



The Central Bank of the Republic of Uzbekistan



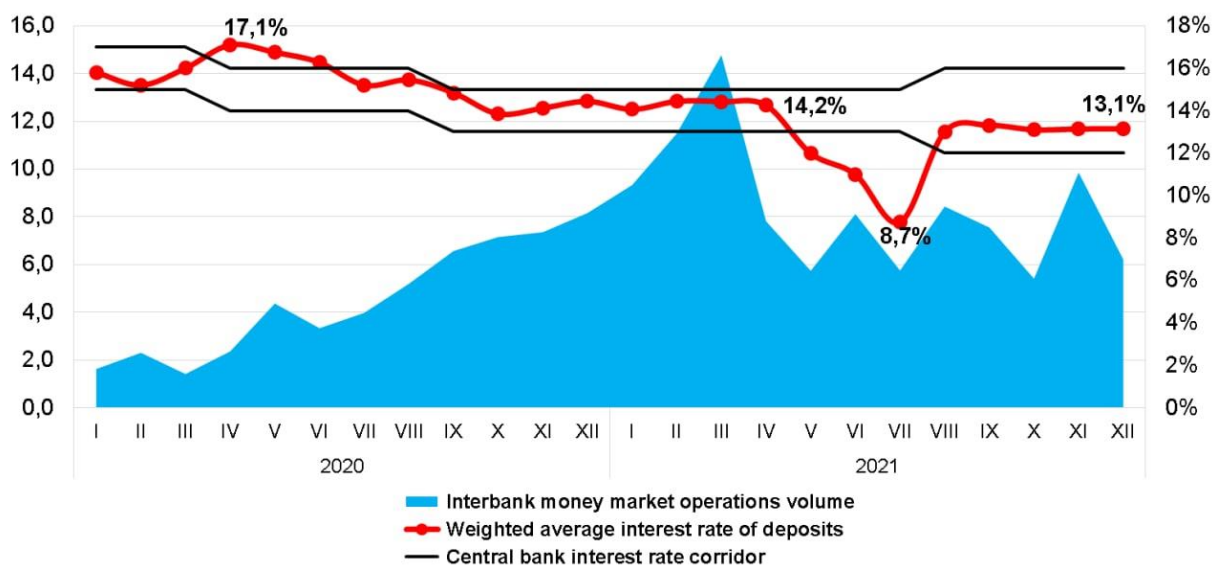
Interbank Money Market Review

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Interbank money market transactions totaling **100.4 trillion sums** were conducted in 2021, twice as much as in 2020 (*Figure 1*).

High bank activity in the money market was observed in the first quarter of the year, and **relatively balanced total liquidity** due to the seasonally easing effect of government operations contributed to an increase in interbank deposits.

Figure 1. Money market transactions (trln. sum) and interest rates



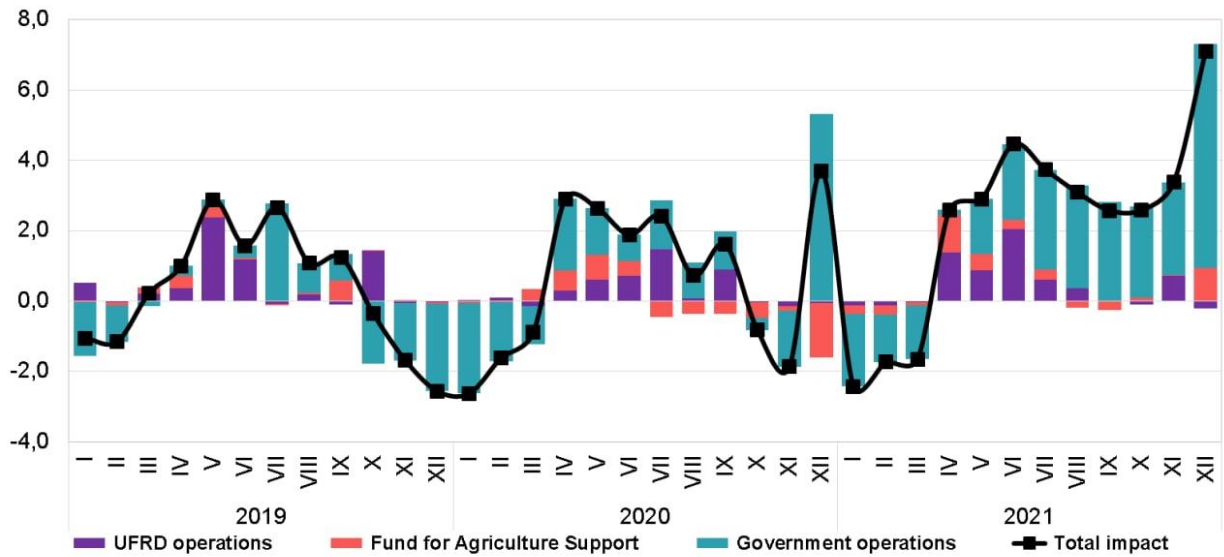
However, since April, there has been a sharp decline in interbank transactions and interest rates amid a significant increase in government spending and a consequent increase in overall liquidity at banks. Hence, the interest rates have exceeded the lower bound of the corridor.

In particular, over the past year 2021, the impact of government operations on banking system liquidity reached **26.6 trln. sum** (in 2020 this figure was 8.1 trln. sum). Specifically, for Q2-Q4, the impact of government operations on total liquidity was **32.4 trln. sum**, **4.5** and **1.5 times** higher than in the corresponding period of 2019-2020 respectively (*Figure 2*).

The significant increase in government spending was reflected in the sharp increase in the effective liquidity¹ of the banking system (*Figure 3*).

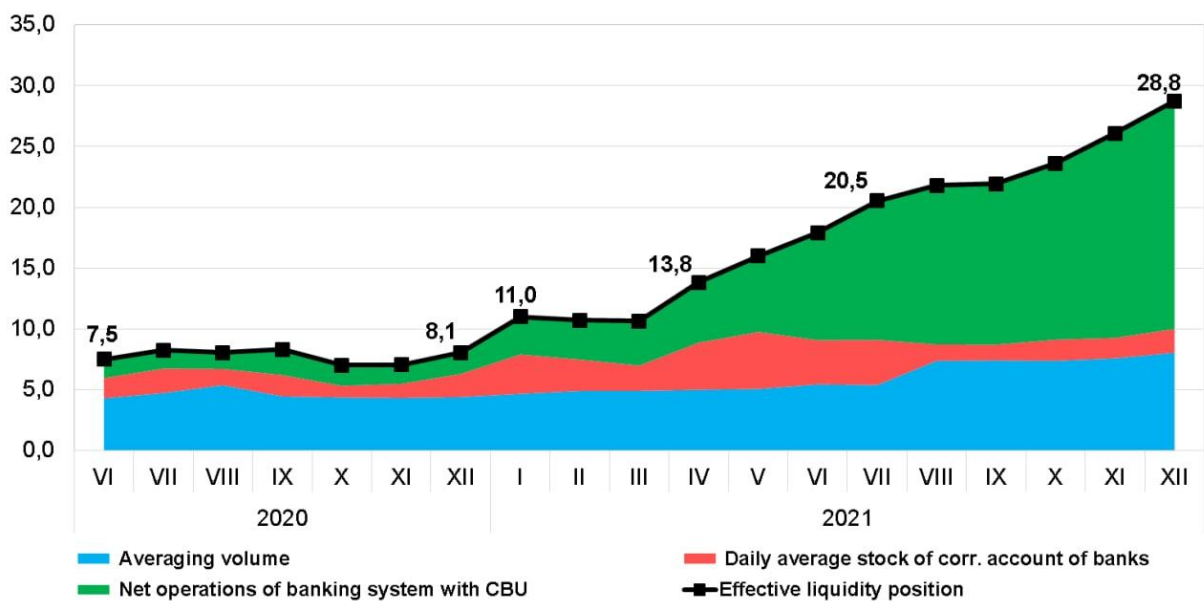
¹ **The effective liquidity of the banking system** is calculated by adding the stock of commercial banks' correspondent accounts in the Central bank in the national currency (*total liquidity*) to the net position

Figure 2. Impact of government operations on total liquidity of the banking system (trln. sum)



The effective liquidity position of the banking system, calculated on the basis of monetary transactions of commercial banks with the Central Bank, amounted to **11 trln. sum** in the first quarter of the year, a significant increase was observed since April and amounted to **28.8 trln. sum** at the end of the year.

Figure 3. Effective liquidity of the banking system (trln. sum)

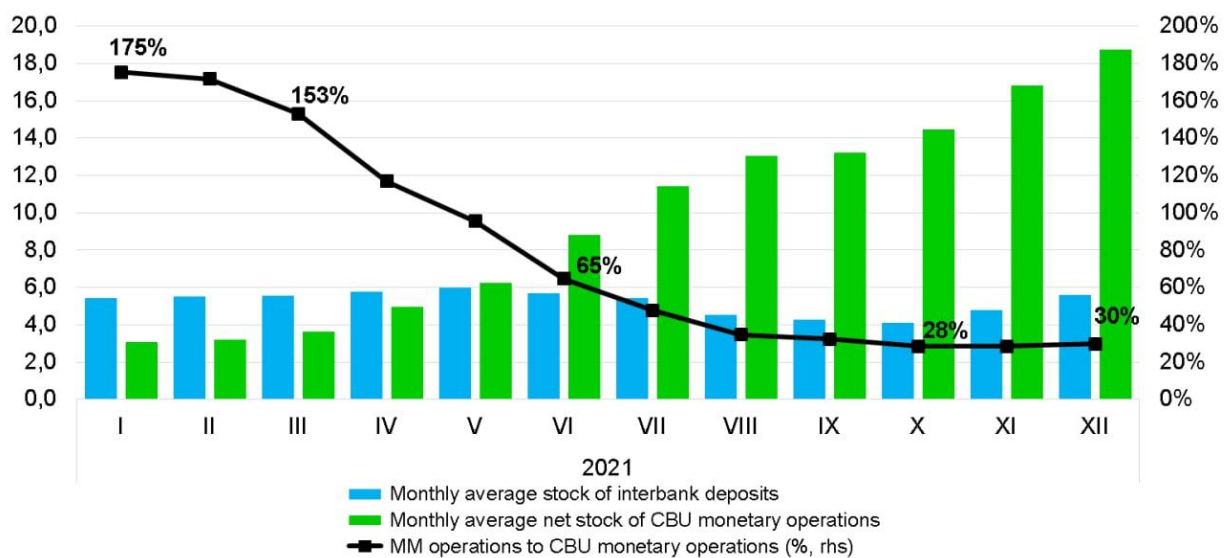


of banks on monetary operations (calculated by deducting the volume of liquidity-providing operations from liquidity-attracting operations). This indicator shows the probable amount of total liquidity of the banking system in the absence of monetary policy operations of the Central Bank

This additional liquidity was effectively absorbed through the central bank's monetary policy instruments. In particular, while the stock of Central Bank notes was **3 trln. sum** at the beginning of the year, it reached **12.1 trln. sum** by the end of the year. The volume of deposit auctions and overnight deposit operations also increased significantly.

As a result, the ratio of the interbank deposits' stock to the average monthly stock of monetary operations of the Central Bank decreased sharply over the last year, reaching **30%** in December from **175%** in January (Figure 4).

Figure 4. Dynamics of the average monthly stock of interbank deposits and monetary operations (trln. sum)



The future level of this ratio will largely depend on autonomous factors of liquidity.

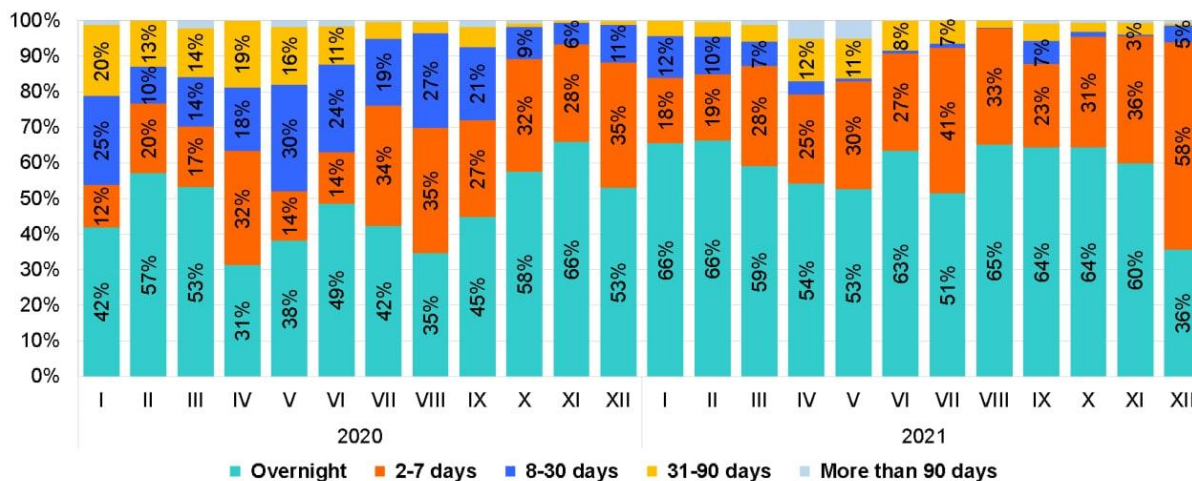
As a result of changes in monetary instruments, there was a significant change in the structure of deposit operations in the money market, with a substantial increase in the volume of **short-term operations**, in particular overnight operations (Figure 5).

In particular, the share of deposit operations with a maturity of up to 7 days in the money market averaged **89%** in 2021, having increased by **17 p.p.** over the same period of the last year.

In turn, the volume of deposit operations with 8 to 90 days maturity amounted to an average of **9%** per month in 2021, having decreased by 17 p.p. compared to the corresponding period of 2020. Deposit transactions

with a maturity of more than 90 days were infrequent. This can be a result of the gradual increase in the issuance limits of Central Bank bonds, which are risk-free and highly liquid assets, after which commercial banks kept decreasing supply of long-term deposits that are relatively low liquid and risky assets.

Figure 5. Distribution dynamics of interbank money market operations by maturity (in %)



Furthermore, **the activity of commercial banks** also plays an important role in the analysis of operations and interest rates in the money market. The number of borrowing banks in the money market averages **14-15** per month, and the number of lending banks averages **20-22** (Figure 6).

Figure 6. Activity of banks in the money market

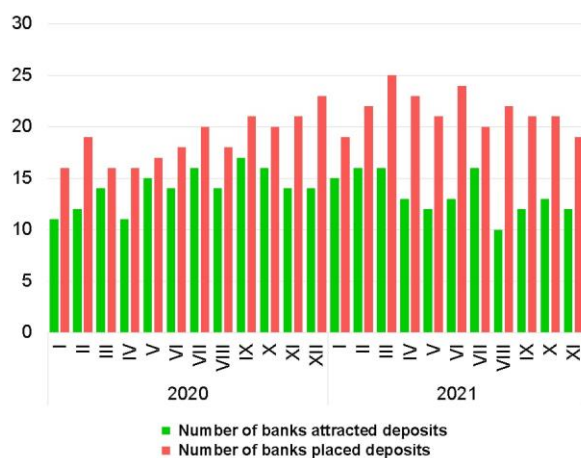


Figure 7. Demand and supply concentration in the money market

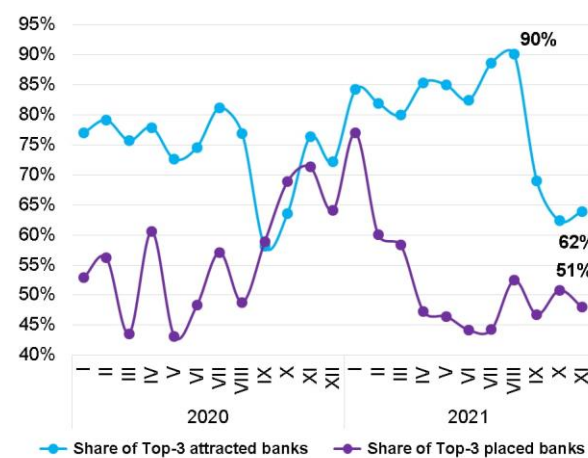
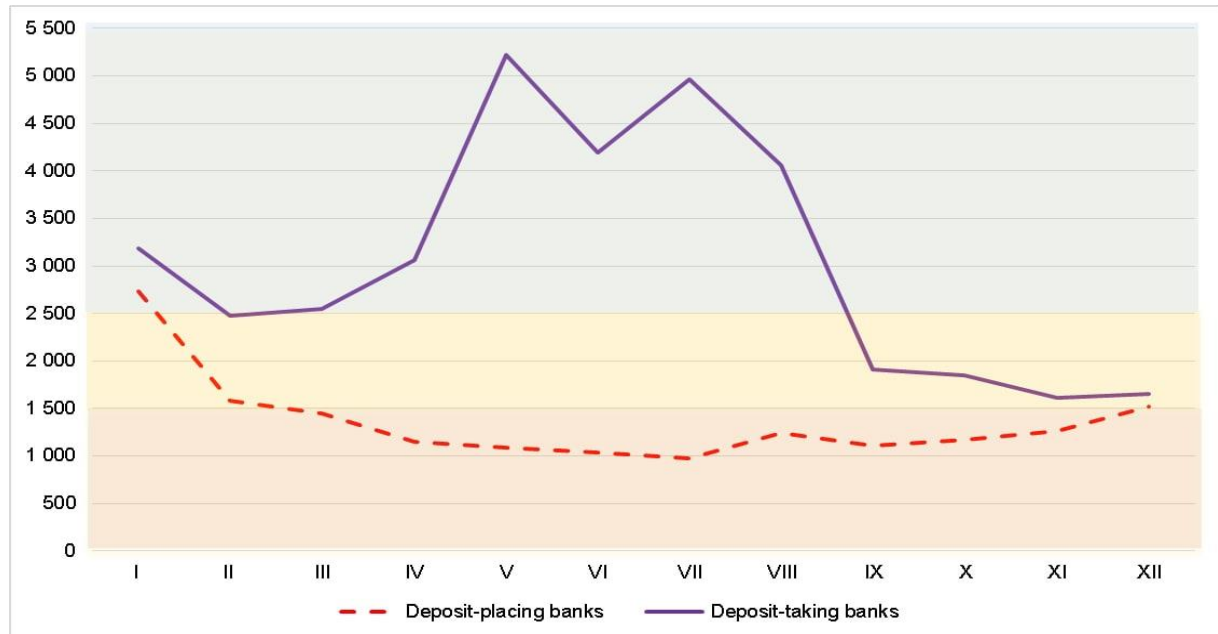


Figure 8. Herfindal-Hirschman Index on the participation of depositors and borrowers in the money market (2021)



Apparently, not all banks are participating in the money market and managing their liquidity effectively. Meanwhile, **the concentration level in the money market is high**, both by demand and supply side.

In particular, the concentration in borrowing market is very high: the share of the three largest deposit borrowers in monthly total operations decreased from **90%** in August to **58%** by the end of the year, and remained high over the lending banks' share (*Figure 7*).

The level of concentration in deposit suppliers (the share of the 3 largest deposit-lending banks in monthly total operations) is usually **higher than 45-50%**, indicating an uneven distribution of total liquidity between banks.

Additionally, the high concentration of banks' activity in deposit market may also be analyzed using the **Herfindal-Hirschman index²** (*Figure 8*).

² **The Herfindal-Hirschman index** is a general measure of concentration and is used to determine market competitiveness. The index is determined by squaring the market share of market participants and calculating the sum of the results: $HHI = s_1^2 + s_2^2 + s_3^2 + \dots + s_n^2$, where $s_n = n$ is the market share of the participant.

In a market with an index value of less than 1,500, the level of competition is high and the level of concentration is low. A market with an HHI of 1,500 to 2,500 is considered to be moderately concentrated, while an index value of more than 2,500 represents a highly concentrated market.

At the beginning of 2021, the overall concentration level in the deposit market was high for both lending banks and borrowing banks. In January, the index value was 3,188 for deposit-taking banks and 2,738 for deposit-placing banks.

The level of concentration in the deposit market fell to a moderate level in February, and to a low level since March. The index has so far formed around a monthly average of 1,200-1,500.

For the deposit borrowing market, the Herfindal-Hirschman index was high until August (averaging around 4,600 in May-August) and fell to an average level of concentration in the last three months.

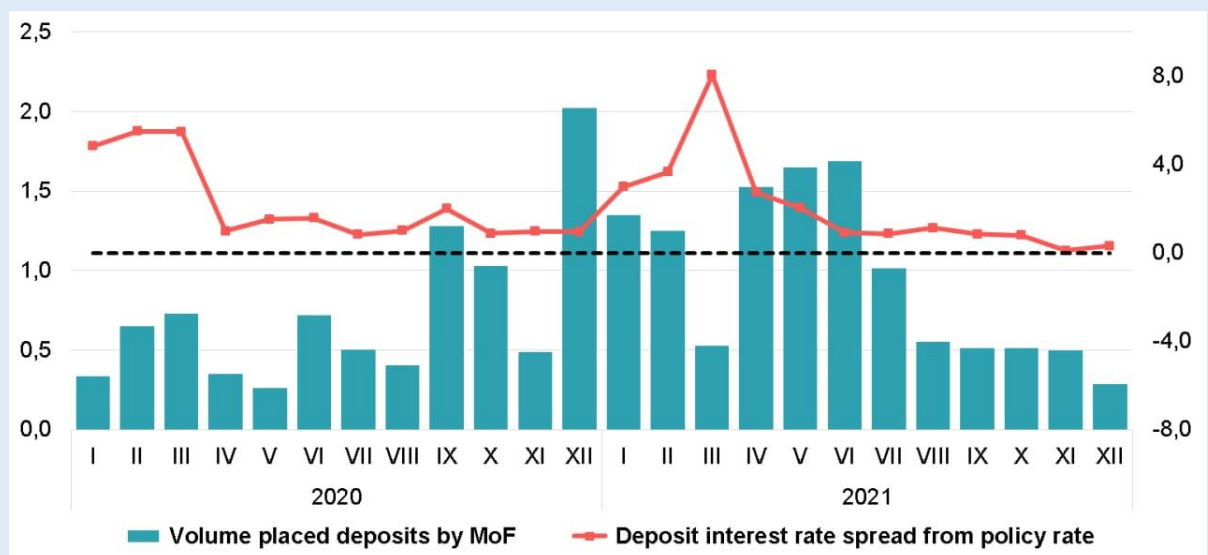
Deposit of temporarily unused funds by the Ministry of Finance in commercial banks and its impact on overall liquidity

Placement by the Ministry of Finance of temporarily unused funds of the Single Treasury Account (STA) and off-budget funds (OBF) in commercial banks is one of the important factors influencing the volume of operations in the money market. The Ministry of Finance is depositing in commercial banks through an auction.

In 2021, the Ministry of Finance placed a total of 11.1 trln. sum in deposits in commercial banks, which is **29%** more than in 2020 (Figure 1).

The high demand for these deposits by commercial banks is mainly explained by the low operating costs and the fact that those resources can serve as a long-term fund for loan allocation.

Figure 1. The volume of deposits of the Ministry of Finance (trln. sum) and the difference between interest rates on them from the CBU policy rate



Source: Ministry of Finance of Uzbekistan

The spread of the average weighted interest rates on deposits of the Ministry of Finance from the key rate of the Central Bank has always been positive. It decreased until the end of the year, after reaching its maximum in March 2021 (8.05 percentage points). This is due to the maturity of these deposits, which is mostly up to **24 months**.

The bulk of deposits placed by off-budget funds account for the short-term deposits with a maturity of **up to 30 days**.

In 2021, the volume of deposits placed from temporarily unused funds of the Treasury Account increased by almost **2.6 times** compared to 2020 and amounted to **6.7 trln.** sum. The main part of this growth accounted for **long-term** (over 181 days) deposits (*in 2020, 95% of Treasury Account deposits were with the maturity from 31 to 180 days*).

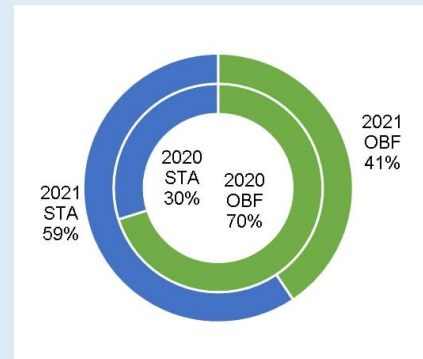
The volume of deposits of off-budgetary funds in 2020 amounted to 6.2 trillion sums, in 2021 – 4.6 trln. sum (*Figure 2*). In 2020, about **70 percent** of the volume of deposits placed by the Ministry of Finance fell on off-budget funds, while in 2021 this figure decreased to **41 percent** (*Figure 3*).

Figure 2. Distribution of Ministry of Finance deposits by maturity



Source: Ministry of Finance of Uzbekistan

Figure 3. Source of Ministry of Finance deposits



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