Central Bank
of the Republic of Uzbekistan

Q4 2023

MONETARY POLICY REPORT

Central Bank of the Republic of Uzbekistan

In implementing monetary policy, the emphasis is placed on achieving price stability and the medium-term inflation target of 5 percent

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SUMMARY

At the meeting on January 25, 2024, the Board of the Central Bank left the key policy rate unchanged at 14 percent per annum taking into account the expectations shaped under the strong demand conditions in the economy. According to the forecasts, inflation is expected to be 8-9 percent by the end of this year.

Current monetary conditions are aimed at ensuring a stable downward trajectory of inflation to the 5 percent target.

Headline inflation has remained at 8,8 percent in recent months. Despite the decreasing prices of goods in the consumer basket, services inflation accelerated slightly in the last quarter. This indicates that demand-side pressures on overall inflation are likely to intensify in the future.

The emergence and persistence of inflationary processes in the economy are attributed to the incomplete adjustment of some supply components to the strong demand environment.

Moreover, recent surveys indicate that perceived inflation and inflation expectations remain still high.

Acceleration of economic growth to 6 percent was mainly driven by strong increase in investment in fixed assets. Upward dynamics in credit growth, high fiscal incentives and remittances were also significant contributors to economic growth.

Global inflation is expected to further cool down this year owing to tight global financial conditions, rebalancing of labor markets and the downward dynamics of commodity prices.

Given the current economic developments and expectations in the trading partners, no high pressure on the real exchange rate of the soum is expected in the coming months.

Along with the reduction in the structural surplus of liquidity in the banking system, there was an intensification of the money market operations. Through monetary operations, conditions will be ensured for short-term interest rates in the money market to develop within the interest rate corridor throughout the year.

Amid high real interest rates on deposits in the national currency, bank deposits are expected to increase further.

According to the updated forecasts, in 2024, the headline inflation under the baseline scenario is expected to be 8-9 percent, and the core inflation rate is expected to be around 7-8 percent.

The macroeconomic development scenario this year will depend on external economic conditions, as well as internal factors of macroeconomic stability, such as the pace of structural reforms, fiscal discipline and the effectiveness of monetary policy.

Meanwhile, measures are being taken to mitigate the potential one-off effect of expected changes in some regulated prices and recent adjustments in excise duty and value added tax on domestic prices in the coming months.

External risks are largely associated with increased global fragmentation and longer persistence of high global inflation.

Real GDP growth is projected to be around 5.5-6 percent. The main contributors to economic growth are expected to be consumer demand from one side, and increase in foreign and domestic direct investments due to the structural reforms from another side.

The Central Bank will further take informed decisions on the policy rate based on the updated inflation projections and ensure appropriate monetary conditions aimed at achieving the 5 percent inflation target.

I. MEDIUM-TERM MACROECONOMIC FORECASTS

1.1. External economic outlook

External economic conditions in 2024 are expected to develop in a multidirectional manner. On the one hand, the global economic growth remaining below the 2015-2021 average puts significant pressure on commodity markets, while on the other hand, an escalating geopolitical situation may lead to disruptions in global supply chains and impede the growth of international trade.

Along with that, a possible increase in energy prices raises the risk of a new wave of inflation.

Global economic growth is projected to amount to 3.1 percent in 2024 amid positive expectations for the US economy and a number of large developing countries, including China *(Figures 1.1.1-1.1.2).*

Global trade is expected to grow by 3.3 percent, below the average trend (4.9 percent), due to the geo-economic fragmentation, supply chain disruptions across the Red Sea and the Panama Canal.

Given the strong economic growth in 2023, the U.S. GDP growth forecast for this year has been revised upward to 2.1 percent. However, the lagged effects of monetary and fiscal tightening in 2023 as well as gradual weakening of the labor market and generally lower aggregate demand will have an impact on the economy.

Figure 1.1.1. Real GDP growth in 2023, *in percent*

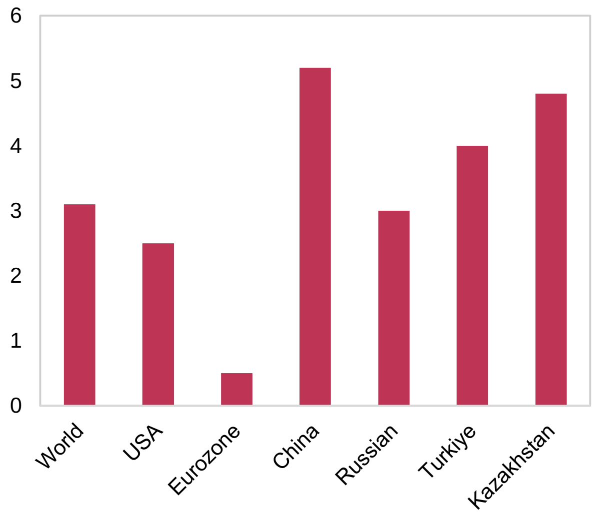
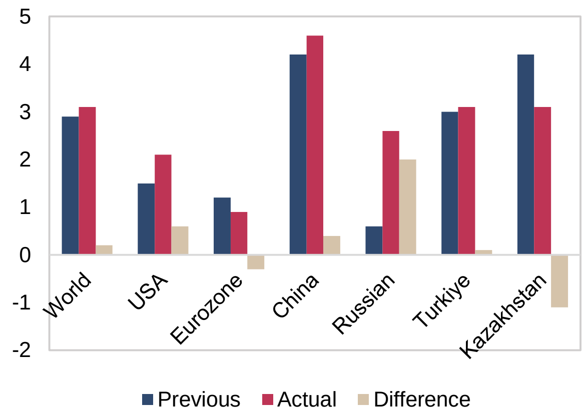


Figure 1.1.2. Real GDP forecast for 2024, *in percent*



Source: "World Economic Outlook", IMF, January, 2024.

Economic growth in the euro area may recover from 0.5 percent in 2023 to 0.9 percent in 2024 owing to decelerating inflation, a real income growth and an increase in consumption. However, the updated forecast is slightly lower than the previous one due to weak economic activity throughout 2023.

Furthermore, economic growth outlook for the major trading partners is also relatively lower in 2024.

The main risk is considered to be a slowdown of the Chinese economy which is mainly attributed to weak consumer demand, current problems in the real estate and construction sectors, lower investment activity and high indebtedness in the corporate sector.

On the contrary, the projection for the Russian economy was revised up. Growth of defense industry and import-substituting manufacturing sectors serve as major supporting factors of economic growth. The relatively stable exchange rate of the ruble coupled with tight monetary policy will stabilize inflation in the first half of the year.

Forecasts for Kazakhstan's economic growth were slightly revised downward due to an expected temporary reduction in oil production in 2024 based on the OPEC+ agreement. However, a growth in the non-oil sector is expected to remain stable.

In 2024 Türkiye's economy is projected to grow less than expected due to tight monetary policy.

Figure 1.1.3. Fed interest rate

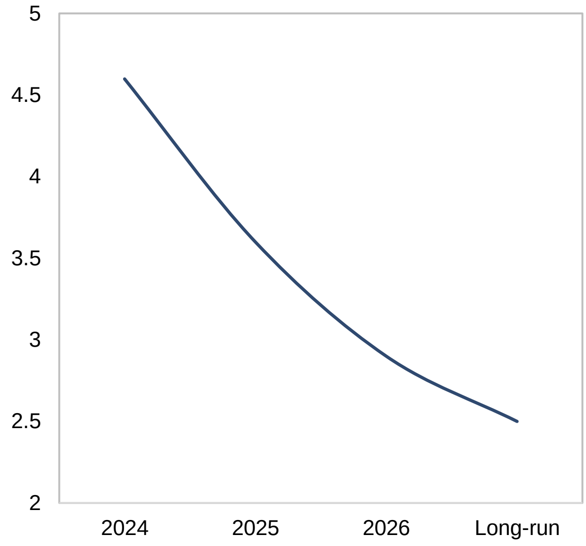
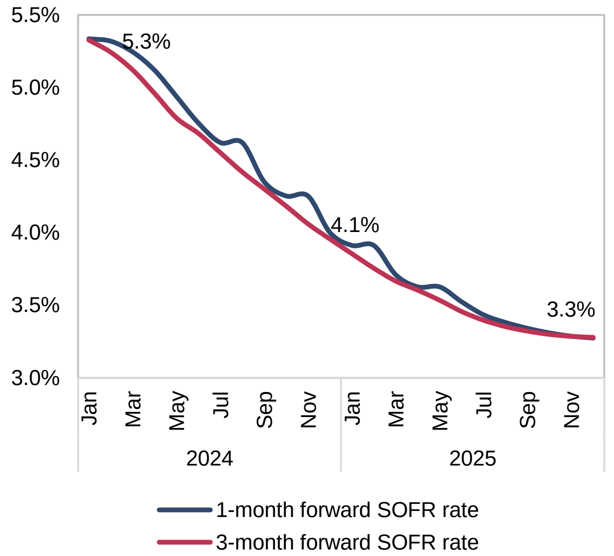


Figure 1.1.4. SOFR forward rate



Source: Chatham Financial.

Global monetary conditions. As the cycle of monetary tightening by the U.S. Federal Reserve (FRS) and the European Central Bank nears an end, monetary conditions are likely to ease to a certain extent in the second half of 2024.

Following the Fed's interest rate cut to 4.6 percent in 2024 *(Figure 1.1.3),* the SOFR forward rate, a benchmark for borrowing costs in global financial markets, is also expected to fall from 5.3 percent to 4 percent by the end of the year and to 3.3 percent by the end of 2025 *(Figure 1.1.4).*

Commodity markets. In 2024, the world oil market is expected to remain stable despite supply reductions by the OPEC+ countries. Meanwhile, the Brent oil price in 2024 will average 82 dollars per barrel and decline to 79 dollars in 2025 *(Figure 1.1.5).* However, in case of geopolitical tensions and supply disruptions, prices are expected to be much higher and more volatile.

World price for natural gas is expected to continue decreasing in 2024-2025 owing to a rise in global gas production and compressed gas exports. Supply disruptions and cold weather conditions in the Middle East remain as major risks to natural gas prices.

Copper prices may decline slightly in 2024 amid weak fundamentals in China, a major consumer of copper. However, the weakening dollar and shipping issues through the Panama Canal affect copper supply in the world market, possibly resulting in a marginal increase in copper prices.

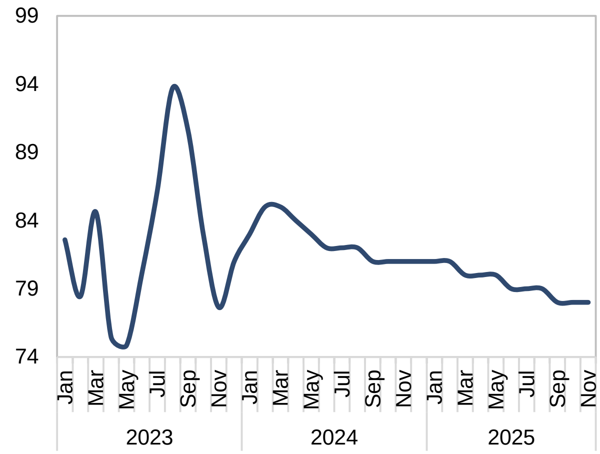
According to the World Gold Council, the geopolitical situation in the world and strong demand for gold from central banks are anticipated to be upward drivers of the gold price in 2024. The price for gold is projected to average around 2000 dollars per ounce *(Figure 1.1.6).*

World food prices. According to World Bank forecasts, food prices will further fall by 1 percent in 2024 owing to the price decrease in cereals, particularly corn and wheat. Wheat supply in 2024 is expected to remain stable, close to the previous year's level. Wheat price is projected to decline by 3 percent in 2024 and by 5 percent in 2025.

Furthermore, in 2024-2025, global oilseed supply is expected to increase, and price indices for oil and feed are projected to fall by 3 percent.

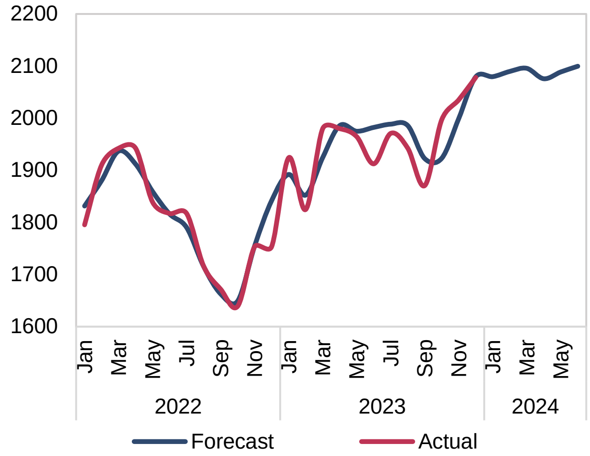
The main risks of food price increases in 2024 include unfavorable weather conditions (the El Niño effects), rising energy prices, trade restrictions and geopolitical risks.

Figure 1.1.5. Oil price forecast, *USD/barrel*



Source: EIA, Short-term Energy outlook 2024.

Figure 1.1.6. Gold price forecast[1], *USD/troy ounce*



Source: CBU calculations.

1.2. Macroeconomic outlook

The Central Bank has updated the medium-term macroeconomic forecasts, taking into account the aggregate demand and supply in the economy by the end of 2023, high fiscal stimulus, outlook for trading partner countries, and expectations on world prices for major exports and imports.

According to the updated forecasts, the economy is expected to grow by 5.5-6 percent in 2024, slightly higher than the previous projections (October 2023) (Figure 1.2.1).

According to the World Bank's annual report in January, economic growth for Uzbekistan in 2024 is projected at 5.5 percent, higher than the previous estimates.

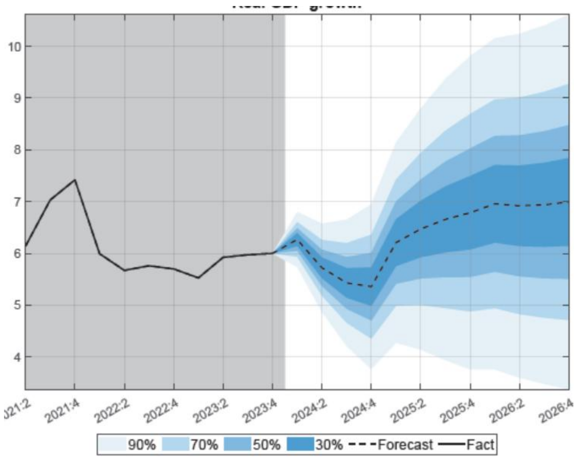
In the October report of the IMF, real GDP of Uzbekistan is also projected to grow by 5.5 percent in 2024-2025.

Observed high fiscal stimulus in 2023, positive effects from private investment that will extend through this year, and the continuation of structural reforms in the real economy will be major drivers of economic growth in 2024.

In particular, the measures undertaken within the framework of structural reforms that aim to reduce production costs, increase value added and labor productivity, accelerate privatization, reduce the shadow economy, attract foreign investments, boost exports, and develop new capacities in the sectors of the economy will have significant economic impact during 2024.

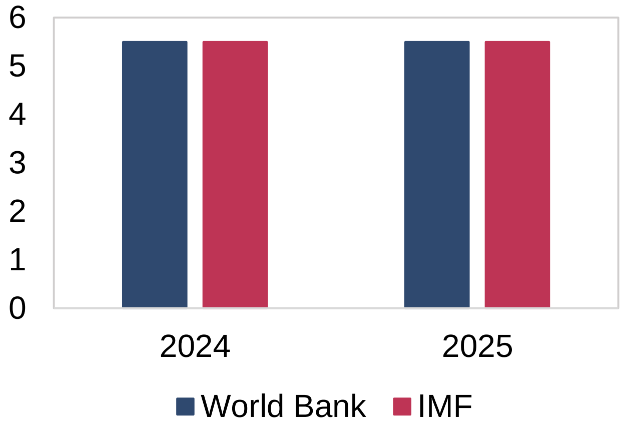
[1] Gold Outlook 2024 by World Gold Council, Gold Outlook 2024 | World Gold Council.

Figure 1.2.1. Forecast of real GDP growth, *in percent*



Source: CBU calculations.

Figure 1.2.2. Forecast of real GDP growth for Uzbekistan by IMF and World Bank, *in percent*



Source: "Global Economic Outlook", World Bank, January, 2024, "World Economic Outlook", IMF, October, 2023.

Exports (excluding gold) in 2024 are expected to grow by 10-12 percent, considering the price dynamics in the world markets, particularly those of cotton and uranium, as well as an expected expansion in copper and zinc production in the metallurgical industry *(Table 1.2.1).*

Recent years' high import growth is expected to slow to around 10-12 percent this year. In particular, given the high base effect, imports of machinery and equipment are anticipated to be lower than in 2023.

However, upward risks to energy prices and their shipping costs may exert pressure on import prices.

The transportation of energy resources today is 166 percent costlier than it was before the pandemic (2019).

Meanwhile, measures to reduce the budget deficit to 4 percent in 2024 by strengthening fiscal discipline are expected to mitigate inflationary pressures in the economy.

According to the updated forecast, annual inflation will be around 8-9 percent in 2024 and approach the 5 percent target by the end of 2025.

In 2023, remittance inflows, considered as a source of income supporting the aggregate consumer demand of the population, returned to its long-term trend. In 2024, as a result of strong labor demand in foreign countries, remittances are projected to grow by 6-8 percent.

Furthermore, strong consumer demand and household spending are expected to result in a relatively stable rise in final consumption expenditures, projected at 5-6 percent in 2024.

Table 1.2.1. Main macroeconomic indicators

in percent

Indicators	Actual				Forecast		
	2020	2021	2022	2023	2024	2025	2026
Inflation *(y-o-y, end of period)*	**11,1**	**10**	**12,3**	**8,8**	**8-9**	**5-6**	**5**
Inflation *(average annual)*	13	10,8	11,4	10	8-9	5,5-6,5	5
Core inflation *(y-o-y, end of period)*	11,7	8,8	13,8	8,5	7-8	4,5-5,5	4,5-5,5
Real GDP	**2,0**	**7,4**	**5,7**	**6**	**5,5-6**	**5,5-6**	**6-6,5**
Final consumption expenditure	0,5	9,7	9,2	5,4	5-6	6-7	6,5-7,5
- private	0,2	11,5	10,8	6,1	*5,5-6*	*7-7,5*	*7,5-8*
- public	1,4	3,1	3,5	2,9	*2-3*	*1-2*	*2-3*
Overall fiscal balance *(percent of GDP)*	-4,3	-5,5	-3,9	-5,5	-4	-3	-3
Exports	-15,5	10,1	18,4	23,8	7-10	9-11	9-11
Exports (excluding gold)	*-28,2*	*34,6*	*24,4*	*4,2*	*10-12*	*12-14*	*12-14*
Imports	-12,8	20,5	20,6	24	10-12	10-12	8-11
Cross-border remittances	0,3	33,9	110,2	-32,9	6-8	11-13	10-12
Balance of loans to the economy	34,3	18,4	21,4	23,3	18-20	16-18	14-16

Positive expectations on remittance inflows in 2024 and wage increases in the economy will contribute to real income growth of around 5-7 percent.

Monetary conditions and outlook for monetary policy

The Central bank will further ensure relatively tight monetary conditions in the economy until inflation reaches the 5 percent target and the concerns about its sharp acceleration are mitigated.

Monetary conditions might be tightened to ensure price stability in case of unexpected inflationary risks.

At the end of December 2023, total liquidity of the banking system was in surplus, and the average daily additional liquidity amounted to 5.7 trillion. Until the end of 2024, conditions are expected to remain relatively tight along with a marginal increase in money market interest rates amid a potential decline in banking system liquidity.

Also amid a reduction in additional liquidity in the banking system, banks' activity in the money market is expected to further increase. Moreover, a number of changes introduced in the operational mechanism of monetary policy will serve to stabilize interest rates in the money market, while an increase in the issue of government securities will contribute to the expansion of banks' collateral base and an increase in the share of interbank repo operations.

Interest rates on deposits and loans will continue to develop in close interdependence. Given the tight external financial conditions, the demand for deposits in the national currency will remain strong, and this will serve to maintain interest rates at the current level.

The deposit base of banks is expected to improve due to growing real incomes of households and evolving banking infrastructure that will increase the inflow of funds to the banking sector.

In particular, the ratio of total deposits to GDP is projected to increase from 15.6 percent at the beginning of this year to 17 percent by the end of 2026. Moreover, the ratio of household term deposits to GDP is projected to reach 6.5 percent *(4.0 percent at end of 2023),* while total household deposits are expected to increase by 9.8 percent *(7.4 percent) (Figure 1.2.3)* and the loan-to-deposit ratio is anticipated to decline.

The share of household deposits in total deposits will increase, with significantly contributing growth of term deposits. Particularly, the share of household deposits in total deposits is expected to increase from 48 percent in 2023 to 52 percent in 2024, while the share of term deposits in total deposits will increase from 54 percent to 60 percent.

Demand for household loans will remain strong in the coming quarters, and the current high growth rate of retail loans is expected to decline in the medium term as the debt burden increases.

As a result, in 2024 loans to the economy are projected to grow by around 18-20 percent on average, and the ratio of loans to GDP will reach 48.4 percent*. (Figure 1.2.4).*

Credit growth is expected to be mainly driven by loans in local currency, with retail loans being the main driver. In particular, the ratio of retail loans to GDP is projected to increase to 20 percent *(13.9 percent at the end of 2023)* and loans in local currency to GDP is expected to increase to 32 percent *(26.3 percent).*

Allocation of loans in national currency to sectors with high demand for imports *(in particular, consumer loans for cars and household appliances)* might cause liquidity risk in the banking system as well as pressure on the exchange rate through increasing demand in the domestic currency market.

In turn, pressure on the exchange rate leads to acceleration of inflation in the economy due to the "pass-through" effect of the soum depreciation.

In this regard, when conducting monetary policy, particular emphasis is placed on taking effective measures to prevent financial stability risks from turning into price stability risks.

Figure 1.2.3. Forecast of deposits-to-GDP ratio, *in percent*

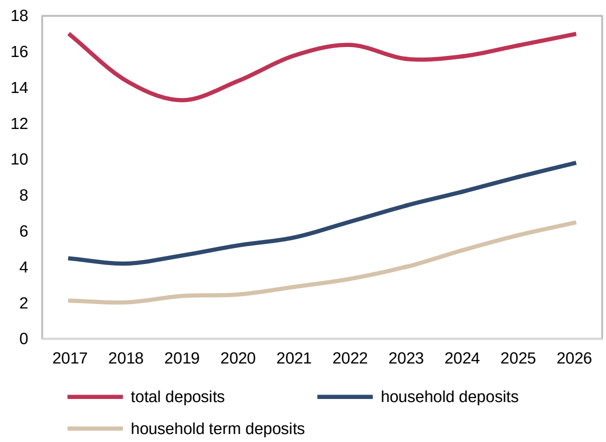
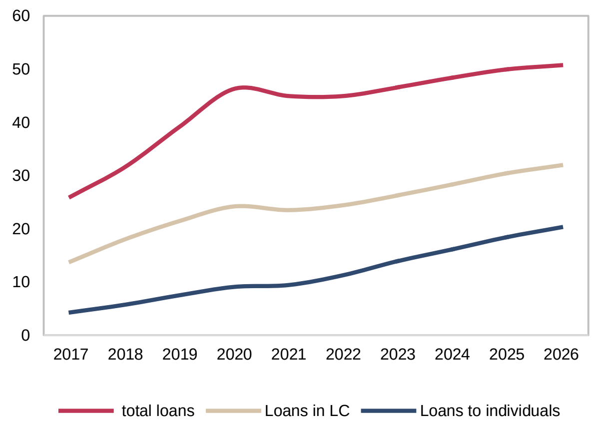


Figure 1.2.4. Forecast of loans-to-GDP ratio, *in percent*



Source: CBU calculations.

1.3. Inflation forecast and inflation expectations

Under the baseline scenario, the headline inflation is projected at 8-9 percent at the end of 2024.

The headline inflation rate is expected to approach the 5 percent target in the second half of 2025 as a result of tight monetary conditions in place and decreasing budget deficit, which allow supply and demand factors in the domestic market to come into equilibrium.

However, due to the gradual rise in regulated prices and its secondary effects, no sustained downward trend in core inflation is expected this year. Core inflation is projected to be 7-8 percent in 2024 and to decelerate to 4-5 percent by the end of 2025.

Meanwhile, the mean value of forecasts for 2024 are slightly higher than those estimated in October 2023. This is mainly attributed to higher inflation expectations, a slower-than-expected decline in core inflation, an announced increase in regulated prices, and other pro-inflationary factors.

In Q4 2023, no decrease in population's inflation expectations was observed, and the gap between the actual inflation still remains wide. High expectations of the population were caused by exchange rate movements, price increases in energy and utilities, as well as expectations about wage and social benefits growth.

In that period, inflation expectations of business entities had been generally rising before a slight decrease in December.

Figure 1.3.1. Headline inflation forecast, *in percent*

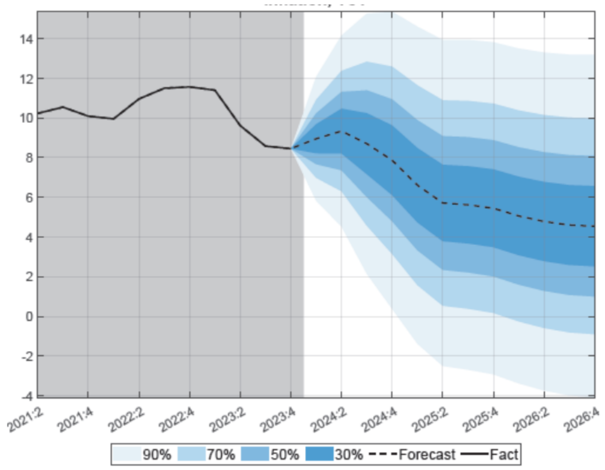
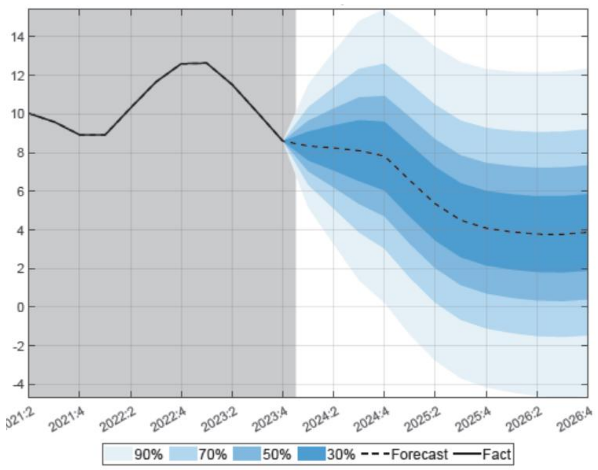


Figure 1.3.2. Core inflation forecast, *in percent*



Source: CBU calculations.

Inflation expectations of business entities were mainly driven by exchange rate dynamics, the cost of energy resources and transportation, as well as by expectations of higher tax burden.

With a steady decline in inflation in partner countries and less pressure on the real effective exchange rate, the upward contribution of import inflation will decrease in the coming years.

The forecasts also contain the effect of high budget expenditures in previous years that supported consumer demand, as well as the effect of rising production costs of businesses on current core inflation.

In particular, according to estimates, a sharp rise in industrial producer prices in Q4 2023 (primarily in energy production, water supply, sewerage, waste collection and metal ore mining) is expected to add 0.8-1 percentage points to core inflation over the next 2-4 quarters and 0.6-0.7 percentage points to headline inflation *(Box 2).*

In January-March, the indexation of tariffs for cold water supply and sewerage in some regions, as well as price increases for railway tickets will cause a marginal acceleration of headline inflation. As a result, in the first half of this year, headline inflation is likely to stay unchanged in year-on-year terms.

Figure 1.3.3. Decomposition of headline inflation forecast, *in percent*

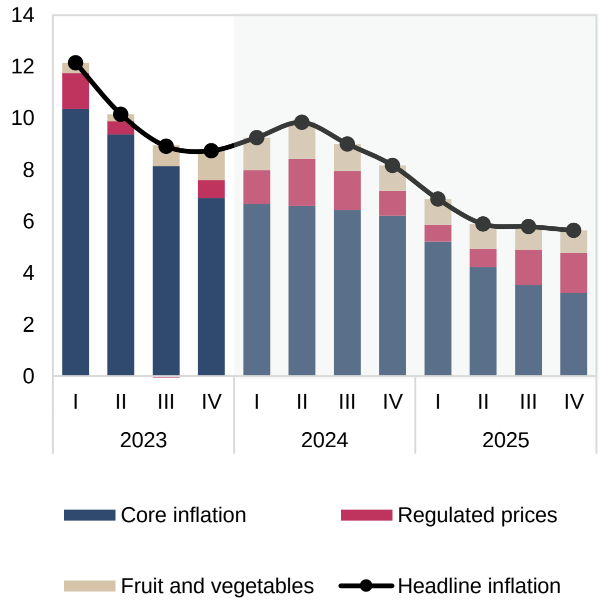
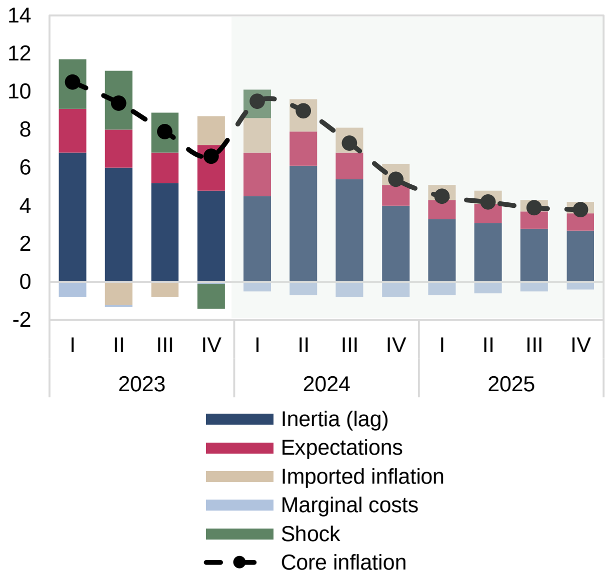


Figure 1.3.4. Decomposition of core inflation forecast, *in percent*



Source: CBU calculations.

Figure 1.3.5. Inflation expectations for the next 12 months, *in percent*

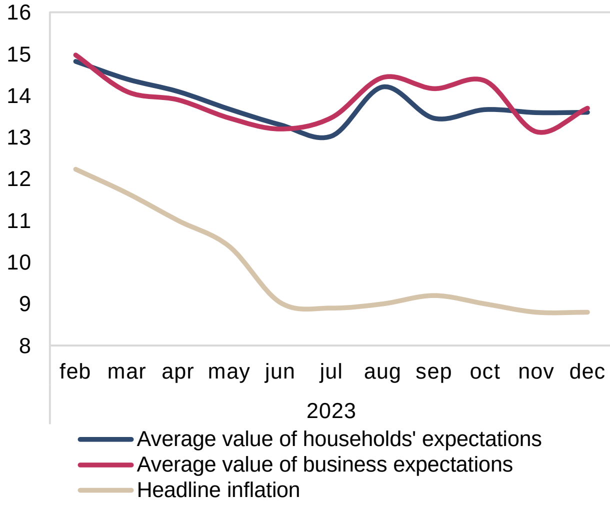
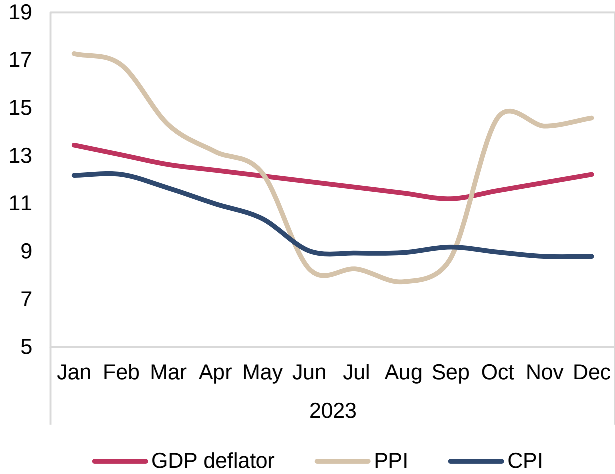


Figure 1.3.6. Dynamics of PPI and GDP deflator, *in percent*



Source: CBU calculations.

Moreover, tax changes are expected to affect prices. Particularly, it was announced that from April this year, value added tax will be imposed on cold water and heat supply, waste collection and sewerage services, as well as on medicines and medical services.

Supply-side upward pressure on fruit and vegetable prices will persist in the coming quarters. There are still uncertainties regarding the effects of climate change, water shortages and energy supply to greenhouses.

Sustained growth in household incomes will continue driving consumer activity this year. In 2024, revenues from production and remittances are expected to be the key contributors to the increase in total income.

Figure 1.3.7. Change in real gross income, *in percent*

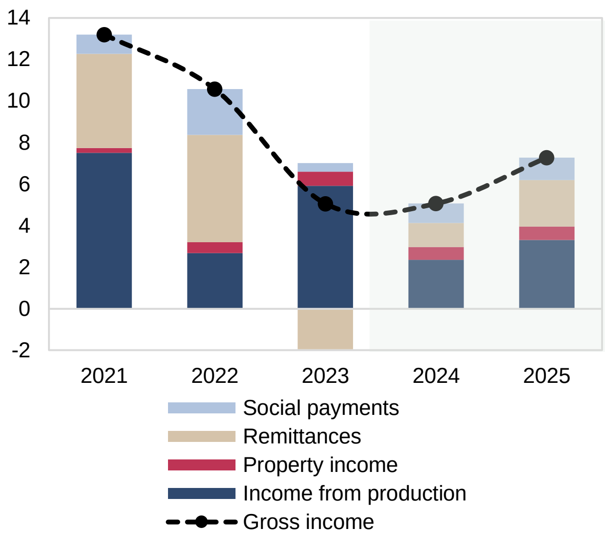
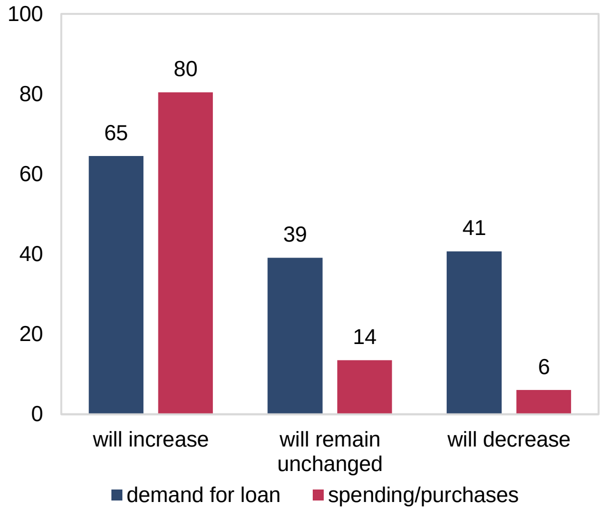


Figure 1.3.8. Expectations on borrowing and spending/purchases in the next quarter



Source: Data from Statistics Agency and CBU.

Meanwhile, emphasis shall be placed on the output and labor productivity growth in order to prevent additional inflationary pressure in the economy caused by the increase in household incomes.

Also, demand for consumer loans, and the population's sentiments regarding future expenditures and purchases are developing positively, being a key driver of consumer activity in the economy.

1.4. Uncertainties and risks in macroeconomic development

Uncertainty and risks regarding macroeconomic development remain high due to the global developments.

Increasing uncertainty regarding geopolitical tensions, global inflationary processes, tight financial conditions aimed at curbing inflation, and intensified fragmentation among countries are adversely affecting emerging economies.

Continued uncertainty and risks in the global economy is leading to higher price volatility in commodity markets.

Also, expected slowdowns in Russia (due to the negative effects of sanctions) and China (as a result of exacerbated issues in the real estate sector), which are among our major trading partners, will put additional pressure on our country's exports due to weaker external demand.

Supply chain disruptions caused by ongoing attacks on cargo ships in the Red Sea (11 percent of world trade transits) may lead to higher commodity prices and global inflationary pressures persisting for a longer period of time.

In 2023, international trade grew at the lowest pace in 50 years (0.2 percent) due to a reduction in shipping through the Panama Canal and the Red Sea.

In addition, current global climate change issues, especially floods and droughts, may push global food prices higher and increase risks to food supplies.

Risks of a relatively slow deceleration of core inflation as a result of intensifying supply chain issues will delay interest rate cuts globally. Tight global financial conditions will intensify risks to financial stability and negatively impact global growth.

Continuing structural reforms in the national economy, including starting budget consolidation, reducing the overall budget deficit compared to 2023, decreasing the state's share in the economy, attracting more investment, and boosting exports, is essential this year.

Also, the price level in 2024 will be influenced by changes in excise duties and taxes on certain goods and services, non-tariff restrictions on the import of technical goods, and shifts in the logistics of wholesale horticultural trade.

Moreover, in 2024, in case of tariff changes for retail consumers in order to continuously provide the population and business entities with energy resources, as well as to boost production in the sector, particularly by attracting private investment, the effects of these changes on inflation and other macroeconomic indicators will be re-evaluated.

In general, the Central Bank will continue to monitor uncertainties and risks emerging in the domestic and external economy and adjust the monetary conditions appropriately based on the updated macroeconomic projections.

Box 1.

Short-term projections of macroeconomic variables using the MIDAS model

Most forecasting models require data of the same frequency. In practice, the timing of the release of economic indicators varies considerably across sectors. For instance, gross domestic product (GDP) and balance of payments data are released quarterly, inflation, manufacturing and foreign trade data are released monthly, and indicators such as exchange rates and bank interest rates are announced daily.

Meanwhile, there are many simple mathematical methods (averaging, fractional normalization, etc.) to convert high-frequency indicators published in short periods (daily, weekly, monthly) into low-frequency data (quarterly and annual). However, in case of short-term changes in the economy, there is a high probability of "omitting" some useful information when using these methods, which may decrease the accuracy of the forecast.

To minimize such errors, the mixed frequency model (MIDAS - mixed data sampling) is widely used. This model and its various modifications are applied by many central banks.

The central bank provides a preliminary estimate of GDP dynamics using the MIDAS model on the basis of data published monthly.

To forecast GDP in 2023, monthly data from January 2018 through October 2023 were sampled, divided into four separate components, and estimated using different modifications of the MIDAS model.

The first group of indicators represents the dynamics of aggregate supply in the economy and includes data on industrial production, services and construction *(Figure 1).*

The other three groups are related to aggregate demand indicators, and one of the models includes growth in retail turnover as a proxy for private consumption *(Figure 2).* The second model comprises revenues from trade and paid services *(Figure 3),* while the third model incorporates indicators of foreign trade *(Figure 4).*

Figure 1. Growth of output by sectors and real GDP

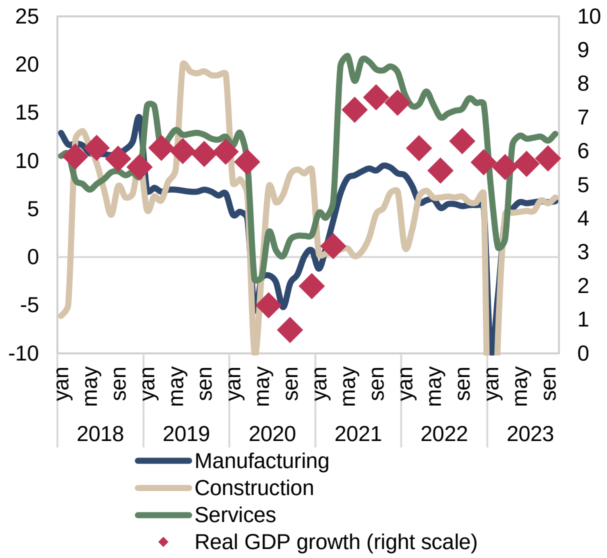
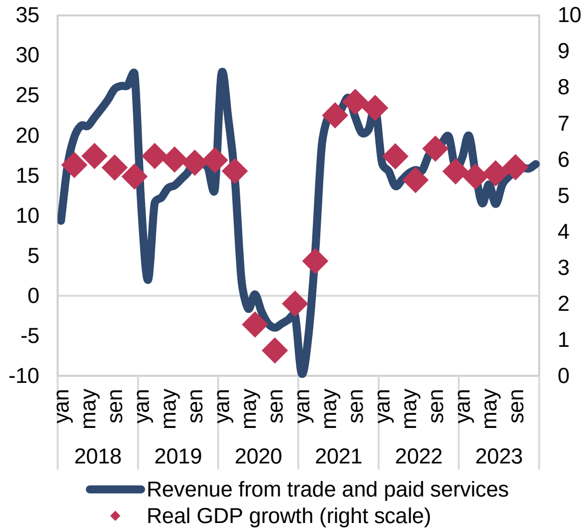


Figure 2. Retail trade and private consumption growth



Source: CBU and Statistics Agency.

Figure 3. Revenues from trade and paid services and real GDP growth

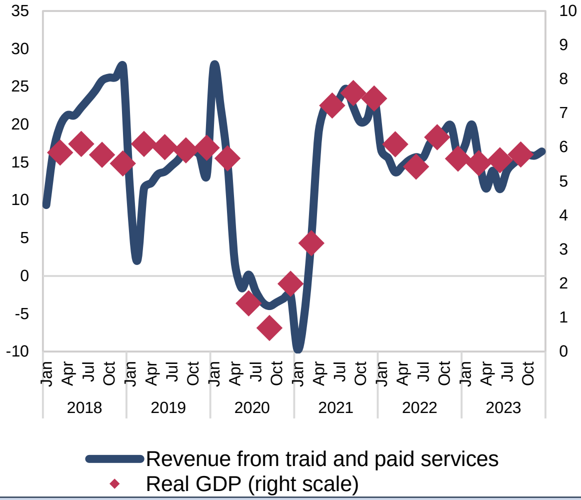
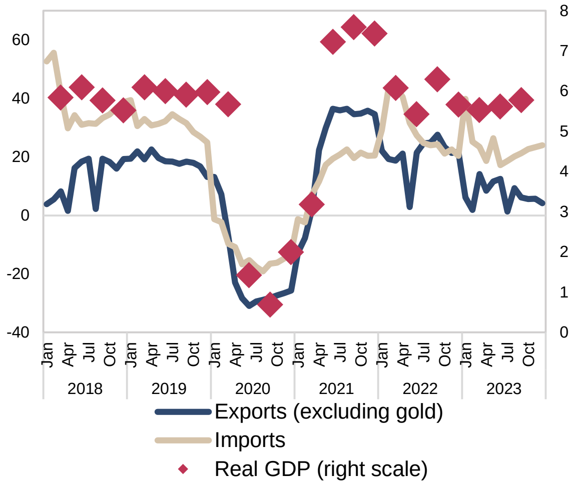


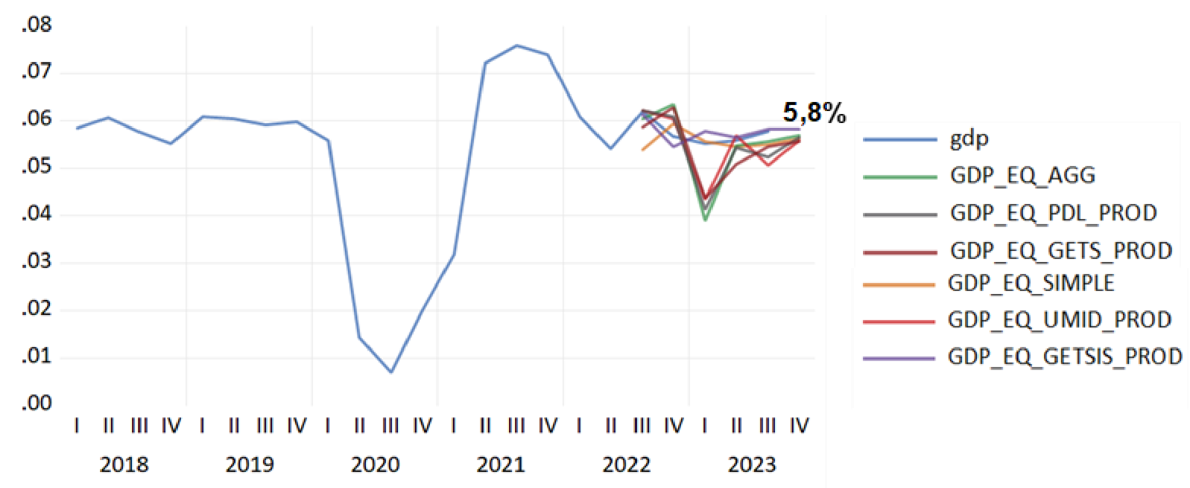
Figure 4. Exports (excluding gold), imports and real GDP growth



Source: CBU and Statistics Agency.

According to the October data, based on twenty-six model combinations, real GDP growth was projected at 5.6-6.0 percent by the end of 2023. The upper bound of this forecast corresponded exactly to the 6.0 percent economic growth reported by the Statistics Agency.

Figure 5. GDP forecast by the production method



Source: CBU calculations.

Box 2.

Analysis of the relationship between headline inflation and the producer price index

In analyzing inflationary processes in the economy, an important issue is to study changes in production costs and their pass-through to final consumer prices, as well as to quantify the duration and extent of the impact. In examining the relationship between production costs and consumer prices, we use the Industrial Producer Price Index (IPPI).

Econometric analysis of the relationship between headline inflation and producer price index indicated high statistical significance of the correlation between these two indicators. In particular, the correlation between the average annual changes in PPI and headline inflation dynamics for 2018-2023 amounted to 0.77 *(Figure 2).*

Dynamic Least Squares (DOLS) and distributed lag autoregression models (ARDL) were applied to quantify the relationship, i.e., the extent and duration of the effect of producer price increases on consumer prices.

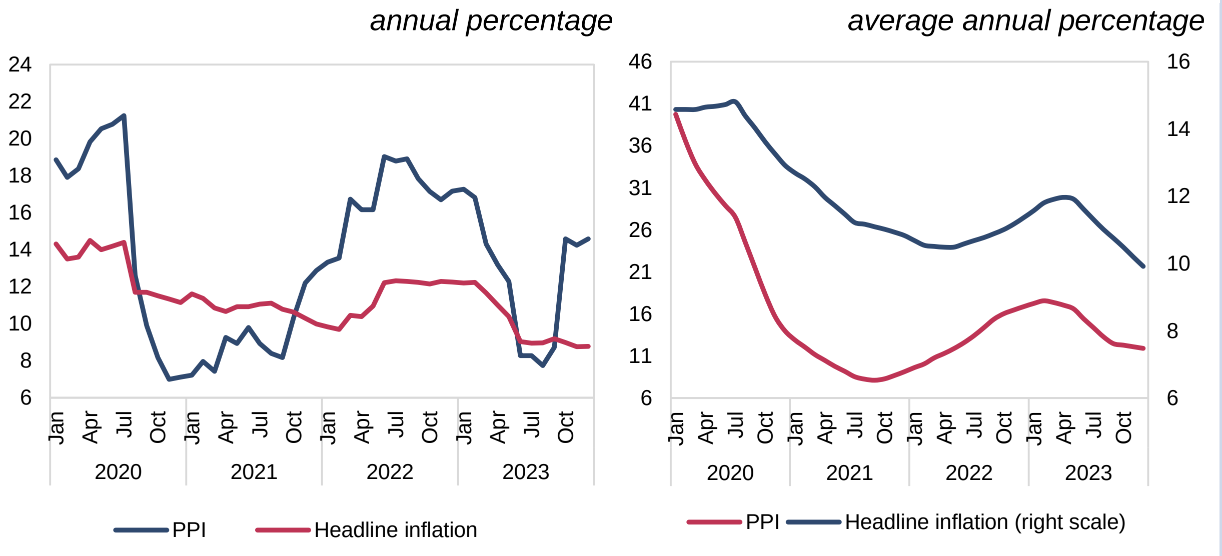
In order to reduce errors in the assessment of the relationship between headline inflation and the producer price index, other variables, such as headline inflation for the previous period, GDP gap, money supply gap, exchange rate, average wages, etc., were also taken into account in the analysis.

According to the results, a 1 percentage point increase in the PPI accelerates headline inflation by 0.11-0.12 percent, and core inflation by 0.14-0.16 percent *(Figure 3).* These coefficients have high statistical significance, and the pass-through period to final consumer prices averages 2-4 quarters.

In the fourth quarter of 2023, producers of electricity and natural gas *(by 79.3 percent),* the sectors of water supply, sewerage, and waste collection *(by 62.3 percent),* and metal ore mining *(by 28.2 percent)* increased their prices substantially. As a result, the annual change in the PPI accelerated to 14.6 percent in December, 5.9 percentage points higher than in October.

This increase will have an impact on headline and core inflation by affecting the prices of other production sectors in the future.

Figure 1. Dynamics of headline inflation and PPI



Source: CBU calculations.

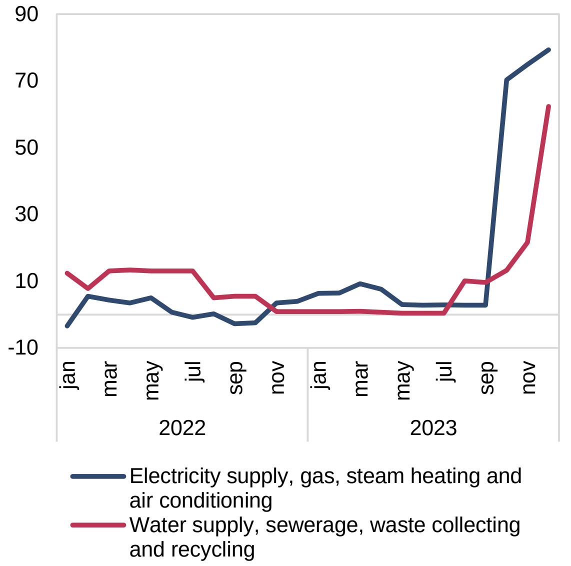
Figure 3. Estimated quantitative relationship between headline inflation and PPI

Indicators	Method of Dynamic Least Squares *(DOLS)*	Autoregressive distributed lag model *(ARDL)*
Producer price index	0.1137***	0.1213***
	(0.000)	*(0.005)*
Number of observations	*68*	*74*
F-stat.	*13.046*	*8.769*
R-squared	*0.60*	*0.73*

P-value in parentheses

*** p<0.01, ** p<0.05, * p<0.1,

Figure 4. Price dynamics in selected production sectors,
annual percentage



Source: CBU calculations.

According to the calculations, an increase in the PPI by 5.9 percentage points will lead to a rise in headline inflation by 0.6-0.7 percentage points and core inflation by 0.8-0.9 percentage points in the first half of this year. Most part of the upward effect on consumer prices is expected to occur in March-April of the current year, and in the following months the effects will fade.

II. CURRENT MACROECONOMIC CONDITIONS

2.1. Drivers of domestic economic activity and aggregate demand

In Q4 2023, upward dynamics in aggregate consumer demand and loans to the economy, as well as strong fiscal incentives, increasing wages and real incomes were major drivers of the economic growth. Meanwhile, some supply components are observed not fully adjusting to the conditions of strong aggregate demand.

Economic growth. Economic activity accelerated in the fourth quarter, with real GDP growth reaching 6.0 percent by the end of 2023, slightly above the 5.2-5.7 percent forecast announced by the Central Bank in October.

In 2023, major supply-side contributors to higher economic growth were manufacturing, agriculture, and services *(Figure 2.1.1).* Meanwhile, there was a slowdown in the growth trends of some economic sectors compared to the overall activity indicators.

Particularly, in 2023, there was a decline in the production of energy resources and chemical products, as well as a slowdown in the growth rate of consumer goods output compared to the previous year *(Figure 2.1.2).* Also, the dynamics of cargo turnover in recent years has remained relatively low. *(Figure 2.1.3).*

On demand side, economic growth was mainly driven by higher aggregate consumption and private investments. This, in turn, served to increase the demand for imports.

Figure 2.1.1. Decomposition of GDP by the production method

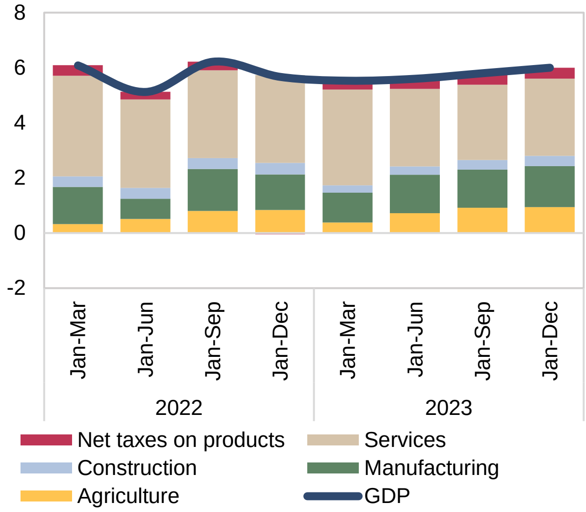
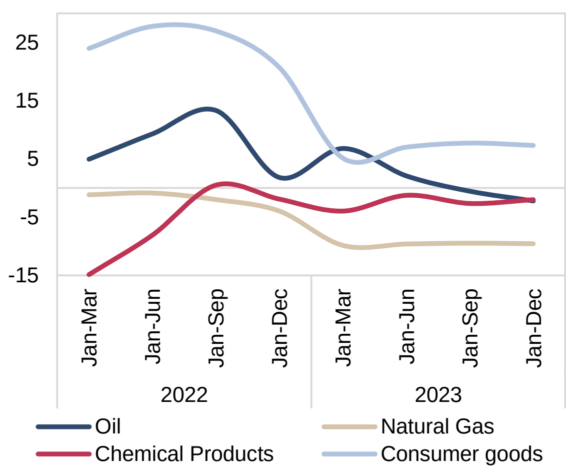


Figure 2.1.2. Output in selected sectors, *real growth, in percent*



Source: Statistics Agency.

Figure 2.1.3. Cargo turnover, *real growth, in percent*

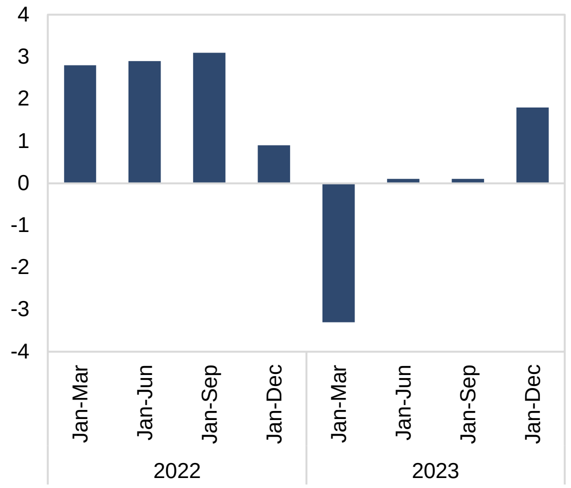
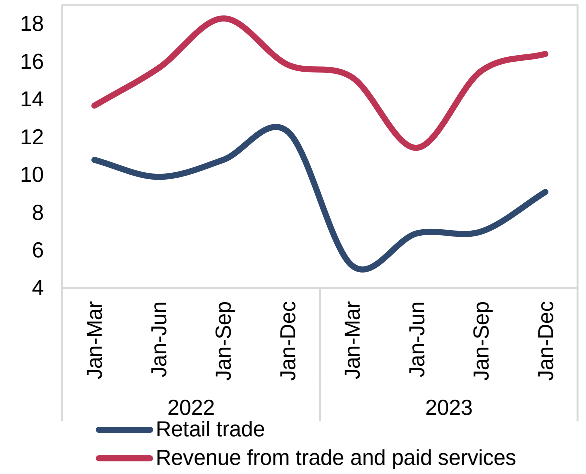


Figure 2.1.4. Consumer activity, *real growth, in percent*



Source: Statistics Agency.

Households' consumption was supported by remittance inflows, fiscal incentives, as well as 14.5 percent indexation of wages, serving to increase real incomes of the population. As a result, there was a higher increase in revenues from retail trade and paid services *(Figure 2.1.4)*.

During this period, a high increase in investment activity was an important contributor to GDP growth. In addition, investments rose with some volatility, mainly due to the FDI dynamics.

At the end of 2023, total direct investment inflows doubled compared to 2022, reaching 7.2 billion dollars, most of which was recorded in Q4 *(3.4 billion US dollars) (Figure 2.1.5).*

Figure 2.1.5. Investment in fixed assets, *real growth, in percent*

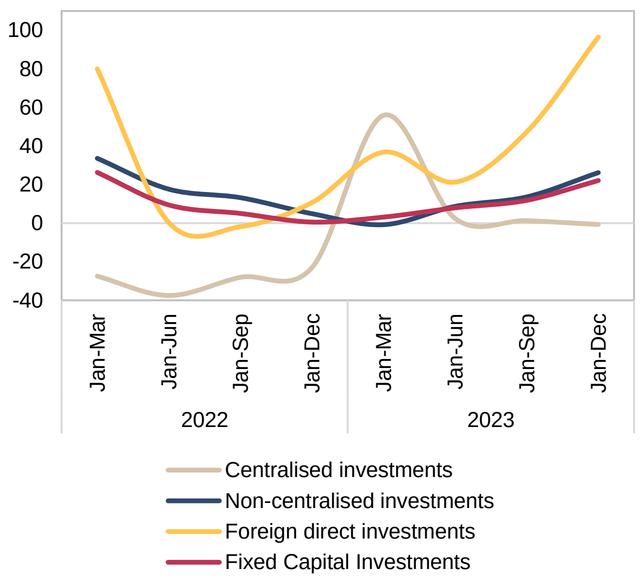
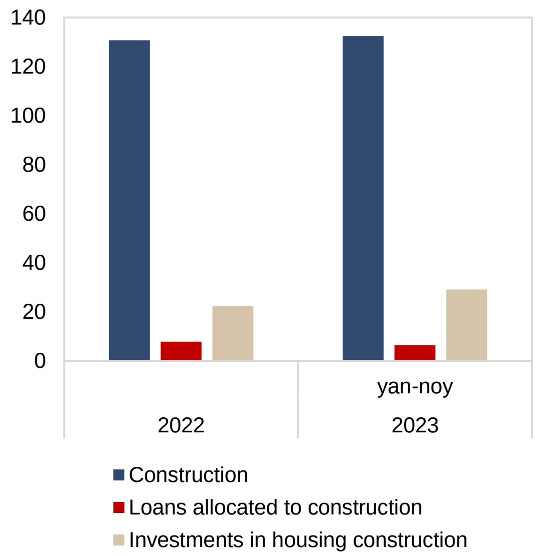


Figure 2.1.6. Construction works, *trln. soums*



Source: CBU calculations based on Statistics Agency data.

Investment in construction, including the real estate and housing sectors, also rose, mainly financed by private entities and residents *(Figure 2.1.6).* Strong demand for housing resulted in high price growth in this sector.

Foreign trade and exchange rate dynamics. Exports grew by 23.8 percent in 2023. An increase in the export of gold, driven by favorable gold prices in the world commodity markets, was a key contributor to the overall exports. Meanwhile, non-gold exports rose at a relatively low pace, by 4.2 percent.

Structural diversification of exports remains slow, and the share of low-value-added raw materials and semi-finished products remains high. Hence, although the volume of exports of non-ferrous and ferrous metals, textiles and chemical products remained virtually unchanged, lower world commodity prices caused by weaker global demand led to a decline in the share of these commodities in exports *(Figure 2.1.7).*

In the context of strong domestic demand, imports growth continued to accelerate, and in 2023, imports grew by 24 percent, with a considerable rise in the import of machinery and equipment, as well as oil and oil products *(Figure 2.1.8).*

Consequently, the disproportionate increase in imports relative to the non-gold exports in 2023 put additional pressure on the domestic foreign exchange market, thus significantly raising the demand for foreign exchange.

Figure 2.1.7. Dynamics of exports in 2023, *real growth, in percent*

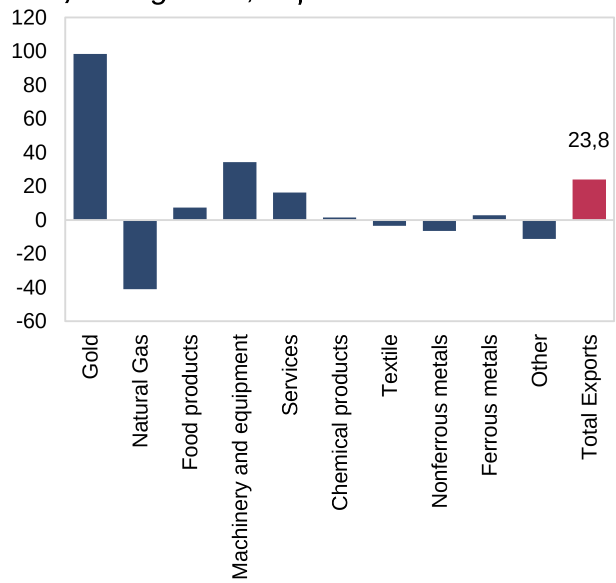
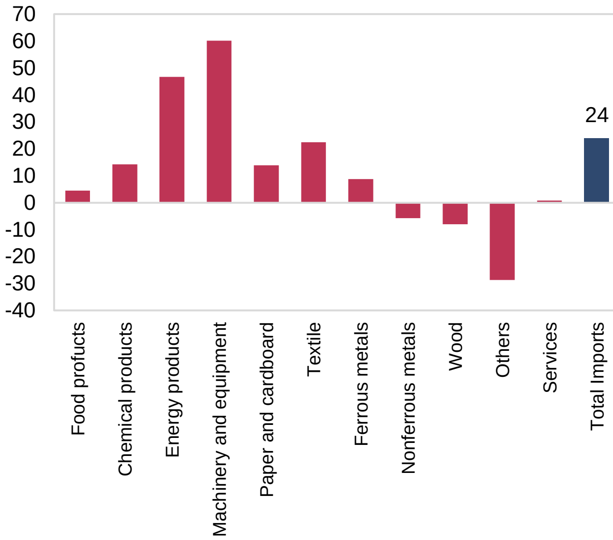


Figure 2.1.8. Dynamics of imports in 2023, *real growth, in percent*



Source: CBU calculations based on Statistics Agency data.

Figure 2.1.9. Dynamics of REER and NEER, *comparing with December, 2022, in percent*

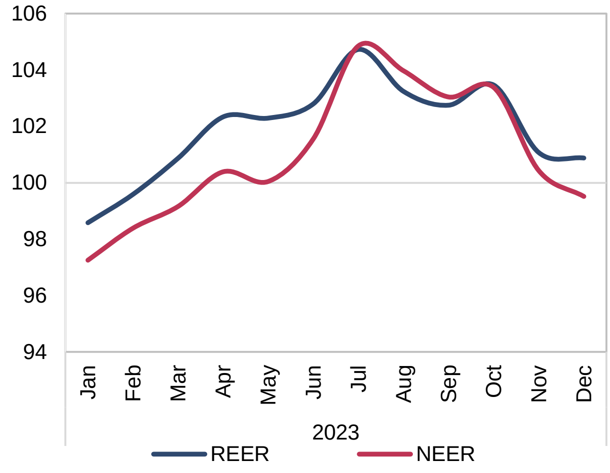
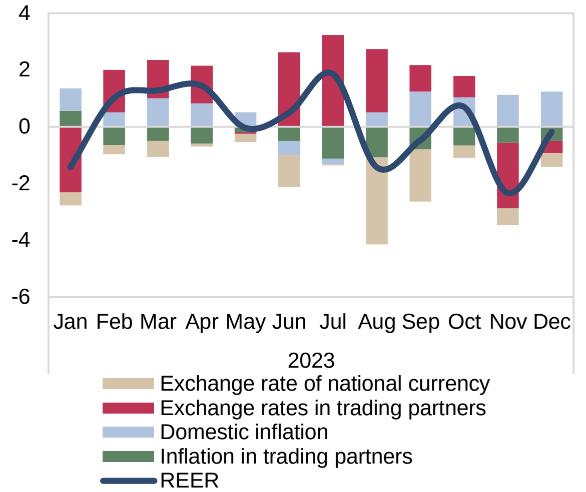


Figure 2.1.10. Decomposition of REER, *in percent*



Source: CBU calculations.

By the end of 2023, remittances returned to their medium-term trend and amounted to 11.4 billion dollars. This drop is attributed to high base effects, and partly to exchange rate depreciation in the major migrant recipient countries as well as a slight decrease in the labor immigration.

Influenced by the above-mentioned fundamental factors, the national currency depreciated by 9.8 percent in 2023.

As a result of appreciation of the exchange rates and acceleration of inflation in the major trading partners in Q4 2023, the real effective exchange rate index continued to decline moderately (Figures 2.1.9-2.1.10). Real effective exchange rate appreciated by 0.8 percent compared to the beginning of 2023.

2.2. Monetary conditions and inflation

During Q4 2023, monetary conditions were maintained relatively tight and there was fiscal normalization. As a result, the impact of monetary factors on inflation diminished and core inflation continued declining. However, there was no significant change in the annual headline inflation due to higher regulated prices and seasonal fluctuations in fruit and vegetable prices.

Headline inflation in December 2023 stood at 8.8 percent year-on-year, decreasing by 3.5 percentage points compared to the beginning of the year *(Figure 2.2.1).*

Meanwhile, there was further broad-based stabilization of non-food prices, having a downward effect on overall inflation (Figure 2.2.2). In spite of the continuing downward trend, food inflation remained higher than the headline inflation at the end of 2023, whereas services inflation accelerated and kept its upward trend.

Price movements in food products and service components have been heterogeneous *(Figure 2.2.2).* This, in turn, indicates that drivers of consumer demand in the economy remain strong and an upward pressure on the service prices persists.

During this period, inflationary processes were affected by the adjustments of some regulated prices, seasonal factors, changes in budget expenditures, increased wages and high growth of retail lending.

Generally, the emergence and persistence of inflationary pressures in the economy is attributed to the incomplete adaptation of some supply components to the conditions of strong demand.

In particular, production of consumer goods and services slowed down in 2023 compared to 2022. This imbalance is probable to have an upward impact on prices this year.

During 2023, lower food prices in world markets had a balancing effect on domestic prices. However, increased wages, social benefits, and stable cross-border remittance inflows continued to boost aggregate demand growth. High increase in retail loans was also among the drivers of consumer demand.

Figure 2.2.1. Dynamics of headline inflation and its components, *in percent*

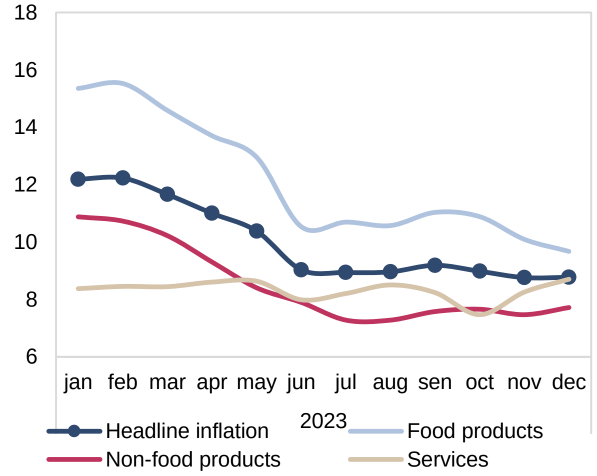
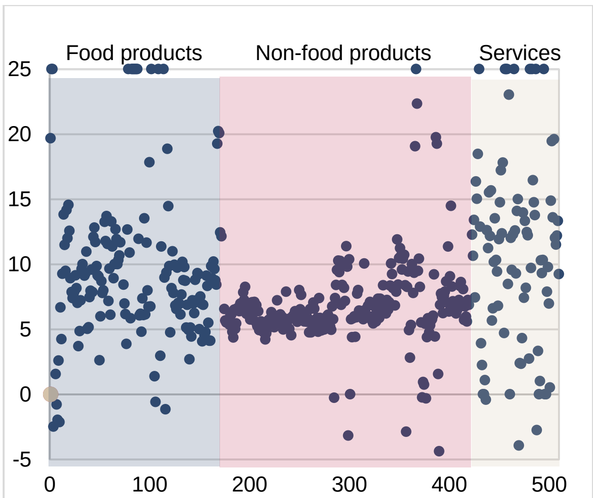


Figure 2.2.2. Distribution of annual price changes in the CPI basket, *December*, 2023, *in percent*



Source: CBU calculations based on Statistics Agency data.

Figure 2.2.3. Inflation and key rate, *in percent*

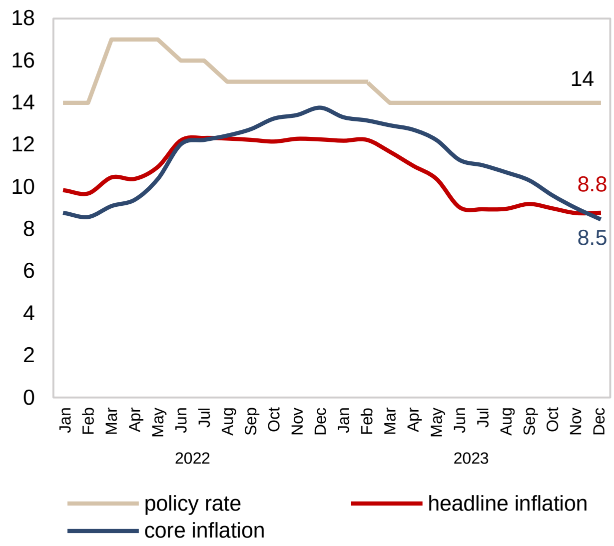
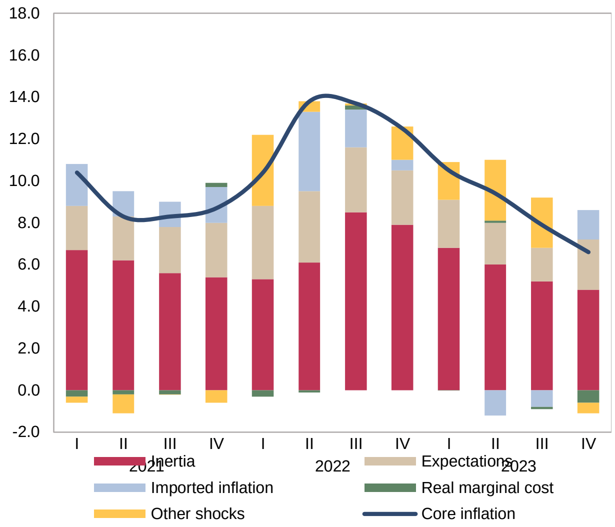


Figure 2.2.4. Decomposition of core inflation, *in percent*



Source: CBU calculations.

In the given period, as a result of the diminishing impact of monetary factors in the economy, the core inflation further declined, reaching 8.5 percent at the end of the year *(5.3 percentage points lower than at the beginning of the year) (Figure 2.2.4).* However, the gradual increase in regulated prices and their secondary effects might cause the core inflation to stop its steady downward trend this year.

Despite a decrease in core inflation, headline inflation remained unchanged due to higher regulated prices and inflation in the fruit and vegetable components over the period.

Although the primary effects of higher energy prices for business entities have been reflected in consumer prices relatively slowly, the pressure of secondary effects on prices will persist in the coming months.

Overall, during Q4 2023, the increase in regulated prices for services and energy resources was a key contributor to the inflation acceleration. Higher inflation in the services sector can also be attributed to the "pass-through effect" of price increases in the food products in earlier quarters.

Despite the slowdown of inflationary processes in the economy, there are still uncertainties and risks regarding the duration of this trend. Meanwhile, the Central Bank has kept the policy rate unchanged during the quarter in order to ensure relatively tight monetary conditions in the economy.

Figure 2.2.5. Nominal and real interest rate, *in percent*

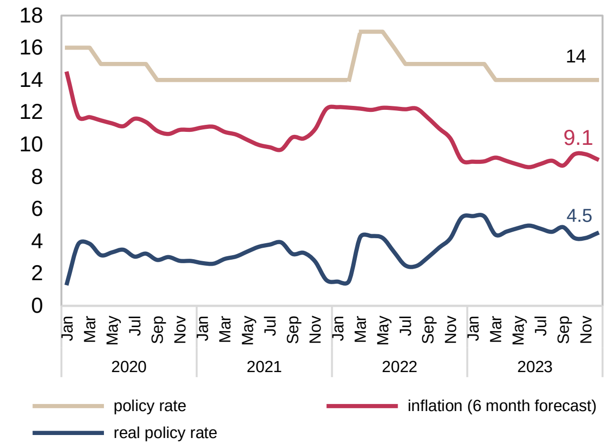
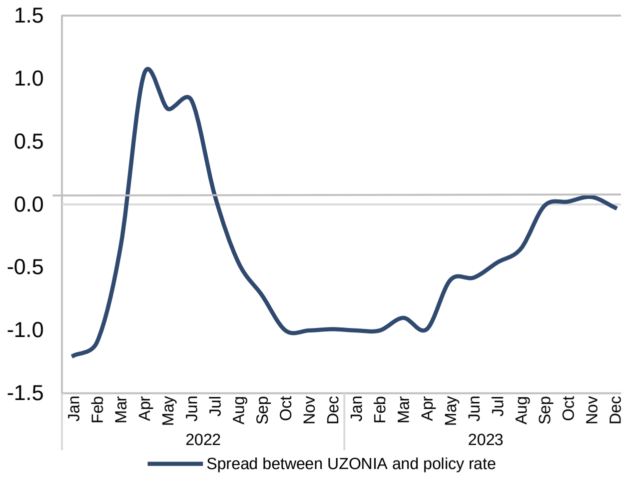


Figure 2.2.6. Spread between the UZONIA rate and the key rate, *in percent*



Source: CBU calculations based on Statistics Agency data.

As a result, the Central Bank's policy rate in real terms calculated based on the inflation forecast for the next period (for the next 6 months) amounted to 4.5 percent in December, thus serving to ensure relatively tight monetary conditions *(Figure 2.2.5).*

Given the decrease in the overall liquidity of the banking system since the beginning of the year, the negative spread between the money market UZONIA rate and the policy rate closed, and over the last quarter the UZONIA rate developed in line with the policy rate *(Figure 2.2.6).* This, in turn, serves to ensure effective transmission of monetary policy decisions to the money market.

Despite the relatively tight level of interest rates in the interbank money market, the transmission of these conditions to the deposit and loan markets was relatively low. Meanwhile, an upward trend in interest rates on term deposits in the national currency is caused by the strong demand for retail loans.

The latter, in turn, had an upward impact on the interest rates on loans. The weighted average interest rates on loans to individuals in the national currency in December rose to 25.2 percent, while those on loans to legal entities went up to 23.1 percent *(Figure 2.2.7).*

The balance of loans to the economy increased by 23.3 percent in 2023, of which loans to individuals rose by 47 percent thus being the major contributor *(Figure 2.2.8).*

Figure 2.2.7. Interest rates on loans in the national currency

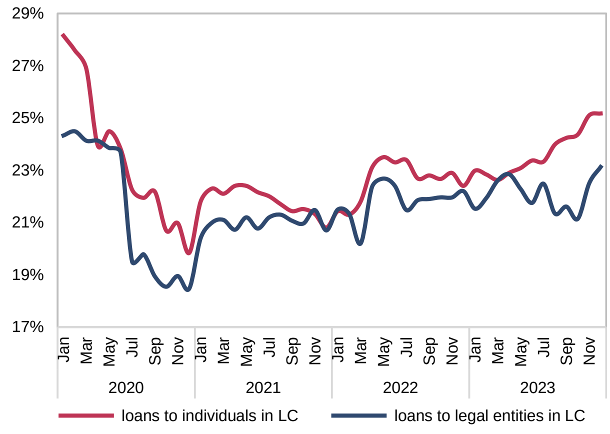
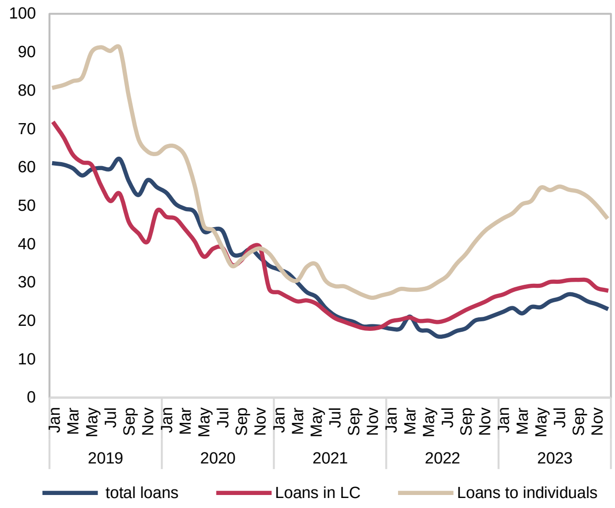


Figure 2.2.8. Growth of loans to the economy, *in percent*



Source: CBU calculations

The increase in loans to individuals was mainly due to strong demand for mortgages, microloans and car loans. Overall, in 2023, the total amount of loans to individuals reached 100 trillion soums. The share of car loans amounted to 36.5 percent, while microloans and mortgages accounted for 28.4 percent and 16.8 percent, respectively.

Increased demand for domestic financial resources amid strong demand for loans and tight external financial conditions resulted in higher interest rates on term deposits.

In particular, in December, the weighted average nominal interest rate on term deposits of individuals amounted to 21.5 percent, while the real interest rate calculated based on households' inflation expectations was at 7 percent *(Figure 2.2.9).*

Higher nominal and real interest rates on term deposits contributed to rapid growth of deposits. Particularly, in 2023, households' term deposits increased by 43.7 percent, including a 1.5-fold growth of those in the national currency *(Figure 2.2.10)*.

In 2024, inflation is expected to remain at the current level, with external inflationary pressures, a possible increase in regulated prices, and changes in tax and duties as major factors. Therefore, the Central Bank will maintain the current relatively tight monetary conditions to bring inflation down to the 5 percent target in 2025.

Figure 2.2.9. Interest rates on deposits in the national currency

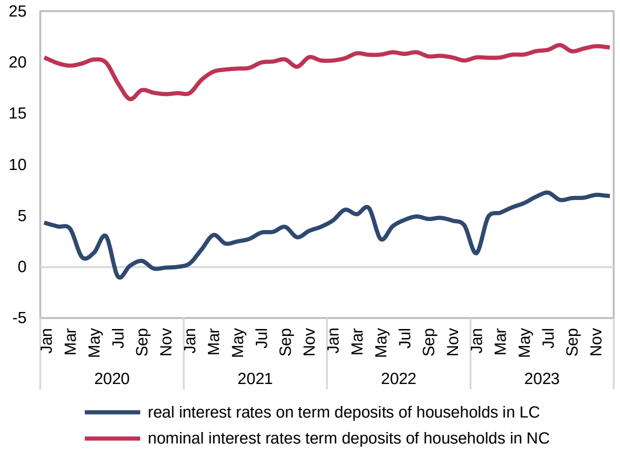
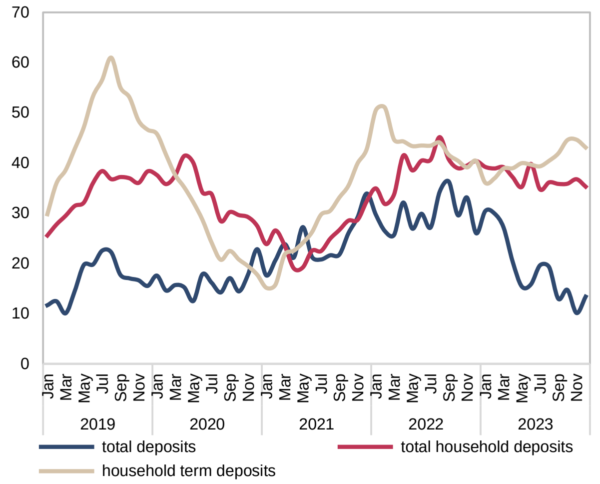


Figure 2.2.10. Growth of deposits, *annual percentage*



Source: CBU calculations.

Loans are expected to increase by around 18-20 percent annually due to sustained strong demand for retail loans, while positive real interest rates are anticipated to ensure high deposit growth.

Box 3.

Analysis of price changes of goods and services in the consumer basket

When assessing inflationary processes, it is essential to analyze the distribution of price movements for all goods and services of the consumer basket and the dynamics of this distribution over the years *(Figure 1).*

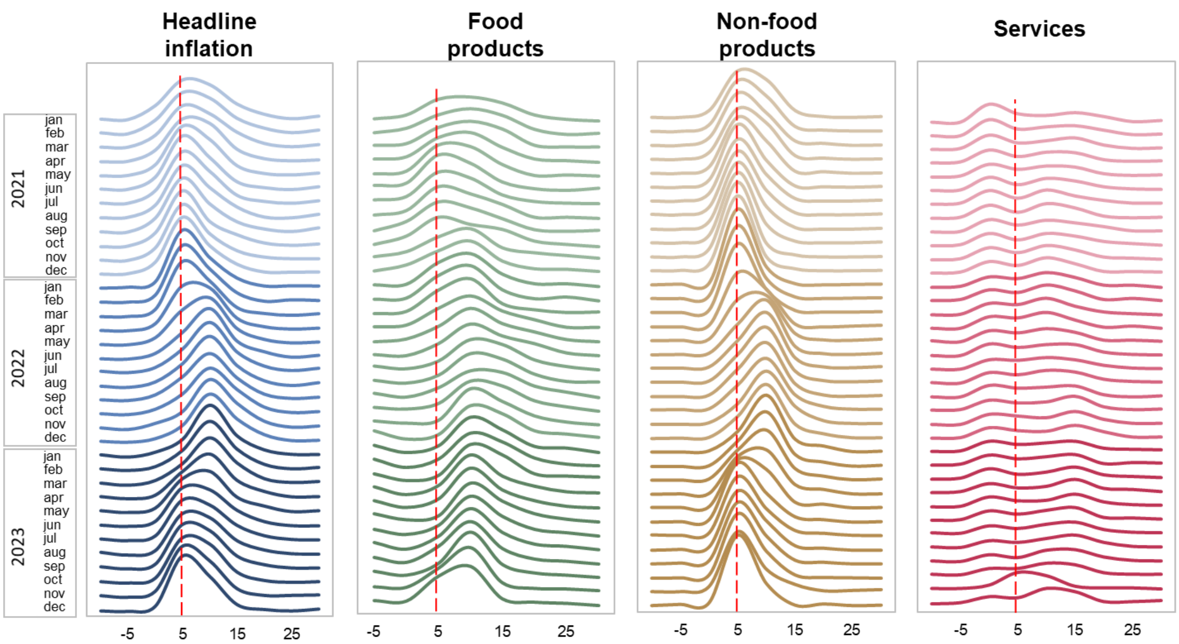
In 2021, annual inflation of most goods and services in the composition of headline inflation was within the corridor of 5-10 percent. During that period, there was a slowdown in the inflation of the non-food group, and the price change of goods in this component was in the range of 5-10 percent of the distribution. In contrast, the distribution of food and services inflation generally remained unchanged over the year.

Headline inflation accelerated significantly in 2022 compared to previous years, and this was reflected in the shift of the distribution of goods and services from the average 5-10 percent corridor. Meanwhile, the variance of inflation in the food and non-food components was observed to have increased, and the average distribution of both groups shifted upwards (to the right).

In 2023, price increases decelerated and the headline inflation rate declined. Meanwhile, goods inflation returned to the 2021 distribution, and price increases neared the 5-10 percent corridor. Although the distribution of food inflation was above 5 percent during this period, most of the distribution was concentrated in the range of 5-15 percent. Given the steady decline in non-food inflation, the distribution of this group returned to 2021 levels and narrowed within the 5- 10 percent corridor.

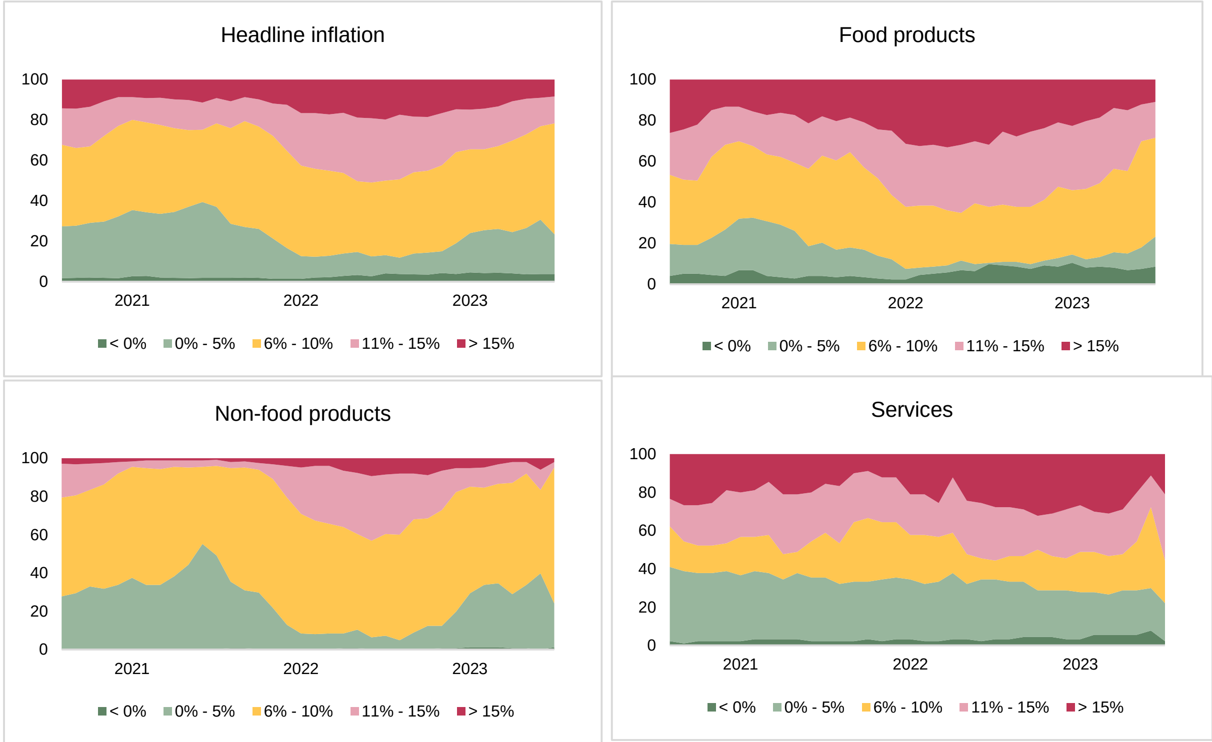
It is worth noting that the distribution of service inflation in 2021-2023 was scattered.

Figure 1. Dynamics of the share of annual changes in headline inflation and its components in different percentage segments in 2021-2023



Source: CBU calculations.

Figure 2. Dynamics of the share of annual changes in headline inflation and its components in different percentage segments in 2021-2023 *(in percent)*



Source: CBU calculations.

Analysis of the headline inflation and its components by percentage intervals allows to assess the presence of broad-based price increase in these groups. In 2021 and 2023, inflation of 70-80 percent of goods and services included in the CPI basket amounted to up to 10 percent. Goods and services with inflation of 6-10 percent accounted for 40-50 percent, and the share of those with inflation below 5 percent was 20-30 percent.

In 2022, the inflation of goods and services was broad-based. The share of goods and services with inflation above 10 percent increased from 20-30 percent in 2021 to 40-50 percent in 2022. During this period, the more broad-based increase was observed in food prices (its share rose to 60 percent), while prices of goods with inflation above 10 percent continued to stabilize with a decrease in their share.

In contrast, in mid-2022 about 40 percent of non-food products had inflation above 10 percent, but by the end of the year the share of this group had dropped to 15-20 percent. In services, the share of components with inflation up to 5 percent decreased, while the proportion of those with inflation of 6-10 percent and above 10 percent increased.

Overall, food and services inflation remained high in 2023 and was the main contributor to the headline inflation.

In order for consumer prices to decline steadily in the coming years, the share of goods with inflation exceeding 10 percent in total inflation must be halved (from 20 to 10 percent), and the share of goods with inflation of less than 5 percent must be increased 1.5 times from the current level to a minimum of 35 percent.

Box 4.

Development of tourism and its economic impact

In 2020, one of the main sectors most affected by the outbreak of the pandemic in most economies was tourism.

However, with easing of travel restrictions, the tourism sector started recovering rapidly.

By the end of 2023, the number of tourists worldwide totaled 1.3 billion, or 88 percent of the pre-pandemic number (1.5 billion in 2019).

Meanwhile, amid strong demand for tourism and rising prices, tourism revenues totaled 1.4 trillion dollars in 2023 (93 percent of 2019 indicator).

At the end of 2023, the number of tourists visiting Uzbekistan amounted to 6.6 million people *(Figure 1)*, increasing by 27 percent compared to the previous year (5.2 million people in 2022).

The largest number of tourists (79 percent) come from neighboring countries such as Kazakhstan, Kyrgyzstan and Tajikistan *(Figure 2)*.

Typically, most of the tourists from these countries travel to visit relatives, for medical treatment, study and trade purposes.

The share of tourists from other countries in recent years has been about 15-20 percent. The main purpose of the visit of tourists from distant countries is traveling.

Spending of tourists is reflected in travel exports. In 2023, the share of travel services in total service exports reached 41 percent amounting to 2.1 billion dollars *(Figure 3).*

At that, the average spending of a tourist visiting Uzbekistan in 2023 amounted to 323 dollars, a 5 percent increase compared to the previous year *(Figure 4).*

Increasing tourist flow contributes positively to economic growth, stimulates the expansion of the service sector, increases employment, and promotes the diversity and quality of services.

Figure 1. Number of tourists visiting Uzbekistan, *thousands people*

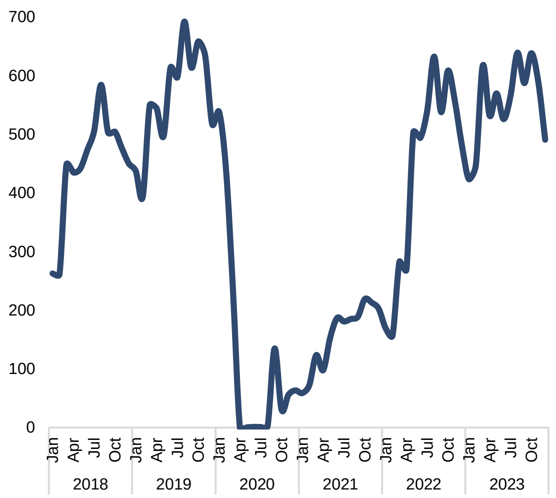
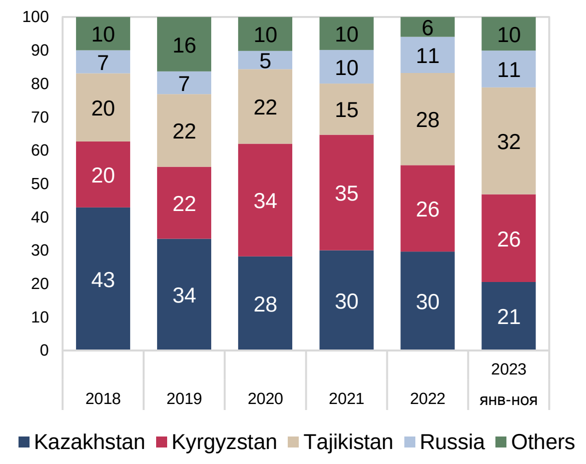


Figure 2. Share of tourists visiting Uzbekistan, by countries, *in percent*



Source: Statistics Agency, Tourism Committee under the Ministry of Ecology, Environmental Protection and Climate Change of the Republic of Uzbekistan

Figure 3. Travel exports and its share in services exports, *bln. dollars, in percent*

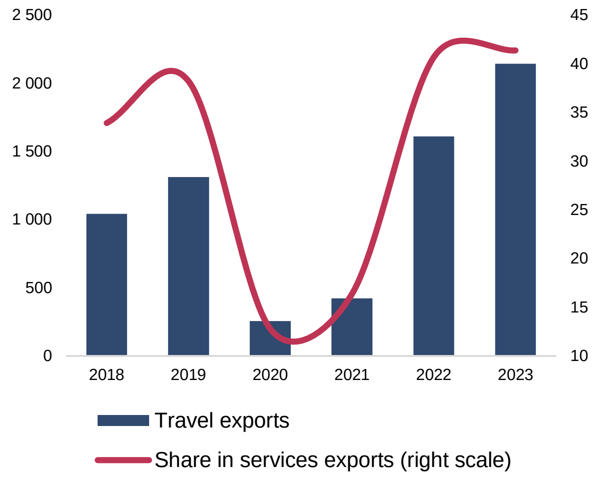
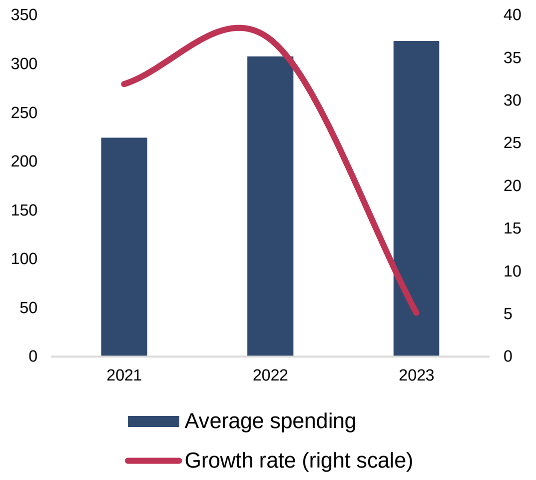


Figure 4. Average spending of a tourist in Uzbekistan, *dollars, in percent*



Source: CBU calculations based on Statistics Agency data.

However, this trend generates additional consumer demand in the domestic market. In this regard, increasing the supply of consumer goods, especially food and transportation services, will prevent inflationary pressure on consumer prices in the future.

APPENDICES

Appendix 1

Prospects for green monetary policy

Climate change or global warming impacts the economy through various channels. In particular, there are basically two types of risks associated with climate change: physical risks (floods, droughts, wildfires, etc.) and transition risks (risks arising in the economy as a result of measures taken to reduce the impact of climate change).

Physical risks, that is, extreme weather conditions, can damage the supply chain in the economy and slow down the activities of economic entities.

Generally, these risks affect mainly developing countries, thus increasing the urgency of applying measures aimed at mitigating the negative consequences of climate change. However, abrupt changes in economic policy after a country has delayed dealing with climate change effects may cause transition risks. This is also likely to adversely influence the supply chain and consequently the stability of the financial system.

Early implementation of mitigation measures serves to reduce transition risks. In this case, it is crucial to identify the source of the problem, measure (assess) its extent and design appropriate macroeconomic policies to develop a green economy to address climate change.

Structural reforms, fiscal and monetary policies can also be applied in the transition to a green economy. Fiscal policy measures include carbon taxes, green subsidies and transfers, while monetary policy employs central bank instruments to promote eco-friendly economic activity. Meanwhile, structural reforms involve regulating energy consumption through legislation (introducing energy efficiency standards) and "decarbonizing" institutions (establishing carbon markets).

In international experience, the prioritization of climate change and environmental issues in the conduct of monetary policy by central banks is referred to as **“green monetary policy”.**

In this case, to incentivize the transition to a sustainable economy, central banks require the following conditions to apply their instruments (green refinancing loans, green bonds, etc.):

- establishment of a continuously updated database on the carbon emissions of businesses operating in the economy;

- availability of energy efficiency ratings (existing credit rating agencies may take climate risks into account when assessing banks' portfolios or separate rating agencies for climate risks may be established);

- a developed capital market and green financial assets (e.g. green bonds);

- high effectiveness of the transmission mechanism of monetary policy.

In the global experience there are various instruments of green monetary policy, however, the mechanism of their operation is designed on the same basis. That is, the requirements for financial assets that are applied in the monetary operations of the central bank should include climate issue.

Green refinancing loans. Taking into account climate change, interest rates on green refinancing loans are set depending on the level of green assets in banks' portfolios. That is, banks that have invested significantly in carbon-intensive sectors will have a higher interest rate (interest rate + carbon premium) for refinancing loans and, conversely, a lower interest rate (interest rate - green rebate) will be charged for banks with green assets in their portfolios. By classifying interest rates in this way, the central bank can make financing the most polluting sectors more expensive and investing in sustainable sectors more attractive.

Green collateral. When providing liquidity to commercial banks, central banks set interest rates depending on the green status of their collateral. Banks with large amounts of collateral in carbon-intensive industries are exposed to higher costs for using green central bank instruments.

Overall, green monetary policy aims to improve energy efficiency by lowering the cost of green investments, increasing the liquidity of environmentally sustainable financial assets in the market. This, in turn, helps to reduce the amount of carbon emissions from production processes.

Downsides. Although green monetary policy can contribute to mitigating climate-related issues, it can lead to a conflict of interest in maintaining price and financial stability. Therefore, the U.S. Federal Reserve (Fed) prefers to pursue conventional monetary policy in this situation.

Central banks have to choose climate action as a priority in green monetary policy. This would obviate free market mechanisms in credit matters and disable the signaling function of market prices.

Moreover, opting for this selective approach in lending could compromise central bank independence and lead to a loss of central bank credibility. To ensure credibility of the central bank in implementing green monetary policy, it is essential to provide market mechanisms as well as to take climate change into account.

International experience. In 2019, the European Council agreed on the issue of climate change and set the goal of achieving sustainability by 2050. Apart from its core objective, the European Central Bank (ECB) also intends to support the common economic policy of the European Union. This serves as the legal basis for the ECB's green monetary policy. In this regard, the ECB announced that green securities can be used as collateral for lending operations from 2020. In 2021, it developed a roadmap for integrating climate change into the monetary policy strategy.

The ECB experienced some difficulties in implementing green monetary policy. Central bank purchases of green assets under the Corporate Sector Purchase Program (CSPP) have been found to have a minor impact and not to mitigate climate change in the long term.

Furthermore, according to studies, green monetary policy is likely to undermine the benefits of the EU's carbon market (Emissions Trading Systems). However, the ECB's introduction of climate collateral requirements has a substantial impact on the issuance of green bonds by carbon-intensive enterprises and an increase in green investment in general.

Additionally, natural disasters have been a factor exerting more inflationary pressure in the EU in recent years, constraining the ECB's access to some green instruments (central bank purchases of green financial assets).

Should climate change continue to worsen, it might become a major factor hindering central banks from achieving their inflation targets. This is the nexus that raises the urgency of action on climate change.

China, which accounts for the largest share of carbon emissions, began implementing green monetary policy in 2018. The first step was to allow the use of green bonds as collateral in medium-term lending transactions. Research based on China's experience shows that these measures can significantly influence the market's capability to achieve sustainability.

Green monetary policy in the conditions of Uzbekistan. In Uzbekistan, climate issues are gaining importance on the agenda. Dust storms, floods, abnormally cold and hot temperatures damage the country's production and agricultural activities, urban infrastructure, and adversely affect the economy. This requires taking environmental risks into consideration when conducting macroeconomic policy. In doing so, the Central Bank is considering the international experience of improving the monetary policy and studying the prospects of implementation of effective measures.

Appendix 2

Importance of gross national savings in economic development

Shifts in the propensity of households to save and consume have a direct impact on domestic demand. Therefore, their medium-term dynamics is relevant for monetary policy decisions.

Households' preference for current consumption over future consumption is referred to as **time preference.** An increase in the households' time preference indicates a decrease in the propensity to save. On the contrary, an increase in saving activity in the economy means a decrease in the propensity to current consumption, thereby reducing *(ceteris paribus)* the upward pressure on aggregate demand and, consequently, on inflation.

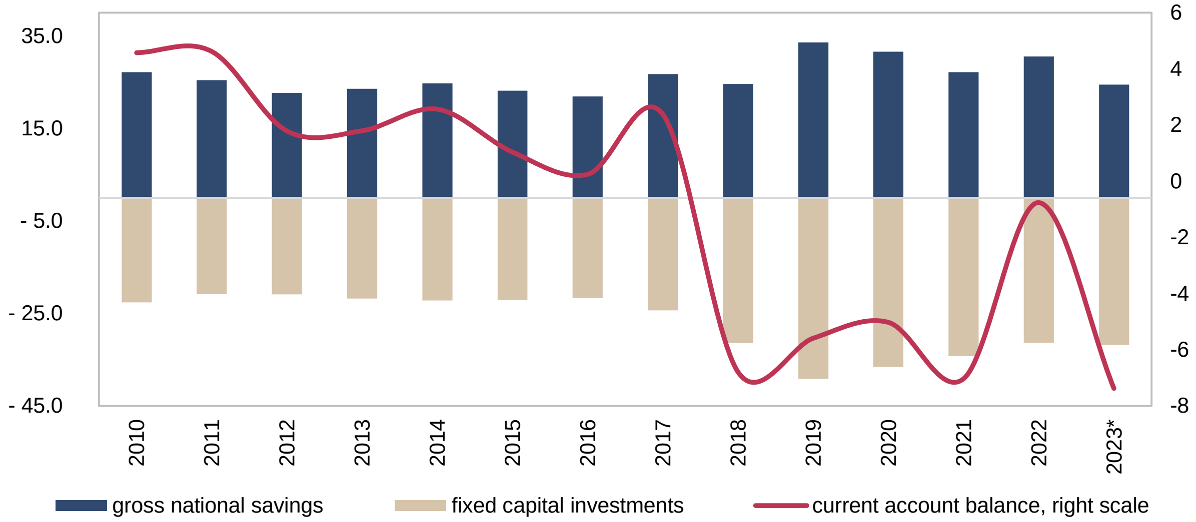
At that, savings are a source of steady financing of investment. Their disproportionality to the volume of investment leads to current account deficit.

In recent years, the current account has remained in deficit in our country *(Figure 1).* On the one hand, this is caused by the increased consumer activity in recent years having a reducing effect on gross national savings *(Figure 2),* and on the other hand, by the intensified structural reforms and gradual liberalization of the economy sharply increasing the demand for investment.

As of September 2023, gross national savings amounted to 24 percent of GDP, below the average of the last five years *(in 2019-2023, the average was around 30 percent).*

Generally, when the amount of national savings is lower than the total amount of investment, it implies that the country is experiencing a savings deficit and investment is financed by external borrowing or reduction of international reserves.

Figure 1. Current account balance, *as a percentage of GDP*
**9 months of 2023*



Source: CBU calculations based on Statistics Agency data.

Figure 2. Consumer and saving activity, *as a percentage of GDP*

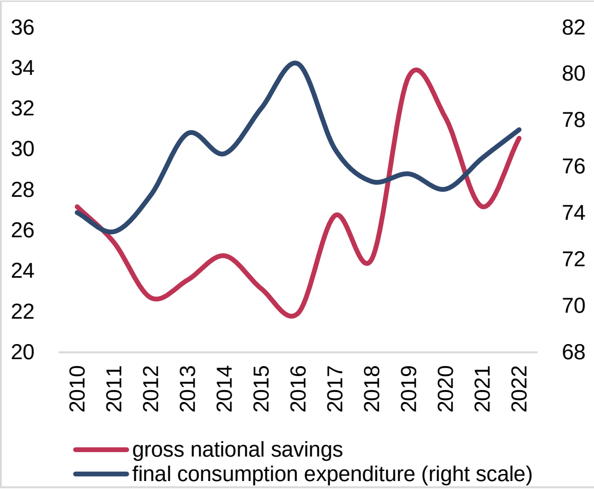
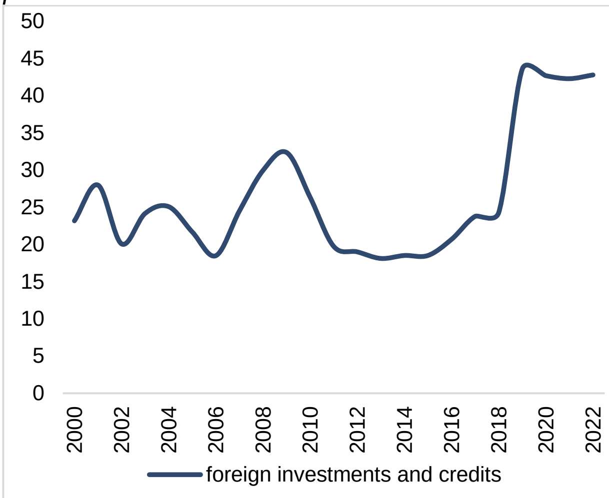


Figure 3. Source of financing of investments in fixed assets, share, *in percent*



Source: CBU calculations based on Statistics Agency data.

In particular, as a result of the deficit of long-term savings in our country, the demand for external financing is substantially increasing *(Figure 3).* This, in turn, may weaken the national economy's resilience to external shocks.

Balance between national savings and investments is crucial for ensuring macroeconomic stability, external balance and long-term growth prospects.

Factors reducing national savings

According to IMF research, the following cause a decline in gross national savings in developing countries.

1. In addition to the direct impact on gross national savings, a reduction in public savings as a result of fiscal expansion can also generate secondary effects that decrease gross national savings by boosting future consumer activity.

Especially, in conditions of pent-up consumer and investment demand in the economy for many years, an increase in budget expenditures aimed at social support and further development of industries will lead to a fiscal deficit and an increase in the external debt of the state.

Long-term persistence of twin deficits (simultaneous fiscal and external deficits) may lead to increased dependence on external financing and exposure to external shocks. In recent years, India, Türkiye, Argentina and Brazil have faced similar problems.

2. In countries with increasing external debt service, higher debt payments amid unfavorable foreign trade conditions lead to a contraction of national income and, consequently, gross savings.

3. In low-inflation countries the volume of gross savings is greater than in high-inflation countries. This situation is due to the fact that high inflation hinders long-term planning in the economy and concentrates the time preferences of the population on current consumption.

4. In developing countries, a large share of aggregate consumption is at subsistence level, especially in countries with unequal income distribution. Private savers may find it difficult to reduce current consumption in response to higher interest rates, which explains the less important role of interest rate policy in this regard.

Generally, the current high consumer burden leads to a decrease in future savings and an increase in the demand for external resources to finance the economy. Under such conditions, rising investment in fixed capital should ensure growth in labor productivity and gross output. Otherwise, in order to narrow the current account deficit, there will be an increasing necessity to lower aggregate consumption to raise gross national savings to the level of investment.

In the context of persistent twin deficits (fiscal and external) in Uzbekistan for a relatively long period of time, ensuring the coordination of fiscal and monetary policy measures, in particular, reducing inflation, introducing the budget rule, fiscal consolidation, improving the efficiency of investment and trade competitiveness is of particular relevance.

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