



World Conference on "Integrated and Life-long Education of Modernity"

Mechanisms for Ensuring the Liquidity of Commercial Banks in the Management of Currency Risks

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Abstract. The economic reform that has been carried out together with our president in recent years inspires even skeptics who looked with distrust at the development of our state. In order to further develop the economy of our state, we need to liberalize the foreign exchange market, so that it gives an impetus to other sectors of the economy along the chain. In this article, we will consider the ways of developing the foreign exchange market and give our estimates based on the research work carried out.

Key words: foreign exchange market, central bank, foreign currency, national currency, US dollar, monetary policy, credit, currency exchange, export, import, exchange rate, intervention, inflation rate.

Introduction

In developed countries, the market for forward foreign exchange transactions is developed, through which there is an improved practice of protecting foreign exchange reserves from currency risk. The central banks of these countries have the opportunity to directly influence the supply of currencies in the foreign exchange market through forward currency transactions. For example, through swap and gold-swap transactions, central banks can have a sharp impact on foreign exchange supply.

The need for sustainable development of the country's foreign trade, ensuring the international movement of foreign investment, capital and credit requires the liberalization of the national currency market. The underdevelopment of the interbank foreign exchange market in the Republic of Uzbekistan, the lack of a market for futures transactions, the existence of a number of problems in the liberalization of the foreign exchange market require in-depth research to address them. In this regard, the President of the Republic of

Uzbekistan dated January 9, 2018 No. PF-5296 "On measures to radically improve the activities of the Central Bank of the Republic of Uzbekistan", September 2, 2017 No. PF-5177 "On priority measures to liberalize foreign exchange policy" These decrees serve as one of the important steps in the development of the foreign exchange market.

Today, the growing integration of our country into the world economy, the growth of foreign trade turnover, the widespread use of foreign investment and funds, and the growing level of dollarization in the economy increase the sensitivity of the economy to currency risks.

Achieving sustainable economic growth will increase the welfare of the population and the efficiency of national production, create favorable conditions for attracting foreign investment, increase the country's export potential and ensure its equal position in international economic and monetary relations. the successful solution of problems also depends on the stable circulation of the national currency.

Literature review

We have analyzed below the extent to which economists have studied the liberalization of the foreign exchange market, foreign exchange transactions, and the exchange rate regime. In this regard, economists (A.Vahobov et al., 2003) in their book "International Financial Relations" as the center of economic relations in the foreign exchange market, which carries out the purchase and sale of foreign currency and securities in foreign currency and investment of foreign exchange capital. confessed. We would like to add to the above-mentioned opinions of our economists that at present our country is not sufficiently developed to function as a center representing the foreign exchange securities market.

F. Mahlup's (1966) research studied the model of supply and demand in the foreign exchange market, the mechanism of the impact of capital movements on the exchange rate, the factors determining the elasticity of supply and demand for foreign currency.

According to Chepel (2003), the liberalization of the foreign exchange market at a moderate rate will prevent the outflow of capital from the country and thus prevent the depletion of its foreign exchange reserves. World experience shows that the liberalization of the foreign exchange market alone does not solve all the problems of currency regulation. A positive macroeconomic effect can be achieved from such a step if the transition to the internal conversion of the soum, followed by other measures to further liberalize the economy and the transition to a new currency regulation strategy. At the same time, the main result of the liberalization of the foreign exchange market will be to limit the shadow economy, price and exchange rate fluctuations, and create the necessary conditions for the transition to a qualitatively new basis for economic growth.

According to Davletov, (2017), the liberalization of the foreign exchange market devalues the national currency against foreign currencies, GDP growth slows or even stops, and inflation and unemployment reach double digits. In addition to Davletov's opinion, the truth is that in the period of liberalization of the foreign exchange market, that is, in 2017, the above-mentioned views were equally relevant, and this liberalization brought inflation to double digits. However, we believe that the transition of the Central Bank to the targeting mechanism from 2020 has provided a sufficient solution to this problem.

From the literature studied above, our economists have studied the first scenarios in the process of liberalization of the foreign exchange market, and some time has not been sufficiently covered how the foreign exchange market will behave.

Research methodology

The basis of our research is a dialectical method that involves the study of economic

phenomena in interdependence and communication. In the course of our research, we used the methods of logical and comparative analysis of research, statistical processing of data by grouping, methods of calculating financial indicators.

Analysis and results

Ensuring the stability of domestic prices in the country is a guarantee of macroeconomic and social stability, a necessary condition for the successful implementation of programs to accelerate and develop economic reforms.

At the same time, low and stable inflation rates are an important factor in ensuring balanced economic growth, increasing the competitiveness of production and living standards. In this context, the slowdown and stabilization of price growth rates should be one of the main goals of public economic policy.

Low and stable inflation creates the necessary conditions for the conversion of deposits of individuals and legal entities into long-term investments and contributes to the efficient distribution of available economic resources, reducing price imbalances in the domestic market.

In 2020, the domestic foreign exchange market was formed in the context of the volume of transactions and the growth of the number of market participants in all segments. The total volume of transactions in the domestic foreign exchange market amounted to 19.5 billion soums. USD, an increase of 1.7 and 1.3 times compared to 2018 and 2019, respectively. The introduction of quarantine in 2020 due to the COVID-19 pandemic has led to a relative decrease in the volume of foreign exchange transactions in the domestic foreign exchange market.

In 2020, the demand for foreign currency by legal entities increased by 11% compared to 2019 (10.5 billion US dollars) and amounted to 11.7 billion US dollars. USD.

During this period, 3.7 billion soums were traded by businesses in the over-the-counter foreign exchange market. With the purchase of foreign currency in the amount of USD, this figure did not change significantly compared to the previous year. The volume of foreign exchange transactions increased by 11% to 11.7 billion soums. To the U.S. dollar. (Figure 1).



Figure 1. Growth and change dynamics of demand for foreign currency¹

Due to the underdevelopment of the foreign exchange market, market participants are forced

¹ <http://www.cbu.uz/uzc/press-tsentr/novosti/2020/01/182900/> based on the data.

to conduct direct operations of commercial banks with businesses to eliminate the demand for currency and minimize risks. Analysis of the purpose of purchasing foreign currency in the foreign exchange market shows that the bulk of them (60%) are imports of equipment, goods and raw materials for production, 21% - imports of consumer goods and pharmaceuticals, 15% - foreign repayment of loans, 1 percent - repatriation of foreign investors and the remaining 3 percent - purchased for other purposes. (Figure 2).

During 2021, the number of businesses purchasing foreign currency in the domestic foreign exchange market increased by 16% and amounted to 8.9 thousand in December (December 2020 - 7.6 thousand).

In 2021, the amount of foreign currency sold by individuals through currency exchange offices will reach 4.6 billion soums. USD, an increase of 21% over the previous year. During this period, 4.1 bln. With the purchase of US dollars, this figure increased 2.3 times compared to 2019 (1.8 billion US dollars). The main reason for the increase in demand for foreign currency purchased by individuals can be explained by the sharp rise in the exchange rate during the pandemic and the rise in prices for imported goods.

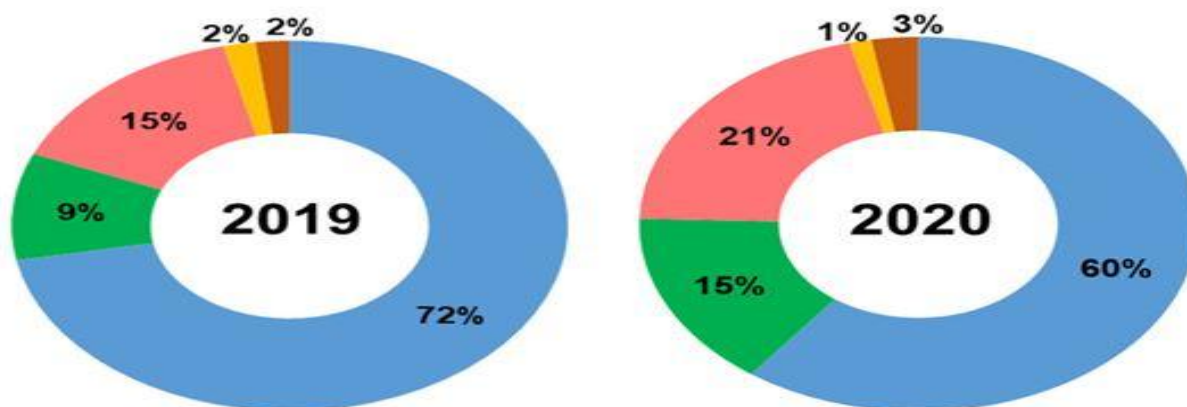


Figure 2. The structure of foreign exchange acquisition targets for 2019-2020²

The volume of foreign currency inflows to the country through international money transfers amounted to 6.0 billion soums. USD, formed within the framework of last year's figure. This situation is explained by the fact that at the end of the year the population and entrepreneurs became more active in fulfilling their financial obligations.

In 2020, the total supply of foreign currency in the domestic foreign exchange market will reach 11.7 billion soums. USD (excluding Central Bank interventions), an increase of 43% compared to 2018.

In particular, in the reporting year: 6.0 billion soums were spent by business entities. USD, which is 1.5 times more than the previous year (2019 - 4.1 bln. USD).

The amount of foreign currency sold by the Ministry of Finance (loans from international financial institutions to finance development programs) and the Fund for Reconstruction and Development amounted to 1.7 billion soums. USD.

During this period, the Central Bank's foreign exchange interventions were based on the principle of neutrality of gold and foreign exchange reserves. At the same time, the net volume of foreign currency sold by the Central Bank was within the volume of monetary

² <http://www.cbu.uz/uzc/press-tsentr/novosti/2020/01/182900/> based on the data.

gold purchased during the year.

In particular, 56.0 trillion soums were purchased by the Central Bank in the reporting year. UZS 53.0 trillion to sterilize additional liquidity created as a result of monetary gold UZS equivalent was sold at the currency exchange.

In 2021, the share of import financing in the structure of import financing sources due to foreign currency loans decreased from 25% to 18%, and the share of funds purchased (conversion) in the domestic foreign exchange market increased from 52% to 58%.

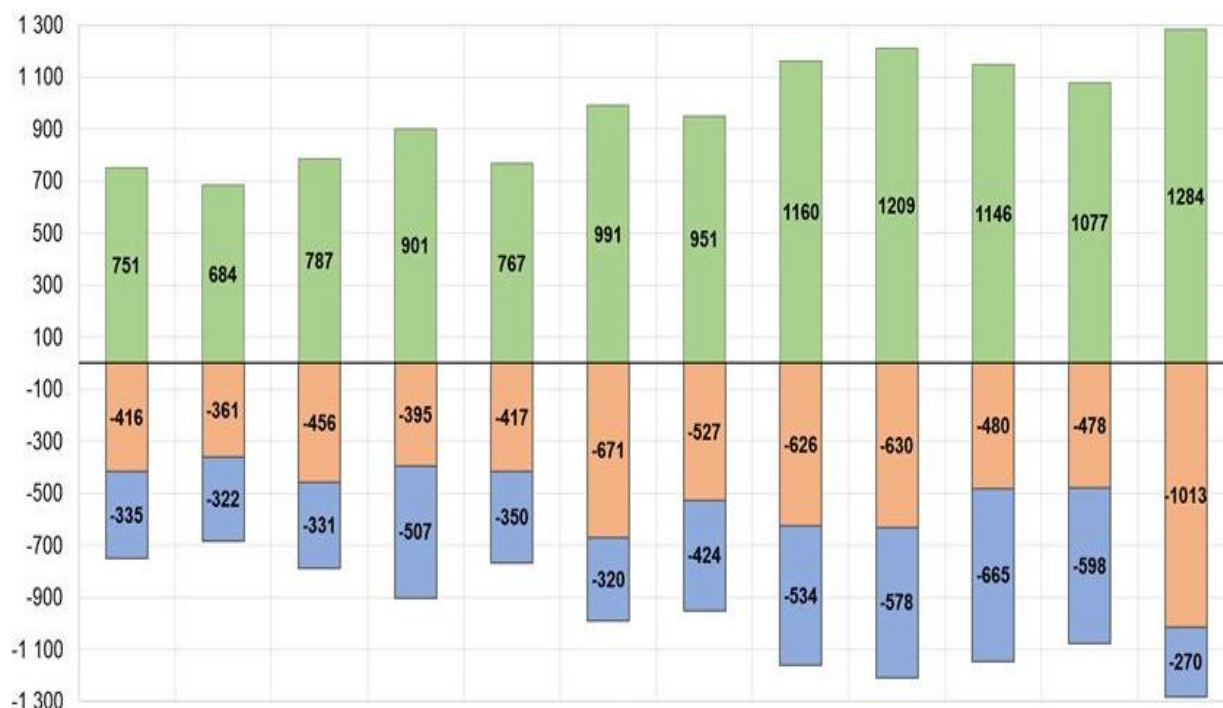


Figure 3. Volume of transactions on the foreign exchange exchange and Central Bank interventions in 2019-2021 (USD million)³

The dynamics of the exchange rate of the national currency was formed under the influence of internal and external factors, based on the current ratio of supply and demand in the foreign exchange market. At the same time, in the first half of the year, the national currency depreciated against the US dollar by 2.8% in the trading sessions of the foreign exchange market due to the steady increase in supply and demand in the foreign exchange market, due to the low volume of interventions. During 2019, it was observed that the main indicators of the som segments of the money and credit markets are interrelated with the dynamics of demand for foreign currency.

In particular, changes in the volume of liquidity in the banking system, the growth of loans affected the demand for foreign currency and the volume of interventions.

The dynamics of the exchange rate of the national currency was formed under the influence of internal and external factors, based on the current ratio of supply and demand in the foreign exchange market. At the same time, in the first half of the year, the national currency depreciated against the US dollar by 10.1% in the trading sessions of the foreign exchange market due to the steady increase in supply and demand in the foreign exchange market, due to the low volume of interventions.

In turn, this year the exchange rate of the national currency is expected to be formed within

³ : <http://www.cbu.uz/uzc/press-tsentr/novosti/2020/01/182900/> based on the data

the long-term fundamental trend based on supply and demand in the domestic foreign exchange market.

The growth of demand for foreign currency was caused by the following factors:

First, the volume of investments in fixed assets in the form of equipment, technology and technological lines has increased significantly in the context of high growth in lending to the economy and public spending;

secondly, the expansion of construction work in the economy has led to an increase in imports of these goods (mainly for the metallurgical industry) in the context of limited domestic supply of finished building materials and raw materials for their production;

third, increased consumer demand and production in basic sectors of the economy led to an increase in imports of raw materials;

fourth, with the growth of domestic automobile production and sales, imports of raw materials, components and production lines for the automotive industry increased.

In addition to interventions, the demand for foreign currency was met through foreign direct investment and loans (\$ 1.8 billion), export earnings (\$ 14.3 billion) and international remittances (\$ 5.1 billion). In turn, the adequacy of foreign exchange inflows helped to prevent sharp fluctuations in the exchange rate.

The increase in imports by 39.6% (\$ 19.6 billion) is partly due to an increase in government spending and lending to the economy. As a result, the foreign trade balance deficit amounted to 3.8 billion compared to 2017. increased by \$ 5.3 billion. dollars. High demand for foreign currency, in turn, increased the devaluation pressure on the national currency exchange rate.

In international practice, the free setting of the exchange rate in the foreign exchange market requires minimal involvement of the central bank. At the same time, the Central Bank will intervene only in the event of a crisis in order to prevent sharp fluctuations in the exchange rate and stabilize the foreign exchange market.

However, the need for the Central Bank's regular participation in the foreign exchange market in Uzbekistan is explained by the Central Bank's direct purchase of monetary gold and other precious metals from local producers.

The direct purchase of precious metals by the Central Bank leads to a direct inflow of funds in the national currency into the economy and an increase in inflationary risks. At the same time, foreign exchange earnings from the sale of precious metals do not enter the domestic foreign exchange market.

In order to prevent the negative impact of direct purchases of precious metals by the Central Bank and to ensure the balance of the foreign exchange market, the Central Bank regularly sells foreign currency in appropriate amounts in the foreign exchange market.

In international practice, the fulfillment by the Central Bank of a full and effective intermediary function in the purchase of precious metals from producers and the sale of foreign exchange earnings in the domestic foreign exchange market is not a direct intervention.

In this case, the sale of foreign currency by the Central Bank is only an intermediary, and the active participation of the Central Bank in the foreign exchange market is not aimed at managing the exchange rate and is not considered an intervention in the classical sense.

Today, given that inflation expectations of the population are largely related to the dynamics of the exchange rate in the foreign exchange market, one of the important tasks of monetary policy is to ensure the stability of the national currency in the short term.

At the same time, the task of ensuring the stability of the exchange rate is ensured not through direct interventions of the central bank, but through the gradual implementation of the following measures:

- achieving a balance of supply and demand in the foreign exchange market by gradually increasing the breadth of exchange rate fluctuations in the short term and increasing the level of security in the foreign exchange market;
- influencing the demand for currency by prioritizing the use of interest and other monetary policy instruments and maintaining an appropriate level of liquidity in the banking system.

To achieve these goals, the Central Bank adheres to the principle of "neutrality of international foreign exchange reserves", ie the sterilization of funds in the national currency received by the banking system as a result of the purchase of precious metals from producers.

To ensure a balanced level of the real exchange rate, the dynamics of the exchange rate must reflect changes in the price level in the domestic market and in major trading partner countries.

Given these aspects and the current level of development of the foreign exchange market, the Central Bank's intervention policy in the initial stages focuses not on fundamental factors, but on preventing sharp fluctuations in the exchange rate in the short term due to mismatch in supply and demand in the foreign exchange market.

In conclusion, it serves to increase the level of development and supply of the foreign exchange market and to improve market mechanisms to achieve a balance between supply and demand for foreign exchange. The introduction of currency swaps, currency options, futures and similar instruments will create additional opportunities for the development of the foreign exchange market and the stability of the exchange rate.

Discussion of research results

Ensuring price stability in the domestic market has been identified as the main goal of monetary policy in connection with the radical revision of the methods of implementing sustainable economic development and macroeconomic policy based on the use of market instruments.

The liberalization of the domestic foreign exchange market provides the necessary basis for the gradual shift of monetary policy principles and methods to inflation targeting. Inflation targeting is an effective way to ensure price stability in the medium and long term.

The choice of inflation targeting regime in Uzbekistan is explained by a number of reasons. First, inflation targeting today is the most appropriate regime for monetary policy, aimed at ensuring price stability in the medium term.

Second, the experience of implementing regimes such as monetary aggregates or exchange rate targeting shows that they do not meet the conditions of Uzbekistan and modern requirements.

In particular, in the mode of targeting the exchange rate, maintaining the exchange rate at a constant target level significantly reduces international reserves and increases the risk of a currency crisis.

Limits the possibility of mitigating external shocks by adjusting the exchange rate in the targeting mode.

In addition, in this regime, the ability of the Central Bank to pursue an independent monetary policy for domestic purposes is limited due to the fact that its main focus is only on ensuring the target level of the exchange rate.

On the other hand, in the context of liberalization and restructuring of the economy, as well as the existence of a significant shadow economy, a sharp change in monetary aggregates can be observed. This, in turn, complicates the task of setting and achieving targets within the monetary targeting regime.

At the same time, a decrease in the stable correlation between monetary aggregates and inflation reduces the effectiveness of the monetary targeting regime.

The measures taken in our country to liberalize the exchange rate policy and the definition of specific goals to ensure price stability will create the basic conditions for the transition to inflation targeting.

In general, the transition to inflation targeting requires a radical review and improvement of all key areas of monetary policy. The gradual implementation of the measures envisaged in this concept will serve as a basis for the implementation of strategic tasks to increase the effectiveness of monetary policy on the basis of market mechanisms and instruments.

Conclusions and suggestions

An important aspect of stimulating the development of the foreign exchange market is to provide the market with information. According to the calculations of a number of leading scientists, the lack of information transparency of the foreign exchange market is a major factor hindering its development. The main directions of the policy of increasing the information transparency of the foreign exchange market are the prompt disclosure of information on upcoming changes in financial legislation, regular publication of policy materials on current priorities of state regulation of the derivatives market, as well as statistics. to provide information on the activities of key segments of the foreign exchange market.

The currency is an effective tool of state regulation of the foreign exchange market, as well as the direct participation of government agencies in trading in the derivatives market. Such operations will effectively address the problems of short-term market regulation, mitigate fluctuations in quotations, ensure market liquidity, influence the current situation in the foreign exchange market.

Procedures, methods, tools and mechanisms of all organizational, legal, economic and political relations used by the Central Bank in the development and implementation of the structure of the foreign exchange market are the sum of monetary policy.

The exchange rate regime, which is an instrument of exchange rate policy, and the effective choice of exchange rate policy determine the effectiveness of its other instruments (devaluation, revaluation, intervention, diversification, currency restrictions, exchange control, etc.).

In the development of the concept of long-term development of monetary policy in Uzbekistan (2017-2021) and the "Road Map":

- a) establishment of specific targeted measures for the transition to a free exchange rate regime;
- b) creation of an expanded and improved infrastructure for foreign exchange transactions;

- c) full realization of the right of economic entities to free access to their foreign exchange assets inside and outside the country;
- d) improvement of communication channels of monetary and monetary policy instruments; д) иқтисодиёт субъектларига бериладиган валюта имтиёзлари ва преференциялари тизимини янада оптималлаштириш;
- e) Priority in determining the prospects for the introduction of free conversion of capital flows will ensure the effectiveness of monetary policy.

In general, the Mandell-Fleming model of studying the impact of monetary policy on macroeconomics is of relatively priority. out Given that this model is widely used in the practice of many developed and developing countries, it is important to creatively use the approaches outlined in it to improve the methodology of the country's monetary policy.

In conclusion, balancing the supply and demand for money in the economy is one of the most important priorities of monetary policy. Achieving such a balance is directly related to the type, shape, number, scope and effectiveness of monetary instruments.

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