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The Development of Foreign Exchange Market Trends During the Period of Global Systemic Changes

S. Ahmedjanov
Researcher, Tashkent State University of Economics, Tashkent, Uzbekistan

Abstract

In the current period of instability, it can lead to the economic collapse of world countries. Due to these challenges, trade relations are broken, needed to search for new logistics centres for exporting products, problems with money transfers and the difficulties caused by the expansion of migration have increased in Central Asia, Caucasus and the Baltic countries. As a result, the price of raw materials will rise, the real income of the population will decrease, and as a result of the reduction of entrepreneurship, the dynamics of the currency exchange rate will increase. The changes will lead to instability in the currency market as well. The article is devoted to the analysis of these issues based on the data of the International Monetary Fund.

Keywords: Foreign exchange market, sanctions, trade relations, real incomes, macroeconomic stability, external debt, savings model, consumption model, monetary policy, stock market, fundamental factors.

INTRODUCTION

There are several reasons why the current period is called “the period of extreme instability in the world”. The first is that the pandemic led to a global recession and the second main reason is the conflict between Russia and Ukraine. As a result of this, the unprecedented sanctions applied to Russia are expected to break its economy and cause great losses to other countries of the world. According to the executive director of the International Monetary Fund (IMF), K. Lagar mentioned that “due to the pandemic situation, we have experienced a severe crisis over the world, as well as now we are facing an even more dangerous period” [1].

In fact, countries which are closely integrated with the Russian economy may also be in a difficult situation in case of conflict between Russia and Ukraine. Because, trade relations are breaking down among close countries, searching for new logistics centres for exporting products between countries, also problems dealing with money transfers and the challenges caused by the expansion of migration have increased negative consequences in the countries of Central Asia, the Caucasus and the Baltic. As a result, the price of raw materials will rise, the real income of the population will decrease and as a result of the reduction of entrepreneurship, the dynamics of the currency exchange rate will increase as well. In addition, the final report of the International Monetary Fund staff was published on “the results of the mission of the IMF with the Republic of Uzbekistan, in accordance with paragraph IV” from March 31 to April 13, 2022. In accordance with this database, a plan of work to ensure macroeconomic stability in Uzbekistan, mainly to implement systemic changes and to bring the economic growth of the country to 5-6% was determined during the time. Accordingly, a strategy was given to achieve the goals set by 2030 to halve the poverty of the nation and reach an above-average level of GDP per capita of $4,000 in Uzbekistan [2].

Methodology

Data indicated that strict measures should be taken to reduce the negative impact of the global crisis on the economy of Uzbekistan during this unpredictable time in the world. The paper analysis data which the economic indicators of the country based on the calculations of the International Monetary Fund and the Government of Uzbekistan. According to the results of the econometric analysis of the relative increase in foreign debt and the dynamics of the exchange rate, the value of the national currency against the US dollar at the end of 2022 will be 11,476 soums in the linear scenario method, in the exponential scenario method, it is expected to be 12,729 soums, (table 1).

According to the findings data, if the indicators in the analysis are to be followed, the inflation rate will increase, the unemployment rate will increase, the export will decrease and mainly the public debt will increase due to currency depreciation.

Table 1. The economic indicators of Uzbekistan from 2019 to2023[3]

Indicators	2019	2020	2021	2022	2023
				forecast	forecast
Real GDP growth rate (%)	5.7	1.9	7.4	3.4	5.0
GDP per capita (thousands of dollars)	1,801	1,766	2,002	2,071	2,274
Population (millions)	33.3	33.9	34.6	35.3	36.0
Grades (changing in percentage)					
Inflation. Based on the consumer price index	15.2	11.2	10.0	12.1	11.3
GDP deflator	17.9	11.6	13.6	11.6	13.0
External sector (as a percentage of GDP)					
Current account balance	-5.6	-5.0	-7.0	-9.5	-7.4
Foreign debt	43.9	58.4	60.5	63.5	61.1
Exchange rate (in soums against dollars at the end of the year)	9,516	10,477	10,820	11 476[1]	12 729[2]
Real effective exchange rate (average, 2015 - 100)	65.5	65.5	65.2	…	…
Public finances (as a percentage of GDP)					
Consolidated budget revenues	27.7	26.6	27.2	30.1	28.2
Consolidated budget expenditures	31.4	31.0	33.4	34.1	31.2
Consolidated budget balance	-3.8	-4.3	-5.8	-4.0	-3.0
Loans for reformation	3.5	1.1	1.5	0.6	0.5
Government debt	28.4	37.6	36.8	39.4	38.3
Money and credit (changing in interest rate)					
Reserve money	17.8	15.4	28.3	10.3	14.7
Money supply	13.8	17.9	30.3	15.5	23.3
Lending to the economy	23.8	34.4	18.4	17.3	16.4

[1] Author's development based on data from the Central Bank
[2] Author's development based on data from the Central Bank

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Currently, the economy of developed countries is experiencing a decline and an increasing inflation rate. The international currency market is an integral part of the world financial market and the weakening of the management role of the International Monetary Fund began to develop rapidly since 2000 as a result of the development of globalization processes in the world. It is important to note, under the influence of financial globalization intensified by the financial and economic crisis of 2008-2009, systemic changes have begun in the world economy, the financing of the reproduction process is moving from the traditional accumulation model based on the nature of debt to the consumption model. The basis of the IMF's activity is the control of the disproportion of the balance of payments in the accounts of the current operations and still remain out of constant control of bad consequences of the financial imbalance in the last period.

A new expanded type of reproduction of the debt-based model of financing, through the use of modern financial technologies, provides rapid growth of consumer loans without initial savings and investment in production. As a result, the global debt problem is intensifying and also resources are increasingly being diverted to service the accumulated debt. According to the reports of the International Financial Institute (IFI), the debt increased by $3,3 bln., $10.8 bln and $24 bln. respectively during 2018, 2019 and 2020, reached $281 bln. in the final year. It is indicated that is almost 355% of world GDP. The main cause of these high amounts is the countries of the world reduced interest rates to maintain balance in the economy during the pandemic period and the governments increased public spending to an unprecedented level [2]. Findings data illustrate that the global financial indebtedness problems affect the development of the international currency market which was caused by the policy of monetary easing among countries with free currency exchange (US Federal Reserve System, European Central Bank, Bank of England, Bank of Japan). As Central Banks become participants in the international financial market with less regulatory function, the effectiveness of central bank's monetary policy has decreased in the medium and long term. The financing of the world economy has led to an increase in transactions in the global currency market. Global currency transactions increased by 29% in 2019 compared to the same period in 2016 and reached respectively from $5.1 bln. to $6.59 bln. per day. The volume of daily trades in the currency derivatives market has exceeded that of the spot market. In particular, foreign exchange volumes increased by 30%, reaching daily $3.2 bln. in April 2019. In addition, during this particular time, agreements on forward contracts increased by 43%, reaching $1 bln. [4].

Since 2000, the position of the leading currencies in the world currency market has not changed, only the agreements of the Japanese yen have increased by 30%. with the currencies of developing countries, namely the Turkish lira, the South African rand and the Brazilian real. Moreover, at the same time, the technologies and methods of currency transactions are improving.

According to analyzing data and findings, the following factors influence the development of the global currency market:

– to increase using of electronic trading sites, stock robots, and currency assets of the traditional binary non-exchange market move in these markets;

- to elaborate on calculations through clearing organizations that carry out post-trading service methods, the system of calculations and advanced credit risks;
- to develop the Direct Memory access (DMA) process, which allows providers to directly enter the process of foreign exchange without banks and brokers.

Although the value of currency exchanges has declined greatly in developed countries, currency exchanges remain of huge effect and significant importance to developing countries. The main reason for this is the high dynamics of the currency fluctuations of developing countries, which play the role of a high-tech field for extinguishing it and preventing currency crises, as well as for the financial regulator for managing the exchange rate for the Central Banks.

Results

The advantages of developing countries trading with foreign currency are the following: firstly, the high level of openness of the stock market; the scope of the opportunity for the Central Bank to intervene in the process of currency trading in order to maintain the national currency exchange rate during the crisis. Secondly, the reliability of the opportunity to conduct trade operations at optimal prices for market participants.

The world currency system is an extremely influential sphere of relations in the world economic system and it reacts not only to economic and financial crises and also new trends in geo-economics and geopolitics, but to changes in the economic path of the leadership of developed countries and sanctions.

Enhancing the negative consequences of the flow of capital from developed countries to developing countries is carried out through the type of “carry trade” operation. That means when the rate of refinancing rate decreases in developed countries, investors borrow a lot of money and founding on the securities of developing countries, the point is that it is considered a type of operation to make a good profit due to the large difference in interest rates.

As a result of this, negative situations, such as low confidence in countries’ currencies, outflow of capital from the country, decrease in exchange rates of developing countries, and mainly increasing may occur in imports. For this purpose, interest rates are reduced to zero in developed countries and in developing countries, by using the high-interest rates and the low exchange rate as well as the outflow of “hot” money, by carrying out “carry trade” operations, increasing the demand for the currencies of developing countries regardless of fundamental factors and achieved great profit through increasing the volume of conversion operations.

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