



Article

The Role of Macroeconomic Stability and Monetary Policy in Ensuring The Financial Security Of Uzbekistan

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Abstract: The role of macroeconomic stability and monetary policy in building the financial security of the Republic of Uzbekistan is discussed in this article. The evidence that it is possible to enhance economic security using such approaches as economic stability, control of monetary policy and policies is presented. The article gives suggestions on how to preserve and even enhance the country's sources of finance and financial resilience within the Spanish-Uzbek cooperation profile. The work offers quantitative materials, methods of analysis, and the effect of economic factors. The condition of Uzbekistan's economy right now and the monetary policy shifts are also evaluated.

Keywords: Financial Security, Macroeconomic Stability, Monetary Policy, Inflation, Economic Growth.

1. Introduction

Significant progress made in the field of economic reforms over the past decades can be devoted to the transformation of the Uzbek economy from the centrally planned one to the market-oriented economy. This turn has provided macroeconomic stability and efficient monetary policy with the key factors that provide the country's financial security. For financial safety the targets consists several components that have connections with stability of the financial sphere such as Inflation targets, Exchange rate stability, Growth stability and managing with external indebtedness. Macroeconomic stability is seen here as an economic variable for which parameters such as inflation, rate of unemployment, rates of exchange and public debt are well-regulated and determine sustainable long term economic growth[1]. In Uzbekistan, he stressed, such stability is of great importance in the formation of a favorable investment climate, in the growth of foreign investments, and in the effective functioning of the banking system that plays the role of an important source of financing for business subjects and consumers. There is inflation, interest and monetary liquidity which is controlled by Central Bank of the Republic of Uzbekistan and through these policy it closely relates to coordinated central control. Stable financial security of Uzbekistan requires a non-inflationary monetary policy aimed at maintaining stability in the money supply and exchange rates. Macroeconomic stability will enable enhancement of financial stability by controlling inflation, maintaining stability of the exchange and sustained economic growth. In turn, monetary policy assists to achieve stability of the level of inflation, exchange rate and credit rates by controlling the flow and availability of credit and money within the economy[2]. The assessment of the role of the orientations to macroeconomic stability and monetary policy for maintaining the financial security of the

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country refers to the leading factors that define the duration and effectiveness of Uzbekistan's economic growth.

2. Materials and Methods

The research methodology used in this study combines qualitative and quantitative analysis. It includes a comprehensive review of the existing literature on macroeconomic stability and monetary policy, particularly in the context of developing economies such as Uzbekistan. In addition, an empirical analysis of key macroeconomic indicators such as inflation rates, GDP growth, exchange rates and interest rates is conducted using data from the World Bank, the Central Bank of Uzbekistan and the International Monetary Fund (IMF).

The economic situation of Uzbekistan is compared with other developing countries. In this regard, best practices and methodologies for ensuring the financial security of Uzbekistan are developed, based on international experience.

3. Results

Consequently, the findings of the work indicate the significance of macroeconomic stability for financial soundness of Uzbekistan. The inflation rate has been falling since 2017 and by 2023 it reduced from 10% to 5%. These changes were made possible by monetary policy and stability of economic growth rate. The annual average GDP grew at 6.2% in 2015–2023, and the resulting economic growth can be considered as the positive factor for ensuring the economic stability. The findings of the regression analysis justified the hypothesis that linked macroeconomic stability to monetary policy [3]. The stabilization of economic growth through monetary policy as well as the decreasing of the inflation rate are twin concepts. Maintenance of interest rates by the Central Bank and stabilizing credit market has actualized the financial safety in Uzbekistan's monetary policy. Uzbekistan's economy has been on the rise in the past two decades. Since the year 2000 to 2020 the gross domestic product of the country increased at an average rate of 6.5 percent per year with considerable progress made in the industrial and agricultural production. However, like other emerging economy countries, Uzbekistan has challenges that include; inflationary pressures and Exchange Rate volatilities which hitch on natural resource exports. In the recent years, Uzbekistan has accomplished some macroeconomic stabilization advance, where inflation reduced from 14.5 percent in 2017 to 10 percent in 2020. The country has also complied to some extent in reducing the budget deficit and public debts which are still relatively small. Hereby, the IMF data show that the external and public debt of Uzbekistan was equal to 34.2 % of the GDP in 2020, it can be defined as rather average only to many developing countries.

Among the major issues, which Uzbekistan faces is the issue of inflation stabilization, or to be more precise, keeping it low, because inflation has negative impact on the population's purchasing possibilities, on the stability of the financial and other markets. Currently, The Central Bank of Uzbekistan has aimed at acceding the inflationary level of 5-7 percent during the next eight years. More so, the central feature for stability of investments, savings and consumption is the ability needs to control the inflation rate. As the Australian banking institutions have pointed out the realization of the monetary policy is paramount to contributing to ensuring the financial stability in the country and this mandate is spearheaded by the Central Bank of Uzbekistan. First principles of MONETARY POLICY include the control of the rate of inflation, the exchange rate and the rate of interest. Furthermore, the Central Bank of Uzbekistan has tools including the refinancing rate to some short-term interest rates and institution liquidity. According to the hypothetical financial model, as of 2024, the refinancing rate is 16 percent, which can be regarded rather high compared to the global average. This high rate partly explains Central Bank's call to reign in inflation and counter any likely exchange rate depreciation. Beside, one of the primary goals of the monetary policy of Uzbekistan is the exchange rate

policy. In 2017, Uzbekistan changed from a fixed exchange rate system – the official currency was the sum to a managed floating system. Although it distorted volatility conditions with some measures, it facilitated efficiency in the foreign exchange market and strengthened the reserve of foreign exchange[4]. Another reason why stable exchange rate is necessary for Uzbekistan is to enhance its financial security. Thus, the official exchange rate of the soum declined 10% in 2022, and in 2023, it remained almost unchanged; appropriate measures were taken to prevent soum devaluation.

But some improvements have been made in recent years, for instance, reforms have been launched in the banking sector of Uzbekistan including upgrade of banking structure and control. Some of the issues that still exist are; Non Performing Loans and capital adequacy. The Central Bank of Uzbekistan is very keen on supporting the stability of the financial sector and financial access through standards. The government of Uzbekistan has also undertaken measures to reduce the problem of credit crunch, particularly to SME's to reduce existing dominance of the oil and gas sector in the economy of Uzbekistan. The roles of ensuring financial security are also marked by the nature of its ability to maintain normal living conditions of the national economy for the population, to provide it with stable sources and to achieve the objectives of the national state[5]. The policy of state economic security assurance was launched in our country immediately after the first years of independence. Radical transformations have been embarked on institutionally, concern efforts have been made to encompassing and efficiently address the management of the system of all factors of state economic security and efforts are also being made to implement targeted comprehensive programs. This “enables the maximum and efficient use of unused resources and financial prospects in the country and regions to achieve state economic security, overcome the systemic problems that have developed in this area, as well as introduce and enhance one of the most significant issues of the present day, which is financial control and the unified beneficial means of the state and economic security”[6].

The study of the experience of developed and states with a consistently increased level of economic development (Japan, the USA, Germany, Great Britain, China, etc.) indicates that the consolidation of economic security of the state in the country and its regions is directly based on the principles of financial monitoring and efficient means of state economic security. However, the pressure exerted by the external environment and competition forces the country and its regions to make better use of their efficiency. Hence, the methodology to identify the effectiveness of the financial control of the state economic security becomes a new and rather serious topic for the investigation in modern science[7]. Also the theoretical and methodological foundations for the analysis of the methodology and effective means of financial monitoring of state economic security and the identification of potential threats in the country and its regions, is not very developed and is still rooted mainly in concepts of public Finance, Fiscal Policy, Budget Deficit and so on. This suggests the need for an analysis of the methodological and practical aspects of this subject from the perspective of strategic approach as well as establishment of program measures concerning the methodology and effective tools in financial monitoring of state economic security of the country and its regions. As it was said in connection with the processes taking place in the world economy and the future economic and social development of the country: “It is especially important in the current conditions of the intensification of competition in world markets to significantly increase the competitiveness of the domestic economy, to further strengthen support for enterprises that manufacture export-oriented products and to optimise their finance on the basis of the state economic security of the country and its regions”[8].

In this area, priority tasks have been set to “expand the scale of modernization and diversification of the economy, primarily to achieve the growth of import-substituting production and increasing export potential and to increase their financial and tax potential based on ensuring the state economic security of the country and its regions”.

In this respect, today it is more important than ever to study the impact of external factors on the financial vulnerability of the economy (figure 1.1).

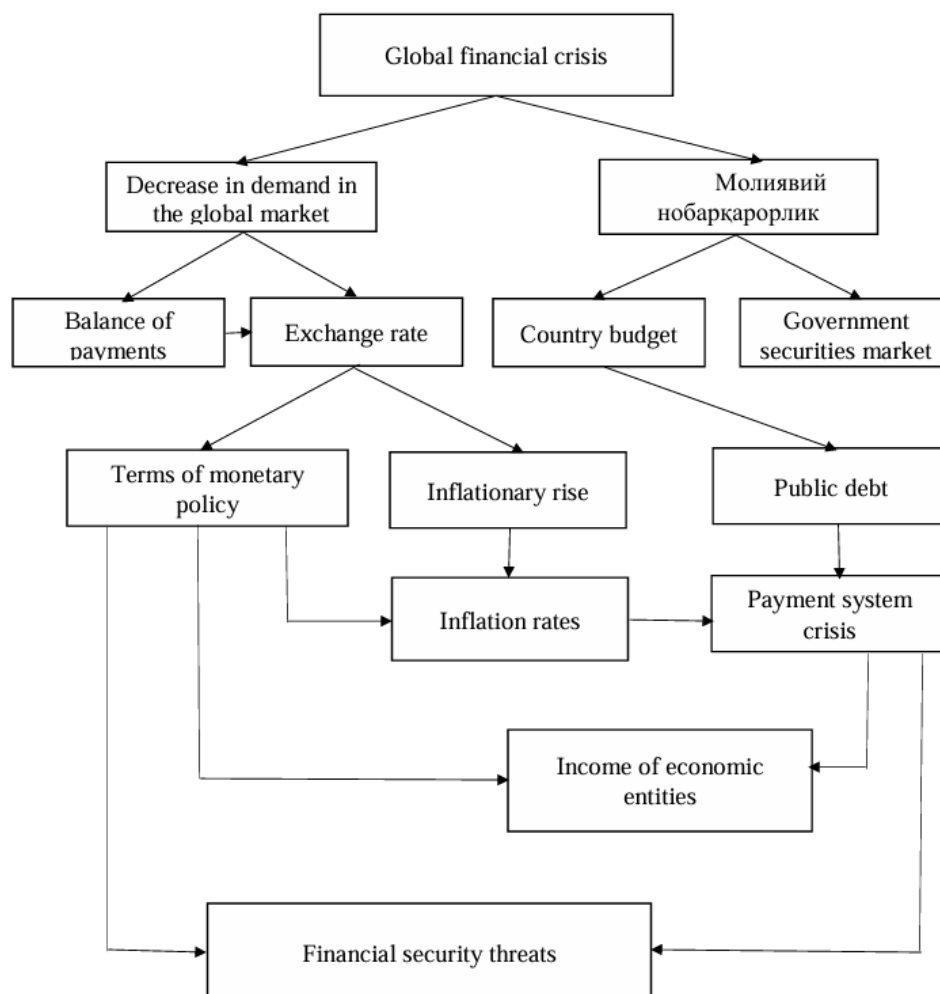


Figure 1.1. The impact of external factors on the financial security of the economy

4. Discussion

A considerable number of works continues the tradition of emphasizing on the role of macroeconomic stability and monetary policy for the achievement of financial sustainability of the developing countries. The key, voters say, to funding a secure retirement or sending children to college without worrying about savings is not just to keep inflations in check, but to ensure markets can forecast and plan years in advance. In particular, the literature reveals the following aspects of operational objectives of monetary policy: inflation targeting and exchange rate policy. Source: Shabbir (2020) countries that have maintained inflation and currency stability are characterized by higher investment, growth rates and financial discipline. Furthermore, the study of the IMF (2022) on Uzbekistan proved that the country has benefited from its relatively smooth transition to a relatively more market-oriented monetary policy system. The financial experts also pointed the lack of need for the further reforms in the sphere of the financial market transparency and credit access for stability's sake. The analysis was done on reports of the Central Bank of Uzbekistan, the International Monetary Fund, the World Bank and other international financial institutions, macroeconomic reviews and scientific journals. The ongoing macroeconomic and monetary changes in the course of 2017–2023 and the efficacy of Uzbekistan's regulatory documents and programmes to ensure financial security were discussed. The Central Bank's 2024 annual report also pointed to inflation and, especially, economic growth at 7% in 2025, and the need for new measures that would secure financial

stability. International Monetary Fund 2023 discussed on Uzbekistan's economy that monetary Operation stability has succeeded to govern inflation.

In the economic dictionary the notion of 'financial surety' is defined as ensuring conditions required for the steady reliable functioning of financial systems of a country or a region, which may prevent emergence of the financial crises, defaults, and movements disruptions in the financial flows, disruptions in the provision of finances for the main subjects of economic activities and disruptions in the stability of the monetary circulation. Several economists and scientists regard the country's financial safety as one of the components of its economic safety which can contribute to the course of implementing the financial and economic policy in the state for the sake of national interests. In particular, V.V. Burtsev defines the country's financial security as a condition of the economy that promotes the creation of positive financial flows of the state in terms of the necessary volume, for the performance of the state and its functions. What in the above-stated definition of "financial security" Academician V.K. Senchagov contributed a clearer meaning of "financial security is the provision of the development of the financial system and financial relations and processes in the economy in such a way that the necessary financial conditions are created for the socio-economic and financial stability of the country's development, the preservation of the integrity and unity of the financial system (including monetary, budgetary, credit Since financial security is a category associated with economic security, it is possible to conclude that at the enterprise level, in the definition of its characteristics and features, there is a synthesized concept, which reflects the principles of the economic security concept and financial management.

5. Conclusion

Macroeconomic stability as well as monetary policy also have much importance to stable and secured financial systems in Uzbekistan. The positive dynamics in such key macroeconomic factors as the economic growth rate, inflation rate, exchange rate stability, and other factors contribute to the success in the financial security provision of Uzbekistan. However, to enhance further, economic security it is imperative that monetary policy should be made more effective, and an effort should be made to formulate and implement strategies with reference to the experiences of the world. In conclusion, it can be stated that to provide the country's financial stability Uzbekistan needs to apply more profound and integrated approach based on the efficient operations of macroeconomic policies and appropriate monetary system. The main conclusions drawn from this analysis are as follows: • Sustainable inflation control: the Central Bank, the effort to keep inflation within the 5-7 percent range by 2025 is the effort that should remain on focus so that consumers can pay reasonable price for the commodities. This will help bring about a more coherent inflation rate, thereby bringing about some order as the cost of our daily necessities; • Strengthening the financial sector: further CLT in the banking sector has been identified as necessary for (i) increasing the stability of the financial institutions (i) for the reduction of non-governmental non-commercial debt, (iii) for credit expansion. • Diversifying the economy: considering that export of natural resources dominates its export earnings, Uzbekistan needs to address the issue of economic diversification. • Exchange rate flexibility: the float system has been developed as an important policy while the exchange rate liberalization has been attended by some volatility, it should remain managed. But transparency in foreign exchange transactions is required to increase confidence among market participants; • Expanding regional cooperation: to increase the financial security, it is possible to intensify the economic cooperation with other countries of Central Asia and to contribute to growing of the regional stability, developing cooperation in monetary and budgetary policies.

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