP growth and the per capita GDP growth rate in the country in 2017-2023, i.e., increased almost fourfold in 6 years. Despite the positive increase in this indicator by 5-6% per year, it cannot stop the trend of a sharp devaluation of the national currency, and a decrease in the GDP growth rate, since there is too much inflationary pressure on the national currency in the country.

When calculating in US dollars at the average exchange rate for 2023, the nominal GDP of Uzbekistan amounted to 90.8 billion US dollars last year, it amounted to 80.4 billion US dollars, i.e. the annual growth is more than 10 billion US dollars compared to last year. In 2024, the republic intends to increase the level of GDP by 100 billion. It's a milestone.

From the above data, it can be seen that in 2020, GDP per capita in Uzbekistan at current prices amounted to 16.9 million. The sum (or, in equivalent, 1,685. 5 US dollars) and, compared with 2019, decreased by 0.3%. Therefore, in subsequent years, a state program to ensure economic stability in the country was developed and adopted, according to which about 29 trillion will be allocated to finance its activities. 500 billion soums, as well as more than 2 billion 600 million US dollars and 57.5 million euros. [17] and the Government in subsequent years achieved a sharp increase in investments in fixed assets. All this will, to a certain extent, ensure economic stability and a gradual reduction in poverty.

The second factor is the containment of the inflation rate in the country, i.e. the growth rate of prices for goods, works and services during the year. Everyone knows that the Government of the country currently regulates prices for 37 types of goods and services, which ultimately negatively affects free competition. Analyzing this problem using official statistical data, we can observe the following negative aspects:

Table 2 Dynamics of changes in the inflation rate in Uzbekistan [16]

Years	Inflation rate as a percentage
2017	14,4
2018	15,5
2019	14,9
2020	11,1
2021	10,0
2022	12,3
2023	8,8
2024 forecast	10

The above data show that since September 2017 (the Central Bank has liberalized the foreign exchange market), the inflation rate in the country remains within the range of more than 10-15 percent in annual terms. The Central Bank of the Republic of Uzbekistan has started implementing an inflation targeting system from January 1, 2021. In practice, it can be seen from the above tables that the Central Bank of Uzbekistan is unable to reduce the inflation rate, for example, in 2023 its level had to be reduced to 5 percent, in fact it amounted to 8.8 percent, i.e. 3.3 percent more than the forecast.

In the course of studying the problem of the fall in the exchange rate of the national currency against a foreign currency, the aggravating negative factor is inflationary pressure, that is, price growth in the country.

The reason for such a sharp increase in domestic prices is the financing of the national economy in foreign currency (by attracting deposits and rapid credit growth, especially through concessional government loans). The central bank, in order to curb inflation in the range of 5-10% in recent years, has been trying to use a targeting policy. But with a high level of financing in foreign currency, it is very difficult to achieve any kind of restraint through monetary policy, since our capital market is still underdeveloped in our domestic financial market.

The third factor. The state of the country's foreign trade balance (negative or positive balance). To analyze this factor, we refer to the statistics for the period under review, which has the following trend:

Table 3 The state of Uzbekistan's foreign trade balance [18].

Years	Foreign trade turnover, in millions of US dollars	Export	Import	The remainder (+ positive, - negative)
2017	26,9	12,9	14,0	- 1 118,9
2018	33,8	14,3	19,6	- 5300,0
2019	28,4	12,5	15,9	- 3 507,3
2020	36,3	15,1	21,1	- 5 407,3
2021	42,2	16,7	25,5	- 8,845,0
2022	50,01	19,3	30,7	- 11,39
2023	62,5	24,6	38,1	-13,7
2024				

An analysis of official foreign trade statistics shows that in 2017-2023, its total volume increased by 2.3 times, while exports increased by 1.9 times and imports by 2.7 times. The growth of foreign trade turnover is due to an increase in imports. This is true in the sense that after the liberalization of foreign trade, the demand for foreign currency in our country increased significantly, with an increase in export receipts of foreign currencies 1.9 times, and imports increased by more than 2.7 times, that is, in foreign currency, which leads to a sharp increase in the exchange rate and a sharp devaluation of the national currency.

In other words, the country's foreign trade balance is passive, and by the end of 2023 its negative balance is about 13.7 billion US dollars. Such an impressive negative balance in foreign currency will lead to a sharp drop in liquidity within the country, and the depreciation of the national currency of the soum will exacerbate the pressure.

In this situation, the Central Bank and the government should not just be a spectator, they need to develop an urgent and fundamentally new economic and monetary policy.

The fourth factor. The balance of public finances, i.e. the consolidated budget (deficit or surplus). This indicator is also one of the factors that have a significant impact on the exchange rate of the national currency. Let's consider statistical data on the dynamics and balance of income and expenses of the consolidated budget:

Table 4 Dynamics of consolidated budget revenues and expenditures The Republic of Uzbekistan for 2017-2020 [16]. (excluding extra-budgetary special funds)

Years	Revenues, trillion sums	Expenses of trillion sums	Deficit "-" Surplus "+" trillion sums
2017	49,7	49,3	0,3
2018	62,5	74,0	-11,5
2019	112,2	118,0	-6,8
2020	98,2	108,0	-2,6
2021	27,7	33,2	-5,5
2022	32,0	36,0	-4,0
2023	30,1	35,6	-5,5
2024	30,5	34,5	-4,0

The above analysis of the dynamics of official statistics shows that the expenses of the consolidated budget are growing with a greater trend than its revenues, and there is also a deficit. If its figure in the 2017 budget year was 0.3 trillion. sum, in 2023, this figure, according to the above data, amounted to 5.5 trillion. sum, i.e. more than 18 times compared to 2017.

Also

The rules for conducting currency transactions have been adopted [1].

The Board of the Central Bank approved the “Rules for conducting currency transactions in the Republic of Uzbekistan” (registered by the Ministry of Justice on August 31 this year for No. 3281).

The rules, in accordance with international practice, define a single procedure for conducting foreign exchange transactions by unifying the norms of by-laws in the field of currency

[1] cbu.uz/ru/press_center/news/403214/

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regulation and invalidating 5 normative legal acts, which helps to simplify the procedure for conducting foreign exchange transactions.

This document regulates the procedure:

- maintaining accounts of residents and non - residents in foreign currency by commercial banks;
- carrying out transactions for the purchase and sale of foreign currency by business entities in the domestic foreign exchange market;
- carrying out currency exchange operations with individuals;
- accepting foreign currency in cash on the territory of the Republic of Uzbekistan;
- import and export of foreign currency cash from the territory of the Republic of Uzbekistan by commercial banks.

Devaluation and revaluation [2]

Under the influence of the ratio of supply and demand, the exchange rate changes. A decrease in the exchange rate of the national currency indicates its depreciation and is called devaluation, and an increase in the exchange rate of the national currency is its revaluation.

The result of an increase in the exchange rate of the national currency is an increase in the prices of national goods on the world market, expressed in foreign currency, which leads to a reduction in their exports, the competitiveness of which decreases. At the same time, prices for foreign goods denominated in national currency are decreasing and imports of foreign goods are increasing. An increase in the exchange rate of the national currency leads to an increase in the cost of national assets denominated in it relative to foreign assets. As a result, capital outflow abroad increases.

When the exchange rate of the national currency falls, the prices of national goods on the world market, expressed in foreign currency, decrease, which leads to an increase in exports, the competitiveness of which increases. At the same time, the prices of foreign goods denominated in national currency become higher, as a result of which imports are reduced, and national securities denominated in national currency become cheaper. They become attractive to foreign investors, which contributes to the inflow of foreign investments. The demand for the national currency from non-residents will grow if the yield on foreign securities at a comparable level of risk is higher than abroad. In this case, the growth in demand for the national currency will contribute to the growth of its exchange rate. Otherwise, when the income level for assets is higher abroad, the demand for foreign currency increases, while the national currency decreases, and as a result its exchange rate falls.

Exchange rate and balance of payments

The exchange rate depends on the real state of the country's balance of payments, which reflects the overall balance of the country's foreign economic transactions with the outside world, the movement of capital and income over a certain period of time.

To a greater extent, those balance of payments items that reflect current transactions react to the state of the exchange rate. The current account deficit indicates the low competitiveness of

[2] belstu.by - Валютный курс

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national goods and services on the world market and the greater attractiveness of foreign goods for the citizens of this country. In this case, there is an increase in external debt and a tendency to decrease the exchange rate of the national currency.
However, a lot depends on the elasticity of prices for export and import goods.
This means that with inelastic import demand, a fall in the exchange rate of the national currency can worsen the country's trade balance.
If the demand for imports grows faster than the supply of exports, then the depreciation of the national currency will cause a deterioration in the trade balance for some period. The change in the trade balance (Fig. 1a) shows that the depreciation occurred at point 0, and as consumers continue to buy imported goods, and manufacturers are only preparing to increase production, the trade balance deteriorates.
After an increase in the exchange rate, if the demand for imports is inelastic (Fig. 1b), then a decrease in prices for imported goods causes a reduction in import costs. If exports do not decline as quickly as imports, then the trade balance will improve.

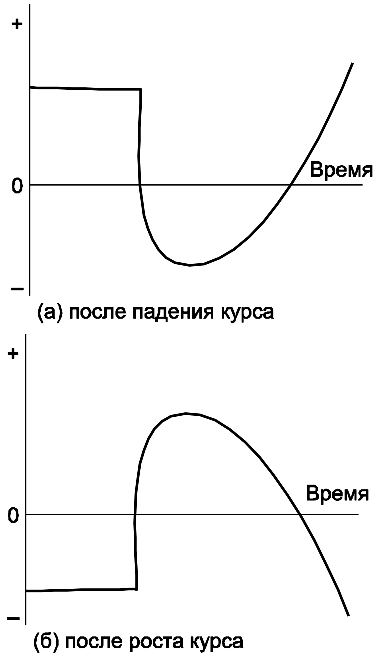

Fig. 1. Change in the balance of payments

However, the foreign exchange market can remain stable even in the case of inelastic exports and imports, since there are a large number of other factors shaping the supply and demand of the national currency.
The country's trade surplus means an increase in demand from foreign debtors for the national currency and an increase in its exchange rate. At first glance, this situation indicates an uninterrupted inflow of foreign currency, which can be used to cover import needs. In practice, an active balance of payments is not always an undoubted benefit for the country.
So, on the one hand, due to the growth of the exchange rate of countries such as Germany and Japan, whose goods are becoming more expensive for consumers of other countries, this means a decrease in competitiveness compared to goods from other countries. On the other hand, it is becoming increasingly difficult for their partners to earn German marks, i.e. (currently euros)

and Japanese yen, so they seek to limit the import of goods from countries with a strong currency. This situation has a painful effect on the economies of Germany and Japan as a whole, which are largely export-oriented for many goods, and forces the governments of these countries to look for ways to lower their currencies.

The urgent foreign exchange market

Foreign currency can be bought and sold not only on the basis of spot, but also on time, i.e. with delivery on a fixed date. The purpose of their application:

• insurance against currency exchange rate changes;
• making speculative profits;
• covering the risk that exists in other cases (commercial or financial);
• extraction of arbitrage profit.

Types of urgent transactions are forward and futures transactions, options, swap transactions and numerous combinations arising on their basis. At the same time, forward and swap operations are mainly carried out by commercial banks, and options and futures trading is carried out on the exchange segment of the foreign exchange market.

The rate of execution of futures transactions usually differs from the spot rate by the amount of discount or premium, i.e. discounts or surcharges to the existing spot rate. This is due to the need to predict the fixed-term exchange rate: the factors influencing the value of the exchange rate are analyzed, and an approximate exchange rate in the future is displayed, which is adjusted depending on the market situation. The spread between the purchase rate and the sale rate of a currency for a period is usually higher than in spot transactions, which is associated with a higher level of currency risk arising from urgent transactions.

The maximum volume of trading on futures markets is accounted for by the US dollar, euro and Russian ruble.

Results and Discussion

Thus, all four of these analyzed factors are negative, so the exchange rate of the national currency and its purchasing power in relation to other currencies will tend to decrease.

So, making a general conclusion for the near future, it can be argued that the exchange rate of the national currency of the Republic of Uzbekistan - sum against foreign currencies, despite the annual GDP growth of 5-6%, will continue to decline over the next 4-5 years.

Conclusion

In general, the level of development of the country's domestic foreign exchange market, its volume and condition, as well as the exchange rate, has a huge impact on all economic processes of the country, therefore, its development forecasting is necessary, since timely leveling of the negative consequences of exchange rate fluctuations helps to avoid crisis situations. In order to eliminate the effects of exchange rate fluctuations, it is necessary to determine which factors most affect the exchange rate of the national currency and use them to make a forecast.

Therefore, first of all, it is necessary to develop and implement a fundamentally new economic policy, primarily with the orientation of market reforms in sectors that contribute little to the creation of the country's domestic product.

Secondly, the Central Bank and the Ministry of Finance need to jointly develop measures using market instruments to reduce the financial pressure of foreign currencies, which puts significant pressure on the domestic financial market, develop measures to increase the minting of gold coins and establish the issuance of treasury gold bonds and the active privatization of inefficient state assets.

Thirdly, In the current operations of the country's balance of payments, it is necessary to stimulate exports and expand the localization of imports, as well as to achieve a positive balance through market mechanisms.

Fourth, it is necessary to significantly increase state budget expenditures on the development of the real sector of the economy by reducing expenditures on the social sphere, defense and management, which do not provide certain economic efficiency.

Fifth, no matter what happens in the domestic financial market, the Central Bank should not manipulate the exchange rate of the national currency in order, of course, not to join the countries to which the United States applies additional sanctions.

The size and growth of the domestic foreign exchange market as well as the exchange rate is one of the indicators of the state of the national economy. It reflects not only confidence in the national currency, but also the development of the country's industry. A state with a strong economy is usually characterized by a stable currency, and strong fluctuations in the exchange rate, its constant weakening, usually indicate the instability of the economy or its weak development.

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