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CURRENT ISSUES OF MODERN MONETARY POLICY

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Annotation: This article describes the main urgent problems of monetary policy, balancing interest rates, liquidity problems in the banking system, and ways to eliminate the problems, and analyzes them based on statistical data. The article also presents conclusions and proposals for eliminating and improving the current problems of monetary policy in Uzbekistan, countries that are currently facing the most urgent problems in monetary policy.

Keywords:monetary policy, fiscal policy, liquidity problem, digital currencies, monetary policy, macroeconomic stability, reserve requirements.

Introduction. Monetary policy is a monetary-credit policy implemented by the central bank to ensure economic stability and control inflation. Through monetary policy, measures are taken to regulate the money supply in circulation, aiming to maintain price stability, control inflation, support real output growth, and promote overall economic development. As an integral and inseparable part of national economic policy, monetary policy has long been recognized as playing a crucial role in a country's economy, as proven by global experience. It continues to be effective in today's economic environment. Therefore, monetary policy receives special attention from economists, experts, and governments in global banking practices, including in Uzbekistan. In recent years, changes in the global economy have given rise to new challenges for monetary policy. When central banks increase interest rates to curb inflation, economic growth may slow down. Higher interest rates make borrowing more expensive, which leads banks to issue loans to businesses and individuals at higher rates. This reduces investment and consumer spending. As a result, demand decreases and the rate of price growth slows. However, raising interest rates also negatively affects economic growth because companies reduce their investments, potentially leading to job cuts and a decline in overall economic activity. Hence, it is essential to study the pressing issues of monetary policy and implement appropriate strategies accordingly.

Analysi sand Results. The central bank seeks to maintain a balance between controlling inflation and supporting economic growth. In this context, monitoring liquidity issues within the banking system is of great importance.

The following problems can be identified within the banking system: insufficient liquidity in banks can lead to a contraction of the credit market; increasing mistrust among financial institutions; global economic instability; geopolitical tensions; trade wars; and pandemics, all of which have contributed to heightened economic uncertainty. Central banks need to respond to these developments with flexible and adaptive monetary policies.The impact of digital currencies and cryptocurrencies may offer new tools for central banks to implement monetary policy effectively through the introduction of Central Bank Digital Currencies (CBDCs). However, cryptocurrencies can also pose risks to financial system stability and may be difficult to regulate. In particular, it is appropriate to implement specific solutions to

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address each of the emerging challenges. The following measures are proposed to solve these problems:

- Developing strict and clear strategies to reduce inflation;
- Coordinating monetary policy with fiscal policy;
- Monitoring liquidity in the banking system and maintaining optimal interest rates;
- Adapting to the digital economy and utilizing modern technologies.

We can see from the following data that the dynamics of the central bank's key rate over the years has been volatile and that it has been able to regulate inflation, namely:

1. 18.03.2022 - 17% per year
2. From 11.09.2020 to 17.03.2022 14%
3. From 15.04.2020 to 11.09.2020 15%
4. From 25.09.2018 to 14.04.2020 16%
5. From 28.06.2017 to 24.09.2018 14%
6. From 01.01.2015 to 27.06.2017 9%
7. From 01.01.2014 to 31.12.2014 10%
8. From 01.01.2011 to 31.12.2013 12%
9. From 15.07.2006 to 31.12.2010 14%
10. From 21.12.2004 to 14.07.2006 16%
11. From 05.07.2004 to 20.12.2004 18%
12. From 10.09.2003 to 04.07.2004 20%

Developing a firm and clear strategy to reduce inflation means taking specific measures by the central bank and the government. At its core, through tightening monetary policy, the central bank raises interest rates, restricts lending, and reduces the amount of excess money in the economy. By controlling budget expenditures, the government aims to reduce excess spending, limit additional cash inflows into the economy, and increase the supply of goods and services by encouraging local production and supporting local production, thereby preventing sharp price increases. In managing exchange rate policy, the issue of preventing import prices from rising by maintaining a stable national currency is of paramount importance.

Uzbekistan's gross domestic product (GDP) growth is projected to be around 5.3% in 2025 (World Bank). According to the state budget, GDP growth for 2024 was planned at 5.6–5.8%. In 2019-2023, growth rates averaged around 4–5% [5]. Indeed, ensuring macroeconomic balance is considered the foundation of the country's economy. To achieve macroeconomic stability, the country conducts its fiscal (tax-budget) and monetary (monetary) policies. Coordination of monetary policy with fiscal policy means ensuring consistency between the monetary policy of the central bank and the fiscal policy of the government . This helps to control inflation, stimulate economic growth, and maintain economic stability. The main ways of coordination are as follows:

1. Inflation management-if the central bank increases interest rates and reduces the money supply, the government must also reduce excess budget spending.
2. Stimulating economic growth - if the economy is slowing down, fiscal policy can support growth by lowering taxes or increasing public investment.
3. Controlling public debt - if the government does not borrow excessively, the central bank will not need to take drastic measures to curb inflation.

If monetary and fiscal policies conflict, for example, if the government spends too much money while the central bank is trying to reduce inflation, the economic balance can be

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disrupted [2]. For this reason, it is important to coordinate them. When it comes to controlling liquidity in the banking system and maintaining optimal interest rates, liquidity refers to the amount of cash and immediately available assets in the banking system. If banks do not have sufficient liquidity, lending will decrease and economic activity will slow down. Conversely, excess liquidity can increase inflation. In controlling liquidity. Central bank interventions, i.e. the central bank can provide monetary resources to commercial banks or withdraw excess money from the economy to prevent a liquidity crisis. Minimum reserve requirements, which are the reserve requirements that the central bank sets for commercial banks, help control the amount of money in the banking system. In open market operations, the central bank manages liquidity by buying or selling bonds. Interest rates are an important tool for regulating the flow of money in the economy, and it is necessary to use the optimal level of interest rates. High interest rates make it more expensive to borrow, which results in reduced consumption and investment, and lower inflation. Low interest rates make it cheaper to borrow, stimulating economic growth, but inflation may increase. Therefore, central banks control liquidity and try to keep interest rates at an optimal level, which helps to maintain economic stability and curb inflation. The financial stability outlook for the first half of 2024 highlights the financial conditions and vulnerabilities in the economy of Uzbekistan, the situation in the asset market, the results of the banking system's solvency and liquidity macro stress test, and the situation related to climate change. Recent changes in the macroprudential policy pursued by the Central Bank, as well as potential external and internal risks that could affect financial stability, are also reflected. In the first half of 2024, financial stability was maintained in the banking system of Uzbekistan. The total and Tier 1 capital adequacy ratios of the banking system were 17.3 and 14.2 percent, respectively exceeding the established minimum requirements. The relatively low formation of the Uzbek risk premium within the historical average trend, as well as positive developments in the banking sector, led to an easing of financial conditions in Uzbekistan . The financial stress index for the banking system also declined. The increase in the share of highly liquid assets in total assets of banks, as well as the decrease in the level of unsecured financing in total liabilities, indicate that concerns about liquidity vulnerabilities in banks have decreased.

The countries currently facing the most pressing monetary policy challenges around the world include the United States, the European Union, the United Kingdom, Australia, and Canada. These countries are trying to find a balance between high inflation and the need to lower interest rates. In the United States, although the Federal Reserve aims to lower inflation to 2%, core inflation currently hovers around 3.3%. This limits the scope for interest rate cuts. Inflation in the eurozone is also higher than before the pandemic, and the central bank is acting cautiously. Also, low economic growth and high debt are at the forefront of the IMF's global policy agenda for 2024. Many developing countries are facing problems due to external debt pressures and declining foreign investment. In particular, some countries in Latin America, Africa, and Asia are struggling with slowing economic growth and increasing difficulties in obtaining external financing. In global practice, special attention is paid to adapting to the digital economy and using modern technologies. The digital economy is a system for managing and developing economic processes using modern technologies such as information technology, artificial intelligence, blockchain, and big data. The main areas of adaptation are the development of digital payment systems - expanding cashless payment systems, cooperation with fintech companies, the introduction of blockchain and digital currencies - central banks can conduct monetary policy more effectively by developing

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national digital currencies (CBDCs). Artificial Intelligence and Big Data Analysis - data-based decision-making, market forecasting and improving economic policy, digital transformation of the banking system - expanding online banking services, creating user-friendly interfaces for customers and increasing security, regulatory adaptation - improving laws regulating the digital economy, supporting and strengthening the use of new technologies, using modern technologies to increase economic efficiency, control inflation and liquidity It will help central banks to do this. At the same time, new security and privacy issues will also need to be taken into account.

If we analyze the situation in Uzbekistan from the perspective of the question of how this situation is, one of the main problems of the current monetary policy in Uzbekistan is inflationary pressure and credit constraints. Despite the continuation of the Central Bank's tight monetary policy in 2024, inflation remains at a stable level. Although inflation fell to 9.1% in January, it was forecast to remain around 10% throughout the year. This is mainly due to the increase in energy prices and the impact of economic reforms. At the same time, commercial banks are taking measures to restrict lending, including restrictions on consumer and mortgage loans, as well as car loans. This may lead to a slowdown in growth in the credit market. In addition, the slowdown in the Russian economy may negatively affect Uzbek exports and remittances from labor migrants. This may reduce domestic demand and pose a threat to economic growth. The importance of monetary policy in ensuring macroeconomic and financial stability in the economy is high, and its elimination of urgent problems reflects its relevance to the goal.Conclusion and suggestions: In conclusion, it can be said that the Central Bank of the Republic of Uzbekistan is implementing a monetary policy aimed at maintaining domestic economic stability, which is of paramount importance.

We present the following proposals to address the pressing problems of contemporary monetary policy:

Firstly, further improving the stability of the banking system through the effective use of monetary and credit instruments;

secondly, to further strengthen the state's monetary policy by improving the level of development of the financial system;

thirdly , to expand the coordination of monetary policy with fiscal policy;

fourth , developing solid and clear strategies to reduce inflation;

As a result, urgent problems of monetary policy will be eliminated, and macroeconomic and financial stability in the country will further improve.

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