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The Importance of Treasury and Central Bankbills in the Implementation of Monetary Policy

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Abstract--- *This study explores the problem of using Treasury Bills and central bank bills as a means of monetary policy by countries at the level of development and the simultaneous use of two types of securities. It is noteworthy that in developed countries, there are treasury bills or central bank bills, and in developing countries, both bills are used. Also, in the developed world, there is more use of Treasury bills than central bank bills. The employment of two types of securities leads to the segmentation of the bond market, the deterioration of the central bank's revenues and the growth of public debt. Based on the problems arising from the simultaneous use of two different bills, it was proposed to include the central bank bills in Treasury bills in countries with two different bills.*

Keywords-- *Treasury bills, Central Bank bills, monetary policy, bonds, market segmentation.*

I. INTRODUCTION

One of the main tasks of the Central Bank is to stabilize prices through monetary policy. Thus, the Central Bank issues bills on its behalf or on behalf of the government. At the same time, many central banks, which have a market of government bonds in developed countries, use Treasury Bills rather than their own securities as a financial instrument of monetary policy. The central bank bills are mainly used in developing countries such as China, Indonesia and Chile.

In Uzbekistan, the securities market is an important tool for accumulating free cash flows in the economy and investing them in investment processes. The Capital Markets Development Agency was established earlier this year as the first stage of reforms. Government bonds were redirected to the stock market.

However, the mechanism of issuance and sale of securities is not used effectively. The total stock market value is 25 trillion soums, which is less than 6% of GDP. This figure is 188% in Singapore, 112% in Malaysia and 34% in Russia.

In most cases, Treasury bills are issued by governments through central banks to provide a temporary budget. Nevertheless, treasury bills are used as one of the open market operations (OMO) forms for monetary policy. Thus, by issuing Treasury bills, central banks can attract short-term funds for governments and at the same time withdraw excess liquidity from the financial markets. The financing of the stock market in Uzbekistan in September this year

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amounted to 44.756 trillion. soums, which is 0.32% less than in August, but has increased since July. Dynamic changes in the past months of 2019 are reflected in the chart. (Figure 1)

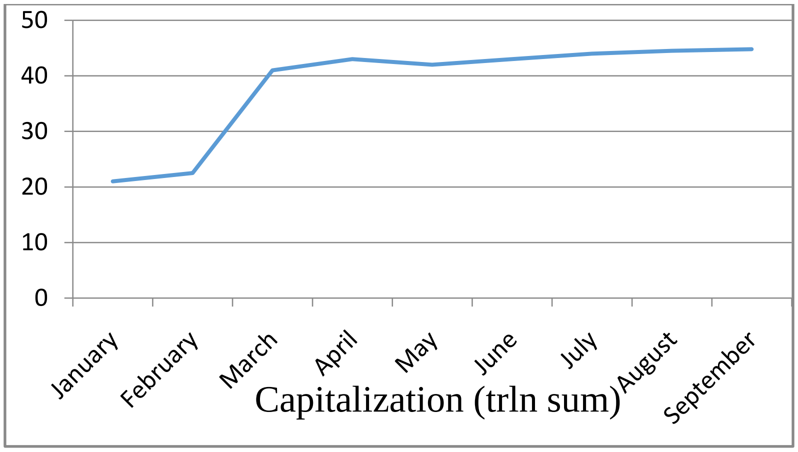

Figure 1. Stock Market Financing Schedule (as of September 1, 2019)

Financial market participants are more likely to be confused when Treasury bills are issued for uncertain or mixed purposes. The issuance of Treasury bills for governments to raise funds could lead to a drop in unexpected liquidity. In this case, the most important function of central banks, that is, price stabilization for monetary policy, can be disrupted.

Conversely, central banks may issue their own securities in some countries where there is insufficient government securities. Central governments may lack the financial resources needed for open market operations if governments do not want to issue Treasury securities out of a growing deficit. In addition, central banks use their bills for operational flexibility in cash transactions or for separation of money management from debt management. However, excessive issuance of central bank bills can lead to losses and undermine the autonomy of central banks.

Therefore, this study examines the country issuing Treasury or central bank notes for monetary policy and analyzes the use of these bills by the level of development of these countries. It also allows research in some countries where Treasury securities and central bank bills work simultaneously and identifies problems with the use of two types of securities. From the points mentioned in the article, it can be concluded that the two types of bills should be short-term and eventually merged.

Dekmak is one of the instruments of monetary policy in circulation of bills.

Central banks issue Treasury and Central Bank bills for monetary policy, usually in three types.

First, the Central Bank issues only treasury bills. At the same time, the central bank issues promissory notes classified as promissory notes for public finances and promissory notes. The bills for public funds are issued with relatively short-term bills with a maturity of one month or less. For example, the United States separates two-week bills and short-term bills in Brazil from traditional Treasury bills. New Zealand will issue Treasury bills with non-standard maturity dates that are expected to arrive.

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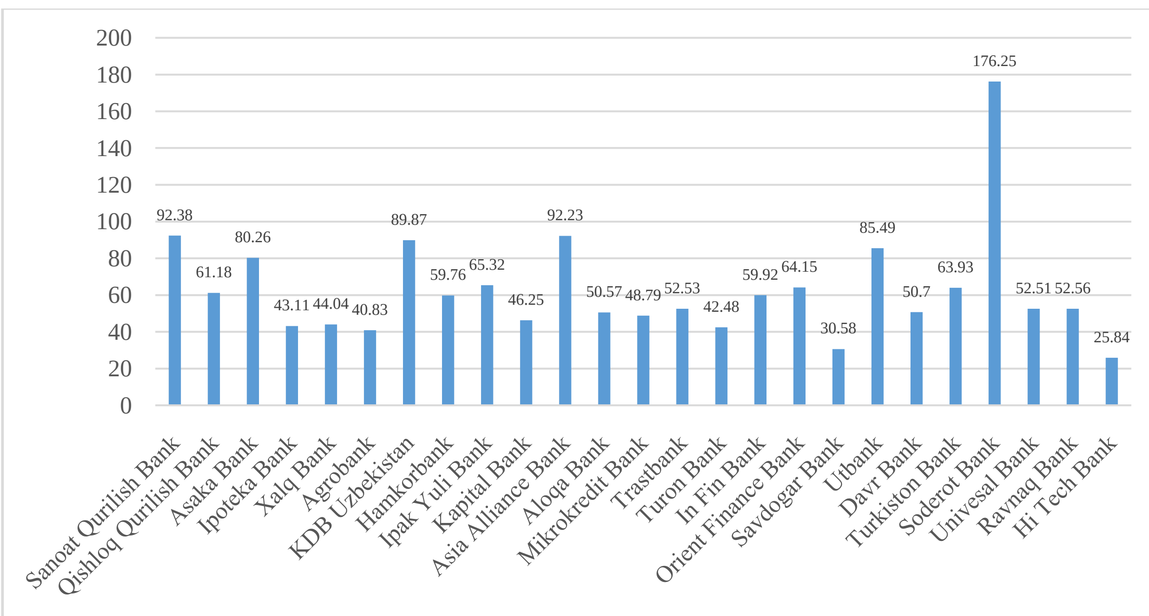
Second, central banks issue central bank bills instead of treasury bills for proper monetary policy. Many central banks, which issue central bank bills, direct funding to the government in the face of budget deficits. That is, central banks use the central bank bills as a means of monetary policy, while temporarily providing the government with funds. Examples of central bank bills are the Korean Bank's Monetary Stability Bonds (MSB).

Third, central banks issue not only treasury bills, but also central bank bills. Central banks automatically use the Treasury bills when implementing monetary policy. When the Treasury and the Central Bank bills are issued together, there are several problems, including market segmentation. In other words, taking into account the level of development of countries it is advisable to use promissory notes.

According to a survey conducted by the International Monetary Fund (IMF) in 84 countries in 2008, 31% of developing countries and 41% of emerging markets simultaneously, use Treasury bills and central bank bills, but not in-developed countries. In addition, developing countries are increasingly using Treasury bills, while developing markets are using more than the central bank bills. In developing countries, central banks decide to issue their bills because they have little government emissions. Treasury bills are of great importance for liquidity management.

In Uzbekistan, the current liquidity ratio of commercial banks should be 30%. As you can see from the picture below, all of the commercial banks have fully performed their current liquidity levels. Now, the commercial banks of the country will assess the current level of liquidity.



Current liquidity of commercial banks (As of January 1, 2017)Info from Rating Agency "Akhbor-Rating" which was created on the basis of data No. 46 of 2017.

According to the picture, Hi Tech Bank has the lowest current liquidity with 24.84%, Savdogarbank 30.58%, Turonbank 42.48% and Agrobank 40.83%. Soderat has the highest current liquidity of 176.25%, Industrial Construction Bank 92.38% and AziaAllians Bank 92.23%. Excessive current levels of liquidity negatively affect the profitability of a commercial bank. The rest of commercial banks are maintained at the level of 50-60%.

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In general, our commercial banks have a tendency to increase the current liquidity ratio.

In some countries, as the national economy develops, bills of exchange from central bank bills to treasury bills will grow. In Brazil, the Treasury and the Central Bank issued their bills until May 2002. But the Central Bank stopped doing so to develop its own treasury bond market. Instead, the Treasury began issuing the equivalent amount of Treasury securities upon expiration of the Central Bank's circulation. In general, the number of countries using Treasury bills is almost the same as the countries that use the Central Bank bills.

In terms of maturity of the central bank bills, many countries have a one-year term. In developed countries, because the cost is short-term, there are different characteristics that are associated with their development. The Bank of Poland, for example, even issues seven-day central bank bills.

The central bank and treasury bills are always distinctive.

Bills as a tool for effective monetary policy implementation are one of the long-standing debates in practice. At the same time, it is concluded that the use of Treasury bills should be a priority over the use of the Central Bank bills. The issuance of the Central Bank's bills can harm the bank's independence in pursuing monetary policy. In particular, the decrease in the bank's revenues as a result of the issuance of the central bank's bills would result in financial support from the government. Other reasons for using Treasury Bills as compared to the Central Bank bills are that they are multifaceted and contribute to the development of the short-term bond market and create new financial instruments based on treasury bills. Cho (2011) explains the benefits of using Treasury Bills, which can be used to facilitate day-to-day liquidity management, reduce short-term interest rate volatility affecting the entire financial market, and adjust the liquidity of money market instruments. Therefore, the developed countries carry out monetary policy through treasury bills, which play a major role in the money market.

Nevertheless, the reason for attracting the central bank bills in some countries is the development of the national economy. Most countries mobilize funds to raise the liquidity of the banking system to boost the transition from a planned economy to an economy based on free market relations. In these cases, the increased liquidity of the banks to the banking sector and the expansion of the banks' credit portfolio will create excessive liquidity for countries to operate in the open market. Under these conditions, the interest of governments in issuing enough Treasury bills decreases due to the risk of excessive surpluses. This means that the practice of trading the central bank bills is more commonly used in developing countries than in developed countries. As an example, let's take a look at the international rating agency Ahbor-rating on the effective use of financial resources, attracted to the banking system as a result of financial reforms in the country.

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Table 1. Ahbor-Reyting informs about credit rating of Uzbek bankshttps://bank.uz/bank/20

Names of the banks	Rayting	prognosis	date of assignment	Data of update
JSCB "Sanoatqurilish bank"	uzA+	stable	05.2015	07.2018
JSCB "Asaка"	uzA+	stable	06.2015	06.2018
National Bank Of Uzbekistan	not having			
JSCB "Invest Finance Bank"	uzA	stable	06.2015	07.2018
JSCB "Agrobank"	uzA+	stable	07.2017	03.2018
JSCB "Microkreditbnk"	uzA	stable	06.2015	06.2018
JSC "HalqBanki"	uzA	stable	06.2015	02.2018
JSCMB "Ipotekabank"	uzA+	stable	05.2015	06.2018
JSC "KDB Bank Uzbekistan"	uzA+	stable	09.2015	08.2018
JSCB "QishloqQurilish Bank"	uzA+	stable	11.2017	01.2018
PSBJ "Trustbank"	uzA+	stable	06.2015	08.2018
JSCB "ASIA ALLIANCE BANK"	uzA+	stable	09.2015	05.2019
JSC "Aloqabank"	uzA+	stable	04.2016	08.2018
JSC "Ziraat Bank Uzbekistan"	uzA	stable	05.2018	
JSCB "Turonbank"	uzA	stable	06.2015	01.2018
JSCB "Universal Bank"	uzB	stable	06.2015	07.2018
JSCB "Savdogar"	uzA	stable	05.2018	
JSICB "Ipakyuli"	uzA+	stable	05.2015	07.2018
JSCB "Orient Finans"	uzA	stable	10.2015	08.2018
JSCB "RAVNAQ-BANK"	uzB+	stable	08.2018	
JSCB "Kapital bank"	uzA	stable	09.2016	08.2018
SB "Sederat Iran"	not having			
JSCB "Hamkorbank"	not having			
JSCB "Davrbank"	not having			
JSCB "Turkiston"	uzB++	stable	10.2015	05.2018
JSCB "Hi-Tech Bank"	uzB+	stable	06.2018	08.2018

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The possibility of simultaneous sharing of two types of bills depends on the independence of decision-making on the priority of issuing promissory notes and the independence of central banks. Central banks can issue their bills in the first place, if they have sufficient financial resources to cover operating costs and losses, a clear mechanism for the distribution of income and capital increase. The decision to choose promissory notes can also be influenced by the level of development of the stock market of the country. Central bank bills are issued in countries with a market of treasury bills. In addition, the ease with which central banks pursue monetary policy and how the money market develops will affect the choice of priority bills.

For example, February 14 this year, for the first time in its history, Uzbekistan has sold Eurobonds worth $ 1 billion. The yield of the $ 500 million 5-year bond was 4.75% a year, and 10-year Eurobonds ($ 500 million) - 5.375%. According to the London Stock Exchange report, the debt repayment dates are set to 2024 and 2029 respectively. Investors' demand increased almost fourfold compared to the volume of bonds placed and raised $ 3.8 billion from about 150 institutional investors before closing the order book. This served to reduce the bond yields by 5.625.55.75% and 6% annually to 4.75% and 5.375%, respectively.

It has offered investors more than $ 5.5 billion for the first sale of Eurobonds in Uzbekistan. According to the Bloomberg Barclay Index, the bond rose 8.4 percent since its release on February 14. In developed markets this figure is 6.2%.

Accordingly, the decision of the President of the Republic of Uzbekistan Sh.Mirziyoev on April 2, 2019 approved the list of recipients of funds from 5- and 10-year sovereign international bonds worth $ 1 billion:

• $ 889.2 million will be placed on auction by commercial banks;

• $ 20 million will be provided to Agrobank as a loan;

• $ 89.9 million as a loan to the Navoi Mining and Metallurgical Combinat.

The Ministry of Finance of the Republic of Uzbekistan notes that while Uzbekistan has sufficient fiscal reserves and macroeconomic stability, the issue of sovereign international bonds is based on strategic goals and not on the need for additional funding or budget deficit.

In addition, the Treasury and the Central Bank should cooperate and exchange information on issuance of bills for financial stability in the stock market. According to Santoro (2012), "allocating large sums to the Supplemental Financing Program (SFP) following the global financial crisis is very useful for spending excess reserves. The Federal Reserve has sold treasury bills for the SFP." Cook Man (2011) states that "collaboration between two organizations is one of the key factors in overcoming the global financial crisis". Moser-Boehm (2006) states in his research that "developed countries show that market relations are several times more financial between government and central bank than in developing countries."

In addition to the benefits of using both types of bills at the same time, there are problems with their issuance.

Simultaneous issue of treasury bills and central bank bills poses a number of problems in terms of bond market, profitability of the central bank and national debt. First, the fragmentation of the bond market today is of concern to

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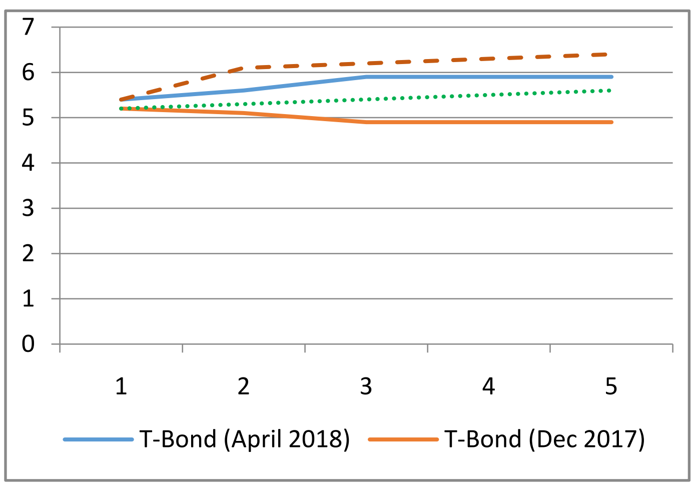
many. If two types of promissory notes have the same maturity, and both types of bills show a yield curve, this may lead to liquidity shortages and price distortions. It is assumed that such a division in the bond market will only increase when the two types of bills are in circulation.

For example, Figure 3 shows the actual yield curves of Treasury bonds and central bank bonds in Korea in December 2007 and April 2008. Figure 3 shows the interest rates on Treasury bonds of MSB s issued by the government and the Central Bank, although the two types of securities have the same duration. The yield on both types of securities in the one-year circulation is the same, but the two-year yield on the MSB is higher than the December 2007 Treasury bond. In addition, a two-year MSB provides higher rates than a three-year interest rate. In addition, the April 2008 yield curve shows that interest rates have been seriously violated. The yield on T-bonds declines for up to three years, with short- and long-term interest rates declining, resulting in the opposite direction of yield between PBO and T-bonds. This means that the term structure of interest rates has not been substantiated. Equal interest rates between Treasury Bonds and MSB s issued by businesses with similar credit rates create difficulty in setting interest rates on corporate or other bonds. Such an unstable benchmark interest rate plays one of the risk factors in setting the rate of issue for other bonds, which ultimately hinders the stability of the entire bond market.

The interest rate on the term Treasury bonds and cash bonds https://www.bok.or.kr



Secondly, excessive issue of the Central Bank's bills can lead to the deterioration of the Central Bank's revenues. An increase in the Central Bank's debt as a result of its securities being traded may adversely affect its financial position. The Central Bank's promissory notes may raise prices after interest payments. In addition, due to the excessive issuance of central bank bills, significant interest rates will lead to an increase in the money supply. This may hamper the effectiveness of monetary policy and monetary operations.

Third, an increase in the issue of securities of the Central Bank may eventually lead to an increase in national debt. An increase in interest rates as a result of an increase in the balance of the central bank bills could lead to an increased tax burden on the government. In the event of a shortage of cash by the central bank, the bank will reimburse it with its reserves. However, if the reserve is depleted, the government will have to reimburse those funds. The provision of such a fund by the government means that the central bank's bills will have its fiscal nature and will eventually be considered as a potential public debt. In addition, as evidence increases, central bank bills may be included in the national debt based on the standardized definition of national debt by the IMF.

The Central Bank's bonds are issued in the country in the event of a stable structural surplus of liquidity in the banking system.

Types of liquidity and attraction operations by the Central Bank and annual interest rates approved by the Board of the Central Bank of the Republic of Uzbekistan on November 10, 2018 № 35/4. The Central Bank issues preliminary announcements on deposit and credit auctions.

Table 2. Types of operations on issuing and attracting liquidity by the Central Bank and the annual interest rates on themCentral bank Of Uzbekistan . http://cbu.uz/uzc/press-tsentr/press-relizy/2018/11/151210/

Aim of the operation	Instrument type	Type of Central Bank's operations	Duration	Interest rate
Liquidation operations	Permanent operations	Loans without collateral	Up to 90 days	MB refinancing rate
		Swap operations (rate in UZS for forward rate calculation)	Up to 90 days	+ 3% busy
		Mortgage refinancing loans (at fixed interest rate)	8 to 90 days	MB refinancing rate
			Up to 7 days	MB refinancing rate
	Open market operations (minimum interest rates)	Auction on mortgage refinancing loans	1 month	+ 2% busy
			2 weeks	MB refinancing rate
Liquidity Attraction Transactions	Open market operations (maximum interest rates)	Deposit Transaction Auctions	2 ҳафта	+ 1 percent busy
			1 ой	MB refinancing rate
	Permanent operations	Deposit operations	7 кунгача	MB refinancing rate
	Open market operations (maximum interest rates)	Auction on Central Bank Bonds	1 йилгача	MB refinancing rate

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We have considered the pros and cons of trading Treasury bills and central bank bills on monetary policy, and the frequency of using two bills depending on the national development phase. In some countries where two types of bills are traded at the same time, it may be inevitable to consider a comprehensive instrument for managing the merger. It is also important to develop the government bond market, to resolve incorrect and distorted term transactions in the bond market, and to ensure the central bank's autonomy for these countries. We need to develop a short-term and long-term win-win strategy to minimize the potential side effects of these bonds.

First of all, it is necessary to adjust the terms of two types of securities in order to win in the short run. Central bank bonds should be mainly issued in the medium-term, and Treasury securities should be directed to issuance of short-term and long-term issues of less than one year. In other words, to prevent duplication of two securities, the bond market must be divided into short-term treasury bills, mid-term PBOs and long-term treasury bonds. This can confuse market participants. Issue of Treasury bills can play a benchmark for the short-term market.

Medium-term Central Bank bills are swallowed for the market and eventually added to Treasury securities once the bond market stabilizes. As foreign financial institutions increase public procurement, it is necessary to expand the treasury market. However, in this case treasury securities should be provided instead of the central bank bills for open market operations. In other words, the government will issue enough treasury securities for budget deficits and monetary policy and have to deposit them with the central bank. They can regulate money supply through deposits secured by treasury bills. In some countries, such as India and Macedonia, Treasury securities are issued for monetary policy at the request of the central bank. Adequate provision of financial instruments for monetary policy is an important factor in the consolidation of treasury securities.

In summary, some countries issue treasury or central bank notes for monetary policy, while others issue two types of securities at the same time. However, no developed or majority developing countries have proven that they do not publicly trade two types of securities at the same time. In the developed world, more treasury bills are used, and in the developing countries, the central bank bills are more widely used. In addition, the issuance of two bills causes several problems. Therefore, the present study proposes that two types of bills should be added to the treasury bills of central bank bills in circulation countries.

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