

# Effect of the exchange rate policy on economic growth

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**Abstract:** The article examines, the exchange rate, changes in the currency policy in Uzbekistan and the impact of exchange rate policy on economic growth in the modern financial and currency system is described in detail.

**Keywords:** exchange rate, money transfers, currency policy, financial and monetary system, economic growth

## INTRODUCTION

Exchange rate policy plays an important role in managing processes related to the market economy, determining the international status of the national currency, and in the system of current and future economic relations of the country. It is an important and integral part of macroeconomic policy in ensuring the stability of economic development, preventing unemployment and curbing inflation, maintaining the activity of the balance of payments. In recent years, the foreign economic activity of Uzbekistan has been developing rapidly. With the participation of foreign investments, new joint ventures are emerging and joining foreign economic activities. Naturally, the participants of these foreign economic relations feel a strong need to sell or buy foreign currency in order to fulfill their obligations to their foreign partners. Currency legislation, which is important in the country's economy and plays a key role in the formation of foreign economic activity, should always be in continuous development and improvement.

Excessive administrative regulation of currency circulation in any country opens the way to unjustified formation of a less effective system of privileges and preferences for individual sectors and business entities. Unequal conditions in doing business lead to violation of market principles of competition. Attracting foreign investments, increasing the export of goods and services, in general, becomes an obstacle to the economic development of the country. Taking into account the above factors, a number of laws and decrees were adopted in our country.<sup>1</sup>

In addition, President Sh.M.Mirziyoyev wrote that "Critical analysis, strict discipline and personal responsibility - should be the daily rule of every leader's activity" "Further strengthening of macroeconomic stability and maintaining high rates of economic growth, including the state budget at all levels proportionally,

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<sup>1</sup> Sh.M. Mirziyoyev Critical analysis, strict discipline and personal responsibility should be the daily rule of every leader's activity. - Tashkent: Uzbekistan, 2017.

ensuring the stability of the national currency and the price level in the domestic market is our most important priority"[ Sh.M. Mirziyoyev Critical analysis, strict discipline and personal responsibility should be the daily rule of every leader's activity. - Tashkent: Uzbekistan, 2017.]

At this point, it should be said that the President of the Republic of Uzbekistan on September 2, 2017 "On the first measures to liberalize the exchange rate policy" [Decree No. PF-5177 of the President of the Republic of Uzbekistan "On the first measures to liberalize the exchange rate policy".<sup>2</sup> 02.09.2017 This Decree was published in the 176 (6870) issue of the Halk Suzi newspaper dated September 5, 2017.] The Decree serves as a program. First of all, this document was adopted in accordance with the development strategy for 2022-2026 and for the purpose of introducing market mechanisms for the regulation of the foreign exchange sector, encouraging the increase of the export potential of the Republic, actively attracting foreign direct investments, increasing the competitiveness of local producers in the markets, and improving the business environment in our country

#### MAIN PART

Since money transfers are mainly made in foreign currency, they can be considered as a factor that significantly affects the currency market and currency relations in general.

Effective organization of the currency system and its stability play an important role in the development of international financial relations. Currency system means the organizational and legal form of organization of currency relations. The state of the currency system directly depends on the process of managing and regulating currency relations in the country.

Three main forms of the currency system can be distinguished:

The national currency system represents a set of activities related to the organization and regulation of currency relations in the territory of a certain country;

Regional currency system is a currency system established on the initiative of countries within a certain region.

The world monetary system is a set of instruments, agreements, procedures and organizations established to implement currency relations between countries.

The increase in the volume of transfers is explained by the increase in the demand for labor force as a result of the relaxation of quarantine measures and the recovery of economic activity, as well as the increase in the use of the official international money transfer system by individuals.

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<sup>2</sup> Decree of the President of the Republic of Uzbekistan No. PF-5177 "On the first measures to liberalize the exchange rate policy". 02.09.2017 This Decree was published in the 176 (6870) issue of the Halk Suzi newspaper dated September 5, 2017.

The main task of the world monetary system is to ensure international currency liquidity in the process of international trade and settlements in different currencies.

The world monetary system performs the following main functions:

- regulation - elimination of imbalances in the balance of payments affecting the relations between currencies;
- liquidity - determination of reserve units and determination of the possibilities of their application and forms of organization to compensate for imbalances of the balance of payments;
- management - organization of international financial institutions and ensuring the continuity of settlements through their powers.

The main goals of the world monetary system are:

- ensuring the continuity of international settlements between countries;
- support for ensuring the stability of the national currency of countries;
- ensuring effective division of labor between different economic systems of the world economy;
- to achieve an increase in the total volume of world production and an increase in the level of employment of the population;
- ensuring stable economic growth in national economies;
- curbing inflation and maintaining foreign economic balance, etc. Currency systems operate by incorporating certain elements.

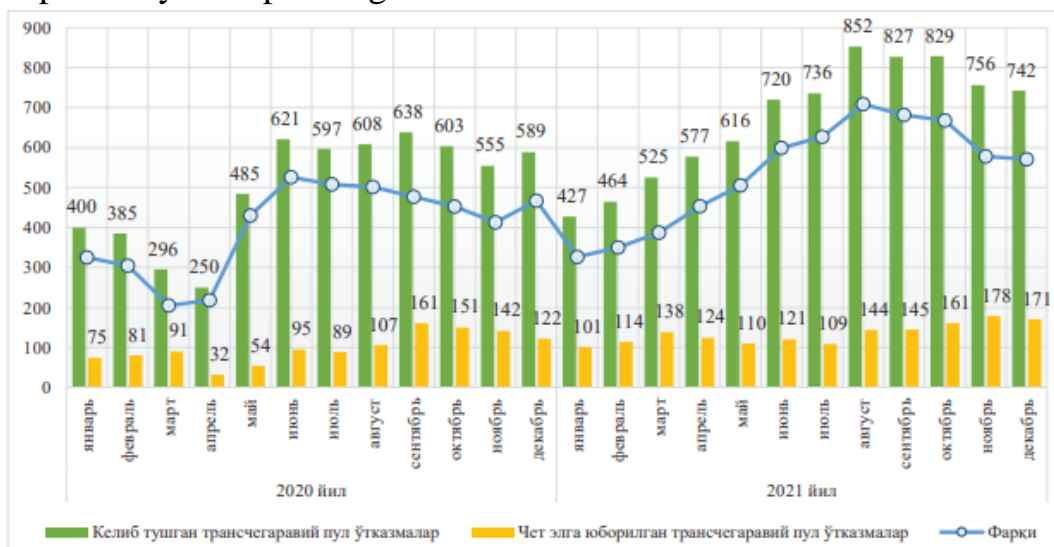


Figure 1. Dynamics of funds received and sent abroad through international cross-border money transfers<sup>3</sup> (mln. USD)

The national currency system includes the following elements:

- national currency;
- exchange regime of the national currency;
- national currency parity;

<sup>3</sup> Report on the activities of the Central Bank of the Republic of Uzbekistan in 2021

- national currency exchange rate regime;
- state of currency restrictions;
- regulation of international currency liquidity of the country;
- procedure for operations in the national currency market.

The world monetary system includes the following elements:

- international means of payment;
- a mechanism for determining and maintaining exchange rates;
- terms of currency conversion;
- interstate regulation of currency restrictions;
- provision and regulation of international currency liquidity;
- generalization of international settlement forms;
- modes of operation in the gold and foreign exchange markets;
- rights and obligations of interstate institutions regulating currency relations.

The following can be noted as factors that had a significant impact on the development of the world monetary system:

- level of development of product production;
- the level of acceleration of the international division of labor;
- level of world market development;
- level of development of economic management systems.

With the development of bilateral economic relations between countries as multilateral relations, the importance of the world currency system began to increase. Because financial relations related to international trade, credit, investment and capital movement between countries were carried out on the basis of certain principles established within the framework of the world currency system.

In many countries, the introduction of floating exchange rates instead of fixed exchange rates did not ensure their stability, despite the large costs of currency intervention. This regime has been unable to ensure rapid management of currency speculation, random capital movements, inflation rates and balance of payments in different countries. A number of countries continued to peg their national currencies to other currencies.

Here, "When it comes to the impact of western currency policy on developing countries, 95% of the official foreign exchange reserves of these countries correspond to the currencies of six countries:

US dollar (67.5%), GFR mark, Japanese yen, pound sterling, Swiss and French franc. About 90% of developing countries keep the exchange rate of their currency against the US dollar, French franc, and SDR unchanged. The level of the interest rate of the Western countries in the international and national capital market affects the payments on the external debts of the developing countries. From the above examples, it became clear that developing countries are interested in the stabilization

of national currency indicators of developed countries. In this, the process of displacement of the national currency by the main convertible currencies is observed. It is observed that the currency policy of developed countries penetrates the currency policy of developing countries. Of course, this process is carried out only in countries where residents are allowed to conclude contracts in foreign currency.

One of the most negative consequences of this exchange rate is the reduction of the effectiveness of the national budget, monetary and exchange rate policies.”<sup>4</sup>

### Conclusion

It is envisaged to develop scientific and practical proposals aimed at improving and developing the state of economic growth and the financial and credit system by improving the exchange rate policy. By normalizing exchange rate fluctuations, it is planned to attract foreign investments and increase the volume of exports. The most optimal way to ensure the increase of foreign exchange earnings and gold-currency reserves is to increase the export potential.

Important international organizations of economic cooperation of Uzbekistan - International Monetary Fund, International Bank for Development and Reconstruction, Asian Development Bank, Islamic Development Bank, International Labor Organization, European Development and Reconstruction Bank, International Finance Corporation, Shanghai Cooperation Organization, United Nations and many other organizations has been accepted, has been carrying out export and import operations with many countries.

The currency policies of developed countries are applied in a unified and interconnected world. Therefore, it is necessary to determine to what extent the factor of third countries affects it. We are mainly talking about developing countries. Many Eastern European and CIS countries are feeling the influence of the Western currency policy. It is still necessary to find ways to use alternative forms of participation in international currency relations. In this, the skills of developing countries come in handy.

To facilitate the exporters and investors in the country by improving the currency policy and normalizing the exchange rate fluctuations. It is assumed that the increase in the volume of exports and investments will lead to economic growth.

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<sup>4</sup> [https://vaqt.ucoz.com/publ/iqtisod\\_va\\_moliya/valjuta\\_tizimi\\_va\\_uning\\_asosij\\_ehlementlari/28-1-0-197](https://vaqt.ucoz.com/publ/iqtisod_va_moliya/valjuta_tizimi_va_uning_asosij_ehlementlari/28-1-0-197)

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