ROLE OF MONETARY POLICY IN MARKET ECONOMY

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Abstract. This article examines the role of monetary policy in the market economy, factors affecting the Central Bank monetary policy, monetary policy tools and its components, analyzed and summarized and made recommendations.

Keywords: banks, monetary policy, fiscal policy, financial stability, balance of payments.

Monetary policy is how central banks manage liquidity to create economic growth. Liquidity is how much there is in the money supply. That includes credit, cash, checks and money market mutual funds. The most important of these is credit. It includes loans, bonds and mortgages. The primary objective of central banks is to manage inflation. The second is to reduce unemployment, but only after they have controlled inflation.

Monetary policy in an underdeveloped country plays an important role in increasing the growth rate of the economy by influencing the cost and availability of credit, by controlling inflation and maintaining equilibrium the balance of payments[1].

Monetary policy consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates. Monetary policy is maintained through actions such as modifying the interest rate, buying or selling government bonds, and changing the amount of money banks are required to keep in the vault (bank reserves)[2].

Further goals of a monetary policy are usually to contribute to the stability of gross domestic product, to achieve and maintain low unemployment, and to maintain predictable exchange rates with other currencies.

Monetary economics provides insight into how to craft an optimal monetary policy. In developed countries, monetary policy has generally been formed separately from fiscal policy, which refers to taxation, government spending, and associated borrowing.

Monetary policy is referred to as being either expansionary or contractionary. Expansionary monetary policy is when a central bank uses its tools to stimulate the economy. That increases the money supply, lowers interest rates, and increases aggregate demand. It boosts growth as measured by gross domestic product. It usually lowers the value of the currency, thereby decreasing the exchange rate. It is the opposite of contractionary monetary policy.

Expansionary monetary policy deters the contractionary phase of the business cycle. But it is difficult for policymakers to catch this in time. As a result, you typically see expansionary policy used after a recession has started.

To see how it works, let us use the U.S. central bank, the Federal Reserve, as an example. The Fed's most commonly used tool is open market operations. That is when it buys Treasury notes from its member banks. The Fed simply creates the credit out of thin air. That is what people mean when they say the Fed is printing money.

The Federal Reserve, meeting for the first time under Chairman Jerome Powell, raised the target range for the federal funds rate by a quarter point to 1.5-1.75 percent during its March 2018 meeting, in line with market expectations. The Fed officials also projected a steeper path of hikes in 2019 and 2020 as the economic outlook is improving. Interest Rate in the United States averaged 5.73 percent from 1971 until 2018, reaching an all time high of 20 percent in March of 1980 and a record low of 0.25 percent in December of 2008.
Reserve requirements are the amount of funds that a depository institution must hold in reserve against specified deposit liabilities. Within limits specified by law, the Board of Governors has sole authority over changes in reserve requirements. Depository institutions must hold reserves in the form of vault cash or deposits with Federal Reserve Banks. The dollar amount of a depository institution's reserve requirement is determined by applying the reserve ratios specified in the Federal Reserve Board's Regulation D to an institution's reservable liabilities (see table of reserve requirements). Reservable liabilities consist of net transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities. Since December 27, 1990, nonpersonal time deposits and Eurocurrency liabilities have had a reserve ratio of zero.

Reserve requirements must be satisfied by holding vault cash and, if vault cash is insufficient, also by a deposit maintained with a Federal Reserve Bank. An institution may hold that deposit directly with a Reserve Bank or with another institution in a pass-through relationship. Reserve requirements are imposed on "depository institutions," defined as commercial banks, savings banks, savings and loan associations, credit unions, U.S. branches and agencies of foreign banks, Edge corporations, and agreement corporations.

One of the major issues of monetary education is the right choice of monetary policy targets. It is well-known from the world economic practice that while discussing the main trends in monetary policy, Central Bank officials are focused on a range of issues, such as economic growth, pricing, interest rates, stability and strengthening of financial and foreign exchange markets in the country. Focus on the It is important to ensure the compliance of the macroeconomic, monetary and fiscal policies in the country with the achievement of the aforementioned goals. Otherwise, the targets will not succeed.

It is important that the Central Bank select one or more target indicators that can be used to implement monetary policy and achieve its objectives. Usually, the central bank uses monetary aggregates, such as cash or monetary base, as an interim objective of monetary policy.

The study of the peculiarities and effectiveness of the monetary policy regimes taking into account the specifics of the national economy shows that the achievement and preservation in the medium term of stability as a priority objective of the Central Bank is most consistent with the inflation targeting regime. Proceeding from this, legal foundations and basic economic prerequisites were laid for gradual reorientation of the principles and methods of implementing monetary policy on inflation targeting.

In particular, the measures taken to liberalize foreign exchange policy and create market conditions for the formation of the exchange rate, a clear definition of the priority objectives and practical independence of the Central Bank, the transition to an active phase of monetary policy, the improvement of the methodology for calcula-
lating and assessing inflation, and increasing transparency and strengthening communication policy at the initial stage create the basic conditions for the transition to inflation targeting.

Nevertheless, the existing potential risks and restrictions on the introduction of the inflation targeting regime significantly complicate the implementation of the task. The central bank will pay increased attention to strengthening the forecasting and analytical base, improving the instruments of monetary policy and strengthening its transmission channels, communication policy and increasing public confidence. Also, the Central Bank consolidates its efforts with the relevant ministries and departments in implementing measures to ensure a gradual transition to this regime.

In general, the transition to inflation targeting requires a radical review and improvement of all major aspects of the monetary sphere, which will mark a qualitatively new level of ensuring macroeconomic stability as the basis for sustained economic growth in the long term.

The central bank should not be based on monopolistic monetary values when implementing monetary policy. Because each Picture has certain shortcomings, they cannot fully reflect the economy data. For example, the Central Bank monetizes one of the monetary indicators - how to determine the real demand and supply of money in the economy, the level of monetization, the rate of money circulation, or the effect that the money supply affects inflation, exchange rates, interest rates and the general economy.

References
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РОЛЬ ДЕНЕЖНО-КРЕДИТНОЙ ПОЛИТИКИ В РЫНОЧНОЙ ЭКОНОМИКЕ

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Аннотация. В данной статье рассматривается роль денежно-кредитной политики в рыночной экономике, факторы, влияющие на денежно-кредитную политику Центрального банка, инструменты денежно-кредитной политики и ее компоненты, проанализированы и обобщены и сделаны рекомендации.

Ключевые слова: банки, денежно-кредитная политика, фискальная политика, финансовая стабильность, платежный баланс.