

## Features of Monetary Programs in Small Economies

The implementation of monetary policy in small economies can be accompanied by simpler monetary program.

One on specifics of monetary policy in the Republic of Tajikistan is that it is oriented on money supply aggregates as the national currency exchange rate shall be determined on the market in other words while open regime of exchange rate. The basic calculations on assessment of usage of simplified model of monetary program by the example of monetary indicators such as reserve money and broad money are used in the work.

One of the reasons to use more simplified system is the specifics of national economy where not all segments of money market have components for complete application of theory or generally accepted regularities. For example, one of the widespread tools is the interest rate which at self-insufficient functioning loses the classical sense. In turn, external cost of currency at a mode of freely floating rate gets exogenous character.

Therefore the money supply aggregates can be as the basic effective endogenous parameter for influence on rates of a rise in prices which is an ultimate goal of monetary policy. Process of economic reforms and its efficiency in Tajikistan in many respects is defined by stability of the monetary and credit system controllable by the National Bank of the country.

Conditions for monetary policy implemented by the National Bank developed in 1991 to 1997 during circulation of the currency of Russia in the territory of the Republic of Tajikistan. The independence of the National Bank was enough conditional and was strongly limited to constantly varying political situation. Financial-budgetary crisis, consequences of civil war, and non-payments, a hyperinflation, almost impossible to implement some the well effective considered monetary policy directed on the decision of long-term problems of macroeconomic stabilization

Nevertheless, the basic laws regulating the monetary system have been accepted, preconditions for formation and development of monetary system in a transition period are created. These laws and statutory acts were:

The Law of the Republic of Tajikistan "On Banks and Bank activity in Republic Tajikistan" (1991.), the Law of the Republic of Tajikistan "On National Bank of Tajikistan" (1991), the Law of the Republic of Tajikistan "On securities and stock exchanges" (1992), Instruction №28 "On the settlement, current and budgetary accounts opened in establishments of banks of the Republic of Tajikistan" (1993), "General rules of regulation of activity of banks in the Republic of Tajikistan" (1995), Regulations "On order of establishment of commercial banks and stopping their activity in the Republic of Tajikistan" (1995) and etc.

These and other documents had been incorporated a basis for creation and functioning of the two-level bank system meeting new requirements of a transition period. Thus, banking and monetary system were considerably transformed and it was generated new principles of functioning of financial markets (currency, securities market, inter banking credits market). The functions of the National Bank, its place and a role in monetary system have essentially changed. It was effected the

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transition from system of uniform state bank to two-level system. The role of National Bank of Tajikistan in monetary advancing of expanded production on the basis of providing the branches of a national economy with money resources has amplified.

So, influence on volume of issued loans is made, the account policy is usually combined with state regulation of interest rates of deposits and loans.

Though banks basically independently define interests on deposits and loans, nevertheless, they are guided by a rate of the National Bank of Tajikistan.

Other instrument of regulation of the National Bank of Tajikistan is definition of amount of required reserves for commercial banks that means commercial banks shall be obliged to hold a part of credit resources on the interest-free base with the National Bank.

The standard amount of required reserves can be decreased or increased depending on a conjuncture in capital market.

The policy of regulation of amount of required reserves extends on all types of credit institutions (and in some countries on some special credit and financial institutions), however its basic object are commercial banks which define interest rates on loans.

The majority of other credit and financial institutions (non-banking credit institutions) in the interest policy follows commercial banks. Through definition of standard of required reserves the National Bank influences as a whole the interest rate of loan, which, in its turn, influences the profitability of those or other securities.

One more form of regulation of the National Bank is operations in the open market with the state bonds and certificates of deposit of the National Bank of Tajikistan, by their sale and purchase

Selling the state bonds and certificates of deposits the National Bank in that way reduces monetary resources of banks and other credit and financial institutions and promotes an increase of the interest rate in the loanable funds market.

The form of regulation is also direct state influence of the National Bank of Tajikistan on credit system by direct rules of controlling bodies in form of instructions, instructions of application of sanctions for violation. National Bank of Tajikistan carries out the control over large credits, limitation of bank credits, selected inspections of credit institutions. However the methods of direct influence basically extend on commercial and savings banks and to a lesser degree — on other credit and financial institutions.

One of methods of regulation is a tax policy. It reflects in change of tax rates of profits received by various credit and financial institutions.

As a rule, the latter are subjected to profits tax, as well as all other legal entities operating in certain economic conditions. The increase in taxes can promote reduction of credit-loan operations and increase of interest rates. On the contrary, reduction of income tax of these institutions leads to expansion of such operations and can promote decrease of interest rates. Therefore tax influence represents a sufficiently effective state regulation

Other regulation method of credit system is participation of the state in activity of credit and financial institutions. It is expressed in three basic directions: purchase of a part of credit institutions by the state by nationalization; the organization of new establishments as addition to parts; individual share of the state by purchase of stocks of credit and financial establishments and as a result creation of the mixed institutions. Through given method the state renders effective influence on func-

tioning of all crediting system. The method of regulation by creation of a state ownership is widely enough widespread in the countries of continental Europe and developing countries.

It is necessary to note, that in the majority of industrially developed countries to solve a problem of a public debt by sale of the governmental securities to the credit institutes is quicker and more effective and due to the latter it is financed large investment projects of national scale. Besides at presence of the state influence on a supply and demand of loan capital, dynamics of its market, interest rates, the big influence on regulation of credit system is rendered by legislative measures undertaken by the central government, local government authorities and also legislature. They develop projects of laws and the instructions regulating various fields of activity of credit and financial institutions. Thus the basic regulating function is carried out by central executive and legislative authorities, which develop the main laws defining activity of credit and financial institutes.

Within the framework of executive authority the basic regulating bodies are in the sphere of monetary and finance policy the National Bank of Tajikistan and the Ministry of Finance of the Republic Tajikistan.

Usually they operate in the countries with rather high level crediting of credit system by the state.

Legislative bodies take active part in regulation, along with executive authorities. Special committees, commissions, subcommittees, coordinating the governmental policy, as well as credit system activity operate in their structure.

Insurance companies as long-term credits suppliers in the loan capitals market of loan capitals occupy special place in state regulation. As the basic objects of their regulation, as a rule, is Ministry of Finance (an exception of this rule is the USA, where insurance tariffs are regulated by executive authorities of the states). Feature of credit system regulation by means of insurance tariffs is that insurance companies aspire to raise rates. Especially, in the field of property insurance as it is unprofitable. As a result, level of limits of insurance tariffs on property insurance is regulated enough rigidly as from Ministry of Finance, and from local authorities.

In the Republic of Tajikistan monetary policy is developed according to the Law of the Republic Tajikistan "On the National Bank of Tajikistan" and it defines the major aspects of the Republic of Tajikistan monetary policy realization.

For achievement the purposes of monetary policy is supposed realization the following problems:

- perfection of open market operations mechanism, including interbank currency market and interbank credit market, where the National Bank of Tajikistan role is a basic regulation body of the financial institutions operations in this market;
- expansion of banking services spectrum, in particular, mortgage crediting and crediting in the countryside, in particular, mountain areas, for business development, increasing the terms of microcredits, reduction of their percent and strengthening of the banking system financial condition;
- continuation the works on population trust increasing and managing subjects to banking system. In this case, attraction of population deposits to banking system and subsequent crediting of the national economy of the republic;
- increasing the authorized capital of the banks at the expense of internal and foreign investment attraction;

- improvement of normative legal documents in banking system and reduction of their provisions in accordance with market economy requirements;

The National Bank of Tajikistan considers an issue of the tools formation on decreasing the liquidity changes and money resources providing in the form of the daily credits, assured by the State Securities. With a view of liquidity management is foreseen providing the money resources to the credit organizations, by carrying out the pawn auctions.

Obligatory reserves using mechanism will be continued as additional and long-term tool of monetary policy realization, directed to deduction of the necessary level of monetary circulation. It is taken into consideration, that at an optimum macroeconomic condition, this rate will be gradually decreased further, as that norm was lowered by 12 percent in 2007 in comparison to 20 percent in 1995.

Activity of interbank credit market, related to granting to the banks possibility of acquisition and realization of free credit resources and definitions of a market interest rate of a credit, is improved. Necessary conditions for activization of banking operations in interbank credit market are created.

In currency policy the mode «regulated, freely floating without definition and announcement of rate change borders» will be kept, official exchange rate of Somoni against US dollar will be defined and appear daily on the basis of an average rate under transactions in interbank and intrabank markets. In this connection, the National Bank of Tajikistan will perform operations on foreign currency purchase and sale on internal currency market exclusively in cases of the excessive rate fluctuation and for implementation of the control indicators of monetary program reserve money.

Now there is a number of problems and risks, interfering development of banking system and monetary policy realization. In its turn, the arrangements directed to the banking system strengthening, foreseen the following problems decision:

- credit risks, untimely credits repayment and percent by borrowers;
- high level of problem credits in the liquidity limitation conditions reduces credit activity of banks;
- level of credit organization capitalization (total capital of the credit organizations makes 7,7 percent from GDP, authorized capital — 4,8 percent, when these indicators in European countries make 40 percent, in the USA — 288 percent, in Kazakhstan — 12,5 percent, and in Kyrgyzstan — 4,9 percent. This low level will lead to deterrent factor of banking operations development and covering possibility of the arisen banking risks;
- corporate management does not make essential impact on effective activity of the banks, and available banking technologies do not answer properly to expansion and improvement of banking operations quality;
- though some improvements in structure of actives and obligations of banks are observed, but, in some cases their terms mismatch each other;
- small volume of long-term money resources involved by the banks limits possibilities of long-term investment;
- partial conducting of the account, according to international standards of financial reporting, at the enterprises (clients of the banks) limits transparency of a borrower and constrains integration process of the banks with regional and world financial markets;
- low competition level on banking services market, connected with insufficient quantity of foreign banks, having high technologies and modern service.

It is necessary to take following measures for continuation of domestic banks and non-banking financial organizations stability policy:

- strengthening of banking supervision on activity of the banks and non-banking financial organizations;
- further perfection of the normative legal papers under the control of risks on credits, given out to persons, connected with the banks (in particular, after reception of the obligatory consent of Board of Directors of a credit organization on credit operations, restriction of soft loans to responsible persons, etc.);
- perfection of credit organizations' activity estimation, according to Basel Committee recommendations on banking supervision and international experience of banks' activity estimation;
- maintenance of promptness and efficiency of the decisions, accepted within the frames of banking supervision;
- strengthening of internal control in the banks;
- maintenance of the banks' activity transparency, which promotes population's trust increasing to the banks;
- full automation of information collecting and Financial Reports making in the credit organizations;
- continuation of the banks' improvement and rehabilitation policy, having financial problems by their re-structuring;
- increasing of the banking resources by attraction population means, as well as attraction the means of establishments and enterprises in the form of securities;
- strengthening of the control over strict banking legislation observance in the field of the clients' rights protection, preservations of bank secrecy and observance of corporate management principles in the banks;
- assistance in the creation of The Banking Association and formation the conditions for standard-legal basis creation for Credit Bureaus organization;
- strengthening of Warranting Fund of Physical Persons Deposits activity;
- strengthening the requirements to the banks, concerning regular audit conduction and publication of their financial reporting in mass media;

The National Bank of Tajikistan with a view of interstate settlements implementation perfection and maintenance the qualitative and reliable settlement-payment process, gives favorable conditions for the banks, which are users of Point of Collective Access to Network SWIFT, allowing banks to have modern mechanisms of interaction with world banking community with smaller expenses and to represent a set of new services to the clients.

For the decision of forthcoming problems in sphere of financial system development, work on banking activity's legal base perfection will be continued.

With a view of the judicial permission of bank secrecy disclosure, legislation of laws on amends and alterations in the Republic Tajikistan's Law "On Banks and Banking Activity" will be prepared, the

Civil Code of the Republic of Tajikistan, Criminally-Remedial Code of the Republic of Tajikistan are submitted to consideration to Government of the Republic of Tajikistan.

Monetary and currency policies of the Republic of Tajikistan are developed in coordination with taxation-budgetary policy and will be directed to creation the conditions for national economy's growth. In this connection, Ministry of Finance of the Republic of Tajikistan will study an issue of prescheduled repayment of the long-term securities' possibility, stored in the National Bank of Tajikistan. Service of republican and local budgets will be carried out on a paid basis. An emission issue of the state exchequer bills will be considered by Ministry of Finance of the Republic of Tajikistan.

The National Bank of Tajikistan, as an authorized bank of the Government of the Republic of Tajikistan, became the full member of the Interbank Union and has fruitfully begun its activity within the frames of the Interbank Union of the Shanghai Organization for Cooperation and is intended to continue it. Close cooperation of the National Bank of Tajikistan within the frames of the Interbank Union promoted development of our country's economy, decreasing the level of poverty and creation of the new workplaces.

With a view of foreign investment attraction and private sector development the National Bank of Tajikistan will continue its policy, directed to attraction the foreign investments into private sector, including following directions, which will be considered:

- improvement and further development of normative legal bases for improvement of foreign investors' activity, taking into account interests of Tajikistan;
- favorable investment climate creation, first of all introduction of incentive taxation-customs system for foreign investors, conformity to modern requirements of the market, effective protection mechanisms of the investors' interests and rights' implementation at investment projects realization, creation of foreign investments insurance system;
- maintenance of foreign and domestic investors with modern information about new accepted normative legal acts in sphere of banking activity.