The Central Bank
of the Republic of Uzbekistan

2025 Q1

MONETARY POLICY REPORT

Central Bank of the Republic of Uzbekistan

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

5%

CONTENTS

SUMMARY

Recent trends in headline and core inflation indicate that ongoing inflation processes and the situation remain uncertain. At the meeting on April 24, 2025, the Board of the Central Bank decided to keep the policy rate unchanged at 14 percent per annum, taking into account the risks associated with growing imbalances between aggregate demand and supply as well as increasing external uncertainties.

Since the beginning of the year, the headline inflation has been on an upward trajectory, reaching 10.3 percent annually in March. Meanwhile, core inflation continued to accelerate, reaching 8.1 percent annually. This, in turn, reflects that along with supply factors, demand factors are also exerting upward pressure on prices.

Despite a decrease in March due to the improved fuel and energy supply and a relatively stable exchange rate, inflation expectations among households and business entities remain elevated, exceeding the current inflation.

The initial impact of energy price liberalization in 2024 is anticipated to end in the second quarter and have a downward impact on headline inflation. In addition, the deterioration of the terms of international trade, along with rising global consumer prices, increases the risk of rising production costs and increased external inflationary pressure.

According to the updated forecasts, headline inflation is projected to be around 8 percent by the end of 2025.

In 2025 Q1, economic growth accelerated to 6.8 percent due to an increase in aggregate consumption and investment activity. Robust growth in cross-border remittances and an acceleration in credit growth continue to support the aggregate demand.

In 2025, the trend of GDP growth is expected to continue due to high economic activity, with the annual growth projected to be around 6 percent. In particular, private investment will be supporting economic growth by leading to the increase in the supply of goods and services.

Since the beginning of 2025, the real effective exchange rate has remained within the medium-term trend, supported by the appreciation of exchange rates in major trading partner countries and the relative stability of the soum.

Maintaining the current restrictive stance of monetary conditions will help balance aggregate demand and mitigate the impact of monetary factors on inflation through containing credit growth and sustaining strong deposit growth.

In June 2025, monetary conditions may be revised based on the impact of secondary effects of the upcoming energy price liberalization in May on inflation and inflation expectations.

I. MEDIUM-TERM MACROECONOMIC OUTLOOK

1.1. External economic outlook

In recent months, external economic conditions have been marked primarily by heightened uncertainty and risks, reflecting changes in global trade and tariff policies.

New import tariffs announced by the USA in March-April *(Figure 1.1.1)*, as well as potential retaliatory measures by partner countries and the reconfiguration of international trade have raised market participants' concerns about their negative impacts on global growth, inflation acceleration, and further global fragmentation.

Ongoing changes, combined with high volatility in global financial, commodity, and equity markets, have pushed the trade policy uncertainty index[1] and the volatility index[2] to their highest levels in recent periods *(Figure 1.1.2)*.

Following the announcement of new tariffs by the US, prices in global commodity markets followed a divergent trend, with a declining trend observed in nearly all commodity goods except gold *(Figure 1.1.3)*.

Figure 1.1.1. US average import tariff rate, *percent*

Figure 1.1.2. Proxy indicators reflecting uncertainties in global economy, *p.p.*
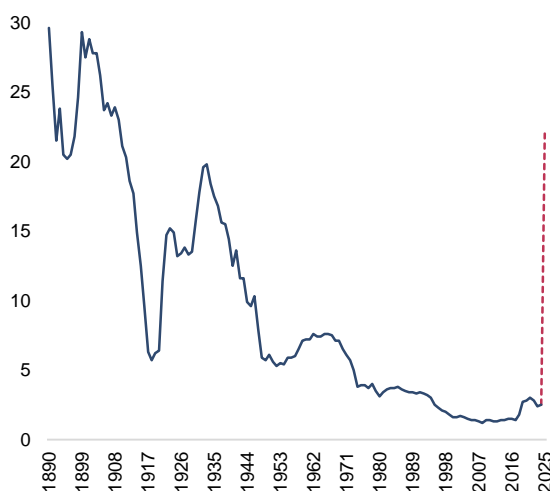
Source: US International Trade Commission, Fitch forecasts for 2025.
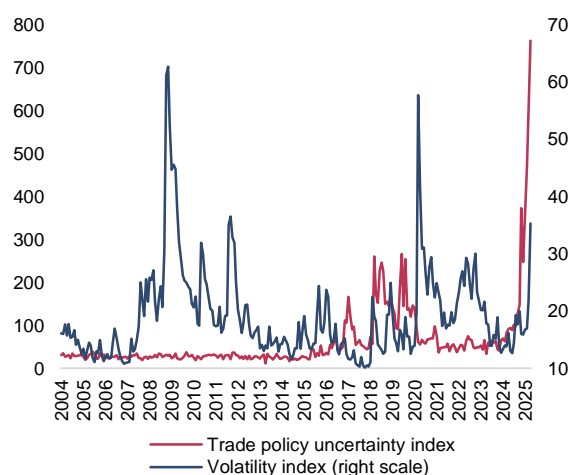
Source: Caldara, Iacoviello, Molligo, Prestipino & Raffo (2020), investing.com.

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[1] The Trade Policy Uncertainty Index measures the frequency of articles discussing uncertainties in trade policy across seven major publications. Throughout its recorded history, the index has averaged around 40 points.

[2] The Volatility Index reflects traders' expectations of fluctuations in the S&P 500 index over the next 30 days. The highest levels of this indicator have been observed during the 2008 Global Financial Crisis, the COVID-19 pandemic, and the period surrounding the new US tariff policy in 2025.

Gold prices have been rising amid a weakening US dollar index and investor concerns over escalating trade tensions between the USA and China. Rising gold prices is also having a favorable impact on Uzbekistan's terms of trade. Most international financial institutions and investment banks have revised their gold price forecasts upward, with prices expected to remain above $3,000 per troy ounce throughout 2025.

Copper and oil prices had been declining due to expectations of a slower global economic growth, reduction in international trade, and contraction in production. However, in recent periods, prices have stopped falling and entered a correction phase.

Cotton prices continued to follow a downward trend. At the same time, introduction of tariffs by the United States on Southeast Asian countries and the resulting redirection of exports of these countries to other destinations may have a downward impact on textile prices given that the textile industry is highly sensitive to tariff-related price changes.

In the coming periods, a decline in global prices for certain commodity goods may negatively affect export revenues. Amid uncertainties, the rise in gold prices is expected to partially offset these effects.

Figure 1.1.3. Global commodity price dynamics, *January 2024 = 100*
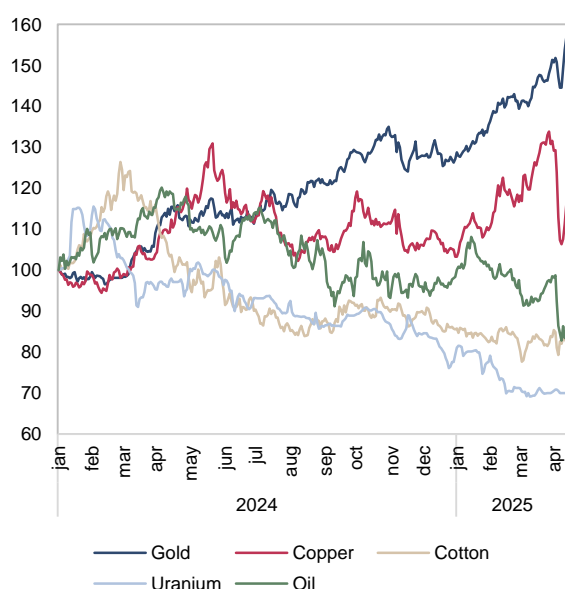
Source: investing.com

Figure 1.1.4. Global economic growth outlook, *percent, compared to January forecasts*
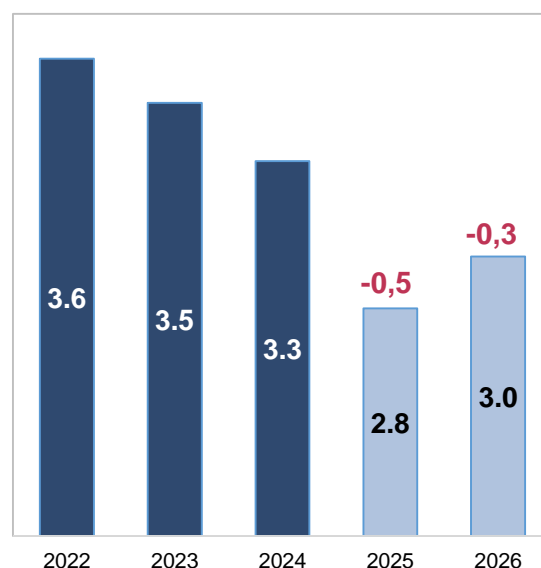
Source: IMF, April 2025.

International financial institutions are revising their global growth forecasts *(Figure 1.1.4)*. In particular, according to the International Monetary Fund's (IMF) updated forecasts from April 2025, global economic growth for the current year will be around 2.8 percent - 0.5 percentage points lower than previous forecasts. The growth of global trade volume has been revised downward by 1.5 percentage points and is projected at 1.7 percent. The risk of a deteriorating global economic environment is increasing due to a contraction in international trade and volatility in financial markets.

The IMF and most other international institutions have also revised downward the economic growth outlook for Uzbekistan's main trading partners.[3]

In particular, China's economic growth forecast was revised downward from 4.6 percent to 4 percent. Despite the Chinese government's recent measures to support the economy, the impact of tariffs will be more significant and negatively affect the growth rate.

Russia's economic growth is projected to slow to 1.5 percent this year. The return of economic growth to the medium-term level is associated with the implementation of tight monetary policy, normalization of fiscal policy, and lower oil prices.

Kazakhstan's economic growth forecast for 2025 has been revised downward by 0.6 percentage points, to 4.9 percent. The revision is explained by several factors, including lower global oil prices.

The economic slowdown in Uzbekistan's trading partners could restrain external demand, leading to a decline in export volumes.

Currently, inflationary pressures remain in most countries, and inflation in the services sector continues to form at high levels. In addition, due to existing mismatches in labor markets, fragmentation, and logistical challenges, inflation in goods has been accelerating.

At the same time, the direction of monetary policy continues to diverge across countries. For example, while the US Federal Reserve is refraining from signaling any rate cuts for now as it assesses the economic impact of tariff policies, the European Central Bank is expected to continue lowering rates amid weak economic growth *(Figure 1.1.5)*.

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[3] Forecasts for major trading partners are based on IMF's updated April forecasts.

Figure 1.1.5. Expectations on global benchmark interest rates, *percent*

Figure 1.1.6. Exchange rate dynamics of selected currencies, *January 2025 = 100*
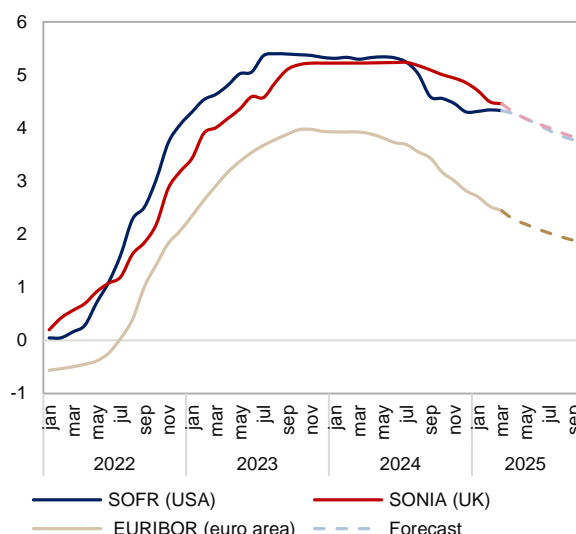
Source: Market participants' expectations based on open source data.
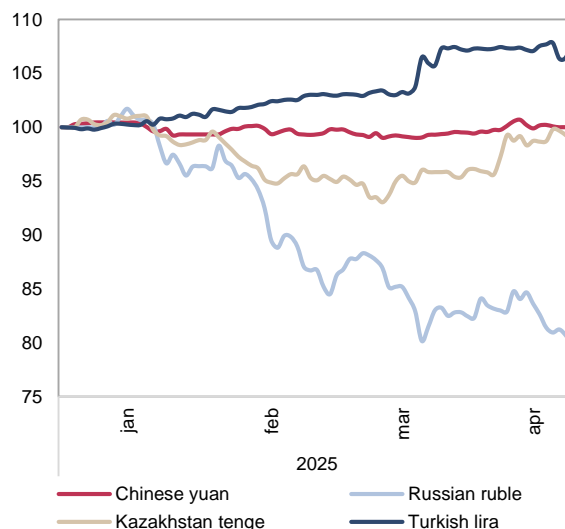
Source: Central Banks of relevant countries.

High volatility has also been observed in exchange rates, with the US dollar index declining and the exchange rates of other reserve currencies continuing to strengthen *(Figure 1.1.6)*.

Due to shifts in trade policy, rising investor concerns, and decreased demand for US assets (stocks and bonds), the US dollar index has fallen significantly. In the coming period, risks related to a potential recession in the US may exert additional downward pressure on the dollar index.

The Russian ruble and the Kazakhstani tenge have shown signs of appreciation since the beginning of the year. However, amid expectations about declining oil prices, these currencies may come under depreciation pressure.

Despite external fluctuations, the Chinese yuan has remained almost unchanged since the start of the year. Nevertheless, in the context of tariffs being imposed by the United States, the risk of yuan depreciation as a way to support exports is increasing.

Box 1.

Estimating equilibrium level of the real effective exchange rate: the case of Uzbekistan

Estimating the long-term equilibrium exchange rate is crucial for developing open economies in ensuring economic stability, attracting investment, promoting foreign trade, and conducting effective overall economic policy.

The equilibrium real effective exchange rate is the value of the real effective exchange rate that corresponds to the levels of fundamental economic indicators in the absence of short-term shocks or distortions.

To determine the equilibrium level of the REER, the widely used BEER (Behavioral Equilibrium Exchange Rate) methodology from economic literature was applied. According to this approach, the long-term equilibrium exchange rate is determined based on the dynamics of several macroeconomic indicators of a country. These factors are selected based on economic theory and empirical studies.

Factors Shaping the Equilibrium Level of REER.

1. The productivity differential between the tradable and non-tradable sectors affects the equilibrium level of the real effective exchange rate (REER) through the Balassa-Samuelson effect[4]. Growth in productivity in the tradable sector increases domestic wages, which leads to higher prices for non-tradable goods and strengthens the REER.

GDP per capita adjusted for purchasing power parity: An increase in this indicator leads to higher productivity and purchasing power, which results in inflationary pressures that strengthens the REER.

Real GDP per capita: as this indicator rises, wages and domestic demand increase, thereby strengthening the REER.

2. Relative price of tradable goods: An increase in this relative price leads to a decline in the REER, as export competitiveness is lost.

The ratio of non-food goods prices to service prices: faster growth in service prices raises the REER through domestic inflation.

The ratio of producer prices to consumer prices: in import-dependent countries, the consumer price index is significantly influenced by global prices, while the producer price index reflects domestic production cost pressures.

3. Government expenditures-to-GDP ratio: an increase in government spending raises demand for domestic goods, which leads to higher domestic prices and appreciation of the REER.

4. Public debt-to-GDP ratio: excessive government debt increases the risk premium, which may lead to depreciation of the REER.

5. Relative real interest rate: a higher relative real interest rate makes national assets more attractive, increasing capital inflows and strengthening the national currency under free capital mobility.

6. Relative trade openness: trade openness can have a dual effect on the REER. An increase in exports may lead to appreciation, while rising imports may create depreciation pressure.

7. Relative level of international investment liabilities: high external liabilities increase sensitivity to capital outflows, which may lead to depreciation of the REER.

8. Investment-to-GDP ratio: high investment boosts productivity and competitiveness, thereby strengthening the REER. In particular, investment in infrastructure and technology ensures economic growth and attracts capital inflows.

9. Terms of trade[5]: favorable terms of trade increase the supply of foreign currency through higher exports and strengthen the REER.

The above relative variables were calculated based on quarterly data for Uzbekistan compared to its five major trading partners over the period from Q1 2016 to Q4 2024.

Using these variables, the equilibrium level of Uzbekistan's REER was estimated based on the Error Correction Model (ECM)[6].

Estimation Results

Figure 1 compares the observed REER and the average trajectory of the equilibrium REER.

Figure 1. REER and its equillibrium level, *in log form*
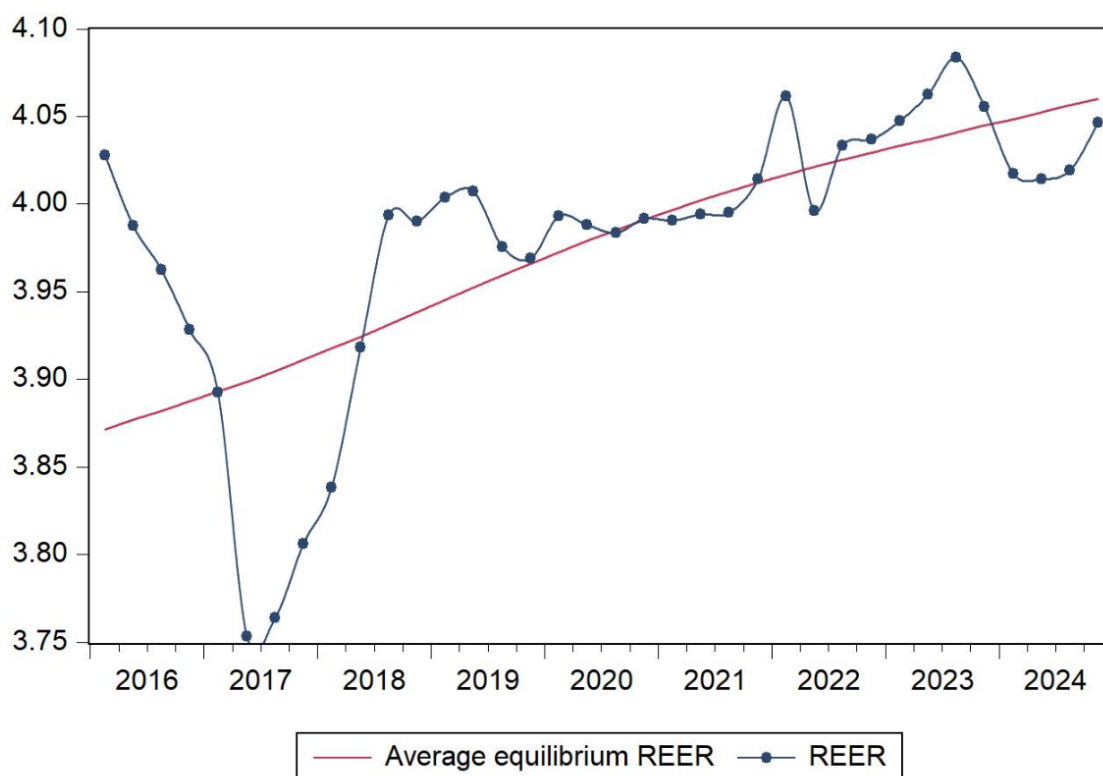
Source: Model results.

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[4] The Balassa-Samuelson effect is an economic phenomenon in which higher productivity growth in export-oriented sectors compared to domestically oriented sectors leads to an increase in the prices of domestic goods and services, resulting in the appreciation of the real exchange rate.

[5] Terms of Trade is the ratio between a country's export price index and the import price index.

[6] The Error Correction Model is a specific form of the Autoregressive Distributed Lag (ARDL) model used to analyze non-stationary but cointegrated time series. Cointegration means that although each variable is not stationary on its own, their linear combination can be stationary. This indicates the existence of a long-term equilibrium relationship between the variables.

According to the analysis, the estimated average annual appreciation rate of the equilibrium REER was 2.2 percent. This indicates that, on average, the real exchange rate relative to major external trade partners strengthens by 2.2 percent annually at its equilibrium level. Such appreciation is driven by fundamental factors including economic growth, increased export potential, and the long-term competitiveness of the national economy.

During the analysis period, misalignment of the real effective exchange rate showed mixed dynamics. In particular, at the beginning of 2017, the REER was undervalued by 14.5 percent. This was due to the transitional conditions arising from large-scale reforms in the economy, including the liberalization of the foreign exchange market, adjustments in external trade, and the deregulation of market prices.

Since 2018, the REER has gradually moved closer to its equilibrium level. In certain periods, REER overvaluation cases were also observed due to short-term fluctuations. For example, the maximum overvaluation during the analysis period, that is the real exchange rate exceeding its fundamental economic equilibrium level, reached 15.6 percent.

At the same time, the average deviation of the REER throughout the analysis period remained around 0.5 percent, indicating that it generally remained close to its equilibrium level. In other words, changes in the REER were largely consistent with changes in the selected macroeconomic indicators.
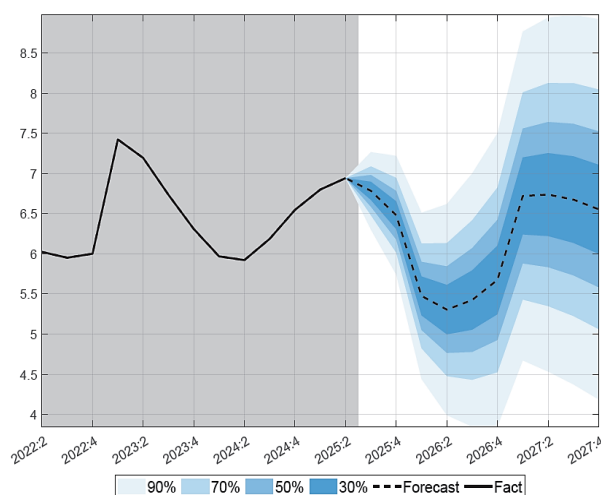
1.2. Macroeconomic forecasts

Following recent changes in domestic economic conditions and international trade in 2025 Q1, the Central Bank has revised its medium-term macroeconomic development forecasts. This revision takes into account the dynamics of aggregate demand and supply, growth prospects of major trading partner economies, and global price expectations for goods that comprise significant share of foreign trade.

Real GDP growth in 2025 is projected to be at the range 5.5-6.5 percent *(Figure 1.2.1)*. Economic activity is expected to be supported by strong consumer demand and investment activity. The economic growth forecast range for this year has slightly expanded from January estimates amid ongoing fiscal consolidation, relatively tight monetary conditions, and rising external economic uncertainties.

Updated forecasts of international financial institutions also expect Uzbekistan's economy to grow by around 5.8-5.9 percent in 2025 *(Figure 1.2.2)*. The IMF raised its growth forecast for 2025 and 2026 by 0.1 percentage points, considering the asymmetric impact of global trade conditions on developing countries and the role of aggregate domestic demand as the main driver of economic growth.

Figure 1.2.1. GDP growth forecast, *percent*

Source: CBU calculations.

Figure 1.2.2. Uzbekistan's GDP growth forecast by international organizations, *percent*
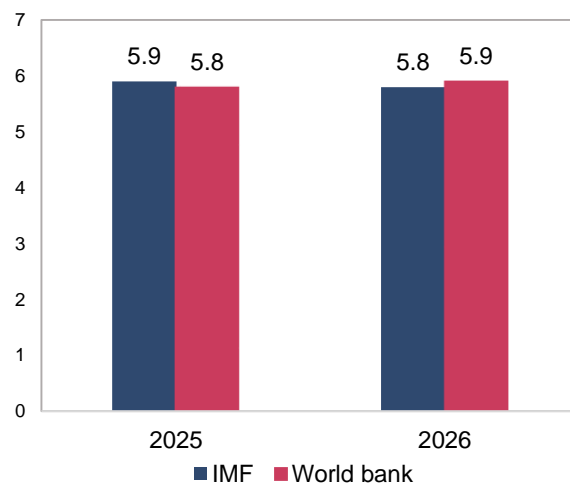
Source: World Bank, "Global Economic Prospects", January 2025;
IMF, "Word Economic Outlook", April 2025.

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

Indicators	Actual		Forecast		
	2023	2024	2025	2026	2027
Inflation	**8,8**	**9,8**	**8** *(7-8)**	**5-6** *(5)*	**5** *(5)*
Real GDP growth	**6,3**	**6,5**	**5,5-6,5** *(5,5-6)*	**6-6,5** *(6-6,5)*	**6-6,5** *(6-6,5)*
Final Consumption Expenditure	5,3	6,4	5,5-6,5 *(5-6)*	5,5-6 *(5,5-6)*	5-6 *(5-6)*
- households	*6,2*	*7,5*	6-7 *(5,5-6,5)*	5-6 *(5-6)*	5-6 *(5-6)*
- general government	*1,4*	*1,1*	0,5-1,5 *(1-2)*	1,5-2,5 *(2-3)*	1,5-2,5 *(1,5-2,5)*
Fiscal balance (% of GDP)*)*	-4,9	-3,3	-3 *(-3)*	-3 *(-3)*	-3 *(-3)*
Exports (excl. gold)	4,2	16,5	7-10 *(10-12)*	8-10 *(8-10)*	9-11 *(9-11)*
Imports	24	0,8	8-10 *(8-10)*	8-10 *(8-10)*	8-10 *(8-10)*
Cross-border money transfers (remittances)	-32,9	30	15-18 *(10-12)*	10-12 *(10-12)*	10-15 *(10-15)*
Stock of loans	23,3	14	16-18 *(14-16)*	14-16 *(13-15)*	12-15 *(12-15)*

Source: CBU calculations.

* Numbers in brackets indicate previous forecasts (in January 2025).

The real growth of household consumption will be in the range of 6-7 percent this year, primarily driven by rising household incomes. The increase in total income will be supported by higher remittance inflows, as well as earnings from production activities and self-employment *(Figure 1.2.3)*.

Considering appreciation of currencies in migrant-worker-receiving countries, as well as rising wages and growing demand for labor in high-income economies, the forecast for remittance growth has been revised upward to 15-18 percent *(Figure 1.2.4)*. However, due to expected high volatility in exchange rates of economic partners and downward revisions of their economic growth forecasts, a certain degree of uncertainty remains regarding future remittance dynamics.

Government consumption expenditures are projected to grow moderately by 0.5-1.5 percent amid ongoing fiscal consolidation.

Investment growth is expected to remain strong. By the end of the year, the volume of investments is projected to increase by 7-10 percent in real terms. The main drivers of investment growth will continue to be foreign direct investment and external financing, along with enhanced lending activity in the corporate sector.

The growth rate of non-gold exports will be in the range of 7-10 percent *(Figure 1.2.5)*. Export dynamics may be increasingly affected by uncertainty in the external economic environment and high volatility in global commodity markets. Additionally, changes in global tariffs and slowing economic growth in key trading partner countries could affect export performance to a certain extent.

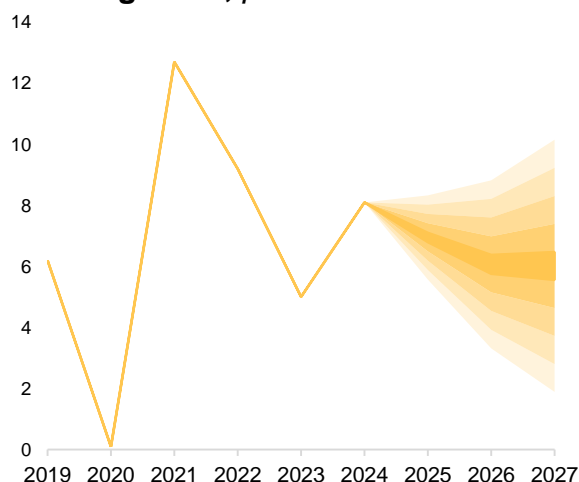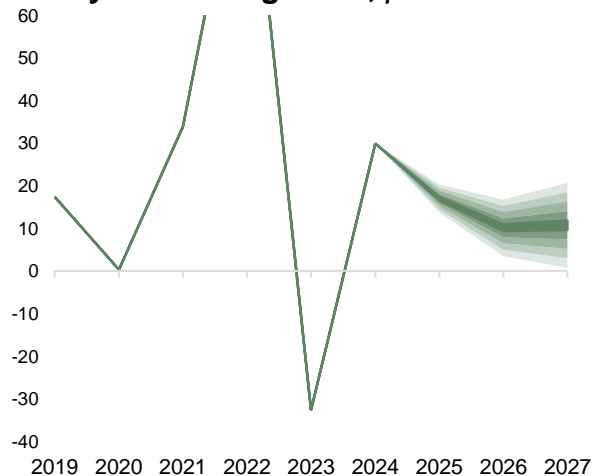**Figure 1.2.3. Forecast of real household income growth,** *percent*

Figure 1.2.4. Forecast of cross-border money transfers growth, *percent*

Source: CBU calculations (90% confidence level).

At the same time, higher price of gold is projected to have a positive effect on total export volumes. Services and food product exports will serve as the main supporting components of export growth.

Taking into account current trends in imports, their growth is projected at 8-10 percent *(Figure 1.2.6)*. Despite higher imports of services and food products, more moderate growth in imports of energy and machinery and equipment may help stabilize overall import growth.
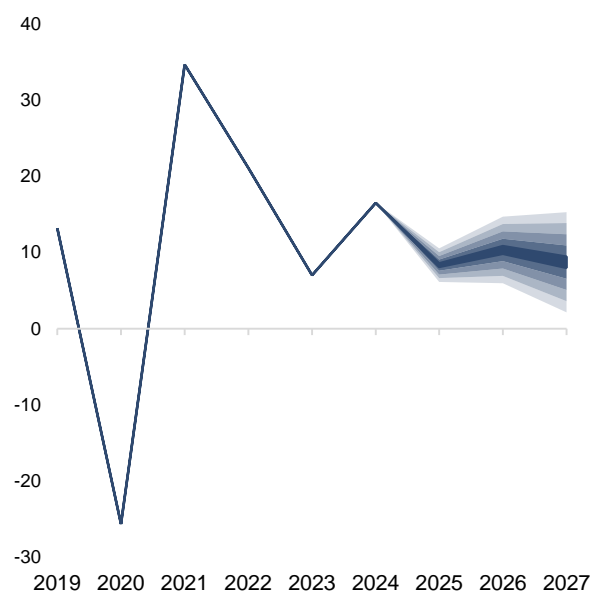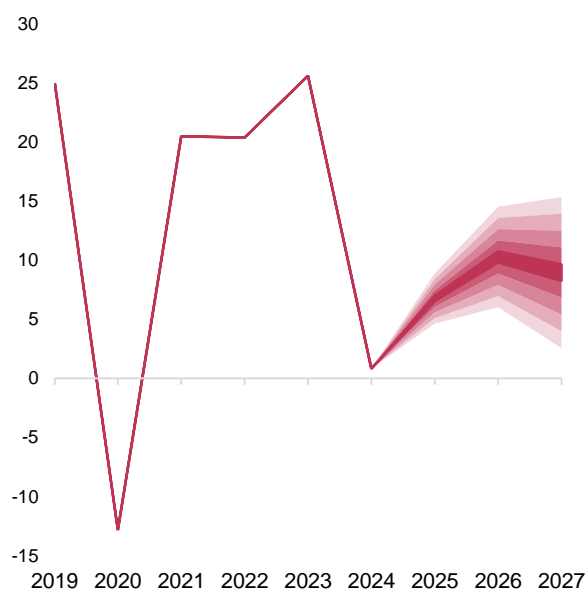
Figure 1.2.5. Non-gold export growth forecast, *percent*

Figure 1.2.6. Import growth forecast, *percent*

Source: CBU calculations (90% confidence level).

1.3. Monetary policy outlook

The Central Bank will maintain relatively tight monetary conditions until inflation stabilizes within the 5 percent target and risks of its sharp increase are eliminated.

In particular, the Central Bank will continue to take measures aimed at ensuring sufficiently tight monetary conditions by maintaining positive real interest rates in the economy. Once inflation reaches the target level and stabilizes, monetary conditions are expected to enter gradual easing phase starting from the second half of 2027 *(Figure 1.3.1)*.

In 2025 Q1, restrictive stance of monetary conditions slightly eased due to the appreciation of the currencies of major trading partners, relatively stable inflation levels in those countries, and higher domestic inflation and inflation expectations. In response, the policy rate was raised at the end of the quarter to reinforce monetary tightness and support the attainment of inflation forecast targets over the medium and long term.

The Central Bank will continue to follow a data-driven approach in conducting monetary policy, regularly monitoring current developments and updating forecasts. If the likelihood of inflationary risks increases, additional tightening measures will be implemented.

At the same time, maintaining a positive gap in real interest rates helps to restrain consumer demand and enhance the attractiveness of deposits in national currency. This, in turn, creates the necessary conditions for core inflation to remain within the forecast range and for headline inflation to decline toward the target level.

According to updated forecasts[7], the negative gap of the real effective exchange rate *(appreciation of REER from its equilibrium)* will persist during the forecast period, which will also support tight monetary conditions.

In the coming quarters, the overall liquidity in the banking system is projected to remain in structural surplus. To ensure the effective functioning of the monetary policy transmission mechanism, the level of overall liquidity will be regulated through monetary operations.

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[7] Global Forecasting Model Network, March 2025.

Figure 1.3.1. Real Monetary Conditions Index[8]
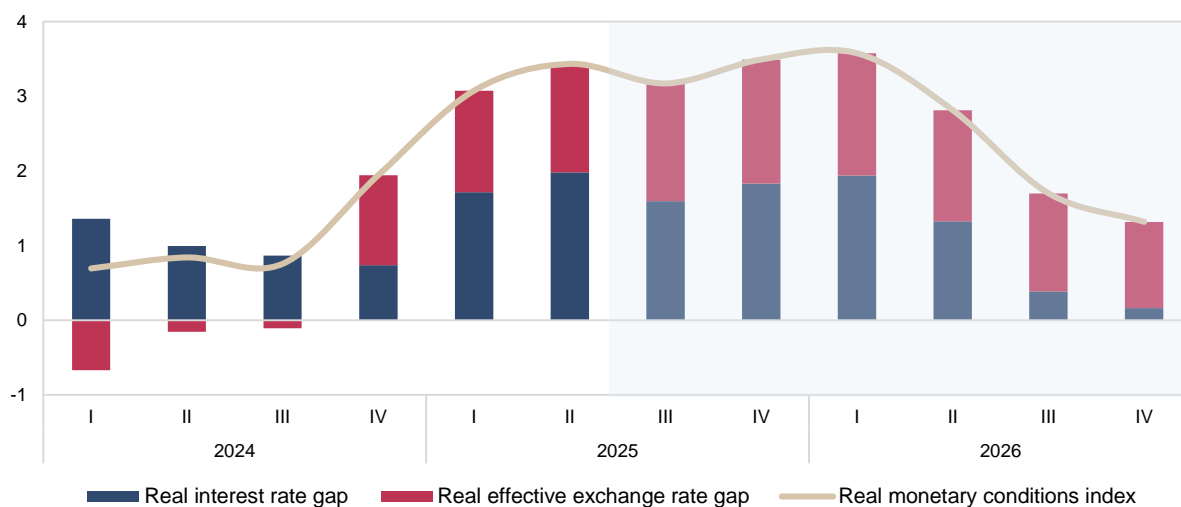
Source: CBU calculations.

If there is a significant deviation of core inflation from the downward trend as well as a sharp increase in inflation expectations of households, monetary policy measures to optimize liquidity will be implemented.

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

Box 2.

Amendments to reserve requirement regulations

Reserve requirements (RR) are one of the key instruments of monetary policy and have been actively used to manage banking system liquidity under the inflation-targeting regime in order to achieve the operational goals of monetary policy.

In international practice, all non-capital liabilities of banks are typically included in the RR base. However, in Uzbekistan, the RR base has not fully covered the banking system's liabilities *(Figure 1)*, and the uneven distribution of covered liabilities across banks has reduced the effectiveness of this instrument. This has led to discrepancies in how interest rates are formed when banks attract resources from the money and financial markets.

Additionally, while the dollarization rate of liabilities already included in the RR base has significantly decreased in recent years, the dollarization rate of liabilities not included in the RR base remains high *(Figure 2)*.

To align the reserve requirement instrument with international standards, enhance its effectiveness, and ensure that interest rates on deposits and other liabilities are formed under equal conditions when attracting resources, several amendments were introduced.

In particular, amounts payable to other banks and financial institutions, short- and long-term borrowings, debt securities issued by banks, and accounts for subordinated debt have been added to the RR base. To avoid double counting, commercial banks' liabilities to the Central Bank and resident banks have been excluded from the base.

According to the estimates, the introduced changes are expected to expand the RR base to cover 87 percent of the banking system's liabilities. As a result, the effectiveness of this instrument in managing banking system liquidity is anticipated to improve.

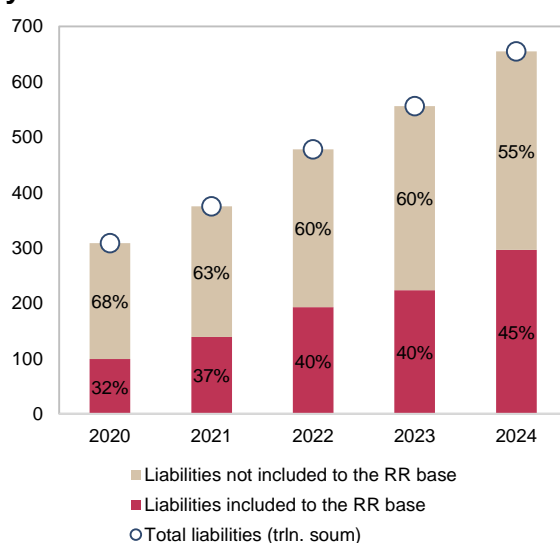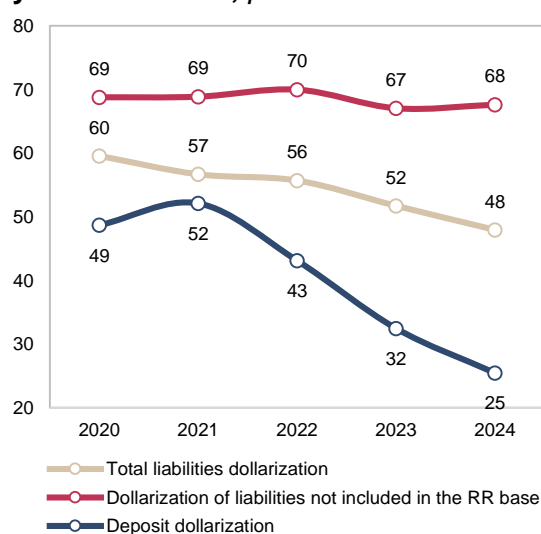**Figure 1. Coverage ratio of banking system liabilities under RR**

Legend:
- Liabilities not included to the RR base
- Liabilities included to the RR base
- Total liabilities (trln. soum)

Figure 2. Dollarization of banking system liabilities, *percent*

Legend:
- Total liabilities dollarization
- Dollarization of liabilities not included in the RR base
- Deposit dollarization

Source: CBU calculations.

To prevent an excessive burden on banks from fulfilling the updated reserve requirements, it is planned to gradually include new categories of bank accounts in RR calculations during the 2025-2030 period, while proportionally reducing the reserve requirement ratios *(Figure 3)*.

Starting from April of this year, the coverage ratio of new liabilities in the RR base has been set at 10 percent, with reserve requirement ratios set at 4 percent for national currency liabilities and 10.5 percent for foreign currency liabilities.

Figure 3. Gradual changes in reserve requirement regulations during 2025-2030, *percent*
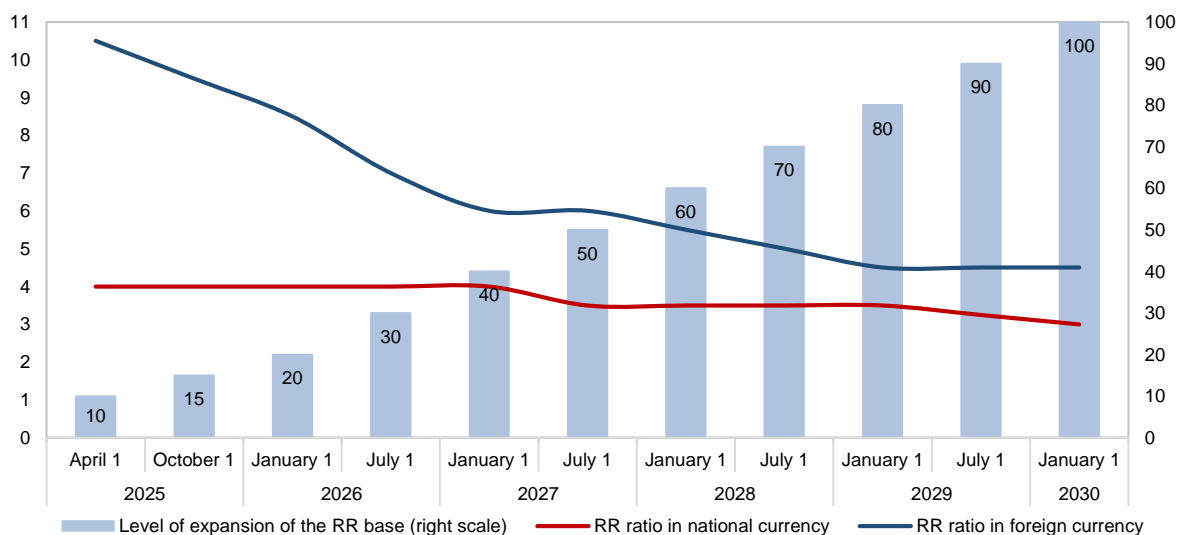
Source: CBU calculations

1.4. Inflation expectations and inflation forecast

In 2025 Q1, actual headline inflation accelerated significantly compared to the previously forecast level. Intensifying upward pressure from supply-side factors, along with the revival of demand-side factors, has raised expectations that the decline in inflation may occur more slowly than previously projected in the upcoming quarters.

According to the updated forecasts, headline inflation will be around 8 percent by the end of the year.

In March, inflation expectations of households decreased by 1.1 percentage points to 14.2 percent compared to the previous month, while business entities' expectations declined by 0.8 percentage points to 13 percent *(Figure 1.4.1)*.

Due to improvements in the fuel and energy supply and the relative stability of the exchange rate, inflation expectations of households and businesses decreased in March. However, they remain above the current inflation levels.

The main factors cited as potential sources of upward pressure on prices in the future include increases in utility tariffs, fuel and energy prices, exchange rate fluctuations, and rising transportation costs. However, the share of respondents citing these concerns slightly decreased compared to the previous month *(Figure 1.4.2)*.

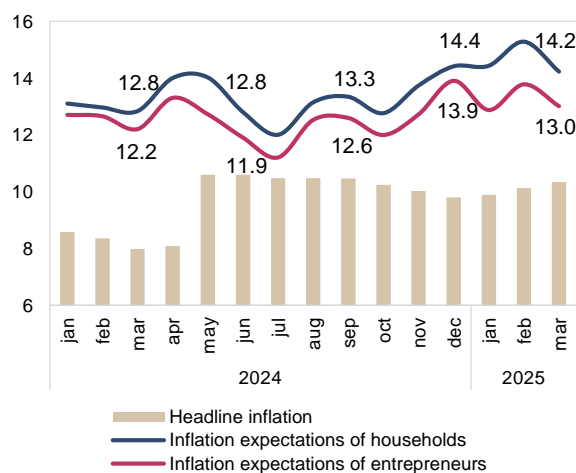**Figure 1.4.1. Inflation expectations for the next 12 months,** *percent*

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

| | 2024 | | | | | | 2025 | | |
---	jul	aug	sep	oct	nov	dec	jan	feb	mar
Increase in utility costs	51	49	45	47	51	56	57	63	59
Increase in fuel and energy	44	46	47	46	51	57	50	52	48
Exchange rate fluctuations	39	42	50	51	51	55	46	41	39
Rise in prices of essential food products	20	23	25	24	26	26	26	28	28
Increase in transportation cost	26	26	28	26	30	35	30	31	28
Monopoly and artificial price increases	28	27	29	28	31	33	25	32	26
Increase in wages and pensions	22	40	39	31	28	28	22	23	20

Source: CBU calculations.

It should be noted that in recent quarters, increasing external uncertainties and their growing impact on the domestic environment have led to wider dispersion in inflation expectations *(Figures 1.4.3 and 1.4.4).*

In May of this year, the next stage of energy price liberalization will be implemented, with energy tariffs rising by less than last year, which will contribute to a slowdown in annual inflation.

Nevertheless, the upcoming phase of energy price increases still carries risks of a significant secondary impact on inflation and inflation expectations. In this regard, ensuring the uninterrupted supply of fuel and energy is of great importance for stabilizing supply-side factors related to production and delivery.

In addition, risks related to the intensification of external uncertainties may lead to higher global consumer prices and production costs, thereby increasing external inflationary pressures.

In recent months, improved external trade conditions, the appreciation of currencies of the major trading partners, and the relative stability of the Uzbek soum suggest that no exchange rate pressures on inflation are expected in the coming months.

In addition, the acceleration of lending and the increase in investment activity are having a stimulative effect on aggregate demand.

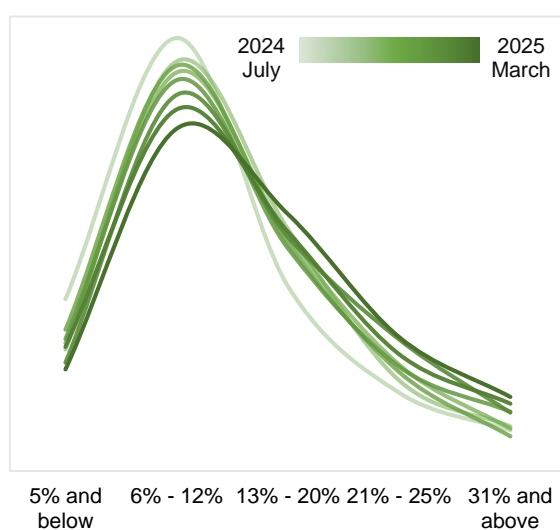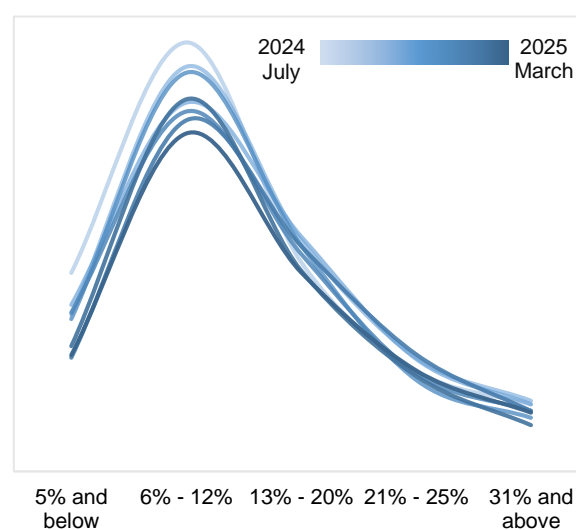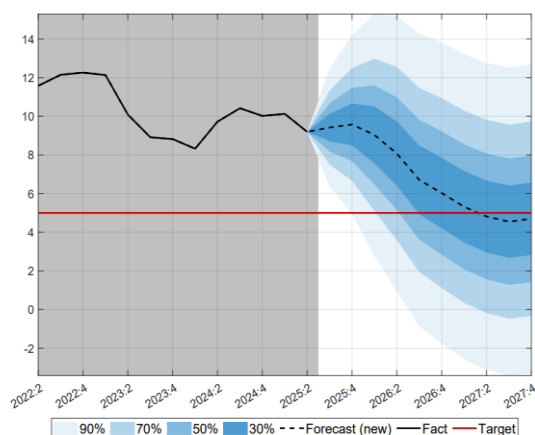**Figure 1.4.3. Distribution of inflation expectations of households,** *percent*
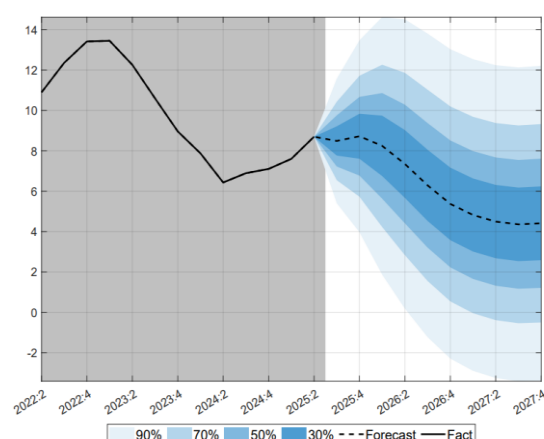

**Figure 1.4.4. Distribution of inflation expectations of businesses**, *percent*

Source: CBU calculations.

Figure 1.4.5. Headline inflation forecast, *percent*

Figure 1.4.6. Core inflation forecast, *percent*

Source: CBU calculations.

Due to the low base effect of the previous year, deflation in the fruit and vegetables group will slow down and subsequently return to a growth trend in the coming months. A return to inflation in this group is expected to occur in the third and fourth quarters.

According to the updated forecasts, headline inflation is projected to reach around 8 percent by the end of 2025. Maintaining the current restrictive stance of monetary conditions will support the transition of inflation to a downward trend in the second half of this year.

Figure 1.4.7. Decomposition of the median headline inflation forecast, *percent*
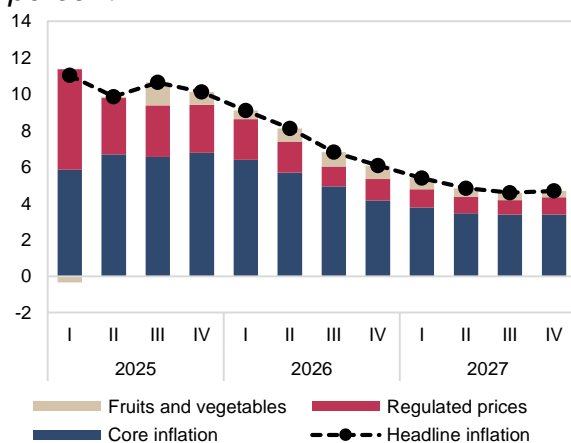
Figure 1.4.8. Decomposition of the median core inflation forecast, *percent*
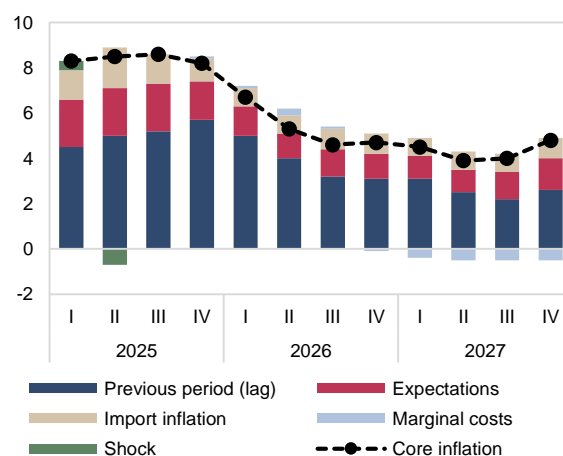
Source: CBU calculations.

Analysis of moments of inflation

Analyzing moments of inflation, such as the average rate of price growth, standard deviation, skewness, and kurtosis coefficients, is important for understanding the nature of price fluctuations and identifying persistent inflationary processes. These indicators not only reflect the overall level of price changes but also describe statistical properties such as the distribution structure, asymmetry of changes, systemic imbalances, and the presence of extreme deviations.

For each month from January 2021 to March 2025, these indicators were calculated based on 510 items in the consumer basket, and their dynamics and interrelationships were analyzed *(Figure 1)*.

According to the results, the highest average monthly price change during the observed period was 1.7 percent, recorded in December 2021, and the lowest was -0.3 percent, observed in June 2021 and June 2024. This dynamics is mainly explained by the strong impact of seasonality on prices.

To assess the variation in price fluctuations within the consumer basket, the standard deviation was calculated, showing a range from 0.8 percentage points to 8.2 percentage points during the observed period. The highest standard deviation occurred in May 2024 as a result of increased energy tariffs.

Figure 1. Dynamics of Different Moments of inflation
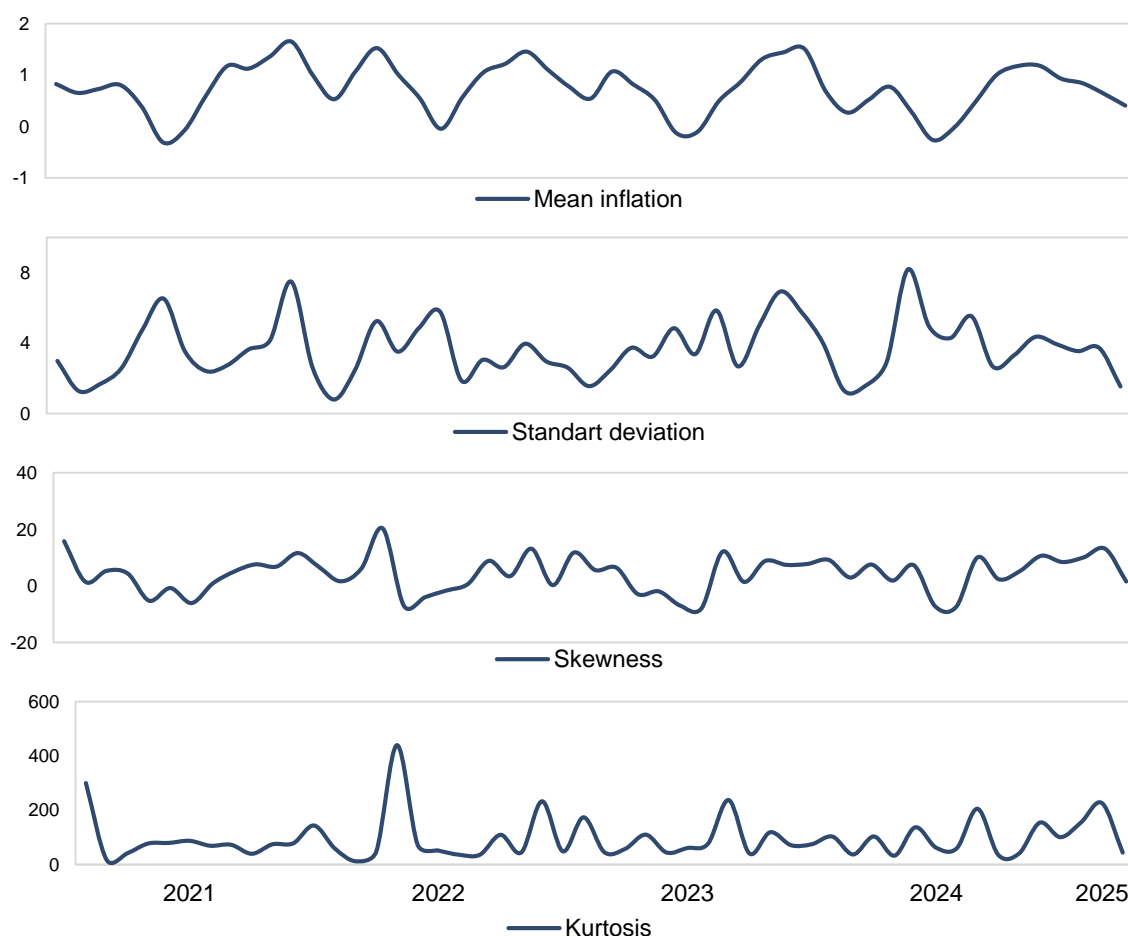
Source: CBU calculations based on data from National Statistics Committee.

A lower standard deviation typically indicates more stable and consistent inflationary processes.

During the study period, the skewness coefficient was generally positive, with a maximum value of 20.3 and an average of 4.2.

It is worth noting that the skewness indicator complements the information provided by the standard deviation - not only showing the degree of dispersion but also indicating the direction in which significant deviations from the average are occurring. Positive skewness implies that price increases were largely driven by a few extreme price hikes, whereas negative skewness suggests that significant price decreases pulled the average downward.

The skewness coefficient fluctuated between persistently negative values (e.g., during the summer months of 2021 and 2023) and high positive values (e.g., April 2022 and February 2025), indicating that price changes were often asymmetrically distributed and that sharp price increases were more prevalent than sharp declines.

The kurtosis coefficient also showed high volatility, averaging 95.1 – a considerably high level indicating that extreme price changes occurred frequently.

Furthermore, correlation analysis of these indicators revealed that changes in the average inflation rate and the standard deviation were almost uncorrelated during the observed period (r = 0.01), suggesting that greater average price growth did not necessarily coincide with higher price dispersion.

A relatively strong positive correlation (r = 0.63) was found between average inflation and the skewness coefficient, indicating that periods of high inflation tended to exhibit more asymmetric price distributions – primarily driven by sharp price increases.

The strongest correlation was observed between the skewness and kurtosis coefficients (r = 0.69), suggesting that as the skewness in the price distribution increased, extreme price changes also became more frequent. Conversely, during periods of lower skewness, extreme price changes occurred less often.

Overall, from 2021 to 2025, the average level of inflation exhibited an unstable pattern with alternating phases of acceleration and deceleration. This highlights the high sensitivity of prices to various factors and the limited effectiveness of inflation containment during the period.

1.5. Uncertainties and risks in macroeconomic development

External uncertainties and risks. In the global economy, external uncertainties are intensifying due to the introduction of additional US import tariffs and the ongoing US-China trade war. The volatility and unpredictability of US trade policy are heightening pessimistic expectations regarding future global economic growth, international trade, rising inflation, and the increasing fragmentation of international economic relations. Market participants now simultaneously anticipate low global growth and high inflation.

Due to the economic slowdown of Uzbekistan's main trading partners and weakening external demand resulting from these developments, the growth of non-gold exports could decline.

Amid uncertainty, high volatility in global financial, commodity, capital, and currency markets is likely to persist for an extended period. Rising expectations of escalating trade wars could adversely affect global commodity prices, reduce capital inflows, and worsen business sentiment.

Internal uncertainties and risks. Due to the asymmetric impact of global tariffs on exchange rates and economic growth in countries receiving labor migrants, the dynamics of cross-border remittances could shift household consumption demand and increase the uncertainty related to demand-driven inflation.

Additionally, higher-than-expected investment activity in the economy could boost aggregate demand and exert further inflationary pressure.

In the current year, changes in energy tariffs under the next stage of energy reform may lead to rising production costs and accelerate inflation expectations among economic agents.

II. CURRENT MACROECONOMIC ENVIRONMENT

2.1. Domestic economic activity and aggregate demand factors

In 2025 Q1, economic activity exceeded forecasts due to strong domestic consumption, foreign investment, and high commodity prices. Against a backdrop of favorable global prices, a significant increase in resource-related revenues supported fiscal consolidation. The country's external trade balance continued to improve, contributing to the stable formation of the exchange rate.

As a result of increased cross-border remittances and household lending activity, real incomes rose substantially, exerting upward pressure on aggregate domestic demand.

Economic Growth. Growth remained steady in 2025 Q1, with real GDP increasing by 6.8 percent compared to the same period of the previous year. Key contributing sectors were services (12.6 percent), industry (6.5 percent), and construction (10.8 percent). The contribution of the services sector to overall growth was higher than in previous quarters *(Figures 2.1.1-2.1.2).*

Growth in the industrial sector was primarily driven by manufacturing (8.7 percent), while within services, the highest growth rates were recorded in communication and information services (24.3 percent) and financial services (19.6 percent).

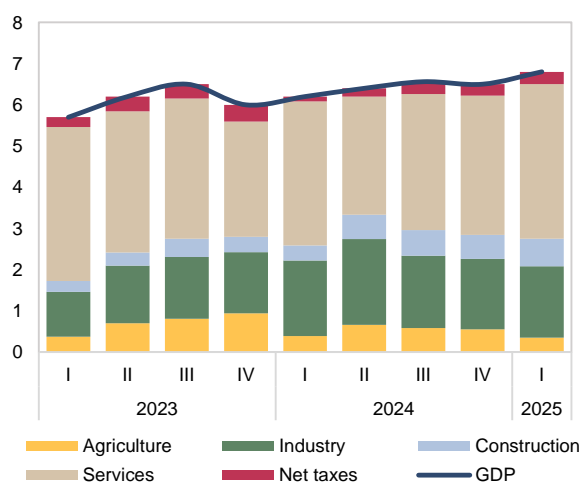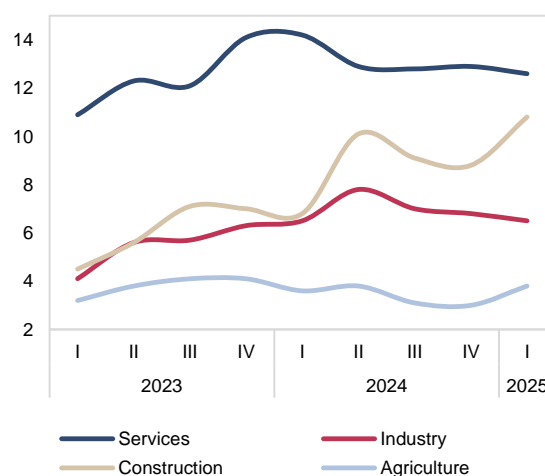**Figure 2.1.1. Decomposition of GDP growth by production method,** *p.p.*

Figure 2.1.2. Growth of GDP components, *percent*

Source: National Statistics Committee.

Investment activity supporting aggregate demand was mainly formed through foreign direct investment, which increased by 27.8 percent year-on-year and reached 3.4 bln dollars *(Figure 2.1.3).*

In the structure of fixed capital investment, the share of investment in manufacturing, mining, and services has been declining, while investment in agriculture has increased.

Although the amount of real investment in the construction sector has been on a downward trend, this sector is still experiencing a high growth. This can be attributed to sufficient level of fixed capital already in place as a result of significant volumes of investment made in the past years.

In January-March 2025, key indicators of consumer demand also showed positive growth compared to the same period last year. In particular, revenues from trade and paid services increased by 24.7 percent year-on-year *(Figure 2.1.4).*

Although the growth rate of cash-based trade revenues slowed (15 percent), a steady growth rate (36.9 percent) remained in payments made through terminals.

The Central Bank survey results also indicate acceleration in economic activity. In March 2025, the Business Sentiment Index increased by 3.2 points compared to the beginning of the year, reaching 63.5 points. The Economic Activity Index rose by 1.5 points to 56.8 points.

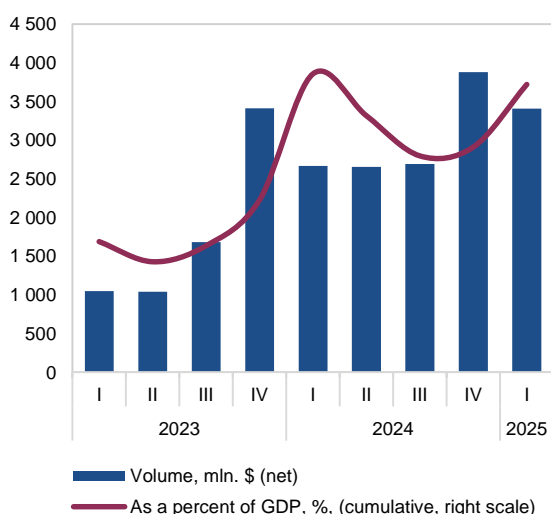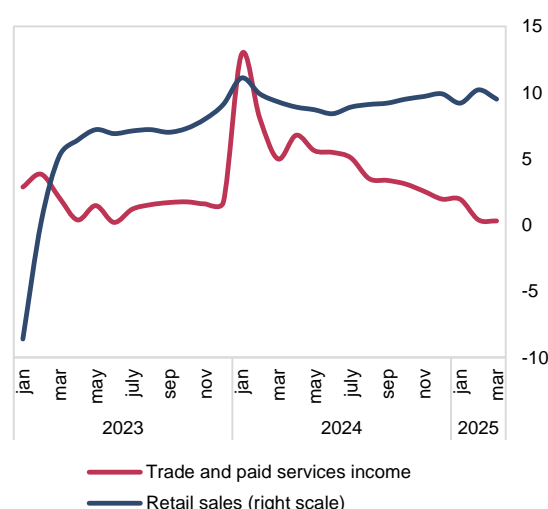**Figure 2.1.3. FDI dynamics,** *mln dollars*

Volume, mln. $ (net)
As a percent of GDP, %, (cumulative, right scale)

Figure 2.1.4. Consumption activity, *real growth rate, percent*

Trade and paid services income
Retail sales (right scale)

Source: National Statistics Committee.

In recent periods, remittances have remained as the main factor behind fluctuations in income growth. In particular, remittances increased by 32 percent in January-March 2025, totaling 3.3 bln USD (compared to 2.5 bln USD in the same period of 2024). This high growth is explained by the appreciation of the currencies of major trade partners and the increase in migration flows to countries that pay higher wage *(Figure 2.1.5)*.
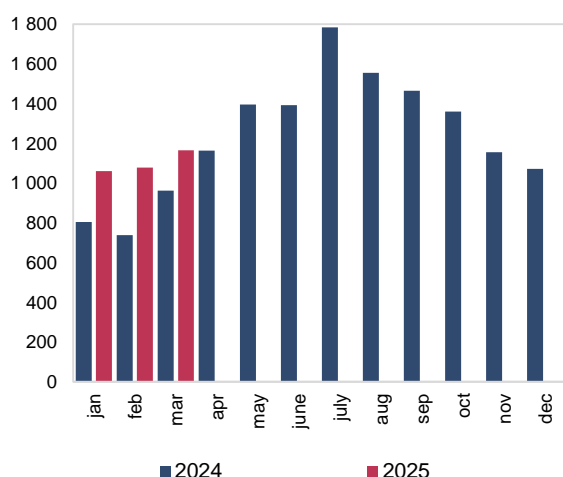
In 2025 Q1, the growth of average nominal wage was 18 percent. Wage growth in the communication and information, and finance and insurance sectors exceeded the average growth level, while in education, transportation and storage sectors wages grew close to the average rate.

The positive dynamics of remittances and rising wages in the economy contributed to the increase in real aggregate household incomes, with this indicator growing by 9.8 percent in 2025 Q1 *(Figure 2.1.6).* Per capita real incomes rose by 7.6 percent compared to the same period of the previous year.

The number of job postings on websites has been increasing since the beginning of the year *(Figure 2.1.7)*. This growth in vacancies is mainly observed in the retail trade and services sectors. During this period, job seekers remained highly active in the labor market, with the number of job applications continuing to rise.
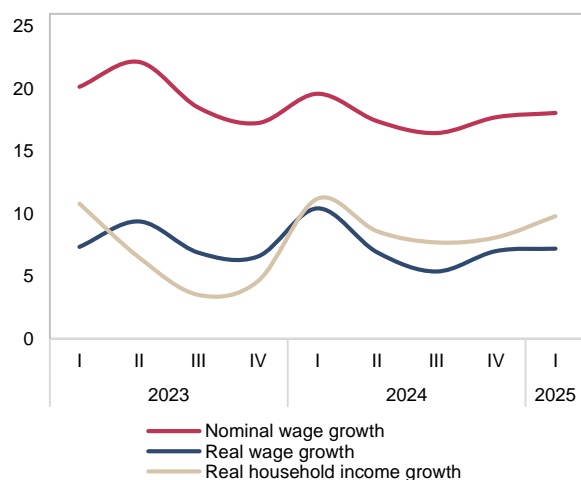
Real estate transaction dynamics, which reflect aggregate economic activity, started growing in the final months of 2024, and this trend has continued in the early months of 2025 *(Figure 2.1.8).*

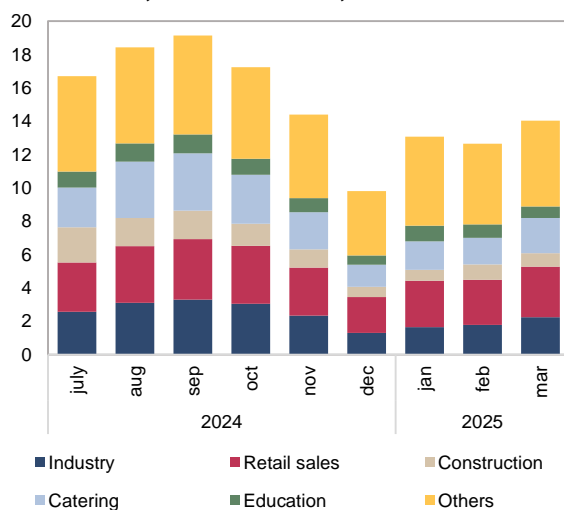**Figure 2.1.5. Cross-border money transfers,** *mln dollars*

Figure 2.1.6. Real growth of household income and wages, *percent*

Source: CBU calculations.

Source: National Statistics Committee.

Figure 2.1.7. Number of announced vacancies, sector-wise, *thousand*


Source: CBU calculations based on open data sources.

**Figure 2.1.8. The number of transactions in real estate market,** *growth, percent*
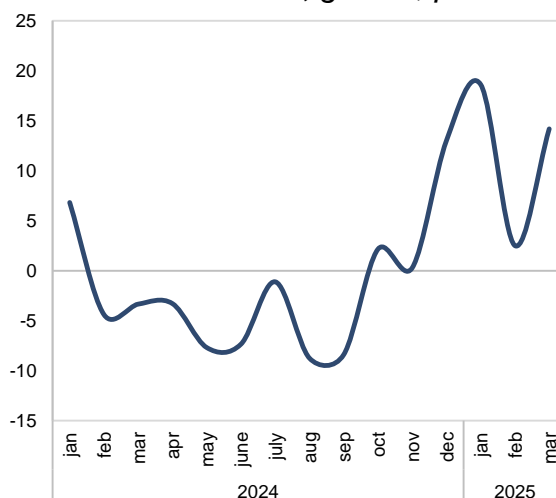
Source: CBU calculations based on data from e-notarius.uz.

Fiscal position. At the end of 2025 Q1, total budget revenues and expenditures amounted to 69 and 77 trln soums, respectively *(Figure 2.1.9).*

In recent months, the acceleration of budget revenues, mainly due to the increase in gold prices, has been one of the factors supporting the growth in expenditures. Specifically, in January-March of this year, budget expenditures rose by 10 percent compared to the same period last year.

Figure 2.1.9. Budget indicators, *trln soums*
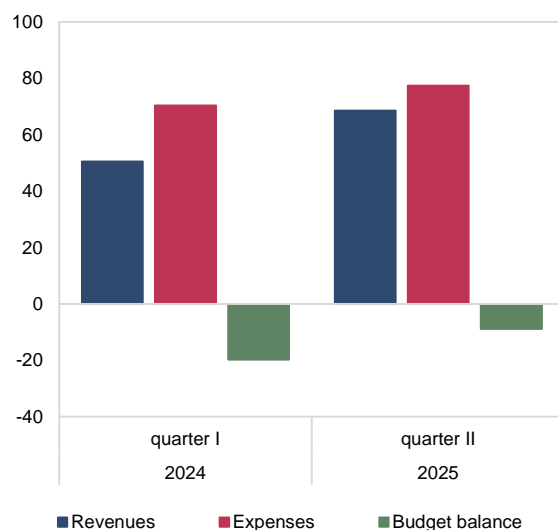
Source: Ministry of Economy and Finance.

Figure 2.1.10. Non-gold export growth, *percent*
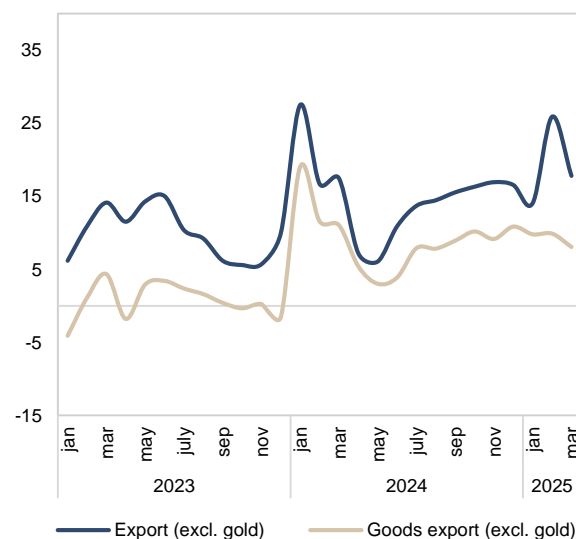
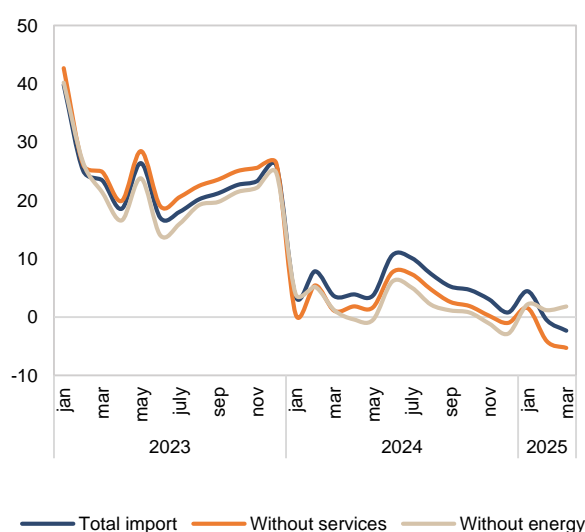*Source: National Statistics Committee.*

Also, over recent years the execution of state budget expenditures according to the approved forecast parameters has also significantly accelerated. In particular, nearly 27 percent of the total budget expenditures planned for the current year were spent in Q1 (compared to 22-23 percent in 2020-2022).

At the same time, the sharp rise in global gold prices in recent months has supported budget revenues and may create conditions for continued fiscal stimulus through government expenditures. This is expected to remain one of the key factors supporting aggregate demand.

External trade and exchange rate dynamics. Total exports grew by 24.4 percent, primarily due to favorable gold prices. Non-gold exports increased by 17.8 percent *(Figure 2.1.10)*, driven mainly by a significant rise in services exports (37.9 percent), food products (33.6 percent), and energy products (20.2 percent). However, exports excluding both gold and services slowed to 8 percent, mainly due to a 12.1 percent decline in industrial goods exports.

Imports fell by 2.3 percent in 2025 Q1 *(Figure 2.1.11)*. Goods imports declined by 5.3 percent, largely due to reduced imports of machinery and equipment, ferrous metals, and energy products. The main contributors to import growth remain food products (15.3 percent) and services (32.9 percent).

Figure 2.1.11. Import growth, *percent*

Figure 2.1.12. REER dynamics, *September 2019 = 100 %*

Source: National Statistics Committee.
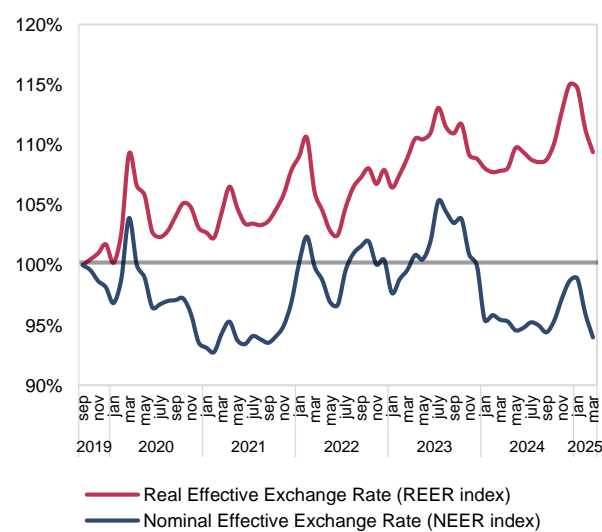
Source: CBU calculations.

The real effective exchange rate depreciated by 4.9 percent compared to the beginning of the year, mainly due to a notable appreciation of the currencies of key trading partners over the past two months. Nevertheless, the current level of REER is close to the level of the same period last year *(Figure 2.1.12).*

Box 4.

Structural changes in retail trade in Uzbekistan

In the context of demographic changes and rising household incomes, strong domestic consumption continues to be a major driver of economic growth in Uzbekistan.

In recent years, a high level of domestic demand has led to significant expansion in retail trade turnover. From 2019 to 2024, retail trade volume increased by an average of 9.7 percent per year in real terms, resulting in a 1.7-fold overall expansion *(Figure 1)*.

The number of enterprises operating in the trade sector also rose, increasing by 1.6 times over the past five years to reach 238 thousand enterprises *(Figure 2)*.

These factors reflect not only the dynamics of the trade sector but also ongoing structural changes in the economy, especially in consumer preferences and behavior. Major shifts in retail trade began forming in 2015-2017 and accelerated during the COVID-19 pandemic, as consumers gradually shifted from traditional markets to organized retail outlets (supermarkets and shopping centers).

In particular, the share of unorganized trade[9] decreased during this period, to 9.4 percent of total retail turnover in 2024 (in contrast, this share was 56.4 percent in 2010, which consists of informal sector and traditional food markets, a proxy data for unorganized trade) *(Figure 3)*. Likewise, the share of food markets fell from 34.2 percent in 2010 to 5 percent by 2024.

In the composition of trade at food markets, fruits and vegetables remain the dominant products. However, the share of bread and grain products, poultry, and eggs has been gradually declining due to the development of new retail channels.

Despite the decline in the share of unorganized trade between 2015 and 2020, consumers have retained a certain preference for shopping at traditional markets during the post-pandemic period and to the present day. This trend reflects a stabilization in the share of unorganized trade *(Figure 3)*.

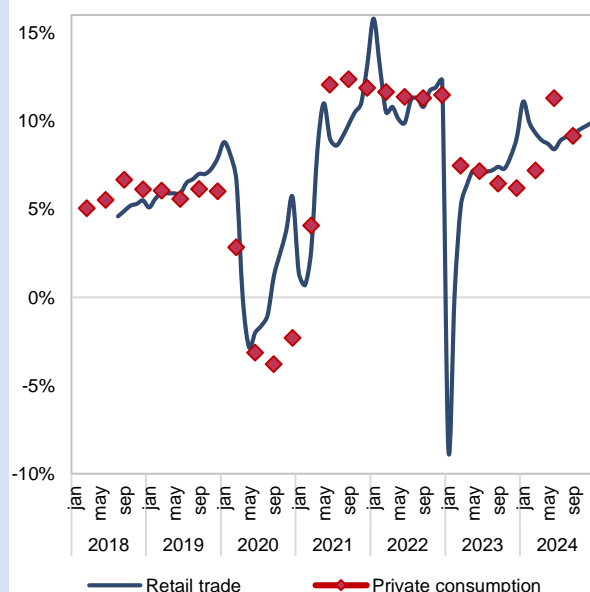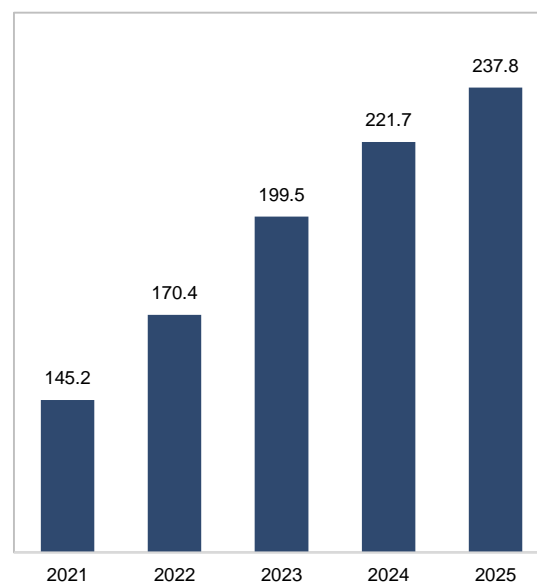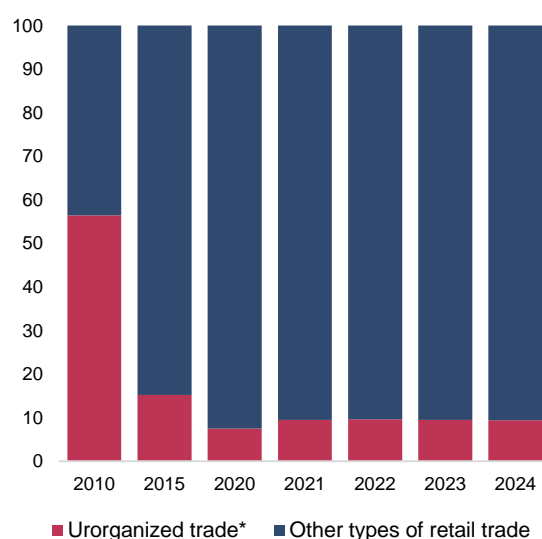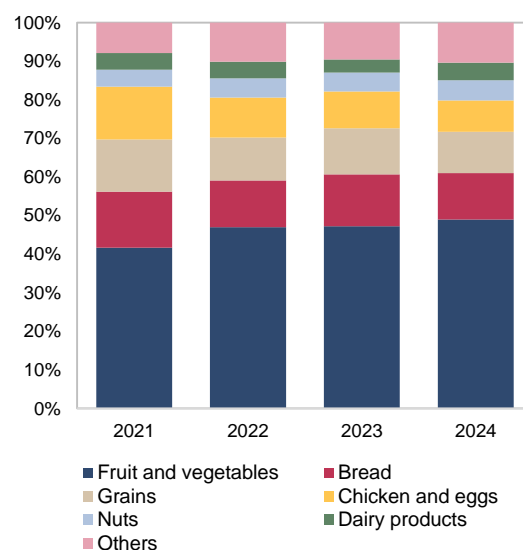**Figure 1. Real growth of personal consumption and retail trade,** *percent*

Figure 2. Number of firms in trade sector, *thousand*

Source: CBU calculations based on data from National Statistics Committee.

Figure 3. Share of unorganized trade in retail trade, *percent*

Figure 4. Types of goods in food markets, *percent*

Source: CBU calculations based on data from National Statistics Committee;

* in this analysis, for the years 2010-2014, the informal sector (general goods and specialized markets) and food market turnover were used as a proxy indicator for unorganized trade.

In addition, the gradual expansion of modern retail chains has been observed not only in the capital but also in regional areas, contributing positively to retail trade growth across the country.

At the same time, digitalization trends in retail trade have gained momentum. By the end of 2023, the share of e-commerce in total retail trade reached 4 percent. The number of online stores and marketplaces has been growing, which in turn has gradually expanded and improved the trade infrastructure. For instance, while there were 128 registered marketplaces at the end of 2022, their number reached 201 by the end of 2024.[10]

Amid the rapid expansion of e-commerce, changes in consumer purchasing behavior are continuing. As of the first half of 2024, the share of the population aged 10 and older using the internet to obtain information about goods or services increased to 14.1 percent from 10.2 percent in 2022.

The growing involvement of both domestic and international companies indicates the continued dynamic development of the commercial sector in Uzbekistan.

As a result, the share of cash transactions in trade and paid services declined from 61.2 percent in 2022 to 54.2 percent in 2024, while non-cash payments via terminals increased from 38.8 percent to 45.8 percent during the same period.

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[9] The volume of trade carried out by individuals at food markets, as well as livestock and poultry markets.
[10] Tax Committee data.

Box 5.

Analysis of the structural dynamics of real sector enterprises in the economy

Enterprise operation involve not only the use of resources, production, and provision of services, but also serve as key factors in broader economic processes such as economic growth, income distribution, and social welfare.

Overall, during 2018-2024, the number of enterprises increased across all sectors of the economy as business activities expanded. However, in recent years (2023-2024), a decline in the number of active enterprises has been observed. In 2024, although the number of registered enterprises and organizations increased by 5.4 percent, the number of active enterprises decreased by 12.4 percent *(Figure 1)*.

This decline may be partly explained by improved statistical registration methodologies and database integration, as well as changes in the organizational-legal structure of business activities.

The number of foreign-capital enterprises operating (which increased by 5.8 percent in 2024 compared to 2023) and newly established enterprises (an increase by 24.2 percent) continue to grow. From 2018 to 2022, the increase in foreign enterprises was mainly driven by those with capital from Russia, Turkey, and Kazakhstan. However, in 2024, the increase was due to a rise in enterprises with Chinese capital participation *(Figure 2)*.

Sector wise analysis shows that the share of enterprises in industry and construction declined (from 24 percent to 18 percent and from 12 percent to 9 percent, respectively). The largest share continues to belong to the trade sector, where the share of active enterprises has grown by 10 percentage points over the past 6 years (from 34 percent to 44 percent) *(Figure 3)*.

At the same time, enterprises have continued to increase their profits in recent years. This is attributed to improved business conditions in the country and favorable global prices for raw material-exporting large enterprises.

By the end of 2024, real sector enterprises recorded 108.7 trln soums in profit – 1.5 times higher than in 2023. Nearly 66 percent of total profits were generated by the manufacturing industry *(Figure 4)*.

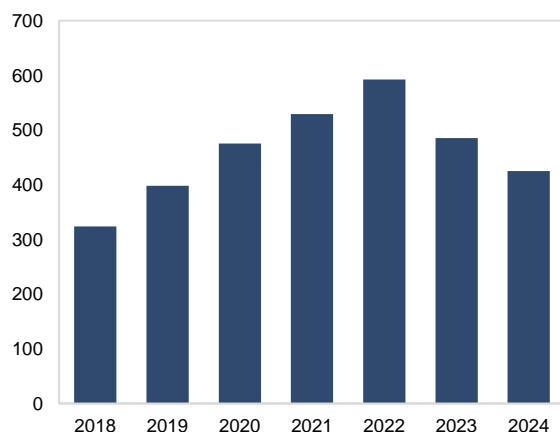**Figure 1. The number of national enterprises operating,** *thousand*
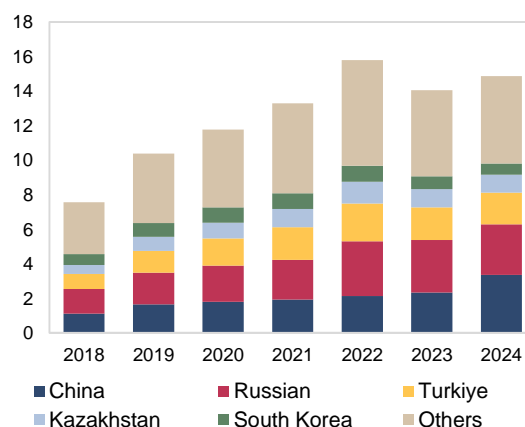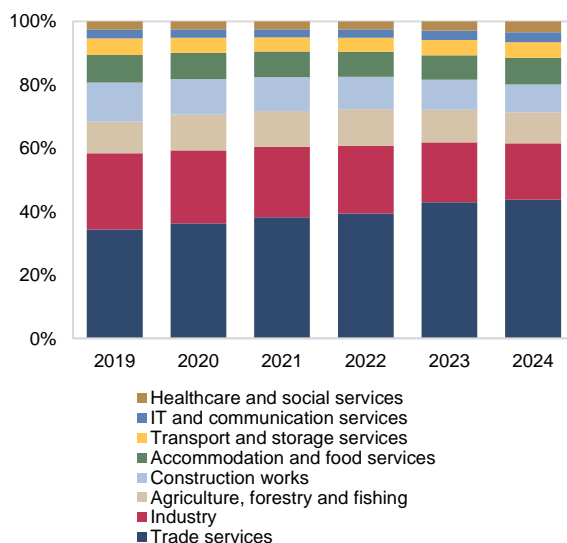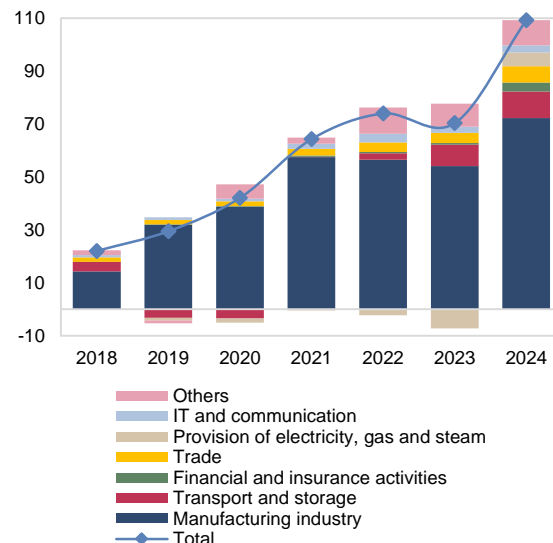
Figure 2. Decomposition of foreign enterprises operating by country, *thousand*

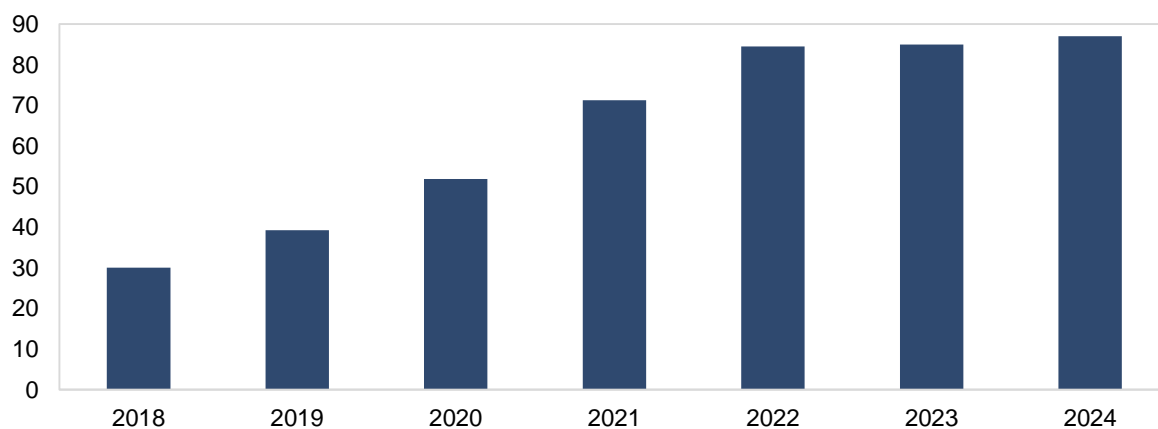*Source: National Statistics Committee.*

Figure 3. The share of enterprises operating by sector, *percent*

Figure 4. Financial performance of enterprises (profit +, loss -), *trln soums*

Figure 3 legend:
- Healthcare and social services
- IT and communication services
- Transport and storage services
- Accommodation and food services
- Construction works
- Agriculture, forestry and fishing
- Industry
- Trade services

Figure 4 legend:
- Others
- IT and communication
- Provision of electricity, gas and steam
- Trade
- Financial and insurance activities
- Transport and storage
- Manufacturing industry
- Total

Source: National Statistics Committee.

In some sectors, high levels of domestic demand and relative supply imbalances have allowed enterprises not only to pass on costs to consumers fully but also to increase their profits. These trends are particularly evident among enterprises engaged in trade, storage, transportation, and a wide range of other services.

Despite the rise in profits, enterprise investment activity has declined in real terms in recent years (by -2.7 percent in 2023 and -3.7 percent in 2024) *(Figure 5)*. This could be due to the redirection of financial resources toward debt repayment, dividend payments, or the prioritization of medium-term profit strategies.

Given current trends, it is essential that enterprise operations focus on efficiency, competitiveness, adaptability to external market uncertainties, and respond to the expected steady growth in domestic demand. This underscores the need to prioritize long-term investment strategies for sustainable development.

Figure 5. Investments made using enterprise funds, *trln soums*

Source: National Statistics Committee.

2.2. Analysis of inflation dynamics

In contrast to the downward trend observed in previous quarters, headline inflation in 2025 Q1 showed an upward trajectory. This shift was driven by persistent supply-side pressures and a resurgence of demand-side factors in recent months, contributing to rising inflation.

By the end of Q1, annual headline inflation reached 10.3 percent, increasing by 0.5 percentage points compared to December 2024 *(Figure 2.2.1)*. The main contributor to this rise was the acceleration in food inflation, although services inflation continued to exert the largest impact on the overall index (6.2 p.p.). Non-food inflation remained relatively stable throughout the quarter.

The decline in fruit and vegetable prices was slower than in the previous quarter due to seasonal weather-related factors. Meanwhile, regulated prices inflation maintained a downward trend due to the fading impact of previous increases in utility tariffs, with annual inflation in this group falling to 35.6 percent by the end of the quarter *(Figure 2.2.2)*.

Core inflation rose faster than headline inflation, reaching 8.1 percent in March, the highest since December 2023.

A strong rise in remittance inflows and an acceleration in lending volumes (after a previous slowdown) increased household purchasing power, stimulating economic activity and exerting additional demand-side pressure on core inflation.

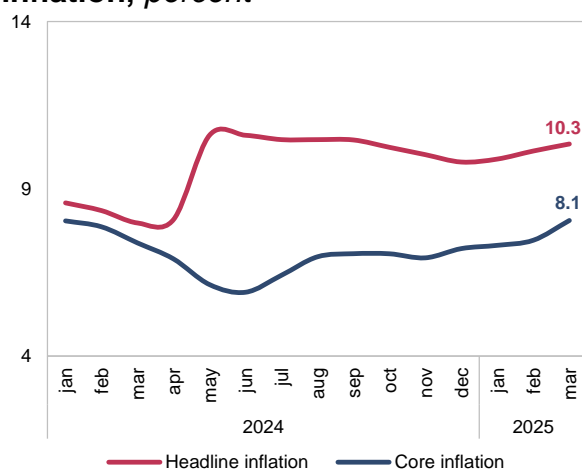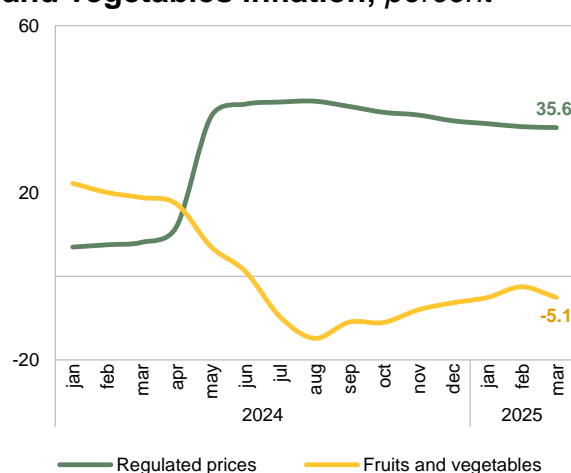**Figure 2.2.1. Headline and core inflation,** *percent*

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

Source: CBU calculations based on data from National Statistics Committee.

Within core inflation, both food and services components accelerated, increasing by 1.4 and 1.3 percentage points, respectively, compared to December *(Figure 2.2.3).*

Restrictions on meat exports in neighboring countries led to a reduced meat supply, and rising import prices affected domestic prices. In March, meat product prices increased by 6.1 percent, reaching 21.6 percent year-on-year.

Meanwhile, the sharp increase in vegetable oil prices was mainly due to high prices in global markets. Given the deflation observed in fruit and vegetable prices in 2024, the fruit and vegetable group may exert upward pressure on food inflation in 2025.

Although core inflation in non-food products rose by 0.4 p.p. in January-February, it declined in March, returning to its early-year level. While prices of construction materials, cleaning supplies, and personal care products rose, slowing inflation in clothing, furniture, and pharmaceuticals helped keep the group's inflation unchanged overall. The stability of the exchange rate since the beginning of the year has contributed to the stabilization of non-food product prices through import prices.

Core inflation in services accelerated by 1.3 percentage points from the start of the year to 11.6 percent. Although inflation in transport and medical services slowed during the quarter, rising prices in education and mobile-communication services had a relatively stronger upward effect on this group's inflation.

Figure 2.2.3. Inflation of the main groups in the CPI basket, *percent*

a) food products   b) non-food products   c) services
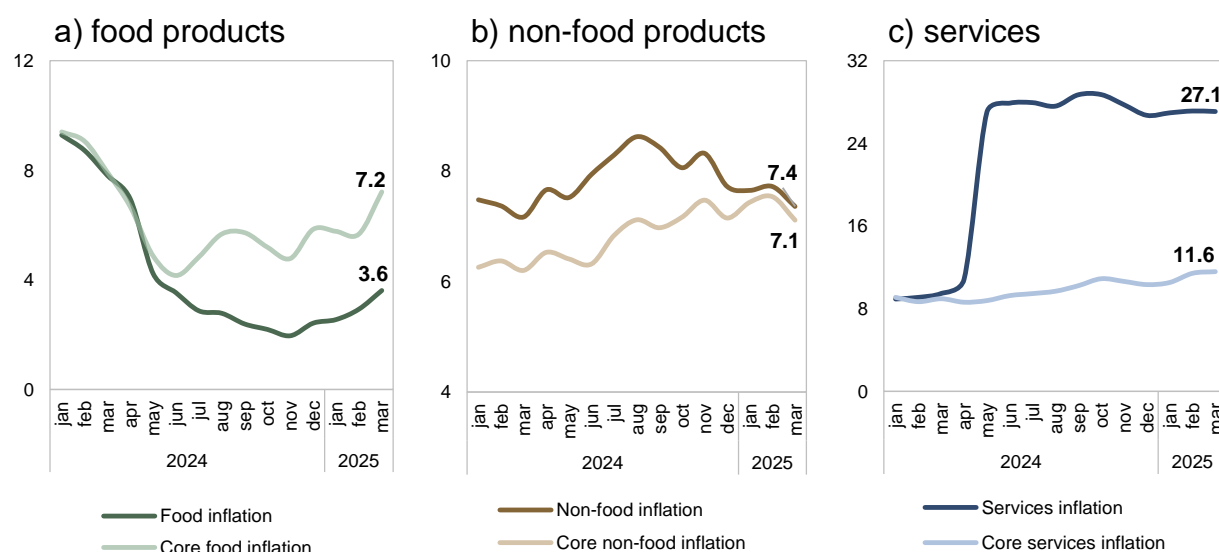
Source: CBU calculations based on data from National Statistics Committee.

The upward trend in core inflation in services indicates sustained high consumer demand in the economy.

Seasonally adjusted, annualized headline and core inflation rates averaged 8.1 and 9.6 percent, respectively, in 2025 Q1 *(Figure 2.2.4)*. In 2024 Q4, these figures were 6.2 and 6.9 percent, respectively. This indicates that the current inflationary trend is upward.

In headline inflation, the contribution of service inflation was high, while in core inflation, the non-seasonal effects of food products were significant.

The observed increase in core inflation was also reflected in alternative indicators such as trimmed inflation and the CPI median. Both indicators rose by 0.4 percentage points since the start of the year, forming within the range of 5.9 and 5.0 percent, respectively *(Figure 2.2.5)*.

In recent months, price growth in the consumer basket has been broad-based *(Figure 2.2.6)*. At the end of Q4 2024, prices of 27 percent of goods and services in the consumer basket had accelerated compared to the same period in the previous year, while in 2025 Q1, this figure averaged around 60 percent.

Inflation in socially significant goods and services, which affects perceived inflation levels and shapes inflation expectations among the population, accelerated in recent months, reaching an annual 22.2 percent *(Figure 2.2.7)*.

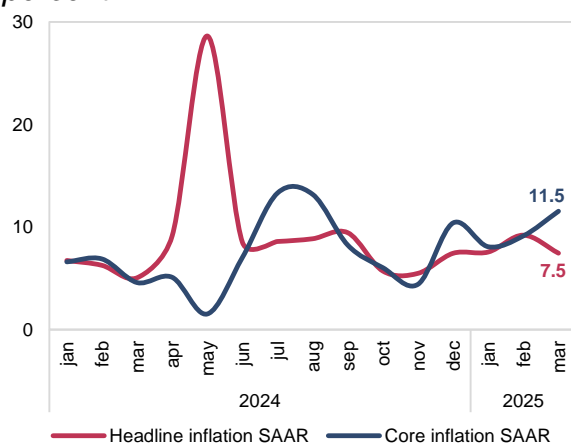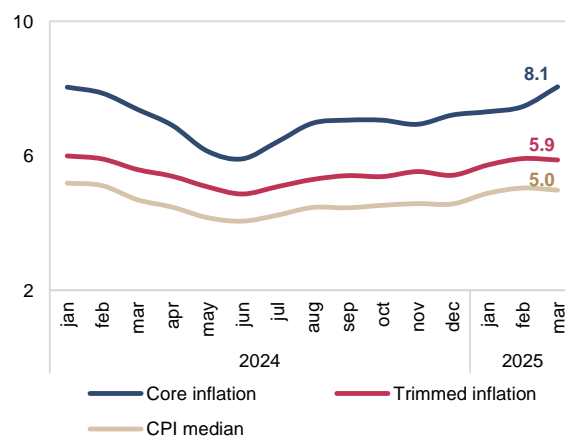**Figure 2.2.4. Seasonally adjusted annualized headline and core inflation,** *percent*

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

Source: CBU calculations based on data from National Statistics Committee.

Figure 2.2.6. Comparative changes in annual inflation, *percent*
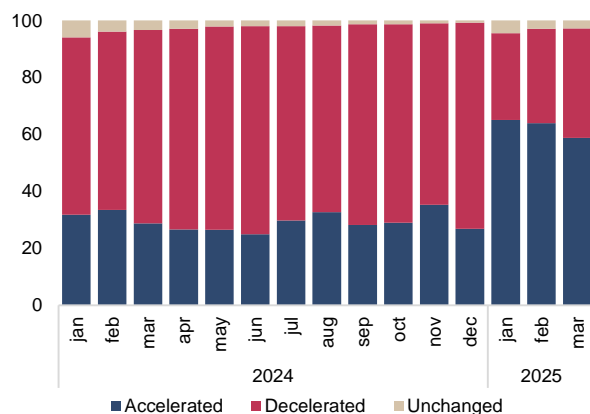
Figure 2.2.7. Inflation for the 30 goods and services of social significance, *percent*
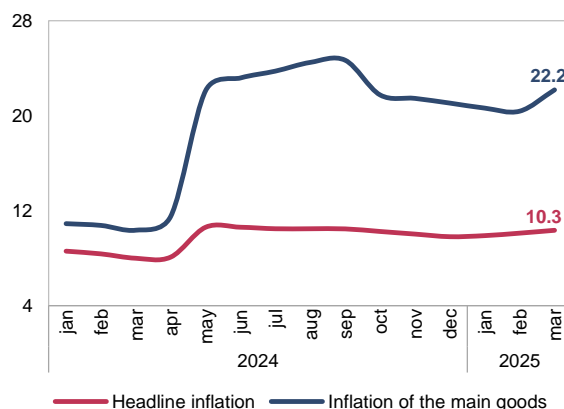
Source: CBU calculations based on data from National Statistics Committee.

Overall, the downward inflation trend observed in the end of 2024 was not sustained and has shifted back to an upward trajectory, indicating that inflationary pressures remain in the economy. The sharp rise in core and service inflation reflects the growing impact of demand-side factors on prices.

Box 6.

Analysis of domestic automobile market dynamics

The analysis of changes in the automobile market holds particular significance in assessing the level of economic activity and the stability of the financial system. Cyclical trends in this market are considered key indicators reflecting short and medium-term shifts in the economy.[11]

In recent years, price dynamics in Uzbekistan's automobile market have exhibited volatility, continuing to be shaped by the current economic situation, import and domestic production policies, vehicle prices, and consumer purchasing power.

In 2021, due to disruptions in global supply chains, the production volume of passenger vehicles in the country declined by 19.1 percent to 219,000 units (compared to 271,000 units in 2020).

As international logistics improved and the economy recovered, production volumes increased to 314,400 units in 2022 (up by 43.3 percent), 395,700 units in 2023 (up by 25.9 percent), and 399,200 units in 2024 (up by 0.9 percent).

During this period, a surge in pent-up demand for automobiles led to a significant increase in car imports. In 2022, internal combustion engine vehicles accounted for the majority of imports, whereas, starting from 2023, the share of electric vehicles in total imports has been growing.

This shift is attributed, on the one hand, to the reduction of import duties on electric vehicles and declining prices due to technological advancements, and on the other hand, to supply disruptions and high prices of automotive fuels, which have increased the appeal and mass adoption of electric vehicles.

However, the recent regulation and tightening of electric vehicle imports have led to a significant decline in import volumes. In particular, in 2024, the volume of imports was 7.1 percent lower compared to 2023 *(Figure 1)*. Moreover, in 2025 Q1, automobile imports decreased by 69 percent compared to the same period in the previous year.

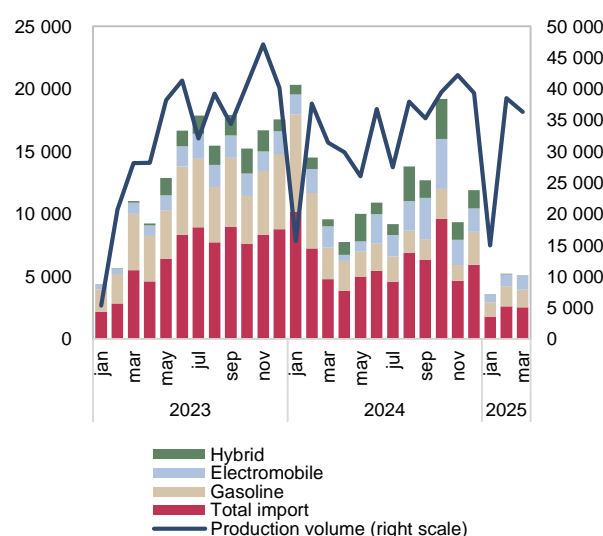### Figure 1. Number of domestically produced and imported vehicles

Figure 2. Change in number of transactions in the secondary market, *percent*

Period	2023		2024		2025	
	sale and purchase	power of attorney	sale and purchase	power of attorney	sale and purchase	power of attorney
jan	-4	-14	8	13	-46	43
feb	0	-10	-13	-11	-38	46
mar	21	0	-18	-12	-38	43
apr	22	-14	-34	21		
may	38	-8	-43	17		
jun	4	-32	-37	32		
jul	30	-12	-38	45		
aug	5	-30	-38	53		
sep	16	-15	-38	62		
oct	25	-13	-50	62		
nov	-2	3	-41	46		
dec	-2	0	-45	46		
TOTAL	12	-13	-33	31		

Source: Ministry of Justice (notarius.uz database); Customs Committee under the Ministry of Finance and Statistics Committee.

Figure 3. Number of car listings posted on the OLX platform, 2023-2025, *units*

Regions	2023				2024				2025
	I	II	III	IV	I	II	III	IV	I
Andijan	1 779	2 812	3 305	3 389	3 214	2 417	2 443	2 423	2 130
Bukhara	2 225	2 663	2 745	2 696	2 649	2 631	2 591	2 529	2 453
Tashkent city	25 740	30 193	30 708	30 616	30 240	29 561	29 563	29 506	29 518
Jizzakh	1 552	2 567	2 708	2 645	2 554	2 276	2 316	2 301	2 219
Kashkadarya	2 516	3 318	3 537	3 761	3 902	3 770	4 321	4 142	4 115
Navoi	2 101	2 722	2 752	2 736	2 727	2 570	2 643	2 656	2 485
Namangan	1 845	2 513	2 724	2 725	2 627	2 132	2 436	2 225	1 848
Republic of Karakalpakstan	1 362	1 757	2 450	2 715	2 672	2 599	2 636	2 569	2 490
Samarkand	2 729	3 096	3 671	3 605	3 695	3 539	3 416	3 396	3 327
Surkhandarya	1 167	2 045	2 578	2 793	2 296	1 838	1 945	2 065	1 726
Syrdarya	874	1 437	1 607	1 652	1 491	1 184	1 363	1 117	1 080
Tashkent region	6 128	8 382	10 332	10 541	11 493	10 783	10 627	10 537	10 808
Fergana	3 317	4 553	5 266	5 217	5 438	5 049	5 471	5 156	4 652
Khorezm	2 487	3 412	3 685	3 972	4 047	3 753	3 693	3 596	3 444
TOTAL	55 822	71 470	78 068	79 063	79 045	74 102	75 464	74 218	72 295

Figure 4. Dynamics of car listings on websites, *units and percentage*
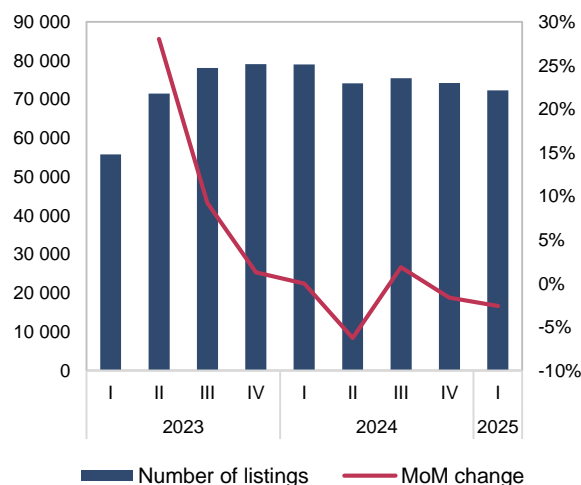
Source: CBU calculations based on open web platforms (olx.uz).

The influence of the secondary automobile market in Uzbekistan is also expanding. The supply and demand for cars in this market play a crucial role in shaping sales in the primary automobile market.

Starting from 2022, there was a noticeable increase in activity in the secondary market. Specifically, in 2022, the number of transactions increased by 140 percent compared to 2021, reaching 1.08 mln, and in 2023, it amounted to 1.208 mln. The highest monthly number of transactions was recorded in October 2023 (125.2 thousand), followed by a decline in subsequent months.

In 2024, the total number of car sales transactions in the secondary market decreased by 32.9 percent compared to 2023, amounting to 810 thousand. During this period, the number of car sale listings also declined compared to previous months. This situation may be explained by reduced demand in the car market, changes in consumers' purchasing power, or seasonal factors *(Figures 3-4)*.

By region, the highest number of listings was observed in Tashkent city and Tashkent region, which is attributed to the high activity of car markets in the capital and surrounding areas.

Analysis of price changes in the secondary car market.

Car prices were analyzed based on classification into new and old *(or used)* categories. Since March 2023, the price indices for new vehicles in both UZS and USD have shown a notable decline. Although UZS-denominated prices have increased in the following periods, the USD-denominated index maintained a generally declining trend.

Since the beginning of 2025, a rising trend in prices has been observed. As of March 2025, prices for new vehicles in the secondary market increased by 4.7 percent in UZS equivalent and 1.6 percent in USD equivalent compared to the same period last year *(Figure 5)*. This trend can be explained by the significant reduction in import volumes amidst high demand for new vehicles in the domestic market.

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[11] The automobile industry and monetary policy: An international perspective, Paul Ballew, Robert Schnorbus and Helmut Hesse. Business Economics Vol. 29, No. 4 (October 1994), pp. 29-35 (7 pages)

Meanwhile, different trends were observed in the price indices of used vehicles. Specifically, compared to the base period, the USD price index remained higher until September 2023 while the UZS price index – until mid-2024. In the following period, both indices showed a steady downward trend.

The decline in prices for used cars may be linked to growing demand for new vehicles, suggesting that consumers increasingly prioritize quality, warranty, fuel efficiency, and new technologies.

Additionally, credit and leasing opportunities are primarily available for new vehicles. Moreover, the declining investment attractiveness of vehicles contributes to expectations of further price reductions.

Figure 5. Price index of vehicles with lower mileage, annual change, *January 2022 = 100 percent*
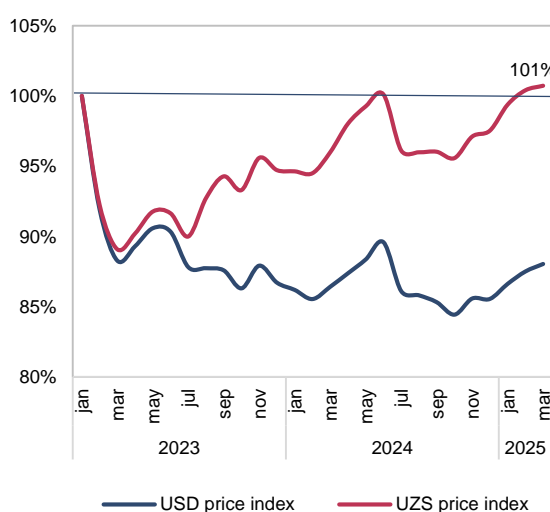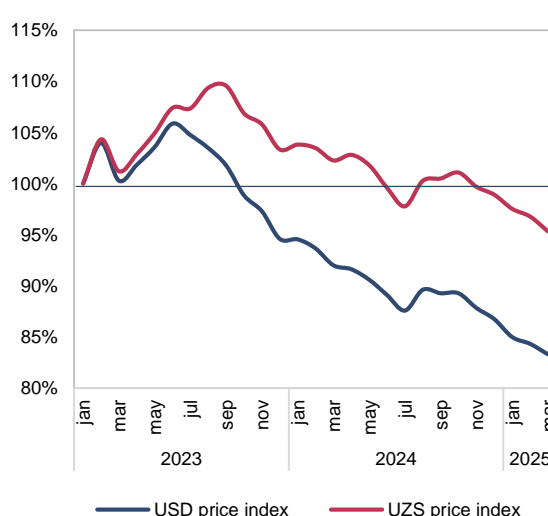

Figure 6. Price index of vehicles with higher mileage, annual change, *January 2022 = 100 percent*

Source: CBU calculations based on online car sale listings

Box 7.

Analysis of key factors affecting inflation in Central Asia and the Caucasus.

It is well known that inflation is influenced by a number of internal and external factors. Among the internal factors are inflation inertia from previous periods, inflation expectations, and economic activity, while the external factors include inflation in major trading partner countries, global prices, and others. According to IMF research, similarities and interlinkages exist in the formation of inflation in the Caucasus and Central Asia (CCA) region[12].

Specifically, the results of estimating the Phillips curve relationships using the panel vector autoregression (PVAR) method reveal that inflation inertia (lagged inflation) has a significant impact on inflation levels in the CCA region.

For instance, a 1 percentage point increase in lagged inflation leads to a 0.7-0.8 percentage point increase in current inflation. This suggests that economic agents in the region tend to base their future economic decisions on past trends.

Furthermore, the correlation between inflation and inflation expectations is estimated at 0.15. This relationship is notably stronger in Kyrgyzstan, Kazakhstan, and Armenia compared to other countries in the region.

An increase of 1 percentage point in global food prices or external inflation results, on average, in a 0.1 percentage point acceleration in local prices. Notably, changes in food prices significantly affect local price formation across all countries in the region except Tajikistan. Additionally, only in Kazakhstan and Azerbaijan has inflation in major trading partner countries been one of the most influential factors on local prices.

Changes in global oil prices were found to have no statistically significant impact on domestic prices in any country in the region.

According to the analysis, a 1 percentage point increase in external inflation could accelerate domestic prices in the CCA region by 1.7 percentage points over the first two quarters. Similarly, a 1 percent increase in global food inflation is estimated to raise domestic inflation in the region by 0.23 percentage points over the first four quarters.

A significant correlation was identified between the nominal exchange rate and inflation across all CCA countries (except Kyrgyzstan). Specifically, a 1 percentage point depreciation in the exchange rate could raise inflation in the region by 0.2 percentage points over the following six quarters.

If global factors are excluded, a 1 percent increase in wages could lead to an average 0.4 percent rise in prices in the region over three to four quarters *(Figure 1)*.

It is worth noting that monetary policy can partially limit the pass-through effect of external factors on domestic prices. In particular, if the tightening of monetary policy is implemented simultaneously with the strengthening of the nominal exchange rate, the impact of changes in the policy rate is found to be stronger *(Figure 2)*.

According to the analysis, when global food prices rise by 1 percentage point and monetary policy is tightened accordingly, the pass-through effect to local prices is only 0.02 percentage points. However, if monetary policy is not tightened, the effect reaches 0.2 percentage points *(Figure 3)*.

Similarly, a 1 percentage point increase in external inflation, when accompanied by a hike in the policy rate, has virtually no pass-through effect on domestic prices *(Figure 4)*.

Figure 1. Relationship Between Wage Growth and Inflation
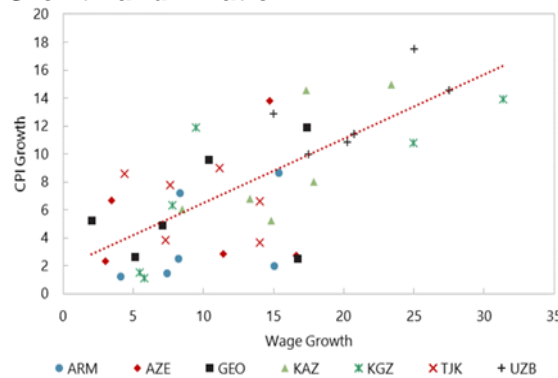
Figure 2. Inflation Response to an Increase in the Policy Rate
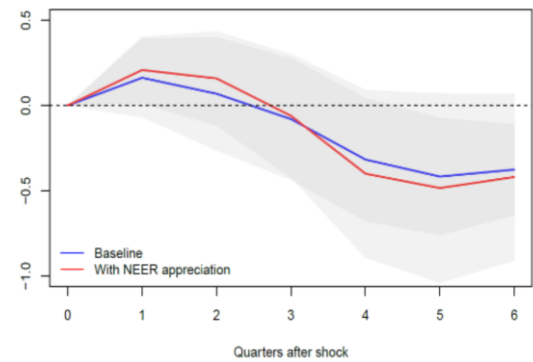
Figure 3. Impact of Global Food Price Increases on Regional Inflation
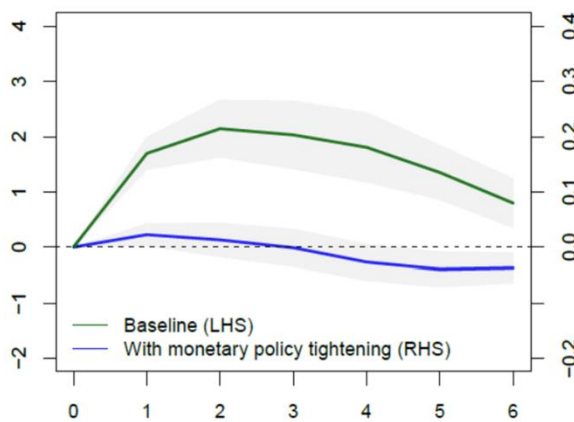
Figure 4. Impact of External Inflation Increases on Regional Inflation
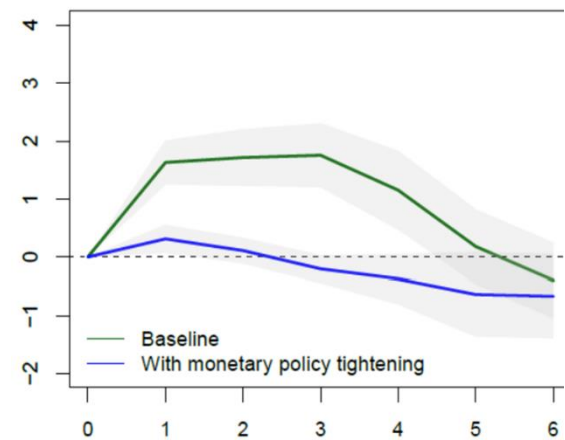
Source: IMF staff calculations.

In a tightened monetary policy environment, the influence of external prices on domestic inflation becomes statistically insignificant after two quarters. This demonstrates that a restrictive monetary stance helps mitigate secondary effects from external inflation and prevents broad-based domestic price increases.

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[12] "Divers of Inflation in the Caucasus and Central Asia", IMF Working Paper, January 2025.

2.3. Monetary conditions

In 2025 Q1, relatively tight monetary conditions were maintained to ensure inflation remained within the forecast corridor and anchor inflation expectations.

Based on the inflation forecast for the next six months, the real level of the Central Bank's policy rate was formed within the range of 3.5-3.8 percent in Q1, helping to support relatively tight monetary conditions *(Figure 2.3.1).*

During this period, UZONIA and interbank REPO rates in the money market remained within the interest rate corridor despite some fluctuations below the policy rate *(Figure 2.3.2).*

Specifically, by the end of the quarter, the average UZONIA and interbank REPO rates had slightly declined, amounting to 12.7 and 12.9 percent, respectively (compared to 13.2 and 13 percent at the end of 2024 Q4). The decline in interbank market rates is attributed to a significant increase in the banking system's liquidity surplus.

The average yield on government securities issued by the Ministry of Economy and Finance continued to decline, reaching 15.4 percent in 2025 Q1 (compared to 16.5 percent and 16.1 percent in the third and fourth quarters of 2024, respectively) *(Figure 2.3.3).* This decline is related to increased demand for government securities resulting from the growing liquidity surplus.

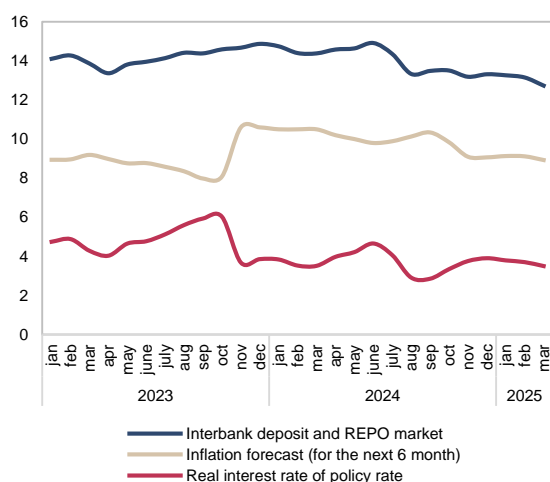**Figure 2.3.1. Nominal and real policy rate,** *percent*
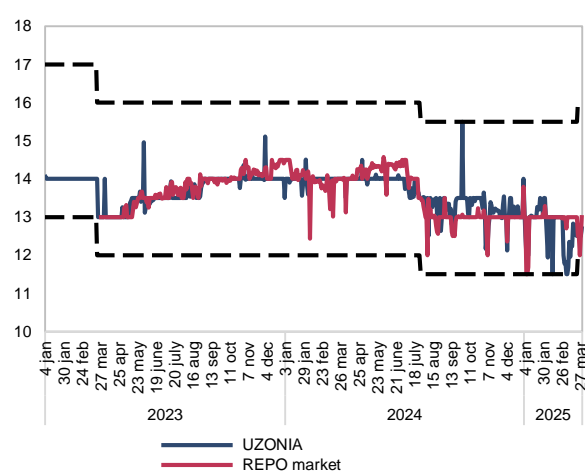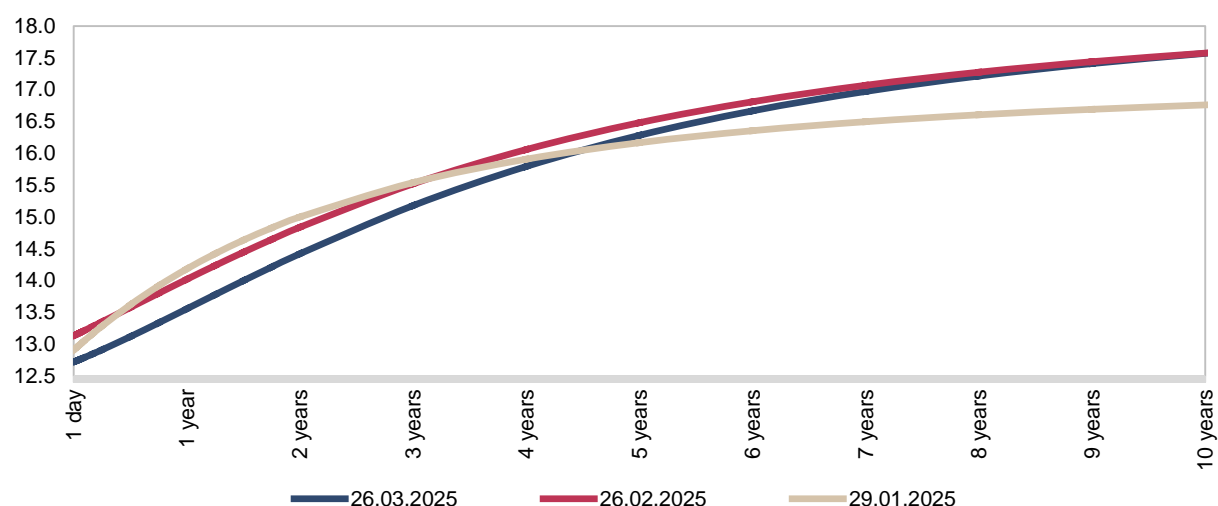

Interbank deposit and REPO market
Inflation forecast (for the next 6 month)
Real interest rate of policy rate

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


UZONIA
REPO market

Source: CBU calculations.

Figure 2.3.3. Government securities yield curve, *percent*

Source: CBU calculations.

Despite relatively tight real interest rates in the interbank money market and a noticeable decline in nominal rates, transmission to credit and deposit markets has remained relatively weak.

As of March 2025, the average interest rate on total loans issued in national currency by commercial banks decreased by 0.3 percentage points compared to the beginning of the year, reaching 23.1 percent. In particular, the average weighted interest rate on retail loans in national currency showed a declining trend and amounted to 23.6 percent in March (down by 1.3 percentage points since the beginning of the year). On the other hand, the average interest rate on corporate loans slightly increased, reaching 22.7 percent in March *(Figure 2.3.4).*

Figure 2.3.4. Interest rates on loans in national currency, *percent*
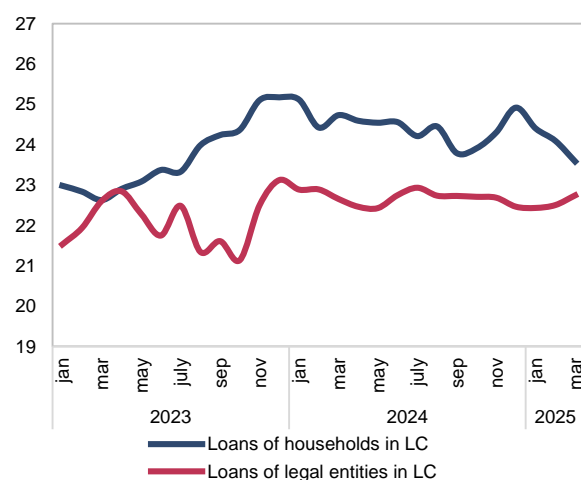
Figure 2.3.5. Interest rates on term deposits in national currency, *percent*
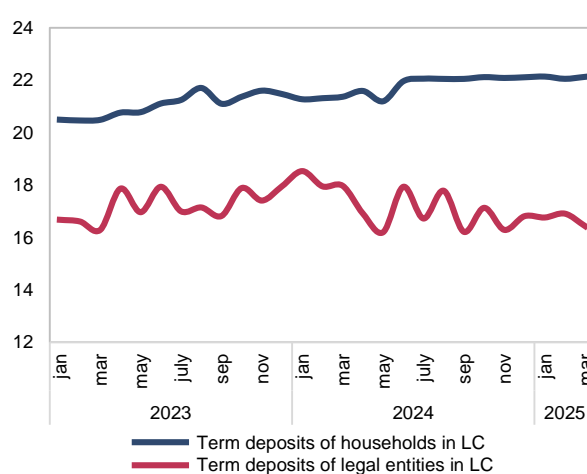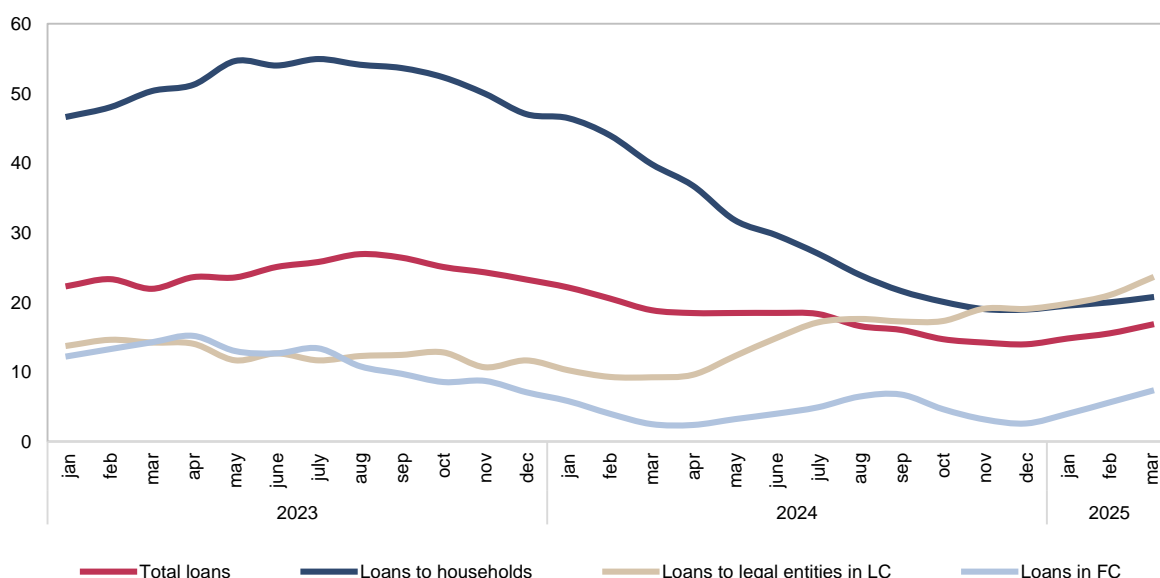

Source: CBU calculations.

In recent months, interest rates on term deposits in national currency for individuals have remained relatively stable, while rates for corporate deposits have followed a downward trend with some fluctuations *(Figure 2.3.5)*.

As of April 1, 2025, the annual growth of total credit stock in the economy accelerated by 2.8 percentage points compared to the beginning of the year, reaching 16.8 percent *(Figure 2.3.6)*. Growth in national currency credit reached 22 percent (compared to 19 percent in December 2024), while foreign currency credit rose to 7.2 percent (compared to 2.6 percent in December 2024).

In particular, approximately 79 percent of credit stock in national currency (or 49.9 trln soums) were long-term loans *(30.9 trln soums of which was extended to individuals and 12 trln soums – to private enterprises).* Meanwhile, 65 percent of credit stock in foreign currency was allocated as long-term loans, primarily to enterprises with private and foreign capital participation.

The acceleration in corporate credit growth is expected to support aggregate demand in the short term and contribute to aggregate supply expansion in the medium to long term. Conversely, rapid growth in retail loans primarily boosts short-term aggregate demand, thereby increasing inflationary pressures.

Figure 2.3.6. Growth of credit stock to the economy, *percent*

Source: CBU calculations.

In 2025 Q1, a slight acceleration was observed in the growth of outstanding loans to individuals *(or retail loans)*, reversing the declining trend seen through the end of 2024. By the end of March 2025, retail loan growth had accelerated by 1.7 percentage points compared to the start of the year, reaching 21.1 percent. The main drivers of this growth were microloans, microcredit[13], and mortgage loans. Meanwhile, the decline in car loans outstanding continued, with the negative growth accelerating to 2.4 percent *(Figure 2.3.7)*.

In January-March 2025, a total of 34.9 trln soums of loans were extended to individuals, which is 74 percent more compared to the same period in 2024. The relatively rapid growth of retail loans is explained by higher demand for mortgage loans, microloans, and microcredit amid rising household incomes.

During 2025 Q1, 53.6 percent of total retail loans consisted of microloans, 15.6 percent – microcredit, 12.8 percent – mortgage loans, 10 percent – car loans, and the remaining 8 percent – other loans. In addition, compared to the same period last year, microloans and microcredit increased by 2.3 and 1.9 times respectively, funds issued via credit cards increased by 3.3 times, mortgage loans grew by 26.3 percent, while car loans decreased by 17.6 percent *(Figure 2.3.8).*

The rapid growth in the outstanding loans to individuals may have a negative impact on their financial stability in the future.

Figure 2.3.7. Growth of outstanding loans to individuals, *percent*
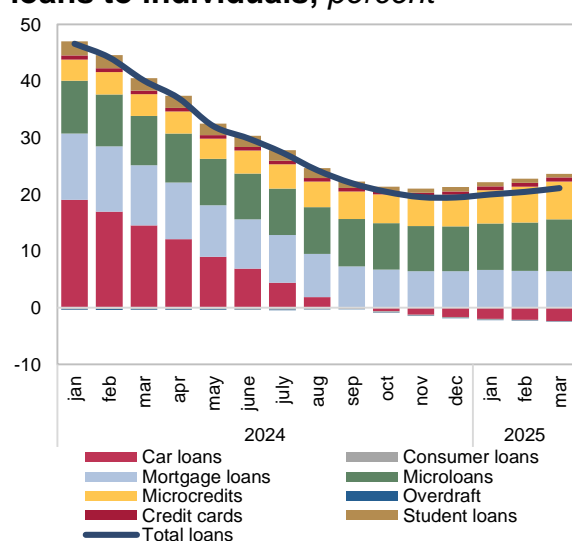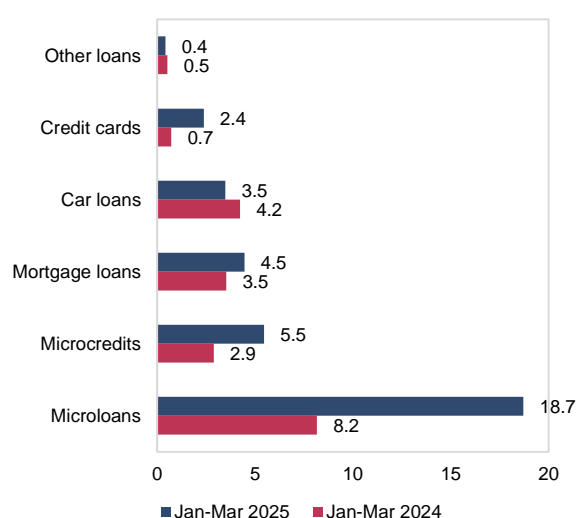

Figure 2.3.8. Loans to individuals, *trln soums*

Source: CBU calculations.

[13] Microloans are loans up to 100 million UZS that do not require a collateral while microcredit requires provision of collateral.

Amid high overall demand for loans, elevated inflation expectations, tight external financial conditions, and growing demand for domestic financial resources, the interest rates on term deposits remained relatively stable around an average of 19.2 percent during Q1.

In particular, in March, the average nominal interest rate on term deposits for individuals was 22.1 percent, and the real interest rate calculated taking into account inflation expectations was 6.9 percent *(Figure 2.3.9)*.

High nominal and real interest rates formed on term deposits are contributing to an increased propensity to save among the population and to high growth in the volume of deposits. In particular, during Q1, term deposits in national currency held by the population increased by 12.1 percent (62.3 percent on an annual basis) and reached 60 trln soums.

The annual growth of total deposits amounted to 34.5 percent, with the annual growth rate of deposits in national currency accelerating by 4.3 percentage points to reach 44.7 percent *(Figures 2.3.10-2.3.11)*.

As the growth rates of credit and deposits in national currency accelerated, the trend of de-dollarization in the banking system continued. In particular, as of April 1, 2025, the dollarization level of loans stood at 40.2 percent (down from 41.1 percent at the beginning of the year), and the dollarization level of deposits – at 24.5 percent (down from 25.5 percent at the beginning of the year) *(Figure 2.3.12)*.

Figure 2.3.9. Interest rates on term deposits in the national currency, *percent*

Nominal interest rate of households' term deposits
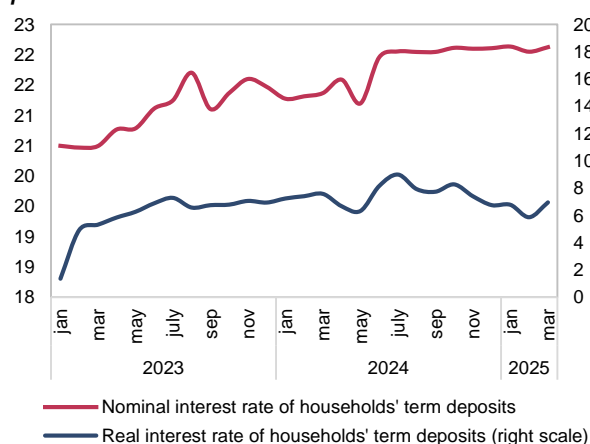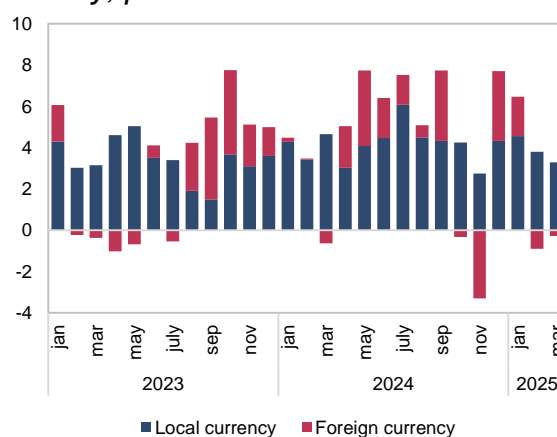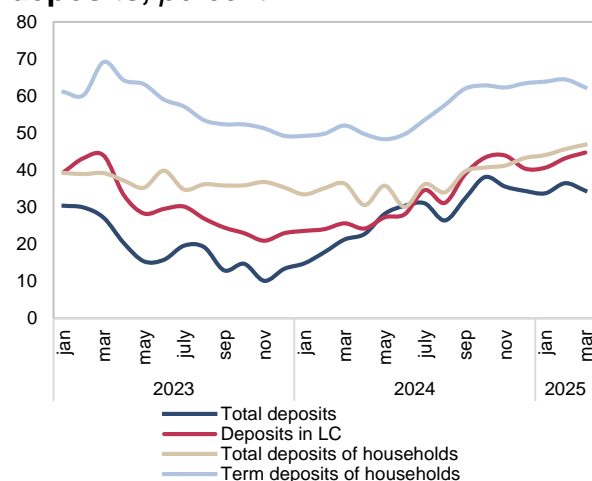Real interest rate of households' term deposits (right scale)

Figure 2.3.10. Change in the stock of household term deposits, *monthly, percent*

■ Local currency ■ Foreign currency

Source: CBU calculations.

Figure 2.3.11. Annual growth of deposits, *percent*

Figure 2.3.12. Dollarization level of deposits and loans, *percent*
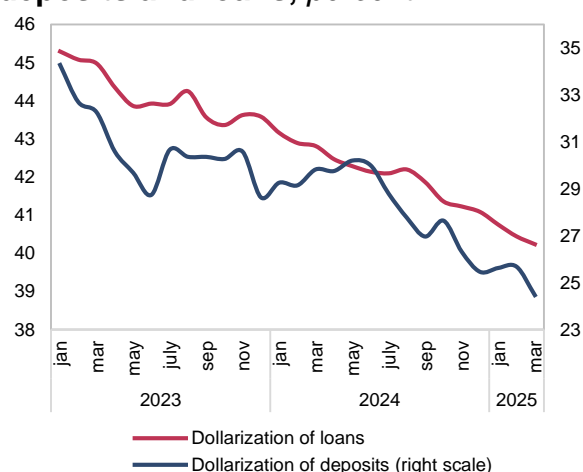
Source: CBU calculations.

At the end of 2025 Q1, amid the emergence of potential inflation risks (mainly related to aggregate supply factors), the Central Bank raised the key interest rate by 0.5 percentage points to 14 percent, thereby tightening the monetary policy stance.

Going forward, in a context where economic activity and aggregate demand are expected to remain high, it is crucial to maintain sufficiently tight monetary conditions in order to curb demand-side inflationary pressures and support household saving behavior.

Box 8.

The impact of credit allocation on economic growth

Loans allocated in the economy contribute positively to economic growth by financing investment, consumption, and production. At the same time, during the global financial crisis, a contraction in credit supply was one of the key factors behind the global economic downturn. For example, in 2009 Q1, the euro area's GDP shrank by 3.3 percent, of which 1.6 percentage points were due to a credit supply shock[14]. In the US, credit supply shocks led to declines in GDP and aggregate demand components by 0.6 and 0.8 percentage points, respectively[15].

In Uzbekistan, the volume of allocated loans has significantly increased in recent years due to the popularization of banking services, the simplification of loan procedures, and the emergence of new types of loans (in 2024, the volume of allocated loans was 5.6 times higher than in 2017). Under these conditions, it is important to study the role of credit in GDP growth.

To determine the relationship between the volume of allocated bank loans and economic growth, a vector autoregression (VAR) model was used. To exclude the distortions caused by the liberalization of the foreign exchange market, the analysis was based on monthly data from 2019 to 2024. Seven model specifications were developed using different combinations of variables.

The models use the annual growth rate of allocated loans and a proxy for economic growth calculated as a weighted average of the growth rates of industrial production and market services provided. The weights were assigned according to their respective shares in GDP. In addition, the following variables were selected as explanatory factors in alternative models *(Table 1):*

1. Cross-border remittances: stimulate household consumption and positively impact economic growth.

2. Government expenditures: directly affect economic growth through aggregate demand. An increase in this indicator helps stimulate economic activity.

3. Budget deficit: arises when government spending grows faster than revenues, increasing aggregate demand.

4. Exchange rate: influences economic growth through foreign trade, inflation, and external debt.

Table 1. Combination of different variables used in the model

№	Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
1.	Cross-border remittances	✓				✓	✓	
2.	Government expenditures		✓				✓	✓
3.	Budget deficit			✓				
4.	Exchange rate				✓			✓
5.	Inflation					✓		
6.	Allocated loans	✓	✓	✓	✓	✓	✓	✓
7.	Proxy for GDP growth	✓	✓	✓	✓	✓	✓	✓

5. Inflation: reduces household purchasing power, dampens aggregate demand, and slows economic growth.

In the short term: According to the results, a 1 percentage point increase in the annual credit growth leads to an average acceleration in economic growth by 0.05 percentage points, with this effect forming within a confidence interval of 0.02 to 0.08 *(Table 2)*. Impulse response analysis confirms that the effect of credit growth on economic growth is statistically significant and continues for approximately 3 to 7 months in the short term.

In the long-term: The cumulative impact of the impulse is on average 0.39 percentage points, within a confidence interval of 0.03 to 0.74, and continues for 8 to 20 months. However, beyond the 20-month mark, the influence of credit growth on the economy is no longer evident.

Based on the results, credit growth has a positive effect on economic growth in the short and medium term, confirming the role of credit in supporting aggregate demand during these periods. However, in the long term, the stimulative impact of credit expansion on economic growth was found to be statistically insignificant.

Table 2. Model results estimated based on various combinations of variables

Variables	No. of lags	Impact at time t=0	Confidence intervals		Duration of shock impact, *no. of months*	Long term impact	Confidence intervals		Duration of shock impact, *no. of months*
			Lower bound	*Upper bound*			*Lower bound*	*Upper bound*	
Model 1	1	0,05	0,02	0,08	5	0,45	0,005	0,89	20
Model 2	1	0,05	0,02	0,08	7	0,50	0,08	0,92	20
Model 3	1	0,05	0,032	0,08	7	0,51	0,09	0,92	18
Model 4	1	0,04	0,004	0,09	3	0,25	0	0,49	8
Model 5	1	0,05	0,02	0,07	5	0,34	0.02	0,66	17
Model 6	1	0,05	0,02	0,08	5	0,38	0,005	0,74	15
Model 7	1	0,05	0,003	0,08	4	0,29	0,005	0,58	11
Mean value	1	0,05	0,02	0,08	5	0,39	0,03	0,74	16

Source: CBU calculations.

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