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WAYS TO INCREASE THE ROLE OF MONETARY POLICY IN ENSURING THE COMPETITIVENESS OF COMMERCIAL BANKS

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Abstract: One of the important external factors in ensuring the liquidity of commercial banks is the monetary policy implemented by the Central Bank of the country. The Central Bank, within the framework of monetary policy, influences the liquidity of commercial banks and has a limiting or stimulating effect on the lending activities of banks.

The article develops scientific proposals aimed at increasing the role of the monetary policy of the Central Bank of the Republic of Uzbekistan in ensuring the competitiveness of commercial banks.

Keywords: monetary policy, commercial bank, competitiveness, required reserve, inflation, exchange rate, open market policy, refinancing policy.

In the decree of the President of the Republic of Uzbekistan dated September 12, 2017 No. PQ-3270 "On measures to further develop and increase the stability of the banking system of the Republic", increasing the level of competitiveness of commercial banks and transforming banks into a system operating on the basis of advanced banking practices, the adequacy of capitalization of commercial banks, liquidity and ensuring the fulfillment of the requirements for stability, ensuring the improvement of the risk management system in banks, taking into account the recommendations of the Basel Committee on banking supervision, are recognized as priority directions for the development of the country's banking system [1]. This, in turn, creates the need to increase the role of monetary policy in ensuring the competitiveness of commercial banks.

Analysis of literature on the topic

According to F.Mishkin's conclusion, the open market policy of the Central Bank has the following advantages compared to other instruments of monetary policy:

- The Central Bank has the ability to directly control the volume of open market operations (it does not have the ability to directly control the volume of discount loans, but can influence the change in the demand for discount loans by changing the discount rate of the Central Bank);
- open market operations can be quantitatively accurately evaluated and easily changed in size (it is possible to affect the monetary base by buying or selling a small amount of securities within the framework of open market policy);
- within the framework of the open market policy, it is possible to quickly correct errors that occur in the process of buying and selling securities;
- within the framework of the open market policy, transactions of purchase and sale of securities are carried out at very short periodic intervals [2].

Indeed, open market operations carried out within the framework of the open market policy allow a quick impact on the liquidity of commercial banks in short-term periodic intervals: right REPO operations have a quick impact on excess liquidity, and reverse

REPO operations have a quick impact on unbalanced liquidity. This immediate effect is reflected in the change in the balance of the representative accounts of commercial banks in national currency "Nostro".

According to S. Moiseev's conclusion, the Central Bank is the lender of last resort for commercial banks, and the role of this function in ensuring the liquidity of banks is reflected in the following decisions of the Central Bank:

- providing liquidity only to reliable banks whose financial condition has been assessed by the banking supervisory body as satisfactory;
- providing liquidity only on the basis of liquid market collateral or non-market collateral;
- providing liquidity at interest rates higher than market rates, this decision is taken so that it does not compete with the market financing of the Central Bank;
- providing liquidity on a common basis, according to general rules applicable to all banks [3].

This conclusion of S. Moiseev is of practical importance for the system of regulating the activities of Uzbekistan's banks. The reason for this is that, firstly, there is a problem of unbalanced liquidity in the commercial banks of our republic; secondly, due to the relatively high level of inflation, the ability of the Central Bank to lower the key rate is limited.

T. According to Novashina, the active use of the reserve ratio as an instrument has the effect of "absolute liquidity" and "liquidity trap". In this case, the effect of absolute liquidity is manifested in the rise of the interest rate to its highest level in a certain state of market conditions, and the demand for liquidity by commercial banks is stable. The effect of the "liquid trap" is manifested in the fact that the interest rate falls to its lowest level in a certain state of market conditions, and further growth of the money supply cannot lower it further [4].

M. In 1959, Friedman proposed a 100 percent reserve requirement for commercial banks. The essence of this proposal is that deposits are withdrawn at the first demand of the owner, while loans do not have this feature. Therefore, the use of 100 percent mandatory reserve allows to create a safe mechanism for the functioning of the banking system in periods of economic instability [5]. However, until now in no country of the world M. The 100 percent mandatory reserve requirement proposed by Friedman was not implemented. In our opinion, 100% reserve requirement for commercial banks will curb credit expansion of commercial banks. This, in turn, does not allow for the multiplicative expansion of the money supply.

Stress-testing is a relatively new and promising area of regulation of commercial banks.

According to J.Henry and S.Kock, in general, the main stages of stress testing include:

- the first stage: development of a strict but convincing economic scenario;
- the second stage: implementation of the transfer of the macroeconomic scenario to the microeconomic consequences for the balance sheets of financial institutions;
- the third stage: evaluating the behavior of financial institutions under stress conditions;
- the fourth stage: determining the stability criteria of the financial infrastructure;
- the fifth stage: providing information about the results [6].

Yu.Sokolov and A.Morya indicate the following as the main criteria for stress-testing the liquidity of commercial banks:

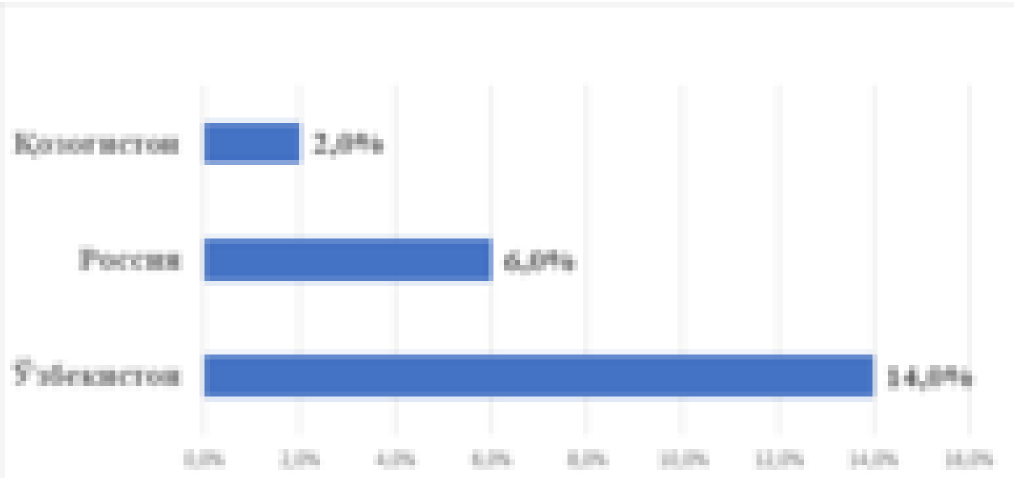
- use of models that allow to assess the behavior of depositors;

- accounting for all debit transfers from current deposit accounts;
- taking into account the change in the amount of expenses on the deposit accounts of legal entities;
- prolongation of deposits before expiration [7].

Analysis and results

Mandatory reserve policy, which is one of the main instruments of the monetary and credit policy implemented by the Central Bank of the Republic of Uzbekistan, has a direct and strong impact on the liquidity of commercial banks and the stability of the deposit base. The reason for this is that, firstly, the mandatory reserve ratio set for foreign currency deposits of commercial banks is very high; secondly, the amount of mandatory reserve allocations is withdrawn from the national currency "Nostro" representative account of commercial banks. This ultimately creates a strong negative impact on the liquidity of commercial banks and, as a result, deepens the problem of unbalanced liquidity in banks.

It should be acknowledged that in 2018, serious changes were made to the mandatory reserve policy of the Central Bank: "Starting from June 1, 2018, it was determined that the formation of mandatory reserves by commercial banks will be carried out in national and foreign currency, depending on the currency type of the liabilities and deposits involved. In addition, deposits of individuals were included in the mandatory reserve base, and an averaging coefficient was established in relation to the amount of mandatory reserves. Mandatory reserve standards for the terms of deposits were revised, and for deposits with terms of 1 to 2 years and more than 2 years, as well as other obligations, their standards were classified according to the type of currency. As a result, in May 2018, the share of foreign currency in the total mandatory reserves decreased from 96% at the beginning of the year to 47%, and an additional 2 trillion. Soum liquidity was attracted to mandatory reserves. From October 1, 2018, the second stage of the improvement of the mandatory reserve instrument was implemented. At this stage, the procedure for formation of mandatory reserves only in national currency was introduced, reserve norms for deposits of legal and physical entities were unified, that is, mandatory reserve norms for deposits in national currency were reduced and mandatory reserve norms for deposits in foreign currency were increased" [8].



Pic 1. Mandatory reserve rates set by the Central Bank of the Republic of Uzbekistan, the Russian Federation and the Republic of Kazakhstan in relation to deposits of commercial banks in foreign currencies, as of January 1, 2024

As can be clearly seen from the statistical data presented in Pic 1, the mandatory reserve ratio set by the Central Bank of commercial banks in foreign currencies is very high compared to Russia and Kazakhstan. This, as we mentioned above, has a strong negative impact on the liquidity of commercial banks and the stability of the deposit base.

Admittedly, reserve requirements have lost their importance as a monetary policy instrument in developed countries. However, the lack of improvement in the practice of using monetary policy instruments in developing countries makes it necessary to use instruments of administrative content, such as mandatory reserve policy.

The non-differentiation of mandatory reserve rates depending on the duration and amount of deposits will ultimately have a negative impact on the stability of the deposit base of commercial banks. This, in turn, does not allow commercial banks to significantly increase the volume of credit issuance. As a result, it is not possible to solve the tasks of satisfying the demand for bank loans of the enterprises of the real sector of the economy, increasing the level of the monetization coefficient by increasing the volume of credit issuance of commercial banks, and improving the solvency of the population by improving mortgage and consumer lending practices.

Table 1
The amount and level of mandatory reserve allocations in FEA National Bank

Indicators	Years				
	2019	2020	2021	2022	2023
The amount of mandatory reserve allocations, bln. soum	831	299	361	438	514
The level of the amount of mandatory reserve allocations in relation to the funds in the bank's national currency "Nostro" representative account, %	61,5	28,3	17,4	16,4	27,1

The practical data in Table 1 clearly show that the amount of mandatory reserve allocations transferred by the TIF National Bank to the Central Bank had an increasing trend in 2020-2023. Moreover, during the analyzed period (2019-2023), the level of the amount of mandatory reserve allocations was much higher compared to the amount of funds in the representative account of the National Bank of TIF "Nostro" in national currency.

Conclusions and suggestions

In the process of research, we formulated the following to increase the role of monetary policy in ensuring the competitiveness of commercial banks:

- The open market policy of the Central Bank plays an important role in ensuring the competitiveness of commercial banks and is distinguished by a number of its advantages (the Central Bank has the ability to directly control the volume of open market operations, the open market operations can be quantitatively accurately evaluated and the volume can be easily changed, etc.) ;

- The Central Bank is the lender of last resort for commercial banks, and this function plays an important role in ensuring the banks' liquidity;
- the active use of the reserve ratio as an instrument gives the effect of "absolute liquidity" and the effect of "liquid trap";
- stress testing is a relatively new and promising direction of regulation of commercial banks;
- the mandatory reserve ratio set by the Central Bank in relation to deposits of commercial banks in foreign currencies in our republic is very high compared to Russia and Kazakhstan;
- The amount of mandatory reserve allocations transferred by the TIF National Bank to the Central Bank had an increasing trend in 2020-2023. Moreover, during the analyzed period (2019-2023), the level of the amount of mandatory reserve allocations was much higher compared to the amount of funds in the representative account of the National Bank of TIF "Nostro" in national currency.

In our opinion, in order to increase the role of the monetary and credit policy of the Central Bank of the Republic of Uzbekistan in ensuring the competitiveness of commercial banks, the following measures should be implemented:

1. In order to increase the role of the Central Bank's open market policy in ensuring the competitiveness of commercial banks, first of all, in order to improve the composition of commercial banks' assets, it is necessary to increase the volume of repo operations between the Central Bank and commercial banks; secondly, it is necessary to cancel the practice of placing the credit risk on commercial banks for preferential loans given by banks at the expense of the state's financial resources; thirdly, the bonds and certificates of deposit of commercial banks should be made the object of open market operations of the Central Bank.
2. In order to eliminate the negative impact of the Central Bank's mandatory reserve policy on the liquidity of commercial banks and the stability of the deposit base, first, it is necessary to release time deposits from the mandatory reserve requirements, on the condition that they are loaned to enterprises of the real sector of the economy and invested in securities issued by them; secondly, it is necessary to unify the mandatory reserve rates by lowering the mandatory reserve rate set in relation to foreign currency deposits of commercial banks to the level of the mandatory reserve rate set in relation to their national currency deposits; thirdly, it is necessary to cancel the procedure of withdrawing mandatory reserve allocations calculated on deposits in foreign currency from the national currency "Nostro" representative account of banks and leaving the amount of mandatory reserve allocations as an unused balance in national and foreign currency "Nostro" representative accounts.

As we saw in the third chapter of the study, the mandatory reserve policy of the Central Bank of the Republic of Uzbekistan has a negative impact on the liquidity and solvency of commercial banks. The reason is, firstly, the mandatory reserve rate for foreign currency deposits of commercial banks is set high (18%); secondly, the amount of mandatory reserve allocations is withdrawn from the "Nostro" representative account of commercial banks.

In developed countries, mandatory reserve requirements, as we recognized above, have lost their practical significance as an instrument of monetary policy. However, in developing countries, due to the lack of improvement in the practice of using monetary policy instruments, mandatory reserve policy is actively used. In our republic, the mandatory reserve policy remains one of the main instruments of the monetary policy of the Central Bank. This is because the practice of monetary policy using market instruments such as refinancing policy and open market policy has not improved.

3. In order to increase the role of the refinancing policy of the Central Bank in ensuring the competitiveness of commercial banks, first, by improving the practice of managing monetary and non-monetary factors of inflation, it is necessary to create a basis for the reduction of the main rate of the Central Bank by achieving the target index of inflation; secondly, in the framework of the refinancing policy, it is necessary to establish the granting of discount loans of the Central Bank by restoring the circulation of bills; thirdly, it is necessary to increase the volume of unsecured loans granted by the Central Bank to commercial banks, based on the small weight of investments in highly liquid securities in the volume of commercial banks' assets.

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