

Analysis Of Long-Term and Current Factors Affecting the Exchange Rate

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Abstract

The article examines the factors affecting the exchange rate of the national currency in the present period

Keywords: economy, inflation, national currency, foreign currency, exchange rate, economic growth, export.

It is known that influencing the exchange rate is an effective means of regulating foreign economic relations. Its main principles are defined in the Law of the Republic of Uzbekistan "On Regulation of Currency" adopted in May 1993, first in 2003, and then in 2019, and in other legal documents. The stable maintenance of the national currency exchange rate against foreign currencies by the Central Bank and the increase in the effectiveness of the monetary and foreign exchange policy also create the basis for a positive balance of payments.

The exchange rate is interconnected with the domestic and foreign economy of the country, and its change affects the country's economy and the development of foreign economic relations. The exchange rate and its future status serve as the main factor in the development of foreign economic relations, especially foreign trade. Exchange rate fluctuations affect foreign trade performance.

Theoretically and most generally, the exchange rate of the national currency against foreign currencies is based on the level of development of the national

economy and its international competitiveness. In turn, competitiveness relies on technological advantages and labor productivity. A country with a technological advantage can offer a product with high productivity to the world market with less labor, and this gives an advantage to the national currency. These factors have a long-term nature, and their achievement will take place through the implementation of fundamental changes in the national economy.

At the same time, changes in the market situation in the short term will not affect currency relations. In general, since each long-term period consists of a sum of short-term periods, it is impossible to deny the influence of factors operating in the short-term period.

In the long term, the international value of the national currency is determined by the country's ability to offer competitive goods to the world market. From this point of view, there is an advantage in those who offer high-tech goods. First, the suppliers of such goods have a monopoly position in the market in

almost all situations. A monopolist absorbs more of the profit from the good, leaving less profit to the buyer. As a result, the buyer is obliged to give more of his labor for less labor of the monopolist. Otherwise, he will not be able to have the goods and the benefit from them at all. This reduces the value of the national currency in the long term. Almost half of Uzbekistan's imports are high-tech investment goods, and they are purchased mainly from monopolistic markets. Secondly, highly skilled labor is used in conditions of high technologies. Such work creates more new value per unit of time, and the profitability of labor results is even higher. This will ultimately provide a long-term advantage to the national currency.

In the short term, changes in the national exchange rate depend on the extent to which exports are not hindered and encouraged as much as possible (this determines the current supply in the foreign exchange market) and how economically imports are carried out (the current demand in the foreign exchange market). The tendency of qualified capital to go abroad (especially for the purpose of legalizing corrupt wealth abroad) reduces export earnings and increases the demand for foreign currency. From this point of view, in 2017-2021, the rate of depreciation of the national *vayu* against the dollar in our country has decreased sharply, the rate of these rates was several times slower than the rate of inflation, and in our opinion, significant measures are being taken against corruption.

During the transition to a market economy, a high level of deficit of the state budget, to compensate for it, the issuance of large volumes of national currency leads to hyperinflation, a

decrease in confidence in the national currency, an increase in the use of foreign currency in transactions in the economy, and a sharp decrease in the national currency exchange rate. Dollarization of the economy is often supported by the state itself. The price of the most important goods is determined in dollars, rarer resources are not sold in national currency, rules are introduced that limit the free disposal of national currency. As a result, the ability of the national currency to perform the functions typical of real money is limited, which reduces its value. High tax burdens and bureaucratic impediments to entrepreneurial freedoms increase capital flight. In such conditions, corruption increases, and real financial control is almost impossible.

Balancing of state budget revenues and expenses, achieving real macroeconomic growth will provide an opportunity to curb such negative processes. Liberalization of the resource market and transfer to the national currency, on the one hand, accelerates investment processes, and on the other hand, the demand for foreign currency decreases accordingly. Also, the fact that a foreign investor has to spend a large part of his funds in soums expands the supply in the foreign exchange market.

In times of strong capital outflows, the state must exercise strict control over exports. But this process cannot be shortened without improving the business environment. Capital flows abroad in foreign currency, which pushes the demand in the foreign exchange market beyond the limits required by export-import relations. An increase in the price of foreign currency occurs on the black market.

Procedures established for the purpose of preventing the outflow of capital in most cases have a negative result. For example, exporting goods only on prepayment or guaranteed payment terms weakens the competitiveness of exporters in foreign markets, increases their costs, and objectively leads to lower export earnings. Efforts to centralize exports have even more serious consequences. Monopolistic exporters artificially reduce the purchase prices in the domestic market. The financial situation of the direct producers of export goods will worsen. This could be clearly seen in the example of cotton fiber export. The export of cotton fiber has been stopped, and the export of cheap products made from it continues. This cannot strengthen the value of the national currency. Attempts are being made to introduce monopolistic measures to the export of fruits and vegetables.

Inflationary reasons and corruption reasons can be behind the serious fluctuations of the exchange rate in the short term. High rates of inflation devalue the national currency, and its restraint allows to slow down this process. The fact that inflation occurs as demand inflation is related to the issue of national currency to cover the costs of the state budget. Also, due to economic changes in the world market, the increase in the prices of imported goods can increase the need for foreign currency and this will affect the exchange rate (importation of inflation).

In our opinion, cost inflation is more relevant in our country at the moment. Such inflation is related to the monopolization of the resource market, bureaucratic barriers to entrepreneurship, and factors limiting free competition in the markets are not eliminated. As a result,

there is a rapid increase in costs in many sectors of the economy, and the economic conditions for corrupt activities are created. The fight against corruption is very important in increasing the value of the national currency. From the second half of 2017, the liberalization of currency relations, the introduction of a new, anti-corruption system of public services, the strengthening of the transparency of public procurement, in our opinion, are the decisive factors in the increase in the value of the national currency.

In the long run, inflationary trends are driven by inappropriate and unsustainable spending. For example, the involvement of health workers in street cleaning or agricultural work is ultimately covered by the government's allocation of funds to health services, which means that these services are not actually provided. Encouraging students to act instead of teaching means that educational services become more expensive. The fact that the costs of products are not shown in the reports does not mean that these costs are not incurred. In the end, we know that the costs have increased from the depreciation of the national currency.

It is known that the exchange rate has been liberalized since September 2017. The dollar exchange rate changed from 8,150 soums during this period to 10,500 soums by the end of 2021, that is, an increase of 25%. If the exchange rate depended only on inflation, the dollar would have to increase by at least 70 percent. In the short term, foreign exchange earnings related to the export of labor are also playing an important role. For example, in 2022, such revenues will reach 1 billion in Namangan region. amounted to a dollar. The main part of this

can be converted into soums and is much more than the import needs of the region.

In our opinion, the trends in the development of currency relations are determined primarily by the following factors:

- serious liberalization of export regulations (but monopoly remains in some directions);

- as a result of taking measures to remove the monopoly of import, the economy of import is showing itself;

- improvement of the business environment, special industrial zones, free economic zones encourage the investment of entrepreneurial capital in the country;

- liberalization of transactions increases the attractiveness of the national currency for economic entities (liberalization of money circulation, liberalization of currency exchange and elimination of corruption in this regard, circulation of large bills, etc.);

- With the beginning of the implementation of the development strategy, the feeling of economic patriotism among the population is being strengthened.

Making long-term decisions based on short-term changes in the exchange rate is not always justified. In general, linking the prices of certain goods in the national economy to the foreign exchange rate in any way (be it the price of a car, consumer electronics in a store, etc.) is completely wrong from the point of view of the country's economic independence and economic security, and has negative consequences from economic, social and political aspects. possible Measures to ensure the stability of the national exchange rate are a very important component of macroeconomic policy.

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