Central Bank
of the Republic of Uzbekistan

2024 Q4

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

5%

CONTENTS

SUMMARY

At the meeting on January 23, 2025, the Board of the Central Bank decided to keep the policy rate at 13.5 percent per annum.

In recent months, headline inflation is declining while inflationary factors in the economy are developing in a multidirectional manner. Although the impact of last year's energy price liberalization on inflation is expected to diminish in the coming quarters, inflation expectations remain high, requiring the maintenance of relatively tight monetary conditions.

Leaving the policy rate unchanged is aimed at returning core inflation and inflation expectations to a sustainable downward trend and creating sufficient conditions to achieve the 5 percent target in the medium term.

The headline inflation rate has been on a downward trend since October 2024, reaching 9.8 percent annually in December. At the end of 2024, price growth in three-quarters of goods and services in the consumer basket slowed compared to 2023. This can be viewed as the beginning of price stabilization process.

Meanwhile, core inflation accelerated slightly in December, reaching 7.2 percent. The relatively high core inflation of services and non-food goods indicate the presence of demand-side factors driving inflation in addition to supply-side factors.

Consumption and investment activity remains high. In particular, the significant growth in wages and cross-border remittances has contributed to an increase in real household incomes. Against the backdrop of high economic activity, this is expected to continue supporting aggregate demand in the coming months, potentially exerting upward pressure on core inflation.

The decreasing impact of seasonal supply factors on inflation during the first half of 2025, combined with the maintenance of relatively tight monetary conditions and macroeconomic stability measures, will contribute to a decrease in inflation expectations.

In the first half of 2025, the primary effects of the liberalization of energy prices in 2024 are expected to taper off, significantly contributing to a reduction in headline inflation by the end of the second quarter. Meanwhile, a temporary increase in headline inflation is anticipated to occur in April due to the one-month shift in the implementation of the next phase of this reform in 2025.

According to the updated forecasts, headline inflation is expected to be around 7-8 percent at the end of 2025. Going forward, the secondary effects of these changes on core inflation will be a key factor in determining the direction of monetary policy conditions.

High economic activity expected in 2025 will support the GDP growth, with forecasts indicating a growth of around 6 percent at the end of the year. The expected increase in private investments will be a factor supporting economic growth, leading to an expansion of supply of goods and services.

At the same time, the risk of rising prices for certain food products in the global market in the coming quarters may have an upward pressure on inflation through import price.

The appreciation of the real effective exchange rate in the last months of 2024 was short-term in nature and was influenced by the depreciation of certain trading partners' currencies and a higher domestic inflation rate relative to trading partners. As the inflation continues to decline, the real effective exchange rate is expected to return to its medium-term trend level in the second half of 2025.

The domestic currency market in the medium term is expected to remain largely in balance due to the improvement of the current account balance in 2024, the anticipated relative macroeconomic stability in trading partner countries in 2025 and the absence of significant risks from domestic factors affecting the exchange rate.

Money market interest rates and yields on government securities indicate the relative restrictiveness of current monetary conditions. Real interest rates in the economy are increasing the household's propensity to save.

By maintaining tight monetary conditions, the growth in lending volumes is expected to remain moderate, while the high growth rates of deposits are likely to continue. These factors will help balance aggregate demand and reduce the inflationary impact of monetary factors.

In the medium term, the Central Bank will ensure that monetary conditions remain sufficiently tight to achieve a stable decline in inflation toward the 5 percent target.

In case of emergence of stronger-than-expected pressures on aggregate demand and prices in the economy in the coming quarters, the level of restrictiveness of monetary conditions may be reconsidered.

I. MEDIUM TERM MACROECONOMIC OUTLOOK

1.1. External Economic Outlook

Global economic growth has continued to stabilize in recent quarters, with monetary easing supporting economic activity as inflationary pressures have eased in most countries and inflation is approaching its target.

The main risks to the growth outlook and inflation forecasts relate to the expected changes in international trade policies in developed and developing countries.

Global economic outlook*.* According to the updated forecasts of international organizations[1], the global economic growth for 2025 is expected to be around 3.3 percent, 0.1 percentage points higher than the previous forecast *(Figure 1.1.1)*. The improvement in the global economic growth forecast is attributed to stable business activity in the United States and the anticipated high economic growth in developing countries.

At the same time, despite the revival of economic activity, economic growth indicators are expected to be below the historical average of the last twenty years before the pandemic.

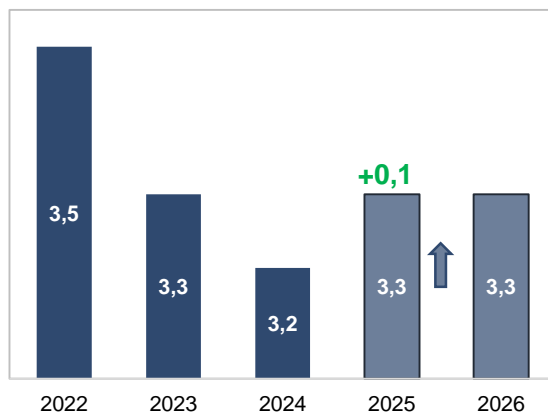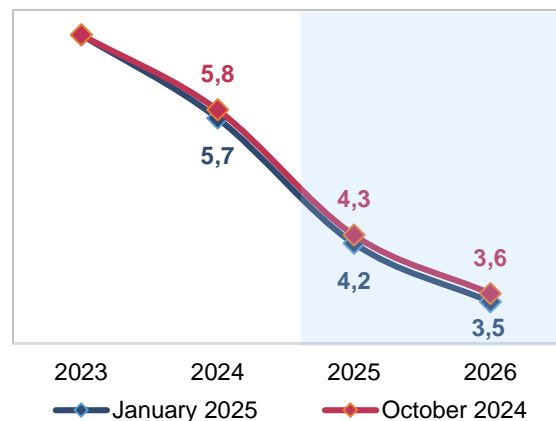**Figure 1.1.1. Global economic growth forecasts,** *percent*

Figure 1.1.2. Global inflation forecasts, *percent*

Source: «World Economic Outlook», IMF, January 2025.

This phenomenon can be explained by high level of debt, relatively slow growth in manufacturing, sluggish investment flows, and persistent macroeconomic problems faced by most countries.

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[1] World Economic Outlook, IMF, January 2025

Furthermore, in the medium-term outlook, global economic growth could weaken further if risks such as rising geopolitical uncertainties among countries, increasing trade fragmentation, a resurgence of inflationary pressures, and more frequent climate-related anomalies materialize.

Global inflation is projected to continue to moderate in 2025-2026 (to 4.2 and 3.5 percent, respectively) *(Figure 1.1.2)*. Lower core inflation expectations, moderate wage growth, and lower energy prices, driven by tight monetary conditions in many central banks, are expected to be key factors in stabilizing global inflation.

Global trade growth forecasts for the current and upcoming years have been revised downward due to uncertainties in national trade policies and potential trade restrictions *(Figure 1.1.3)*. Trade growth in 2025 is expected to be around 3.6percent, which is 0.1 percentage point lower than previous estimates *(Figure 1.1.4)*.

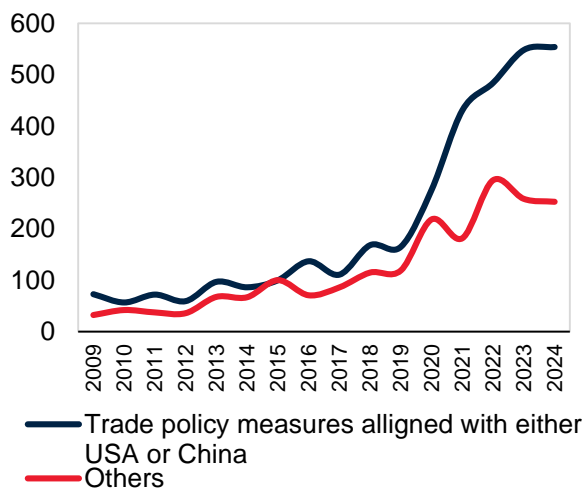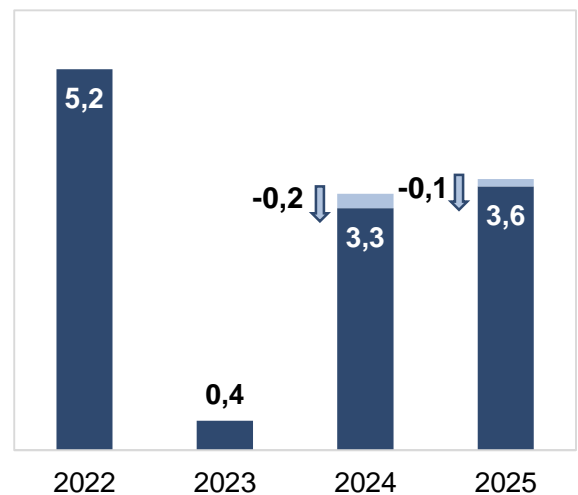**Figure 1.1.3. Trade-distorting policy measures,** *2015 = 100 percent*

Figure 1.1.4. Global trade growth, *percent*

Source: World Bank, «World Economic Outlook», IMF, January 2025.

Global and regional financial conditions. In the last quarter, global financial conditions have eased amid a decline in inflationary pressures in developed countries *(Figure 1.1.5)*.

In 2024, the central banks of developed countries, in particular, the Federal Reserve System (Fed), the European Central Bank (ECB) and the Bank of England (BoE), continued to adjust their rates in accordance with economic conditions. In 2024, the Fed lowered the key rate to 4.25-4.50 percent (a total of 1.0 p.p.), ECB - to 3.15 percent (a total of 1.35 p.p.), BoE – to 4.75 percent (a total of 0.5 p.p.).

The slowdown in price growth, the prolonged period of high interest rates in the past, and the recovery of regional supply chains have contributed to the easing of monetary policy.

However, the potential imposition of new tariffs on imported goods in some countries could drive demand for raw materials by businesses, exerting upward pressure on prices. This, in turn, could heighten the risk of rising inflation and raise concerns about delays in interest rate cuts.

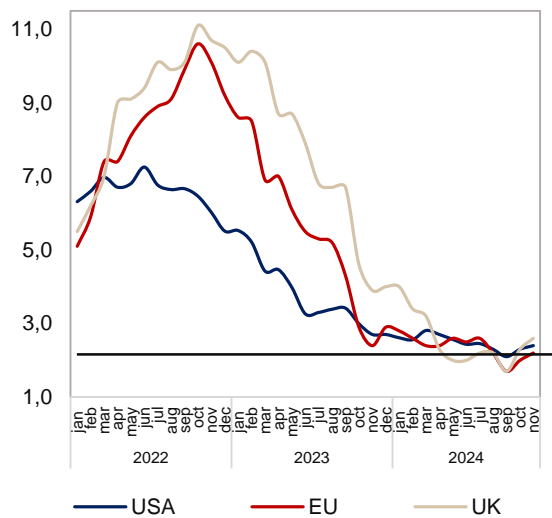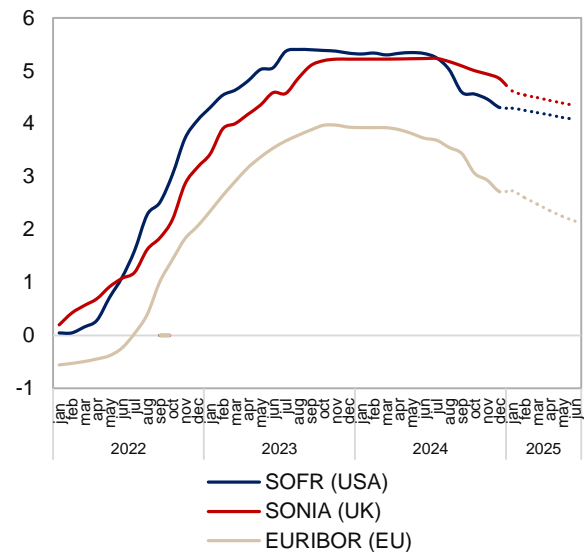| **Figure 1.1.5. Year-on-year inflation dynamics in advanced economies,** *percent*	**Figure 1.1.6. Interbank SOFR, 3-month SONIA ва EURIBOR rates and their projections,** *percent*

Source: National Statistics Offices and Central Banks of corresponding countries.

As a result, there is a likelihood that interest rate cutting cycle will take longer than expected. In particular, the EURIBOR benchmark rate is expected to continue to decline from the second quarter of 2025, while the SOFR and SONIA rates are expected to remain at their current levels for a longer period of time *(Figure 1.1.6)*.

The tendency for rates to remain higher for longer will lead to an increase in debt servicing costs for countries with a significant share of external debt[2] over the medium term. This has also been reflected in interest payments on Uzbekistan's external debt in recent years *(Figure 1.1.7)*.

Macroeconomic and financial conditions in Uzbekistan's main trading partners are developing differently *(Figure 1.1.8)*. In particular, in Russia and Kazakhstan, high domestic demand and the depreciation of the ruble and

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[2] In particular, as of the third quarter of 2024, the share of external debt in Uzbekistan's total public debt was 82 percent, or 28.8 percent of GDP. Almost 40 percent of Uzbekistan's public external debt is tied to floating rates.

tenge observed in the last quarter have led to an acceleration in inflation rates and a corresponding tightening of monetary conditions.

As a result, inflation rates are expected to decline by the end of 2025. At the same time, continued high volatility in the exchange rates of these countries may affect inflation in our country through import prices.

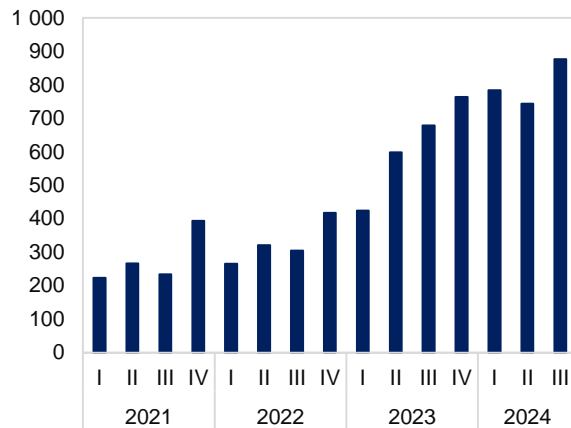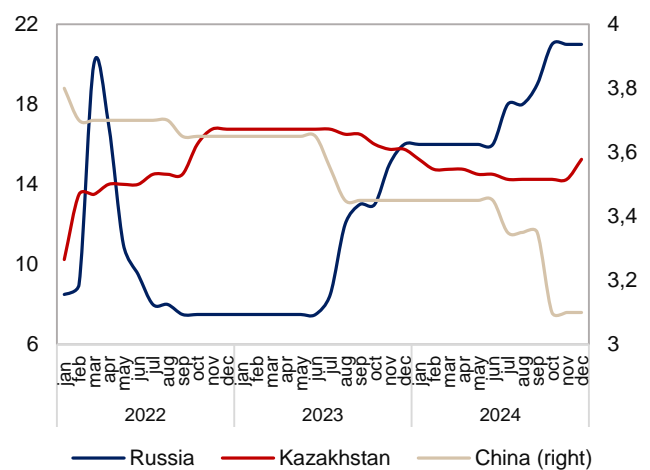**Figure 1.1.7. Interest payments on external debt in Uzbekistan,** *mln dollars*

Figure 1.1.8. The policy rates of Uzbekistan's main trade partners, *percent.*

Source: Central Banks of corresponding countries.

China's economy is facing deflationary pressures due to sluggish domestic demand. Against this backdrop, expectations of higher US tariffs on goods imported from China are increasing the risk of a slowdown in China's economic growth.

Global commodity prices. In 2024, the prices of main commodity export goods were favorable for Uzbekistan's economy *(Figure 1.1.9)*. However, in the medium-term outlook, global commodity prices are expected to be highly volatile amid geopolitical uncertainties.

Despite the increase in oil prices in recent months, market participants expect an increase in oil supply in the medium term amid moderate demand, which would stabilize oil prices.

In 2024, uranium prices corrected following announcements by major producers (Canada, Kazakhstan) regarding increased supply. At the same time, growing demand for nuclear energy is seen as the main factor supporting higher price levels.

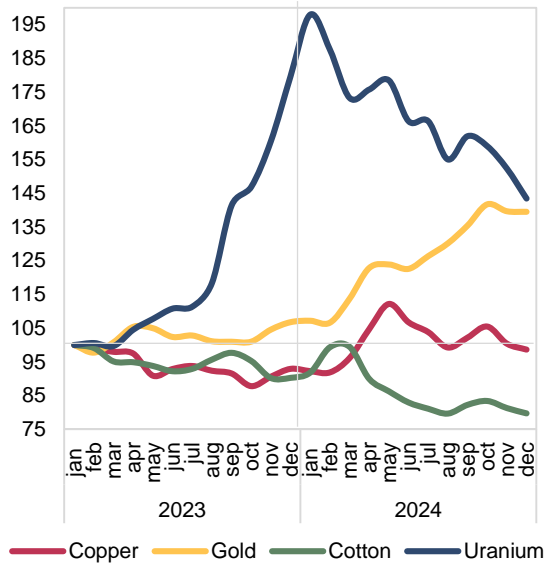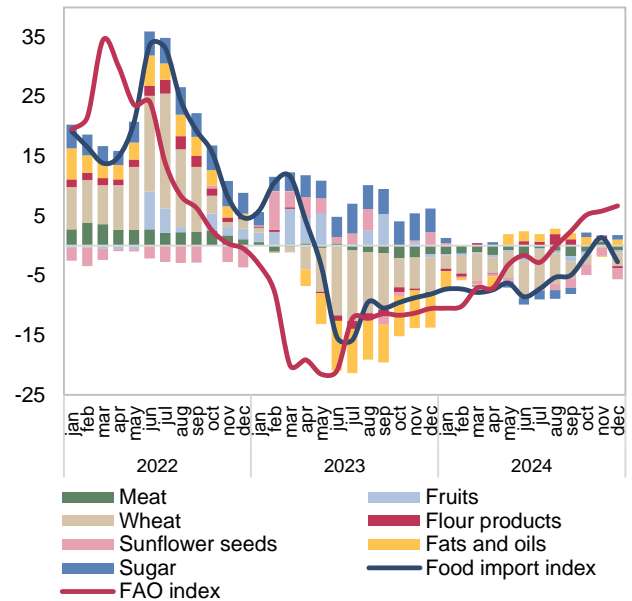**Figure 1.1.9. Global price dynamics of the main export commodity goods, January,** *2023 = 100 percent*

Figure 1.1.10. FAO and food import prices, *percent, yoy*

Source: World Bank, FAO, CBU calculations.

In 2024, global food prices remained stable, with key food products contributing to import price moderation *(Figure 1.1.10).* However, in recent quarters, the annual change in these prices have been on an upward trend, which may be reflected in the price of imports over time. This trend is primarily observed in global prices for vegetable oils and meat.

In addition, food prices are expected to be volatile in 2025 but stabilize in the future. From supply side, extreme weather conditions are seen as a risk that pushes prices upward. On the other hand, it is anticipated the stabilization of oil prices will lead to a decrease in the prices of sugar and vegetable oils, which are highly correlated with oil price.

In general, certain risks associated with external economic activity as well as the slowdown of inflationary processes will remain in 2025. This implies that external inflationary pressures on our country will be moderate. At the same time, the rising global prices of some food products may exert an upward pressure on food inflation.

Box 1.

Global trade restrictions and their economic impact

Global Trends. Amid ongoing geopolitical tensions in recent years, global fragmentation processes continue to intensify. As a result, trade flows between economic blocs and certain countries have declined, and new restrictions have been imposed, which are negatively impacting the growth of global trade volumes.

In this regard, the widespread implementation of trade restrictions by major economies, the adoption of protectionist policies, and the contraction of global trade volumes are considered the key risks to the global economy.

According to the World Bank, the number of trade restrictions introduced in 2024 was five times higher than the 2010-19 average. In particular, more than 585 trade restrictions[3] have been introduced by Europe and Central Asia (ECA) economies since the beginning of 2024. The increase in these restrictions is expected to result in significant economic losses.

According to reports[4], 70 percent of new trade-restrictive measures introduced between 2022 and 2024 were imposed by advanced economies. The negative effects of this were mostly borne by EMDEs (emerging markets and developing economies) *(Figure 1)*. This can be explained by the fact that a significant share of exports of EMDEs consists of raw materials, and their limited capacity to support domestic growth makes them more vulnerable to external trade restrictions.

Preliminary estimates suggest that an increase in tariffs by the U.S. government on all trading partners would lead to slowdown of global economic growth. Specifically, a 10-percentage-point increase in tariffs could reduce global economic growth in 2025 by 0.2 percentage points in the absence of retaliatory measures and by 0.3 percentage points if such measures are implemented *(Figure 2)*.

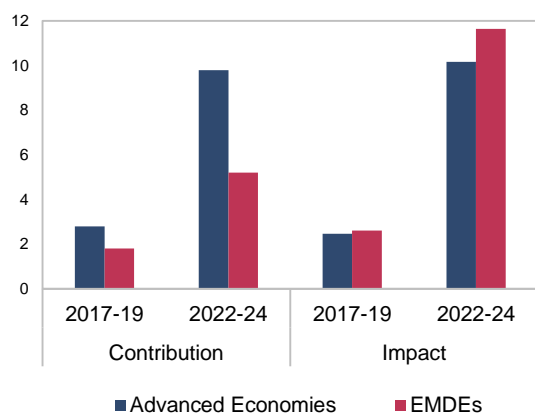**Figure 1. Trade-distorting measures implemented by advanced and developing economies,** *thousands*

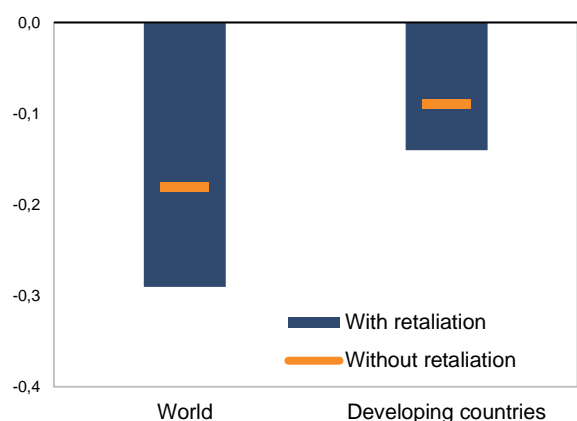**Figure 2. Impact of a 10-percentage-point increase in U.S. tariffs on global and EMDE growth[5],** *percentage points*

Source: World Bank.

Global Risks Ranking. In the Global Risks report presented by the World Economic Forum[6], geoeconomic conflicts (sanctions, tariff and non-tariff restrictions) are ranked third among risks for 2025, after geopolitical conflicts and extreme weather conditions.

In the future, there is a risk of increased global protectionism related to tariffs and other trade measures, which could increase fragmentation between the United States, its neighboring countries (Canada, Mexico), and China and Europe. As a result, global trade is expected to decline sharply.

Trade restrictions and economic growth forecast. As a result of trade restrictions, trade growth is expected to be below the pre-pandemic average in two-thirds of the world's countries.

Despite the trade restrictions imposed on China, the negative impact on these countries may be relatively limited due to the shift of trade flows to other countries and the transfer of production from China to other countries. As a result, the outlook for most economies in the region remains relatively stable in the near term.

Also, a new wave of tariffs could exacerbate trade tensions, leading to reduced investment, supply chain disruptions, and reduced market efficiency. This, in turn, would hurt global economic growth.

Considering these risks, the International Monetary Fund (IMF) has revised its global trade growth forecasts downward for the next two years.

Figure 3. Risks ranking for the current year, percent
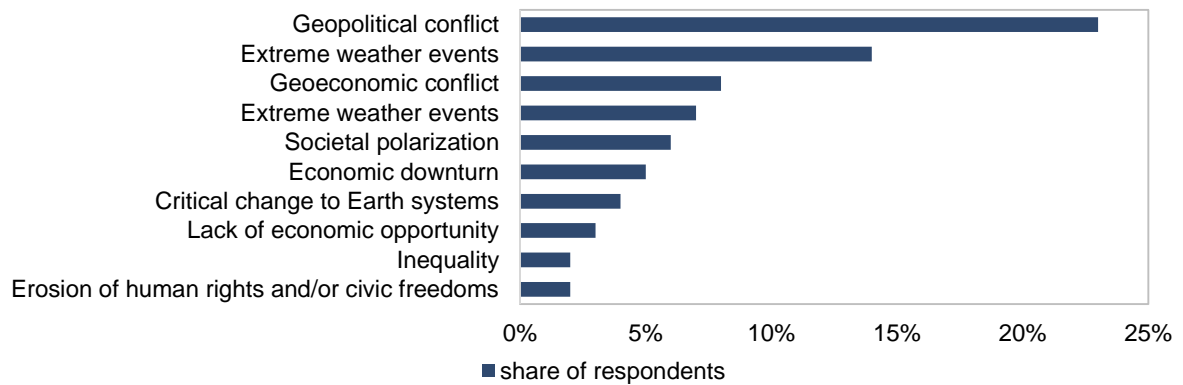
Source: Global Risks Report, 2025.

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[3] World Bank (https://openknowledge.worldbank.org/), Global Trade Alert Repository (https://globaltradealert.org/).
[4] Global Economic Prospects, 2025 Annual Report, World Bank.
[5] Impact on annual growth in 2025 relative to the baseline
[6] The World Economic Forum (WEF) is an international organization for public-private partnership that serves as a platform for building trust among stakeholders, building initiatives for cooperation and development.

1.2. Macroeconomic forecasts

The Central Bank has revised its forecasts for 2025 and medium-term macroeconomic development, taking into account aggregate demand and supply levels at the end of 2024, forecasts for the trading partner economies, and expected level of global prices for key export and import goods.

According to updated forecasts, economic growth is expected to be around 6 percent in 2025 *(Figure 1.2.1)*.

In addition, the updated forecasts of international organizations[7] project that Uzbekistan's economy will grow by around 5.7-5.8 percent in 2025 *(Figure 1.2.2)*.
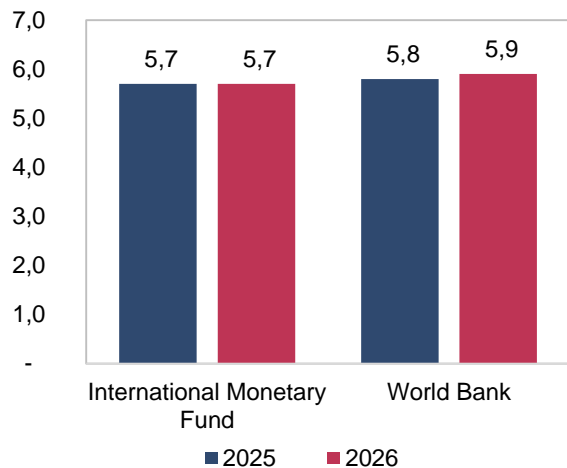
Continued economic activity, an increase in both foreign direct and domestic investments, and the ongoing implementation of structural reforms will remain the key drivers of economic growth in 2025.

Figure 1.2.1. GDP growth forecast, *percent*
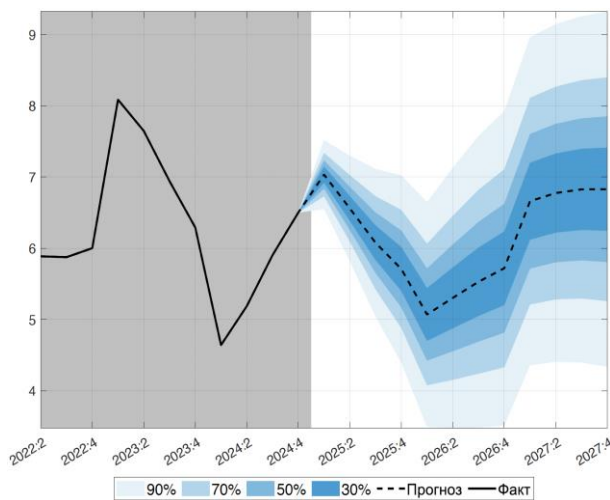
Source: CBU calculations.

Figure 1.2.2. Uzbekistan's GDP growth forecast by international organizations, *percent*

Source: World Bank, "Global Economic Prospects", January 2025; IMF, "Word Economic Outlook", October 2024.

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[7] IMF, "World Economic Outlook", October 2024. World Bank, "Global Economic Prospects", January 2025.

Table 1.2.1. Main macroeconomic indicators, *annual change, percent*
* - expected

Indicators	Actual		Forecast		
	2023	2024	2025	2026	2027
Inflation	**8,8**	**9,8**	**7-8** *(6-7)*	**5** *(5)*	**5** *(5)*
Real GDP growth	**6,3**	**6,5**	**5,5-6,0** *(5,5-6,0)*	**6-6,5** *(6-6,5)*	**6-6,5** *(6-6,5)*
Final Consumption Expenditure	5,3	6,5-7,5*	5,0-6,0 *(5,5-6,0)*	5,5-6,0 *(5,0-5,5)*	5,0-6,0 *(5,0-6,0)*
- private	6,2	7,0-9,0*	5,5-6,5 *(6,0-6,5)*	5,0-6,0 *(5,0-5,5)*	5,0-6,0 *(4,5-5,5)*
- public	1,4	1,5-2,0*	1,0-2,0 *(1,0-2,0)*	2,0-3,0 *(2,0-3,0)*	1,5-2,5 *(1,5-2,5)*
Fiscal balance *(% of GDP)*	-4,9	-4,0*	-3,0 *(-3,0)*	-3,0 *(-3,0)*	-3,0 *(-3,0)*
Exports *(excl. gold)*	4,2	16,5	10,0-12,0 *(8,0-10,0)*	8,0-10,0 *(8,0-10,0)*	9,0-11,0 *(9,0-11,0)*
Imports	24,0	0,8	8,0-10,0 *(8,0-10,0)*	8,0-10,0 *(8,0-10,0)*	8,0-10,0 *(8,0-10,0)*
Cross-border remittance	-32,9	30,0	10,0-12,0 *(9,0-11,0)*	10,0-12,0 *(9,0-12,0)*	10,0-15,0 *(10,0-15,0)*
Stock of loans	23,3	14,0	14,0-16,0 *(14,0-16,0)*	13,0-15,0 *(13,0-15,0)*	12,0-15,0 *(12,0-15,0)*

Манба: CBU calculations.

In 2025, the budget deficit is expected to be around 3 percent of GDP, with fiscal consolidation continuing. Amid the optimization of fiscal expenditures, government consumption growth in real terms is anticipated to remain within 2024 levels.

Stable economic growth in trading partner countries, potential trade restrictions imposed by major economies, and persistent geopolitical uncertainties are expected to keep global gold and other commodity prices high, serving as key factors supporting export growth.

The export growth projection for 2025 has been slightly revised upward[8] compared to previous forecasts due to the relatively higher-than-expected export volumes of certain raw materials and services in 2024. Accordingly, total export growth in 2025 is expected to be 9-12 percent, while non-gold exports are projected to grow by 10-12 percent *(Figure 1.2.3)*.

At the same time, import growth rates are projected to be around 8-10 percent in 2025 and in the following periods *(Figure 1.2.4)*.

Figure 1.2.3. Non-gold export growth, *percent*
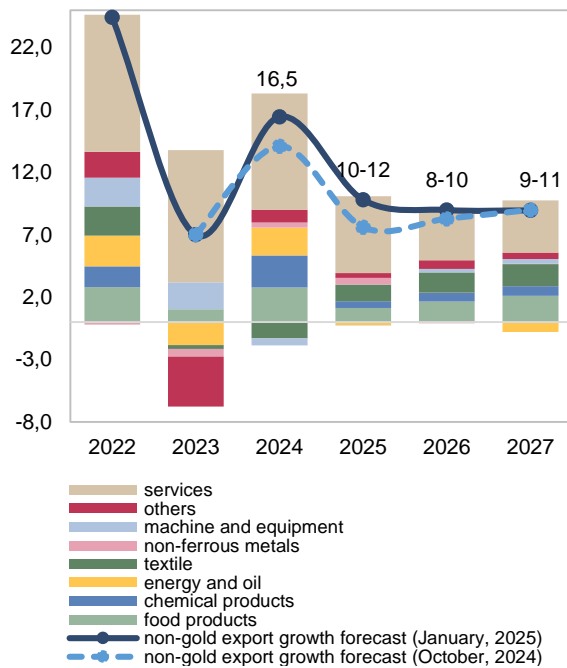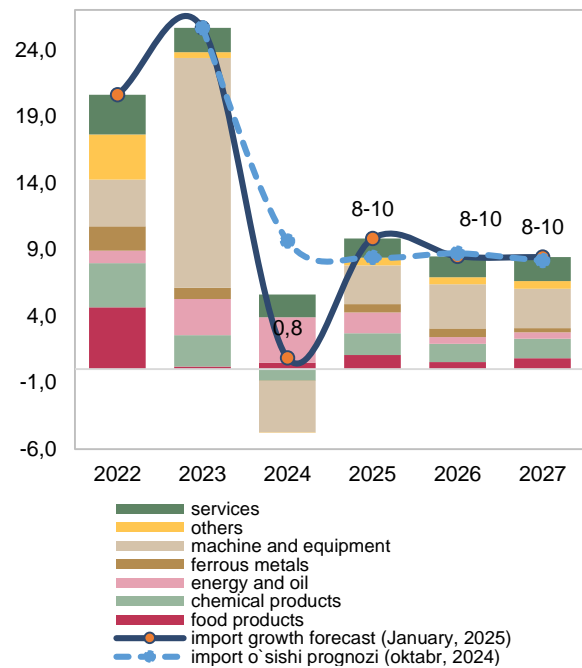

Figure 1.2.4. Import growth, *percent*

Source: CBU calculations.

The forecasts are based on assumptions of ongoing implementations of reforms, the flow of foreign direct investment that will expand local production, and the sustained growth of domestic consumer demand and incomes.

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[8] Driven by projected increase in exports of uranium, copper, and services

Real household income growth is expected to stabilize in 2025. Following a significant increase in remittances in 2024, cross-border money inflows are expected to return to the medium-term trend growth of 10-12 percent. As a result, household incomes are expected to grow by around 5.5-6.5 percent in 2025 and 6-7 percent in the medium term.

The growth in remittances is expected to be driven by high external demand for labor and an increase in labor migration to high income and upper-middle income countries. These factors will continue to support strong consumer activity in the coming periods, necessitating the maintenance of tight monetary conditions.

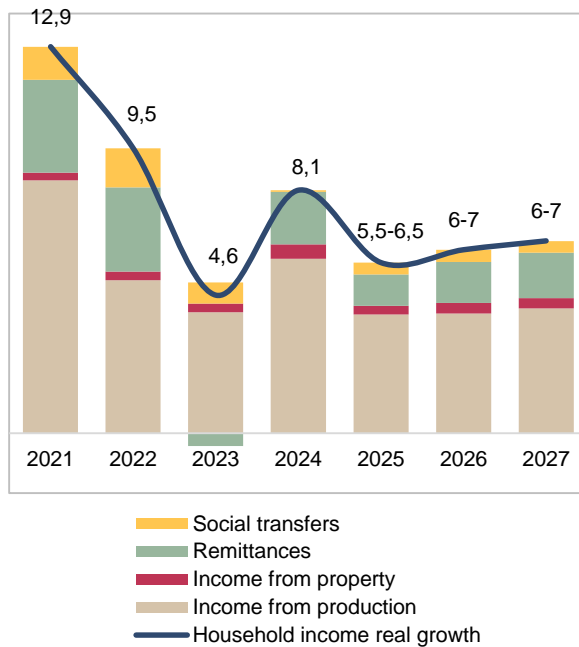**Figure 1.2.5. Real growth of household income,** *percent*

Legend:
- Social transfers
- Remittances
- Income from property
- Income from production
- Household income real growth

Figure 1.2.6. Final private consumption growth, *percent*

Legend:
- Inertion
- Real interest rate
- Growth rate
- Real income growth
- Savings shocks
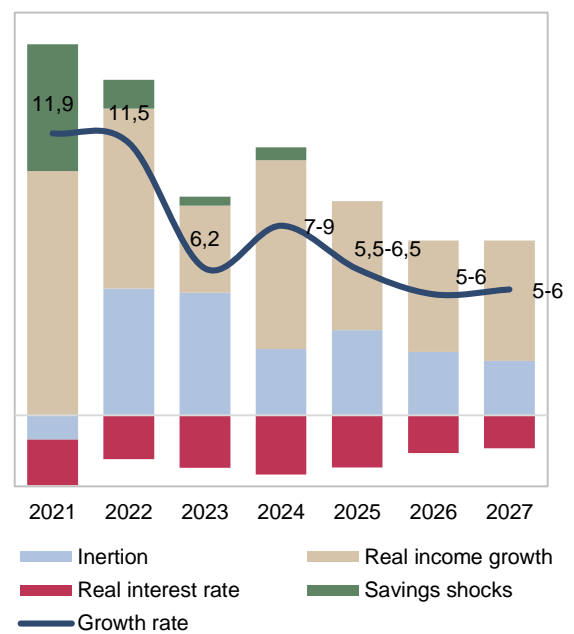
Source: CBU calculations.

1.3. Monetary policy outlook

The Central Bank will maintain relatively tight monetary conditions until inflation declines to the 5 percent target and pro-inflationary risks are eliminated.

In particular, the Central Bank will take measures to ensure relatively tight monetary conditions by maintaining positive real interest rates *(Figure 1.3.1).*

In the first half of 2025, the fading of the effects of one-time supply factors of inflation last year and the maintenance of relatively high nominal interest rates will contribute to an increase in real interest rates. At the same time, ensuring a positive real interest rate differential during the forecast period will help curb consumer demand and enhance the attractiveness of deposits in the national currency. This, in turn, ensures that core inflation remains within the forecast range and headline inflation declines toward the target level.

Figure 1.3.1. Real Monetary Conditions Index[9]
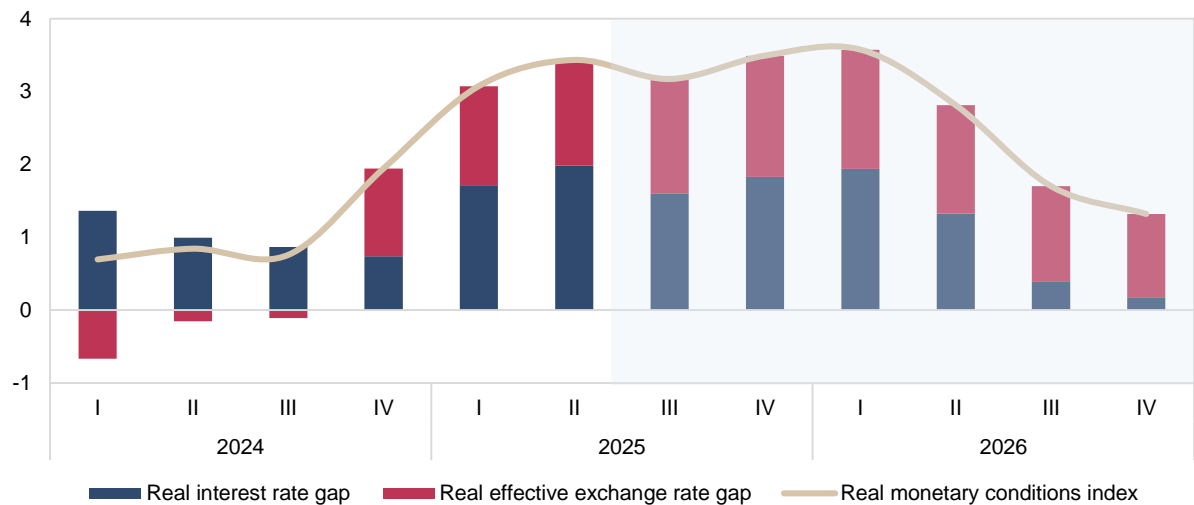
Source: CBU calculations.

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[9] The real monetary conditions index is calculated as the weighted average of the real interest rate (RIR) gap and the real effective exchange rate (REER) gap (here, REER gap is included with the opposite sign). The weight of the REER effect typically varies between 0.2 (for closed economies) and 0.8 (for very open economies). Positive values of the real monetary conditions index indicate that the economy has moderately tight monetary conditions, and negative values indicate moderately loose monetary conditions. A real monetary conditions index of zero indicates that monetary conditions are neutral and that they are not creating any inflationary or deflationary pressures.

At the same time, according to the updated forecasts, the negative real effective exchange rate gap (higher appreciation than equilibrium) is expected to persist over the forecast period, which will also ensure tight monetary conditions.

Given that overall liquidity of the banking system remains in structural surplus condition in the coming quarters, the level of overall liquidity will be managed through monetary operations, which ensure the effective functioning of the monetary policy transmission mechanism.

Even at the upper limits of the inflation forecast, the expected monetary conditions will be limiting the impact of monetary factors on inflation and encouraging savings in the national currency.

In case core inflation deviates significantly from its downward trajectory and inflation expectations of the population increase sharply, appropriate monetary policy measures will be implemented.

1.4. Inflation expectations and inflation forecast

According to the updated forecasts, headline inflation is expected to be around 7-8 percent at the end of 2025. Although the primary effects of last year's energy price liberalization will fade in the coming quarters, the decline in inflation may proceed more slowly than initially projected due to the remaining impact of inflation expectations, strong aggregate demand, and supply-side factors.

In 2024, inflation expectations of households and businesses were volatile. In particular, during the fourth quarter, inflation expectations among economic agents increased, reaching 14.4 percent for households and 13.9 percent for businesses in December *(Figure 1.4.1)*. The expectations were mainly influenced by factors such as rising fuel and energy prices, higher utility costs, exchange rate fluctuations, and increased transportation expenses *(Figure 1.4.2)*.

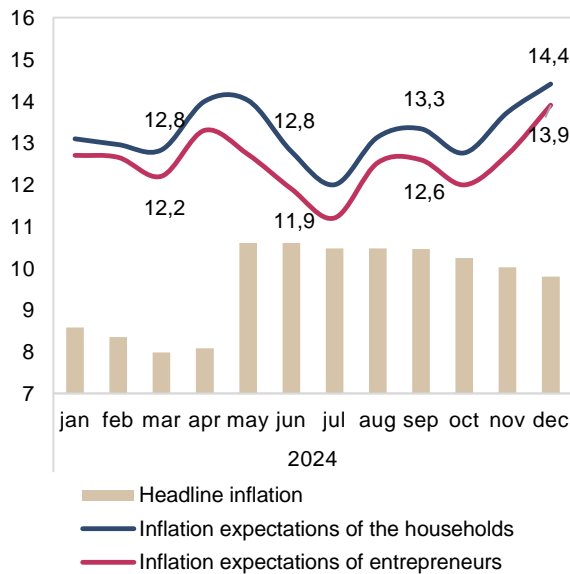**Figure 1.4.1. Inflation expectations for the next 12 months,** *percent*

Figure 1.4.2. Factors affecting households' inflation expectations, *percentage share of respondents*

Households	2024											
	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec
Increase in fuel and energy prices	49	54	50	47	49	47	44	46	47	46	51	57
Increase in utility costs	39	39	42	55	57	54	51	49	45	47	51	56
Exchange rate fluctuations	55	56	61	55	49	41	39	42	50	51	51	55
Rise in transportation expenses	29	33	29	28	28	28	26	26	28	26	30	35
Monopoly and artificial price increases	32	30	35	29	30	28	28	27	29	28	31	33
Increase in wages and pensions	32	28	29	23	24	26	22	40	39	31	28	28
Rise in prices of essential food products	24	22	26	25	22	21	20	23	25	24	26	26

Source: CBU calculations.

In the first half of this year, the primary effects of the 2024 energy price liberalization will gradually fade, significantly reducing headline inflation by the end of the second quarter. Due to a one-month difference in the timing of the next phase of energy reforms in 2025, the headline inflation rate may temporarily rise in April.

In the second half of 2025, inflation is expected to move to a stable downward trend, reaching around 7-8 percent by year-end and achieving the 5 percent target by the end of 2026 *(Figure 1.4.3).*

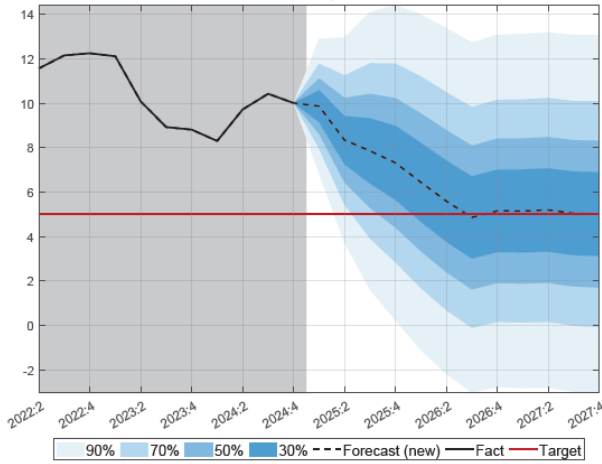**Figure 1.4.3. Headline inflation forecast**, *percent*
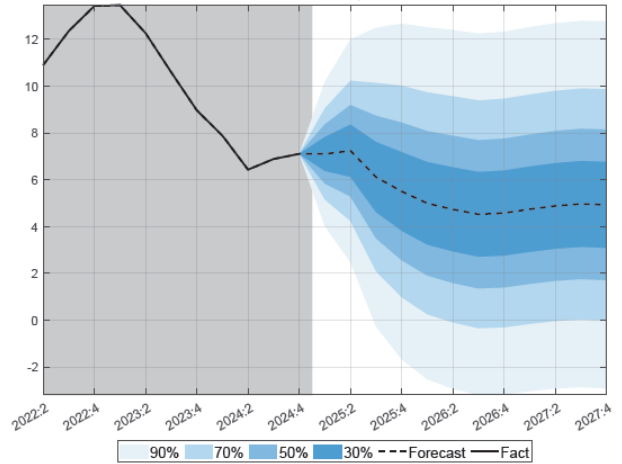

Figure 1.4.4. Core inflation forecast, *percent*

Source: CBU calculations.

Relatively tight monetary conditions will support the downward trend in core inflation. By the end of this year, core inflation is projected to be around 5-6 percent, while in the coming years, it is expected to stabilize at 4-5 percent *(Figure 1.4.4).*

Figure 1.4.5. Decomposition of headline inflation forecast median, *percent*
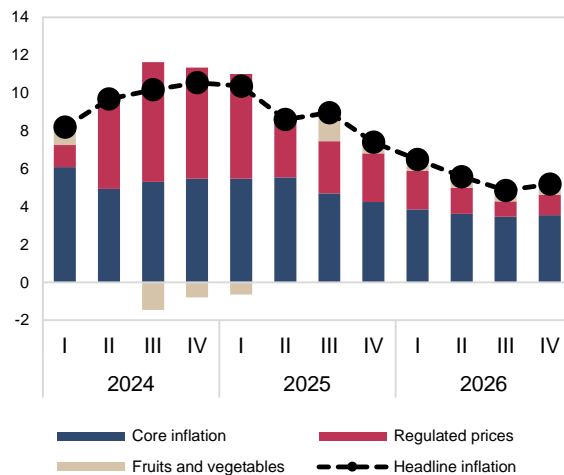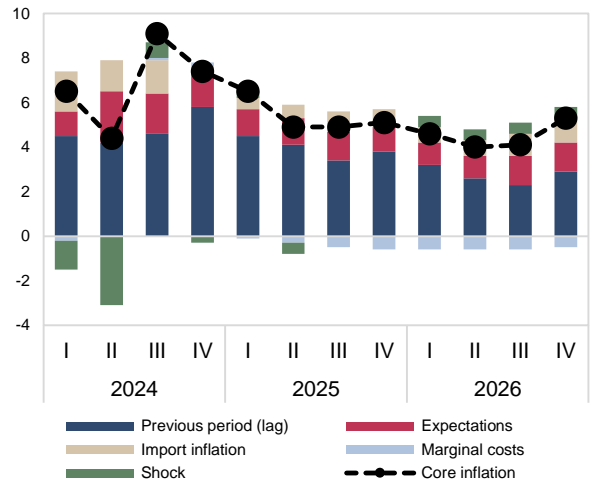

Figure 1.4.6. Decomposition of core inflation forecast median, *percent*

Source: CBU calculations.

The updated forecasts indicate that, due to the low base effect of fruit and vegetable prices in 2024, their contribution to inflation in 2025 is expected to be positive. In the fourth quarter of 2024, the price index for this

group rebounded faster than anticipated, and this trend is expected to continue in the coming quarters.

At the same time, since both headline and core inflation levels in the last quarter of 2024 were higher than forecasted and inflation expectations among the population increased, their carryover effects into 2025 are expected to be higher. This, in turn, may slow down the decline in core inflation.

Nevertheless, real monetary conditions will remain the main factor contributing to the decline in core inflation over the next years.

It is important to note that mitigating the inflationary impact of demand-side factors and inflation expectations during 2025 necessitates maintaining tight monetary policy stance for a longer period.

1.5. Uncertainties and risks in macroeconomic development

External uncertainties and risks. As a result of growing support for protectionist policies worldwide and increasing trade restrictions, problems may arise in global supply chains. This, in turn, may alter the current downward trend in global inflation and increase the likelihood of prolonged inflationary pressures. Additionally, the emergence of global inflationary risks may prompt central banks to delay the easing of monetary conditions.

Furthermore, the persistence of global geopolitical tensions could lead to further increases in the prices of raw materials and food products. In particular, the rising prices of food products in the global market may put additional pressure on local prices in the future.

Domestic uncertainties and risks. In the next phase of energy reforms this year, changes in energy tariffs for legal entities could lead to higher production costs and accelerate inflation expectations among economic agents.

Additionally, the increase in the wholesale price of natural gas for gas stations in April may raise transportation costs, which, in turn, could impact the cost of goods.

Moreover, strong investment activity in the economy and high real income levels among the population will continue to support consumer demand, potentially sustaining demand-side inflationary pressures in the future.

Box 2.

Climate Change-Related Risks

Climate is the long-term patterns of temperature, humidity, and precipitation observed over seasons, years, or decades on a global scale. Climate change, on the other hand, refers to alterations in these patterns due to natural causes or human activity. According to the United Nations (UN), while climate change was previously understood as a natural process, it is now primarily seen as a result of human activity, manifesting in the form of rapid global warming.

Uzbekistan is among the countries highly vulnerable to climate-related weather changes caused by human activity. This makes climate change a pressing issue for the nation.

In recent years, the increasing impact of climate change on credit risks, market volatility, and price stability has prompted central banks to pay greater attention to this issue.

According to research by the National Bureau of Economic Research, an increase in global temperature by 1°C is estimated to reduce global GDP by 12 percent[10].

Climate change creates "transition" and "physical" risks that impact the economy through microeconomic and macroeconomic transmission channels. Transition risks refer to financial and economic challenges arising during the transition to a green economy, while physical risks result from financial threats caused by damage to infrastructure, supply chains, and the environment.

The transmission channels of climate risks are the interconnected chain that links climate-related risk factors to the financial risks faced by the banking system.

The Bank for International Settlements has emphasized that the spread of climate risks across the entire financial system occurs through microeconomic transmission channels. In this process, existing climate risks negatively affect bank clients, potentially leading to financial risks within the system.

In particular, physical risk factors indirectly impact banks' credit-related risks through economic agents. For example, if households, corporations, or governments experience damage or complete destruction of key assets – such as housing, inventories, property, equipment, or infrastructure – due to natural disasters, the value of these assets declines.

Changes in transition risks or their impact on future economic conditions and asset values may, in turn, lead to price fluctuations and increased market volatility. However, if climate risks are factored into asset valuations, the likelihood of unexpected price changes can be reduced.

Macroeconomic transmission channels reflect the impact of climate risks on macroeconomic factors such as labor productivity and economic growth. These factors, in turn, affect the entire economy, including the banking system. Additionally, these channels take into account the influence of climate risks on market variables such as interest rates, inflation, commodity prices, and exchange rates.

In low-income and developing countries, the high costs of recovery and borrowing due to climate change may lead to slower economic growth.

For example, between 1970 and 2018, the estimated economic losses from major natural disasters in developing markets ranged from 2.9 percent to 10.1 percent of GDP, while in developed countries, this figure ranged from 1 percent to 3.2 percent of GDP[11].

Climate change also has a significant impact on price levels, occurring through three main channels: climate inflation, green inflation, and fossil inflation[12].

"Climate inflation" arises from the direct effects of climate change, such as natural disasters and extreme weather, which reduce agricultural productivity and drive up food prices.

Green inflation results from price increases caused by imbalances in supply and demand due to investments and policy measures aimed at transitioning to a low-carbon economy. This includes the rising costs of adopting environmentally friendly production technologies.

Fossil inflation is driven by geopolitical tensions, disruptions in supply chains, and fuel price increases caused by climate change.

If these factors emerge consecutively in a short period, they can destabilize the economy and create serious challenges for the financial sector. Considering this, it is crucial for central banks to incorporate climate change factors into their policies and accurately assess related risks.

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[10] NBER working paper series: How much will global warming cool global growth? July 2024.
[11] IMF Annual Report 2020.
[12] Speech by Isabel Schnabel "A new age of energy inflation: climateflation, fossilflation and greenflation" Monetary Policy and Climate Change" at The ECB and its Watchers XXII Conference, Frankfurt am Main, 17 March 2022.

Box 3.

Setting Central Bank Objectives

According to international practice, central banks establish one or more macroeconomic indicators as their ultimate policy objectives. Nearly all central banks consider ensuring price stability as the primary goal of monetary policy.

When defining their objectives, central banks focus on the long-term equilibrium levels of key macroeconomic indicators. The widespread emphasis on price stability can be explained by several factors.

First, in the long run, maintaining price stability is essential for ensuring sustainable economic growth, low unemployment, and balanced economic development. Second, under market economy conditions, central banks—due to their institutional nature – are better positioned than other organizations to effectively ensure price stability. Third, unlike economic activity indicators, inflation can be accurately measured over the short term.

In recent years, as central banks have expanded and improved their functions, additional objectives have been assigned to them. A multiple-objective approach consists of two types: dual mandates, where multiple goals are equally prioritized, and hierarchical objectives, where low and stable inflation is the primary goal, while other objectives such as financial stability, high economic growth, and low unemployment are considered secondary.

Since 2019, Uzbekistan has adopted a hierarchical approach in setting the Central Bank's objectives. According to the Law "On the Central Bank of the Republic of Uzbekistan," the bank is responsible for ensuring price stability, banking system stability, and the smooth functioning of payment systems. However, it is emphasized that the Central Bank's efforts to maintain banking system stability should not negatively impact price stability.

In practice, central banks may be assigned two or more equally important objectives. For example, the Federal Reserve System of the United States, as well as the central banks of Australia, New Zealand (from 2019 to 2023), and Argentina, have set both price stability and full employment as primary objectives.

When defining central bank objectives, particular attention is given to goals that can be measured through specific numerical *(quantitative)* indicators. Additionally, an explicit inflation target is considered more effective than the goal of achieving full employment. Therefore, in most central banks' single or hierarchical objective systems, labor market-related indicators are not considered the primary goal.

In the long run, there is no conflict between price stability and other objectives[13]. The natural rate of unemployment does not decrease under high inflation conditions, nor does high inflation in the long term lead to lower unemployment or higher employment. In the long run, price stability contributes to economic growth, financial stability, and lower interest rates.

Moreover, when central banks have multiple objectives, it allows them to prioritize certain goals over others during periods of economic shocks, potentially leading to a less responsible approach and creating conflicts between objectives (i.e., one objective contradicting another).

Figure 1. The structure of central bank objectives
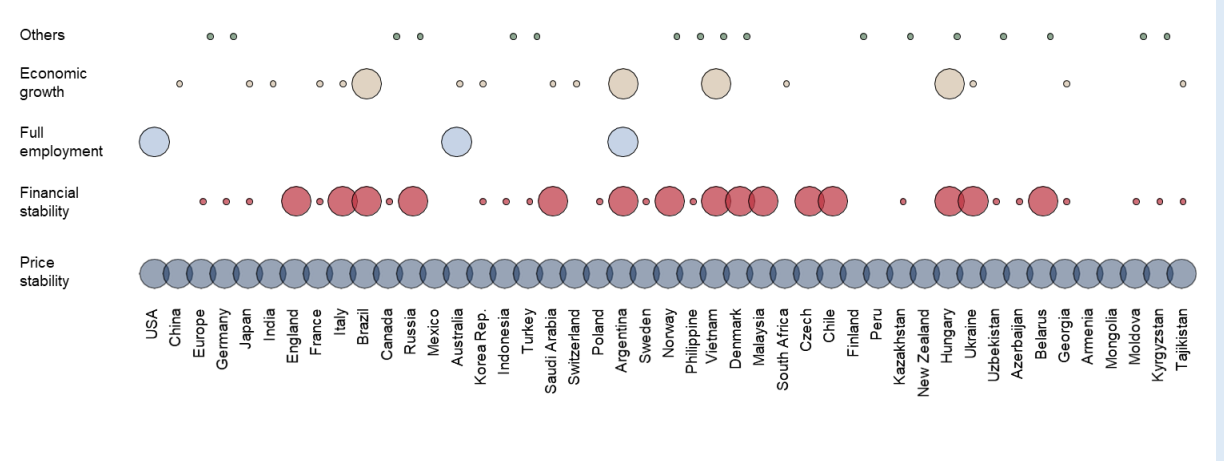
Note: The size of the circles indicates the place of the monetary policy objective in the structure of central bank objectives. Two circles of the same size indicate a dual-objective central bank; circles of two different sizes indicate a hierarchical mandate.

The U.S. Federal Reserve conducts monetary policy within the framework of achieving full employment and ensuring price stability.

Given the dynamic nature of the economy, ensuring that low unemployment does not accelerate inflation presents challenges. Additionally, structural changes in the labor market cause the full employment indicator to shift over time. For this reason, the Fed continuously evaluates a wide range of labor market data to assess how close the economy is to full employment.

The Fed does not directly influence employment but rather affects it through the policy rate (the federal funds rate). The Federal Reserve sets a long-term average inflation rate in line with price stability and ensures its achievement. However, it does not establish a specific numerical target for full employment.

In 2019, the Reserve Bank of New Zealand adopted a dual-mandate model aimed at ensuring price stability and supporting maximum sustainable employment. However, in December 2023, this mandate was revised to focus on a single objective—an inflation target of around 2 percent (within a 1-3 percent range)—while the goal of supporting maximum sustainable employment was removed. This change was made to address issues that had arisen after adopting the dual-mandate system.

A potential risk highlighted was that market participants might interpret the focus on full employment as a weakening of the Reserve Bank's commitment to price stability. Several reasons were cited for returning to a single-objective regime, one of which was the difficulty in defining full employment. The challenge of measuring it increases the likelihood of macroeconomic policy errors when pursuing hard-to-define objectives. At the same time, achieving price stability is a necessary condition for other economic objectives, including ensuring employment.

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[13] Mishkin, Frederic S. The economics of money, banking and financial markets.

II. CURRENT MACROECONOMIC ENVIRONMENT

2.1. Domestic economic activity and aggregate demand factors

Economic growth rate remained high in the fourth quarter of 2024. A significant increase in remittance flows contributed to household income growth and a stable consumer demand. On the production side, sustained growth in the services, industry, and construction sectors, along with continued high investment activity, were key factors supporting economic growth.

At the same time, a reduction in the budget deficit and an improvement in the external trade balance were observed as of the end of 2024.

Economic Growth*. At the end of 2024, economic growth reached 6.5 percent, forming at the upper limit of the 6.0-6.5 percent forecast corridor announced in October 2024. The acceleration of economic growth in 2024 was significantly driven by the services sector, manufacturing industry, construction, and agriculture on the supply side (Figure 2.1.1).*

Figure 2.1.1. Decomposition of GDP growth by production method, *percentage points*
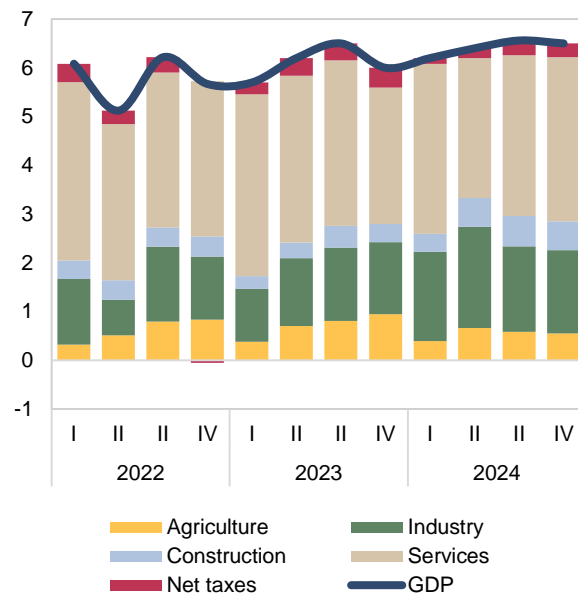
Figure 2.1.2. Growth of different economic sectors, *percent*
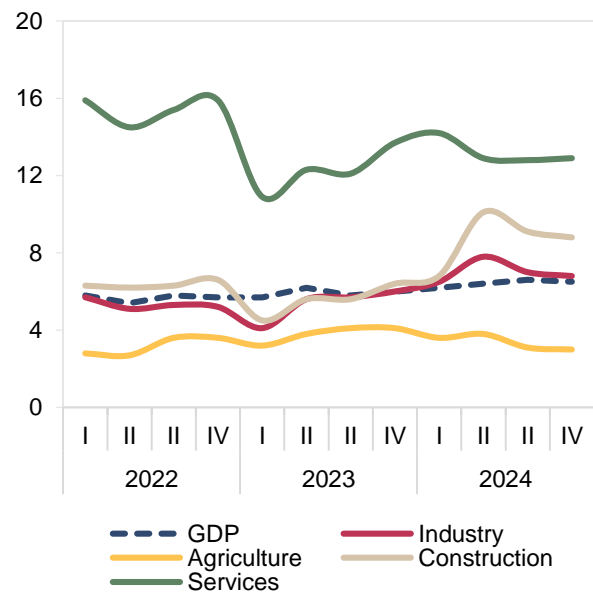
Source: Statistics agency.

In particular, industrial production increased by 6.8 percent (contributing 1.7 percentage points to GDP growth), market services grew by 12.9 percent (3.4 percentage points), agriculture by 3 percent (0.5 percentage points), and the construction sector by 8.8 percent (0.6 percentage points) *(Figure 2.1.2).*

On the demand side, economic growth was supported mainly by increased household incomes, which boosted aggregate consumption, and a rise in foreign private investments.

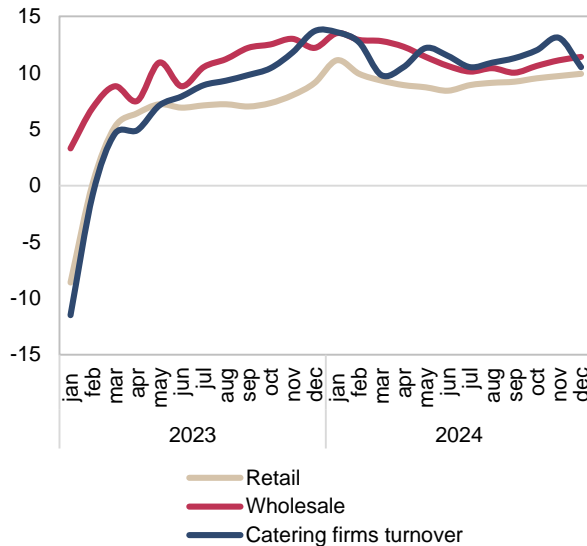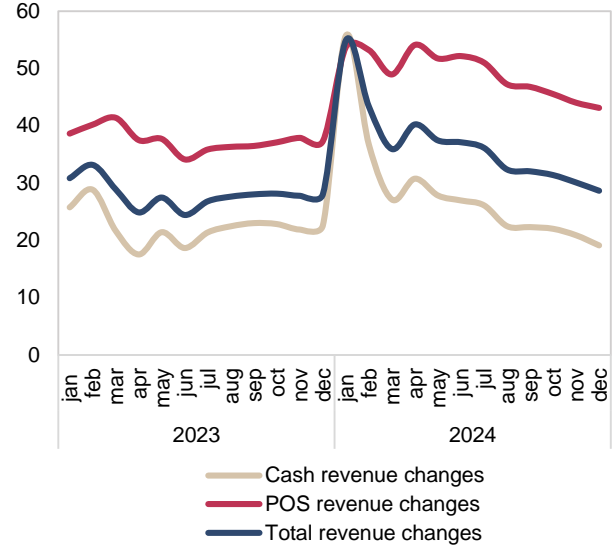**Figure 2.1.3. Retail, wholesale and catering turnover growth,** *percent*

Figure 2.1.4. Growth of revenue from trade and paid services, *percent*

Source: CBU calculations.

As a result of high consumer activity in 2024, retail and wholesale trade grew in real terms by 9.9 percent and 11.4 percent, respectively, while the catering turnover increased by 10.5 percent *(Figure 2.1.3).* The high growth rate of revenue from trade and paid services (28.7 percent) also indicates strong consumer activity *(Figure 2.1.4).*

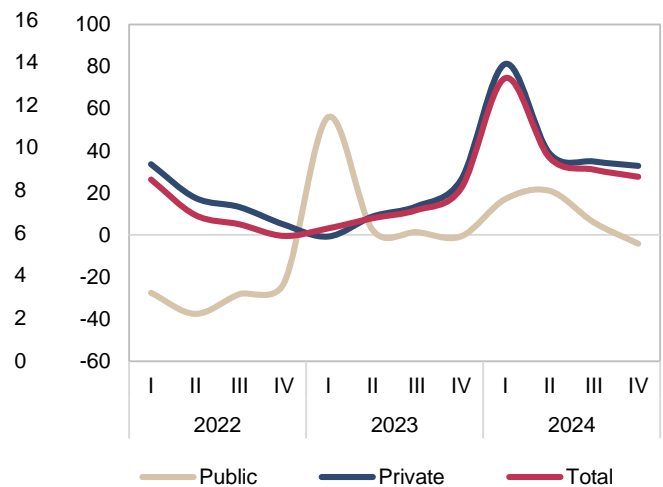**Figure 2.1.5. FDI dynamics,** *million dollars*
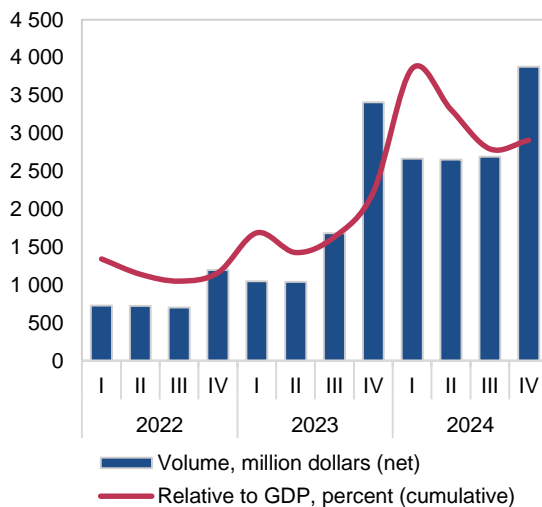
Figure 2.1.6. Gross fixed capital formation, *real growth rate, percent*

Source: Statistics Agency.

During this period, high investment activity, particularly a 32.8 percent increase in private investments, played a crucial role in GDP growth. Notably, the inflow of foreign direct investment reached $11.9 billion, marking a 53.6 percent increase compared to 2023 *(Figures 2.1.5–2.1.6).*

In 2024, the nominal growth of average wages in the economy increased by 17.7 percent, while cross-border remittance inflows reached $14.9 billion, rising by 30 percent. As a result of these factors, household incomes grew by 8.1 percent in real terms *(Figures 2.1.7–2.1.8).*

Amid high economic activity, this is expected to continue supporting aggregate demand in the coming months, potentially exerting upward pressure on core inflation.

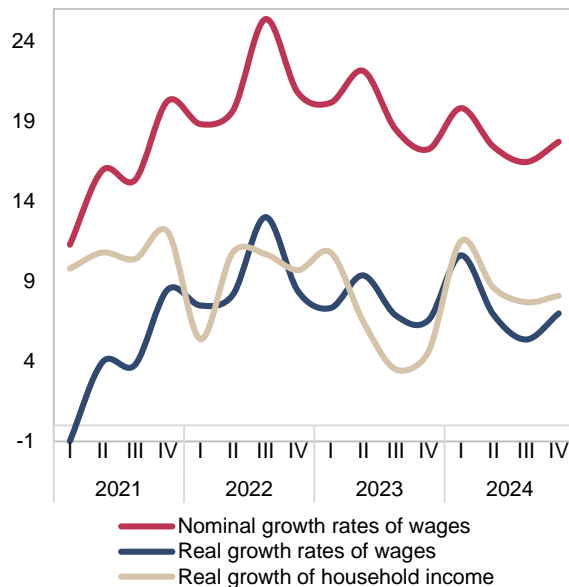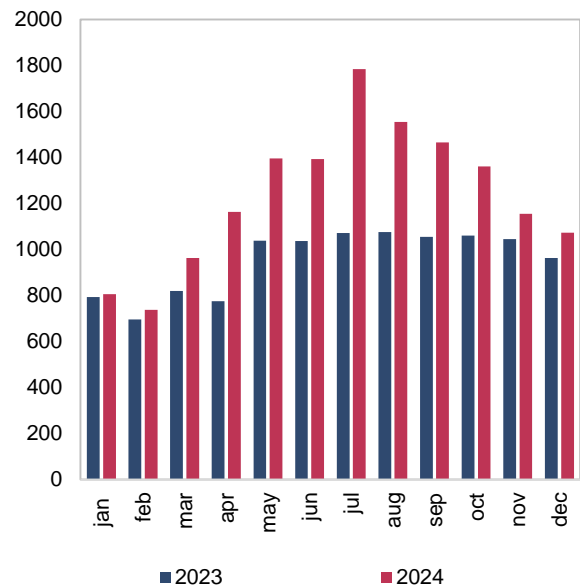**Figure 2.1.7. Real growth of household income and wages,** *percent*

Figure 2.1.8. Cross-border remittances, *million dollars*

Source: Statistics Agency and CBU calculations.

State budget revenues maintained their growth momentum in the fourth quarter as well, with end of year growth of 21.6 percent compared to the previous year. Meanwhile, the growth of budget expenditures slowed in the fourth quarter of 2024, amounting to 9.1 percent annually. These dynamics in budget revenues and expenditures contributed to reducing the fiscal deficit *(Figure 2.1.9).*

External trade and exchange rate dynamics. In 2024, the prices of key export raw materials remained high due to external market conditions. As a result, total exports increased by 8.4 percent for the year, while non-gold exports grew by 16.5 percent *(Figure 2.1.10).*

The main drivers of export growth were services, food products, and industrial goods, which grew by 27.7 percent, 22.4 percent and 3.7 percent, respectively.

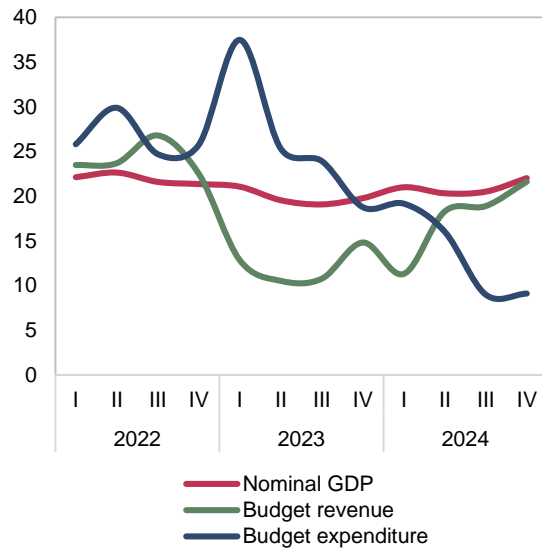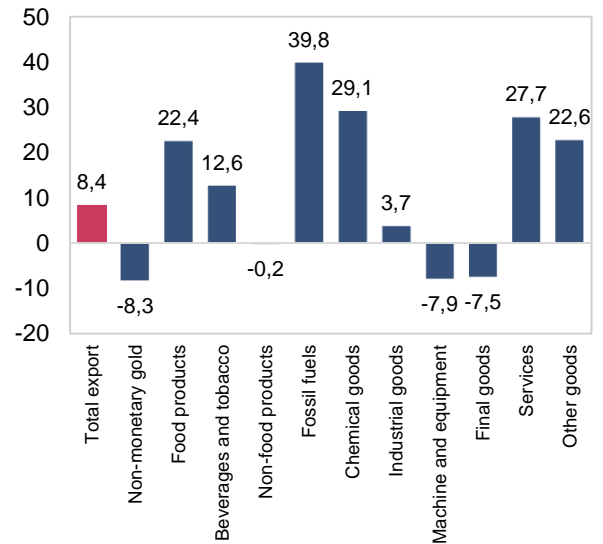**Figure 2.1.9. State budget revenue and expenditure growth,** *percent*

Source: Ministry of Economy and Finance.

Figure 2.1.10. Export growth, *percent*

Source: CBU calculations.

In 2024, total import growth was 0.8 percent, mainly driven by increases in energy and oil, food products, and services, while imports of machinery, equipment, and chemical products declined *(Figure 2.1.11)*.
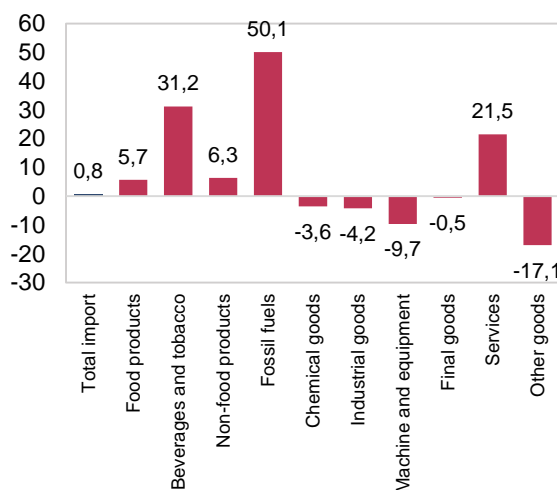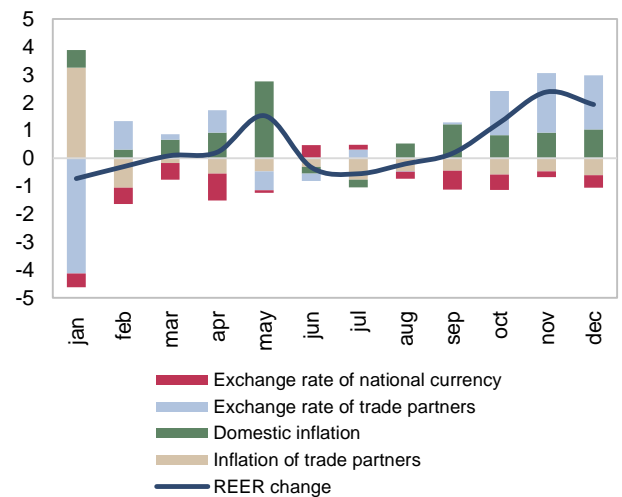
Figure 2.1.11. Import growth, *percent*

Source: CBU calculations

Figure 2.1.12. REER decomposition, *monthly change, p.p.*

Source: CBU calculations.

These factors, in turn, contributed to balancing supply and demand in the domestic foreign exchange market and played a key role in ensuring the stability of the currency exchange rate. The annual nominal exchange rate depreciation amounted to 4.7 percent.

In 2024, the real effective exchange rate (REER) of the Uzbek soum appreciated by 5.9 percent. This was driven by the depreciation of major trading partner currencies in the final months of 2024 and the relatively higher domestic inflation rate compared to trading partners *(Figure 2.1.12)*.

The strengthening of the REER is expected to be temporary, and in the second half of this year, as domestic inflation declines, the REER is projected to return to its medium-term trend level.

Assessing Potential Growth and Output Gap

Uzbekistan is one of the rapidly developing countries, with the average annual GDP growth of 5.6 percent from the outset of structural reforms till now (2017-2024). Excluding the pandemic and recovery periods (2020–2021), this figure stands at 5.9 percent. During this period, the size of the economy grew by 1.5 times in real terms. The primary drivers of this growth on the demand side were consumption and investment *(Figure 1).*

In particular, from 2017 to 2024, the average annual real growth of gross fixed capital investment was 16.6 percent, increasing 3.2 times over the entire period. This significantly expanded the country's production capacity.

Aggregate consumption developed amid structural changes and, in recent years, grew at a faster rate than production *(Figure 2).* This, in turn, led to the formation of a positive output gap, becoming one of the key pro-inflationary factors in the economy.

Figure 1. Decomposition of real GDP growth using expenditure approach, *percent*
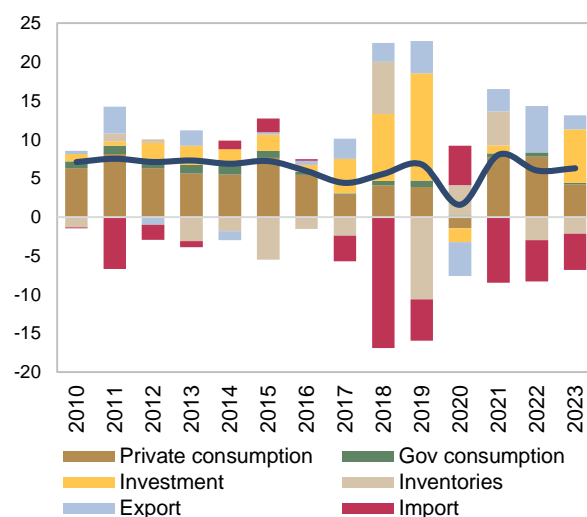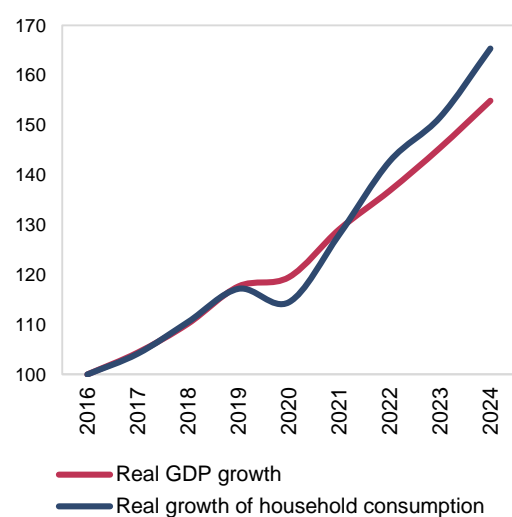
Figure 2. GDP growth and household consumption, *2016 =100 percent*

Source: CBU calculations based on data from the Statistics Agency.

The output gap is the difference between the current level of production and the volume of goods and services that could be produced if all economic resources were fully utilized, expressed as a share of potential output.

Potential output represents the total amount of goods and services that an economy can produce when operating at a stable capacity. It serves as a benchmark for assessing the balance between aggregate demand and supply in the economy.

Monetary policy cannot directly affect the level of potential output. However, it plays a key role in achieving the central bank's price stability objective by helping to align aggregate demand with potential output, thereby reducing the output gap.

When aggregate demand exceeds potential output, a positive "output gap" forms, leading to the intensive use of production factors to meet demand. This increased utilization of resources can cause the economy to overheat, creating upward pressure

on inflation. Typically, the inflation target is achieved when aggregate demand and potential output move closer to equilibrium.

Uzbekistan's output gap is assessed using a wide range of macroeconomic indicators and tools, from simple statistical trend methods *(such as the Hodrick-Prescott filter and the Christiano-Fitzgerald filter)* to more complex approaches, including estimating aggregate demand gaps using the Kalman filter.
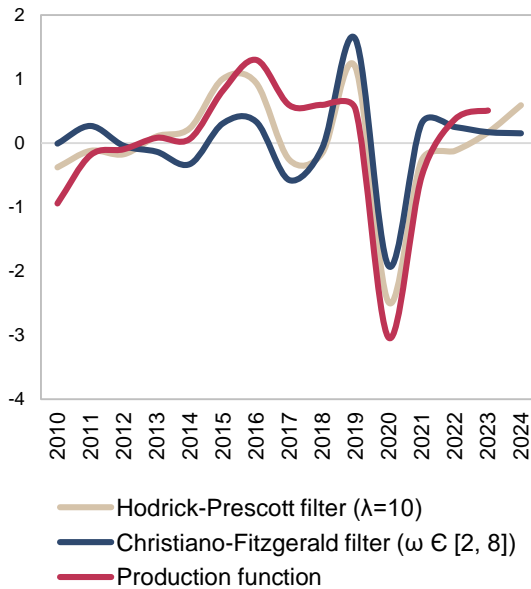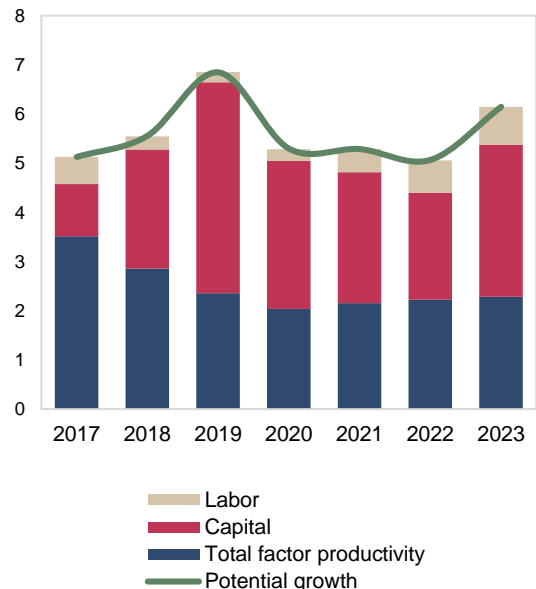
Figure 3. Output gap

Figure 4. Potential GDP growth based on production method, *in percent*

Source: CBU calculations.

At the same time, the initial calculations of the output gap based on factors of production were also carried out using the Cobb-Douglas production function. From this, the growth trend can be distinguished as follows:

$$\Delta Y = \Delta TFP + \alpha \, \Delta L + (1 - \alpha) \, \Delta K,$$

where: ΔY – GDP growth, ΔTFP – growth of factors of production, α – labor share in GDP, ΔL – growth of labor factor (labor force) ва ΔK – growth of capital factor .

The relatively constant nominal shares of production factors corresponding to the production capacities are considered one of the important assumptions of this method.

When determining the elasticity of labor resources in production, the specific characteristics of labor-intensive production processes in Uzbekistan were taken into account *(such as agriculture, construction, textile production, clothing, food, retail trade, housing and food services, transport services, and others).*

Another condition for the calculations is the constant depreciation rate. Based on the average composition of investments in fixed capital for the years 2019-2024, nearly 47 percent of funds were directed toward building construction *(depreciation rate - 5 percent)* and about 44 percent toward purchasing machinery and equipment *(depreciation rate - from 10 percent to 20 percent)*, resulting in an annual depreciation rate of 12.3 percent.

According to the analysis, potential economic growth increased significantly in 2019 amid reforms aimed at liberalization of foreign trade and foreign direct investment

flows. A certain reduction in potential growth was observed during pandemic restrictions in 2020-2022, followed later by a gradual recovery of sectors, the volatility of employment dynamics, and a slight contraction in investments.

Starting from the second half of 2023, the economy has returned to its investment growth phase, with significant increase in imports of machinery and equipment and acceleration in construction growth. According to preliminary estimates, taking into account the ongoing growth of investments and foreign investment inflows, potential economic growth reached nearly 6 percent, with this rate continuing to grow higher.

During the period under analysis, the productivity of aggregate production factors averaged 2.5 percent. Hence, the gradual growth of supply and its equilibrium with aggregate demand will play a key role in achieving the inflation target in the future. Considering the positive changes in the investment climate and external economic activity, ensuring the balance between the increasing production volume and consumer demand is also of significant importance. This contributes not only to price stability but also to sustainable economic development.

2.2. Analysis of inflation dynamics

In 2024, headline inflation was shaped by a decreasing impact of demand factors and an increasing effect of supply factors, resulting in a volatile pattern during most of the period, before transitioning to a downward trend at the end of the year. The core inflation, which had started to decrease in 2023, stabilized and remained largely unchanged in the second half of 2024.

In general, in shaping the inflationary environment, the demand factors that had been declining in 2023 were replaced by supply factors in 2024. Specifically, at the beginning of 2024, the overall inflation rate dropped to its lowest level in recent years in March-April due to the decline in core inflation. In the second quarter, a significant increase in the inflation rate was observed, mainly driven by stronger supply factors, such as the introduction of value-added tax for medical services and pharmaceuticals and the liberalization of energy prices.

In the second half of the year, the secondary effects of the abovementioned factors and the rise in inflation expectations led to a slower-than-expected decline in headline inflation. Consequently, in December 2024, the headline inflation rate was higher than the previous forecast, reaching 9.8 percent on an annual basis.

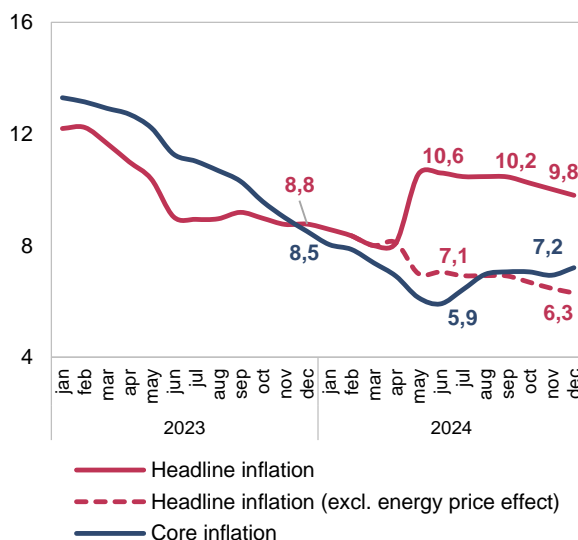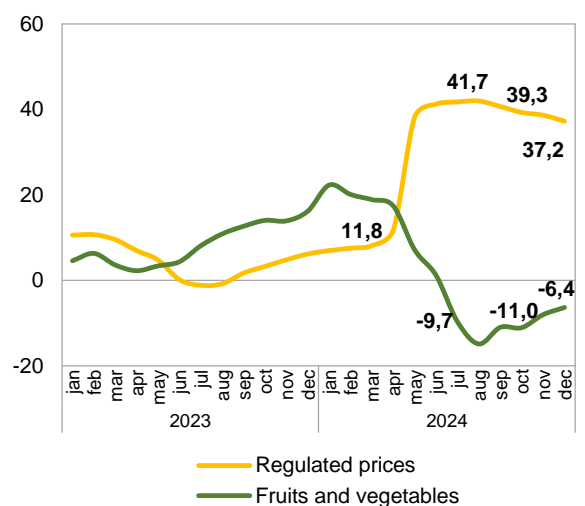**Figure 2.2.1. Headline and core inflation,** *percent*

- Headline inflation
- Headline inflation (excl. energy price effect)
- Core inflation

Figure 2.2.2. Regulated prices and fruit and vegetables inflation, *percent*

- Regulated prices
- Fruits and vegetables

Source: CBU calculations based on data from the Statistics Agency.

At the same time, the annual inflation, excluding the primary impact of the increase in energy resource prices, was 6.3 percent *(Figure 2.2.1).*

The sustained high economic activity and a stable growth of household incomes supported aggregate demand, leading core inflation to stay unchanged at around 7 percent in the second half of 2024, which at the end of the year reached 7.2 percent.

In 2024, the food products had a deflationary effect on headline inflation, with the price change for this group slowing to 2.4 percent annually. The change in the prices of fruits and vegetables were the significant contributors. In particular, favorable weather conditions led to deflation in fruit and vegetable prices, that is, their prices were lower than in 2023. Excluding the impact of fruit and vegetable prices, the core inflation for the food products group was 5.9 percent.

At the same time, due to the secondary effects of the liberalization of energy prices and the increase in global prices for certain vegetables, a slight rise in food inflation was observed in the last quarter *(Figure 2.2.3).*

In non-food category, the cancellation of tax benefits at the beginning of the second quarter led to significant price increases in the pharmaceutical group, which exerted upward pressure on prices.

Figure 2.2.3. Inflation of the main groups in the CPI basket, *percent*
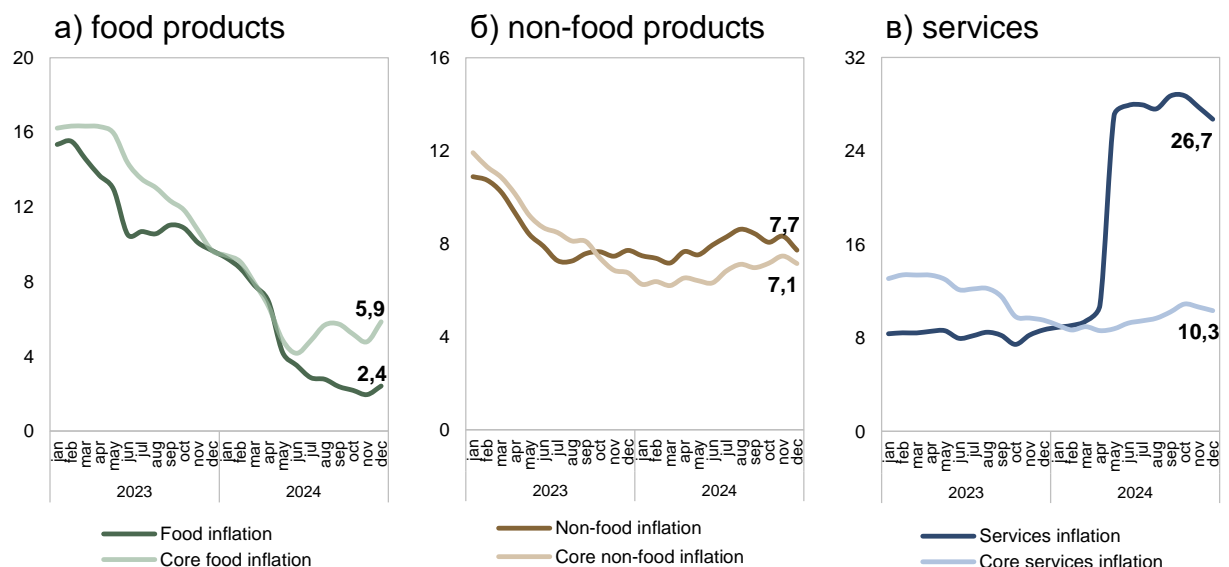
Source: CBU calculations based on data from the Statistics Agency.

Meanwhile, the relatively moderate changes in the exchange rate contributed to the slowdown of import inflation, helping to stabilize inflation of non-food goods.

Although a decline in service inflation was observed in the fourth quarter, core inflation in services, which excludes the impact of regulated prices, remained higher than headline inflation, reaching 10.3 percent annually.

This, in turn, indicates that despite the decreasing influence of demand factors in the economy, their impact remains significant, necessitating the maintenance of relatively tight monetary conditions.

The presence of inflationary pressures in the economy is also reflected in alternative indicators, particularly the GDP deflator *(Figure 2.2.4)*. Specifically, the GDP deflator stood at 13.3 percent at the end of 2024, while the producer price index reached 13.7 percent. The decline in the producer price index in the fourth quarter was primarily due to the fading of the initial effects of the October 2023 energy price increase for legal entities.

While alternative indicators of core inflation, such as trimmed inflation and median inflation, also had a downward trend at the beginning of the year, they have remained largely unchanged in the last quarters *(Figure 2.2.5)*.

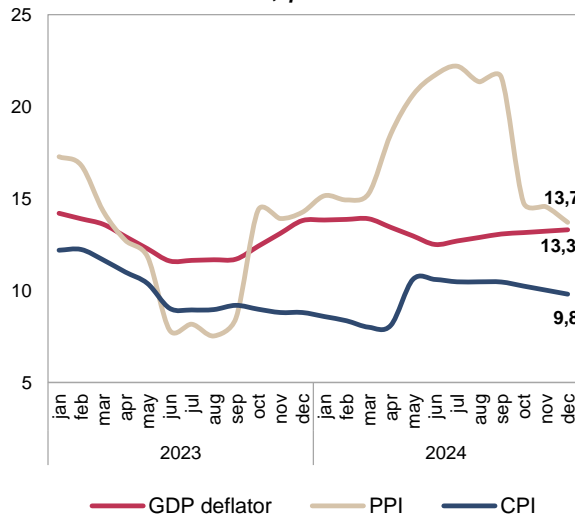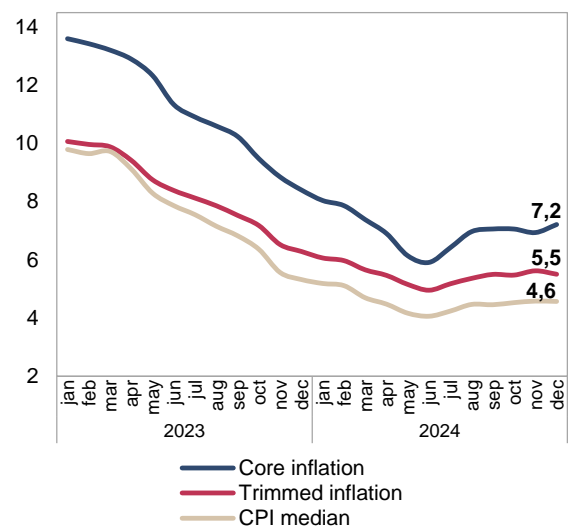**Figure 2.2.4. Alternative indicators of headline inflation,** *percent*

Figure 2.2.5. Alternative indicators of core inflation, *percent*

Source: CBU calculations based on data from the Statistics Agency.

The inflation rate for the 30 goods and services with the highest weight in the consumer basket *(also known as "main goods")* followed a downward trend in the fourth quarter of 2024 *(Figure 2.2.6)*. Primarily due to the deflation of fruits and vegetables, this indicator dropped by 3.6 percentage points in the last quarter, reaching 16.7 percent annually.

At the same time, in 2024, price changes for nearly three-quarters of all goods and services in the consumer basket were lower than their 2023 levels *(Figure 2.2.7)*.

This indicates further stabilization of prices for most goods and services in the consumer basket while inflationary conditions in 2024 were mainly driven by sharp price increases for specific goods and services.

Nevertheless, inflationary factors – such as the significant increase in wages and cross-border remittances, that in turn lead to higher real incomes for the population – suggest that demand will remain strong in the coming months amid high economic activity.

Figure 2.2.6. Inflation for the 30 goods and services with the highest weight in CPI basket, *annual percentage change*
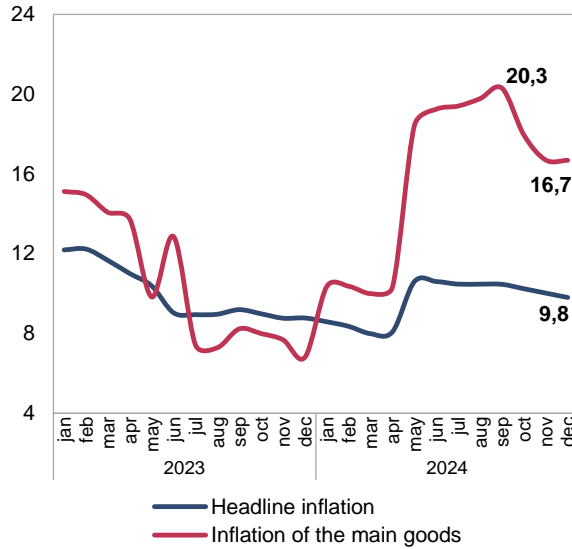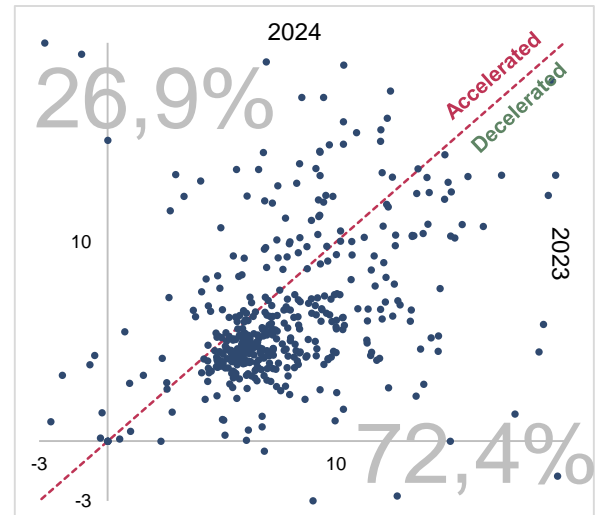

Figure 2.2.7. Annual comparative price changes of goods and services in CPI basket, *percent*

Source: CBU calculations based on data from the Statistics Agency.

Box 5.
Analysis of dispersion indicators of inflation

Analyzing the dispersion and standard deviation indicators of consumer price changes provides a broader understanding of the ongoing inflationary processes in the economy.

In particular, if the increase in the inflation rate corresponds to a rise in the inflation dispersion indicator, it suggests that the prices of certain goods and services are growing at a faster rate than others. Conversely, if inflation rises while the dispersion indicator decreases, it indicates that the prices of goods and services are increasing at a more uniform pace *(Table 1)*.

Table 1. Economic interpretations of changes in inflation and dispersion indicators

Dispersion / Inflation	Increase	Decrease
Increase	Prices are rising, but this increase indicates that it is due to a significant rise in the prices of certain goods and services.	Price increases are forming similarly, displaying an overall upward trend.
Decrease	Price increases are slowing down, but this slowdown indicates that it is due to a significant decline in the prices of certain goods and services.	The slowdown in price increases is forming similarly, reflecting an overall downward trend.

A sharp divergence in price changes within the economy indicates price volatility and suggests that influencing factors are more specific rather than general. This negatively impacts the effectiveness of monetary policy instruments.

Conversely, smaller differences in price changes for consumer goods and services indicate that these changes occur due to common factors, making them more responsive to monetary policy instruments.

The weighted average dispersion of inflation and its corresponding standard deviation are calculated using the following method:

$$\overline{x} = \sum_{i=1}^{n} w_i \cdot x_i ; \qquad \sigma^2 = \sum_{i=1}^{n} w_i \cdot (x_i - \overline{x})^2$$

Here:

$\overline{x}$ − annual weighted average inflation;
n − number of goods and services in the consumer basket;
w_i − weight of the good or service in the consumer basket;
x_i − annual price change of the good or service;
σ^2 − weighted average variance;
σ − weighted standard deviation.

The weighted standard deviation represents how much the price changes of goods and services deviate from the overall price change on average. Its variation provides insights into how these differences are formed.

Since the calculation of price change variability accounts for the respective weights of goods and services in the consumer basket, those with smaller weights have a lower impact on the overall indicator, whereas those with higher weights exert a greater influence *(Figure 1).*

Figure 1. Weighted average standard deviation of inflation
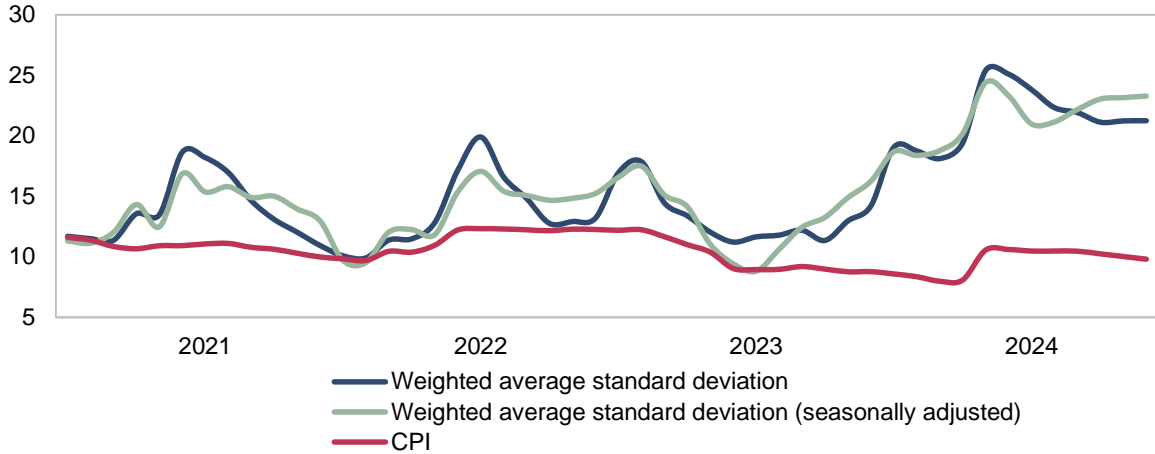
Source: CBU calculations based on data from the Statistics Agency.

According to the calculations, between 2021 and 2023 the weighted average standard deviation of consumer price changes varied within a range of 10–20 percentage points and maintained its overall trend despite seasonal fluctuations.

The transition of standard deviation of price changes from 2024 to an upward trend indicates that consumer goods prices are rising in a less coordinated and more disorderly manner.

In April, the cancellation of tax exemptions for pharmaceuticals and medical services, along with the liberalization of energy prices in May, led to a significant increase in inflation for these goods and services, thereby widening the disparity in price changes.

This can also be observed in the dynamics of standard deviation for the main groups in CPI basket *(Figure 2).* Among the groups, the inflation of the food products group was highly volatile, with its weighted average standard deviation reaching up to 30 percentage points in some months. Nevertheless, this indicator decreased in 2024.

In the non-food and services groups, the differences in price changes were relatively lower and formed without significant fluctuations compared to previous years. However, in 2024, both groups experienced an upward trend—especially in service prices, where the divergence becoming more pronounced due to the inflation in utility services.

The divergence in price changes across regions has been decreasing in recent years *(Figure 3).* This change is primarily occurring in the food and non-food products groups. The services group exhibits the highest divergence in price changes, and this disparity is increasing in recent years.

The decreasing standard deviation of food and non-food products inflation across regions can be explained by the improved capacity for goods storage and enhanced logistics in these regions in recent years.

In the case of services inflation, however, natural disparities in price changes have emerged due to its greater dependence on factors such as regional economic development, infrastructure, and household incomes, as well as the largely immovable nature of most services.

Figure 2. Weighted average standard deviation of the main components of CPI, *percentage points*
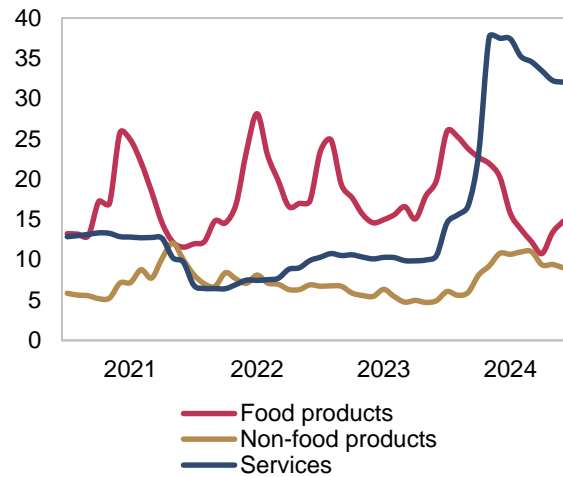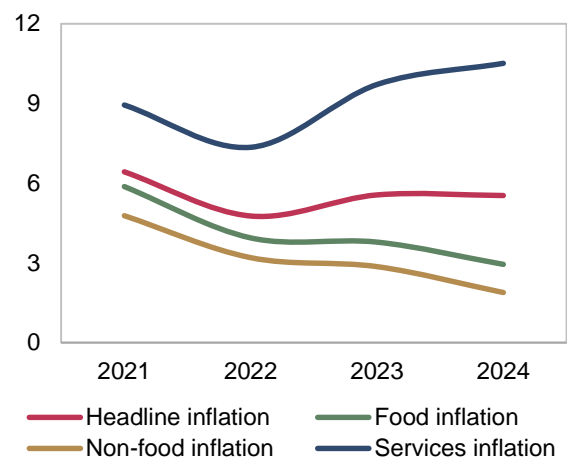
Figure 3. Weighted average standard deviation of price changes across regions, *percentage points*

Source: CBU calculations based on data from the Statistics Agency.

Overall, an increase in disparities in price changes can lead to a number of adverse consequences. For example, a sharp rise in the prices of certain goods can cause economic agents to perceive higher inflation, undermining their confidence in the official inflation figures.

At the same time, significant differences in price changes among various goods and services can considerably complicate producers' ability to forecast inflation, thereby worsening their inflation expectations. These factors reduce the effectiveness of the Central Bank's monetary and communication policies.

Moreover, the uneven nature of price increases makes it more difficult to make long-term decisions in areas such as investments, production planning, and financial resource management, ultimately exerting a negative impact on economic activity.

2.3. Monetary conditions

In the fourth quarter of 2024, relatively tight monetary conditions were maintained to mitigate the secondary effects of supply-side factors and curb inflation expectations.

The Central Bank's real policy rate, calculated based on the inflation forecast for the next six months, stood at 4.8 percent in December, contributing to relatively tight monetary conditions *(Figure 2.3.1).*

During the fourth quarter of 2024, the banking system continued to experience a structural liquidity surplus. As a result, money market rates, including UZONIA and interbank REPO rates, formed slightly below the key rate despite some fluctuations *(Figure 2.3.2).*

Specifically, in the fourth quarter, the average rates of the UZONIA and interbank REPO markets stood at 13.2 percent and 13 percent, respectively *(compared to 13.5 percent and 13.3 percent in the previous quarter) (Figure 2.3.2).* The lower overnight rates in the interbank REPO market compared to unsecured interbank market rates (UZONIA) reflect the correct assessment of collateral risk by banks.

Additionally, in the fourth quarter of 2024, the average yield on government securities declined slightly to 16.1 percent *(down from 16.5 percent in the third quarter) (Figure 2.3.3).*

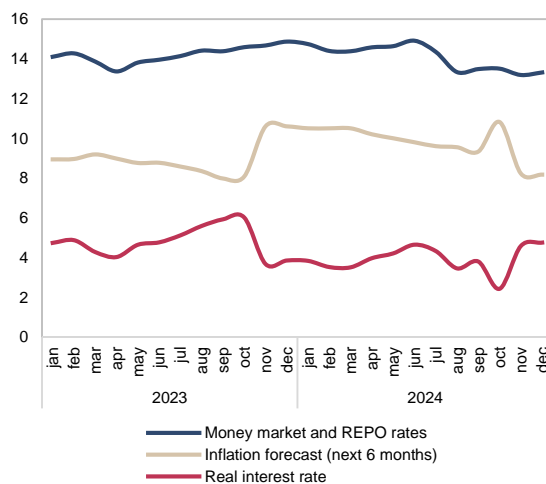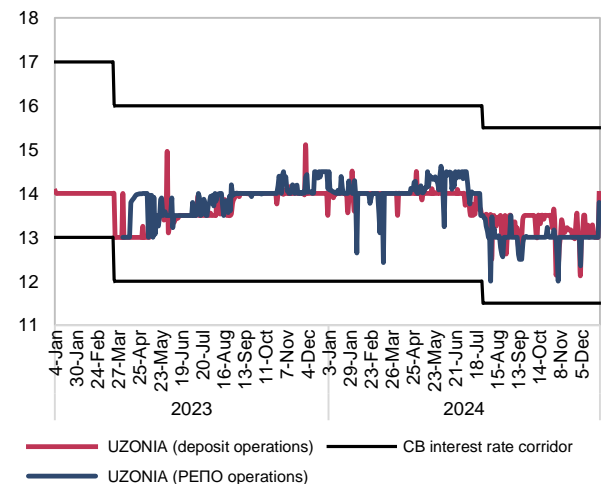**Figure 2.3.1. Nominal and real policy rate,** *percent*

Figure 2.3.2. Money market benchmark interest rates, *percent*

Source: CBU calculations.

In July, the 0.5 percentage point cut in the key rate was transmitted to the securities market, contributing to the current decline in the yield on government securities. Despite the relatively tight formation of interest rates in the interbank money market, the transmission of these conditions to the deposit and loan markets has remained comparatively weaker.

Figure 2.3.3. Government securities yield curve, *percent*
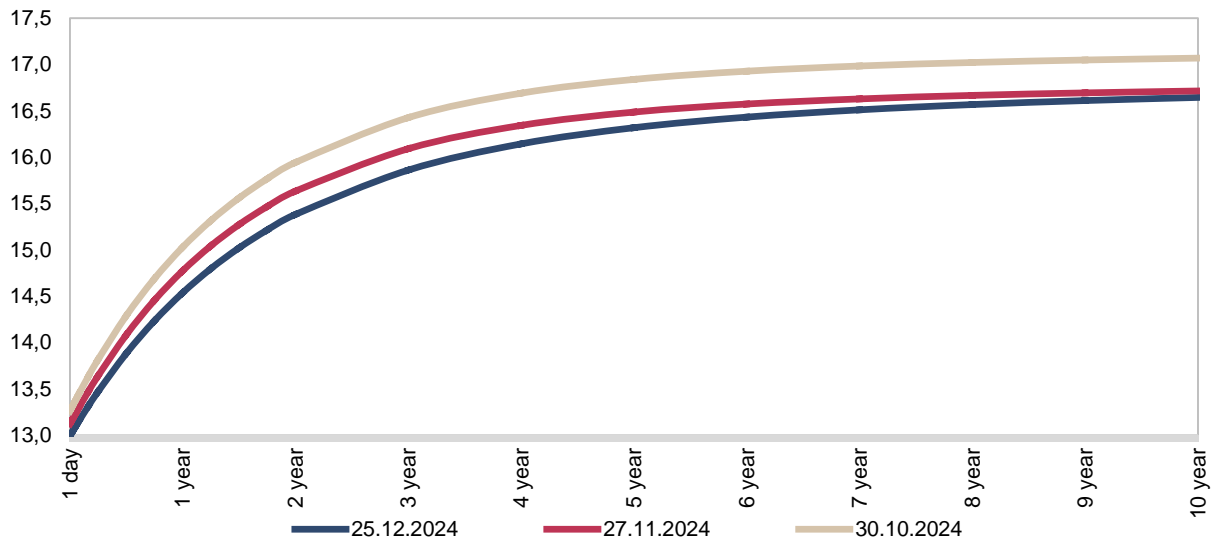
Source: CBU calculations.

For retail loans in national currency, the weighted average interest rates increased from 23.8 percent in September to 24.9 percent in December, whereas for corporate loans they decreased from 22.7 percent in September to 22.5 percent in December *(Figure 2.3.4).* Here, the dynamics of interest rates on time deposits in national currency are explained by high inflation expectations in the economy and strong demand in the retail credit segment.

In 2024, the growth in total credit to the economy moderated, amounting to 14 percent *(compared to 23.3 percent in 2023)*, while the growth of credits in national currency slowed down to 19 percent *(27.9 percent in 2023).*

In particular, the growth of retail loans slowed significantly compared to the previous year, reaching 19 percent, while the growth of corporate loans in the national currency accelerated to 19.1 percent *(compared to 11.6 percent in 2023)*. The growth of loans issued in foreign currency[14] slowed from 7.7 percent in the previous year to 2.6 percent *(Figure 2.3.5).*

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[14] In Uzbekistan, foreign currency loans are only issued to legal entities. It is legally prohibited to allocate loans in foreign currency to individuals.

The acceleration in the growth of outstanding loans allocated to legal entities in the national currency, alongside the slowdown in the growth of foreign currency loans, can be explained by the increased attractiveness of national currency loans amid the high cost of external credit lines, as well as a significant decline in imports in the economy.

The significant slowdown in the growth of outstanding household loans is primarily explained by the tightening of certain macroprudential requirements and a balancing of demand for car loans and mortgage loans among the population. In particular, in 2024, loans allocated to households increased by 3.8 percentage points compared to 2023, totaling 104 trillion soums. Of these loans, 44.1 percent were microloans, 16.7 percent were microcredits, 16.4 percent were car loans, 15.8 percent were mortgage loans, and the remaining 7 percent were other types of loans.

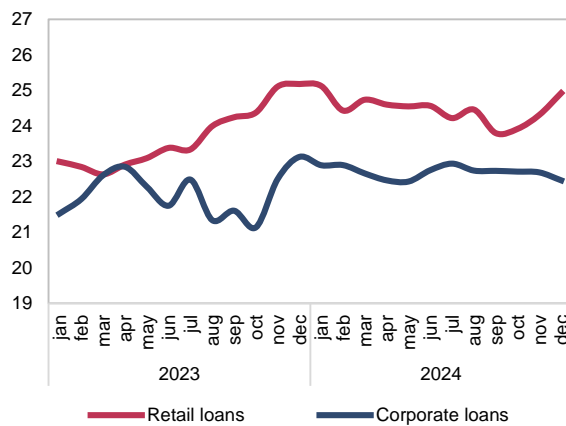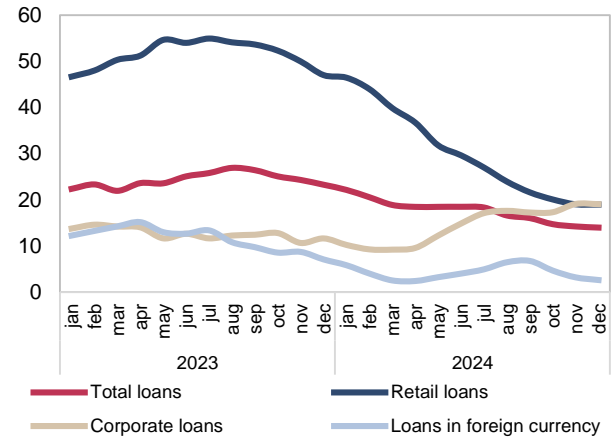**Figure 2.3.4. Interest rates on loans in national currency**

Figure 2.3.5. Growth of credit stock to the economy, *percent*

Source: CBU calculations.

In 2024, within the composition of allocated loans, car loans decreased by 53.3 percent and mortgage loans – by 2.1 percent. On the other hand, microloans and microcredits increased by 58.1 percent and 55.9 percent, respectively. The significant rise in microloans was driven by the increase in the maximum limit of microloans up to 100 million soums, effective from January 1, 2024.

Amid strong overall credit demand and tight external financial conditions, the growing reliance on domestic financial resources led to the formation of term deposit rates at around 19.6 percent in the fourth quarter, without significant fluctuations.

Specifically, in December, the weighted average nominal interest rate on term deposits for individuals stood at 22.1 percent, while the real interest rate, adjusted for inflation, amounted to 11.2 percent *(Figure 2.3.6).*

The high nominal and real interest rates on term deposits increased households' propensity to save, contributing to a significant rise in deposit volumes. In particular, in 2024, household term deposits grew by 52.5 percent, with those in national currency increasing by 1.6 times *(Figure 2.3.7).*

In 2025, amid strong sustained economic activity and aggregate demand, monetary policy conditions will remain sufficiently tight to mitigate demand-driven inflationary pressures and continue supporting households' propensity to save.

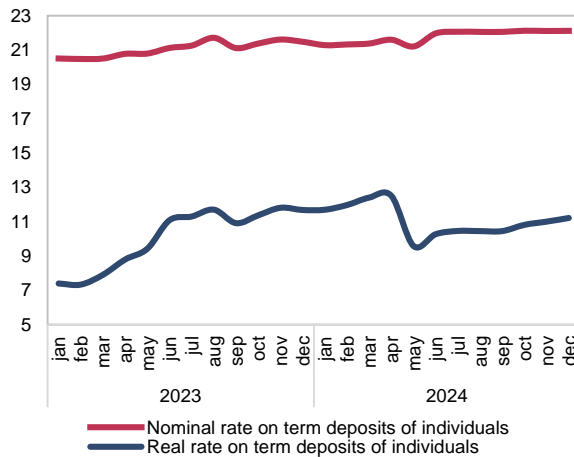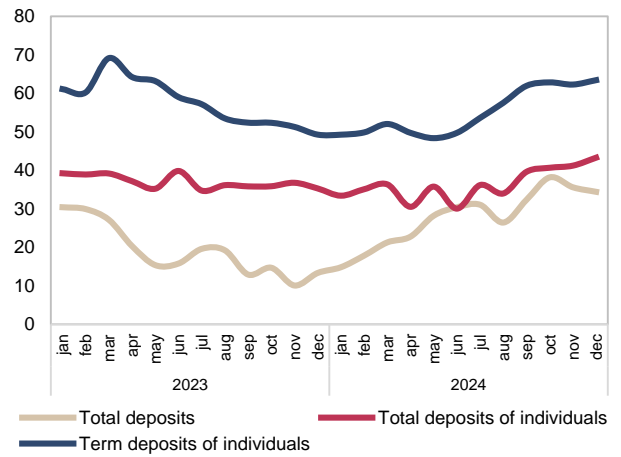**Figure 2.3.6. Interest rates on term deposits in the national currency**

Figure 2.3.7. Annual growth rate of bank deposits, *percent*

Source: CBU calculations.

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Prepared by the Monetary Policy Department.

For suggestions and complaints:

E-mail: sinogamov@cbu.uz

Telephone number: (+998) 71 212-60-22

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