

Macroeconomic Convergence Within The Eurasian Economic Union: Implications For The Formation Of A Regional Monetary Union

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Abstract.

The research paper was substantiated that a monetary union reduces the level of financial stability in the economies of the countries participating in it. This is because the existence of differences in the inflation rates among the economies of the countries participating in the monetary union, acts as an additional factor of development financial instability due to the loss of key instruments of monetary and foreign exchange policy. In this regard, the fact that the economies of the states entering the monetary union must reach a certain level of convergence is beyond doubt. Similar what compliance with the required level of convergence will help avoid negative economic shocks from the introduction of a single currency. However, at the moment there is no unified approach to assessing the level of convergence. The author's approach to assessing the level of convergence of the economies of countries entering the monetary union, and a methodology for assessing it developed on the basis of this approach.

Keywords:

Currency integration, Eurasian Economic Union, monetary union, macroeconomic convergence, price stability, financial stability, process of integration.

Article Received: 18 October 2020, Revised: 3 November 2020, Accepted: 24 December 2020

Introduction.

In the "Concept of integrated socio-economic development of the Republic of Uzbekistan until 2030" at the first stage (2020-2021), the expansion of external trade through the signing of agreements on the EAEU free trade zone and a number of other countries, and at the second stage (2022-2025) - a consistent study of the country's entry into EAEU and WTO, liberalization of trade policy and exports, revision of non-tariff trade barriers and bringing them in line with WTO agreements and norms¹⁸.

On March 7, 2020, the Government of Uzbekistan approved a proposal for cooperation with EAEU as an observer state. Legislative

Chamber of the Oliy Majlis (Parliament) at a meeting on April 28, 2020 approved the government's proposal on participation of Uzbekistan in the Eurasian Economic Union (EAEU) as an observer state. On May 11, 2020, the Senate of Uzbekistan - the upper house of the country's parliament - approved the participation of the republic in the work of the EAEU as an observer.

After the signing of the Treaty on the Establishment of the Eurasian Economic Union, new prospects for integration open up for states. This agreement provides for a coordinated policy in key areas of the economy and the removal of restrictions on the movement of goods, services, capital and labor, including through the

convergence of national legislation. Section XIV of the Treaty on the EAEU provides for the phased implementation of harmonization and convergence of approaches to the formation and implementation of monetary policy.

There are guidelines for the goals and objectives of the economic integration of the EAEU countries, but at the same time, the states so far express only general framework intentions in terms of coordinated monetary policy, monetary policy, and financial stability measures. The process stands out quite clearly, for example, in the field of gradual harmonization of banking legislation. And in other areas of these landmarks of the country only determine to what extent they are ready to go for rapprochement.

Methods of research

Integration processes in the EAEU are developing in rather difficult conditions, when global problems in world politics and economics, and politics increasingly affect the economy. In this situation, only a powerful integration block will win. At the same time, in order for the EAEU to become a powerful alliance, a lot of work remains to be done, including in the monetary and financial sphere. In the process of integration, you need to see not only instant benefits, but also prospects.

The consequence of integration in the monetary and financial sphere should be: reduction of transaction costs and risks, ensuring the efficient use of monetary resources throughout the entire space of the integration association.

Specifically in the field of monetary and financial relations, the following major tasks have to be solved:

- decrease in the share of the US dollar and an increase in the role of national currencies in mutual settlements and official reserves.
- preparation of prerequisites for the introduction of a common currency in the future;
- creation of own settlement systems and transmission systems financial information;
- creating a common space for monetary and financial services, including within the integrated foreign exchange market, infrastructure and institutions;
- increasing the liquidity of the financial market of the integration association;

- creation of a world-class banking and exchange infrastructure with a wide range of instruments;
- creation of a prototype of an interstate institution engaged in the development of interaction mechanisms in the monetary and financial sphere of integrating states;
- creation of an institutional and legal regime that does not allow currency restrictions and barriers to transactions between residents and non-residents;
- creation of integration funds, mechanisms for attracting and redistributing resources necessary for the implementation integration projects.

Obviously, in the integration association of the EAEU, a phased creation of a single economic space will be required, and it will also be necessary to formulate a common currency strategy. This implies the creation of a customs union, a payment union and a common market, economic and monetary unions within a single economic space.

In scientific and publicity articles on the topic of monetary and economic integration, the principle of a strict sequence of stages of economic integration is formulated. Integration is defined as a complex, highly structured process, covering the entire system of national markets and supranational institutions of government. The experience of European integration proves the thesis about the mandatory progressive process of the countries participating in the integration association going through certain stages - from the creation a free trade zone to an economic, monetary, and then a political union.

Countries will have to develop principles for organizing a system of supranational bodies in the field of banking, monetary and foreign exchange regulation, a single central bank. So far, we are only talking about creating a supranational financial regulator by 2025. As we understand it, this body will not be a supranational central bank in the full sense and the only center.

The activities of the Interstate Bank, created by the CIS states, can be defined as the institutional framework for the development of monetary and financial cooperation in the EAEU space. In essence, it can perform the functions of an "integration bank".

The need to integrate the activities of appraisers and the development of valuation standards in Eurasian integration has long been ripe. It acquired particular relevance at the stage of the EAEU, when the task was set to create a really functioning common market for the free movement of factors of production and a common financial market.

Measures are currently being taken to integrate the activities of appraisers in the Eurasian Union. Work is underway to harmonize the relevant legislation of the EAEU member states, issues of harmonizing cost assessment standards are being actively discussed. Integration of appraisers' activities, harmonization of legislation, harmonization of valuation standards are considered today as one of the areas of integration in terms of increasing the degree of internationalization of economic relations at the present stage development of Eurasian integration.

In this regard, the unification of legislation on the activities of appraisers has become an urgent problem. This is important to ensure the negotiations of appraisers in a single professional language when carrying out transactions in the common market for goods, services, capital, labor resources and in the common financial market of the EAEU member states. This direction of the development of the integration process will allow not only to speed up and increase the efficiency of trade and economic ties, but also to increase the share of mutual trade in the total turnover of Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan.

In 2019 against the background of the absence of significant external and internal destabilizing phenomena, the macroeconomic policies pursued in the member states were mainly focused on reducing and maintaining the inflation rate near the target level, and at the end of 2019, the inflation rate in all member states corresponded to both national landmarks and values established by the Agreement. Member States have taken fiscal consolidation measures over the years, resulting in significant progress in meeting the Treaty's targets for the consolidated budget deficit and general government debt. At the end of 2019, only in the Kyrgyz Republic there is a slight excess of the established level of debt of the general government sector in relation to the gross domestic product, however, the measures taken by the Government of the Kyrgyz Republic to optimize budget expenditures and increase budget revenues against the background of relatively high growth rates of gross domestic product ensured a

gradual reducing the debt burden on the economy of the Kyrgyz Republic.

By focusing on achieving and maintaining macroeconomic and fiscal stability, not all member states have been able to achieve sustained high rates of economic growth. While overall economic growth for the Union has remained below the global average for a number of years, in the Republic of Armenia, the Republic of Kazakhstan and the Kyrgyz Republic, the growth rates of gross domestic product in 2019 exceeded the world average. At the same time, the economies of Southeast Asia, including China, India and the ASEAN member states, grew at a rate of at least 5-6 percent per year.

In 2019 economic growth in all Member States was supported by positive dynamics in the industrial and service sectors. The fastest growing industrial production was observed in the Republic of Armenia and the Kyrgyz Republic. In the Republic of Belarus, the growth of gross domestic product was also facilitated by positive dynamics in certain sectors of services, in the Republic of Kazakhstan - in the extractive industry and the construction sector. In all member states, with the exception of the Republic of Armenia, an increase in agricultural production was noted.

The growth rate of investments in fixed assets in the Union was not high. In all member states, with the exception of the Republic of Armenia and the Kyrgyz Republic, the rate of investment growth in 2019 was lower than in the previous year. The growth of retail trade turnover also decreased, except for the Republic of Armenia.

After several years of growth in 2019, the demand for the products of the Member States in foreign markets decreased, the volumes of the Union's foreign trade with third countries were lower than the values of 2018, and mutual trade slightly exceeded the level of the previous year. This dynamics was due to a slowdown in the growth of world trade, a decrease in world prices for mineral products and metals, as well as a reduction in mutual trade in oil and oil products.

The commodity structure of mutual trade is characterized by greater diversification and balance than foreign trade. While mineral products account for more than 60 percent in the structure of exports to foreign markets, their share in mutual trade is about 25 percent, and it is decreasing due to an increase in the supply of more high-tech products - machinery, equipment and vehicles, food, agricultural products and chemical industry products.

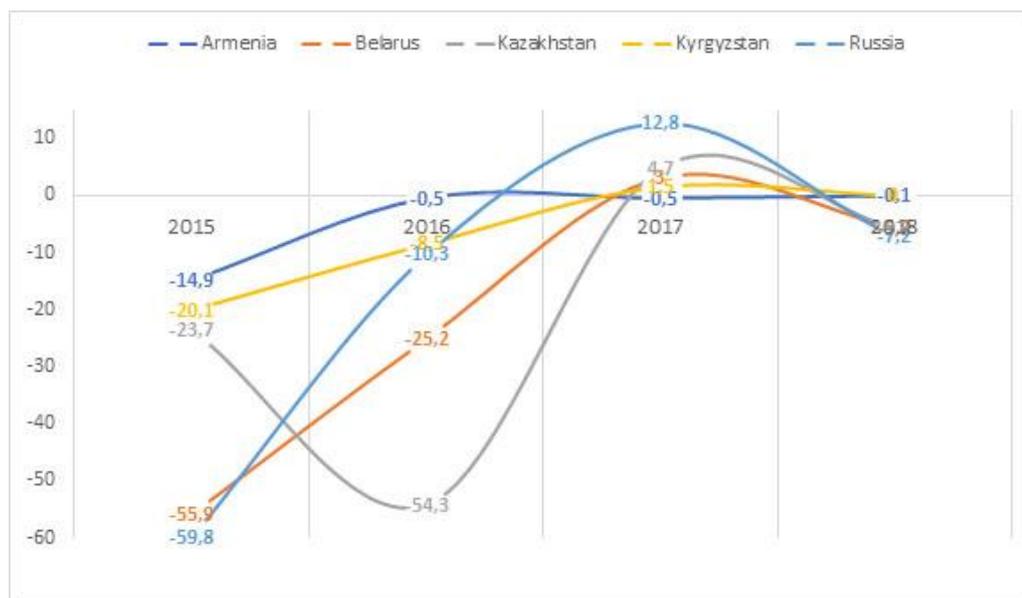


Fig.1. Macroeconomic indicators Eurasian Economic Union Formation of regional monetary union from 2015-2018

With the onset of 2020, the situation in the global economy has deteriorated sharply. The adoption of the necessary measures to curb the spread of coronavirus infection, first by the People's Republic of China, and then by most countries of the world, led to a rapid contraction of economic activity, a collapse of global financial markets, problems with the transportation of goods and passengers, a slowdown in world trade and the destruction of cross-country value chains. In turn, such a significant decrease in production activity, leading to a decrease in the profit of economic entities, permanent or temporary release of working personnel, a decrease in household income and an increase in credit debt, has a restraining effect on consumer demand. In addition, the contraction of economic activity in the main trade partners of the Union, which are the European Union and the People's Republic of China, led to a significant decrease in external demand and a landslide drop in world prices for the most important export goods of the member states - oil and oil products, coal, ferrous and non-ferrous metals.

These circumstances will inevitably exert downward pressure on the revenue components of the budgets of the member states. In addition, in order to support the most affected sectors of the economy, small and medium-sized businesses, the member states are taking the necessary set of fiscal measures, which may lead to the formation or increase of budget deficits by the end of 2020 and exceeding the limiting quantitative values of macroeconomic indicators by some member states

determining the sustainability of economic development.

Thus, in the context of negative shocks on the supply and demand side, the impact of which is exacerbated by falling commodity prices, governments and national (central) banks of member states, in addition to measures of anti-crisis support for the economies, need to pay special attention to maintaining macroeconomic stability and ensuring cooperation in foreign exchange. -financial sphere. The implementation of joint actions of the member states within the framework of a coordinated macroeconomic policy can become the basis for an early stabilization of the economic situation in the Union.

The outlook for global economic growth in 2020 is highly uncertain. The development of the situation indicates the beginning of a global recession, comparable in size to the financial and economic crisis of 2008-2009. Global trade is shrinking, leading to job losses, rising unemployment and increased social tensions. In case of unfavourable development of events, economic losses can increase significantly. Therefore, in the medium term, the need for an early recovery of economic processes will come to the fore.

Within the framework of the global economy, the recovery will turn out to be at different speeds and uneven, given the different levels of the destructive impact of shocks on the economies of countries and the peculiarities of the anti-crisis measures taken by them. An early return to the trajectory of economic growth will be observed in states that pay attention to pursuing a

targeted policy of enhancing internal sources of economic growth, strengthening existing ones and forming new industrial and trade ties, including through the use of opportunities and benefits of economic integration. In this situation, the member states have great opportunities to restore their economies in a fairly short time and reduce the lag in the pace of economic development from the fastest growing economies in the world.

The experience of leading economies shows that the most important condition for maintaining and intensifying economic growth is the outstripping growth of investments. Member states need to take measures to stimulate investment growth. Private investment should be supported by public investment and the use of funds from national and regional development institutions. Along with the creation of additional incentives for the growth of investment activity, it is advisable to create conditions for increasing the attractiveness and availability of long-term lending for investment purposes. This will allow accumulating the necessary funds to solve the problem of strengthening and effectively implementing the production potential of the Union. To solve this problem, the share of gross fixed capital formation in the gross domestic product of the Union in the medium term should reach the world average.

Results

The formation of a new technological order creates conditions for the transition to advanced development due to the structural restructuring of the economy. The key areas of development should be high-tech spheres, based primarily on information technology and artificial intelligence, nano- and biotechnology, and digital transformation. The impact of the spread of coronavirus infection on all sectors and industries of the economy underlines the critical importance of the development of the health sector, medical and bioengineering technologies. It seems to be a priority to encourage investment in this area as one of the key directions for the growth of the new technological order.

The member states have a significant development potential associated primarily with the use of underutilized production capacities, which should also be accompanied by their high-quality technological renewal. Thus, an increase in the average level of utilization of production capacities in the manufacturing industry by 10 percent, according to the estimates of the Eurasian Economic Commission, can lead to an increase in the growth rates of industrial production in the

member states by 6-15 percentage points, depending on the structure of national economies.

An additional powerful incentive can be given by the use of the possibilities of Eurasian integration in the development of scientific, technological and production potential. Such opportunities are primarily associated with building an effective system of management and financing of joint cooperation projects, the creation and development of highly productive, including export-oriented, sectors of the economy in the Union and joining efforts to stimulate joint research. The development and implementation of new technological solutions should be supported by measures for the systematic training and retraining of highly qualified specialists, as well as the creation of incentives for the influx of such specialists into the economies of the Member States. In the medium term, special attention should be paid to the development of human resources and reducing disparities in the regional labor market.

At the same time, the economic policy in the field of restoration and revitalization of economic growth as a whole in the Union should be focused not only on the development of production capacities, but also on the balanced maintenance and expansion of demand, as well as on ensuring employment.

Against the background of quarantine measures and other social restrictions, there is a significant contraction in demand, both external and internal. First of all, the demand in the service sectors is decreasing. The most affected are tourism and hotel services, air and rail transportation, wholesale and retail trade, and catering.

In other sectors of the economy, negative consequences may be associated with a decrease in intermediate demand due to disruption of production chains, as well as final demand due to a decrease in the profit of enterprises and household income.

To minimize the negative consequences of the economic shock, it is necessary to use the integration capabilities of the Union associated with the prompt elimination of barriers, reduction of exemptions and restrictions, as well as prevention of the emergence of new obstacles in mutual trade. This will help increase the capacity of the Union's common market and the predictability of demand for the products of the Member States. To ensure the maximum efficiency of the common market of the Union for all member states, it is necessary to strive for stable

maintenance of the growth rate of mutual trade at a level exceeding the growth rate of foreign trade.

In foreign markets, in the medium term, there is a need to expand export opportunities associated with both geographical and commodity diversification of external supplies. Strengthening external relations by developing trade and economic relations with third countries and establishing mutually beneficial cooperation with international organizations will become the basis for the development of exports. It is also necessary to ensure priority conditions for the export to foreign markets of high-tech products manufactured in the member states, while increasing the productivity and quality characteristics of the goods and services provided.

Conclusion

Therefore, the most important goal of macroeconomic policy in 2021 is to maintain macroeconomic stability and the achieved standard of living of the population in the member states, as well as to form the foundations for the advanced economic development of the Union. Measures aimed at maintaining and increasing investment activity, developing scientific, technological and production potential and promoting the expansion of demand can give the necessary impetus to the development of the economies of the member states. The adoption of these measures will help overcome the consequences of negative external shocks and increase the competitiveness and weight of the Union in the global economy. In the medium term, the implementation of these measures will contribute to the achievement of economic growth rates in the Union as a whole, which will not be lower than the world average.

Consequently, to achieve this aim in the short and medium term, the following measures can be recommended:

- maintaining macroeconomic stability, including:
- ensuring price and financial stability;
- ensuring the continuity of the financial sector, reducing operational risks and maintaining information security while providing opportunities for remote work of some employees;
- supporting the potential of the financial sector to provide resources to the economy, including in terms of easing lending conditions for enterprises in the real sector;

- mitigation of the administrative burden on payment systems while maintaining the continuity of their activities;
- encouraging the use of mainly non-cash methods of payment for goods (works, services), including the use of fast payment systems, as well as mechanisms for remote receipt of banking services, including using the capabilities of remote identification;
- monitoring and prompt adoption of measures to prevent unjustified price increases due to the volatility of exchange rates of national currencies against the currencies of third countries;
- formation of additional sources of budget revenues in order to cover the shortfall in income, which will be directed to support the economy and the population;
- reliable provision of the economies of the Member States with energy resources within the agreed indicative (forecast) balances of the Union;
- stimulating the expansion of the use of national currencies of the member states in mutual trade;
- the provision by the Eurasian Fund for Stabilization and Development in the prescribed manner to the member states of credit assistance for the purpose of macroeconomic stabilization;
- elaboration by the Eurasian Development Bank, within its competence with the member states, of the implementation of projects aimed at minimizing the consequences of the spread of coronavirus infection;
- measures taken to maintain and increase investment, develop the scientific, technological and production potential of the Union, including:
- maintaining jobs and increasing employment in member states;
- adoption of measures of tax and budget support for small and medium-sized businesses and enterprises most in need of support

- for sectors of the economy in the face of a decrease in their income;
- increasing the efficiency of the use of budgetary funds of the Member States to improve the investment climate and activate the mechanism of public-private partnership;
- simplification and elimination of administrative and other regulatory procedures in the investment field, taking into account the best international practices and experience of the member states;
- improving the legal and regulatory framework of the member states aimed at protecting investors;
- taking measures to stimulate investments by public and private enterprises in research and development of the health sector;
- assistance in the development of cooperative projects creating production and technological value added chains, including in high-tech sectors of the economy;
- development of digital financial technologies and attraction of investments in this area;
- creating conditions for maintaining stable demand, expanding export opportunities and enhancing mutual trade, including:
- elimination of barriers, reduction of exemptions and restrictions, as well as prevention of the emergence of new obstacles in the internal market of the Union;
- ensuring fair competition in the cross-border markets of the member states and its protection;
- development of trade and economic relations with third countries, as well as building a systemic dialogue with key regional economic associations, international and regional organizations in order to establish mutually beneficial cooperation and expand the export opportunities of the Union;
- ensuring priority conditions for exporting high-tech products to foreign markets;
- creation of the necessary conditions for the digitalization of mutual and foreign trade;

- coordinated development of the transport infrastructure of the member states;
- enchanting measures aimed at maintaining and increasing the income of the population, as well as creating the preconditions for the convergence of the member states in terms of the level of economic development and income of the population.

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Journal ISSN: 2321-6247 Volume: 8| Issue: 1 August 2020 | SJIF Impact Factor (2020): 8.007 DPI:202008-13-005027. P.9-14.

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