THE NECESSITY OF THE PAYMENT SYSTEM

Sadullaeva Mokhinur Aziz kizi
Assistant of Tashkent State University of Economics

Abstract. This article discusses the main aspects of the payment system, its structure, and its impact on the economy. It analyzes the interrelationship between the payment system and inflation, the development features of this system in Uzbekistan, and its effect on the country's financial stability. The study is based on the works of scholars such as F.Mishkin, L.Lafontaine, J.Tobin, as well as Uzbek economists I.Abdullayev and Kh.Rakhmatov.

Keywords: payment system, inflation, money circulation, electronic payments, financial stability, bank transfers, monetary policy, economic growth.

INTRODUCTION

The payment system is one of the most important elements of any country's economic structure. It ensures the fulfillment of debt obligations, regulates cash flows, and influences the financial stability of the state. In a market economy, the payment system plays a critical role in organizing financial settlements both among legal entities and individuals. Of particular relevance is the study of the relationship between the payment system and inflation, and its influence on macroeconomic indicators. The studies of F. Mishkin (2007) and J. Tobin (1995) show that payment systems have a significant influence on the velocity of money and inflationary processes.

LITERATURE REVIEW

The concept of the "payment system" began to be widely used in economic literature in the mid-1990s. According to studies by M.King (1999) and R.Levine (2005), payment systems encompass various forms and instruments of settlement such as cash, bank transfers, electronic payments, and other mechanisms. Foreign studies analyze the impact of payment systems on financial stability and monetary policy (Bernanke & Gertler, 2001). In Uzbekistan, the transition to a market economy was accompanied by changes in the payment system, which influenced the structure of non-cash settlements and the level of inflation (Abdullayev, 2015; Rakhmatov, 2018).

ANALYSIS AND RESULTS

The payment system accounts for more than 90% of the national economy's payment turnover, including both non-cash and partially cash settlements. Under inflationary conditions, there is an increase in the volume of highly liquid assets, which affects price increases and changes the structure of money circulation. In the 1990s, Uzbekistan experienced a shift from non-cash payments to offset and barter schemes, which destabilized the financial system (Abdullayev, 2015). The use of limited legal tender also reduced the efficiency of the payment system. Studies by G.Kaleta (2012) show that high cash usage in developing countries pressures inflationary processes.

ISSN 2277-3630 (online), Published by International journal of Social Sciences & Interdisciplinary Research., under Volume: 14 Issue: 06 in June-2025
https://www.gejournal.net/index.php/IJSSIR

The payment system as a set of legally regulated elements implies the need to ensure the fulfillment of debt obligations arising in the course of economic activity. The main elements of the payment system include subjects and objects, principles of organization, forms and methods of settlements, payment instruments, risks, and the order of payments.

The concept of "payment system" is relatively recent in economic theory and practice (since the mid-1990s). It plays a key role in the economy and is its fundamental element, without which economic relations are impossible. It covers over 90% of the total payment amount in the national economy: all non-cash turnover and part of the cash turnover where money acts as a payment medium. Its importance is demonstrated by the high ratio of the total volume of payments to GDP.[1]

In most countries, inflation has long become a permanent, complex, contradictory, and multifaceted element of the economy with far-reaching consequences. Inflation, emphasizing the sphere of circulation, closely interacts with the payment system through direct and reverse links. Their mutual influence depends on the country's development, the level of payment system sophistication, and inflation rates. In conditions of high inflation, overflow of circulation channels with depreciated money distorts monetary relations and the structure of payment turnover and money supply, overloading the payment system and potentially leading to its collapse.

Among key indicators, inflation and those related to wages are paramount. Wages are constantly affected by inflation. Thus, studying inflation’s impact on social indicators is critical, as wage growth directly affects the solvency of legal entities and individuals. To ensure stability in these indicators, the interaction between the payment system and inflation must be studied.

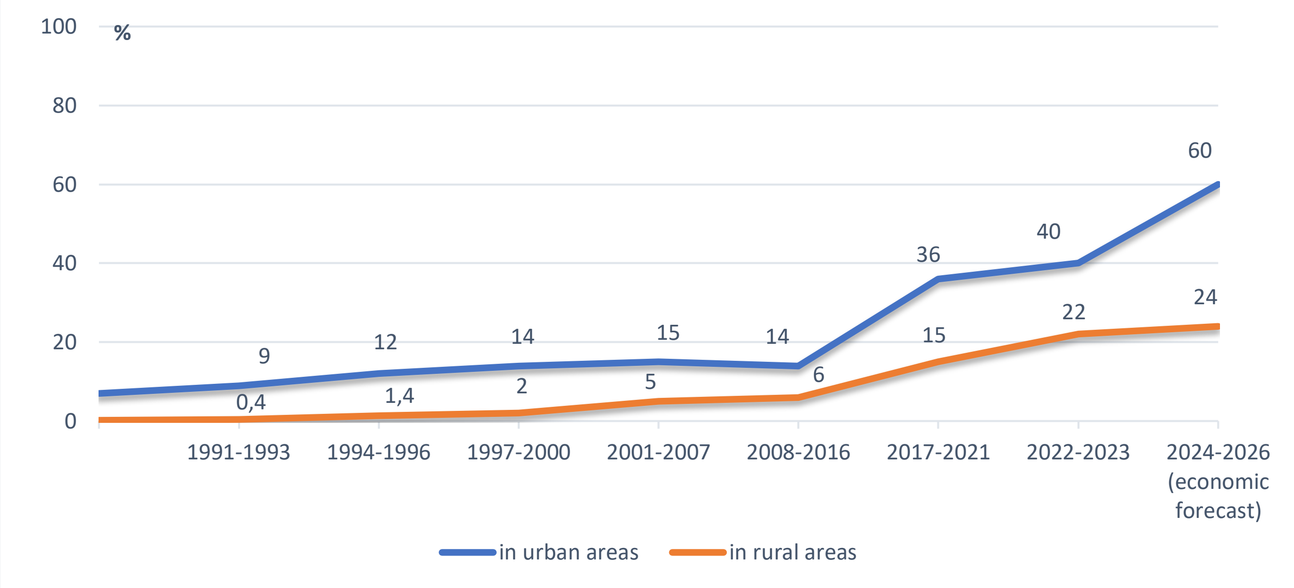
Several approaches exist to studying the payment system's impact on inflation. One is analyzing the influence of changes in payment means, whether they are universally accepted or not. The former includes highly liquid assets such as cash and demand deposits (M1). The latter includes negotiable instruments like promissory notes, checks, certificates of deposit, and warrants. Their use is legally regulated and limited in time and space but closely related to universal means.

In Uzbekistan, the impact of universal payment means was especially evident in the early market transition. For example, a sharp slowdown in interbank settlements in 1992–1993, when payment processing took weeks or even months, required an increase in money supply. Combined with rapid depreciation, this led businesses to prefer cash settlements, increasing their share several times compared to the late 1980s. The share of cash in money supply (M2) rose to over 30% and continued rising. This caused cash shortages in banks and delays in wage payments, leading to further devaluation. Though interbank payments improved with electronic payments (see Table 1), other inflationary drivers persisted.

[1] "In some countries, the total amount of payments (excluding securities transactions, which are calculated in astronomical figures, especially in the USA) over just a few days is equivalent to the GDP for an entire year. For example, in the USA, Japan, and Switzerland, this amount in 1992 reached the equivalent of the annual GDP approximately every three days."

ISSN 2277-3630 (online), Published by International journal of Social Sciences & Interdisciplinary Research., under Volume: 14 Issue: 06 in June-2025
https://www.gejournal.net/index.php/IJSSIR

In early 1999, cash accounted for over 40% of M2 (compared to 18% in 1991), while abroad it averaged 3.5%. Cash was widely used by enterprises and individuals. While Europeans pay about 20% of goods/services in cash, in Uzbekistan it's over 90%, and 100% in rural areas (see Fig. 1).



(Fig. 1. Cash payments for services by population)[2]

The higher the share of highly liquid assets in money supply, the more inflationary pressure they exert. Cash, being highly liquid and fast circulating, amplifies inflation. The monetary multiplier inversely correlates: the more cash in circulation, the lower the multiplier's effect, which is unfavorable for the economy. For Uzbekistan, this is particularly important due to a low monetization coefficient (M2/GDP). Because of an underdeveloped financial market, high cash usage, and high reserve requirements, Uzbekistan's monetary multiplier (money supply to monetary base) is much lower than in developed countries (1.3–3 vs. 10–15 in the U.S.).

However, the key influence on inflation in Uzbekistan came from limited-payment instruments and mutual settlements. In the 1990s, mutual settlements bypassing banks became the main payment method. Enterprises used offsets to cancel out reciprocal obligations. Barter also rose, with multi-party chains of compensation settlements. These involved intermediaries identifying links between buyers and sellers, often at arbitrary prices, harming weaker parties. Promissory notes became widespread for formalizing mutual debt settlements. Offsets and barter became a form of entrepreneurship.

Ironically, transitioning to a market economy, the country resorted to primitive barter systems. Enterprises paid in promissory notes and similar obligations, occasionally settling them. By the late 1990s, around 90% of energy sector payments, 70% of railway payments, and up to 100% in coal enterprises were done without cash. Even budget

[2] "Calculated by the author using materials from commercial banks of the Kashkadarya region for the years 1991-2023 and the expected growth of cashless payments for the years 2024-2026."

ISSN 2277-3630 (online), Published by International journal of Social Sciences & Interdisciplinary Research., under Volume: 14 Issue: 06 in June-2025
https://www.gejournal.net/index.php/IJSSIR

settlements used offsets. Workers were paid in goods, coupons, and meals instead of cash. These were sold on the market, further increasing unregulated cash use.

CONCLUSIONS

The results show that the payment system has a significant influence on macroeconomic stability. The high share of cash in Uzbekistan's economy aggravates inflation and reduces monetary policy effectiveness. Promoting electronic payments and improving financial flow regulation can strengthen the payment system and reduce inflation risks. Comprehensive reforms are needed to increase transparency and efficiency in payment mechanisms. This is supported by research from L. Lafontaine (2017) and Uzbek economists (Abdullayev, 2019; Rakhmatov, 2021).

REFERENCES

1. Mishkin F.S. (2007). The Economics of Money, Banking and Financial Markets. Pearson Education.
2. Tobin J. (1995). Money and Economic Growth. Econometrica.
3. King M. (1999). The Transmission Mechanism of Monetary Policy. Bank of England.
4. Levine R. (2005). Finance and Growth: Theory and Evidence. Handbook of Economic Growth.
5. Bernanke B., Gertler M. (2001). Inside the Black Box: The Credit Channel of Monetary Policy Transmission. Journal of Economic Perspectives.
6. Kaleta G. (2012). Payment Systems and Their Impact on Inflation. Finance and Credit.
7. Lafontaine L. (2017). Modern Trends in Payment Systems. European Economic Review.
8. Abdullayev I. (2015). The Financial System of Uzbekistan: Current State and Prospects. Tashkent: Economic Literature Publishing.
9. Rakhmatov Kh. (2018). The Impact of Digitalization on Uzbekistan's Payment Systems. Bukhara Economic Journal.
10. Abdullayev I. (2019). Electronic Payments and Their Role in the Economy. International Financial Journal.
11. Rakhmatov Kh. (2021). Regulating Payment Systems Amid Digital Transformation. Economics and Innovation.

ISSN 2277-3630 (online), Published by International journal of Social Sciences & Interdisciplinary Research., under Volume: 14 Issue: 06 in June-2025
https://www.gejournal.net/index.php/IJSSIR