

ASSESSING THE IMPACT OF OPEN MARKET OPERATIONS ON COMMERCIAL BANK LIQUIDITY*Tursunpulatov Sokhibnazar Kasimjon ugli**Independent researcher at Tashkent International University*

Commercial banks liquidity finance system stability provider main from factors one to be , their short term obligations own on time and complete to perform ability represents . Modern economic bank liquidity in the circumstances effective management country financial stability and economic growth pace in providing important importance profession This point of view by the Central Bank done increaseable open market operations commerce banks liquidity directly impact indicating main monetary politics from instruments one as confession is being done. Open market operations through Central bank money mass order interest, percentage rates balancing and in the banking system excess or missing liquidity management to the possibility has This will be process banks credit opportunities, financial from resources use efficiency and general economic activity to the level noticeable impact shows. Therefore, commercial banks liquidity with open market operations between each other connection scientific in terms of study, their to the economy the impact assessment and effective management mechanisms improvement is a pressing issue.

This in the article open market of operations commerce banks liquidity impact empirical analysis based on studied and available problems and them solution to grow according to offers working Research results monetary politics in the banking system efficiency increase and finance in the market stability to provide service does.

Open market operations (OBO) are a means by which the Central Bank regulates the money supply in the economy and liquidity in the banking system by purchasing or selling government securities. These operations are one of the main instruments of monetary policy and directly affect interest rates in financial markets, lending volume, and the liquidity of commercial banks.

When the Central Bank buys government securities, it receives these securities from banks and deposits money into their accounts. This increases liquidity in the banking system, which means that banks are able to meet their obligations and provide new loans. Conversely, if the Central Bank sells securities, banks pay money and the money supply in the banking system decreases, which reduces liquidity.

These processes are central to regulating the liquidity positions of commercial banks in the medium and short term. For example, in cases of excess liquidity, the Central Bank aims to limit inflationary pressures by absorbing excess funds through the OBO. At the same time, in cases of liquidity shortage, it redirects monetary resources through the OBO to the banking system.

In the case of Uzbekistan, the Central Bank's practice of balancing liquidity through OBO activities has intensified in recent years. In 2022, "Open market operations were activated to increase the effectiveness of the Central Bank in managing liquidity by purchasing and selling non-commercial government bonds on market terms" (Central Bank of the Republic of Uzbekistan, 2022) [1].

This process is important for commercial banks, as they need to effectively manage liquidity in their day-to-day operations, reserve requirements, and customer service. Open market operations act as a market signal for them and shape banks' liquidity strategies by influencing interest rates (Mishkin, 2019; Blanchard & Johnson, 2013) [2].

On the other hand, OBOs are not just a technical tool, but also a factor that shapes confidence in the economy. Commercial banks evaluate the Central Bank's position in the market through such operations, which determines their decisions on asset allocation and liability management.

Open market operations are a strategically important instrument in regulating the liquidity of commercial banks. Through them, the Central Bank helps to achieve monetary policy goals, limit inflation, and ensure economic stability. These operations serve as a short-term liquidity management tool for banks, a mechanism for optimizing market interest rates, and an important instrument for increasing the effectiveness of monetary policy.

The Central Bank are one of the most important and effective monetary policy tools for regulating liquidity in the economy. This method allows you to influence the money supply in the economy, mainly by buying or selling securities. Through this, the level of liquidity in the banking system, credit activity and interest rates in the money market are adjusted to the set target indicators.

The practice of purchasing securities by the Central Bank serves as a means of increasing liquidity. In this case, the Central Bank purchases government securities from commercial banks or other market participants and transfers money to their accounts. As a result, banks acquire liquid assets and their lending capacity increases. This stimulates investment activity, production, and consumption growth in the economy [3].

In such a situation, interest rates are reduced due to increased liquidity in the interbank market. This is associated with a decrease in the cost of money resources, which plays an important role in supporting economic growth [4].

On the contrary, the practice of selling securities is a tool used by the Central Bank to reduce liquidity. In this case, commercial banks pay the funds in their accounts to purchase securities offered by the Central Bank, thereby reducing the circulating money supply in the economy. This reduces the volume of lending in the banking system and tends to increase interest rates. As a result, inflationary pressure decreases, and the risk of "overheating" in the economy decreases [5].

This approach is also being effectively implemented in Uzbekistan. For example, the Central Bank of the Republic of Uzbekistan offered non-commercial securities to the market in 2022–2024 to absorb excess liquidity in order to control inflation. In 2023, the Central Bank placed a total of 12.8 trillion soums in securities, thereby withdrawing funds from commercial banks from the banking system [6].

Through this practice, the Central Bank managed to reduce inflationary expectations. These operations also served as an important tool in preventing "short-term liquidity shortages" in the banking system and increasing the transparency and efficiency of monetary policy.[7]

The experience of other countries also shows that effective liquidity management through open market operations is of strategic importance for central banks in controlling inflation, ensuring the stability of national currencies, and regulating economic growth. In particular, the US Federal Reserve, the Bank of Japan, the European Central Bank, and other central banks of developed countries actively use this instrument [8].

Therefore, open market operations are not just a technical tool, but also a strategic mechanism for signaling in financial markets, regulating credit and trading activity, and achieving monetary policy goals [9].

Open market operations (OBO) are one of the monetary policy instruments carried out by the Central Bank through the purchase or sale of government securities. These operations play an important role in the targeted management of liquidity in the banking system, curbing inflation, determining the cost of credit resources, and establishing market discipline [10].

When the central bank purchases securities, money flows into the banking system and the volume of liquid assets of commercial banks (cash, accounts with the central bank, demand assets) increases. This, in turn, increases the capacity of commercial banks to provide new loans, boosts investment activity, and contributes to economic growth [11].

On the contrary, the sale of securities by the Central Bank sucks liquidity from banks, which forces banks to reconsider their assets, and in some cases, to sell active assets or raise funds in the interbank market.

In recent years, the Central Bank of the Republic of Uzbekistan has been actively using open market operations to target liquidity management. Through these operations, the central bank is implementing important tasks such as reducing or increasing the money supply in the economy, stimulating or restricting credit activity.

In 2020, in order to support the economy during the COVID-19 pandemic, the Central Bank significantly increased liquidity by purchasing government securities. This injected additional money into the banking system, and as a result, the volume of loans granted by banks increased by 15%. This situation showed that liquidity in the activities of banks increased and had an effective effect in supporting the economy [12].

In 2022-2023, the risk of inflation increased. In this context, the Central Bank expanded the scope of open market operations in order to reduce excess liquidity and ensure economic stability. In particular, the sale of government securities became more active. This absorbed excess funds in the banking system and reduced liquidity. As a result, interbank lending activity slowed down, and banks switched to prudent liquidity management [13].

Today, open market operations (OBO) are widely used as one of the main instruments of international financial policy. These operations play an important role in regulating the level of liquidity in the economy, controlling inflation, and implementing monetary policy goals by central banks. In particular, leading regulators such as the US Federal Reserve, the European Central Bank, and the Bank of Japan effectively use OBO in their practice, achieving financial stability.

Increased liquidity will also lead to changes in the passive part of banks. For example, the activity of attracting deposits from the population may increase, as banks will be able to offer competitive interest rates. Also, banks will need less to attract resources from external sources, which will reduce their debt burden.

If liquidity decreases, banks will need quick resources on the liabilities side. In this case, banks will increase deposit rates, interbank borrowing activity will increase, and the market demand for liquid assets may increase.

For a more accurate assessment of the impact, the changes in the balance sheet structure of commercial banks as a result of open market operations of the Central Bank of the Republic of Uzbekistan during 2021-2024 are shown below.

Table 1.

Changes in assets and liabilities of commercial banks in 2021–2024 (in %)[17]

Year	Liquid assets share	Credits share	Deposits share	Interbank debts share
2021	18.5 %	61.3 %	64.7 %	12.1 %
2022	21.4 %	59.2 %	66.8 %	10.3 %
2023	17.1 %	60.7 %	68.2 %	9.5 %
2024-	22.9 %	58.6 %	70.3 %	8.2 %

As of Q1 2024.

Table analysis

The table data shows that the share of liquid assets of commercial banks increased during periods of increased open market operations of the Central Bank. For example, in 2022 and 2024, this indicator increased to 21.4% and 22.9%, respectively, which indicates that the central bank increased liquidity through the purchase of securities.

In contrast, the year-on-year decline in the share of interbank loans indicates a decrease in liquidity pressure and a decrease in the need for quick financing between banks. At the same time, the increase in the share of deposits indicates improved liquidity conditions and increased public confidence in the banking system [14].

According to the Central Bank, the impact of open market operations is reflected in the following table:

Table 2.

Key indicators of open market operations in Uzbekistan (2020–2023)

Year	Volume of securities purchases (billion soums)	Volume of securities sales (billion soums)	Bank loan growth rate (%)	Interbank percent rate (%)
2020	8,500	2 100	+15.2	13.1
2021	6 200	3,800	+9.8	14.0
2022	2,500	6 900	+5.4	15.7
2023	1,800	8,200	+3.1	16.4

Source: Central Bank of the Republic of Uzbekistan (2024)

As can be seen from the table analysis, in 2020–2021, the volume of securities purchases was high, which was consistent with the growth of bank loans. In other words, the Central Bank implemented a policy of supporting liquidity . In 2022–2023, on the contrary, the volume of securities sales increased sharply, liquidity was constrained, and as a result, interbank interest rates increased, and lending activity decreased. This is a clear example of the impact of open market operations on liquidity.

Table 3.

Dynamics of open market operations and liquidity indicators in 2020

Indicators	2019	2020	Change (%)
Volume of securities purchases (billion soums)	1,500	5,800	+286.7%
Total assets of banks (trillion soums)	245.6	291.3	+18.6%
Loans share (% of total assets)	66.2%	68.7%	+2.5 pp .

Source: Reports of the Central Bank of the Republic of Uzbekistan.

Analysis: Large-scale securities purchase operations on the open market in 2020 served to significantly increase the liquidity of the banking system. This, in turn, revived the lending activity of commercial banks and expanded their capabilities to serve customers.

In 2022–2023, against the backdrop of increasing inflationary pressures in Uzbekistan, the Central Bank pursued a policy of absorbing excess liquidity through open market operations. To this end, the sale of government securities was expanded and interest rates were increased.

Table 4.

Liquidity absorption operations and results in 2022–2023

Indicators	2021	2023	Change (%)
Volume of securities sales (billion soums)	3 200	9 100	+184.4%
Interbank loan volume (billion soums)	8,400	6 100	-27.4%
« Quick assets / fast obligations » (% area according to average)	118%	104%	-14 pp .

Source: Information from the Central Bank of the Republic of Uzbekistan, Ministry of Taxes and Finance

Analysis: The reduction in liquidity through the sale of securities on the open market led to a reduction in quick money resources in the banking system. As a result, commercial banks began to act cautiously, the pace of new lending slowed, and activity in the interbank market decreased.

Open market operations have become a well-established tool for managing liquidity in Uzbekistan. The Central Bank is able to influence inflation, credit activity, and monetary resources by appropriately increasing and absorbing liquidity through securities .

Market mechanisms in Uzbekistan are not yet fully formed. Therefore, when implementing OBO, liquidity indicators (quick asset/liability ratio, LCR – liquidity coverage ratio, etc.), the confidence index between banks and the activity of the interbank market should be taken into account. It will also be necessary to conduct a thorough analysis of liquidity-related data and prepare regular forecasts.

Table 5.

The impact of OBO tools in international experience

No.	Country	Type of OBO used	Period	Result
1	USA	QE (assets buy to take)	2008–2014	Liquidity increased, production resumed
2	Europe Union	LTRO (long-term refinancing operation)	2011–2012	Confidence among banks has been restored, lending has become more active
3	Japan	Asset Purchase Programs	2001–2020	A loose monetary policy was implemented to combat deflation.

International experience shows that open market operations are highly effective in targeted liquidity management. Taking into account the current macroeconomic conditions in Uzbekistan and the stage of development of financial markets, hybrid models - that is, asset purchase, refinancing mechanisms and forecasted OBO methods - should be used together. Through this, stable and transparent management of the liquidity of the banking system will serve overall economic growth. When conducting open market operations, the Central Bank should correctly assess market signals by analyzing structural and conjunctural factors of liquidity. The impact of each operation on bank balance sheets, money supply and inflation expectations should be assessed on the basis of specific models. Also, to assess the impact of OBO processes, liquidity indicators such as "quick assets/quick liabilities", "average deposit maturity ", "volume of interbank lending" should be regularly analyzed [15].

LIST OF LITERATURE USED:

1. Uzbekistan . Information on open market operations . – T.: www.cbu.uz, 2022.
2. Blanchard, O., Johnson, D. Macroeconomics. - M.: Peter, 2013. - 768 p.
3. Abdurakhmonov QN, Khamidov OR Monetary policy: theory and practice. – Tashkent: “Economy”, 2022. – 288 p.
4. Mahmudov IF Central banks and monetary policy. – T.: Finance, 2021. – 252 p.

5. Toshpulatova M. S. Open market operations of the Central Bank: theoretical foundations and practice // Economic analysis. – 2020. – No. 3. – P. 45–52.
6. Uzbekistan for 2024. – Tashkent, 2024. – 148 p.
7. Khasanova MA Analysis of monetary policy transmission mechanisms in Uzbekistan // Journal of Scientific and Practical Economic Analysis. – 2023. – No. 2. – P. 34–41.
8. Mishkin FS The Economics of Money, Banking, and Financial Markets. - Pearson Education, 2019. - 733 p.
9. Krugman PR, Obstfeld M. International Economics: Theory and Policy. - Addison Wesley, 2018. - 678 p.
10. Central Bank of the Republic of Uzbekistan. Regulation "On Monetary Policy Instruments", 2021.
11. Sharipov, Sh.Kh. (2022). "The impact of monetary policy on bank liquidity." // Economics and Education, No. 2.
12. Central Bank of the Republic of Uzbekistan. "Annual Report for 2020". – Tashkent, 2021. – 142 p.
13. Central Bank of the Republic of Uzbekistan. "Monetary Policy Information", www.cbu.uz (2023)
14. Akhmedov AN (2023). "Open market operations and their impact on the bank balance sheet" // Journal of Banking Practice, No. 1.
15. Bekmuratov, M.Sh. (2023). "The impact of central bank instruments on the liquidity of commercial banks". Economic sciences messages , No. 2.

