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MONEY AND BANKS

STUDY GUIDE

THE MINISTRY OF THE HIGHER AND SECONDARY SPECIALIZED EDUCATION OF THE REPUBLIC OF UZBEKISTAN

SAMARKAND INSTITUTE OF ECONOMICS AND SERVICE

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STUDY GUIDE

for students of higher educational institutions in educational areas 5230100 - Economics (service industry), 5230600 - Finance, 5230900 - Accounting and audit (production)

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In study guide discussed the origin of money and money circulation, especially the formation of the monetary system of the Republic of Uzbekistan, the structure of the payment system, the practice of the organization of cash and non-cash turnover. Considerable attention is paid to the issues of inflation and anti-inflation regulation, organization of exchange controls. In study guide a special place is given to aspects of the activity of institutions of the credit system of the Republic of Uzbekistan.

Ўқув қўлланмада пулнинг келиб чиқиши ва пул айланмаси, хусусан, Ўзбекистон Республикаси пул тизимининг шаклланиши, тўлов тизими тузилмаси, нақд пул ва нақд пулсиз пул айланмасини ташкил этиш амалиёти масалалари кўриб чиқилган. Инфляция ва инфляцияга қарши курашиш йўллари, валюта назоратини ташкиллаштириш масалаларига ҳам алоҳида эътибор қаратилган. Ўқув қўлланмада Ўзбекистон Республикаси кредит тизими муассасаларининг фаолияти муҳим ўрин эгаллаган.

В учебном пособии обсуждаются вопросы происхождения денег и денежного обращения, особенности формирования денежной системы Республики Узбекистан, структура платежной системы, практика организации наличного и безналичного оборота. Значительное внимание уделено инфляции и вопросам антиинфляционного регулирования, организации валютного контроля. Особое место в учебном пособии отводится деятельности организаций кредитной системы Республики Узбекистан.

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CONTENT

МУНДАРИЖА

PREFACE

The institutions of higher education is entrusted with the task of organizing since the academic year 2017/2018 teaching specialty disciplines in English in at least 2 academic groups in all courses[1]. In the execution of this ordinance developed this study guide.

Study guide has been prepared in accordance with the requirements of the educational standard for the content of discipline "Money and Banks" as the base in the preparation students of economic specialties. The purpose of discipline is the formation of students' fundamental knowledge in the field of monetary circulation, monetary and credit regulation, payment transactions, management of inflation processes, the theory of credit, banks, disclosure and discussion of historical theoretically aspects of their nature, functions, legislation, role in modern market economy.

As a result of studying the discipline student should know:

- modern forms of money and the order of their circulation;
- the theories of money, and especially their use in the practice of monetary and credit regulation;
- payment transactions and structure of the payment system of the Republic of Uzbekistan;
- the organization and regulation of cash circulation;
- forms of cashless payments and settlement operations stages;
- monetary system structure, evolution and organization of the modern monetary system of the Republic of Uzbekistan;
- types of inflation and anti-inflation policy;
- the credit system and the stages of the credit operations;
- the structure of the credit system and especially the organization of the activities of individual financial - credit institutions;
- the organizational structure of the commercial bank;
- the nature of banking operations and services;

[1] Ordinance of the President of the Republic of Uzbekistan "Олий маълумотли мутахассислар тайёрлаш сифатини оширишда иктисодиёт сохалари ва тармокларининг иштирокини янада кенгайтириш чора-тадбирлари тўгрисида" ги (On measures to further extend the participation of industries and spheres of the economy in improving the quality of training of specialists with higher education), July 27, 2017, No. ПК-3151

- the system of banking regulation and supervision.

As a result of studying the discipline the student should be able to:

- an analysis of money supply in the economy with money market benchmarks;

- to make reviews of the state of monetary - credit policy in order to identify underlying trends and forecasting inflation, exchange rates and other macro-economic indicators;

- make the payment documents in compliance with the established requisites;

- to analyze the factors that determine the exchange rate and to carry out its forecast change;

- to analyze the market of loan capital using official statistical data;

- to develop the documents necessary for the conclusion of the credit agreement;

- perform calculations of interest on loans using a variety of techniques, including in the context of inflation;

- to issue the results of the analysis using spreadsheets and presentations training programs.

To study the discipline is necessary knowledge in the field of economic theory, economic history, finance, global economics, statistics, accounting system. The knowledge and skills obtained by the students as a result of studying the discipline needed to study subjects such as "Finance of companies", "Banking", "Financial management", "International currency and credit relations" and others.

Study guide is prepared by taking into account the basic competencies of students studying in the field of "Economics", "Marketing", "Management", "Accounting and audit", "Finance", "Banking" and allow to combine theoretical preparation for the main sections of the discipline with practical money market analysis skills and the money supply, inflation, the credit market. Formation of the study guide is based on an analysis of current trends in money and credit systems, and also in the banking sector.

MODULE 1. MONEY

CHAPTER 1. SUBJECT AND CONTENT OF THE COURSE "MONEY AND BANKS"

1.1. The subject and content of the course "Money and Banks".
1.2. The relationship of the subject with other disciplines.
1.3. Basic requirements for the study of the subject.

1.1.The subject and content of the course "Money and Banks"

The modernization of the economy of the Republic of Uzbekistan and its deepening largely depends on the ongoing monetary and credit policy. In solving problems related to the organization of monetary policy, a great place is occupied by the theoretical knowledge considered in the course "Money and Banks". The subject "Money and Banks" is intended for all students studying in economic areas. During the studying of the course students will be acquainted with modern theories of money and banking, credit operations, as well as the theoretical and practical foundations of organizing money circulation by commercial banks.

In addition, will be considered the methods for evaluating decisions in the area of monetary circulation and development of banking activities within and in the process of modernization and liberalization of the economy of the Republic of Uzbekistan.

1.2.The relationship of the subject with other disciplines

The subject "Money and Banks" is interconnected with the humanitarian subjects of the curriculum, in particular, "Economic Theory", "History of Economic Thought" and with special subjects such as "Finance", "Banking", "Bank Audit", "Accounting", "Financial and management accounting" and with others.

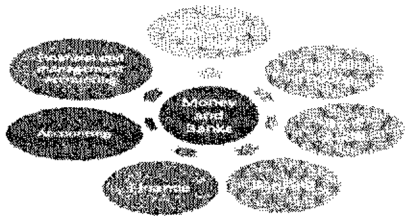

Figure 1. Relationship of the subject with other disciplines

1.3.Basic requirements for the study of the subject

Students should be able to:

❖ answer the questions, keywords, solve tests and tasks assigned by the teacher during the study of the subject for each topic;

❖ perform control tests and prepare abstracts during the educational process;

❖ analyze the changes taking place in the banking system as a result of mastering the subject.

As a result of studying the discipline a student should know:

❖ the main debatable issues of modern theories of money, credit and banks;

❖ the essence and role of money, of credit and of banks in the economy;

❖ the fundamentals of the organization of money turnover;

❖ the mechanism and features of modern inflation;

❖ the basic elements of the monetary system, its types;

❖ the regularities of credit relations, forms and types of credit;

❖ the features of monetary policy in different countries;

❖ the functions and main operations of central and commercial banks;

❖ the main activities of international financial and credit organizations.

As a result of studying the discipline a student should also acquire skills of:

❖ systematization and evaluation of processes in the monetary sphere;

❖ the use of statistical material for analytical studies in the preparation of coursework, as well as student discussions on the development of the monetary system.

QUESTIONS

1. What is the subject of the discipline "Money and banks"?
2. Why do we need to study the discipline "Money and banks"?
3. What sections does this discipline consist of?
4. What is the relationship of the subject with other disciplines?

CHAPTER 2. ORIGIN, NECESSITY AND FUNCTIONS OF MONEY

2.1. The essence of money as an economic category.
2.2. Origin of money. Properties of money.
2.3. Functions of money.

Key words: money, medium of exchange, means of payment, storage means, measure of value, world money, portability, durability, divisibility, rationalistic concept, evolutionary concept, standardization, recognizability, accumulation.

2.1.The essence of money as an economic category

Money is an economic category in which social relations are manifested and with the participation of money public relations are built: money is acting as an independent form of measure of value, a medium of exchange, means of payment and storage means.

In modern conditions in everyday life of people, in the activity of enterprises, state and other bodies, in various spheres of economic activity, money is used to:

- ❖ determine of prices and sales of goods and services;
- ❖ determine of the cost of production and profit;
- ❖ remunerate of labor;
- ❖ prepare and execute of budgets;

- ❖ implement of credit and settlement operations;
- ❖ realize of operations with securities;
- ❖ saving and accumulation as a means;
- ❖ estimate the amount of resources involved in the production process (fixed and circulating funds), etc.

Money arises under certain conditions of realization of production and economic relations in the society and promote their further development. Under the influence of changing conditions for the development of economic relations, the features of the functioning of money also change. The immediate prerequisites for the appearance of money are:

- ❖ the transition from subsistence farming to the production of goods and exchange of goods;
- ❖ property separation of producers of goods - owners of manufactured products.

In the initial period of the existence of human society, subsistence economy dominated, in which production, intended for own consumption, was produced. Gradually, in the interests of increasing production, and to a certain extent under the influence of natural conditions (for example, such as conditions for the development of livestock, agriculture, fishing, etc.), people specialize in the manufacture of certain types of products. At the same time, the increased quantity of products turned out to be possible to use not only to meet the needs of the manufacturer, but also to exchange for other products required by this manufacturer. This is the most important prerequisite for the emergence of the exchange of products. The transition to the production of goods and the exchange of goods was accompanied, first of all, by the fact that instead of manufacturing products to meet their own needs of the economic entity, the production was developed for exchange for other goods or for sale. This transition was based on the specialization of producers on the manufacture of certain types of products, which increased its production on the basis of increasing labor productivity.

Property separation of commodity producers, which are the owners of manufactured goods, made it possible to exchange goods that belong to them for others or to sell goods for money.

The processes examined indicate that money is a necessary active element and an integral part of the economic activity of the society, relations between various actors and links in the reproduction process.

The essence of money is characterized by their participation in:

❖ the implementation of various types of social relations; the essence of money can not be unchanged: it must reflect the development of economic relations in society and changes in the money itself;

❖ the distribution of the gross national product (GNP), in the acquisition of real estate, land. Here the manifestation of essence is not uniform, since the various possibilities of money are conditioned by different socioeconomic reasons;

❖ determination of prices expressing the value of goods. The production of goods (the provision of services) is carried out by people with the help of tools, using objects of labor. Produced goods have a value, which is determined by the total amount of transferred cost of tools and objects of labor and newly created by living labor.

In addition, the essence of money is characterized by the fact that they:

❖ serve as a means of universal exchange for goods, real estate, works of art, jewelry, etc. This feature of money becomes noticeable when compared with direct exchange of goods (barter). The fact is that individual goods can also be exchanged for others on barter terms. However, as already noted, such exchange opportunities are limited by the scope of mutual needs and compliance with the requirement of equivalence of such transactions. Only money possesses the property of universal direct exchange for goods and other values.

❖ improve the conditions for the preservation of value. With the preservation of value in money, and not in goods, storage costs are reduced, and damage is prevented. Therefore, it is preferable to keep the value in money.

In modern conditions, banknotes and money of non-cash turnover do not have their own value, but they can be used as exchange value. This indicates that money is increasingly different from the goods and become an independent economic category with the preservation of certain properties that give them a similarity with the goods.

2.2.Origin of money. Properties of money

Money appeared millennia ago and for a long time have been the subject of research first of ancient thinkers, and then of economic science as an independent field of knowledge. However, in spite of the fact that a large number of scientific works are devoted to the problems of money and money circulation, a universally recognized theory of money has not yet been worked out. On the contrary, among economists there are significant disagreements on all major issues of monetary theory, such as the causes of the emergence of money, the essence of money as an economic phenomenon, the composition and content of the functions performed by them.

So, at present there are two basic concepts of the origin of money - rationalistic and evolutionary. Within these concepts, fundamentally different approaches to interpreting the need for money are used.

The rationalistic concept of the origin of money was first formulated by the ancient Greek philosopher and scientist Aristotle, who believed that money became money not by its intrinsic nature, but by law, so people can change this law and make money useless.

The rationalist concept of the origin of money historically arose first. In it, to explain the emergence of money and the development of their forms, a subjectivist-psychological approach is used: it is asserted that money was deliberately invented and introduced by people to facilitate the exchange process, and more rational organization of exchange transactions. Thus, this theory explains the origin of money for noneconomic reasons, considering their emergence as a result of a psychological act, a subjective decision of people, which either took the form of an agreement between people, or was expressed in the adoption of a corresponding law by the state. It is assumed that at a certain stage in the development of commodity exchange, people understood the inconvenience of direct barter transactions and invented money as an instrument that facilitates exchange and reduces its costs.

The evolutionary concept of the origin of money was first developed by K. Marx. To explain the need for money, he used the historical materialistic approach, according to which in the process of production people, regardless of their will, enter into certain necessary production relations developing according to objective laws. From these positions the origin of money is explained by objective laws of the development of reproduction.

The evolutionary concept proves that money did not appear at once, by force of law or agreement, but spontaneously, as a result of a long process of developing exchange relations. In other words, money is an objective result of the development of the process of commodity exchange, which in itself, regardless of the people's desire, gradually led to the spontaneous allocation of a specific commodity from the general mass of goods, which began to perform monetary functions. In this concept, the appearance of money is associated with the beginning of the transition from subsistence to commodity, with the development of forms of value (forms of value expression)[2].

Throughout human history, various items have acted as money. Gradually, by experience, people came to an understanding of what qualities should be possessed by objects on which the function of money is entrusted. These qualities are called the properties of money. It is possible to allocate a sufficiently large number of properties of money. Economists identify the main five properties that must necessarily have money:

1) divisibility. Money should be easily divisible into smaller (fractional parts);

2) portability (Latin "porto" - burden). In order for them to be widely used, money should be easy to use, easy to translate, transfer, handle, be of small size;

3) durability. In order not to lose its value (shrink, fade, deteriorate, break), money must be physically durable;

4) recognizability. Money should be clearly separated from other

[2] Lavrushin O.I. Деньги, кредит, банки. Textbook - M.: "КНОРУС", 2013. - 12 p.

liquid assets, have universal liquidity and are easy to recognize;

5) standardization. Any monetary unit must correspond in quality to another monetary unit[3].

2.3.Money functions

The essence of money is manifested in their functions, which reflect the opportunities and features of their use, as well as the role of money, which is to achieve certain results with their help.

Features of functions consist in the fact that in most cases they are implemented only in money.

Money acts as:

- measures of value;
- medium of exchange;
- means of payment;
- storage means;
- world money.

The fulfillment of money by the function of a measure of value consists in estimating the value of goods by setting prices.

The basis for establishing the prices of goods is the value of their cost, which depends primarily on the amount of socially necessary labor to produce goods. When setting prices, the initial value is not the individual level of labor costs of an individual commodity producer to produce goods, but the socially necessary level of costs. Accordingly, prices fix socially necessary costs for the production of certain types of goods. Using money as a unit of account reduces transaction costs in an economy by reducing the number of prices that need to be considered. The benefits of this function of money grow as the economy becomes more complex[4].

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[3] Lavrushin O.I. Деньги, кредит, банки. Textbook - М.: "КНОРУС", 2013. – 13-14 p.

[4] Frederic S.Mishkin. The economics of money, banking and financial markets. Pearson Education Limited. 2011. – 46 p.

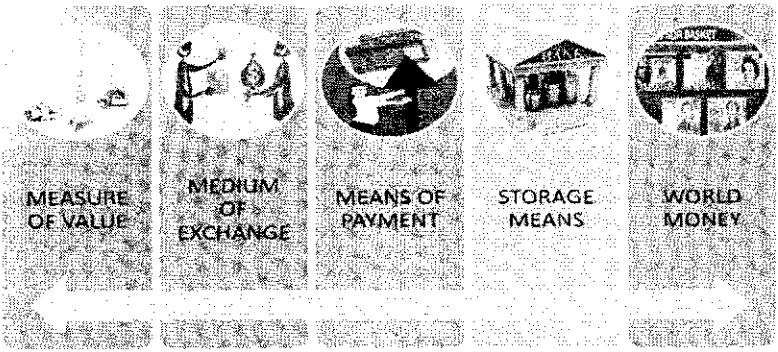

Figure 2. Functions of money

Money as a medium of circulation is used to pay for purchased goods. At the same time, the feature of such a function of money is that the transfer of the goods to the buyer and his payment occur at the same time. This function uses cash banknotes.

In the participation of money as a means of circulation, the possibilities for influencing economic relations between sellers and buyers are laid. So, the buyer of the goods must first convince himself that the use-value of the offered goods corresponds to the requirements. Without compliance with this requirement, implementation is not carried out. The buyer also checks the price of the proposed goods. This takes into account the level of prices, the ratio of demand and supply for the goods, scheduled for implementation, as well as the level of prices for goods that can replace the proposed product.

All this means that, as a means of circulation, money can be used as an instrument of mutual control of participants in the transaction for the sale of goods.

When carrying out the money functions of the medium of circulation and maintaining price stability it is important that the volume of effective demand corresponds to the supply of goods. Money is widely used as a means of payment. Such a function is performed when money is provided and repaid, when payments are made for goods and services received, in monetary relationships with financial authorities (tax payments, receipt of funds from financial bodies), as well as when paying off debts on wages board and others.

The function of the means of payment is also performed by cash, in a principal way in the relationships in which individuals participate. Only a small part of payments of legal entities (mainly for not very large amounts) is made in cash. One of the predominant part of the money turnover, in which the money emerges as a means of payment, is accounted for by non-cash monetary settlements between legal entities and in a certain part in the payments of individuals (transfer of funds from the bank's deposit in payment for utilities, etc.).

Comparatively often, settlements are made in foreign currency during payments for export and import transactions, in case of arrears and arrears in relations with foreign firms and states.

The prevailing mass of payments is made when carrying out cashless settlements in which the movement of cash is replaced by credit transactions made in monetary units.

Money that does not directly participate in the turnover, including the functions of the medium of circulation and means of payment, form a monetary accumulation and serve as a means of accumulation.

The composition of cash savings includes cash balances held by individual citizens, as well as the balance of money on accounts in banks. The formation of monetary savings of individual citizens is determined by: the excess of their incomes over expenditures, the need to create a reserve for the forthcoming large and seasonal expenditures.

Presence of monetary savings allows the population to use them in the forthcoming periods for payment of the acquired goods and payment of various obligations. Money as a means of accumulation is, in addition, of the balances accumulated by enterprises and organizations on their accounts with banks.

Comparing different types of monetary savings, it is necessary to allocate the accumulation of cash in the population. Almost in relation to such residues, there are no restrictions in their use to pay for goods and liabilities. This is the most mobile and liquid type of cash savings. Moreover, cash serves as a legal tender and is obligatory for admission to all types of payments.

The functioning of money in circulation between states makes them world money.

Money serving international economic relations is called currency. There are national and foreign currencies.

Currently, the world's money includes:

- ❖ leading national currencies (US dollar, euro, Japanese yen, pound sterling, CNY);
- ❖ international monetary units, i.e. national currencies issued by international financial and credit institutions: SDRs issued by the IMF and euros issued by the European System of Central Banks, headed by the European Central Bank.

In terms of performing their functions, world money has the following meaning:

- ❖ the universal means of payment for settlements on international balances (mainly on the balance of payments);
- ❖ international purchasing means with direct purchase of goods abroad and payment in cash;
- ❖ the means of materializing international public wealth - the transfer of national wealth from one country to another (with the collection of contributions or loans).

QUESTIONS

1. What is money?
2. What properties do money have?
3. What contributed to the origin of money?
4. What functions do money perform?
5. What is the difference between the functions of money as a medium of exchange and a means of payment?

CHAPTER 3. TYPES OF MONEY AND THEIR EVOLUTION

3.1. Metal money.

3.2. Paper money.

3.3. Credit money.

Key words: metal money, coins, obverse, reverse, edge, paper money, banknotes, credit money, signs of value, nominal value, real value, spoilage, gold money, mint, e-money, credit cards, deposit money, loan money.

3.1.Metal money

In some areas of money turnover and in different periods, under different conditions, various types of money are used. In their evolution, money appears in the form of metal, paper and credit money.

Historically, the change of some forms of money to another was due to the development of social and economic relations in the process of which the selection of those forms of money that were able to perform the functions of money at the most appropriate time. Schematically, the evolution of money is reflected in the figure.

Metal money (copper, silver, gold) had different shapes (first piece, then weight). The appearance of money was also varied (in the form of a wire, a rectangle, a triangle, a rhombus, and finally a circle). The coin of a later period of development of money circulation had statutory distinctive features (appearance, weight content). The most convenient for circulation was the round shape of the coin (which was less erased), the front-side of which was called the obverse, the back-side - the reverse and the coin rim - the edge. In order to prevent coins from damage, the core was made threaded.

Real money is characterized by stability, which was ensured by free exchange of signs of value for gold coins, freely chased by gold coins with a certain and unchanged gold content of a monetary unit, unlimited movement of gold between countries. Due to their stability, the real money performed all its functions without hindrance.

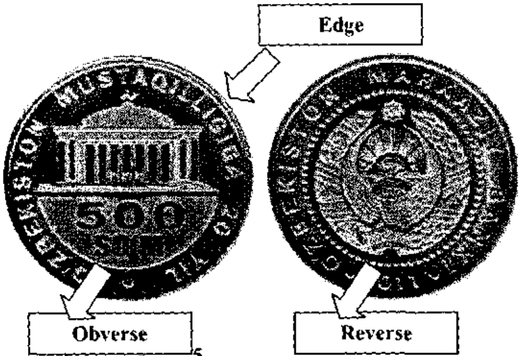

Figure 3. Defining coin surfaces[5]

Signs of value - this money, the nominal value of which is higher than the real, that is, the social labor expended on their production. These include:

❖ metal signs of value - a worn out gold coin, a coin, that is, a small coin made of cheap metals, for example copper, aluminum;

❖ signs of value, made of paper.

The first coins appeared in the Lydian kingdom (VII century BC).

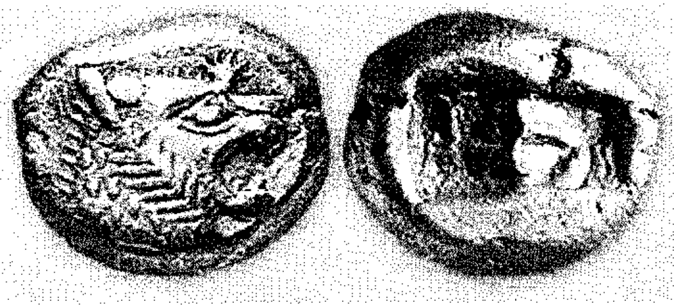

Figure 4. First Lydian Coins

The appearance of signs of value under the gold circulation was caused by an objective necessity:

❖ gold mining did not keep pace with the production of goods and did not provide a complete need for money;

❖ gold money of high portability could not serve a small turnover;

❖ gold circulation did not possess, due to objective reasons,

[5] www.cbu.uz - based on information from the official website of the Central Bank of the Republic of Uzbekistan

economic elasticity, i.e., the ability to rapidly expand and contract;

The gold standard as a whole did not stimulate production and turnover.

Gold money has considerable shortcomings:

- the high cost of using gold money, which cost much more than paper money made from paper;
- the impossibility to provide the need for turnover with gold money, as the demand for money grows faster than gold mining increases.

In connection with the mentioned, as well as with some other reasons all over the world, gradually stopped using gold as a material for making money, which led to a gradual transition from real money to substitutes - signs of value.

3.2.Paper money

Paper money is a substitute for full-value money. Historically, paper money arose on the basis of metal circulation and appeared in circulation as a substitute for previously circulating silver or gold coins.

The objective possibility of calling substitutes for real money arose from the features of the function of money as a medium of circulation, where money is the intermediary in the exchange of goods.

Transforming the opportunity into reality is a long process, which is influenced by the following reasons:

1. erasing coins, as a result of which a full-value coin turns into a sign of value;
2. deliberate "spoilage" of metal coins by state power, i.e., a decrease in the metallic content of coins in order to obtain additional income to the treasury;
3. treasury issue of paper money with a mandatory rate for the purpose of obtaining share premium.

The essence of paper money (treasury notes) is that it is money issued to cover the budget deficit and is usually not exchangeable for metal, but the state-imposed forced rate, being deprived of independent value. As a result, they acquire a representative value in circulation and act as a purchasing and payment means.

The emitters of paper money are either the state treasury or Central Banks. In the first case, the state directly uses the issue of paper money to finance its expenses. In the second case, it does this indirectly: the Central Bank issues unmodified banknotes and lends them to a loan to the state, which directs them to their expenses.

The economic nature of paper money is such that it eliminates the possibility of stable paper money circulation. Firstly, the issue of paper money is not regulated by the need for turnover in money; Secondly, there is no mechanism for automatically withdrawing excess paper money from circulation. Peculiarities of paper money are their instability and impairment, which can be caused by the following reasons:

- excessive release into circulation;
- decrease in confidence in the government that issued money;
- adverse balance of payments, etc.

3.3.Credit money

The development of commercial and bank credit in the economy in conditions when commodity relations have acquired a comprehensive nature has led to the fact that everything - a common commodity - is credit money that belongs to the highest sphere of the socioeconomic process and is governed by completely different laws.

The direct formula of commodity circulation is C-M-C, i.e., the conversion of the commodity into money, and then money into the commodity. For the circulation of goods from their environment, a specific commodity is allocated, endowed with monetary functions. In simple commodity production, circulation is separated from production, and goods find public recognition only by turning them into money. In capitalist production, which is characterized by the formula M-C-M, circulation is only one of the moments of production.

Credit money arises when capital influences production itself and gives it a completely different and specific form, than before. They do not emerge from circulation, as a commodity - money in a precapitalist formation, but from production, from the circulation of capital.

The main object of exchange relations under capitalism is not commodity as such, but commodity capital, the role of money is played not by a monetary commodity, but by money-capital. Consequently, money does not appear in the form of money-capital, but money-capital - in the form of credit money. Credit money went through the following evolution: a bill, a bank note, a check, electronic money, credit cards.

A bill is a kind of a security, according to which the owner has the right to demand payment from the drawer of a monetary obligation, for the specified amount and in the specified period.

A promissory bill (a solo bill) is an unconditional obligation of the debtor to pay a monetary debt to the creditor in the amount and on terms indicated in the bill and only in it. A simple bill is signed by the payer himself, and is essentially his debt receipt.

A bill of exchange (draft) is an unconditional order of the person who issued the bill (the drawer), to pay to the debtor (payer) the amount specified in the bill in accordance with the terms of this promissory note to a third party (bill holder).

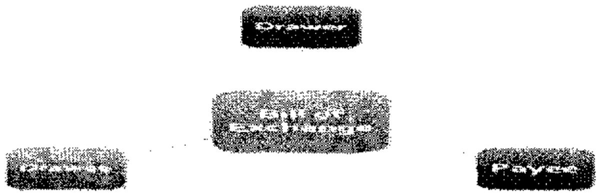

Figure 5. Parties to a Bill of Exchange

A bill of exchange is a written document containing an unconditional order of the drawer to the payer on the payment of the monetary amount specified in the bill to a third party or his order.

Banknotes - credit money issued by the Central Bank of the country.

Unlike a bill, a banknote represents an indefinite debt obligation and is secured by a public guarantee from the Central Bank, which in most countries has become a public one.

A check is a monetary document of the established form containing an unconditional order of the account holder in the credit institution to pay the indicated amount to the holder of the check. The check is preceded by the agreement between the client of the credit institution and this institution to open an account for the amount of the funds contributed or the loan granted. The client for this sum puts out checks, and the credit institution pays them. In the check circulation, the drawee (the account holder), the payee (the creditor of the drawee) and the check payer (credit institution) participate.

Credit money is issued by banks credit marks of value, which possess the properties of money. Being like a paper type of inferior money, credit money does not have its own intrinsic value, their purchasing power, like paper, is determined by their representative value.

Loan money is issued through the following channels: lending to the economy, lending to the state, buying securities, buying foreign currency.

Credit money includes cash - banknotes and cashless money (non-cash money) - funds on demand bank accounts (deposit money). But many economists, in addition, refer to them bills, checks, electronic money, bank cards. Supporters of this concept do not take into account the fact that bills, checks and bank cards, replacing cash in payment turnover, are not money, since they do not have such money properties as general circulation and high liquidity. Payment by means of a bill, check or bank card can be carried out only if the recipient agrees to such payment. In other words, it is possible to refuse a bill, a check, a card, they are not mandatory for admission, any seller or recipient of funds can, at their discretion, refuse to accept a bill, check or card as payment for their goods and services. They are not means of final repayment of a debt: the issuance of a bill, check or bank card does not repay the obligations for which they are issued, ultimately, they must be repaid in money.

"Electronic money" (e-money) is money in electronic form, the disposal of which is carried out with the help of a special electronic device. Currently there are two types of electronic payment systems. Bank cards (credit and debit) are electronic means of payment, one of the types of so-called electronic money.

The first most common - the system of electronic access to bank accounts (using various electronic means of communication: personal computers, mobile phones, the Internet). In other words, these systems are a special way of managing money in a bank account (i.e., deposit money) - via electronic signals.

The second type of electronic payment systems include payment systems that are not related to bank accounts. The payment means used by these systems are issued by special financial institutions without opening an account. The European Central Bank defines such payment means as a monetary value stored electronically on a technical device that can be widely used to make payments to third parties without the need to involve bank accounts in transactions and which functions as a prepaid financial product.

Some scientists believe that electronic money (often called also "digital money") is "one of the new forms that money took in the process of a long evolution". According to some scientists, electronic means of payment are non-cash money, in the opinion of others, cash: "electronic money" is an electronic analog of cash in the form of a file written on a medium - a computer hard drive or a smart card. The "chasing" of the file in the form of "electronic bills", transmission and reception through communication channels and data protection (i.e. "money") is carried out by means of software. The file contains a description of the denomination: denomination, serial number, issue date, name of the issuer. It is protected by a cryptographic protocol and signed by the electronic signature of the issuer.

QUESTIONS

1. How did money evolve?
2. What is metal money?
3. What disadvantages did metal money have?
4. When and how did paper money appear?
5. What kind of money is called credit money?

CHAPTER 4. THEORIES OF MONEY

4.1 General concepts of monetary theory.
4.2 Metallic and nominalistic theories of money.
4.3 The quantitative theory of money. Modern theories of money.

Key words: monetary theory, metallic theory of money, full-value money, precious metals, nominalistic theory of money, quantitative theory of money, *equation* of exchange, monetarism, Fisher formula.

4.1.General concepts of monetary theory

The doctrine of money is the most important section of economic theory. The analysis of the monetary sphere is one of the prerequisites for building models for the functioning of economic systems. An important aspect of modern monetary theories is their "final product" - recommendations on economic policy measures. The theory of money, or monetary theory, is an economic theory that studies the impact of money on the economic system.

As an independent field of scientific knowledge, monetary theory was formed by the 18th century and was originally called upon to answer such fundamental questions as interpretation of the essence of money, assessing the impact of money on the real economy and the dynamics of prices, the arrangement of money economy.

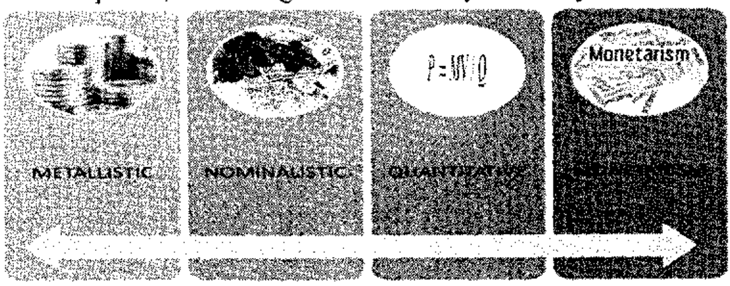

Figure 6. Types of theories of money

Money theories characterize the fundamental moments of their evolution and functioning. Within the framework of certain generalizing theories, different authors who share common philosophical attitudes and who advocate similar fundamental principles can express different opinions on particular issues, present their own arguments in defense of the concept, which are not shared by all the supporters.

4.2.Metallic and nominalistic theories of money

The metallic theory of money arose in the era of the initial accumulation of capital in the sixteenth and seventeenth centuries (early *metallism*), when the rapid development of capitalist industry and trade began, requiring the ordering of monetary circulation. The founders of this theory were mercantilists (W. Stafford, T. Mun, etc.), who identified the wealth of society with money, and money - with noble metals. According to their teachings, the only true wealth of society is gold and silver, which by their very nature is money.

The fallacy of these views is that the wealth of society is not in money, but in the aggregate of material goods created by the labor of people. In addition, gold and silver are not money by nature, but fulfill this role only under certain historical conditions. Along with this, the metallurgical theory did not fully interpret the functions of money, mistaking only those that require full-value money (treasures, world money), while ignoring other functions that can carry inferior money (value signs), thus denying the necessity and the advisability of replacing metal money in circulation with paper money.

At the end of the initial accumulation of capital, when most countries of the world came to the conclusion that it was inexpedient to organize money circulation on the basis of precious metals, it was as if the metalistic theory of money had lost its positions forever. However, in the future she repeatedly appeared again. So, in the second half of the XIX century the revival of the metallistic theory was associated with the introduction of the gold coin standard in Germany (1873), when the German economists (K. Knys et al.), reproducing the views of the early metalworkers, applied them to the new conditions. With money they began to consider not only precious metals, but also banknotes of the Central Bank, subject to exchange for metal. However, banknotes, not exchangeable for metal, they still did not recognize.

Nominalistic theory of money, in contrast to metallism, denies any internal connection between money and precious metals and stands for defective or paper money. Early nominalism was formed in England in the 17th-18th centuries. (J. Berkeley and J. Stewart). At the heart of their theory is the provision that money is created by the state, which determines their value in face value, and the money itself is merely a conditional countable sign that ensures the transfer of goods from hand to hand[6]. This testifies to the denial by nominalists of labor value and the commodity origin of money. Nominalism was further developed in the second half of the nineteenth and early twentieth century, especially in Germany, which was intensively preparing to unleash a world war and withdrawing gold from circulation, seeking to concentrate it in a Central Bank. German nominalism contributed to this. The most vivid representative of nominalism at this time was G. Knapp (1842-1926). In his opinion, money is the creation of state power and their main function is a means of payment. The highest form of money he considered paper money.

Knapp's ideas were accepted and developed by the prominent English economist J.M. Keynes (1883-1946), who in his work "The Treatise on Money" declared gold money a relic of barbarism. In his opinion, paper money is the ideal, which is more elastic than gold, and he ousted money from the circulation of gold as a victory for Knapp's theory.

The fallacy of the state theory of money G. Knapp was that:

- money is not a legal category, but an economic one;
- metal money has an independent value, and does not receive it from the state;
- the cost of paper money is also determined not by the state, but is determined by objective economic laws;
- the main function of money is not a means of payment, but a measure of value.

The position of nominalism is shared by the modern American

[6] A.Omonov, T.Koraliev. Пул ва банклар. Textbook. – T.: "Iqtisod-Moliya", 2018. – 51 p.

economist P. Samuelson. He argues that money had a connection with the goods only in the past, and then turned into conventional signs, simple countable units.

So, the theory of nominalism in all its manifestations suffers from the following flaws: ignoring the commodity origin of money, abandoning their most important functions, investing money in value through state acts and so on.

4.3.Quantitative theory of money. Modern theories of money

Many economists do not share the basic provisions of the nominalist theory, and primarily in determining the value of money by decrees of the state. Therefore, along with the above theory of money, a doctrine appeared that explains the level of commodity prices and the value of money by their quantity in circulation-the quantitative theory of money. The first theory was put forward by the French scientist J. Bodin in the 16th century. Developed it in the XVII century. The Englishmen D. Hume, J. Mill and the Frenchman S. Montesquieu. Vivid representative of the quantitative theory in the eighteenth century became D. Ricardo. His views on money were mixed. On the one hand, he recognized that the cost of metal money is determined by the cost of labor for their production, and on the other hand, he believed that in some periods the value of a monetary unit varies depending on the change in the quantity of money in circulation.

By the beginning of the twentieth century, quantitative theory had become dominant in Western economic thought, taking an important place in the neoclassical theory of reproduction. The two most popular versions of this theory are the transactional and the Cambridge. Transactional variant was developed by the eminent representative of the quantitative theory in the era of imperialism by the American scientist I. Fisher, who believed that the amount of commodity exchange transactions for a certain period can be expressed in two ways:

1) as the product of the amount of money (M) by the average rate of their circulation (V);

2) as the product of the number of goods sold (Q) by their average

price (P).

From here he derives the following equation of exchange:

$MV = QP$[7]

Fischer believed that in this formula (velocity of money) and (the quantity of goods sold) during the short-term period are values unchanged, in connection with which their influence can be excluded. Then there is one relationship: between (the amount of money) and (price level), which is the essence of the quantitative theory of money. The Cambridge version of the quantitative theory of money is presented in the works of the British economists A. Marshall, A. Pigou, D. Robbertson, who, in contrast to Fisher, focused not on the circulation of money but on their accumulation in economic subjects (in connection with which this theory was received also the name of the theory of cash balances). The principle of this version of the quantitative theory is expressed by the formula:

$M = RPQ$

where M is the amount of money;

P - price level;

Q - the physical volume of goods included in the final product;

R is the share of the annual income that the participants in the turnover want to keep in the form of money.

J.M.Keynes put forward three psychological motivations that encourage saving money in the monetary (most liquid) form:

- transactions (operational) motive – determined by the need to buy from each other goods, services, factors of production;
- precautionary motive – is the desire to store money for unforeseen circumstances, for example, illness, accidents, urgent car repairs, rates of currency exchange rates, the ability to promptly make very profitable purchases, labor strikes, etc.
- speculative motive – the demand for money, conditioned by the desire to profitably place savings.

Since R is the reciprocal of the rate of circulation of money ($R = 1 / V$), substituting this value in the formula, we obtain the equation of the

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[7] A.Omonov, T.Koraliev. Пул ва банклар. Textbook. – T.: "Iqtisod-Moliya", 2018. – 54 p.

exchange of I. Fisher:

$$MV = QP$$

Thus, there are no fundamental differences between the two versions of the quantitative theory of money, there is simply another way of writing the equation of exchange with the same final conclusion: a change in the amount of money is always the cause (and not the consequence) of price changes. The fundamental mistakes of the quantitative theory of money in general are the ignoring of such functions of money as the measure of value and treasure, and the denial of the law that determines the amount of money in circulation.

According to the theory of modern monetarism, the amount of money in circulation is the determining factor in the formation of the economic conjuncture, since there is a direct link between the changes in the money supply in circulation and the value of the gross national product.

Monetarist theory emerged in the mid-1950s in the United States as a "Chicago school", headed by M. Friedman. He believed that the spontaneous commodity economy is characterized by a special internal stability, conditioned by the action of market mechanisms of competition and pricing. Supporters of this theory oppose the Keynesian concept of interference in economic processes. They argue that the state measures to stimulate demand, recommended by Keynesians, not only do not improve the state of the economy, but also generate new imbalances and crisis recessions.

Monetarism was widely spread in the 1970s when it was used by government agencies to combat stagflation and was the theoretical basis for government monetary policy programs.

Despite the fact that monetarism has a number of trends and theorists, the most popular version is M. Friedman, which includes:

- quantitative theory of money that justifies the causal relationship between the amount of money in circulation and the level of commodity prices;
- monetary theory of industrial cycles, according to which fluctuations in the economic situation are determined by previous

changes in the money supply;

❖ special "transfer" mechanism of the effect of money on real reproduction factors: not through the rate of interest, as the Keynesians believed, but through the level of commodity prices;

❖ provision on inefficiency of state measures of economic regulation in connection with the presence of changing costs (lags) between changes in monetary indicators and real factors of production;

❖ "monetary rule" (or k-percent rule), according to which there is an automatic increase in the money supply in circulation by several percent per year, regardless of the state of the economy, the cycle phase, etc.;

❖ system of floating exchange rates for "self-regulation" of external economic equilibrium.

The use of monetarist ideas by the governments of Great Britain, the United States, Germany and other countries, although it contributed to the slowdown of inflationary processes, but intensified the development of crisis phenomena in the economy, stimulated the growth of unemployment in these countries.

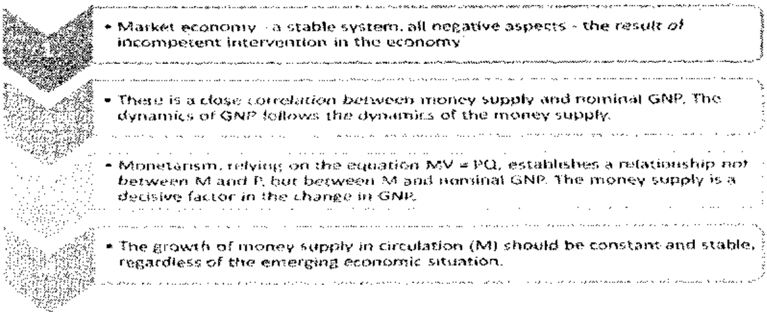

Figure 7. Basic theses of the modern monetarism

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Monetarism was widely spread in the 1970s when it was used by government agencies to combat stagflation and was the theoretical basis for government monetary policy programs.

Recommendations of monetarism are as follows: the average annual increase in the money supply under conditions of a slight decrease in the velocity of money circulation should be 4-5% per year to ensure an average annual increase in real GNP by 3%.

QUESTIONS

1. What is a monetary theory?
2. What is the essence of metal monetary theory?
3. How did nominalistic monetary theory come about?
4. Describe the Fisher formula.
5. What is the peculiarity of modern monetarism?

CHAPTER 5. MONEY TURNOVER AND ITS STRUCTURE

5.1. Concept of money turnover. Structure of money turnover.
5.2. Concept of non-cash settlements. The principles of their organization in Uzbekistan.
5.3. Organization of cash money circulation in the Republic of Uzbekistan. The role of banks in the organization of cash money turnover.

Key words: money turnover, structure of money turnover, money circulation, cash money, non-cash settlements, payment orders, payment requests, letters of credit, collection orders, payment (settlement) checks, memorial (warrants) orders, bank plastic cards.

5.1.Concept of money turnover. Structure of money turnover

Money turnover is a process of continuous movement of money in cash and non-cash form. Money turnover is made with the help of monetary units (in cash and cashless transfers) that do not have a value equal to their face value.

In the economic literature, the concepts of "money turnover", "payment turnover", "monetary circulation", "monetary-payment turnover" are often not differentiated. Meanwhile, all these concepts are different. Thus, the concept of "money turnover" is more narrow than the concept of "payment turnover".

Payment turnover is the process of movement of means of payment applied in a given country. It includes not only the movement of money as means of payment in cash and non-cash transactions, but also the movement of other means of payment (checks, deposit certificates, bills, etc.). Money circulation, including the turnover of cash, in its own right, is an integral part of the money turnover. The circulation of money marks suggests their constant transition from one legal or physical person to another.

Only cash can handle. Movement of the monetary unit in non-cash turnover is reflected in the form of entries on the bank accounts. In a similar situation, the movement of cash is replaced by credit operations performed with the participation of the bank, on the accounts of participants in the relevant transactions. Therefore, the concept of "monetary circulation" can be attributed only to part of the money turnover, namely, cash-money turnover.

Monetary turnover is understood as part of the monetary turnover, where money functions as a means of payment, regardless of whether cashless is turnover or cash.

Money turnover consists of separate channels of money flow between:

- ❖ the Central Bank and commercial banks;

- ❖ commercial banks;
- ❖ enterprises and organizations;
- ❖ banks and enterprises and organizations;
- ❖ banks and the population;
- ❖ enterprises, organizations and the population;
- ❖ individuals;
- ❖ banks and financial institutions of various purposes;
- ❖ financial institutions of various purposes and population.

The structure of monetary turnover can be determined by different criteria. Of these, the most common is the classification of money turnover, depending on the form of functioning in it money. On this basis, the money turnover is divided into non-cash and cash-money turnover. However, despite the importance of such classification, it does not reflect the economic content of individual parts of the money turnover. Therefore, along with this recognition of the classification of money turnover, one should use another sign - the nature of the relations that are serviced by this or that part of the money turnover.

Depending on this feature, the money turnover is divided into three parts:

- ❖ monetary-settlement turnover, which serves the settlement of relations for goods and services and on non-commercial obligations of legal entities and individuals;
- ❖ monetary and credit turnover, servicing credit relations in the economy;
- ❖ monetary and financial turnover, serving financial relations in the economy.

Finally, it is possible to classify the money turnover depending on the subjects between which the money is moving. On this basis, the structure of money turnover will be as follows:

- ❖ turnover between banks (interbank turnover);
- ❖ turnover between banks and legal entities and individuals (banking turnover);
- ❖ turnover between legal entities;
- ❖ turnover between legal entities and individuals;

❖ turnover between individuals.

Money turnover in the conditions of market relations solves two main tasks:

❖ redistributes money between different sectors of the economy, ensures the flow of capital from one sphere of the market to another;

❖ in the process of money circulation, new money is created that ensures the satisfaction of the need for them in all market segments.

5.2.The concept of non-cash settlements. The principles of their organization in Uzbekistan

Non-cash settlements in the Republic of Uzbekistan are made with:

- ❖ Payment orders
- ❖ Payment Requests
- ❖ Letters of credit
- ❖ Collection orders
- ❖ Payment (settlement) checks
- ❖ Memorial (warrants) orders
- ❖ Bank plastic cards.

In the Republic of Uzbekistan, non-cash payments are made in the following forms:

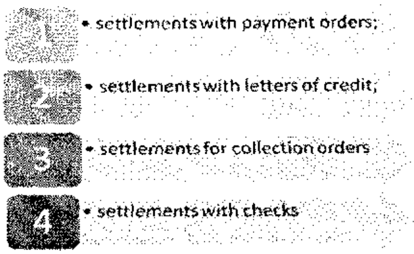

Figure 8. Forms of non-cash payments in Uzbekistan[8]

A payment order is an instruction from a client to his bank to transfer money to the counterparty under a contract.

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[8] “Ўзбекистон Республикасида нақд пулсиз хисоб-китоблар тўғрисида” ги Низом (Regulation On non-cash settlements in the Republic of Uzbekistan), registered by the Ministry of Justice on June 3, 2013, No. 2465

A payment request is a client's order to its bank to write-off funds from an account to the counterparty.

Letters of credit are the depositing of the payer's funds on a separate account and the provision of bank guarantees for making settlements with the counterparty.

Collection orders are issued by fiscal state bodies about indisputable write-off of funds from the payer's account.

Settlement checks - in this form of settlement, the bank deposits its client's funds in a separate account and issues a checkbook to the customer for an amount equal to the depositor's amount.

Memorial warrants are a form of calculation, used only by banking institutions, for settlements on internal banking transactions.

Bank plastic cards is a plastic card attached to one or several settlement accounts in a bank. Used to pay for goods and services, including through the Internet, as well as withdraw cash.

Cards are debit and credit cards.

Debit cards are used to manage your own money that is on a bank account.

Credit cards are used to dispose of the bank's money, which are automatically taken from the bank on credit when making a payment (that is, they must be returned to the bank).

5.3.Organization of cash money circulation in the Republic of Uzbekistan. The role of banks in the organization of cash money turnover

Cash and money circulation is the movement of cash in the sphere of circulation and the fulfillment of two functions: means of payment and means of circulation. Cash is used:

- for the circulation of goods and services;
- for settlements not directly related to the movement of goods and services, namely:
- calculations on payment of wages, bonuses, allowances, pensions;
- on payment of insurance indemnities under insurance

contracts

- ❖ when paying for securities and paying them income;
- ❖ on payments of the population for communal services, etc.

Cash-money turnover includes the movement of the entire cash-money stock for a certain period of time between the population and legal entities, between physical persons, between legal entities, between the population and state bodies, between legal entities and state bodies.

Cash-money movement is carried out with the help of various types of money: banknotes, metal coins, other credit instruments (bills of exchange, bank bills, checks, credit cards). The issue of cash is carried out by the Central Bank. He issues cash in circulation and confiscates them if they become worthless, and also replaces money with new samples of bills and coins.

In the modern housekeeper, banks play a key role in the functioning and regulation of money turnover. Today, a two-tier banking system (Central Bank and commercial banks) is used.

The possibility of influencing the money supply is provided to the Central Bank by combining the money issuer in its cash and non-cash forms and the direct regulatory subject. First, the monopoly on the issue of banknotes provides a base for controlling the cash component of monetary circulation; secondly, the special role of the Central Bank in the formation of credit resources of the banking system as a whole creates the basis for determining the possible volume of bank loans. The Central Bank regulates the demand for money through the regulation of the conditions for granting loans by the Central Bank, which indirectly determine the conditions for granting loans by the banking system.

The choice of specific instruments of monetary policy is carried out taking into account the peculiarities of the national financial system: the situation in it of banks, the degree of development of money market instruments, the degree of inclusion of the money market in the integration process.

The uninterrupted delivery of cash to the population and business entities from deposit accounts is one of the most important evaluation criteria for the efficiency and reliability of commercial banks' performance when summing up the results of their work for the quarter, half year and in general for the year. Cash money is banknotes and coins, which are put into circulation by the Central Bank of the Republic of Uzbekistan[9].

Commercial banks constantly study and analyze the state of money circulation and carry out practical measures to strengthen it, ensure uninterrupted satisfaction of the needs of the population and business entities at their request.

Commercial banks:

- ❖ take measures aimed at attracting free cash funds of individuals into deposits, expansion of non-cash transfers of personal income to deposits, development of non-cash payments for goods and services, including using bank cards;
- ❖ establish, in consultation with legal entities, limits on the balance of cash in their cash desks, the procedure and time limits for the delivery of cash proceeds to the bank;
- ❖ carry out constant monitoring of the daily receipt of cash;
- ❖ analyzes the reasons for the deviation of actual receipts and cash outflows from forecast cash flow calculations and take measures to increase cash receipts;
- ❖ carry out operational management of the state of cash reserves and their use, and maneuver them to ensure sufficient amount of free cash.

QUESTIONS

1. What is money turnover?
2. What channels do cash go through?
3. What forms of non-cash payments differ in Uzbekistan?
4. What is a payment order?
5. What is a collection order and what bodies can submit it?

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[9] "Ўзбекистон Республикасида банклар томонидан нақд пул муомаласига доир ишларни ташкил этиш тўғрисида" ги Йўриқнома (Instruction On the organization of works on cash monetary circulation by banks of the Republic of Uzbekistan), registered by the Ministry of Justice on May 1, 2018, No. 3003

6. What is a payment check?
7. What calculations do memorial orders use?
8. Where is cash used?
9. What role does the bank play in money turnover?

CHAPTER 6. MONEY SUPPLY AND MONETARY AGGREGATES

6.1. Money supply in circulation.
6.2. Monetary aggregates.
6.3. The main directions of monetary policy.

Key words: money supply, monetary aggregates, liquidity, money multiplier, monetary policy, instruments of monetary policy, refinance rate, open market operations, mandatory reserve requirements, velocity of money.

6.1.Money supply in circulation

Money supply is a combination of cash in circulation and non-cash funds in accounts held by individuals and legal entities and the state.

Money circulation, both cash and non-cash, is characterized by the fact that money moving from one owner to another when making payments. Each money symbol, i.e. a banknote or a coin can mediate several payments, successively in the transition from one owner to another. Then it will be called the sphere of money circulation, and the amount of money in this sphere is the money supply in circulation. Money circulation is characterized by a mass of money in circulation and their speed (that is, the speed at which cash is returned to the cashier).

The sphere of monetary circulation includes 2 spheres - the sphere of cash circulation and the sphere of non-cash circulation. In modern market economy, there are no borders between these spheres: cash can easily become non-cash (when their owner transfers them to their bank for crediting to a current account, deposit account) and vice versa - when he withdraws them from the account.

All civilized countries are engaged in planning the money supply in circulation approximately from the 70s of the 20th century in the form of the so-called targeting.

Based on the relationship of money and goods, the formula is derived:

$$MV = PQ$$

where M is the money supply (it has a complex internal structure or aggregates);

V - speed (velocity) of money;

P - price;

Q - the volume (quantity) of goods and services produced.

The formula shows that the quantity of goods is directly related to the price level.

If the money supply is large, then prices are high and hence inflation.

The law of money answers the question of how much money should be in circulation so that money can fulfill its functions.

The law of monetary circulation establishes the amount of money necessary for them to perform the functions of a medium of exchange and a means of payment.

The required amount of money that is necessary to perform the functions of money as a medium of circulation depends on three factors:

- ❖ the number of goods and services sold on the market (direct communication);
- ❖ the price level of goods and tariffs (direct communication);
- ❖ velocity of money (feedback).

All factors are determined by the conditions of production. The more developed the division of labor, that is the greater the volume of goods and services sold on the market. The higher the level of labor productivity, that is the lower the cost of goods and services and prices.

With the development of forms of commodity exchange and payment and settlement documents, the composition and structure of the money supply have undergone changes. At the beginning of the twentieth century, with the gold circulation, the structure of the money supply was as follows:

- gold coins – 40%
- banknotes – 50%
- balances on accounts of credit institutions – 10%.

The withdrawal of gold money first from the internal circulation, and then from the external made qualitative changes in the structure of the money supply. The real money completely disappeared from circulation, the dominant position was taken by credit money, which began to appear in cash and non-cash form.

In the structure of the modern money supply, the active part is allocated, which includes cash actually serving the economic turnover and the passive part, including cash savings, balances on accounts that can potentially serve as settlement facilities.

A special place in the structure of the money supply is occupied by the so-called "quasi-money" (from Latin "quasi" - as if, almost), i.e. cash on time accounts, savings deposits and commercial banks, deposit certificates, shares of investment funds.

The money supply, which the national economy has for the implementation of exchange and payment transactions, depends on the supply of money from the banking sector and on the demand for money, i.e. aspiration of institutions of the non-banking sector to have a certain amount of cash in the form of cash or demand deposits.

Money offers money in circulation, i.e. a set of payment instruments in circulation in the country at the moment.

6.2.Monetary aggregates

To characterize the money supply, various generalizing indicators, the so-called monetary aggregates, are used. In the structure of the money supply, such monetary aggregates as M1, M2, M3 and M4 allocate various payment and settlement funds in terms of their liquidity, each subsequent aggregate including the previous one. Liquidity (from the Latin "liquidus" - liquid, flowing) - an economic term for the ability of assets to be quickly sold at a price close to the market. In otherwise, under the liquidity of any property or assets is understood their easy realizability, the possibility of their circulation into a monetary form without loss of value.

In Uzbekistan, the following structure of the money supply is adopted:

1. M0 - cash money;

2. M1 = M0 + demand deposits;

3. M2 (broad money) = M1 + time and savings deposits (also deposits in foreign currency)[10];

4. M3 = M2 + issued certificates + bonds of special-purpose loans + government bonds + treasury bills.

In the US banking system, data on the amount of money in circulation is generated by four monetary aggregates:

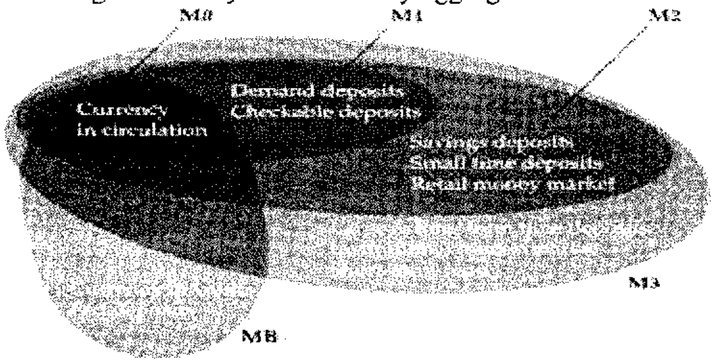

Figure 9. Structure of money supply in the USA

M0 - banknotes and coins in circulation;

M1 - cash in circulation outside banks, traveler's checks, demand deposits, other check deposits;

M2 = M1 + non-check savings deposits, time deposits with banks, one-day repo operations, one-day dollar deposits from US residents, funds in mutual fund accounts;

M3 = M2 + short-term government bonds, repo transactions,

[10] www.cbu.uz - based on information from the official website of the Central Bank of the Republic of Uzbekistan

eurodollar deposits of US residents in foreign branches of American banks.

M4 or L includes the amount of cash in circulation, the total amount of loans issued by banks, and the amount of government borrowing. M4 is considered a good indicator for inflation.

The amount of money needed to perform their functions is affected by a number of factors:

- number of goods and services sold on the market (direct communication);
- the level of prices of goods and tariffs (direct communication);
- the degree of development of non-cash settlements (reverse link);
- speed of circulation of money (communication is inverse).

Since money serves as a means of circulation, their quantity necessary for circulation is determined by the mass and price of the goods sold, i.e. the sum of the prices of goods. The faster the turnover of money, the less they are needed for circulation.

With the advent of the function of money as a means of payment, the total amount of money must decrease. The credit has a reverse effect on the amount of money. Such reduction is caused by repayment by mutual offset of a certain part of the debt claims and liabilities.

An important indicator of the state of the money supply is the monetization coefficient, which is equal to K = M2 / GDP. The monetization coefficient allows answering the question: is there enough money in circulation? It shows how much money is in the one monetary unit of GDP. In developed countries, the monetization ratio reaches 0.6, and sometimes close to 1.

This indicator characterizes the volume of real money supply in the country for a certain year. The level of monetization depends on the ability of the state to borrow money in the domestic financial market, as well as to carry out social support programs and solve the problems of economic development.

Money, or banking, multiplier (from the Latin. Multiplicare –

multiply, increase) - an economic coefficient equal to the ratio of the money supply to the monetary base and characterizing the degree of growth in the amount of money due to credit banking operations. The monetary base is the aggregate amount of cash and cash reserves of depository institutions. It is the aggregate money supply by the state. It includes: cash in circulation (monetary aggregate M0); cash in banks; required reserves of credit institutions on funds raised to accounts in national and foreign currencies transferred to the Bank; funds of credit institutions on correspondent accounts and deposit accounts in the Central Bank of the country.

6.3.The main directions of monetary policy

Monetary policy consists in changing the supply of money in order to curb inflation, reduce unemployment, and stimulate economic growth. An optimally organized monetary system contributes to the effective circulation of incomes and expenditures, best serves the development of all spheres of economic activity, the movement of the economy as a whole. Smooth growth or a reduction in the money supply stimulates or reduces business activity.

The Central Bank develops the main directions of the monetary policy of the Republic of Uzbekistan for the coming year and informs the Senate of the Oliy Majlis about it no later than thirty days before the beginning of the next financial year[11].

The main areas of monetary policy should include:

- analysis and forecast of the economic conjuncture;
- economically justified borders of the circulating money supply;
- target indicators of the rate of annual growth in the money supply, including changes in the internal assets of the Central Bank;
- the main directions of currency and interest policy;
- main target parameters of monetary policy.

The policy of "expensive money" is spent to curb inflation.

[11] "Ўзбекистон Республикасининг Марказий банки тўғрисида" ги Қонуни (Law of the Republic of Uzbekistan On the Central Bank), new edition, November 11, 2019

Reduction of money supply causes an increase in the interest rate for a loan. This may lead to a decrease in the rate of inflation, but at the same time it will reduce investment and exacerbate the employment problem.

When pursuing the "cheap money" policy, the goal is to stimulate economic growth. For this, the money supply is increased, the interest rate for the loan is reduced. The credit becomes more accessible, investments and employment increase. However, this policy is fraught with an increase in the rate of inflation.

The Central Bank of the country plays the main role in regulating monetary circulation. The point is that to increase cashless money, you do not need to "run a printing press", it's enough to increase the number of loans.

The Central Bank uses three main methods of monetary regulation:

- change in the discount (refinance) rate;
- open market operations;
- change in mandatory reserve requirements.

All these instruments are designed to affect the money supply, then squeezing it, then expanding (i.e., increasing the cost of credit, then cheapening it). The Central Bank thus regulates the flow of investment, the level of inflation, the exchange rate of the national currency, and, ultimately, the growth of the gross domestic product and the level of employment of the population.

Accounting policy is based on the regulation of the loan capital market by changing the discount rate of the Central Bank. At this rate, the bills of commercial banks are rediscounted, they can be provided with a lombard loan (pawnshop, provided by securities). Raising the rate on loans, the Central Bank encourages other lending institutions to reduce borrowing. This makes it difficult to replenish reserve accounts, leads to an increase in interest rates on commercial loans and, ultimately, to a reduction in lending operations in the country. If the Central Bank reduces the discount rate, it makes it easier for commercial banks to replenish resources and thereby encourages credit expansion.

Another method of monetary policy of the Central Bank is open market operations. This is the most flexible method of regulating the liquidity and credit investments of banks by placing government debt, it is widely used in developed countries. The Central Bank, on behalf of the government, at auctions (the primary market) conducts the placement of government or corporate (with state guarantees) securities among authorized dealers. The government, receiving money, uses them to cover the deficit of the state budget or for other purposes. The Central Bank, then buying and selling government securities, regulates their profitability, therefore, stimulates commercial banks and the population to buy or sell these securities, which means to reduce or increase their credit resources, directing the flow of credits to certain markets.

The third instrument of the Central Bank is the change in the reserve rate. These reserves have a dual purpose: first, they must ensure a constant level of liquidity in commercial banks, and secondly, they are tools for regulating the money supply and the creditworthiness of banks. The Central Bank raises or reduces the reserve requirement, depending on the economic situation in the country. With the increase in the rate of commercial banks, the amount of loans is reduced. The supply of money is declining, borrowed funds become more expensive, which reduces business activity, causes a reduction in production, a reduction in cash in circulation, and a reduction in inflation. On the contrary, reducing the reserve rate causes credit expansion - the supply of money is growing, the interest rate is falling, the loan becomes attractive, therefore, new investments for enterprises become profitable. This, in turn, means increased production and lower unemployment.

QUESTIONS

1. What is money supply?
2. What is the essence of the law of monetary circulation?
3. What is the need for monetary aggregates?
4. What monetary aggregates are used in Uzbekistan?
5. What is the monetary base?
6. What is monetary policy and what are the main methods of monetary policy differ?

CHAPTER 7. MONETARY SYSTEM: CONCEPT, TYPES AND ITS ELEMENTS

7.1. The concept of the monetary system.
7.2. Elements of the monetary system.
7.3. Classification of monetary systems.
7.4. Monetary system of the Republic of Uzbekistan.

Key words: monetary system, functions of monetary system, stability of monetary system, elasticity of monetary system, elements of the monetary system, types of monetary system, monometallism, bimetallism, varieties of monometallism, varieties of bimetallism, monetary system of Uzbekistan.

7.1.The concept of the monetary system

The monetary system is a form of organization of monetary circulation, historically established in each country, legislatively established by the state. In its form, the monetary system is realized through the organization of monetary relations in the country or in a single economic space. The form of the monetary system develops historically and is fixed by the corresponding legislation. For the organization of monetary relations in the form of a system, certain objective and subjective prerequisites are necessary.

The objective prerequisites include the achievement of a sufficiently high level of development of commodity-money relations. For example, in terms of commodity-money relations, based on random forms of exchange, when commodity-money relations do not have the character of stable bonds, monetary relations are not organized in the form of a system. The development of stable commodity-money relations also leads to the need for their regulation by the state.

The subjective prerequisites for the formation of monetary relations as a monetary system include the need to determine legally the legal means of payment, the regulation of their circulation.

As a result, monetary systems began to form not immediately in the transition from commodity exchange to commodity-money, but on the basis of the formation of stable markets and the strengthening of state power in the 16th-17th centuries.

The monetary system can be considered in two aspects: functional and institutional.

From the point of view of the functional aspect, the monetary system is understood as an ordered set of monetary relations, forms, methods and principles for organizing monetary circulation in a country or in a single economic space.

From the institutional point of view, the monetary system is a set of institutions that create and regulate the economic and legal basis for the issue of money, ways of their circulation, accumulation, distribution and redistribution.

In practice, the functional and institutional aspects of the monetary system form the unity of the system. Money relations, their forms, methods and principles of organization in a country or in a single economic space in a modern economy do not exist outside the institutions that organize them. In turn, monetary institutions appear (are created) precisely when monetary relations acquire sufficiently developed forms, and there is a need to regulate monetary relations.

Within the monetary system, the essence and functions of money are realized in all the diversity of their forms and types. Therefore, the functions of the monetary system are:

- ❖ emission - the definition of forms and types of legal means of payment, how to secure them, the order of issue;
- ❖ regulating - regulation of the money supply in circulation, its structure, compliance with the needs of the economy;
- ❖ control - monitoring compliance with the regulatory framework for the organization of monetary circulation, monetary discipline[12].

The fulfillment of these functions contributes to the achievement of the main objective of the functioning of the monetary system - ensuring its stability and elasticity.

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[12] Lavrushin O.I. Деньги, кредит, банки. Textbook - M.: "КНОРУС", 2013. - 50 p.

A stable system can be called a monetary system, in which the money fully fulfills its functions, i.e. the monetary system forms conditions for the performance of their functions by money. If the monetary system is impossible to form such conditions, it becomes necessary to carry out monetary reform or corresponding changes in monetary circulation, which are characterized by monetary reforms: devaluation, denomination, and nullification.

The elasticity of the monetary system is understood as its reaction to changes in the demand for economic turnover in cash, the ability of money circulation to expand or contract in accordance with the needs of the economy.

The monetary system from the point of view of the reproduction approach is an organic part of the national, global financial system and at a higher level - the economic system.

On the one hand, as part of the economic system, the monetary system depends on the type and level of its development. The monetary system is affected by the degree of maturity of commodity-money relations, social and economic order (allocate, for example, a monetary system of market and command-administrative type), the level of elaboration of legislative bases and legal acts regulating the organization of monetary relations, the state of the economy in that or another phase of the economic cycle, the ability of the state and the Central Bank to regulate the monetary sphere, the predictability of its development, as well as wars, various kinds and crises,

On the other hand, the state of the monetary system can have both a stabilizing and destabilizing effect on the financial and overall economic system, which is determined by the role of money in the reproduction process and the degree of smoothness of the mechanism of economic relations in the country.

7.2.Elements of the monetary system

The monetary system, as noted above, is a system in which individual elements are in a certain structured unity. The totality of elements of the monetary system can be conditionally divided into the following blocks: basic (fundamental); managerial (functional); infrastructure[13].

The basic (fundamental) block includes such elements:

- the nature and functions of money;
- forms and types of money;
- monetary unit;
- money supply and its structure;
- money turnover, its organization and structure;
- principles of the organization of the monetary system.

The first two elements of the monetary system: the essence, functions, forms and types of money - are formed historically and determine the type of monetary system.

As for the monetary unit as an element of the monetary system, it represents a legally established monetary symbol that serves to measure and express the prices of all goods and, as a rule, is divided into small multiples.

The general scheme and principles of building the money supply and monetary aggregates in each country are specified in accordance with the specific features of the money market instruments used, the specifics of the money turnover.

Money circulation is the process of circulation (circulation) of money in cash and non-cash forms, in the process of which money performs the functions of circulation and payment. Basically, money is constantly not in a static state, but in motion.

The principles of the organization of the monetary system depend on other elements of the basic (fundamental) block of the monetary system. The basic principles of the organization of the monetary system include the following.

1. Principle of stability and elasticity of money turnover: the monetary system must satisfy the needs of the economy in money, but not allow the development of inflationary processes.

2. The order and types of security of banknotes, established by the legislation, on the basis of which it is determined that it can serve as

[13] Lavrushin O.I. Деньги, кредит, банки. Textbook - M.: "КНОРУС", 2013. - 51 p.

security for issuing banknotes. It can be commodity-material assets, gold or other precious metals, currency values, securities, insurance policies, government guarantees, banks, etc. Today, in all countries, the issue of bank notes is secured by the assets of the Central Bank.

The managerial (functional) block of the monetary system includes such elements:

- principles of monetary system management;
- emission mechanism;
- mechanism (methods and instruments) of monetary regulation;
- the procedure for establishing the exchange rate;
- cash discipline;
- the order of carrying out non-cash payments.

The principles of centralized management of the monetary system include the following.

1. The principle of centralized management of the monetary system assumes the existence of a single state center (represented by the Central Bank, the ministry of finance or the treasury), which determines the basis for the organization of monetary circulation and regulates it).

2. The principle of planning money turnover is directly related to such a principle of the organization of the monetary system as the stability and elasticity of money turnover. Ensuring stability and elasticity requires preliminary planning of the volume and structure of the money supply and money turnover.

3. Principle of security of emitted money and the nature of the money issue: it is clear that the issue of unsecured money provokes inflation and monetary system disorders, but the provision of money can be gold, Central Bank assets, which leads to differences in forms and types of money and, accordingly, monetary systems.

4. The principle of dependence or independence of the Central Bank on the state in the field of issuing transactions, solving the problem of ensuring the stability of the national monetary unit, the integrated use of monetary regulation instruments to provide money to the government in the order of lending.

5. Principle of supervision and control over money turnover: the state through the banking, financial system, tax authorities should ensure constant supervision and control over money turnover and the main cash flows in the economy.

The management unit also includes an emission mechanism, a mechanism for monetary regulation, the procedure for establishing the exchange rate, cash discipline and the procedure for conducting non-cash settlements.

The infrastructure block of the monetary system includes elements that serve its functioning, namely:

- ❖ regulatory framework (laws on the monetary system, on the Central Bank, on banks and banking, on Central Bank regulations governing the procedure for issuing, on the organization of monetary turnover, etc.);
- ❖ information and analytical element (analysis of the money market, volume and structure of the money supply, monetary emission, the level of monetization of the economy, the speed of money turnover, changes in the purchasing power of money according to the developed analysis methodology, etc.);
- ❖ technological element (technology of monetary emission, ways to protect notes from counterfeits, ways to protect against counterfeiting, methods of cash collection, their recalculation, technology of clearing settlements, etc.);
- ❖ institutional elements (legislative bodies and government, whose task is to establish legal norms and basic rules by issuing laws and regulations in the field of monetary relations, the Central Bank, the treasury, banks of various types, except for the central one).

7.3.Classification of monetary systems

The type of monetary system depends on the form in which money operates-as a commodity or as signs of value. In this connection, the following types of monetary systems are distinguished:

- ❖ metal monetary systems, under which the monetary commodity directly addresses and fulfills all the functions of money, and credit money is exchanged for metal;

- non-metallic monetary systems built on the back of credit and paper money, not exchangeable for metal.

The transition from one monetary system to another is connected with the fact that in the process of the development of commodity-money exchange, there was a transition from the application of certain types of money to others, as well as the changing conditions of their functioning and the increase in their role.

Depending on the metal, which was adopted in the country as a universal equivalent, and the bases of money circulation distinguish between bimetallism and monometallism.

Bimetallism is a monetary system in which the role of the universal equivalent was legislatively assigned to two metals - gold and silver. Within the framework of this system, free coinage of coins from both metals was provided.

There are three types of bimetallism:

- parallel currency system in which the ratio between gold and silver was set spontaneously in accordance with the market price of these metals;
- double currency system - the ratio between metals was established by the state and, in accordance with this, coinage was made of gold and silver;
- system of "lame" currency - a system in which both gold and silver coins served as legal tender, but not on equal terms, as coins of silver were minted in closed order, and of gold - freely, and silver coins were a sign of gold.

Varieties of gold monometallism: gold coins, gold-bullion and gold exchange (gold and currency) standards[14].

Historically, the first was the gold coins standard.

When the gold-bullion standard was used, gold coins did not circulate and there was no free coinage. Exchange of banknotes was carried out upon presentation of a certain amount of them only on gold bullion.

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[14] A.Omonov, T.Koraliev. Пул ва банклар. Textbook. – T.: "Iqtisod-Moliya", 2018. 106 p.

Gold exchange standard is characterized by the fact that banknotes are exchanged for slogans, i.e. to foreign currency, exchangeable for gold. Established in 1944, the Bretton Woods currency system is a system of interstate gold and currency standard.

Since the 30-ies of the XX century in the world began to function money systems built on the back of gold exchange credit for gold, the dismantling of the gold standard.

Characteristic features of modern monetary systems based on the turnover of credit money are:

- ❖ abolition of the official gold content, the provision and exchange of banknotes for gold, the transition to non-exchangeable gold for credit money;
- ❖ development of non-cash money turnover and reduction of cash;
- ❖ strengthening of state regulation of monetary circulation. The issue of modern banknotes is not related to gold, but there are certain instruments that restrain this issue, primarily the monetary policy of the Central Bank.

Classification of monetary systems can also be carried out depending on the type of economic system. According to this classification, monetary systems are divided into monetary systems of command-administrative economy and market economy.

The monetary system of the command and administrative economy is characterized by the following features:

- ❖ concentration of cash and non-cash money turnover in a single state bank;
- ❖ legitimate delimitation of money turnover for cash (serves distribution of consumer goods and services) and cashless (serves the distribution of capital goods);
- ❖ mandatory storage of enterprise funds on accounts in a state bank, while bank customers do not have the opportunity to withdraw cash on their first request from their account in the form most convenient for them and in the required amount;
- ❖ lack of opportunities for customers to choose banks, the form,

timing, size of cash withdrawal from bank accounts;

- rationing by the state of the expenses of enterprises from the proceeds they receive in cash;
- direct directive management of cash turnover;
- release of money in circulation in accordance with the implementation of the state plan for economic development;
- combination of commodity and gold collateral for banknotes;
- legislative establishment of the scale of prices and the exchange rate of the national currency;
- monopoly of the state bank in attracting the savings of the population.

The monetary system of a market economy currently has the following characteristic features:

- decentralization of the monetary turnover between different banks;
- the division of cash and cashless money between different parts of the banking system: the issue of cash - the monopoly of the Central Bank, the issue of non-cash money is carried out by commercial banks with the possibility of regulating it from the Central Bank;
- absence of legislative delimitation of non-cash and cash turnover;
- the operation of the mechanism of state monetary regulation;
- centralized management of the monetary system mainly by economic methods;
- predictive planning of money turnover;
- the relationship between cash and non-cash money turnover with the predominance of non-cash;
- independence of the Central Bank from the state;
- providing bank notes with assets of the banking system;
- system of market setting of the scale of prices and exchange rate.

Monetary systems can be classified depending on nationality, i.e. the monetary system of one country (the national monetary system) and the monetary system of the state group (for example, the EU monetary system).

Each national monetary system is unique in its own way. The monetary system of one country can't be a "tracing-paper" of the monetary system of another country. At the same time, in the development of monetary systems, some common features can be traced which give the right to talk about the general and special development of national monetary systems and classify them according to the types indicated above.

7.4.Monetary system of the Republic of Uzbekistan

The monetary system of the Republic of Uzbekistan operates in accordance with the Law "On the Central Bank of the Republic of Uzbekistan" of December 21, 1995 (new edition, November 11, 2019), which defines its legal basis. In accordance with the above-mentioned law, the monetary system of the Republic of Uzbekistan includes the monetary unit of the Republic of Uzbekistan, the organization and the regulation of monetary circulation. To characterize the monetary system of Uzbekistan, it is necessary to carefully consider each of its elements.

The monetary system of Uzbekistan is a typical modern monetary and credit system using signs of value that are not exchangeable for gold, regulated by the Central Bank through economic norms and instruments of monetary policy. Correctly operating monetary system pours vitality into a cycle of incomes and expenses which personifies all economy of the country irrespective of in what part of the globe it is located. However, it should be noted that nothing happened if in 1994 the government of the Republic of Uzbekistan led by the President did not dare to take a very responsible step, equivalent to a revolution, the transition to one's own national currency.

The fundamental component of the monetary system are the principles of organization of the system. The principles are understood as rules, according to which the state organizes its own monetary system. Principles of the modern monetary system of Uzbekistan:

- the principle of centralized management of the monetary system.

❖ the principle of accountability to the country's parliament.

❖ the principle of granting the government funds only in the order of lending.

❖ the principle of comprehensive use of monetary instruments.

❖ the principle of supervision and control over money turnover.

❖ the principle of functioning exclusively of the national currency on the territory of the country.

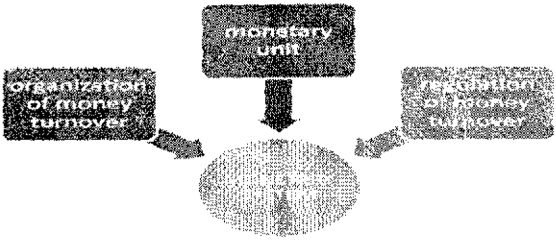

Figure 10. Elements of the monetary system of Uzbekistan

A monetary unit is an established monetary symbol that serves to measure and express the prices of all goods and services. In accordance with Article 122 of the Constitution of the Republic of Uzbekistan and Article 111 of the Law "On the Fundamentals of State Independence of the Republic of Uzbekistan", as well as the Resolution of the Supreme Council of the Republic of Uzbekistan of September 3, 1993 No. 952-XII, on the territory of the Republic of Uzbekistan since July 1, 1994, was put into circulation the national currency Soum (UZS), which is the only legal tender in the territory of the Republic of Uzbekistan. Forgery and illegal production of a national currency are punishable by law.

Economic achievements in stabilizing and improving the economy, the formation of financial institutions and markets, the emergence of production growth processes in the economy were largely due to the introduction of its own currency.

The introduction of the national currency played an important socioeconomic role in ensuring and securing the independence of the Republic of Uzbekistan. The acquisition by the country of its own monetary unit marked the beginning of the formation of the monetary system, the real implementation of its own reform program, the basic principles of which were developed by the President and the government at the beginning of market reforms. Own monetary and payment space, the development of the banking system have created all the necessary prerequisites for pursuing a policy of macroeconomic stabilization, where the monetary policy of the Central Bank is given a leading role.

On July 1, 1994, banks' institutions performed work on the recalculation of all funds that were on settlement and current accounts of legal entities registered on the territory of the republic, regardless of the form of ownership, as well as the book value of all fixed and circulating funds, other tangible assets, receivables and payables debts, debts to the budget and all other articles of the asset and liabilities of the banks' balance sheet, balances of the republican and local budgets, as well as of the off-budget funds irrespective of the formation of the sources and others - at a ratio 1000 Soum-coupons to the 1 soum based on inventory and accounting data.

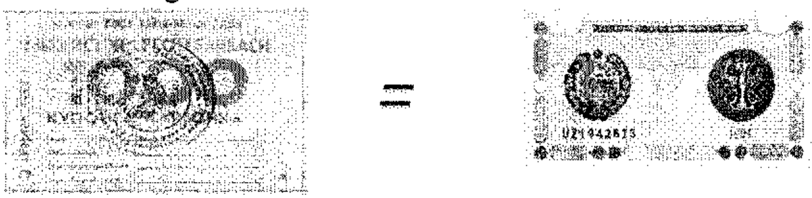

Figure 11. Ratio of money in denomination in 1994

The Central Bank is an economically independent institution that realizes its expenses for the account of its own revenues. The legal status, tasks, functions, powers, principles of organization and activity of the Central Bank are determined by the Constitution of the Republic of Uzbekistan, the Law on the Central Bank of the Republic of Uzbekistan and other legislative acts. The Central Bank is a legal entity and is exclusively owned by the state.

The emission mechanism is a legally established procedure for the issuance and circulation of banknotes. The Central Bank of Uzbekistan has the exclusive right to issue banknotes in circulation in the form of banknotes and coins as legal means of payment on the territory of the republic. Their forgery and illegal manufacturing entail responsibility in accordance with the law. Banknotes and coins in circulation are unconditional obligations of the Central Bank and are secured by all of its assets.

Payments in the territory of the Republic of Uzbekistan are carried out in the form of cash or non-cash payments. Non-cash settlements in the territory of the Republic of Uzbekistan are carried out through banks. Forms and rules of non-cash settlements are established by the Central Bank. The procedure for conducting cash transactions by legal entities is determined by the Central Bank.

Organization of monetary circulation is carried out by the Central Bank of Uzbekistan. The law "On the Central Bank of the Republic of Uzbekistan" of December 21, 1995, and the Law "On Banks and Banking Activities" of April 25, 1996, adopted by the Oliy Majlis of the Republic of Uzbekistan determine the legal and regulatory provisions of banking activities.

The exchange rate is the price of the national currency, expressed in foreign currency. Prior to perestroika, Uzbekistan used the procedure for establishing the exchange rate, based on the gold content of various currencies. Since the gold content of banknotes has been canceled, a method of quotation is currently used, depending on the supply and demand for one or another currency in the foreign exchange market.

The Central Bank of the Republic of Uzbekistan regularly sets the exchange rate of the national currency to foreign currency for accounting purposes, statistical and other reporting on currency transactions, as well as for the calculation of customs and other mandatory payments on the territory of the Republic of Uzbekistan.

QUESTIONS

1. What is a monetary system?
2. What is the essence of elastic and stable monetary systems?
3. What are the elements of the monetary system?
4. What varieties are monetary systems?
5. On what principles does the monetary system of the Republic of Uzbekistan function?

6. Tell us the story of the introduction of soum in circulation.

CHAPTER 8. INFLATION AND ANTI-INFLATIONARY MEASURES

8.1. The essence of inflation. Regularities of the inflationary process.
8.2. Types and forms of inflation.
8.3. Anti-inflationary measures.

Key words: inflation, demand-pull inflation, cost-push inflation, creeping inflation, galloping inflation, hyperinflation, internal factors, external factors, open inflation, hidden inflation, expected inflation, unexpected inflation, local inflation, world inflation, anti-inflationary policy.

8.1.The essence of inflation. Regularities of the inflationary process

In a literal translation, the term "inflation" (from the Latin "inflatio") means "swelling", that is, the overflow of channels of circulation with excess paper money that is not secured by the corresponding growth of the commodity mass. Usually, inflation has as its basis not one, but several interrelated reasons, and it manifests itself not only in raising prices, but also in the deficit of goods, as well as in the deterioration of their quality.

You may have noticed that all the empirical evidence on the relationship of money growth and inflation discussed so far looks only at cases in which the price level is continually rising at a rapid rate and so inflation is persistent. It is this definition of inflation that Friedman and other economists use when they make statements such as "Inflation is always and everywhere a monetary phenomenon."[15]

Inflation is an increase in the general level of prices. Inflation is a decline in the purchasing power of money, which is manifested most often in a general increase in prices. The most complete definition is the following definition of inflation. Inflation is a depreciation of money, a

[15] Frederic S.Mishkin. The economics of money, banking and financial markets. Pearson Education Limited. 2011. –668 p.

drop in their purchasing power, caused by higher prices, commodity shortages and a decline in the quality of goods and services. Inflation is characteristic of any models of economic development, where state revenues and expenditures are not balanced, and the capacity of the Central Bank to conduct an independent monetary policy is limited.

Inflationary processes sometimes arise or are specifically stimulated by the state, when all other forms of redistribution of the social product and national income are used.

The primary cause of inflation is a disproportion between different spheres of the economy - accumulation and consumption; demand and supply; revenues and expenditures of the state; the money supply in circulation and the needs for money. It is customary to distinguish between external and internal factors of inflation.

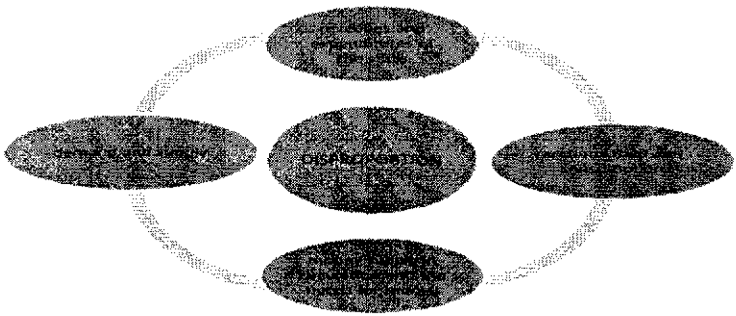

Figure 12. The primary causes of inflation

External factors include: world structural crises (raw materials, energy, foreign exchange); the monetary policy of states aimed at exporting inflation to other countries; illegal export of gold, currency; reduction in revenues from foreign trade; negative balance of payments.

Internal factors, in turn, are divided into monetary and non-monetary factors. Monetary factors include: a deficit in the state budget; overflow of the circulation of excess mass of money due to excessive emission of money used to cover the budget deficit; growth of public debt; government measures to maintain the exchange rate of the national currency, limit its fluctuations, etc. Non-monetary factors are: structural disparities in social reproduction; monopolization of production; imbalance of investments; cost-effective mechanism of management;

state economic, financial and taxation policies, price policy; foreign economic activity, etc.

8.2.Types and forms of inflation

Demand (demand-pull) inflation is the inflation caused by the increase in demand for products (that is, when consumers are willing to pay more for a certain type of goods). Since producers can not immediately respond to this increase in demand by an increase in output, depending on the circumstances, they either increase prices or increase output.

Excessive excess demand leads to inflated prices for real constant output and causes demand inflation. In general, demand inflation is observed in the event that the growth in the price level occurs under the influence of the overall increase in aggregate demand.

The inflation of costs (cost-push inflation) is expressed in the growth of prices due to the growth of production costs. The mechanism of this kind of inflation is that the demand is relatively constant, and the prices for goods increase due to the growth of production costs (the production cost increases). Since enterprises can not trade for a long time at a loss, they are forced to increase the selling price for their products. Under the law of supply and demand, when the price increases, the number of units sold decreases, and if the government does not take adequate measures, then the economy may begin to fall. Typically, the following main reasons that cause an increase in the cost of production: the growth of the cost of raw materials, energy and wages. As a result of cost inflation, profit and volume of finished products of enterprises that intend to offer at the existing price level are reduced. As a result, after a certain time, the balance of supply and demand is restored again, but at a higher price.

Depending on the rate of price growth, creeping, galloping and hyperinflation are singled out in the market.

Creeping (moderate) inflation is characterized by relatively low growth rates of prices - up to 10-20% per year. This kind of inflation is typical for most countries with developed economies. Creeping inflation is not accompanied by crisis shocks. This is a moderate increase in prices, which does not have a significant impact on the economic condition of the country. Savings remain profitable (interest income is slightly higher than inflation), the risks of investing almost do not grow, the standard of living increases slightly. It is believed that a relatively low, "three percent" rate of inflation can be used to stimulate production. Galloping inflation, unlike creeping inflation, is difficult to control. The average annual growth rate of prices from 10-20 to 50%. Such inflation has a negative impact on the economy: savings are loss-making (interest on deposits below inflation), long-term investments become too risky, the standard of living of the population is significantly reduced. This type of inflation is typical for countries with economies in transition. Hyperinflation is characterized by a growth rate of prices of more than 50% per month, in annual terms - more than 1000%. Such inflation destroys the economy, destroying savings, investment mechanism, significantly reducing the pace of production development[16]. The divergence of prices and wages becomes catastrophic, welfare falls, and the largest enterprises become unprofitable; it paralyzes the economic mechanism, as the effect of flight from money dramatically intensifies with the aim of turning them into commodities. Economic ties are breaking down, the transition to barter exchange is taking place.

TYPES OF INFLATION

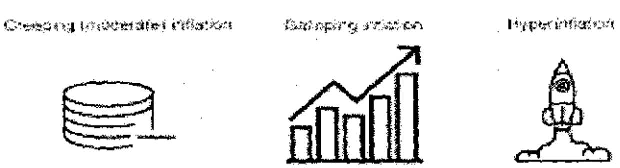

Figure 13. Types of inflation in terms of price growth

Inflation in the country is possible with an exorbitant money

[16] A.Omonov, T.Koraliev. Пул ва банклар. Textbook. - T.: "Iqtisod-Moliya", 2018. -138 p.

issue, when the price increase due to the increase in the money supply is large and instantly ahead of the volume of production. That is why the destructive effect of such inflation is enormous. This kind of inflation is called emission. It is provoked by the violation of the laws of monetary circulation by the Central Bank, which has a monopoly on the issue of money.

Another important aspect of inflation, which received the most vivid expression in the period of hyperinflation (over-inflation), is the inflation of taxation.

Inflation of taxation is the cost that is compensated in connection with inflation due to rising prices. Thus, the state finances a deficit to maintain real cash balances at the same level, which has the effect of tantamount to levying taxes on the same amount. This method is very effective, as it makes it difficult to avoid taxation, although it can lead to the collapse of the economy.

The forms of manifestation distinguish between open and suppressed (hidden) inflation of the country's economy. All kinds of inflation exist only when its state is open, which is mainly due to pricing. With suppressed (latent) inflation, the rise in prices for goods and services may not be observed, and the depreciation of money can be expressed in supply shortages.

Open inflation is characteristic for countries with a market economy, where the interaction of supply and demand contributes to the open unrestricted growth of prices. Open inflation, with its negative consequences, still retains behind the prices the role of signals that show producers and buyers of the sphere of profitable investment of capital.

Suppressed (hidden) inflation is inherent in the economy with command and control over prices and incomes. Strict control over prices does not allow inflation to manifest itself openly in the growth of prices. In such a situation, inflation takes a hidden character. Externally, prices remain stable, but as the mass of money increases, their surplus causes a commodity deficit.

According to the degree of balance of price increases, there are two types of inflation: balanced and unbalanced. With balanced inflation, the prices of different commodity groups relative to each other remain unchanged, and if unbalanced inflation the prices of different goods constantly vary with respect to each other, and in different proportions.

In terms of predictability, the expected and unexpected inflation is differentiated. Expected inflation can be predicted in advance with a sufficient degree of reliability, it can often even be a direct result of government action.

Unexpected inflation is characterized by a sudden jump in prices, which adversely affects the taxation and monetary system.

Recently, economists began to allocate a special new kind of inflation-stagflation – simultaneous increase in the general price level, a reduction in output and, consequently, an increase in unemployment. Stagflation is closely related to demand inflation. Its causes are the structural imperfection of the market and the lack of competition, since monopolies have no incentive to reduce costs.

Figure 14. Stagflation scenario

There is also a special type of inflation - structural inflation. This name received inflation, combining elements of inflation demand and costs. At its core is the process associated with changing the structure of demand.

Depending on the scope of distribution, local and world inflation are distinguished. Local inflation takes place in individual countries, and the world covers all countries.

8.3.Anti-inflationary measures

The main purpose of anti-inflationary policy is to combat inflationary processes.

With metal currency circulation, the main form of anti-inflationary policy was the replacement of one metal money with another, for example, copper money with silver, silver with gold or one type of monetary system with another - bimetallism with monometallism.

In terms of paper-metal circulation, the original form of anti-inflationary policy was the replacement of an inferior and depreciated coin with paper money or vice versa. For example, in Russia in 1843, Kankrin's reform of the banknotes, deposit and credit tickets were exchanged for credit tickets, which were exchanged for gold and silver.

Anti-inflationary policy is a set of measures of state regulation of the economy aimed at establishing control over inflation. To date, there are three main lines of anti-inflationary policy: deflationary policy (or demand management); income policy (or cost management); competitive stimulation of production.

The deflationary policy is the methods of limiting monetary demand through monetary and fiscal mechanisms by reducing government spending, raising the interest rate for a loan, strengthening the tax press, limiting the money supply, etc. Such a policy, as a rule, causes a slowdown in economic growth and crisis phenomena.

The income policy assumes simultaneous (parallel) control over prices and wages by completely freezing them or setting their limits for growth. Such a policy is ineffective, since a slowdown in prices leads to a shortage of goods, and the subsequent abolition of restrictions again causes a price spike. For social reasons this type of anti-inflationary policy is rarely used.

Competitive stimulation of production - industrial policy, which characterizes with all-round government support of the domestic producer and national production, includes measures to directly stimulate savings for the population (reduction of taxes from the population).

There are also other measures: indexing (full or partial) - compensation for losses as a result of the depreciation of money; forms of containment of controlled price growth - are manifested, firstly, in the "freezing" of prices for certain goods, and secondly, in containing their level within certain limits.

QUESTIONS

1. What is inflation?
2. What factors influence inflation?
3. What is stagflation?
4. What types of inflation differ?
5. What anti-inflationary measures can be taken?

CHAPTER 9. MONETARY REFORMS

9.1. Monetary reforms: essence, types and concepts.
9.2. Reasons for the implementation of monetary reforms.

Key words: monetary reform, partial monetary reforms, full monetary reforms, radical monetary reforms, denomination, nullification, revaluation, devaluation, necessity of monetary reforms.

9.1.Monetary reforms: essence, types and concepts

Monetary reform is a complete or partial transformation of the monetary system, conducted by the state with the aim of streamlining and strengthening monetary circulation. Monetary reforms are divided into full and partial[17].

Full monetary reforms assume a change in the principles of the organization of the monetary system, which contribute to the long-term stabilization of the national monetary unit.

Partial monetary reforms contribute to the elimination for a short period of time of certain negative phenomena in the monetary sphere of the country.

Monetary reforms that were carried out at different times in many countries differed significantly in their objectives, the depth of reform of existing monetary systems, methods of stabilizing currencies,

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[17] Lavrushin O.I. Деньги, кредит, банки. Textbook - M.: "КНОРУС", 2013. - 112 p.

preparatory measures, etc. They can be classified on several grounds.

The following types of monetary reforms are distinguished:

❖ the transition from one monetary equivalent to another - for example, the transition from copper money to silver money in ancient Rome or the transition from bimetallism to monometallism in most European countries in the late 19th - early 20th century;

❖ the replacement of banknotes (banknotes and coins) that have become defective (and / or depreciated coins) with a full coins or indivisible exchange;

❖ the stabilization of the currency or partial measures to streamline monetary circulation by devaluation, denomination, revaluation, etc .;

❖ the formation of a new monetary system - is carried out in the period of disintegration, the acquisition of independence by former colonies, the formation of states, etc.

Radical monetary reforms associated with changing the principles of the organization of the monetary system, as a rule, are oriented toward the long-term stabilization of the monetary unit. Such reforms are usually preceded by measures related to the improvement of public finances, the creation of conditions for strengthening the country's economy.

Usually, monetary reforms are accompanied by the following methods of stabilizing currencies:

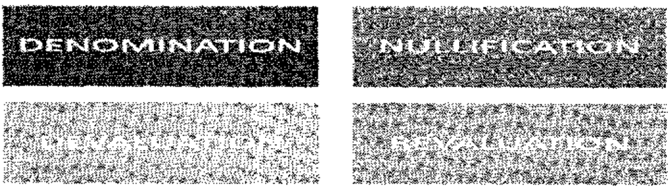

Figure 15. Methods of monetary reforms

The softest form - denomination - is a monetary reform, in which the nominal value of banknotes is replaced for new larger monetary units by a certain ratio. At the same time, all monetary obligations in the country are recalculated. In the process of denomination, money is usually exchanged without restrictions. Exchange is carried out in the form of emission of cash only a new sample and the gradual withdrawal of old money from circulation. The denomination does not affect the economic basis for stabilizing monetary circulation. At the same time, it is an important stage in strengthening the monetary system, since it contributes to an increase in the rates of economic growth, a reduction in the rate of inflation and the strengthening of the national currency.

The hardest form of monetary reform is the nullification, in which depreciating banknotes are annulled, that is, declared invalid by the state, and new banknotes are issued in less quantity. Nullification is carried out during the period of stabilization of the economy after hyperinflation, it is used mainly in developing countries or when creating new states.

Revaluation is an increase in the rate of paper currency or the metallic content of monetary units in relation to metal or foreign currency. Revaluation reduces the rate of inflation in the country. It is unprofitable for exporters, as it increases their currency risks on previously concluded contracts. In modern conditions, it is used as a method of currency regulation in the country.

Devaluation is the depreciation of the national currency against foreign currencies, gold.

9.2.Reasons for the implementation of monetary reforms

The need for monetary reform is dictated, above all, by the reasons that precede it. As a rule, monetary reform is a form of anti-inflationary policy. The problem of inflation and anti-inflationary policy is always relevant.

Therefore, the main goal in the fight against inflation is to make inflation manageable and to weaken its negative socioeconomic consequences. To do this, conduct anti-inflationary policies, including monetary reforms.

The need for monetary reform in each country is due to various reasons, in particular:

1) economic, connected with the breakdown of the monetary and financial systems, the erosion of confidence in the national currency, the

use of a parallel currency (most often foreign), an overvalued exchange rate of the national currency against foreign currencies. Economic reasons are usually generated by economic crises, the direction of the policy of the state and the Central Bank;

2) political, connected with the change of political structure or the creation of a new state;

3) the creation of supranational monetary units or the unification of national monetary units.

For the successful implementation of monetary reform, certain political and economic prerequisites are needed to dramatically improve the economic processes in the country, the functioning of the financial and banking systems.

Any kind of monetary reform, both complete and partial, is always carried out for a specific purpose. Among the objectives of monetary reforms, there are broad - cardinal goals of restructuring (or creating) a new national monetary system of the country and narrow - only stabilization goals.

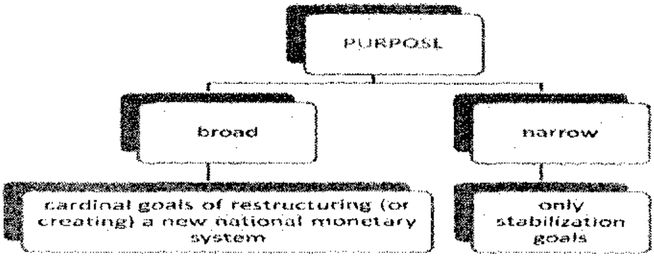

Figure 16. Monetary reform goals

The cardinal goals of the monetary reform pursue the creation of a national monetary system of a new type. Moreover, on the basis of a new type of monetary system, a new type of political and economic structure of society is envisaged, for example, the creation of a new state or union of states (Latin, Soviet, European union).

Stabilization (narrow) goals of monetary reform pursue only the stabilization of national money, without a radical restructuring of the monetary system and the economic and political order of society.

QUESTIONS

1. What is monetary reforms?

2. What is the essence of denomination?

3. What is nullification?

4. What changes occur during the implementation of devaluation or revaluation?

5. Why are monetary reforms being carried out?

MODULE 2. CREDIT

CHAPTER 10. NECESSITY, ESSENCE OF CREDIT AND CREDIT FUNCTIONS

10.1. The need for a credit.
10.2. Objects and subjects of credit.
10.3. Credit functions.
10.4. Principles of credit.

Key words: credit, loan, necessity of credit, role of loan, subjects of credit relations, objects of credit relations, elements of loan, credit functions, credit repayment, time, payment, collateral, targeted use of funds, surety, guarantee, pledge.

10.1.The need for a credit

Lending creates the necessary mechanism for the redistribution of funds between sectors of the economy and business entities.

The value of credit is characterized by the results of its application to the economy, the state and the population, as well as by the peculiarities of the methods by which these results are achieved. The results of applying credit are important and diverse. The credit used for repayment of funds affects the production, sale and consumption of products and the sphere of money turnover.

Lenders with free resources, only due to their transfer to the borrower have the opportunity to receive additional cash. The loan provided in cash forms new means of payment. A loan appears when the money functions implemented as a means of payment, when selling goods not for cash, but with a deferred payment. Credit relations arise not in the sphere of production, but in the sphere of exchange, where the owners of goods confront each other as owners, legally independent persons who are ready to enter into economic relations.

The economic basis on which credit relations develop, is the circulation and turnover of funds (capital). The process of capital flow creates an objective need for the emergence of credit.

The movement of means is not only their circuit, but also turnover. The money received after the sale of products is again spent: new means of production are purchased, wages are paid; the circuit is repeated again and again, there is a constant rotation of the means.

The society is interested in using freed temporarily free resources and continuous expansion of reproduction.

The objective need for a loan is determined by the peculiarities of the capital circulation, which are:

❖ permanent formation of temporarily free cash and the emergence of temporary additional needs for them;

❖ different duration of turnover of funds in certain economic entities;

❖ close interaction of cash and non-cash turnover of funds;

❖ segregation of capital within economic entities.

The need for a loan is also conditioned by the commercial organization of enterprise management under market conditions, when in each enterprise in the process of a continuous cycle of individual capital there is a need for additional amounts or, conversely, the temporary release of monetary resources.

The role of credit in organization of working capital of enterprises that have seasonal conditions of supply, production or sale is great. They need a loan for the formation of temporary stocks. But also to the enterprises which are not connected with seasonal working conditions, also loans are necessary. In any enterprise, revolving funds and circulation funds are then reduced or increased, while the proportions between capital in commodity, productive and monetary form change.

A loan is also needed for investments for the reproduction of fixed assets. In this regard, the loan provides for the implementation of capital investments even before the business entity accumulates profits and depreciation charges for investment. The combination of equity with borrowing allows you to react quickly to technological progress, quickly realize the costs of implementing the latest scientific achievements.

The fact is that credit serves the creation, distribution and use of income. The credit and the credit system, servicing the circulation of funds, participate in the distribution of the gross product. Without the functioning of a loan, a redistribution process would not be possible. Objective necessity and the possibility of credit become a reality in the presence of two conditions:

1) participants of credit relations should act as legal independent entities and materially guarantee the fulfillment of obligations;

2) the interests of these participants must coincide.

Thus, a loan appears historically following money as a result of an objective temporary need for production and circulation in additional funds in the form of a loan on terms of return and remuneration. Expansion of commodity exchange as the movement of the value of the commodity gives at first a serious impetus to the emergence of credit relations, and then in the conditions of capitalist production, there are ample opportunities for their expansion.

10.2.Objects and subjects of credit

Credit as an object of research consists of elements that are in close relationship with each other. As elements of the loan are:

- subjects of credit relations: the creditor and the borrower.
- object of a credit transaction.

The development of the creditor and the borrower is primarily based on commodity circulation. The process of buying and selling goods does not always lead to immediate receipt by the seller of their monetary equivalent, the buyer does not always have the opportunity to pay for the goods immediately, payment is made only after a certain period of time. So the seller becomes a creditor, the buyer is a debtor.

Creditors may be entities that have provided resources to the borrower. As a rule, creditors become voluntary. Cases when the borrower does not return the loan on time, violate the voluntariness of the credit transaction, lead to the emergence of a special system of tougher relations with the borrower. In general, the time limits for the existence of creditors are determined by the terms of the loan, which depend on the course of the process of reproduction.

Borrowers are business entities or people with a need for resources. With the advent of banks not only the concentration of creditors are realized but also a significant expansion of the borrowers is manifested. In modern conditions, apart from banks, borrowers are enterprises, the population and the state.

The creditor and the borrower, entering into credit relations, demonstrate the unity of their goals and interests. Within the framework of credit relations, they can change places: the creditor becomes a borrower, the borrower becomes a creditor. In addition, one and the same subject can act both as a lender and as a borrower.

The object of the credit transaction, for which credit relations arise, is the lent value. Its isolation as a special value is associated, first of all, with the nature of the movement: from the creditor to the borrower, and then from the borrower to the lender. The need to return the borrowed value to the borrower is determined by the retention of ownership rights to it by the creditor, and the return is secured in the process of using the borrowed value by the borrower. Having used the loan in its reproduction process, the borrower must return to the creditor a value equivalent to the received value on credit.

The essence of each structural element of the loan differs in a significant originality and reflects the specifics of credit relations. However, the analysis of one of the subjects or object of the loan is still not enough to determine the content of the loan as an integral phenomenon.

10.3.Credit functions

The essence of credit as an economic category is manifested in the functions it performs. When determining the functions of credit and their characteristics, most economists consider it expedient to take into account not only the essence of credit as a phenomenon, but also its essence. In this case, it is recommended to follow the following:

1. Function is not equivalent to essence and reflects only certain essential features. In the case of a loan, this means that its functions should relate to the credit process as a whole, that is, to apply equally to its subjects - the creditor and the borrower;

2. The function, like the essence of credit, has an objective

character. The function characterizes a certain work performed by the creditor and the borrower, having entered into credit relations. The function does not cease to exist. As the essence of the loan is studied, its qualities are revealed in more detail, new directions of credit interaction are revealed, taking into account its functions;

3. A function is a changing category. The loan in the process of its functioning at any given moment does not manifest all its functions. Their number and list are determined by the conditions of the loan movement in this situation;

4. Functions should characterize credit as a holistic process, at the same time they should reflect the specifics of the manifestation of the essence of credit in all its forms and types.

It is advisable to distinguish such basic functions of credit as redistribution and the function of replacing cash with credit operations.

Redistributive function of credit. A loan arises in the sphere of exchange, where the creditor and the borrower enter into a relationship regarding the return motion of the loaned value. With the help of credit, values are redistributed. At the same time, credit relations are mediated not by all the redistributive processes in society. A significant part of the monetary resources is redistributed through the financial system and the pricing system.

This function of the loan is manifested both when raising funds, and when they are placed, i.e., by means of a loan, the funds are distributed on a returnable basis. The redistributive function is clearly manifested in the process of providing funds to enterprises and organizations to meet their temporary needs for monetary resources. Thus, economic entities are provided with the necessary working capital and resources for investment.

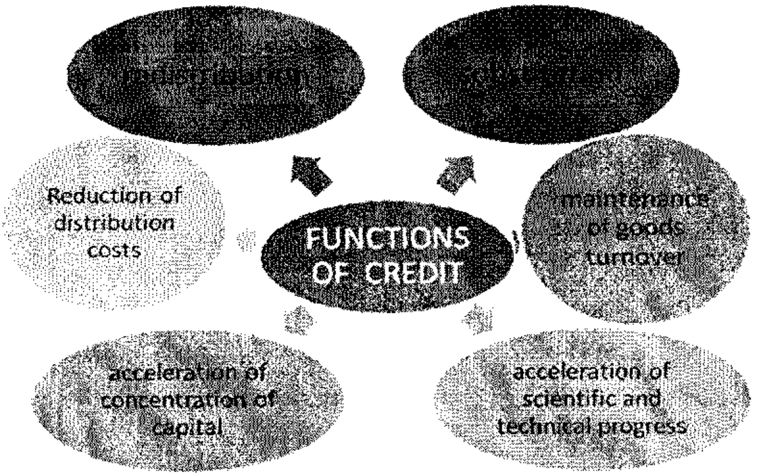

Figure 1. Credit functions

Thus, the features of credit redistribution are as follows:

1. Credit redistribution covers, as a rule, only temporarily free resources.

2. The peculiarity of the credit redistribution is the satisfaction of only the temporary need for additional funds, when the redistributed value is received by the borrower for use only for a certain period of time, and then returned to the creditor.

3. The specificity of redistribution through credit is that it affects not only the value of the gross national product produced in a given period, but also the value of the means of production and consumer goods created in previous periods. In particular, temporarily free resources accumulated in the depreciation funds of enterprises can be issued on credit; distribution of temporary use of previously produced equipment on a lease basis, etc. is widespread.

4. Characteristic feature of the redistributive function of the loan is that it redistributes not only monetary but also commodity resources.

5. Redistribution through credit is mainly productive. The cost is transferred to the borrower, and its use is already concluded here, involving the involvement of funds in the economic circulation.

6. Redistribution through credit has, as a rule, a direct character. Credit transactions are made in most cases without intermediaries, the lender and the borrower directly contact each other. This does not exclude the cases when a loan can be provided in the presence of a third entity - a guarantor or an intermediary, both legal and individuals.

The redistributive function of the loan covers various aspects and levels of movement of the loaned value. So, redistribution can occur between separate territories. Business entities, regardless of their location, participate in the credit transaction.

Currently, due to commercial banks, an increasing role is played by the redistribution of credit resources through the credit market, i.e., the market mechanism of redistribution. In this regard, credit redistribution is increasingly decentralized. Accordingly, the priorities of redistribution change.

There is a point of view that with the help of a loan, not value but money is redistributed, that is, the lender transfers money loans that are money only in form and devoid of value as such. Accordingly, the redistribution process is actually filled with value content only at the stage of using the loan in the borrower's household, when raw materials, equipment, etc. are purchased for the money received on credit.

Function of substitution of money by credit operations. This function is related to the specifics of the modern organization of money turnover, its functioning mainly in non-cash form, since the bulk of settlements and the provision of credit are carried out through settlement operations using bank accounts. By placing and keeping money in the bank, the client thereby enters into credit relations with bank and, in addition, creates conditions for the replacement of cash in circulation by credit operations in the form of entries on bank accounts. It becomes possible to provide a loan and return it on a cashless basis, which makes it possible to reduce cash payments and improve the structure of the money turnover.

Currently, the real money (gold coin) does not appeal: in circulation are banknotes issued on the basis of credit transactions. It should be assumed that in modern conditions, the entry of the lent value into the economic turnover does not perform the function of universal replacement of money, but the function of their temporary replacement in the economic turnover. The borrowed value received by the borrower and used in economic activities starts to perform the work peculiar to money (used to purchase inventory, pay wages, etc.).

There was an absolute ousting of gold from circulation by credit money. which is consistent with the general law of the economy of social labor, which, with respect to the sphere of circulation, is expressed in the economy of the social costs of money circulation. In accordance with this law, a new form of money displaces the previous one, if it is more economical and can provide a more rational organization of production.

Credit under modern conditions performs other functions:

- reduction of distribution costs;
- acceleration of concentration of capital;
- maintenance of goods turnover;
- acceleration of scientific and technical progress.

In the process of credit relations, the activities of borrowers and creditors are monitored, the creditworthiness and solvency of economic entities are assessed, and credit principles are observed. This suggests that the credit is inherent in the control function. Any creditor - whether a bank, an entrepreneur or an individual - in a peculiar way through a loan controls the borrower's condition, seeking to prevent an untimely debt repayment. Lending is the time limit for the borrower's borrowed funds. If the term of using the loan is violated, then the essence of the loan is distorted, it loses its real purpose.

Expanding and narrowing the scope of the use of credit has certain limits, which are commonly called the boundaries of credit. The economic boundaries of a loan should be understood as the limit of the relationship regarding the return motion of value. As a material process, credit has a spatial, temporal and qualitative certainty. This means that credit relations occupy a strictly defined position in space, the loan is finite in time and possesses a set of properties inherent only in it.

At the macroeconomic level, the external and internal boundaries of the credit are allocated. External borders separate credit relations in time and space from all other economic relations. Thus, the parameters of the credit sphere depend on the amount of budget financing of the economy, the amount of credit investments affects the aggregate money supply, etc. Internal borders show an objectively acceptable measure of development of individual forms of credit - bank, commercial, state, consumer - within the external border of credit relations. External and internal boundaries are interrelated. The establishment of economic boundaries of the loan provides for their quantitative and qualitative characteristics. The quantitative boundaries of a loan are the boundaries of credit investments in the national economy in a particular period of time. The qualitative boundaries of a loan or the scope of a loan relationship are due to the origination of a loan, its necessity and the opportunity. Excessive credit provision negatively affects the economy, leads to over-crediting of enterprises, to the formation at the expense of borrowed funds of increased reserves, in which resources are diverted. The excessive provision of credit weakens the interest of enterprises in the economical, efficient use of borrowed resources. If, however, the needs of enterprises in the means are satisfied at the expense of the loan not completely, difficulties arise in acquiring the necessary production resources, which entails a slowdown in the reproduction processes. If the borrowing enterprises do not have real material responsibility for the results of using the loaned value, there are no guarantees of the normal functioning of credit relations, the recoverability of the loaned value. When determining the boundaries of the application of a loan, it is important to consider that a loan is a method of repayment of funds, and therefore the provision of loans is possible based on the availability of the necessary conditions for the return of borrowed funds. The most acceptable is the provision of loans to advance them into the borrower's working capital. This means that such funds are released after the completion of the circuit and can serve as a source of repayment of loan debts. An acceptable sphere of application of credit is also the need for funds to increase fixed assets. Repayment of such loans can be made within the payback period of investment costs, mainly at the expense of the borrower's profit, formed through the use of updated fixed assets.

Based on the functions performed by the loan, its functional boundaries are distinguished - redistribution and emission (anticipation). The redistributive border of the credit shows the justified limits of the redistribution of funds on the basis of credit. In practice, this means, in particular, that the active operations of banks should be linked to their deposit operations. The issuance of loans by banks should be carried out within the limits of their available resources, and in the case of a lack of the latter, at the expense of funds borrowed from other banks. However, the newly created resources, i.e. emitted funds are also used as a source of credit. In this case, the anticipatory properties of the loan are manifested, consisting in its ability to outstrip in time the creation of savings in commodity and monetary forms. Issue loans are issued for future costs, for products not yet produced, and directly affect the aggregate money supply. Their volume can't be arbitrary and is determined by a justified emission boundary. This is a managed, controlled loan issue.

10.4.Principles of credit

Credit relations in the economy are based on a certain methodological basis, one of the elements of which are the principles strictly observed in the practical organization of credit operations. These principles establish the procedure for the issuance and repayment of loans, their documentation. They reflect the essence and content of the loan, as well as the requirements of the basic economic laws in the field of credit relations.

The principles of lending are: repayment, terminable (time), payment, collateral, targeted use of funds[18].

Credit repayment. This principle expresses the need for timely return of financial resources received from the lender after the borrower completes their use. It finds its practical expression in repayment by the borrower of a specific loan by transferring the appropriate amount of money to the creditor's account, which ensures the renewability of the

[18] A.Omonov, T.Koraliev. Пул ва банклар. Textbook. – T.: "Iqtisod-Moliya", 2018. - 163 p.

bank's credit resources as a necessary condition for continuing its activities.

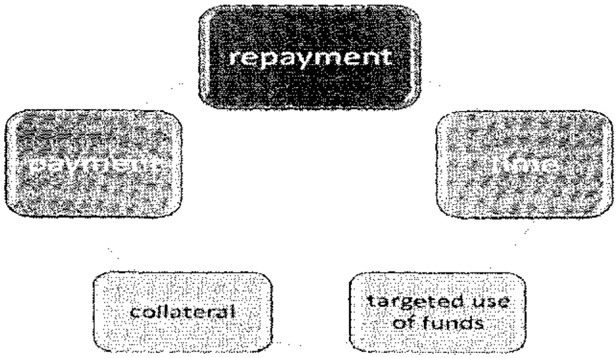

Figure 2. Loan guidelines

Credit as a certain system of economic relations differs from other monetary relations in that here the movement of money occurs on terms of repayment. Consequently, in this principle the essence of credit relations is concluded.

The question of classifying refund to the content of the concept of credit is very important, especially at the stage of creating a developed market. The loan is refundable, and it is important to ensure the repayment of funds within the prescribed period. And in this sense, the term (time) of loan, which must be provided in accordance with the established contractual framework, acts as the most important principle, the main condition for the repayment of the loan.

The time of lending means that the loan should not just be returned, but returned in a strictly defined period. The time of lending is the norm for achieving credit repayment. The established term of the loan is the time limit for the borrower's borrowed funds. If the term of using the loan is violated, then the essence of the loan is distorted, it loses its real purpose.

The practice of prolonged violation of the terminable principle in enterprise lending has a negative impact on the state of monetary circulation in the country.

In the market economy conditions, the time principle takes on special significance. From its observance depends on the normal provision of public reproduction in cash. Its compliance is necessary to ensure the liquidity of the commercial banks themselves. Organization of their work mainly on borrowed resources does not allow them to invest these attracted credit resources into irrevocable investments. In addition, compliance with the principle of repayment of the loan in time gives the borrower the opportunity to obtain new loans in the bank and not to pay higher interest for the delay in the loan. The terms of lending are established by the bank taking into account the terms of turnover of the material assets to be credited and the cost recovery.

Payment. This principle expresses the need not only for the borrower to directly return the credit resources received from the bank, but also to pay for the right to use them. The economic essence of payment for a loan is reflected in the actual distribution of the additional profit received from its use between the borrower and the creditor.

The rate (or norm) of loan interest, defined as the ratio of the amount of the annual income received on loan capital, to the amount of the loan granted acts as the price of credit resources.

Confirming the role of credit as one of the products offered in the specialized market, the payment of a loan stimulates borrowers for its most productive use.

The principle under consideration finds the practical principle in the process of establishing the value of loan interest, which fulfills three main functions:

- redistribution of a part of profit of legal entities and income of individuals;
- regulation of production and circulation by allocating loan capitals at the sectoral, cross-sectoral and international levels;
- anti-inflation protection of cash savings of bank customers.

The interest rate on a specific loan of a legal entity depends on:

- the base interest rate of this bank, which is determined taking into account the structure of bank resources and the income of the bank;
- the amount and term of the loan;
- the liquidity of collateral;

- the creditworthiness of the borrower.

Collateral indicates that the borrower's assets, valuables, real estate or a solid guarantor allow the creditor to be sure that the repayment of the loaned funds will be provided on time. This principle implies real provision of loans to the borrower with various types of property or obligations of the parties.

In order to ensure timely repayment of loans, creditors under the contract take a pledge, surety, guarantee and obligations in other forms provided for by law. In some cases, credit can be provided without collateral so-called blank (trust) loans.

The borrower must provide an opportunity to monitor the security of the loan. Failure to fulfill obligations to ensure repayment of the loan is the basis for his early recovery.

The main form of collateral for the loan is now a pledge. In accordance with the legislation, the subject of the pledge can be any property, including things and property rights (claims), with the exception of property withdrawn from circulation, claims inextricably linked with the identity of the creditor.

The lender, providing loans on bail, assesses the quality and liquidity of collateral. Liquidity of inventory, securities, financial claims to third parties, etc., is the ability of values to turn into cash (with a certain degree of risk). Depending on how well the pledged property meets these requirements, the amount of the loan is determined.

The loan amount against the pledge of property is set as a percentage of the market value of the pledge at the time of the conclusion of the loan agreement. Excess of the price of the mortgage over the size of the loan serves to compensate for the risk of loss, damage, changes in property prices, etc. In the event of insolvency of the borrower, the creditor has the right to realize a pledge for reimbursement of borrower's debt from borrowed funds and implementation costs. The rest of the proceeds is returned to the borrower. If the amount received was insufficient, the creditor has the right to claim damages from the borrower.

Surety is a guarantor's obligation to repay a borrower's debt to a creditor if, by the time the loan is repaid, the borrower does not fulfill its obligation.

Guarantee is a written undertaking by a credit or insurance organization at the request of the borrower to pay the creditor, in accordance with the terms of the obligation given, a sum of money upon presentation by the creditor of a written request for payment.

There is a difference between the guarantee and the surety, which is that, under the surety, the guarantor's obligations apply only to the amount of debt that the debtor recognizes. The guarantee extends to obligations recognized by the debtor (charged), and under the guarantee the guarantor undertakes to return the entire amount of the guaranteed debt, regardless of whether the debtor fully recognizes it or not. Guarantees and sureties are documented in the form of a guarantee letter or a surety, or a transfer inscription (endorsement).

There is also a form of collateral for the loan, such as the assignment of receivables, i.e. sums due from someone to the borrower. With this assignment, the borrower transfers the bills payable to the bank for the goods delivered by the supplier (works performed, services) or money given to someone to secure the loan. In this case, two options for assignment are possible:

1) without notifying the debtors of the assignment. Receipts from debtors the borrower sends to the bank;

2) with the notification of debtors, when the debtors make payments directly to the bank.

The purpose of the loan. This principle extends to most types of credit operations, expressing the need for targeted use of funds received from the lender. It finds practical expression in the relevant section of the loan agreement that establishes the specific purpose of the loan to be issued, as well as in the process of bank supervision over the observance of this condition by the borrower. Violation of this obligation may become the basis for early withdrawal of a loan or the introduction of an increased loan interest.

QUESTIONS

1. What is a loan?
2. What is the importance of credit in the economy?
3. What is the object and subjects of lending?
4. What are the credit functions?
5. On what principles are loans granted?
6. What types of collateral vary?

CHAPTER 11. FORMS AND TYPES OF CREDIT

11.1. Forms of credit.
11.2. Types of credit.

Key words: monetary form of loan, commodity form of loan, creditor, borrower, loan cost, mixed form of loan, interbank loan, mortgage credit, consumer credit, lombard credit, state loan, short-term loan, long-term loan, medium-term loan, secured loan, unsecured loan, leasing.

11.1.Forms of credit

The forms of credit are closely related to its structure and, to a certain extent, to the essence of credit relations. The structure of the loan includes, as noted earlier, the lender, the borrower and the lent value, so the loan forms can be considered depending on the nature:

- lent value;
- the creditor and the borrower;
- target needs of the borrower.

Depending on the lent value, it is expedient to distinguish between commodity, monetary and mixed (commodity-monetary) forms of credit[19].

The commodity form of credit historically precedes its monetary form. It can be assumed that the credit existed before the monetary form of value, when an equivalent exchange used individual goods (furs,

[19] A.Omonov, T.Koraliev. Пул ва банклар. Textbook. – T.: "Iqtisod-Moliya", 2018. - 165 p.

cattle, etc.). The first creditors were the subjects that possessed surplus commodities. In later history, there are cases of lending by landowners to peasants in the form of grain, other agricultural products, before harvesting a new crop.

In modern practice, the commodity form of the loan is not fundamental. The preferred form is the monetary form of the loan, but its product form is also applied. The last form of the loan is used both for the sale of goods in installments of payment, and when renting property (including equipment leasing), renting things. Practice shows that the creditor who provided the goods in installments of payment, needs a loan, and mainly in cash. It can be noted that where the commodity form of the loan operates, its movement is often accompanied by a monetary form of credit.

The monetary form of the loan is the most typical, prevailing in the modern economy. This is understandable, since money is the universal equivalent in the exchange of commodity values, a universal means of circulation and payment. This form of credit is actively used by both the state and individual citizens, both within the country and in external economic turnover.

Along with the commodity and monetary forms of credit, its mixed form is also applied. It occurs, for example, in the case when the loan functions simultaneously in commodity and monetary forms. It can be assumed that the purchase of expensive equipment will require not only a leasing form of the loan, but also a monetary form for the installation and adjustment of the acquired equipment.

As already noted, the loan is reduced not only to the stage of providing funds for temporary use, but also has other stages, including the return of the loaned value. If the loan is provided in cash and its return was also made in money, then this transaction is a monetary form of the loan. The commodity form of a loan can be recognized only in those credit transactions in which the provision and repayment of loans originated in the form of commodity values.

If the loan was given in the form of goods, and returned by money or vice versa (provided with money, and returned in the form of goods), then it is more correct to assume that there is a mixed form of credit.

The mixed (commodity-money) form of credit is often used in the economy of developing countries, calculated for monetary loans by the periodic supply of their goods (mainly in the form of raw materials and agricultural products). In the domestic economy, the sale of goods in installments of payment is accompanied by a gradual return of the loan in cash.

The bank form of credit is the most common form. This means that it is the banks that most often lend their loans to entities that need temporary financial assistance. In terms of loan volume, in the form of a bank loan, there are significantly more loans issued for each of its other forms. This is not accidental. The bank is a special entity, the main business of which often becomes a credit business, it makes multiple rounds of money on a return basis.

The first feature of the bank loan form is that the bank operates not so much with its capital, as with the attracted resources. Having borrowed money from some entities, he redistributes them, providing loans for temporary use to other legal entities and individuals.

The second feature is that the bank lends up the unoccupied capital, temporarily free funds placed in the bank by business entities into accounts or deposits.

The third feature of this form of credit is characterized by the following. The bank lends not just money, but money as capital. This means that the borrower must use the funds received in the bank so as not only to return them to the lender, but also to obtain a profit sufficient, at least in order to pay the loan interest. The payment of the bank form of credit becomes its inalienable attribute.

With the economic (commercial) form of the loan, economic organizations (enterprises, firms, companies) act as lenders. This form, by virtue of the historical tradition, is often called a commercial loan, sometimes a bill loan, because it is based on a delay by the seller of the payment for the goods and the provision by the buyer enterprise of the bill as its debt obligation to pay the purchase price after a certain period. Probably, the term "commercial" credit arose as a reaction to the debt relations that arise between the supplier and the buyer when the goods are shipped and the contractual deferral of payment is granted. The term "commercial" means commercial, i.e. something that was formed on the basis of special conditions for the sale of goods.

The state form of credit arises in the event that the state as a creditor lends to various subjects. State credit should be distinguished from a state loan, where the state, placing its obligations, bonds, etc., acts as a borrower. The state loan is most often placed under certain state programs (for the purpose of restoring the national economy in the post-war period, the development of the national economy, including its individual industries, etc.). Loans are placed, as a rule, for long periods (five, ten and even twenty years). Unlike government loans, which are widespread in the modern economy, the state form of the loan has a limited application, in comparison with other forms, most often provided through banks, as well as in the sphere of international economic relations, essentially becoming an international form of credit.

With the international form of credit, the composition of the participants in the credit transaction does not change, the same subjects - banks, enterprises, the state and the population, enter into credit relations, but the distinguishing feature of this form is the belonging of one of the participants to another country. Here one of the parties is a foreign entity.

A consumer loan is a loan granted to an individual (consumer) for the acquisition of goods (works, services) to meet his consumer needs.

Forms of consumer credit are financial consumer credit and commodity consumer credit. A financial consumer loan is a loan granted to the consumer in the form of cash to pay for the purchased goods (services). Commodity consumer credit is a loan granted to the consumer in the form of payment by installments for purchased goods, work performed or services rendered.

Mortgage loan is a long-term loan secured by real estate, including buildings, structures, apartments in apartment buildings, enterprises, other property complexes, trade and service facilities, as well as living quarters together with the land plots on which they are into loans:

- with full collateral;
- incomplete collateral;
- without collateral (blank or trust loans).

Full collateral takes place if the collateral exceeds the loan amount. For example, in Uzbekistan, the amount of loan collateral must be at least 125% of the loan amount. Loans with full collateral are divided into loans with direct collateral (at the expense of the borrower's funds - collateral) and with indirect collateral (at the expense of the guarantor - guaranteed, insured).

Loans with incomplete collateral are partially collateralized.

Unsecured or blank loans are provided only to first-class borrowers.

Loans under the guarantee are issued to the borrower after the bank-creditor checks the solvency of the guarantor (firm, state body). A guarantee agreement is drawn up between the bank and the guarantor. If the loan is not repaid by the borrower, the bank transfers the loan requirements to a surety.

Loans are also issued to the borrower under a bank guarantee. The guarantee of payment is a paid service. The guarantor bank, like a creditor bank, must verify the solvency of the guarantee.

The Guarantor Bank signs with the borrower an "Agreement on the provision of a bank guarantee", and with a creditor bank - an agreement on a bank guarantee.

A loan can be secured by pledging securities or other own values of the borrower, including its property. Such collateral is called a collateral loan.

Banks are entitled to provide blank (trust) loans to borrowers who have a permanent connection with them, regular cash flow in a bank account, with a good reputation and a good credit history, without providing repayment.

One of the forms to ensure repayment of the loan is the pledge of property. The subject of pledge can be any property, including things and property rights (claims) with the exception of things withdrawn from circulation, jewelry, freely convertible currency, etc., which can be subject to pledge in accordance with the Law of the Republic of Uzbekistan "On the pledge".

The property acquired at the expense of the loan in the amount of 80% of the cost can also be pledged for this loan.

The guarantee is issued in the form of a written obligation of the guarantor in accordance with article 299 of the Civil Code of Uzbekistan.

The guarantee is executed in a written agreement between the debtor and the surety in favor of the beneficiary bank.

By the criterion of payability, there are paid and free credits, expensive and cheap loans. Moreover, the concepts of expensive and cheap loans are relative concepts and depend on the economic situation in the country.

Loans are divided by the degree of risk. Bank loans by the degree of risk are classified according to the methods of the Central Bank of the Republic of Uzbekistan.

By methods of repayment, loans that are repayable in installments and at a time are distinguished.

QUESTIONS

1. What loans are granted in commodity form?
2. What is a mortgage loan?
3. What is a consumer loan?
4. What is overdraft?
5. What is leasing?
6. What loans vary in terms (time) of provision?
7. What is a blank loan?

CHAPTER 12. CREDIT INTEREST AND FACTORS AFFECTING LENDING RATE

12.1. Essence of loan (credit) interest.

12.2. Factors affecting credit interest.

12.3. Method of calculating loan interest.

Key words: loan interest, expensive loans, cheap loans, macroeconomic factors, microeconomic factors, interest rate, exact interest, ordinary interest, simple interest, regular interest, compound interest, spread, economic cycles.

12.1.Essence of loan (credit) interest

Loan interest is an economic category that represents the price of the loan for the time of value (real estate, goods, money, securities, etc.). In other words, the loan interest is a fee for the temporary use of a loan, which in this case acts as a commodity. Although the loan interest is related to the word "loan", in fact it is the interest on the loan, and the name "credit interest" would be more exact.

The creditor and the borrower act in the transaction as entrepreneurs who set the main goal of obtaining income (profit). The lender receives income in the form of loan interest on the loan. The borrower must receive income from the use of funds from credit in the production of goods or services. Part of this income the borrower gives to the lender in the form of a percentage.

Economic role. Loan interest plays a huge role in the economy. High loan interest means, by definition, a high price for lending money. In a developed market economy with a low level of inflation, this is a manifestation of the increased demand for money from economic agents. At the same time, expensive loans hamper GDP growth, inhibit the expansion of existing production facilities and the creation of new ones. The same sectors in which the rate of return is below the loan interest can be degraded, since they are deprived of the possibility of obtaining loans.

High loan interest serves as a market tool for treating the economy from "overheating" - GDP growth at too high rates, leading to sharp disproportions in the development of industries and spheres of the economy.

High loan interest in the open market of developed countries attracts capital to the country from countries with lower levels of loan interest. In accordance with the laws of a market economy, capital flows into a country with a higher rate of banking profit, determined by the value of the loan interest.

Low loan interest means cheap loans, cheap money, which is a manifestation of increased money supply in the credit market.

A low loan interest makes loans available to economic agents and contributes to economic growth. In conditions of low loan interest the population, receiving cheap loans, makes additional purchases and increases the demand for goods. Entrepreneurs, getting cheap loans, increase the production of goods and satisfy the increased demand for them. Contributes to GDP growth and increased business transactions among themselves to expand production.

The size of the loan interest in a market economy is determined by the market (demand and supply), the general state of the country's economy, gold and currency reserves, the state of the banking system, the level of accumulation of money and savings, the development of money and stock markets, international capital migration, credit policy of the state and other factors.

At the present time, in the world practice, a negative discount (refinance) rate is also applied (Sweden, Denmark, Japan, Switzerland).

12.2.Factors affecting credit interest

The underlying factors of interest are, first of all, the demand and supply of monetary resources. The importance of this factors is due to the essence of the interest as the price of loan capital, albeit peculiar, but of the commodity. And the main factor in the price of any product is the ratio of supply and demand. At the same time, economic evolution, the complication of economic life, the strengthening of the role of credit, globalization and integration led to the emergence of additional factors of loan interest. Some of them clarify the configuration between the demand and supply of money in a particular period and act not directly, but indirectly. Simultaneously, as the authors of interest theories proved in the twentieth century, lending interest began to reflect the influence not only of monetary factors, but also of factors born and operating outside the monetary sphere.

Consider the effect of the most significant factors of loan interest. These are macroeconomic factors and micro-level factors, i.e. level of a particular loan transaction.

Among the general factors of the level of interest are the following.

1. The ratio of demand and supply to monetary resources. The effect of this factor is the most powerful due to its concentrated reflection of the very essence of loan capital and loan interest.

2. Saturation of the national economy with monetary capital. Indicator of the provision of the economy with money is the level of monetization of the gross product, i.e. the ratio of money supply to GDP. This indicator characterizes the scale of the money supply as the material basis of the loan. 3. The level of national savings. This factor determines the impact on the loan interest on the supply side. It is savings that become financial intermediaries in lending resources to finance investment and economic growth. Consequently, a higher level of savings is a factor in the expansion of lending and indirectly - a factor in reducing the level of loan interest.

4. Degree of development of the financial market and its individual segments - money, stock, currency markets. In a broad sense, interest is understood as an alternative profitability of not only money, but also the yield of debt securities, foreign exchange investments. Therefore, the more developed financial markets and the more extensive and diverse the operations on them, the more fertile is the soil for adequate interest rates dynamics.

5. Globalization of the economy, the interdependence of international financial resources and flows, intercountry capital migration. These phenomena have become a striking feature of recent decades. Intensified economic relations mediated by interest - international financing, global emissions, state and corporate cross-border borrowings, accompanying foreign trade and international cooperation, etc. As a result of the active movement of capital, interest

rates in different regions and countries tend to gradually equalize.

6. The level of the exchange rate. Other things being equal, the use of externally depreciating currency in credit transactions leads to a rise in the cost of credit and an increase in the overall level of interest, and vice versa. Strengthening the currency relative to other currencies gives rise to the demand for operations with its use, increases the demand for credit and other debt financing, and, therefore, contributes to lower interest rates.

7. The level of inflation in the national economy. The percentage in the market varies depending on the inflation background. I. Fisher derived a well-known formula, named after him, describing the immutable relationship between the rate of inflation, nominal and real interest rates:

$$R = (R-i) / (1 + i),$$

where **r** is the real interest rate; **R** - nominal interest rate; **i** is the inflation index.

With a low level of inflation, the difference between nominal and real rates in economic calculations can be neglected. However, in most cases, economic agents must take into account the degree of inflationary depreciation of the value of any assets. So, banks establish a nominal interest rate in deposit agreements, which compensates for the inflationary losses of borrowers, and simultaneously establish nominal interest rates on loans, compensating for their losses. Similarly, when making economic decisions, all entrepreneurs enter, calculating the profitability of real and financial investments. Citizens also take into account the degree of inflation in assessing the appropriateness of investing funds in deposits, in securities, in applying for consumer loans, etc.

8. Cyclicity of the economy. Economic cycles are natural form of economic development. Observations of economic processes show the correspondence of low interest rates to the periods of revival and rise of business activity, growth of market conditions. During these periods, output is restored to previous levels, which generates demand for credit and lower rates. Further in the expansion stage, the economy continues

to grow to a new production high. In the cycles of growth and development, rates go up to a certain stable level, and the increase in rates accompanies the entry of the economy into a phase of recession, recession, depression and even the approach to the crisis, when business activity declines, employment and income levels fall. As a rule, in the course of credit crunch, the growth of interest rates is reproduced. The rates in these phases of the cycle reach a maximum, making it practically impossible for operations to use loan capital effectively and any actions in the financial market.

So, short-term and long-term interest rates are important indicators of the formation of economic trends. Based on the dynamics of interest, it is possible to forecast changes in the national economy. Official interest rates (for example, Central Bank rates) are coinciding with the main course of the cycle indicators, and the average interest rates of banks that focus on official rates are lagging indicators.

9. Interest policy of Central Banks as part of a single state monetary policy. The function of state regulation of the monetary sphere is reassigned, delegated to Central Banks in order to maintain the conditions for the successful functioning of the national economy. In particular, Central Banks, using the right to establish and change key rates, affect the operations of banks, and through them, ultimately, the production sector. The change by the Central Bank of a key rate, the conduct of operations in the interest rate corridor, affect the decisions of banks to expand or restrict lending. The rates of Central Banks are taken into account when establishing rates on the interbank loans market, determine the profitability of state and corporate securities.

10. State financial policy. This factor affects the formation of loan interest, understood in a broad sense. For example, the emergence of tension in the state budget leads to the need for borrowing to cover its deficit. This directly affects the level of interest on government debt. At the same time, this will affect the level of profitability of corporate borrowings in the form of bonds, bills of exchange, and the level of interest rates on loans to enterprises. After all, investors and creditors compare the possibilities of obtaining profitability for different assets.

Therefore, the growth of public debt diverts resources from the real sector, leading to an increase in rates on the loan capital market.

The micro-level factors are determine the level of loan interest. These factors are most clearly and clearly manifested in bank lending. In their activities, specific banks take into account the macroeconomic factors described above-the state of the credit market, inflation rates, competitors' rates, the requirements of the supervisory authority, etc. Since the bank is an intermediary and lends mainly not its own funds, but attracted funds, it is obliged to pursue a balanced interest policy, optimizing the rates for attracting and placing funds (that is, in effect, deposit and loan interest).

At the private level, the loan interest, broadly defined at the macro level, is specified depending on the specifics of the specific loan agreement. The specific level of loan interest is organically included in the complex of financial and price parameters of a separate transaction. At the heart of loan interest are the following factors:

- ❖ the status, commercial reputation and financial position of the borrower;
- ❖ borrower's creditworthiness;
- ❖ borrower's credit history;
- ❖ amount and term of the loan contract;
- ❖ the purpose of the loan;
- ❖ risk of a loan transaction;
- ❖ average interest rates of the attraction of resources;
- ❖ the nature and quality of collateral;
- ❖ availability of insurance coverage, guarantees and guarantees for the loan;
- ❖ unconditional obligations of the borrower to use the loan within the agreed time;
- ❖ availability of competitive offers from other borrowers, etc.

12.3.Method of calculating loan interest

The modern mechanism of using loan interest is characterized by the following:

1. The level of interest, the procedure for its calculation and collection is determined by the agreement between the participants of the credit transaction, taking into account the demand and supply of credit resources (with the exception of the accounting interest).

2. Administrative management of the court interest from the Central Bank is replaced by the use of economic methods to regulate its level.

The basis, to which the percentage at the macroeconomic level seeks, is the average rate of profit in the household. When determining the rate of interest in each specific transaction, commercial banks take into account:

- the level of the basic interest rate (the interest rate of lending to highly creditworthy clients of the bank on secured loans);
- the level of the risk premium (spread).

In the banking practice of different countries different methods of calculating interest are used.

They differ in the nature of measuring the number of days a loan is used and the length of a year in days.

1. Exact interest with the actual number of loan days (English practice). The year is taken equal to 365 or 366 days, i.e. the actual duration and the exact number of days of the loan is used for the calculation. This method gives the most accurate results.

2. Regular interest with an exact number of loan days (French practice). A year is taken equal to 360 days, the loan term is measured by the exact number of days. This method gives the largest amount of accrued interest compared to others.

3. Ordinary interest with an approximate number of loan days (German practice). The year is taken equal to 360 days, when calculating the loan days, the duration of the month is taken equal to 30 days. This method, most often, gives the smallest amount of accrued interest.

When calculating interest for using the loan value, a simple and compound interest method is used.

Simple interest. The interest is calculated on a permanent basis (the original amount of the loaned value). This method of calculating interest is used, as a rule, with short-term lending.

Compound interest. This method of calculating interest is applied to long-term loans, when, after the accrual period, a new accrual of interest is made on an accrual basis.

In Uzbekistan the interest rate for the use of loans is established by mutual agreement between the borrower and the bank on the basis of the loan agreement.

Banks have the right to independently determine, on contractual terms with customers, the size of interest rates, commissions, frequency and terms of payments on assets and liabilities.

When calculating interest accrued on Friday, usually should be taken into account 3 days - for calculating interest on Friday, Saturday and Sunday.

If the current month ends on Friday or Saturday, the charge will be made accordingly in one day or two days. The remaining day (s) at the end of the week will be charged on the first working day of the next month. If the current day ends on Saturday, the last charge for the month will be reflected on Friday for two days (Friday and Saturday). Then, next Monday, the charge will be made for the next two days - Sunday and Monday. For holidays, a similar process will be applied[20].

Interest charged and recorded for each month must accurately reflect the interest expense incurred by the bank for that month. Transfer of any part of the accrued interest relating to the reporting period for the next period is not allowed.

Interest on loans is usually calculated on a daily basis, based on an annual base period of 365 days.

Interest on loans is calculated by the following formula:

$$\frac{\text{Debt outstanding x interest rate x actual quantity of days}}{365}$$

In the conditions of inflation when determining the interest rate, it is necessary to take into account the inflation rate.

[20] "Тижорат банкларида фоизларни хисоблаш тўғрисида" ги Низом (Regulation On the accrual of interest in commercial banks), registered by the Ministry of Justice on January 30, 2004, No. 1306

QUESTIONS

1. What is the cost of a loan? What is the real interest rate?
3. What is the nominal interest rate?
4. What factors influence the cost of a loan?
5. How are interest accrued on loans in Uzbekistan?
6. What are the methods for calculating interest on loans?

MODULE 3. BANKS

CHAPTER 13. THE EMERGENCE OF BANKS AND THE BANKING SYSTEM

13.1. The origin and essence of banks.
13.2. Goals and objectives of banks.
13.3. Banking system. Stages of development of the banking system.

Key words: banks, Bank of Genoa, goals of banks, objectives of banks, principles of commercial bank, emission bank, banking system, types of banking systems, structure of banking system, formation of banking system of the Republic of Uzbekistan.

13.1.The origin and essence of banks

The history of banking begins from the 7th century BC. It is generally believed that there already existed money lenders in Babylon. And even the first bank cards - hudu, which had circulation on a par with gold.

It is known that in ancient Greece there were money changers - trapezites. They exchanged coins and took money for storage. Also there the first non-cash payments were made by charging and debiting funds on customers' accounts. That is, the first settlement and cash services were conducted. In addition, the ancient Greek temples provided loans from those savings that were stored in them.

Already in the II century BC in a number of megacities, such as Thebes, Germontis, Memphis and Siena, there were so-called tsarist banks, where the accumulation of funds from tax collection, income from state enterprises. And money was spent for public needs, for example, payment of salaries to soldiers.

In ancient Rome, banking activities were carried out by "Mensarii" and "Argentarii". The first specialized in the exchange of coins. The second - on raising funds and issuing loans, as well as money transfers between cities.

In the Middle Ages, the demand for bankers' services grew significantly: in circulation there were a lot of different coins that needed to be changed for trading. Then the word "bank" arose, from the name of the shop on which the money changers were sitting. "Banco" in Italian means "bench". And already at that time, the bankers were engaged not only in exchange, but also in keeping accounts of customers, as well as with non-cash payments.

Banking activity arose with the advent of capital, which brought in revenue. The development of banking activity was carried out on the basis of usurious capital, which contributed to the disintegration of the primitive communal system.

One of the first banks in the modern understanding of this institution was the Bank of Genoa, created in 1407. Institutions that have the features of banks, appeared in shopping centers - the Netherlands, Germany. Following the money changers who exchanged money and accepted them for safekeeping, a profession of bankers arose. They initially differed from the change in that along with participation in payments began to lend money. Thus, the origins of modern banking can be seen in the activities of banks in antiquity and changed in the Middle Ages.

In Western Europe, the transition to credit bank houses and commercial banks occurred in the second half of the XVII century. In England in 1664, the Bank of England was established, which actively carried out lending to trade and industry turnover.

The development of banking in America begins in the second half of the 18th century, with the private colonial loan offices performing the functions of granting loans secured by land and issuing paper money. The first commercial bank in America, which received a document for banking operations, was the Bank of North America, formed in Philadelphia in 1781. By 1800, there were 19 commercial banks in America, and in 1820 – 300 banks.

With the increase in production and circulation, the role of banks in all countries has increased. There appeared free monetary resources, which accumulated and were directed in the form of loans to industrial and commercial enterprises. The development of commodity-money circulation in all branches of the economy determined the growth of bank capital. To the original function of banks - money trading, a new function has been added - the management of the capital that generates income. Banks as collectors of capital began to serve the entire production process and had the opportunity to influence it.

Today, banks are engaged in various types of activities and fulfill a number of important tasks and functions assigned to them by the state. They not only organize money circulation and credit relations. They finance the national economy, regulate the economy, buy and sell securities, etc. Modern credit institutions not only conduct loans to their clients and perform intermediary functions, but also consult, conduct statistics, insurance, take part in the discussion of legislative and economic programs, and also have their subsidiary enterprises.

A modern bank is a legal entity that has the exclusive right to carry out in aggregate banking operations, which are based on raising funds in deposits and placing them in active operations on its own behalf and at its own expense. Modern banking activity is connected with mobilization, movement and distribution of loan capitals. At its core, the bank is primarily an enterprise that produces a specific product. However, the bank differs from traditional forms of enterprises in a number of principled positions.

The bank as a specific enterprise produces a product that is substantially different from the product of the sphere of material production. It produces not just goods, but goods of a special kind in the form of money, payment means. In addition to this product, banks also provide various kinds of services of primarily monetary nature. The main product of the bank in the service sector (as opposed to the industrial enterprise) is not the production of things, consumer goods, but the provision of credit. The peculiarity of bank credit is that it is not provided as a certain amount of money, but as capital. This means that lent money is not just a matter of circling the borrower's household, but also returning to its original legal point in increments in the form of loan interest as part of the newly created value. The bank differs from the industrial enterprise with the nature of its issuance. The bank not only issues shares and other securities, but also performs operations to record and store securities of other issuers. The bank has a special staff - mostly employees who are not engaged in manual labor, but are engaged in processing information, organizing accounting, conducting cash transactions, and so on.

13.2.Goals and objectives of banks

The goal of any commercial bank is to obtain maximum profit with minimal risks.

The set of the foundations by which business entities are guided in the process of activity are called principles.

Commercial banks are legal entities. They act on the basis of an approved charter, which defines the tasks and functions of the bank. The goal of all commercial banks is the same - profit.

The main tasks of commercial banks include:

- ❖ attraction of funds of economic entities and individuals;
- ❖ placement of funds in bank account and lending;
- ❖ cash services for businesses and individuals;
- ❖ organization of non-cash payments;
- ❖ assistance in the implementation of the results of scientific and technological progress;
- ❖ implementation of leasing, factoring operations;
- ❖ effective circulation of securities.

Functions performed by commercial banks:

- ❖ one of the important functions is the redistribution of funds temporarily released in the process of circulation of enterprise funds and personal income;
- ❖ stimulation of savings by business entities. It means that the accumulation, and not the use of investments in the form of loans, should constitute the main part of the funds necessary for the economic development of the economic entity;
- ❖ mediation in payments between individual independent economic entities by means of correspondent accounts;

- provision of confidential and consulting services to business entities and individuals, bail;
- participation in the circulation of securities - operations with shares, discounting of bills, loan under a bill, operations with other bank papers.

13.3.Banking system. Stages of development of the banking system

The country's banking system is a set of different types of national banks, banking institutions and credit institutions operating on the basis of the country's overall monetary and credit mechanism in a certain period.

The banking system is a complex of organizations that perform the functions of a bank, but differ in the form of ownership (private, joint-stock, etc.), in the direction of specialization (domestic or foreign trade, servicing legal or individuals, etc.), on other attributes (community, city, interstate).

Taking into account the world experience, two types of banking systems are distinguished:

1) centralized banking system;

2) banking system of a market type.

Centralized banking system. This type of banking system was characteristic of the USSR and other socialist countries. The banking system of the USSR included three state-owned banks - State Bank, Construction Bank, Foreign Trade Bank.

In addition to issuing and settlement-cash activities, the State Bank of the USSR performed the functions of lending to various branches of the national economy (providing short-term loans to industry, transport, communications, and long-term loans to agriculture). Construction Bank carried out long-term crediting and financing of capital investments in various branches of a national economy (except for agriculture). Foreign Trade Bank conducted foreign trade lending, was engaged in international settlements, operations with foreign currency, gold and precious metals.

The monopoly of the three state-owned banks led to the fact that loans often performed the role of the second budget. In these conditions, the potential of the credit mechanism was not used, nor was it possible to pursue an active monetary policy with those instruments that are known in countries with market economies.

Banking system of market type. In most developed countries, a banking system of a market type operates. This is usually a two-tier banking system. The first level of the banking system is the Central Bank of the country. The second level of the banking system is the credit organizations (banks and non-bank credit organizations) of various types.

The structure of the banking system of the Republic of Uzbekistan has the following form:

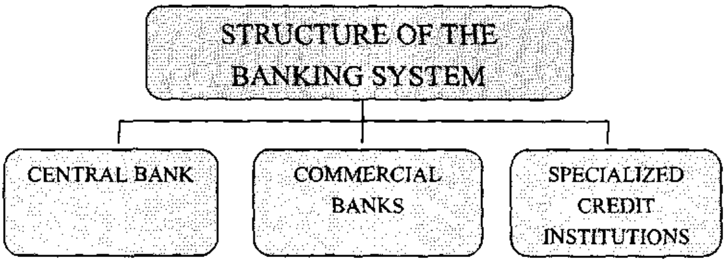

Figure 1. Structure of the banking system of Uzbekistan

The banks of Uzbekistan had to go through a long evolutionary path of development, overcome some of the complexities to become today a powerful system that affects the national economy.

1991 marked the beginning of the formation of a number of banks, which, acting in changed conditions of development of Uzbekistan's economy, gradually acquired new features, mastering modern methods of work. 1991-1992 became a turning point in the views on banking. The adoption of the Law of the Republic of Uzbekistan "On Banks and Banking Activities" was the basis for the formation of a two-tier banking system and the creation of a Central Bank of the country with the imposition of new functions on it.

In 1993-1994, reforms in the banking sector continue. The introduction into circulation since July 1, 1994 of the national currency -

soum became an important milestone in the formation of an independent banking system and in the development of the economy of Uzbekistan as a whole.

1995 is characterized by the improvement of banking legislation. The historically important law "On the Central Bank of the Republic of Uzbekistan" not only supplemented the legal framework of the banking system, but also clearly defined the new, special status and powers of the Central Bank of the Republic of Uzbekistan, defining its primary goals and objectives.

The Law of the Republic of Uzbekistan "On Banks and Banking Activities", adopted in 1996, specified the legal aspects of the activities of the second level of the banking structure - commercial banks. Characteristic for this period was the creation of credit and financial institutions that serve certain sectors of the economy.

One of the strategic directions of reforms is the encouragement of the inflow of private capital into the banking sector.

This process became more active after the publication in 1997 of the Decree of the President of the Republic of Uzbekistan "On measures to stimulate the creation of private commercial banks". It provided for the provision of privileges for the opening of banks with a share of capital of individuals not less than 50%.

By 1998, the country's banks are gaining strength that they can work in accordance with Basel's recommendations.

In 2002, under the Law of the Republic of Uzbekistan "On Guarantees for the Protection of Deposits of Citizens in Banks", the Guarantee Fund for Deposits of Citizens in Banks was founded, whose members, in addition to the "Xalq Bank" (People's Bank), became all commercial banks that carry out their activities on the territory of the republic of Uzbekistan. Reliability, high quality of service, partnership with customers become the main principles in the work of banks in Uzbekistan[21].

Commercial banks of Uzbekistan have been advocating, first of

[21] www.cbu.uz - based on information from the official website of the Central Bank of the Republic of Uzbekistan

all, as specific credit institutions, which, on the one hand, attract temporarily free funds of the economy, and on the other hand they satisfy the financial needs of enterprises, private entrepreneurship and of the population.

In recent years, in the country, as well as in the world banking practice as a whole, international and domestic experts note the presence of the main trend - the withdrawal from specialization and the deepening of the universalization of banking activity. This predetermines the very content of the operations of the bank and the essence of credit relations.

QUESTIONS

1. Where and how did the first banks appear?
2. What is a bank?
3. What operations were carried out by banks?
4. What is the purpose and objectives of banks?
5. How did the banking system of the Republic of Uzbekistan arise?
6. What important events were in the history of the development of the banking system of Uzbekistan?

CHAPTER 14. CENTRAL BANKS AND THEIR FUNCTIONS

14.1. The emergence and forms of organization of Central Banks.
14.2. Legal basis, purpose, functions of the Central Bank of the Republic of Uzbekistan.
14.3. The main tasks of the Central Bank of the Republic of Uzbekistan, its relationship with the state.

Key words: Central Banks, emission, Riksbank, goal of bank, legal basis, regulatory function, control function, servicing function, accountability, forbidden activities, types of monetary policy, main instruments of monetary policy, objectives of Central Bank of Uzbekistan.

14.1.The emergence and forms of organization of Central Banks

Central Banks emerged as commercial banks with the right to issue of banknotes. Despite the fact that the first bank issuing the emission was the Bank of Stockholm (in 1650 he issued deposit certificates for gold coins that were issued to the bearer and applied equally with other types of money throughout the Kingdom of Sweden)[22]. The Bank of England, created in 1694, is considered to be the first issuing bank, since it began to issue banknotes and take into account commercial bills. Subsequently, in addition to issuing banknotes, the role of the treasurer of the state, the intermediary between the state and commercial banks, the conductor of the monetary and credit policy of the state, was entrusted to the Central Banks. Being commercial banks, Central Banks have been nationalized, and at present the capital of Central Banks is fully or partially owned by the state.

The creation of the central issuing bank was due to the processes of concentration and centralization of capital, the transition to unified national monetary systems.

The main link in the banking system of any state is the Central Bank of the country. In different countries, such banks are called differently: people's, state, emissive, reserve, Federal Reserve System (USA), Bank of England, Bank of Japan, Bank of Italy, etc.

The idea of the Central Bank was born in the conditions of relatively developed market relations, when it had a historical and economic need, when it became clear that the further development of the market in general and the financial market in particular, without the Central Bank as an organ of state control and supervision, is fraught with unreasonable losses. In most Western countries, the functions of the Central Bank were assigned to certain banks from the mid-19th to the 20th century. Thus, the Bank of France became a single issuing center as far back as 1848, the Bank of Spain - since 1874, the Federal Reserve System of the United States - since 1913.

According to historians, the first Central Bank in the world was Riksbank - the Central Bank of Sweden (1668).

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[22] A.Omonov, T.Koraliev. Пул ва банклар. Textbook. - T.: "Iqtisod-Moliya", 2018. – 209 p.

14.2.Legal basis, purpose, functions of the Central Bank of the Republic of Uzbekistan

In terms of significance, all functions of the Central Bank are divided into basic and additional.

The main functions are carried out by all without exception Central Banks and are divided into regulatory, control and servicing[23].

Regulatory functions include: development and implementation of monetary policy. Its nature depends on the degree of independence of the Central Bank from the government. For example, the targets for changing aggregates of the money supply are usually determined directly by Central Banks. At the same time, no Central Bank can independently establish a particular currency regime without the participation of the state.

1. The development of monetary policy includes:

❖ determination of directions for the development of monetary policy; choice of the main instruments of monetary policy;

❖ creation and maintenance of a statistical database on the money supply, loans and savings;

❖ carrying out of researches on problems of economy and monetary and credit sphere of the given country and other states;

❖ streamline monetary programs and monitor their implementation.

2. Regulation of demand and supply for credit and foreign currency is carried out through the implementation of intervention operations in the money and currency markets. In order to deter credit expansion, Central Banks are taking measures to reduce the liquidity level of credit and banking institutions, and opposite measures are being taken to expand credit expansion. Intervention operations in the foreign exchange market have a similar nature.

Control functions include: the control over the functioning of the credit and banking system is due to the need to maintain its stability for confidence in the national monetary unit. The following forms of this

[23] Lavrushin O.I. Деньги, кредит, банки. Textbook - M.: "КНОРУС", 2013. – 228 p.

function are possible:

- ❖ supervision is carried out directly by the Central Banks;
- ❖ supervisors are separated from the Central Bank, but it is associated with them, taking part in their activities or doing advisory services (Belgium, Germany, Switzerland and Japan);
- ❖ the Central Bank monitors the activities of credit and banking institutions jointly with other institutions (the Federal Reserve Bank of the Senate exercises supervisory activities in conjunction with the Federal Deposit Insurance Corporation, the Currency Controller Service, the authorized state bodies).

Currency control. The degree of rigidity depends primarily on the overall monetary and economic situation of the country. Thus, in developing countries, control is usually subject to a very wide range of operations for external payments and settlements, more developed are on the path of liberalization of foreign exchange control.

Service functions:

1. Organization of payment and settlement relations of commercial banks: issuance of paper money notes, organization of non-cash settlements. Central Banks can be direct participants of payment systems or confine their control over their activities.

2. Crediting of credit and banking institutions and government. As a lender of last resort, Central Banks lend money to a credit institution with temporary shortcomings in financial resources. By lending to the government, Central Banks finance public debt and the state budget deficit. This is particularly widely used in developing countries in which Central Bank loans to the government constitute a significant part of their assets. On the contrary, developed countries avoid such practices. In this regard, this function currently does not refer to the basic, but to the additional.

3. The Central Bank fulfills the role of financial agent of the government - managing government accounts and managing the assets of various government departments. In some countries, for example in USA, Central Banks perform this function in conjunction with commercial banks. In other states, for example in Italy, Central Banks

are practically accountants of state institutions.

Additional functions of the Central Bank are not directly related to its main task (keeping the stability of the national monetary unit), but contribute to its implementation.

These functions include:

- ❖ management of public debt;
- ❖ conducting analytical studies and maintaining a statistical database. This function can be very different and is equivalent in the Central Banks of different countries:

A) delegation to the Central Bank of the collection and analysis of balance of payments data (Belgium, Germany, France, Netherlands, Japan)

B) study of the economic situation in the real sector of the economy, publication of their detailed results (Federal Reserve Banks of the United States, Bank of Japan, National Bank of Belgium, German Federal Bank, Bank of France, Bank of England and others).

C) study the financial situation of enterprises and establish centralized banking risk services (National Bank of Belgium, German Federal Bank, Bank of France, Bank of Italy, Bank of Spain). In addition, Central Banks of Germany, Belgium, Spain, Italy have centralized databases of company balances.

Issuance of banknotes and ensuring their circulation on the territory of the country.

Communication with non-bank customers and provision of public services. Central Banks maintain correspondent relations with the financial institutions of their country, other Central Banks and international financial organizations. However, commercial relations with non-bank clientele are always secondary.

Central Banks can provide a certain set of services for collective use - the creation of centralized services for banking risks, control of unpaid bills, etc.

The legal status, tasks, functions, powers, principles of organization and activity of the Central Bank are determined by the Constitution of the Republic of Uzbekistan, the Law of the Republic of

Uzbekistan "On the Central Bank", and other legislative acts.

The Central Bank is a legal entity and is exclusively owned by the state.

The Central Bank is an economically independent institution that realizes its expenses at the expense of its own revenues.

The main goal of the Central Bank is to ensure the stability of the national currency.

The Central Bank is accountable to the Senate of the Oliy Majlis of the Republic of Uzbekistan. The Senate of the Oliy Majlis appoints and dismisses the Chairman of the Board of the Central Bank from the position on the proposal of the President of the Republic of Uzbekistan, and considers the annual report, as well as the auditor's conclusion.

The Central Bank is a single centralized management system. In order to fulfill its tasks, the Central Bank creates the appropriate services and institutions. In the capital of the Republic of Karakalpakstan, regional centers and the city of Tashkent, the Central Bank establishes the main departments that do not have the status of a legal entity. The services and institutions of the Central Bank operate on the basis of provisions approved by the Board of the Central Bank.

The amount of the authorized capital of the Central Bank is one trillion soums.

The highest authority of the Central Bank is its Board. The Board determines the main directions of the policy and activities of the Central Bank, manages the bank. The board consists of eleven people. The Board consists of the Chairman of the Central Bank, his deputies, as well as the heads of the main divisions of the bank.

The Central Bank acts as a banker, adviser and fiscal agent of the Government of the Republic of Uzbekistan[24].

14.3.The main tasks of the Central Bank of the Republic of Uzbekistan, its relationship with the state

The main tasks of the Central Bank of the Republic of Uzbekistan

[24] "Ўзбекистон Республикасининг Марказий банки тўғрисида" ги Қонуни (Law of the Republic of Uzbekistan On the Central Bank), new edition, November 11, 2019

are stipulated in the Law of the Republic of Uzbekistan "On the Central Bank." According to this article, some of the main tasks of the Central Bank are:

1. FORMATION, ADOPTION AND IMPLEMENTATION OF MONETARY POLICY AND POLICY IN THE FIELD OF CURRENCY REGULATION
2. ORGANIZATION AND PROVISION OF AN EFFECTIVE SETTLEMENT SYSTEM IN THE REPUBLIC OF UZBEKISTAN
3. LICENSING AND REGULATION OF BANKING ACTIVITIES, ACTIVITIES OF MICROCREDIT ORGANIZATIONS, PAWNSHOPS, CURRENCY EXCHANGE AND CREDIT BUREAUS, SUPERVISION OF BANKS, MICROCREDIT ORGANIZATIONS, PAWNSHOPS, CURRENCY EXCHANGE AND CREDIT BUREAUS, LICENSING OF THE PRODUCTION OF SECURITIES FORMS
4. STORAGE AND MANAGEMENT OF THE OFFICIAL GOLD AND CURRENCY RESERVES OF THE REPUBLIC OF UZBEKISTAN, INCLUDING THE RESERVES OF THE GOVERNMENT UNDER THE AGREEMENT
5. ORGANIZATION OF CASH EXECUTION OF THE STATE BUDGET JOINTLY WITH THE MINISTRY OF FINANCE

Figure 2. Some of the main tasks of the Central Bank of Uzbekistan

According to Article 3 of the Law of the Republic of Uzbekistan "On the Central Bank", the Central Bank is independent in making decisions within its powers.

The Central Bank does not have the right to:

- ❖ provide financial assistance;
- ❖ carry out commercial activities;
- ❖ issue guarantees for the obligations of third parties, including the Government of the Republic of Uzbekistan;
- ❖ participate in the capital of banks and other legal entities, with the exception of participation in the capital of the People's Bank of the Republic of Uzbekistan, the joint-stock commercial bank "Microcreditbank", the currency exchange, as well as enterprises and organizations that support the activities of the Central Bank";
- ❖ the Central Bank does not provide loans or financial assistance to the Government of the Republic of Uzbekistan, other state

bodies and organizations, including financing the deficit of the State budget of the Republic of Uzbekistan[25].

The Central Bank independently sets interest rates for its operations.

Monetary policy is a policy of the state, affecting the amount of money in circulation with the aim of ensuring price stability, full employment of the population and growth in real production. The Central Bank carries out monetary policy.

The impact on macroeconomic processes (inflation, economic growth, unemployment) is realized through monetary regulation.

Usually, the monetary policy of the Central Bank is aimed at achieving and maintaining financial stabilization, primarily strengthening the national currency and ensuring the stability of the country's balance of payments.

Monetary regulation is the aggregate of specific measures of the Central Bank aimed at changing the amount of money in circulation, the volume of loans, the level of interest rates and other indicators of money circulation and the market of loan capitals.

Monetary policy is an integral part of a single state economic policy. State economic policy should provide for measures to solve problems in each block. The Central Bank fulfills its part - monetary policy, it is responsible for its conduct.

The role of monetary policy in the development of the economy is to achieve the maximum possible equilibrium of the money market, i.e. maintain a balance between the amount of money in circulation and the need for them.

Types of monetary policies:

- ❖ Hard - is aimed at maintaining a certain size of the money supply.
- ❖ Flexible - is aimed at regulating the interest rate.

The following types of monetary policies also differ.

- ❖ Stimulating - is held during the recession and aims to "cheer

[25] "Ўзбекистон Республикасининг Марказий банки тўғрисида" ги Қонуни (Law of the Republic of Uzbekistan On the Central Bank), new edition, November 11, 2019

up" the economy, stimulating business growth in order to combat unemployment.

- Restraining - conducted during the boom and aimed at reducing business activity in order to combat inflation.

The stimulating monetary policy consists in carrying out by the Central Bank measures to increase the supply of money. Its tools are:

- reduction in reserve requirements
- decrease in refinance (discount) rate of interest
- purchase of government securities by the Central Bank.

Restraining (restrictive) monetary policy consists in using the Central Bank to take measures to reduce the supply of money. These include:

- increase in reserve requirements
- increase in the refinance (discount) rate of interest
- sale of government securities by the Central Bank.

Monetary policy methods are a set of techniques and operations through which monetary entities influence objects to achieve their goals.

Direct methods are administrative measures in the form of various directives of the Central Bank concerning the amount of money supply and the price in the financial market. Limits to the growth of lending or the attraction of deposits are examples of quantitative control. Realization of these methods gives the fastest economic effect from the point of view of the Central Bank for the maximum volume or price of deposits and credits, for quantitative and qualitative variables of monetary policy. When using direct methods, the time lags are reduced. Temporary lags are a certain period of time between the time when there is a need to apply a measure in the sphere of monetary policy and to realize this need, as well as between awareness of need, development of opinion and the beginning of implementation.

Indirect methods of regulating monetary policy affect the motivation of behavior of economic entities through market mechanisms, have a large time lag, the consequences of their application are less predictable than using direct methods. However, their application does not lead to deformations of the market. Accordingly, the use of indirect methods is directly related to the degree of development of the money market. The transition to indirect methods is typical for the global liberalization process, increasing the degree of independence of Central Banks.

The main instruments of the monetary policy of the Central Bank are:

- ❖ establishment of minimum reserve requirements;
- ❖ regulation of the official refinance (discount) rate;
- ❖ open market operations[26].

The first instrument of monetary policy is the change in the norm of mandatory reserves (or the reserve requirements ratio). Recall that mandatory reserves represent part of deposits of commercial banks, which they must keep either in the form of interest-free deposits in the Central Bank (if the country has a reserve banking system) or in cash. The amount of mandatory reserves is determined in accordance with the norm of mandatory reserves, which is set as a percentage of the total amount of deposits and can be calculated using the formula:

$R = D \times rr$,

where R - the amount of mandatory reserves, D - total deposits, rr - the norm of mandatory reserves (in percents). For each type of deposits (on demand, saving, time), there is a set reserve requirement, and the higher the degree of liquidity of the deposit, the higher this rate, for example, for demand deposits, the required reserves ratio is higher than for time deposits.

If the Central Bank raises the norm of mandatory reserves, then the money supply is reduced.

The second instrument of monetary policy is the regulation of the refinance rate (discount rate). The refinance (discount) rate of interest is the interest rate at which the Central Bank lends to commercial banks. Commercial banks resort to loans from the Central Bank, if they suddenly encounter the need to urgently replenish reserves or to exit from a difficult financial situation. In the latter case, the Central Bank

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[26] www.cbu.uz - based on information from the official website of the Central Bank of the Republic of Uzbekistan

acts as the lender of last resort.

The money received on loan from the Central Bank (through the "discount window") at the discount rate represents additional reserves of commercial banks, the basis for a multiplicative increase in the money supply.

Therefore, by changing the discount rate, the Central Bank can influence the supply of money.

The most important and efficient means of controlling the money supply are open market operations. Operations in the open market are the purchase and sale by the Central Bank of government securities in secondary securities markets. (The activity of the Central Bank in primary securities markets is generally prohibited by law.) The object of operations on the open market is primarily: 1) short-term government bonds and 2) treasury bills.

The difference between government bonds and Treasury bills is that bonds yield interest as a percentage, and the yield on treasury bills is the difference between the price at which the Central Bank sells securities, pledging to redeem them after a certain period, and more the high, determined at the time of sale, at the cost of a redemption, i.e. this is essentially a capital gain.

The purchase of securities by the Central Bank is used as a means of promptly influencing the economic situation during the recession. If the economy is "overheated", the Central Bank sells government securities on the open market.

QUESTIONS

1. Where and how did the first central banks established?

2. What are the differences between a central bank and commercial banks?

3. What are the functions of central banks?

4. What is the purpose and objectives of central banks?

5. What tasks are defined for the Central Bank in accordance with the Law "On the Central Bank of the Republic of Uzbekistan"?

CHAPTER 15. ACTIVE AND PASSIVE OPERATIONS OF THE CENTRAL BANK

15.1. Features of operations of the Central Bank.
15.2. Passive operations of the Central Bank.
15.3. Active operations of the Central Bank.

Key words: active operations, passive operations, issue of banknotes, liabilities, assets, owner's equity, balance sheet, specific clientele, debt securities, chattered capital, refinance rate, government securities, fixed assets, investment in securities, gold and currency reserves.

15.1.Features of operations of the Central Bank

Central Banks in the course of their activities carry out operations - active and passive, provide services to their customers.

The specific features of the operations of Central Banks are manifested in three directions:

- ❖ firstly, Central Banks have the monopoly right to issue banknotes;
- ❖ secondly, Central Banks serve a specific clientele. Clients of Central Banks based on their main activities are mainly commercial banks and government structures (treasuries, ministries of finance). Laws that regulate the activities of Central Banks, as a rule, prohibit them from carrying out commercial activities, in particular, to service the economic clientele (non-financial institutions, enterprises, organizations, the population). This restriction results from the appointment of a Central Bank. In addition, it protects commercial banks from competition from a stronger participant in the money market - the central issuing bank, which, firstly, as an issuing bank, has special opportunities for forming its resource base; secondly, how the regulatory and supervisory body owns a confidential information on the activities of commercial banks;
- ❖ thirdly, for Central Banks, unlike commercial banks, making

profits is not the purpose of posting transactions.

The Central Bank performs its functions through conducting operations. The structure and volume of operations conducted by the Central Bank are determined by the goals and objectives of monetary policy and are reflected in its balance sheet.

The balance of the Central Bank consists of two parts: liabilities and assets. The liabilities of the bank are reflected in the passive part of the balance sheet; sources of the formation of its resources. In the active part - its requirements, characterizing the composition, placement and use of resources at the disposal of the bank.

There are passive operations of the Central Bank - operations for raising funds and aimed at increasing reserves and active operations for the placement of funds.

15.2.Passive operations of the Central Bank

Passive operations of Central Banks include:

- issue of banknotes;
- taking deposits from commercial banks and the government;
- obtaining loans from international financial and credit organizations or other Central Banks;
- issue of own debt securities (bonds, bills of exchange, certificates of deposit;
- operations on formation of own capital and reserves.

Performing the function of monopoly emission of banknotes, the Central Bank for the increase of money supply carries out the issue of banknotes. This operation accounts for the bulk of the passive operations of the Central Bank, about 60%. The Central Bank issues banknotes, which become the basis for increasing the circulation of money in the country, both in cash, banknotes, and non-cash. Non-cash money is based on cash, they can only increase as a result of the effect of multiplication. Therefore, when issuing banknotes, the Central Bank determines the need for funds, and then releases them. This need is dictated by the demand for money from commercial banks and the government.

Deposits of credit institutions, governments and foreign banks are the second operation to raise funds by the Central Bank. In accordance with the functions of "bank of banks" and "government bank", the Central Bank conducts the settlements both of banks and of the government, for which accounts are opened. In addition, the bank opens other accounts for commercial banks, which store the reserves of banks, as a rule, these are interest-free accounts. Central Banks accept money for interest-bearing time deposits, although the term is quite small - up to one month, but, nevertheless, this leads to an increase in cash in the Central Bank. Adoption of temporarily free money of commercial banks in deposits is necessary for the operational placement of funds of commercial banks and the receipt of a certain income. Simultaneously, deposit operations can reduce the "pressure" on the exchange rate from commercial banks. In addition, the Central Bank attracts funds from foreign banks that have correspondent accounts with the Central Bank for settlements.

Leading on the importance of a passive operation is the formation of capital and reserves. Own capital, despite a small share in the passive operations (about 10%) of the bank is the basis of its existence. It consists of two parts of the authorized capital and reserves. As a rule, the authorized capital of a bank is not large. This is an initial contribution of either shareholders or the state, which is necessary to start the work of the bank. For example, in Uzbekistan the authorized capital of the Central Bank is 1 trillion soums[27]. The increase in this part of the capital takes place either by issuing additional shares (if the Central Bank is a joint-stock bank) or by additional state contributions (if the bank is a state bank). Subsequently, the Central Bank expands its own capital by forming reserves from profit. Despite the fact that the Central Bank's goal is not to make a profit, nevertheless the Central Bank periodically makes profits when conducting operations. The laws on Central Banks indicate that they can only pay their expenses at the expense of their

[27] "Ўзбекистон Республикасининг Марказий банки тўғрисида" ги Конуни (Law of the Republic of Uzbekistan On the Central Bank), new edition, November 11, 2019

income. Part of this profit is directed into reserves for those cases when, as a result of carrying out its operations, the bank will prove to be unprofitable. The formation of such reserves leads to the fact that they are several times greater than the authorized capital of the bank.

Another passive operation for banks is issuance of debt obligations (securities). Central Banks of the West do not issue securities. This is due to the fact that there is a more reliable channel for raising funds - issuance of banknotes, so at any time when additional funds are needed, the Central Bank will issue banknotes and be able to finance commercial banks and the government.

15.3.Active operations of the Central Bank

The main active operations of Central Banks include: 1. Accounting and loan operations; 2. Investments in securities; 3. Operations with gold and foreign currency.

Accounting and loan operations are divided into loans (issuance of a loan) and accounting (operations for the discounting of bills). Credit operations involve the issuance of a loan by the Central Bank to its main customers - commercial banks and the state. In the first case, they are issued on a short-term basis under collateral for securities and other assets. The largest share of such loans is accounted for by Lombard loans provided on the pledge of government securities.

However, speaking about lending, it is worth noting that direct government lending in many countries is limited (FRG, France, the Netherlands) or prohibited by law (USA, Canada, Japan, UK), so Central Banks do not provide loans to the government in the classical version.

Accounting operations involve the re-calculation of commercial bills (promissory notes issued by enterprises to pay for goods) from commercial banks. In this case, rediscount means the secondary nature of such an operation. Commercial banks first take into account promissory notes from their clients of enterprises, and then recount them in a Central Bank. The Central Bank, re-counting promissory notes, provides commercial banks with a cash amount equal to the nominal value of the bill, minus the discount amount determined by the discount rate. The condition for discounting bills is the high quality of commercial bills to be recorded. Such an operation is widely developed in those countries where bill circulation is developed, it is one of the methods of refinancing commercial banks.

The second type of active operations are investments in securities, that is, the purchase of securities of commercial banks, treasury bills and liabilities. The bulk of securities purchased by the Central Bank are government securities.

Due to the fact that direct government lending is limited or prohibited, the Central Bank covers the government's demand for money, buying securities from them, thus replenishing the state budget. The Central Bank can buy government securities, as well as debt issued by the Central Bank itself. In some cases, the Central Bank purchases government bonds from commercial banks to regulate bank liquidity management of public debt. In general, the investments of Central Banks in government securities are quite large, accounting for more than half of the assets of the Central Bank, for example, in Japan - 64.3%, in the USA - 16%, in Russia - 9%. The Central Bank invests money in securities of non-residents - other states and commercial banks.

In world practice, in addition to government securities, the Central Bank purchases securities of commercial banks, to a greater extent, their shares. It should be noted: most often such operations are carried out on the basis of "REPO" - repurchase (reverse repurchase) transaction, i.e. the Central Bank acquires shares of a commercial bank with the right of their repurchase by a commercial bank on demand. This is a certain loan on bail of its own securities, but, given certain technical issues and the subtleties associated with these operations, such an operation is more advantageous than a loan secured by bail.

The essence of the repurchase agreement is the sale of securities at a price below the market price and their purchase back at a higher price already calculated on the basis of the agreed interest rate of the loan, but this price should be lower than the market price. The difference between the sale price and the repurchase price is the income that the income. Part of this profit is directed into reserves for those cases when, as a result of carrying out its operations, the bank will prove to be unprofitable. The formation of such reserves leads to the fact that they are several times greater than the authorized capital of the bank.

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The Central Bank needs buildings, structures, vehicles, communication systems, various equipment, that is, fixed assets, to fulfill its functions. Therefore, part of the resources of the Central Bank is placed to fixed assets.

In addition to active and passive operations, the Central Bank conducts other operations, including buying and selling currency, precious metals, intermediary transactions. The Central Bank also acts as a dealer in the government securities market. The bank buys state securities from the government with a view to placing them in commercial banks on the open market, which allows it to pursue monetary policy. The Central Bank buys and sells foreign currency, as well as payment documents and liabilities in foreign currency, issued by domestic and foreign credit organizations. This operation is implemented on the currency exchange, where the Central Bank acts as a seller, and sometimes as a buyer of foreign currency in order to regulate the exchange rate of the national currency.

The next operation of the Central Bank is the purchase, storage and sale of precious metals, primarily gold and other types of currency valuables. In the conditions of demonetization of gold, it performs the function of a guarantee reserve fund, but for this it must be sold in the gold market, in order to replenish reserves - to purchase. The Central Bank can conduct settlement, cash and deposit operations, accept securities for storage and management, and other valuables. In addition to the transactions reviewed, the Central Bank has the right to issue guarantees and sureties, to carry out transactions with financial instruments used to manage financial risks.

QUESTIONS

1. What features do central banks have?
2. What is the balance sheet structure of the Central Bank?
3. What operations do Central Bank passive operations consist of?
4. What operations do Central Bank active operations consist of?
5. What intermediary operations does the Central Bank carry out?

6. What operations with securities does the Central Bank perform?

CHAPTER 16. INDEPENDENCE OF THE CENTRAL BANK

16.1. The concept of independence of the Central Bank.
16.2. Determination of the independence of the Central Bank.

Key words: political independence, economic independence, state-owned bank, joint-stock bank, interrelation with government, personal independence, responsibility for obligations, form of interrelations.

16.1.The concept of independence of the Central Bank

Foreign countries differ in their degree of independence between government and their central banks. For example, the Eurozone and Switzerland have the most independent Central Banks in the world. Thus, these countries experience the lowest inflation rates in the world. On the other hand, the central banks in Russia, Kazakhstan, Thailand, and Turkey have less independence from their governments, and these countries experience greater inflation rates.

A national government's financial health determines the level of independence between the government and the central bank. Political leaders boost government spending to win favors with the public, but hesitant to raise taxes. Consequently, a government would suffer from a budget deficit that its treasury can finance by selling government bonds. As a government's debt continually grows, investors will reach a point when they stop buying bonds. Unfortunately, political leaders refuse to cut government programs and subsidies or raise taxes. Only solution is the government forces its Central Bank to buy its bonds that investors do not want, even though it creates inflation.

In the form of capital formation, Central Banks are: a) state-owned, with 100% state participation in the formation of the bank's capital; b) joint-stock companies (with or without participation of the state).

But regardless of the form of capital formation, first, there is always a close relationship between the Central Bank and the state, and secondly, the state's influence on the Central Bank's activity is somehow limited.

The form of interrelations between Central Banks and state authorities can be provisionally represented in the form of two models:

- ❖ The Central Bank acts as an agent of the Ministry of Finance and conductor of its monetary and credit policy;
- ❖ The Central Bank is independent of the government, which ensures that it is independent in conducting monetary policy without pressure from government bodies.

However, in reality, these models do not exist in their pure form. In most countries, an intermediate model is functioning, within which the principles of interaction between the executive branch and the Central Bank are used, with a certain degree of independence.

The dependence of the Central Bank on the state lies mainly in the fact that in any country it is accountable to any state authority. In the US, Russia, Sweden, the Netherlands, Germany, Central Banks are accountable to the parliament, in the UK and Italy - to the treasury, in a number of other countries - to the Ministry of Finance.

The degree of dependence of Central Banks of these government bodies varies in different countries. In the United Kingdom, Japan, Switzerland, the Netherlands, France, Italy, the state bodies to which the Central Banks are accountable have the right by law to intervene directly in the activity of the Central Bank, cancel decisions taken by the Central Bank and draw up various instructions. However, in Germany, the United States, Sweden, this dependence is less pronounced. In these countries, the interaction of state bodies with Central Banks is carried out on the basis of mutual advice.

For example, in Uzbekistan, the Central Bank is independent in making decisions within its authority. The state is not responsible for the obligations of the Central Bank, and the Central Bank for the obligations of the state, if they themselves have not assumed such obligations or unless otherwise provided by legislative acts.

Dependence of Central Banks on the state is also expressed in the fact that the head of the Central Bank appoints either the monarch, or the president, or the government.

A certain dependence of the Central Bank on the state is necessary and inevitable. Monetary policy implemented by the Central Bank is a significant component of the overall economic policy pursued in the country, so it must be coordinated with the government's macroeconomic policy.

In addition, the Central Bank is the cashier, creditor and financial advisor to the government, therefore, the government always needs the Central Bank's reliability.

But at the same time, the Central Bank should also have a certain degree of freedom, since the government, in the course of solving its short-term tasks, may be interested in such actions of the Central Bank that could destabilize monetary circulation in the country and in the future lead to undesirable macroeconomic consequences.

It follows that it is desirable for the Central Bank to be able to independently determine the necessary volume of money supply in the country and the priorities of monetary policy, even if this runs counter to the interests of the government.

16.2.Determination of the independence of the Central Bank

The basis of the degree of independence of the Central Bank from the state is laid by its legal independence, the distinguishing feature of which is the isolation of state property. Although formally this property is, as a rule, in state ownership, the Central Bank is entitled to dispose of it as an owner. This Central Bank differs from a state bank whose property is completely controlled by the state, i.e. in any country the property of the Central Bank (with any form of ownership of capital) is separate from the property of the state. In other words, the state's finances and the Central Bank's finances are clearly delineated.

The independence of the Central Bank from the government implies its two forms:

- political;
- economic.

Political independence is the autonomy of the Central Bank when establishing the benchmarks of the money supply. Economic independence is the independence of the Central Bank in the choice of instruments of monetary policy.

The conditions for the political independence of the Central Bank are:

- determining the procedure for appointing members of its governing body or the manager (president);
- approval of the bank decision taken by the government and (or) the parliament.

The conditions for economic independence are: a) the Central Bank is not obliged to automatically issue money to the government to finance government spending; b) the Central Bank is not obliged to give the government preference in granting loans; c) application by the Central Bank of economic (indirect) methods of control and regulation, which implies non-interference of the government in the decision-making by the bank and, accordingly, does not infringe on its autonomy.

The independence of the Central Bank as a whole is determined by the following factors:

- independence from government bodies. This condition is mandatory. If the Central Bank is obliged to follow the instructions of government agencies, it will not be able to maintain the purchasing power of the national currency, the level of prices and inflation, as it will experience pressure from the government;
- personal independence of members of the Central Bank's governing bodies;
- the independence of the Central Bank's management bodies will be ensured if they are appointed for a sufficiently long period. In the case of their reappointment, there is a danger of diminishing the degree of their personal independence;
- the legal status of the bank, which is determined, in particular, by the possibilities of introducing changes in the statute (law)

of the Central Bank. The more difficult it is to introduce changes in the statute, the more reliably is the independence of the Central Bank;

❖ relations with state authorities. Regular contacts between representatives of the Central Bank and state authorities increase the degree of their confidence in the actions of the Central Bank and contribute to its achievement of its main goal - ensuring the stability of the monetary unit. This task can be assisted by periodically reporting to the parliament on the Central Bank's reports on its activities.

QUESTIONS

1. What does the phrase "Central bank's independence" mean?
2. What is the relationship between the state and the Central bank?
3. What does the political independence of the Central Bank mean?
4. What does the economic independence of the Central Bank mean?
5. How are financial relations between the state and the Central Bank?
6. How is Central bank independence determined?

CHAPTER 17. COMMERCIAL BANKS AND THEIR FUNCTIONS

17.1. Legal basis, purpose, tasks of commercial banks.
17.2. System of organization and management of a commercial bank.
17.3. Functions of commercial banks.

Key words: commercial bank, private banks, mixed banks, joint-stock commercial banks, legal basis, banking activities, bank's branch, principles of commercial banks, cessation of business, bank's management system, functions of commercial banks, bankruptcy, organization of banking, bank customers, attract deposits.

17.1.Legal basis, purpose, tasks of commercial banks

The banking system is the financial basis for the functioning of a market economy. The development of the country's payment system, the stability of the national currency, the growth of the economy and the living standard of the population largely depend on its condition and reliability.

A commercial bank is an organization created to attract funds and place on its own behalf on terms of payment, time and repayment.

The bank differs from non-banking special institutions (other "credit institutions") in that it becomes such from the position of legislation only if it performs three operations stemming from its essence, which are called purely bank. This is deposit, credit and settlement operations.

Commercial banks represent the second level of the banking system of the Republic of Uzbekistan.

The legal basis for organizing and operating commercial banks is the Law of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan", the Law of the Republic of Uzbekistan "On Banks and Banking Activities", the Law of the Republic of Uzbekistan "On Private Banking and Financial Institutions and guarantees of their activities" and other regulatory documents and acts relating to certain areas of banking activity (the Law of the Republic of Uzbekistan "On Consumer Credit", the Law of the Republic of Uzbekistan "On Microfinance", etc.).

Bank is a legal entity that is a commercial organization carrying out in the aggregate operations on opening and maintaining bank accounts, making payments, attracting funds in deposits, providing loans on one's behalf, defined as banking activities.[28]

According to the above acts, the main purpose of banking activities is to finance the economy of the state by attracting temporarily available funds. In addition, commercial banks provide financial support for various government programs.

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[28] "Банклар ва банк фаолияти тўғрисида" ги Конуни (Law of the Republic of Uzbekistan On Banks and Banking Activities), new edition, November 5, 2019

Banks are not entitled to directly engage in production, trade and insurance activities, except in cases provided for by law.

A branch of a bank is a separate subdivision carrying out banking activities on behalf of the bank that created it.

Commercial banks operate on the basis of the following principles:

1) Carry out activities within the limits of the resources actually available. This means that a commercial bank should not only ensure a quantitative correspondence between its resources and credit investments, but also ensure that the nature of bank assets matches the specificity of the resources mobilized by it. First of all, this refers to the timing. So, if the bank attracts funds mainly for short periods, and invests them mainly in long-term loans, its liquidity is under threat. The presence of a large number of high-risk loans in the bank's assets requires the bank to increase its share of equity in the total amount of its resources.

2) Economic independence. This implies the economic responsibility of the bank for the results of its activities. Economic independence presupposes the freedom to manage the bank's own resources and attracted resources, the free choice of clients and investors, and the disposal of the bank's revenues.

3) The relationship of a commercial bank with its customers is built as a normal market relationship - this is the third principle. Granting loans and carrying out other active operations, the commercial bank proceeds, first of all, from market criteria of profitability, risk and liquidity.

4) The regulation of the activities of a commercial bank can be carried out only by indirect economic (and non-administrative) methods - this is the fourth principle. The state determines only the "rules of the game" for commercial banks, but the state can't give the orders to commercial banks.

17.2.System of organization and management of a commercial bank

Banks are created, as a rule, in the form of a joint-stock company on the basis of any form of ownership - private, collective, joint-stock, mixed. The founders of the bank can be legal entities and individuals, including foreign, with the exception of public authorities, public associations and public funds, unless otherwise provided by law. At the same time, the maximum share of each shareholder's participation in the authorized capital is established by law.

The minimum amount of the authorized capital of commercial banks should be 100 billion soums[29].

Banks terminate their activities in the following cases:

- decisions of the shareholders' meeting;
- revocation of license by the Central Bank[30].

The very organization of banking activity is a costly and time-consuming process. The organization of banking involves conducting cases in a strictly defined order, which can be conditionally divided into 4 stages.

The first stage is the organization of a working group of the bank's founders. The number of members of the organizational group is unlimited. This group should develop and submit for approval the following documents:

1. A memorandum of association, the statute and its annexes. A highly qualified lawyer is needed to compile and develop these documents;

2. Perspective calculations of the balance sheet, financial results of the bank for at least 3 years. For the development of these documents, an economist is needed who has experience working in senior positions in the Central Bank system or commercial banks;

3. The project and the cost estimate for the construction of the bank building and internal nodes. To this end, a design engineer is required who has the work of building special facilities.

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[29] "Тижорат банклари капиталининг монандлигига қўйилалиган талаблар тўғрисида" ги Низом (Regulation On the requirements for the adequacy of the capital of commercial banks), registered by the Ministry of Justice on July 6, 2015, No. 2693

[30] "Банклар ва банк фаолияти тўғрисида" ги Қонуни (Law of the Republic of Uzbekistan On Banks and Banking Activities), new edition, November 5, 2019

Figure 3. Typical bank management system of Uzbekistan

In the second stage, a kind of prototype of the bank's Supervisory Board (Board of directors) is created, consisting of the most authoritative and financially strong founders in the business environment who review the prepared documents and prepare drafts of founding documents and candidacies of bank executives for approval at the general meeting of founders.

The next stage is the process of coordinating issues related to the organization of the bank, with local authorities, the Central Bank of Uzbekistan and the rest of the founders of the bank.

The last stage is the process of reviewing documents and making a decision on issuing a banking license by the relevant department of the Central Bank of Uzbekistan.

17.3.Functions of commercial banks

Modern banks perform a variety of functions. The main ones are:

- accumulation of temporarily free cash;
- provision of credit;
- issue of credit money;
- making settlements and payments for business transactions;
- provision of consulting services.

Drawing temporarily free cash, commercial banks mobilize the accumulation and savings generated in the economy and transform them into loan capital. The remuneration of the depositor for the money amounts contributed to the commercial bank can act as income received by the client in the form of interest, and the range of services provided to the customer by the bank for the transfer and payment of money.

In fulfilling the function of granting a loan, a commercial bank acts as an intermediary between entities that have free cash and subjects in need of them. In the economy, there is often a situation where money is in some, while the real need for them arises in others. Such a ratio can theoretically be realized by providing the first subjects with funds on credit, but it is very difficult to find out from the whole mass of economic entities exactly who has the money in the necessary quantity and for the required period. That is why the commercial bank acts as an intermediary in the loan, it accumulates money (the first function), has the ability to provide these resources to those who need it in the right quantity and for the required period. Thus, lending to enterprises, industry, the state and the population is carried out. The fulfillment of this function contributes to the expansion of production, the financing of industry, the creation of reserves, the increase in consumer demand, and the expansion of the financial activity of the government.

The next function of a commercial bank is to issue credit money. Banks, providing loans to their customers, create deposits (deposits), which are credited with the right to issue checks (credit money) within the loan. In this case, the check can be used as a means of non-cash payments, circulation and payment for purchased goods, debt repayment, and also as a means of obtaining cash from a bank account. Thus, issuing loans to its customers (carrying out deposit-check issuance), commercial banks actively contribute to the growth of money supply in circulation. Given this, Central Banks implement a set of measures aimed at preventing excessive growth in the volume of loans and money supply.

The implementation of settlements and payments for business transactions is one of the main functions of commercial banks, which they perform on behalf of their clients, mostly in non-cash form. These payments and settlements can be performed both by the settlement systems of commercial banks that carry out clearing (mutual offset) of payment documents, and by a network of correspondents. At the same time commercial banks are actively using automated (on the basis of a computer) system of settlements, which leads to an increase in the reliability and efficiency of the work of bank employees, speeding up payments, reducing costs and increasing profits.

Finally, another function of commercial banks is to provide customers with consulting services. Consulting is a paid service in the form of information and advice that allows the client to increase the efficiency of its activities. The consulting service is aimed at the rational use of resources by enterprises, the discovery of new opportunities, the development of new unique solutions to prevent or eliminate existing problems.

Thus, a commercial bank is an institution that carries out activities to attract loan capitals and their subsequent placement. The role of banks is invaluable in a modern market economy, because due to the banks the resources are mobilized, which can then be distributed among business entities for business development.

QUESTIONS

1. On the basis of what legislative acts do banks operate?
2. In what cases do commercial banks terminate their activity in Uzbekistan?
3. On what principles do commercial banks operate?
4. What does a typical commercial bank management system look like in Uzbekistan?
5. What definition is given to the concept of a bank in the Law of the Republic of Uzbekistan "On banks and banking activities"?
6. How is the process of establishing banks in Uzbekistan?
7. What are the requirements for establishing commercial banks in Uzbekistan?

CHAPTER 18. OPERATIONS OF COMMERCIAL BANKS

18.1. The essence of operations of commercial banks.
18.2. Passive operations of commercial banks.
18.3. Active operations of commercial banks.

Key words: passive operations, active operations, intermediary operations, attraction of funds, authorized capital, reserve capital, retained earnings, deposits, demand deposits, time deposits, savings, interbank loans, cash services, bank resources, purchase of securities, investments in fixed assets.

18.1.The essence of operations of commercial banks

In a market economy, all the operations of a commercial bank can be conditionally divided into three main groups:

- passive operations;
- active operations;
- active-passive (intermediary, trust, etc.) operations[31].

Passive operations are attracting funds to the banks, the formation of resources of the latter. The value of passive operations for the bank is large.

By economic substance, commercial banks can be attracted funds from the following sources:

1. formation of the authorized capital
2. attraction of temporarily free funds to deposit accounts from legal entities and individuals
3. attraction of funds from non-deposit sources
4. receipt of funds from the sale of issued securities.

Banking capital is the most effective tool for conducting banking activities. Banking resources include own, attracted and borrowed funds.

The sources of own capital include:

- authorized capital;
- reserve capital and other funds formed by profit;
- retained earnings (surplus).

Authorized (share) capital is formed by issuing bank shares, voluntary monetary and material contributions of shareholders (founders) of the bank. The main resource of increasing the share capital is the accumulation of profit. Its increase is carried out by the decision of the shareholders' meeting (stockholders) by determining the dividend paid to the shareholders from the received profit (with the growth of the

[31] Lavrushin O.I. Деньги, кредит, банки. Textbook - M.: "КНОРУС", 2013. - 248 p.

dividend, the market value of the bank's shares increases and, thus, the shareholders' income, and hence the shareholder's share capital) also through the sale of additional shares.

The reserve capital (reserve fund) is formed at the expense of annual deductions from profit, the size of which is established by the shareholders' meeting. This capital is intended to cover possible losses on the bank's operations (for example, from non-repayment of loans) and other purposes related to securing the bank's liabilities. Its minimum size is regulated in accordance with banking law.

Retained earnings (surplus) is the part of the profit remaining after the payment of dividends and deductions to the reserve and other funds. Its increase is possible due to the accumulation of profit by investing the bank's income in certain types of assets (loans or investments). In the structure of liabilities of the balance, the share of equity is insignificant. However, it should be sufficient to fulfill the obligations assumed by the bank, protect the interests of depositors and other creditors, and prevent bank bankruptcy.

In accordance with the recommendations of the Basel Committee, the bank's own funds (capital) are divided into two parts: the basic capital (first-tier capital) and additional capital (second-tier capital). Such division allows to give a qualitative assessment of the structure of the bank's own funds (capital). Capital of the first level is the most stable part of own funds, which at practically any moment can be used to cover any losses. Capital of the second level is a relatively more volatile part of equity, its value can vary depending on changes in the value of assets and market risks.

18.2.Passive operations of commercial banks

Passive operations of a commercial bank are activities of the bank to accumulate its own and attracted funds for the purpose of their placement.

The purpose of the operations of a commercial bank is as follows:

- provision of resources to the activities of the bank;
- formation of additional sources of funds for productive use in

the economy;

- increase in income of individuals and legal entities that receive bank interest on deposits;
- growth of the bank's own capital;
- creation of reserve funds for insurance of banking operations.

Passive operations are fund-raising operations, namely: attracting loans, deposits (savings), obtaining loans from other banks, issuing own securities. Funds received as a result of passive operations are the basis of direct banking activity.

The main passive operations of a commercial bank are deposit operations.

Deposit operations are terminable and termless investments of bank customers. Funds held in demand accounts (termless deposits) are intended for making current payments - in cash or through the bank with the help of checks, credit cards or letters of credit. Another type of deposit is time deposits (with certain maturities). These deposits usually pay higher interest rates, depending on the term of the deposit, since banks can dispose of the depositor's funds for a longer period of time and have the opportunity to reinvest them. Most often, fixed-account funds are placed on time deposits, for example, amounts intended by an entrepreneur to purchase equipment after 6 months.

Passive operations include various savings operations. Savings deposits are used to accumulate the client's funds.

Passive operations of a commercial bank include:

- creation and raise of own capital due to deductions from profit;
- issue of securities and their placement on the open market;
- deposit operations;
- interbank loans in the internal and external markets.

It is important to note that deposits are accepted only by banks that have such a right in accordance with a license issued by the Central Bank of the Republic of Uzbekistan. The attraction of funds to deposits is formalized in writing by the contract in two copies, one of which is issued to the depositor. Banks ensure the preservation of deposits and the timely fulfillment of their obligations to depositors.

Modern banking practice is characterized by a large variety of deposits and accordingly, deposit accounts:

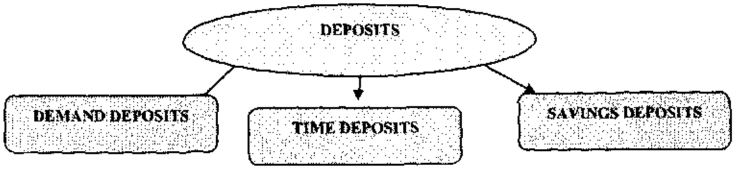

Figure 4. Types of deposit accounts

Demand deposits are placed into the bank without indicating the period of storage. The depositor has the right to receive funds on demand. Demand deposits include funds held on settlement, current, check, card accounts. Money can be credited to the account and withdrawn from the account (in cash or by cashless form) both in parts and in full. Accounts can be both interest-bearing and non-interest bearing. The main function of demand deposits is to service payment transactions.

Time deposits are placed in a certain amount and can be withdrawn only upon the onset of the term established in the contract, and in full. Acceptance of additional contributions and the issuance of part of the sum of money are not allowed. On time deposits, a higher interest rate is paid than on demand deposits. Usually the longer the deposit term is the higher the rate. In practice, the funds of a term deposit can be obtained before the due date, but instead of the established interest rate, the rate is paid as for a demand deposit. The main function of time deposits is the accumulation of funds.

Savings deposits are considered by many economists as a kind of time deposits. They are united with time deposits that they are also placed for a certain period and their main function is the accumulation of funds. For savings deposits, as well as for time deposits, an increased rate of interest is paid, but only for amounts kept on the account for a certain period. Savings deposits have many varieties (with a monthly interest payment, target, conditional, etc.).

18.3.Active operations of commercial banks

Active operations are operations on placing of bank resources, and their role for any commercial bank is very high. Active operations ensure the profitability and liquidity of the bank, i.e. allow to achieve two main goals of commercial banks. Active operations also have important national economic significance.

It is through active operations that banks can direct funds that are released in the course of economic activity to those participants in the economic turnover that need capital, ensuring the flow of capital into the most promising sectors of the economy, facilitating the growth of productive investment, the introduction of innovations, the implementation of restructuring and the stable growth of industrial production, expansion of housing construction. A large social role is played by bank loans to the population.

Active operations can be divided into four types:

- cash transactions (cash in the bank's cash desk, funds on accounts with the Central Bank and correspondent accounts with the Central Bank and correspondent accounts of other banks);
- loan operations;
- purchase of securities;
- currency transactions and issuing bank guarantees;
- investments in fixed assets (land, building, equipment).[32]

In the structure of active operations of banks, the leading place is occupied by credit and investment operations. Commercial banks provide:

- loans for individuals (mortgages, car loans, consumer loans, credit cards, etc.);
- loans for legal entities (single loans, credit lines, overdrafts, factoring, leasing, etc., including so-called off-balance-sheet credit operations - provision of guarantees, letters of credit);
- loans for public authorities;
- interbank loans and deposits, including funds placed in the Central Bank of the country.

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[32] A.Omonov, T.Koraliev. Пул ва банклар. Textbook. - T.: "Iqtisod-Moliya", 2018. - 283 p.

Investment active operations of commercial banks are investments in government and corporate debt securities, as well as in corporate equity securities (investments in authorized funds of enterprises and organizations) in order to obtain investment income.

Commercial banks also carry out a number of intermediary operations: settlement and cash services, operations in the stock market, foreign currency purchase and sale transactions, operations with bank metals, etc.

Active operations are carried out by commercial banks within the limits of their available resources on correspondent accounts with the Central Bank and other commercial banks, as well as in the cashier's office (when performing operations with cash funds).

Commercial banks are obliged to carry out all active and passive operations within the limits of the economic specifications established by the Central bank of the country.

QUESTIONS

1. What operations do commercial banks perform?
2. What operations are called passive operations of commercial banks?
3. What is the owner's equity structure of a commercial bank?
4. What types of deposits differ?
5. What is the essence and structure of active operations of commercial banks?
6. What kind of intermediary operations do commercial banks perform?

CHAPTER 19. NON-BANK CREDIT INSTITUTIONS

19.1. The emergence and development of non-bank credit institutions.
19.2. Functions and tasks of non-bank credit institutions.
19.3. The main directions of development of non-bank credit institutions.

Key words: non-bank credit institutions, features, microcredit organizations, pawnshops, pension foundations, leasing companies, microloan, microfinance organizations, credit unions, legislative base, factoring companies.

19.1.The emergence and development of non-bank credit institutions

A non-bank credit institution is a credit organization that has the right to carry out certain banking operations provided for by law. Admissible combinations of banking operations for non-bank credit organizations are established by the Central Bank. Credit organizations carry out their activities on the basis of current legislation, own charter and obtained license, form their authorized capital in the amount not below a certain level.

Historically, they emerged as private enterprises of usurious credit. Non-bank credit institutions emerged under the influence of the following factors:

1. The need to organize financing for small producers.
2. The need to attract small amounts of money at the disposal of the bulk of the people, i.e. the poor.
3. Creation of conditions for the transition (especially in rural areas) of the practical skills of collective farming.
4. Expansion of the number of persons involved in the system of production of strategically important goods.

Muhammad Yunus is a developer of the microcredit concept and the creator of the first microfinance organization[33].

To non-bank credit institutions we can include:

- Stock and currency exchanges;
- Insurance and financial companies;
- Non-bank credit and deposit organizations;
- Collector organizations;
- Clearing organizations (chambers, centers);
- Investment, pension and charitable foundations;
- Broker, dealer, leasing and factoring firms;

[33] https://en.wikipedia.org/wiki/Muhammad_Yunus

- Credit consumer cooperatives, credit unions, societies and partnerships, mutual funds;
- Pawnshops.

Mutual credit societies are the type of credit institutions that are close in nature to commercial banks, servicing small and medium-sized businesses.

Credit partnerships are established for the purpose of credit and settlement services to its members: cooperatives, leasing companies, small and medium-sized businesses, and individuals.

Credit unions are credit cooperatives organized by groups of individuals or small credit institutions.

Credit cooperatives are created on a unit basis by enterprises (usually small ones) or private individuals with the aim of lending to the production and consumer needs of the members.

Factoring companies. Another form of indirect lending, practiced both by banks and "near-banks", is factoring, which is manifested in the acquisition by the financial institution of the right of suppliers to supply goods and services, the risks of meeting such requirements and their subsequent collection.

Forfeiting companies. For exporting firms, commercial banks offer such a form of indirect lending as forfeiting, which consists in lending to exports by buying commercial bills of exchange and other debt claims on foreign trade transactions without a turnover to the seller.

In particular, non-state pension funds enter into competition with banks for attracting free customer funds, which provide additional voluntary pension provision through contributions from employers and citizens.

Insurance companies offer their clients insurance contracts, some of which can, in essence, be regarded as substitutes for bank deposits.

Financial companies specialize in lending sales of consumer goods by installments and issuing consumer loans.

Investment funds and investment companies are investment dealers on the securities market and, in the form of an organization, are open joint-stock companies. A feature of these investment dealers is that the money they attracted from the placement of their issued shares is invested in securities of other issuers, mainly in shares of large corporations, and recently in state and municipal bonds.

Pawnshops are clearly defined credit institutions, created through the shares of their founders. The activity of pawnshops consists of operations for issuing loans to individuals secured by property (except real estate) and, more often, precious metal products: gold, silver, platinum; and also from operations on acceptance for storage of values (including fur products, and the sums of a foreign currency) of citizens.

19.2.Functions and tasks of non-bank credit institutions

Common to all non-banking credit institutions with different specializations is that they:

- base their activities on credit relations (that is, on the return movement of the loaned value);
- form the authorized capital either at the expense of the shares contributed by their founders, or through the issue of shares;
- do not open current accounts for their customers;
- do not have correspondent accounts;
- do not accept current demand deposits.

Since non-bank credit institutions do not open current accounts for their customers, they can't mediate in settlements and can't create false deposits when lending to their customers.

The legal basis for the organization and conduct of microcredit organizations is the Law of the Republic of Uzbekistan "On Microcredit Organizations" of August 25, 2006. According to this law, a microcredit organization is defined as a legal entity that performs activities to provide services in the field of microcredit, microloan, microleasing and providing other microfinance services. The minimum size of the statutory fund of microcredit organizations is 2 billion soums[34].

The main task of microcredit organizations is to issue microcredits. But in addition, microcredit organizations and pawnshops

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[34] Ordinance of the President of the Republic of Uzbekistan"Республика банк тизимини янада ривожлантириш ва баркарорлигини ошириш чора-тадбирлари тўғрисида" ги (On measures for further development and improvement of stability of the Banking system of the Republic), September 12, 2017, No. ПК-3270

can also engage in other additional entrepreneurial activities, for example:

a) attraction of loans;

b) temporary placement of available free assets in valuable government securities;

c) execution of transactions with received collateral;

d) sale of own property;

e) provision of consulting services on lending issues;

f) leasing out unused real estate;

g) activities related to leasing.

The organization and management of pawnshops in the territory of Uzbekistan is carried out in accordance with the Regulation "On the procedure for licensing pawnshop operations" approved by the resolution of the Board of the Central Bank of the Republic of Uzbekistan of September 22, 2003. The activity of pawnshops is carried out only by specialized legal entities which main purpose is to receive from citizens as a pledge of movable property intended for personal consumption to provide short-term loans, a special permit (license) for the activities of pawnshops. To establish a pawnshop, the minimum requirements for the authorized fund are set, which are determined in the amount of 500 million soums.

Pawnshops, like other credit institutions, provide cash loans secured by movable property.

Pawnshops have three main functions:

- issuance of loans
- buying up valuable things
- sale of goods.

19.3.The main directions of development of non-bank credit institutions

In countries with developed market economies, including those that have a universal structure of the credit system, an important place (despite a slight decrease in their number) is occupied by specialized banks.

Specialized banks today are private and public credit institutions with special tasks that perform a number of functions to stimulate certain spheres of the national economy.

One of the goals of the development strategy of the banking sector of the Republic of Uzbekistan is precisely the creation of similar banking institutions with special tasks related to the realization of national interests.

The banking system must be subordinated to the needs of economic growth. Therefore, the processes of state participation in the formation of mechanisms for mobilizing investment capital are of undoubted interest. The creation of state specialized banks to finance economic development projects in the industrial and agricultural sectors of the economy is an important step in this direction.

In many countries, the establishment of a system of specialized banks to provide financial support to both strategic and less important industries has created the necessary prerequisites for achieving a high level of investment, the perception of industrial and technological innovations.

Their examples convincingly testify that the solution of the strategic tasks of the national economy by activating the activities of specialized lending institutions is very effective, since it ensures the interaction of the state, banks and non-financial enterprises.

QUESTIONS

1. Which institutions are called non-bank credit institutions?
2. How did the concept of microcredit come about?
3. What are the distinguishing features of non-bank credit institutions in relation to banks?
4. What is the activity of microcredit organizations?
5. What is the activity of pawnshops?
6. Why is it necessary to develop non-bank credit institutions?
7. What is a microloan, microloan and microleasing?

CHAPTER 20. ESSENCE OF THE BANKING CRISIS

20.1. The essence of the banking crisis.
20.2. Classification of banking crises.
20.3. Causes of crisis phenomena.

Key words: bank crisis, systemic banking crisis, bank solvency, local bank crisis, types of bank crisis, open bank crisis, hidden bank crisis, external causes, internal reasons, macroeconomic bank crisis, microeconomic bank crisis, megaeconomic bank crisis.

20.1.The essence of the banking crisis

In the world economic literature there is no single approach to determining the essence of the banking crisis.

Bank crises arise both in stable market as well as in changing transitional economic systems, can be spontaneous and unexpected, predictable on the basis of calculations. Any economy always has some crisis elements, but only under certain conditions they develop into serious crises of national and world level. To prevent the emergence of such crises, it is necessary to take timely measures, and this requires awareness of the essence of the concept of "banking crisis", the ability to identify it.

The banking crisis is the failure of most banks to perform functions, which has devastating consequences for both the banking system and the economic system as a whole.

In scientific economic literature there are such concepts associated with the category of "banking crisis": "problematic situation in the bank", "crisis bank system", "crisis in the bank", "banking crisis".

Systemic banking crisis. Clarification of these terms, lies through studies of types of banking crises according to different classification characteristics.

Among the totality of these conceptual categories, it is most important to determine the division into the crisis in the banking system and the crisis in a separate bank. Depending on the scale of coverage, banking crises according to generally accepted classification are systemic and local. In the case of a systemic crisis, it is advisable to use the term "crisis of the banking system", and in the case of a local crisis, "a crisis in the bank" or "a banking crisis".

So, scientists characterize these types of crises as "bank raids" and "banking panic". The crisis covers a small number of banking institutions and is characterized by panic withdrawal of deposits by customers from banks, called "bank runs" or "raids on banks". When the crisis covers the entire banking system, as well as the national settlement system, it grows into a "bank panic". The similar situation is connected with occurrence at owners of bank deposits of delusions about a situation of banks - not understanding, that difficulties with liquidity of separate banks have mainly short-term character, there is a panic. Thus, there is the effect of "infection" – "raids" on individual banks are transformed into a "banking panic", increasing the scale of the crisis.

Identification of crisis phenomena is carried out on the basis of certain indicators and signs. Speaking about the crisis of the banking system, it should be noted that so far there is no specific set of characteristics on the basis of which it is possible to unequivocally assert the fact of its occurrence. So, there is an opinion that the crisis of the banking system arises when several banks of one country were in a crisis situation. However, such a statement can be refuted, since the reasons for the emergence of crises in each of such banks may be completely different, and the crisis situations-unrelated to each other and having a microeconomic basis (for example, a low level of financial and banking management). In this case, one should speak about local crisis in banks. They can arise in a separate bank, regardless of macroeconomic circumstances and the general state of the banking system.

Thus, the unprofitable activity of a particular bank, the growth in the share of bad debt, and the decline in the level of capitalization are signs of a troubled or crisis situation in the bank. If several banks are characterized by similar indicators in the banking system of the country, then this is not enough to assert about the crisis of the banking system. The concept of "banking system crisis" is a deeper and more complex phenomenon.

However, on the other hand, bankruptcy or a deep crisis of a large system bank can be the impetus for the emergence of a banking system crisis. The boundary between the concept of "system crisis" and "the crisis of an individual bank" is rather blurry and ambiguous.

During the 1980s, several developing countries threaten to default on their Euroloans. Loan default would trigger a global banking crisis in the industrialized countries. Consequently, twelve countries, including the United States met in Switzerland to discuss capital requirements. They named the meeting after the city, Basel. Basel committee wanted to ensure banks had enough capital to survive a financial crisis and avoid massive profit losses. Unfortunately, countries have difficulty in implementing the Basel agreement because every country has distinctive regulations and different accounting standards. Nevertheless, the Basel agreement set common capital standards for banks engaged in currency swaps, financial futures, and options. The 1980s debt crisis forced central banks to meet and discuss their roles of being the lenders of last resort during a banking crisis. Central Banks concluded they should concentrate on the financial stability of their own domestic banks. However, many banks are linked internationally to other banks abroad. Consequently, a banking crisis in one country can spread and trigger a banking crisis in another. Thus, one Central Bank cannot contain a financial crisis.[35]

The United States and many countries were deregulating, when the 2008 Financial Crisis struck the world economy. The United States, Ireland, Spain, and many countries experienced a strong real estate bubble that deflated in 2007. As the unemployment rate soared, businesses lay off many people, and the unemployed could not find jobs. Subsequently, some people stopped paying their mortgages, harming the banks financially. Banks stopped granting new mortgages, and brand new housing construction has halted. Afterwards, the housing prices began falling as the banks foreclose on houses that are losing

[35] Kenneth R.Szulczyk. Money, Banking and International Finance. Edition 2, February, 2014. – 55 p.

value. The U.S. government responded quickly, using the identical response many other countries had used.

20.2.Classification of banking crises

Based on the processing of scientific sources, a classification of crises was developed based on a list of key features that are common to all countries that are subject to crises in the global economic environment:

1. On the basis of the stage of the crisis process:

❖ the crisis of economic results;

❖ the crisis of political prerequisites.

2. In terms of distribution:

❖ system (those that manifest in the massive bankruptcy of banks and adversely affect both the banking business and the entire monetary sphere in the form of inflation, credit restriction, and a shortage of state and local financial resources);

❖ local (crises in certain sectors of the banking system or in a small number of banks do not have a significant impact on the state and dynamics of the monetary sphere).

3. On inflation-devaluation basis:

❖ inflationary (occur after the beginning of monetary stabilization);

❖ post-stabilization;

❖ post devaluation (occur with the growth of monetary stabilization in the monetary devaluation).

4. According to the form of manifestation:

❖ open (characterized by the failure of banks to fulfill their obligations to customers, the inability of the banking system to perform settlements smoothly, a massive outflow of deposits, a sharp reduction in the issuance of loans, bankruptcy of banks);

❖ hidden (latent) (characterized by a decrease in capital, loss and other negative trends in the work of individual banks, which gradually accumulate, reach a critical level and take on an open form).

5. By degree of injury:

- macroeconomic (their effect extends to the entire system of the country, they generate a macroeconomic decline and inflation);
- microeconomic (causing problems for a certain range of banks);
- megaeconomic (systemic banking crises that went beyond national states and cause losses for many countries).

6. Depending on the severity of the consequences:

- tough (crises accompanied by recession and a large fall in the value of bank assets, dollarization of liabilities, a decrease in banks' liquidity, negative GDP growth);
- soft (crises, for which the above parameters are smaller).

7. By geography of distribution:

- local;
- national (caused by disproportions and destructive factors within the state);
- regional (covering the banking systems of certain regions of the world);
- world (apply to all or almost all states, acquire a global character).

8. On the basis of structural complexity or layout:

- simple (characterized by threats to the banking system, but does not include foreign exchange and debt);
- double (bank crises that extend to the foreign exchange or debt sector);
- triple (bank crises, which cover the banks, currency and debt).

Clear classification of banking crises is a prerequisite for the formation of an anti-crisis state and corporate policy and a tool for in-depth clarification of the essence of banking crises.

20.3.Causes of crisis phenomena

The reasons that can lead to a general crisis of the banking system, it is also advisable to divide into two levels - immediate (superficial) and deep.

Superficial reasons are the so-called circumstances or factors that make the crisis a real fact (they are not always obvious, relatively deep forms of manifestation of the crisis). These reasons are:

❖ only possible - for some of them may or may not exist, can under certain conditions intensify and really “launch” a crisis, but this may not happen;

❖ superficial reasons are more profound, more fundamental phenomena and processes.

The causes of the crisis (both superficial and more hidden) must also be divided into external and internal ones, bearing in mind the first causes that originate and mature in the environment outside for all banks and do not depend on the latter, and under the second, the causes that arise within the banks themselves, are their own “product” and are completely subject to them. This separation is necessary from a technological point of view - it is clear who should be responsible for this in the process of developing and implementing anti-crisis measures.

Moreover, in the general case, the most important among the external causes of the crisis of the banking system (sector) can be considered:

❖ macroeconomic imbalances (strong or growing disproportion in the economic sectors, a significant or growing budget deficit and public debt, low or slowing GDP growth rates, unfavorable or deteriorating business conditions), and not carrying out the necessary structural changes;

❖ inadequate macroeconomic policies of the authorities, including those fixed in laws and by-laws, including policies on the place and role of the state in the economy, national production policies in the real sector of the economy and the banking sector, policies for ways to ensure economic growth and financial stability, misunderstanding and (or) rejection of such a policy by the public, business circles, the population;

❖ financial instability (strong or growing inflation, sharp fluctuations in commodity prices and prices of financial assets, high or growing real interest rates, large or growing capital outflows from the country and the national economy, a decline in the state's gold reserves, strong fluctuations in the national currency rate, etc.), public expectations of further increase of such instability;

❖ inadequate policy and practice of regulating the activities of the banks, conducted by the Central Bank and other regulators (inadequate regulatory and legal framework for related activities, poor and formal supervision and regulation, untimely and inadequate response to problems arising in the banking sector, etc.);

❖ inadequate policy of the national business community (real sector) regarding the domestic banking sector (placement of capital in foreign banks);

❖ low or falling level of public confidence in the financial system of the country.

QUESTIONS

1. What is the essence of the banking crisis?
2. What is a systematic banking crisis?
3. How did the crisis arise in 2008?
4. What are the criteria for classifying banking crises?
5. What are the differences between open and hidden banking crisis?
6. What factors provoke a banking crisis?

MODULE 4. CURRENCY

CHAPTER 21. MOVEMENT OF MONEY AT THE LEVEL OF INTERNATIONAL RELATIONS

21.1. The essence of currency relations.
21.2. Currency system: essence, types, functions, basic elements.
21.3. Currency operations.

Key words: currency relations, origin of currency relations, currency system, currency parity, exchange rate, national currency system, world currency system, SDR, convertibility, reserve currencies, currency restrictions, currency operations, Forward, hedging, SWAP, SPOT, promissory note, exchange rate regime, elements of currency systems.

21.1.The essence of currency relations

International economic relations, such as international trade in goods and services, international scientific and technical and industrial cooperation, international migration of capital, lead to the emergence of mutual monetary requirements and obligations of subjects of different countries.

Currency relations are a set of monetary relations that determine payment and settlement transactions between national economies.

Currency relations also include day-to-day communications, which involve private individuals, firms, banks in the currency and money markets for the purpose of international settlements, credit and currency transactions.

Participants in foreign exchange relations are states, international organizations, legal entities and individuals. Legal basis for the emergence, change or termination of foreign exchange relations are international agreements and domestic acts.

Separate elements of currency relations appeared even in the ancient world in the form of bill and money business. The money (exchange) business was concentrated in Athens because of their trade ties with other countries and their primacy in the economy of ancient Greece. The exchange of money was further developed in the initial era of the money economy, precisely from the 12th century, when the small rulers and cities began to mint their coins and a lot of money appeared, different in origin, account, weight, gender and quality of metal. To understand this mass of money could only changers by profession. The predominance of foreign (external) trade over the domestic market during this period contributed to the fact that large shopping centers (Venice, Florence, Antwerp, Amsterdam) became simultaneously the leading centers for international trade in precious metals and international payment centers, where bills of exchange were settled. In the Netherlands "posters" in 1606 the images of coins were depicted and courses of almost one thousand foreign coins were indicated. With the advent of banks, they become the main financial intermediaries in international settlements.

Currency relations are secondary to the process of reproduction. Nevertheless, they influence to the process of reproduction. In particular, currency crises have a negative impact on the process of reproduction. The state of currency relations depends on the level of development of the national and world economy, as well as the political situation.

Currency relations are dependent on the state of the international economic relations. Any changes in their forms will affect the currency relations, but there is also feedback.

Currency relations are carried out at the national, regional and international levels, covering the scope of the regional, national and world monetary system.

21.2.Currency system: essence, types, functions, basic elements

International monetary relations gradually acquired certain forms of organization on the basis of internationalization of economic ties.

Under the monetary system is understood the totality of monetary relations between the subjects of the world economy on the basis of the internationalization of economic life and the development of the world market, enshrined in contractual and state legal norms.

The monetary system is formed first within the framework of national economies. The national currency system is an integral part of the country's monetary system, although it is relatively independent and goes beyond national borders. Its features are determined by the degree of development and state of the economy and foreign economic relations of the country.

With the formation of the world market, the world currency system emerges. Integration processes cause the emergence of regional currency systems.

The national currency system is a form of organization of currency relations of the country, which has developed historically and is fixed by the national currency legislation, as well as by the customs of international law.

Functions of the national currency system are:

❖ formation and use of the country's foreign exchange resources;

❖ provision of foreign economic relations of the country;

❖ ensuring optimal conditions for the functioning of the national economy.

The link between national monetary systems is the exchange rate and parity.

The exchange rate is the ratio between the currencies of individual countries or the price of the currency of one country, expressed in the currency of another country.

Currency parity (from Latin "paritas" - equality) - the ratio between the two currencies, established by law. Until 1978, the currency parity was determined by the gold content of currencies. Then, for the countries participating in the International Monetary Fund (IMF), the so-called Special Drawing Rights (SDRs), a special type of the international currency issued by the IMF and used only for intergovernmental payments through Central Banks, were declared the basis of the calculation.

Regional and world monetary systems are of an international nature and serve the mutual exchange of the results of the activities of world economic entities. Their base is international division of labor, commodity production, as well as foreign trade between countries.

The Regional Currency System is a form of organization of currency relations of a number of states of a certain region, fixed in interstate relations and in the creation of interstate financial and credit institutions (for example, the European Monetary System).

The world monetary system is a global form of organizing currency relations within the world economy, fixed by multilateral interstate agreements and regulated by international monetary and financial organizations.

The functions of world monetary system are:

- mediation of international economic relations;
- ensuring payment and settlement turnover within the framework of the world economy;
- ensuring the necessary conditions for a normal reproduction process and the uninterrupted sale of manufactured goods;
- regulating and coordinating the regimes of national currency systems;
- unification and standardization of the principles of currency relations.

The national and world monetary systems consist of similar elements (Figure 1.)[36]

The reserve currency is a national currency universally recognized in the world, which is accumulated by the Central Banks of other countries in foreign exchange reserves. It performs the function of an investment asset, serves as a method for determining currency parity, is used, if necessary, as a means of conducting foreign exchange interventions, as well as for conducting international settlements.

The world's reserve currencies include the US dollar, the euro, the Japanese yen, the British pound sterling, the Swiss franc and a number of other currencies.

[36] A.Omonov, T.Koraliev. Пул ва банклар. Textbook. – T.: "Iqtisod-Moliya", 2018. – 323-324 p.

NATIONAL MONETARY SYSTEM	THE WORLD MONETARY SYSTEM
1) the national currency unit;	1) reserve currencies and international accounting currency units;
2) the conditions for the convertibility of the national currency;	2) the conditions for mutual convertibility of currencies;
3) parity of the national currency;	3) unified regime of currency parities;
4) the exchange rate regime;	4) regulation of exchange rate regimes;
5) presence or absence of currency restrictions;	5) interstate regulation of currency restrictions;
6) regulation of the use of international credit facilities for circulation;	6) unification of the use of international credit facilities for circulation;
7) regulation of foreign economic calculations of the country;	7) unification of forms of international settlements;
8) the regime of the national currency market;	8) the regime of the world foreign exchange market;
9) the regime of the national gold market;	9) the regime of world gold markets;
10) composition and structure of the country's liquidity;	10) interstate regulation of international currency liquidity;
11) national state bodies regulating currency relations of the country.	11) international organizations that implement interstate currency regulation.

Figure 1. Elements of national and world currency systems

The international accounting currency unit is an artificial currency unit designed to form a conventional scale, allowing to compare the currencies of different countries and establish the proportions between them. International accounting units can be used both international (for example, SDRs issued by the IMF) and regional (Euro – European Currency Unit, introduced in the framework of European Monetary System, transferable ruble, franc of French offices in the Pacific Ocean, etc.) settlement and payment means. They have no real security, their scale is conditional.

Convertibility is the degree to which a country can convert its currency to another currency or gold.

The exchange rate regime is a system for forming the proportions of the exchange of the national currency for foreign currencies; varies from rigid binding, for example, to gold (gold standard), to a freely floating rate, when the price is formed exclusively under the influence of market forces. Today, the exchange rate regime is independently determined by the country's currency authorities.

Freely convertible currency is a currency that residents and non-residents can freely buy and sell without any restrictions. The right of such an exchange is usually guaranteed by the Central Bank of the country.

To date, 17 currencies are fully freely convertible, including the euro, US dollars, Canadian dollars, Swiss francs, British pounds sterling, and others[37].

In any country there is the Central Bank, designed to perform certain tasks, one of which is the regulation of the national currency rate. The stability of the currency of a certain state is largely influenced by its gold and currency reserves.

Reserve currencies act as:

- investment asset;
- the regulator of the national currency rate for currency interventions;
- means of payments of the state in the performance of export operations.

There is such a thing as world reserve currencies. Their composition is determined by the International Monetary Fund.

[37] https://en.wikipedia.org › wiki › Currency

Today, the Central Banks of most states use as their assets several world reserve currencies.

American dollar. This is the main world currency over the past several decades. The national currency of the United States is more than 60% of foreign exchange reserves around the world.

Euro. In the list of world reserve currencies, the European currency is in second place after the US dollar and accounts for approximately 25% of the world's reserves. The dollar and the euro are the two main competitors in the currency assets of the Central Banks of the world powers. Before the all-European currency appeared, the world's reserve currencies included the German mark and several other national currencies of European countries.

English pound sterling. From the 18th century until the introduction of the gold standard (early 20th century), the British pound remained the world's main currency. However, after the replacement of the gold standard with dollar, it withdrew to the second plan, giving way to the US dollar, and then to the currencies of other countries. Only in the past few years the British pound began to restore its positions in foreign exchange reserves and today it occupies the third place in the system of world currencies.

Japanese yen. Not so long ago, the Japanese currency lost the third place to the British pound, dropping by 1 point in the system of world currencies.

Swiss frank. Switzerland has a reputation as a country with a stable economy and the most reliable financial system in the world, which allowed the Swiss franc to become the world reserve currency, but its share is generally insignificant.

Special Drawing Rights. Among other things, the International Monetary Fund issues its virtual non-cash currency. There are several world reserve currencies in different ratios; the decision on which currencies will be presented in the SDR, as well as their share in the total basket, is taken every 5 years.

Floating exchange rate, or fluctuating rate of exchange, is the exchange rate regime in which the currency value is allowed to fluctuate depending on the foreign exchange market. A currency using a floating exchange rate is known as a floating currency.

Currency restrictions are a system of normative rules established administratively or legislatively aimed at restricting transactions with foreign and national currencies and other currency values: the regulation of transfers and payments abroad, export of capital, repatriation of profits, gold, bank notes and securities; prohibition of free sale and purchase of foreign currency; mandatory delivery of foreign currency to the state in exchange for the national currency at the official rate.

International credit means of circulation are monetary instruments, signs of value used for settlements on trade and commercial transactions and arising on the basis of commercial and bank loans. Being essentially instruments of credit and expressing relations between borrowers and creditors, they perform simultaneously a number of monetary functions. According to international practice, credit means of circulation and payment are: a bill (promissory note and bill of exchange), a check and a banknote.

A promissory note is an unconditional promise in writing made by one person to another signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer.

A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer.

A check is a security containing an unconditional order of the drawee to the bank to make payment to the check holder. There are personal checks, order checks and bearer checks.

The banknote was the result of the evolution of the bill. Initially served as a certificate of acceptance of gold by the banker and an obligation to issue (return) this deposit on demand. The right to issue banknotes was first owned by many commercial banks. Then the state concentrated the issue of banknotes in the Central Bank. Thus, the banknote was given the character of a universal payment facility.

Most of the international payments are made in a non-cash form. This makes it possible to achieve significant savings in handling costs.

21.3.Currency operations

Different types of currency transactions are carried out in foreign exchange markets. Currency transactions are transactions for the purchase and sale of foreign currency, as a result of which the owner of a national or foreign currency, or two foreign currencies, changes; this also includes operations to provide loans and make payments in foreign currency.

The main types of currency transactions are spot and forward.

A spot exchange rate is the price to exchange one currency for another for delivery on the earliest possible value date. Although the spot exchange rate is for delivery on the earliest value date, the standard settlement date for most spot transactions is two business days after the transaction date.

A forward exchange contract is a special type of foreign currency transaction. Forward contracts are agreements between two parties to exchange two designated currencies at a specific time in the future. These contracts always take place on a date after the date that the spot contract settles and are used to protect the buyer from fluctuations in currency prices.

An outright forward is a forward currency contract that locks in an exchange rate for a specific delivery date and a specific amount. An outright forward contract protects an investor, importer or exporter from changes in the exchange rates. Foreign exchange forward contracts can also be used to speculate in the currency market.

Eventual movements in the exchange rate are a risk for investors and businesses with international operations. Therefore, they adopt strategies to minimize the impact of eventual adverse movements. This is known as hedging, and it involves using financial instruments to increase protection against currency fluctuations. Hedging makes transactions, cash flows and cost structures more stable and predictable.

Futures contracts, or futures, are financial instruments with conditions for a currency exchange, including the amount, rate and expiry date. They are available in the market and can be traded like other financial assets. Futures eliminate the non-compliance risk of forwards, so they are common when there are credit risks. However, futures are not customized and are usually available only in major currencies.

Swaps are contracts between two parties that need foreign currency, but don't want to borrow from a foreign bank. They exchange an initial amount and gradually swap back small amounts as interest. Finally, they return the initial amount. They usually borrow domestic currency as well, so the small amounts pay the loan's interest. Swaps are common among financial institutions.

QUESTIONS

1. What is a currency?
2. Describe currency relations.
3. What currency systems differ?
4. What are the functions of the national currency system?
5. What is the exchange rate?
6. What is the currency parity?
7. What are the functions of the world monetary system?
8. List the elements of national and world monetary systems.
9. What currency operations differ?

CHAPTER 22. INTERNATIONAL FINANCIAL INSTITUTIONS, THEIR PURPOSE AND FUNCTIONS

22.1. International financial institutions: principles of organization, functions and goals of activities.

22.2. Organization and development of the International Monetary Fund.

22.3. International Bank for Reconstruction and Development: objectives of the organization, organizational structure and working principles.

Key words: international financial institution, International Monetary Fund, World Bank, transferring money, lending, investing, borrowing money, functions of international financial organizations, goals of international financial organizations, working principles.

22.1.International financial institutions: principles of organization, functions and goals of activities

International credit and financial organizations can also be combined into one common notion - international financial institutions. These organizations have one goal - to develop cooperation and ensure the integrity and stabilization of a complex and contradictory world economy. A financial institution is an institution that deals with various operations, such as: transferring money, lending, investing, borrowing money through various financial instruments. The financial institution has its own purpose. It is the organization of mediation, which means the effective movement of funds (direct or indirect form) from savers to borrowers.

An international financial institution (IFI) is a financial institution that has been established (or chartered) by more than one country, and hence are subjects of international law. Its owners or shareholders are generally national governments, although other international institutions and other organizations occasionally figure as shareholders. The most prominent IFIs are creations of multiple nations, although some bilateral financial institutions (created by two countries) exist and are technically IFIs. The best known IFIs were established after World War II to assist in the reconstruction of Europe and provide mechanisms for international cooperation in managing the global financial system.

All of IFI share the following goals and objectives:

❖ to reduce global poverty and improve people's living conditions and standards;

❖ to support sustainable economic, social and institutional development; and

- to promote regional cooperation and integration.

IFIs achieve these objectives through loans, credits and grants to national governments. Such funding is usually tied to specific projects that focus on economic and socially sustainable development. IFIs also provide technical and advisory assistance to their borrowers and conduct extensive research on development issues. In addition to these public procurement opportunities, in which multilateral financing is delivered to a national government for the implementation of a project or program, IFIs are increasingly lending directly to non-sovereign guaranteed actors. These include sub-national government entities, as well as the private sector.

The functions of international financial organizations are determined by taking into account their objectives and competencies. The functions of an international organization are external manifestations of its activities in the performance of its tasks.

If we summarize the most important functions of international financial institutions, then it is expedient to formulate them as follows:

- regulation of international monetary and financial relations;
- monitoring the state of the international monetary system;
- assistance in macroeconomic stabilization and structural reorganization of the real sector of the economy, dissemination of experience of transformational transformations in countries with transitional economies;
- monitoring of the development of the economies of member countries and fulfillment of their obligations to international financial institutions.

International financial institutions contribute to the generalization of states in various spheres of life. That is, the goal of the creation of any international organization is to unite the efforts of states in one or another area: the economic (EU), the monetary (IMF) and in others.

After the Second World War, the disruption of international and national monetary and credit systems and the extremely difficult economic situation necessitated the mobilization of the national financial resources of these states and the adoption of collective measures to eliminate the consequences of the war. To this end, at the Bretton Woods International Conference in 1944, it was decided to establish the International Monetary Fund as the specialized bodies of the United Nations - to restore and stabilize the international and national monetary and financial systems and the International Bank for Reconstruction and Development - to promote private capital in the expansion of investment lending.

With the stabilization of the economies of European countries, the expansion of international economic ties and the internationalization of economic life in the world, there have been changes in the activities of the IMF and International Bank for Reconstruction and Development. These international organizations began to pay more attention to the organization of assistance to countries in overcoming the emerging crisis phenomena and restructuring their economies, and also significantly expanded financial assistance to countries that had been granted state independence in order to accelerate their economic development.

A lot of questions in the monetary and credit sphere, both in the international arena and in certain regions that the world community needed to address, also called for the creation of regional long-term lending banks. If in the pre-war years only the Bank for International Settlements existed in Basel (Switzerland), a system of international monetary organizations, both global and regional (the Asian Development Bank, the Inter-American Development Bank, the African Development Bank, the European Bank for Reconstruction and Development, etc.).

22.2.Organization and development of the International Monetary Fund

The International Monetary Fund (IMF) is an international organization headquartered in Washington, D.C., consisting of "189 countries working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world". The International Monetary Fund was originally set up under the Bretton Woods system to help countries deal with balance-of-payments problems and stay with the fixed exchange rates by lending to deficit countries. When the Bretton Woods system of fixed exchange rates collapsed in 1971, the IMF took on new roles[38]. It now plays a central role in the management of balance of payments difficulties and international financial crises.

The capital of the IMF consists of contributions (in accordance with established quotas) of participants, the size of which depends on the country's economic potential and activity in international trade. Initially, contributions were paid in part by gold (a quarter of the quota) and partly by the national currency. As of 2016, the fund had SDR477 billion.

The participating countries are obliged to regularly inform the IMF about their gold and currency reserves, the state of the economy, the balance of payments, etc.

IMF works to foster global growth and economic stability by providing policy advice and financing the members by working with developing nations to help them achieve macroeconomic stability and reduce poverty. The rationale for this is that private international capital markets function imperfectly and many countries have limited access to financial markets. Such market imperfections, together with balance-of-payments financing, provide the justification for official financing, without which many countries could only correct large external payment imbalances through measures with adverse economic consequences. The IMF provides alternate sources of financing.

The IMF grants loans to countries that experience balance-of-payment deficits. Consequently, the IMF is similar to a Central Bank because a Central Bank can grant emergency loans to its banks during a financial panic or crisis. Thus, the IMF should stabilize international payments and promote international trade. Moreover, the IMF collects and standardizes international economic data. The IMF has 181 members and opens membership to any independent nations. If a

[38] Frederic S.Mishkin. The economics of money, banking and financial markets. Pearson Education Limited. 2011. –535 p.

country wants to join the IMF, then this country contributes capital based upon a formula. A country pays one-fourth of the capital in gold and three-fourths in that country's own currency. IMF relaxed it gold requirement, and countries can pay using strong currencies such as euros, pounds sterling, Special Drawing Rights, U.S. dollars, or yens. Consequently, the IMF gains financial capital because the IMF possesses gold and a pool of foreign currencies that it can lend to countries.

The IMF helps countries that are experiencing balance-of-payments deficits. For example, Britain has a balance-of-payments deficit, and it borrows from the IMF. The British government needs U.S. dollars, so the British government or Central Bank gives pounds and receives dollars from the IMF to finance its balance-of-payments deficit. Thus, the U.S. dollars decrease while British pounds increase in the IMF's currency pool. When Britain repays the loan with interest, it repays in a currency that is acceptable to IMF, and then the IMF returns the British pounds.

Uzbekistan joined to the IMF on September 21, 1992.

Representatives of the IMF regularly visit the Republic of Uzbekistan to hold consultations within the government and the Central Bank.

22.3.International Bank for Reconstruction and Development: objectives of the organization, organizational structure and working principles

The International Bank for Reconstruction and Development (IBRD) has been operating since 1946 as a specialized body of the United Nations, independent in its decisions[39]. As the Bank's activities expanded, four related divisions were formed: the International Finance Corporation in 1956, the International Development Association in 1960. The International Center for Settlement of Investment Disputes in 1966 and the Multilateral Investment Guarantee Agency – in 1988. Currently, these institutions form the World Bank Group with

[39] https://en.wikipedia.org/wiki/International_Bank_for_Reconstruction_and_Development

headquarters in Washington, and the IBRD, which is the ancestor and centerpiece of the group, together name the World bank. The Group acts as a partner in creating markets, strengthening economic potential, and helping to improve the living standards of citizens, especially in the poorest of developing countries.

IBRD is the most powerful division of the group, with the number of its founders currently stands at 189 countries. Membership in the IMF is a prerequisite for joining the Bank and its related units.

The Board of Governors is the supreme governing body of the bank. It consists of finance ministers or Central Bank governors of the participating countries, is headed by the President and decides on the admission of new countries, changes in the size of the share capital, temporary suspension of membership, etc. The Boards of Governors of the IBRD and the IMF hold joint meetings every year.

The Republic of Uzbekistan is a full member of IBRD since 1992. On July 2, 1992 the Law of the Republic of Uzbekistan "On membership of the Republic of Uzbekistan in the International Monetary Fund, International Bank for Reconstruction and Development, International Development Association, International Financial Corporation, Multilateral Investment Guarantee Agency" was implemented.

Uzbekistan is a part of Swiss group of country-members of the World Bank. The representative office of the World Bank is operating in Tashkent since September 1992 and headed by Junghun Cho (Republic of Korea) since December 1, 2014.

The current cooperation with the World Bank is based on the Bank's Partnership Strategy with the Republic of Uzbekistan for the period 2016–2020, which provides funding for projects from the International Development Association concessional loans and IBRD loans for 27 investment projects totaling US$ 4.0 billion with a World Bank loan amount of US$ 3.0 billion[40].

[40] www.stat.uz - based on information from the official website of The State Committee of Republic Uzbekistan on statistics

QUESTIONS

1. What international credit and financial institutions are operating today?

2. What are the functions of international credit and financial institutions?

3. When and why was the International Monetary Fund created?

4. What activities is carried out by the International Monetary Fund?

5. What activities is carried out by International Bank for Reconstruction and Development?

6. What is the relationship between Uzbekistan and International Bank for Reconstruction and Development?

GLOSSARY

Asset – A financial claim or piece of property that is a store of value.

Balance sheet – A list of the assets and liabilities of a bank (or firm) that balances: Total assets equal total liabilities plus capital.

Bank failure – A situation in which a bank cannot satisfy its obligations to pay its depositors and other creditors and so goes out of business.

Bank panic – The simultaneous failure of many banks, as during a financial crisis.

Banks – Financial institutions that accept money deposits and make loans (such as commercial banks, savings and loan associations, and credit unions).

Bond – A debt security that promises to make payments periodically for a specified period of time.

Bretton Woods system – The international monetary system in use from 1945 to 1971 in which exchange rates were fixed and the U.S. dollar was freely convertible into gold (by foreign governments and central banks only).

Cash - money in the form of notes and coins, rather than checks or credit cards.

Central Bank – The government agency that oversees the banking system and is responsible for the amount of money and credit supplied in the economy; in Uzbekistan, the Central Bank of the Republic of Uzbekistan.

Central Bank independence – Advocates of central bank independence find that inflation performance is found to be the best for countries with the most independent central banks.

Collateral – property that is pledged to the lender to guarantee payment in the event that the borrower is unable to make debt payments.

Commodity money – Money made up of precious metals or another valuable commodity.

Credit risk – The risk arising from the possibility that the borrower will default.

Currency – The name applied collectively to the coins and notes issued by the central bank.

Devaluation – Resetting of the fixed value of a currency at a lower level.

Dividends – Periodic payments made by equities to shareholders.

E-cash – A form of electronic money that can be used on the Internet to purchase goods or services.

Electronic money (e-money) – Money that is stored electronically.

Equation of exchange – The equation MV * PQ, which relates nominal income to the quantity of money.

Exchange rate – The price of one currency in terms of another.

Forward rate – The interest rate predicted by pure expectations theory of the term structure of interest rates to prevail in the future.

Futures contracts – The seller agrees to provide a certain standardized commodity to the buyer on a specific future date at an agreed-upon price.

Gold standard – A fixed exchange rate regime in which a currency is directly convertible into gold.

Hyperinflation – An extreme inflation in which the inflation rate exceeds 50% per month.

Inflation – The condition of a continually rising price level.

Inflation rate – The rate of change of the price level, usually measured as a percentage change per year.

Interbank deposits – Deposits made at other banks.

Interest rate – The cost of borrowing or the price paid for the rental of funds (usually expressed as a percentage per year).

International Monetary Fund (IMF) – The international organization created by the Bretton Woods agreement whose objective is to promote the growth of world trade by making loans to countries experiencing balance-of-payments difficulties.

Liquidity – The relative ease and speed with which an asset can be converted into cash.

Medium of exchange – Anything that is used to pay for goods and services.

Monetary aggregates – The various measures of the money supply used by the central bank (M1, M2, and M3).

Money – Anything that is generally accepted in payment for goods or services or in the repayment of debts.

Reserve currency – A currency, such as the U.S. dollar, that is used by other countries to denominate the assets they hold as international reserves.

Revaluation – Resetting of the fixed value of a currency at a higher level.

Shareholders – Those who hold stock in a corporation.

Short-term – With reference to a debt instrument, having a maturity of one year or less.

Special Drawing Rights (SDRs) – An IMF-issued paper substitute for gold that functions as international reserves.

Spot rate – The interest rate at a given moment.

Trade balance – The difference between merchandise exports and imports.

Wealth – All resources owned by an individual, including all assets.

World Bank – The International Bank for Reconstruction and Redevelopment, an international organization that provides long-term loans to assist developing countries in building dams, roads, and other physical capital that would contribute to their economic development.

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