



FACTORS AFFECTING THE LIQUIDITY OF COMMERCIAL BANKS

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Abstract

The factors affecting the liquidity of commercial banks are discussed in the article. The liquidity of a bank depends on the both internal and external factors as well, for example, the level of development of market relations in different segments of the economy, the activities of the Central Bank. Also, the rational allocation of resources in terms of profitability has a positive impact on the financial stability of banks, in particular, on liquidity. While, the low quality of loans issued by banks, the increase in the volume of problem loans have been impacting on bank liquidity negatively. In its turn, this indicates about certain shortcomings in the bank's credit policy. In the management of the liquidity of a commercial bank, it is advisable to take effective measures to eliminate their negative effects, making them the object of constant monitoring. The purpose of the study is to systematize the theoretical material that reveals the content of liquidity, internal and external factors of the state of liquidity, regulation tools and estimated liquidity indicators. In pursuit of the general scientific goal of identifying the essential characteristics of the liquidity of a commercial bank, it is necessary, in our opinion, within the framework of the study to present the tasks that need to be solved in stages: to present the factors affecting the liquidity of a commercial bank, to characterize the bank's assets by the degree of liquidity.

Keywords: Commercial banks, liquidity, internal and external factors, factors, banking sector, management, assets, liabilities, credit

INTRODUCTION

It is known that the activities of commercial banks are mainly focused on making a profit. At the same time, the banking sector performs a number of important functions: lending and supporting population and enterprises, stimulating the accumulation of funds in the national economy, encouraging intermediation in payments, transfers and financial transactions, and efficient allocation of investment resources. As the emergence of complex situations in the banking sector has a negative impact on the overall state of the economy, it should not be allowed to occur.

The function of introducing modern principles and mechanisms regulating banking activities, elimination of obstacles to their effective operation have been recorded in the state program on implementation of the Decree of the President of the Republic of Uzbekistan N 4947 from February 7, 2017 "On the Strategy of further development of the Republic of Uzbekistan". At the same time, in order to support the banking system of the Republic in the context of the pandemic, the Central Bank's liquidity regulation operations were carried out primarily by providing the necessary liquidity to commercial banks[1].

Therefore, the liquidity of a commercial bank serves as one of the main quality indicators of banking activity, which determines its reliability and stability, and serves as a basis for the credit and banking sector in the economy.

LITERATURE REVIEW

Researchers differ on the factors that affect the liquidity of commercial banks. According to Zavyalova E.N., many factors affect the liquidity and solvency of a commercial bank, as well as its activities in general, so in order to identify emerging negative liquidity trends, the bank's financial analysts need to identify the main factors that led to these trends. She emphasizes the importance of analyzing the impact of factors and developing recommendations to change banking policy in order to prevent negative consequences [2].

In the research of Rashidov T.M. the main features, factors and types of liquidity of a commercial bank, the economic significance of the concept under study, the relationship between liquidity indicators, profitability and solvency, the recommendations of the Basel Committee were analysed, the importance of commercial bank liquidity management was discussed [3].

Shyam Bhati, Anura De Zoysa, Wisuttorn Jitaree have considered the long-term effects of various regulatory, banking-specific and macroeconomic factors on liquidity determination in Indian banks. To this end, in the the authors' study a regression model in the random effects panel was used and data from Indian banks for 21 years, covering the period from 1996 to 2016

was tested with it. This model examines the impact of regulatory factors, the ratio of cash reserves, and liquidity ratios, noting that Indian banks rely more on asset-based liquidity and less on liability-based liquidity [4].

Wei Feng notes that with the continuous development of the Chinese economy and the deepening of commercial banking reform, all types of commercial banks are also growing. In particular, in his research he highlighted an important factor related to the future development of banks in managing the liquidity risk of commercial banks in the context of increasing competition in the financial market. His research focuses on the strengthening of liquidity risk control in the Chinese banking sector after the 2008 financial crisis and the analysis of factors affecting the liquidity of commercial banks [5].

According to A.A. Crickly and N.G. like other scholars, factors influencing the liquidity of commercial banks, are divided into internal and external factors, which in its turn divide them into intensive and extensive, market and administrative parts. They mention that extensive factors include factors that reflect the size of resources, such as changes in the size of the resource base, the number of regional divisions or number of employees, use over time (acceleration of resource unit turnover, changes in working hours), as well as inefficient use of resources (losses as a result of exposure to risks), significant diversion of capital to funds and reserves [6].

Abdullaev A.Y. points out in his study that in assessing the factors affecting the liquidity of the bank, it is impossible to analyze a particular group of factors, for which it is possible to determine the prospects of bank liquidity based on the analysis of the dynamics of banking. He also noted that the quantitative assessment of liquidity of commercial banks, changes in the liquidity situation based on the assessment of qualitative parameters of the scope of operations and the descriptive assessment of banking can affect the quality of assets, deposit stability, strong capital base and the share of risky assets on the level of liquidity [7].

Ilina S.I., Pisarev V.A. analyzing the bank's activities from the internal factors of bank liquidity to management, and in particular liquidity as a high-quality management system, recognize that the effectiveness of management is mainly dominated by the quality of assets, liabilities and balance sheet operations. In doing so, they highlight four criteria in assessing the quality of assets: liquidity, risk, profitability and diversification [8].

In this study, we will analyze the factors that affect the liquidity of banks, based on the views of scientists

METHODOLOGY

As a result of the research, the factors influencing the development of the banking system, liquidity management of innovative commercial banks were studied, and scientific conclusions and recommendations on the effectiveness of bank liquidity management were developed. Methods such as abstract thinking, systematic approach, complex assessment were widely used in the research process.

RESULTS

It should be noted that the bank's liquidity is a complex indicator. In addition, the liquidity of commercial banks is characterized by concepts such as financial stability and reliability. The reliability of a bank is its robustness, which is the level of trust of customers served in this bank. The financial stability of the bank is characterized by the usual ability to develop, for which a number of criteria can be distinguished, including the share of equity in the balance sheet liabilities, future profit of the bank's equity, the stability of the customer base, etc. [9]. It is necessary to note a number of factors that influence to the liquidity of a commercial bank:

- in relation to the activities of a commercial bank: external, internal;
- in the direction of impact: negative, positive;
- by content: political, social, economic;
- duration of exposure: permanent, force majeure;
- on the possibility of management: regulated and unregulated [10].

The factors affecting the liquidity of commercial banks often are divided into two groups: external and internal. Through external factors, the external environment affects the activities of a commercial bank, internal factors operate at the bank level and are related to the bank's policy, change the bank's policy, the influence of factors leading to negative changes in liquidity can be limited. All factors affecting the liquidity of a commercial bank should be considered as a single system. Keep in mind that external factors are not easily affected by the bank, so it is necessary to pay more attention to internal factors, to influence them in order to reduce liquidity risk [11].

In our opinion, it is expedient to analyze the factors affecting the liquidity of commercial banks grouped into internal and external factors.

The classification of the factors influencing the liquidity management of the bank also confirms that it is a complex process (Figure 1).

Factors influencing the growth of risks on the bank's liquidity require constant monitoring. At the same time, the commercial bank seeks to provide liquidity, albeit at the expense of

income, or the banks seek to increase the share of high-quality liquid assets and non-financial deposits in assets and liabilities, while reducing domestic financial debt [12].

Banks act with the understanding that this process has a significant impact on the bank's liquidity as they place resources for profit. In other words, the bank's liquidity and profitability are inversely proportional to each other.

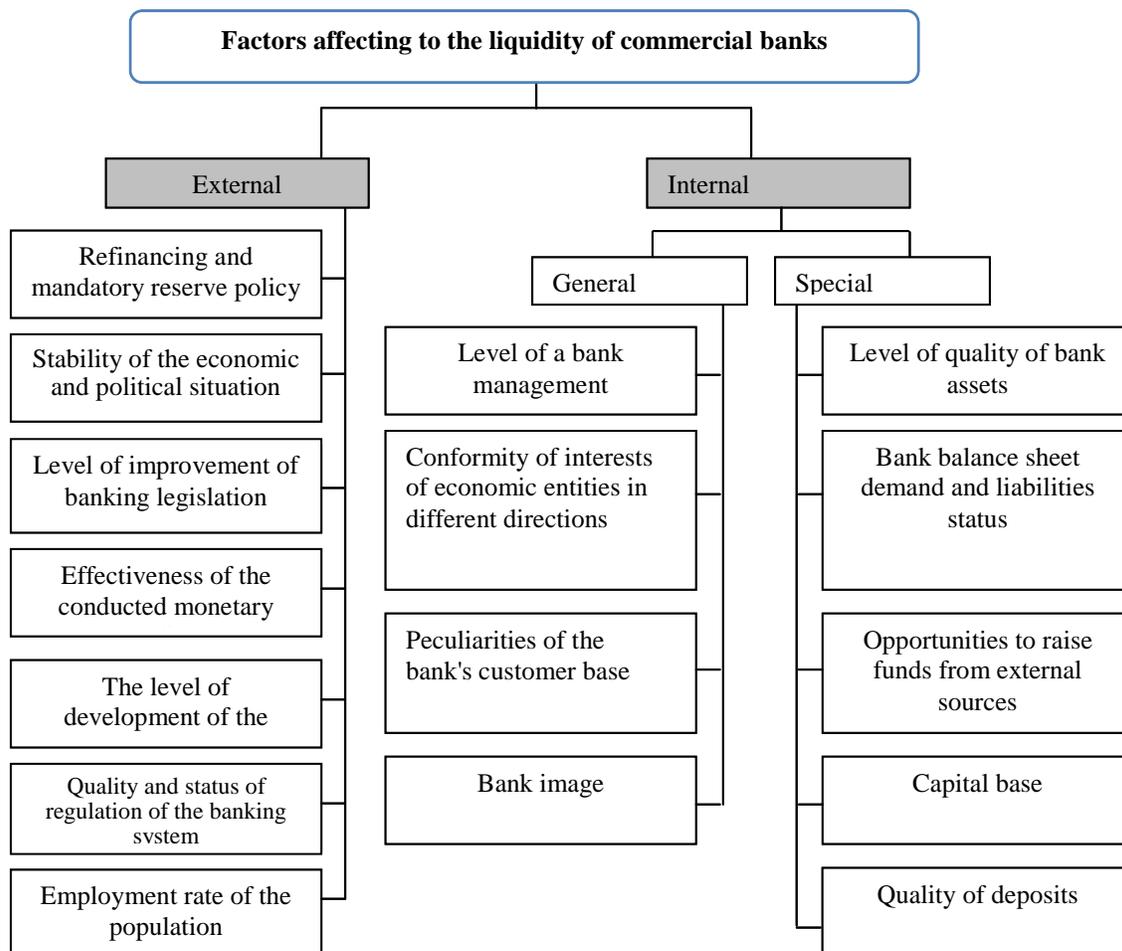


Figure 1. Classification of factors affecting bank liquidity ¹

Internal factors affecting the liquidity of banks include the bank's capital base, asset quality, deposit base, level and quality of management, balance sheet demand and liabilities, quality of securities and loan portfolio, peculiarities of the customer base, bank image, attraction of funds from external sources.

Now we will try to analyze and evaluate the factors that significantly affect a bank's liquidity.

¹Compiled by the author based on the results of the study

The bank's capital serves to ensure the stability and reliability of its activities, and is also the most important guarantee for the fulfillment of the bank's obligations and risk coverage. Therefore, in developed countries, when customers choose a bank, they pay special attention to the level of capitalization of the bank.

Typically, when a commercial bank goes bankrupt, its capital is used to cover liabilities to customers and founders. Therefore, the higher the amount of capital, the higher the solvency of the bank is. It turns out that the bank's capital base is one of the important internal factors affecting its liquidity.

At the same time, it should be borne in mind that the significantly higher level of non-liquid assets in the structure of bank assets has a negative impact on the liquidity of the bank. Thus, in the case of loans alone, the increase in the share of problem loans in the bank's loan portfolio has a sharp impact on the bank's liquidity. This is due to the fact that as the share of problem loans increases, the amount of reserves created to cover losses will also increase accordingly. This has a negative impact on the bank's resource potential, its ability to cover the growth of assets.

Moreover, the income-generating assets of a commercial bank are the main source of the bank's net profit and at the same time have an inverse relationship with the bank's liquidity. These include funds in other banks, investments in government short-term bonds, factoring, credit investments, bank reserves and investments for possible losses on loans. However, bank managers need to take into account the need to ensure the bank's liquidity in an unexpected way, along with developing a strategy to ensure high returns.

However, reserves are also formed to cover possible losses in the capital structure, which in turn leads to a decrease in the bank's profitability as it is carried out at 100 per cent cost. At the same time, the new requirements of the Basel Committee on Banking Supervision provide for an increase in reserves formed from net profit in the capital structure.

Table 1. Total and authorized capital of commercial banks of the Republic of Uzbekistan [13]

	Name of indicators	Total	
		Number of banks	sum, billion soums
As of 01.01.2018	Total capital	28	20 676
	hence, charter capital		16 307
As of 01.01.2019	Total capital	29	26 679
	hence, charter capital		19 673
As of 01.01.2020	Total capital	30	51 031
	hence, charter capital		41 877

As of January 1, 2018, the total capital of commercial banks of the Republic amounted to 20,676.0 billion soums, in the same period of 2020 it increased by almost 2.4 times (Table 1).

In our opinion, the most stable source of the bank capital is the paid part of ordinary shares, in other words, the increase in the amount of authorized capital will serve to strengthen confidence in the national banking system, increase liquidity.

It should be noted that the level and quality of bank management is also an important internal factor affecting liquidity. In this regard, it is important that the organizational structure of the bank has an effective organizational unit (committee) that constantly monitors liquidity, regularly forms a database for management decisions and prepares analytical reports. In addition, the bank has its own liquidity management strategy, the necessary measures to ensure current, medium and future liquidity, the level and skills of managers, the application of the principles of corporate governance and the well-established relationship between bank owners and managers also serve to improve the quality of bank management.

Among the external factors affecting the liquidity of commercial banks, the stability of the economic and political situation in the country is important. Only if the economic and political situation in the country is stable, the necessary conditions will be created for the expansion, development and effective operation of commercial banks. At the same time, economic stability in the activities of commercial banks strengthens the confidence of foreign investors in the national banking system, creates the basis for banks to achieve high international ratings. In particular, it is important that commercial banks, like other businesses, adhere to the principles of transparency and openness in the face of rapid economic change [15].

The level of improvement of banking legislation in the country also affects liquidity. This is because if the legal framework for regulating banking activities is not strong, this situation can lead to the rapid spread of the problem through the shortcomings in the activities of a commercial bank to the entire banking system. Such problems can be solved by increasing the role of the corporate governance system in commercial banks [14].

In order to further strengthen the stability of the banking system in the country, to ensure the protection of the interests of depositors and creditors, a number of decrees and resolutions of the President of the Republic of Uzbekistan, government decrees and several regulations of the Central Bank of Uzbekistan was adopted. According to them, increasing the level of capitalization of commercial banks, expanding measures to attract free funds of the population and businesses to bank deposits, increase the investment activity of banks, in particular, strengthen their role in financing investment projects related to modernization, technical and technological renewal, in accordance with international norms, standards and evaluation indicators, the organization of banking activities, financial rehabilitation of insolvent enterprises

and further increase of their participation in the resumption of production activities are being carried out. In particular, the Resolution of the President of the Republic of Uzbekistan dated September 12, 2017 No PP-3270 "On measures to further development and increase the stability of the banking system of the Republic of Uzbekistan". It was noted in the resolution that, the measures taken to further development of the banking system, reform and strengthen the banking and financial system in the country giving opportunity to increase the level of capitalization of banks, expansion of lending to the economy, expanding the range of banking services, as well as increasing the role of the banking system in the development of the country's economy, as well as improving the quality of banking services and establishing full cooperation with businesses. Emphasis is placed on the urgency of the task of radically improving the methods of strengthening the attitude of the population and businesses to the banking system as a reliable institutional partner. [16]. According to the resolution, the Central Bank of the Republic of Uzbekistan as a result of stress testing of commercial banks on the stability and adaptability of the domestic foreign exchange market identified a number of shortcomings that negatively affect the financial condition and currency positions of banks.

CONCLUSIONS AND SUGGESTIONS

Based on the above, noting the impact of external and internal factors on the liquidity level of commercial banks, the bank can not limit the impact of external factors, so more attention should be paid to internal factors which directly related to the activities of a commercial bank, because by managing them the negative impact on liquidity can be reduced. Otherwise, these factors lead to the emergence of liquidity risks, which lead to an increase in the risks associated with the loss of the ability to quickly convert financial instruments into payment instruments or to incur additional liabilities.

First, the need for regular external resources throughout the life of commercial banks increases its dependence, which in turn has a negative impact on the bank's liquidity. Interbank loans are often used for this purpose. However, the significant increase in the volume of interbank loans, in particular, the growth trend in its volume, also indicates that there are some problems with liquidity in these commercial banks.

Second, the compatibility of supply and demand in commercial banks in terms of status, quantity and term also had a significant impact on liquidity. In particular, the maturity and amount of assets of commercial banks, the maturity and amount of its liabilities are considered appropriate. Therefore, bank managers will need to constantly analyze the composition of assets and liabilities and make timely decisions on appropriate changes.

Third, the number of financially stable customers of the bank, the profitability of their activities ensures the timely implementation of the amount of cash transferred by them to the bank, which in turn serves to ensure the liquidity of the bank. In other words, commercial banks with stable customers will not have significant problems with cash supply. This will serve as a basis for preventing liquidity problems in the bank.

Fourth, the level of development of the financial market in the country is one of the external factors affecting bank liquidity. In particular, the development of the financial market, the increase in the range of products and instruments in it will create favorable conditions for banks to regulate and manage liquidity. Commercial banks can provide liquidity in soums and foreign currency through operations in the financial market without large financial losses.

In our opinion, the ongoing reforms and changes will further strengthen the financial position and liquidity of the country's banks.

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