



Improving The Process Of Regulating The Activities Of Commercial Banks Through Money-Credit Instruments

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ABSTRACT

The practice of using monetary policy instruments plays an important role in regulating the activities of commercial banks. The implementation of a restrictive monetary policy by the central bank could have a strong negative impact on the liquidity of commercial banks.

The article identifies current issues related to improving the practice of regulating the activities of commercial banks through the instruments of monetary policy pursued by the Central Bank of the Republic of Uzbekistan and develops scientific proposals to address them.

Keywords:

Commercial Bank, Central Bank, Monetary Policy, Monetary Instruments, Liquidity, Credit, Refinancing Rate, Required Reserve Requirement, Open Market Operation.

Introduction

In the New Uzbekistan Development Strategy for 2022-2026, approved by the Decree of the President of the Republic of Uzbekistan No. PF-60 dated January 28, 2022, the transformation of commercial banks with state share to 60% by the end of 2026; Strengthening financial stability has been recognized as one of the necessary conditions for the rapid development of the national economy and high growth rates [1]. This, in turn, creates the need to create the necessary financial conditions for the development of commercial banks. One of the necessary financial conditions for the development of banks is to improve the practice of regulating their activities.

Research methodology

According to the Law on the Central Bank of the Republic of Uzbekistan (2019), the strategic goals of the Central Bank's monetary policy are to fight inflation, ensure the stability of the country's banking system and payment systems, inflation target and money supply growth. are tactical targets [2].

In the Republic of Uzbekistan, the Central Bank is the official body regulating and supervising the activities of commercial banks.

Statistical grouping, induction and deduction, expert evaluation, comparative and trend analysis methods were used in the research.

Statistical data of the Central Bank of the Republic of Uzbekistan, research data of international experts were used in writing the scientific article.

Review of the literature on the subject

In the economic literature, it is recognized by many economists that the open market operations of the Central Bank are the main tool widely used in regulating the activities of commercial banks. For example, according to F. Mishkin, the open market operations of the Central Bank have a number of advantages, the main of which are:

- open market operations are carried out at the initiative of the FZT and its volume is controlled by the FZT, there is no such control in the implementation of discount operations;

- high level of flexibility of open market operations, their volume can be changed at any time;

- open market operations have an easy reversibility content, and if the FZT makes a mistake in carrying out these operations, it can quickly cancel the operation [3].

J. According to Zinc, financial instruments such as federal funds, certificates of deposit, and repo transactions play an important role in ensuring the liquidity of commercial banks [4].

This conclusion of J. Sinki is of great practical importance for modern banking practice. This is due to the fact that commercial banks are widely using repo operations with the Central Bank to ensure their current liquidity.

U. _ According to Soto , the relative decline in interest rates as a result of the expansion of credit by commercial banks will lead to a sharp increase in the current value of capital goods, because the value of the expected flow of rent increases when discounting is carried out at low market interest rates [5].

Yu.Sokolov and A. According to Mariani, the following criteria are widely used in international banking practice in stress testing the liquidity of commercial banks:

- take into account the patterns of behavior of depositors (in most cases, customers who have a deposit greater than the sum insured are panicked and are more likely to withdraw their deposits);

- separate coverage of expenditures from current and card accounts;

- Expenses for deposits of legal entities on all products;

- Increased probability of not prolonging more deposits than usual among recently expired deposits [6].

According to N. Jumaev, the Central Bank's discount policy plays an important role in regulating the activities of commercial banks and the money supply, and to improve it it is necessary to take the following measures:

- At the credit auction organized by the Central Bank, it is necessary to allow the formation of credit rates on the basis of market mechanisms, ie supply and demand;

- In order to eliminate the liquidity problems of commercial banks and increase public confidence in the banking system, it is necessary to introduce various forms of discount instruments;

- it is necessary to stimulate the development of the secondary securities market by lending at the pawn rate;

- It is necessary to reconsider the introduction of promissory notes (drafts) that are market support [7].

According to R. Shomurodov, in order to fully meet the real demand of the economy for money in the banking system, to increase the liquidity of commercial banks and the efficiency of settlements in the banking system, combining the funds of commercial banks in correspondent accounts and required reserves, It is necessary to ensure that [8].

Discussion

At present, the Central Bank of the Republic of Uzbekistan actively uses the following two instruments of monetary policy in regulating the activities of commercial banks:

- mandatory reserve policy;

- refinancing policy.

From June 1, 2018, the formation of required reserves by commercial banks will be carried out in national and foreign currencies, depending on the type of currency, and the deposits in the mandatory reserve will include deposits of individuals and an average ratio of required reserves. From October 1, 2018, the procedure for the formation of required reserves only in the national currency was introduced, and the reserve requirements for deposits of legal entities and individuals were unified [9].

Based on the declining inflation trend and its forecast dynamics, as well as macroeconomic conditions, the Central Bank's key rate was reduced from 16% to 15% per annum from April 15, 2020 in order to support economic activity within the framework of price stability targets [10].

It should be noted that the gradual transition of the Republic of Uzbekistan to the inflation targeting regime from 2020 should allow reducing inflation in the future. This , in

turn, will allow the Central Bank to reduce the refinancing rate.

In accordance with the Decree of the President of the Republic of Uzbekistan PF-5877 dated November 18, 2019 "On improving

monetary policy through the gradual transition to inflation targeting " The task is to ensure the gradual transition of monetary policy mechanisms to the inflation targeting regime from January 1, 2020 by setting a target [11]

Table 1

Refinancing and reserve requirements of the Central Bank of the Republic of Uzbekistan and the inflation rate and the average annual interest rate on loans of commercial banks in the national currency [12]

Indicators	2017 y.	2018 y.	2019 y.	2020 y.	2021 y.
Refinancing rate	14.0	16.0	16.0	14.0	14.0
Mandatory reserve rate	12.5	9.0	9.0	9.0	9.0
Annual rate of inflation	14.4	14.3	15.2	11.1	10.0
Average interest rate on loans from commercial banks	18.5	20.5	24.2	22.3	20.8

According to Table 1, the refinancing rate of the Central Bank of the Republic of Uzbekistan in 2020 decreased by 2.0 percentage points compared to 2019, and in 2021 remained unchanged at 14%. This is explained by the fact that the annual rate of inflation in this period has a downward trend.

From the data in Table 1, it can be seen that the average reserve ratio of the Central Bank remained unchanged at 9% in 2018-2021.

It can be seen from Table 1 that the average annual interest rate on loans in the national currency of commercial banks of the republic had a downward trend in 2019-2021. This is explained by the decrease in the refinancing rate of the Central Bank during this period.

It should be noted that the small volume of open market operations of the Central Bank of the Republic prevents the expansion of the ability to influence the liquidity of commercial banks through this instrument. In turn, the small volume of open market operations of the Central Bank is explained by the small volume of investments of commercial banks in securities. As of January 1, 2022, the share of investments in securities in the total assets of commercial banks of the republic was only 4.4% [13].

The high level of volatility of the nominal exchange rate of the national currency in the country, ie the high rate of depreciation of the national currency, indicates the existence of the problem of improving the monetary policy of the Central Bank.

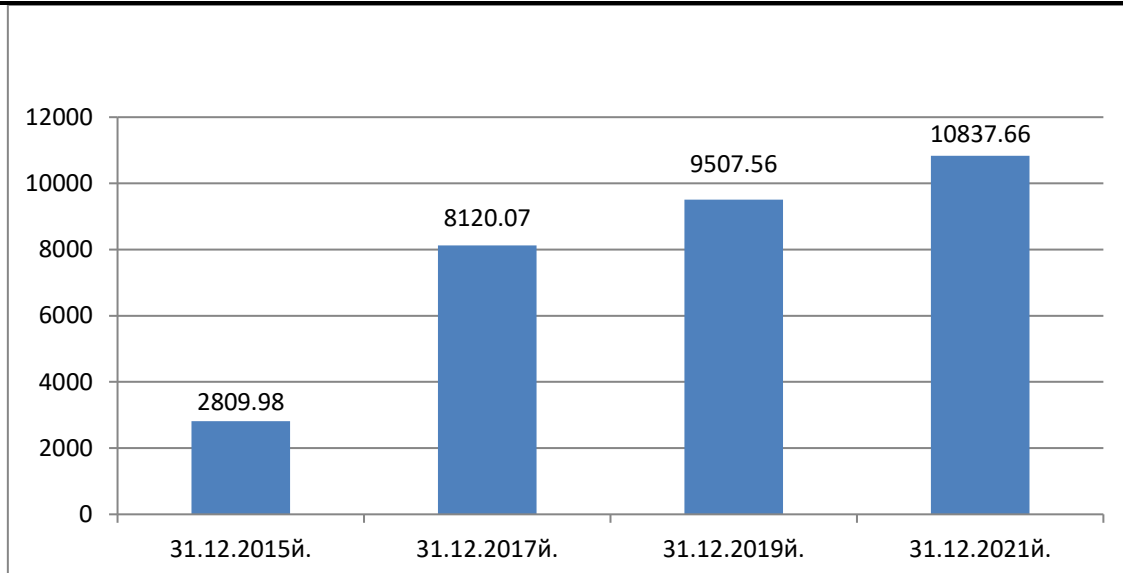


Figure 1. National currency - the nominal exchange rate of the soum against 1 US dollar, the soum [14]

The data shown in Figure 1 show that in 2015-2021, the level of volatility of the nominal exchange rate of the national currency - the soum against the US dollar was high.

Conclusions and suggestions

In the course of the study, we formulated the following conclusions:

actively using the policy of refinancing and mandatory reserve policy in regulating the activities of commercial banks ;

- From October 1, 2018, the procedure for the formation of required reserves only in the national currency was introduced, which harmonized the reserve requirements for deposits of legal entities and individuals;

- The beginning of a gradual transition to inflation targeting in the country from 2020 may reduce inflation in the future;

- The fact that the refinancing rate of the Central Bank of the Republic of Uzbekistan in 2020 decreased by 2.0 percentage points compared to 2019, remained unchanged at 14% in 2021, due to the downward trend in annual inflation;

- The tendency of the average annual interest rate on loans in the national currency of commercial banks of the country to decrease in 2019-2021 is explained by the decrease in the

refinancing rate of the Central Bank during this period;

- The small volume of open market operations of the Central Bank of the Republic is explained by the small volume of investments of commercial banks in securities.

In our opinion, in order to improve the practice of regulating the activities of commercial banks in the country through the instruments of monetary policy, it is expedient to implement the following measures:

1. In order to increase the role of the central bank's refinancing policy in regulating the activities of commercial banks, first of all, it is necessary to establish the practice of the Central Bank issuing discount loans based on the "two signature terms"; secondly, it is necessary to increase the volume of unsecured centralized loans to commercial banks that provide the required level of liquidity and solvency; third, it is necessary to introduce interest-free loans to commercial banks within one business day to solve the problem of unbalanced liquidity; fourth, it is necessary to ensure the stability of the difference between nominal and real interest rates on loans by ensuring positive inflation and devaluation expectations.

2. The volume of open market operations of the Central Bank should be increased at the expense of open market operations carried out through the securities of commercial banks (certificates of deposit) and companies (bonds) with acceptable ratings of international rating agencies (at least VVV +).

Currently, the Central Bank of the Republic of Uzbekistan uses only government securities as an object of its open market operations. In such circumstances, the Central Bank will not be able to increase the volume of open market operations due to the small volume of issues of government securities.

3. In order to eliminate the possible negative impact of the central bank's required reserve policy on the liquidity and resource base of commercial banks, first of all, it is necessary to abolish the procedure for collecting reserves in foreign currency from banks' foreign currency deposits; secondly, in order to reduce the demand for foreign currencies, the relatively high rate of required reserve requirements should be set only in relation to the demand deposits of commercial banks.

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