



Central bank
of the Republic of Uzbekistan

2026 Q2

MONETARY POLICY REPORT

Central Bank of the Republic of Uzbekistan

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

5%



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ABBREVIATIONS

GDP	-	Gross Domestic Product
CPI	-	Consumer Price Index
REER	-	Real Effective Exchange Rate Index
IMF	-	International Monetary Fund
Fed	-	Us Federal Reserve System
PMI	-	Purchasing Managers' Index, index of manufacturing activity
UZONIA	-	Weighted Average Interest Rate On Overnight Money Market Operations
AI	-	Artificial Intelligence
QPM	-	Quarterly Projection Model
FPAS	-	Forecasting And Policy Analysis System, A Macroeconomic Analysis And Forecasting Framework
REPO	-	Repurchase Agreement

SUMMARY

In recent months the pace of disinflation has slowed, while price pressures have persisted due to certain supply-side factors and external economic conditions. Domestic demand continues to grow at a rapid pace.

Amid strong domestic demand, the second-round effects of changes in energy tariffs and uncertainties in the external economic environment, bringing inflation to the 5 percent target requires maintaining tight monetary conditions. On 29 July 2026, the Board of the Central Bank decided to maintain the policy rate at 14 percent.

In June, headline inflation accelerated to 6.4 percent year-on-year. The acceleration was driven mainly by increases in regulated energy tariffs and the liberalization of coal prices.

Core inflation stood at 5.7 percent and remained broadly unchanged in recent months. At the same time, in the second half of the year the second-round effects of higher regulated prices may become evident in the persistent components of inflation.

Inflation expectations of households and businesses stopped declining and were broadly unchanged compared with May. In June, household expectations stood at 10.1 percent and business expectations at 9.9 percent.

The rising share of goods and services with price increases exceeding 5 percent, together with the halt in the decline of core inflation, indicates that inflationary pressures in the economy persist.

The headline inflation forecast for the end of 2026 has been kept unchanged at 6.5 percent.

Economic activity remains strong. In the first half of this year, gross domestic product grew by 8.5 percent in real terms. High growth rates in retail trade and services reflect strong consumer activity, while investment dynamics point to robust investment demand.

The steady increase in investment inflows, including foreign direct investment, as well as expected fiscal spending in the second half of the year, is projected to continue supporting economic activity and domestic demand. Economic growth is forecast at around 7.5–8 percent by the end of 2026.

Against the backdrop of intensifying geopolitical tensions in the global economy, risks of higher food and commodity prices on world markets persist. In addition, disruptions in fuel supplies in trading partner countries, along with rising logistics and transportation costs, might create additional pressure on domestic inflation through import prices going forward.

At the same time, the temporary halt in global disinflation and the tightening of monetary policy in a number of countries increase the likelihood

that external financial conditions will remain tight for longer period than previously expected. This keeps uncertainty around external financing conditions elevated.

The balance of risks around the inflation forecast remains tilted to the upside.

Monetary conditions are currently tight. Positive real interest rates in the economy support households' propensity to save and contribute to the moderation of lending growth.

Current monetary conditions are assessed as sufficiently tight to contain inflationary pressures amid strong demand in the economy and to limit the second-round effects of tariff adjustments.

The Central Bank will closely monitor the dynamics of inflation and inflation expectations, domestic demand factors and changes in external economic conditions, and will continue to maintain the monetary conditions needed to ensure price stability.

The Central Bank's monetary policy will remain focused on reducing inflation to the 5 percent target, ensuring macroeconomic stability and preserving households' purchasing power.

Table 1. Forecasts of key macroeconomic indicators, annual change, percent.

Indicators	2024 (actual)	2025 (actual)	Baseline scenario forecasts		
			2026	2027	2028
Inflation rate	9.8	7.3	6.5 (6.5)*	5 (5)	5 (5)
Real GDP growth	6.7	7.7	7.5-8 (7-7.5)	6-7 (6-7)	6-7 (6-7)
Final consumption expenditure	9.5	7.9	6.5-7.5 (6-7)	6-7 (6-7)	6-7 (6-7)
- households	11.5	9.5	7.5-8 (6.5-7.5)	6.5-7.5 (6.5-7.5)	6.5-7.5 (6.5-7.5)
- general government	1.2	0.7	2-3 (2-3)	2-3 (2-3)	2-3 (2-3)
Gross fixed capital formation	31.3	10.5	12-16 (12-16)	7-10 (7-10)	7-10 (7-10)
Overall fiscal balance (% GDP)	-3.1	-2.1	-3 (-3)	-3 (-3)	-3 (-3)
Export growth (excluding gold)	18.4	21.3	19-23 (12-16)	8-12 (8-12)	8-12 (8-12)
Import growth	4.8	18.5	15-20 (15-20)	8-12 (8-12)	8-12 (8-12)
Growth of remittances	30	27.6	12-16 (12-16)	8-12 (8-12)	8-12 (8-12)
Growth of outstanding loans	14	15.3	12-15 (14-16)	12-14 (12-14)	12-14 (12-14)

* figures in parentheses are the forecasts published in the Monetary Policy Report for 2026 Q1;

Source: Central Bank estimates based on the QPM quarterly projection model and financial programming models.

I. MEDIUM-TERM MACROECONOMIC FORECASTS

1.1. Outlook for external economic condition

In the second quarter of 2026, the global economy adjusted to the impact of geopolitical tensions in the Middle East faster than expected. Part of the disruptions in energy supply was offset by inventories, while the rising share of renewable energy sources, fiscal stimulus measures implemented in some countries and stronger investment related to artificial intelligence supported global economic activity.

At the same time, the persistence of high energy and logistics costs is increasing uncertainty about the outlook for the global economy.

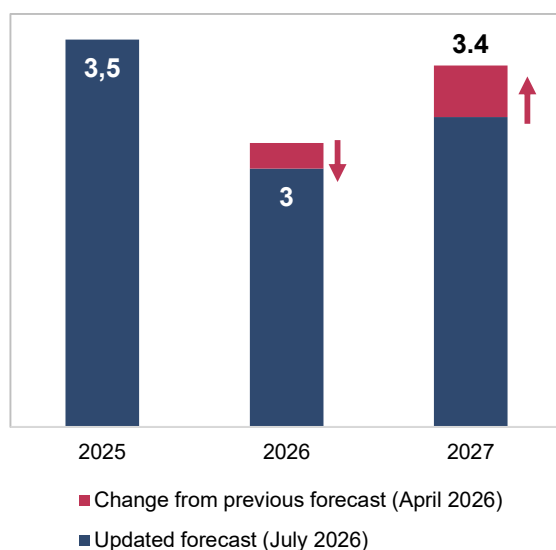
The relatively stable economic activity in the main trading partner countries is expected to support external demand for the country's exports and remittance inflows. At the same time, high volatility in energy prices and a possible increase in logistics costs continue to pose external inflationary risks.

According to the updated forecasts¹ of the International Monetary Fund, global economic growth is expected to slow to 3.0 percent in 2026 (0.1 percentage point lower than in the previous forecast) and to increase to 3.4 percent in 2027 (0.2 percentage point higher than in the previous forecast) (Figure 1.1.1). This reflects the persistence of the constraining effect in the short term of geopolitical shocks and high energy costs on economic activity, and the gradual recovery of energy supply and logistics chains next year .

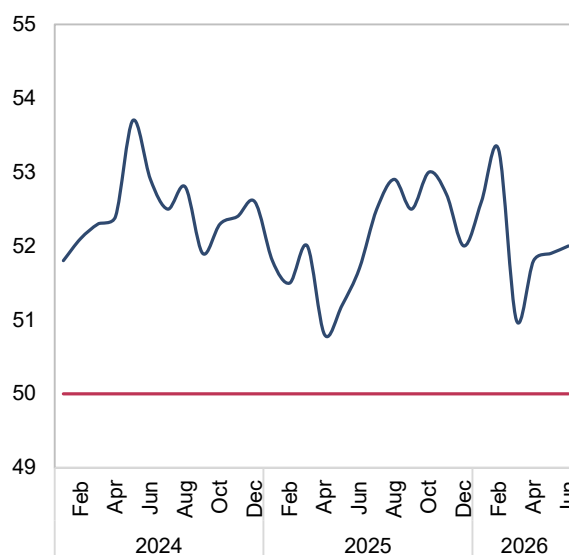
At the same time, the Purchasing Managers' Index (PMI) and pressures in global supply chains suggest that economic growth may slow to some extent in the coming quarters (Figure 1.1.2).

In 2026, global disinflation is expected to pause temporarily, with price growth accelerating.

¹ IMF, World Economic Outlook, July 2026
(<https://www.imf.org/en/publications/weo/issues/2026/07/08/world-economic-outlook-update-july-2026>).

Figure 1.1.1. Global economic growth outlook, percent

Source: IMF.

Figure 1.1.2. Purchasing Managers' Index (PMI)

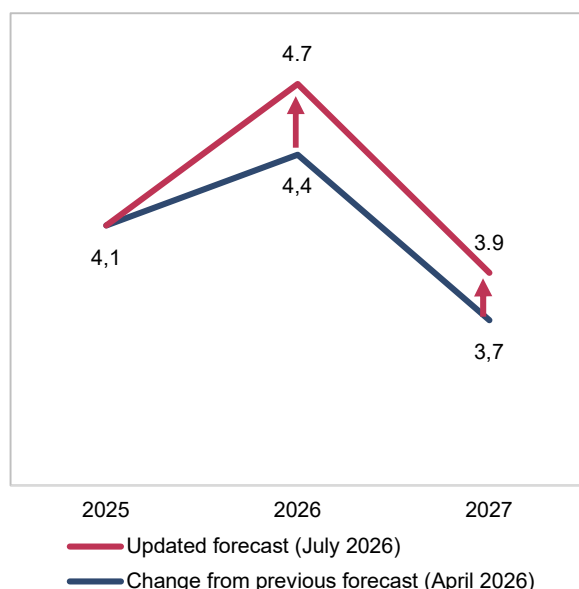
Source: S&P Global.

According to IMF estimates, global inflation is projected to rise from 4.1 percent in 2025 to 4.7 percent in 2026 (*0.3 percentage point higher than in the previous forecast*). In 2027, inflation is expected to decline to 3.9 percent (*0.2 percentage point higher than in the previous forecast*) (*Figure 1.1.3*).

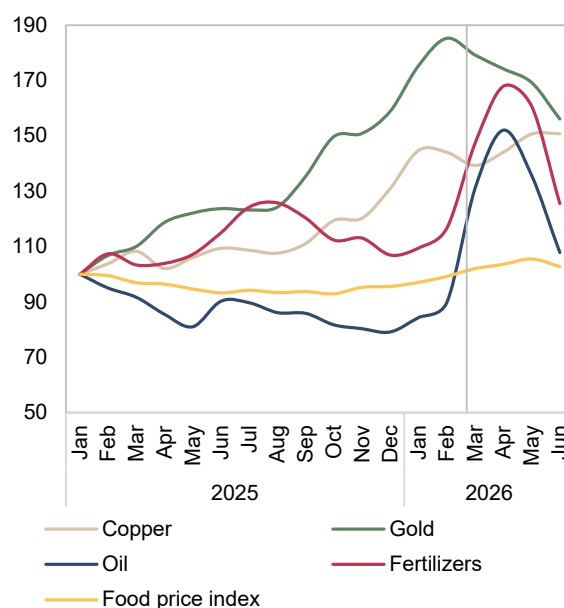
Rising energy prices are the main factor behind the acceleration of global inflation. At the same time, core inflation remains relatively stable in most countries. However, the increase in short-term inflation expectations and the pass-through of energy costs to transport, fertilizer and food prices keep the likelihood of stronger second-round effects elevated.

Although long-term inflation expectations remain relatively stable, inflation above target and exchange rate dynamics are prompting most central banks to maintain tight monetary conditions for longer.

In the second quarter of 2026, energy prices declined from their April peaks but remained significantly above pre-conflict levels (*Figure 1.1.4*). Under the IMF's baseline scenario, shipping volumes through the Strait of Hormuz are expected to recover gradually from July 2026 and to stabilize by March 2027.

Figure 1.1.3. Global inflation forecast, percent

Source: IMF.

Figure 1.1.4. Dynamics of world commodity prices, January 2025 = 100%

Source: World Bank.

Oil prices are projected to rise by an average of 31.8 percent in 2026, fertilizer prices by 26 percent and food prices by 8 percent. This may create additional inflationary pressure from the external supply side.

Geopolitical uncertainty, inflation risks and strong demand for safe-haven assets are expected to keep precious metal prices elevated. However, expectations that global monetary conditions will remain tight for longer have led to some correction in gold prices in recent months.

Demand for copper and other base metals is supported by the expansion of data centres, energy infrastructure and high-tech manufacturing. At the same time, weaker-than-expected domestic demand in China or a reassessment of investment expectations related to artificial intelligence could exert downward pressure on the prices of these metals.

Overall, prices on world commodity markets are highly volatile and are moving in different directions. At the same time, their overall impact on the country's terms of trade and economy remains positive.

Trends in the main trading partner countries

In the second quarter of 2026, **China's** economic growth slowed to 4.3 percent. While economic activity was supported mainly by high-tech manufacturing and exports, domestic consumption and private investment remained relatively weak.

According to IMF forecasts, China's economic growth is expected to reach 4.6 percent in 2026 and 4.1 percent in 2027. High-tech industries and exports are expected to remain the main drivers of economic growth in the period ahead. At the same time, the persistence of problems in the real estate market, weak domestic demand and elevated energy prices are assessed as the main factors constraining growth.

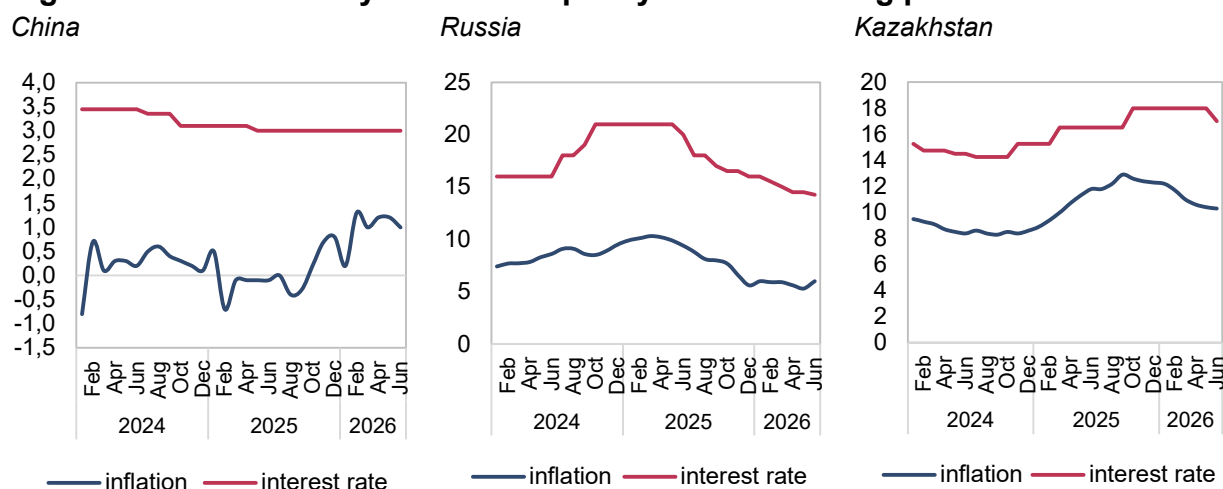
In June, annual inflation stood at 1 percent. The one-year loan prime rate, which serves as the policy rate, remains unchanged at 3 percent per annum (*Figure 1.1.5*). Despite low inflation, the main emphasis in supporting economic activity is expected to be placed on fiscal measures. Accordingly, no significant changes in monetary conditions are expected in the near term.

In Russia, after the slowdown in economic growth at the beginning of the year, economic activity recovered somewhat in the second quarter. According to IMF forecasts, Russia's economic growth is expected to be around 1 percent in 2026 and 2027.

Annual inflation stood at 6 percent in June 2026. It is projected to be 6–7 percent by the end of the year and to reach the 4 percent target in 2027.

The main inflation risks are related to the developments in the motor fuel market, transport and logistics, and their second-round effects. This could amplify second-round pressures on inflation through transport and production costs, as well as affect inflation expectations.

Figure 1.1.5. Inflation dynamics and policy rates in trading partner countries



Source: based on data from the central banks and statistical agencies of the respective countries.

In Kazakhstan, economic growth in the first half of 2026 stood at 4.1 percent. Growth was supported mainly by construction, manufacturing, transport and trade. The decline in oil production was a constraining factor for economic activity. According to IMF forecasts, Kazakhstan's economy is expected to grow by 4.6 percent in 2026 and by 4.4 percent in 2027.

As annual inflation slowed to 10.3 percent in June, the National Bank of Kazakhstan decreased its policy rate to 17 percent (*by 1 percentage point*). At the same time, strong domestic demand, expanding budget expenditure, and increases in utility tariffs and fuel prices remain the main risks to inflation.

Although the appreciation of the tenge in recent months has eased inflationary pressures to some extent, its future dynamics will continue to depend on oil prices, export revenues and domestic demand.

The sustained economic growth in the main trading partner countries will continue to support external demand for Uzbek products.

However, the situation in the region's fuel market and high volatility in oil product prices keep inflation risks elevated. Through import prices, these factors may exert some upward influence on inflation dynamics in the country.

1.2. Macroeconomic forecasts

Under the baseline scenario of macroeconomic developments, economic activity will be supported by strong domestic demand, with growth estimated at around 7.5-8 percent for this year and expected to become more balanced in the coming years. Inflation, in turn, is projected to stand at around 6.5 percent by the end of the year owing to second-round factors, to return to a downward trend in 2027 and to reach the target.

Figure 1.2.1. Forecast of real GDP growth, percent

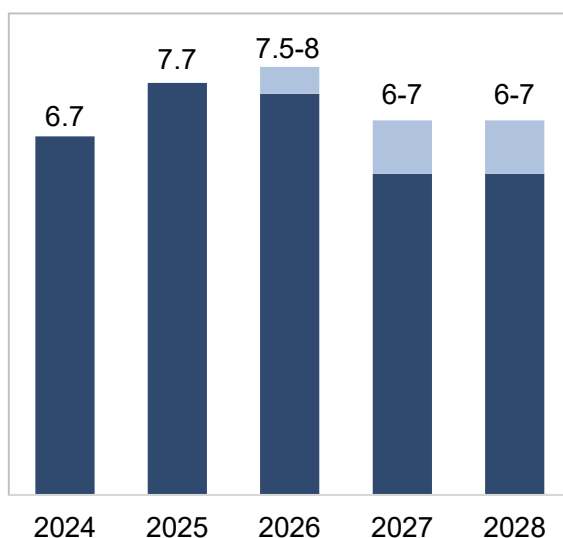
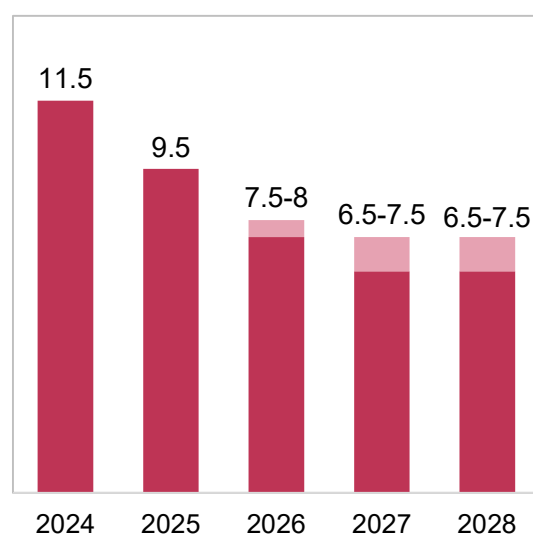


Figure 1.2.2. Real growth of private consumption, percent



Source: Central Bank estimates

Figure 1.2.3. Real growth of investment disbursed, percent

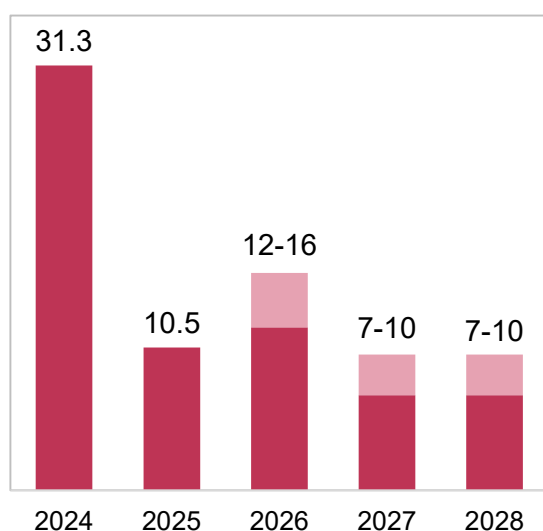
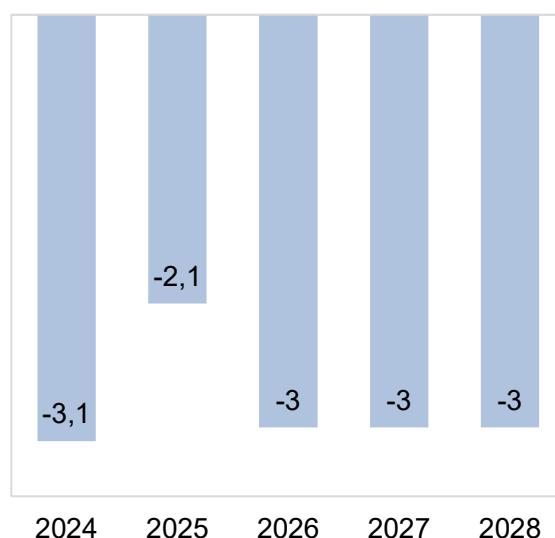


Figure 1.2.4. Forecast of the overall fiscal balance, relative to GDP, percent



Source: Central Bank estimates

Economic growth. Under the baseline scenario, the economic growth forecast for 2026 has been revised up to 7.5–8 percent (*from 7–7.5 percent in the April forecast*), reflecting continued strong economic activity and investment growth, relatively favorable external price conditions, higher budget spending, and persistently strong consumer demand (*Figure 1.2.1*).

Domestic demand. Under the baseline scenario, consumer activity in the economy will remain strong. Household incomes, rapid wage growth in the private sector, increased remittance inflows and stable labour market activity will continue to support consumer demand. This, in turn, will support growth in retail trade and services, as well as in imports of consumer goods.

Given that the current dynamics of consumer demand are stronger than previously expected, real growth of private consumption in 2026 is projected at 7.5-8 percent (*previous forecast - 6.5-7.5 percent*) (*Figure 1.2.2*).

Major projects in the production, energy, infrastructure, construction and transport sectors are expected to support investment demand. Continued strong investment activity should contribute to expanding production capacity and increasing the economy's productive potential.

Real growth of fixed capital investment in 2026 is projected at 12-16 percent (*Figure 1.2.3*).

Fiscal conditions. Although the state budget was in surplus in the first half of this year, budget expenditure is expected to increase in the second half of the year in line with the revised budget parameters. The overall fiscal deficit is projected at around 3 percent of GDP for the year as a whole² (*Figure 1.2.4*).

Fiscal consolidation is expected to continue over the medium term. However, with economic activity and domestic demand remaining strong, the expansion of public expenditure preserves the stimulative effect of fiscal policy on aggregate demand. In this respect, the current procyclical nature of fiscal policy may slow the narrowing of the positive output gap in the economy.

Foreign trade and external demand. Export activity remains strong, with steady growth observed in non-gold export volumes.

Relatively favourable price conditions in external markets, including elevated copper prices, higher external demand for food products, and

² Fiscal Strategy for 2026-2028, Ministry of Economy and Finance.

expanded production and export capacity for certain commodities, will continue to support goods exports.

In addition, the expansion of services exports, in particular sustained strong external demand for tourism and transport services, is expected to make a further contribution to the growth of export revenues.

Taking these factors into account, the forecast for non-gold export growth in 2026 has been raised to 19-23 percent (*previous forecast - 12-16 percent*).

Although import growth has moderated somewhat compared with the high rates recorded at the beginning of the year, strong economic activity and investment demand will continue to support import growth. For 2026 as a whole, import growth is expected to be around 15-20 percent, within the range of the previous forecast.

Current account of the balance of payments. The current account deficit is projected at around 3–3.5 percent of GDP in 2026. This assessment takes into account the sustained growth in export revenues excluding gold, the export of a significant share of domestically produced gold, the expansion of imports against the backdrop of strong economic and investment activity, as well as growth in income from employment and cross-border remittance inflows.

Following the high growth rates recorded last year, growth in international remittances is expected to return to a relatively stable pace and reach around 12–16 percent by the end of 2026. Going forward, remittance dynamics will depend on macroeconomic conditions in the countries receiving labor migrants.

With regard to primary income, interest rates in international financial markets are currently expected to remain higher than previously anticipated, which is likely to keep interest expenses on external debt servicing at relatively elevated levels.

In addition, as foreign investment increases, payments related to dividends and reinvested earnings may also rise. At the same time, investment income from external assets, including international reserves, is expected to partially offset these outflows.

As a result, the positive balance on remittances and other current transfers is expected to offset part of the deficit in trade in goods and services and help keep the current account deficit within the projected range.

Adequate financing of the current account deficit through direct and portfolio investment, external borrowing and other capital flows is expected to remain an important factor supporting the balance between supply and demand in the foreign exchange market.

Overall, the baseline scenario for the external sector assumes a gradual diversification of external inflow sources, a stable current account deficit, and the continuation of relatively balanced conditions in the foreign exchange market.

Inflation forecast. The inflation forecast for 2026 has been kept unchanged at 6.5 percent (*Figure 1.2.5*).

This assumes that regulated prices will remain relatively stable until the end of the year. In the second half of the year, the second-round effects of the increases in regulated prices and fuel prices in the first half may exert additional pressure on inflation.

The continuation of tight monetary conditions in the economy will encourage saving by households and businesses, support balanced credit growth and help contain second-round inflationary effects.

In addition, under the baseline scenario, import inflation will remain balanced despite uncertainties in the external environment. Positive expectations regarding the relative stability of the exchange rate serve as one of the main factors limiting import inflation.

Core inflation is expected to be around 6 percent at the end of 2026 and to decline to 4.7 percent in 2027. Over the medium term, core inflation is projected to stabilize in the range of 4-5 percent (*Figure 1.2.6*).

Figure 1.2.5. Headline inflation forecast, percent

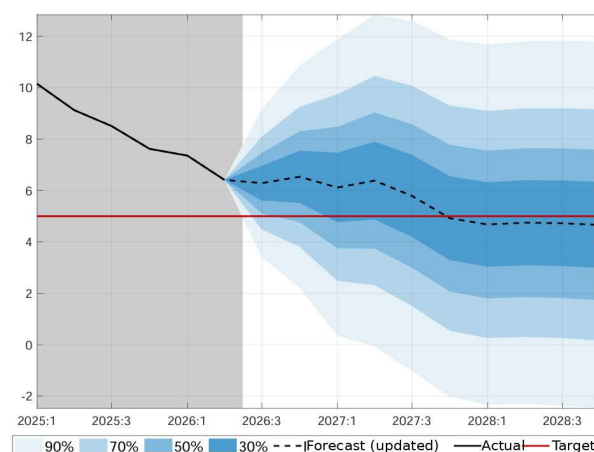
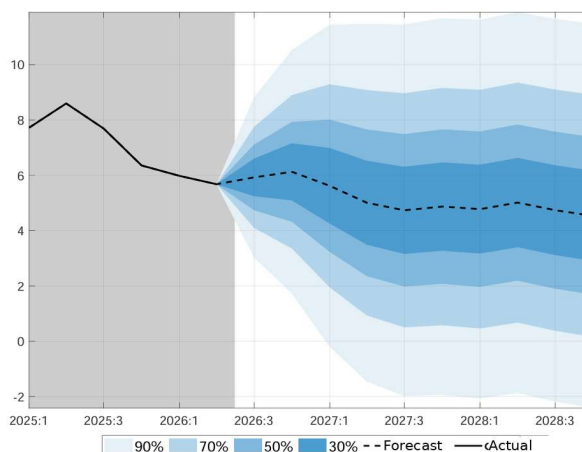


Figure 1.2.6. Core inflation forecast, percent



Source: Central Bank estimates.

As a result, headline inflation is projected to continue declining gradually and to slow to the 5 percent target in 2027.

Short-term fluctuations in headline inflation will be driven mainly by changes in fruit and vegetable prices and regulated prices (*Figure 1.2.7*). The medium-term disinflationary trend is determined by the decline in core inflation, in particular by the gradual weakening of inflation inertia and of the influence of inflation expectations (*Figure 1.2.8*).

At the same time, inflation expectations will remain a factor pushing core inflation up. Despite their diminishing influence, they may slow the disinflation process over the forecast horizon. The impact of import inflation, in turn, is expected to be relatively limited.

Figure 1.2.7. Decomposition of the median headline inflation forecast, quarterly, percent

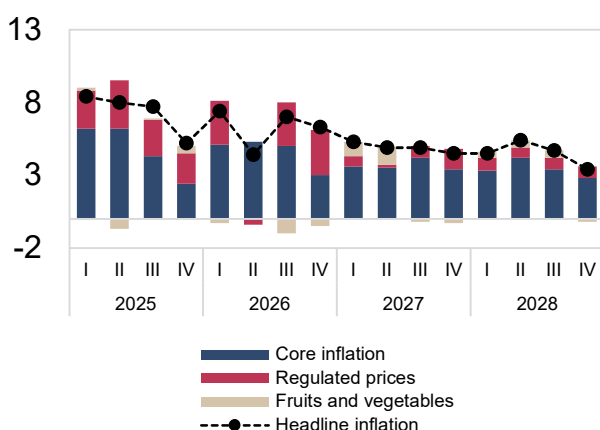
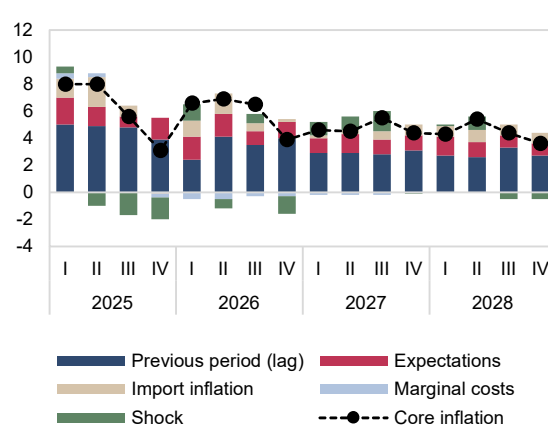


Figure 1.2.8. Decomposition of the median core inflation forecast, quarterly, percent



Source: Central Bank estimates.

1.3. Inflation expectations

Dynamics of inflation expectations

In April-May 2026, the downward trend in the inflation expectations of households and businesses continued. However, in June, following the increase in energy tariffs, the inflation expectations of economic agents stopped declining and remained broadly unchanged compared with May. In particular, in June household inflation expectations stood at 10.1 percent and business expectations at 9.9 percent (*Figure 1.3.1*).

In addition, during the quarter inflation expectations remained significantly above headline inflation, with the gap reaching almost 4 percentage points (*Figure 1.3.2*).

The fact that inflation expectations exceed headline inflation reflects the dynamics of regulated prices in recent years and households' high sensitivity to short-term price changes.

Going forward, maintaining tight monetary conditions and pursuing an active communication policy will be important for the Central Bank in narrowing this gap and anchoring inflation expectations.

Figure 1.3.1. Dynamics of 12-month-ahead inflation expectations and headline inflation, percent

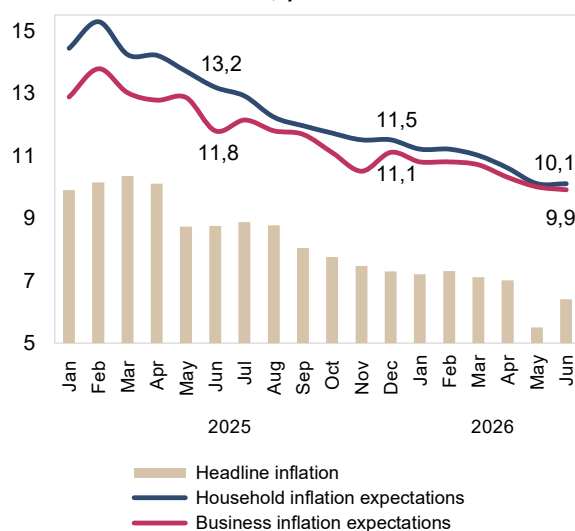
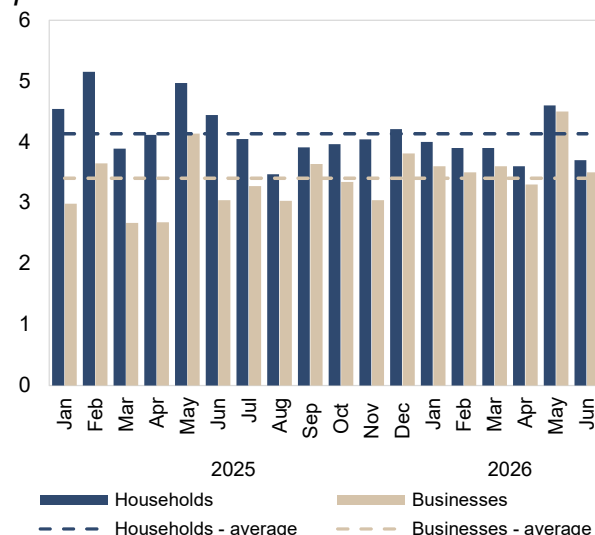
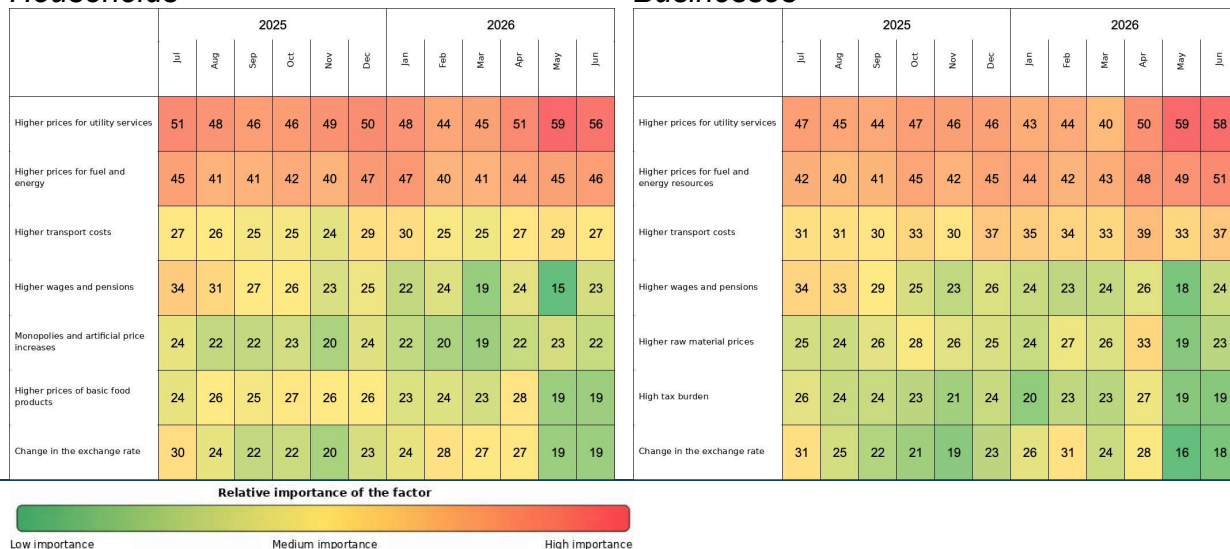


Figure 1.3.2. Gap between inflation expectations and headline inflation, percent



Source: Central Bank estimates.

Figure 1.3.3. Factors behind the inflation expectations of households and businesses, share of respondents, percent



Source: Central Bank estimates.

According to the results of surveys conducted in April-June 2026, a number of factors influenced the inflation expectations of households and businesses. In particular, higher prices for utilities and fuel and energy resources, transport costs and wage increases were cited as the main factors (Figure 1.3.3).

Figure 1.3.4. Relationship between the factors behind inflation expectations and qualitative assessments of expectations



Source: Central Bank estimates.

Based on the results of surveys conducted at the end of June this year, the relationship between economic agents' qualitative assessments of future

price changes and the main factors influencing the inflation expectations were analysed (*Figure 1.3.4*).

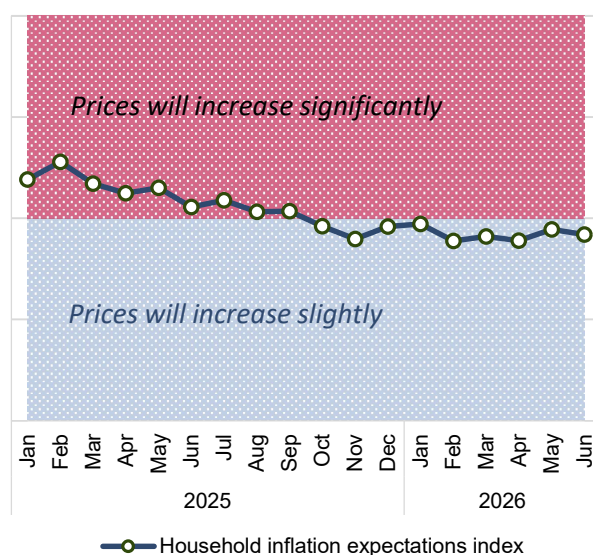
The results showed that the inflation expectations of households and businesses reporting that prices will "increase significantly" or "increase slightly" are mainly related to higher prices for utilities and fuel and energy resources. This indicates that regulated prices remain one of the main factors influencing the inflation expectations of economic agents.

These results confirm that announcing decisions on regulated prices in advance and implementing them gradually is important for anchoring inflation expectations.

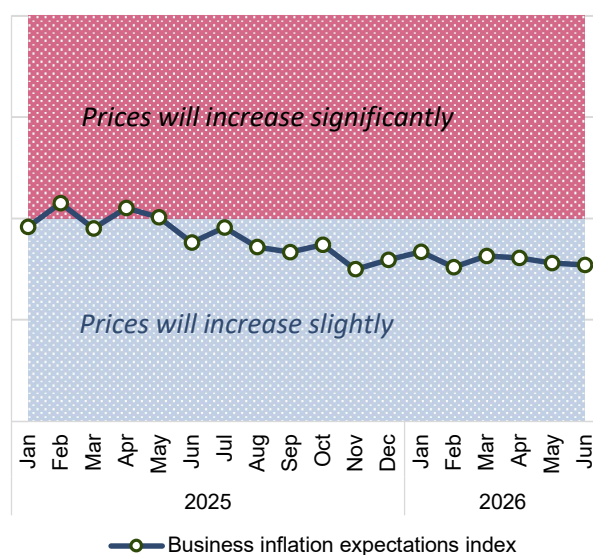
In addition, households and businesses maintained a cautious approach in their qualitative assessments of inflation expectations during the quarter (*Figure 1.3.5*).

Figure 1.3.5. Balance indices of inflation expectations of households and businesses

Households



Businesses



Source: Central Bank estimates.

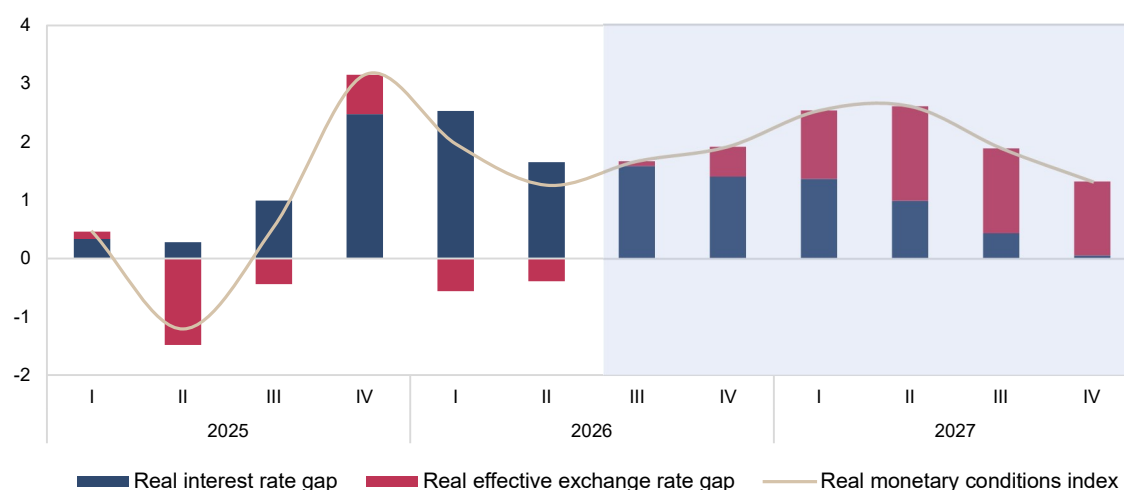
1.4. Monetary policy outlook

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

Monetary policy through the policy rate influences the tightness of monetary conditions, thereby affecting aggregate demand and inflation

In particular, the Central Bank will continue with measures aimed at keeping real monetary conditions sufficiently tight by ensuring positive real interest rates in the economy. Once inflation reaches the target and stabilizes, policy will move to a neutral phase (*Figure 1.4.1*).

Figure 1.4.1. Real monetary conditions index



Source: Central Bank estimates.

Taking into account strong domestic demand, rising food and energy prices and logistics costs on world markets, and the continuation of tight policy by the central banks of some countries, which keep certain risks to a sustained decline in inflation in place, the Central Bank will keep monetary conditions tight.

In turn, under the current monetary conditions and the impact of macroprudential measures, the growth rate of outstanding loans in 2026 has been revised down from the previous forecast and is expected to be in the range of 12-15 percent.

At the same time, Central Bank in conducting monetary policy will continuously monitor current economic and financial conditions and update its forecasts. If the likelihood of upside risks to inflation increases, the Central bank will take additional tightening measures.

Conversely, if inflation and inflation expectations continue to decline steadily in the coming quarters, a phase of gradual reduction of the policy rate could begin.

In this regard, the continuation of fiscal tightening will remain an important factor in the transition to this phase. A more moderate pace of growth in budget expenditures, together with tax revenues growing faster than GDP, will help reduce inflationary pressures.

In addition, by providing clear and systematic information about monetary policy decisions, their rationale and the future policy direction, the Central Bank helps anchor the expectations of households and other market participants around the inflation target.

Furthermore, keeping the real interest rate gap positive over the forecast horizon will help contain consumer demand and increase the attractiveness of deposits in the national currency. This, in turn, creates the conditions necessary for core inflation to remain within the forecast range and for headline inflation to decline to the 5 percent target.

1.5. Uncertainties and risks to macroeconomic developments

There are external and domestic risks that may affect macroeconomic developments, with upside risks to inflation continue to prevail in the short term.

In particular, strong aggregate demand, inflation expectations above target, changes in regulated prices and uncertainty about external energy prices pose the main risks to the pace of disinflation.

At the same time, ample foreign currency supply in the domestic foreign exchange market, weaker external demand and tighter external financial conditions may act as factors reducing inflationary pressure. The likelihood of these risks materializing and their impact on inflation are regularly reassessed in monetary policy decisions.

Domestic uncertainties and upside risks to inflation

Aggregate demand growing faster than supply. Under the baseline scenario, economic growth is expected to be within the 7.5–8 percent range by the end of the year and to moderate somewhat in 2027, approaching its potential level under the influence of tight monetary and fiscal policies. However, if consumer and investment demand remain at their current pace, the positive output gap may persist for longer and create additional pressure on core inflation. This effect would be particularly evident in services inflation, which is sensitive to demand factors.

The procyclical nature of fiscal policy. Elevated gold prices on the world market are expanding spending capacity through budget revenues. With economic activity already high, rapid growth in public expenditure may provide additional stimulus to aggregate demand and slow the disinflation process.

Inflation expectations remaining elevated. In June, household inflation expectations stood at 10.1 percent and business expectations at 9.9 percent, almost 4 percentage points above headline inflation. The results show that expectations are highly sensitive to the dynamics of prices for utilities and fuel and energy resources.

Inflation expectations remaining above the inflation target may affect price- and wage-setting decisions, increasing the risk that inflationary pressures become persistent.

Uncertainty regarding regulated prices. The adoption of additional decisions on the liberalization of energy prices before the end of 2026 could result in inflation exceeding the baseline scenario. The second-round effects of these measures could continue into 2027 and delay the convergence of inflation towards the 5 percent target.

Labour market factor. In the first half of the year, households' real total incomes rose by 9.2 percent and real average wages by 10.8 percent. Wage growth outpacing productivity growth would raise unit labour costs and could intensify price pressures in services and manufacturing .

External uncertainties and upside risks to inflation

Energy and fuel supply. A delay in the recovery of shipping capacity through the Strait of Hormuz or a renewed escalation of geopolitical tensions could push oil and oil product prices even higher. This could pass through to inflation via domestic fuel prices, transport costs and production costs.

In addition, unfavourable conditions in the motor fuel market in trading partner countries could create additional pressure on regional prices (*the impact of this risk is analysed in alternative scenario 1*).

Food prices. Elevated oil and fuel prices could raise the costs of agriculture, in particular of growing and harvesting grain. At the same time, the unusually hot summer in Europe is increasing concerns about the negative impact on the grain harvest. This could push up grain prices on the world market and create additional pressure on domestic inflation through the prices of imported wheat and wheat flour (*the impact of this risk is analysed in alternative scenario 2*).

External sector balance. In the first half of the year, imports grew by 21 percent and non-gold exports expanded by 31.6 percent, yet total exports declined owing to lower gold export volumes. The current account deficit is projected at 3-3.5 percent of GDP . Higher-than-expected import demand or a deterioration in gold price conditions could widen the deficit and tighten the terms of its financing. In such a case, the risk of higher import inflation through the exchange rate would increase.

Gold prices. While elevated gold prices support export revenues and foreign exchange reserves, they may also increase budget revenues and expand the scope for fiscal stimulus. This could have an upward impact on aggregate demand and inflation. Conversely, a sharp decline in gold prices could simultaneously have an adverse effect on the external sector and the fiscal position.

Downside (disinflationary) risks

The main factors that could result in inflation being lower than in the baseline scenario are as follows:

Favourable conditions in the domestic foreign exchange market. A large positive gap between households' sales and purchases of foreign

currency, increasing volumes of foreign investment and borrowing, and favourable world price conditions for exported commodities are shaping expectations of continued ample supply in the domestic foreign exchange market. The expansion of net foreign currency supply could support exchange rate stability and result in lower-than-expected import inflation.

Tightening of external financial conditions. With global inflation projected to accelerate to 4.7 percent in 2026, leading central banks might keep monetary conditions tight for longer than expected. This increases the likelihood of higher external financing costs, weaker capital flows and tighter conditions for financing investment programmes. This, in turn, could lead to weaker investment demand in the country.

Weakening external demand. Weaker-than-expected economic activity in trading partner countries could slow the growth of export revenues and remittances. This could moderate domestic consumer demand and reduce inflationary pressure.

Balance of risks

Table 2. Main risks around the inflation forecast

Risk factor	Main channel	Estimated impact in 2026, percentage points	Probability
Aggregate demand remaining strong and procyclical fiscal policy	Demand-driven inflation, services	+(0.5-0.7) ↑	Medium-low
Additional increases in regulated prices	Direct + second-round effects	+(0.7-0.9) ↑	Medium
External energy and food price shocks	Import inflation + second-round effects	+(0.3-0.5) ↑	Medium
Continuation of favourable conditions in the foreign exchange market	Exchange rate, import prices	-(0.1-0.3) ↓	Medium
Faster-than-forecast decline in world commodity prices	Import inflation	-(0.2-0.4) ↓	Low

Note: the impact estimates are calculated conditionally on the basis of the QPM model and expert judgement and are indicative in nature.

Source: Central Bank estimates.

The monetary policy approach to risks

The Central Bank takes its decisions not on the basis of a predetermined rate path, but on the basis of updated data and the extent to which risks materialize. Specifically:

if second-round effects appear in core inflation and inflation expectations more broadly than expected, or if aggregate demand pressures persist, monetary conditions will be tightened further;

if one-off changes in regulated prices do not pass through to inflation expectations and price-setting practices, the Central Bank will not react to their direct impact;

if inflation and inflation expectations continue to decline steadily, and provided that uncertainty regarding regulated prices diminishes and the gap between expectations and inflation narrows, a reduction of the policy rate will be considered;

if the liquidity factor weakens the effective tightness of monetary conditions, the Central Bank will adjust the scale and maturities of its sterilization operations.

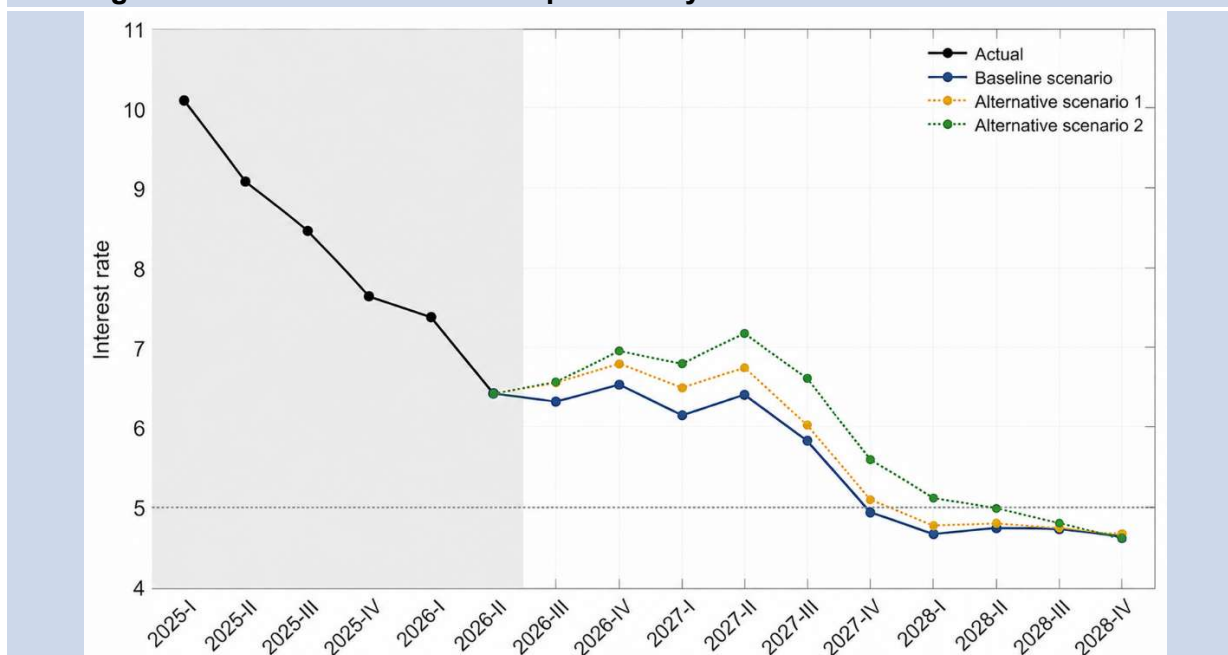
In all cases, the Central Bank's monetary policy will remain focused on reducing inflation to the 5 percent target over the medium term and ensuring price stability.

Inflation forecasting based on alternative scenarios

Taking into account uncertainties regarding the scale of changes in regulated prices, fuel supply in the region and wheat prices, inflation forecasts were assessed on a conditional basis under two alternative scenarios in addition to the baseline scenario. In all scenarios, price changes are assumed to take place in the third and fourth quarters of 2026.

In all alternative scenarios, the initial increase in headline inflation stems from the direct impact of price shocks. In subsequent periods, this impact may pass through to core inflation via production and transport costs as well as inflation expectations, broadening its overall scope.

Figure 1. Inflation forecasts: comparative dynamics across scenarios



Source: Model results.

First alternative scenario.

Recent temporary constraints on oil refining capacity in major supplier countries, together with restrictions on fuel exports, may lead to a decline in gasoline supply in the region.

This scenario assumes an additional 15 percent increase in automotive propane and motor fuel prices. The first-round direct impact of these price increases on headline inflation would amount to 0.22 percentage points.

Under this scenario, headline inflation could reach 6.8 percent by the end of 2026, or 0.3 percentage points above the baseline scenario. Of this difference, 0.22 percentage points would be attributable to regulated prices and 0.08 percentage points to core inflation.

In this case, the policy rate would need to be, on average, 0.5 percentage points higher than under the baseline scenario through the end of 2027. This is expected to limit second-round effects, with the deviation of headline inflation from the baseline narrowing

to 0.1 percentage points by the fourth quarter of 2027 and headline inflation reaching around 5 percent.

Second alternative scenario.

In addition to the assumptions of the first alternative scenario, the second alternative scenario assumes a 30 percent increase in global wheat prices. This takes into account higher grain harvesting costs in major trading partner countries due to rising motor fuel prices in the region, as well as growing concerns over a weaker grain harvest in Europe.

The initial second-round effects of higher fuel and wheat prices are expected to be reflected in a 12.2 percent increase in domestic wheat flour prices and a 7.3 percent increase in bread product prices.

While the impact of higher fuel prices would mainly materialize through regulated prices, higher wheat prices would directly affect core inflation through flour and bread products. Inflationary pressures are therefore expected to become more broad-based under this scenario.

Headline inflation could reach 7 percent by the end of 2026, or 0.5 percentage points above the baseline scenario. Of this difference, 0.23 percentage points would be attributable to core inflation and 0.22 percentage points to regulated prices.

Unlike the first alternative scenario, the second-round effects on headline inflation are assessed to be relatively stronger in this scenario. In response, maintaining the policy rate, on average, 1 percentage point above the baseline scenario through the end of 2027 is projected to bring headline inflation to around 5.5 percent by the end of 2027.

Overall, the scenario results indicate that, although the impact of a regulated price shock on inflation may be significant in the short term, stronger second-round effects through inflation expectations and costs could substantially delay the return of inflation to the target.

Box 2

Energy subsidy reform: international experience and macroeconomic implications

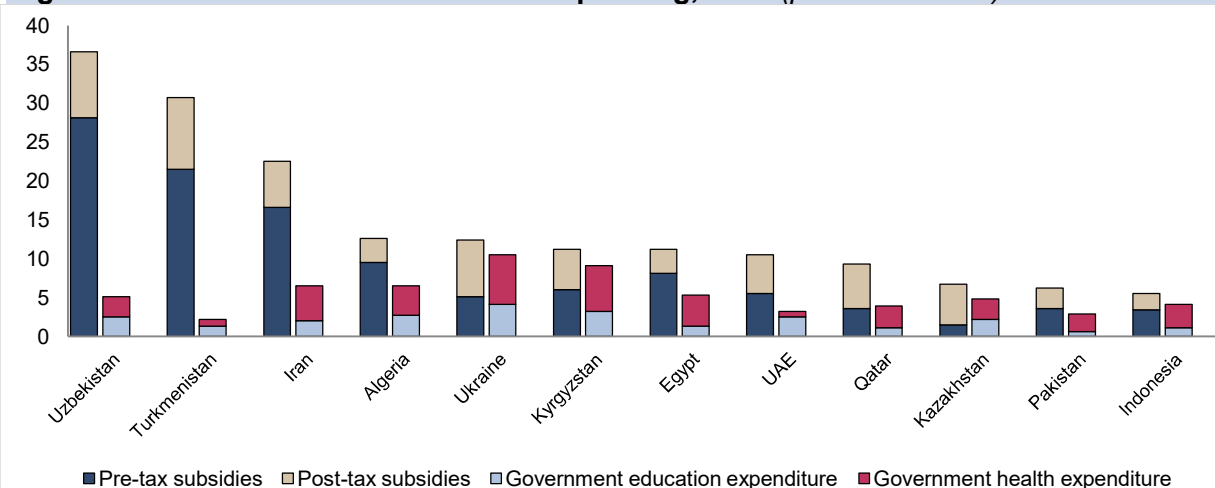
In developing countries, keeping energy prices low through administrative measures is used as a tool to provide social support to the population, reduce production costs and limit price growth in the short term. However, over the long term, broad and untargeted subsidies have an adverse impact on fiscal sustainability, the efficient allocation of resources, the modernization of energy infrastructure and investment activity.

The International Monetary Fund assesses energy subsidies using the *price-gap* approach. Under this approach, a subsidy is the difference between the price actually paid by the consumer and an economically justified benchmark price. For petroleum products, natural gas and coal, the benchmark is the world market price including transport and distribution costs, while for electricity it is the tariff level that fully covers generation, investment, transmission and distribution costs.

Pre-tax subsidies represent the part of the costs of producing and delivering energy resources that is not covered by the price paid by the consumer. Post-tax subsidies also cover the failure to apply standard taxes in full and the failure to reflect the environmental and social costs of energy consumption in prices.

According to IMF estimates, global pre-tax energy subsidies amounted to 480 billion dollars, or 0.7 percent of world GDP, in 2011. Taking into account negative externalities and tax exemptions, post-tax subsidies reached 1.9 trillion dollars, or 2.5 percent of world GDP. In certain periods, energy subsidies in Uzbekistan, Kyrgyzstan, Turkmenistan and Ukraine were estimated at more than 5 percent of GDP.

Figure 1. Post-tax subsidies and social spending, 2024 (percent of GDP)



Source: IMF Fossil Fuel Subsidies Database, 2024, current policies (U1) scenario.

In Uzbekistan, a significant part of energy subsidies takes an implicit form that is not directly reflected in the budget. The failure of tariffs to fully cover the costs of production, delivery and infrastructure modernization increases the financial losses of state-owned energy companies.

As a result, the need for budget compensation and state-guaranteed borrowing rises, and investment programmes may be delayed.

Moreover, energy subsidies are not an efficient or targeted instrument of social protection. According to research, 43 percent of the total benefit from fuel subsidies

accrues to the 20 percent of households with the highest incomes, while the poorest group receives only 7 percent of subsidies. In addition, tariff increases have a stronger impact on the real incomes of low-income households. A gradual shift from general price subsidies to targeted social transfers is therefore necessary.

International experience shows that the outcome of reform depends not on the size of the tariff increase, but on how the process is planned, explained to the public and how its social impacts are mitigated. Of the 28 reform episodes studied in 22 countries, 12 were assessed as successful, 11 as partially successful and 5 as unsuccessful.

The main conditions for a successful reform are as follows:

First, a comprehensive and long-term strategy must be developed. It should define the objectives of the reform, the stages of tariff adjustment, implementation timelines, compensation measures, sources of financing and the responsible institutions. Before raising tariffs, their impact on households' real incomes, inflation, production costs, business competitiveness and the budget must be assessed. In Iran, compensation payments made to the population in advance of the 2010 tariff increase facilitated adjustment. In Indonesia's 1998 reform and Nigeria's 2011 reform, by contrast, shortcomings in planning led to poor outcomes.

Second, communication and transparency must be ensured. The true cost of subsidies to the population, which income groups benefit most from them, the impact of low tariffs on the budget and on service quality, and the compensation mechanisms must be explained openly. According to IMF estimates, an active information policy increases the likelihood of a successful reform by almost a factor of three. Transparent reporting on how funds saved from energy subsidies are allocated to education, healthcare, social protection and energy infrastructure strengthen public confidence.

Third, it is advisable to adjust tariffs gradually and to introduce a transparent price-setting mechanism. A one-off sharp increase in tariffs may have a strong impact on household incomes, production costs and inflation expectations. In 17 of the 23 successful or partially successful reforms studied, subsidies were reduced gradually, with the process lasting five years on average. Such an approach allows households and firms to adjust their consumption and technology to the new price environment.

At the same time, in order to make the results of the reform durable, it is necessary to introduce a **predetermined, transparent formula** that revises tariffs in line with production costs and external price dynamics. An automatic price-setting mechanism reduces political influence over tariff decisions and limits the risk of subsidies re-emerging.

Fourth, the efficiency of state energy companies must be improved. Raising tariffs does not automatically solve the sector's problems. Reform must be accompanied by improvements in corporate governance, optimization of operating costs, better collection of payments, reduction of technical and commercial losses, and greater transparency of investment decisions.

The experience of Armenia, Brazil and Kenya shows that tariff increases are accepted positively by the public only when they are accompanied by improvements in service quality.

Fifth, low-income households must be protected through targeted measures. Targeted cash transfers are more effective than general price subsidies. In Indonesia, transfers covering almost 35 percent of the population played an important role in easing social discontent. Compensation should be set in line with the real impact of tariff increases and paid before or at the same time as the price increases.

Coordination with macroeconomic policy. Coordination of tariff reforms with fiscal, monetary and social policy is crucial. Higher energy prices affect consumer prices directly at first and later affect other prices indirectly through transport, utilities and production costs.

If these effects influence wages, inflation expectations and firms' price-setting practices, a one-off change in energy tariffs may turn into persistent inflationary pressure. For this reason, the timing and scale of tariff increases should be set in advance, households and businesses should be given clear information, compensation should be delivered on time, and second-round effects should be monitored regularly.

Monetary policy should focus not on the one-off administrative price change itself, but on the risk of its spreading to core inflation, wages and inflation expectations. The use of the savings generated by lower subsidies should also avoid creating excessive pressure on aggregate demand.

Overall, although broad and untargeted subsidization of energy resources keeps prices low for households and firms in the short term, it creates serious economic problems in the long term. Such a policy also increases fiscal risks, weakens the financial sustainability of state energy companies, limits the scope for modernizing infrastructure and encourages inefficient energy use.

It is therefore necessary to bring energy tariffs gradually closer to economically justified levels, to move from general price subsidies to a system of targeted support for households in need, and to improve the efficiency of energy companies. This process should be accompanied by improvements in corporate governance, payment discipline and investment mechanisms.

Analysis of the dynamics of flexible and sticky prices in Uzbekistan

Analysing the composition of inflation by separating it into flexible and sticky prices allows for a deeper understanding of the mechanisms through which inflationary processes take shape. This approach helps distinguish which part of inflation is driven by external factors and which part by domestic economic conditions and inflation expectations.

Flexible prices typically respond quickly to external economic shocks, international commodity prices, transport costs, the exchange rate and short-term changes in supply and demand. They are therefore regarded as an indicator reflecting changes in current inflation. However, owing to their high volatility, these prices do not provide sufficient information for assessing medium-term inflation trends.

Sticky prices, by contrast, are less sensitive to short-term shocks and are shaped mainly by domestic economic conditions, the services market, wage dynamics and the inflation expectations of economic agents. Sticky prices are therefore important for assessing medium- and long-term inflationary pressures and the degree to which inflation expectations have become anchored.

During the pandemic, the sharp increase in commodity prices on international markets, disruptions in supply chains and higher shipping costs initially led to rapid growth in flexible-price inflation. At the same time, the recovery of consumer demand accumulated during that period created additional price pressures on the domestic market.

Over time, these inflationary pressures also affected the inflation expectations of economic agents. As a result, sticky-price inflation accelerated as well. This indicates that inflationary pressures initially driven by external factors are gradually becoming embedded in the domestic economy.

According to the results of the analysis, prices of consumer goods in Uzbekistan change at least once every 3.06 months on average. Although this indicates that prices adjust quickly to changes in market conditions, in some groups, particularly in the services sector, prices adjust relatively slowly, which means that inflationary pressures do not build up at the same speed across the economy.

Goods and services prices of which change less frequently than this average are classified as sticky, while their share in the consumer basket is 4.8 percent and the average duration of price adjustment is 17.36 months. By contrast, prices of goods and services which change more frequently account for 83.4 percent of the consumer basket, with prices changing every 1.08 months on average.

(39 seasonal products accounting for 11.8 percent of the consumer basket, as well as 25 goods and services for which the observation period was insufficient, were excluded).

This means that the prices of a large part of the goods and services in the consumer basket adjust quickly to changes in market conditions.

However, since sticky prices cover a relatively small part of the consumer basket and consist mainly of regulated goods and services, this index has limited scope to fully reflect overall inflationary processes. Its analytical value is therefore greater when assessed together with other core inflation measures.

Across the main groups, prices of food and non-food products were found to change relatively frequently (*1.04 and 1.5 months, respectively*). Prices in the services group adjust much more slowly than in other groups, with an average duration of price adjustment of 9.01 months.

Flexible prices were observed mainly in the groups of fruits and vegetables, medicines and medical supplies, construction materials, grain, flour and bread products. By contrast, sticky prices were found mainly in the groups of education, information and communication, and utility services (*Table 1*).

Table 1. Average duration of price adjustment for the main groups of goods and services, 2021-2026.

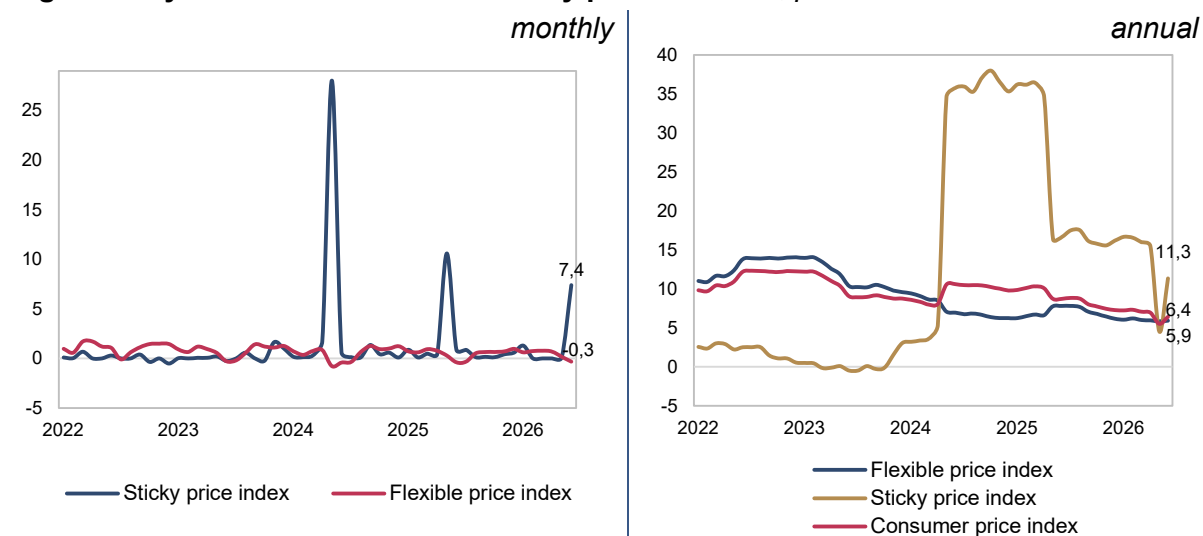
Name	Weight in the consumer basket (percent)	Average duration of price adjustment (months)
All goods and services	100	3.1
Food products	41.2	1.0
Non-food products	32.5	1.5
Services	26.3	9.0
Main groups		
Fruits and vegetables	8.4	1.0
Medicines and medical supplies	3.1	1.0
Construction materials	2.2	1.0
Grain, flour and bread products	7.3	1.1
Transport services	3.5	1.9
Education services	3.0	16.8
Information and communication services	2.0	14.5
Utility services	6.6	15.8
Flexible prices	83.4	1.1
Sticky prices	4.8	17.4

Source: Central Bank estimates based on data from the National Statistics Committee

In June, monthly inflation in flexible prices was -0.3 percent, while monthly inflation in sticky prices reached 7.4 percent (*Figure 1*).

According to the calculations, the flexible price index moved closely in line with the overall consumer price index, while the sticky price index was significantly higher. In particular, in June this year annual inflation in flexible prices was 5.9 percent, while inflation in sticky prices was 11.3 percent. The increase in electricity tariffs in June this year was the main contributor to the acceleration of the sticky price index.

Over the period analysed, sticky price inflation displayed large fluctuations driven by revisions of administrative prices and tariffs. At the same time, flexible price inflation maintained relatively stable dynamics due to its rapid adjustment to market conditions, indicating that inflationary pressure has not intensified on a broad scale. The persistence of high sticky price inflation at a time when headline inflation is declining may indicate that inflationary pressures in the economy have not yet been fully eliminated.

Figure 1. Dynamics of flexible and sticky price inflation, percent

Source: Central Bank estimates based on data from the National Statistics Committee.

II. CURRENT MACROECONOMIC CONDITIONS

2.1. Domestic economic activity and aggregate demand factors

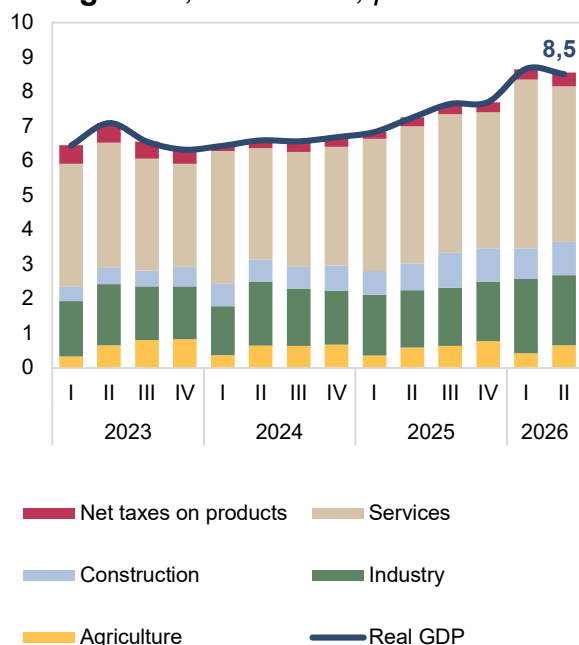
Economic activity and aggregate demand remain strong, and the output gap is positive. Investment and consumer activity, as well as growth in fiscal spending, are intensifying demand pressures in the short term.

The increase in net foreign currency supply in the foreign exchange market and the relative stability of the exchange rate also remain factors limiting import inflation.

In these conditions, aggregate demand exceeding supply capacity remains one of the main domestic risks to inflation. Tight monetary conditions are therefore important for balancing these demand pressures and bringing inflation closer to the medium-term target.

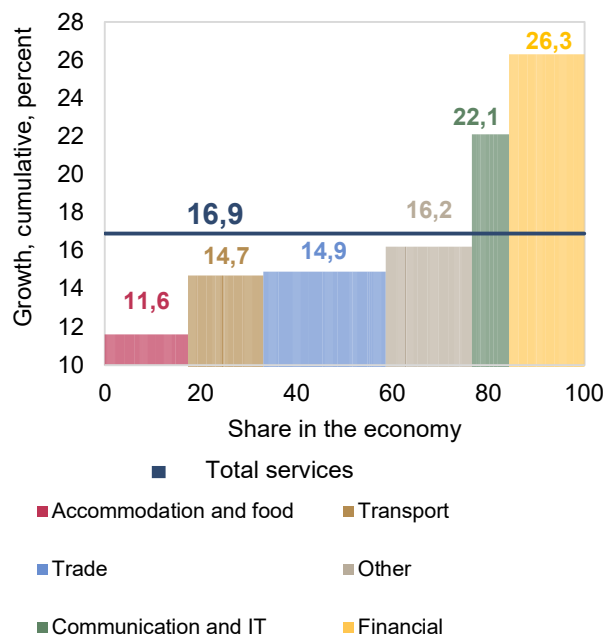
In the second quarter of 2026, economic activity remained strong, with real GDP growing by 8.5 percent in the first half of the year. Growth was broad-based, with particularly high activity in services, manufacturing and construction (Figure 2.1.1). According to estimates, the output gap is positive, indicating that aggregate demand exceeds the current supply capacity of the economy.

Figure 2.1.1. Decomposition of real GDP growth, cumulative, percent



Source: National Statistics Committee

Figure 2.1.2. Composition of the services sector



In January-June this year, the volume of services increased by 16.9 percent in real terms compared with the same period last year. Trade

and transport services accounted for most of this growth, reflecting the strength of demand factors in the economy (*Figure 2.1.2*).

Industrial production growth of 8 percent was driven mainly by the expansion of production capacity in manufacturing. Activity in construction also remained high.

Domestic demand. The strength of domestic demand is explained mainly by high consumer and investment activity.

In January-June this year, households' total incomes rose by 9.2 percent and average wages by 10.8 percent in real terms, supporting consumer activity (*Figure 2.1.3*). The nearly 25 percent increase in the number of tourists visiting the country compared with the same period last year also had an upward impact on consumer demand.

Investment activity also remained strong during this period, with investment in fixed capital increasing by 17.5 percent in real terms (*Figure 2.1.4*).

Figure 2.1.3. Growth of real wages and incomes, percent

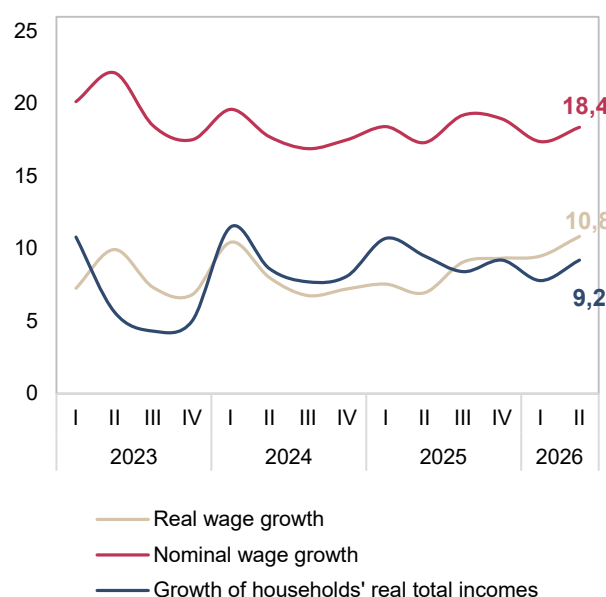
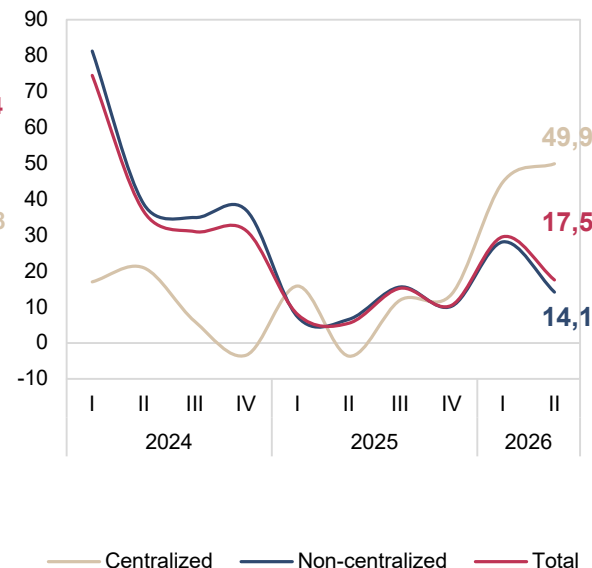


Figure 2.1.4. Real growth of fixed capital investment disbursed, percent



Source: National Statistics Committee

Although strong investment growth helps expand production capacity, high investment and consumer demand at the same time may intensify aggregate demand pressure on inflation in the short term.

Fiscal position. In the first half of 2026, budget revenues exceeded expenditure, and the state budget was executed with a surplus of 1.8 trillion soums (*Figure 2.1.5*).

In the first quarter, the fiscal impulse³ to aggregate demand approached a neutral level. This is explained mainly by the rapid increase in budget revenues amid strong economic growth and favourable gold prices on the world market. At the same time, continued rapid growth in expenditure is supporting domestic demand and economic activity (*Figure 2.1.6*).

At the same time, a further expansion of expenditure in the second half of the year may result in a positive fiscal impulse and strengthen the procyclical effect of fiscal policy.

Figure 2.1.5. State budget balance, cumulative, trillion soums

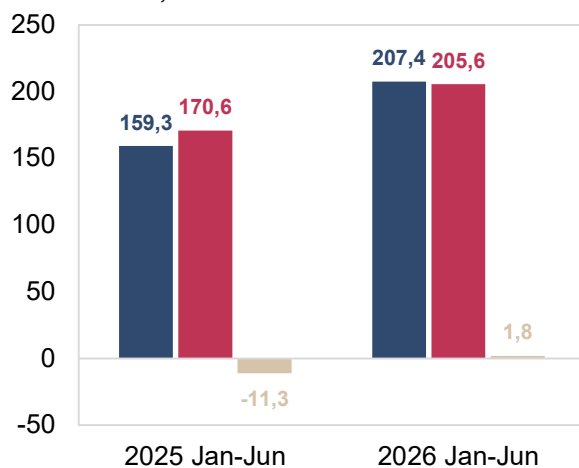
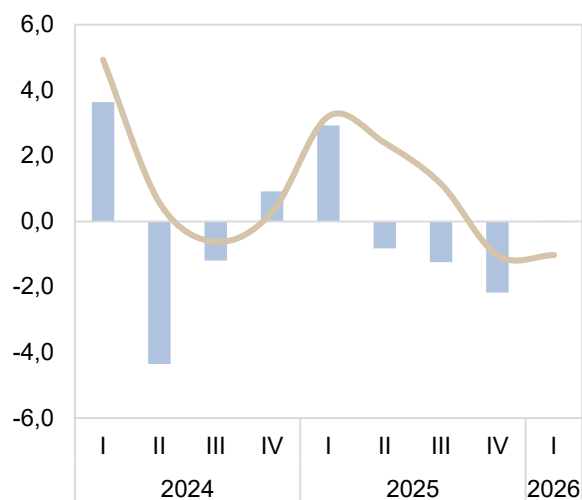


Figure 2.1.6. Fiscal stance⁴, percent of GDP



■ Revenues ■ Expenditure ■ Budget balance

■ Fiscal impulse* — Fiscal position**

Source: Central Bank estimates based on data from the Ministry of Economy and Finance.

Note: net quarterly GDP data were used to calculate consolidated budget revenues and expenditure and the fiscal position relative to GDP.

Foreign trade and external demand. In January-June of 2026, imports grew by 21 percent compared with the same period last year (*Figure 2.1.7*). Within imports, strong growth in food and other final consumer goods, as well as in machinery and equipment, reflected the acceleration of consumer and investment demand respectively.

At the same time, the expansion of machinery and equipment imports will help create new production capacity and expand domestic supply capacity over the medium term.

³ The fiscal impulse (fiscal impulse) – reflects whether the fiscal policy pursued in the current period (t) is expansionary or contractionary relative to the previous period (t-1) .

⁴ Fiscal stance - an indicator showing the impact of fiscal policy on aggregate demand and economic growth, indicating whether it is stimulating, restrictive, or neutral.

Although total exports contracted by 8.8 percent, non-gold exports grew by 31.6 percent and exports excluding gold and services by 28.7 percent (*Figure 2.1.8*). The decline in total exports is related to the reduction in gold export volumes, while the strong growth of non-gold exports points to the resilience of external demand and export capacity.

Net foreign currency supply in the domestic foreign exchange market increased significantly on the back of cross-border remittances, non-gold export revenues and foreign currency sales by households (*Figure 2.1.9*). In particular, the positive gap between households' sales and purchases of foreign currency amounted to 5.5 billion dollars, 1.7 times more than in the same period last year.

Figure 2.1.7. Import growth, cumulative, percent

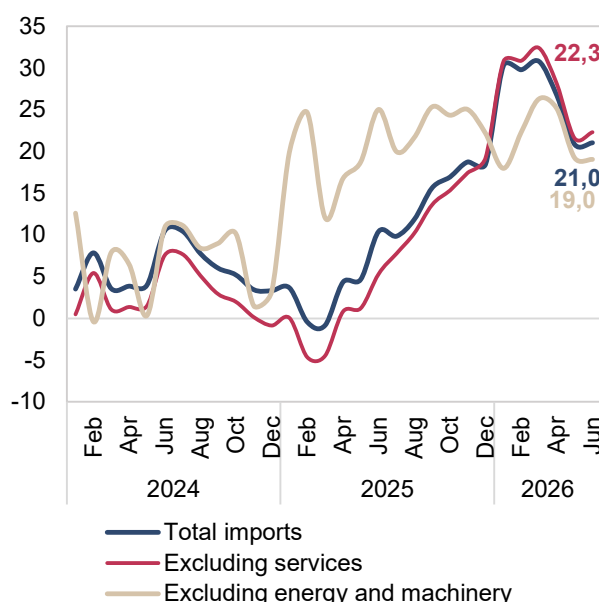
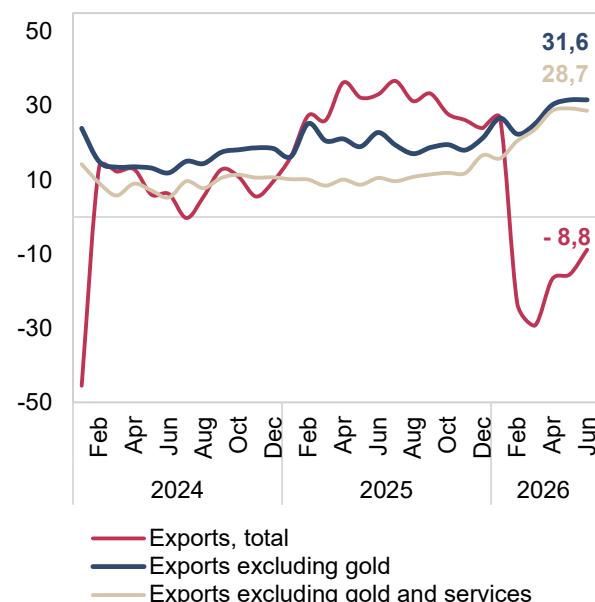


Figure 2.1.8. Growth of the stable components of exports, cumulative, percent

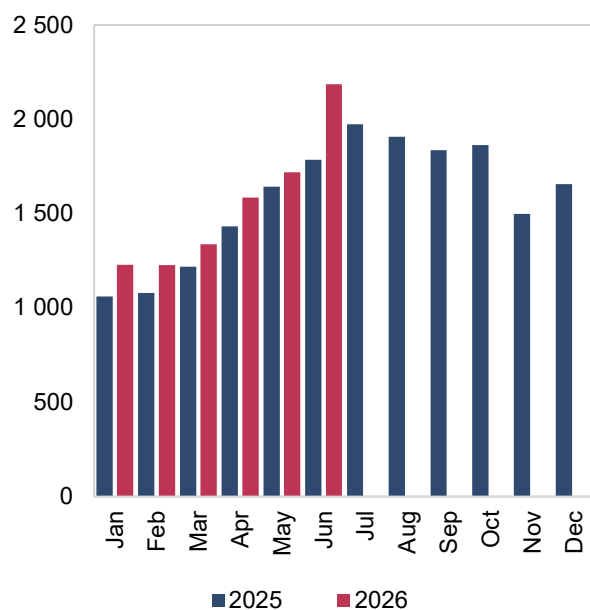
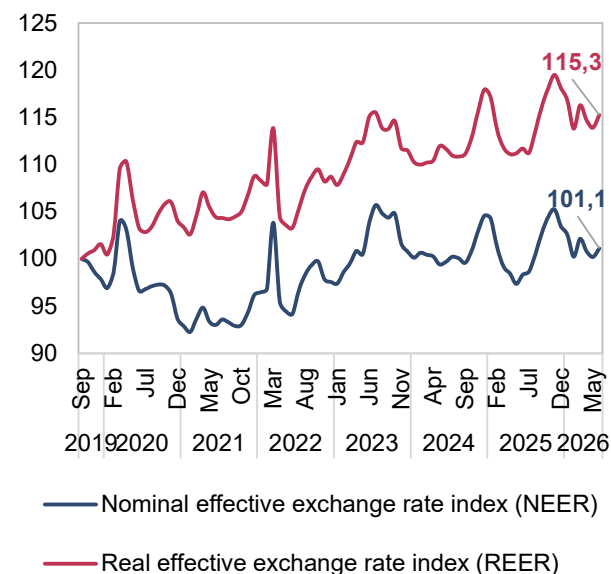


Source: National Statistics Committee

At the same time, the steady inflow of foreign investment into the country (69.5 percent of total investment) is also supporting supply in the domestic foreign exchange market.

These factors are supporting the balance of supply and demand in the foreign exchange market and having a positive effect on exchange rate stability.

Real effective exchange rate (REER). The REER declined in April and May 2026, while an appreciation was recorded in June (*Figure 2.1.10*). Overall, the REER declined by 0.9 percent in the second quarter.

Figure 2.1.9. Volume of cross-border remittances, million US dollars**Figure 2.1.10. Real effective exchange rate**

Source: Central Bank estimates.

This was driven mainly by the appreciation of trading partners' currencies against the soum, which in turn is an important factor supporting external demand.

2.2. Analysis of inflation dynamics

In the second quarter of 2026, **headline inflation** declined to 6.4 percent. This decline is explained mainly by the fading of the high base effect of the 2025 energy tariff increases.

While headline inflation slowed to 5.5 percent year-on-year in May, it accelerated somewhat in June owing to the increase in energy tariffs. Since the beginning of the year, headline inflation has declined by 0.9 percentage point (*Figure 2.2.1*).

Core inflation remained broadly unchanged at 5.7 percent throughout the quarter. The decline in core inflation for non-food products and services was accompanied by an acceleration of core inflation for food products.

Core inflation has remained broadly unchanged since the beginning of the year. Its alternative measures have also been stable, including trimmed CPI, while median CPI has increased slightly, indicating that some inflationary pressures persist in the economy (*Figure 2.2.3*).

The persistent measures of inflation point in the same direction. The rising share of goods and services with accelerating annual inflation since March, and the halt in the downward trend in the share of goods and services in the CPI basket the prices of which grew by more than 5 percent, suggest that the influence of demand factors on inflation persists (*Figure 2.2.4*).

Figure 2.2.1. Annual dynamics of headline and core inflation, percent

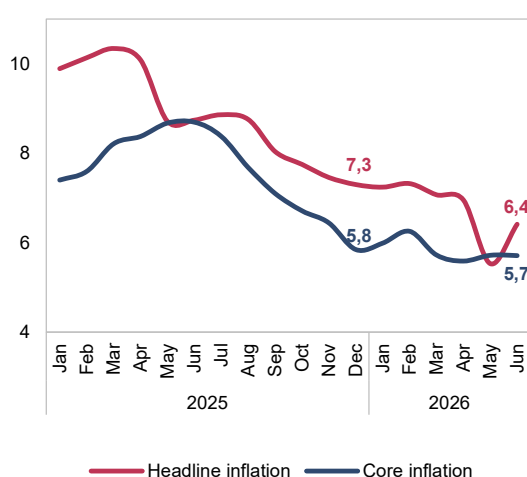
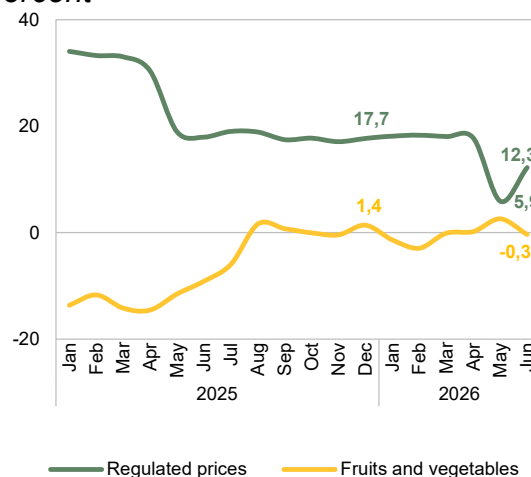


Figure 2.2.2. Inflation in regulated prices and in fruits and vegetables, percent



Source: Central Bank estimates based on data from the National Statistics Committee

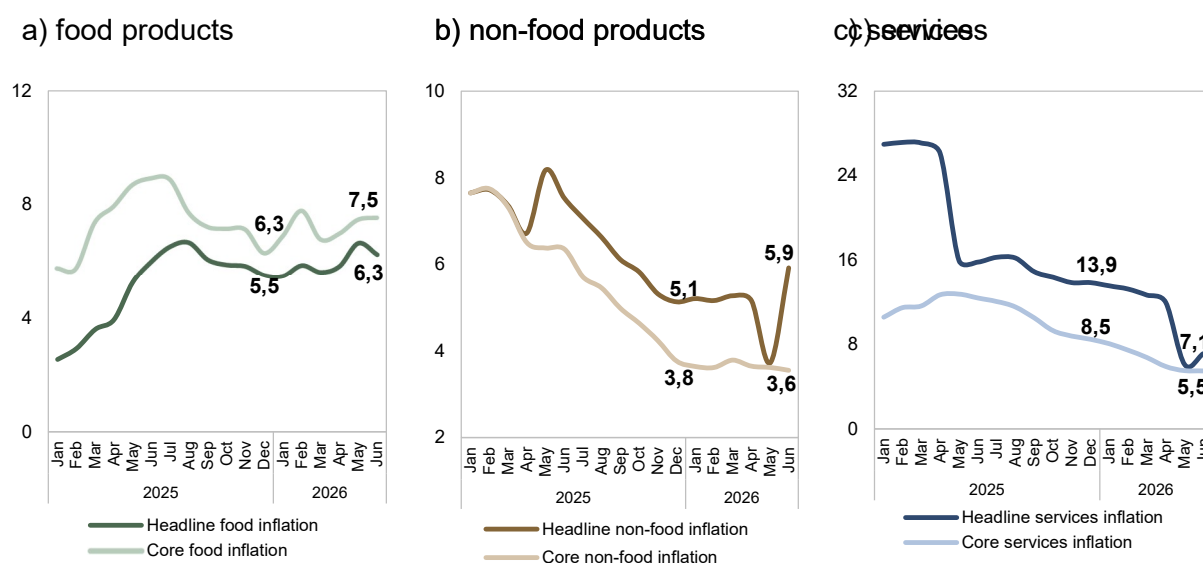
Inflation in the main groups of the consumer basket

Food products. In May, food inflation accelerated to 6.7 percent owing to higher prices for certain vegetables and meat products. In June, price growth slowed as the seasonal supply of fruit increased, and food inflation declined to 6.3 percent. Nevertheless, food inflation remains 0.8 percentage point higher than at the beginning of the year. Core food inflation has been on an upward trend since the beginning of the year, reaching 7.5 percent in June. These dynamics reflect the strength of consumer demand.

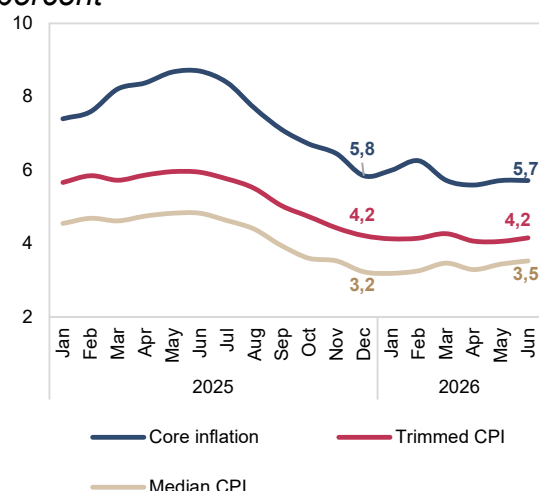
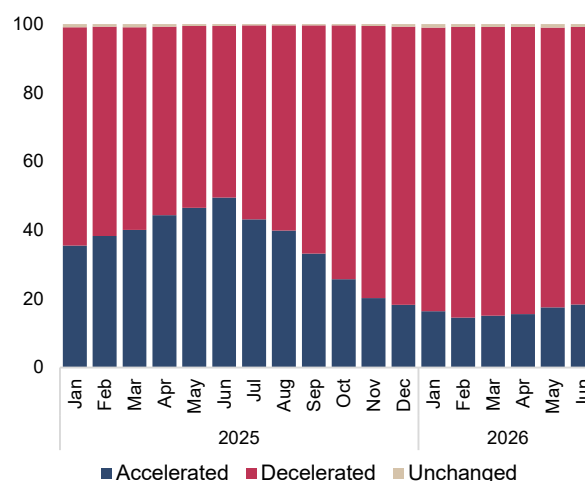
Non-food products. In May, non-food inflation declined to 3.7 percent as the high base effect from the previous increase in methane prices for motor vehicles dropped out of the annual comparison. In June, however, higher prices for coal and methane for vehicles, together with faster growth in propane and motor fuel prices, pushed non-food inflation up to 5.9 percent. Core non-food inflation has remained stable at around 3.6 percent.

Services. Services inflation slowed from 12 percent in April to 6.1 percent in May as the high base effects from previous increases in electricity and pipeline gas prices dropped out of the annual comparison. In June, following a further increase in natural gas and electricity tariffs, services inflation accelerated to 7.1 percent, while core services inflation stood at 5.5 percent.

Figure 1. Dynamics of inflation in the main CPI groups, percent



Source: Central Bank estimates based on data from the National Statistics Committee

Figure 2.2.3. Dynamics of core inflation, trimmed inflation and the median CPI, percent**Figure 2.2.4. Distribution of annual price changes, percent**

Source: Central Bank estimates based on data from the National Statistics Committee

Inflation in regulated prices declined to 5.9 percent in May as last year's high base effects dropped out. In June, increases in the prices of electricity, natural gas, methane for motor vehicles and coal (*with a direct impact on headline inflation of 1 percentage point*) pushed inflation in this group up to 12.3 percent (*Figure 2.2.2*).

In addition to its direct impact in June, this increase in regulated prices may also intensify second-round inflationary pressures on other consumer prices in the coming quarters through higher transport and production costs.

After accelerating in February-May, inflation in fruits and vegetables slowed significantly at the end of the quarter (*-2.9 percentage points compared with May*).

At the same time, persistent uncertainties in the external economic environment, including geopolitical tensions, possible disruptions in import supplies and changes in transit and transport routes may create additional pressure on domestic prices through higher prices for imported goods.

Furthermore, alongside the second-round effects of higher energy prices, rising consumer demand calls for maintaining tight monetary conditions for longer.

2.3. Monetary conditions

In the second quarter of 2026, rapid growth in domestic demand and increased uncertainty in the external economic environment kept inflation risks elevated. In these conditions, the policy rate was kept at 14 percent per annum in order to ensure a sufficiently tight monetary policy stance.

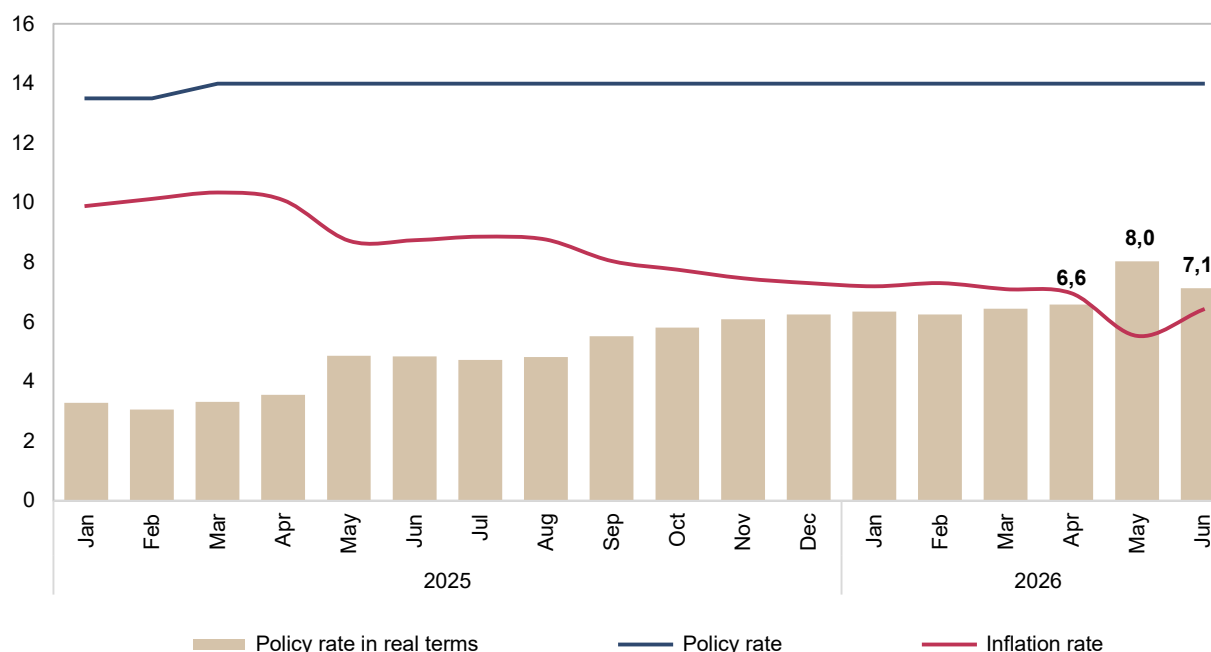
In real terms⁵, the policy rate reached 7.1 percent at the end of the quarter. This was mainly related to the decline in inflation and was a factor ensuring the tightness of monetary conditions (*Figure 2.3.1*).

At the same time, the liquidity surplus in the banking system increased significantly in the second quarter. In April-June, the average daily balance of the liquidity surplus amounted to 74.4 trillion soums (Q1 - 55.4 trillion soums), reaching 81.2 trillion soums in June (*Figure 2.3.2*).

The increase in the liquidity surplus was driven mainly by budget operations, the impact of which amounted to 30.6 trillion soums in the second quarter (Q1 - 11.3 trillion soums) (*Figure 2.3.3*).

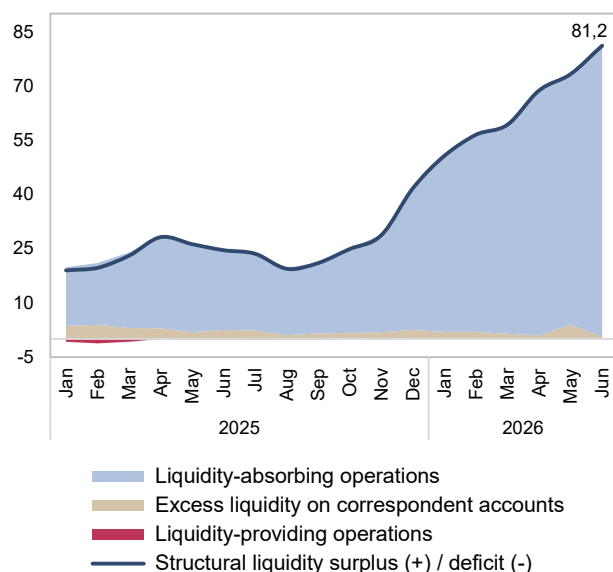
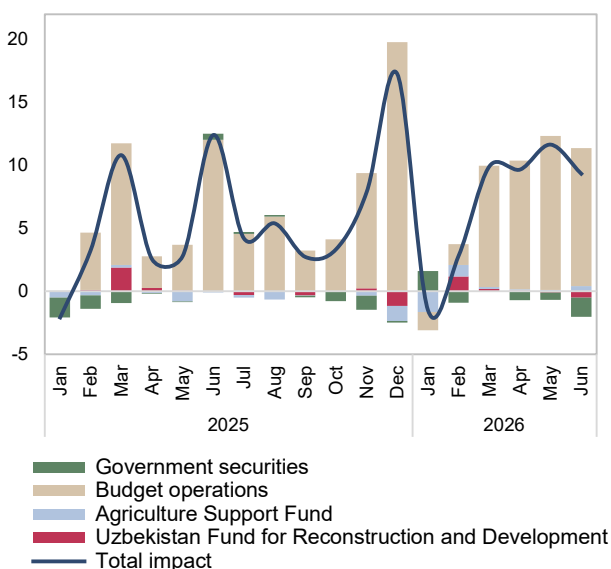
The Central Bank made active use of liquidity-absorbing instruments in order to limit the easing effect of the liquidity surplus on money market interest rates.

Figure 2.3.1. Dynamics of the real level of the policy rate, percent



Source: Central Bank estimates.

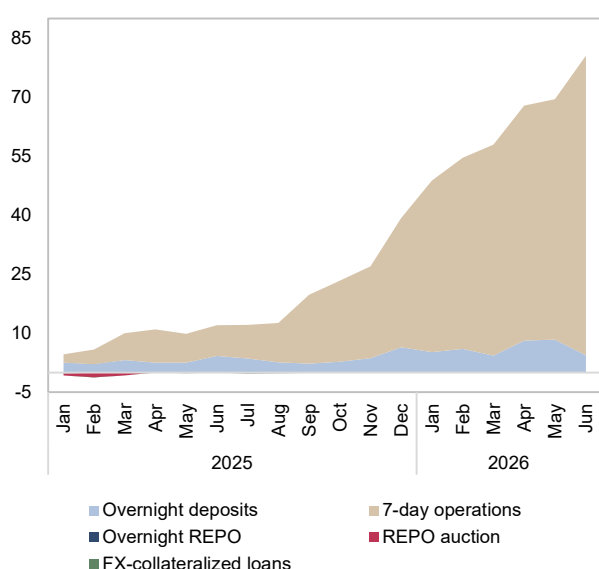
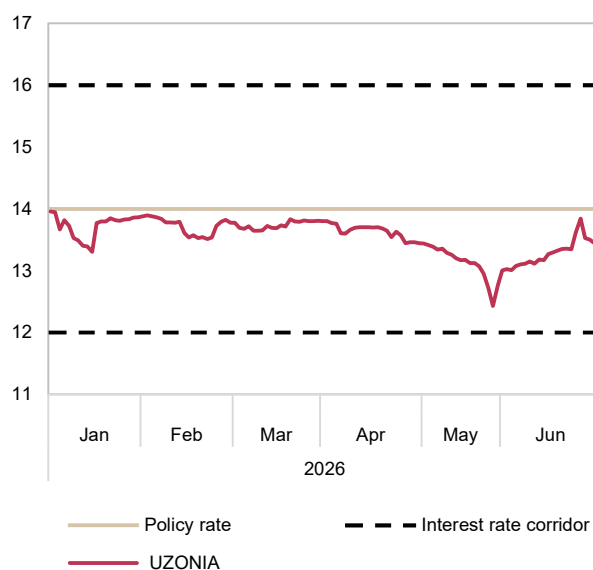
⁵ Headline inflation was used to calculate the real level of the policy rate.

Figure 2.3.2. Dynamics of banking system liquidity, trillion soums**Figure 2.3.3. Impact of budget operations, trillion soums**

Source: Central Bank estimates.

In particular, in the second quarter the average daily balance of 7-day Central Bank bonds reached 65.6 trillion soums (Q1 - 48.7 trillion soums) and the average daily balance of overnight deposits reached 7 trillion soums (Q1 - 5.1 trillion soums) (Figure 2.3.4).

Owing to the large liquidity surplus, banks showed almost no demand for the Central Bank's liquidity-providing operations, with the exception of the intraday credit facility.

Figure 2.3.4. Monetary operations of the Central Bank, trillion soums**Figure 2.3.5. Daily dynamics of UZONIA since the beginning of the year, percent**

Source: Central Bank estimates.

Starting from 16 July 2026, 7-day repo auctions were introduced for liquidity absorption, replacing 7-day Central Bank bonds.

In addition, a number of restrictions on REPO transactions were lifted, including restrictions on the secondary market circulation of the bonds purchased, and a procedure for holding "fine-tuning" REPO auctions was introduced to smooth unexpected liquidity fluctuations. These changes expand banks' liquidity management capacity and help strengthen monetary policy transmission.

Money market interest rates remained within the interest rate corridor during the quarter, and the average UZONIA rate in the second quarter stood at 13.4 percent (*Figure 2.3.5*).

The volume of interbank money market operations increased by 7 percent to 175 trillion soums (*Q1 - 163 trillion soums*). The average share of REPO operations in the money market remained at 72 percent (*Figure 2.3.6*).

By maturity, the share of overnight transactions in the money market rose to 93 percent (*Q1 - 89 percent*) (*Figure 2.3.7*). This indicates strong demand for short-term liquidity operations in the money market.

Figure 2.3.6. Money market volume, trillion soums

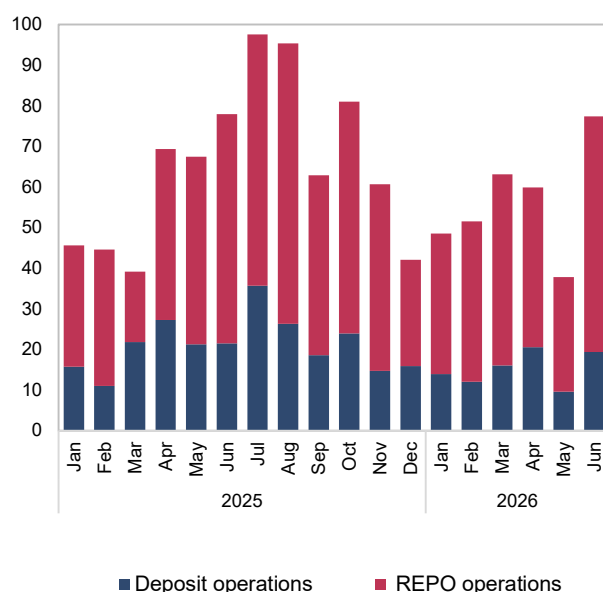
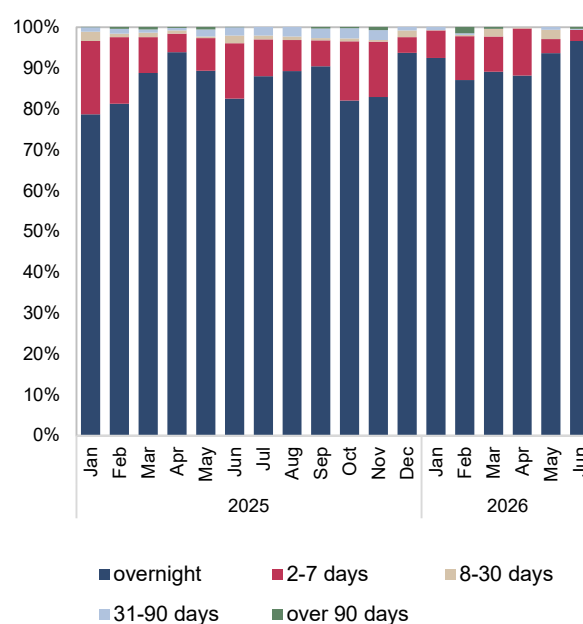


Figure 2.3.7. Money market transactions by maturity, percent



Source: Central Bank estimates.

Tight monetary conditions preserved the attractiveness of deposits in the national currency. In June, the average real interest rate on household deposits⁶ stood at 8.3 percent and on corporate deposits at 4.9 percent (*Figure 2.3.8*).

⁶ Inflation expectations of households and businesses were used to calculate the real level of interest rates.

As a result, deposits in the national currency grew by 46.1 percent year-on-year to 279 trillion soums. In particular, term and savings deposits of businesses in the national currency grew by 70.3 percent year-on-year, reaching 59.4 trillion soums. Household deposits increased by 41.7 percent to 125.4 trillion soums (*Figure 2.3.9*).

Real interest rates on deposits also affected the cost of credit. In June, the average real interest rate on household loans stood at 10.3 percent and on corporate loans at 10.8 percent (*Figure 2.3.10*).

The annual growth of outstanding loans to the economy moderated to 12.9 percent, with total outstanding loans amounting to 699 trillion soums as of 1 July. Outstanding loans to households grew by 19.9 percent year-on-year, while corporate loans grew by 13.4 percent (*Figure 2.3.11*).

Figure 2.3.8. Real interest rates on deposits in the national currency, percent

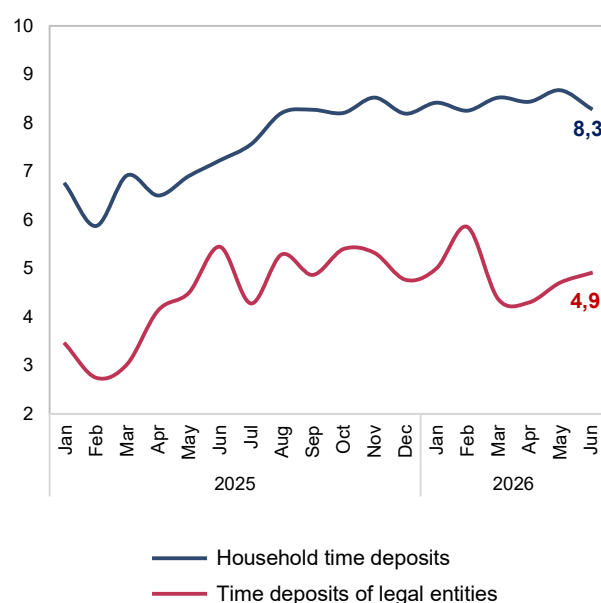
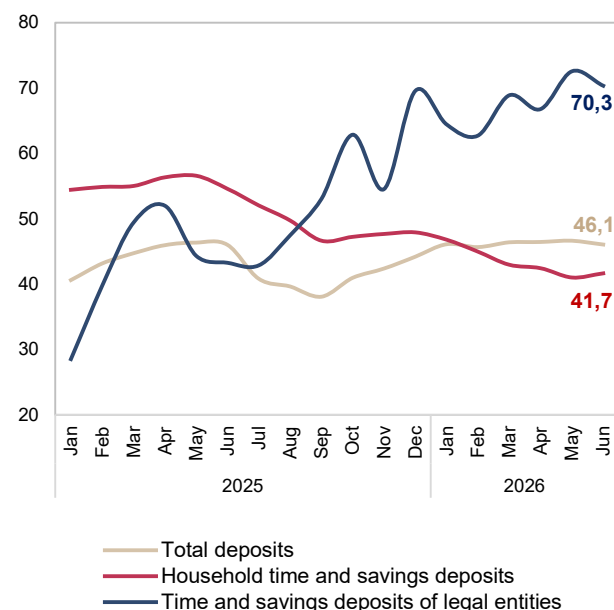
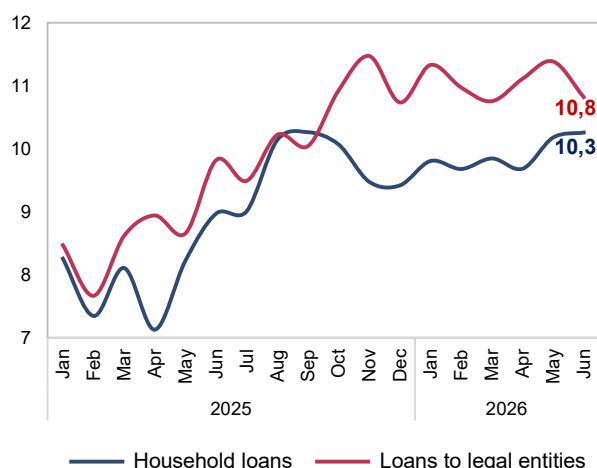
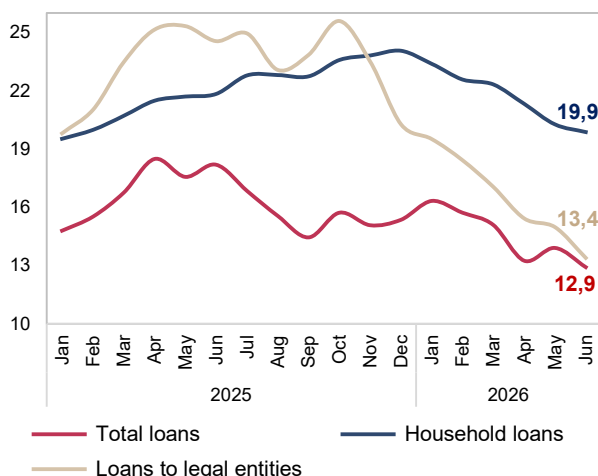


Figure 2.3.9. Growth of deposits in the national currency, percent



Source: Central Bank estimates.

Figure 2.3.10. Real interest rates on loans in the national currency, percent**Figure 2.3.11. Change in outstanding loans to the economy, percent**

Source: Central Bank estimates.

Overall, monetary conditions remained largely tight in the second quarter of this year and played an important role in restraining aggregate demand amid the liquidity surplus in the money market.

In particular, the steady rapid growth of term and savings deposits in the national currency and the slowdown in the growth of loans in the national currency have helped contain inflationary pressures since the beginning of the year.

Going forward, monetary conditions will be kept sufficiently tight in order to ensure that inflation moves gradually towards the 5 percent target. The monetary policy stance will be determined by the dynamics of domestic demand, inflation and inflation expectations, as well as by external economic conditions and the liquidity situation.

Monetary policy communication under uncertainty: from publishing the policy rate path to explaining the rationale behind policy decisions

Forward guidance is one of the main tools of monetary policy communication and involves providing information about the expected future path of the policy rate. This approach came into widespread use among many inflation-targeting central banks after the 2008 global financial crisis. In a relatively stable macroeconomic environment in which economic developments could be assessed with greater confidence, it was not always possible to identify potential shocks in advance, but their impact on the economy could be estimated with reasonable reliability. This made it possible to keep the announced policy rate path broadly unchanged even as new data arrived, ensuring the effectiveness of this communication tool.

In recent years, the effectiveness of this approach has declined. The consequences of the pandemic, sharp changes in energy and food prices, developments in foreign trade policy and geopolitical tensions have increased the frequency of supply-side shocks. Such shocks and their impact on the economy are much more difficult to assess in advance than changes related to demand factors.

As a result, macroeconomic forecasts are being revised more frequently, and announced policy rate paths change significantly as new data arrive. This can increase uncertainty for market participants and, if changes in the rate path are not adequately explained, weaken confidence in central bank communication.

In these conditions, the focus of monetary policy communication is gradually shifting from indicating the future rate path to explaining the principles underlying policy decisions (framework guidance). Under this approach, the central bank explains how monetary policy will respond when inflation, economic activity, inflation expectations and other key indicators change.

With this approach, the predictability of policy depends not on a specific rate path but on how, and according to which principles, decisions are taken as new information becomes available. This preserves the transparency of communication while allowing monetary policy to adapt to changing economic conditions (*Table 1*).

Communication based on decision-making principles is not confined to a single baseline forecast. It is important for market participants to understand not only the most likely macroeconomic scenario, but also what decisions the Central Bank would take and how it would adjust monetary policy if economic conditions were to differ from the forecast.

For this reason, scenario analysis is becoming an important component of the forecasting and communication process.

Alongside the baseline forecast, inflation-targeting central banks are also developing alternative scenarios covering the main sources of uncertainty. These scenarios are used not as separate forecasts, but as a tool for assessing how the economy might develop under various external and domestic conditions and in which circumstances monetary policy might change. This allows market participants to better understand how the Central Bank would act in different economic conditions and reduces the need to announce a predetermined path for the policy rate.

Table 1. Comparison of forward guidance and framework guidance

Indicators	Forward guidance	Explaining decision-making principles (framework guidance)
Object of communication	Expected future path of the policy rate	Monetary policy reaction function
Analytical basis	Single baseline forecast	Baseline forecast and alternative scenarios
Main advantage	Anchors expectations about the rate in the near term	Preserves policy flexibility while maintaining transparency
Main limitation	Confidence may weaken when the rate path is revised	Requires market participants to interpret correctly the rule by which the central bank responds to economic conditions

Source: table compiled by Central Bank experts

Internationally, approaches to monetary policy decision-making that explicitly take uncertainty and risks into account are becoming increasingly widespread. In particular, the US Federal Reserve System (Fed) has revised its communication approach and now places greater emphasis on taking decisions based on incoming economic data, market signals and risks, rather than on indicating the future path of the policy rate. The aim is for market participants to assess economic data independently, without being tied to a particular rate path, while the Fed retains the ability to take decisions in line with new conditions.

The European Central Bank is also moving towards taking decisions based not only on the baseline forecast, but also on the risks and uncertainties surrounding it.

For this purpose, alternative scenarios and supplementary analysis are used to assess how monetary policy might adjust if economic conditions were to differ from the baseline forecast. This helps increase the flexibility of monetary policy in response to large and unexpected shocks.

The Central Bank of Armenia has institutionalized this approach within its FPAS Mark II framework. Under this framework, monetary policy is viewed not as a process of finding the optimal decision on the basis of a single baseline forecast, but as a process of managing risks under uncertainty. Several possible scenarios are analysed, and priority is given to monetary policy decisions that deliver more robust outcomes across different conditions and limit potential losses.

The practice of the Central Bank of the Republic of Uzbekistan

In the communication of the Central Bank of the Republic of Uzbekistan, the focus is also shifting gradually towards explaining how monetary policy decisions would be shaped under different economic conditions.

In particular, the Monetary Policy Guidelines for 2026-2028 presented alternative scenarios and the corresponding monetary policy measures alongside the baseline

forecast. This helps explain in advance how the Central Bank's policy might adjust if economic conditions were to differ from the baseline forecast.

In the Monetary Policy Guidelines for 2026-2028, the scenario-based approach was developed further, with external and domestic risks assessed separately. This makes it possible to consider separately the potential impact of various shocks on macroeconomic indicators and the monetary policy decisions that might be taken in such circumstances.

In addition, the Monetary Policy Review for the first quarter of 2026 presented the inflation forecast under baseline, upside and downside scenarios. These assessed the potential impact on inflation of external conditions, regulated prices, import prices, the exchange rate and other risk factors.

Thus, placing greater emphasis on explaining the factors and principles guiding decisions when economic conditions change, rather than setting out a specific policy rate path in advance, is becoming increasingly common among central banks. This helps enhance the transparency and consistency of monetary policy decisions in an environment of heightened uncertainty.

The role of artificial intelligence in reducing information asymmetry in price formation

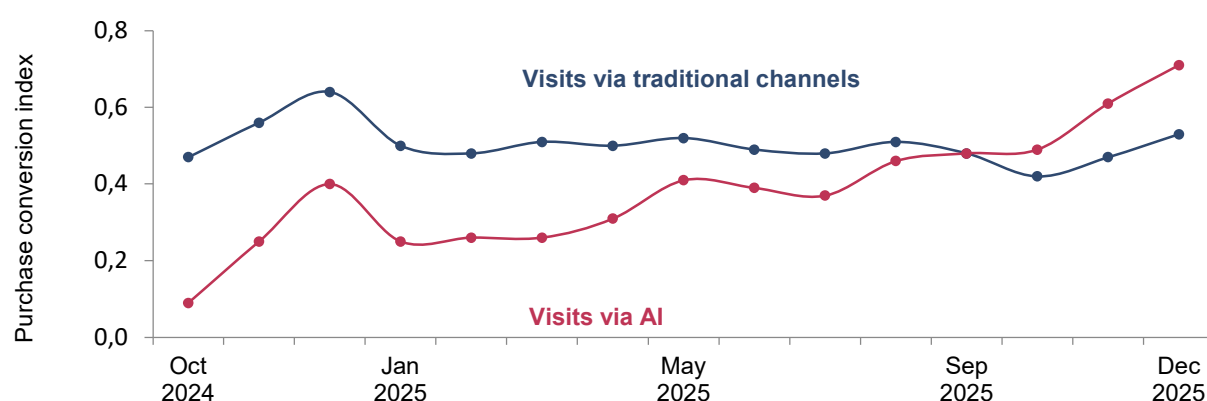
Ensuring price stability, which is the Central Bank's primary objective, depends largely on prices in the economy being formed efficiently on market principles. Only when prices fully and promptly reflect changes in supply and demand do they serve as a reliable signal for economic agents, allowing resources to be allocated efficiently and strengthening the impact of monetary policy decisions on the economy. From this perspective, reducing information asymmetry is one of the factors of considerable importance that constrains price formation.

Information asymmetry means that sellers and buyers have different levels of information about a product's price, quality, characteristics and available alternatives. George Akerlof's "market for lemons" model provided the theoretical basis for showing that this situation can lead to inefficient functioning of market mechanisms. When consumers lack sufficient information about alternative offers, sellers are able to set prices above those that would prevail under competition. As a result, large differences arise between the prices charged by different sellers for the same good.

In recent years, the development of artificial intelligence (AI) technologies has created new opportunities for reducing information asymmetry. The impact of AI is felt mainly through the channels of lower search costs, better signals about product quality, and improved matching of supply and demand.

First, AI-based search systems, price aggregators and analytical platforms allow consumers to compare the prices, discounts and delivery terms of different sellers within a short time. According to George Stigler's theory of search costs, the cost of seeking information is one of the main reasons why price dispersion persists. By reducing these costs, AI expands consumers' ability to identify alternative offers.

Figure 1. Conversion rate of visitors to online retail platforms: visits via AI and via traditional channels



Source: Adobe Digital Insights online publication.

As a result, competition among sellers intensifies, and the price mark-ups and price dispersion for identical goods that arise from information gaps diminish.

According to the analysis, the conversion rate of consumers arriving at retail websites via AI chatbots has risen steadily since the end of 2024 and, in September 2025, exceeded that of shoppers arriving via traditional digital channels. This shows that consumers who gather information about products and prices in advance using AI tools

enter the market better informed and identify the offer that suits their needs more quickly (Figure 1).

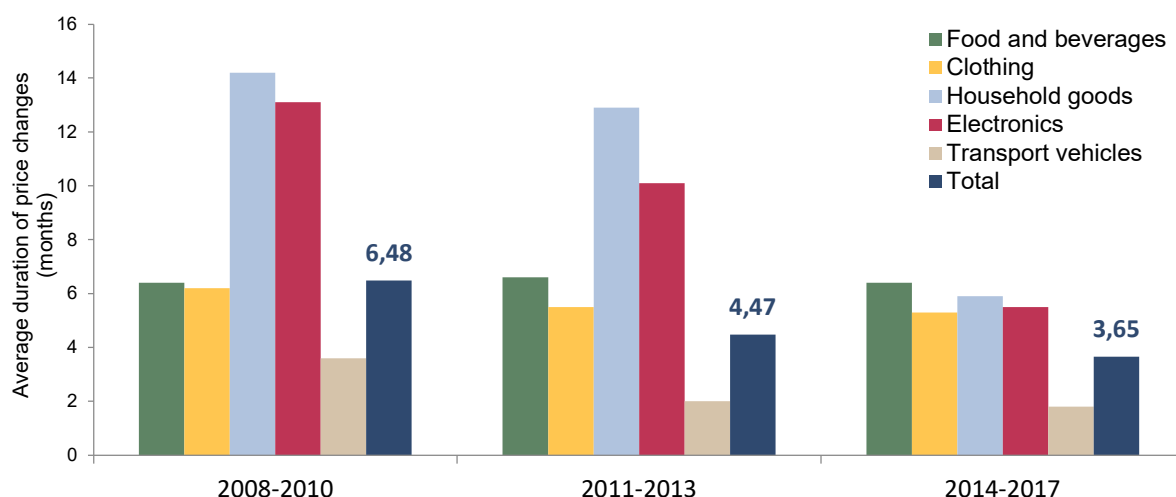
Second, AI makes it possible to aggregate information about the quality of goods and services. Natural language processing algorithms analyse large numbers of consumer reviews, ratings and complaints and produce systematic conclusions about product quality, delivery speed and value for money. This reduces buyers' dependence on information provided solely by the seller, helps ensure that high-quality products are priced correctly and limits the scope for selling low-quality goods at high prices.

Third, AI helps forecast demand more accurately by analysing historical sales, seasonality, weather, logistics and consumer behaviour. This allows producers and sellers to align production volumes and inventories with market needs and to reduce the risk of surpluses or shortages. As a result, sharp price fluctuations arising from imbalances between supply and demand are smoothed.

Reduced information asymmetry also affects the effectiveness of monetary policy. Digital commerce and AI tools accelerate the process of monitoring and revising prices. Research by Gorodnichenko and Talavera showed that online prices change more frequently than prices at traditional retail outlets. In the United States, the average duration for which prices remained unchanged fell from 6.5 months in 2008-2010 to 3.7 months in 2014-2017. This trend was particularly pronounced in household goods and electronics, where the share of e-commerce grew rapidly (Figure 2).

Faster adjustment of prices to economic conditions may accelerate the impact of policy rate changes on inflation through aggregate demand, the exchange rate and production costs. At the same time, more frequent price changes may also amplify short-term fluctuations. It is therefore important for the Central Bank to distinguish temporary price changes from persistent inflation trends.

Figure 2. Price flexibility: the impact of digital competition



Source: Adobe Digital Insights online publication.

The broad and rapid dissemination of price information also helps bring inflation expectations closer to actual price dynamics. When consumers are able to compare the prices of different sellers, they are less likely to perceive a high price for an individual

good as a market-wide trend. This limits unwarranted increases in inflation expectations and enhances the effectiveness of the Central Bank's communication.

However, the impact of AI on price formation is not one-sided. Algorithmic pricing allows sellers to monitor competitors' prices in real time and adjust their own prices automatically.

In some cases this intensifies price competition, while in others algorithms may align prices at a high level. This risk increases in particular when several sellers use the same algorithm, software or data source.

In addition, AI can offer personalized prices based on a consumer's purchase history, location and willingness to pay. If the way the algorithm works is not transparent, offering the same good to different buyers at different prices leads to price discrimination and lower consumer confidence. Moreover, models operating on incomplete or poor-quality data may draw incorrect conclusions about demand and prices.

The development of e-commerce, digital payments and online platforms in Uzbekistan is expanding the coverage of price data. In this connection, it would be advisable for the Central Bank to develop a system for automatically collecting and analysing online prices for the main consumer goods and services. Such data could be used to assess price dispersion across regions, retail outlets and sellers, to identify inflation risks early and to improve short-term inflation forecasts.

In conclusion, artificial intelligence helps reduce information asymmetry in the market by enabling automatic price comparison, aggregating information about product quality and improving demand forecasting. This increases the accuracy of price signals, the competitiveness of the market environment and the transparency of inflationary processes, thereby strengthening monetary policy transmission.