

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**MONETARY AND CURRENCY POLICY:
PROBLEMS AND PERSPECTIVES**

Speciality: 5301.01 Internal fiscal policy and state finance

Field of science: 53 – Economic sciences

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General characteristics of the work

Urgency of topic and its development degree. The importance and role of monetary and currency policy is constantly increasing as integral part of economic policy of the state in the condition of global financial crisis. Implementation of the considered monetary and currency policy helps to provide the creating of optimal condition for efficient mutual impacts between banking sector and subjects of economy and to solve complexly the social and economic issues before the country.

Monetary and currency policy bases on objective economic processes stipulated with development regularities of economic system. The measures taken within it have a significant effect to the dynamics of the main macroeconomic indicators.

The analysis of economic literature shows that, foreign scientists are also interested in learning of the topic of monetary and currency policy.

Hereby, some aspects of monetary policy, especially the ways for increase of its efficiency, modern tendencies and development factors of monetary and currency policy, its instruments, its adequacy to requirements of time was not sufficiently reflected in economic literature of the country and was not assessed enough by bank practice as instruments of economic growth.

The analysis of foreign economic scientific publications investigated on the topic of monetary policy shows that, there is a great interest in learning of this area. Many literatures are publishing in foreign countries in regard to the issues of monetary policy. The analysis of economic literature shows that, the researches of Azerbaijani and foreign scientists working on the study of the topic of monetary and currency policy, also the researches of A.J.Muradov, E.S.Rustamov, Z.F.Mammadov, A.Alakbarov, M.Ahmadov, A.Sh.Shakaraliyev, A.Babayev, Z.N.Ibrahimov, E.M.Sadigov, Y.Azizov, A.Aghayev, V.K.Burlachkov, M.Y.Golovnin, S.Glavyev, F.Mishkin, O.Rogova, A.Ulyukaev, R.M.Shakhnovich, V.M.Usoskin, M.A.Abramova, V.Burlachkova, V.V.Gerashchenko, S.M.Drobyshevski, V.M.Ershova, A.Yu.Zhigayeva, S.M.Krivoyuchko S.V., LV.Krrylova, O.Lavrushina, R.V.Lomivorotova, M.Yu.Matovnikova, S.R.Moiseeva, K.V.Ordova,

Semiturkina O.N., N. Senchagova V.K., V.A.Slepova, P.V.Turin, V.M.Usoskina, O.I.Lavrushin, L.N.Krasavina shall be noted particularly.

The purposes of monetary credit policy, transmission mechanism, methods, instruments, quantity indicators in the works of foreign authors are investigating, approaches to economic and mathematical modelling are supposed in the process of application of monetary and currency policy. The main attention in researches of authors of our country is focused on the issue of assessment and regulation of money demand in regard to use of instruments of monetary policy.

Hereby, some aspects of monetary policy, especially the ways for increase of efficiency of transmission mechanism of monetary policy, modern tendencies and development factors of monetary and currency policy, the adequacy of its application to the requirements of time was not sufficiently reflected in economic literature of the country and was not assessed enough by bank practice as instruments of economic growth.

The learning of works of Azerbaijan and foreign scientists on the issues of content and perspectives of monetary policy revealed the need to systematize existing ideas about monetary and currency policy and to disclose its economic content more fully.

The lack of complex theoretical and practical analysis of the problems of modern features, tendencies and improvement of monetary and currency policy, search of solution directions of these problems stipulated the choice of topic of dissertation work.

The issues for improvement of monetary and currency policy, application of the regime of effective monetary policy in the context of new economic conjuncture implemented in Azerbaijan is especially actual.

The urgency of the topic of research stipulates with follows:

- with necessity to develop the theoretical and methodological approaches to the study of monetary and currency policy in the condition of global crisis and at then period of post-crisis;
- with necessity to substantiate scientifically the main purpose of monetary and currency policy in the stability of prices;
- with necessity to develop the recommendations on optimization of monetary and currency policy of the Central Bank of Azerbaijan by

using of practice of application of alternative monetary regimes within modern monetary policy.

- with necessity to increase the efficiency of monetary and currency policy in the system of new economic conjuncture.

The issues of improvement of monetary and currency system are especially actual at the period of realization of anti-crisis economic policy of the state.

The most important task of the monetary government and scientific community of Azerbaijan is to solve the issues complex in regard to clarification of purpose, principles and priorities of monetary and currency policy conducted at the period of global financial crisis and post-crisis.

The making of changes in the system of approaches, development of its influence methods and instruments to the condition and development of economy constitutes a special problem of modern monetary and currency policy.

The lack of complex theoretical and practical analysis of the problems of modern features, tendencies and improvement of monetary and currency policy, search of solution directions of these problems stipulated the choice of topic of dissertation work.

The object of research covers the methodological apparatus of the processes taking place in the monetary and currency system, also modern directions of monetary and currency policy.

The subject of research covers the whole of problems and economic relations arising on direction of monetary and currency policy in the process of application of price stability of monetary and currency policy.

The purpose and tasks of dissertation work. The purpose of dissertation work is solution of scientific issue in regard to learning of theoretical, methodological and practical aspects of implementation of monetary and currency policy and widening of ideas about monetary credit policy and development of recommendations on development of monetary and currency policy in Azerbaijan in modern condition.

The solution of the following tasks put forward in the work making a speech from scientific purpose:

– learning of modern theoretical conceptions of basis for organization

- of monetary and currency policy system;
- by considering the characteristics of modern development stage of the country, determination of economic content of monetary and currency policy in Azerbaijan;
 - by analyzing and generalizing the positions of investigators on monetary policy, determination of the place of monetary policy in economic regulation system;
 - by systemizing domestic and foreign factors, revealing of modern development tendencies of monetary and currency policy and determination of selection criteria of target and instruments of monetary policy in Azerbaijan;
 - determination of the role of the Central Bank as the main institutional authority of monetary policy;
 - determination of the main purpose of monetary and currency policy in provision of price stability;
 - determination of strong and weak sides of application of money supply, inflation and currency targeting regimes within monetary policy;
 - the practice of the regime of monetary policy applied in foreign countries and development of recommendations on its use in Azerbaijan;
 - determination of directions for increase of the efficiency of monetary and currency policy in the system of new economic conjuncture;
 - determination of perspectives of the application of full floating currency regime in the system of new economic conjuncture;
 - revealing of modern development problems of monetary and currency policy and development of practical recommendations on development of monetary policy in Azerbaijan in modern condition.

Research methods. Comparative and systematic approach, economic-statistic, SWOT analysis, situated analysis, economic, mathematical and other methods are used in the process of conducting of research. The methodology of research is based on systematic analysis, it provides its integrity and comprehensiveness. Moreover, research methodology is based on the unity of theory and practice. Retrospective, trend, factor, scenario analysis was used in work process.

The theoretical and methodological basis of dissertation is works

in the field of theoretical and practice of implementation of monetary credit policy of investigator scientists, advanced international and local practice, legislative and other normative documents, periodic scientific publications.

The scientific innovation of research consists of development of recommendations on the ways for expanding of ideas on content of monetary and currency policy, improvement of monetary policy in the system of new economic conjuncture, revealing of directions of reforms in monetary policy and its modernization on this basis.

The following important conclusions are drawn for defense, which are personally obtained by investigator and contain the elements of innovation:

1. The economic content of monetary and currency policy was defined more exactly: the strategy and tactics on provision of the stable balanced activity of monetary and credit system of the country in order to develop banking sector of the competent authority of the state (in our country - AMB) and to increase its positive influence to the structure of the economy, also economic growth and welfare of citizens;

2. The main principles of organization of the system of monetary and currency policy were revealed: The centralized management principle of the system of monetary policy; the principle of entirety of the system of monetary and credit system; the content and role of mandates of monetary governments was justified scientifically;

3. The main directions of reforms were determined in monetary and currency policy, also the necessity of increase of the number of targets of this policy, especially provision of stability of financial market; increase of efficiency of transmission mechanism; fulfillment of a wide international coordination of monetary and currency policy was substantiated;

4. The following evolution factors of monetary and currency policy were revealed: development of monetary relations; increase of the role of regulation of money supply and interest rate in dynamic economy; expanding of targets of monetary and currency policy; development of institutional structure of banking system and financial market; intensification of international exchange and increase of

importance of currency sphere;

5. The special role of interest, credit and currency channels of transmission mechanism was revealed at the time of transmission to sustainable development and elimination of results of macrofinancial non-stability;

6. Suggestions and recommendations oriented to organizing of effective coordination system put forward between monetary policy and macroprudential policy in the system of new economic conjuncture;

7. According to conclusions of analysis conducted, permanent changes were made in the targets of monetary and currency policy in Azerbaijan at the period of market changes. Those changes at the initial stages of establishment of the main institutes of market economy ensured a provision of stable exchange rate of the manat and prevention of the decline in production, but in the next stages it was to achieve to low and stable inflation by supervising over diapason of fluctuations in priority exchange rates;

8. The main factors (factors in regard to macroeconomic, social, structural, budget factors, also globalization and liberalization of financial markets financial markets and information uncertainty) affecting to formation and efficient application of monetary and currency policy were revealed; as a result of their analysis, it was concluded that, while running of monetary policy, the complex of all factors affecting to its implementation shall be assessed, also their mutual relation in regard to influence of application of instruments of monetary policy shall be determined;

9. The counters of the application of full floating exchange rate regime in the system of new economic conjuncture were determined and suggestions and recommendations oriented to improvement of effective coordination system between monetary policy and macroprudential policy were developed.

The theoretical and practical importance of dissertation work consists of it that, its main provisions, recommendations and results may be used widely in the activity of the Central Bank of Azerbaijan at the time of development and implementation of monetary policy. The conclusion and recommendation in dissertation work may be used in

the activity of the Analytical Department of Azerbaijan Banks Association.

The conclusions of research may be used in the process of study in the department of UNEC “Finance and financial institutes”, also at the time of study of specialty subjects such as “banking”, “monetary and credit regulation”, “Money and banks”, “Financial markets”.

The conclusions of dissertation work may be used in development of recommendation on improvement of monetary and currency policy as methodological base for development of mechanism and instruments of provision of price stability.

The main provisions of the dissertation work were reflected in reports and speeches at international scientific conferences and seminars of author organized in international scientific and practical conferences, also in Russia, Turkey and Belorussia.

The conclusions of research are reflected in 11 scientific works, also the number of articles published in foreign scientific journals which are considered unequivocally influential by international scientific publicity is 1, the number of scientific works in international symposiums and conferences in foreign countries is 2 in Russia, 1 in Belorussia, the number of scientific works in international conferences organized by ANAS and the Ministry of Education of the Republic of Azerbaijan is 3 and the number of articles spread in periodical scientific publications which publication of the main conclusions of dissertations is recommended in the Republic of Azerbaijan is 4.

Name of the organization where the dissertation work is conducted: Azerbaijan State University of Economics.

The logical and structural basis of the dissertation work. The scientific logical basis of the dissertation is determined according to the subject, object, purpose and tasks of research. The structural composition of the dissertation work consists of introduction, three chapters, 10 paragraphs, conclusions and suggestions, the list of literature used.

The scope of work covers 165 pages consisting of 11 schedules, 4 graphics, 12 diagram and 2 schemes with computer writing.

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Main provisions submitted for defense

1. Monetary policy– is an activity oriented to regulation of the volume of money supply of monetary authorities in the economy of the country, credit mobility and interest rate. The system of monetary policy consists of the whole of elements which constitutes it. Here

includes: principles of system organization, subjects, objects, purposes, method and instruments, mechanism of monetary and credit regulation.

The main purpose of economic policy of the state is provision of economic growth, full employment of the population as much as possible, price stability and macroeconomic balance. The monetary policy is research sphere of economic science, it is also economic and political strategy developed by the state in a certain sphere of economic relations and combining purposes and means in itself to achieve it. It is impossible to realize purposeful economic policy without exact and efficient monetary policy¹.

Section 2. The rule for application of instruments of monetary and currency policy is stipulated by monetary authority as an element of mechanism system of monetary policy and is signed with normative and act documents of the central banks. The monetary policy in Azerbaijan exerts direct influence on parameters of money supply via applied instruments, on level of interest rates and inflation expectations. The following main principles shall be implemented in the course of use of monetary instruments of the Central Bank: the principle of efficiency - its essence consists of the effect of instruments used on the objects to be interfered is fast and accurate, and the result is obtained more quickly; the principle of provision of equal approach to all credit organizations; the principle of consistency – its essence consists of the measures taken should not lead to frequent changes in rules and procedures consistently; The principle of reliability request that, the means used shall bear lower financial and operational risk².

Section 3. The Central Bank provides an internal and external dynamic balance of the economy by means of currency policy and it takes measures according to current and strategical purposes of the

¹Valiyev J.R. *Analysis of the activity of the Central Bank of the Republic of Azerbaijan in provision of financial stability. News of Azerbaijan National Academy of Sciences. Series of economy. №3/2012, Baku, page 163-166*

²Valiyev J.R. *The role of monetary policy of the Central Bank of the Republic of Azerbaijan in development of bank sector in Azerbaijan. The scientific and pedagogical news of Odlar Yurdu University. №34/2012, Baku, page 24-32*

country in order to regulate a payment balance. The currency policy of the Central Bank is to be corrected according to the changes happened in the sphere of the world economy and is to be applied by considering macroeconomic condition of the country. The Central Bank defends its economic interests in relation to foreign states by providing currency interventions.

The strengthening of currency control allows the balance indicator of manat exchange rate to move towards its strengthening.

The understanding of currency policy as a whole of measures in the field of currency and economic relations conforming to the public and economic development issues of the country considers the increase of the role of currency factor of innovation development of Azerbaijan. For this purpose, it is necessary to modernize the currency policy which is an integral part of economic policy.

But, not enough attention is paid to currency policy in guiding documents of the Central Bank of Azerbaijan. Even, the statement of the Central Bank of the Republic of Azerbaijan on the main directions of monetary policy for 2021, which currency policy shall be predicted logically, includes the part of currency regime. The section of monetary and currency policy is noted in annual statements of the Central Bank of Azerbaijan.

In our opinion, by considering close relations of currency policy with monetary policy and closeness of “money” and “currency”, it is advisable to include the currency policy in name and content of this document. In order to conceptually justify currency policy, it is advisable to use system methodology as the most efficient method of its analysis, also repeated production theory of currency policy by considering the direct and opposite relation of currency policy with repeated production process. The modernization of currency policy shall be complex and must include the main directions such as currency policy, official international resource management, currency regulation and control.

It is important to monitor the mutual relation of economic parameters affecting to the activity of its currency market in the course of implementation of currency policy: exchange rate; gold and exchange reserves; payment balance; the volume of domestic money

circulation and dollarization rate and rate of currency liberalization.

Section 4. The creation of convenient institutional environment is an important direction of increase of the efficiency of monetary policy. The solution of this task requests the considering of institutional factors in macroeconomic analysis of the efficiency of monetary policy.

The central banks take part directly in solution of these general economic purposes by using of the right to conduct monetary policy. The central bank realizes the regulation of the general level of the number of money stock in the country, credit flows and interest rates by means of monetary policy.

According to the results of learning of the activity of 94 central banks of the developed and developing economies, in 2000, the most of them refused to consider economic growth rates as a quantitative benchmark of monetary and credit policy realized. Also, though the liabilities in regard to inflation were not stipulated at the level of legislation for most Central Banks (it is determined with their mandate), it is indicated as a final target of monetary policy.

The purposes and tasks of the system of monetary policy are confirmed at the level of legislation. In accordance with existing legislation, the main purpose of monetary policy in the Republic of Azerbaijan is provision of price stability. The provision of price stability makes a significant contribution to the realization of strategic goals by strengthening macroeconomic stability in the country.

Section 5. The execution of monetary and currency policy is directly ensured within the framework of monetary policy implementation. The author thinks that the basic principles for organization of the monetary and currency policy system consist of the following elements³:

1. The principle of centralized management of the monetary policy system means that the activities of the entire monetary and credit regulation system are managed by the Central Bank from a single center.

The integrity of the monetary policy system is characterized by its

³ Valiyev J.R. *Conceptional bases of monetray and currency policy // Finance and accounting. - 2019. № 9. 65- 71*

following features: to regulate the conformity of the money stock to the needs of the national economy, i.e the stability of money demand; to ensure uninterrupted settlements between economic entities (liquidity); to ensure the accepted and pre-warned level of inflation, as well as the value of financial resources for economic entities, to stimulate the investment activity of the national economy; to create conditions that ensure the flow and long-term, stable nature of foreign investments; to effectively manage national capital accounts by forming the system of legislation and economic measures that hinder the flow of national capital in the context of market globalization;

2. The execution of monetary and currency policy is directly ensured within the framework of monetary policy implementation. The content of the mandates of monetary authorities in all cases reflects their role in the implementation of economic policies aimed at sustainable economic development.

3. The following indicators should be considered when preparing the main directions of monetary policy: money stock, information on monetary aggregates; the fullness of the economy with money (monetization); the state of gold currency reserve and its relationship with monetary base; exchange rate.

4. The application of the principle of independence of the Central Bank is due to the fact that the main priority purpose of the Central bank is to ensure price stability with the powers defined by law. Government interference in the activities of the Central bank is unacceptable.

5. Adoption of a code to ensure transparency in monetary policy is one of the important conditions. Transparency also implies openness in the preparation and adoption of decisions on monetary and currency policy issues and the provision of information about these decisions.

6. The indicators of the effectiveness of monetary and currency policy are as follows: the accepted level of inflation in the economy; stable exchange rate of the national currency and its conformity to the interests of national producers; effectiveness of measures taken in the context of monetary policy; sensitivity of monetary policy to shock effects; quality and reliability of the national payment system; level of development of financial market infrastructure; effectiveness of

antitrust regulation and control measures of systemically important institutions; to ensure equal access of market participants to the source of refinancing.

7. One of the main tasks of monetary policy is to ensure and support price stability. According to the conclusions for the study of the activities of the central bank of developed and developing economies, price stability is indicated as an ultimate goal for most Central Banks at the legislative level.

8. An important principle of the modernization of currency policy is the development of its conception, which should be developed taking into account the features of the national economy in the application of currency policy in the context of external economic shocks and devaluation of national monetary units since the post-global financial crisis.

Section 6. Monetary Policy Regimes reflects, in many cases, the accurate or benchmark quantitative indicators for intermediate and final targets to achieve the main goal and the system of measures planned to be implemented within the framework of monetary policy. Regimes of monetary policy, such as targeting the money stock, targeting the exchange rate, targeting inflation, are distinguished from each other.

The basis of the monetary regime is the selection of the only final indicator of the activity of monetary authorities.

A monetary policy regime that regulates the exchange rate of the national currency is called exchange rate targeting. Usually, under this regime, Central Banks apply different variants of the fixed exchange rate regime.

In order to regulate money circulation in countries with high inflation and unstable economies, some authors propose to apply a more radical option - a special regime called "currency board". The essence of this regime is to provide the monetary base with 100% of the state's foreign exchange reserves.

As a result of the conducted analysis, it became clear that by the end of 2015, Azerbaijan has implemented a de facto exchange rate targeting regime. During this regime, the exchange rate acted as the anchor of monetary policy. The sharp falling in oil prices on the world

market has created serious challenges to ensure the balance in the foreign sector, and the problems in the foreign sector have had a negative impact on the domestic economic balance.

So, exchange rate targeting is a logical continuation of the monetary targeting regime. Its positive effect on reducing inflation in the short term is replaced by savings in the long run, which makes it necessary to transfer to a more perfect monetary regime.

Section 7. The main target of price stability is the monetary policy regime. During the application of this regime, the Central Bank is highly responsible for price stability.

In 1990s, some economically developed countries abandoned the definition of money stock growth benchmarks and transferred directly to inflation targets. Price stability is considered to be the only goal of monetary policy. Everything else, including changes in the money supply and the impact on their value, are tools to achieve this ultimate goal.

There are a number of advantages to inflation targeting: inflation targeting allows monetary authorities to focus on the internal problems of the economy, because monetary authorities in this case do not set strict ratios between the dynamics of money supply and price growth targets for themselves; Inflation targeting is clear to the public. Determining the growth rate corridor of specific figure benchmarks and/or consumer price index increases the responsibility of central bank managers for their decisions, and thus eliminates the problem of opportunism in the monetary sphere; the central bank's response to changes in economic growth parameters can be more accurately predicted.

In countries with an inflation targeting policy, special amendments specifying price stability as the main goal of monetary and credit policy, and ensuring sufficient independence for the central bank in the choice of monetary policy instruments should be made to the law on central bank. However, there is an interesting pattern: developing countries pursuing a policy of inflation targeting have introduced legislation on the central bank, which guarantees an appropriate level of the independence of central bank before transferring to inflation targeting.

The consensus reached by the monetary authorities of developed and developing countries is that ensuring price stability is one of the main goals of the Central Bank, regardless of the level of economic development of the country. At the same time, the mandates of central banks, as a rule, include "general economic" goals - sustainable economic development and improving the welfare of economic agents. As a result, the Central Bank's mandates rarely change, and practice shows that this can happen either after change in the activity conditions of the economy or after the monetary government has gained independence.

In our opinion, the Central Bank of Azerbaijan's mandate to protect the national currency and ensure its sustainability, stating that ensuring price stability is the main goal of monetary policy, fully meets the requirements of both the modern economy and the world experience.

In our opinion, the main direction of further improvement of the monetary and currency policy of the Central Bank of Azerbaijan is to improve the mechanisms for implementing the communication strategy.

Section 8. The biggest advantage of the "floating exchange rate" regime is that it allows to be neutralized of the negative impacts of global shocks on the country's economy through the exchange rate.

The floating exchange rate allows to compensate the negative effects of external shocks. It is, in fact, a stabilizer of the economy.

In 2014-2015, the Azerbaijani economy faced strong external shocks. Against the background of growing uncertainty, this has led to a decline in consumer and investment activity. Given the relative narrowness of the Azerbaijani financial market and increased lending risks, the private sector's ability to raise funds from foreign banks has been limited.

As a result of these aforementioned and other factors, prices, especially prices of consumer goods, have risen significantly under the influence of weakening of the manat.

Scientific and business circles in the devalued countries have different views on the Central Bank's contribution to the development of the country's economy. Thus, some economists think that monetary

and credit policy should be aimed at supporting economic growth through significantly reducing the base rate and increasing the money supply. According to their opinions, large-scale targeted credit issuance at low interest rates will lead to increase the level of monetization of the economy, increase investment and production growth, and, consequently, accelerate the development of economy and reduce inflation.

The level of dollarization in the economy is also one of the most important factors affecting the transmission of monetary policy.

A floating exchange rate does not mean an unstable exchange rate. Certainly, adaptation to a floating exchange rate is a difficult process, then this is confirmed by the experience of many countries. This process is often accompanied by an increase in the volatility of the national currency, as well as an increase in the reaction of prices to exchange rate fluctuations. But gradually the population, enterprises, banks are adapting to floating exchange rate conditions, learning to hedge currency risks⁴.

The volatility of the national exchange rate is declining, and the impact of exchange rate fluctuations on consumer prices is decreasing. The most important challenge in this direction is to increase the transmission of monetary policy to the economy. Building an interbank money market, reducing dollarization by increasing confidence in monetary policy, establishing an adequate framework for managing economic expectations, and further strengthening coordination with financial stability policy are ensured in the direction of ensuring of high transmission.

The Central Bank of Azerbaijan abandoned the fixed exchange rate regime in December 2015. However, given the deficit of payment balance and the fact that this deficit is mainly concentrated in the movement of capital and finance, in 2016 the Central Bank introduced a managed floating exchange rate regime to prevent a sharp depreciation of the manat. This minimizes the negative effects of

⁴ Valiyev J.R. *Currency policy in the new economic model: modern challenges and problems // Materials of the Republican scientific conference on the topic of "Economic development strategy of Azerbaijan". Baku - UNEC - 24 December 2019, page 525-529*

exchange rate changes on macroeconomic and financial stability. Since 2017, Azerbaijan has been implementing a floating exchange rate regime.

Section 9. The global financial crisis has shown that in the context of strengthening the integration of national financial markets, there are serious problems in the system of control over the activities of participants in financial transactions. One of the most important directions of the post-crisis changes was to consider the goals, powers and instruments of the national central banks' activities. The priority purpose was to support the stability of the national financial system, which raised a complex issue, such as combining the traditional goals of monetary policy with macroprudential goals.

The global financial crisis has proven that the regulation and supervision of banks' activity has been ineffective and largely post-cyclical. In order to fill the gaps in prudential regulation and supervision, the member countries of the Basel Committee on Banking Supervision have tried to transfer to the new Basel III international standards.

The issue question that remains open up to the present day is an issue of the nature of the interaction between monetary and credit policy and the policy pursued to achieve financial stability. They can both complete each other and be in "conflict" with each other. There are different views on the coordination of measures in these two areas of economic policy.

As a result, the approach to prices and financial stability has changed. It was known that the relationship between them has more asymmetrical character: financial stability is an important condition for achieving price stability, at the same time price stability does not always guarantee financial stability.

The current realities of the Azerbaijani economy and advanced international experience suggest that the transition to the most optimal monetary policy regime must be ensured in order to make a significant contribution to achieving macroeconomic and financial stability in the medium and long term.

Section 10. One of the main purposes of monetary policy is to ensure and support price stability. The following indicators should be considered when preparing the main directions of monetary policy:

money stock, information on monetary aggregates; the fullness of the economy with money (monetization); the state of gold currency reserve and its relationship with monetary base; exchange rate.

It allows to put forward the following proposals aimed at harmonization of monetary policy with the interests of economic growth of the state, innovation and investment development of the country, elimination of structural deformation of the economy: Subordination of monetary policy to the state's economic security and growth goals. Rejection of the priority of reducing inflation and the absolute absence of any economic models that harm economic growth; carrying out detailed scientific research on determining the share of non-monetary factors affecting the level of inflation in Azerbaijan. (cost inflation, including the formation of monopoly prices and administrative regulation of prices; rising prices as a result of import goods and services, including of the devaluation of the manat; increase of budget expenditures, etc.). In this case, the Central Bank of Azerbaijan can only be a monetary component of inflation in the area of responsibility; to publish the decision-making mechanism on monetary policy issues over the CBA, putting of commitment to provide detailed explanations of the projected trajectories of inflation and the base rate, as well as any deviations from these values; development and consistent implementation of the policy of credit incentives for the consumption of local products by households, including the development of mortgage programs, establishment of preferential consumer lending mechanisms for the purchase of durable goods produced in Azerbaijan; development of mechanisms for gradual replacement of foreign currency loans by strategic enterprises at the expense of local sources. Strengthening of currency control within exchange legislation to close capital inflow channels and reduce opportunities for large-scale currency speculation, including currency speculations having foreign coordinated origin; determination of the personal responsibility of the management of the monetary authority for achieving the results envisaged in the main directions of monetary policy; the tendency of the modern economy to more behavioral economy, including the expansion of access to information for consumers of financial and banking services requires a focus of

attention on the transparency and accountability of monetary policy. When evaluating the indicators of monetary policy accountability and transparency on the basis of progressive central banking criteria, the result is satisfactory. However, tasks such as constantly increasing attention on the rapidly changing channel of expectations in terms of quality and increasing confidence in monetary policy is remaining as the most important challenge.

Section 11. Understanding of the monetary policy as a set of measures in the field of currency and economic relations in accordance with the issues of socio-economic development of the country implies increasing the role of the currency factor in the innovative development of Azerbaijan. Therefore, it is necessary to modernize the monetary policy, which is an integral part of economic policy.

The most important challenge in this direction is to increase the transmission of monetary policy to the economy. Building an interbank money market in the direction of ensuring high transmission, reducing of dollarization by increasing confidence in monetary policy, establishing an adequate management framework for economic expectations and further strengthening of coordination with financial stability policies are required.

Conclusion

So, according to the results of the conducted research, scientifically substantiated proposals and recommendations on ways to improve monetary policy in the new economic situation system, prospects of reforms implemented in the direction of monetary policy, organization of an effective coordination system between monetary policy and macroprudential policy were given, the scientific and practical significance of their consideration was noted.

The following scientific articles and theses have been published in relation to the content of the dissertation:

1. Valiyev J.R. Analysis of the activity of the Central Bank of the Republic of Azerbaijan in ensuring financial stability. News of Azerbaijan National Academy of Sciences. Economy series. №3/2012, Baku, page163-166.

2. Valiyev J.R. Monetary policy of the Central Bank of Azerbaijan in the context of the global financial crisis. State regulation

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