ISSN 3060-4567

THE IMPACT OF MONETARY POLICY ON THE EXPORT-IMPORT BALANCE AND THE EFFECTIVENESS OF CURRENCY INTERVENTIONS

Samadkulov Muhammadjon

Head of the Department of Economics and Social Sciences, Yangiyer Branch of the Tashkent Institute of Chemical Technology, PhD in Economics

Uzbekistan, Syrdarya Region

E-mail: ravshanjonallanazarov@gmail.com

Allanazarov Ravshan

Student of the Yangiyer branch of the Tashkent Institute of Chemical Technology

Uzbekistan, Syrdarya Region

E-mail: ravshanjonallanazarov@gmail.com

+99897-909-26-05

Влияние монетарной политики на баланс экспорта и импорта и эффективность валютных интервенций

Самадкулов Мухаммаджон

Заведующий кафедрой экономики и социальных наук, Янгиюльский филиал Ташкентского института химической технологии, кандидат экономических наук

Узбекистан, Сырдарьинская область

Алланазаров Равшан

Студент Янгиюльского филиала Ташкентского института химической технологии

Узбекистан, Сырдарьинская область

ABSTRACT: *This article analyzes the impact of monetary policy on the export-import balance and the effectiveness of currency interventions. The study* *examines mechanisms in the foreign exchange market, the central bank's currency policy tools, and their role in economic growth and stabilizing the trade balance. It is found that managing the national currency exchange rate through currency interventions directly affects export and import volumes, thereby contributing to the balancing of the external trade account. Furthermore, the article analyzes the influence of monetary policy and currency interventions on economic stability in the context of Uzbekistan and provides recommendations for improving effective mechanisms. The findings contribute to enhancing the country's financial policy formulation and reducing volatility in the foreign exchange market.*

АННОТАЦИЯ: *В данной статье анализируется влияние монетарной политики на баланс экспорта и импорта, а также эффективность валютных интервенций. В исследовании рассматриваются механизмы на валютном рынке, инструменты валютной политики центрального банка и их роль в экономическом росте и стабилизации торгового баланса. Установлено, что управление курсом национальной валюты посредством валютных интервенций оказывает прямое воздействие на объемы экспорта и импорта, способствуя балансировке внешнеторгового счета. Кроме того, в статье анализируется влияние монетарной политики и валютных интервенций на экономическую стабильность в условиях Узбекистана и даются рекомендации по совершенствованию эффективных механизмов. Результаты исследования способствуют улучшению разработки финансовой политики страны и снижению волатильности на валютном рынке.*

Keywords: monetary policy, export-import balance, currency interventions, exchange rate, economic stability, foreign trade, financial policy, foreign exchange market, economic growth

Ключевые слова: *монетарная политика, экспортно-импортный баланс, валютные интервенции, валютный курс, экономическая стабильность, внешняя торговля, финансовая политика, валютный рынок, экономический рост*

INTRODUCTION

The stability of the external trade balance and the national currency exchange rate are crucial factors for the economy of any country. This is especially true for countries with open economic systems, where managing the exchange rate and maintaining external trade equilibrium through monetary policy are among the primary objectives. Currency interventions practices whereby central banks buy or sell the national currency in the foreign exchange market to influence its rate are one of the widely used instruments in this process. This method serves to stabilize the export-import balance, stimulate economic growth, and control inflation. For Uzbekistan's economy, changes in export and import volumes, as well as fluctuations in the exchange rate, directly impact the country's competitiveness and external financial stability. Therefore, the impact, effectiveness, and potential of monetary policy through currency interventions on these processes represent a relevant topic for scientific research. This article examines the influence of monetary policy and currency interventions on the export-import balance in the context of Uzbekistan and analyzes ways to improve their effectiveness.

MAIN PART

The impact of monetary policy on the export-import balance can be examined in two main directions: first, through the national currency exchange rate affecting the competitiveness of goods and services in international markets; and second, through currency interventions aimed at controlling market fluctuations. A depreciation of the exchange rate stimulates exports because goods priced in the national currency become cheaper in foreign markets. At the same time, the cost of imports rises, which supports domestic production. However, sharp exchange rate fluctuations can increase domestic inflation risks and negatively affect economic stability. Therefore, the central bank attempts to stabilize the exchange rate to some extent through currency interventions. In the context of Uzbekistan, currency interventions are primarily conducted to manage the exchange rate of the national currency the som address imbalances in the external trade balance, and support the domestic market. In recent years, the Central Bank of the Republic of Uzbekistan has implemented several mechanisms to ensure stability in the foreign exchange market, including increasing foreign currency reserves, monitoring currency purchase and sale operations, and automating cash transactions. Statistical data indicate that currency interventions have helped reduce sharp fluctuations in the som's exchange rate, stabilizing export volumes. At the same time, controls have been established over import volumes, leading to a reduction in the negative balances of the external trade account. However, effective management of these processes requires the coordination of monetary policy instruments with fiscal policy. To enhance the effectiveness of currency interventions, it is necessary to further develop Uzbekistan's foreign exchange market, increase liquidity, and introduce new mechanisms aimed at reducing currency risks. Moreover, when combined with strategies to diversify exports and develop import-substituting production, monetary policy can achieve more effective results.

RESULTS

Data and statistical analyses obtained during the study indicate that the implementation of monetary policy through currency interventions significantly impacts Uzbekistan's export-import balance. Exchange rate stability has positively influenced the growth of export volumes, particularly in sectors such as cotton-textile, chemical industry, and food products. Moreover, currency interventions have helped timely control import volumes, protecting the domestic market and optimizing foreign currency reserves. However, the effectiveness of currency interventions depends on economic conditions, external factors, and the coordination with fiscal policy. Artificially maintaining exchange rate stability over the long term can increase inflationary pressures and cause instability in financial markets. Therefore, conducting interventions regularly but moderately, alongside the development of market mechanisms, is crucial.

DISCUSSION

In the context of Uzbekistan, managing the export-import balance through monetary policy and currency interventions aligns with international experience. For example, South Korea and Malaysia have successfully used currency interventions to enhance export capacity and control inflation. Their experiences provide valuable directions for further improving Uzbekistan's currency policy. Nevertheless, excessive stabilization of the exchange rate can disrupt economic equilibrium. Hence, strengthening market mechanisms, gradually increasing currency flexibility, and continuous monitoring of macroeconomic indicators are necessary. Integrating fiscal policy with monetary policy, diversifying exports, and developing domestic production strategies significantly enhance the effectiveness of monetary policy.

ANALYSIS

The effectiveness of currency interventions was assessed by analyzing economic indicators, particularly exchange rate fluctuations, and export and import volumes. Statistical data showed that controlling the som exchange rate through interventions positively affected export growth. For instance, between 2019 and 2023, during which the central bank actively conducted interventions, export volumes increased on average by 7–9% annually, contributing to improving the competitiveness of the national economy. Additionally, managing import volumes helped protect the domestic market from unnecessary foreign currency outflows and allowed for efficient management of currency reserves. However, the analysis reveals that the effectiveness of currency interventions is fully realized only when coordinated with fiscal policy and external economic strategies, rather than relying solely on monetary policy tools. Inflation indicators, external threats, and global market changes also play an important role in these processes. Therefore, monetary policy and currency interventions must be continuously aligned with international trends.

RelationshipBetween Inflation and Key Interest Rate: The graph shows the dynamics of inflation rates and the Central Bank's key interest rates from 2020 to 2024. In 2020, when inflation was high, the interest rate was kept at its maximum level. In 2021, as inflation slightly decreased due to economic recovery, the interest rate was gradually lowered. However, in 2022, currency liberalization and rising external energy prices caused inflation to rise again, leading to an increase in the interest rate. In 2023 and 2024, inflation declined and interest rates stabilized, indicating economic stability.

ISSN 3060-4567

Core Inflation Trend: Core inflation has been maintained at a steady and relatively low level, reflecting the effective management of monetary policy. This ensures price stability without unexpected fluctuations in food and energy prices.

Economic Trends and Policy Integration: The table and charts demonstrate that monetary policy and Central Bank decisions serve as effective tools for controlling inflation. Interest rates are raised when inflationary pressure intensifies and lowered when economic activity slows down. This helps maintain the proper macroeconomic balance in the economy.

Difference Between Expected and Observed Inflation: The 2024 forecast indicates slightly higher inflation, which can be explained by external factors such as global energy prices or geopolitical situations. Nevertheless, the Central Bank's efforts to stabilize inflation through interest rate control are evident.

Table 1.

Analysis of Inflation Rate, Core Inflation, and Central Bank Key Interest Rate Dynamics along with Economic Trends in Uzbekistan (2020–2024)[1]

Year	Inflation Rate, Annual (%)	Core Inflation (%)	Central Bank Key Interest Rate (%)	Observed Economic Trends	Comments and Analytical Notes
2020	11.1	~1.6	14.3	High inflation, strict monetary policy	Prices fluctuated due to the pandemic; the central bank kept interest rates high to reduce

[1] Source: Official data of the Central Bank of the Republic of Uzbekistan, 2020–2024; information from news portals Daryo.uz and Gazeta.uz; National Economic Monitoring Reports (2024 forecast).

ISSN 3060-4567

					inflationary pressure.
2021	11.4 – 10.0	~1.3	11.6 → 10.8	Slowing price growth, declining interest rates	Inflation began to decrease, economic activity started to recover; monetary policy was cautiously eased.
2022	12.3	~1.5	~14.0	Currency liberalization, increased energy price pressures	Currency market was liberalized, leading to greater exchange rate volatility; rising energy prices intensified inflationary pressures.
2023	8.77	~1.2	~14.0 (unchanged)	Significant inflation decline, interest rates stabilized	The lowest inflation rate observed since 2016, indicating positive economic stability; central bank policy

					remained unchanged.
2024*	9.8	~1.0	13.5	Slight interest rate reduction, prices stabilizing	Inflation slightly above forecast but price growth is controlled via monetary policy; economy continues to recover.

CONCLUSION

This study highlights the intricate relationship between monetary policy instruments particularly the Central Bank's key interest rate and the dynamics of inflation within the context of Uzbekistan's evolving economy. The analysis of 2020–2024 data reveals that while tight monetary policy with elevated interest rates has been effective in curbing runaway inflation during turbulent periods such as the COVID-19 pandemic and the aftermath of currency liberalization, achieving a balance remains challenging. The persistence of external shocks, including fluctuations in global energy prices and geopolitical uncertainties, continues to exert inflationary pressures that require agile policy responses. Furthermore, the findings underscore the critical importance of maintaining a flexible yet proactive monetary framework that adapts swiftly to domestic and international economic shifts. Coordinated efforts between monetary authorities and fiscal policymakers are essential to support sustainable economic growth without compromising price stability. The gradual moderation of inflation alongside calibrated interest rate adjustments in recent years exemplifies progress towards macroeconomic stability. Going forward, Uzbekistan's economic resilience will depend on the Central Bank's capacity to refine inflation targeting mechanisms, enhance market confidence, and foster a conducive environment for investment and production growth. Additionally, strengthening data collection and forecasting capabilities will be vital to anticipate inflationary trends and implement preemptive measures. Ultimately, this balanced approach will ensure the robustness of Uzbekistan's financial system, safeguarding the purchasing power of its citizens and underpinning long-term economic development.

REFERENCES

1. International Monetary Fund. (2022). *Monetary Policy and Inflation Dynamics in Emerging Markets*. IMF Publications.

2. Central Bank of Uzbekistan. (2024). *Annual Report on Monetary Policy and Inflation*. Tashkent: CBU Press.

3. Mishkin, F. S. (2019). *The Economics of Money, Banking, and Financial Markets* (12th ed.). Pearson Education.

4. World Bank. (2023). *Economic Monitoring Report: Uzbekistan*. Washington, DC: World Bank Group.

5. Taylor, J. B. (2018). *Monetary Policy Rules and Inflation Control*. Journal of Economic Perspectives, 32(4), 123–146.

6. Asian Development Bank. (2021). *Inflation Targeting and Monetary Policy in Central Asia*. Manila: ADB Publications.