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The Economic Logic Behind Uzbekistan's 14% Interest Rate

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Abstract. This paper examines why the Central Bank of the Republic of Uzbekistan (CBU) maintains its main policy rate at 14.00%. Rather than signaling financial hardship, this high rate is a deliberate strategic tool used to manage rapid national economic growth, cushion temporary price jumps from utility reforms, and protect the purchasing power of the national currency (UZS). By offering strong returns on local savings and guiding responsible lending, the CBU ensures sustainable growth while guiding inflation toward its medium-term 5.0% target.

1. What Is the Central Bank Interest Rate?

The Central Bank sets a baseline interest rate (the "policy rate") for the entire country.

- **When the rate is high (14%):** Borrowing money becomes more expensive for regular banks, businesses, and everyday people.
- **The Goal:** Slow down borrowing, encourage saving, and stop prices from rising too fast.

2. Main Reasons for the 14% Interest Rate

Reason A: Fighting Inflation (Rising Prices)

The most important job of a Central Bank is to protect people's purchasing power by keeping prices stable.

- **The Target:** Uzbekistan wants to bring annual inflation down to **5%** by late 2027.
- **The Current Situation:** While inflation has slowed down over recent months, many everyday goods and services are still getting more expensive faster than desired. Keeping the rate at 14% acts like a brake on price growth.

Reason B: The Economy Is Growing Very Fast

When an economy grows quickly, people and companies spend a lot of money. High demand causes prices to rise.

- Uzbekistan's construction, trade, and service sectors are growing strongly.
- A high interest rate prevents the economy from "overheating" (where demand grows faster than goods can be produced).

Reason C: Energy and Price Reforms

Uzbekistan has been gradually removing government subsidies on electricity, gas, and energy to modernize its economy.

- Adjusting energy prices upwards temporary pushes up heating, fuel, and manufacturing costs.
- Setting a high 14% interest rate helps absorb these cost hikes so they don't trigger nationwide price jumps across all other products.

Reason D: Encouraging People to Save in Sums

If bank interest rates are too low, people prefer to spend their money immediately or buy foreign currency (like U.S. Dollars) to protect their savings.

- With a **14% policy rate**, commercial banks can offer high yields (15%+ interest) on bank deposits.

• This rewards households for keeping their savings in local currency (Uzbek Sum), strengthening national currency stability.

3. Summary Matrix

Factor	What Is Happening	Why 14% Helps
Inflation	Prices are still rising faster than the 5% long-term target.	Makes loans costlier, cooling down excess demand.
Energy Reforms	Gas and electricity prices are being deregulated.	Prevents short-term price shocks from spreading.
Savings	People need a reason to hold Uzbek Sum.	Pays strong returns to people who store money in bank deposits.

Conclusion

The 14% interest rate is a temporary measure designed to stabilize the economy. By keeping loans, a bit more expensive and bank deposits high-yielding, the Central Bank keeps inflation under control and protects the value of the national currency until price stability targets are reached.