I quarter
2023

MONETARY POLICY REPORT

Tashkent
2023

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

CONTENTS

INTRODUCTION

At the meeting on May 4, 2023, the Board of the Central Bank kept the policy rate unchanged at 14 percent per annum. This decision is aimed at ensuring monetary conditions conducive to a further slowdown in price growth in the economy, as well as maintaining the positive impact of the policy rate reduction in March on the balancing of aggregate supply and demand.

The annual **inflation rate** continued to decline in March and April and amounted **to 11.7 percent** and **11.0 percent,** respectively. Seasonal factors and the high base effect of the previous year also played an important role in this decrease.

Core inflation representing the long-term and stable factors of inflation, also showed significant downward dynamics in March and slowed down **to 12.9%** annually (13.8% in December 2022). In doing so, **the contribution** of core inflation **to headline inflation** was less than 10 percentage points for the first time since October last year.

At present, the core inflation being higher than the headline inflation implies that some inflationary risks still persist in the economy.

Inflation expectations of the households and business entities for the next 12 months also returned to the downward trend and formed at the level of 14.4 and 14.1 percent, respectively. Meanwhile, the median of answers regarding the inflation expectations decreased to 11.5% for the households and to 11.4% for business entities.

In January of this year, inflation expectations in the economy rose sharply, reflecting **increased concerns** of the population and business entities regarding the economic situation and prices. A decline in expectations and their formation close to the long-term trend supports the assumption that the general trend of **slowing inflationary processes** will persist in the future.

Tightening external **financial conditions** have started to be reflected in increased volatility in global and regional financial markets.

Despite prompt responses to risks arising in the international banking system, tight lending conditions and uncertainty about future risks are projected to persist through the end of the year.

The high level of remittances in the past year, an increase in budget expenditures this year, including wages and pensions, are the main factors supporting consumer demand. This, in turn, will serve to ensure high **economic activity** in the coming quarters.

Relatively tight monetary conditions have been maintained in the money market. In January-April, **the UZONIA index** was formed fully within the interest rate corridor, being around **13%** after the reduction of the policy rate.

The growth of the deposit base of commercial banks has accelerated. At the end of April, the stock of term deposits in national currency increased **by 1.5 times** compared to the same period last year.

The growth of loans to the economy has accelerated, mainly due to loans allocated in national currency. The main factors of a **1.3 times** increase in the volume of loans issued by commercial banks in January-April was the rapid increase in car loans, micro-loans and consumer loans to households.

These trends, in turn, were reflected in **a decrease of the dollarization in the economy,** and the level of dollarization of deposits and loans declined to 30.6% and 44.3%, respectively.

According to updated economic forecasts, **global economic growth** is expected to slow down in the second half of 2023. **Global inflation** will continue to decline more slowly than expected.

Currently, there is steady growth dynamics in prices of the service sector. Core inflation remains high in most countries, raising the probability that **global financial conditions** will remain **tight** for longer periods of time.

Uncertainties regarding prices of major export goods are increasing in conditions of high volatility in the world commodity markets.

Taking into account a sharp increase in the volume of bank loans to the individuals may create risks for financial and macroeconomic stability by increasing the debt burden, the Central Bank will apply **macroprudential measures** in order to balance the growth of loans.

Preliminary results of the first quarter of this year denote that most indicators in the economy are forming within the baseline scenario of macroeconomic development.

According to the updated forecasts, the **real GDP growth** by the end of 2023 is expected to be higher than the initial forecasts.

The forecast range of year-end inflation rate was left unchanged **at 8.5-9.5 percent.** Dynamics of inflation expectations, relatively tight conditions in the money market, stabilized supply of basic products, increase confidence in the formation of inflation in the middle of this forecast corridor.

I. INTERNAL MACROECONOMIC CONDITIONS

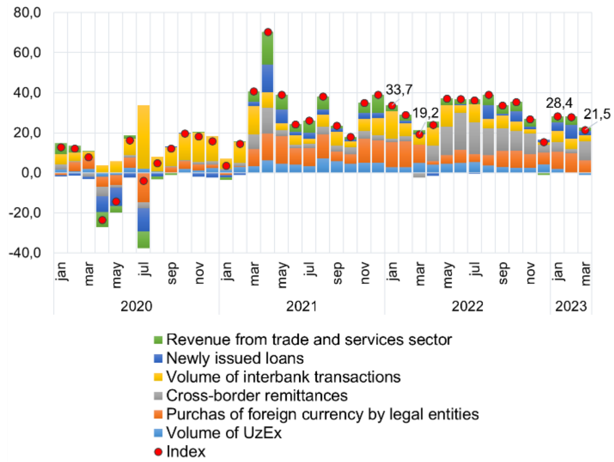
1.1. Economic growth and dynamics of aggregate demand

Cross-border remittances to our country in the last year, moderate pace of lending and increased budget spending, including higher wages and pensions, are among the main factors supporting consumer demand in 2023.

Economic activity has been rebounding since March after some seasonal decline early in the year. The **alternative index** of economic activity in January and February 2023 was **lower** than last year (-5.3 p.p. in January, -1 p.p. lower in February), increasing then by **2.3 percentage points** in March year-on-year *(Figure 1.1.1, detailed in Box 2).*

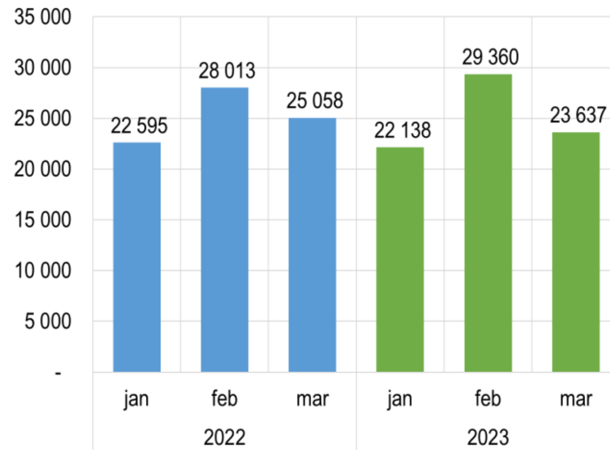
Regarding **the real estate market**, the total number of housing transactions in 2023 Q1 was nearly the same as in the corresponding quarter of the previous year.

Figure 1.1.1. Alternative index of economic activity, *in percent*



Source: CBU.

Figure 1.1.2. Number of housing transactions



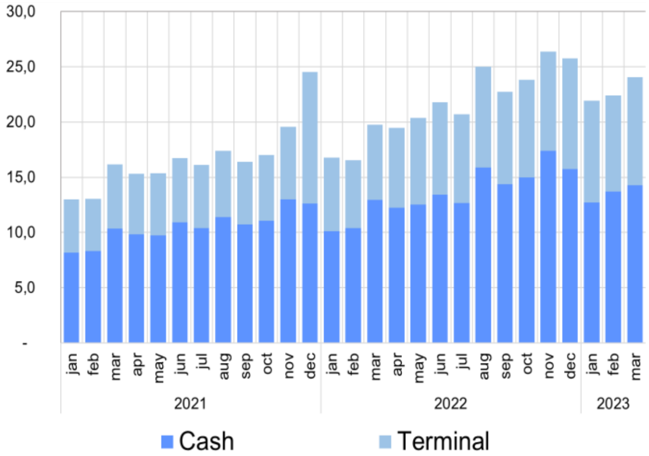
Source: Ministry of Justice, *e-notarius.*

In addition, the change in **aggregate demand** in the first quarter of this year was reflected in an increase of revenue in trade and services sector, growth of retail turnover, remittances and export earnings.

A 19% increase in cross-border **remittances** in January-March 2023 compared to the same period last year and a 19.7% rise in the average **wage** in the economy had a positive impact on real **household incomes**, the growth of which amounted to **10.8%** compared to Q1 of 2022.

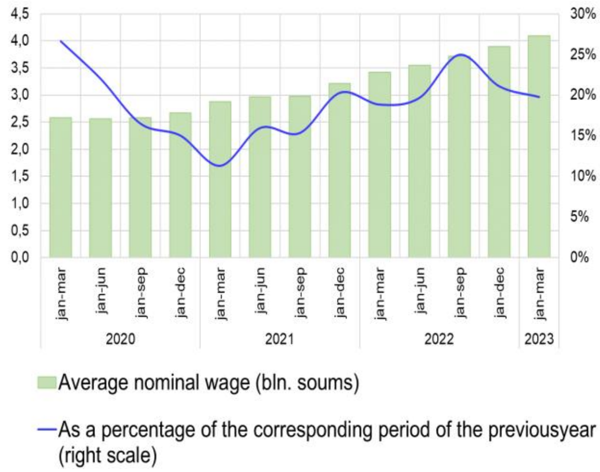
This, in turn, contributed to the formation of high aggregate demand in the economy and supported consumer and investment activity of the population *(Figures 1.1.3-1.1.4).*

Figure 1.1.3. Revenue from the trade and services sector, trillion soums



Source: CBU.

Figure 1.1.4. Growth of household incomes and average nominal wage



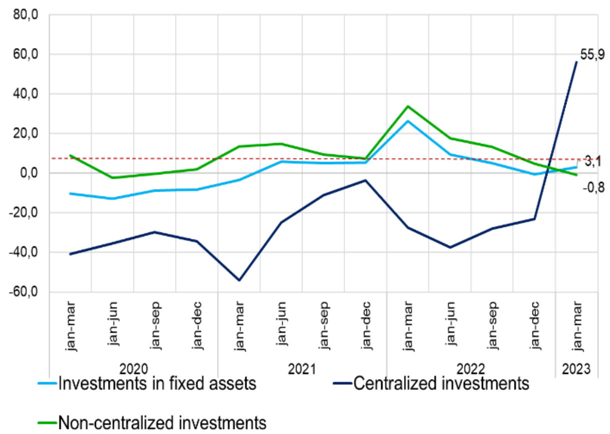
Source: Statistics agency.

In Q1 of 2023, **investment activity** increased by 3.1 percent compared to the corresponding period of the previous year. This increase was mainly due to high growth of centralized and direct foreign investments *(Figure 1.1.5).*

Strong growth in the s**ervices sector** was one of the major drivers of economic growth on the **supply side**, increasing the share of this sector in the structure of gross value added to 53.1 percent.

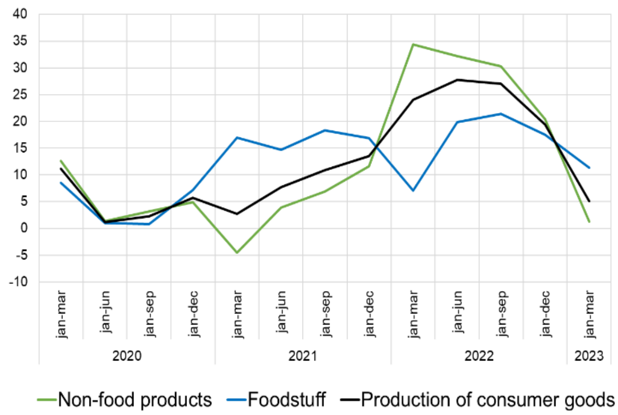
Increased consumer demand also contributed to a **food production** growth by 11.3 percent *(Figure 1.1.6).*

Figure 1.1.5. Real growth of fixed asset investments



Source: Statistics agency.

Figure 1.1.6. Change in production volume of consumer goods, *in percent*



Source: Statistics agency.

1.2. Fiscal conditions and expectations

In Q1 of 2023, the positive impact of fiscal stimulus implemented in the previous years on economic activity and investment persisted.

The total upward impact of budget expenditures on the liquidity of the banking system amounted to 13.6 trillion soums (*in the corresponding quarter of 2022, government operations reduced the total liquidity to 779 billion soums*). Along with the reduction of the **value added tax** from 15% to **12%** since the beginning of this year this has become one of the important drivers of economic activity.

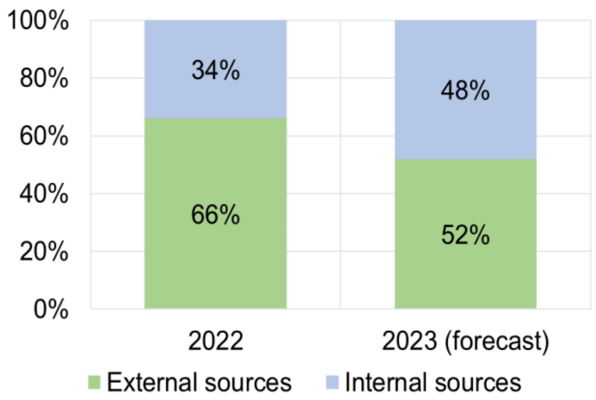
Moreover, pensions and benefits as well as wages in the public sector have been increased by 7% starting April 1 and May 1 of this year, respectively, that will be one of the factors supporting economic activity in the coming quarters.

In conditions of high interest rates on global financial markets, reducing the share of external borrowings and attracting debt from the domestic market is more preferable in financing the budget deficit.

In Q1 of this year, the Ministry of Economy and Finance issued government securities worth 4.4 trillion soums (*Figure 1.2.2*).

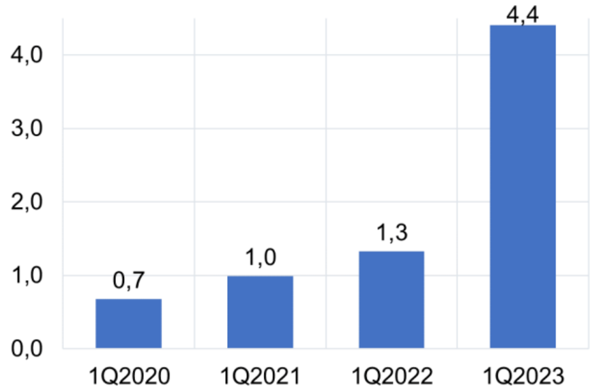
Furthermore, favorable prices of main export commodities (gold, copper) on the world market in Q1 had a positive effect on budget revenues covering a certain part of expenditures.

Figure 1.2.1. Sources of financing the state budget deficit



Source: Ministry of economy and finance.

Figure 1.2.2. Volume of government securities issued *(trillion soums)*



Source: Ministry of economy and finance.

Box 1.

Dynamics of Alternative Index of Economic Activity

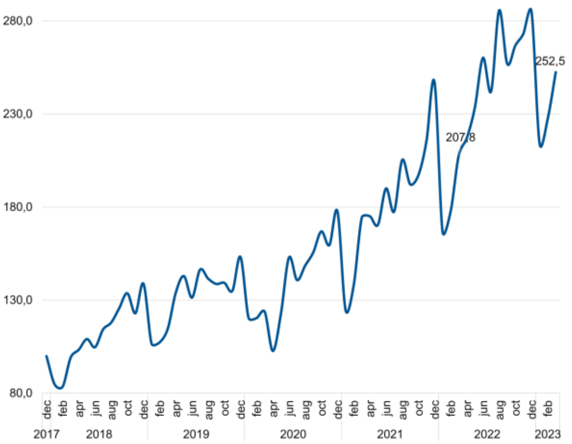
In order to monitor the economic activity before the announcement of the official macroeconomic indicators and to assess its impact on monetary policy decisions by the Central Bank, an Alternative Index of Economic Activity (AIEA) has been calculated using available operational data. This is a unified index aggregated from 6 economic indicators (volume of Commodity Exchange, loans to the economy, cross-border remittances inflow, purchase of foreign currency by legal entities, interbank transactions, revenue from the trade and services sector).

When analyzing the AIEA for the past period, 0.73 correlation between the real GDP growth and the dynamics of the alternative index was observed, indicating that these variables are interrelated and formed in the same direction. This allows us to draw preliminary conclusions regarding the real change of GDP before the release of official statistics using the AIAE *(Figure 1).*

Figure 1. Real GDP growth and annual change of AIEA, *(in percent)*

Source: CBU calculations.

Figure 2. Dynamics of AIEA
(December 2017 = 100%)

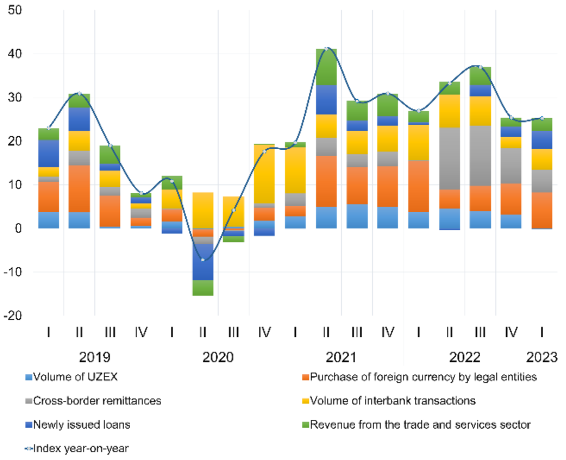


Source: CBU calculations.

There was a seasonal decrease in January this year, followed by a positive growth of the index in February-March *(Figure 2).* However, in January-February of the current year, the indicator decreased more compared to the seasonal decline of the corresponding period last year, explained by a slowdown of economic activity as a result of disruptions in the energy system due to abnormally cold weather conditions at the beginning of the year. The higher growth rate in March preliminarily indicates a revival and stronger activity at the end of the quarter.

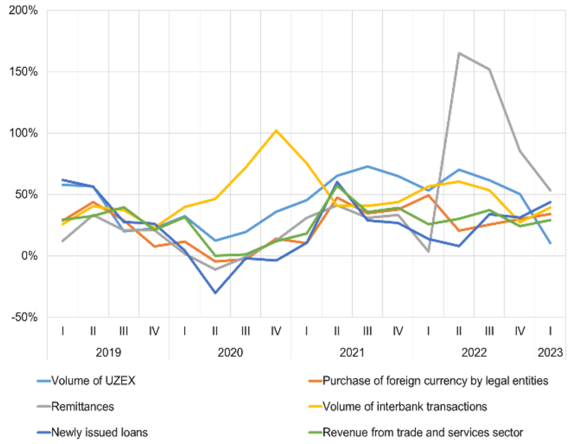
In Q1 of the current year, the main drivers of economic activity were increased loans to the economy, revenue from the trade and services sector, and cross-border remittances *(Figures 3-4).* At the end of the quarter, the growth rates of the purchase of foreign currency by legal entities and interbank transactions slightly slowed down compared to the corresponding period of the previous year.

Figure 3. Decomposition of AIEA *(to corresponding quarter of the previous year)*



Source: *CBU calculations.*

Figure 4. Dynamics of AIEA components *(to corresponding quarter of the previous year)*



Source: *CBU calculations.*

The dynamics of the index in previous years and economic results of March strengthen the likelihood of increase in the index in April.

II. ANALYSIS OF INFLATION AND ITS FACTORS

2.1. Analysis of inflation dynamics and its components

In 2023 Q1, the dynamics of **headline inflation**, as previously predicted, **shifted to a downward trend** and amounted to 11.7 percent in March. At the same time, inflation is forecasted to continue decreasing in the next quarter. This is mainly due to receding effects of the high base in the corresponding period of the previous year.

Deceleration of inflation in the economy can also be evidenced by the dynamics of alternative indicators, in particular, the GDP deflator and the Producer Price Index *(Figure 2.1.1).*

These indicators indicate stabilized production costs, as well as an improved supply chain, and reinforce confidence in the gradual easing of upward pressure on domestic prices.

Figure 2.1.1. Inflation dynamics

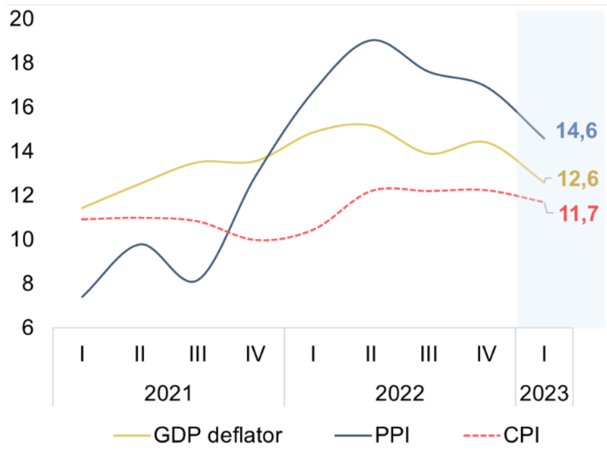


Figure 2.1.2. Dynamics of share of goods and services with a price increase above 10% in the CPI basket

Source: Statistics agency.

However, the share of goods and services with a price increase of more than 10% in the consumer basket remains the highest in recent years *(Figure 2.1.2),* which indicates a high demand for consumer goods, imperfect rebalancing of supply, and continuing inflationary pressure of a monetary nature in the economy for a certain period of time.

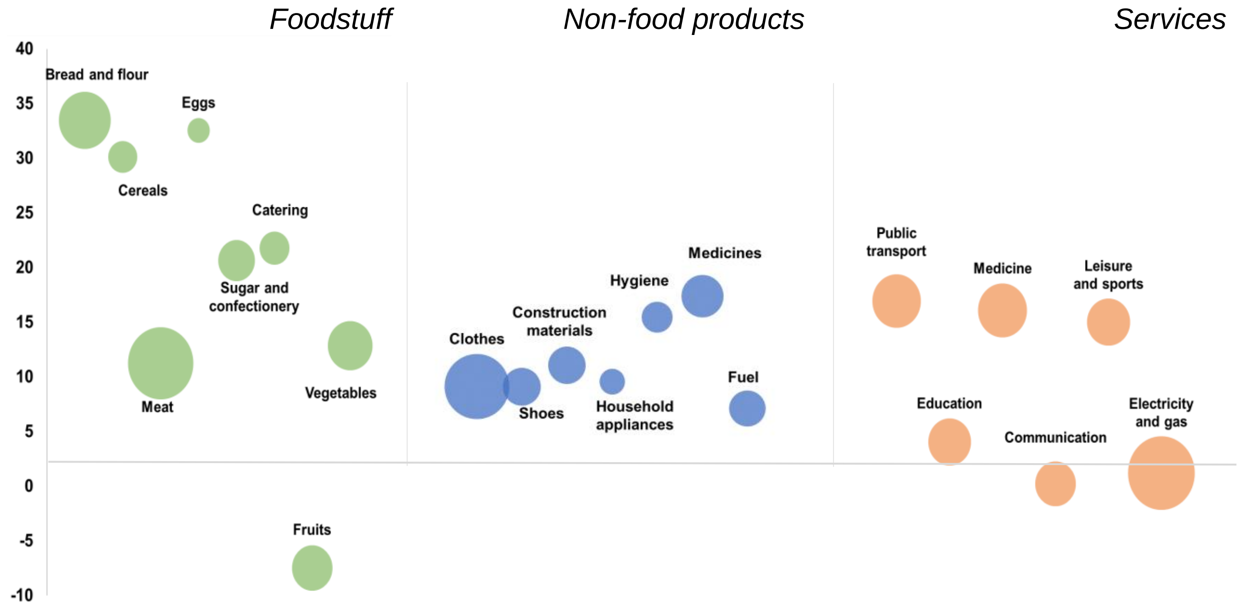
This is largely a result of strong consumer demand, supported by a surge in remittances last year, continued effects of past fiscal stimulus in 2023, and a significant increase in consumer credit to households.

In Q1, annual food inflation was higher than last year. Considerable increases were observed in prices of vegetables, meat products, sugar and confectionery.

A reason for the relatively lower annual inflation of services was that most of the regulated prices (in particular, for utilities and education services) remained unchanged. Along with this, there was a substantial rise in the price of market-based services.

In particular, the price of public transport was affected by disruptions in fuel supplies observed during the winter period, and there were price increases in the catering, medical and recreational services as a result of stronger demand.

Figure 2.1.3. Price changes of basic goods and services *(annual percentage)*



Source: Statistics agency.

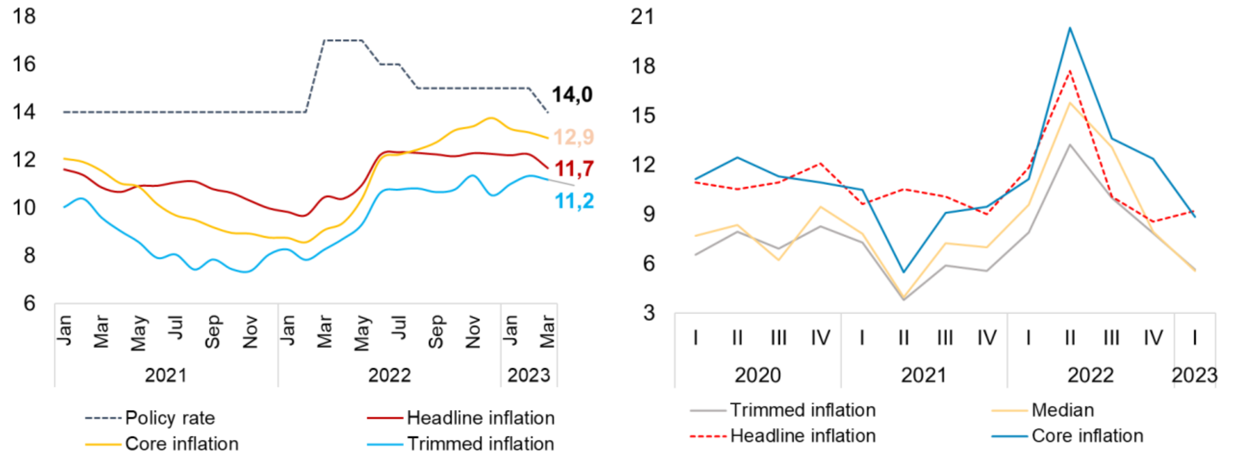
Since the beginning of 2023, **core inflation** has also returned to a **downward** trend. A key factor for this was maintaining supply on the domestic market through imports amid an improving external situation with inflation.

Particularly, stabilization of prices for non-food products contributed to a reduction in core inflation. Meanwhile, the growth rate of prices for food products and services in core inflation remained relatively high.

On the other hand, there was a downward trend in trimmed and median inflation indicators. This dynamic will continue in the coming months and provide positive signals for lower headline inflation in the absence of any unexpected shocks.

Figure 2.1.4. Core and trimmed inflation

Annual percentage *Seasonally adjusted, year-on-year*



Source: CBU calculations based on Statistics agency data.

It is worth noting that although core inflation has started to decline, it still remains higher than headline inflation. The reason for this is that inflation of fruits and vegetables as well as regulated goods has been low in recent quarters relative to core inflation, and in the future, if the prices of these groups adjust to the headline inflation rate, this may put significant pressure on the overall inflation and slow down its decline.

A faster decline in core inflation is essential to achieve the projected overall inflation rate by the end of 2023.

2.2. Internal factors of inflation and inflation expectations

Despite the fact that the inflation rate shifted to a downward trend in March 2023, core inflation remains above the general consumer price increase.

Uncertainties regarding future economic processes are expected to persist, as well as proinflationary risks and pressures.

Current proinflationary risks

Fiscal stimulus last year, increased budget spending this year, the dynamics of cross-border remittances last year and the first quarter of this year may put upward pressure on the prices of basic consumer goods in the short term until supply in the consumer market adjusts to additional demand.

As a result of damage of certain types of fruits (grapes, pomegranate, figs and other fruit trees) and vegetables caused **by abnormal cold weather** and energy shortages in greenhouses in January, there are concerns of a delay in the seasonal decline of vegetable prices in Q2, and that **supply volumes will not be as expected.**

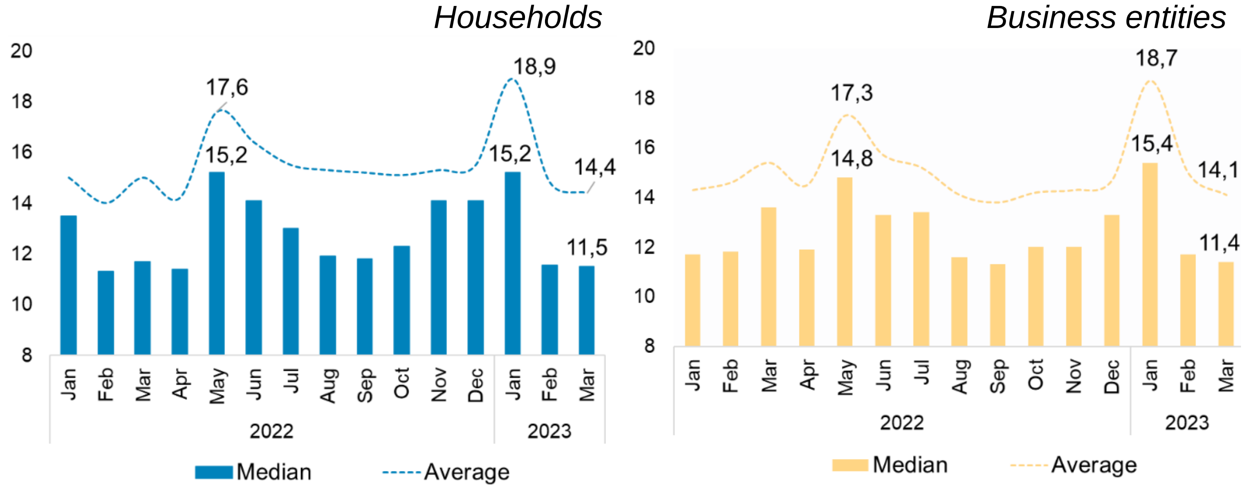
Meanwhile, the rapid growth of consumer loans and microloans to the population, in turn, raises **the demand for cars, construction materials, household appliances and furniture.**

Inflation Expectations

According to the results of the Central Bank's survey on the consumer sentiment of the population at the end of Q1, the future expenses of the population will remain stable.

Most respondents reported a preference for large purchases, including housing, furniture, appliances, and cars.

Figure 2.2.1. Inflation expectations *(annual percentage)*



Source: CBU.

During the energy crisis in January this year inflation expectations of the population and business entities rose sharply.

Gradual easing of inflationary pressure since February contributed to a decrease in inflation expectations, and in March the inflation expectations of **the population** and **business entities for the next 12 months** amounted **to 14.4%** and **14.1%,** respectively *(Figure 2.2.1.)*.

The majority of respondents denoted **rising fuel, energy, and transportation prices, pressure on the exchange rate,** and **artificial price increases** as the main factors contributing to inflation *(Figure 2.2.2).*

Figure 2.2.2. Major factors of inflation expectations of households and business entities *(share of respondents)*

Households

Factors	2022												2023		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Exchange rate fluctuations	37	49	54	43	26	25	33	35	42	44	51	49	42	46	51
Increase in wages and pensions	31	28	23	22	39	34	29	31	28	27	28	35	24	24	38
Price increases of fuel and energy resources	25	20	18	23	27	27	36	34	27	30	38	40	47	45	36
Price increases in basic foodstuff	41	43	49	53	55	56	55	48	42	49	37	27	32	28	31
Increase in housing and rent prices	15	14	11	14	11	11	12	15	18	22	22	20	19	18	18
Price increase by monopolies	35	30	37	34	37	41	43	37	31	34	35	36	37	38	18
Huge price difference between supermarkets and traditional markets	10	11	11	14	14	14	14	11	11	11	11	11	12	11	13

Business entities

Factors	2022												2023		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Exchange rate fluctuations	37	43	51	41	24	19	34	33	39	44	48	49	44	48	50
Increase in wages and pensions	26	21	17	21	30	29	23	26	23	22	24	30	21	25	34
Increase of fuel prices and transportation costs	42	36	36	37	25	27	31	29	35	39	50	35	38	46	33
Disruptions in the supply of raw materials from abroad	16	16	22	22	21	22	23	21	19	16	20	19	17	20	18
Deterioration of the competitive environment in the economy	16	13	14	14	16	32	33	16	14	13	15	18	15	19	17
Price increase of the imported raw materials	20	18	22	14	14	24	28	22	21	21	32	15	17	17	17
Increase in commercial buildings and rent prices	13	11	10	9	9	10	12	13	11	11	14	13	15	12	11

Source: CBU.

Box 2.

Analysis of wholesale price indices

In order to timely identify potential inflation risks and develop feasible proposals to reduce their negative impact, the Central Bank started monitoring wholesale prices on local markets and commodity exchange.

The Kuyluk price index reflects wholesale prices of agricultural products at the Kuyluk farmers' market. The Commodity Exchange Price Index includes selling prices of basic consumer goods and construction materials at the Commodity Exchange of Uzbekistan. In these indices, January 2022 is set as the base period, and the current index represents the average change in selected prices compared to this period.

Figure 1. Kuyluk Price Index

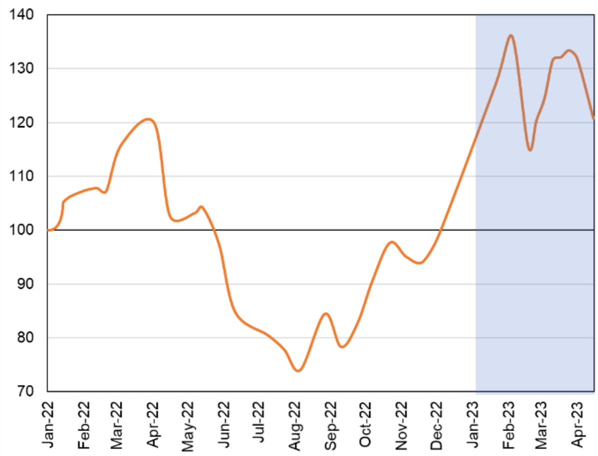
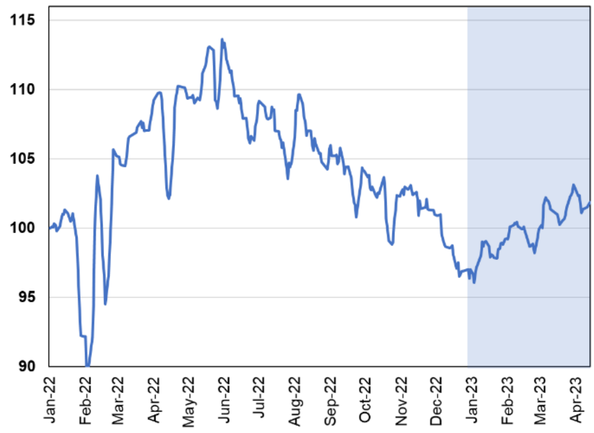


Figure 2. Commodity Exchange Price Index



Source: Uzbek Commodity Exchange data and CBU observations.

According to the observations, as of the end of April this year **the Kuyluk Price Index** amounted to 121 points (Figure 1), meaning the prices of selected goods have increased by 21% on average compared to the beginning of 2022 (over the last 15 months). It should be noted that the dynamics of the Kuyluk Price Index is highly seasonal, and the index tends to increase in I and IV quarters, and to decrease in II and III quarters of a year. In particular, in Q1 of 2023, the Kuyluk Price Index rose by more than 30 percent.

Seasonally adjusted change of the index amounted to 18 percent by the end of April. A major reason for this is delayed ripening and supply of early vegetables crop to the market as a result of abnormally cold weather conditions in January. This, in turn, indicates that prices for vegetables may increase on an annual basis in April-May.

The Commodity Exchange Index at the end of April of this year amounted to 102 points, indicating a 2% increase in commodity prices on the exchange since the beginning of 2022 *(Figure 2).* In doing so, exchange prices rose by 5.2 percent compared to the beginning of 2023.

Seasonality of exchange prices is mainly caused by the prices of raw cotton and feedstock. In particular, the seasonal depletion of cotton seed stocks since June 2022, has led to a price increase in cotton seed and cotton oil until the next harvest. A similar trend has developed in feed prices since August.

Also in Q1 of this year, besides seasonality, the index was significantly affected by price increases in sugar (32%), cotton fiber (18%), cement (11%) and cathode copper (10%).

High rates of increase in wholesale prices for these goods may have a further upward impact on the cost of consumer goods.

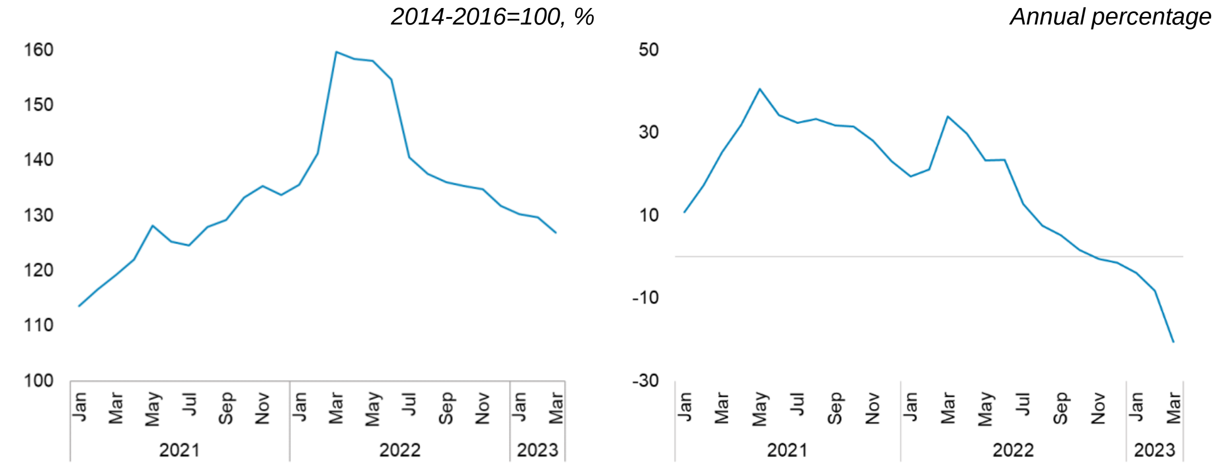
The above wholesale price index trended upward in Q1, signaling continued inflationary pressures in the economy. In turn, this trend may be reflected in the consumer price index and core inflation in the future.

Box 3.

Change in global food prices

According to the Food and Agriculture Organization(FAO) in Q1 of this year, the index of world food prices fell by 4%. At the end of March the FAO index fell by 20.5% year-on-year. While the world prices for grain, vegetable oil and dairy products have declined, sugar and meat has risen in price, contributing to an increase of the index.

Figure 1. Price changes on world food market *(FAO Index)*



Source: FAO data.

World wheat price has fallen substantially owing to large supply and strong competition among major exporters. In the future, expected higher Australian wheat crop and improved planting conditions in the European Union will keep prices stable.

Meat price index has somewhat increased. Concerns about future reductions in U.S. cattle supplies led to higher cattle futures prices, while lower import demand for poultry meat led to a ninth consecutive month of lower prices.

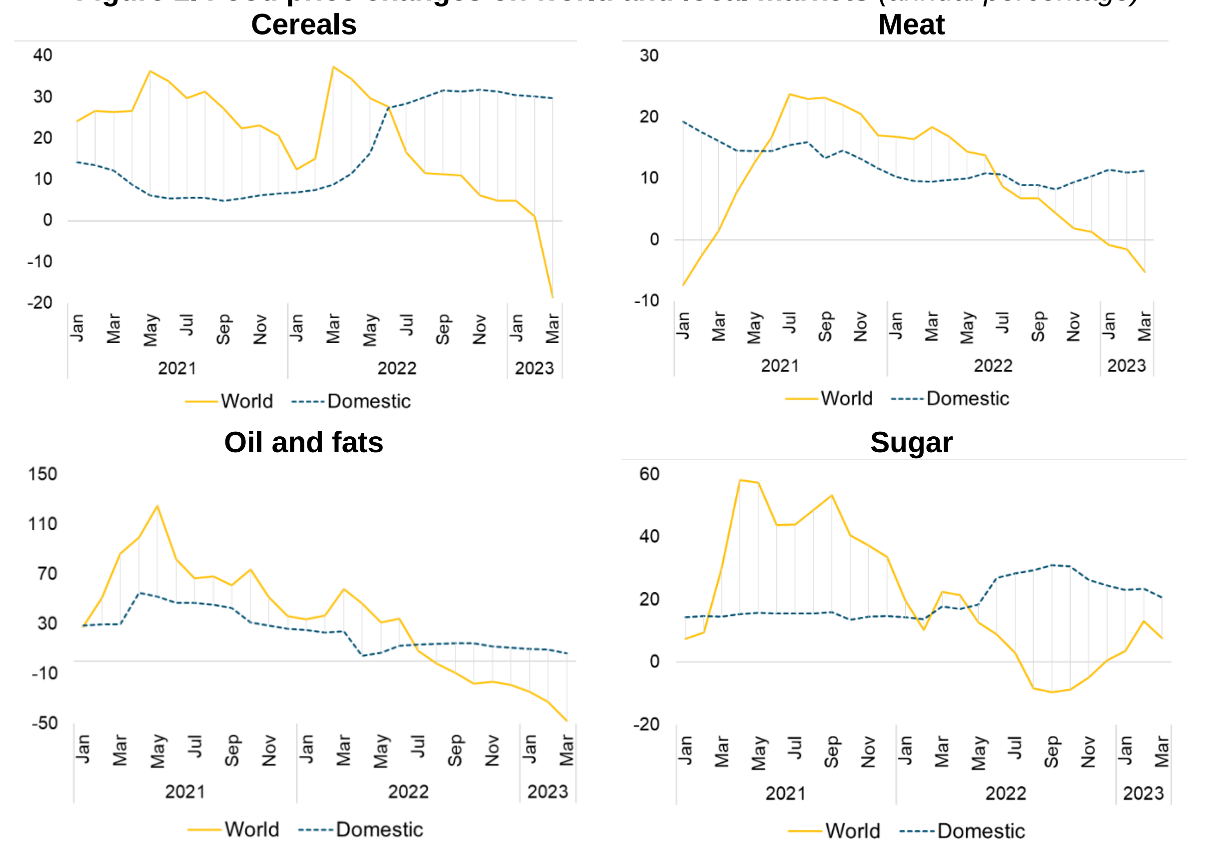
Future production is expected to rise in China, Brazil, and Australia and to decline in the United States and the European Union. Production decreases in the United States and Canada are expected to reduce meat exports to Southeast Asia and boost beef exports from Australia. Global beef exports are projected to drop largely as a result of lower demand in China.

Vegetable oil prices also continued to decline (by 47.7% year-on-year) in March. Lower prices of **soybean, rapeseed** and **sunflower oil** on world exchanges are caused by adequate reserves and relatively weak import demand.

Among vegetable oils there was a price increase only in palm oil. Major causes of this include flooding in parts of Southeast Asia due to adverse weather conditions and temporary export restrictions imposed by Indonesia.

In the future, high vegetable oil stocks in India and China (world major buyers of vegetable oils), lower demand in Turkey, as well as increased supply of sunflower oil from Russia, Ukraine and Argentina is expected to lead to stable prices on vegetable oils. However, with rising world oil prices, biodiesel derived from vegetable oil will rise in price and global consumption of vegetable oils might increase.

Figure 2. Food price changes on world and local markets *(annual percentage)*



Source: FAO data.

Sugar prices rose at a high rate in February and March. This increase was mainly driven by worsening expectations on sugar production in India, Pakistan, Thailand and China, as well as concerns regarding a reduction in global sugar stocks for the 2022/23 season, and introduction of restrictions on sugar export by India.

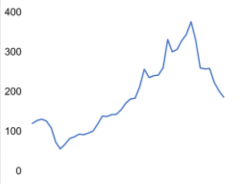
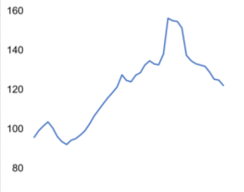
In addition, OPEC's decision at its April meeting to further cut oil production by the end of the year may lead to higher oil prices, resulting in more sugarcane being diverted to ethanol fuel production and prices rising slightly in the future.

Box 4.

Expectations regarding global inflation risks

The expected global economic slowdown this year is one of the main factors restraining demand in commodity markets. Amid today's relatively subdued consumer demand, a deceleration in manufacturing activity as well as rising borrowing costs and concerns of recession contribute to lower demand for energy, food and raw materials in the future.

Factors affecting the global inflation

Products	Price dynamics	Proinflationary factors	Disinflationary factors
Fuel price index *(2016=100)*		China`s economic revival	Global economic slowdown
		Supply disruptions due to the war in Ukraine or policy change by OPEC+	Expectations for production improvement
		US dollar weakening	Transition to renewable energy
		Extreme weather conditions	Tighter-than-expected monetary conditions
Food price index *(ФАО индекс, 2014-2016=100)*		Supply disruptions due to the war in Ukraine and export restrictions	Cooling global demand
		Extreme weather conditions	Positive expectations on new crops
		Demand recovery from China	Elimination of export restrictions
		High production costs	Declining fertilizer prices
Metal price index *(2016=100)*		China`s economic revival	Weaker global economic growth
		Industrial growth in Europe	Slowdown of construction sector
		Faster transition to renewable energy sources	Slower B2B investment growth
		US dollar weakening	Decrease in producers' operating costs due to lower energy

Source: "Euromonitor International" based on World Bank data.

Nevertheless, risks of inflation rising above current forecasts remain. In particular, termination of the zero-COVID policy in China may lead to a recovery in global demand for raw materials, food and energy in the coming months.

Moreover, there are concerns regarding the geopolitical situation in the region and that abrupt climate change will negatively affect supply and demand factors on the global market, putting upward pressure on world prices.

Additionally, the U.S. dollar is expected to weaken this year, causing lower prices for commodities denominated in U.S. dollars. This, in turn, might boost demand for goods on the world market and trigger higher prices.

III. EXTERNAL ECONOMIC CONDITIONS

3.1. Global economic environment and activity

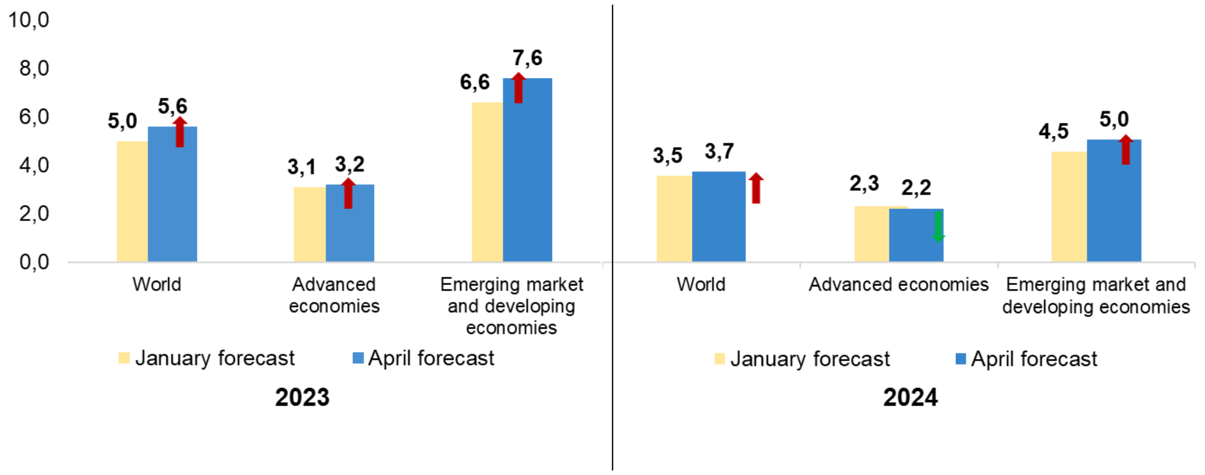
Monetary tightening by leading central banks has started to have an effect since the first months of this year slowing global economic activity down and easing demand pressures on global inflation.

On the supply side, particularly with the stabilization of food and energy prices, the gradual recovery of commodity production and supply chains, and lower increases in transport costs due to high-base effects, inflationary processes have also moderated in many countries.

However, despite falling global inflation, the International Monetary Fund has revised up its forecast for global inflation to the end of 2023 compared to its January projection.

In particular, global inflation is projected to reach 5.6 percent (0.6 p.p. higher) by the end of 2023, while inflation in developed countries will amount to 3.2 percent (0.1 p.p. higher) and that of developing countries is expected to be 7.6 percent (1 p.p. higher). This, in turn, implies that global inflationary processes may persist longer than previously expected.

Figure 3.1.1. Global inflation forecast for 2023-2024



Source: IMF data.

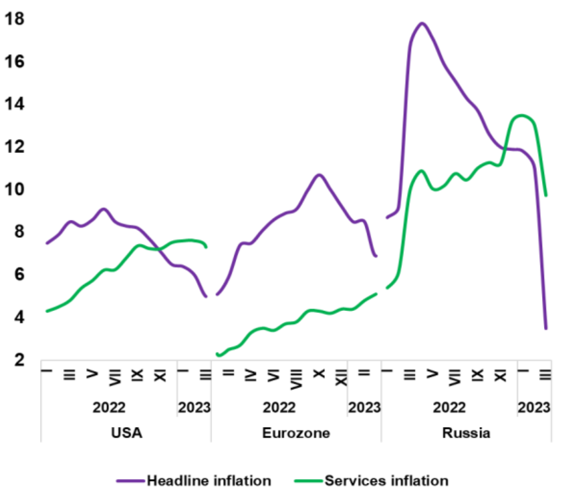
Meanwhile, inflation in developing countries is expected to decrease more slowly, which can be reasoned by a more persistent inflationary process in developing countries and low effectiveness of monetary measures due to a lack of strong market fundamentals in these countries.

Central banks in most developed and developing countries continue to stress the need for tight monetary policy in order to effectively target inflation.

At the same time, problems and potential risks in the US and European (Swiss) banking systems increased volatility in global financial and commodity markets in March. As a result, investors refocused their demand on gold in order to minimize risks. This, in turn, has influenced the price of the precious metal to rise from an average of 1,850 dollars/oz to 2,000 dollars/oz *(Figure 3.1.3).* Leading central banks continue to take rapid response measures to curb the influence of emerging issues on the global financial system.

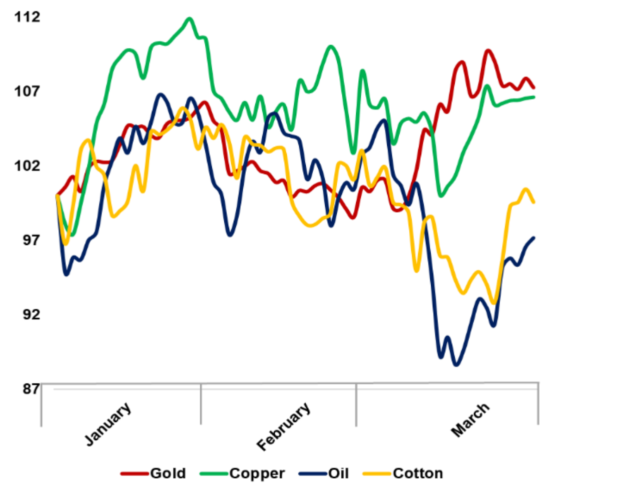
World oil prices have been developing in a certain price corridor with minor fluctuations since the beginning of the year.

Figure 3.1.2. Headline and services inflation in individual countries *(annual percentage)*



Source: IMF, April 2023.

Figure 3.1.3. Dynamics of world commodity prices in 2023 *(January 2023 = 100)*



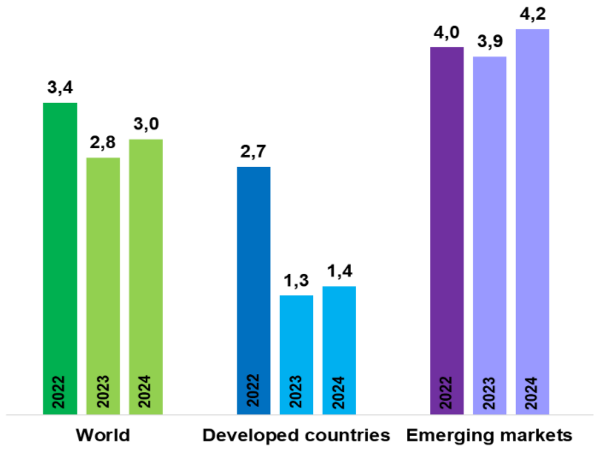
Source: IMF, Global Trade Alert World Bank.

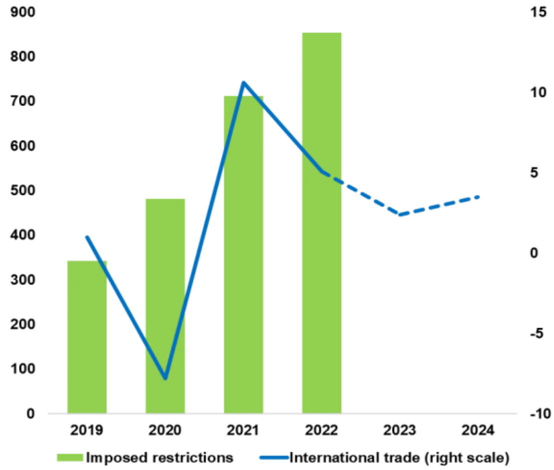
Having been fluctuating in recent months, world oil price has returned to the level of the beginning of the year. The stressful situation in the global banking and financial sector led to a sharp drop in oil prices in March, the subsequent relative stabilization of the financial situation partly offset this fall. Prices rose after several members of the Organization of the Petroleum Exporting Countries (OPEC and OPEC+) announced plans to cut oil production *(Figure 3.1.3).*

The gradual opening of China's economy led to an increase in copper prices in the first quarter. However, due to a slower demand recovery in China, copper price growth was lower than expected by economists.

Figure 3.1.4. Global growth projections *(in percent)*

Figure 3.1.5. International trade forecast *(in percent)*





Source: IMF, April 2023.

Source: IMF, Global Trade Alert World Bank.

According to updated forecasts by international financial institutions, global growth is expected to decelerate in the second half of 2023 and the first half of 2024 due to tight monetary policy in developed countries. Conversely, lifting of many pandemic restrictions in China will boost activity in 2023.

This, in turn, supports global growth and demand for commodities. Overall, global economic growth is expected to average around 2.8 percent in 2023 and 2024, accelerating to 3 percent in subsequent years *(Figure 3.1.4).*

Global trade is expected to decline from 5.1 percent in 2022 to 2.4 percent in 2023. This trend reflects cooling global demand after two years of strong growth following the pandemic and geopolitical tensions *(Figure 3.1.5).*

The effects of increased trade barriers and a stronger US dollar index in 2022 are now emerging, causing more expensive goods for many economies around the world, and raising risks of potential pressures on international trade dynamics in 2023.

In general, risks and uncertainties from the external sector are mainly related to developments in commodity markets, monetary tightening by the leading central banks and geopolitical situation.

3.2. Impact of external economic developments on national economy

In 2022, higher uncertainty in the external economy has had a profound impact on economic outcomes through various channels *(external demand*

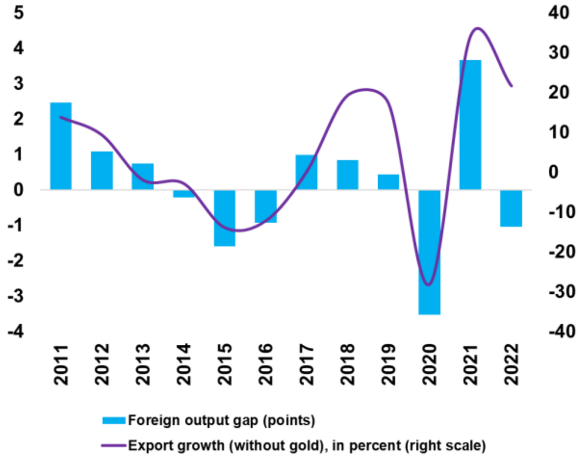
and foreign trade, exchange rates and inflation, world prices, secondary incomes, debt instruments).

Global inflation continued to decelerate in Q1 of this year and this trend is forecast to persist until the end of the year in conditions of relatively tight monetary conditions and price stabilization in global commodity markets. This, in turn, should serve as a disinflationary factor in the formation of domestic consumer prices.

In the second half of 2023 and beyond, the expected gradual lowering of uncertainties in global markets, including those of major trading partners, improved economic resilience and relative stabilization may have a positive impact on national economy.

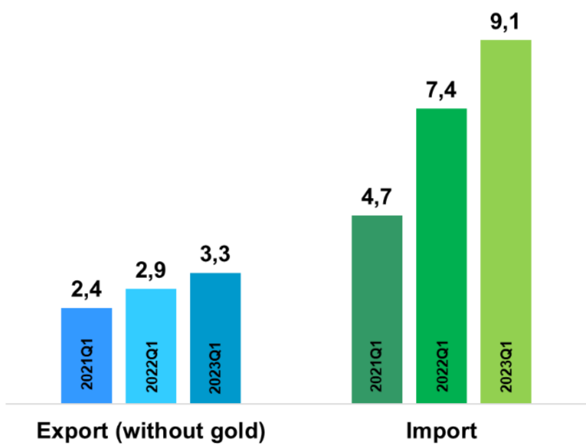
Furthermore, the expected growth of economic activity in most major trading partners (China, Russia and Kazakhstan), favorable price environment resulting from the gradual recovery of Chinese production will support external demand and, consequently, exports of goods and services *(Figure 3.2.1).*

Figure 3.2.1. Export (without gold) growth and external demand



Source: CBU calculations.

Figure 3.2.2. Export and import dynamics (billion dollars)



Source: based on Statistics agency data.

Particularly in 2023 Q1, exports (excluding gold) increased by 14.1% compared to the same period last year *(Figure 3.2.2).* In doing so, the main drivers of the overall export growth were a 15% increase in exports of fruit, a 40% rise in textile products, a doubling of machinery and equipment, and a 2.5-fold growth in travels.

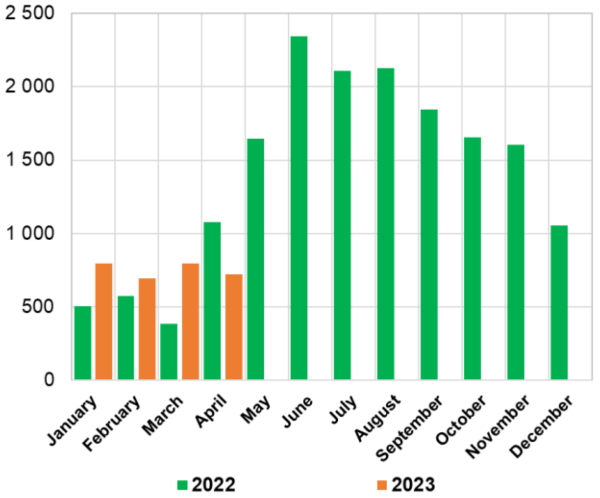
The volume of imports increased by 23.1% year-on-year. The considerable increase in imports is related to offsetting the reduction in supply due to disruptions in production caused by the energy crisis at the beginning of the year by imports, as well as strong economic growth.

Cross-border remittances are one of the key external channels affecting the economy and consumer demand in the country.

Given the low base in early last year (largely due to a sharp devaluation of the ruble in March), remittances in the first four months of 2023 amounted **to 3 billion USD,** up 19% year-on-year.

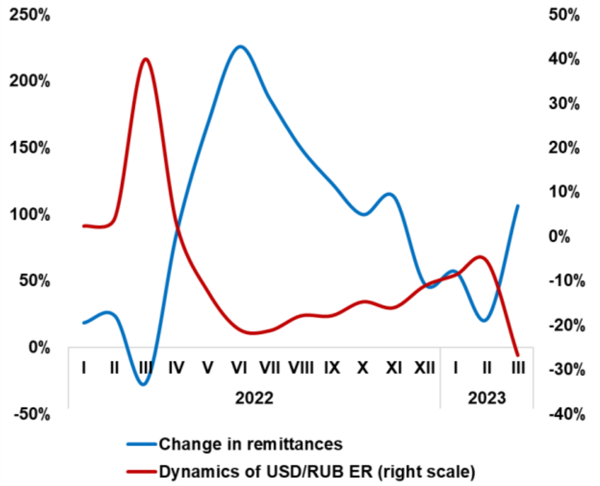
In the context of ruble depreciation in the first quarter of this year and its stabilization in the coming periods, remittances are projected to follow a long-term trend from the second quarter onwards. Due to shocks and high base effects of 2022, remittances are expected to decline in the remainder of 2023 compared to the previous year.

Figure 3.2.3. Dynamics of cross-border remittances



Source: CBU calculations.

Figure 3.2.4. Cross-border remittances and USD/RUB exchange rate



Source: CBU calculations.

As a result of tighter monetary conditions in developed countries and continued tightening phase, substantial rises in interest rates on borrowing and debt service may put pressure and cause some difficulties in attracting extra external financing and debt instruments in the coming periods.

Box 5.

Problems and countermeasures in the banking system of some leading countries

The problems in the U.S. and Swiss banking systems in March of this year were among the most serious since the global financial crisis. Due to the long period of low interest rates after the global financial crisis and sharp tightening of monetary conditions by the world's leading central banks there are challenges in the risk management of banks' securities and loan portfolios.

In the United States, commercial banks have large amounts of long-term bond investments on their balance sheets, and an interest rate hike by the Federal Reserve (Fed) has caused the market price of these bonds to fall. As a result, bond revaluation costs increased banks' losses and worsened their financial condition. A similar situation was observed at Silicon Valley Bank (SVB) in the United States.

SVB has a 40-year history in the U.S. and was the 16th largest bank by assets at the beginning of the year. The bank mainly financed startup projects related to venture capital, technology and life sciences companies, and this high concentration was affecting the bank's activity.

Figure 1. Dynamics and structure of SVB assets

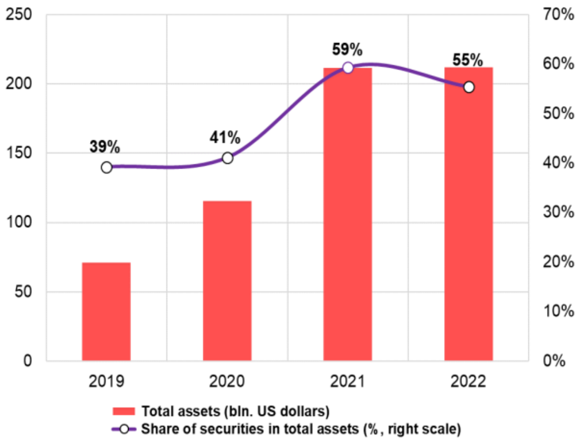
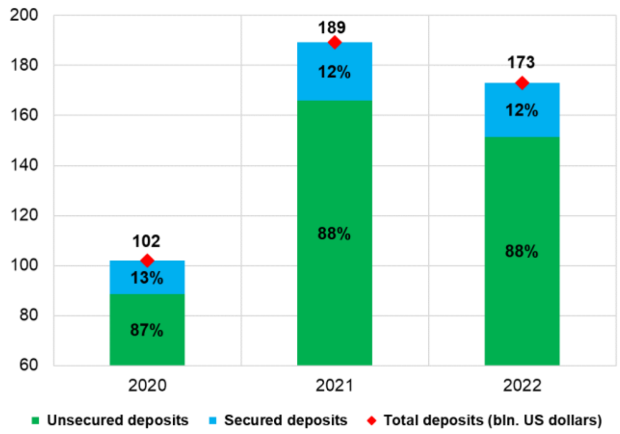


Figure 2. Dynamics and structure of SVB deposits



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Source: Financial reports of SVB (https://www.svb.com/).

After the pandemic, the deposit base of SVB grew at a high pace, and the deposit portfolio increased 2.8 times over the last 3 years. The bank invested these funds mostly in securities, and the volume of securities on the balance sheet increased 4.2 fold in the last 3 years (Figure 1).

Amid tightening monetary conditions in the U.S. economy, the venture capital market weakened, and venture capital funding declined from $94 billion in Q4 2021 to $36 billion in the corresponding period in 2022. Despite a decline in market activity, SVB clients continued to spend money, which resulted in a significant outflow of deposits.

To improve liquidity, SVB started selling its securities at a loss, and on March 8 this year, to strengthen its balance sheet, it announced the issuance of additional shares worth $2.25 billion. Due to panic among investors, the bank's stock price plummeted, and more than 42 billion dollars worth of deposits were withdrawn only

March 9. This was related to the fact that 88 percent of the bank's deposits were non-guaranteed deposits *(Figure 2).*

A similar situation was observed at Signature Bank (SB), where crypto-assets accounted for a large part of the bank's investment portfolio, and the collapse of the cryptocurrency company FTX (in November 2022) worsened the bank's financial situation. As a result of SVB's downfall, deposits were withdrawn from that bank as well, and the bank's liquidity could not cover the large outflow of deposits.

As a result, SVB and SB declared bankruptcy on March 10 and on March 12, in turn. SVB was placed in trust with the Federal Deposit Insurance Corporation. According to the joint statement of the U.S. Treasury, Federal Reserve and Federal Deposit Insurance Corporation, all depositors of these two banks will be able to withdraw their funds from March 13.

In turn, to prevent this problem from becoming systemic, the Fed introduced a "Term Bank Funding Program" to provide additional funds to depository institutions to meet depositor demand, and announced that liquidity would be provided at an "overnight rate + 0.1%" for up to 1 year under a guarantee at nominal value of securities.

Later, in order to efficiently arrange the liquidation of these banks, SVB's 72-billion-dollar loan portfolio was sold to First Citizens Bank with 56 billion dollars in deposits (23% discount). SB's 70-billion-dollar loan portfolio was sold to JP Morgan Chase with 60 billion dollars in deposits and 2.5 billion dollars in cash and stock payments (11% discount).

Credit Suisse (CS) is a global systemically important bank whose problems started much earlier. In 2021, the collapse of investment funds Archegos and Greensill Capital, the bank's clients, cost the bank 5 billion dollars, causing a loss. Also by the end of 2022, a loss of almost 8 billion dollars was recorded as a result of a decline in the market value of the bank's assets and as its major clients left.

The market value of the bank's shares fell sharply in March after the bank's largest shareholder, the National Bank of Saudi Arabia, declared no further investment.

Due to the systemic importance of the bank, the Swiss National Bank announced the allocation of 54 billion dollars and liquidity support. However, due to the continued outflow of deposits, at the initiative of the Swiss National Bank, the bank was completely sold to Union Bank of Switzerland for 3.5 billion U.S. dollars.

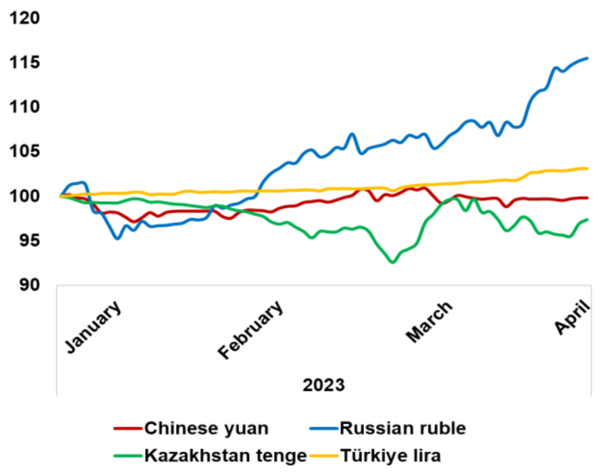
These problems in the U.S. and Swiss banking systems have led to increasing risks to financial stability and a macroprudential policy agenda. Despite prompt measures taken by the central banks of these two countries, the risk of financial instability and global banking crisis remains high.

Box 6.

Inflation in major trading partners

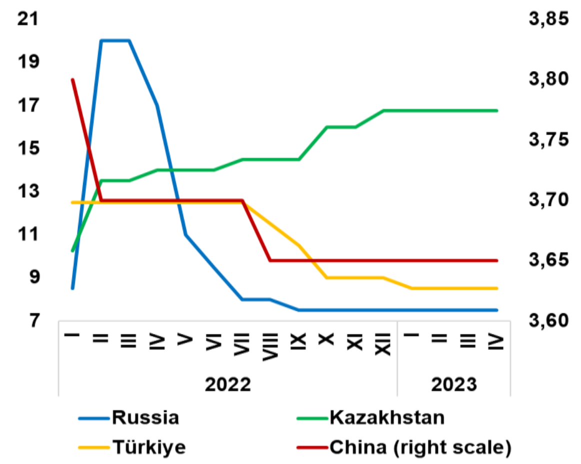
In Kazakhstan and Turkey, our main trading partners, there has been high inflation, in contrast, in China and Russia, these indicators have been forming within the target range.

Figure 1. Exchange rate dynamics of major trading partners *(January 2023 = 100)*



Source: IMF, April 2023.

Figure 2. Policy rate dynamics of major trading partners *(in percent)*



Source: Central banks of related countries.

In March, the annual inflation rate in Russia was below 4% owing to the high base effect of the previous years. According to the Bank of Russia, a decline in inflation to this level is temporary and prices will rise in the coming months under the influence of continuing upward pressure. At the end of the year, the inflation rate is expected to be higher than the target (5-7%).

Although inflation **in Kazakhstan** marginally decelerated in March, proinflationary risks remain high. In this regard, climate-related changes, as well as higher transportation costs, cause food and non-food inflation.

Meanwhile, there are increasing concerns regarding further inflationary effects in Kazakhstan. In particular, price increases in regulated goods and services and their primary and secondary effects, as well as expectations of higher government spending may put additional inflationary pressure.

At present, the inflation rate is projected to continue falling until the end of the year in the context of fading high-base effect of last year and easing of external inflationary pressures.

In 2023 Q1, the annual inflation rate in Turkey declined as a reslt of price decreases in almost all groups of goods and services due to the high base effect of the previous year.

Inflation in China has been steadily low. Lifting pandemic-related restrictions at the beginning of the year could be one of the factors driving economic activity. This, in turn, supports consumer demand and puts some pressure on prices. However, there are no strong proinflationary risks in the near and medium term.

The current relatively low level of inflation allows the People's Bank of China to maintain favorable and accommodative monetary environment to stimulate economic activity.

IV. MONETARY CONDITIONS

In 2023 Q1, **monetary conditions** in the economy remained **moderately tight,** with the central bank's policy rate **at 15% per annum** until mid-March and its reduction **to 14% per annum** at the board meeting on 16 March, in view of the expected downward trend in inflation.

During this period, increased public spending was a major factor raising liquidity in the banking system and, due to a sharp demand growth in the domestic foreign exchange market, central bank interventions contributed to lower liquidity. As a result, the amount of additional liquidity in the system declined during the quarter, thus serving to reduce the impact of monetary factors on inflation.

There was also a strong increase in banks' activity on the money market, with weighted average interest rates on deposit transactions forming within the interest rate corridor during the quarter. Meanwhile, the number of transactions in the interbank REPO market rose from March, and banks started requiring collateral for liquidity exchange transactions. Increasing activity on these markets contributes to the effectiveness of the central bank's policy rate decisions for the money market and ultimately for the economy.

During the quarter, the exchange rate of the soum against the US dollar was relatively stable, depreciating by 1.9%. As a result, a slight appreciation of the real effective exchange rate also serves to maintain moderately tight monetary conditions.

Overall, continued savings activity, balanced growth of loans to the economy and stable dynamics of the national currency exchange rate serve to mitigate the impact of monetary factors on inflation by ensuring moderately tight real monetary conditions in the economy.

4.1. Monetary policy measures and their transmission to the money market

At the Board meeting in January 2023, the central bank's policy rate was left unchanged in view of the risks and uncertainties associated with prevailing inflation factors and the external economic environment. At the March meeting, the policy rate was lowered to 14% due to increasing confidence in the downward trend of the inflation forecast, features of some inflation factors, lower inflation expectations of households and a higher probability of inflation forming within the forecast corridor of 8.5-9.5% by the end of the year.

As a result, the real level of the Central Bank's policy rate, calculated based on the inflation forecast for the next period, decreased **to 2.6%** in March and serves to ensure **relatively tight** monetary conditions *(Figure 4.1.1).*

Figure 4.1.1. Central Bank policy rate dynamics in nominal and real term[1]

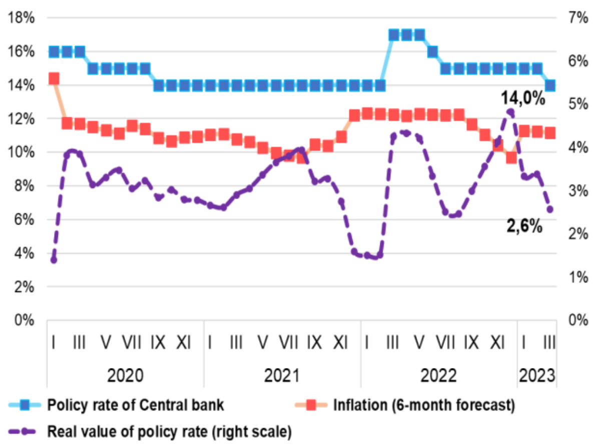
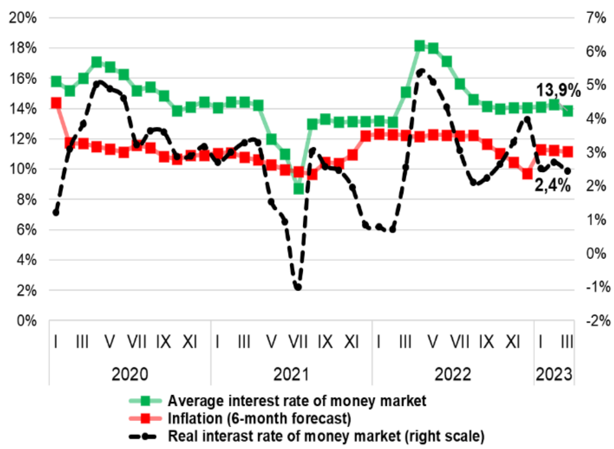


Figure 4.1.2. Dynamics of interbank money market interest rate in nominal and real term



Source: CBU calculations.

Transmission of the policy rate decision into money market interest rates was slightly faster and market interest rates also fell by 1 percentage point over the last ten days of March to an average of 13.9% in March. During the reporting period, money market interest rates fluctuated around **2.5 percent** in real terms, forming a range adequate to ensure moderately tight conditions *(Figure 4.1.2).*

Figure 4.1.3. Volume of money market operations *(trillion soums)* **and their interest rate**

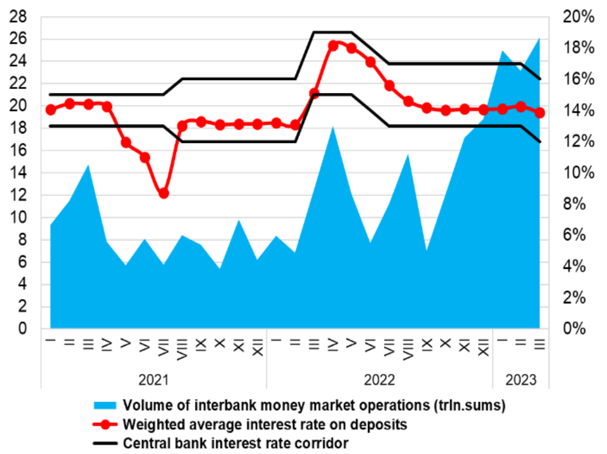
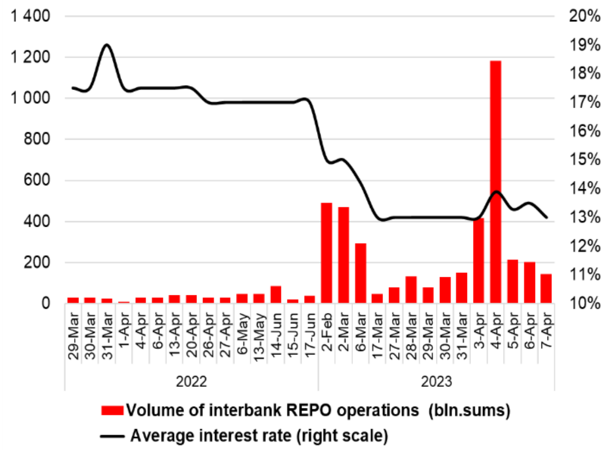


Figure 4.1.4. Volume of interbank REPO operations *(billion soums)* **and their interest rate**



Source: CBU calculations.

[1] Real interest rates were calculated using 6 months ahead inflation forecasts (by the ARIMA model)

In the Q1 of this year the activity of commercial banks in the interbank money market has greatly increased. In particular, banks conducted transactions for 74.3 trillion soums or 1.5 times more compared to the last quarter of the previous year (2.7 times more compared to the corresponding period of last year). Banks' activity in the money market is driven by lower extra liquidity and improved efficiency of liquidity management in banks *(Figure 4.1.3).*

Moreover, over the reporting period banks' activity in the REPO market rose significantly, amounting to 1.9 trillion soums (531 billion soums in 2022). Weighted average interest rate in the interbank REPO market amounted to 13.9% in March *(Figure 4.1.4).*

The benchmark "UZONIA" rate was formed close to the policy rate, fully within the interest rate corridor during the period under review. The formation of "UZONIA" marginally below the policy rate almost without fluctuations was due to the high level of general liquidity and pricing by the banks *(Figure 4.1.5).*

In turn, the dynamics of the UZONIA term rates also adjusted to the change in the policy rate. In particular, 7- and 30-day "UZONIA" rates were close to the overnight rates within the range of 14-14.1% until lowering of the policy rate. The 90- and 180-day UZONIA rates had a declining trend in the range of 14-15% due to the change of the policy rate and its previous dynamics. This situation reflects a gradual adjustment of long-term interest rates associated with the decrease of overnight interest rates *(Figure 4.1.6).*

Figure 4.1.5. UZONIA dynamics

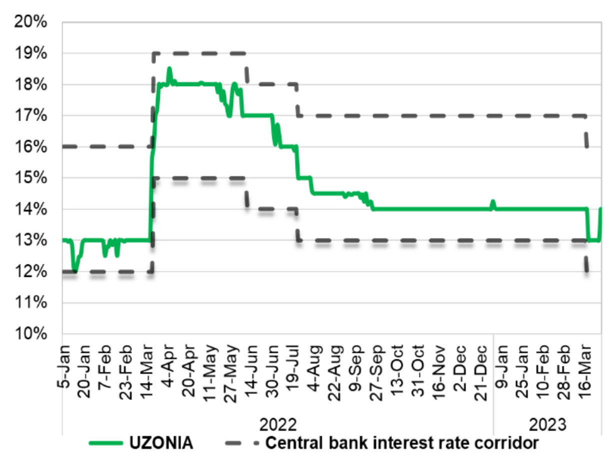
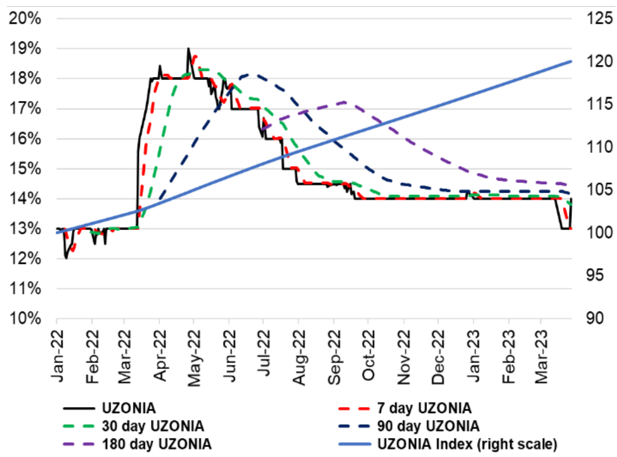


Figure 4.1.6. Compound UZONIA and UZONIA Index



Source: CBU calculations.

4.2. Analysis of deposits and interest rates

In 2023 Q1, the total volume of deposits in national currency decreased by **1.5%** (or 1.5 trillion soums) and those in foreign currency fell by **9.8%** (or 4.9 trillion soums). Decrease in deposits is seasonal and explained by a sharp increase in demand for foreign currency from legal entities to carry out import payments.

Growth momentum was observed in total deposits of individuals, which increased by 3.3% over the period to 60.5 trillion soums. Deposits in national currency rose by 3.6% (1.6 trillion soums), of which term deposits added 10.8% (2.4 trillion soums).

Given the current real interest rates on deposits in national currency and the expected stable exchange rate dynamics, household deposits in national currency are projected to continue growing in the coming quarters.

Figure 4.2.1. Nominal interest rates on term deposits in national currency

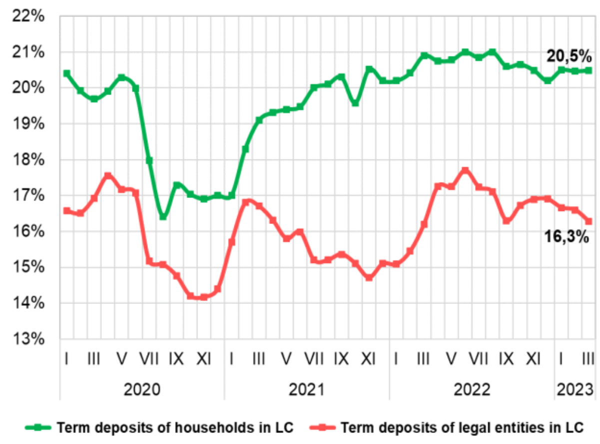
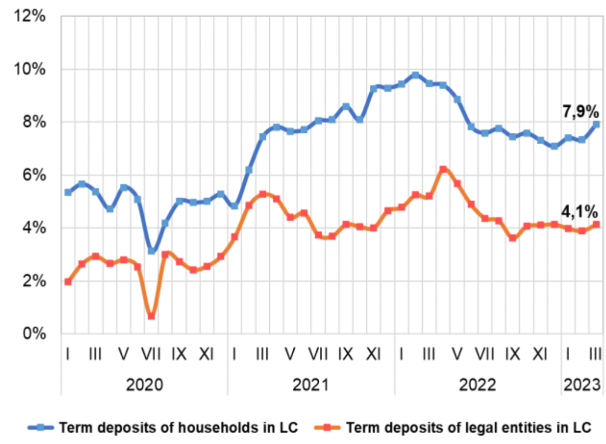


Figure 4.2.2. Real interest rates on term deposits in national currency



Source: CBU calculations.

In March, the average nominal interest rates on deposits of individuals increased **to 20.5%,** and those of legal entities rose to **16.3%** *(Figure 4.2.1).*

Real interest rates on term deposits in national currency (adjusted for inflation) reached 7.9% for individuals and 4.1% for legal entities in March *(Figure 4.2.2).*

A 4-5 percentage point increase in real interest rates on term deposits of individuals in the national currency compared to their inflation expectations is one of the main factors increasing savings activity and balancing aggregate consumption.

4.3. Analysis of loans and interest rates in the economy

In 2023 Q1 the stock of loans in the economy increased by **5.4 percent** (21.9 trillion soums) to **424.9 trillion** soums. Excluding exchange rate movements, loans to the economy rose by 4.6%.

The volume of loans in national currency increased by 6.7% (14.7 trillion soums) during the quarter, with a share of 55% in total loans *(Figure 4.3.1).* That is, the level of loan dollarization amounted to 45% at the end of the quarter, being one of the main factors limiting the effectiveness of monetary policy.

Figure 4.3.1.Dynamics of loans to the economy and its components *(trillion soums)*

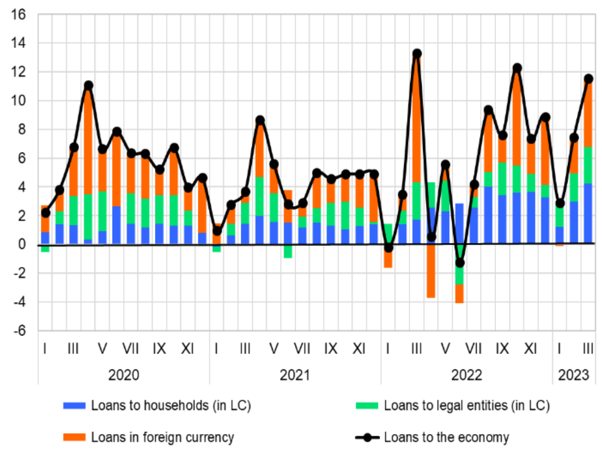
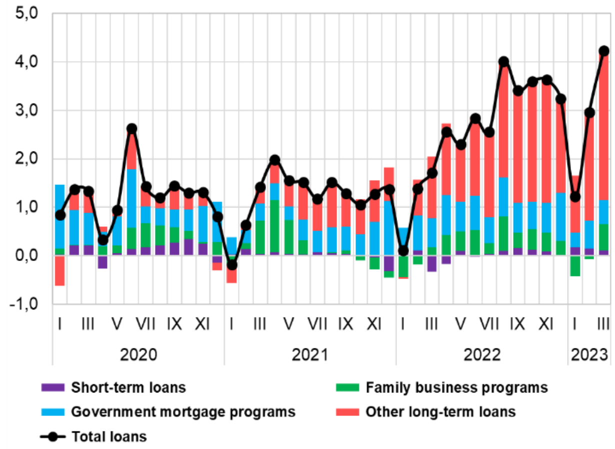


Figure 4.3.2. Change in stock of loans to individuals *(trillion soums)*



Source: CBU calculations.

The stock of loans to individuals increased by **8.3%** (8.4 trillion soums) over the quarter, and the share of retail loans in total loans deposits at the end of the quarter amounted to **25.7%** *(Figure 4.3.2).*

In 2023 Q1 commercial banks allocated 53.6 trillion soums or 42% (15.8 trillion soums) more loans to the economy comparing to the same period of 2022. At that, loans to individuals increased by 1.8 fold, with car loans, mortgage loans and microloans having relatively high shares.

The key factors in the formation of interest rates on loans are the inflation rate, price of resources on the money market, inflation expectations of economic entities and the deposit interest rates.

Throughout the quarter interest rates on loans in local currency ranged between **21** and **23 percent.** In March, the weighted average interest rate on short-term loans in the national currency amounted to 22.1% and that on long-term loans was 22.8% *(Figure 4.3.3).*

Figure 4.3.3. Nominal interest rates on loans in national currency

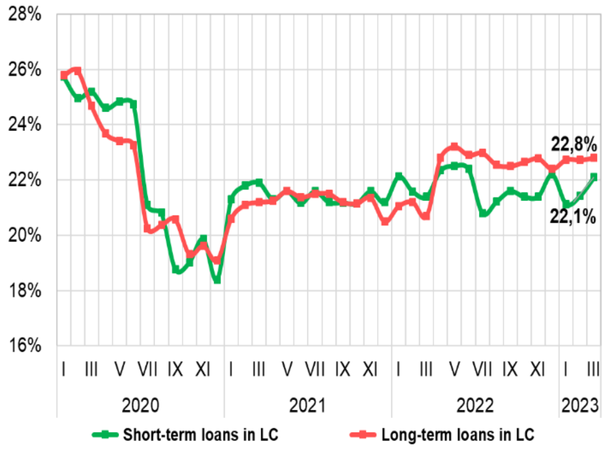
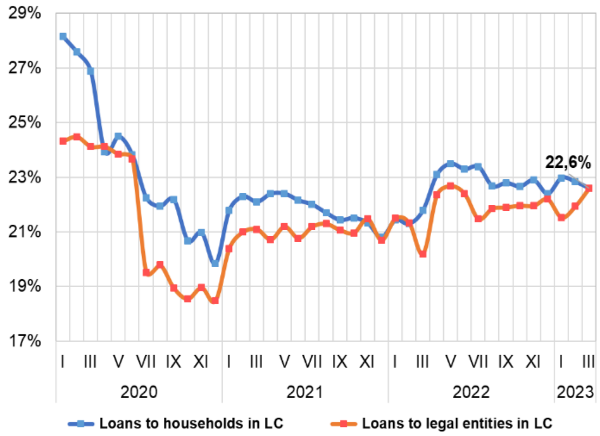


Figure 4.3.4. Nominal interest rates on loans in national currency



Source: CBU calculations.

Meanwhile, the weighted average interest rate on loans to individuals and legal entities in the national currency equaled 22.6% in March *(Figure 4.3.4).*

Box 7.

Dynamics of money aggregates and deposits

In 2023 Q1, total money supply decreased by 4.4% to 180.8 trillion soums. This decline in money supply is seasonal, for instance there was no money supply growth in Q1 2020, while in the same period of 2021-2022 this indicator fell by 1.4% and 4.7%, respectively *(Figure 1).*

During the quarter, the amount of cash in circulation went down by 4.5% with a 22.3% share in the total money supply. The decrease in the amount of cash in circulation is also considered seasonal. Usually, the population's demand for cash declines slightly in the first quarter of a year and recovers in subsequent quarters. For comparison, in Q1 2021-2022 the amount of cash in circulation decreased by 9.6% and 2.8% accordingly.

Figure 1. Dynamics of money supply and its components *(trillion soums)*

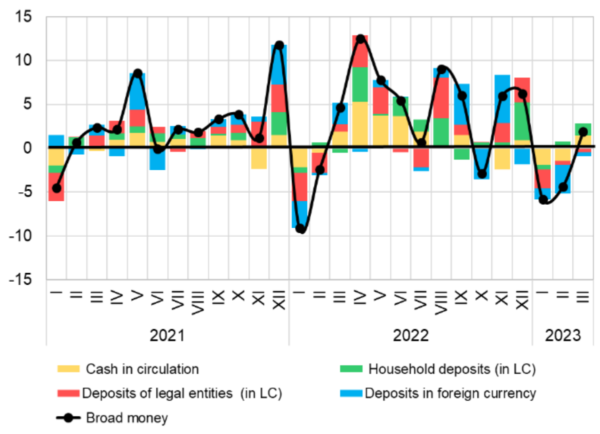
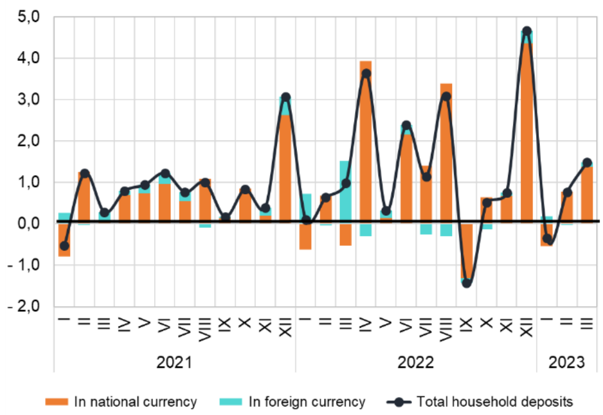


Figure 2. Dynamics of household deposits *(trillion soums)*



Source: CBU calculations.

For the quarter, deposits of legal entities in national currency also dropped by 6% which was almost 2 times lower than in the same period of the previous year (11.1%). This drop is caused by a significant increase in purchases of foreign currency by legal entities to carry out payments for imports and foreign debt. In doing so, deposits in foreign currency were allocated directly for payments on imports, while deposits in national currency served to finance foreign trade and debt repayment through conversion. As a result, deposits of legal entities in foreign currency fell by 15.9%, or 515 million US dollars, excluding the exchange rate effect.

In the structure of monetary aggregates there was an upward trend in household deposits. In January-March, deposits in national currency increased by 3.6% whereas term deposits rose by 10.8%. The annual growth rate of term deposits equaled 1.7 fold *(Figure 2).*

Rapid growth in household deposits over the last 2-3 years is driven by high real interest rates on deposits in local currency, stabilized inflation and a relatively stable exchange rate of the national currency. In addition, the introduction by most commercial banks of user-friendly mobile applications after the pandemic allows residents to manage their savings remotely.

Generally, since the second half of 2022, due to tightening of external financial conditions, commercial banks started to attract domestic resources, which is reflected in high growth rates of deposits and total money supply. Particularly, over the last 2 years an annual increase in money supply amounted to about 30%.

This year, the money supply is expected to rise by 18-20%, provided there is a balanced increase in cash in circulation and high growth rates of term deposits. After a seasonal reduction in Q1 of the year, there is a high probability of a return to the upward trend in the coming quarters.

Dynamics of imports and demand for foreign currency are among the major factors determining the dynamics of deposits of legal entities, while savings activity of individuals depends on the inflation, exchange rate and interest rates on deposits.

V. MEDIUM-TERM MACROECONOMIC FORECASTS

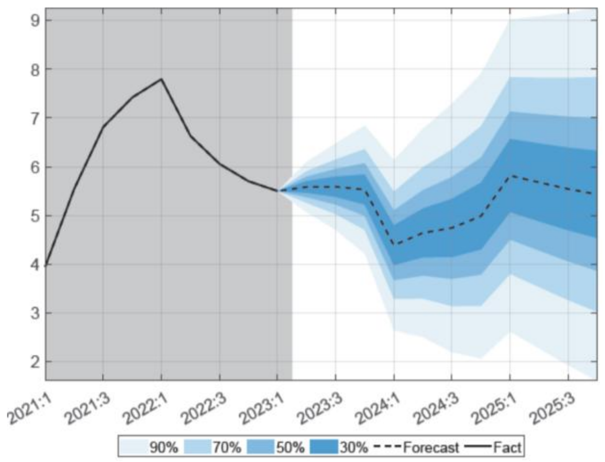
5.1. Expected internal macroeconomic developments

Based on statistics from 2023 Q1, the level of economic activity, the economic outlook for major trading partners, expectations on world prices for key export and import commodities and their impact on the economy, the Central Bank has revised its medium-term macroeconomic development forecasts.

According to the baseline forecast from the beginning of the year, real GDP growth was expected to slightly slowdown in the first quarter of this year and reach around 4.5-5% by the end of the year. A likely decline in economic growth in the first quarter was attributed to seasonal factors, including somewhat lower economic and consumer activity at the beginning of each year, as well as the influence of abnormal weather conditions on production.

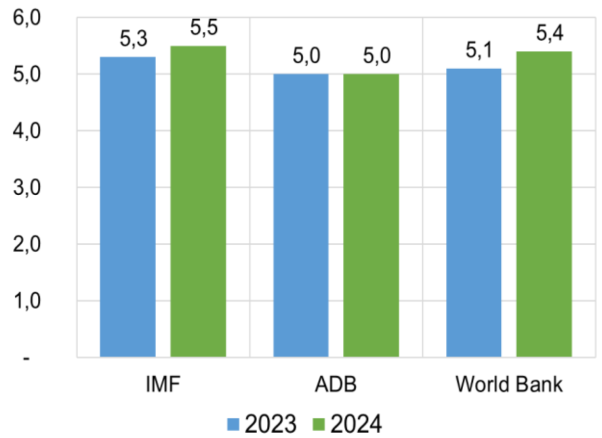
However, this negative output gap has been partially narrowed by higher economic activity in February and March, effective government measures to further support economic sectors, and a strong increase in loan allocation.

Figure 5.1.1. Real GDP forecast, *in percent*



Source: CBU.

Figure 5.1.2. Real GDP projections by international organizations, *in percent*



Source: CBU.

Taking into account the current indicators of economic activity and the factors behind it, the Central Bank forecasts real GDP to grow by 1.0-1.5 percentage points above the baseline scenario (4.5-5.0%) presented in the "Monetary Policy Guidelines for 2023 and the period 2024-2025" by the end of 2023 *(Figure 5.1.1).*

International financial institutions have also updated their forecasts of country growth to reflect current economic conditions. In particular, according to the International Monetary Fund's World Economic Outlook April 2023, Uzbekistan's economy is expected to grow by 5.3% in 2023 and 5.5% in 2024 *(Figure 5.1.2).*

This year, the main factors supporting economic growth are expected to be higher household incomes, increased foreign investment and a consistent continuation of the privatization process.

Economic growth is expected to reach its potential as the “negative” output gap closes in the coming years.

Foreign trade is projected to remain stable in 2023, with exports (without gold) and imports growing by **13-17 percent** and **14-15 percent,** respectively.

The central bank closely monitors the national economy and external sector and updates medium-term macroeconomic projections to reflect ongoing developments.

5.2. Inflation forecast and monetary policy measures

Starting this year, amid easing of external risks, the increasing effects of imported inflation in our country have started to subside, and there has been a relative deceleration in inflation indicators.

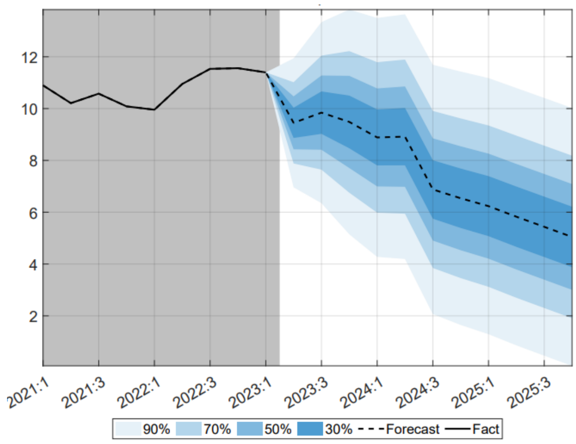
Although the balancing external market is a positive development in terms of lower prices, high consumer demand in the country and challenges with food supply suggest that internal inflation risks may persist.

High fiscal stimulus implemented in 2022 and a surge in remittances inflows into the economy, as well as continued strong growth in consumer loans this year, will be the key drivers of aggregate demand for the rest of the year.

Inflation is projected to range between 8.5-9.5% by the end of this year, within the baseline scenario presented in the Monetary Policy Guidelines for 2023 and 2024-2025 *(Figure 5.2).* Lower external and internal inflation risks in the coming years will serve to bring the inflation rate to the target range.

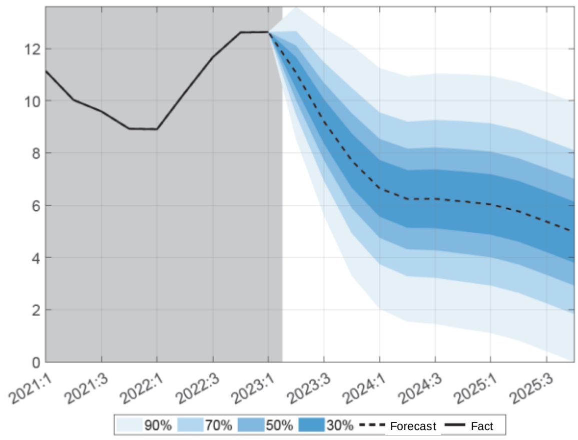
Core inflation is projected to approach the target in the coming years through stabilization of imported inflation and production costs of enterprises in the economy, which are among the major factors influencing core inflation *(Figure 5.2.2).*

Figure 5.2.1. Headline inflation forecast, *in percent*



Source: CBU.

Figure 5.2.2. Core inflation forecast, *in percent*



Source: CBU.

On the other hand, continued uncertainty about future inflationary developments in the world and major trading partners, coupled with supply shortages, may cause short-term fluctuations in domestic prices.

Significantly higher core inflation than headline inflation indicates that inflationary pressures are of a longer-term nature and monetary conditions must be maintained moderately tight for a longer period of time.

Therefore, the Central Bank will maintain the current monetary conditions until the end of this year while ensuring a positive level of real interest rates on the money market of at least 2-3%. In this case, if inflation declines, decisions can be made to reduce nominal interest rates.

Conversely, in case of a considerable escalation of inflationary pressures due to external or domestic economic shocks, the central bank will take measures to further tighten monetary conditions. However, the probability of such proinflationary risks under the baseline macroeconomic scenario is rather low.

Box 8.

Key assumptions used in forecasting the external economy

- In the second half of 2023, global markets will be relatively stable, with a slight slowdown in economic activity as the full effect of tightening monetary conditions is expected to emerge in the coming quarters.
- Gold price has been revised to 1850-1950 dollars per ounce due to ongoing risks in the banking sector of developed countries and negative investor expectations.
- In the second half of 2023, oil prices are forecast to fall modestly and copper prices are projected to rise steadily amid slowing global economic growth and a weaker-than-expected recovery in China.
- The Food Price Index (FAO) is predicted to stabilize at current levels and global food prices are expected to continue influencing domestic prices for some time.
- External economic relations with major trading partners will follow current trends. Meanwhile, the gradual recovery of private consumption in China might positively impact Uzbekistan's exports.
- Inflation is decelerating in Russia, Kazakhstan and Turkey. The Bank of Russia forecasts inflation at 4.5-5.5% by the end of 2023, while the inflation projections by National Bank of Kazakhstan and the Central Bank of Turkey amount to 9-12% and 22.3%, respectively. China's inflation will accelerate marginally, fluctuating around 3%, as a result of stronger aggregate demand.
- Continuation of the current dynamics in the exchange rate of the Russian ruble (75-80 RUB/USD), the Kazakh tenge stabilizing at the level of Q1 and a slight depreciation of the Turkish lira as a result of the accommodative monetary policy.
- There will be no pressure on REER, which is expected to be relatively stable.

Prepared by the Monetary policy department.

The English version is a translation of the original in Uzbek and has been prepared for information purposes. In cases of discrepancies, the original Uzbek version shall prevail.

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