



## Inflation Targeting in Developing Countries

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**Abstract:** In this article, the issues of infection targeting in developing countries are considered. Scientific conclusions have been drawn on the impact and importance of inflation expectations. To hold it in a standard for some time Let's talk about inflation targeting, which is one of the ways to stay to the questions of what targeting gives to the economy and what the economy loses we will try to answer through this article.

**Keywords:** inflation targeting, Central Bank, inflation targeting regime, monetary and credit policy, budget and tax policy.

According to the official statistics of the International Monetary Fund, the number of countries using the inflation targeting regime in 2018 is 41, of which 30 are developing countries. According to IMF experts, two conditions must be met to use inflation targeting as an indicator of monetary policy. First, the Central Bank should be able to implement an independent monetary and credit policy. The central bank should have the right to freely choose monetary instruments to achieve the level of inflation that the government considers acceptable. The requirements of the budget and tax policy in the country should not be taken into account as priorities in the development of the monetary and credit policy. In other words, the concept of "budget hegemony" should not exist in the country.

Secondly, in order to select the target index of inflation as an indicator, the target indicators of wage growth, employment rate and exchange rate should not be set. The reason for this is that the determination of the exchange rate of the national currency against the foreign currency forces the Central Bank to adjust its monetary policy to meet this indicator. This, in turn, does not allow the Central Bank to freely and fully use monetary instruments to ensure the target rate of inflation. As a result, the content of the tactical goals of the monetary and credit policy is double-sided, contradictory.

New Zealand, Canada, Great Britain, Finland, Sweden, Australia and Spain are mentioned as the countries that successfully used inflation targeting.

In Australia, Finland, and Sweden, the central bank announced the inflation target without obtaining the support of the government.

Canada and New Zealand have 18 months to reach the target. After the end of this period, in order to gradually reduce the level of inflation, another 12-month period has been set in New Zealand and 18 months in Canada.

After the expiration of the new deadlines, both countries managed to achieve the inflation target, and both countries set the inflation target for another five-year period.

In Australia, Finland, the inflation target is taken as a specific level.

In Canada, New Zealand, Sweden, Great Britain, the inflation target is set as a corridor.

In the inflation targeting regime used by the Central Bank of Russia, by the end of 2017, the goal was to reach the annual level of inflation to 4%. The measures implemented in 2016 made it possible to achieve this goal. That is, by the end of 2016, the annual rate of inflation in Russia was 5.4 percent. However, as of December 31, 2015, the annual rate of inflation in Russia was 12.9%.

By June 2016, a significant reduction in the level of inflation was achieved, which allowed the Central Bank of Russia to reduce the refinancing rate.

Factors that ensured the effectiveness of inflation targeting in Russia in 2016 include:

1. Low growth rates of prices of products and services of natural monopolies. In 2016, the growth rate of these prices was 1.3 percent.
2. Stability of the nominal exchange rate of the national currency (during 2016, it was ensured that 1 US dollar was at the level of 64-67 rubles.).
3. Ensuring a low growth rate of the money supply. In 2016, the growth rate of the money supply (according to the monetary aggregate M2) was 9.2 percent. In 2015, the growth rate was 11.5 percent.
4. It was not allowed to increase the monetary base by financing the state budget deficit at the expense of the reserve fund (it was allowed in 2015).

Since the inflation target in Kazakhstan is intended for the medium-term period, the econometric analysis is carried out on the basis of the data analysis of the quarterly period.

Also, in order to increase the accuracy of the forecast, surveys are being conducted among the population to assess inflationary and devaluation expectations.

Currently, due to the inflation targeting regime being used in Kazakhstan, the target indicators for the exchange rate of the national currency have not been set. The national currency, the tenge, has a free floating regime.

The transition to the inflation targeting regime is considered as one of the priorities of the fight against inflation at the stage of the transition to modern, innovative development of the economy of the Republic of Uzbekistan.

In the decision of the President of the Republic of Uzbekistan dated September 13, 2017 No. PQ-3272 "On measures to further improve the monetary policy", a number of important measures to improve the monetary policy were determined. In particular, in accordance with this Decision, the principles and mechanisms of the Central Bank of the Republic of Uzbekistan to achieve the goals of the monetary policy in the medium-term perspective in ensuring the stability of domestic prices, to the inflation targeting regime used by foreign central banks. His proposal was approved.

In accordance with the decree of the President of the Republic of Uzbekistan dated November 18, 2019 No. PF-5877 "On improving the monetary and credit policy through a gradual transition to the inflation targeting regime", relying on advanced foreign experience, inflation targeting the Central Bank of the Republic of Uzbekistan and the Cabinet of Ministers were tasked with carrying out coordinated preparatory work aimed at the following directions for the introduction of the regime:

- gradual reduction of the role of non-monetary factors of inflation, including the reform of tariff regulation, ensuring the effectiveness of structural economic reforms in the real sector of the economy and filling the domestic market with consumer goods;
- Improving the quality of macroeconomic analysis and communication policy of the Central Bank;
- introduction of new instruments of money market regulation, which ensure effective influence of the regulator on the credit market.

Based on this Decree, in order to expand the use of market mechanisms and instruments of economic regulation to ensure macroeconomic stability, as well as to fundamentally increase the effectiveness of monetary policy, the Central Bank of the Republic of Uzbekistan will reduce the inflation rate to

10% in 2021 and 5% in 2023. by setting a permanent inflation target (target) of the level, a demand was made to ensure the gradual transfer of monetary policy mechanisms to the inflation targeting regime starting from January 1, 2020.

Also, the decree approved the concept of joint efforts of the Cabinet of Ministers of the Republic of Uzbekistan and the Central Bank to reduce inflation and ensure price stability, and in accordance with this Concept, in 2020, the "Road" to reduce inflation and ensure price stability was approved. map" was approved.

It is important to note that, according to the Decree, from January 1, 2020, interest rates on all types of new loans granted by commercial banks (in national currency), including loans allocated within the framework of state programs, will be set at a level not less than the refinancing rate of the Central Bank (mortgage lending with the exception of state programs and loans allocated to enterprises producing agricultural products for the cultivation of raw cotton and grain crops) and from January 1, 2021, if necessary, by introducing mechanisms for compensating a certain part of interest costs the practice of granting loans at preferential interest rates was abolished, giving commercial banks the right to set interest rates independently.

It should be noted that for the first time in the history of our country, a regulatory requirement on the state budget deficit was introduced. That is, the Ministry of Finance of the Republic of Uzbekistan was assigned the task of ensuring a gradual reduction of the fiscal balance deficit to a level not exceeding 1.5 percent in 2022.

Another important aspect of the decree of the President of the Republic of Uzbekistan "On improving the monetary policy through gradual transition to the inflation targeting regime" is that it specifies the following directions for adapting the monetary policy to the inflation targeting regime z reflected:

- Until January 1, 2020, market instruments affecting money market interest rates, including Central Bank bonds, overnight deposits, permanent deposit auctions, government securities and loan auctions and overnight loans under foreign currency collateral;
- During 2020, the role of derivative instruments (swaps, options and futures) and commercial banks in the formation of the exchange rate will be gradually increased in the management of interest and currency risks;
- the interest corridor mechanism of the main interest rate in the implementation of the flexible interest policy through the regular intervention of the Central Bank in the interbank money market for a period of one month;
- Macroeconomic analysis and forecasting system, which provides for the development of econometric modeling instruments based on international financial institutions and advanced international experience until April 1, 2020;
- modern principles of communication policy, which provide for the timely coverage of the current situation in the economy, the main factors of inflationary processes and monetary policy measures by the Central Bank within two months;
- continuous study of factors of inflation and inflationary expectations, study of advanced foreign experience by attracting technical support of international financial institutions and central banks of other countries.

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