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APPLYING EFFECTIVE METHODS TO STABILIZE INFLATION: THE ROLE AND IMPORTANCE OF MONETARY POLICY IN CURBING INFLATION

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ABSTRACT

It is known that a stable macroeconomic situation is the key to economic growth. In this case, the importance of monetary policy is very high. That is, it is through this policy that control over inflation can be achieved. The reason is that one of the main enemies of any country's economy today is inflation. Restraining and stabilizing it is one of the most important tasks for countries. This article discusses in detail the role of monetary policy in reducing inflation and the main causes of inflation. Inflation rates in the Republic of Uzbekistan are also analyzed on the basis of statistical tables of previous years and relevant conclusions are given.

KEYWORDS: inflation, inflation targeting, forms of inflation, monetary policy, open market operations, Central Bank, consumer price index.

INTRODUCTION

It's no secret that a lot of people have been talking about high inflation lately. But noone has a clear answer to the question of what inflation is. Inflation is an indicator of the overall growth of prices. However, it would be wrong to equate the rise in the price of one or two products with inflation. This is where the question naturally arises. Why is asked so much about inflation, is there no other problem in the economy, or is it all about it? True, there are problems and shortcomings. But with the salient advantages, you must know some of the disadvantages as well. At the same time, the fact that inflation, which has the greatest impact on the well-being of the population, is on the agenda is a natural reaction to the dramatic changes in the economy. Looking to the future without lowering inflation is like dreaming of a camel bath. That is, we think, as in the past, that we are moving towards abstraction.

MAIN PART

In general, inflation is an ax to the country's future. Well, if we talk about its origins and causes, for the first time the word inflation came into circulation when the civil war between the North and South states of the United States was very large (450 million green becks). 'The little dollar has been in use since it was issued. Their purchasing power dropped to 50 percent after two years. If we look at history, we can see that the increase in government spending due to war and other disasters is inextricably linked to inflation. For example, high inflation in England appeared in the early 19th century during the war with Napoleon, in France during the French Revolution, and in Russia in the mid-19th century. Inflation in Germany was very high in 1923, when the money supply reached 496 quin-trillion marks and the currency depreciated a trillion times. These historical examples show that inflation is a historical process, not a current one. Current inflation is different from past inflation. Previous inflation was temporary, usually resulting from the issuance of paper money to cover military spending during the war. One of the main ways for the government to finance expenditures without any income, that is, without increasing the rate of production and turnover, or when these indicators are declining, was to issue paper money. As a result, the money in circulation exceeded the amount of gold required for circulation, and the real value of money fell below its face value, which in fact began to represent the amount of gold less than the currency itself. There is another feature of previous inflation, which was manifested in a certain period. Current inflation, on the other hand, is usually chronic in nature, covering all areas of economic life and affecting other economic factors besides monetary ones. Admittedly, inflation has been a common occurrence in recent years, and quality is changing. The reason for this is that inflation today: first, to a steady rise in prices; and secondly, the failure of the general economic mechanism as a result of the violation of the law of money circulation.

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The main cause of inflation in the twentieth century is not only the scarcity of goods, but also the crisis in production and processing. Many scholars believe that current inflation is caused by a violation of the law of money circulation as the demand for money exceeds the supply of goods, an increase in the price of goods as a result of an increase in the share of production costs, and therefore an increase in money supply. The main reason for inflation is the imbalance between different sectors of the economy. This is primarily due to the difference between supply and demand between the fund and the consumer, the money supply in circulation between government revenues and expenditures, and the demand for cash by households. It is also possible to divide its causes into internal and external causes, depending on the factors that cause inflation. While the internal factors of inflation are related to monetary policy and economic activity, the external factors are crises in the world economy (in terms of raw materials, fuel, currency), the monetary policy of the state, other countries. with foreign economic activity, illegal transactions with gold and foreign exchange reserves, etc. In short, inflation is mainly manifested in the following forms:

– devaluation of money and a decrease in its purchasing power as a result of continuous and erratic growth in prices for goods and services;

- depreciation of the national currency against foreign currency;

- increase in the price of gold in the national currency, etc.

Inflation in Uzbekistan is not, of course, the result of independence. Historically, inflation has occurred in the former USSR. One of the reasons for this inflation is that in government, politics takes precedence over economics. As a result, the pace of production in our country has fallen, which in turn has led to a shortage of goods. In fact, the process is covert, and although the cost of producing the goods is high (due to the high cost of raw materials), the goods are sold at low prices. The difference is directly covered by the state budget. Since the beginning of 1992, the transition to free prices (excluding food and fuel resources) has led to inflation and rapid growth. As a result, inflation in Uzbekistan is a complication of inflation in the former Soviet Union, and it will naturally take a long time to treat and curb.

If inflation rises to a high level, it is obvious that this will lead to social and economic conflicts in the country. Countries will try to take appropriate measures to prevent this from happening. The main forms of such measures are anti-inflation policy and monetary reform. In each country, the circulation of money is regulated by certain rules. Only the country's well-organized monetary policy will help curb inflation. The Central Bank of the Republic of Uzbekistan uses the following methods to regulate the circulation of money in our country. 1. Determining the standard of the required reserve rate. 2. Participation of commercial banks in the open market. 3. Set a refinancing rate for centralized loans. According to the Law on the Central Bank of the Republic of Uzbekistan, the Central Bank has the right to oblige commercial banks to keep funds in a special account on the minimum required reserves. The criteria for such reserves are determined by the type of bank's liabilities, deposits and maturities. This mechanism is mainly used to coordinate the amount of liquid funds of commercial banks. Many developed countries now use the open market method of regulating money circulation. This is one of the most widely used methods of monetary policy today. This method is a flexible, practical and operational method that can quickly affect the liquidity level of commercial banks. The difference between this method and others is that it can be done as needed and in any amount. This mechanism can stabilize the money supply depending on the development trend of the market. The right of the central bank to conduct open market operations is established by law. It can be an object of purchase and sale, it can be government securities and debt obligations issued by the Central Bank. So, depending on the

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state of the economy, the Central Bank determines its monetary strategy. In addition, the circulation of money in the country can also be governed by decisions and orders issued by the government. However, if there is a strong devaluation of money in the country, the only way to stabilize the monetary system is through monetary reform. However, the stabilization of money circulation can be achieved without monetary reform. That is, there are the following methods of stabilization of money circulation: revaluation, devaluation, denomination. Depending on the level of economic development of the country, the state of the economy, the level of devaluation of money, the state can carry out monetary reform, revaluation, denomination of money. In short, the inflation mechanism is self-evolving, covering all sectors and industries, which reduces the volume of savings, credit, investment and

The supply of goods decreases. Uzbekistan has also been trying to curb inflation in recent years. The focus was on improving the monetary sector, as well as a sharp increase in lending by commercial banks, liberalization of foreign exchange policy.

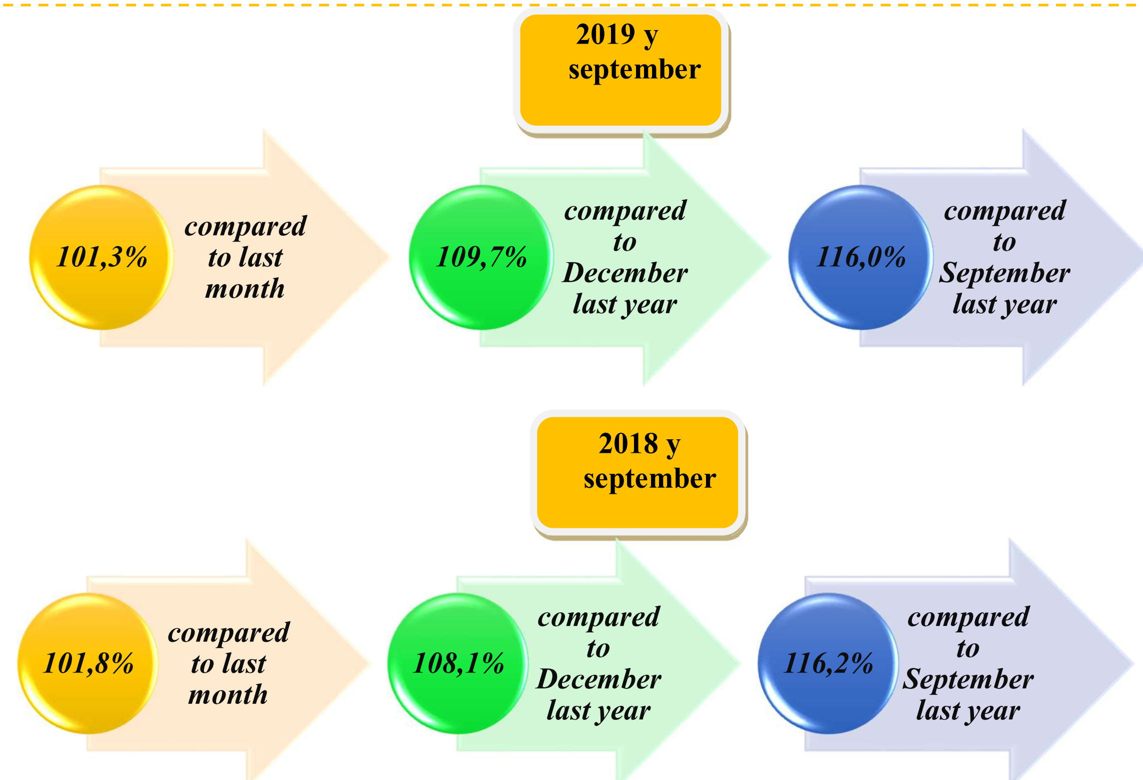

Figure 1. The inflation rate in the consumer price index in our country in 2018-2019, in percent

The figure shows that in September 2019, the average price level in the consumer market grew by 1.3%, which means that goods and services in the consumer market rose by 9.7%.

CONCLUSION

In conclusion, the decisions taken in the field of monetary policy in our country are aimed at strengthening the effectiveness and efficiency of monetary policy instruments. For example, from the second half of 2017, the introduction of liquidity operations in commercial banks was one of the first practical steps in the transition to an active phase of credit policy. Decree of the President of the Republic of Uzbekistan dated

September 2, 2017 PF-5177 "On priority measures to liberalize the foreign exchange policy" identified the liberalization of the foreign exchange market in the country as one of the priorities of state economic policy In turn, the measures taken to liberalize the foreign exchange market served as a basis for improving the mechanisms of monetary policy in the light of new conditions. In particular, the President of the Republic of Uzbekistan on September 13, 2017 Resolution No. PQ-3272 “On measures to further improve credit policy”. We can say that the set of measures to further improve monetary policy in 2017-2021, approved by this resolution, strengthens the role of monetary policy in ensuring macroeconomic stability and the strength of the national currency. In order to effectively ensure the stability of domestic prices in the country, in the medium term, the tasks of a gradual transition to the inflation targeting regime, which is widely used by the central banks of developed countries, were identified. In the current context of modernization of the economy, one of the priorities of economic development is to attract foreign currency from current accounts of individuals and businesses to time and savings deposit accounts of commercial banks and direct them as loans to priority sectors of the economy. Solving this task, in turn, requires increasing the attractiveness of these deposits for the population and businesses by increasing interest rates on time and savings deposits attracted to banks in foreign currency.

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