

## **TOPICAL ISSUES OF LIQUIDITY RISK MANAGEMENT AT COMMERCIAL BANKS**

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**Abstracts.** This article is devoted to the identification of the problems associated with managing liquidity risk at commercial banks of Uzbekistan and presents developed scientific proposals aimed at solving these problems.

**Key words:** commercial bank, a loan, overdue loan, liquidity, deposit, demand deposit, security, transformation risk, regulatory capital, tier 1 (primary) capital.

**Introduction.** Ensuring the liquidity of commercial banks is a compulsory prerequisite for providing continuity of payments in the economy. In addition, the liquidity of banks is a very significant factor in the development of deposit and loan operations of banks. Therefore, the Action Strategy for Five Priority Directions for the Development of the Republic of Uzbekistan for 2017-2021 particularly specifies that ensuring the liquidity and financial stability of commercial banks is one of the compulsory prerequisites for the further development of the national banking system (Strategy, 2017).

In turn, ensuring the liquidity of commercial banks requires improved and advanced liquidity risk management. Since, the deepening liquidity risk will definitely result in a loss of the commercial bank liquidity.

The economic literary sources distinguish two types of liquidity risk:

- the risk of unbalanced liquidity (inadequate funds in correspondent accounts) is associated with a decrease in the bank's ability to fulfill its obligations with respect to the basic types of banking core business;
- the risk of liquidity of assets is associated with the impossibility to place funds in correspondent accounts of banks.

In the world banking practice, a qualitative assessment of the liquidity risk of commercial banks is performed on the basis of estimated liquidity ratios in the form of economic standards of the Central Bank. A quantitative assessment of liquidity risk is based on the analysis of the liquidity gap.

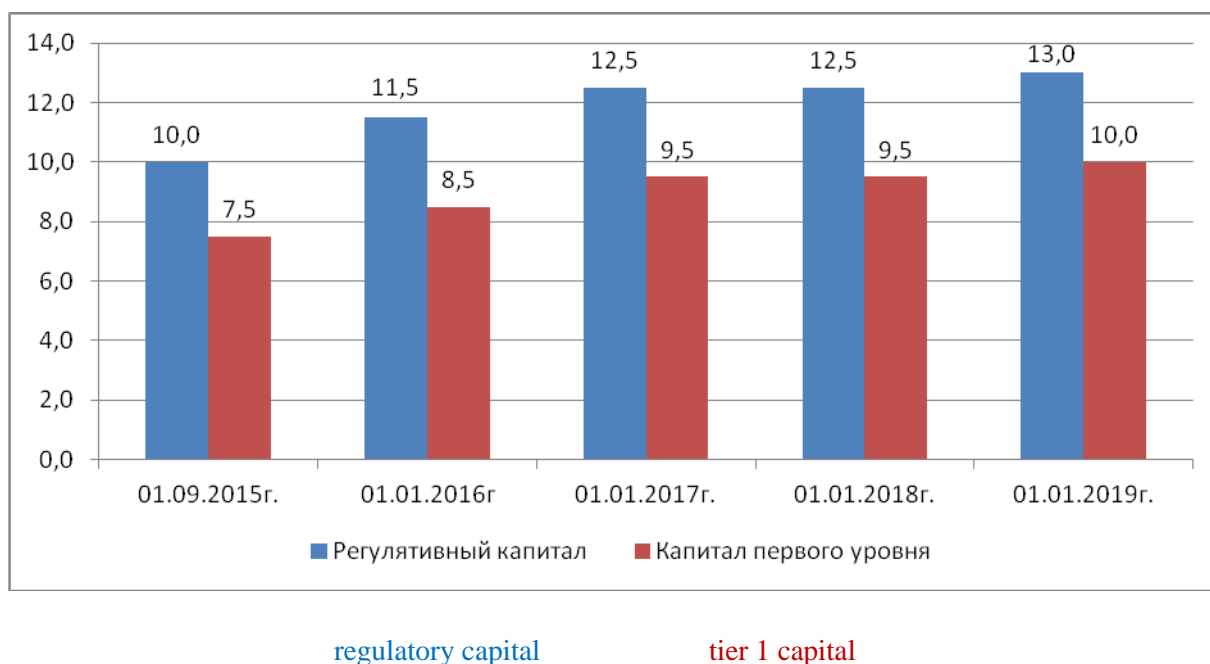
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**Literature review.** It should be noted that the Central Bank of Uzbekistan is implementing specific measures aimed at maintaining the liquidity of commercial banks. In particular, the Central Bank introduced a new economic standard - the quick (liquidity) ratio (Instruction, 2015).

The quick (liquidity) ratio of commercial banks is determined by dividing the amount of cash and the balance of the “Nostro” correspondent account of the bank with the Central Bank into the total amount of demand deposits. The minimum normative value of this coefficient currently constitutes 0,10.

In addition, the requirements for capital adequacy of commercial banks are constantly increasing (Figure 1).



**Figure 1. The minimum regulatory requirement for capital adequacy of commercial banks of the Republic of Uzbekistan, in percent**  
(Instruction, 2015a)

As it is obvious from Figure 1, the requirement for capital adequacy of commercial banks is gradually increasing. Meanwhile, in this regard prior attention is paid to raising the requirements for capital adequacy of tier 1 capital.

However, currently major banks of the republic experience the deepening liquidity risk. In our opinion, the deepening liquidity risk is justified by the deepening risk of transformation in banks.

**Table 1**

**Terms of assets and liabilities of Uzbekistan Industrial Construction Bank (Report, 2013-2017)**

	2013	2014	2015	2016	2017
Assets with maturities of over one year, trillion UZS	3,2	4,1	4,9	7,5	13,2
Liabilities with maturities of over one year, trillion UZS	4,0	4,8	5,6	6,7	16,9

As we can see from Table 1, Uzbekistan Industrial Construction Bank has a significant imbalance between the terms of assets and liabilities which, in turn, negatively affects the liquidity of the bank.

Moreover, the deepening liquidity in commercial banks can be justified due to an increase in the amount of overdue loans.

**Discussion and analysis.** As of January 1, 2018, overdue loans of commercial banks of Uzbekistan amounted to 2611 billion UZS which is 80,6% more than the previous year indicator (Report, 2017). Such a high increase in overdue loans happened due to two reasons: firstly, a significant part of the loans of commercial banks extended for financing state programs was not repaid because the source of repaying overdue loans of commercial banks was not specified in state programs; secondly, the devaluation of the national currency against the USD in September 2017 (by 92,4%) caused the non-repayment of the loans extended in foreign currency.

It is crucially important to emphasize that external factors seriously affect the liquidity of commercial banks.

External factors affecting the liquidity of banks include the following:

- \* general political and economic situation in the country;
- \* development of the securities market and the interbank market;
- \* Central Bank refinancing system for commercial banks;
- \* efficiency of the supervisory functions of the Central Bank (Yevstratov, 2013).

Modifications occurred in the monetary policy make a significant impact on the liquidity of commercial banks, and sometimes it contributes to the deepening liquidity risk.

The increase in the refinancing rate and the rate of reserve requirements of the Central Bank have adversely affected the liquidity of domestic banks.

**Table 2**

**Annual inflation rates, a refinancing rate and a rate of the reserve requirement of the Central Bank**

(www.cbu.uz.)

*in percent*

Indicators	2016	2017	2018
Inflation	5,7	14,4	20,0
Refinancing rate of the Central Bank	9,0	14,0	16,0
Rate of the reserve requirements of the fixed for foreign currency deposits of commercial banks	12,5	12,5	14,0

As Table 2 illustrates, in 2017 and 2018, inflation, refinancing rates and required reserves of the Central Bank have increased significantly which negatively affects the liquidity of commercial banks.

The refinancing rate makes an impact on the interest rates on loans and deposits. By changing the amount of the refinancing rate, the Central Bank sends commercial banks a peculiar signal for changing interest rates on banking operations. Taking into consideration the current situation, the Central Bank, possessing the most comprehensive and reliable information on the conditions of the financial sector of the economy, based on a professional assessment of inflation expectations, future opportunities for economic development in the country, changes in various sectors of the economy, demand for banking services, calculates and establishes a fair amount refinancing rate. As a result, credit unions must raise funds for deposits at a rate close to the refinancing rate and place funds, including loans at the rate that exceeds the refinancing rate (Simayeva, 2016).

**Conclusion.** In our opinion, the following measures should be undertaken to improve liquidity risk management at commercial banks of the republic:

1. It is required to eliminate the risk of transformation at large commercial banks by means of:

- raising the weight of short-term loans in the total volume of loans extended by commercial banks;
- placing the public funds in foreign currencies (funds received from the sale of gold in the global markets) on the term deposit accounts of commercial banks.

As of January 1, 2019, the weight of long-term loans in the total volume of loans of commercial banks of the Republic of Uzbekistan amounted to 93%.

Raising the weight of long-term loans in the total volume of credit placements of domestic commercial banks is mainly justified by the adoption of the Resolution of the President of the Republic of Uzbekistan №1438 “On priority areas for further reforming and enhancing the stability of the financial

and banking system of the republic in 2011-2015 and achieving high international rating indicators” as of November 26, 2010. It should be noted that this Resolution set the task to raise the volume of long-term loans of commercial banks by 2,5 times in 2015 compared with 2011.

2. It is recommended to increase the liquidity level of commercial banks by investing a stable balance of demand deposits in securities of high liquidity. Currently, over 55% of deposits of large domestic banks are represented by demand deposits. In addition, commercial banks have the right to use demand deposits without the consent of the owners of demand deposit accounts.

The use of demand deposits as a source of active operations adversely affects the liquidity of commercial banks. Therefore, in order to eliminate the negative impact of demand deposits on bank liquidity, it would be advisable to use only a stable balance of demand deposits.

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