



CENTRAL BANK OF THE REPUBLIC OF UZBEKISTAN

MONETARY POLICY REVIEW

I-st half year of 2018

Tashkent - 2018

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I. Macroeconomic conditions to implement monetary policy

External economic conditions

Retention of external favorable conjuncture and improvement of conditions for foreign economic activity for enterprises, including exporters, in the aggregate facilitated external sustainability of the economy of Uzbekistan.

Pursuant to the data provided by the State Statistics Committee, the export of goods and services in January-June 2018 rose by 31,1% compared to the corresponding period of the previous year and constituted about 7,8 billion USD. Herewith, the volume of imports increased at relatively faster rates (62,2%) and accounted for 9,9 billion USD.

Keeping ahead rates of import growth, in turn, reflects the transition of unofficial imports into the formal sector against the background of the continued impact of the foreign exchange market liberalization. Wherein, with the aim of the comprehensive analysis of the nature and factors of import growth, its dynamics, as well as an efficient assessment of its impact on the dynamics of the UZS exchange rate, it is required to carry out a specific study.

The increase in the receipts of cross-border remittances of individuals by 14% and totaling of their volume of 2,3 billion USD in January-June this year, as well as the operational data on exports and imports, enable to draw a preliminary conclusion on retention of the current account surplus of the balance of payments in the first half of 2018.

In addition, relative improvement of external conditions and, as a result, the increase in the volume of foreign exchange receipts through the channels of export and international money transfers of individuals, as well as foreign credit lines, will support the growth of the aggregate supply of foreign exchange in the domestic foreign exchange market.

Domestic economic conditions

Statistical data on the results of the first half of 2018 demonstrate maintenance of the positive dynamics of economic growth. Nevertheless, after real growth of the economy by 5,1% in January-March 2018 this indicator for the first half of the year accounted for 4,9%, which, in turn, indicates some slowdown in the growth rate of the economy in the second quarter of 2018.

The growth of the number of operating enterprises and organizations, which number increased by 7,3% or 20,7 thousand units in January-June 2018 has also demonstrated high rates.

As a result of the investment policy aimed at the economy modernization and infrastructure development, during the analyzed period, the volume of capital investments since the beginning of the year has risen by 13,4%. Herewith, the main growth occurred in the first quarter of this year.

Alongside with that, a possible expansion of the state programs for the development of entrepreneurship, certain sectors of the economy and regions in the second half of this year can give an additional impulse to accelerate the economic growth rates.

Moreover, productivity growth and ensuring price stability in the medium and long-term perspective depend on the efficiency and quality of the implementation of targeted development programs.

In the short-term perspective, a certain increase in inflationary pressures may be associated with an increase in investment and consumer demand in the economy due to the expansion of lending volumes in the framework of targeted programs, adjustment of salaries and the process of liberalization of regulated prices.

II. Inflation and inflationary expectations

Inflation overview in the 1-st half of 2018

Pursuant to the data of the State Statistics Committee, inflation rate in January-June of 2018 accounted for 6,2% (7,2% in January-June of 2017). Wherein, during this period inflation indicators tended to decrease. Thus, if in January 2018 the monthly inflation constituted 2,7%, in March and April it fell to 1,1% and 0,9% respectively, and in June reached its minimum point of – 0,4%.

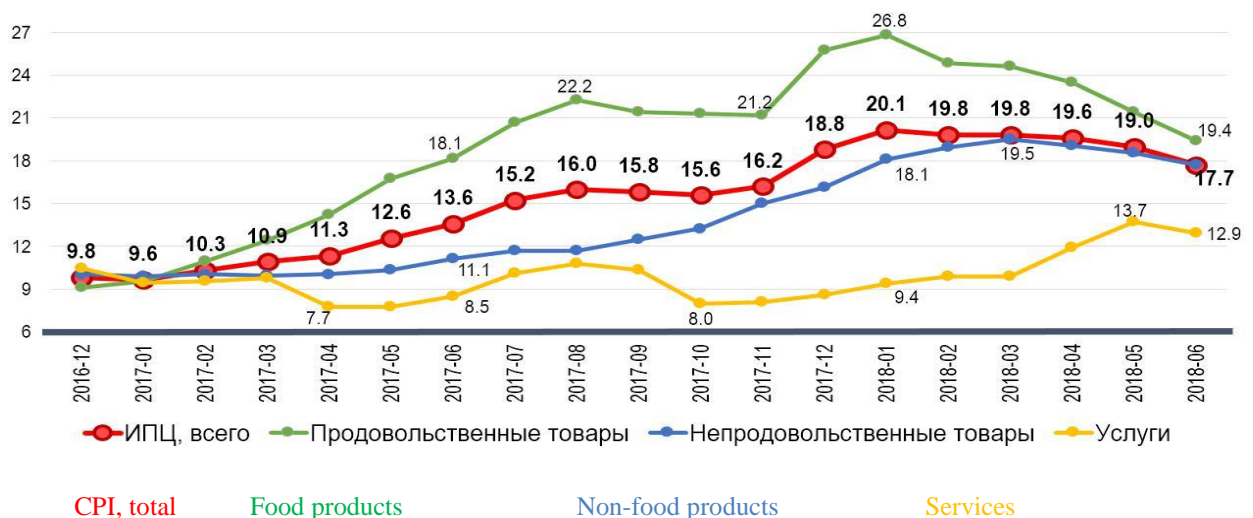
In the first half of 2018, the inflation trend in the consumer sector of the economy was formulated under the impact, on the one hand, of the increase in administratively regulated prices and a rise in prices for certain food products related to weather conditions, and on the other hand, strengthening the exchange rate of UZS, improving the competitive environment in the domestic market and expansion of the cross-border trade.

Annual inflation calculated on a fixed scale technique, having reached its peak of 20,1%, in January 2018, has begun to decline gradually since March and in June amounted to 17,7% (Figure 1).

Figure 1

Dynamics of change of annual CPI of food and non-food products and tariffs for services

(in relation to the corresponding month of the previous year by the fixed scale technique)



Source: calculated on the basis of the State Statistics Committee data

Relatively high indicators of annual inflation in the first half of this year are partially referred to the effect of a low base in the corresponding period of the previous year. Herewith under conditions of absence of negative shocks this effect will promote a gradual decrease in the annual growth rates of the CPI in the second half of 2018.

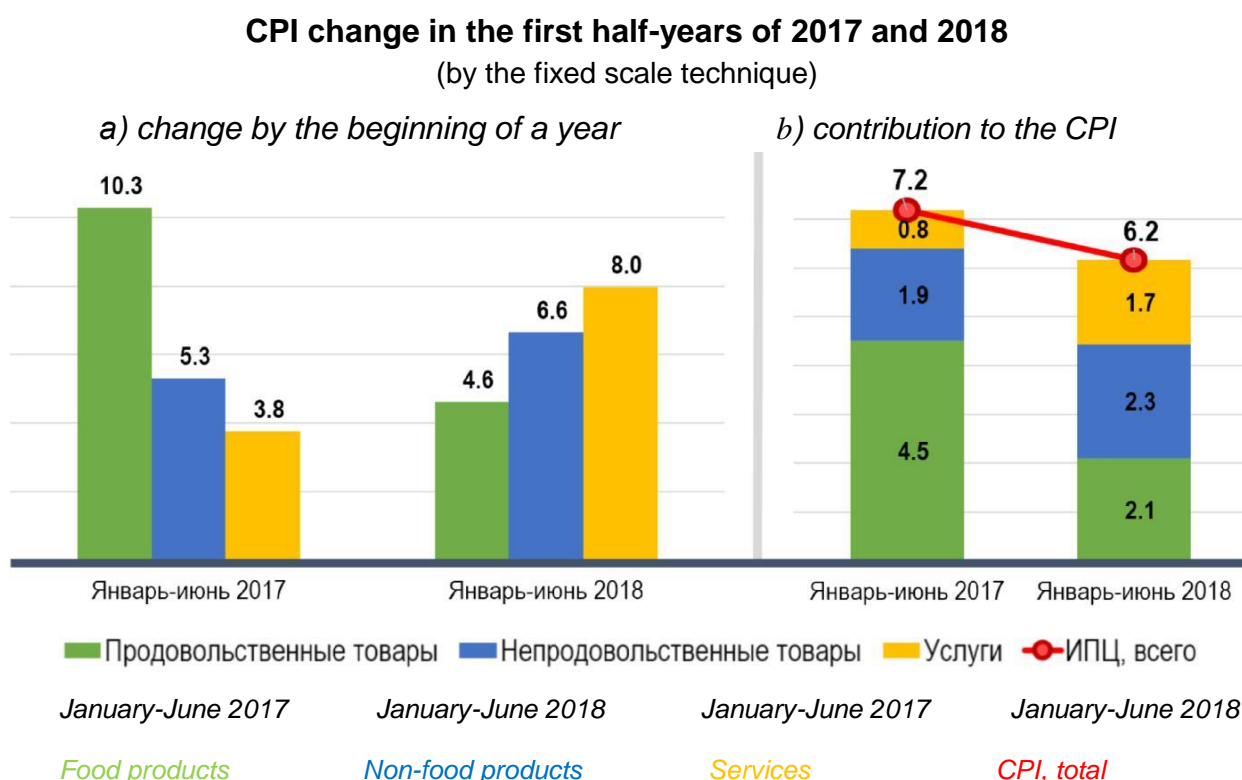
In broad terms, the annual growth rates of prices on food and non-food products slow down, whereas tariffs for services, on the contrary, tend to grow more rapidly.

It should be noted that comparing to the same period of the previous year there have been significant changes in the inflation structure. Thus, if in the first half of 2017 inflationary pressure was mainly created by food prices, in the first half of this year the growth in food prices slowed down twice and amounted to 4,6%, while the growth of tariffs of services doubled and amounted to 8%.

Correspondingly, in the first half of 2018, prices for non-food products and tariffs for services became the “drivers” of inflation (Figure 2).

Thus, there is observed the process of adjusting the tariffs for services to the level comparable to the prices for goods which will continue until equilibrium relative prices are reached.

Figure 2



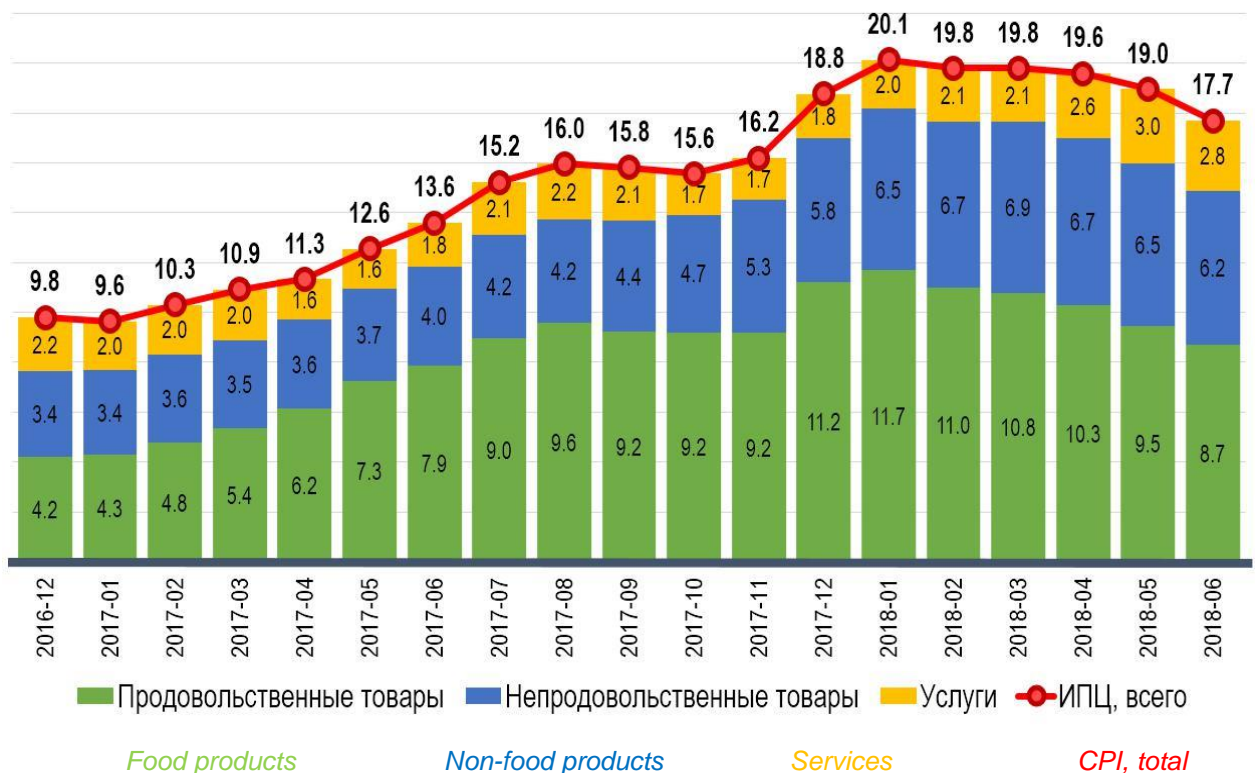
Source: calculated on the basis of the State Statistics Committee data

In January, the annual growth rates of food prices reached their peak of 26,8% after which they gradually began to decline and accounted for 19,4% in June. Decrease in prices for food products was secured by a high supply of agricultural products in the domestic market. In addition, ripening of the new harvest of fruit and vegetable products made the main contribution to the reduction of food prices in the second quarter (Figure 3).

Figure 3

Dynamics of the annual CPI change and its structure

(in relation to the corresponding month of the previous year by the fixed scale technique)



Source: calculated on the basis of the State Statistics Committee data

In the meantime, due to unfavorable weather and climate conditions at the beginning of spring and rise of retail prices for livestock feed, prices for meat and processed meat products, as well as prices for rice continue to demonstrate a positive dynamics of growth.

Annual growth rates of non-food prices has begun to reduce from April 2018 totaling 17,7% in June, after reaching the highest point of 19,5% in the first quarter. Herewith, a significant rise in prices for construction materials has become the main factor for the increase of non-food prices.

Improving the conditions of foreign trade, to a greater extent with neighboring countries and strengthening of the national currency exchange rate promoted curbing the growth of non-food prices in terms of imported goods.

Within the analyzed period, the annual inflation of services was characterized by an increase from 9,5% in January to 13% in June. If in the first quarter the main contribution to the inflationary trend in the service sector was made by tariff adjustments for paid services, in the second quarter the growth in the cost of public utilities, precisely, an increase in tariffs for electricity, natural gas and water enhanced the pressure of this group of prices on inflation. In particular, the contribution of public utilities into the annual inflation in June increased by 3 times compared to January 2018.

Meanwhile, as a result of the growth of prices for energy sources, as well as increases of fares for using public transport and tariffs for housing and communal services during the first half of 2018, the annual growth rates of administratively regulated prices increased from 12,1% in January to 16,0 % in June. Herewith, the contribution of this group to the annual inflation increased from 2,3 percentage points in January to 3,0 percentage points in June.

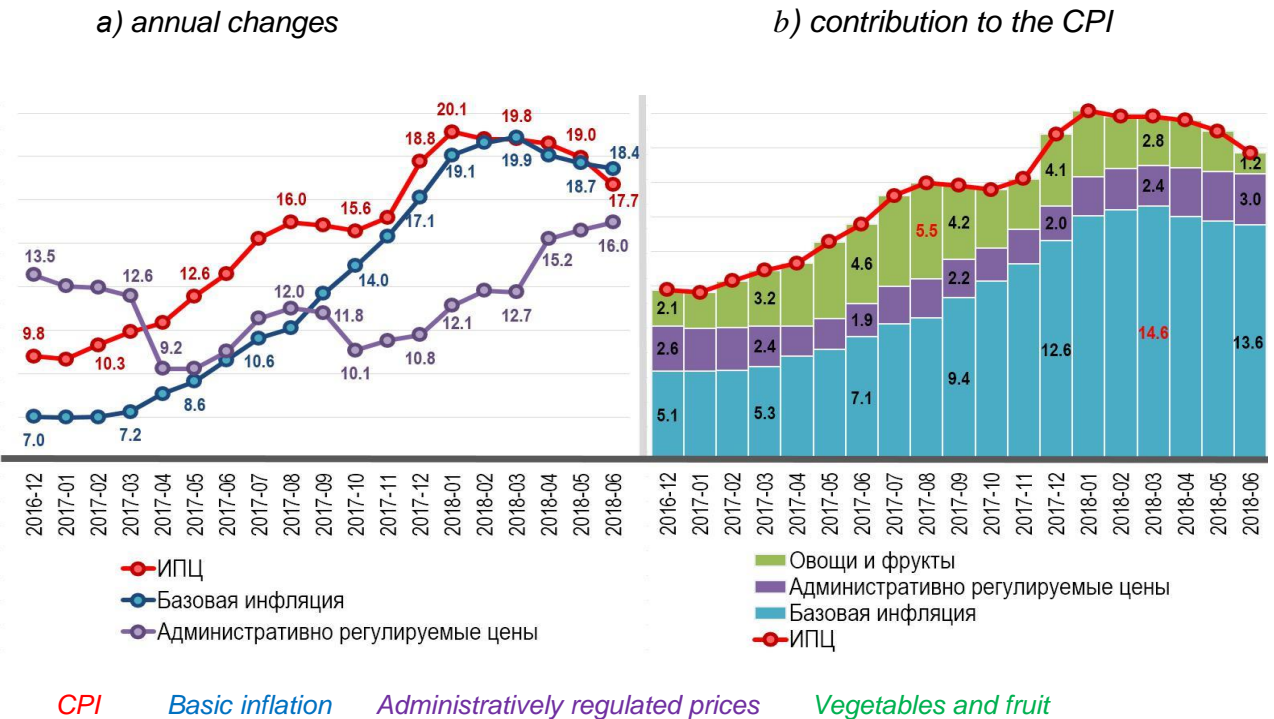
Basic inflation

The basic inflation is considered the most suitable indicator of the long-term inflation trend in the economy excluding the impact of temporary or one-time price shocks. The annual basic inflation, calculated as inflation regardless of the prices for fruit and vegetable products and regulated prices, having reached its peak of 19,9% in March 2018 and in the following months it has begun to decrease gradually and amounted to 18,4% in June (Figure 4).

Maintaining a basic inflation at a high level and its slower decline comparing to the CPI indicates the inertia of inflationary processes in the economy which slowdown is likely to last for a long period of time.

Figure 4

Dynamics of the annual CPI, basic inflation and administratively regulated prices



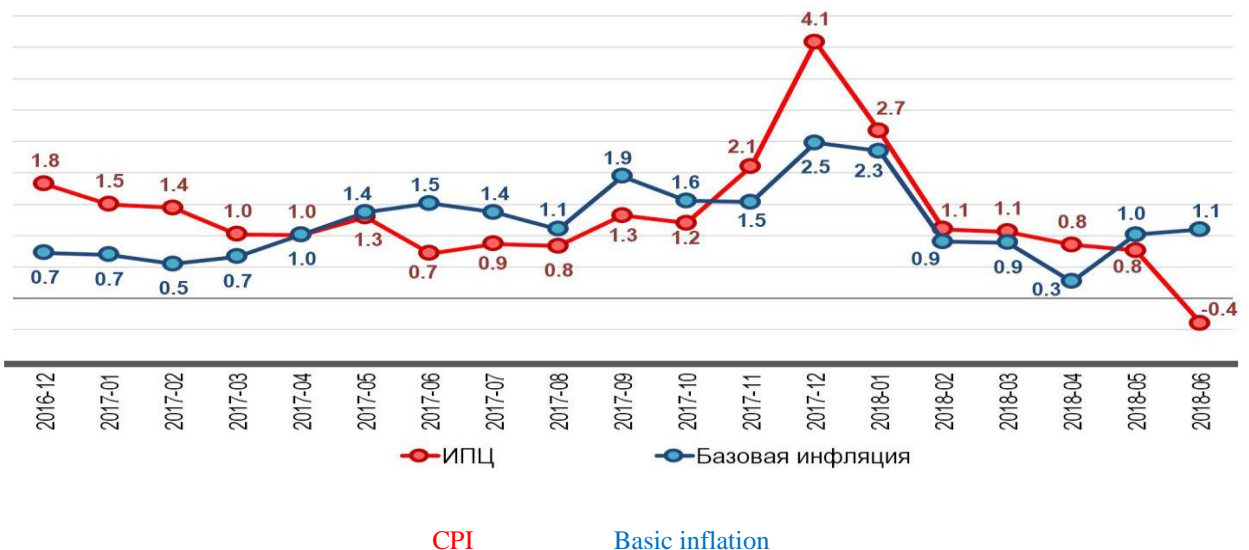
Source: calculated on the basis of the State Statistics Committee data

The analysis of the price dynamics in monthly terms illustrates that despite ensuring a negative inflation rate in June this year due to seasonal factors, during the second quarter the basic inflation tended to increase totaling 1,1% at the end of the first half of the year, which, in turn, demonstrates an increase in the inflationary pressure by non-seasonal prices (Figure 5).

Figure 5

Dynamics of the monthly CPI and basic inflation

(in relation to the previous month by the fixed scale technique)



Source: calculated on the basis of the State Statistics Committee data

Nevertheless, it should be noted that when calculating the basic inflation, administratively regulated prices are not taken into consideration, as their growth can cause an increase in other market prices in the form of secondary effects. For example, the growth of electricity tariffs and gas does not make a direct effect on the basic inflation dynamics, but indirectly makes an impact on the cost of goods and services due to the increase of producers' costs.

Inflationary expectations

Pursuant to the results of surveys on assessing inflationary expectations in the economy in the first half of 2018, there is a tendency to reduce the rate of perceived and expected inflation. The rise of some regulated prices at the beginning of the second quarter, a slight growth in the price for everyday food products, such as meat and rice, as well as a seasonal decline in prices for fruit and vegetable products reflected the dynamics of the inflation rate perceived by the population.

In turn, the inflation rate perceived by the population and business entities made an impact on the formation of inflationary expectations. Meanwhile, the dynamics of changes in short-term expectations (1 month ahead) tended to decline throughout the first half of the year, while long-term expectations (for 12 months) remain almost constant in the second quarter (Figure 6).

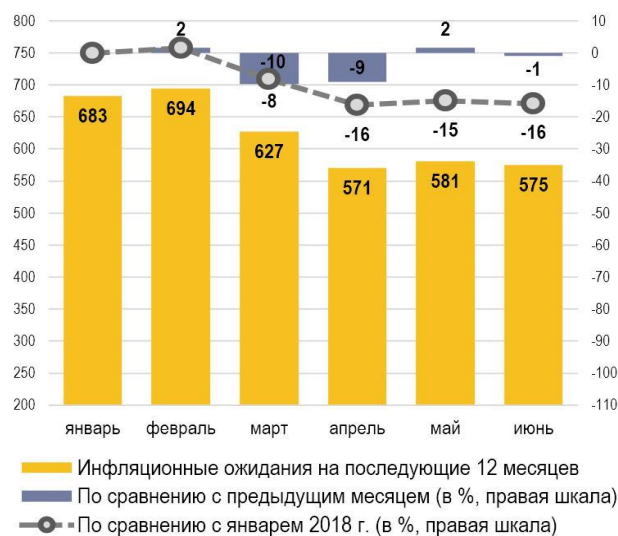
Thus, if at the beginning of 2018 the share of individuals expecting a price increase in the next 12 months at the level of not more than 16% accounted for 43%, then by the beginning of the second quarter it increased to 57% and remained at this level until the end of this quarter. Herewith, by June the share of respondents expecting a significant increase in prices has reduced twofold compared to January and amounted to 14%.

The inflationary expectations of legal entities were more optimistic. The share of interviewed entrepreneurs who expected inflation rates not to exceed 16% during the next 12 months, increased from 49% in January to 72% in June, while the share of legal entities which expect prices to increase by more than 26% decreased from 22% in January to 9% in June.

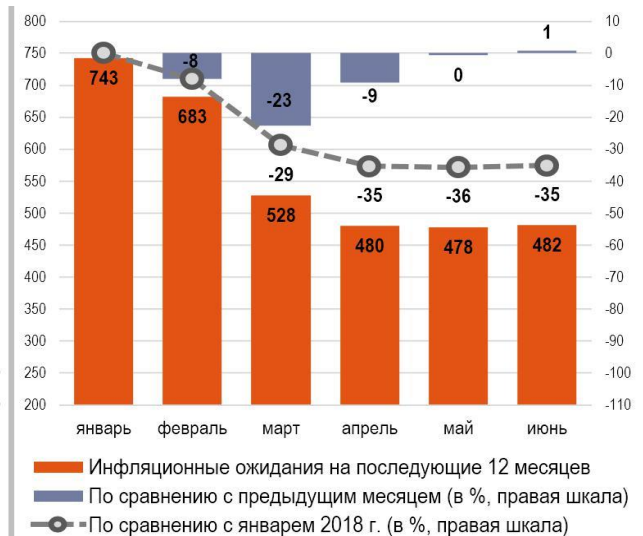
Figure 6

Dynamics of changes of long-term inflationary expectations ¹

a) expectations of the population



b) expectations of entrepreneurs



Inflationary expectations over the next 12 months

Comparing to the previous month (in %, right scale)

Comparing to January 2018 (in %, right scale)

Source: calculated on the basis of the results of the survey on inflationary expectations

The positive nature of short-term expectations of the population and entrepreneurs is explained by strengthening of the national currency in recent months, improvement of conditions of cross-border trade and seasonal factors. While high long-term inflationary expectations, to a large extent, are related with the traditional autumn increase of regulated prices, in particular, prices for energy sources and public utilities.

Analysis of monetary factors of inflation

When studying the factors of inflation it is determined to divide them into monetary and non-monetary ones. With the aim of ensuring price stability, the Central Bank actively uses monetary policy tools to minimize the impact of monetary factors.

¹ Along with the central banks of other countries, the Central Bank of the Republic of Uzbekistan uses the balance method to estimate inflationary expectations which implies the use of different weight coefficients for each of the options for answering the corresponding question. The value of the index varies from 0 (if all respondents chose the answer "prices will decrease") to 1000 (if all respondents chose the answer "prices will grow faster than in the previous period"). This indicator signals further acceleration or inflation slowdown.

Meanwhile, under conditions of structural transformation, a significant contribution to inflation is made by non-monetary factors that are beyond the influence of the monetary policy.

With the aim of determining the focus of the monetary policy and adjusting its instruments, the Central Bank constantly performs analysis of the basic inflation which is mainly formulated under the impact of monetary factors.

The results of the empirical analysis of the impact of monetary factors on basic inflation illustrate that the most significant factors are the monetary aggregate “effective M0” (the amount of cash in circulation and funds of individuals of private entrepreneurs on bank cards), the exchange rate of USD to UZS, cross-border money remittances of individuals and interest rate in the interbank market.

Analysis of the correlations between the dynamics of monetary indicators and inflation using the vector autoregression model (VAR) demonstrates the trend of changes in time lags, degree and duration of the impact of monetary factors on inflation caused by structural changes in the economy.

Thus if the results of 2017 indicated that the exchange rate had the biggest impact on the price growth rate, then effective M0 and cross-border money transfers of individuals have become the main “drivers” in the first half of this year.

In addition, the analysis of the impulse characteristics of the data indicates that during the period of structural changes the duration of the impact of monetary factors on the price dynamics is prolonged. This to some extent reflects the enhancing role of the monetary policy. Among others it is due to:

- a sharp increase of monetary factors of inflation in the first half and subsequent tightening of monetary conditions from the second half of 2017;
- raising efficiency of monetary instruments against the background of currency liberalization, stabilization of the exchange rate, etc.

Inflation risks

In the second half of 2018, inflation risks will have both internal and external character. Internal risks include further indexation of regulated prices, as well as maintaining high growth rates of domestic demand under conditions of raising lending volumes and increasing salaries, as well as growing prices for seasonal fruit and vegetable products in the fourth quarter of this year.

In addition, expanding export potential of domestic producers of fruit and vegetables can become a factor of price growth due to the reduction in supply in the domestic market.

Along with this, a higher level of budget expenditures compared to the planned indicators may also make an increasing pressure on the inflation.

The uncertainty associated with the duration of a low level of productivity growth is also a pro-inflationary factor restricting efficiency of measures on the reduction of the domestic goods' cost.

In the case of the salaries' growth at a rate faster than labor productivity growth, demand will make an additional increasing pressure on the inflation.

External risks include a possible slackening of economic activity in the countries - the main trading partners and worsening of the conjuncture for the main export positions of the republic, which can cause a decrease in foreign exchange receipts from exports and make a pressure on the foreign trade balance and the exchange rate of the UZS. As a result, it can be transferred into increased inflation. In addition, a rise in the world oil prices can increase imported inflation.

It should be noted that the weakening of the inflationary influence of the factors associated with the inadequate supply of construction materials, meat, rice and other goods can be achieved by expanding their imports. Meanwhile, in the medium and long term, systemic measures to raise the internal potential of sustainable manufacturing of these products will represent the crucial factors of their price stability.

III. Monetary conditions

In its entirety, monetary policy is currently being implemented within the framework of the basic action plans and forecast indicators developed for 2018.

Meanwhile, taking into consideration medium-term strategy of the Central Bank on the transition to inflation targeting, there are undertaken measures to raise the impact of interest and other transmission channels on the financial decisions of participants of the real sector and households, as well as on the rates of the money market, deposits and loans of commercial banks.

With this aim, while conducting monetary policy, the Central Bank, not limiting itself only by monitoring and regulating the liquidity level, comprehensively studies peculiarities of all transmission channels in the monetary sphere taking into account new realities.

Interest rate and channels of its impact

During the first half of 2018, the refinancing rate of the Central Bank which is considered a key reference point for the monetary transactions of the Central Bank with commercial banks remained unchanged in terms of the current conditions in the economy.

The interest rate policy of the Central Bank made an impact on the situation in the money and foreign exchange markets, on the investment and savings activity of the population and economic entities through various channels.

In addition, the expansion of concessional lending programs, including entrepreneurial activities of the population, preferential mortgage, as well as financing of the agricultural sector, put restrictions on the impact of monetary instruments through the credit channel.

On the other hand, the retention of interest rates in the economy at the current level with the provision of relatively high yield of soum deposits makes a favorable influence on the growth of the banks' term and savings liabilities in the national currency.

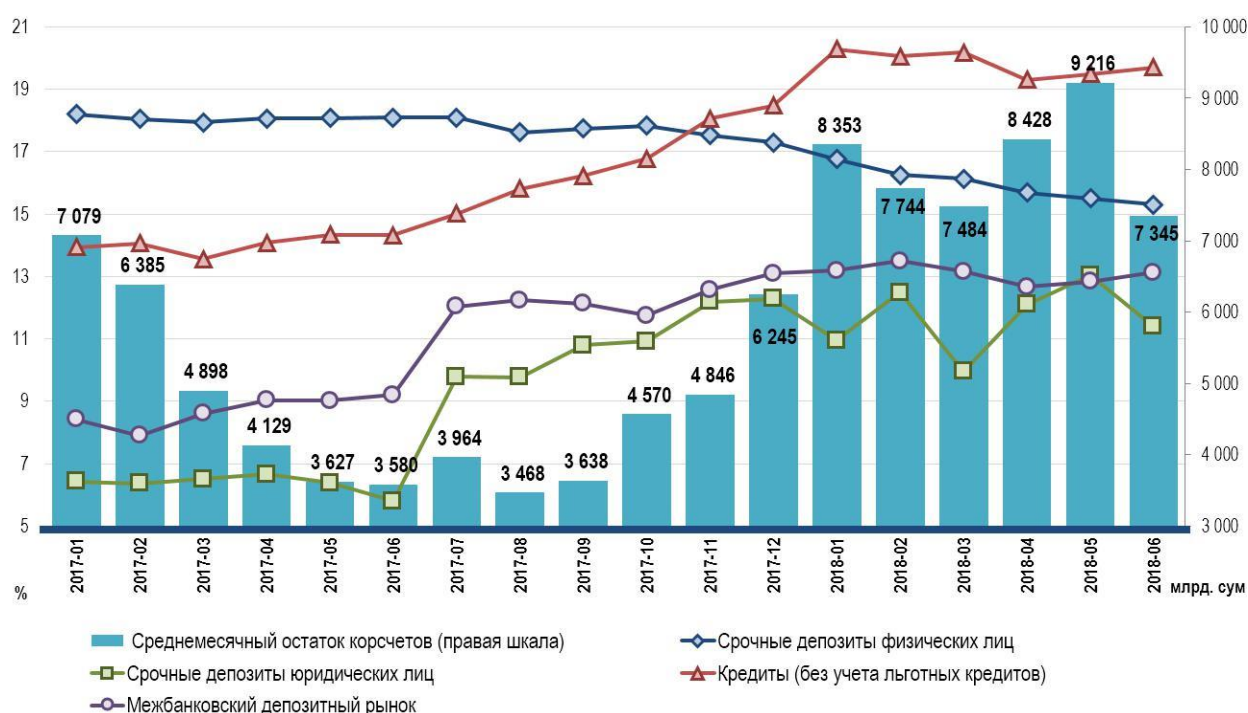
The interest rate policy of the Central Bank also began to play a certain distribution role, balancing demand between loans in the national currency and foreign currency. This, in turn, will make an impact on the level of demand and supply in the domestic foreign exchange market.

From this position, an important (minimal) condition in the emerging situation is retention of the influence of interest rate policy on the level of interbank money market rates, as well as on market rates of deposits and loans of commercial banks.

The dynamics of weighted average interest rates on the interbank money market testifies their fluctuation around the refinancing rate (Figure 7).

Figure 7

Dynamics of weighted average interest rates



Monthly average residual of correspondent account (right scale)
 Term deposits of legal entities
 Interbank deposit market

Term deposits of individuals
 Loans (excluding concessional loans)

Weighted average interest rates of the money market in January-June 2018 fluctuated between 12,7-13,1%.

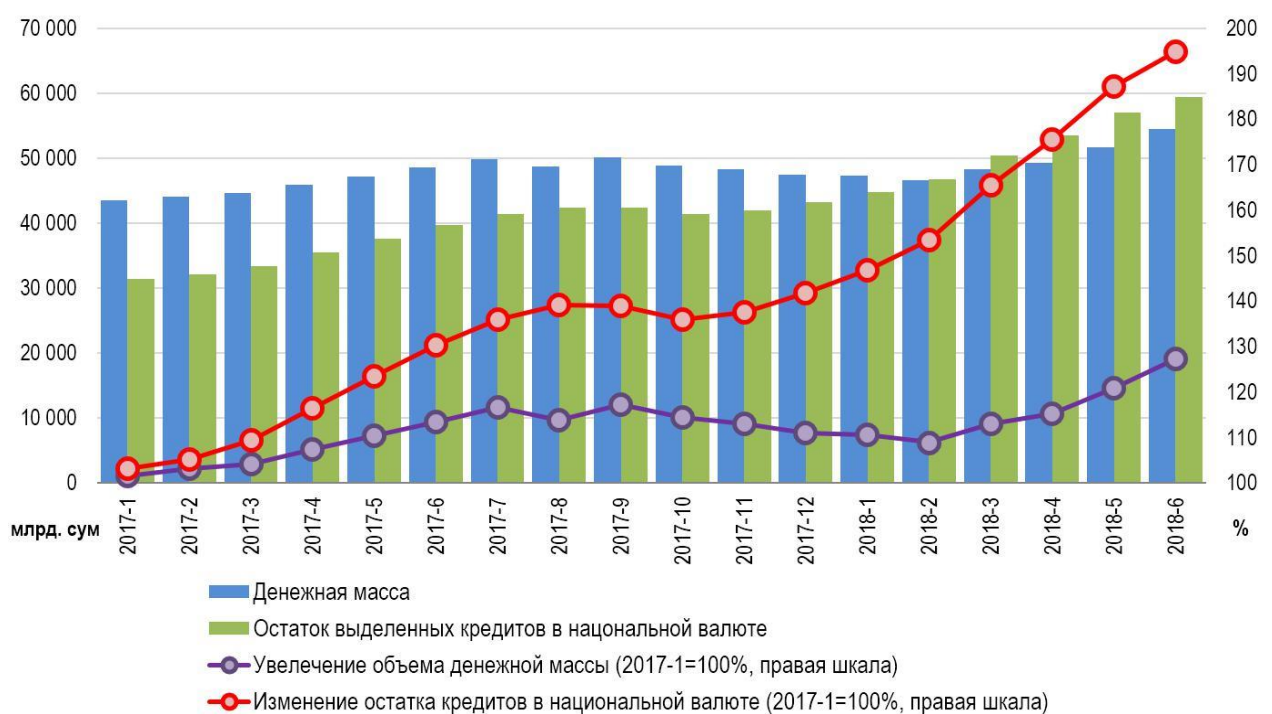
Credit channel

Against the background of the expansion of concessional lending programs, an accurate assessment of the efficiency of the influence of the level of interest rates on the credit channel is rather complicated.

The lending volume of the economy in the second quarter of 2018 increased more rapidly compared to the forecast figures. Thus, in the first half of this year the residuals of credit investments increased by 23,5 trillion UZS or 21,5%, in particular, a credit portfolio of banks in the national currency grew by 16,2 trillion UZS or 37,4% (Figure 8).

Figure.8

Dynamics of change of the money supply and loans in the national currency



money supply residual of allocated loans in the national currency
 increase of the money supply volume (2017-1=100%,right scale)
 change in the residual of loans in the national currency (2017-1=100%,right scale)

Meanwhile, the analysis of the growth of credit placements by lending sources demonstrates that about 60% of newly extended loans represent concessional loans financed from the budget, the Fund for Reconstruction and Development of Uzbekistan (FRDU), extrabudgetary funds, etc.

Taking into consideration targeted allocation and sources of financing, the stiffness of monetary conditions does not make a significant impact on the volume of these loans.

The growth in the volume of loans extended to the private sector is justified by the increased demand for credit resources.

In addition, based on the results of the first half of 2018, the average weighted interest rate on loans in the national currency declined by 0,6 percentage points since the beginning of the year and constituted 19,7% (*excluding concessional loans*).

The reduction in interest rates on loans can be proven by the intensification of the competitive environment between banks and application of a new approach to raise their interest yield.

Channel of impact on the savings level in the economy

Despite the fact that the aggregate money supply increased by 5,8% in the first half of the year, there was an forward-looking growth in term and savings deposits in the national currency. Thus, the volume of term and savings deposits in the national currency in January-June of 2018 increased by 30,7%, while in foreign exchange it decreased by 7%.

This fact demonstrates a certain efficiency of the current level of interest rates in ensuring the attractiveness of soum deposits compared to deposits in foreign currency against the background of strengthening the UZS exchange rate, as well as in encouraging savings behavior in the economy.

In June 2018, the weighted average interest rate on term deposits of individuals accounted for 15,3% (17,0% at the beginning of the year), and of legal entities – 11,4% (11,6% at the beginning of the year).

The reduction in the cost of the resource base of commercial banks was due to a significant increase in the supply of financial resources and, correspondingly, the volume of deposits.

Channel of impact on the exchange rate and demand and supply level at the domestic foreign exchange market

One of the crucial changes witnessed in the new conditions, was the change in the structure of demand for credit resources in foreign exchange. Thus, in terms stability of the UZS exchange rate and its insignificant strengthening, relatively low interest rates on loans in foreign exchange promoted the growth of demand for these credit resources.

In particular, in the first half of this year there was a boost in the growth rate of loans in foreign exchange. During this period, foreign loans increased by 1,2 billion USD in the equivalent or 16,1% (for the same period in 2017 the growth accounted for 0,5 billion USD or 8,4%). Herewith, loans in foreign exchange extended to private sector entities grew more rapidly (51%).

In general, this fact demonstrates the presence of a potential channel of impact of the interest rate policy of the Central Bank on the level of the exchange rate through indirect influence on the level of demand and supply of foreign exchange.

Monetary policy instruments

The main qualitative change in the use of monetary instruments was a new approach when implementing interventions by the Central Bank in the foreign exchange market, which is aimed at sterilizing additional liquidity to the banking system without affecting the fundamental market trend of the UZS exchange rate.

The application of this approach has proven itself as an efficient tool for managing the liquidity of the banking system, creating market conditions for the formation of the exchange rate and interest rates in the money market.

Nevertheless, the experience shows that the efficiency of the use of sterilization transactions by the Central Bank in the foreign exchange market is affected by the seasonality of currency flows, particularly, when the volume of cross-border remittances of individuals in the II and III quarters of the year considerably increases.

Thus, if the volume of foreign exchange interventions of the Central Bank amounted to 600 million USD in the first quarter, then in the second quarter the volume of intervention amounted to 300 million USD, which has led to the emergence of an additional unsterilized part of liquidity in the banking system.

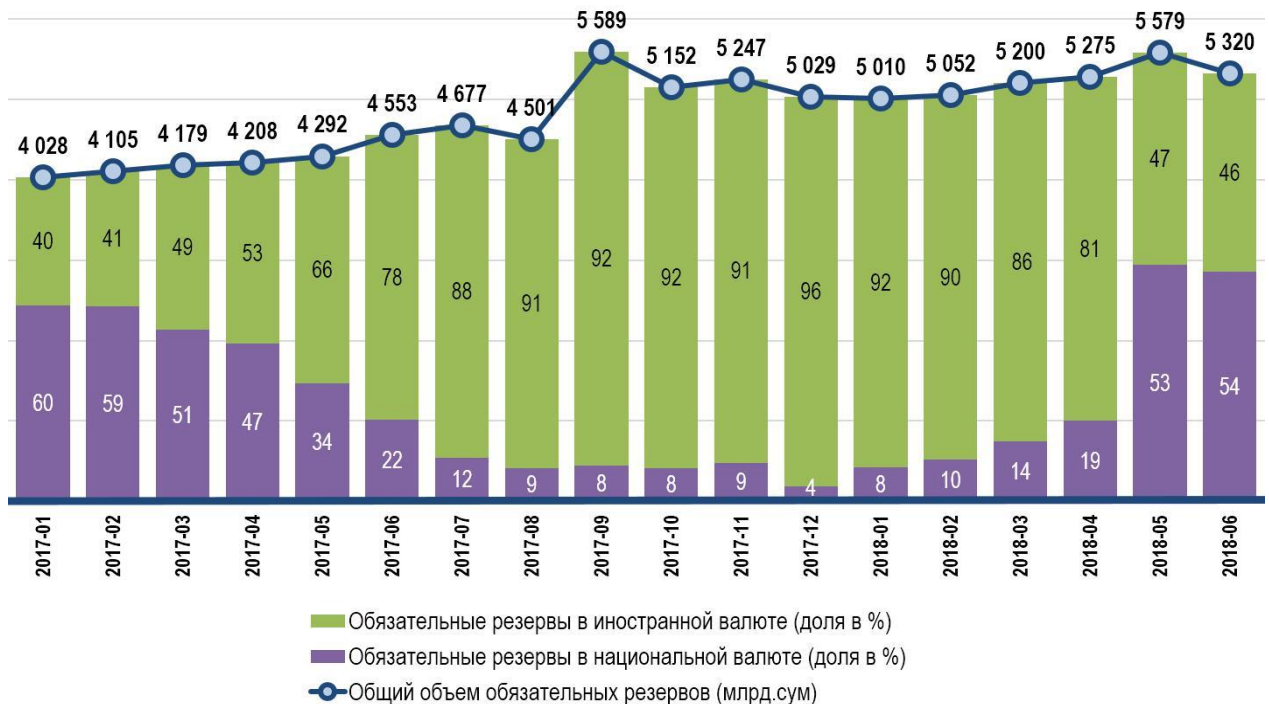
Under these conditions, the Central Bank leveled up the above-mentioned liquidity situation to a certain extent by changing the rules for the formation of reserve requirements of commercial banks.

Pursuant to the updated rules, the reservation base has been expanded, differentiated reservation rates have been established based on the currency and terms of deposits, and the procedure for averaging the reserve requirements using the coefficient 0,1 has been introduced. Meanwhile, the formation of the reserve requirements is implemented in the national and foreign currency in proportion to their share in the deposit base.

As a result of the application of the new reserve rules, from the beginning of this year the share of foreign exchange in the structure of reserve requirements decreased from 96% to 46% (Figure 9).

Figure 9

Dynamics of changes of the residuals of reserve requirements of commercial banks at the Central Bank



Reserve requirements in the foreign exchange (share in %)

Reserve requirements in the national currency (share in %)

Total volume of reserve requirements (billion UZS)

Trends expected in the monetary sphere

It should be noted that despite the moderate growth of the money supply, the increase in lending volumes facilitates retention of the inflationary pressure by stimulating consumer and investment demand in the economy.

Preliminary estimates and forecasts indicate that in the short and medium term, the growth of aggregate demand in the economy will be supported by both the credit channel and by the expansion of public expenditures.

A developing trend of the liquidity growth in the banking system and money supply in the economy can finally complicate conditions for monetary policy aimed at curbing inflationary processes.

Nevertheless, the current situation determines the search for new solutions to the efficient application of a set of monetary policy instruments, in terms of the seasonal nature and other features of the foreign exchange flow in the economy.

The Central Bank will continue to comprehensively study the issue of improving the efficiency of monetary instruments along with the improvement of the intervention strategy in the foreign exchange market in compliance with the inflation targeting principles.

Meanwhile, the proposed improved approaches to the application of monetary instruments will be reflected in the main directions of the monetary policy for 2019.

Glossary

Administratively regulated prices	- prices that are developed not under the impact of the market drivers (supply and demand), but are fixed by the public administration authorities, organizations and enterprises by administrative way for certain goods (services) with the aim of restricting changes of their prices.
Basic inflation	- inflation calculated without including changes of prices for certain goods and services, subject to the impact of factors which have a seasonal and administrative character (fruit and vegetable products, fuel, certain public transport services, communication services, housing and public utilities, etc.).
Currency interventions of the Central Bank	- participation of the Central Bank in the foreign exchange market by selling and buying foreign exchange with the aim of sterilization additional liquidity in the banking system formed as a result of the purchase of the monetary gold by the Central Bank with the aim of smoothening or prevention of sharp fluctuations of the exchange rate.
Time lag	-indicator reflecting time backlog of one of economic events in comparison with another one, connected with it; a period of time between two connected events.
Money supply	- an aggregate amount of cash in circulation and money in the bank accounts. To analyze money supply various money aggregates classified by the liquidity degree are calculated: M0 – cash in circulation; M1 – M0 + demand deposits in the national currency; M2 – M1 + term deposits, saving deposits and other deposits + deposits in foreign exchange.
Monetary policy	-a part of the monetary policy, conducted by the Central Bank of the Republic of Uzbekistan with the aim of ensuring price stability in the domestic market. Monetary policy is implemented through the use of monetary instruments to maintain liquidity in the banking system, interest rates and other monetary indicators at the target level.
Money aggregate “Effective M0”	-amount of cash in circulation, as well as funds of individuals and private entrepreneurs on the bank cards.

Impulse response	- a reaction of the dynamic series in response to some external shocks. The term “shock” implies a one-stage change in exogenous variables, equal to their one standard deviation of the fluctuations over the entire observed period. The functions of the impulse response characterize the time of return of the endogenous variable to the equilibrium trajectory with a single shock of the exogenous variable.
Investment demand	- demand from business entities for physical capital objects (cars, equipment) and services used to maintain or expand its activities. Investment demand is a part of the aggregate demand in the economy.
Inflationary expectations index	-a quantitative indicator of inflationary expectations, which signals further acceleration or slowdown of inflation.
Consumer Price Index (CPI)	- an indicator of the change in the general level of prices for goods and services purchased by the population for consumption. The CPI is calculated as the ratio to the cost of fixed set of goods and services in the prices of the current period to its value in the prices of the previous (basic) period.
Inflation inertia	-the tendency of inflation to return slowly to its long-term (equilibrium) level after the shock, which deviated it from this long-term level.
Inflationary expectations	- assumptions of the population and entrepreneurs about the future inflation rate, which they take into consideration when making economic decisions. Proceeding from the inflationary expectations, producers and consumers, sellers and buyers elaborate their future monetary, financial and pricing policies, assess level of income, expenditure and expected volume of profit.
Liquidity of the banking system	-cash balances in the national currency on correspondent accounts of commercial banks in the Central Bank of the Republic of Uzbekistan
Interbank money market	-a system of organization and implementation of exchange trades of short-term transactions (as a rule, up to one year) for the placement and attraction of cash funds in the national and foreign currencies.
VAR, vector autoregression model	-econometric model for forecasting and analysis of macroeconomic of indicators, consisting of a system of equations in which each variable (a component of a multidimensional time series) is represented by a linear combination of all variables at previous time moments. Vector autoregression model enables to estimate several variables at once and take into account their interaction.
Monetary factors of inflation	- inflation factors which can be directly impacted by the Central Bank with the help of monetary policy instruments in the medium-term perspective.

Non-monetary inflation factors	- factors affecting inflation, which are beyond the influence of monetary policy of the Central Bank. This group includes external economic conditions, structural factors (the state of the basic funds, productivity and production efficiency, supply and qualitative parameters of the labor force, technological level of production, transport, logistics infrastructure, concentration of markets), legal regulatory environment, fiscal policy, factors on the part of supply of goods and services.
Reserve requirements of commercial banks	- funds deposited by commercial banks with the Central Bank in order to execute reserve requirements of the Central Bank. The minimum level of reserve requirements deposited with the Central Bank is determined by the regulations of the Central Bank, taking into consideration the objectives of monetary policy and depends on the size, type and term of deposits, other liabilities of banks. The amounts of reserve requirements the equal for all banks by each category of attracted funds.
Balance of payments	- statistical report which reflects all economic transactions between residents and non-residents for a certain period of time.
Consumer demand	-a part of the aggregate demand in the economy related to consumer goods and services.
Exchange rate policy of the Central Bank	-a part of the monetary policy of the Central Bank by means of which the Central Bank makes an impact on the cost of financial resources and the level of interest rates in the economy, as well as financial and investment decisions of the population and business. The interest rate policy is aimed at maintaining a certain level of interest rates in the economy to ensure positive real interest rates by assets in the national currency. The change in the interest rate of the Central Bank affects the level of interest rates in the economy as a whole, which leads to the corresponding changes in the investment / savings and, therefore, in aggregate demand.
Inflation targeting regime	- the monetary policy regime, in which the Central Bank declares medium-term target for the inflation rate and focuses all its efforts on bringing current inflation to its target by applying monetary instruments.
Average weighted interest rate	- an average rate calculated with the account of the weight of the studied indicator in the aggregate volume. The share of each rate stake in the aggregate volume is taken as scales.
Refinancing rate	-the interest rate of the Central Bank which is used in the transactions of the Central Bank with commercial banks to extend loans.
Liquidity sterilization	- withdrawal of excessive liquidity from the banking system occurred due to the various factors.

Account of current transactions	- a section of the balance of payments of the country which reflects the flow of goods, services, primary and secondary income (wages of employees, return on investments and others) between residents and non-residents.
Cross-border money transfer	-transfer of funds to or from the country through international money transfer systems.
Transmission (transferring) channels of the monetary policy	- channels of impact of decisions in the field of monetary policy on the dynamics of prices and the economy as a whole. The process of gradual distribution of the signal of the Central Bank about retention or change of the interest rate and its future trajectory from segments of the financial market to the real sector of the economy and, as a result, to the inflation. The change in the interest rate level is transmitted to the economy through the following main channels: interest rate, credit, currency, asset prices and expectations.
Empirical analysis	- an approach to the study and interpretation of the information based on the analysis of factual data. The empirical approach is based on real data, metrics and results, rather than on theories and concepts.
Low base effect	- a state where the excessive growth rate of this or that indicator is justified by its extremely low starting indicator.