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THE IMPACT OF MONETARY POLICY ON STIMULATING ECONOMIC GROWTH

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Abstract

The article analyzes the practice of applying the tools of monetary policy, assesses the effectiveness of this policy. It also examines the impact of the monetary policy of the central bank on ensuring economic growth and substantiates the directions for improving the use of monetary methods and tools based on the application of the inflation targeting mode and activating the channels of the monetary transmission mechanism. The most important factors influencing the course of monetary policy and the achievement of stability of the national economy in the context of reforms are highlighted. The purpose of the article is to identify the main trends in monetary regulation, to analyze the main directions of the monetary policy.

Keywords: Monetary policy, inflation, bank, economic growth, refinancing, inflation targeting, financial institutions, transmission mechanism

INTRODUCTION

The need to study the monetary policy of the state due to the fact that it is one of the directions of state policy of economic regulation. The study of the role of monetary policy in ensuring sustainable economic growth is currently one of the most controversial issues of economic theory and practice. Its relevance is due to a rather long period of economic recession in many countries of the world.

In most modern studies, a conclusion is drawn about the exceptional possibilities of the influence of the central bank on virtually all aspects of economic life, and it is prescribed the primary duty to stimulate economic growth and business activity.

Central banks as a special institution of public administration and the implementation of state economic policy have clear goals and objectives, strictly regulated by law, and perform specific functions. Therefore, the proposed measures and recipes for stimulating economic growth based on the implementation by the central bank of certain areas of monetary policy should not be populist, but should be based on taking into account the real objectives and capabilities of central banks. In this regard, in the framework of this article, an attempt is made to determine the possible areas, monetary methods and instruments of the impact of monetary policy on economic growth in an unstable economic environment.

THEORETICAL LITERATURE REVIEW

In the foreign scientific literature, the problems of the influence of monetary policy on ensuring economic growth are given considerable attention in the works of such well-known economists as L.N. Krasavina, O.I. Lavrushin, F.S. Mishkin, S.V. Mishchenko, R.S. Moiseev, Huerta de Soto, M. Fridman and others. At the same time, modern changes in the development of the global financial market and national economies require constant revision of the previously developed concepts and approaches, as well as the search for new methods and tools of monetary impact on economic growth, taking into account the specifics of government implementation of economic policy and monetary credit market, which determines the relevance of the proposed study.

In world practice, central banks define as a special institution of public administration in the system of economic management and the implementation of the government's economic policy, which performs functions related to the management and development of the country's monetary system, the money market and banking institutions. So, Moiseev (2011) considers the central bank as a national financial institution that issues money, manages international reserves, deals with the IMF and provides loans to commercial banks.

In modern scientific literature, debatable questions are not only the essence of central banks, but also their functions. At the same time, it should be stated that in scientific research there is no development of uniform methodological approaches to substantiating the essence of central banks and their role in the modern economic system. Instead, researchers focus on analyzing the practical problems of implementing monetary, interest rate and exchange rate policies, applied aspects of money supply management through refinancing, regulation and supervision of banking activities, management of international reserve assets, etc. Such an approach Simanovsky (2014) very aptly called "instrumental". It allows you to identify only short-term relationships and trends, and the underlying processes of central banks, the development and use of new monetary regimes that meet the strategic objectives of the monetary management of the economy, while remaining outside the scope of scientific research.

In our opinion, this situation arises as a result of the fact that in most studies, the essence of central banks is replaced by their functions. As a result, the approach used in the Western scientific literature to characterize the essence of money prevails, by analogy with which the essence of the central bank is determined by what functions it performs. Moreover, each researcher independently determines the main function and accordingly characterizes the central bank and its role in the economic system of the state. So, Gosselin (2007) in his research, in our opinion, quite reasonably from the point of view of economic theory, emphasizes the regulation of money circulation as the main characteristic of the central bank. Kolb and Rodriguez (1996) considers the main functions of the development and implementation of the central bank monetary policy, supervision of banking activities and the provision of financial services to depository institutions and the government. Mishkin (2006) focuses on the implementation of the central bank's functions of supervision of banks and the implementation of monetary policy. Analysis of points of view could be continued, since the list of functions of central banks is quite extensive.

When they characterize the independence of central banks, they mean, above all, their political, operational and financial independence. Each type of independence is characterized by clear parameters, procedures, rules and, as a rule, is regulated by national legislation. However, despite this, in many countries certain discussions periodically arise on this occasion, and the independent status of central banks, unfortunately, is often violated, especially in emerging market countries, which very clearly confirmed the global financial crisis of 2008–2009. and the period of post-crisis recovery of the world economy, coupled with political instability.

AIMS AND OBJECTIVES OF MONETARY POLICY AND THE BOUNDARIES OF ITS IMPACT ON ECONOMIC GROWTH

The main method of implementing the main functions of the central bank is monetary policy. In economic theory, its content is defined as a system of measures by which the state influences the amount of money in circulation in order to curb rising prices and inflation, as well as ensure growth in production and employment, thus maintaining macroeconomic equilibrium.

In practice, monetary policy is understood as a set of measures in the sphere of money circulation and credit, aimed at ensuring the stability of the national monetary unit on the basis of using a set of methods and tools, which include: interest rates on central bank operations; mandatory reserve requirements; securities transactions in the open market; refinancing of banks; setting benchmarks for the growth of the money supply; foreign exchange intervention; regulation of the import and export of capital; issue of central bank bonds and transactions with them; direct quantitative restrictions, etc.

The analysis of these two definitions allows us to conclude about the discrepancy between theoretical and applied approaches to characterizing the essence of monetary policy. If in a theoretical definition, economic growth coupled with employment, together with inflation restraint and price stability are viewed as a two-fold task, then in the applied aspect we see the predominance of the instrumental approach, the purpose of which is to implement the technical functions of the central bank using certain operational procedures.

Among these methods and instruments for the implementation of monetary policy, there are virtually no ones that would directly influence economic growth or serve as a direct incentive for it. Such an approach is fully consistent with the theory of "neutrality of money", the founders of which in the scientific literature are considered to be D. Hume and J. Mill. In fact, the property of money neutrality follows from the equation of exchange by I. Fisher, but in the modern interpretation this theory found the most complete expression in M. Friedman and was adopted by almost all representatives of the neoclassical direction in modern economic theory.

In accordance with the theory of “neutrality of money”, a change in the amount of money released into circulation in the long run only affects price changes and does not affect changes in the volume of investments, production and employment. As a result, quantitative changes in the money supply will only contribute to an increase in the general price level in the economy and an increase in the rate of inflation (Lobacheva, 2012).

The practical implementation of the provisions of the theory of "neutrality of money" leads to the fact that central banks do not have at their disposal effective tools and methods of direct impact on economic growth. However, as practical experience shows, this influence can occur indirectly through the banking system and the financial sector through the use of channels of the monetary transmission mechanism. So, Moiseev (2011) believes that the monetary channel plays a secondary role in the monetary transmission mechanism, and therefore the management of the money supply is inferior to the dominant role of other instruments of monetary policy. The main channels of such a transmission mechanism of monetary impulses from the central bank to the real sector of the economy should be interest, credit and currency channels. At the same time, the main instruments of monetary policy are the interest rate, operations with securities on the open market and bank refinancing, and the main methods are methods that ensure the stability of the monetary market, financial and macroeconomic stability.

The main task of the development and implementation of monetary policy by the central bank is to achieve the highest possible equilibrium of the money market, i.e. Maintain a balance between the amount of money in circulation and the need for it. It should be borne in mind that the achievement of this equilibrium has a cyclical nature in accordance with the dynamics of economic cycles or economic activity cycles of business entities and is carried out through monetary and credit regulation, implemented in the short or medium term.

METHODS OF CONDUCTING MONETARY POLICY

In accordance with generally accepted approaches, the restrictive monetary policy pursued by central bank aims to limit the amount of money in circulation by raising interest rates, reducing amount of refinancing of financial institutions and imposing administrative restrictions. This policy is used mainly to stabilize monetary and financial systems and curb inflation. As a result of restrictive policies, there can be a slowdown in lending rates, stabilization or a decline in the exchange rate, a decline in business activity, a reduction in consumer spending and an increase in household savings. The results of a stimulating monetary policy are to increase the volume of money in circulation by lowering interest rates, increasing volume of refinancing of financial institutions, liberalization of financial activities, etc (Mishchenko, 2014).

The policy of monetary expansion is usually applied with the aim of expanding credit, increasing business activity, stimulating investment processes, overcoming the decline in production, and increasing consumer spending. However, critics of the implementation of such a monetary policy believe that the liberalization of the monetary market and credit expansion can stimulate inflationary and devaluation processes, reduce financial stability and cause a financial crisis (Ostry, Ghosh, Chamon, 2012).

From the point of view of the theory, both supporters of the first approach and the second are right. However, it should be borne in mind that in this case, the authors absolutize the final results, expressing extreme points of view. The truth is that the central bank develops and implements a certain type of monetary policy in the context of the general economic policy of the state, taking into account the real state of the economy, historical and political features of the development of the country, as well as the state of the economic situation.

The role of the inflation targeting regime in ensuring the stability of the money market and stimulating economic growth. The main objects of monetary regulation are money supply, interest rates, reserve requirements, exchange rate, level of monetization of the economy, that is, a certain set of monetary policy tools and monetary indicators, among which there are no indicators directly related to economic growth. This once again underlines the fact that monetary policy can have only indirect, and not direct, effect on economic growth. In other words, monetary policy can create only certain preconditions under which economic entities, realizing the freedom of economic choice, will carry out actions that coincide with the goals and objectives of the state’s economic policy and stimulate economic growth. Such indirect influence can be exercised under the presence of certain conditions, chief among which are macroeconomic stability, a balanced development of the monetary and credit market, and the stability of the banking system. Therefore, it is quite indicative that after the global financial crisis of 2008–2009. In most countries, the function of ensuring financial stability was assigned to central banks.

In the scientific literature, the practical experience of some developed countries in the implementation of non-standard monetary instruments in the form of "quantitative" and "credit easing" is cited as an example of the positive impact of monetary policy on the economy. Thus, non-standard measures of the ECB's monetary policy on "credit" and "quantitative easing" were initially aimed at expanding bank lending, and, beginning in 2014, at redeeming secured bonds and securitized loans, that is, in fact, at supporting banking liquidity.

In contrast to the ECB, the main focus of unconventional measures by the US Federal Reserve, the Bank of England and the Bank of Japan was the purchase of distressed securities, mainly mortgage-backed securities. This means that the central banks of these countries focused on stabilizing the financial sector, and the ECB focused on improving the conditions for financing and lending to non-financial corporations and the public.

The main task of implementing the inflation targeting regime is to ensure and maintain at a certain level the target level of inflation set by the central bank based on the use of a combination of monetary methods and tools. The transition of central banks to the use of monetary inflation targeting regime implies the existence of a number of institutional conditions that determine its effectiveness.

Table 1 Inflation Targets and Inflation Rate in Selected Countries of the World, 2016–2017

Country	**Target Authority**	**Target inflation rate,%**	**The actual value of inflation,%**		**Horizon target**
			2016	**2017**	
Australia	government and central bank	2–3	1,3	1,9	medium term
United Kingdom	government	2	0,7	2,7	on permanent basis
Canada	government and central bank	2 (midpoint of 1-3)	1,4	1,6	six-eight quarters
South Korea	government and central bank	3 ± 0.5pp	1,0	1,9	3 years
Norway	government	2,5	3,6	1,9	medium term
Romania	government and central bank	3±1	-1,6	1,3	medium term
Czech Republic	central bank	2±1	0,7	2,4	medium term
Turkey	government and central bank	5% ± 2pp	7,8	11,1	multiyear

Source: International Monetary Fund

As the analysis shows, most countries, due to the uncertainty of inflation processes and the complexity of controlling them, set the inflation target as an interval for a medium-term time period. This approach allows central banks in the implementation of monetary policy to have a certain margin of flexibility and make more informed decisions.

Given the unstable economic situation and the initially high level of inflation, which is more typical for countries with emerging markets, it is difficult to move on to full-scale inflation targeting. In such cases, the general strategic goal of monetary policy is initially defined as lowering the inflation rate, and then short-term and medium-term inflation targets are set, allowing you to gradually move from the current inflation rate to the established target. The implementation of this stepwise approach allows the central bank to more effectively implement anti-inflationary policies, gradually reducing inflationary expectations. In most countries, the level of inflationary target is set by the government and the central bank by a joint decision, which increases the responsibility of each of them for achieving the target level of inflation and reflects the presence of a high level of coordination of monetary and fiscal policy.

The results of the analysis show that in the case of joint inflationary targeting by the government and the central bank, there was further observed a minimum number of deviations of the actual inflation rate from the target indicator - 43% of cases, whereas when the government establishes targeting, the number of such deviations was 83%.

The basis of the monetary regime, which is based on targeting inflation, is the mechanism for managing the interest rates of the money market, which serve as the main instrument for restraining inflation and the main channel for the influence of monetary policy on the behavior of market entities. At the same time, in order to transfer impulses from the central bank to economic entities, including the real sector of the economy, an effective transmission mechanism of monetary policy plays an important role, thanks to which the central bank influences the economy through regulation of the monetary market (Mishkin, 2007).

The effect of the transmission mechanism of monetary policy is based on the influence of the key interest rate on changes in market interest rates, at which business entities can allocate and attract resources, and through them - on refinancing volumes, conditions and volumes of lending, exchange rate, etc. These indicators have a certain impact on the decisions of business entities on consumption, savings and investments, which is reflected in the overall level of aggregate demand, inflation, price stability and total economic activity.

Ultimately, these changes by adjusting the supply and demand, changes in internal and external prices, as well as the level of wages are reflected in the level of development of the real sector of the economy. As a result of such changes in the real sector, the next iteration takes place - the adjustment of interest rates, prices, exchange rates, etc. And this happens until the economy reaches a new state of equilibrium (Aizenman, Hutchison, Noy, 2011).

Thus, the use of the monetary regime of targeting inflation not only ensures price stability, but also contributes to ensuring overall financial and macroeconomic stability, which creates prerequisites for the sustainable development of the economy. In addition, this monetary regime, by enhancing the interest rate channel of the transmission mechanism of monetary policy, allows activating the action of other channels and transmits monetary impulses to business entities, thereby stimulating the development of the real sector and economic growth.

ANALYSIS OF THE APPLICATION OF MONETARY POLICY INSTRUMENTS OF THE REPUBLIC OF UZBEKISTAN

The Strategy of Actions for the development of the Republic of Uzbekistan along five priority areas in 2017-2021 noted as important areas: “further improvement of monetary policy through the use of tools in accordance with international best practices, as well as the phased introduction of modern market mechanisms of currency regulation, ensuring the stability of the national currency»[1].The result of this is the profound reforms begun in our country, affecting all sectors of the economy, including the banking sector. The liberalization of the foreign exchange market in September 2017, which greatly stimulated the export of domestic goods and services, served as one of the powerful impetus for creating the necessary basis for improving monetary policy.

In 2018, monetary policy was mainly aimed at reducing inflation in the conditions of liberalization of the foreign exchange market, foreign economic activity and deep transformations in the economy. Monetary instruments were used to reduce the money supply and lending.

In the IV quarter of 2018, the broad money supply increased by 1.9% or 1.6 trillion. UZS. The money supply in national currency increased by 1.9 trillion. UZS, and in foreign currency decreased by 0.3 trillion. UZS. The main factor in the change in the money supply was the high growth rate of lending. In particular, in the fourth quarter of 2018, the balance of credit investments of banks in national currency increased by 8% or 5.5 trillion. UZS (by 17% or 10.3 trillion UZS in the third quarter of 2018). In general, in 2018, the broad money supply increased by 14.4% or 10.5 trillion. UZS (in 2017 - by 40.2% or 21.0 trillion UZS). At the same time, the money supply in national currency increased by 23% or 10.9 trillion UZS. Credit investments of banks in national currency in 2018 increased by 74% or 31.9 trillion UZS (in 2017 - by 38% or

11.8 trillion UZS), and the volume of credit investments in foreign currency rose to 2.6 billion dollars, which is 2 times more than in 2017 (1.3 billion $).

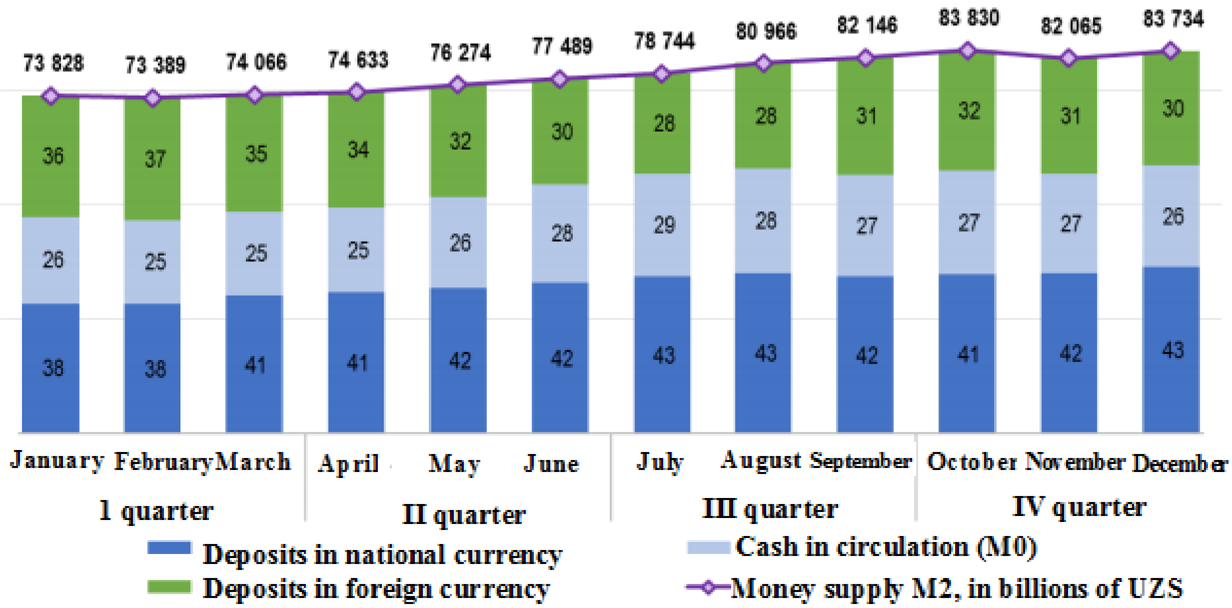

Figure 1. Changing the structure of broad money supply

Source: The Central Bank of the Republic of Uzbekistan.

In 2018, the following positive trends in the money supply structure were observed:

- despite the increase in the money supply by 14.4%, the share of cash in the total volume of money supply remained unchanged at 26%;
- the share of deposits in foreign currency decreased by 6 percentage points, while the share of deposits in national currency increased by 5 percentage points, which reflects the de-dollarization of the economy.

In 2018, the Central Bank continued to improve monetary policy instruments and mechanisms for their application, as well as introduce new market instruments based on international best practices.

After the changes in the obligatory reservation mechanism, as of October 1, 2018, changes were made to this monetary policy instrument. Thus, the procedure for creating mandatory reserves only in national currency regardless of the currency of attracted liabilities of commercial banks has been established, rates on legal entities and individuals have been unified, statutory reserve requirements on deposits of legal entities in national currency have been reduced, and relatively high rates on foreign currency deposits have been introduced.

These changes were aimed at increasing the attractiveness of deposits in national currency, reducing the level of dollarization of the economy and increasing the efficiency of market mechanisms for regulating the liquidity of the banking system. After changing the statutory reserve requirements, banks revised their deposit policy and began to attract deposits in the national currency for longer periods at higher interest rates. In particular, in the second half of 2018 there was a sharp increase in deposits in both national and foreign currencies with terms of more than one year.

In June-December 2018, the share of deposits in foreign currency with a maturity of more than one year in the total amount of funds deposited in the mandatory reserves increased from 4.2 to 11.7%, and the share of deposits in national currency from 10.5 to 17,8%. This indicates the beginning of the activation of the savings channel of the transmission mechanism. At the same time, the share of deposits in demand deposits and short-term deposits decreased from 54% in June to 48% in December 2018. Changes in the mandatory reservation procedure also affected interest rates on deposits and loans from commercial banks. This effect is described in more detail in the analysis of the interest rate channel.

According to the Central Bank, the increase in the refinancing rate primarily affected the rates in the interbank money market, and then with a lag on other interest rates in the economy (on short-term and long-term deposits and loans from commercial banks).

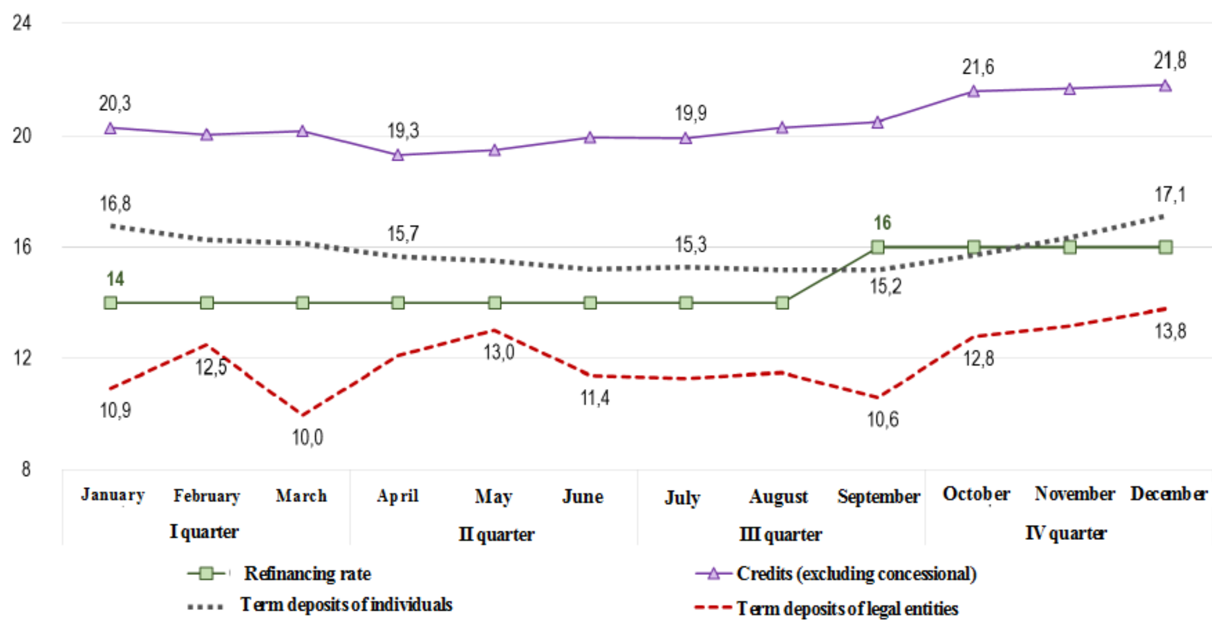

Figure 2. Dynamics of nominal interest rates

Source: The Central Bank of the Republic of Uzbekistan.

In particular, in the fourth quarter of 2018, interest rates on term deposits of legal entities increased from 10.6 to 13.8%, on term deposits of individuals - from 15.2 to 17.1% and on loans

- from 20.5 to 21.8%. Tightening monetary conditions reduced the negative difference between nominal interest rates and inflation and helped bring real interest rates closer to a positive area. In particular, if at the beginning of 2018 real interest rates on deposits in banks, interbank deposits and refinancing rates were negative, then by the fourth quarter real interest rates on deposits in banks and interbank deposits approached zero, and on refinancing rates became positive.

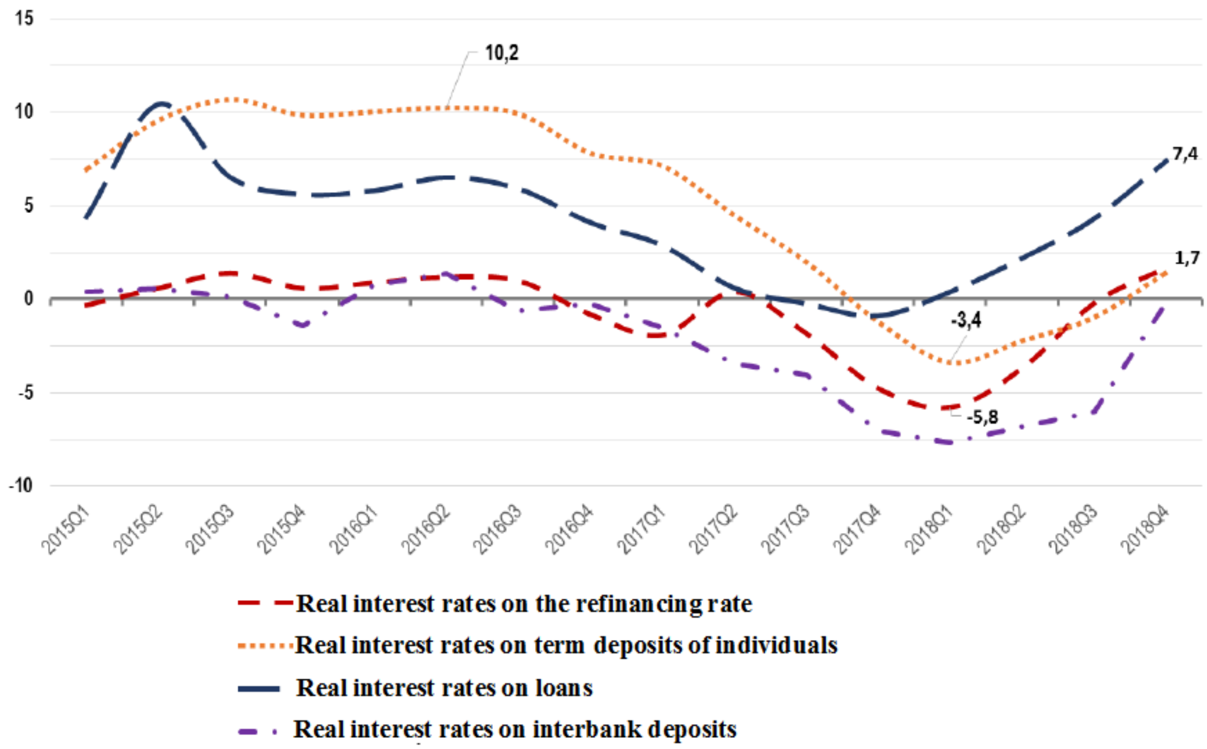

Figure 3. Dynamics of real interest rates

Source: The Central Bank of the Republic of Uzbekistan.

In 2018, monetary policy in Uzbekistan is mainly aimed at creating the conditions for ensuring price stability in the market by reducing the impact of monetary factors on inflation. Also important is the improvement of monetary policy instruments, which involves revising and changing mandatory reserve requirements, taking measures to step up operations related to issuing government securities, introducing an electronic platform for the interbank market, to increase the speed of operations and the formation of interest rates on basis of market mechanisms.

In the medium term, the priorities of monetary policy are the reduction of inflation and the creation of the necessary foundations for the transition to the inflation targeting regime, including the development of tools and the transmission mechanism of monetary policy.

The main directions of monetary policy are a program document and are developed on the basis of an analysis of the current macroeconomic situation, external factors, as well as forecasts of the development of internal and external conditions. This document contains the objectives and principles of monetary policy, analysis and expected results of measures taken in the monetary sphere, macroeconomic development scenarios and measures to develop monetary instruments in the medium term.

Unlike previous years this year, the Main Directions have been developed on a 3-year horizon using scenario development options for the economy. The baseline scenario provides for the continuation of the current economic development trend and a weak change in external conditions, as well as the implementation of structural and tax reforms with the gradual achievement of the expected results. The alternative (risk-based) scenario provides for the deterioration of external economic conditions and the slowdown of the ongoing structural reforms.

In the baseline scenario of economic development, GDP growth in 2018 is expected to be at the level of 5.2%, while in 2019 it is forecasted at the level of 5.4%. In subsequent years, an acceleration of economic growth is planned due to increased investment activity in the current and last years, as well as ongoing reforms in the real sector of the economy.

According to forecasts, in the baseline scenario, annual inflation in 2018 will be 16–17%, in 2019 - 13.5–15.5% and in 2020 - 10–12%. Starting from 2021, it is expected to bring annual inflation to single-digit values.

Drivers of inflation in the medium term will be high demand in the economy due to increased investment activity and the liberalization of regulated prices. At the same time, the factors supporting investment activity in the following years will be the growth of capital investments in the framework of reforming (including privatization) state enterprises.

In the baseline scenario, the successful implementation of tax reform, the introduction of the fiscal rule, improved coordination of monetary and fiscal policies, as well as the normalization of growth rates of lending to the economy (25% in 2019) are laid.

In the alternative scenario, given the deterioration of external and internal conditions, as well as the failure to achieve the expected results of structural reforms, inflation is expected to accelerate to 17–18% in 2019.

In both scenarios, the Central Bank provides for prudent monetary policy while maintaining moderately tight monetary conditions. Moreover, in an alternative scenario, a more stringent policy is laid.

CONCLUSION

A study of theoretical and practical issues of the development and implementation of monetary policy by central banks in order to stimulate economic growth made it possible to confirm the thesis that the tools and methods of this policy can have only indirect effect on economic growth. This is due to the fact that the ability of central banks to resolve these issues is limited not only by their mandate, but also by the list of monetary methods and tools used.

The implementation of monetary policy can provide only certain conditions under which business entities will carry out actions that coincide with the goals and objectives of state economic policy, including those aimed at ensuring economic growth. The most effective such influence can be realized in the conditions of macroeconomic stability in the presence of a balanced monetary market and a stable banking system. Therefore, the main task of monetary regulation is to ensure the stability of the banking system and to develop reliable mechanisms for managing inflation. This approach is due to the fact that only with low inflation the financial system remains stable, which is a prerequisite for ensuring sustainable economic growth.

The practical implementation of these issues is reflected in the fact that the majority of central banks have chosen to contain inflation as the main strategic goal of their activities, based on the use of the monetary inflation targeting mode, which allows maintaining inflation in the medium term within the established target.

The basis of the monetary targeting mode of inflation is the mechanism of managing the interest rates of the money market, which serve as the main instrument for controlling inflation and the main channel of the influence of monetary policy on stimulating economic growth due to the functioning of the monetary transmission mechanism allowing the transmission of impulses from the central bank to economic entities, including to the real economy(Mollik, Torres, Carneiro, 2008). Therefore, activating the channels of the monetary transmission mechanism serves as a reliable basis for stabilizing the banking system and ensuring economic growth.

The transition to inflation targeting is a difficult and long path that will inevitably have to face many difficulties. First, the structural transformation and development of the financial market can be a long process. Secondly, the formation of potential for future-oriented monetary policy requires the development of the analytical capacity of the central bank, which depends not only on the development of human capital, but also on the availability of high-quality statistical data. Third, the development of transmission channels of monetary policy is a gradual process that requires the efforts of not only the Central Bank, but also other agencies and market participants.

In conclusion, we can say that weighted monetary policy, which takes into account all aspects of the economy and is aimed at stabilizing the national currency, increasing the liquidity of banks, curbing inflation expectations, liberalizing the foreign exchange market and ensuring uninterrupted cash flow, will certainly give a strong impetus to economic growth and open up to the country great opportunities in the form of creating a favorable business environment for attracting foreign investment and stimulating domestic producers.

RECOMMENDATIONS FOR FUTURE RESEARCH

This study is devoted to the study of the role of monetary policy in the economic development of the state. The priority long-term goal of the economic policy of any state is to stimulate economic growth and maintain its development rates at a stable level. One of the main conditions for achieving this goal is an effective monetary policy pursued on the basis of a deep operational analysis of the effectiveness of its mechanisms that affect economic growth. This study will play an important role in the implementation of effective monetary policy, which will ensure an increase in the economic growth of the national economy.

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