

Factors Influencing Changes in the Rate of the National Currency and the Ways of Its 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 reduce 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 the national currency at present, in relation to foreign currencies is established on the basis of a free floating rate, with the help of 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 "sum" exchange rate since September 2017, the national currency rate 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 makes it difficult to predict long-term business projects and develop real strategic financial plans and investment projects.

In the Republic of Uzbekistan, the Decree of the President of the Republic of Uzbekistan "On priority measures to liberalize foreign exchange policy" is adopted in order to radically reform the current system of foreign exchange regulation, liberalize foreign exchange policy, create equal conditions for conducting foreign economic activity for all business entities[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 the supply and demand for foreign currency. When determining the exchange rate of the currency of the Republic of Uzbekistan in relation to foreign currency, market mechanisms are exclusively used.

When establishing the procedure for buying and selling foreign currency, the Central Bank provides creation of conditions for determining the exchange rate based on the demand for foreign currency and its supply. The Central Bank regularly sets the

Factors Influencing Changes in the Rate of the National Currency and the Ways of Its Stabilization

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 in the territory of the Republic. Uzbekistan. [2].

Many economists have tried to find 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 proposed that the exchange rate depends on the amount of gold. G. Knapp in the nominalist theory considered the exchange rate exclusively as a creation of the state, for the management of the country's economy. He denied the value basis of the exchange rate ratios. [3].

J. Keynes in his book "The General Theory of Employment, Interest and Money" described the theory of neutral 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. Keynes also identified capital flows as a factor affecting currency stability. [5].

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

In the 70s the Mundell-Fleming model appeared, created independently by R. Mundell and M. Fleming. The model can be used to establish which monetary (real interest rate, balance of payments equilibrium, and foreign direct investment) and fiscal (money supply and tax) factors affect the exchange rate. [7].

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

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

B.A.Mamedova 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) Change in demand for foreign securities, bank loans, cash. With an increase in demand for foreign securities, bank loans and cash, foreign exchange will strengthen. Conversely, when the demand of foreign investors for the assets of a given country grows, its currency strengthens. 2) 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 their savings in foreign currency, this negatively affects the exchange rate of the national currency. This demand is very difficult to regulate.[10]

N.P.Belotelova considers the rate of economic growth (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 [11].

So, DP Udalishchev names the following factors: demand and supply of currency, inflation rates, the level of interest rates and securities yields, 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 among domestic legal scholars there is no consensus about the significance of certain factors affecting the exchange rate of the national currency. The authors (both theorists and practitioners) point to the most diverse among the most significant course-forming factors. So some domestic scientists-economists among the main factors influencing the exchange rate are called: deficit balance of payments, state budget deficit, the monetary policy of the Central Bank, inflation, public external debt [14].

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

MAIN PART

Therefore, in this scientific article, analyzing individual indicators, we will determine which factors have a positive or negative effect on the stabilization and strengthening of the national currency in developing countries, including our Republic, we will justify scientifically correct answers to the above question.

First factor. The growth rate of the prices of the gross domestic product (GDP) (i.e., goods, works and services) produced during the year, **excluding inflation** and their number 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:

Factors Influencing Changes in the Rate of the National Currency and the Ways of Its Stabilization

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

Years	Gross domestic product: total billion soums	Per capitathousandsoums
2017 year	254,043.1	7 843.9
2018 year	407 514.5	12 365.6
2019 year	511,838.1	15,242.0
2020 year	580 203.2	16,949.1

The above data show that GDP growth and GDP per capita growth in the country more than doubled in 2017–2020. Despite a positive increase in this indicator by 5-6% per year, it cannot stop the trend of a sharp devaluation of the national currency rate, and a decrease in the GDP growth rate, since there is too much inflationary pressure on the national currency rate in the country.

When calculating US dollars at the average exchange rate for the reporting period, nominal GDP was formed in the amount **57698.5** USD million (2019 - USD 57,711.9 million). From the above data, it can be seen that in 2020, GDP per capita in Uzbekistan at current prices amounted to 16,949.1 thousand sums (or, in the equivalent, 1,685.5 US dollars) and, in comparison with 2019, **decreased by 0.3%**. Therefore, this year, a state program has been developed and adopted to ensure economic stability in the country, in accordance with which about 29 trillion rubles will be allocated to finance the activities of which. 500 billion sums, as well as more than 2 billion 600 million US dollars and 57.5 million euros. [17]. All this, to a certain extent, will ensure economic stability and poverty reduction.

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

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

Years	Inflationrate inpercents
2017	14.4
2018	15.5
2019	14.9
2020	11.1
2021 forecast	10.0

The above data show that since September 2017 (the Central Bank liberalized the foreign exchange market), the inflation rate in the country has remained in the range of more than 10-15 percent in annual terms. The Central Bank of the Republic of Uzbekistan has started to implement a system of inflationarytargeting from January 1, 2021. In the future, it is necessary to reduce its level to 5 percent in 2023.

During studying the problem of the depreciation of the national currency in relation to foreign currency as an aggravating negative factorinflationary pressure, that is rise in prices in the country.

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

Third factor.The state of the foreign trade balance (negative or positive balance). To analyze this factor, we refer to statistics for the particular period, which have the following trend:

Factors Influencing Changes in the Rate of the National Currency and the Ways of Its Stabilization

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

Years	Foreign trade turnover, USD million	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

An analysis of official statistics of foreign trade shows that in 2017-2020 it increased by 35.0%, while exports increased by 17% and imports by 51%. The growth of foreign trade turnover is due to the increase in imports. This is true in the sense that after the liberalization of foreign trade, the demand for foreign exchange in our country has increased, and imports will increase by more than 51 percent, that is, in foreign currency, which leads to an 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 2020, its negative balance is about \$ 6.0 billion. USA. Such an impressive size negative balance in foreign currency will lead to a sharp drop in liquidity within the country, and the depreciation of the national currency, the sum, 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.

Fourth factor. Balance of the state 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. Consider the statistical data on the dynamics and balance of income and expenditure of the state budget:

Table 4. Dynamics of income and expenses of the State budget of the Republic of Uzbekistan for 2017-2020[16]. (excluding extrabudgetary special funds)

Years	Income, in trillion sums	Costs in trillion sums	Deficit "-" Surplus "+", in 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

The above analysis of the dynamics of official statistics shows that the state budget expenditures are growing with a greater tendency than its revenues, and there is also a deficit. If its indicator in the 2017 fiscal year was 0.3 trillion sums, in 2020, according to the above data, it amounted to 2.6 trillion sums more than 8 times compared to 2017.

RESULTS AND DISCUSSION

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

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 - the sum in relation to foreign currencies, despite the annual GDP growth of 5-6%, will continue to decline over the next 2-3 years.

CONCLUSION

The exchange rate has a huge impact on all economic processes of the country, therefore its forecasting is necessary, since the timely levelling of the negative consequences of exchange rate fluctuations helps to avoid crisis situations. In order to eliminate the consequences of fluctuations in the exchange rate, it is necessary to determine which factors have the greatest impact on the national currency exchange rate and build a forecast with their help.

Factors Influencing Changes in the Rate of the National Currency and the Ways of Its Stabilization

Therefore, **firstly**, it is necessary to develop and implement a fundamentally new economic policy, with the orientation of market reforms in sectors that do little to create 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 is putting 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 activate privatization of ineffective 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 by market mechanisms.

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

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

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. The state with a strong economy is usually characterized by a stable currency, and strong fluctuations in the exchange rate and its constant weakening usually indicate the instability of the economy or its weak development.

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