PRESS CONFERENCE
Questions and Answers

QUESTION 1

At today's meeting, the option of lowering the key rate was also discussed, but the rate was left unchanged at 14 per cent. At the same time, some tariffs are being raised and further increases are expected. How will these tariff changes affect inflation? Taking this factor into account, was the question of raising the key rate also considered? If the impact of tariffs on inflation proves more significant, is the Central Bank ready to respond by raising the key rate?

ANSWER

First of all, at today's Board meeting two options were discussed — keeping the key rate at 14 per cent or lowering it to 13.5 per cent. That is, the reduction option was 13.5 per cent, not 13 per cent.

According to our calculations on tariff changes, their impact on inflation is expected to be mainly first-round and short-term, and relatively limited in scale. For this reason, the option of raising the key rate was not considered in today's Board discussion. The expected tariff changes and their impact on prices have already been taken into account in the decision to keep the rate at 14 per cent.

The main focus here is not so much on the direct, one-off effect of tariff increases as on their possible second-round effects on the prices of other goods and services and on inflation expectations. Maintaining the current tight monetary conditions was considered appropriate precisely to mitigate these second-round effects and prevent broader inflationary pressures from emerging.

At the same time, the fact that the option of lowering the rate to 13.5 per cent was discussed also shows that certain positive trends are emerging in the economy. In particular, inflation expectations of households and businesses are declining, core inflation is relatively stabilising, and positive trends are also observed in the foreign exchange market. These factors provide some grounds for assessing the possibility of lowering the rate.

If these trends strengthen further and confidence in a sustained decline in inflation grows, the question of lowering the key rate may also be considered at subsequent Board meetings. The data, forecasts and expectations currently available do not indicate a need to raise the rate. In our assessment, the 14 per cent key rate is sufficient under current conditions and will help keep the impact of tariff changes on inflation relatively short-lived and limited.

QUESTION 2

Even though the key rate is unchanged, loan interest rates at commercial banks remain high. What are the main reasons for this? Could lending rates fall in the future, and when might this happen? From what we observe, interest rates on some loan products at banks range from about 20 per cent to 38 per cent.

ANSWER

First, it is important to look at the dynamics of lending rates over a longer period. Time series show that there is a downward trend in average interest rates. For example, compared with August 2023, average lending rates have fallen by about 2–3 percentage points. Of course, rates are not the same for all types of loans: they vary depending on the purpose, maturity and collateral of the loan.

Rates on investment loans are relatively lower. A decline is also observed in the market for long-term loans, in particular mortgages. Three or four years ago, some mortgage loans carried rates of 24–25 per cent, whereas now offers of around 18 per cent can be found in the private market segment. This is an example of the gradual decline in rates on long-term loans.

Relatively high rates persist mainly on unsecured loans issued quickly, including online microloans and consumer loans. Rates are declining in these segments as well, and we publish these dynamics regularly. However, there are several economic reasons why they remain higher than for other types of loans.

The first reason is the demand for credit that accumulated over many years. In the past, particularly before 2012, the volume of lending to households and the scale of lending to individuals were very limited. As lending opportunities expanded, the large unmet demand of earlier years entered the market. The rapid growth of demand, especially in consumer loans and microloans, put upward pressure on interest rates.

Signs of rebalancing are now visible. The credit market is gradually becoming saturated, and the imbalance between demand and supply is narrowing. In such conditions, interest rates may also gradually approach equilibrium levels. Within the Central Bank's three- to four-year macroeconomic forecasts, not only the key rate but also market interest rates on deposits and loans are expected to decline. To better explain changes in rates, we can also provide detailed dynamics for their individual types.

The second important factor is banks' resource base. In the previous decade, the volume of savings in the economy was very low. Because banks' domestic deposit base was relatively small, resources were insufficient to finance rapidly growing credit demand. To lend, banks have to raise funds either from domestic deposits and other sources or from external markets. When resources are limited and costly, lending rates are higher.

From 2017–2018, the scale of savings in the economy began to expand. Today, bank deposits are growing at a high rate; by some measures, growth is approaching 45 per cent. The expansion of the deposit base increases banks' sources of funds for lending. A greater supply of resources will, over a longer period, affect their cost and, as a result, lending rates.

Deposit interest rates are also declining. Previously, more banks offered rates above 18 per cent; now such offers have decreased significantly, and many rates are at or below around 18 per cent. As

inflation declines and macroeconomic stability strengthens, conditions will be created for deposit and lending rates to fall further.

At the same time, it takes time for the market to adjust to these changes. Demand accumulated over many years, limited resources and changes in the structure of the credit market will not disappear overnight. A transition period in which demand and supply are rebalancing is now under way. Over the next three to four years, this rebalancing is expected to continue and to exert downward pressure on interest rates.

We are working with international financial institutions to strengthen market mechanisms for lowering rates. The medium-term directions of monetary policy envisage measures such as introducing instruments based on floating interest rates, further developing the money and financial markets, and expanding competition in the credit and deposit markets. These will help strengthen the link between money market rates and banks' longer-term lending rates.

It is also necessary to understand the role of the key rate correctly. The 14 per cent rate does not directly set the price of credit at an individual bank. It is set primarily in response to the level of inflation and inflation expectations in the economy. As inflation and expectations decline steadily, the opportunity to ease the key rate also arises. But these decisions are taken on the basis of economic conditions and inflation risks.

There are positive trends. Core inflation has fallen to 5.5 per cent, one of the lowest levels observed since 2022. This indicator was previously around 14.5–15 per cent. The approach of core inflation to the target level and the decline in headline inflation and inflation expectations create a basis for further declines in interest rates in the economy.

However, it is natural for differences between credit segments to persist. Loans issued quickly and without collateral involve higher risk, so their rates may remain above average market rates. Stronger competition in the banking system, more new loan products and services, including the entry of new participants into the market, will gradually help lower rates in these segments as well.

> **QUESTION 3**
>
> *To what extent are the results of surveys of household and business inflation expectations taken into account when reviewing the key rate? Which aspects of these surveys help the Central Bank make the relevant monetary policy decisions?*

ANSWER

Inflation expectations are one of the most important indicators in our monetary policy decisions and macroeconomic forecasting. Since the introduction of the macroeconomic forecasting system, we work within eight key rate decisions a year, four of which fall within core forecasting rounds. In preparing each core report, inflation expectations are examined separately on the basis of both economic models and expert assessments. Sometimes the level of expectations may be high, but the direction and composition of their changes provide important information about future inflationary processes.

The main reason is that the effect of monetary policy appears in the economy not immediately but after a certain time. The full effect of a decision taken today usually takes shape over a period of

about 16–18 months. Some financial products may be directly linked to the key rate: for example, if the rate were lowered to 13.5 per cent, lending rates under such contracts could change accordingly. In other credit and financial segments, the effect emerges gradually through the money market, the financial market, the foreign exchange market and other transmission channels. This is why assessing inflation expectations is particularly important.

Alongside the expectations of households and businesses, since last year we have also been regularly studying the inflation expectations of financial sector experts. These are three important groups: households, business representatives and financial sector experts. According to the latest results, experts' inflation expectations for the next year are around 6.3 per cent. This is significantly lower than the expectations of households and businesses. Households' expectations fell to 8.7 per cent in the last month. The surveys are conducted monthly. It is precisely the downward trend in expectations that was one of the factors behind the discussion at the Board meeting of the option to lower the key rate to 13.5 per cent.

If this decline continues among households, businesses and experts, the grounds for lowering the rate will be further strengthened in the forecasts and analytical materials prepared for upcoming Board meetings. In such conditions, our team may also formulate relevant proposals and submit them to the Board for discussion. However, attention will be paid not only to the one-month reading of expectations but also to their stability and consistency with other macroeconomic indicators.

An important change is also observed in the composition of expectations. In previous years, one of the strongest factors shaping them was the exchange rate. In particular, in the period up to 2025, exchange rate changes accounted for about 60 per cent of the factors determining inflation expectations. During that period, many people had the impression that the exchange rate moved in only one direction, that is, towards depreciation. After 2025, as supply in the foreign exchange market increased and the exchange rate began to move in both directions, the influence of this factor on expectations began to decline. The firm view that the exchange rate always depreciates by 5 or 10 per cent is also changing. This is having a positive effect on inflation expectations.

Thus, in forecasting rounds we examine the overall level of inflation expectations, their downward or upward trend, and each of the factors shaping them. If expectations continue to decline, the impact of this trend on rate decisions will be reflected more broadly in the reports submitted to the Board and will become one of the important topics of subsequent discussions.

> **QUESTION 4**
>
> *Information has recently circulated that restrictions have been introduced on sugar imports, with a daily limit of 200 tonnes. How might this affect food inflation? Did the Government consult the Central Bank before taking this decision? If so, what was the Central Bank's conclusion?*

ANSWER

I will answer this question from the standpoint of the overall dynamics of food inflation. According to our forecasts, food inflation is expected to continue declining next year compared with the current level. In general, the growth rate of food prices is forecast to slow.

The consumer basket used to calculate inflation covers 517 goods and services. Sugar is one of the components of this basket. According to our observations, sugar prices have been relatively stable this year. In previous years, rising global sugar prices also affected domestic prices. Subsequent rebalancing, however, significantly eased the pressure on headline inflation coming through sugar prices.

Therefore, in our current assessments, sugar itself is not seen as a major risk to food inflation. Of course, the price of this product and external trade conditions are monitored within the overall group of food products. For the group as a whole, inflation is expected to decline.

> **QUESTION 5**
>
> *Although inflation is declining, the Central Bank continues its tight monetary policy. To what extent does keeping the key rate high affect the slowdown in price growth? How much is this constraining lending and investment? Which economic indicators need to change, and to what extent, for the key rate to start being lowered?*

ANSWER

We have touched on a number of aspects of this question during the press conference. First of all, for the Central Bank Board, the purpose of keeping the key rate high is not to harm any economic entity or to restrict economic activity without reason. This is a monetary policy approach applied in international practice and grounded in many years of experience. Lowering the key rate prematurely, without sufficient confidence that inflation has moved onto a sustained downward path, could have negative consequences.

For this reason, at today's Board meeting particular attention was paid to how sustainable the downward trend in inflation is, to the inflation expectations of households and businesses, to various uncertainties and risks, and to the updated forecasts. For us, the main indicators determining future decisions are, above all, the inflation forecast and inflation expectations. Rate decisions are taken on the basis of the dynamics of these indicators and the factors affecting them.

It would not be correct to regard tight monetary policy solely as a factor restricting economic activity. We see such a policy as an approach that serves to create stable conditions for long-term economic growth. Encouraging savings today helps reduce the cost of long-term financial resources in the future. This, in turn, expands opportunities for sustainable financing of investment.

This issue should also be viewed from the standpoint of the balance between aggregate demand and aggregate supply. Today, demand for goods and services in the economy is supported by household incomes, the pace of lending and budget spending. Aggregate supply is expanding through growth in production capacity, services and other sectors. If demand and supply grow in proportion to each other, no additional pressure on prices arises in the economy.

Therefore, the main purpose of current monetary conditions is to balance the factors of aggregate demand and aggregate supply over the long term. In this process, excess pressures through inflationary and other transmission channels are reduced. As a result, a foundation is laid for the cost of investment loans and prices in the economy to be formed on more stable fundamental factors in the future.

QUESTION 6

The press release notes that the influence of supply factors on inflation dynamics has increased in recent months. Which factors exactly are meant? In particular, is the recently announced increase in the price of liquefied gas one of them? What other supply factors are there?

ANSWER

First of all, I would like to thank you for trying to ask your question in Uzbek. We have noticed that your Uzbek has been improving from one press conference to the next.

Supply factors primarily include changes related to import prices, energy tariffs and transport costs. As noted in the press release, certain planned price changes have a first-round and short-term effect on inflation. That is, they may raise the price level once, but the effect of that particular change on the annual inflation figure drops out of the calculation period over time.

In particular, changes in the price of liquefied gas — propane — and other regulated prices are being assessed among such factors. The Board kept the inflation forecast for the end of next year unchanged at 5 per cent. This takes into account the gradual fading of the one-off effect of supply factors. For this reason, we do not expect these changes to generate persistent inflationary pressure over the medium-term forecast horizon.

At the same time, these price changes are also assessed as necessary reforms related to balancing costs and revenues in the economy and creating more stable economic conditions for producers. As they are implemented, a temporary inflationary effect arises, which is then expected to diminish.

Keeping the key rate at 14 per cent is also related precisely to these processes. Our task is to ensure that one-off price increases do not pass through to the inflation expectations of households and businesses and do not cause longer-lasting second-round effects on the prices of other goods and services. That is why maintaining the current tight monetary conditions was considered appropriate.

Once the processes of tariff liberalisation are logically completed, inflationary pressure from these segments is expected to decrease significantly, while the relative importance of external shocks and domestic demand factors in inflation dynamics is expected to increase. This will also expand the ability to influence inflationary processes through monetary policy.

QUESTION 7

You noted that the increase in the price of liquefied gas may have a one-off effect on inflation. At the same time, a 30 per cent increase in heating tariffs has also been announced, although no Government decision on this has yet been adopted. Utility prices are among the factors that strongly influence household inflation expectations, especially on the eve of the autumn-winter season. Did the Central Bank take the expected changes in heating tariffs into account in its current inflation forecasts and key rate decision? How will it respond to such changes in the future?

ANSWER

It should be noted that when tariff changes were announced, support measures aimed at mitigating their impact on household incomes and purchasing power were also introduced. In particular, it was said that the base amount was raised from 200 to 300, and one-off compensation was provided to families included in the relevant registers. These measures are expected to help reduce the financial burden of price changes on households.

The increase in heating tariffs, like the changes in liquefied gas prices, has been assessed as a factor with a one-off effect on inflation. In our forecasts for this year and next, we have taken into account the price and tariff changes announced so far. In this respect, the 7 per cent inflation forecast for the end of the year also covers these factors. If additional changes are announced in the future, we will be able to reassess their impact at the next forecasting rounds and Board meetings. During the year, eight Board meetings are held, and there is an opportunity to explain the grounds for decisions to the public at four press conferences.

In addition, it should be said that the increase in hot water and heating tariffs had already been taken into account in the initial forecasts. Initially, inflation at the end of the year was expected to be 6.5 per cent. However, because the announced tariff changes were higher than previously assumed, the forecast was revised upwards to 7 per cent. This factor was also important in the decision to maintain tight monetary conditions and keep the key rate at 14 per cent.

QUESTION 8

Among the reasons for keeping the key rate at 14 per cent, rising fuel prices and geopolitical uncertainty were mentioned. In practice, however, once electricity, fuel and many food prices rise, they usually do not return to their previous levels; the prices of some fruit and vegetables fluctuate seasonally. Even when global oil prices fell, domestic fuel prices did not always decrease. Under such conditions, what economic logic underlies the possibility of lowering the key rate to 13.5 per cent in the future? If prices continue to rise, what conditions could arise for lowering the rate?

ANSWER

First of all, when making a key rate decision, we rely not only on today's price changes but also on their future dynamics, the inflation forecast and expectations. We assess how fuel prices may change and what measures may be needed in response. These factors were also taken into account in today's decision to keep the rate at 14 per cent.

When assessing the possibility of lowering the key rate, we compare it with the inflation rate and inflation expectations and look at the real interest rate. The current real interest rate is sufficient to ensure tight monetary conditions. Put simply, there is a difference of about 7 percentage points between the 14 per cent key rate and the 7 per cent inflation forecast for the end of the year. According to our calculations, the neutral real interest rate is estimated at around 5 per cent. From this perspective, our models show that there is room of about 2 percentage points to bring the real rate closer to that level. However, this is not a decision or a promise to lower the key rate by that amount right now. We explained above why we have not started lowering it now: a sustained decline must also be observed in other components of inflation.

The second important aspect is distinguishing the initial, direct effect of energy and fuel prices from their pass-through to the prices of other goods and services in the economy. We cannot, for example, directly stop the initial rise in oil or petrol prices through monetary policy. But we need to monitor how quickly and on what scale this increase passes through to the prices of transport, logistics, freight and other services. The scale of the second-round effect also depends on demand and competitive conditions in the economy: if demand for a service is high, the pass-through of costs to prices may be stronger.

This can also be seen in the example of taxi services. Tariffs from a few years ago are not the same as today's. Not only fuel costs but also the entry of new aggregators into the market, competition in service provision and the emergence of different business models have played a role. In some cases where new participants entered, aggregators that had previously led the market were also forced to lower their prices. Of course, drivers' costs and service tariffs vary. The main point is that an initial rise in costs does not always mean that all other prices rise by exactly the same amount.

I agree with some aspects of your view that prices never fall, but it cannot be applied to all goods and services. The consumer price basket includes 517 goods and service items. A substantial part of this basket, about 40 per cent, relates to services. Not all of them become more expensive at the same time and at the same rate: in some, price growth slows, and in some services prices may even fall. Price dynamics need to be analysed for each good and service.

Changes in the foreign exchange market can also serve as an example. Two years ago, many people may not have imagined two-way movements in the exchange rate, including a strengthening of the soum, as they do now. There were periods when the dollar rose to UZS 12,700–12,800, and later it declined. This prompts a reassessment of the view that prices and expectations always move in only one direction. Among import-related non-food goods, there are also segments where price growth is lower than headline inflation.

As for food products, we do not deny that significant price increases are observed in some groups. But here too there are counterexamples. After the pandemic, there were times when a litre of vegetable oil cost up to UZS 30,000–35,000. Later, products costing around UZS 18,000–19,000 or UZS 22,000 per litre also began to be offered on the market. This also shows that prices of some goods can fall. We are separately studying and monitoring this trend in the vegetable oil market.

In such changes, import conditions and competition are important. If the market is open and customs tariffs do not become a barrier, when a product becomes more expensive on the domestic

market, it becomes possible to import it from other producers or partner countries. Increased supply helps balance the price. In the clothing market, too, competition between domestic production and imports has intensified. We see very large differences between the prices of the same type of clothing: for example, shirts can cost from UZS 50,000 to UZS 1.5 million depending on quality, segment and supply. As a result, even measuring price dynamics in this market is becoming more complex.

In some food product groups the situation is more complicated, and the state is also taking measures. For example, mechanisms for partially covering transport costs for meat imports and other relief measures were mentioned. It takes time for the effect of such measures to become visible. It can also be seen that changes in poultry farming are helping keep chicken prices relatively stable. However, it is not correct to explain the price of individual products by a single factor.

Looking at the overall picture, price growth is slowing for most of the products in the consumer basket. According to calculations, the rate of price growth has declined for about 70–75 per cent of items. This does not mean that all prices have fallen: in some of them prices continue to rise, but more slowly than before. In this respect, it is important to distinguish between a decline in the price level and a slowdown in the rate of inflation.

In conclusion, first-round price changes may occur, but the Central Bank's main task is to prevent their second-round effects from spreading and to maintain balanced monetary conditions in the economy. Price formation is also influenced by the economic environment, competition and the adaptability of businesses to market changes. Expanding supply in response to demand can help reduce price pressures. In this regard, we will provide separate data and charts on the dynamics of prices of goods and services in the consumer basket over the past decade, including products whose prices have fallen. Not all goods become more expensive or cheaper at the same time; each group has different trends.

> **QUESTION 9**
>
> *What is the role of fiscal policy in ensuring overall macroeconomic stability? How are the budget deficit and the dynamics of government spending affecting inflation, as well as the Central Bank's key rate decisions? Also, could the deadline for bringing inflation down to the 5 per cent target be revised again and moved from 2027 to 2028?*

ANSWER

In general, over the past two years budget and fiscal policy have had a positive effect on inflation processes. In 2022–2023, the overall budget deficit was high, which created significant pressure on inflation. It should also be noted that a positive balance, that is, a surplus, is being observed in budget execution this year. The ratio between budget revenues and expenditures — in other words, the balance between funds directed into the economy and resources collected from it — is important for inflation processes.

The narrowing of the fiscal deficit, budget execution with a surplus in some periods and a deficit below the established limits in the future are important factors in reducing inflation and ensuring its stability. A tight and balanced fiscal policy does not create additional demand and price pressure in the economy. This, in turn, eases the tasks facing monetary policy.

In particular, the stabilisation of budget spending and the maintenance of fiscal discipline reduce the need to tighten monetary conditions further in order to fight inflation. Against the background of maintaining current tight monetary conditions, these factors may also expand the possibility of gradually easing conditions in the future. That is, the complementarity of fiscal and monetary policy is of particular importance in reducing inflation sustainably.

As for the second part of your question, when reviewing the main directions of monetary policy, the Central Bank Board did not envisage revising the deadline for reaching the inflation target again. According to current forecasts and assessments, inflation is expected to reach the 5 per cent target in the second half of 2027, towards the end of the year.

Of course, new economic data and trends will emerge during the year. The Central Bank holds eight key rate meetings a year, and at four of them the grounds for decisions are also explained at a press conference. At subsequent meetings, new factors will be assessed and forecasts refined if necessary. But today there is no decision or plan to move the deadline for reaching the 5 per cent target to 2028. Measures taken in cooperation with the Government also play an important role in achieving this target.