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Liquidity of a Commercial Bank

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Abstract

in this article, we examined the liquidity of a commercial bank, one of the most important qualitative characteristics of a commercial bank, which indicates its reliability and stability. Also, the article shows how successful the activities of a commercial bank are closely interconnected with the level of its liquidity.

***Keywords**: bank liquidity, stability, financial instruments, assets and liabilities of the bank, balance, solvency, liquidity ratio.*

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To date, liquidity is one of the most important qualitative characteristics of the activities of a commercial bank, which indicates its reliability and stability. In order to control the state of the bank's liquidity, that is, its ability to ensure the timely and complete fulfillment of its monetary and other obligations arising from transactions using financial instruments, instant, current, long-term liquidity standards are established that regulate the risks of liquidity loss by the bank and are defined as the ratio between assets and liabilities, taking into account the terms, amounts and types of assets and liabilities, other factors, as well as the ratio of its liquid assets and total assets.[1]

The successful operation of a commercial bank is closely related to the level of its liquidity. This indicator is of particular importance not only for the bank, but also for its customers. For example, high liquidity shows that a bank customer can receive в any time invested funds or a loan. For the banking sector and the country's economy в in general, liquidity affects the degree of trust and satisfaction of the needs of various sectors of the economy в settlements, placement of funds for storage and credit resources. Therefore, the stability and sustainability of the entire banking system depends on the liquidity and solvency of individual commercial banks. The main problem of the banking sector for many years has been the lack of liquidity - the excess of banks' liabilities over their assets, which, in the worst case, can lead to their bankruptcy, since they simply will not have the means to pay off their loans. Insolvent banks undermine public confidence in the entire banking system, so the liquidity of the banking sector needs to be regulated in order to restore not only customer confidence, but also to make the system more stable and reliable. Regulatory regulation is one of the ways of such influence on the part of the state.

The measures taken to reform and strengthen the banking and financial system of the republic contributed to an increase in the level of capitalization of banks, an increase in the scale of lending to the economy, an expansion of the range of banking services provided, as well as an increase in the role of the banking system in the development of the country's economy. At the same time, the tasks of further improving the quality of banking services provided and fundamentally improving the working methods of commercial banks in order to establish full-fledged partnerships with business entities, strengthening the confidence of the population and business entities in the banking system as a reliable institutional partner continue to remain relevant. In addition, the results of stress testing of commercial banks conducted by the Central Bank of the Republic of Uzbekistan for their stability and adaptability in the context of the liberalization of the domestic foreign exchange market revealed a number of shortcomings that have a negative impact on the financial condition and foreign exchange position of banks, the consequences of which adversely affect the liquidity of banks.

It should be noted that today the regulator prescribes to comply with three liquidity ratios: instant, current and long-term.

[1] Yokubov B.M. Commercial Bank Liquidity: Problems and Improvement of Management Methods // International Journal of Applied and Fundamental Research. - 2015. – No. 6-1. – P. 109-113.

The H2 instant liquidity ratio limits the risk of a bank losing solvency within one day. This is the ratio of the assets that the bank can realize within one calendar day to the obligations of the bank itself, which it must fulfill or may be required to fulfill within one calendar day (for example, current and settlement accounts of clients, demand deposits, overnight interbank loans). The current liquidity ratio H3 limits the risk of the bank losing solvency within the next 30 days (by the date of calculation of the ratio). This is the ratio of the assets that the bank can realize within the next 30 days to the obligations of the bank itself, which it must fulfill or may be required to fulfill within the next 30 days. The long-term liquidity ratio H4 limits the risk of insolvency of a credit institution as a result of placing funds in long-term assets (for example, mortgage loans). This is the ratio of the bank's assets, which will be realized no earlier than in a year, minus the reserves formed on them for possible losses, to the amount of its capital and obligations, which it must fulfill no earlier than in a year. Violation of H2 and H3 indicates an insufficient supply of liquidity from a credit institution. Failure to comply with H4 indicates that the bank is abusing the placement of short-term liabilities in long-term assets, for example, the bank issues a mortgage for a period of 25 years, while it borrows money for these loans from counterparty banks for 30 days.[2]

It should be noted that the higher the bank's liquidity, the greater its ability to repay obligations. But low lenders of large banks do not mean that they will not be able to pay on client accounts, since they have the ability to re-credit with the Central Bank. Small banks rely only on themselves, therefore, they read to build up liquidity, and large banks, if necessary, can deposit funds on the market or turn to Central Bank refinancing tools, for example, to free auctions.

Liquidity occupies a special place in ensuring the financial stability of a commercial bank. Practice shows that a warning factor in the weakening of the financial stability of the bank is the presence of difficulties in the fulfillment of obligations or satisfaction of the needs of the client's new products and services. In response to this, each bank should pay special attention to liquidity management.

There are external instruments for regulating bank liquidity, such as the deposit insurance system and other practices for regulating bank liquidity. In addition to external instruments management, there are internal ones: a payment calendar with details of current payments, liquidity scenarios, funding, a transfer pricing system. In order to use these instruments, it is necessary to understand the outgoing and outgoing financial flows, their correspondence to the terms, balances of assets and liabilities.

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