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# The Central Bank of Uzbekistan cuts the base rate to 14% per annum

The Chairman of the Central Bank of the Republic of Uzbekistan stated in a press conference that this decision was taken in order to reduce the inflation rate in the economy and to support economic activity during the pandemic.

The forecasted inflation rate was 11-12.5% with an increase in the probability of its formation closer to the lower border of the forecast corridor. However, the expert does not exclude the possibility of further reduction of this forecast in the case of stable minutes lowering inflation expectations and macro preservation stability.

## Inflation and inflation expectations

It is assumed that the dynamics of inflation rate for 8 months of 2020 has been formed due to the postponed decision to increase tariffs for electricity and gas, the economic effects of quarantine restrictions on domestic demand as a result of lower incomes of the population and reduced employment, as well as the absence of devaluation pressure since the weakening of the national currency in April was compensated by the subsequent stabilization of the national currency. It should be noted that in the period January-August, 2020, the annual inflation rate fell for 3.6% and was lower than 11.6%, which was conditioned by:

- ▶ the preservation of regulated at a constant level of prices;
- ▶ the seasonal decline in prices for fruit;
- ▶ vegetables and moderate rates of economy crediting in comparison with the past year.

In particular, non-food products and services fell by 8 and 7.5%, respectively, while prices for food and services rose to 16.8% due to the pandemic. Core inflation indicators slowed down during eight months and amounted to 12.2%.

## Economic activity

Construction volume growth slowed down by 1.6% to 105.5% in the period January-June 2020. Considering that the inflow of cash proceeds in the field of trade and paid services decreased by 11.9% in July compared to June 2020, this indicator increased by 6% in August, reaching the level of the same month last year.

## Monetary conditions.

It should be noted that the Central Bank lowered the basic rate in April 2020, and weakened banks' required reserves and the active conduct of monetary operations. As a result of the above measures, there was a significant decrease in interest rates in the interbank money market, including on deposits for longer periods. It should be noted that rates on deposits up to 14 days in the period July-August 2020 were formed within the interest rate corridor of the Central Bank.

Interest rates on deposits in national currency decreased:

- ▶ up to 18% for individuals;
- ▶ up to 15.2% for legal entities.

According to data provided by the Central Bank in the period January-August 2020, the volume of deposits in banking system

amounted to 13.6%.

Interest rates on loans in national currency decreased:

- ▶ up to 22.3% for individuals;
- ▶ up to 19.5% for legal entities.

In the dynamics of the exchange rate, the devaluation level for the period January–August 2020 amounted to 8%.

#### Inflation risks

According to forecasts of representatives of the Central Bank, no prevalence of pro-inflationary factors is expected in the country.

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