The Central Bank
of the Republic of Uzbekistan

2026 Q1

MONETARY POLICY REPORT

Central Bank of the Republic of Uzbekistan

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

The electronic version of the document is available on the website of the Central Bank of the Republic of Uzbekistan under the “Monetary Policy Publications” section, in the “Monetary Policy Review” subsection.

Official website of the Central Bank of the Republic of Uzbekistan: www.cbu.uz

Final date for data compilation: April 20, 2026.

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SUMMARY

Headline inflation continued to decline and, according to forecasts, is expected to slow to 6.5 percent by the end of the year. At the same time, the price stabilization process has weakened, while the influence of external factors affecting inflation has intensified.

Against the backdrop of accelerating economic activity, strong aggregate demand, and uncertainties in the external economic environment, reducing inflation to the 5 percent target level requires maintaining tight monetary conditions.

In March 2026, headline inflation declined to 7.1 percent year-on-year, within the forecast range. This decline was mainly driven by the fading effect of last year's high base for certain goods. Core inflation amounted to 5.7 percent.

Inflation expectations also continued to decrease in March; however, they remain above the projected inflation indicators.

Broad-based decline in inflation is slowing in recent months, which, together with current inflation trends, indicates that inflationary pressures persist in the economy.

According to the updated forecasts, headline inflation is expected to be around 6.5 percent by the end of 2026.

In the first quarter of the current year, economic activity accelerated, and gross domestic product grew by 8.7 percent in real terms. Increased activity in the services, construction, and trade sectors indicates the dominance of aggregate demand factors in the economy.

The steadily increasing volume of investments attracted to the country, including foreign direct investment, will continue to support economic growth in the coming quarters.

Taking these factors into account, the economic growth forecast for 2026 was revised upward to 7-7.5 percent.

Against the backdrop of intensifying geopolitical tensions in the external economic environment, risks related to rising global oil and food prices are intensifying. In addition, higher logistics and transportation costs may create additional pressure on domestic inflation through import prices in the future.

At the same time, the appreciation of the currencies of major trading partner countries, high gold prices, and stable growth in export revenues and remittances are supporting supply in the domestic foreign exchange market.

Positive real interest rates in the economy are helping to maintain households' propensity to save and are contributing to the moderation of lending growth.

Although demand-side factors continue to maintain inflationary pressures in the short term, tight monetary conditions, balanced lending growth, and the gradual decline in inflation expectations are expected to ensure that inflation approaches the target in the medium term.

The Central Bank of the Republic of Uzbekistan will continue to closely monitor inflation dynamics, inflation expectations, aggregate demand conditions, foreign exchange market trends, and external inflationary pressures. If the factors pushing inflation upward intensify and rising inflation expectations create risks of delaying the achievement of the inflation target, a sufficiently tight monetary policy stance will be maintained.

The monetary policy of the Central Bank of the Republic of Uzbekistan will remain focused on reducing inflation to the 5 percent target level, ensuring macroeconomic stability, and preserving the purchasing power of the population.

Table 1. Main 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	7-7,5 *(6,5-7)*	6-7 *(6-7)*	6-7 *(6-7)*
Final consumption expenditure	9,5	*7,9*	6-7 *(6-7)*	6-7 *(6-7)*	6-7 *(6-7)*
- households	*11,5*	*9,5*	*6,5-7,5* *(6,5-7,5)*	*6,5-7,5* *(6-7)*	*6,5-7,5* *(6-7)*
- 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* *(8-11)*	*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	12-16 *(12-16)*	8-12 *(8-12)*	8-12 *(8-12)*
Import growth	4,8	18,5	15-20 *(10-15)*	8-12 *(8-12)*	8-12 *(8-12)*
Remittance growth	30	27,6	8-12 *(6-10)*	8-12 *(8-12)*	8-12 *(8-12)*
Growth of outstanding credit	14	15,3	14-16 *(14-16)*	12-14 *(12-14)*	12-14 *(12-14)*

** In parentheses – forecasts from the Monetary Policy Report for 2025 Q4;*

Source: CBU calculations based on the quarterly forecasting model (QPM) and financial programming model (FPP).

I. MEDIUM-TERM MACROECONOMIC OUTLOOK

1.1. External economic outlook

Rising geopolitical tensions worldwide are increasing uncertainty, slowing the pace of global economic growth, prolonging tight international financial conditions, and creating upside risks to energy and food prices.

This, in turn, may intensify inflationary pressures in Uzbekistan through higher import prices in the future. At the same time, sustained strong economic activity in major trading partner countries continues to support external demand and export revenues.

During January-February 2026, expectations regarding global economic developments improved compared to previous forecasts. However, geopolitical tensions that emerged in the Middle East significantly increased global uncertainty and heightened risks to the global economy in the medium term.

According to the updated forecasts of the International Monetary Fund, geopolitical tensions are expected to remain limited in duration under the baseline scenario, and the global economy is projected to adapt to the shock by mid-2026.

Accordingly, the forecast for global economic growth in 2026 was revised slightly downward compared to previous estimates and is projected at 3.1 percent *(compared to the 3.3 percent forecast announced in January).*

High uncertainty due to the scale, duration, and consequences of the conflict necessitates consideration of various scenarios. Alternative scenarios assess the impact of more prolonged and broader shocks on global economic growth and inflation (Box 1).

Under the baseline scenario, price shocks in energy markets are expected to be largely temporary in nature, while supply chains are projected to recover and markets to gradually stabilize *(Figure 1.1.1).*

In this environment, global inflation is expected to accelerate to 4.4 percent in the coming quarters *(0.6 percentage points higher than the January forecast)*. However, inflation is projected to return to a downward trend in subsequent years *(Figure 1.1.2)*.

The main driver of rising global inflation is considered to be the increase in energy prices and the associated second-round effects.

Higher energy prices, in turn, are exerting pressure on food prices through increased fertilizer, transportation, and logistics costs *(Figure 1.1.3)*. In particular, compared to February, average oil prices increased by 41.6 percent in March, fertilizer prices by 26.2 percent, and the FAO food price index by 2.7 percent.

This, in turn, may place upward pressure on domestic prices through imported energy resources, particularly automotive fuels, food products, and transportation costs.

Figure 1.1.1. Global economic growth outlook, *percent*

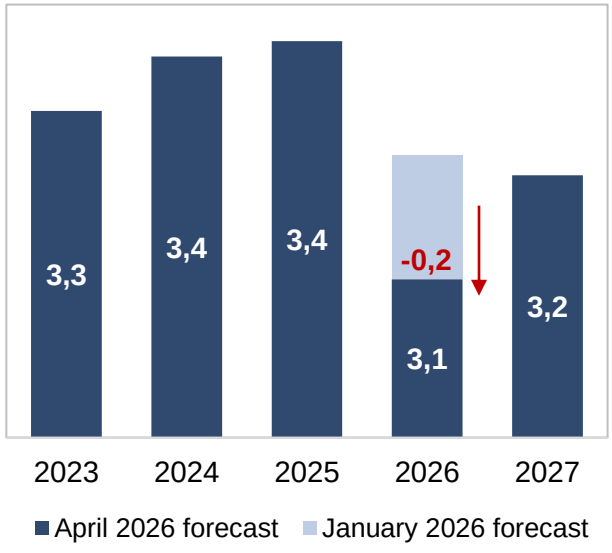
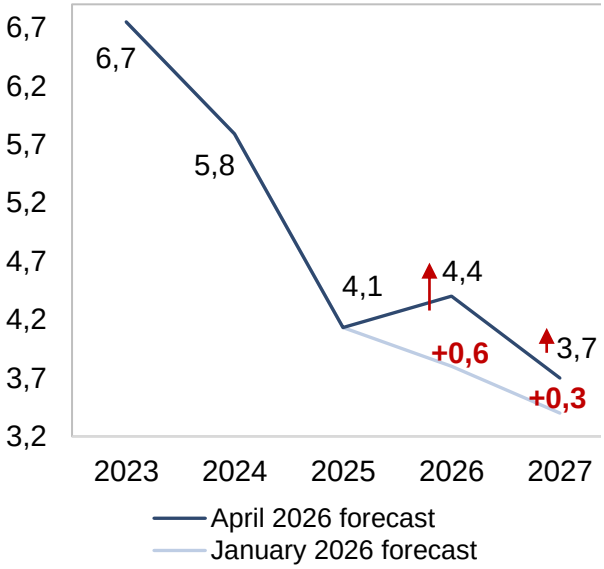


Figure 1.1.2. Global inflation forecast, *percent*



Source: International Monetary Fund, World Economic Outlook, April 2026.

Figure 1.1.3. Price index of energy, food products, and fertilizer raw materials, *2024 = 100%*

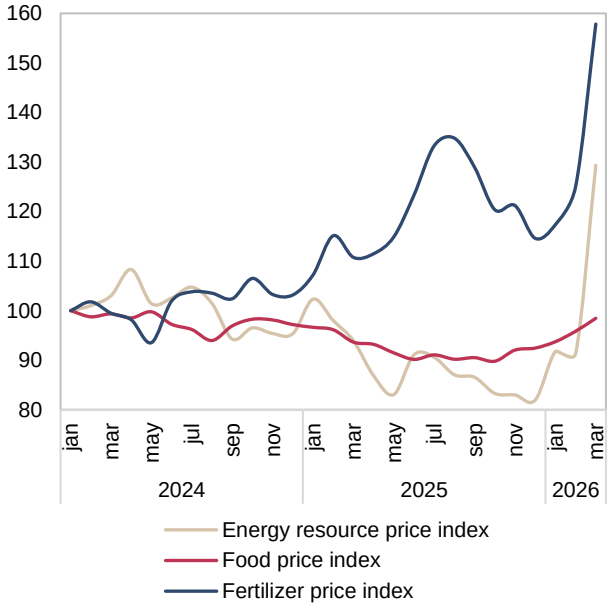
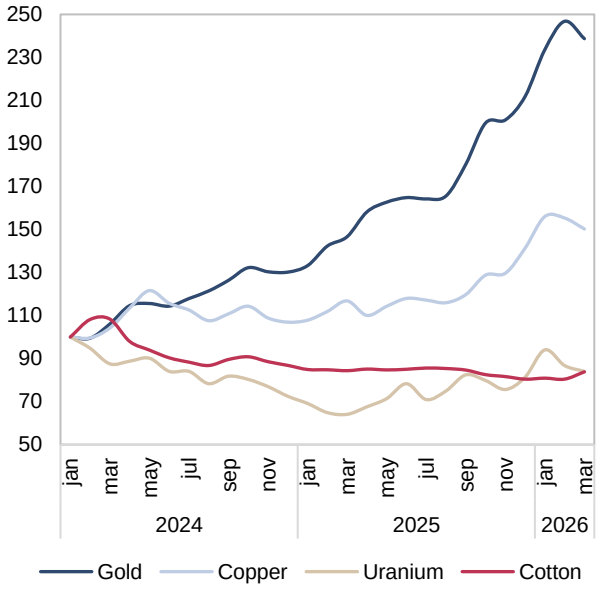


Figure 1.1.4. Global price index of metals and other commodities, *2024 = 100%*



Source: World Bank

Prices for metals in global markets are expected to maintain a positive trend. Amid heightened uncertainty, robust demand for gold is projected to keep its price elevated despite short-term fluctuations *(Figure 1.1.4).*

At the same time, copper prices are expected to be supported by sustained structural demand associated with the development of artificial intelligence technologies, transformation processes in the energy sector, and increased defense spending.

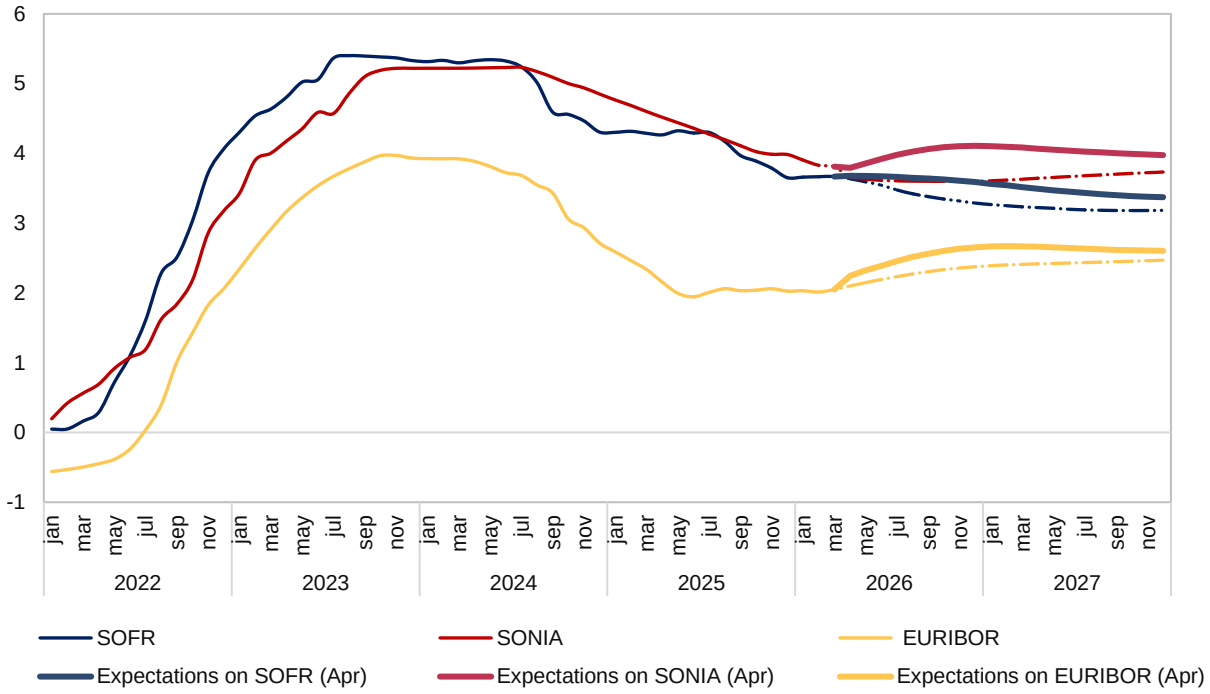
Under the influence of the above-mentioned factors, international financial conditions have tightened somewhat. Nevertheless, stock and foreign exchange markets have generally remained relatively stable.

Against the backdrop of rising global risks, the strengthening of the US dollar as a major safe-haven asset has been observed.

In this environment, the disinflation process may slow, and inflationary pressures and expectations are likely to remain elevated in the short-term outlook. This points to potentially divergent monetary policy trajectories across major economies.

In particular, the U.S. Federal Reserve may delay interest rate cuts until there is confidence that inflation is sustainably declining. The European Central Bank, on the other hand, is likely to maintain a relatively tight monetary policy stance and may even consider raising rates amid rising energy-related costs *(Figure 1.1.5).*

Figure 1.1.5. Benchmark interest rate dynamics and forecast, *percent*



Source: chathamfinancial.com (January and April forecasts are presented)

Overall, this situation indicates the continued high sensitivity of the global economy to geopolitical factors in the medium term, as well as the likelihood that risks will persist for a longer period.

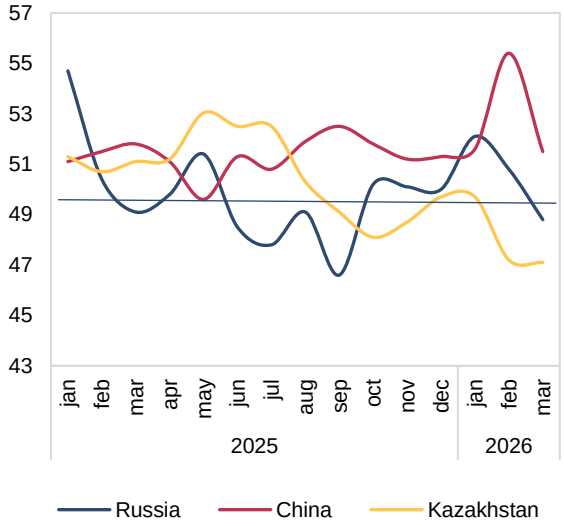
In the first quarter of 2026, major trading partner economies showed mixed dynamics.

In **China**, economic activity recovered to some extent, with GDP growth reaching 5 percent. Growth was mainly driven by expansion in industrial production and export volumes, while domestic demand remained relatively weak *(Figure 1.1.6).*

At the same time, inflation remained low. However, in the coming period, external factors, such as energy prices and geopolitical uncertainty, may create some inflationary pressures *(Figure 1.1.8).* Nevertheless, conditions in the real estate market and subdued aggregate demand will continue to limit sharp increases in inflation.

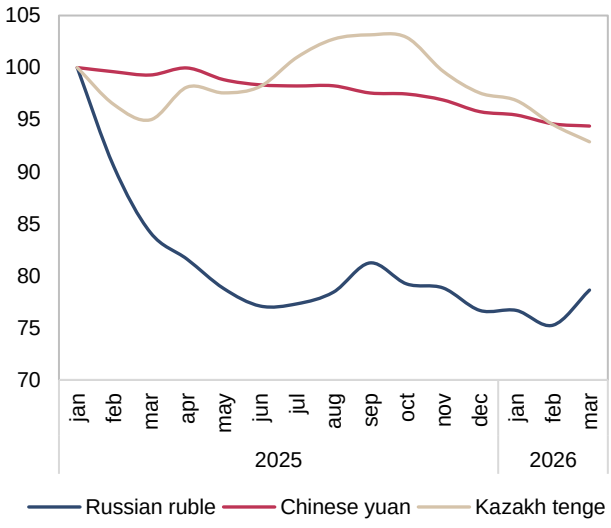
In the **Russian** economy, a slight slowdown in economic activity has been observed. Although investment and corporate profits have declined, economic growth continues to be supported mainly by private demand, accumulated capital reserves, and government spending. In recent months, the disinflation trend has been explained by the normalization of credit activity, and under these conditions monetary policy is being gradually eased.

Figure 1.1.6. PMI indices[1] of major trading partners



Source: Bloomberg

Figure 1.1.7. Exchange rate dynamics of major partner countries' currencies, *2025 = 100%*



Source: Central banks of respective countries.

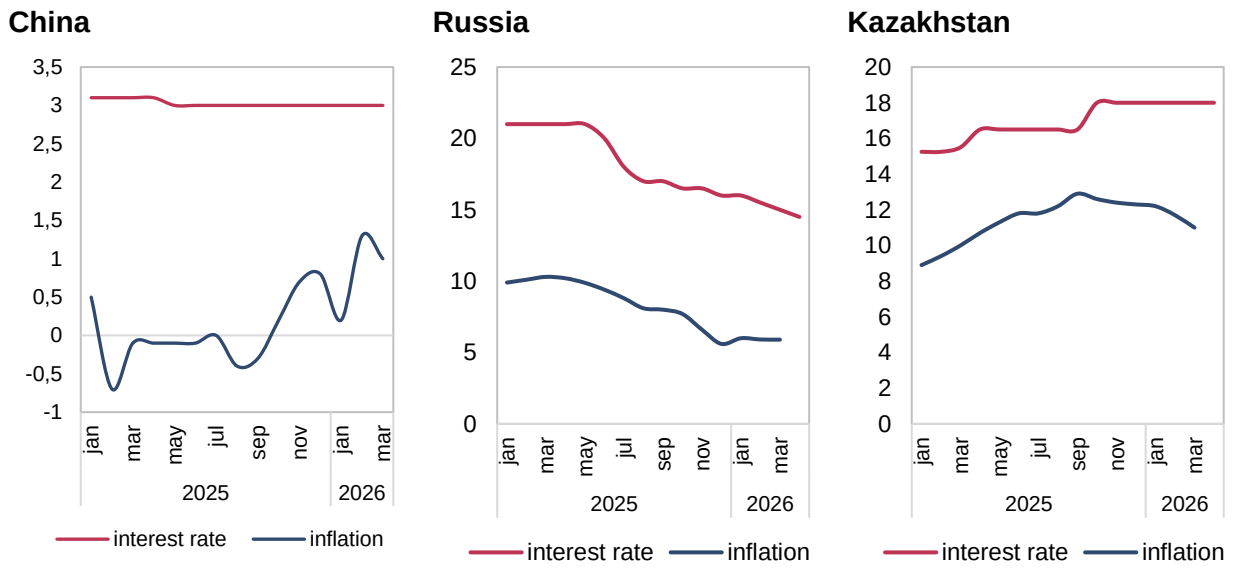
[1] *For reference: The Purchasing Managers' Index (PMI) is an indicator used for the rapid assessment of economic activity. It is based on surveys conducted among companies' purchasing managers. A reading above 50 points indicates accelerating economic growth, while a reading below 50 points indicates a slowdown in economic expansion.*

In **Kazakhstan**, GDP growth reached 3 percent, indicating a moderation of economic activity. While a decline in oil production has led to a downturn in the resource sectors, economic growth has been supported primarily by positive dynamics in non-resource sectors, particularly construction, industry, and services.

The disinflation trend is being shaped by tight monetary policy and fiscal consolidation, and a further slowdown in inflation is expected in the coming period. At the same time, there are expectations of a gradual easing of monetary conditions in the second half of the year.

Overall, the easing of inflationary pressures and monetary policy across major partner countries will help reduce external inflationary pressures on domestic prices.

Figure 1.1.8. Policy rate and inflation dynamics in major partner countries, *percent*



Source: Central banks of respective countries.

Box 1.

Alternative scenarios of global economic outlook by the International Monetary Fund

In its April 2026 World Economic Outlook report, the International Monetary Fund *(IMF)*, taking into account that the global economy is entering a period of elevated geopolitical uncertainty, applied scenario-based analysis to assess macroeconomic risks. In this context, the IMF developed an adverse scenario and a severe scenario reflecting the potential escalation of the conflict in the Middle East.

Under the IMF's adverse scenario, the conflict is assumed to last longer and cause significant disruptions to energy supply. According to this scenario, the average oil price in 2026 could reach nearly 100 dollars per barrel. At the same time, gas prices in Europe and Asia are projected to increase by around 160 percent, while global food prices are expected to rise by 2.5 percent.

According to the IMF's estimates, this situation would put pressure on the global economy not only through commodity markets but also through higher inflation expectations and a deterioration in financial conditions. In particular, rising corporate risk premia and sovereign spreads would further tighten financial conditions in emerging market economies.

As a result, global economic growth would slow significantly. According to the IMF's calculations, global growth would slow down to 2.5 percent in 2026 and then stand at around 3 percent in 2027. At the same time, global inflation could accelerate to 5.4 percent in 2026 and 3.9 percent in 2027. As reported by the IMF, a large part of the adverse impact on economic growth would be associated with a sharp increase in energy prices.

The IMF's severe scenario envisages a more persistent and far-reaching geopolitical shock. In this case, oil prices could rise by 100 percent relative to the baseline scenario and remain elevated throughout 2026-2027. IMF estimates suggest that the average oil price could reach around 110 dollars per barrel in 2026 and 125 dollars per barrel in 2027. Global food prices could also increase, rising by 5 percent in 2026 and by a further 10 percent in 2027.

Figure 1. Oil price forecast under risk scenarios, *dollar/barrel*

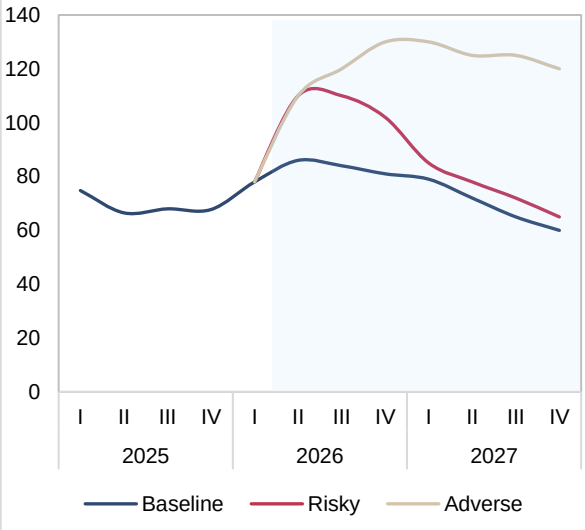
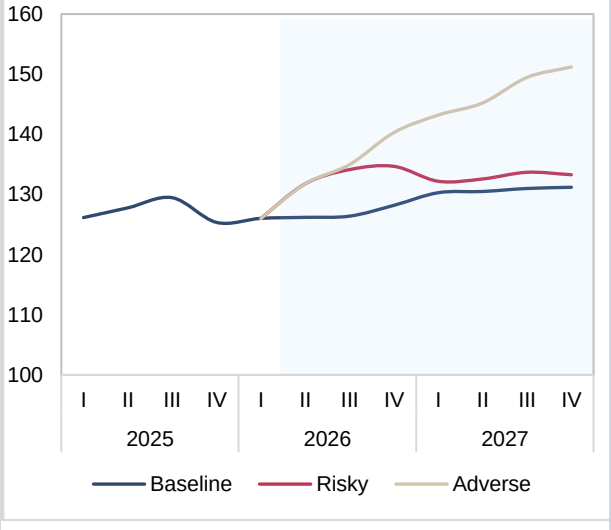


Figure 2. Global food price index under risk scenarios, *percent*



Note: The figures were prepared to illustrate possible trends under different scenarios, based on the key assumptions and conditions presented in the IMF's World Economic Outlook report. Since the IMF forecasts are presented on an annual basis, while these figures show quarterly dynamics, the results may differ slightly.

In this scenario, global financial conditions would deteriorate more sharply. Higher corporate risk premia and sovereign spreads, capital outflows from emerging markets, and further monetary policy tightening by central banks in response to inflationary pressures could all amplify the negative impact on the global economy.

In accordance with the IMF estimates, this scenario would bring the global economy close to recessionary conditions. Global growth could slow to around 2.1-2.2 percent in 2026 and remain subdued in 2027, while global inflation is projected to rise to 5.8 percent in 2026 and 6.1 percent in 2027.

1.2. Macroeconomic projections

In 2026 Q1, economic activity continued to accelerate, with real GDP growth reaching 8.7 percent. The acceleration in economic growth is explained by ongoing economic reforms, expanding private sector activity, and relatively favorable external economic conditions.

The GDP growth forecast for 2026 has been revised upward to 7-7.5 percent *(from 6.5-7 percent in the January forecast) (Figure 1.2.1)*. The upward revision is mainly driven by the persistently high current growth momentum, steady expansion in domestic demand, and stronger-than-expected investment activity.

Although economic activity above its potential level is contributing to demand-side inflation in the short term, this gap is expected to gradually narrow under the impact of tight monetary conditions.

In the coming periods, sustainable economic growth will largely depend on improvements in labor productivity and capital efficiency. Ongoing investments serve as a key factor supporting these processes.

Consumer activity remains strong. In particular, retail trade turnover and the services sector have shown a noticeable acceleration in recent months.

The growth in household incomes is supported by positive labor market trends, rising wages, and increased remittance inflows, all of which continue to support domestic demand.

In addition, the moderation in growth of household lending and the maintenance of tight monetary conditions are contributing to the formation of a more stable medium-term consumption trajectory. Therefore, the consumption forecast remains broadly unchanged, with private consumption expected to grow by around 6.5-7.5 percent in 2026 *(Figure 1.2.2).*

Figure 1.2.1. Forecast of real GDP growth, *percent*

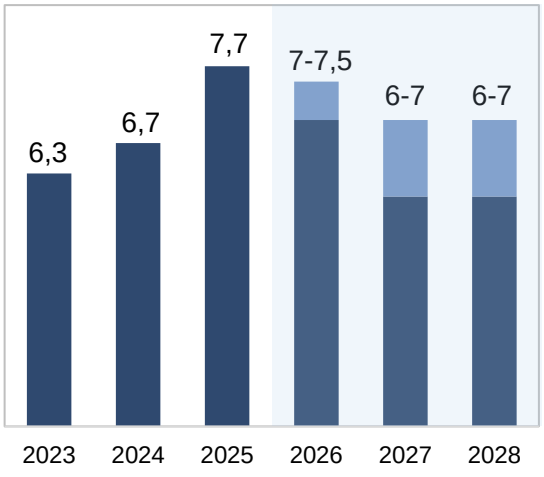
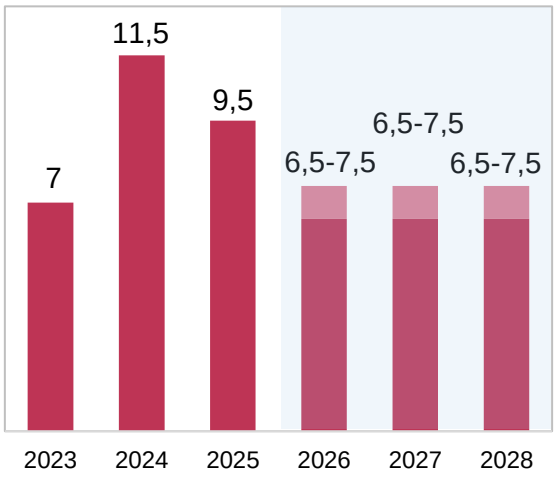


Figure 1.2.2. Real growth of private consumption, *percent*



Source: CBU calculations.

Investment activity has exceeded previous expectations and remains one of the key drivers of economic growth. In particular, foreign-financed investments, including foreign direct investment and other external financial resources, are being utilized at a high pace. The implementation of large-scale industrial and infrastructure projects, as well as the expansion of transport-logistics and energy capacities, has led to an upward revision of investment forecasts. Real growth of gross fixed capital investment is projected at around 12-16 percent in 2026 *(Figure 1.2.3).*

Household incomes continue to grow, supported by high economic activity, an expanding labor market, and sustained demand for labor resources. This process is accompanied by rising wages.

The state budget recorded a surplus in the first quarter. This outcome is explained by strong revenue performance, including sustained high prices for commodity exports on global markets *(primarily gold)*, as well as expanding domestic economic activity.

At the same time, the budget deficit *(as a ratio of GDP)* for the full year is expected to remain within the approved parameters *(Figure 1.2.4).* However, in the future, under conditions of strong economic activity, the expansion of budget expenditures driven by additional revenues may intensify pro-cyclical effects and generate inflationary pressures through aggregate demand.

Export volumes *(excluding gold)* are higher than previously forecast. This is mainly supported by growth in services exports, particularly tourism, transport and IT services, as well as chemical products and non-ferrous metals. The country's growing tourism potential and sustained high global commodity prices were the main reasons for keeping export forecasts unchanged.

Figure 1.2.3. Real growth rate of investment, *percent*

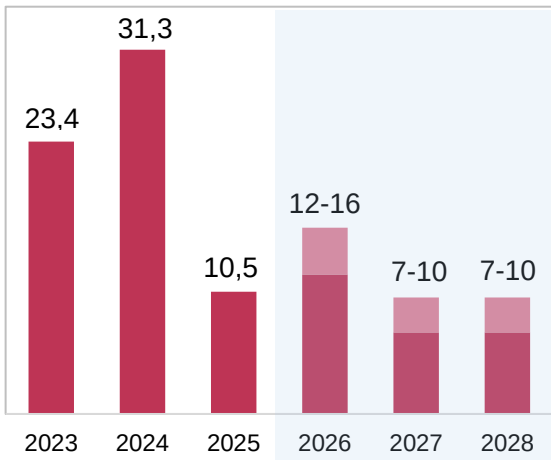
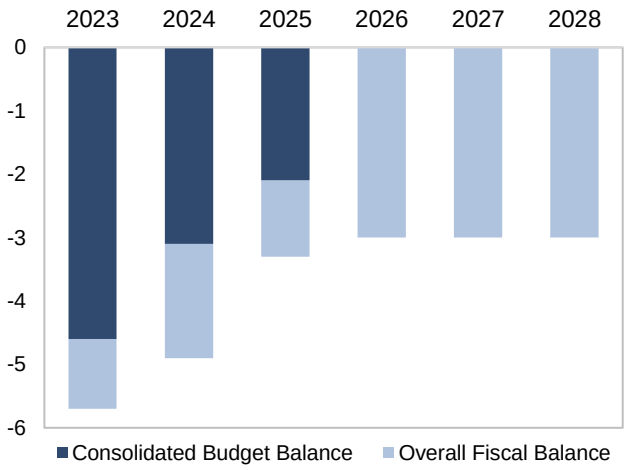


Figure 1.2.4. General fiscal balance forecast, *percent of GDP*



Source: CBU calculations.

Given the continued rise in external prices and strong growth in services exports, the forecast may be revised upward in the future.

Import volumes are significantly higher than earlier projections, driven by strong domestic consumption and investment activity. In particular, imports of machinery and equipment, transport vehicles, food products, energy resources, and intermediate goods for production are increasing.

Rising global prices for certain imported goods, especially food products and energy resources, continue to pose risks of transmitting external inflationary pressures to the domestic market through import channels. Accordingly, the import forecast has been revised upward. Import growth in 2026 is expected to be around 15-20 percent.

Inflation forecast

The forecast for headline inflation in 2026 remains unchanged compared to the previous quarter, with inflation expected to be around 6.5 percent by the end of the year.

In 2026, the expected increase in certain regulated prices has been incorporated into the current forecasts. At the same time, from May onward, the inflationary effects of the 2025 energy price adjustments are expected to fade, leading to a declining trend in inflation within this group.

In the coming period, the gradual disinflation process is expected to continue, with inflation projected to decline to the 5 percent target level in 2027 and to stabilize within the target range starting from 2028 *(Figure 1.2.5).*

Figure 1.2.5. Headline inflation forecast, *percent*

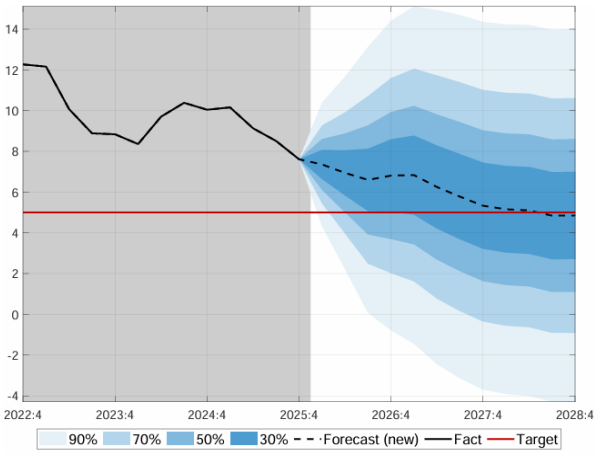
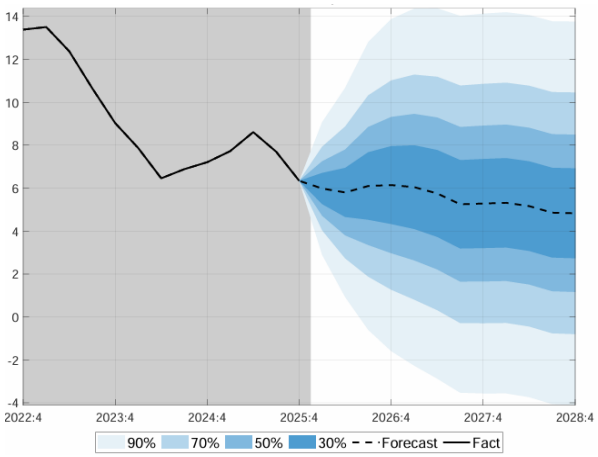


Figure 1.2.6. Core inflation forecast, *percent*



Source: CBU calculations.

The maintenance of relatively tight monetary conditions over a longer period is expected to support saving behavior and help balance aggregate consumption demand to some extent.

According to the forecasts, core inflation is expected to reach around 6 percent by the end of the current year and then decline to 5 percent in 2027-2028, stabilizing at this level over the medium to long term *(Figure 1.2.8).*

Under a positive output gap, which indicates economic activity is growing above its potential level, demand-side inflation is expected to remain relatively elevated in the short term.

At the same time, current real interest rates are assessed as being at a level that helps balance demand pressures in the economy and supports the convergence of inflation toward the medium-term target.

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

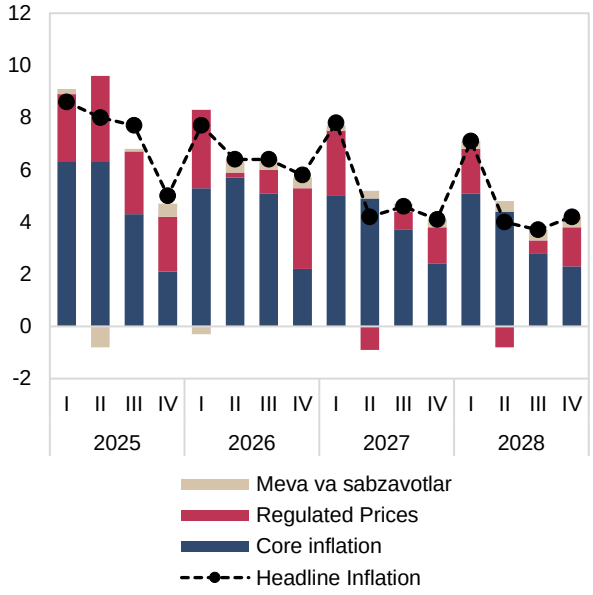
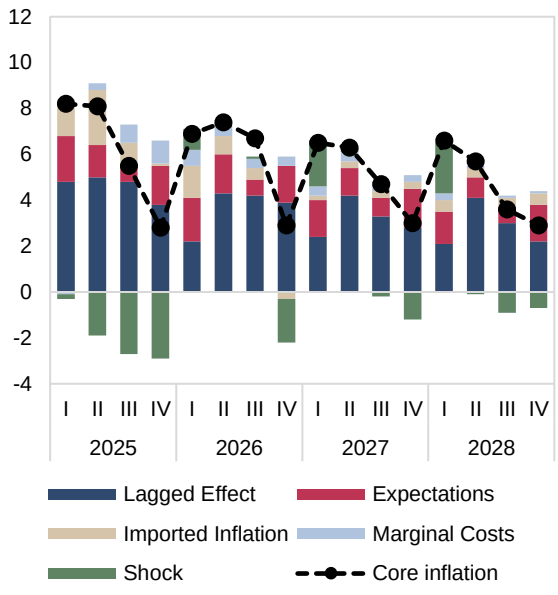


Figure 1.2.8. Decomposition of the median core inflation forecast, *quarterly, percent*



Source: CBU calculations.

Box 2.

Deviations of inflation processes from the baseline scenario under different external conditions

Taking into account uncertainties related to external conditions, particularly global commodity prices and expectations regarding foreign exchange inflows, the Central Bank simulated inflation not only under the baseline scenario but also under **two alternative scenarios:** an adverse scenario and an optimistic scenario.

Under **the adverse scenario**, elevated oil and food prices would initially be reflected through regulated prices and imported food prices. In subsequent stages, however, inflationary pressure would mainly materialize through core inflation.

Under **the optimistic scenario**, a higher supply of foreign currency would reduce imported inflation through an appreciation of the exchange rate. As a result, the decline in inflation under this scenario would mainly occur through the core inflation and expectations channels.

Adverse scenario

The assumptions of the adverse scenario were developed based on the severe scenario presented in the IMF's April 2026 World Economic Outlook report. Under this scenario, a prolonged conflict in the Middle East is assumed to keep oil prices at an average of around 110 dollars per barrel in 2026 and 125 dollars per barrel in 2027.

Under this shock, oil prices are expected to be 34.1 percent higher than in the baseline scenario. In addition, the scenario accounts for an 11.8 percent upward impact on global food commodity prices, in line with the oil price shock.

This external shock would affect domestic inflation through two main channels. First, higher oil prices would feed into domestic fuel prices, initially being reflected directly in fuel price inflation. Second, the increase in global food prices would pass through to domestic prices via imported food products.

At later stages, this external price shock could generate broader second-round effects through transportation and production costs, as well as through inflation expectations.

Under the adverse scenario, headline inflation could stand at around 7.2 percent by the end of 2026, 6.6 percent by the end of 2027, and 5.1 percent by the end of 2028.

In this scenario, the main share of inflationary pressure would come from core inflation.

In the fourth quarter of 2026, core inflation would account for 0.5 percentage points of the deviation of headline inflation from the baseline scenario, while regulated prices would contribute 0.16 percentage points and fruit and vegetable prices 0.04 percentage points.

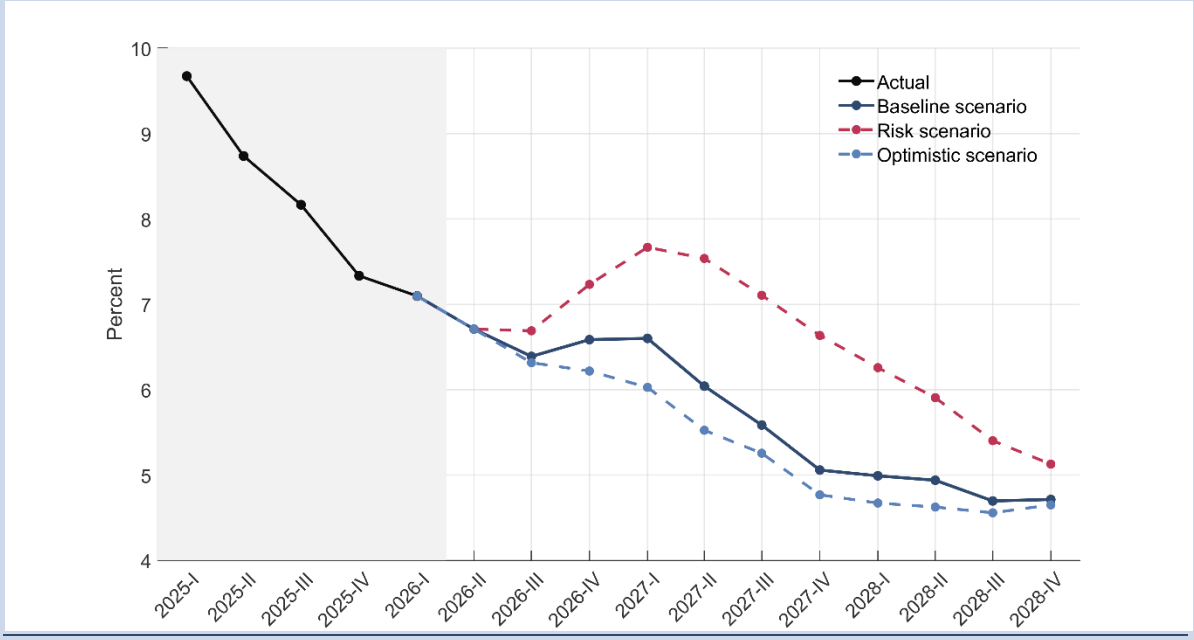
By the fourth quarter of 2027, the deviation of headline inflation from the baseline scenario would reach around 1.6 percentage points. Of this difference, 1.12 percentage points would be attributable to core inflation, 0.36 percentage points to regulated prices, and 0.12 percentage points to fruit and vegetable inflation.

Under the adverse scenario, the main part of inflationary pressure would not be limited to a one-off external price shock. Instead, it could persist for a relatively longer period as the shock passes through to core inflation.

Optimistic scenario

Under the optimistic scenario, foreign direct investment, export revenues, foreign credit lines and remittances are assumed to grow faster than expected in 2026-2027. These factors would support the supply of foreign currency in the domestic FX market and help the exchange rate remain stronger than under the baseline scenario.

Figure 1. Inflation Forecasts: Comparative Dynamics By Scenario



Source: Model results.

These positive external factors would exert downward pressure on domestic inflation through two main channels. First, a relatively stronger exchange rate would reduce price pressures on imported consumer goods and imported components used in production.

Second, greater stability in the foreign exchange market would help ease inflation expectations, thereby contributing to a decline in core inflation.

Under these conditions, lower imported inflation pressures and a relative stabilization of expectations could generate broader disinflationary effects at later stages, mainly through core inflation.

Under the optimistic scenario, headline inflation could stand at around 6.2 percent by the end of 2026 and 4.9 percent by the end of 2027.

Core inflation could decline to around 5.6 percent by the end of 2026 and 4.8 percent by the end of 2027. In this scenario, the decline in core inflation would be the main driver of lower headline inflation.

In response to the conditions under all scenarios, the Central Bank's monetary policy stance will remain focused on bringing inflation down to **the 5 percent target** over the medium term and ensuring macroeconomic stability.

Box 3.

Forecasts of international financial institutions for Uzbekistan's economy

Despite rising uncertainty in the external economic environment, a number of international financial institutions have revised their growth forecasts for Uzbekistan upward. In particular, the IMF raised its economic growth forecast for Uzbekistan to 6.8 percent in 2026, which is 0.8 percentage points higher than its previous projection. The World Bank forecasts economic growth at 6.4 percent in 2026, up by 0.4 percentage points, and revised its 2027 forecast upward by 0.8 percentage points to 6.7 percent.

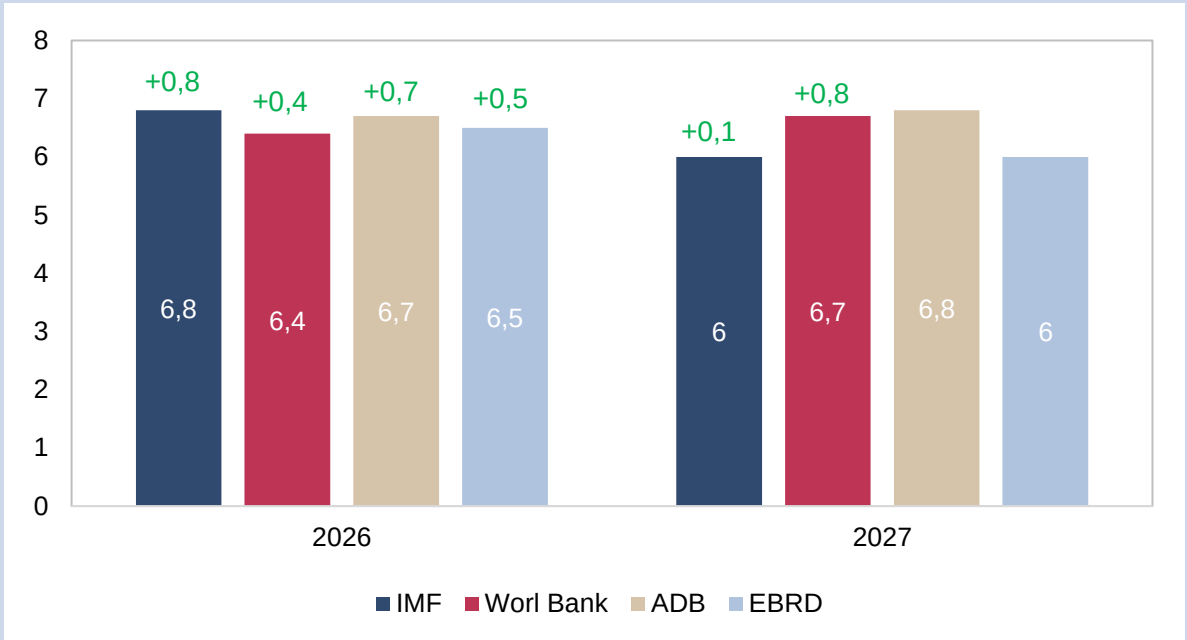
The Asian Development Bank (ADB) has also maintained a positive outlook for Uzbekistan's economy. In particular, the ADB revised its 2026 growth forecast upward by 0.7 percentage points and now expects growth to reach 6.7 percent. The European Bank for Reconstruction and Development (EBRD) also revised its 2026 forecast upward by 0.5 percentage points.

The upward revisions by international financial institutions are mainly explained by the continued strength of economic activity in Uzbekistan. In particular, strong growth in services, industry and construction, resilient domestic demand and private consumption, expanding investment, and foreign investment inflows into the economy are supporting economic growth.

In addition, rising real incomes and remittance inflows have stimulated domestic consumption. Higher gold prices have also had a positive impact on export revenues and international reserves. At the same time, ongoing structural reforms and economic transformation processes continue to support the country's medium-term growth prospects.

According to the conclusions of the IMF's Article IV mission for Uzbekistan, inflation forecasts have also improved. In particular, inflation is projected at 6.8 percent for 2026 and 5.0 percent for 2027, which is lower than previous estimates. The IMF attributed this improvement to tight monetary policy, the gradual fading of the impact of energy tariff adjustments, the strengthening of the national currency, and an expected easing of oil price pressures going forward.

Figure 1. Forecasts of International Financial Institutions



Source: International financial institutions. Compared with the previous forecast.

According to the Asian Development Bank's estimates, inflation is projected to decline gradually and stand at around 6.5 percent in 2026, supported by tight monetary policy, stability in the foreign exchange market, and improved supply-side conditions.

Uncertainties in external trade conditions, a slowdown in global economic activity, and fluctuations in energy prices were identified as the main risk factors.

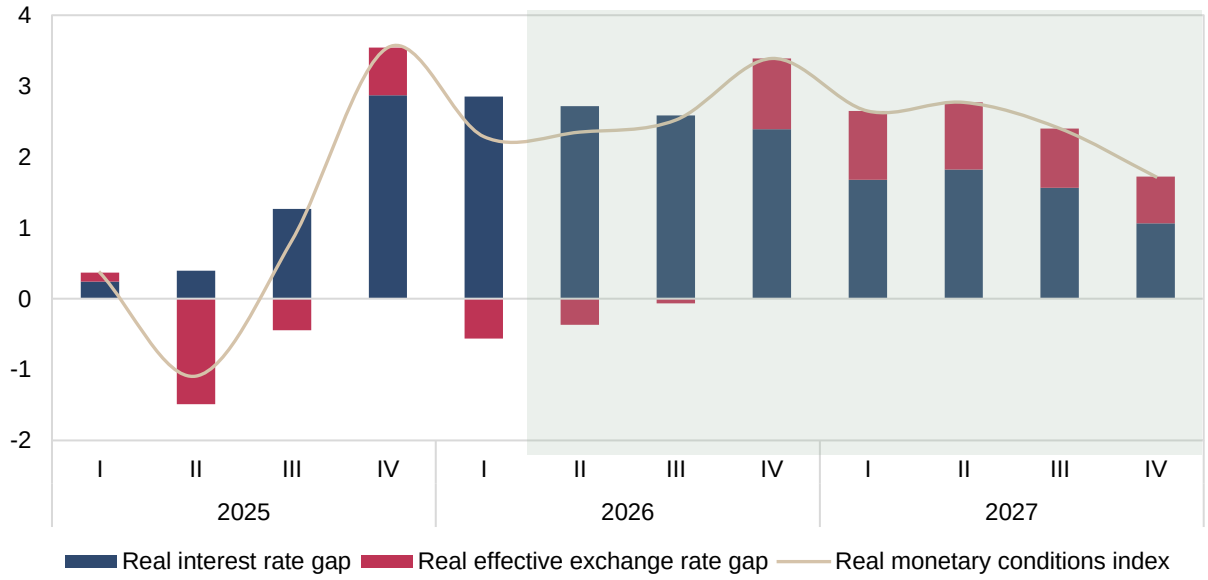
1.3. Monetary policy outlook

The Central Bank will maintain relatively tight monetary conditions until inflation stabilizes sustainably at the 5 percent target range and risks of a sharp increase in inflation are fully mitigated.

Monetary policy, through the policy rate, influences the tightness of monetary conditions and, consequently, aggregate demand and inflation.

In particular, the Central Bank will continue implementing measures aimed at ensuring sufficiently tight real monetary conditions by maintaining positive real interest rates in the economy. Once inflation reaches and stabilizes at the target level, a transition to an easing phase will be considered *(Figure 1.3).*

Figure 1.3.1 Real monetary conditions index



Source: CBU calculations.

Demand-side factors are keeping services inflation relatively elevated, while supply-side factors are also contributing to rising prices for certain food products. These conditions pose risks to a sustained decline in headline inflation. In this context, maintaining tight monetary conditions remains essential.

The Central Bank will continue to apply a data-driven approach to monetary policy, regularly monitoring current developments and updating forecasts accordingly.

If the likelihood of upside inflation risks increases, the Central Bank will take additional tightening measures. Conversely, if inflation and inflation

expectations continue to decline steadily in the coming quarters, a potential reduction in the policy rate may be considered.

The impact of fiscal policy parameters is also taken into account in shaping monetary conditions. In particular, the effect of budget expenditures on aggregate demand and the resulting inflationary pressures are consistently considered in monetary policy decisions.

Clear and systematic communication of monetary policy decisions, their rationale, and future direction helps anchor inflation expectations around the target level. This improves the likelihood of achieving sustainable disinflation without the need for prolonged tight monetary conditions.

In addition, maintaining a positive real interest rate gap over the forecast horizon will help moderate consumption demand and increase the attractiveness of deposits in the 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 5 percent target.

Box 4.

Why are central banks increasingly making decisions based on incoming data, and why is the direction of their monetary policy becoming less predictable?

The fundamental changes observed in the global economy in the post-pandemic period are affecting the effectiveness of traditional forecasting models. For many years, central banks have relied extensively on historical data and empirical relationships to assess future macroeconomic trends.

However, disruptions in the underlying structure of the economy have, to some extent, reduced the accuracy of models based on past trends *(Table 1)*. As a result, in an environment of elevated uncertainty, monetary policymakers increasingly need to make decisions based not on pre-determined scenarios but on current economic conditions and real-time incoming data.

One of the key drivers of this uncertainty is **the growing frequency of supply shocks** globally. Traditional macroeconomic models are generally better suited to assessing demand-side factors, particularly consumption activity. In recent years, however, the global economy has increasingly faced unexpected supply-side risks, including geopolitical tensions, disruptions in logistics and supply chains, and climate-related challenges *(Figure 1).*

Although central banks can help rebalance aggregate demand by maintaining tight monetary conditions, they have limited ability to directly influence cost pressures arising from supply constraints. As a result, monetary policy responses to emerging supply shocks are becoming more adaptive and less predictable.

Against this backdrop, central banks are increasingly shifting away from time-based policy commitments and moving toward decisions that are more closely **tied to actual economic indicators**. As the timing of a clear decline in inflation has become harder to predict, their ability to shape long-term expectations about how long tight monetary conditions will remain in place, or how the policy rate may change, has become more limited.

Forward guidance on the future path of interest rates is also becoming less prominent. Central banks are moving away from firm long-term commitments and are instead adopting a meeting-by-meeting approach, making decisions based on updated data and fundamental analysis.

This increased degree of policy flexibility allows central banks to respond more quickly to unexpected price shocks. It also helps prevent uncertainty among market participants and potential damage to central bank credibility that could arise if previously communicated signals no longer align with actual economic conditions.

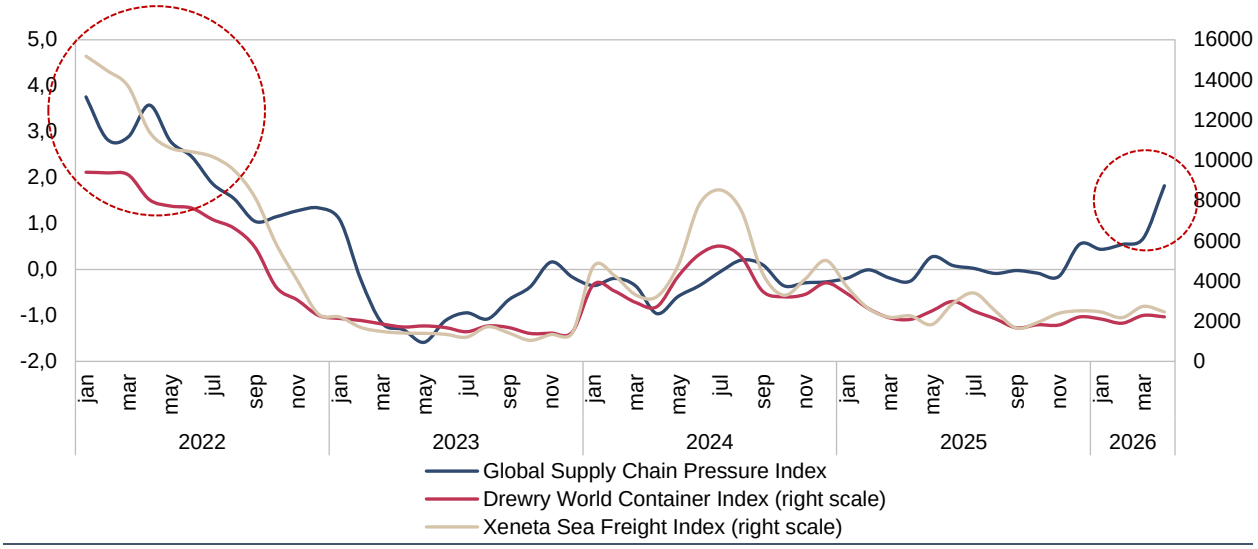
Table 1. Errors Of Traditional Forecasting Models in Large Economies

Central banks	Average annual forecast for 2022 *(as of December 2021)*	Actual peak inflation observed	Forecast error
U.S. Federal Reserve System	2.7%	9.1% *(June 2022)*	+6.4 p.p.
European Central Bank	3.2%	10.6% *(October 2022)*	+7.4 p.p.
Bank of England	7.25% *(April 2022 peak forecast)*	11.1% *(October 2022)*	+3.85 p.p.

Source: www.discoveryalert.com

The need for rapid adjustment is also prompting a shift away from traditional approaches. In earlier periods, central banks generally preferred to adjust interest rates in small increments in order to avoid sharp reactions in financial markets. However, in today's fast-changing environment, when inflationary pressures intensify or risks become more serious, central banks do not rule out the possibility of **adjusting policy rates in larger steps** where necessary.

Figure 1. Global Supply Chain Pressure Index *(left scale)* **and Sea Freight Indices** *(right scale)*



Source: www.newyorkfed.org , www.drewry.co.uk , www.xsi.xeneta.com online sources

This increased degree of policy flexibility allows central banks to respond more quickly to unexpected price shocks. It also helps prevent uncertainty among market participants and potential damage to central bank credibility that could arise if previously communicated signals no longer align with actual economic conditions.

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Such an approach may be effective in addressing one of the most serious risks to price stability: **a de-anchoring of inflation expectations**. If inflation remains above the target for a prolonged period, economic agents may lose confidence in the effectiveness of monetary policy, which could undermine macroeconomic stability. To prevent second-round effects and a further rise in inflation expectations, the Central Bank may be forced to respond promptly and decisively.

Overall, the declining predictability of the monetary policy path for market participants can be explained by central banks' more cautious approach. This uncertainty does not signal a loss of control over the situation. Rather, it reflects the necessary flexibility aimed at ensuring long-term macroeconomic stability, containing inflation expectations, and preserving central bank credibility in a constantly changing environment.

This approach also increases the importance of relying on current macroeconomic data and a dynamic assessment of inflation risks when making monetary policy decisions in Uzbekistan.

1.4. Inflation expectations

Dynamics of inflation expectations

In 2026 Q1, the downward trend in inflation expectations among households and business entities continued. However, a slight acceleration in headline inflation in January-February contributed to a slower decline in inflation expectations.

In particular, during January-February, households' 12-month ahead inflation expectations stood at 11.2 percent, while business expectations were at 10.8 percent. In March, amid a decline in headline inflation, inflation expectations fell to 11 percent for households and 10.7 percent for businesses *(Figure 1.4.1).*

Figure 1.4.1. 12-month ahead inflation expectations and headline inflation dynamics, *percent*

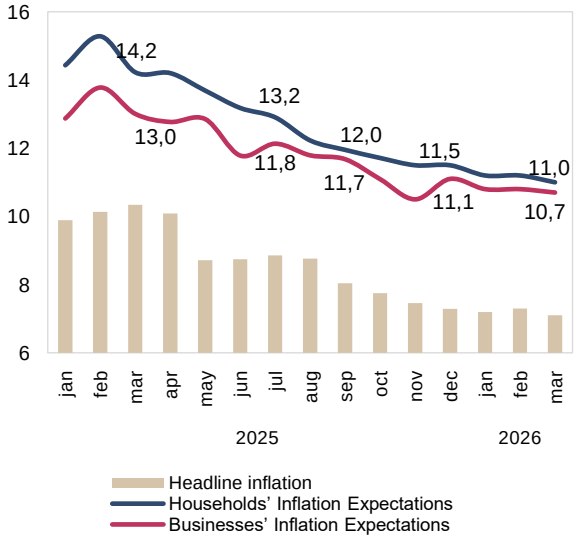
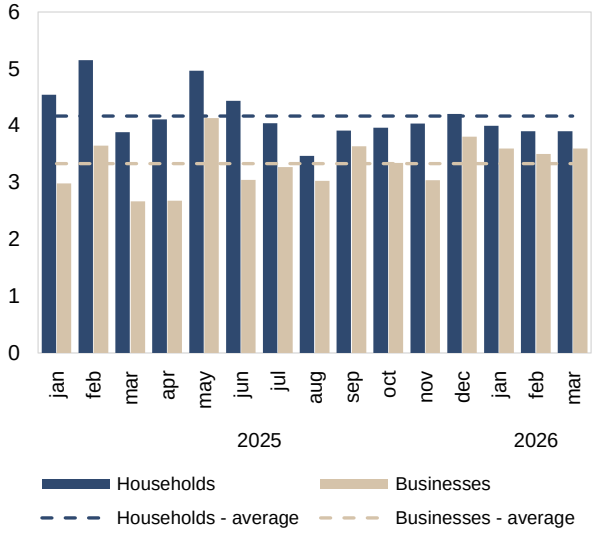


Figure 1.4.2. Gap between inflation expectations and headline inflation, *percent*



Source: CBU calculations.

During the quarter, inflation expectations remained significantly above actual inflation, with the gap reaching around 4 percentage points *(Figure 1.4.2)*. The persistently higher level of inflation expectations relative to actual inflation is explained by the dynamics of regulated prices in recent years and the high sensitivity of households to short-term price changes.

According to survey results for January-March of the current year, several factors influenced the formation of inflation expectations. In particular, increases in utility services and fuel-energy resources, exchange rate movements, and transportation costs were identified as the main drivers *(Figure 1.4.3).*

Figure 1.4.3. Factors influencing inflation expectations of households and businesses, share of respondents, *percent*

Households

	2025									2026		
	apr	may	jun	jul	aug	sep	oct	nov	dec	jan	feb	mar
Increase in Utility Service Prices	59	57	50	51	48	46	46	49	50	48	44	45
Increase in Fuel and Energy Prices	47	49	45	45	41	41	42	40	47	47	40	41
Exchange Rate Fluctuations	38	37	27	30	24	22	22	20	23	24	28	27
Increase in Transportation Costs	29	32	30	27	26	25	25	24	29	30	25	25
Increase in Prices of Essential Food Products	26	25	22	24	26	25	27	26	26	23	24	23
Monopolistic Practices and Artificial Price Increases	26	26	24	24	22	22	23	20	24	22	20	19
Increase in Wages and Social Benefits	18	22	35	34	31	27	26	23	25	22	24	19

Businesses

	2025									2026		
	apr	may	jun	jul	aug	sep	oct	nov	dec	jan	feb	mar
Increase in Fuel and Energy Resource Prices	46	48	43	42	40	41	45	42	45	44	42	43
Increase in Utility Service Prices	55	54	47	47	45	44	47	46	46	43	44	40
Increase in Transportation Costs	31	37	32	31	31	30	33	30	37	35	34	33
Increase in Raw Material Prices	27	28	25	25	24	26	28	26	25	24	27	26
Exchange Rate Fluctuations	43	40	31	31	25	22	21	19	23	26	31	24
Increase in Wages and Social Benefits	23	24	33	34	33	29	25	23	26	24	23	24
High Tax Burden	27	27	25	26	24	24	23	21	24	20	23	23

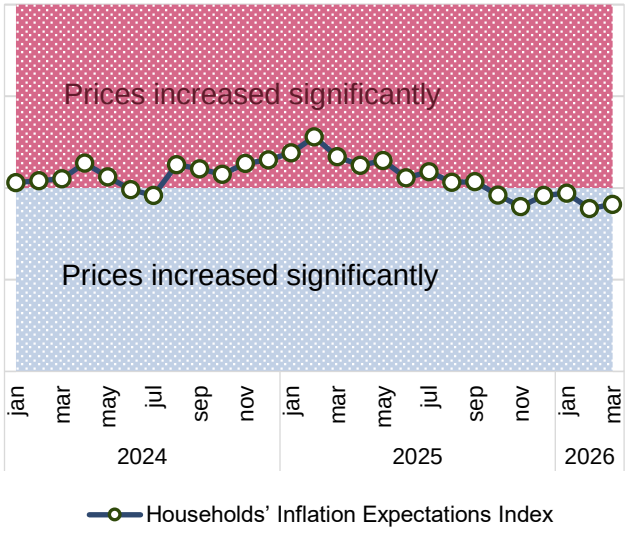
Source: CBU calculations.

Analysis shows that balance indices of inflation expectations, calculated based on qualitative assessments from households and businesses, have demonstrated a steady decline since the second half of 2025.

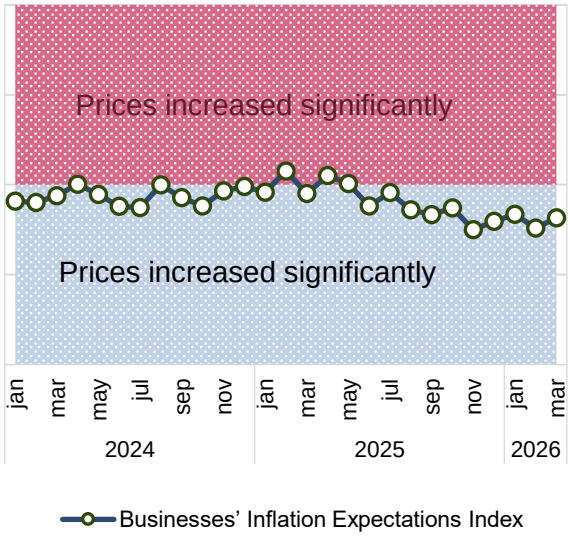
Although some short-term fluctuations were observed at the beginning of the current year, the gradual downward trend in these indices provides positive signals that economic agents' inflation expectations are shifting onto a declining path *(Figure 1.4.4).*

Figure 1.4.4. Balance indices of inflation expectations of households and businesses[2]

Households



Businesses



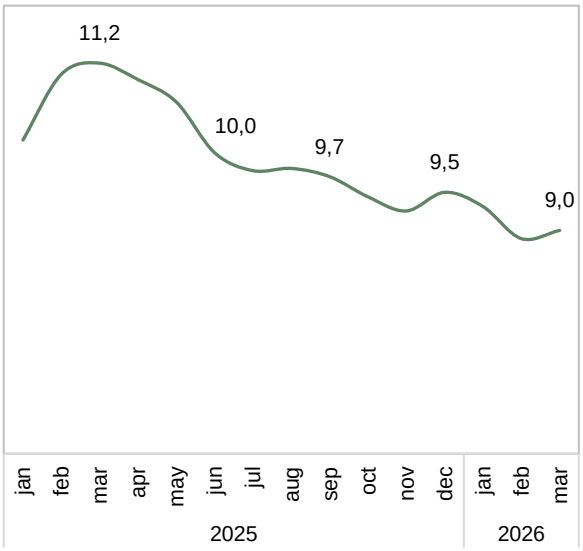
Source: CBU calculations.

[2] Balance indices of inflation expectations of households and businesses

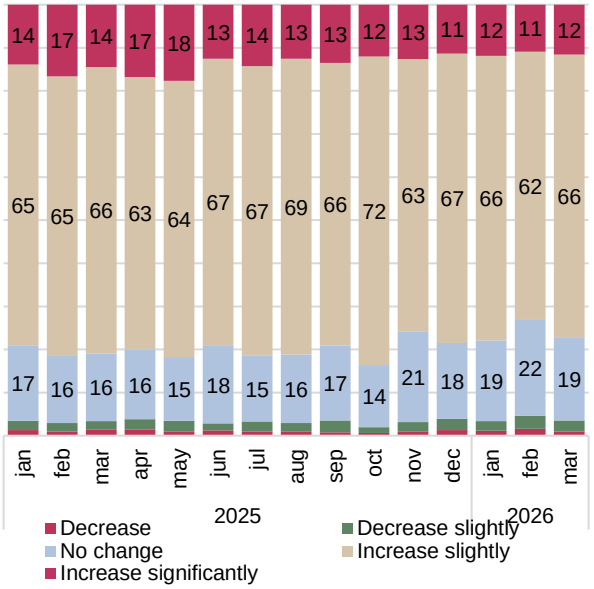
Survey results also indicate improving trends in firms' pricing behavior. In 2025 Q1, surveyed businesses expected to increase prices for goods and services by an average of 11 percent over the next 12 months. By March of the current year, this indicator had declined to 9 percent *(Figure 1.4.5).* This reflects a reduction in pricing pressures in business decision-making.

Figure 1.4.5. Businesses' Expectations Regarding Pricing Policy for Future Goods and Services Production

Average expected price change



Type of price change



Source: Central Bank's estimations.

In the context of high current economic, investment, and consumption activity, maintaining tight monetary conditions is expected to help balance demand-side price pressures and support the continuation of the downward trend in inflation expectations.

Box 5.

Analysis of economic expectations among financial sector experts

To assess economic expectations among financial sector experts, the Central Bank developed a survey for financial sector professionals based on the experience of international central banks, including those of the Czech Republic, Armenia, Türkiye and Kazakhstan. The survey covers expert expectations for the upcoming period regarding inflation, the policy rate, money market interest rates, economic growth and nominal wage growth.

The surveys have been conducted on a monthly basis since December 2025. Participants include specialists working in commercial banks, microfinance institutions and other financial market institutions, with knowledge and practical experience in finance and macroeconomics. This approach makes it possible to assess the sentiment forming among financial market participants, as well as how the Central Bank's monetary policy decisions are perceived by the market.

According to the results of the March survey, financial sector experts' short-term inflation expectations declined slightly. In particular, inflation expectations for the next 12 months decreased from 7.7 percent in February to 7.4 percent in March. The relatively higher estimates recorded in February may be explained by stronger external inflationary risks amid geopolitical tensions in the Middle East.

Medium-term inflation expectations, namely expectations for three years ahead, remained stable at 5.6 percent. This suggests that although some near-term price pressures remain, financial sector experts' expectations over the medium-term horizon are forming close to the Central Bank's 5 percent inflation target *(Figure 1).*

In March, the majority of respondents *(76 percent)* expected the policy rate to remain unchanged at the next meeting *(Figure 2).* This indicates that financial market participants expect the Central Bank to maintain a cautious and tight monetary policy stance in the near term.

Expectations regarding the level of the policy rate one year ahead were slightly below its current level. This suggests that inflationary pressures may ease going forward, potentially creating room for monetary conditions to be loosened in response *(Figure 3).*

Figure 1. Annual inflation expectations, *percent*

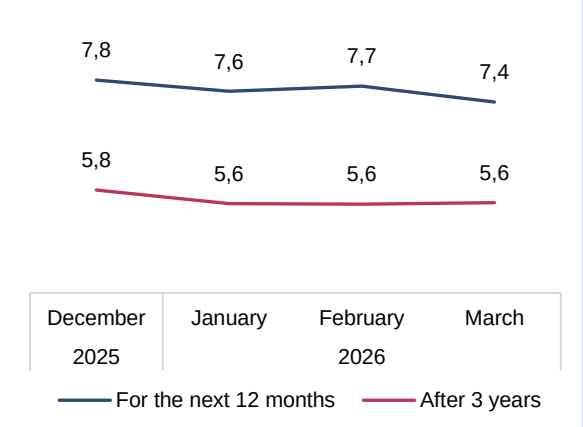
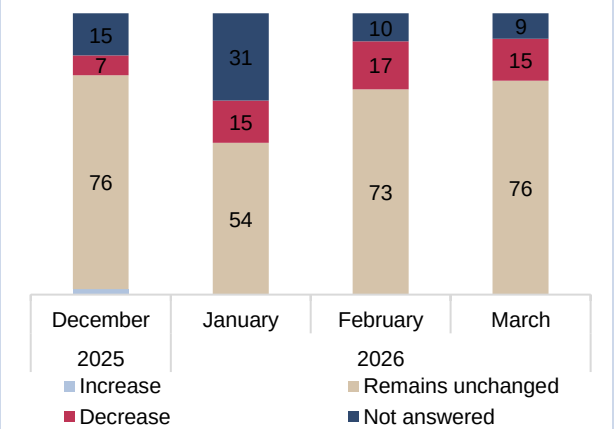


Figure 2. Expectations regarding changes in the policy rate after the upcoming meeting of the Central Bank Board, *percent*



Source: CBU calculations.

Figure 3. Expectations for the policy rate, *percent*

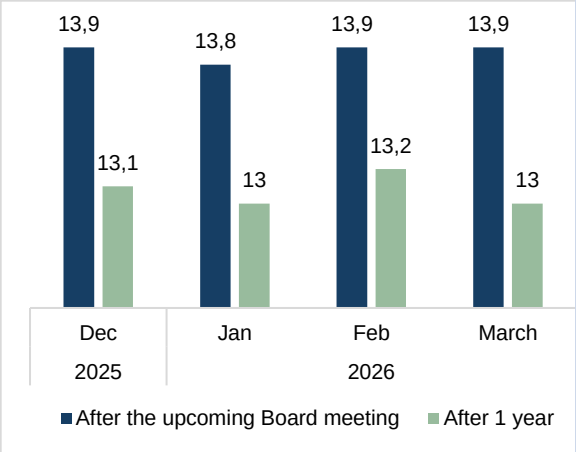
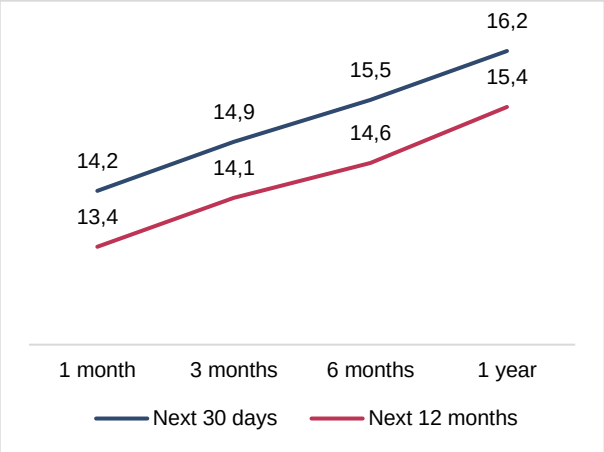


Figure 4. Expectations for interbank money market interest rates, *percent*



Source: CBU calculations.

Expectations for interest rates in the interbank money market also point to a continued cautious sentiment. Experts expect money market interest rates to remain relatively high in the near term. This suggests that tight monetary conditions may be maintained for some time. However, the fact that expectations for the next 12 months are lower indicates the possibility of a gradual decline in interest rates over the medium term *(Figure 4).*

Expectations for real GDP growth declined slightly compared with December, but in March they stood at around 6.3 percent for the current year and 6.4 percent for the following year *(Figure 5).* This suggests that financial sector experts do not expect a sharp slowdown in economic activity. Rather, their expectations point to relatively stable economic growth going forward.

Expectations for nominal wage growth have shown a downward trend. For the current year, they declined from 14.5 percent in December 2025 to 13.3 percent in March, while expectations for the following year fell from 14.3 percent to 12.8 percent *(Figure 6).* This indicates a moderation in expectations regarding income growth. Lower expected nominal wage growth may help ease consumer demand and inflationary pressures in the future.

Figure 5. Economic growth expectations, *percent*

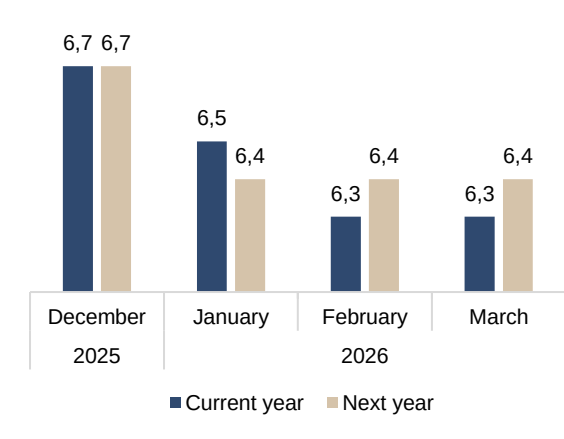
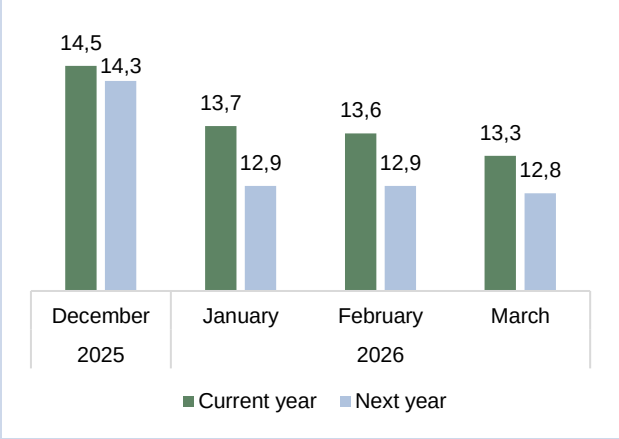


Figure 6. Expectations for nominal wage growth, *percent*



Source: CBU calculations.

Overall, the expectations of financial sector experts suggest that the economy is not facing a sharp deterioration, but rather a cautious and gradual stabilization. Although short-term inflation expectations remain above the target, medium-term expectations are forming close to the Central Bank's 5 percent inflation target. Accordingly, expectations regarding the policy rate and money market interest rates suggest that tight monetary conditions may be maintained in the near term.

Relatively stable growth forecasts, combined with lower expectations for nominal wage growth, suggest that inflationary pressures could gradually ease while economic activity remains resilient. This highlights the need to assess inflation expectations, domestic demand dynamics and financial market signals together when making monetary policy decisions in the period ahead.

1.5. Uncertainties and risks in macroeconomic development

Although inflation continues to decline, several uncertainties and risks remain in both domestic and external macroeconomic conditions.

Domestic uncertainties. Under current conditions, the continued rapid growth of aggregate demand and the widening output gap remain key factors accelerating inflationary processes. If aggregate demand persistently exceeds the economy's production capacity growth, this may create additional pressure on core inflation.

The sustained high level of gold prices contributes to higher aggregate demand through increased budget revenues and expanded fiscal expenditures. In a context of strong economic activity, the expansion of budget spending may halt the disinflation process.

These factors may also amplify second-round inflationary effects through inflation expectations. At present, inflation expectations remaining above the headline inflation rate continue to be one of the key domestic factors affecting price stability.

External uncertainties. External macroeconomic risks are mainly associated with prolonged geopolitical tensions, disruptions in transport corridors, high volatility in energy and food prices, and logistics costs.

In particular, a sharp increase in oil prices may exert upward pressure on inflation through higher fuel prices, transportation costs, and production expenses.

Similarly, external shocks in food and fertilizer prices may create additional inflationary pressures on domestic prices through imported food products and agricultural input costs.

Persistent global inflation risks are shaping expectations that major central banks will maintain tight monetary conditions for a longer period. This may result in higher external financing costs, slower economic activity in key trading partner countries, reduced external demand, and lower export revenues.

Overall, the main current inflationary risks include strong domestic demand, persistently elevated inflation expectations, and the pass-through of external price shocks into domestic inflation through import channels.

II. CURRENT MACROECONOMIC CONDITIONS

2.1. Domestic economic activity and aggregate demand factors

In 2026 Q1, real GDP growth was at 8.7%, significantly exceeding forecasts. This indicates that the output gap continues to remain positive, while inflationary pressures persist.

From the demand side, this strong growth was mainly driven by the acceleration of investment activity, the continued high level of fiscal spending, and the stable inflow of cross-border remittances. From the supply side, high growth rates were observed across all sectors of the economy.

Economic growth. In Q1 this year, the services and industrial sectors were the primary contributors to economic growth *(Figures 2.1.1-2.1.2).*

In particular, among market **services**, financial and trade services demonstrated strong dynamics, growing by 22.4 percent and 19.4 percent, respectively (*Figure 2.1.3*). In addition, high growth dynamics were recorded in transport services due to the increased activity observed in air and railway freight turnover volumes.

The growth observed in the **industrial** sector during the first quarter was mainly driven by the manufacturing industry. In particular, the growth in clothing production (*15.3 percent*) and food product manufacturing (*8.7 percent*) were among the main factors behind the positive dynamics in the industrial sector.

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

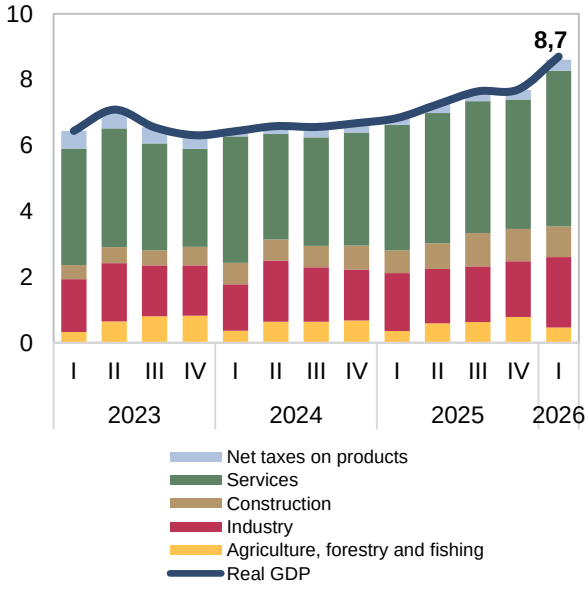
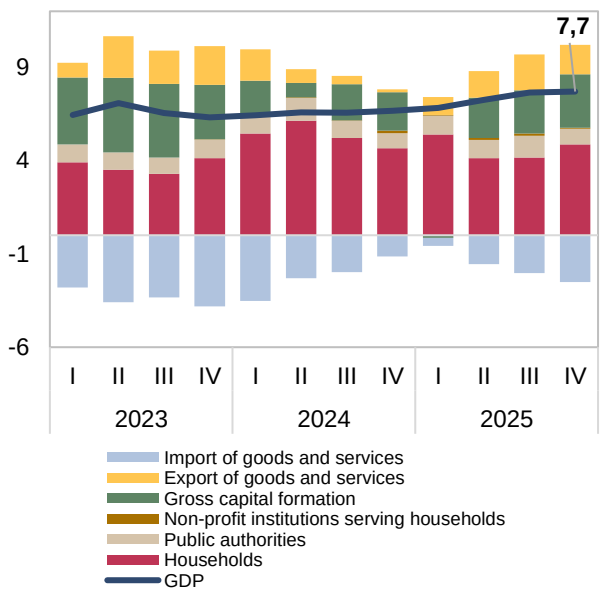


Figure 2.1.2. Contribution of demand factors to real GDP growth, *cumulative, percent*



Source: National Statistics Committee.

Figure 2.1.3. Decomposition of the acceleration in services growth, *cumulative, percent*

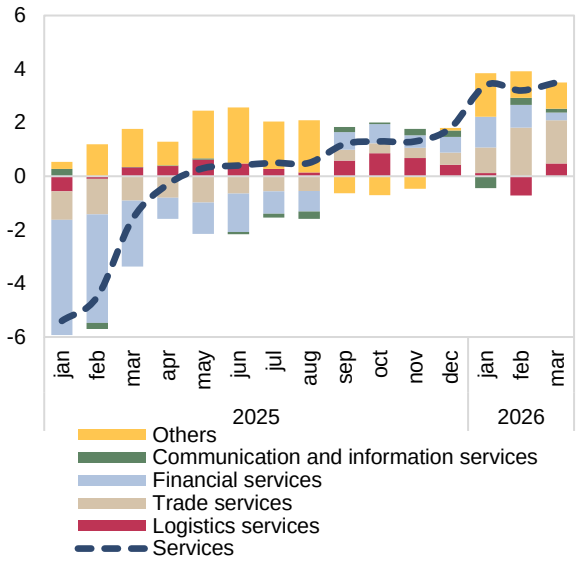
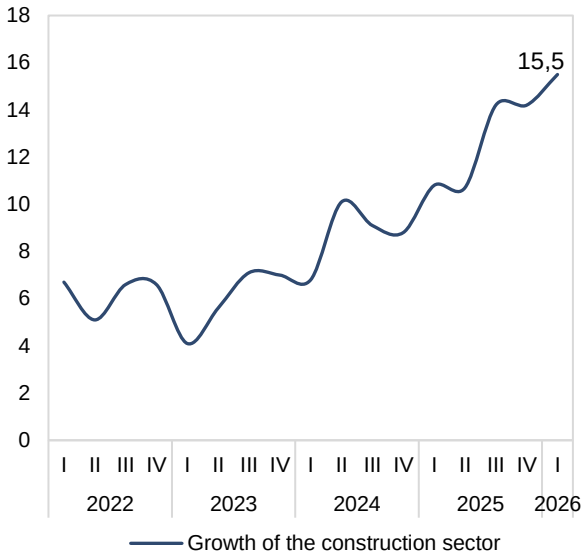


Figure 2.1.4. Construction growth rates, *cumulative, percent*



Source: National Statistics Committee.

In addition, stable growth in the construction sector was maintained in Q1 as a result of the significant increase in the volume of investments directed to the construction industry (*Figure 2.1.4*).

In Q1, the rapid growth of household incomes and wages helped stimulate domestic demand. In particular, **total real household incomes** increased by 7.8 percent during the quarter.

Figure 2.1.5. Growth rates of real wages and incomes, *percent*

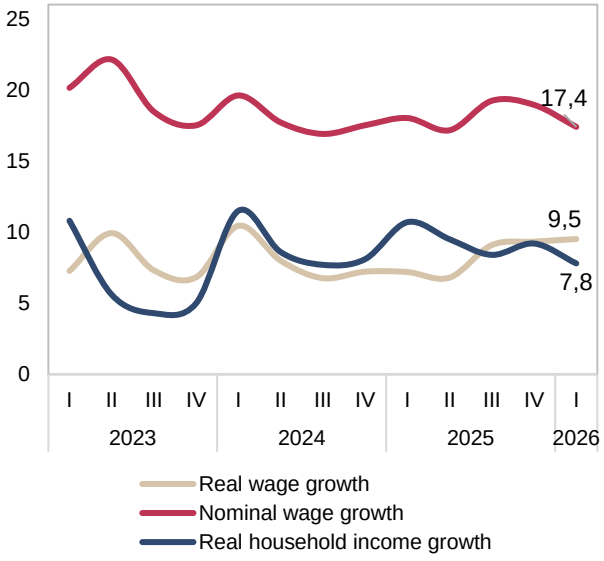
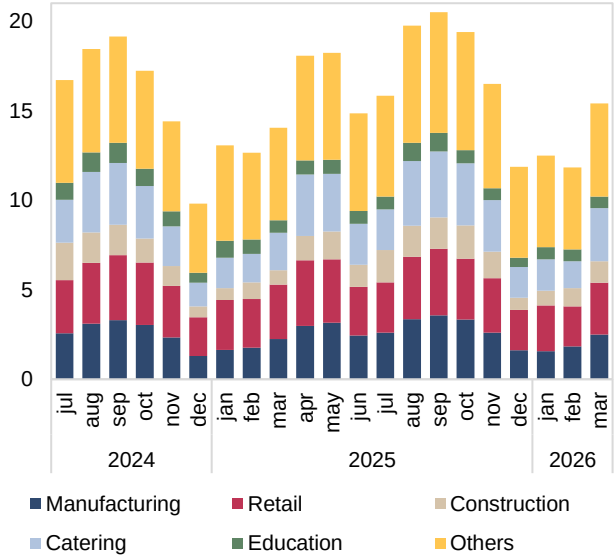


Figure 2.1.6. Number of vacancies, *thousand*



Source: Calculations by the Central Bank based on data from the National Statistics Committee and open data.

This growth was mainly driven by labor income and transfers. In particular, income from salaried employment and income from self-employment increased by 20.9 percent and 17.8 percent, respectively, accounting for 60.7 percent of total income.

In Q1, **nominal wage** growth amounted to 17.4 percent on an annual basis *(9.5 percent in real terms)* and supported domestic demand. This trend was also reflected in **labor market** indicators. During this period, the number of job vacancies increased by 9.8 percent compared to the previous year. In particular, the rise in vacancies in the construction sector *(+48.4 percent)* and the food service sector (*+41.7 percent*) indicated that demand for labor resources remained strong (*Figures 2.1.5-2.1.6*).

In 2026 Q1, **investment activity** in the economy remained at a high level. The volume of assimilated investments in fixed assets increased by 29.6 percent on an annual basis. A significant share of these investments was directed to the manufacturing (*+28.5 percent*) and construction (*+10.8 percent*) sectors.

In addition, in Q1, $5.9 billion in foreign direct investment flowed into the country (*+74.2 percent*), and its share of GDP reached 16.1 percent (*Figures 2.1.7-2.1.8*).

Figure 2.1.7. Real growth of assimilated investments in fixed assets, *cumulative, percent*

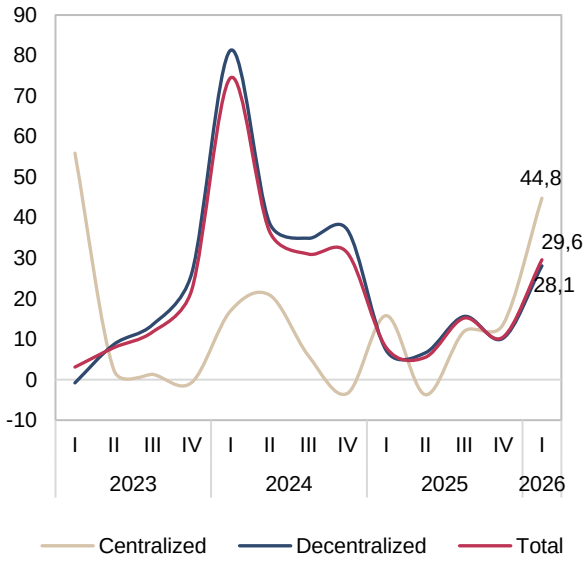
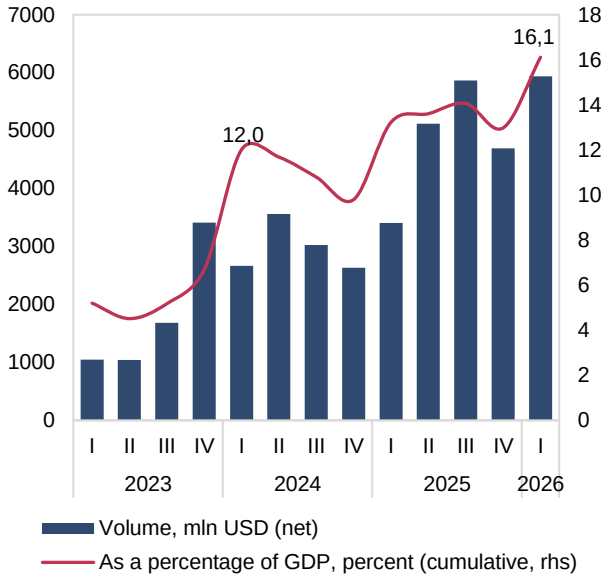


Figure 2.1.8. Foreign investments, *mln dollars*

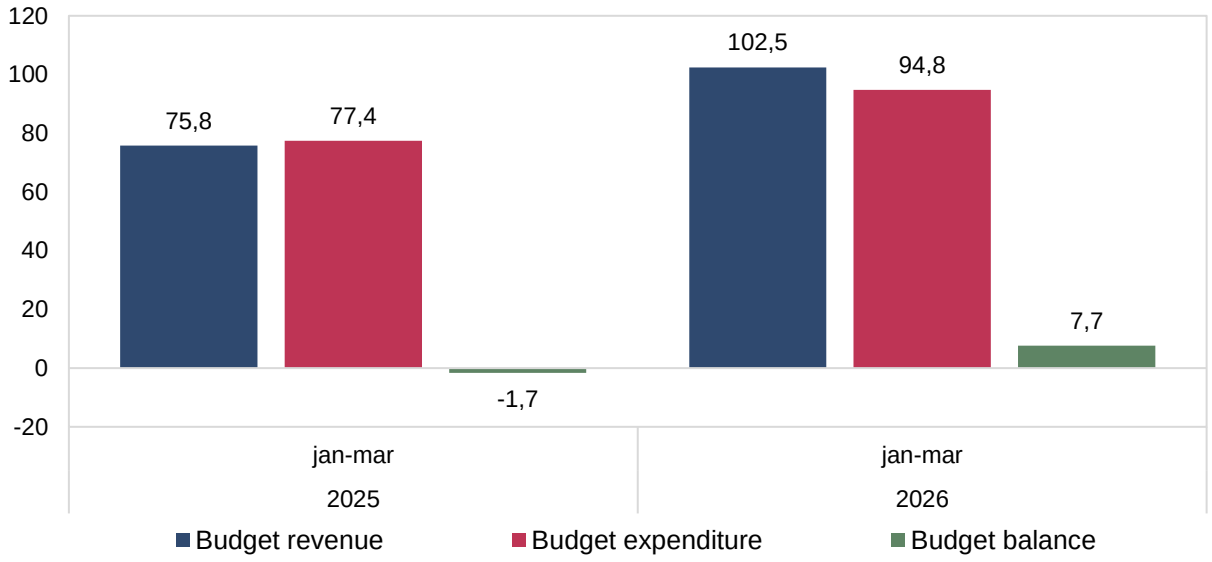


Source: National Statistics Committee.

Fiscal conditions. In 2026 Q1, high global commodity prices *(mainly gold)* contributed to the growth of budget revenues. As a result, state budget

revenues increased by 35 percent compared to the corresponding period of the previous year, while expenditures rose by 22 percent. Consequently, in the first quarter, the state budget operations were executed with a surplus of 7.7 trillion soums (*Figure 2.1.9*).

Figure 2.1.9. State budget balance, *cumulative, trillion soums*



Source: Ministry of Economy and Finance.

Foreign trade. Although a decline was observed in total export volumes in January-March of the current year due to the absence of gold exports, total exports excluding gold increased by 25.1 percent (*Figure 2.1.10*).

In addition, exports excluding gold and services accelerated, reaching 24 percent, driven by strong growth in chemical products exports (*+44.6 percent*).

In addition, the positive dynamics observed in global commodity prices improved foreign trade conditions and became one of the factors supporting export prices.

In 2026 Q1, total **import** volumes were high and increased by 30.9 percent on an annual basis, reaching 12.2 billion dollars. In particular, strong growth was observed in imports of food products (*+48.3 percent*), energy and petroleum products (*+64.4 percent*), and machinery and equipment (*+30.7 percent*) (*Figure 2.1.11*).

Figure 2.1.10. Growth rates of stable components of exports, *cumulative, percent*

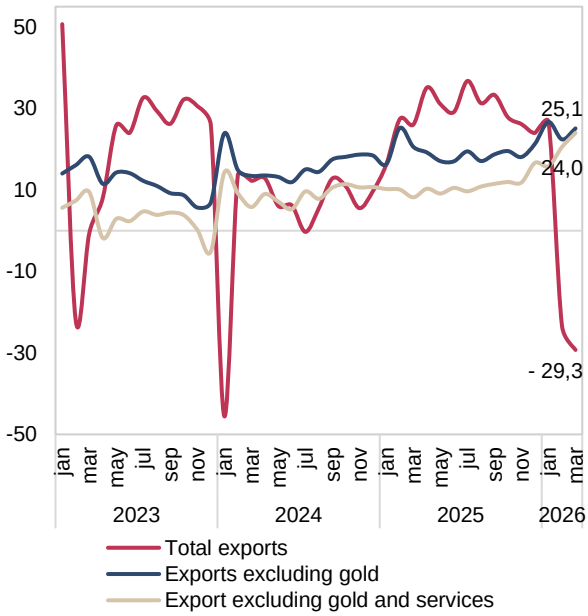
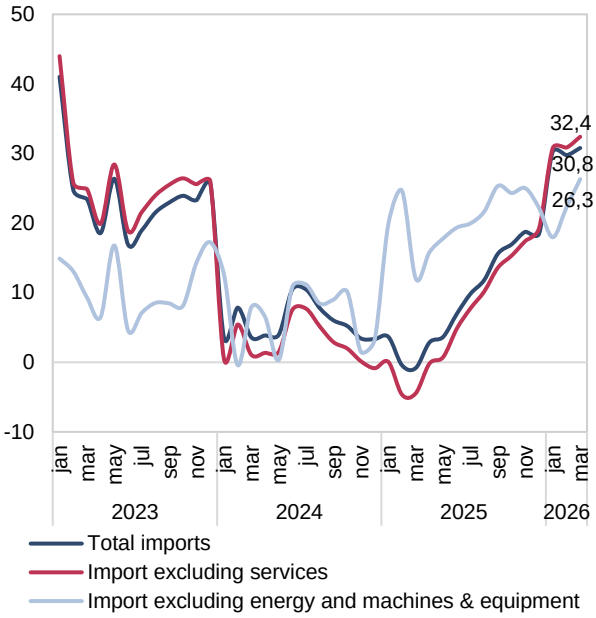


Figure 2.1.11. Import growth rates, *cumulative, percent*



Source: National Statistics Committee.

In Q1, cross-border remittance inflows increased by 13 percent on an annual basis, reaching 3.8 billion dollars. The growth in the volume of cross-border remittances supported households' real incomes and contributed to the rise in domestic demand (*Figure 2.1.12*).

Figure 2.1.12. Volume of cross-border remittance inflows, *million dollars*

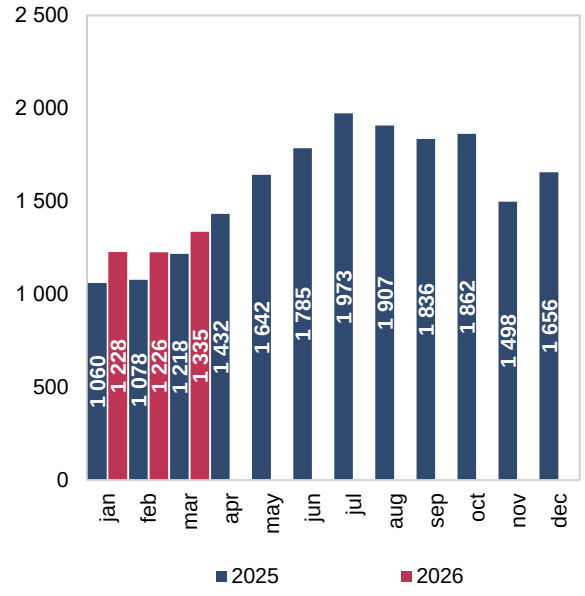
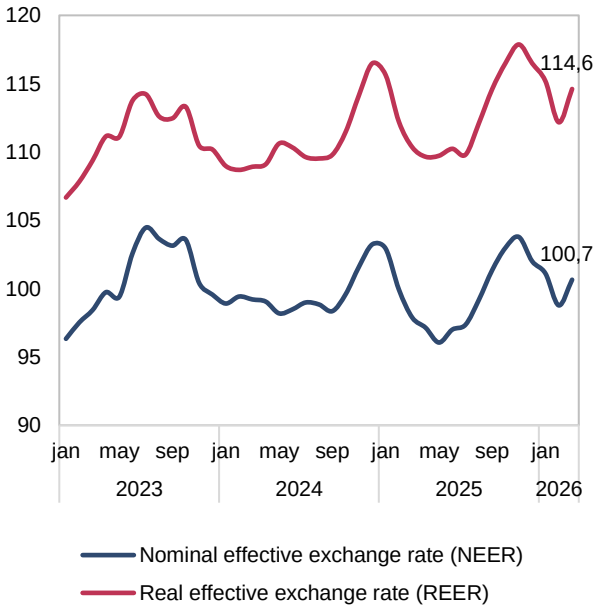


Figure 2.1.13. Real effective exchange rate



Source: CBU calculations.

Although the real effective exchange rate strengthened slightly in March, it depreciated by 1.6 percent compared to the beginning of the year. This dynamic is mainly explained by the depreciation of the national currency during the first two months of the year, as well as the strengthening of the currencies of major trading partner countries (*Figure 2.1.13*).

The macroeconomic conditions formed in the first quarter indicate that demand-side inflationary pressures are present in the economy.

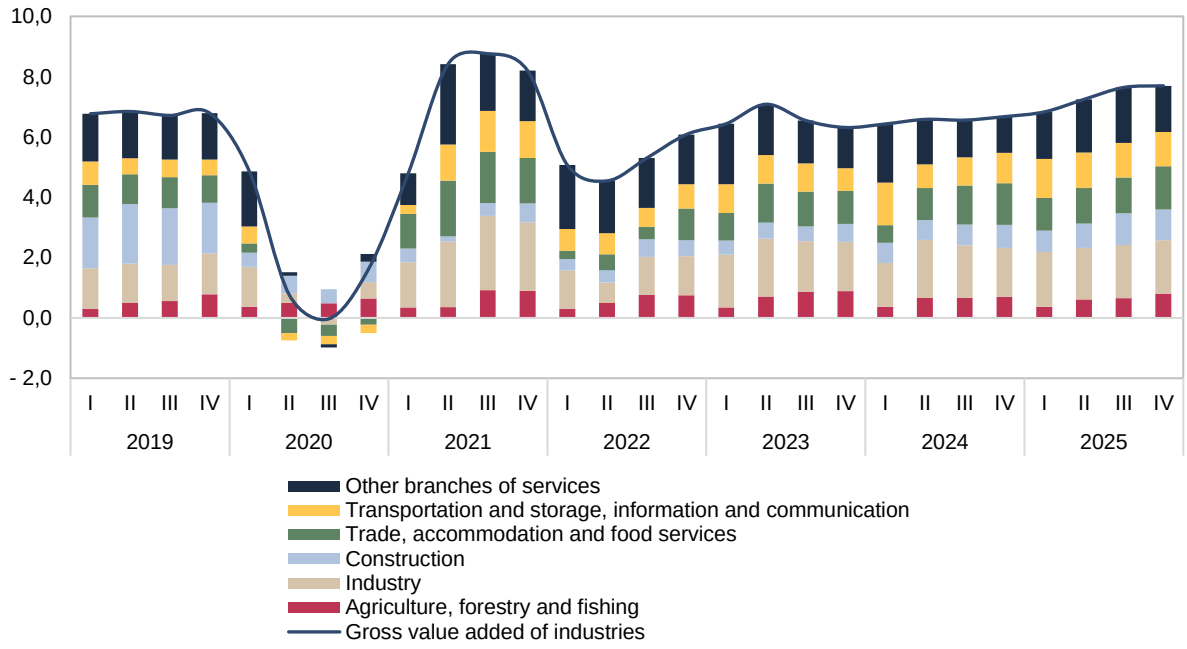
Box 6.

Changes in Uzbekistan's industrial sector over the years

The industrial sector has emerged as one of the main drivers of Uzbekistan's economic growth in recent years and remains one of the largest contributors to gross value added growth after the services sector. The increase in the share of industry in the economy from 23 percent to 28 percent during 2019-2025 indicates the growing importance of this sector in economic activity.

In particular, the increase in external and domestic demand, strong investment activity, and expanding opportunities for value creation in the manufacturing industry were among the key factors supporting industrial growth.

Figure 1. Decomposition of real GDP growth, *cumulative, percent*



Source: National Statistics Committee

An analysis of the industrial structure shows that this growth has mainly been driven by the manufacturing industry. In particular, in 2026, the share of manufacturing in total industrial output reached nearly 86 percent.

Across sectors, metallurgy, the food industry, and textiles emerged as the leading segments. At the same time, the acceleration in growth rates in high-value-added industries such as fabricated metal products, electrical equipment, machinery, and transport equipment production indicates the gradual diversification of the industrial structure.

This is important from the perspective of reducing the economy's dependence on fluctuations in external commodity prices and strengthening domestic production chains.

At the same time, growth rates in certain capital-intensive industries, such as mining, petroleum refining, and utilities, have remained relatively moderate.

This indicates the growing relative importance of high-tech and manufacturing segments in the economy. At the same time, the structural changes observed in industry are contributing to improving the quality of economic growth through higher

labor productivity, a more sophisticated export structure, and the expansion of value-added chains (*Figure 2*).

The growth dynamics in the industrial sector remain closely linked to investments. During 2021-2026, on average, 51 percent of total investments in the economy were directed to the industrial sector.

Whereas before investments were mainly directed toward manufacturing and mining, in recent years the share of projects aimed at expanding energy infrastructure has increased significantly. This reflects the ongoing reforms focused on expanding production capacities in the economy and enhancing the stability of energy supply.

At the same time, differences are observed in the structure of industrial financing sources. While investments are mainly serving to create and modernize long-term production capacities, credit dynamics have exhibited relatively high volatility.

This is explained by the fact that credit resources are mainly directed toward financing working capital or covering short-term needs. As a result, growth in industrial gross value added is being primarily supported by investment activity and expanding domestic demand.

Figure 2. Growth of industrial sectors in 2018-2025, at 2018 base prices, *calculated using the chain-linking method, percent*

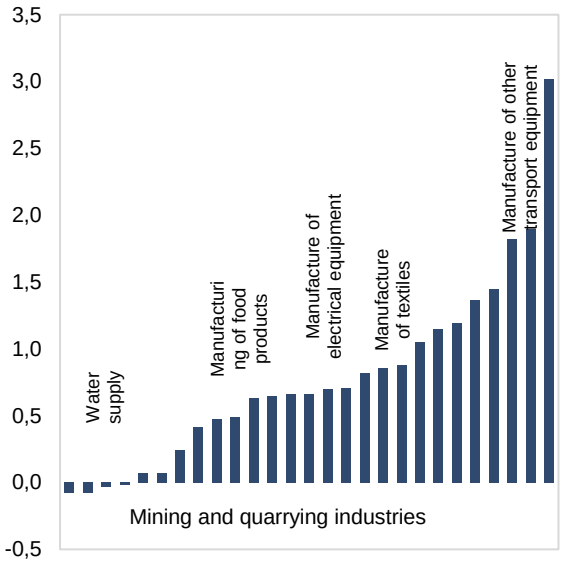
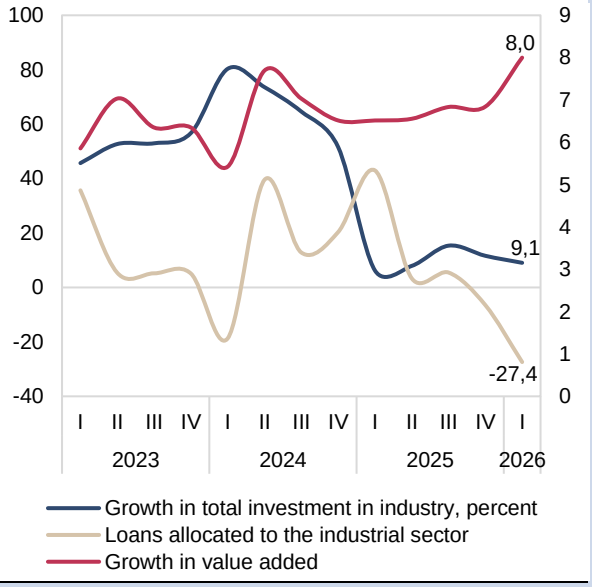


Figure 3. Changes in industrial sector financing and industrial gross value added over the years, *cumulative, percent*



Source: National Statistics Committee

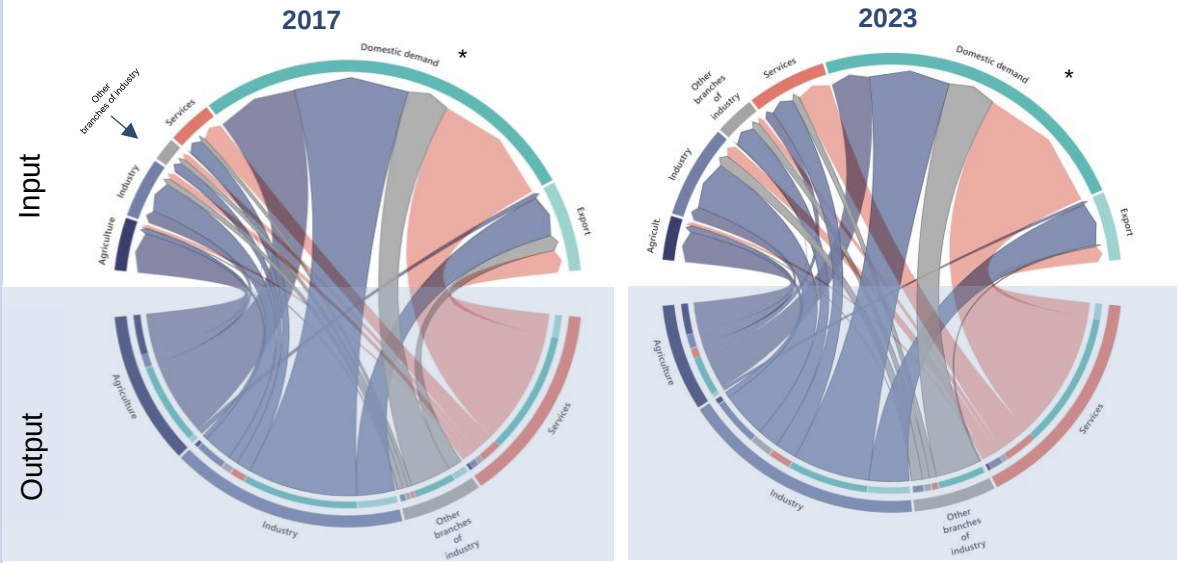
Overall, the structural transformation observed in the economy during 2017–2023 demonstrated a gradual transition from an agrarian economic model to one based on industry and the services sector.

In particular, while the share of agriculture in the economic structure gradually declined during this period, the shares of the services and industrial sectors increased significantly. This reflected the growing role of sectors generating higher value added in the economy.

At the same time, the growing dominance of the manufacturing industry in industrial production indicates an expansion in the production volumes of intermediate and finished goods in the economy (*Figure 4*).

Manufacturing and the services sector have become the main sources of economic growth, while cooperation and value-added chains between them continue to further intertwine. In particular, the development of sectors such as transport, logistics, information and communication, and financial services is emerging as an important infrastructural factor in enhancing industrial efficiency.

Figure 4. Intersectoral transformation of Uzbekistan's economy during 2017–2023: *a graphical representation of the expenditures-production table*



** Final consumption excluding exports*

Note: This diagram reflects the intersectoral flows and the degree of interdependence between economic sectors and demand components. The lower semicircle of the diagram represents the production of goods and services across major sectors, while the upper semicircle illustrates the distribution of these goods and services across demand components.

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

The emerging trends indicate that the industrial sector, particularly manufacturing, will continue to be an important driver of economic growth in the coming years. This process is expected to be supported by stable growth in domestic demand, the expansion of export geography, and increasing production volumes of high-value-added products.

2.2. Analysis of inflation dynamics

Although headline inflation followed a mixed pattern during 2026 Q1, it generally exhibited a downward trend compared to the beginning of the year. In this regard, the fading of last year's high base effects for goods and services acted as the main contributing factor to the decline in headline inflation.

By the end of Q1, headline inflation declined by 0.2 percentage points compared to December of the previous year and stood at 7.1 percent year-on-year (*Figure 2.2.1*). During this period, services inflation decreased by 1.2 percentage points since the beginning of the year, while inflation in the food and non-food groups somewhat edged up.

Despite accelerating in January-February, **core inflation** slowed to 5.7 percent in March, coming in 0.1 percentage points lower than at the beginning of the year. This was driven by the continued downward trend in services core inflation and the slowdown in food core inflation by March due to the fading of last year's high base effects.

Inflation in the fruit and vegetable group, meanwhile, accelerated significantly by the end of the quarter (*by 2.8 percentage points*) (*Figure 2.2.2*). Against the backdrop of heightened geopolitical tensions in the Middle East, import prices for certain fruits and vegetables increased. In particular, the sharp rise in prices of potatoes (*monthly growth of 9.8 percent*) and apples (*7.4 percent*) in March exerted the main upward pressure on inflation in this group.

Figure 2.2.1. Dynamics of annual changes in headline and core inflation, *percent*

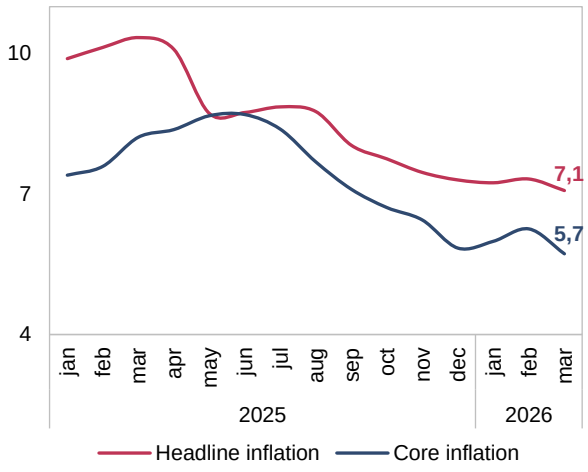
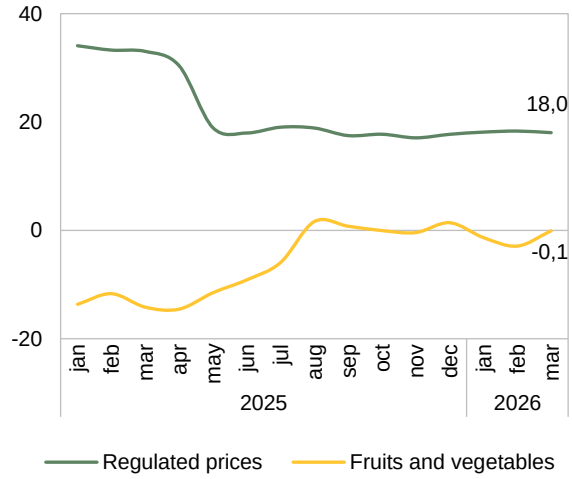


Figure 2.2.2. Inflation in regulated prices and fruits and vegetables, *percent*



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

Although core inflation came in lower compared to the beginning of the year, one of its alternative indicators is the median CPI, which accelerated to 3.4 percent. Meanwhile, the trimmed CPI remained unchanged at 4.1 percent (*Figure 2.2.3*).

In turn, the share of goods and services with slowing annual inflation began to decline by March. This change also suggests that the slowdown in price growth has ceased to be broad-based across certain segments and that inflationary pressures remain persistent.

The persistent geopolitical tensions in the international arena, changes in transit routes, and the resulting increase in transportation costs may create additional pressure on food and non-food product prices.

In addition, elevated services inflation and rising consumer demand require maintaining a prudent monetary policy going forward, closely monitoring potential supply-side risks, and preserving the restrictiveness of monetary conditions.

Figure 2.2.3. Dynamics of core inflation, trimmed inflation, and the median CPI, *percent*

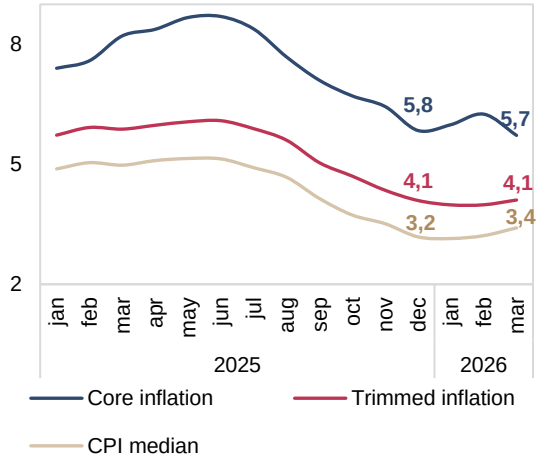
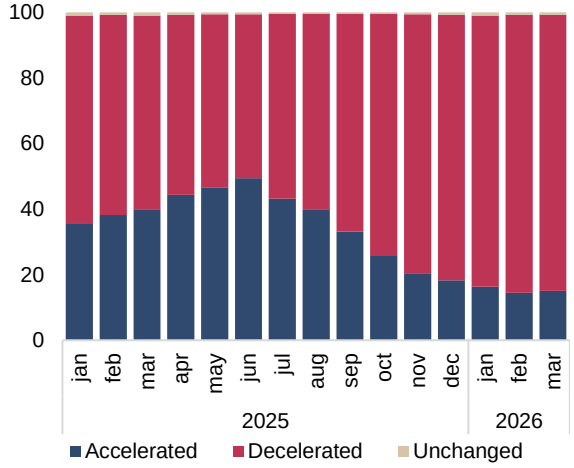


Figure 2.2.5. Annual comparative price changes, *percent*



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

Box 7.

Analysis of inflation across the main groups of the consumer basket

Inflation in the **food products** group accelerated to 5.9 percent in January-February due to the fading of last year's low base effects for eggs, flour, rice, and sugar products, as well as price increases observed this year.

In March, the fading of last year's high base effects for meat products contributed to a significant decline in overall food inflation. Nevertheless, the sharp increase in prices of fruits and vegetables, as well as the above-mentioned products, caused food inflation to rise compared to the beginning of the year.

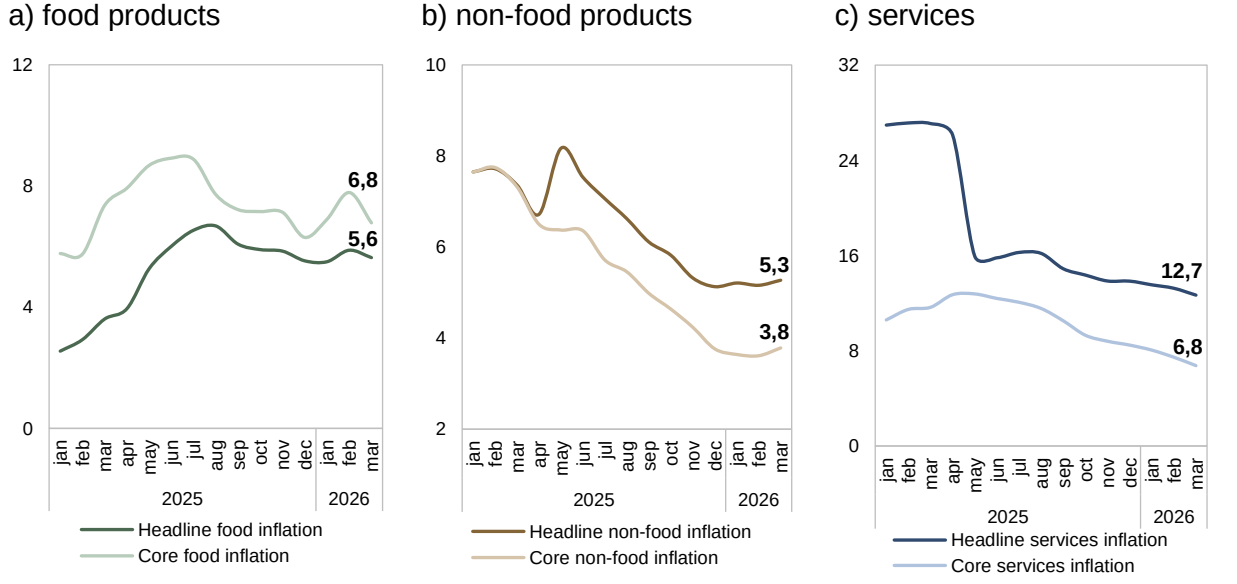
Non-food products inflation halted its downward trend and shifted to a slight upward trend from the beginning of the year, reaching 5.3 percent year-on-year in March, up by 0.2 percentage points compared to December of the previous year. This increase was mainly driven by a significant acceleration in annual price growth for propane and cement, which rose by 20 and 5 percentage points, respectively, compared to the beginning of the year.

In addition, pressures associated with rising logistics and transportation costs for imports *(particularly increases in the prices of hygiene and cleaning products, large household appliances, and construction materials)* contributed to higher non-food inflation.

Services inflation played an important role in the decline of headline inflation, decreasing from 13.9 percent year-on-year at the beginning of the year to 12.7 percent in March. This was mainly due to the fading of last year's high base effects from price increases in air transport, housing and utilities, and communication services.

Nevertheless, services inflation remains above headline inflation, indicating that demand-side pressures in this sector are still persistent.

Figure 1. Dynamics of inflation across the main CPI component groups, *percent*



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

2.3. Monetary conditions

In 2026 Q1, the acceleration in inflation prompted by strong consumption demand and heightened geopolitical tensions in the external economic environment created the risk of upward pressure on prices. Considering all this, at the meeting on March 18, 2026, the Central Bank Board kept the policy rate unchanged in order to maintain restrictive monetary conditions.

The fact that restrictive monetary conditions were maintained in the economy during this quarter was also reflected in the matrix of relevant indicators (*Figure 2.3.1*).

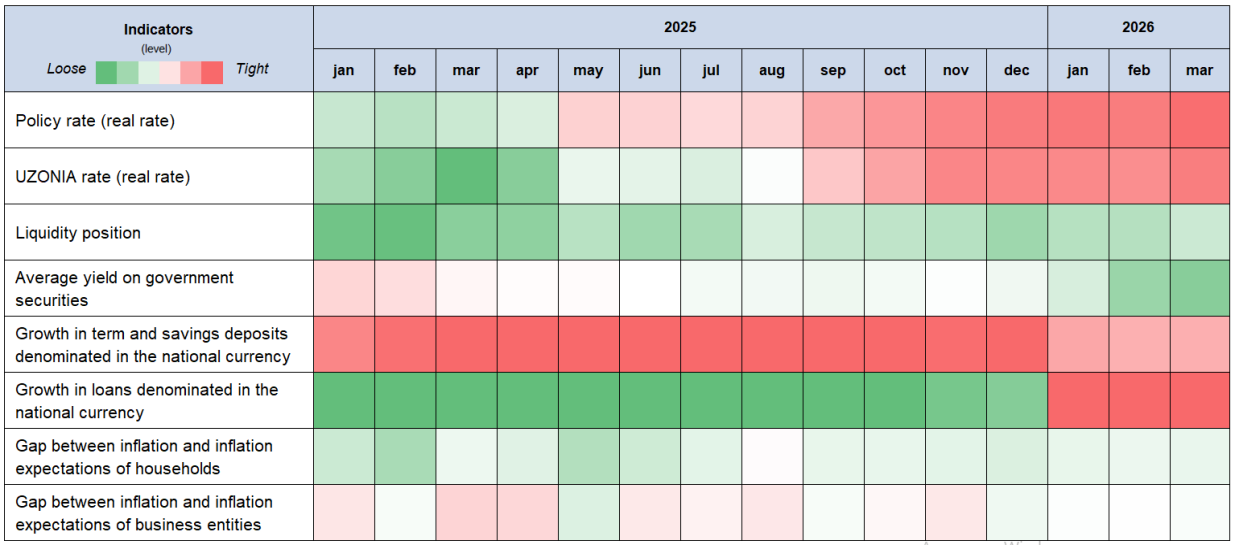
The slight decline in headline inflation observed in the final months of 2025 and in March of the current year contributed to an increase in the real values of the policy rate and the UZONIA rate, becoming one of the factors tightening monetary conditions.

The persistently high level of real interest rates supported the growth of term and savings deposits in the national currency, while the slowdown in credit growth exerted a tightening effect on monetary conditions.

In turn, the growing liquidity surplus in the banking system and the decline in the average yield on government securities during Q1 emerged as factors easing monetary conditions.

In addition, the decline in headline inflation and the improvement of inflation expectations among households and business entities in recent months reduced uncertainties in the economy and exerted an easing effect on monetary conditions.

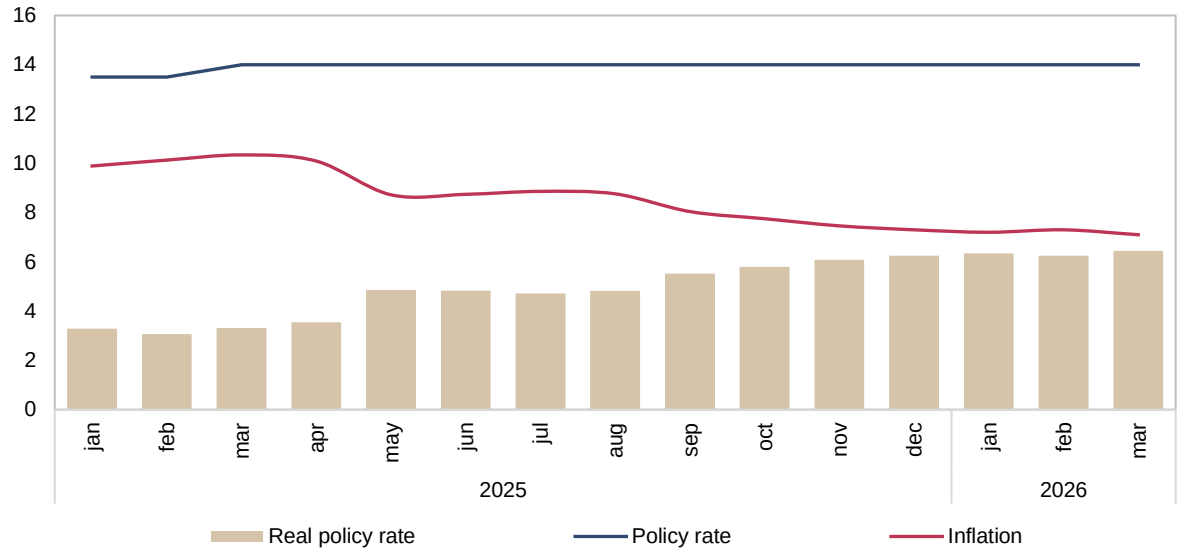
Figure 2.3.1. Indicators of monetary conditions



Source: CBU calculations.

One of the key indicators reflecting the restrictiveness of monetary conditions is the real policy rate, which increased by the end of the quarter (*Figure 2.3.2*). In particular, amid declining inflation, the real policy rate rose to 6.4 percent, increasing by 0.2 percentage points compared to the beginning of the year.

Figure 2.3.2. Dynamics of the real rate of the policy rate, *percent*



Source: CBU calculations.

In turn, budget operations remained one of the main factors increasing liquidity in the banking system. In particular, during Q1, the total impact of budget operations on banking system liquidity amounted to 11.3 trillion soums (*Figure 2.3.3*).

An increase in the liquidity surplus in the banking system was observed. In particular, while the daily average balance of the structural liquidity surplus amounted to 55.4 trillion soums during January-March (*59.2 trillion soums in March*), this figure was equal to 31.8 trillion soums in the previous quarter (*Figure 2.3.4*).

Under these conditions, the Central Bank actively utilized liquidity absorption operations in order to regulate banking system liquidity and prevent sharp fluctuations in money market interest rates.

In particular, during Q1, the daily average outstanding amount of 7-day Central Bank bonds reached 48.7 trillion soums (*25.5 trillion soums in 2025 Q4*). For overnight deposits, this indicator amounted to 5.1 trillion soums (*4.2 trillion soums in 2025 Q4*) (*Figure 2.3.5*).

Figure 2.3.3. Impact of budget operations, *trillion soums*

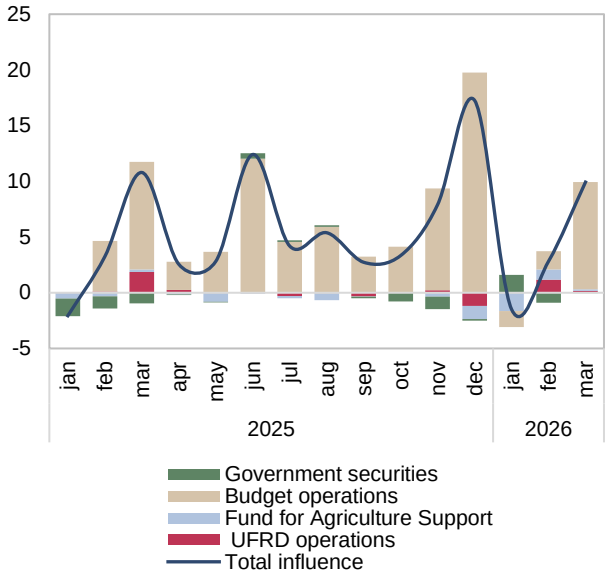
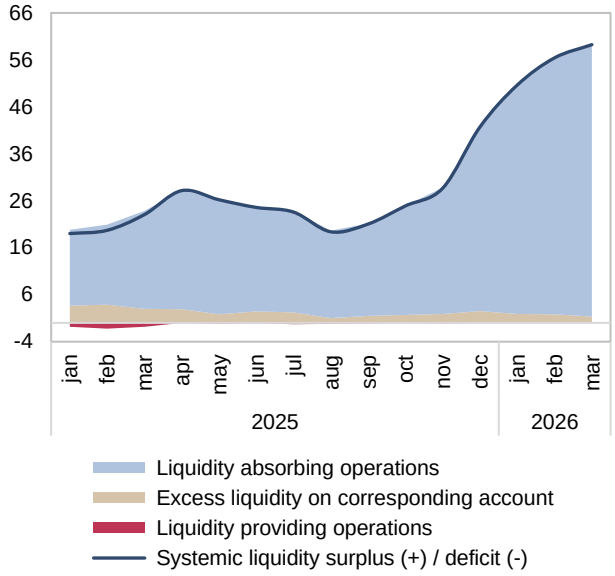


Figure 2.3.4. State of banking system liquidity, *trillion soums*



Source: CBU calculations.

Under conditions of a structural liquidity surplus, there was virtually no demand for the Central Bank's liquidity provision operations during the quarter, with the exception of the intraday credit instrument.

As a result of the active use of monetary policy instruments in Q1, interest rates in the money market partially stabilized, which was reflected in the dynamics of the UZONIA rate. In particular, the average UZONIA rate during the quarter reached 13.7 percent, which is close to the policy rate (*Figure 2.3.6*).

Figure 2.3.5. Central Bank's monetary and credit operations, *trillion soums*

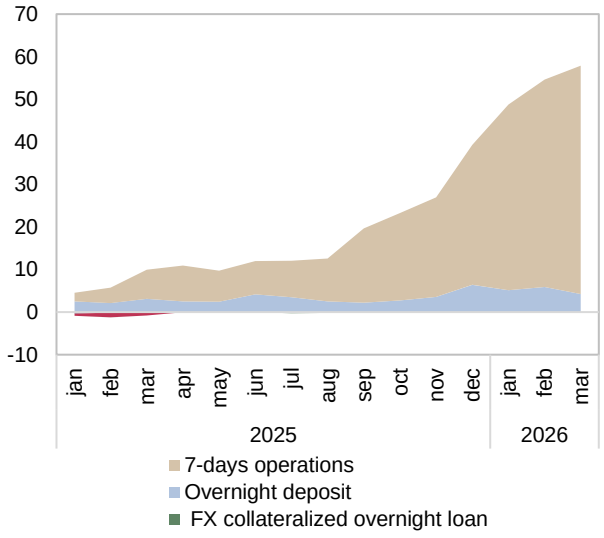
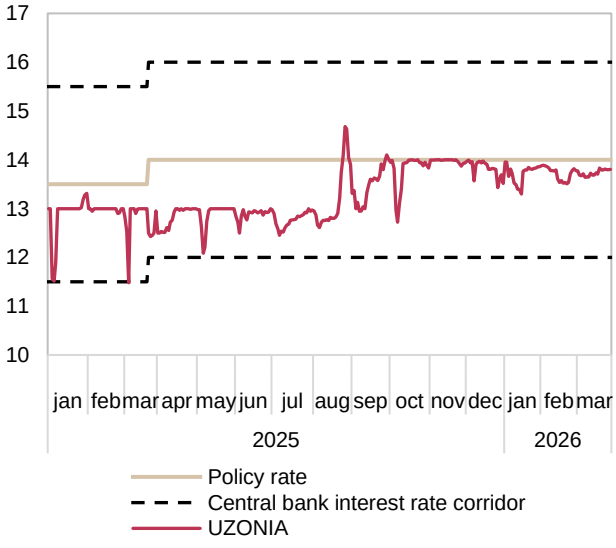


Figure 2.3.6. Dynamics of the UZONIA indicator, *percent*



Source: CBU calculations.

During 2026 Q1, total transactions in the interbank money market amounted to 163 trillion soums. The total transaction volume decreased by 11 percent compared to the previous quarter (*184 trillion soums*) (*Figure 2.3.7*).

The decline in money market transaction volumes compared to the previous quarter is explained by two factors. First, the increase in the liquidity surplus in the system, and second, the strong demand for the Central Bank's liquidity absorption instruments at attractive interest rates.

The majority of transactions carried out in the money market during the quarter were overnight operations. In particular, the average share of these operations reached 89 percent, increasing by 3 percentage points compared to the previous quarter (*Figure 2.3.8*).

Restrictive monetary conditions continue to maintain the attractiveness of interest rates on deposits denominated in the national currency. In particular, in March, real interest rates on household term deposits stood at 8.5 percent, increasing by 0.3 percentage points since the beginning of the year. For corporate term deposits, this indicator amounted to 4.4 percent, declining by 0.4 percentage points since the beginning of the year (*Figure 2.3.9*).

Figure 2.3.7. Money market volume, *trillion soums*

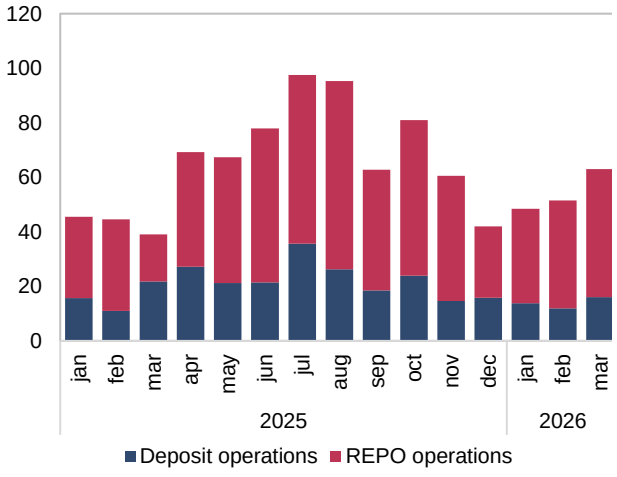
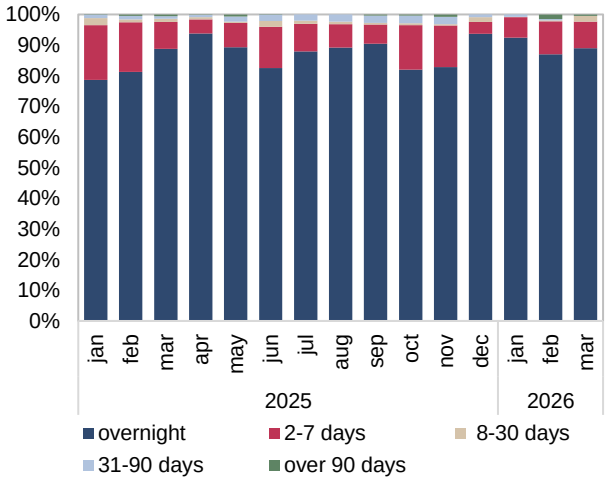


Figure 2.3.8. Money market transactions by term, *percent*



Source: CBU calculations.

The persistently high level of real interest rates served as a supporting factor for the growth of deposits denominated in the national currency. By the end of Q1, annual growth in total deposits in the national currency reached 46.4 percent, bringing their volume to 253 trillion soums. In particular, household term and savings deposits increased by 43 percent year-on-year, while legal entities' term and savings deposits grew by 69 percent (*Figure 2.3.10*).

Figure 2.3.9. Real interest rates on deposits in national currency, *percent*

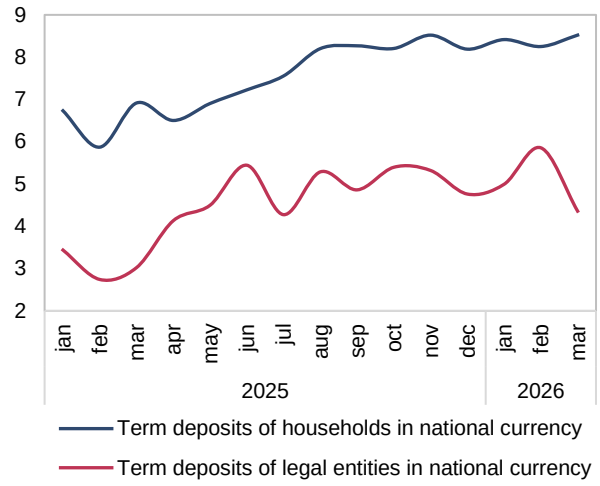
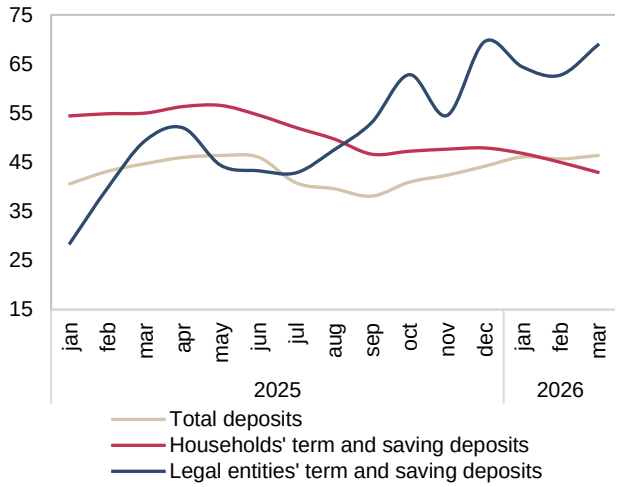


Figure 2.3.10. Dynamics of growth of deposits in national currency, *annual, percent*



Source: CBU calculations.

High real interest rates on deposits are also contributing to the persistence of elevated real interest rates on loans. In particular, in March, real interest rates on loans to individuals stood at 9.8 percent, increasing by 0.4 percentage points compared to the beginning of the year. For corporate loans, this indicator amounted to 10.8 percent, up by 0.1 percentage points since the beginning of the year (*Figure 2.3.11*).

In addition, in March, annual growth in the stock of loans to the economy slowed by 0.3 percentage points compared to the end of the previous quarter, declining to 15 percent. The stock of loans amounted to 679 trillion soums.

Figure 2.3.11. Real interest rates on loans, *percent*

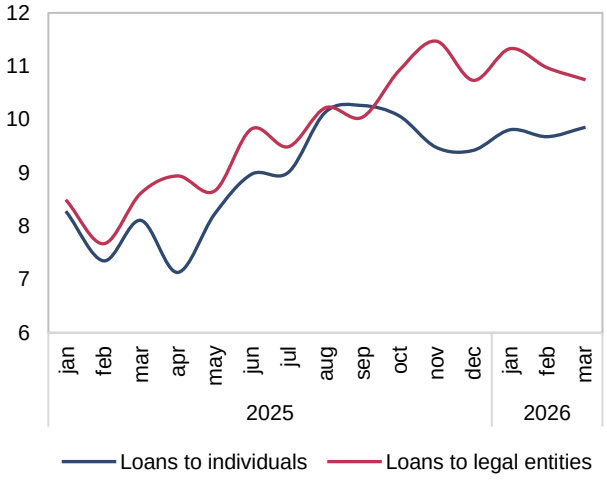
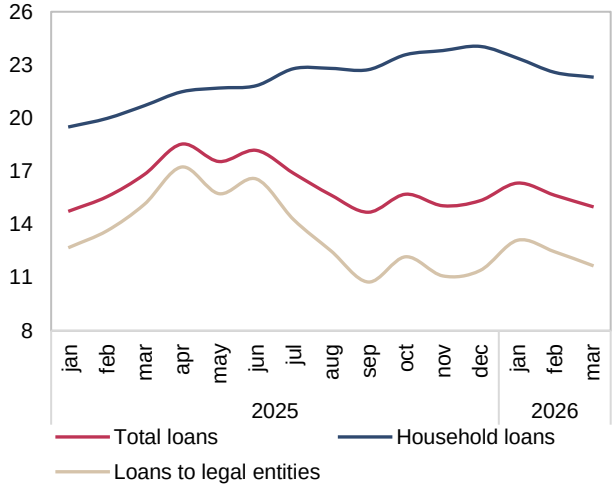


Figure 2.3.12. Change in the balance of loans allocated to the economy, *annual, percent*



Source: CBU calculations.

In particular, while loans to individuals increased by 22.3 percent year-on-year, the growth rate of corporate loans was 11.7 percent (*Figure 2.3.12*).

In turn, the Central Bank will continue to ensure a sufficiently restrictive stance of monetary conditions in order to achieve the 5 percent inflation target over the medium term.

Appendix 1

Matrix of indicators reflecting monetary conditions

The monetary conditions matrix is a set of macroeconomic and financial indicators that summarizes the impact of monetary policy on the economy.

This set of indicators makes it possible to assess the degree of impact of the monetary policy pursued in the country on aggregate demand, inflation, and economic activity.

The idea of assessing monetary conditions on a unified analytical basis was introduced into practice by the Bank of Canada in the early 1990s through the Monetary Conditions Index *(MCI)*. The initial MCI was calculated as a weighted average of the short-term real interest rate and the real effective exchange rate, combining the two main channels of monetary conditions in small open economies[3].

Following the 2008 global financial crisis, this methodology was developed into the Financial Conditions Index *(FCI)*, incorporating indicators such as credit spreads, asset price volatility, term premiums, and systemic financial risks[4].

Over the past decade, a number of central banks operating under inflation targeting regimes *(including those of Chile, South Africa, Brazil, and India)* have been assessing monetary conditions through similar expanded systems of indicators[5].

Under the inflation targeting regime, the regular assessment of monetary conditions serves the following objectives:

- to determine the effectiveness of the signal transmitted through the policy rate across the channels of the monetary transmission framework;
- to assess the anchoring of inflation expectations;
- to monitor risks to inflation and financial stability in advance.

Therefore, this system of indicators serves as an important analytical framework for shaping monetary policy decisions aimed at achieving the medium-term inflation target.

Based on the current state of indicators shaped by the monetary policy being pursued, monetary conditions are generally classified into two categories: **accommodative** *(or expansionary)* and **restrictive** *(or tight).*

Accommodative monetary conditions refer to a situation in which real interest rates remain below the neutral level, liquidity volumes are abundant, and credit and deposit channels stimulate aggregate demand.

Under such conditions, lending activity among households and business entities accelerates, consumption and investment increase, and economic growth gains momentum. At the same time, the excess of aggregate demand over aggregate supply creates the risk of heightened inflationary pressures.

Restrictive monetary conditions refer to a set of factors that constrain aggregate demand through credit and liquidity channels, with real interest rates forming above the neutral level. As a result, consumption and investment activity slow down, inflationary pressures ease, whereas the risk of slower economic growth may arise.

[3]Freedman, C. *(1995)*. "The Role of Monetary Conditions and the Monetary Conditions Index in the Conduct of Policy." Bank of Canada Review, Autumn 1995.
[4]Hatzius, J., Hooper, P., Mishkin, F.S., Schoenholtz, K.L. & Watson, M.W. *(2010)*. "Financial Conditions Indexes: A Fresh Look after the Financial Crisis." NBER Working Paper No. 16150.
[5] Banco Central de Chile *(Monetary Policy Report)*; South African Reserve Bank *(Composite Indicator)*; Reserve Bank of India *(Financial Conditions Index).*

The *accommodativeness* or *restrictiveness* of monetary conditions is a relative concept, which is assessed with reference to each indicator's historical average, long-term trend, or structural neutral value.

For each indicator, a benchmark value is defined, and the degree and direction of deviation from it are used to determine the level of tightness or looseness of monetary conditions. In its analyses, the central bank has included the following indicators in the monetary conditions' matrix (*Figure 1*).

1. The real rate of the policy rate

The real rate of the policy rate is considered a key indicator reflecting the stance of monetary policy. Unlike the nominal rate, the real interest rate reflects the actual cost of borrowing in the economy and therefore has a direct impact on households' and businesses' decisions regarding consumption, investment, and savings.

The *neutral real interest rate* estimated for the economy of Uzbekistan is used as a benchmark. The equilibrium (*neutral*) real interest rate is a long-term real interest rate that stabilizes inflation at its target level and ensures that the economy grows at its potential level (*in the absence of all cyclical economic shocks*).

2. The UZONIA rate (in real terms)

The UZONIA rate is a benchmark rate calculated based on transactions in the interbank overnight money market. Its real value reflects the real (*inflation-adjusted*) cost of short-term resources in the interbank market and serves as an important indicator for assessing the transmission of monetary policy through the operational framework.[6]

3. Liquidity position

The liquidity position reflects the level of liquidity available in the banking system and is equal to the difference between the average balance on commercial banks' corresponding accounts and the average required reserve level.

An increase in excess liquidity in the banking system puts pressure on money market interest rates and inflation. When available liquidity exceeds the average reserve level, it exerts a downward pressure on money market interest rates, indicating an easing of monetary conditions. Conversely, a reduction in liquidity increases demand for it, leading to higher interest rates and thereby resulting in tighter monetary conditions.

4. The average yield on government securities

The average yield on government securities *(GS)* serves as a benchmark for long-term risk-free financial assets and acts as an important factor in the formation of banks' lending and deposit interest rates.

The spread between the average yield on GS and the sum of the UZONIA rate and the maturity premium is used as an additional benchmark indicator for assessing market conditions. A positive spread indicates higher market risks and inflation expectations, as well as tighter financial conditions, while a negative value indicates the presence of accommodative monetary conditions or low inflation expectations.

5. Growth in term deposits and savings deposits in the national currency

An acceleration in the growth of term and savings deposits in the national currency, particularly when it exceeds nominal GDP growth, reflects an increasing propensity to

[6]Bindseil, U. (2014). Monetary Policy Operations and the Financial System. Oxford University Press.

save among households and businesses. This, in turn, leads to a reduction in consumer demand and, consequently, to tighter monetary conditions. This dynamic is also closely linked to greater financial inclusion and rising confidence in the national currency.

Conversely, when the growth rate of term and savings deposits is lower than nominal GDP growth, it indicates that consumer demand is stronger than the propensity to save, and this leads to an easing of monetary conditions.

6. Growth in loans in the national currency

Growth in loans in the national currency is one of the key indicators of monetary policy transmission through the credit channel. When credit growth exceeds nominal GDP growth, it indicates an expansion in lending activity within the economy. This may lead to stronger aggregate demand through higher consumption and investment spending by households and businesses, and consequently to increased inflationary pressures. From this perspective, such dynamics may signal relatively accommodative monetary conditions.

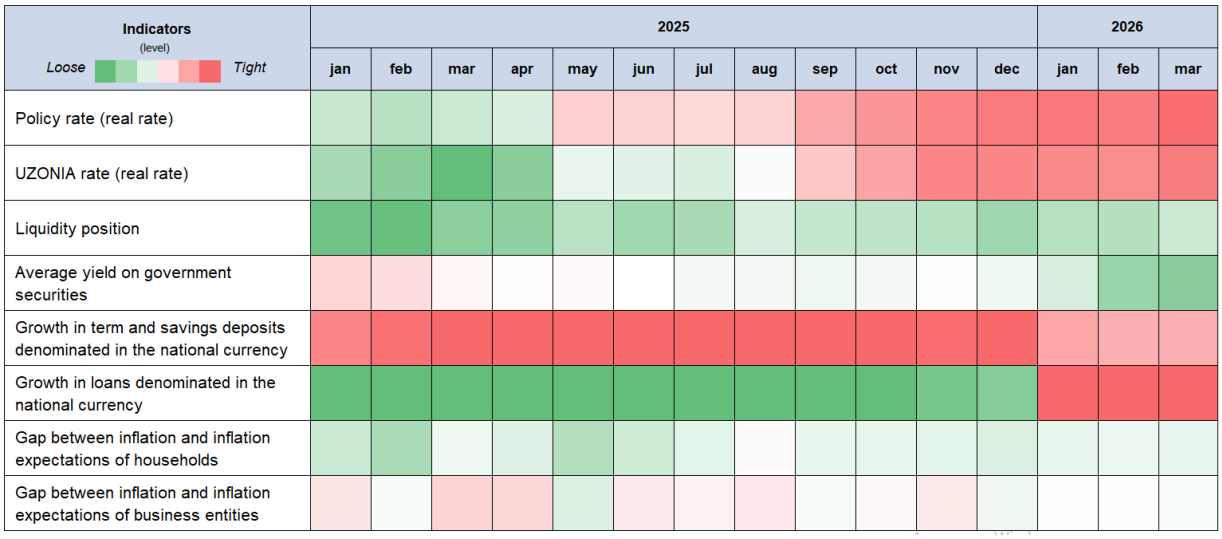
Conversely, when the growth rate of credit is lower than nominal GDP growth, it indicates constrained lending activity and relatively weaker consumption and investment demand, which may signal tighter monetary conditions.

7. The gap between inflation and the inflation expectations of households and businesses

One of the key conditions for the successful implementation of an inflation targeting regime is the anchoring of inflation expectations around the target[7]. A deviation of expectations from the target is a key indicator for assessing the effectiveness of the expectations channel and the credibility of the central bank's policy. Therefore, in this indicator, the difference between expectations and actual inflation is used as a benchmark.

If the inflation expectations of households or businesses are higher than actual inflation, this indicates a likelihood that inflationary pressures will persist or intensify. In particular, strong confidence among households in future price increases may lead to an advance increase in consumer demand.

Figure 1. Matrix of indicators of monetary conditions



Source: CBU calculations.

[7]Bernanke, B. *(2007).* "Inflation Expectations and Inflation Forecasting." Speech at NBER Summer Institute, July 2007.

These pressures may be further amplified through pre-emptive price increases and cost revaluation by businesses. Such a situation indicates that monetary conditions are not sufficiently tight.

When expectations converge toward the current inflation rate, it reflects price stabilization, a reduction in inflationary pressures, and the effectiveness of monetary policy transmission. Therefore, these indicators are important for assessing the formation of monetary conditions through the expectations channel[8].

The seven indicators discussed above are assessed monthly based on their current values and are displayed in the matrix using color coding. Red indicates tight conditions (*positive deviations from benchmarks*), while green indicates accommodative conditions (*negative deviations*).

This visual-analytical approach makes it possible to observe within a single matrix how the existing dispersion among indicators reflects tighter conditions through certain channels and more accommodative conditions through others. This, in turn, helps to analyze the monetary policy transmission while taking into account its heterogeneous rather than uniform effects across different channels.

[8]Mishkin, F.S. *(2007).* "Inflation Dynamics." International Finance, 10*(3)*: 317-334.

Appendix 2

The impact of nominal exchange rate depreciation on foreign trade dynamics.

Changes in the exchange rate are an important signal in the formation of relative prices in an open economy. In theory, a depreciation of the national currency increases external competitiveness, as it reduces the foreign-currency price of domestic goods while increasing the domestic-currency price of imported goods. Such an adjustment in relative prices operates through a cost reallocation mechanism: that is, currency depreciation is expected to stimulate exports, restrain imports, and improve the trade balance.

In developing economies, the impact of exchange rate movements on foreign trade is often not direct or automatic. Foreign trade depends not only on relative price elasticities, but also on factors such as exchange rate pass-through, the composition of trade, the share of imported intermediate inputs in export sectors, and production efficiency.

To assess this relationship, the central bank conducted an empirical study. The study was based on data from the 2020-2025 period, including nominal external and internal exchange rates, inflation, the real effective exchange rate *(REER)*, export and import volumes, export and import price indices, and indicators of the trade deficit.

Foreign trade indicators were constructed based on non-gold goods exports and goods imports. This allows for an assessment of foreign trade dynamics in goods that are sensitive to exchange rate movements. Accordingly, export and import price indices also reflect the dynamics of prices for goods exports and imports, respectively.

This approach makes it possible to assess real adjustments in foreign trade volumes in relation to price changes. At the same time, it enables the dynamics of goods trade to be explained through both price and volume channels.

According to the results of impulse response functions to a 1 percentage point depreciation shock in the nominal exchange rate, depreciation initially accelerates by approximately 1 percentage point in the first month. Over the following four months, the magnitude of its effect gradually declines, and the overall impact persists for up to around 10 months. This indicates that exchange rate adjustment does not occur within a single period, but rather takes place gradually over time.

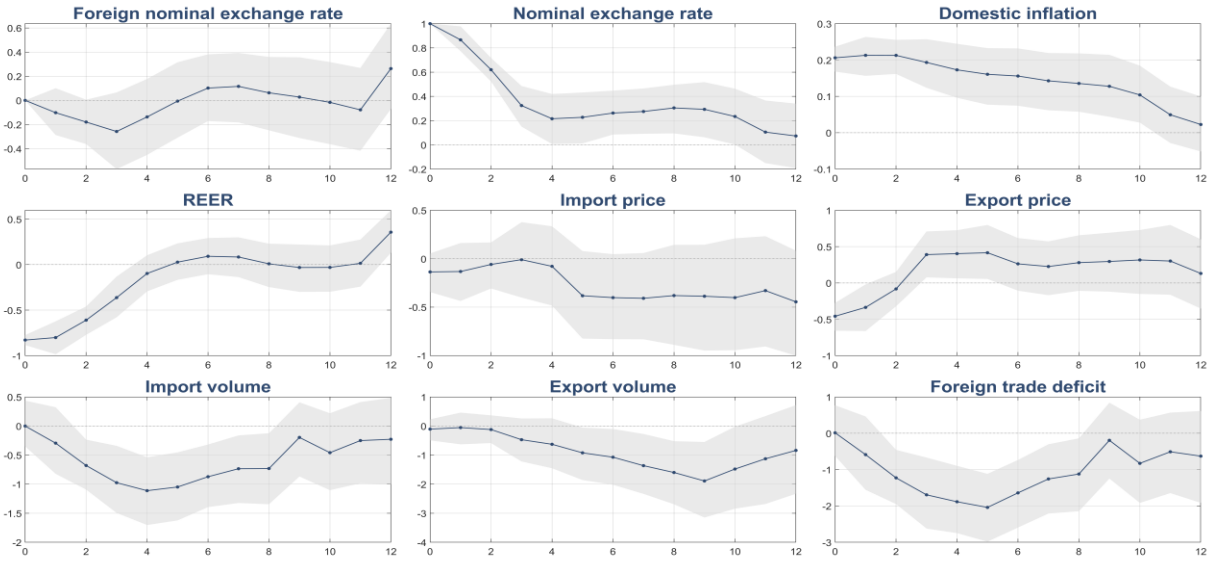
Inflation increases by approximately 0.2 percentage points during the first quarter and remains statistically significant for up to 10 months. Given the high share of imports in consumption, production, and investment in Uzbekistan’s economy, depreciation of the national currency increases the domestic-currency cost of imported goods, intermediate inputs, and equipment (*Figure 1*).

In addition, the relatively persistent response of inflation can also be explained by the high sensitivity of inflation expectations to the exchange rate.

The depreciation of the REER reflects the interaction between the nominal exchange rate and inflation as an initial effect of the shock. When the nominal exchange rate depreciates by approximately 1 percent, inflation increases by about 0.2 percentage points. This partially offsets the impact of the exchange rate on real depreciation. As a result, the initial real depreciation of the REER is around 0.8 percent, and after one quarter, the statistical significance of the effect disappears.

As a result, despite the persistence of nominal depreciation, the loss of statistical significance of the REER response in the short term indicates that the external competitiveness advantage generated by exchange rate depreciation is neutralized within one quarter due to higher inflation. This is one of the key reasons why the mechanism of export stimulation through the exchange rate does not operate in a stable manner.

Figure 1. Impulse responses to a domestic exchange rate (depreciation) shock



Source: CBU calculations

Import prices are determined by external markets and global commodity prices, and exchange rate movements do not have a direct impact on them. As a result, the response of import prices denominated in US dollars remains statistically insignificant throughout the entire period.

The growth of export prices (*in foreign currency*) declines in a statistically significant manner during the first two months: by approximately 0.5 percentage points in the first month and about 0.4 percentage points in the second month. Subsequently, the response quickly reverses direction, increasing in a statistically significant manner in months 3-5 and reaching its peak of around 0.4-0.5 percentage points in the fifth month. The effect of the shock loses statistical significance after two quarters.

This dynamic indicates that the pass-through of an exchange rate depreciation shock to exports does not occur in a single stage, but rather through a two-stage mechanism. In the first two months, when external price competitiveness improves by approximately 0.8 percentage points through the REER, exporters pass part of this gain to foreign markets by reducing prices in foreign currency.

However, this price reduction is neither fully nor sustainably maintained. As a result, the initial competitiveness gain generated by exchange rate depreciation is not fully transmitted into export prices. Instead, part of it is absorbed by exporters as margins, while another part is offset by rising production costs due to the increased cost of imported intermediate inputs, components, and equipment.

Import volume growth begins to decline in a statistically significant manner from the second month and reaches its lowest point in the fourth month, decreasing by approximately 1.1 percentage points; this negative response persists for about eight months. This dynamic is primarily explained by the increase in the domestic-currency cost

of imported goods, intermediate inputs, and investment goods resulting from the depreciation of the national currency.

In this context, the decline in import volumes, while import prices denominated in US dollars remain unchanged, indicates that the main adjustment in imports is occurring through demand.

In the case of Uzbekistan, imports include not only final consumption goods but also intermediate inputs and equipment necessary for production processes. Therefore, the decline in import volumes following exchange rate depreciation is driven simultaneously by weaker domestic demand and higher costs for firms.

Export volume growth is not statistically significant during the first three quarters; later, as a result of a contractionary effect, it declines by 1.9 percentage points in the fourth quarter. In other words, currency depreciation does not stimulate export volumes in the short to medium term; instead, with a certain lag, it has a contractionary effect.

Under the impact of a nominal exchange rate shock, the increase in the trade deficit begins to slow in a statistically significant manner from the second month. In the fifth month, the trade balance improves by approximately 2 percentage points, reaching its lowest point in terms of the change in the deficit. Thereafter, the statistical significance of the effect disappears.

The results of the analysis show that the pass-through of exchange rate shocks to foreign trade does not conform to the classical expenditure-switching mechanism: devaluation improves the trade balance primarily through demand and the resulting decline in imports.

A depreciation of the nominal exchange rate increases inflation and improves external competitiveness only in the short term. However, this advantage is quickly neutralized by inflationary pressures and rising production costs.

Although short-term adjustment is observed in export prices, export volumes do not increase sustainably; instead, they decline with a certain lag.

In Uzbekistan, the impact of exchange rate shocks on foreign trade is asymmetric and operates through both volume and price channels.

This shows that exchange rate policy alone cannot ensure a stable export-based adjustment in foreign trade. Structural measures are required for this purpose, including export diversification, expansion of production capacities, and improvements in their efficiency.

Appendix 3.

Economic importance of rare earth elements

In recent years, green transformation processes have been gaining momentum in the global economy. In particular, demand for strategic materials, especially rare earth elements, has been increasing in industries such as electric vehicle manufacturing, renewable energy, electronics, optics, and defence production.

Rare earth elements are a group of 17 metals with similar chemical properties, serving as critical raw materials for the production of high-tech goods in modern industry.

Although rare earth elements are relatively abundant in the Earth's crust, their "rarity" is reflected in the fact that they are rarely found in pure form or in economically viable concentrations. The chemical similarity of these elements also makes it difficult to separate them from one another during extraction and processing.

Rare earth elements are classified into light and heavy categories based on their atomic mass *(Table 1).* One of the most important applications of rare earth elements is the production of permanent magnets[9]. According to consensus estimates, in 2025 the market size of rare earth oxides[10] was around 6 billion dollars, while the permanent magnets market stood at approximately 25 billion dollars[11].

Table 1. Main economic application areas of rare earth elements

Sector	Elements	Main applications
1. Green energy	**Nd, Pr, Dy, Tb** (neodymium, praseodymium, dysprosium, terbium)	Manufacturing of permanent magnets, electric vehicle motors, wind turbine generators and other high-efficiency power equipment
2. Electronics	**Ho, Y, Ce, La** (holmium, yttrium, cerium, lanthanum)	Production of displays, LED lightings, lasers, and electronic components (capacitors, sensors, speakers and others)
3. Defense	**Nd, Dy, Gd, Eu** (neodymium, dysprosium, gadolinium, europium)	Missile and drone systems, radar equipment, aviation and military electronics manufacturing
4. Medical technologies	**Gd, Lu, Y, Er** (gadolinium, lutetium, yttrium, erbium)	Production of MRI and diagnostic systems, laser surgery equipment, nuclear medicine technologies and other medical materials

Source: Rareearths.com, Areas of Application of Rare Earths.

Despite the relatively small size of the market, rare earth elements generate high added value and play an important role in global high-tech production chains valued at trillions of US dollars.

According to the U.S. Geological Survey, global production of rare earth elements amounted to around 390 thousand tonnes in 2025. Production is highly concentrated geographically, with the largest share accounted for by China, which may create certain risks to the stability of global supply chains. In particular, nearly 70 percent of global production takes place in this country.

In recent years, production volumes have been gradually increasing in the United States, Myanmar, Australia, and several other countries *(Figure 1)*. This trend can be explained by policies aimed at diversifying supply chains, as well as by rising demand for strategic resources.

[9] Permanent magnet is a material that generates its own magnetic field without an external power source and is an essential component in the automotive, electronics, healthcare, and industrial automation industries.
[10] Rare earth oxides are chemically processed forms of rare earth elements, and they are primarily traded in this form in global market.
[11] IMF, World Economic Outlook, April 2026

In addition, in 2025, global reserves of rare earth elements were estimated at more than 85 million tonnes, with a large share concentrated in China *(44 million tonnes)* and Brazil *(21 million tonnes)*. At the same time, Australia, Russia, the United States, and other countries also possess substantial resource bases, indicating that reserves are geographically relatively widespread, although unevenly distributed *(Figure 2).*

According to forecasts[12], the expansion of production and processing industries related to rare earth elements in the coming years is expected to increase the market size of rare earth elements and permanent magnets to 9.5 billion dollars and 51 billion dollars, respectively, by 2033.

Figure 1. Global production of rare earth elements, *thousand tons*

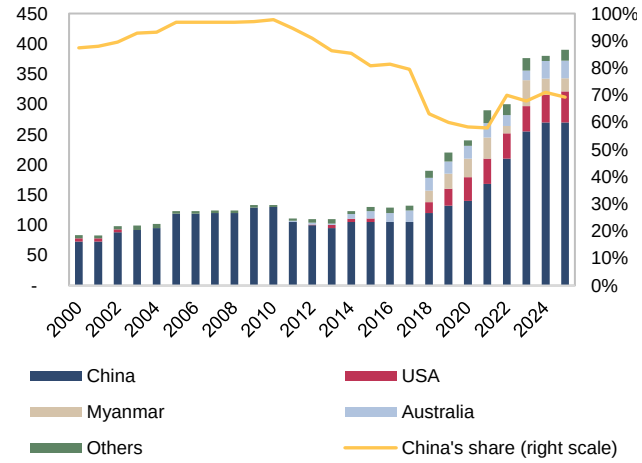
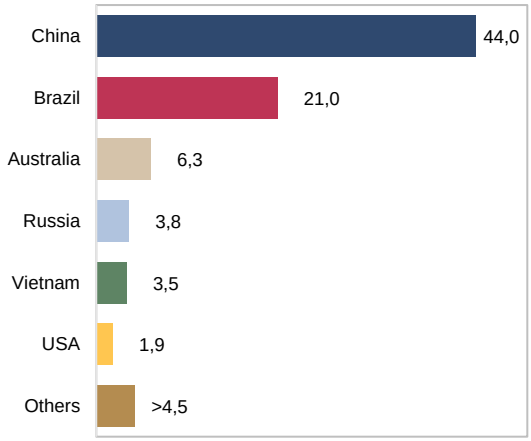


Figure 2. Global reserves of rare earth elements by the end of 2025, *million tons*



Source: U.S. Geological Survey.

Uzbekistan has a substantial resource base of rare earth elements and other mineral resources. There are more than 2,500 mineral resource deposits across Uzbekistan, with their total value estimated at over 3 trillion dollars[13].

At the current stage, the rare earth elements market in Uzbekistan is mainly formed through imports. In particular, in 2025, imports of rare earth elements and their oxides amounted to approximately 190 thousand dollars, while imports of permanent magnets reached 711 thousand dollars. These indicators suggest that industrial demand is emerging in the country in sectors such as automotive manufacturing, electrical engineering, and renewable energy.

Establishing domestic mining and processing of rare earth elements would reduce dependence on imports. At the same time, this process would have a positive impact on the foreign trade balance by increasing export volumes.

Uzbekistan has reserves of strategic and critical minerals such as lithium, graphite, magnesium, tungsten, molybdenum, aluminium, tantalum, and niobium. Over the next three years, 76 projects with a total value of 2.6 billion dollars, covering 28 types of rare resources, are planned to be implemented in the country[14]. Effective use of this resource base will be important in the future for diversifying industrial sectors, developing regional production clusters, and increasing employment.

[12] Market Data Forecast, Rare Earth Elements Market Report (2025) & Permanent Magnets Market Report (2026).
[13] Kinstellar, Uzbekistan's rare earth element sector. Short guide for lawyers, investors and lenders (2026).
[14] https://president.uz/uz/lists/view/7930

Appendix 4

Features and application of the price monitoring platform

Food price inflation is one of the main drivers of overall inflation dynamics in Uzbekistan. Since the official consumer price index is published only once a month, there is a growing need for high-frequency data to identify early signals of price changes in markets, assess short-term price shocks, and analyze their potential impact on inflation.

In this regard, the **narxtahlil.uz platform** is an important analytical tool that enables real-time monitoring, analysis, and short-term forecasting of food product prices. The platform interactively displays prices for a total of 30 types of key consumer goods across regions, districts, and cities. In addition, the platform includes supplementary information on price forecasts, inflation expectations, and perceived inflation levels.

The platform consists of three main sections: "**Price Analysis**," "**Forecast**," and "**Expectations**." The data are compiled based on weekly price observations of the National Statistics Committee and monthly inflation expectations surveys conducted by the Monetary Policy Department of the central bank.

The "**Price Analysis**" section enables the analysis of weekly price dynamics and price changes by product categories and regions. The data are collected on a weekly basis by employees of the National Statistics Committee in farmers' markets using tablets through CAPI (*Computer-Assisted Personal Interviewing*) technology (*Figure 1*).

This module presents price dynamics by product category, including weekly, monthly, and annual growth rates, price levels across regions, districts, and cities, as well as a ranking of the regions with the highest price changes nationwide. This makes it possible to identify in which regions prices for certain products are changing more rapidly and to assess regional disparities.

In addition, the platform's "**Weekly News**" section highlights significant changes in price dynamics in both text and infographic formats. In particular, cases such as the monthly increase in cabbage prices in a specific region or differences in egg prices across districts are presented separately. This information is of practical importance for analysts in promptly identifying price pressures.

The "**Forecast**" section provides short-term price forecasts for products across regions. The forecasts are generated based on the SARIMA (*Seasonal Autoregressive Integrated Moving Average*) model. This model calculates forecast values for future periods by taking into account trends, seasonality, and past price changes in time series data (*Figure 2*).

The data series begins in January 2023 and includes observations up to the latest available period. At the same time, this model is an unconditional forecasting model. It does not directly account for exogenous factors such as exchange rates, import prices, external market conditions, logistics costs, or shocks in supply chains. Therefore, forecasts based on the SARIMA model are mainly effective for assessing short-term trends and should ideally be complemented with expert assessments and additional macroeconomic data. On this platform, price forecasts are generated for the upcoming three-month period.

The "**Expectations**" section contains information on the inflation expectations and perceived inflation levels of households and business entities. It presents historical dynamics of the data, the main factors influencing inflation expectations, the level of confidence in achieving the 5 percent inflation target, and balance index indicators (*Figure 3*).

Figure 1. Structure and main sections of the Narxtahlil.uz platform

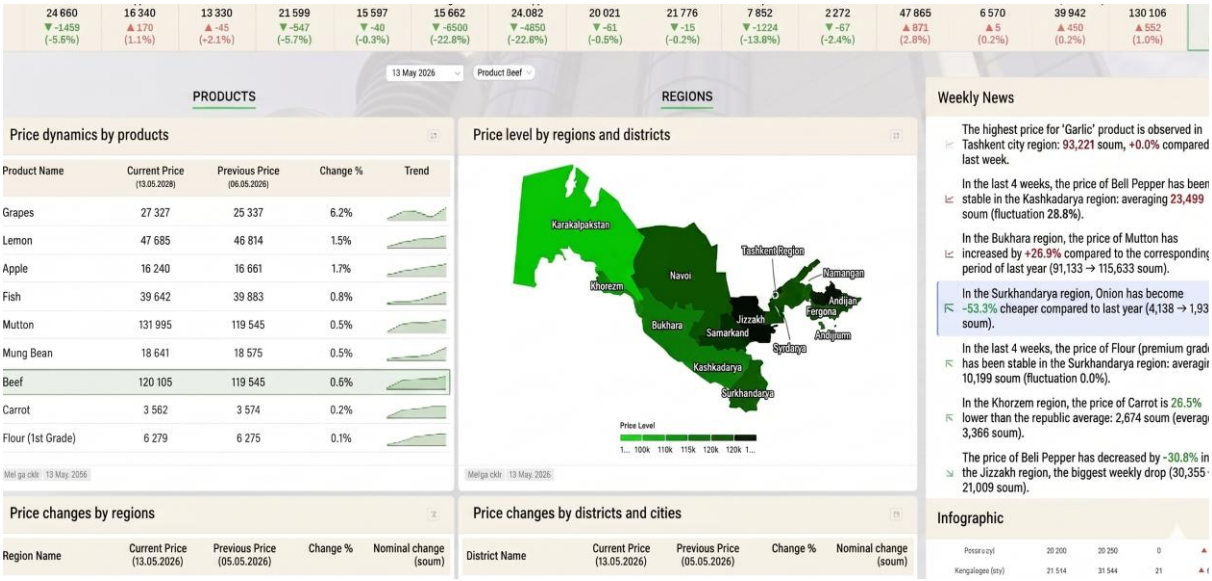


Figure 2. Forecast section: current and expected values of product prices

Products | Regions

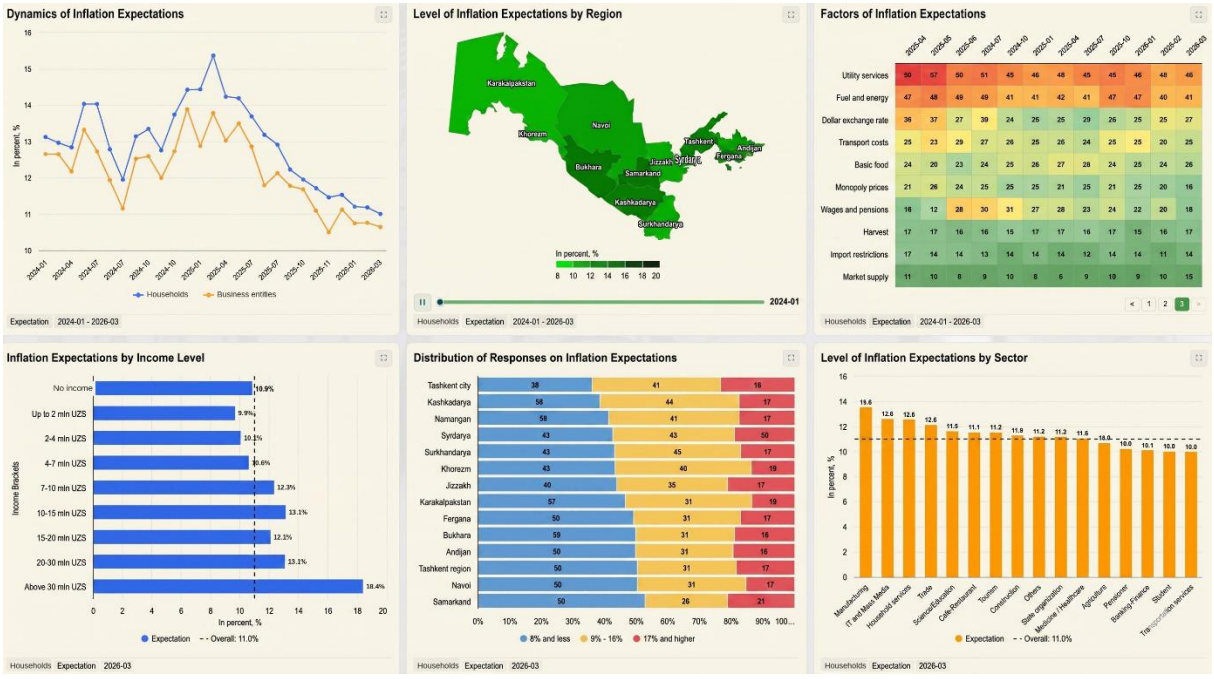
PRODUCTS ▲▼	CURRENT PRICE ▲▼	EXPECTED PRICE ▲▼	1M ▲▼	3M ▲▼
Wheat Bread, First Grade	6 367	6 349	-0.3%	-0.5%
Fish	38 652	39 554	+2.3%	+3.0%
Eggplant	32 821	22 484	-31.5%	-80.3%
Cucumber	13 219	6 127	-53.6%	-53.8%
Bell Pepper	37 725	21 001	-44.3%	-79.4%
Rice	14 425	14 296	-0.9%	-0.9%
Cabbage	4 666	4 242	-9.1%	-18.7%
Potato	6 626	6 547	-1.2%	-4.2%
Sunflower Oil	21 442	21 578	+0.6%	+0.7%
Lemon	4 4595	47 031	+5556%	+10.5%
Beans	20 236	19 992	-1.2%	-2.4%
Beef	117 046	119 907	+2.4%	+2.2%
Mung Bean	18 507	18 478	-0.1%	-0.5%
Pear	21 917	22 044	+0.6%	-4.7%
Chickpea	21 809	21 714	-0.4%	-0.6%
Apple	15 491	16 176	+4.4%	-2.2%
Cottonseed Oil	20 240	20 188	-0.3%	-0.8%
Onion	2 385	2 449	+2.7%	+7.2%

The interconnected and integrated functioning of these sections transforms the narxtahlil.uz platform not only into a tool for monitoring prices, but also into a comprehensive analytical instrument for the early identification of inflationary pressures, assessment of regional price disparities, and generation of short-term forecasts.

The platform has practical importance for monetary policy analysis and the decision-making process. Monitoring weekly average prices of key food products and the dynamics of their changes makes it possible to promptly analyze short-term price shocks in the market. This, in turn, helps assess inflationary pressures in specific products and regions in advance, before the release of official monthly inflation data.

Analyzing price dynamics across regions makes it possible to assess differences in market conditions, supply chains, and logistics capabilities among various regions. In particular, significant price changes observed for certain food products may serve as early signals of short-term disruptions in logistics, supply chains, or product deliveries.

Figure 3. Inflation expectations of households and businesses



At the same time, the integration of data on inflation expectations and perceived inflation into the platform makes it possible to compare price dynamics with the practical assessments of households and business entities. This is important for evaluating the relationship between price changes and inflation expectations, as well as for analyzing the effectiveness of monetary policy communication.

Overall, the **narxtahlil.uz platform** serves as an important infrastructural tool that enables data-driven monetary policy decision-making.

In the future, the platform's analytical capabilities will be further developed to cover non-food goods and services segments and enhance forecasting features. This will make it possible to conduct a deeper analysis of price dynamics and identify inflationary risks in a timely manner in the process of **achieving the 5 percent inflation target** over the medium term.