

**DETERMINANTS AND MANAGEMENT OF COMMERCIAL BANK
LIQUIDITY: EVIDENCE FROM EMERGING MARKETS****Sarvar Rejabbayev**

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Abstract. This article examines the theoretical and practical aspects of commercial bank liquidity management in an unstable macroeconomic environment. Key factors influencing liquidity are analyzed, and modern tools and mechanisms for improving it are proposed. Particular attention is paid to the implementation of digital technologies, improving risk management, and optimizing the banks' asset and liability structure.

Keywords: bank liquidity, asset and liability management, banking risks, financial stability, digital banking, ALM.

1.Introduction

A commercial bank's liquidity is a key indicator of its financial stability and reliability. In the context of globalized financial markets, increased competition, and growing regulatory requirements, maintaining optimal liquidity is particularly pressing. Insufficient liquidity can lead to insolvency, while excess liquidity reduces asset returns.

Modern banks operate in a highly uncertain environment, driven by changes in interest rates, inflation, and exchange rate fluctuations. This requires the development of effective liquidity management mechanisms.

2.Literature review

The study of commercial bank liquidity occupies a central place in modern financial science, as liquidity is a key factor in the stability of the banking system. Various approaches to defining the nature of liquidity, its management mechanisms, and the factors influencing its level have emerged in the academic literature.

Classical theories of bank liquidity originate in the works of neoclassical economists. In particular, Commercial Loan Theory assumes that bank liquidity is provided through short-term lending (Mishkin, 2021). However, this approach has been criticized for its limitations, as it fails to account for the possibility of crises and massive deposit runs.

An alternative approach is represented by Shiftability Theory, which posits that liquidity is provided by the ability to quickly sell assets on the secondary market (Allen & Gale, 2004). This theory developed in the context of the emergence of developed financial markets, but its effectiveness diminishes during financial crises, when market liquidity sharply declines.

Modern studies of commercial bank liquidity emphasize the integration of asset and liability management within the framework of Asset-Liability Management (ALM). According to Saunders and Cornett (2020), effective liquidity management involves aligning the maturity and volume of assets and liabilities, as well as managing interest rate risk. Their work emphasizes the need to use quantitative analytical methods, including gap analysis and stress testing.

An important area of research is the impact of regulatory requirements on bank liquidity. The introduction of Basel III standards, including the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), has significantly changed approaches to liquidity management (Basel Committee on Banking Supervision, 2013). These standards are aimed at increasing banks' resilience to short-term and long-term liquidity shocks.

Research on banking risks has made a significant contribution to the development of liquidity theory. Rose and Hudgins (2019) consider liquidity as part of the overall risk management system, emphasizing its relationship with credit, interest rate, and operational risks. The authors note that insufficient attention to liquidity risks can lead to systemic crises.

In recent years, particular attention has been paid to the digitalization of banking and its impact on liquidity. Recent research shows that the implementation of fintech solutions, big data, and artificial intelligence can significantly improve the accuracy of cash flow forecasting and optimize liquidity management (Vives, 2019). Digital technologies also facilitate the expansion of the deposit base through the development of online banking.

Furthermore, the behavioral aspect of liquidity is actively studied in the scientific literature. Diamond and Dybvig (1983) demonstrated that banking crises can be caused by panicked behavior by depositors, emphasizing the importance of trust in the banking system. This approach has been developed in modern models of financial stability.

Despite a significant volume of research, a number of issues remain understudied. In particular, in developing economies, including Uzbekistan, the specifics of liquidity management, taking into account institutional factors, the level of digitalization, and the specifics of the banking sector, have been insufficiently studied. International standards also need to be adapted to national conditions.

3. Analysis and results

The existence and development of a commercial bank in the challenging banking market depends on management. Management, in its broadest sense, involves managing financial assets, growth, the bank's branch and regional network, and developing a competitive strategy in conjunction with a development strategy.

Nowadays, no self-respecting bank can function without coordinating, approving, and implementing long-term development plans, i.e., strategies. Many banks have long had dedicated departments that develop strategies and analyze past results achieved during their implementation. These are the banks that emerge as leaders in a competitive environment.

Thus, by establishing itself and adopting a specific, highly suitable strategy, a bank makes its presence known not only to its partners and client base, but also to its competitors.

It is well known that virtually all services in the banking market are identical, including loans and deposits, leasing services, depositories, and mortgages—the entire banking market is homogeneous, which is why there is constant competition for clients, driven by the increasing number of banks and their branches in the regions. The bank that takes a wise approach to its chosen development strategy wins.

Undoubtedly, special attention must be paid to personnel, as managing a bank also means managing a team and a cohesive team. It's important to remember that a bank is a structural organization, and it's impossible for just one person to lead it. The formation, development, approval, and implementation of a strategy largely depend on who adopts and develops it.

The modern banking market, like all other existing markets, manifests itself in the form of sellers (commercial banks) and buyers (bank clients, bank partners, etc.), and competition is evolving to take into account other market sectors also involved in banking competition:

1. The production and services market. The role of a commercial bank is to act as a seller of banking services (cash management, account management), as a financial intermediary (mortgage lending), and as a buyer of production resources (office equipment).

2. The consumer and services market. Banks act as financial intermediaries (issuing consumer loans).

3. The labor market. This manifests itself in the fact that banks are constantly working with personnel – recruiting and replenishing, updating, reshuffling, upgrading skills, etc. Here, banks act as buyers.

4. The information product market. Commercial banks perform dual functions: sellers of banking services (financial consultations) and buyers of production resources (the need for software).

5. The real estate market. Here, commercial banks are most often financial intermediaries – buyers (acquisition of land and real estate) or sellers (sale of collateral for defaulted mortgages).

6. Financial markets. Commercial banks emerge and come to the forefront as markets for loans, foreign exchange, and securities. The role of buyer and seller is inherent in every market: banks purchase temporary rights to funds.

This is why the scope of banking competition in the modern sense is perceived as very broad, and the competitive environment as diverse and heterogeneous.

Every modern commercial bank defines its strategic activity zones before developing its strategic development plan. Each time, it is necessary to consider changes in the financial market and the degree to which the strategic activity zones adapt to these changes.

We will consider the classification of strategic activity zones based on the following indicators:

profitability of banking products and their dynamics relative to profit;

growth rate of sales of banking products, monitoring demand for them;

possible regional or national market destabilization, the bank's level of readiness to transition to another strategic activity zone;

factors and conditions of competition with other banks in competitive strategic activity zones.

The constantly evolving and changing Russian banking market is leading to an increase in the number of commercial banks and increased competition, reminding all modern banks of the importance of management and marketing methods and emphasizing the significance of a bank's competitive strategy.

What are the characteristics of competitive strategy today?

Competitive strategy is a set of rules a bank must follow to achieve and maintain its long-term competitiveness.

Currently, competitive strategy is an integral part of a commercial bank's goal system. The traditional goals of commercial banks—profitability, liquidity, and risk minimization—have been supplemented by another: ensuring competitiveness.

Initially, the main problem of strategy was the efficient use of available resources and, on this basis, the production of as many banking products and services as possible, which can be characterized as the production concept of competitive strategy.

A significant step forward was the product concept of competitive strategy. It emphasizes not the quantity, but the quality of banking products and services.

The next stage in the evolution of competitive strategy was its marketing concept, which brought the issue of promoting banking products to the forefront.

At the implementation stage, strategy takes the form of competitive measures for implementing banking policy. A bank's product policy involves defining and modifying the range, quality, and volume of banking services offered; A commercial bank's pricing policy involves setting prices for various banking products and adjusting them in response to changing market conditions.

A bank's sales policy is aimed at bringing banking products to potential buyers. Communications policy is a system of interactions between the bank and potential customers, aimed at encouraging them to purchase banking services.

A distinctive feature of Russian commercial banks in the marketing sphere is their high level of marketing activity due to the increasing number of competitors. Bank competition has become commonplace in the Russian economy, creating the preconditions for bank marketing to be well-suited to the Russian banking market.

Let's examine banking strategy through its components, the most common and frequently mentioned in modern literature: 1) corporate strategy; 2) business strategy; 3) functional strategy; 4) operational strategy.

Corporate strategy is the strategy of a company (in our case, a commercial bank) as a whole. It is an element of the corporate mission, defining the niches of the banking market in which a commercial bank operates, whether it is diversified or provides only a narrow range of banking services, and whether it focuses on a broad or narrow range of clients and organizations.

A business strategy is developed for each business area identified within a commercial bank. If a bank operates, for example, only for corporate clients or offers all types of banking services, then the number of business strategies increases with a large number of banking services, and the opposite happens with a small number of services.

A functional strategy corresponds to each area of a commercial bank—such as product development, sales, and financing.

An operational strategy is developed for the company's separate divisions—functional units, departments, branches, representative offices, etc.

In general, commercial bank development strategies are aimed at expanding the resource base in both the corporate and entrepreneurial segments and for individuals, maintaining the growth rate of lending income, and developing new lending programs, including improving mortgage lending.

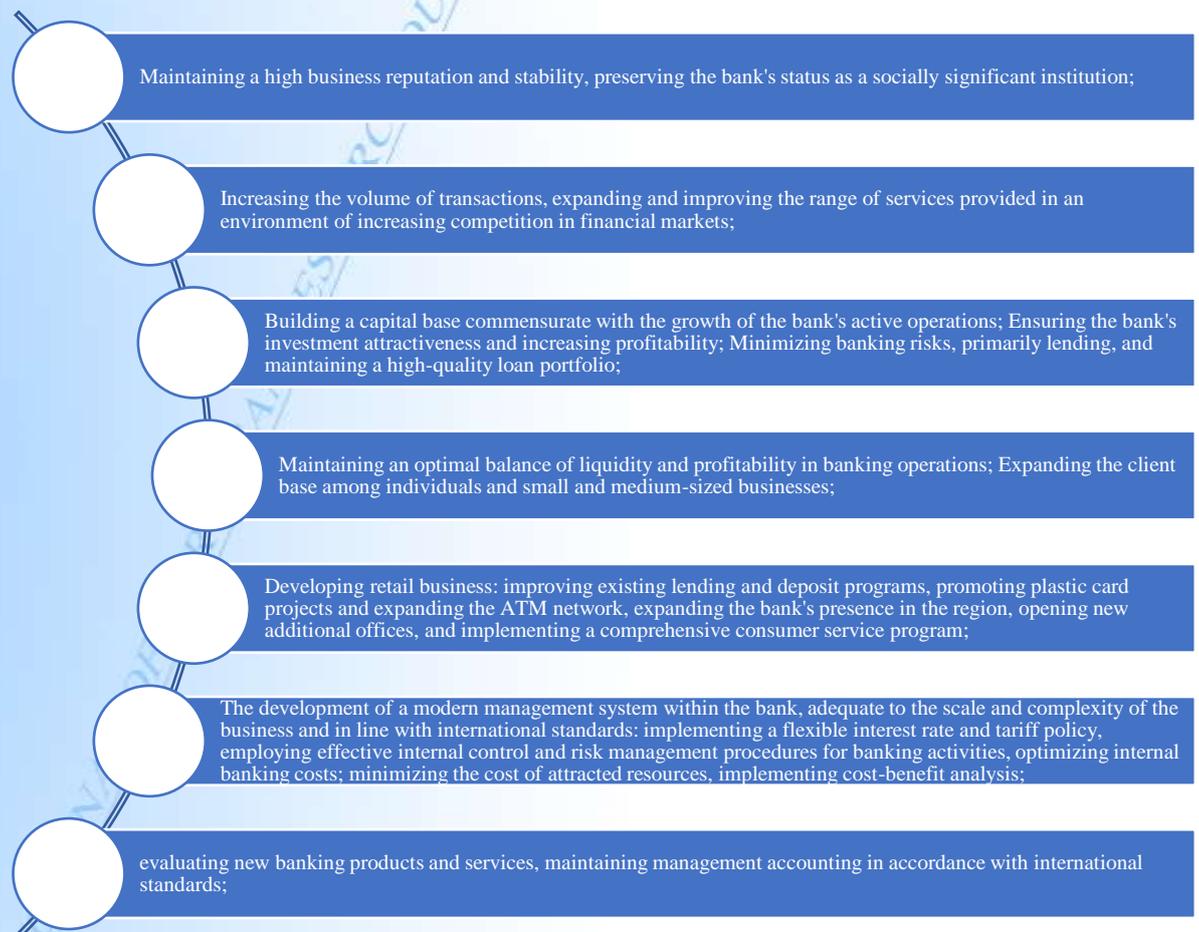


Fig.1. Key principles for commercial bank development

Traditionally, the development of commercial bank strategies was based on the selection of several key factors. Banks determined their deposit and lending policies: they established the principles by which they were prepared to attract funds and indicated the areas in which they were prepared to invest funds, conducting profitable operations.

Depending on the choices made in these areas, different strategies were implemented and different types of banks emerged.

The second major element of the strategy was the asset-liability structure, which was built on top of the descriptions of the first two policies and indicated a stable asset-liability ratio.

Third, banks established acceptable risks in their strategies, and these boundary conditions ultimately determined their lending, security, and liquidity policies. As the banking sector developed, new modules were added to these traditional blocks: additional financial operations generating non-interest income.

The second new module was the bank's communications policy, including the development of public relations and work with government agencies.

Obviously, excellent financial management but a lackluster communications strategy will hinder the bank's operations.

The third innovative module of the bank's strategy is an updated technological infrastructure: card technologies, electronic money, online banking, etc.

A modern commercial bank must always describe how it plans its position in this regard. The government has begun to introduce the concept of socially responsible business, extending it to commercial banks. Banks must reflect their social doctrine, role, and mission in society in their policies. Recently, describing a commercial bank's HR strategy related to collective management and team building has become extremely important. The general trend of population decline and the projected growing shortage of qualified personnel poses the question of staffing for banks.

4. Conclusions

Achieving the goals and objectives defined by a commercial bank's development strategy will highlight the importance of competitive strategy in its mission, strengthen and develop the Russian banking system to protect the interests of financial market participants, and fully facilitate the country's economic development.

Thus, increasing the liquidity of a commercial bank requires a comprehensive approach, including optimizing the asset and liability structure, implementing modern technologies, diversifying funding sources, and improving the risk management system. In an unstable economic environment, a bank's ability to quickly adapt to market changes is particularly important.

Effective liquidity management not only ensures the bank's financial stability but also helps build trust with clients and investors.

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