
# PROBLEMS IN REGULATING THE LIQUIDITY OF COMMERCIAL BANKS BASED ON MONETARY INSTRUMENTS

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**ABSTRACT**

*Commercial banks play a crucial role in ensuring financial stability and supporting economic growth by effectively channeling savings into productive investments. One of the key conditions for the sustainable functioning of the banking sector is the ability to maintain an optimal level of liquidity. Liquidity management is not only a microeconomic task for individual banks but also a macroeconomic challenge directly linked to the effectiveness of monetary policy. In most developed economies, the refinancing rate, reserve requirements, and open market operations are among the main instruments of monetary regulation that ensure balance in the financial system.*

Commercial banks play a crucial role in ensuring financial stability and supporting economic growth by effectively channeling savings into productive investments. One of the key conditions for the sustainable functioning of the banking sector is the ability to maintain an optimal level of liquidity. Liquidity management is not only a microeconomic task for individual banks but also a macroeconomic challenge directly linked to the effectiveness of monetary policy. In most developed economies, the refinancing rate, reserve requirements, and open market operations are among the main instruments of monetary regulation that ensure balance in the financial system.

However, in emerging markets such as Uzbekistan, the transmission of monetary policy instruments to commercial banks' liquidity remains weak. The dominance of short-term deposits in the liability structure, the lack of a deep and diversified financial market, and insufficient development of interbank and capital markets create systemic risks in liquidity management. Moreover, the limited role of government securities, the weak competition in the deposit market, and the absence of a full-fledged mechanism for risk assessment and stress testing exacerbate these challenges.

At the same time, macroeconomic instability, inflationary pressures, and global market shocks directly affect the liquidity position of commercial banks, limiting the efficiency of central bank interventions. International experience shows that the effectiveness of monetary policy is strongly correlated with the depth of financial markets and the availability of diversified funding instruments. This makes it necessary for Uzbekistan to strengthen institutional infrastructure, adopt international standards such as Basel III, and create favorable conditions for the development of a competitive financial market.

In this context, the present study aims to identify the main problems of regulating commercial banks' liquidity through monetary policy instruments in Uzbekistan, to analyze their causes, and to propose measures for enhancing the efficiency of liquidity management mechanisms.

Although the current monetary policy instruments - the refinancing rate, reserve requirements and open market operations - are theoretically the most important instruments for regulating the liquidity of commercial banks, their impact in the conditions of Uzbekistan is limited. One of the main reasons for this is the insufficient depth and diversification of the national financial market. For example, a large part of the resource base of banks is formed by short-term deposits of the population and economic entities, which creates a strong dependence on external factors in liquidity management.

Changes in the refinancing rate are often not fully transmitted to the lending interest rate policy of commercial banks. This is due to insufficient competition between banks and the incomplete formation of the credit market. In contrast to international practice, credit resources in Uzbekistan are often allocated on an administrative basis, which weakens the influence of the Central Bank's key rate[1].

While reserve requirements play a role in restricting or releasing liquidity, they often conflict with the socio-economic objectives of banks. For example, in cases where banks with large state shares are forced to finance the population in socially important sectors, their liquidity indicators are more closely tied to the requirements of current policy than to formal regulatory norms.[2]

Open market operations, however, are limited in volume and therefore do not fully contribute to the rapid regulation of the overall liquidity of the banking system. This is explained by the insufficient market infrastructure and the underdevelopment of financial instruments (securities, derivatives) [3]. For example, while in foreign practice the bond market serves as one of the main channels of monetary policy, in Uzbekistan the volume of government debt securities is very limited.

In this regard, the effectiveness of existing monetary instruments is limited, and to increase their effectiveness, it is necessary to deepen the national financial market, diversify the resource base of banks, and strengthen the competitive environment. Scientific research shows that financial market depth has a high correlation with the effectiveness of monetary policy[4].

One of the main problems in managing liquidity in commercial banks is the imbalance between assets and liabilities. In practice, the deposit base of banks is formed mainly from short-term or demand deposits. At the same time, banks direct a large part of their asset operations to long-term loans and investments. As a result, this imbalance in the structure of resources increases liquidity risk and limits the effectiveness of regulation by the Central Bank through monetary instruments.

First, the composition of banks' liabilities is characterized by a lack of long-term financial resources. For example, corporate and retail deposits are often placed for terms of up to 1 year, but the share of long-term mortgage or investment loans in the loan portfolio is high. This situation is called the "liquidity gap" and forces banks to constantly rely on Central Bank resources or refinancing operations [5] .

Secondly, another internal systemic problem in liquidity management is the insufficient implementation of risk management and stress testing practices. According to international standards (Basel III requirements), banks must have plans that can provide liquidity even in the face of unexpected shocks. However, in many commercial banks, liquidity forecasting and scenario analysis mechanisms are not fully implemented[6].

Third, one of the problems in the internal system is the lack of liquid assets. That is, a large part of the banks' balance sheets is made up of illiquid or poorly marketable assets. For example, in state-owned banks, loans allocated for large investment projects often take priority. These loans are difficult to sell or convert into cash on the secondary market, which increases liquidity risk[7].

Fourth, internal systemic problems in liquidity management include the lack of corporate governance culture and insufficient automation of information systems. In most cases, liquidity monitoring in banks is not carried out in real time. This makes it difficult to identify risks late and respond to them. Modern financial institutions use automated liquidity monitoring systems, which provide daily or hourly analysis[8].

Another problem of liquidity management in the banking system of Uzbekistan is the low level of competition in the deposit market and the limited access of the population to financial instruments. As a result, banks are unable to attract long-term resources and rely more on short-term liabilities. This reduces the effectiveness of liquidity management and negatively affects financial stability [9].

Thus , the internal systemic problems in liquidity management in commercial banks are explained by the imbalance of liabilities and assets, insufficient risk management practices, low share of liquid assets, and insufficient implementation of corporate governance and information technologies. To solve these problems, it is necessary to introduce liquidity standards in accordance with Basel III requirements, establish stress testing practices, deepen the financial market, and diversify the resource base of banks.

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