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Assessment of the Impact of Commercial Banks Mandatory Reserve Policy on Investment Activity

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Annotation

In a developed economy, commercial banks operate in a constantly growing competitive environment. They compete with each other and with other credit and financial institutions, including foreign banks that provide a variety of services that have recently been offered. One of the main directions of activity of commercial banks in the conditions of strong competition is investment activity. Banks need to have a reliable image in front of their customers in order to fully fulfill their obligations. This confidence stems from the liquidity of the banks. In order to ensure the sustainability of their activities in a market economy, commercial banks are required to pay constant attention to liquidity, solvency, and profitability.

The interbank money market is one of the segments of the financial market, which ensures the placement of bank investments in the real economy through the rapid and efficient redistribution of funds accumulated in the banking system. The functioning of the interbank money market affects their overall size and efficiency in terms of making certain investment decisions for the economy and ultimately plays an important role in achieving economic growth.

Keywords: *financial market, monetary policy, investment activity, required reserve policy, monetary base, credit multiplier, competitiveness of commercial banks.*

Introduction

In countries where the practice of using the Central Bank's monetary policy instruments is not perfect, in particular in most transition economies, the Central Bank uses the reserve policy as one of the main instruments of monetary policy. This is because, firstly, financial markets are underdeveloped in most transition economies, which hinders the development of open market policies, refinancing policies and monetary policy by central banks; second, the reserve policy has the effect of having a direct and rapid effect on the money supply; third, it is easy to control compliance with mandatory reserve requirements by commercial banks. This is because the central bank has a practice of regularly maintaining the balance sheet data of commercial banks. For example, in the Republic of Uzbekistan, the staff of the Central Bank's Department for Licensing and Regulation of Commercial Banks regularly and promptly obtains balance sheet data from commercial banks and monitors the activities of commercial banks on the basis of this information. This is due to the fact that the stratification of reserve requirements depending on the amount and term of deposits makes it difficult for the Central Bank to control the calculation of the amount of reserve claims and its accuracy. But fleeing from trouble, non-stratification of reserve rates does not improve the practice of using mandatory reserve policies. Mandatory reserve policy has a direct and strong impact on the monetary base. The monetary base, on the other hand, describes the behavior of the Central Bank. The credit multiplier, on the other hand, describes bank reserves and the population's attitude to their deposits. On the surface, the relationship between the money supply, the monetary base, and the credit multiplier does not seem to provide any valuable information about the main factors that make up the money supply.

Factors that have a decisive impact on the money market include: foreign exchange intervention of the Central Bank, changes in the required reserves of banks. When the central bank conducts foreign exchange intervention, the amount of domestic net assets in the national currency and foreign net assets in foreign currency changes significantly. If the central bank changes the reserve requirements set for commercial banks, it will have a direct impact on the volume of credit issues by reducing the lending capacity of commercial banks. According to monetarists, changes in “high-power” money are the result of central bank policy, while changes in the other two factors mean changes in the behavior of commercial banks and bank customers.

It is the policy of the Central Bank that has a decisive influence on the amount of money in circulation and, therefore, the first factor is considered to be the main one. At the same time, the relationship that reflects the behavior of banks and their customers is relatively stable. The money supply, on the other hand, is based on the idea that it varies according to "high-power" money. Changes in "high-power" money are regulated by the Central Bank through an open market policy. On the surface, the relationship between the money supply, the monetary base, and the credit multiplier does not seem to provide any valuable information about the main factors that make up the money supply.

Literature review

Research on the formation of guidelines for assessing the impact of commercial banks' required reserve policy on investment activity M.Friedmen [1], L.Mises [2], S.R.Moiseev [3], F.S.Mishkin [4], M.Yu. A series such as Matonnikov [5]studied by foreign economists. He is also an Uzbek economist B.O.Tursunov, H.A.Tokhtasheva [6]. It is worth acknowledging the research work of D.A.Muhammadiyev [7], N.A.Ganiyeva [8] and others.

In the above research the processes related to the impact of the process of forming the reserve policy of commercial banks on macroeconomic stability were studied, and the processes related to the impact of the reserve policy of commercial banks on investment activity were not considered.

Research methodology

Research methods such as analysis and synthesis, induction and deduction, statistics and comparison were used in conducting the research.

Analysis and discussion of results

Mandatory reserve policy of the Central Bank of the Republic of Uzbekistan in the conditions of a market economy is one of the most important in the country. regulated by the Regulations on Reserves. According to it,

mandatory reserves - funds transferred by banks to the account with the Central Bank on a mandatory basis in the national and foreign currencies;

reserve liabilities - liabilities of banks in national or foreign currencies included in the calculation of required reserves;

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- Mandatory reserve ratio - the minimum amount of required reserves set by the Central Bank as a percentage of the bank's reserve liabilities;
- accounting period - a period of calculation of obligatory reserves, consisting of fourteen calendar days, starting from the first day on Tuesday and ending on Monday;
- storage period - a period of storage of mandatory reserves, consisting of fourteen calendar days, starting from the first day on Thursday and ending on Wednesday.

The rate of required reserves is set by the decision of the Board of the Central Bank and depends on the type and term of liabilities for which the reserve is formed. Deposits of individuals and other banks are not included in the reserve liabilities. The decision to pay interest to banks on required reserves is made by the Board of the Central Bank based on the current state of the economy, the liquidity of the banking system and the main directions of monetary policy.

Based on the forecast of general liquidity of the banking system, fine-tuning operations from 2 to 13 days were introduced, in which the average reserve of banks during the calculation period of mandatory reserves (usually in the last 10 days) A number of REPO, SVOP and deposit auctions will be held depending on the status of fulfillment of the norm.

Table 1 Current norms and average coefficient of required reserves in commercial banks of the Republic of Uzbekistan [10]

Currency type of liability	Duration	New standards (from 01.07.2019)	Current regulations
National currency	More than 2 years	4%	0%
	1 to 2 years		2%
	other deposits		4%
Foreign currency	More than 2 years	14%	0%
	1 to 2 years		7%
	other deposits		14%

However, in the past period of 2021, there was a significant increase in total liquidity in the banking system, which was not required for these operations due to the regular implementation of the average rate. On the contrary, in May-July, the demand for the Central Bank's borrowing operations increased due to a significant increase in overall liquidity. As a result, this situation necessitated adjustments to the volume of deposit auctions and the Central Bank's bond issuance schedule.

With the beginning of the decline in interest rates in the money market from May 2021, the limits on the balance of bonds of the Central Bank will reach 5 trillion. 7.5 trillion soums soums and the volume of two-week deposit auctions amounted to 100 bln. 200 billion soums soums. In June, in response to the continued growth of total liquidity and the continuing downward trend in interest rates in the market, the limit on the balance of bonds of the Central Bank amounted to 10 trillion. soums and the volume of two-week deposit auctions amounted to 500 bln. Soums.

Also, based on the continuation of the impact of government operations in the third quarter on overall liquidity, the dynamics of interest rates in the money market and the forecast of total liquidity of the banking system for the coming months, the Central Bank's outstanding limit in September amounted to 15 trillion. soums and the limit on the volume of deposit auctions is 4 trillion. soums.

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From August 2021, a number of changes were made to the operating mechanism of the Central Bank. In particular, a significant increase in budget expenditures in May to support economic activity led to an increase in the overall liquidity of the banking system and had a significant impact on the level of interest rates in the interbank money market.

The banking system has seen an increase in the liquidity surplus and a significant easing of conditions in the interbank money market. rise and return to the interest rate corridor. In order to increase the effectiveness of the Central Bank's interest rate corridor, this situation required the complete abolition and permanent unlimited implementation of limits on overnight deposit operations and the introduction of appropriate changes in monetary policy instruments. In particular, The Central Bank's interest rate corridor has been expanded to ± 2 percentage points, and at the current 14% base rate, overnight REPO and SVOP operations are carried out at 16% (base rate + 2%) and overnight deposit operations at 12% (base rate - 2%). The expansion of the interest rate corridor is explained by the low activity of banks in the money market (the number of participating banks and the volume of daily operations) and, as a result, the inefficiency of redistribution of total liquidity among banks.

Under the previous central bank interest rate corridor (± 1% of the base rate), the interest rate for banks to trade in the money market was 2%, with a 1% difference for each bank entering into a contract, and the interest rate was lower. In international practice, in countries with relatively high base rates, the interest rate corridor is wider, and the interest rate corridor narrows as the inflation rate balances and the base rate decreases.

Table 2 Central Bank Monetary Policy Operating Mechanism [9]

Purpose	Instrument	Terms	Interest rate
Providing liquidity	REPO auction	14 days (Monday)	Base rate (lower limit)
	SVOP auction	14 days (Monday)	Base rate (lower limit)
	Overnight REPO operations	1 day (permanent, unlimited amount)	Base rate + 2%
	Overnight SVOP operations	1 day (permanent, unlimited amount)	Base rate + 2%
Attracting liquidity	Overnight deposit operations	1 day (permanent, unlimited amount)	Base rate - 2%
	Auction deposit	Up to 14 days (Tuesday and Thursday)	Base rate (upper limit)
	Central bank bonds	Up to 12 months (on schedule)	Base rate (upper limit)

It should be noted that the active participation of commercial banks in the investment process plays an important role in further developing the economy and increasing the economic potential of the country. In addition, the role of commercial banks is important in ensuring the necessary level and structure of investment in the economy of the country and its individual sectors, increasing investment activity of investment entities aimed at finding sources of investment and identifying priority areas for their use.

In international banking practice, the establishment of required reserve rates takes into account the demand for transaction deposits in foreign currencies and the impact of the reserve policy on the

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deposit base of commercial banks. For example, in the United States, from December 20, 2007, the stratified reserve requirements for transaction deposits will be as follows:

- 9 US dollars from 9.3 mln. 0% for transaction deposits up to USD;
- 9.3 mln. More than USD 43.9 million. 3% for transaction deposits up to USD;
- 43.9 mln. 10% for transaction deposits over US $.

It should be noted that in the United States since December 20, 1990, time deposits and deposits in foreign currency are completely exempt from mandatory reserve applications28. The data from the U.S. example show that higher reserve rates have been set for relatively large amounts of transaction deposits. Because they have a strong impact on the demand for foreign currencies.

Conclusions and suggestions

Currently, there are the following problems in the effective implementation of investment activities of banks:

1. First of all, to ensure the stability of the national currency, to keep inflation at a reasonable level, because if the exchange rate is low and inflation is high, future income from investment activities may be too low or unprofitable;
2. Shares are not placed in small lots, which prevents the spread of shares and hinders the development of investment activities of banks in the secondary market.

Attracting free capital of the population, business entities and other investors, including foreign investors, to the capital of commercial banks, increasing the level of bank capitalization by issuing bank shares, their active placement in the stock market, creating new modern production structures of commercial banks, competitive and to participate with its own capital in the investment process in expanding the production of export-oriented products and in increasing employment. Banking organizations are engaged in lending to a large number of customers. Of course, in such circumstances, the financial situation of all customers is not the same, and the timely repayment of loans will be problematic.

In our opinion, it is necessary to address the following issues related to the use of foreign experience in increasing the investment activity of commercial banks through the policy of required reserves:

1. It is expedient to increase the level of competitiveness of commercial banks and transform banks into a system operating on the basis of best banking practices, increase the level of financial literacy and protection of the rights of the population in the field of banking and financial services.
2. Strengthening the confidence of the population in the banking system of the country, constant monitoring of customer demand in the banking system, improving the culture of banking services, providing advanced banking services to meet the needs of customers, further strengthening the financial and banking system of the Republic. Reform and sustainability are priorities.
3. It is expedient to pay special attention to the creation of conditions for balanced and balanced development of the economy at the micro and macro levels in the direction of attracting investments to the country, as well as to attract vacant funds of the population in financing projects. it is necessary to develop convenient and optimal ways to direct them to the financing of investment projects and actively apply them in practice.

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4. It is necessary to ensure the steady growth and quality of the loan portfolio of commercial banks by increasing the participation of commercial banks in financing investment projects, improving the system of project examination and risk assessment, preventing problem loans; it is necessary to increase the attractiveness of the securities of companies.
5. In order to increase the investment activity of commercial banks, the regular introduction of new types of deposits and deposits, taking into account the needs of the population and businesses, a comprehensive analysis of what hinders the growth of deposits in banks, their involvement in the banking system and additional measures need to be taken in this regard.

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