The Theory, Objective and Function of The Monetary Policy

Kakhorova Anora Nusratovna
Tashkent State University of Economics, Faculty of Economics,
Assistant of the "Fundamental Economics" Department
e-mail: kahorovaanora1991@gmail.com

Abstract

This article comprises a study of monetary policy in Uzbekistan and analyzes the potential channels of monetary policy transmission mechanism as a vehicle to evaluate the efficiency of monetary policy. The research is rather compelling of the accomplishment of monetary policy in Uzbekistan, especially in rates of exchange, reserve prerequisites, interest rate, inflation targeting. The goal of this article to observe whether the monetary instruments impact on the economy of Uzbekistan. We have investigated the importance and role of the monetary policy in Uzbekistan.

Keywords: Monetary policy, economic growth, exchange rate, inflation, mechanism.

INTRODUCTION

Monetary policy is one of the important directions of the states economic regulation policy. Its target is the demand for money and supply of money. That's why , monetary policy plays a crucial role in preventing the pace of inflation in the state , meeting the demand for money in the economy, increasing capability of the population and businesses for credit system, ensuring the stability of national exchange rates. Strategic and tactical goals , use of instruments and analyzed indicators are the chief issues of monetary policy. The focus of anylizes based on analyzing and generalizing the best international practices as the US Federal Reserve, the EMB and the central bank of Japan possess considerable experience in the development monetary policy. This also can anyleze the state of monetary policy controlled by the Central Bank of the Republic of Uzbekistan. Monetary policy course is aimed at equipping under graduate students with theoretical knowledge , practical skills on methodological issues and characteristics of monetary policy. No. PF-4947 of the President of the Republic of Uzbekistan dated February 7, 2017 In the "Strategy of actions for the development of the Republic of Uzbekistan" to ensure monetary policy with the use of additional market instruments in advanced economic practice, to raise technological processes in the regulation of currency to a new level and to ensure financial stability,further strengthening of macroeconomics and high economic growth has been identified as one of the necessary conditions for maintaining the speed.

The Law on the Central Bank of the Republic of Uzbekistan also claims that the strategic goal of the Central Bank's monetary policy is providing the stability of the national currency.

However, the decree of the President of the Republic of Uzbekistan No PF-5296 of January 9,2018 "On measures to radically improve the activities of the Central Bank of the Republic of Uzbekistan" sets the following as strategic goals of the Central Bank of the Republic of Uzbekistan:

-ensuring price stability;

-ensuring the stability and development of the banking system;

-ensuring the stability and development of the payment system

Literature Review

Monetary policy shares the general goals of macroeconomic stabilization policy: High employment, price stability, exchange rate stability and a high rate of economic growth[1].

Having taken up monetary theory, we can now discuss monetary policy. With a small loss in accuracy we identify monetary policy Central Bank policy, brushing aside the fact that the Treasury also has some very limited monetary policy powers. High employment is an obvious goal. Regardless of whether one focuses on the loss of output or on the human misery involved, practically everyone prefers high employment to large-scale unemployment.

The textbook "Organization of the Central Bank", co-authored by V. Rudko-Silivanov, N. Kuchina, M. Jevlakova, recognizes the existence of the following strategic goals of monetary policy:

- ensuring price stability;

- achieving full employment;

- Ensuring the growth of real production;

- ensuring the balance of payments35.

Here the main strategic goal of monetary policy is the national currency

without acknowledging its sustainability, its strategic goal is to ensure the growth of real output and the balance of payments.

According to S. Moiseev, monetary policy has the following four strategic goals:

- price stability;

- stability of the national currency;

- ensuring financial stability in the country;

- Balanced economic growth

One of the main conditions for choosing the tactical goals of monetary policy is the presence and level of the state budget deficit. If the state budget deficit is higher than 3% of GDP, it will lead to an increase in interest rates. As a result, prices will rise. This, in turn, reduces the level of investment and, consequently, slows down the growth of real output. In such circumstances, maintaining a stable level of money supply growth over long periods of time will allow the difference between the growth rate of money supply and the natural growth rate of real output to remain as prices continue to rise. will be. In this context, the Central Bank will have to use the stable growth rate of prices as an indicator to eliminate the role of the state budget deficit as a factor in strengthening inflation.

Typically, the best way to deal with the effects of a growing budget deficit is to curb the growth rate of money supply. This tactical goal is to increase the velocity of money associated with

the budget deficit. As a result, the negative impact of the state budget deficit on the growth of nominal national income will be eliminated. However, the real volume of production and the price level do not change in the short term. A new stage of the economic transformation, targeted at the economic liberalization and acceleration of market mechanisms, has prioritized the improvement of the banking system and monetary policy in moderate form. The most crucial decisions in this regulation were applicable grades towards liberalizing the domestic form exchange market by means of the national exchange rate on the market mechanisms. Likewise the utilization   of new approach in the exchange rate will let the Central Bank facilitate monetary policy while centralizing on stable price in the domestic market. Meanwhile accomplishing modifications successfully to liberalize the foreign exchange market is owing to effective measures for the development of the monitary policy, intensify campaigns of commercial banks. Reaching and maintaining a low and stable inflation rate and achieving a long-term growth trend is considered to be a chief objective of monetary policy. Achieving sustained growth rates can create employment and develop high quality of life. Monetary polices can target the management of inflation levels, unemployment rates, maintenance currency exchange rates.   After studying and summarizing the views of a well-known economist on the types of monetary policy, we came to the conclusion that there are two main types of monetary policy:
 1. Restrictive monetary policy.
 2. Expansionary monetary policy.

Analysis and results
The classic instruments of monetary policy are handling discount and rediscount rate, open market operations, variations allowance reserves, credit limits, bank refinancing rate. If there is growing money supply, the Central Bank would purchase bonds from money markets, escalating the banking reserves. Banks should take into account, in these situations, they have considerable reserves and try to raise increase lending. Supervision of money supply could be gained by alerting compulsory bank reserve degree. The basic function of monetary policy is refinancing credits from the central bank. When countries do not require provisioning by commercial banks to the bank account issue, this mechanism plays an integral part.
The monetary policy of the Central Bank plays an important role in ensuring the liquidity of the current currency market of our republic. According to the data of the State Statistics Committee, the real growth of GDP in our country in the 9 months of this year was 6.9%. According to the records, the volume of GDP in 2022 was planned to be about 840 trillion soums (74.2 billion dollars). It is envisaged that GDP per capita will be 23.8 million soums ($2.1 thousand). In 2022, the value added to GDP will be 92.6 percent, and the net tax revenue from products and export-import operations will be 7. It was 4 percent. In particular, the instruments used in advanced international practice were used in the "Strategy of Actions for Further Development of the Republic of Uzbekistan" approved by the Decree of the President of the Republic of Uzbekistan No. PF-4947 of February 7, 2017 improvement of the monetary and credit policy, gradual introduction of modern market mechanisms in the regulation of currency and ensuring the stability of the national currency are defined as one of the necessary

conditions for further strengthening of macroeconomic stability and maintaining high economic growth rates.
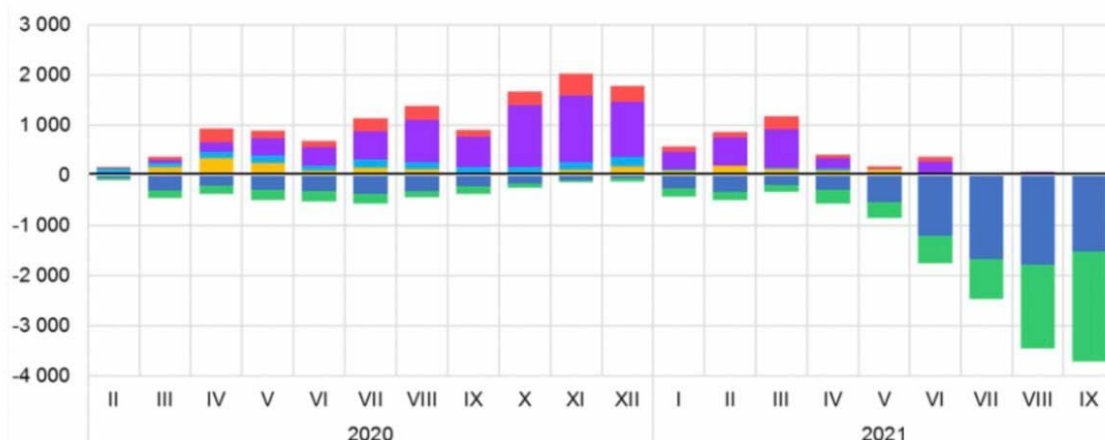
Figura[1] **Dynamics of short-term monetary operations in Central bank:**

Source:Central Bank.
○**Repo auction**
● **Cvop**
○**Cvop auction**
○**Deposit auction**
○**Repo**
○**Deposit**

With the beginning of the decline in interest rates in the money market in May, the limits on the balance of bonds of the Central Bank will reach 5 trillion. 7.5 trillion soums soums and the volume of two-week deposit auctions amounted to 100 bln. 200 billion soums soums. In June, in response to the continued growth of total liquidity and the continuing dynamics of declining interest rates in the market, the balance limit of the Central Bank's bonds reached 10 trillion. soums and the volume of two-week deposit auctions amounted to 500 bln. Soums

Figura[2] **Volume of operations in the interbank money market (billion soms) and interest rates.**

Source :Central Bank

Volume of interbankmoney market operations(billion soums)

Average weightened interest rate on deposits(right scala)

The banking system saw an increase in the liquidity surplus and a significant easing of conditions in the interbank money market.

Conclusion:

The setting of monetary policy should be independent from government aimed at low inflation. Common monetary policies at the regional level can act as a precursor for the development of a currency and single Central Bank or monetary authority. Prime tool that governments can use to impact on the economy is considered as the monetary policy.

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