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SOME MAIN CRITERIA FOR LIQUIDITY MANAGEMENT OF COMMERCIAL BANKS AND FACTORS AFFECTING IT

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ABSTRACT

As a result of theoretical and practical research, the article identified the need for topical issues of liquidity management of commercial banks, the main criteria and factors influencing it, and developed scientific and practical recommendations for their solution.

KEYWORDS: *Commercial Bank, Bank Liquidity, Bank Liability, Bank Deposit, Bank Loan.*

INTRODUCTION

The instability in the international economic and financial sphere and the sharp fluctuations in prices in the financial and consumer markets, increasing competition for financial resources make it necessary not only to study the liquidity of banks, but also to take a special approach to its management.

Indeed, liquidity is one of the most important quality indicators of a commercial bank's performance, reflecting the bank's reliability and stability. The higher the liquidity of the bank, the higher its ability to meet its obligations.

The term "liquidity" (Latin liquidus - liquid, fluid) refers to the ease with which material values can be sold and quickly converted into cash.

Rapid structural changes in the national economy make the liquidity management of commercial banks one of the most pressing issues, as the root causes of the global financial and economic crises and crises in the world are often the lack of liquidity in banks. It should be noted that Uzbekistan has achieved a number of positive results in managing the liquidity and solvency of commercial banks. However, the deepening competition in international financial markets, as well as in domestic markets, creates a number of problems in managing the liquidity of banks. In particular, the problems in providing the bank's customers with cash, making payments on correspondent accounts, carrying out investment operations are among them.

Review of the literature on the subject

It is common in the economic literature to interpret the bank's liquidity as the ability of the bank to meet its obligations to depositors and creditors in a timely manner and without losses. In particular, according to J. Sinki, liquidity is important for commercial banks to be ready to return deposits and meet the demand for credit. At the same time, changes in unexpected cash flows threaten the bank's liquidity.

Professor O. Lavrushin argues that the liquidity of commercial banks is defined as its financial stability and stability, as well as "the size of the bank's assets and liabilities, taking into account the availability of sufficient capital of the bank, convenient placement and appropriate term." His views were confirmed in the context of the financial and economic crisis. Consequently, there was a liquidity problem in organizations and banks that hoped to refinance rather than reconcile the maturity of their liabilities with future cash inflows.

Also, one of the important criteria of liquidity in modern conditions is the ability of the bank to find a source of funding in any conditions and to any extent in the context of innovative development.

In our opinion, a more complete view of the bank's liquidity is the recognition of liquidity as a dynamic situation that reflects the ability to timely fulfill its obligations to creditors and depositors through the effective management of bank assets and liabilities.

The International Basel Committee's Recommendation on Ensuring Bank Liquidity recognizes "liquidity as the ability of credit institutions to cover asset growth and meet liabilities on maturity." The Committee also proposes a general mechanism for ensuring the bank's liquidity based on the following internationally recognized principles, which are divided into eight groups:

- Development of liquidity management structure;
- Measurement and control of net demand for financial resources;
- Market access management;
- Emergency planning;
- Foreign exchange liquidity management;
- Internal control of liquidity risk management;
- The role of transparency in improving liquidity;
- The role of controllers.

In general, it is appropriate to recognize bank liquidity as the ability to cover growth in a bank's assets, borrow at minimal cost and meet its obligations when maturity.

In the second half of the 30s of the XX century, after the Great Crisis, thanks to the works of J. Keynes, the term "bank liquidity" began to be widely used in the theory and practice of banking. In his General Theory of Employment, Interest, and Money (1936), Keynes was able to substantiate the psychological motivation for favoring liquidity, that is, the attempts of economic entities to keep their income in the form of money.

By "money" J. Keynes understood cash in hand - gold coins and banknotes, as well as any means that are legal tender in a particular economic system: current cash accounts, treasury bills and others. According to him, the liquidity conditions are best met by cash. Cash is absolutely liquid and serves as a means of payment, which is an important function of money.

Applying such an approach to the concept of liquidity in the activities of the bank, it is understood that the bank can easily convert its various investments - its assets into cash - in order to fulfill its obligations to creditors.

In foreign banking practice, cash means not only cash on hand, but also cashier's checks, funds in the accounts of the Central Bank's correspondent institutions and correspondent banks. The difference of such assets is that they can be used to cover deposits that are immediately requested from the bank. This is the main source of liquidity of a commercial bank.

At the same time, the description of liquidity requires not only the bank's balance sheet reports on the balance of assets and liabilities, but also a variety of other information. Therefore, it is not accidental that it is appropriate to use the term "bank liquidity" instead of the term "balance sheet liquidity".

In general, under the influence of J. Keynes's theory of "liquidity advantage", the last idea about the liquidity of commercial banks emerged.

There are two different approaches to the liquidity category in the literature, in other words, liquidity can be understood as a reserve or a flow. When looking at liquidity as a flow, the main focus is on ensuring that low-liquid assets become highly liquid assets, as well as additional resource revenues. The approach to liquidity as a reserve is distinguished by the following aspects.

- the level of liquidity is determined on the basis of information on the balance of assets and liabilities of the bank's balance sheet for a certain period of time;

- When measuring the level of liquidity, only assets that can be converted into cash are evaluated, and the stock of available liquid assets is compared with the demand for liquid assets at a given time;

- The level of liquidity is assessed on the balance sheet data for the previous reporting periods.

Figure 1 Approaches to the economic nature of liquidity

In our view, it is not enough to measure a bank's liquidity by valuing its easy-to-sell assets. In order to fully disclose the liquidity of commercial banks, it is necessary to approach it as a "flow", that is, to take into account the fact that the bank actively attracts resources from the money market to fulfill its obligations to customers. Because the state of the bank's balance sheet does not allow to determine the ability of the bank to raise funds.

The literature also uses the concept of solvency along with bank liquidity. It is important to distinguish between these two concepts.

Uzbek economists Yo.A.Mahmudalieva and U.U.Rozukulov in their scientific works have studied some issues affecting the liquidity of commercial banks. In particular, Yo.A. Mahmudalieva emphasizes that the liquidity of commercial banks depends on their financial stability, while U.U. Rozukulov argues that a bank with a high level of liquidity is financially stable.

OB Sattarov has conducted serious research to ensure the liquidity of commercial banks. In particular, in his dissertation he identified the peculiarities of the theories of liquidity management of commercial banks.

The main purpose of liquidity management of commercial banks is to meet the needs of the bank's shareholders and creditors, to meet the economic standards of the Central Bank and to increase the bank's profitability. The effective implementation of this goal is assessed using a number of indicators, such as liquidity management criteria.

ANALYSIS AND RESULTS

The results of the study show that there are a number of criteria for managing the liquidity of commercial banks, the main of which are shown in the figure below.

- full and uninterrupted satisfaction of customers' demand for cash;

- ensuring the continuity of money transfers to the correspondent account;

- return of principal and interest accrued to creditors and depositors on maturity;

- Satisfaction of customers' demand for cash on credit agreements, credit lines, overdraft and overdraft lending;

- liquidation of securities issued by the bank;

- fulfillment of off-balance sheet obligations (guarantees, term agreements).

Figure 1 Basic criteria for liquidity management of commercial banks

The provision of the cases shown in Figure 1 means that the liquidity management of commercial banks is effectively organized. Fulfillment of the established criteria for liquidity management of commercial banks requires that they are adequately provided with stable financial resources. Because they directly and indirectly affect the liquidity management of commercial banks.

TABLE 1 LIQUID ASSETS OF COMMERCIAL BANKS AND FULFILLMENT OF THE CRITERIA SET FOR IT

Indicators	**01.01. 2020 y.**	**01.06. 2020 y.**	**01.12. 2020 y.**	**01.01. 2021 y.**	**01.06. 2021 y.**	**01.12. 2021 y.**	**01.01. 2022 y.**	**Change in 01.01.2022 relative to 01.01.2020**
Highly liquid assets, bln. in uzbek so'm	30873,8	32269,2	38 75,7	50475,7	60561,7	62116,8	75992,2	45119,0
The ratio of highly liquid assets to total assets, in percent	11,3	10,4	11,4	14,2	15,9	15,0	17,7	6,4
Liquidity coverage ratio, in percent (minimum requirement - 100 percent)	208,5	210,9	224,1	224,5	160,8	173,8	189,6	-18,9
Net stable financing rate, in percent	112,8	107,6	108,0	109,9	113,5	114,0	115,4	2,6

(minimum requirement - 100 percent)								
Instant liquidity ratio, in percent (minimum requirement - 25 percent)	47,8	52,0	60,6	67,4	78,0	97,9	99,3	51,5

Of course, this situation is good in terms of liquidity management of banks, but it does not have a positive impact on their profitability. In our opinion, the level of liquidity of commercial banks should be ensured in such a way that it does not lead to a deterioration of their liquidity and does not negatively affect the level of profitability. The following figure shows the compliance of commercial banks with liquidity requirements.

From the data in Table 1, it can be seen that the volume of assets is increasing in absolute terms and their ratio to total assets. For example, on January 1, 2022, this figure increased by 45119.0 billion soums compared to January 1, 2020.

At the same time, the table shows that the ratio of highly liquid assets of commercial banks of Uzbekistan to total liquidity also tends to increase, from 11.3% as of January 1, 2020 to 17.7% as of January 1, 2022. During the analyzed period, the ratio of highly liquid assets of commercial banks to total assets increased by 6.4 points.

The increase in highly liquid funds in commercial banks is likely to give them the opportunity to fulfill their obligations to customers without interruption and in full. At the same time, the increase in the volume of highly liquid assets of banks will lead to a decrease in the share of their risk assets, which will have a negative impact on their profitability.

Indeed, if we look at the liquidity of commercial banks in terms of the Central Bank's demand, it can be seen from the table that all the requirements of the Central Bank are being met at a high level. In particular, as of January 1, 2022, the minimum liquidity ratio of commercial banks was set at 173.8%, the minimum requirement of net sustainable financing was set at 114.0% instead of 100%, and the current liquidity ratio was set at 25%. the figure was 97.9 percent in practice.

The high level of liquidity in commercial banks is certainly a positive thing, but this figure should not negatively affect the share of the bank's risky assets, ie profitable assets. In order to determine this issue, we consider in detail the structure of assets of commercial banks of Uzbekistan in the table below.

TABLE 2 ASSETS OF UZBEK BANKSCOMPOSITION AND PERCENTAGE (IN PERCENT, AS OF JANUARY 1)

Assets item	**2020 year**	**2021 year**	**2022 year**	**Changes from 2022 to 2020**
Cash on hand and other payment documents	2,4	2,7	2,4	0,0
Funds in the Central Bank	5,4	5,1	7,1	1,7
Funds in other banks are residents	3,7	3,6	3,0	-0,7
Funds in other banks are non-residents	5,7	5,9	5,6	-0,1
Investments and other securities	1,2	2,6	4,4	3,2
Obligations of clients on financial instruments	0,2	0,4	0,3	0,1
Credits, net	76,1	73,8	71,1	5,0
Fixed assets	2,1	2,3	2,5	0,4
Interest accrued on assets	1,2	2,2	2,1	0,9
Other private property of banks	0,1	0,3	0,3	0,2
Other assets	1,9	1,1	1,2	-0,7
Total assets	**100,0**	**100,0**	**100,0**	

As can be seen from table 2, the share of cash in the assets of commercial banks of Uzbekistan, which are highly liquid assets, remained almost unchanged as of January 1, 2020-2022, but there is a significant change in the funds of the Central Bank. For example, this figure was 5.4 percent as of January 1, 2020, and 7.1 percent as of January 1, 2022, or an increase of 1.7 points over the period under review.

The share of risky assets of commercial banks, ie income-generating loans, decreased by 5 points during the same period. It is noteworthy that the investment item in the assets of commercial banks has been growing, which was 1.2% as of January 1, 2020, and 4.4% as of January 1, 2022, or 3.2% in the analyzed period, we can see that the point has increased.

As a result of analysis and research, the lack of mutual balance in attracting financial resources in commercial banks and their placement in active operations leads to transformational risks. In this regard, the following figure shows the ratio of bank assets to liabilities and loans to deposits in commercial banks of Uzbekistan.

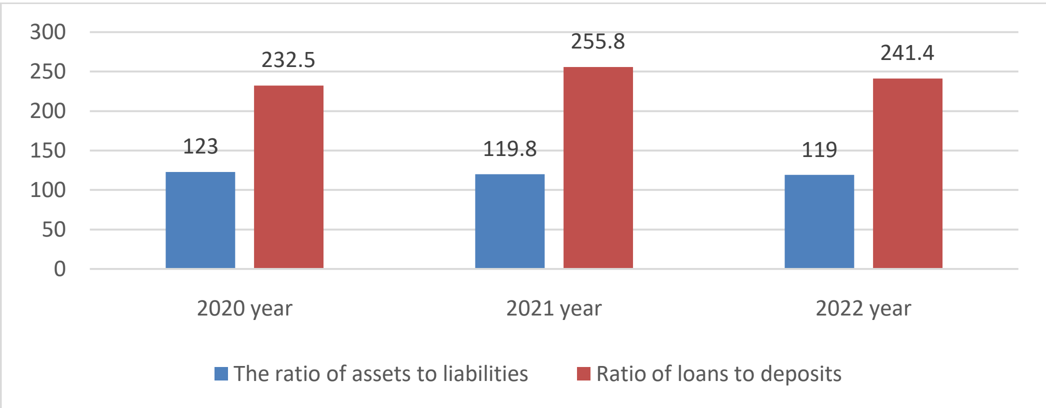

Figure 1 Ratio of bank assets to liabilities and loans to deposits (as a percentage, as of January 1)

As shown in figure 1, the ratio of assets of commercial banks to liabilities in 2020 was 123%, while in 2022 this figure was 119%, a decrease of 4 points. The difference between loans and deposits in the analyzed period, ie the amount of loans issued by commercial banks, was more than one time higher than the attracted deposits. For example, this figure was 231.5 percent in 2020 and 241.4 percent in 2022. Therefore, it can be said that commercial banks have problems with the level of transformational risk and need to effectively use appropriate monetary instruments to manage them. In such cases, deposit insurance funds abroad play an important role. For example, in Europe, the European Deposit Protection Fund has been introduced, through which measures are taken to reduce the level of transformation risk.

CONCLUSIONS AND SUGGESTIONS

As a result of the analysis and research conducted within the framework of the main criteria for liquidity management of commercial banks and the factors influencing it, the following main conclusions and recommendations have been formed.

1. Provision of liquidity in commercial banks, along with strengthening their position and image in the domestic and international financial markets, will allow the bank to fulfill its obligations to customers and investors in a timely and complete manner, which in turn will increase confidence in their activities.

2. Although the excess of highly liquid assets in commercial banks over the established norms gives them high opportunities to fulfill their obligations, but can have a negative impact on the volume of income by reducing the volume of risky assets of banks. This means that the level of liquidity of commercial banks should be ensured in such a way that it does not lead to a deterioration of their liquidity and does not negatively affect the level of profitability.

3. It is necessary to address the issues of liquidity in commercial banks by investing highly liquid funds in investments, the effective use of these funds, the sale of liquid funds in the securities markets when needed.

4. In order to reduce the level of transformation risk in commercial banks, it is necessary to ensure an appropriate balance between the involved financial resources and risky assets. In particular, it is expedient to increase the share of deposits in the resources of commercial banks, in particular, to take appropriate measures to attract long-term deposits.

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