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WAYS TO ENSURE THE LIQUIDITY OF COMMERCIAL BANKS THROUGH IMPROVING MONETARY POLICY

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ABSTRACT

In the context of the establishment of market relations in the economy and the emergence of enterprises of various forms of ownership, including the class of private owners, the problem of investment lending is of great importance for a commercial bank. At the same time, the establishment of market mechanisms for financing investment processes in order to regulate the regional and sectoral structure of the Uzbek economy in the interests of economic policy remains one of the most pressing issues of economic development.

Keywords: *credit risk, fixed rate full allotment, bank loan portfolio, rate corridor, liquidity management strategy, "high-power" money.*

АННОТАЦИЯ

В условиях становления рыночных отношений в экономике и появления предприятий различных форм собственности, в том числе класса частных собственников, проблема инвестиционного кредитования приобретает для коммерческого банка большое значение. При этом создание рыночных механизмов финансирования инвестиционных процессов в целях регулирования региональной и отраслевой структуры экономики Узбекистана в интересах экономической политики остается одним из наиболее актуальных вопросов экономического развития.

Ключевые слова: *кредитный риск, фиксированная процентная ставка в полном объеме, банковский кредитный портфель, процентный коридор, стратегия управления ликвидностью, «мощные» деньги.*

INTRODUCTION

The Central Bank uses mandatory reserve policy as one of the main instruments of monetary policy in countries where the practice of using monetary policy instruments is not perfect, in most transition economies. This is because, firstly, financial markets are underdeveloped in most transition economies, which hinders the development of open market policies, refinancing policies and monetary policy by central banks; second, the reserve policy has the effect of having a direct and rapid effect on the money supply; third, it is easy to control compliance with mandatory

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reserve requirements by commercial banks. This is because The central bank has a practice of regularly maintaining the balance sheet data of commercial banks. For example, in the Republic of Uzbekistan, the staff of the Central Bank's Department for Licensing and Regulation of Commercial Banks regularly and promptly obtains balance sheet data from commercial banks and monitors the activities of commercial banks on the basis of this information.

This is due to the fact that the stratification of reserve requirements depending on the amount and term of deposits makes it difficult for the Central Bank to control the calculation of the amount of reserve claims and its accuracy. However, avoiding difficulties and not stratifying reserve rates will not improve the practice of using mandatory reserve policies. Mandatory reserve policy has a direct and strong impact on the monetary base. The monetary base, on the other hand, describes the behavior of the Central Bank. The credit multiplier, on the other hand, describes bank reserves and the population's attitude to their deposits. On the surface, the money supply,

Factors that have a decisive impact on the money market include: foreign exchange intervention of the Central Bank, changes in the required reserves of banks. When the central bank conducts foreign exchange intervention, the amount of domestic net assets in national currency and foreign net assets in foreign currency changes significantly. If the central bank changes the reserve requirements set for commercial banks, it will have a direct impact on the volume of credit issues by reducing the lending capacity of commercial banks. According to monetarists, a change in money with “high power” is the result of a central bank’s policy, while a change in the other two factors means a change in the behavior of commercial banks and bank customers. It is the policy of the Central Bank that has a decisive influence on the amount of money in circulation and, therefore, the first factor is considered to be the main one. At the same time, the relationship that reflects the behavior of banks and their customers is relatively stable. The money supply, on the other hand, is based on the idea that it varies according to "high-power" money. Changes in "high-power" money are regulated by the Central Bank through an open market policy. On the surface, the relationship between the money supply, the monetary base, and the credit multiplier does not seem to provide any valuable information about the main factors that make up the money supply.

LITERATURE REVIEW

Published scientific articles by American, Japanese and European economists use the concept of "monetary policy". For example, the well-known economists B. Bernanke [1] and A. Burns [2].

Well-known economist N. Menkew interpreted the monetary policy of the US Federal Reserve as an exercise of control over the money circulating in the economy. [3]

In particular, E. Dolan defined monetary policy as follows: "Monetary policy is a government policy that affects the amount of money in circulation." [4]

Some theoretical and practical aspects of improving monetary policy reflected in the scientific research of Sh.Shodmonov, M.Yakhshiyeva, R.Yusupov, A.Vahobov, N.Jumaev, A.Vahabov, O.Olimjanov, O.Namozov, R.Shomurodov, T.Bobokulov, F. Mullajonov [5].

RESEARCH METHODOLOGY

Research methods such as analysis and synthesis, induction and deduction, statistics and comparison were used in conducting the research.

ANALYSIS AND DISCUSSION OF RESULTS

Long-term lending to the real sector of the economy by commercial banks is the most important source of financial resources, a necessary condition for the progressive and innovative development of the economy. It is known that as a result of the lending process, more than 80% of the bank's profits are formed. Any intended benefit goes hand in hand with risk. Several types of risks can hinder the implementation of a bank-financed project. One of the main ones is the risk of non-repayment of credit - credit risk, and finding effective ways to manage credit risk is one of the constant challenges facing the bank.

Credit risk management in the process of lending investment projects in commercial banks is a rather complex process, which requires an investment decision through a comprehensive examination of the investment project. Profit and risk in banking are always side by side and finding a balance between them is one of the important problems of modern banking. The ability to anticipate, effectively manage and take the necessary risks in investment projects financed by commercial banks will help to reduce the material and moral damage to the bank.

In recent years, in addition to traditional lending, the practice of long-term investment lending in commercial banks of the country is developing. Long-term loans directed to the fixed assets of enterprises are also called investment loans. The need for long-term loans stems from the fact that enterprises do not have enough funds for expanded reproduction.

Attracting credit resources in the development of the national economy and the organization of new production is urgent, because the implementation of all this requires large financial resources. Investment financing in commercial banks of developed countries is the basis of banking activities, and more than 50% of the bank's profits are formed in this direction. At the same time, the activity of banks in the stock market should be noted. As a result of the development of the banking system of the country, the investment activity of commercial banks is growing from year to year. The participation of commercial banks in the prudent investment policy pursued by the government is supported.

Credit risk management in financing investment projects differs from complex credit risk management in the usual lending process in that the commercial bank pays for the investment project self-sufficiency, break-even point, profitability rate, well-developed business plan, credit flows of future cash flows. It is required to conduct a comprehensive examination of the project, studying the performance indicators of several investment projects, such as compliance. For this purpose, it is advisable to have separate experts in the bank. The importance of prudent credit risk management is that it not only increases the risk of untimely repayment of loans, but ultimately increases the risk of the bank's troubled assets, reduced liquidity and resource problems in serving new customers. The negative consequences of the current global coronavirus pandemic, as in all countries, have had a negative impact on the economy of our country. If we analyze the situation with problem loans in commercial banks of the country, we can be sure of this. Deterioration of business conduct under the influence of the pandemic, reduction of production and sales volumes increase the liabilities of customers who received loans directly from the bank.

Table 1

Problem loans of commercial banks in the amount of 1 billion soums [7]

Periods	Loans total	Problem Loans (NPL)	The share of problem loans in total loans, in percent
01.01.2020	211 588.5	3 169.1	1.5
01.04.2020	211 933.8	5 021.2	2.3
01.07.2020	244 906.2	7 087.4	2.9
01.10.2020	260 711.6	6 838.8	2.6
01.01.2021	276 974.8	5 784.8	2.1
01.04.2021	283 485.1	10 177.9	3.6

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As can be seen from Table 1, as of 01.01.2020, the share of non-performing loans in total loans was 1.5%, and as of 01.04.2021, this figure increased by 2.4 times to 3.6%. mature. This, in turn, requires commercial banks to organize effective work on asset recovery, to pay more attention to credit risk management.

It is a well-known fact in banking practice that as the volume and number of loans increase, the risk of non-repayment of loans also increases. The most common causes of investment credit risk are:

a) various macro and micro economic factors, changes in economic legislation and norms;

b) changes in the economic and political environment in the activities of the borrower, the inability to organize the cash flow to repay the loan received due to adverse events;

c) lack of full confidence in the value and quality of the collateral obtained for the security of the investment loan;

g) lack of highly educated bank employees and customers;

d) loss of reputation of the borrower at the local or state level, changes in its business activities, etc.

Credit risk management of investment lending in commercial banks can usually be divided into the following 2 groups:

1. Credit risk management at the individual project level;

2. Credit risk management at the level of the bank's loan portfolio. There are a number of ways to manage credit risk at the individual project level, including risk assessment and mitigation at each of the stages that make up the lending process, and require strict monitoring.

It is expedient to determine the amount of liquid assets of commercial banks not in relation to the volatile part of deposits, but in respect of current deposits and savings deposits. Because the level of volatility of these deposits is high, it constantly creates a risk of liquidity in commercial banks. In our opinion, the formation of a stable part of deposits in the amount of 75% of total deposits was a characteristic feature of the practice of developed foreign countries. In developing countries, the underdevelopment of financial markets, uncertainties in the monetary policy of the Central Bank and other factors have a negative impact on the financial condition of economic entities. These circumstances, in the end, have a negative impact on the stability of cash flows of economic entities. As a result, the volatility of demand deposits and savings deposits in commercial banks will increase. Therefore, in our opinion, in the context of developing countries, we consider it expedient to maintain at least 50% of liquid assets of commercial banks in relation to demand deposits, savings deposits of legal entities.

In this regard, in 2022 and 2023-2024 it is planned to take a number of measures to increase the efficiency of banking system liquidity regulation, further intensify the participation of banks in the money market, expand secondary trading in government securities and thus develop the interest rate channel of the transmission mechanism:

1. Strengthen liquidity analysis and forecasting. New methods have been introduced in the analysis and forecasting of the liquidity of the banking system for 2019-2021. An in-depth study of each factor affecting overall liquidity has made it possible to effectively forecast their expected impact through constant information exchange. Today, work is underway to introduce econometric models and their widespread use in forecasting the liquidity of the banking system and the amount of cash in circulation. From 2022, the liquidity forecast will move to be based on the results of full models.

It will also expand the study of the impact of government operations on the liquidity of the banking system, the implementation of the forecast for the future, taking into account the current seasonality, and the use of liquidity forecasting to determine the volume and timing of short-term monetary policy instruments. The liquidity forecast includes government operations with the Ministry of Finance, cash and currency requirements with commercial banks, the Fund for Reconstruction and Development of Uzbekistan, the State Support Fund for Agriculture and the Pension Fund. the system of constant information exchange on the operations performed by them will be improved, and the quality and accuracy of data will be increased.

2. Develop a liquidity management strategy. In order to select the right sequence of changes in the improvement of the operational mechanism and to ensure transparent communication on them, in the coming years it is planned to develop a medium-term "Liquidity Management Strategy" of the Central Bank. The development of this strategy in collaboration with experts, with an in-depth study of the experience of other countries that have moved to inflation targeting, will serve to ensure the structure and effectiveness of measures taken in this direction. The Liquidity Management Strategy will be developed in the form of a Roadmap and will serve as a basis for making decisions on monetary policy and ensuring effective liquidity regulation.

3. Further improvement of monetary policy operations. In this regard, to increase the role of short-term monetary operations of the Central Bank in determining the price in the money market, to give an accurate signal of the situation

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and conditions in the monetary sphere, thereby shifting key interest rate decisions to interest rates in the economy. the main focus will be on improving transmission efficiency.

In particular, it is planned to transfer the main monetary operations from auctions to operations at a fixed rate full allotment, with an unlimited period of up to 14 days instead of the current deposit auctions. The interest rate on these operations will be equal to the Central Bank base rate. The transfer of auctions to fixed rate operations will serve to reduce the volatility of interest rates in the money market relative to the base rate, increase the effect of the base rate and the efficiency of the transmission mechanism. The effectiveness of the abolition of the upper limit on Central Bank bonds is also being studied. Today, the main rate is set as the upper limit of profitability in the auctions on the issuance of bonds of the Central Bank. In regulating the liquidity of the banking system, interest rates on Central Bank instruments are the price maker for short-term operations (overnight operations and auctions) and the price acceptor for long-term operations (bonds). The temporary upper limit is also expected to be removed.

4. Improving the operational objectives of monetary policy. It is planned to change the operational purpose of monetary policy to ensure that interest rates on overnight deposit operations in the money market are formed within the interest rate corridor, close to the base rate of the Central Bank. In most countries that have switched to inflation targeting, interest rates on 1-day (overnight) operations in the interbank money market are taken as the target base as an operational target. Due to the low number of operations in the interbank money market and low activity of banks in the country at the time of the operational target, the goal was to ensure the formation of interest rates on deposits in the money market for up to 14 days within the interest rate corridor close to the base rate. Today, as a result of increasing the number of transactions in the money market, including the number and volume of overnight transactions, conditions have been created to change the operational target base from deposits of up to 14 days to 1-day overnight deposits. At the same time, it is planned to improve the money market indices. In January 2021, the Central Bank introduced the UZONIA and UZWIA indices on money market interest rates. Today, when capital and financial markets are underdeveloped, these indices serve as a key benchmark for assessing the cost of financial instruments in the economy. Increasing confidence in indices is primarily related to ensuring the transparency of their calculation methodology, creating a perfect operating mechanism to prevent sharp fluctuations of indices and creating conditions for an increase in the number of

transactions in the money market. work is one of the main directions of monetary policy for the coming years.

5. Increasing the activity of the interbank money market. Today, only the unsecured interbank money market operates, and in recent months there has been a slight decline in money market activity due to the existence of a general liquidity surplus in the banking system and the fact that this surplus is distributed to almost all banks. It should be noted that the Central Bank's interest rate corridor has been expanded in order to stimulate the activity of banks in the redistribution of liquidity and increase the attractiveness of operations in the money market. In the medium term, to develop communication relations with banks and increase the number of seminars on effective liquidity management for them, to improve the skills of banking specialists by inviting experts,

CONCLUSIONS AND SUGGESTIONS

In the year of developing investment policy and determining the structure of the investment portfolio, banks will focus primarily on the level of liquidity, profitability and risk. The purpose of banks investing in securities is to obtain interest, retain capital, and ensure an increase in capital based on an increase in the value of the securities. The strategy of banks in this regard has a significant impact on banking legislation. In particular, the banking legislation of a number of countries, such as the United Kingdom, Italy, Germany, prohibits the formation of hidden reserves that arise from the increase in the exchange rate of securities in the bank's portfolio. In these countries, banks are required to indicate in their balance sheets the value of their assets, taking into account their revaluation.

In recent years, the object of investment portfolio of domestic banks is corporate securities, as well as short-term government securities. However, the investment activities carried out by commercial banks to improve the performance and competitiveness of priority sectors of the economy reflect a stable trend, mainly due to the further development of the activities of improved sectors. This, in turn, requires the deepening and sustainability of banking system reform, the formation of investment strategies aimed at increasing the level of capitalization and deposit base of banks, strengthening their financial stability and reliability.

- Pursuing an active investment policy by commercial banks in the process of modernization, technical and technological renewal of production;

- Targeted financing of the production of high value-added finished products on the basis of deep processing of local raw materials on the basis of preferential investment programs;

- Raising the investment activity of commercial banks to a qualitatively new level on the basis of the analysis of investment policy of foreign banks;

- Implementation of tasks to implement systemic investment activities in the process of creating an effective competitive environment for industries, etc.

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