THE INTRODUCTION OF THE NATIONAL CURRENCY AND THE STABILITY OF THE MONETARY SYSTEM: THE CASE OF UZBEKISTAN

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Annotation: This article examines the modern monetary system of the Republic of Uzbekistan and its key structural elements. The monetary system is an integral part of any country's economy, encompassing such crucial aspects as the circulation and issuance of the national currency, exchange mechanisms, cash and cashless transactions, international payments, as well as the balance between money supply and demand. Following its independence, Uzbekistan began to pursue an independent monetary policy through the introduction of its national currency—the soum. The article also analyzes the role of the Central Bank in regulating the money supply, the methods of ensuring the stability of the national currency, and the significance of anti-inflationary measures.

Keywords: monetary system, national currency, soum, Central Bank, money supply, exchange rate.

After gaining independence, the Republic of Uzbekistan identified the strengthening of its economic sovereignty and the formation of a financial system adapted to market relations as one of its most pressing priorities. In response to this need, significant steps were taken toward establishing a national monetary system. The monetary system is one of the fundamental pillars of any state's economy, encompassing not only the circulation of the currency but also its regulation, issuance, foreign exchange operations, mechanisms of international settlements and payments, as well as the maintenance of a balance between the supply of and demand for money. With the introduction of the national currency—the soum—an independent monetary system began to take shape in Uzbekistan, and today this system plays a vital role in ensuring the country's macroeconomic stability.

The relevance of the topic lies in the fact that, in today's era of globalization, the stability of the national currency, as well as the reliability and efficiency of the monetary system, are among the key factors determining a country’s economic competitiveness.

The modern monetary system of the Republic of Uzbekistan was formed following the introduction of the national currency the soum on July 1, 1994. The national currency represents the core of any state’s monetary system, as it functions as a medium of exchange, a means of payment, and a store of value within the economy. The exchange rate of the soum is determined under a free-floating regime, meaning it is set based on supply and demand in the Republican Currency Exchange. This process is закрепед in the Law of the Republic of Uzbekistan “On Currency Regulation,” according to which the nominal value of the soum’s exchange rate is formed under the influence of external economic factors.

The Central Bank, as the sole official authority responsible for managing the monetary system, exercises control over the money supply. According to Resolution No. 63 dated February 4, 2003, this process is carried out through the M2 aggregate. In recent years, the rate of depreciation of the soum -that is, the process of devaluation—has been relatively high. In 2003, the depreciation of the soum against the US dollar amounted to 11 percent. Experts from the International Monetary Fund assessed this level as potentially risky. At the same time, excessive appreciation of the national currency can increase export prices and negatively affect competitiveness. Therefore, it is important to ensure that the real exchange rate of the soum does not rise excessively relative to the currencies of Russia, China, Kazakhstan, and Ukraine.

In order to stabilize economic activity through the regulation of cash circulation, the use of plastic cards is being actively expanded. To ensure the reliability of the monetary system, the issuance of money is exclusively the prerogative of the Central Bank. The Ministry of Finance does not possess any authority in this regard. The principle that “the national currency is a symbol of state independence, a source of national pride, and a sign of sovereignty” serves to strengthen public trust in and respect for money.

The stability of money depends on its purchasing power, which is determined by the prices of goods and services. When prices rise, the value of money declines; when prices fall, the value of money increases. Moreover, stability in circulation is ensured when the supply of and demand for money are in balance. The demand for money depends on the economic activity of enterprises and the population, as well as on the speed and volume of money circulation. The supply of money, in turn, is determined by the economic strategy set by the Central Bank. If the money supply exceeds demand, inflation intensifies and a tendency to move away from holding money may emerge.

The consistent functioning of the monetary system also depends on the balance of the state budget. When expenditures exceed revenues, a budget deficit arises, which may lead to the issuance of additional money not backed by sufficient assets. This, in turn, can trigger inflation. Therefore, each stage of money issuance is strictly controlled by the state. The availability of gold and foreign exchange reserves also enhances the external credibility of the national currency.

From a historical perspective, following the collapse of the former USSR, the ruble zone disintegrated, and each republic began introducing its own national currency. Countries such as Estonia, Latvia, Ukraine, and Azerbaijan were among the first to take this path. Uzbekistan initially introduced a coupon system and, in July 1994, put the soum into circulation. This was an event of not only economic but also political significance, as it is impossible to imagine economic sovereignty without an independent monetary system.

Each country's monetary system consists of specific elements that are regulated and controlled by the state through legislation. These elements include the name of the currency unit, its forms, the rules of issuance, the circulation of payment instruments, the procedures for international settlements, and the exchange rate. The development of society is closely linked to the stability of the monetary system, and the value and functionality of the soum play an important role in stimulating economic growth.

In conclusion, Uzbekistan's national monetary system today represents one of the key foundations of economic independence, financial stability, and national pride. Maintaining a sound monetary policy, implementing consistent anti-inflation measures, expanding electronic payment infrastructure, and increasing gold and foreign exchange reserves all contribute to strengthening the value of the soum. As a result of such policies, it is clearly evident that Uzbekistan has chosen a correct development path and is confidently progressing toward full economic independence.

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