

**TOPIC: MAIN DIRECTIONS OF CURRENCY POLICY IN THE REPUBLIC OF
UZBEKISTAN.**

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Abstract: *This article explores the main directions of currency policy in the Republic of Uzbekistan, focusing on its economic implications and regulatory frameworks. It examines the country's efforts to maintain exchange rate stability, promote foreign investment, and ensure macroeconomic stability amidst global economic uncertainties. Additionally, the article discusses the role of the Central Bank of Uzbekistan in formulating and implementing currency policies, including interventions in the foreign exchange market and measures to mitigate currency risks. Through a comprehensive analysis, it sheds light on Uzbekistan's currency policy strategies and their impact on the country's economic development and integration into the global financial system.*

Key words: *The main directions of currency policy in the Republic of Uzbekistan include exchange rate stability, liberalization of currency regulations, promoting foreign investment, and enhancing the competitiveness of the national currency. Key words associated with this topic might include exchange rate management, foreign exchange reserves, capital controls, trade balance, foreign direct investment (FDI), and monetary policy.*

In 2021. Improvement of the operational mechanism and monetary policy instruments of the Central Bank and bringing them in line with the standards of the inflation targeting regime was profoundly activated. In particular, since the beginning of the year, the Central Bank and the ministry of Finance have announced the practice of pre-announcing the Quarterly schedule of bonds, and now commercial banks can predict the Volume, term and type of government securities and take them into accounting liquidity management.

There were also changes in the timing of monetary transactions, in particular, the conduction of auctions at the beginning of the day and overnight transactions during the day (from 10:00a.m. until 16:00p.m.) has been implemented. At the same time, the openness of overnight operations during the day balanced the liquidity expectations of banks and had a positive impact on money market interest rates.

In this regard, the practice of calculating interest rates on overnight.

Operations on a calendar day, rather than a working day, was introduced.

Before, the interest rate on overnight operations conducted on Friday or the day before the holiday (used for 3-4 days) was calculated only for one day, which differed

from the situation in the money market. This had a certain effect on the operation of the money market ceating an arbitrage situation with this change, the interest calculation processes for the Central Bank's Short-term monetary operations and deposit operations in the money market were unified.

Based on the forecast of the overall liquidity of the banking system, fine-tuning operations were introduced from 2 to 13 days. Providing for a certain.

Number of REPO, SWAP operations and deposit auctions during the mandatory reserve calculation period (usually during the last 10 Days), Depending on the status of commercial banks' compliance with the averaging ratio.

However, in the past period of 2021, there was a significant increase in Total liquidity in the banking system, and there was not need for these Operations due to the regular compliance of the averaging ratio. On the contrary, in May-July, due to a significant increase in total liquidity, the demand for Central Bank's liquidity absorbing operations increased. As a Result, this situation required adjustments to the volume of deposit auctions and the schedule of issuance of bonds of the Central Bank.

With the beginning of the decline in interest rates in the money market in May, the limit on the balance of the Central Bank's bonds were increased from 5 trillion soums to 7.5 trillion soums and the volume of two-week.

Deposit auctions was raised from 100 billion soums to 200 billion soums. In June, in response to the continued increase in total liquidity and downward Trend in the market interest rates, the limit on the Central Bank's bonds was raised to 10 trillion soums and the volume of two-week deposit auction amounted to 500 billion soums.

In international practice, in countries with relatively high key rates, the interest rate corridor is wider, and the interest rate corridor narrows with the Stabilization of inflation and the decrease in the key rate.

The introduction of a wider interest rate corridor is aimed at increasing banks' interest in money market operations (4 p.p. gap) and thus ensuring their active participation in the money market and reducing demand for the Central Bank's monetary operations.

In particular, since August 5 (the first day of the next mandatory reserve Period) there has been an raise in activity in the money market due to the Expanded interest rate corridor, the total volume of deposit operations in August amounted to 84 trillion soums and increased by 46.6% compared to July.

From the first day (August 5), when the Central Bank conducted an unlimited number of overnight deposit operations in accordance with the standards of the inflation targeting regime, money market interest rates returned to the interest rate corridor and no fluctuations up or down the interest rate corridor have been observed.

2. Guidelines for further development of the domestic foreign exchange market in the medium term, the Central Bank plans to implement a number of measures further improve the domestic foreign exchange market and increase the role of participants in the formation of the exchange rate. In Particular, the Central Bank is

now a major player in the domestic foreign exchange market and its role in applying foreign exchange is large.

However, as the domestic foreign exchange market develops, the aim is to gradually reduce the role of the Central Bank and increase the role of Commercial banks as market makers.

Market makers are key players in the foreign exchange market, helping to increase market liquidity and determine a balanced exchange rate.

Ensuring supply and demand for foreign currency. Increasing the number of banks acting as market makers will contribute to improving the efficiency of the interbank foreign exchange market.

In addition, the Central Bank now acts as a central counterparty, intermediating between market participants, ensuring timely fulfillment of obligations for transactions on the domestic foreign exchange market and assuming risks. Based on international experience, the central counterparty function is to be transferred to the Republican Currency Exchange.

A target to radically improve the activities of the Republican Currency

Exchange, create a modern trading infrastructure and expand cooperation and integration with international financial institutions, financial markets and

Foreign exchange has been set in turn, in order to further develop the domestic foreign exchange market and mitigate the effects of possible external shocks that could adversely affect the financial condition of businesses and to reduce foreign exchange risks in the country, hedging instruments (swaps, futures, etc.) will be introduced on the Republican Currency Exchange.

3. Guidelines for improving the efficiency of the monetary policy transmission mechanism.

The central bank influences interest rates in the economy, the price of financial assets, and macroeconomic expectations by changing the key policy rate. This, in turn, is reflected in the decisions of the population and businesses on consumption, savings and investment, and affects the level of inflation through aggregate demand and supply of goods and services.

The transmission of monetary policy decisions to the economy takes place through several channels. When making monetary policy decisions, the Central Bank comprehensively assesses the impact of the decision on the economy through the channels of the transmission mechanism and takes into account the speed, impact and direction of impact.

Interest rate channel. This channel is the main channel that ensures the transition of monetary policy decisions of the Central Bank to the economy under the inflation targeting regime, and therefore this channel will be improved primarily to increase the impact of the Central Bank on interest rates in the economy.

In 2020-2021 necessary conditions and tools have been introduced to increase the efficiency of the interest rate channel, in particular, through the establishment of an

effective operational mechanism for transition decisions on the key rate to the money market, AS a result, the impact of monetary policy decisions on money market interest rates has increased.

In this regard, it is expected that measures to further improve the operational mechanism and increase the activity of the interbank money market in the coming years will increase the impact of short-term interest rates in the money market on medium and long-term interest rates including interest rates on deposits and loans.

Communication channel. The effective transmission of monetary policy decisions to the economy largely depends on the confidence of economic entities in the banking system, the Central Bank and the national currency the role of the communication channel in increasing this confidence is important, in the next year, special attention will be paid to further improvement of the communication policy.

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