The Central Bank
of the Republic of Uzbekistan

Money market and liquidity review

II quarter 2025

CONTENT

Introduction

Against the backdrop of seasonal growth in demand for cash and high activity in the domestic currency market in the second quarter of 2025, the volume of the remaining liquidity surplus decreased at the end of the quarter.

The increase in liquidity surplus contributed to less demand for the Central Bank's monetary operations to provide liquidity.

At the same time, as a result of the continuing impact of government operations on liquidity, there was an increase in liquidity in the banking system compared to the beginning of the year. This, in turn, contributed to money market interest rates falling below the key rate in the second quarter.

In the current quarter, activity on the interbank money market was 66 percent higher than in the first quarter. At the same time, 67 percent of transactions on the interbank money market were repo transactions.

UZONIA interest rate, which reflects the benchmark level of short-term resources formed on the money market, was lower than the key rate and remained within the interest rate corridor. The increase in UZONIA volatility is explained by a surplus in the system.

It is expected that in the next quarter, government operations in the banking system will be a factor in increasing liquidity, while increased demand for cash will be a factor in reducing it.

1. Analysis of banking system liquidity

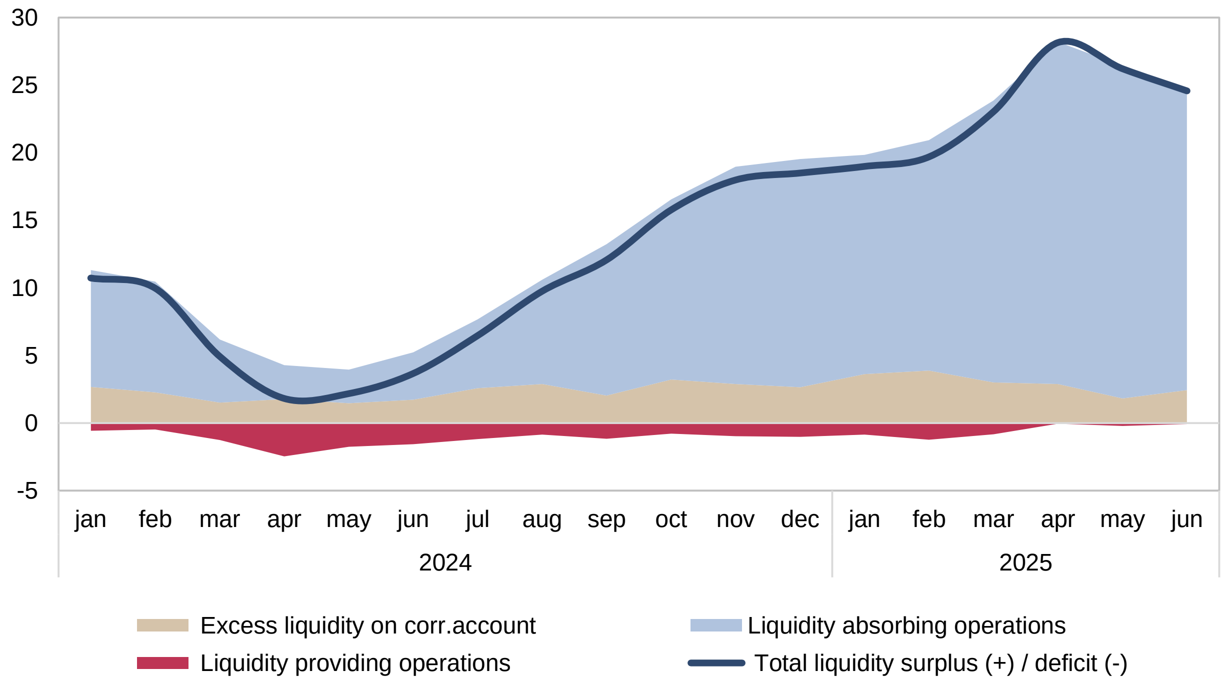
1.1. Overall liquidity dynamics and factors

The liquidity surplus[1] in the second quarter of 2025 averaged 26.3 trillion soums, which is 27.9 percent higher than in the first quarter *(an average of 20.6 trillion soums)*. However, it decreased from an average of 28.2 trillion soums in April of this year to 24.6 trillion soums in June *(Figure 1)*.

Due to the high growth rate of deposits in the second quarter of 2025 and the expansion of the reserve requirement base since April of current year, the average reserve requirement of the banking system amounted to 15 trillion soums. At the same time, an average of 2.4 trillion soums of additional liquidity was formed in the correspondent accounts of banks, which made it possible to fully ensure the continuity of payments.

With the seasonal increase in the amount of cash in circulation, cash transactions in the second quarter contributed to a 4.4 trillion soums decrease in the banking system's liquidity.

Figure 1: Total liquidity position of the banking system, *trln soums*



Source: Central Bank calculations.

[1] **Total liquidity position of the banking system –** is calculated by adding banks' net position on monetary operations *(net balance of liquidity absorption operations and liquidity provision operations)* with the difference between the balance on the corresponding account of commercial banks in the national currency with the Central Bank and the reserve requirement averaging volume. This indicator characterizes the probable size of total liquidity in the banking system in the absence of monetary policy operations.

1.2. Impact of government operations on banking system liquidity

In the second quarter of 2025, the impact of government operations on the overall liquidity of the banking system increased by 11.6 percent compared to the first quarter and amounted to 17.4 trillion soums *(Figure 2)*. Specifically:

- Operations of the Agricultural Support Fund had a downward effect of 1 trillion soums;

- Operations of the Uzbekistan Fund for Reconstruction and Development (UFRD) had an increasing effect of 0.3 trillion soums;

- Operations carried out through the Single treasury and budget Accounts had an increasing effect of 18.2 trillion soums.

In addition to expenditure on salaries, benefits and pensions of budgetary organizations, the placement of temporarily available funds of budgetary organizations in deposits with commercial banks on an auction basis had an additional impact.

To finance budget expenditures, the Ministry of Economy and Finance issued government securities totaling 10.9 trillion soums during this period, with a residual amount of 45.1 trillion soums as of July 1st, 2025 *(Figure 3).*

These operations, through the issuance of government securities, redemption of maturing bonds and coupon payments, had a net positive impact on the liquidity of the banking system in the amount of 0.4 trillion soums.

Figure 2. Impact of government operations on liquidity, *trln soums*

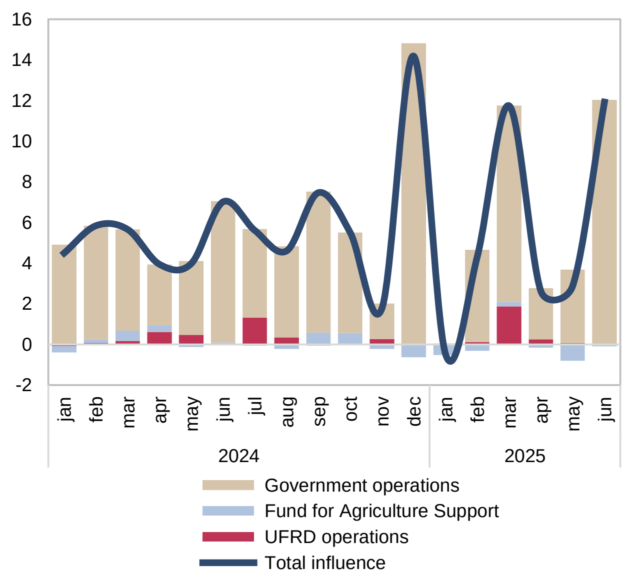
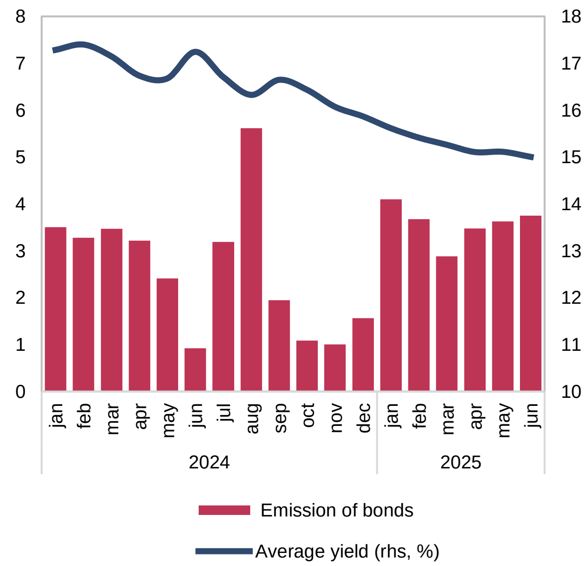


Figure 3. Bonds of the Ministry of Economy and Finance, *trln soums*



Source: Central Bank calculations.

The yield on bonds issued by the Ministry of Economy and Finance averaged around 15 percent in June, based on the liquidity situation in the banking system.

Given the seasonality observed in government operations in previous years, it is expected that the positive impact of budget operations on the liquidity of the banking system *(excess of expenditure over income)* will continue in the coming quarters. In this regard, the issuance of government securities is expected to continue, which, in turn, will have a positive effect on the activation of the primary and secondary markets for government securities, as well as the interbank repo market.

1.3. Analysis of liquidity management operations

The Central Bank's monetary operations in the second quarter of 2025 were aimed at regulating money market interest rates by attracting liquidity and ensuring that short-term interest rates of the money market remained within the Central Bank's interest rate corridor.

In particular, demand for overnight deposits and deposit auctions of the Central Bank to attract liquidity showed an upward trend during the quarter, increasing the average daily balance from 3.1 and 6.9 trillion soums in March to 4.2 and 7.8 trillion soums in June, respectively *(Figure 4)*.

In addition, in order to regulate money market interest rates, the Central Bank issued bonds worth 10.5 trillion soums in the second quarter and ensured that short-term interest rates on the money market remained within the interest rate corridor *(overnight operations – 12.8 percent)*. Due to high demand for bonds amid a liquidity surplus, the weighted average interest rates on them decreased and averaged 14 percent in June *(Figure 5)*.

During the quarter, the Central Bank's average net position in monetary operations with commercial banks amounted to 23.9 trillion soums and contributed to attracting net liquidity.

Due to the continued liquidity surplus in the banking system, the need for Central Bank liquidity provision operations during the quarter was minimized.

Demand for these operations formed at the end of the month, mainly due to intra-month seasonality of liquidity. In particular, the main part of liquidity provision operations consisted of overnight loans with foreign currency collateral, with an average balance of 59 billion soums for the quarter *(2 billion soums in the first quarter).*

The average daily balance of overnight repo transactions also decreased, averaging 25 billion soums in June *(39 billion soums in March)*.

In turn, commercial banks also actively used the instrument of interest-free intraday lending during the operating day. In the second quarter of 2025, the average volume of these transactions amounted to 1.3 trillion soums.

In the third quarter of 2025, with liquidity surplus remaining stable or possibly increasing, the Central Bank will take measures to keep money market interest rates close to the key rate within the Central Bank's interest rate corridor, actively using its main liquidity operation to effectively regulate the available excess liquidity.

Figure 4. Monetary operations, *trln soums*

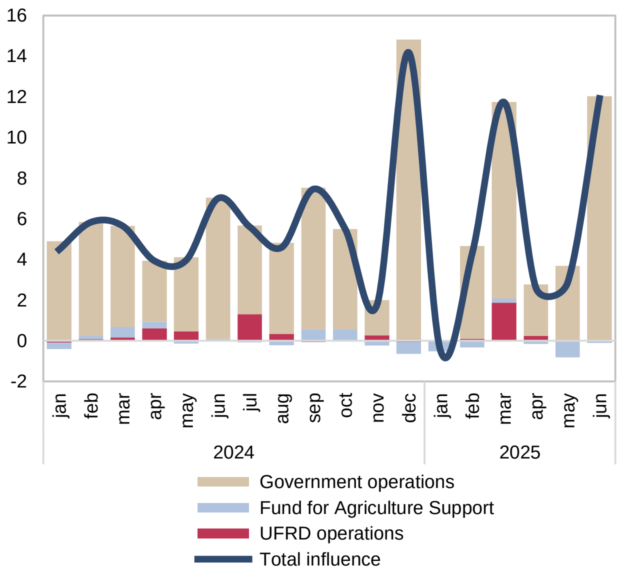
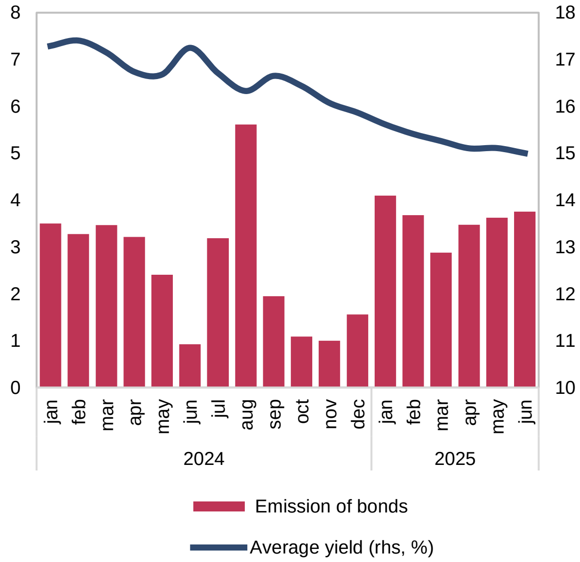


Figure 5. Central Bank bond's issuance, *trln soums*



Source: Central Bank calculations.

1.4. Central Bank purchases of precious metals and foreign exchange interventions

In the second quarter of 2025, the slowdown in the phase of interest rate cuts by leading central banks, the continuing decline in the dollar index and high geo-economic uncertainty led to high demand for gold. As a result, the price of gold averaged between 3,100 and 3,350 US dollars per troy ounce.

In the second quarter, the Central Bank purchased 38.2 trillion soums (3 billion US dollars) worth of precious metals from local producers, which is 15.4 percent more than in the first quarter.

The volume of net interventions by the Central Bank in the domestic currency market (taking into account currency transactions with the Ministry of Economy and Finance and UFRD) in the second quarter amounted to 41.8 trillion soums (3.3 billion US dollars), which is in line with the ‘principle of neutrality of gold and foreign exchange reserves’.

2. Analysis of the interbank money market

2.1. Money market dynamics and interest rates

In the second quarter of 2025, transactions totalling 214.5 trillion soums were carried out on the interbank money market, which is 66 percent more than in the first quarter *(129.2 trillion soums) (Figure 6)*.

Repo transactions accounted for 67 percent of total interbank operations, with a total volume of 144.6 trillion soums, compared to 80.8 trillion soums in the first quarter. During the quarter, the volume of repo transactions accelerated, increasing from 42 trillion soums in April to 56 trillion soums in June.

The volume of interbank deposit operations increased by 44 percent compared to the previous quarter and amounted to 69.9 trillion soums. At the same time, deposit operations during the quarter showed a downward trend, falling from 27 trillion soums in April to 21 trillion soums in June.

Overall, repo transactions accounted for the majority of total interbank transactions in 2025. This reflects the need for banks to provide collateral for mutual transactions in order to manage liquidity and credit risks in connection with the decline in liquidity in the system at the end of the month.

Figure 6. Interbank deposits and repo transactions, *trln soums*

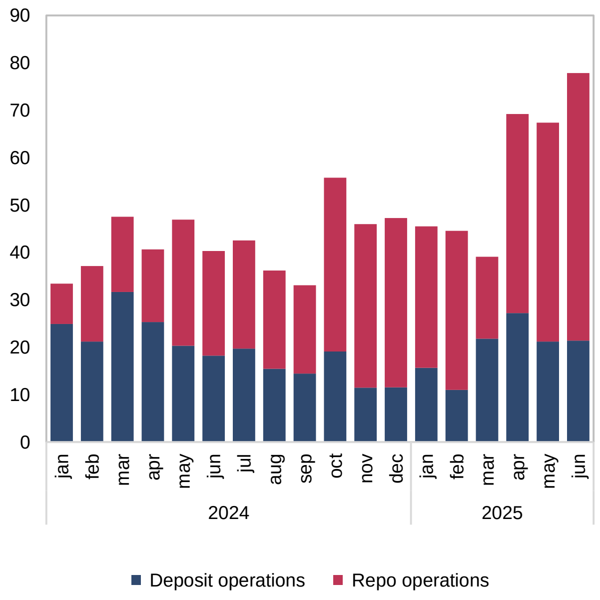
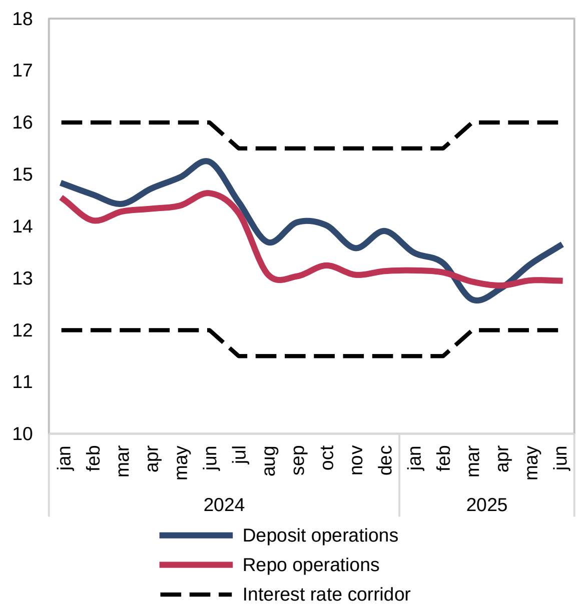


Figure 7. Rates on interbank deposits and repo transactions, *in percent*



Source: Central Bank calculations.

The weighted average interest rates on money market operations during the review period were within the interest rate corridor of Central Bank and rose in line with the increase in the policy rate in March. At the same time, interest rates are below the policy rate due to high liquidity in the banking system.

The weighted average interest rates on interbank deposits and repo transactions amounted to 13.2 percent and 12.9 percent respectively *(in the first quarter – 13 percent and 13.1 percent)* and remained broadly stable during the period *(Figure 7)*.

With the hike in the policy rate, interest rates rose across all market segments. Specifically, the weighted average interest rate on overnight interbank transactions in June was 12.9 percent *(in March – 12.6 percent)* *(Figure 8)*.

In June, interest rates on transactions with maturities of more than one day averaged 13.8 percent for transactions with maturities of 2 to 7 days, and 15.5 percent for transactions with maturities of 8 to 30 days.

UZONIA benchmark interest rate, calculated on overnight deposit operations, fluctuated within the Central Bank's interest rate corridor during the quarter and averaged 12.8 per cent *(12.7 per cent in the first quarter)* *(Figure 9)*.

Figure 8. Money market interest rates by maturity

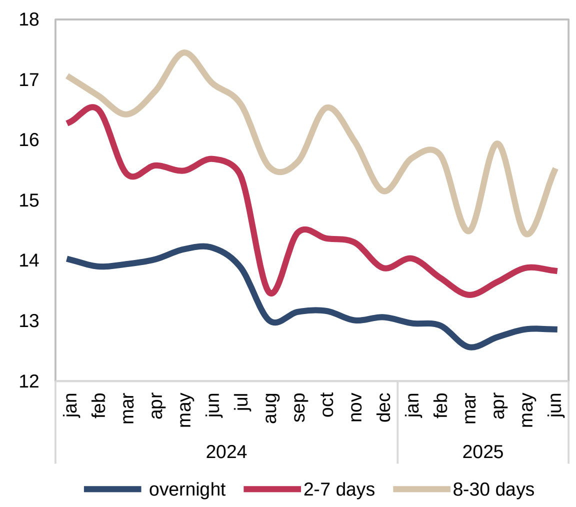
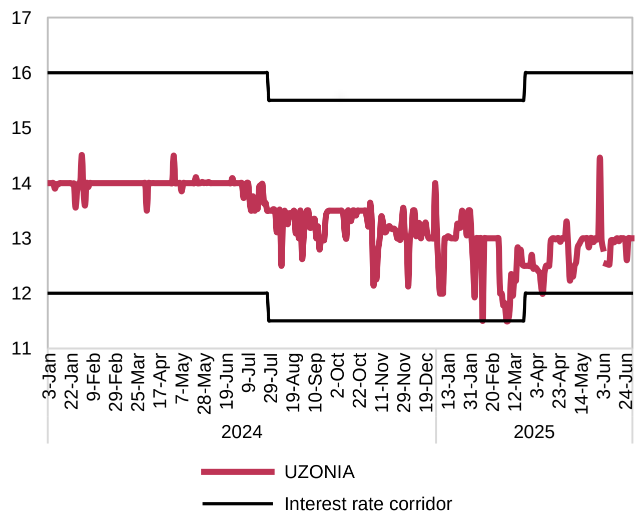


Figure 9. Money market's benchmark rate



Source: Central Bank calculations.

2.2. Segmentation of the interbank money market

In the second quarter of 2025, overnight transactions accounted for the major share of interbank money market operations, representing 88 percent of the total *(83 percent in the first quarter).*

The share of transactions with a maturity of 2 to 7 days decreased from 14.6 percent in the first quarter of 2025 to 8.9 percent in the second quarter, the share of transactions with a maturity of 8 to 30 days decreased from 1.4 percent to 1.1 percent, and the share of transactions with a term of more than 30 days increased from 1.4 percent to 1.8 percent *(Figure 10).*

In the second quarter of 2025, the average daily number of banks providing liquidity in money markets was 12 *(10 in the first quarter),* and the average daily number of banks attracting liquidity was 7 *(6 in the first quarter).*

The share of the three most active banks in the money market liquidity absorption segment averaged 61 percent, while in the liquidity provision segment, the three most active banks accounted for 39 percent of the total volume of operations. Compared to the first quarter, this indicator decreased by 2 percentage points in the liquidity attraction segment, while no significant changes were observed in the liquidity provision segment.

Figure 10. Share of money market transactions by maturity

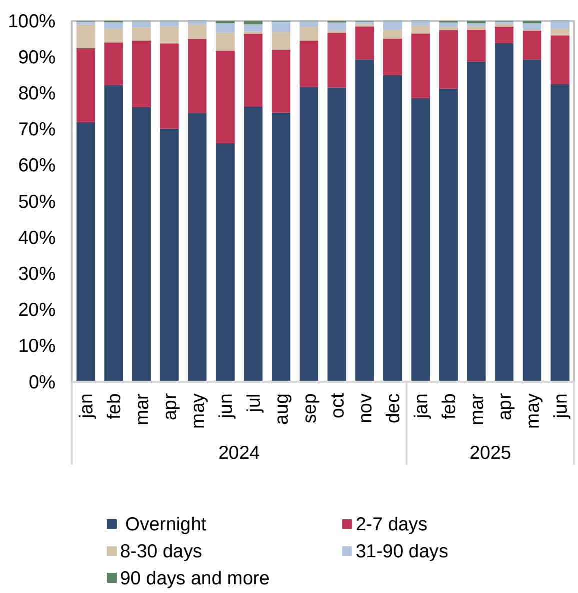
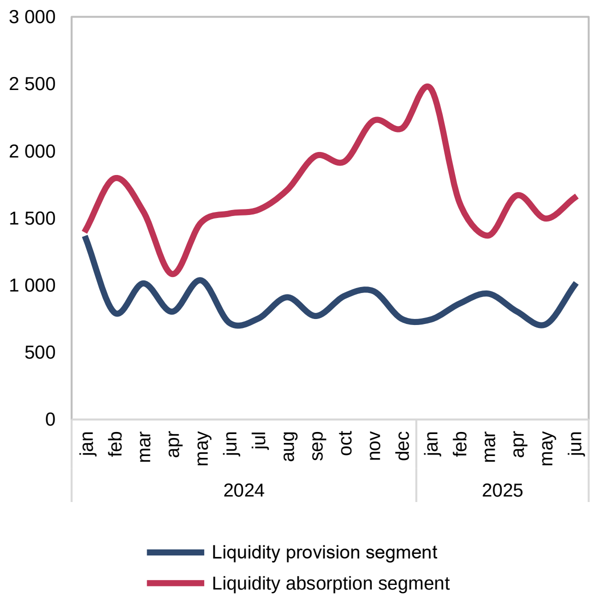


Figure 11. Herfindahl-Hirschman Index for money markets



Source: Central Bank calculations.

According to calculations based on the Herfindahl-Hirschman Index *(HH Index)*, which reflects the degree of concentration in the money market, in June 2025, the level of concentration in the money market liquidity absorption segment increased to 1652 compared to March *(1371).*

This situation indicates a ‘relative concentration’ of the market *(Figure 11)*. In the liquidity provision segment, the HH index in June was 999, unchanged from March *(937).*

The decrease in the level of concentration in the liquidity attraction segment compared to the first quarter is explained by the rebalancing of liquidity distribution among market participants in conditions of high liquidity surplus.

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