



Digital Currency and its Implementation in Uzbekistan

Anvar Khudoyshukurovich Khurramov

Chirchik State Pedagogical University

Abstract. Money is one of the greatest inventions of mankind. There are many definitions of money that characterize the essence of money, which basically leads to the fact that money is a universal equivalent, with its help determined measure of value - the price of other goods. The development of information technology has led to the fact that in the digital economy, countries gradually began to introduce digital currencies into circulation. In this article briefly discusses the essence and models of digital money, as well as the implementation of digital currency in Uzbekistan.

Keywords. Money, cash, non-cash money, economic agents, money supply, central bank digital currency (CBDC), models of digital currencies.

The development of market relations has led to the emergence of such an economic category as money. Barter in kind prevailed in the early stages of human development, that is, one product was exchanged for another without money. Money is not a static category, it develops, changing its form as it improves. Under the influence of technological progress, the form and types of money are changing, and money, in turn, gives impetus to the development of technical progress. The development of market production led to the creation of a universal equivalent - money. Exchange equivalents, which are money, expanded their scope, stabilized and, in the modern sense, turned into real money.

It is known that money is a specific product that plays the role of a universal equivalent, through which you can buy and sell all goods.[1] In the process of evolution of money, we can note that their form is diverse and constantly changing. There are both ordinary coins and paper banknotes in circulation, as well as modern digital money. Today, there are more than 157 currencies in circulation in 193 countries of the world. According to the prestigious information portal Finfocus, there are 80.9 trillion dollars in circulation. of which \$5 trillion is cash i.e. coins and banknotes, the rest - non-cash money. Among the most popular among them are 5 national currencies (US dollar, British pound sterling, Japanese yen, Swiss franc and Australian dollar) and 1 euro, the monetary unit of the European Union.

During its history, money has undergone a significant evolution. The functions of money were once performed by various objects, but for most of history, cash was either metal or paper. At the same time, both non-cash money and assets close to them in the form of bank account entries, bills of exchange, and so on developed. Between certain types of money there were different exchange rates and exchange rules. In particular, for a long period the value of paper and non-cash money was tied to the value of metal, silver or gold, banknotes of some banks



could be accepted with different discounts of other banks. Currently, all money is fiat, that is, their value is not tied to metal, they are not exchanged for metal, but their value is secured by debt obligations of the state and other economic agents. In this system, only central banks have the right to issue cash. Meanwhile, the share of cash in circulation is quite small and decreases over time.

The main money supply is non-cash money, which at the current level of technology development is electronic (in the past, the corresponding account entries were also paper).

Within the framework of the two-tier financial system generally accepted today, the electronic money of the central bank is available only to banks - these are their correspondent accounts and deposits with the Central Bank. With the help of correspondent accounts, settlements between financial institutions are carried out. This ensures the unity of the value of money and the ability for the Central Bank to regulate the monetary system and conduct the monetary policy of the state, and through it to manage price and financial stability. The Central Bank, through its deposit and lending system, manages the interest rates at which banks lend central bank money to each other in the interbank market. These rates are the basis for the entire system of interest rates in the economy, and by influencing them, central banks manage price stability. At the same time, the volumes and instruments with which transactions are carried out are chosen in such a way as to stop the risks associated with the liquidity problem for individual banks or (in the event of a crisis of confidence) for the system as a whole.

Bank customers who are legal entities and individuals are considered economic agents of financial relations. Which have non-cash in circulation along with cash. Non-cash funds are the obligations of other banks, this money is on the settlement and deposit accounts of the bank. The unity of the monetary system creates a condition for the unimpeded exchange of money that is on the client's account, which is the obligations of commercial banks, for cash, which is the obligations of the central bank.

Once again, we note that in the modern monetary system, money has a debt nature. Correspondent accounts of banks in the central bank are the obligations of the central bank to other banks, which are secured by balance sheet assets such as government bonds and loans, gold and foreign exchange reserves, loans to commercial banks, etc.). Central banks increase the money supply by buying assets or lending to banks, and reduce the money supply by selling assets, reducing the supply of credit, and attracting deposits from banks. Deposits and current accounts of companies and individuals in the banking system are secured by the assets of the banking system, that is, loans to individuals and legal entities, securities, and so on.

The money supply, both cash and non-cash money, plays an important role in the banking system and in the economy, but their ratio is changing. Over the past two decades, the amount of cash in circulation in developed countries (in % of GDP) has changed in a positive direction, along with an increase in the volume of bank card transactions. According to various experts, the volume of electronic currencies and securities around the world can change and reach \$1.28 quadrillion (or \$1280 trillion), that is, we can say with confidence that almost all the money in the world today is non-cash. Thus, in developed countries, the amount of cash is no more than 10%, that is, about 90% of all money in developed countries is electronic. If you look at the statistics, then at the beginning of 2022 in Uzbekistan, the share of cash in circulation in the



total money supply accounts for 20%. This indicator decreased by 3% compared to the previous year. The share of cash compared to GDP for the same period as a percentage decreased from 4.1 to 3.9 points.

The development of information technology has also affected the cash flow. The digitization of the entire economic system has led to the emergence of digital money.

The central banks of different countries, keeping up with the times, began to experimentally introduce virtual national money into circulation. This money was called the digital currencies of central banks, abbreviated as CBDC. They can be used, on the one hand, as an alternative to existing payment systems and, on the other hand, as an aid to means of payment. The cost of digital currencies depends on factors such as the exchange rate of the national currency, the state of the economy in the country, inflation and others. The option of connecting digital currency to precious metals with a floating exchange rate, such as cryptocurrencies, is not excluded.

The countries of Europe, Asia and America, in which $\frac{3}{4}$ of the world economy is concentrated, are showing great interest in introducing a new national digital currency in their countries. Last year, many of the world's central banks began to launch their pilot projects and began the transition to a new stage of digital currency research, which continues to this day. The Bank for International Payments announced that currently 14% of global regulators are testing in practice the possibilities and prospects for the introduction of digital currencies of central banks in the banking system, thereby analyzing the positive and negative aspects of this process.

On a global scale, the development of a digital currency is not a novelty, therefore this process is at the stage of fundamental formation, although the appearance of the first projects for the introduction of a central bank digital currency falls on 2014. One of the first countries that tested the issue of the digital currency of the central bank and tested the operation of digital money on its banking system is a state located in South America - this is Ecuador.[2]

The experience of the international banking system has shown that, in developing countries, an important goal of issuing a digital currency is to reach a new level of financial reach of economic entities, as well as to improve the quality of service provided by payment services that suffer due to an underdeveloped banking sector and insufficiently efficient operation of existing payment structures. . The main motivation of the banking sector of developed countries is the expedient strengthening of monetary sovereignty due to the increase in non-cash payments when the money of commercial and specialized banks, as well as private digital structures, is used to improve financial stability. However, in any case, the implementation of the digital currency of the central bank will lead to the strengthening of the role of the regulator of central banks in the national economy.

In world practice, there are various models of digital currencies, regulator banks mainly distinguish between retail and wholesale digital currencies.

The first model is used by both consumers and manufacturers. The end consumer can use this digital currency in exchange for cash, which makes this currency even more attractive. Payments can be made at any point of sale, in a restaurant or in a bank.

The second model, wholesale, is intended only for a limited number of participants, i.e. access to this model is not provided to everyone, but only to banks and financial market entities. This



model is an alternative method of cash settlements between banks in the banking system. Wholesale digital currencies are considered in fact an analogy to correspondent accounts and bank deposits of the central bank.

Uzbekistan is also working on the introduction of a national digital currency. The digital currency of the Central Bank of Uzbekistan soum is a new form of currency that is an alternative to traditional money in circulation. It is a legal tender that is introduced digitally and put into circulation on a specially designed and tested electronic platform. This process is directly related to the digital transformation of the entire banking sector of Uzbekistan. The head of the Central Bank of the Republic of Uzbekistan, Mamarizo Nurmuratov, said in his speech: "The transformation of the banking sector of Uzbekistan is an integral part of the process of forming a digital economy."

In 2020, the "Digital Uzbekistan - 2030" strategy was adopted in Uzbekistan, within the framework of this strategy, the necessary measures are being taken to develop digital financial technologies and services. The population of the republic should be provided remotely with state and financial services, and it is also planned to improve the quality of service services. At the moment, there are three digital banks and 34 non-bank payment institutions in the country, 10 of them are included in the register of operators of electronic money structures.[3]

According to statistics from the Central Bank of the Republic of Uzbekistan, last year 53% of deposits, 40% of microcredits issued, 48% of housing and communal services and other payments, and 15% of foreign currency exchange operations for soum were carried out remotely.

The main goal in improving and implementing the national digital currency of the central bank is to improve the financial condition of the country, thereby ensuring the stable development of the economy. To do this, the central bank needs to pursue a rational and efficient monetary policy. Any innovations have risks that subsequently negatively affect the final result. To minimize the risks, as well as the impact of digital money on financial intermediaries, central banks should create conditions for commercial banks so that they do not "go overboard" in the financial arena. As a result, the introduction of digital currency will positively affect the economic processes of the country, including the efficient operation of the entire banking system and ensuring the economic well-being of economic entities.

According to the Regulator, today in the republic there are quite a lot of payment systems for cashless payments, a wide infrastructure of the electronic money system and bank terminals has been created.

The Central Bank is not yet in a hurry to introduce a national digital currency in Uzbekistan. There are reasons for this, firstly, we must all study and analyze the experience of foreign countries, thereby determining the main advantages and disadvantages of this practice. Secondly, determine your priorities and develop methods for introducing digital money, taking into account the experience of working with electronic currency structures operating in Uzbekistan.

Digital currencies are still complex and not very well studied products. The regulator should carefully study the impact of digital currencies on economic policy, financial and economic stability, and payment systems of the digital economy. In this case, it is necessary to pay special



attention to cybersecurity and financial literacy of citizens.

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