


Role of Information Asymmetry in Free Formation of Exchange Rate in Uzbekistan

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	<p>Abstract</p> <p>This article presents economic and institutional aspects of information asymmetry in the process of free formation of exchange rate in the Republic of Uzbekistan. Within the framework of economic reforms being carried out in the country, important steps are being taken in the direction of liberalization of the foreign exchange market. At the same time, due to information disparity between economic entities, efficiency in the foreign exchange market is undermined. This article presents the theoretical foundations of this issue, the practical state of it in Uzbekistan, the analysis of statistical indicators, the impact of information asymmetry on the economy and proposals for its reduction.</p> <p>Keywords: Exchange rate, information asymmetry, economic efficiency, market institution, inflation, monetary policy.</p>
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Introduction

Exchange rate formation is the important economic mechanism ensuring equilibrium in the external sector of the country's economy. It has a direct impact on export-import prices, inflation rates, balance of payments, foreign investment, and macroeconomic stability. Free formation of the exchange rate in market economy is usually based on the ratio of supply and demand. However, for the system to work effectively, equal access to information on the part of all market participants is necessary. Otherwise, information asymmetry will occur on the market, which will lead to irrational movements of the exchange rate.

Free formation of the exchange rate refers to the automatic formation of the exchange rate based on the forces of supply and demand in the market, not the determination of the exchange rate by the state. This system determines the exchange rate level of exporters' desire (supply) to sell foreign exchange on the domestic market and the need (demand) for foreign currency by importers, investors or the population.

Editor's ChoiceAll However, the free course mechanism doesn't work perfectly on its own. Market participants should have up-to-date, accurate and sufficient information in real time. Otherwise, wrong decisions, psychological factors and speculative actions will cause an artificial change in the course.

Information asymmetry is the inability of economic agents to have the same level of information. [5] The term was introduced into science in the 1970s by Nobel laureate Georg Akerlof and later used extensively in economic communications, financial markets, the labor market, and the insurance sector.

Information asymmetry refers to a situation in economics in which some agents have more and faster information about the market or economic environment than others. This gives an advantage in decision-making. On the foreign exchange market, such a discrepancy is noticeable among exporters, importers, banks, investors and ordinary consumers. For example, a large exporting enterprise or commercial bank may profit by buying or selling currency at a favorable rate if it knows in advance about the Central Bank's imminent policy changes. At the same time, ordinary people do not have access to this information, so they make belated and harmful decisions.

Within the framework of currency reforms carried out in Uzbekistan since 2017, free formation of exchange rate is surpassed. However, questions remain about how these changes affected market information and the minds of participants, reducing the level of information asymmetry. In this scientific article the economic essence of information asymmetry in exchange rate formation, its manifestations and consequences in the conditions of Uzbekistan are systematically analyzed. At the first stage of the change the official exchange rate per 1 US dollar was raised from 4,210 soums to 8,100 soums at once. This devaluation served to introduce a free price mechanism in the foreign exchange market, although it caused a short-term shock. The statistical table below describes this process more clearly.

Table 1. Dynamics and annual changes of the exchange rate in Uzbekistan in 2017-2024

year	Average official exchange rate (UZS)	Annual growth (%)
2017	8 120	—
2018	8 400	3.4%
2019	8 950	6.5%
2020	10 250	14.5%
2021	10 620	3.6%
2022	11 200	5.4%
2023	11 900	6.3%
2024	12 650	6.3%

As can be seen from the table, before liberalization, the informal exchange rate was almost twice the official rate. When the free exchange rate was introduced, this gap narrowed. However, this does not mean information parity among market participants. On the contrary, information asymmetry is emerging in new forms at this stage.

Information asymmetry in the foreign exchange market manifests itself in the following forms:

- Uncertainty about central bank policy — when the regulator's approach to exchange rate intervention, interest rate changes, or external debt problems is not fully covered;
- Low financial literacy of the population — a large part of the population does not understand how the exchange rate is formed, which leads to incorrect behavior;
- Selectivity of external information flow — exchange rate forecasts, analysis of rating agencies, which are usually intended for large economic entities;

- The spread of misinformation on social networks — psychological panic — increases, which increases speculative demand for the currency.

In the context of information asymmetry, the exchange rate is based on expectations, rumors, and false signals, not on real economic fundamentals (fundamentals). As a result, the gap between real and nominal exchange rates widens, disrupting the balance of payments and inflationary stability. Reforms of free formation of the exchange rate in the country increased the openness of economy, but at the same time exposed an imbalance in information system.

1. Public distrust: According to a 2023 Central Bank survey, 62% of respondents answered that they "do not receive regular information from a trusted source" about exchange rate changes.
2. Digital deficit: Many residents do not have tools (online platforms, applications) that allow analyzing currency dynamics.
3. Limited openness of analytical information: Not only central bank statements, but also macroeconomic forecasts and details of international treaties are not published in a way that is understandable to the public.

Information asymmetry can cause several economic consequences in the foreign exchange market of Uzbekistan. First, speculative actions are intensifying: the savings of ordinary residents are converted into currency, which reduces the domestic currency supply. Second, inflationary pressures will increase: exchange rate increases will lead to an increase in import prices, which will set in motion a price spiral in the consumer market. As a result, dollarization will increase: there will be a growing tendency of the population to keep their savings in foreign currencies rather than their national ones. It is noted that at the beginning of 2024, 47% of deposits of legal entities are held in foreign currency.

Reducing information asymmetry is a strategic objective for the stability and reliability of the foreign exchange market of Uzbekistan. It is recommended to do the following:

1. Transparency and speed of information: The Central Bank should publish weekly analytical reviews and currency forecasts.
2. Development of digital information services: service the public through mobile applications, chatbots and interactive course graphics.
3. Promoting financial literacy: ongoing education and advocacy through schools, universities and the media
4. Creation of monitoring systems: introduction of separate monitoring centers that analyze market expectations, upheavals and uneven information flow.

Conclusion

The above-mentioned analysis shows that free formation of the exchange rate in Uzbekistan is important from an economic point of view, but in the process it is necessary to conduct an in-depth analysis of the problem of information asymmetry. Information inequality not only reduces the effectiveness of the foreign exchange market, but also threatens economic stability. Therefore, information policy, financial literacy and open communication strategies should be implemented simultaneously along with liberalization of the foreign exchange market.

Free formation of the exchange rate is one of the key factors that align the economy of Uzbekistan with market mechanisms. However, this process depends on information symmetry, that is, equal and prompt access to all participants. If there is an information asymmetry, the foreign exchange

market becomes disconnected from real economic indicators and prone to speculation. These will have a serious negative impact on inflation, investment confidence and monetary policy effectiveness. Therefore, along with the development and liberalization of the foreign exchange market in Uzbekistan, it is necessary to reform the information infrastructure, improve the financial culture of the population and update the information policy by the state.

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