

Main principles of the monetary policy

In implementing monetary policy aimed at ensuring price stability in the economy within the framework of an inflation-targeting regime, the Central Bank is guided by the following principles:

1. Announcing the inflation target and prioritizing its achievement.

The optimal inflation rate to be achieved, determined on the basis of the economy's potential, changes in demand and supply, macroeconomic forecasts and generally accepted standards, is defined as a target. The medium-term target inflation rate in our country was set at 5 per cent and announced to the general public (residents, business representatives and financial market participants). Now all efforts, measures and decisions in the monetary sphere, implemented by the Central Bank, are aimed at achieving the established inflation target. Achievement of the target is the main criterion for evaluation of the Central Bank's activity by economic entities and for building confidence in the monetary policy conducted as a whole. From this point of view, all decisions taken in the macroeconomic sphere are made in accordance with inflation targets, and the task of achieving inflation targets in the Central Bank's activity is considered above other tasks.

[The essence of the 5 per cent inflation target](#)

2. The policy rate of the Central Bank is the main instrument of monetary policy.

The policy rate is the primary monetary policy tool and determines the monetary conditions needed to keep inflation within the 5% target. The Central Bank's key rate affects the dynamics of interest rates in the economy and thereby influences demand. The inflation target is achieved by balancing aggregate demand. The board meeting to review the policy rate is held 8 times a year based on a [predetermined schedule](#) in the monetary policy guidelines. In addition to announcing the Central Bank's [decisions on the policy rate](#), signalling its future expected level (trajectory) plays an important role in the formation of long-term inflation expectations of economic entities.

[Policy rate levels](#)

3. The operational mechanism of monetary policy is developed and improved by the Central Bank independently.

Article 151 of the Constitution of the Republic of Uzbekistan establishes the Central Bank's independence in developing and implementing monetary policy. Therefore, the Central Bank has the right to independently select monetary policy tools and approaches to achieve the inflation target. This

may include managing interest rates, conducting open market operations, adjusting reserve requirements, and other measures based on economic conditions. The operational mechanism of monetary policy operates on the basis of the policy rate and interest rate corridor of the Central Bank. The operational objective of monetary policy is to ensure that short-term (overnight) interest rates in the money market remain close to the key rate. The Central Bank manages overall banking system liquidity by actively using monetary policy tools, thereby influencing money market rates.

[Money market operations and operational mechanism](#)

4. Monetary policy decisions based on macroeconomic analyses and forecasts.

The central bank's policy rate decisions affect economic activity and aggregate demand gradually, with a time lag. Therefore, the central bank makes monetary policy decisions on the basis of comprehensive macroeconomic analyses and forecasts. Today, the Central Bank mainly uses the quarterly forecasting model (QPM) in developing macroeconomic forecasts. In addition, a number of econometric and structural models are used to compare the results of forecasts and conduct research. It is worth noting that policy rate decisions are made under uncertainty. The reason is that macroeconomic forecasts are formed on the basis of possible prospects for economic development, expected changes in global commodity and financial markets and other factors. For this reason, the Central Bank makes decisions on the direction of monetary policy based on relatively stable dynamics of factors and their impact on the inflation rate. Taking into account changes and uncertainties in the country and the global economy, the Central Bank continues to improve its analytical and forecasting capabilities.

5. The Central Bank implements its exchange rate policy under a free-floating exchange rate regime.

A free-floating exchange rate is one of the essential conditions for effective monetary policy within the inflation-targeting framework. The Central Bank's participation in the domestic foreign exchange market is based on the principle of neutrality, meaning that its interventions are limited to the volume of monetary gold purchased during the year and do not affect the fundamental trend of the exchange rate. The exchange rate of the Uzbek som is determined by the supply and demand for foreign currency in the domestic market. The Central Bank does not set target levels for the som's exchange rate. A freely determined exchange rate, based on market supply and demand, acts as a "shock absorber" to prevent external risks from

transferring to the domestic economy, thereby playing a key role in ensuring macroeconomic stability.

6. Transparent communication policy is an important part of monetary policy in the inflation targeting regime.

One of the main elements of the inflation targeting regime is the openness of monetary decisions and transparency in this respect. Of great importance in the formation of inflation expectations of the population and business entities is the development of an effective communication policy and timely communication of decisions in the field of monetary policy to the population in an accessible language. Since the beginning of the transition to inflation targeting, the Central Bank pays great attention to the openness of the policy.

The publication of a press release following each meeting of the Board to consider the policy rate, organisation of press briefings with the participation of the Central Bank Governor and his deputies, as well as the publication of the Monetary Policy Guidelines, Monetary Policy Review and a number of other analytical materials and infographics are among the important steps in this direction. Ensuring the formation of inflation within the target rate and increasing the transparency of communications will increase the confidence of the population and business entities in the Central Bank and enhance the effectiveness of the implemented monetary policy measures.