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ANALYSIS OF FACTORS DETERMINING THE LEVEL OF LIQUIDITY RISK IN COMMERCIAL BANKS

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Abstract
The article presents research aimed at identifying the key factors influencing liquidity risk levels in commercial banks' operations. The authors analyze various aspects such as the bank's asset and liability structure, credit risk level, liquidity management efficiency, external economic conditions, and other factors that may impact a bank's liquidity. The article also examines modern approaches to liquidity risk management and offers recommendations for reducing risk levels and enhancing the financial stability of commercial banks. This article may be beneficial for professionals in finance, banking, and risk management, as well as researchers and students interested in liquidity issues in the banking sector.

Keywords: liquidity, commercial banks, risk management, assets and liabilities, credit risk, financial stability, economic conditions, liquidity level, risk factors.

Introduction

Liquidity is one of the key indicators of the financial stability of commercial banks. Liquidity risk occurs when a bank is unable to meet its financial obligations when due due to a lack of liquid assets or access to financing. Analysis of the factors that determine the level of liquidity risk in commercial banks is important for effective risk management and ensuring the stability of the banking system [1].

Liquidity risk in commercial banks refers to the possibility of a situation arising in which a bank is unable to timely and fully meet its force majeure financial obligations due to a lack of liquid assets or access to financing. This risk is due to the fact that the bank may experience a loss of confidence on the part of depositories and creditors, which can lead to serious consequences, including bankruptcy. The essence of liquidity risk is that the bank must ensure the availability of a sufficient amount of liquid assets (such as cash, securities, and short-term loans) to cover current and future liabilities. Insufficient liquidity may result in a bank being unable to timely repay customer deposits, repay borrowings, or meet other financial obligations [2].

Liquidity risk management includes developing liquidity management strategies, monitoring current liquidity, assessing potential risks and taking measures to mitigate them. It is

important for banks to have adequate liquidity reserves, diversified sources of funding and effective asset-liability management to minimize liquidity risk and ensure financial strength [3].

Factors influencing liquidity risk in commercial banks

Liquidity risk is one of the key financial risks faced by commercial banks. This risk arises from a mismatch between the bank's assets and liabilities in terms of timing and volume, which may result in the bank being unable to meet its financial obligations on time. There are many factors that can influence the level of liquidity risk in commercial banks. Let's look at some of them:

- Structure of bank assets and liabilities. One of the main factors influencing liquidity risk is the structure of the bank's assets and liabilities. If a bank has a significant amount of long-term assets, but its liabilities are short-term, this may lead to an imbalance in liquidity. For example, if a bank issues loans for long periods and attracts deposits for a short period, then there is a risk that the bank will not be able to repay deposits on time when customers request it [4].
- Stability of funding sources. Stability of funding sources also plays an important role in managing liquidity risk. If a bank is dependent on short-term financing or on one or two large lenders, this increases the risk that the bank may face liquidity shortages when funds are withdrawn or financing terms change.
- Diversification of the asset portfolio. Asset portfolio diversification can also have an impact on liquidity risk. If a bank has a wide range of liquid assets of various types (cash, securities, short-term loans), this can help reduce the risk of liquidity shortage. If there is a shortage of liquid assets in one category, the bank can use other assets to cover its liabilities [5].
- Market conditions. Market conditions also influence liquidity risk in commercial banks. For example, changes in interest rates, economic instability or financial crises may affect the availability of funding and liquidity of a bank. During periods of increased market uncertainty and volatility, banks may face increased liquidity risk [6].
- Level of deposits and borrowings. The volume and structure of deposits and borrowings are also important factors affecting liquidity risk. If a bank is dependent on large deposits from multiple customers or on borrowed funds, this may increase the risk that the bank will be unable to meet its financial obligations when those customers request it or when the terms of the loans change.
- Efficiency of liquidity management. Effective liquidity management is a key aspect of reducing liquidity risk in commercial banks. Banks should have clear liquidity management strategies, mechanisms for monitoring current liquidity, and action plans for cases of liquidity shortage. In addition, banks must have adequate liquidity reserves and diversified sources of funding to ensure financial sustainability [7].
- Regulatory requirements. Regulatory requirements may also impact liquidity risk in commercial banks. For example, central banks set minimum requirements for banks' liquid assets and liabilities (eg Liquidity Ratios) to ensure their ability to meet their financial obligations in all market conditions [8].

Liquidity risk management strategies

Liquidity risk management strategies in commercial banks play a key role in ensuring financial stability and protection against possible liquidity problems. Effective liquidity risk management involves the development and implementation of special strategies and measures aimed at minimizing the likelihood of liquidity shortages. Let's look at some of the main strategies for managing liquidity risk:

1. Development of a liquidity management policy. Developing a liquidity management policy is one of the key aspects of the financial management of a commercial bank. Liquidity is the bank's ability to fulfil its financial obligations on time and without significant losses. Lack of liquidity can lead to serious financial problems, including insufficient funds to cover operating expenses, inability to meet obligations to customers and other counterparties, and the risk of bankruptcy.

The liquidity management policy defines the strategies and mechanisms that the bank will use to ensure its liquidity. It includes defining liquidity goals, setting liquidity limits, developing procedures and tools for liquidity management, and monitoring and evaluating the effectiveness of liquidity management activities. One of the key elements of developing a liquidity management policy is defining liquidity objectives. This may include determining the minimum level of liquidity required to ensure the financial strength of the bank, as well as setting liquidity targets that must be achieved within certain periods [9].

An important aspect of developing a liquidity management policy is also the establishment of liquidity limits. This helps the bank control its risks and avoid situations where its liquid assets are insufficient to cover current liabilities. Liquidity limits can be set both in monetary terms and as a percentage of the bank's assets. Another important aspect of developing a liquidity management policy is the development of procedures and tools for liquidity management. This may include the creation of liquidity reserves, the use of refinancing instruments, participation in the interbank loan market and other measures aimed at ensuring sufficient liquidity of the bank [10].

2. Diversity of funding sources. Diversity of funding sources is a key aspect of financial management for any business, organization or project. Diversity of finance means using different sources to raise the necessary funds, which provides a more stable and flexible financial base. Diversity of funding sources reduces the risks associated with dependence on a single source and provides access to different types of capital depending on the needs and goals of the organization.

The main sources of financing can be divided into two main categories: external and internal. External sources of financing include borrowed funds, issue of shares, attraction of investments, government subsidies and grants, as well as other forms of external capital. Internal sources of financing include enterprise profit, depreciation, reinvestment of profits, sale of assets and other sources that are generated within the organization itself [11].

One of the benefits of diversifying your funding sources is risk reduction. Using different sources of financing helps reduce dependence on one specific source and reduces the risk of financial loss if problems arise with one of the sources. For example, if a company is completely dependent on loans, then possible changes in interest rates or bank lending policies can seriously affect its financial condition. Therefore, using a variety of financing

sources helps mitigate these risks. Another benefit of diversifying funding sources is the ability to select the most appropriate source for an organization's specific needs. Different types of capital have their own characteristics, conditions and requirements, so choosing the optimal source of financing can be key to the successful implementation of an organization's strategy. For example, for long-term investment projects, it may be preferable to use borrowed funds with a low interest rate, while for current operations it may be preferable to use internal resources [12,13].
In addition, a variety of funding sources improves the organization's reputation with investors, creditors and other stakeholders. An organization that successfully utilizes multiple types of capital demonstrates its financial strength, flexibility, and ability to adapt to changing market conditions. This can increase investor confidence and improve access to new sources of funding in the future.
3. Structural and term risk management. Managing structural and term risk is an important aspect of financial management for any organization, business or investor. Structural risk is associated with changes in the macroeconomic environment, political risks, changes in legislation, demographic factors and other external factors that may affect the financial condition of the organization. Term risk, on the other hand, is associated with price fluctuations in financial markets, interest rates, exchange rates and other financial instruments.
Structural risk management involves the analysis and assessment of external factors that may affect the financial condition of the organization, as well as the development of strategies and measures to reduce or manage these risks. To do this, it is necessary to regularly monitor the economic environment, political situation, changes in legislation and other factors that may affect the organization's activities. Based on the analysis of this data, action plans can be developed to minimize structural risk and ensure financial sustainability.
One of the methods for managing structural risk is the diversification of the asset portfolio. By spreading investments across different assets, industries or regions, exposure to specific markets or sectors can be reduced and the risk of loss in the event of adverse changes can be reduced. It is also important to use financial instruments such as insurance, derivatives or options to protect against the negative effects of structural risk. Managing the immediate risk associated with price fluctuations in financial markets also plays a key role in ensuring the financial stability of an organization. To manage urgent risk, it is necessary to analyze the current situation in financial markets, predict possible changes and develop strategies to minimize losses or make profits from price changes.
One method of managing term risk is the use of hedging. Hedging allows you to protect a portfolio of assets from loss by entering into contracts for future delivery or selling assets at a known price. This helps reduce volatility in portfolio returns and provides protection against negative price movements.
4. Liquidity planning. Liquidity planning is an important aspect of financial management that aims to ensure the ability of an organization or business to meet its financial obligations on time. Liquidity is the ability of an organization to quickly convert its assets into cash without significant loss of value. Liquidity planning includes analysis of current and future cash

needs, development of strategies to ensure the required level of liquidity and measures to minimize the risks of liquidity shortages.

One of the key goals of liquidity planning is to ensure a sufficient level of cash to cover current expenses, obligations to creditors, payroll and taxes, as well as to implement strategic investments and business development. Lack of liquidity can lead to solvency problems, delays in settlements, missed investment opportunities and even bankruptcy of the organization.

To successfully plan liquidity, it is necessary to analyze the current financial situation of the organization, and assess its cash needs for the short and long term, taking into account possible changes in the economic environment and financial markets. Based on this analysis, an action plan can be developed that includes measures for managing cash, optimizing working capital, using credit lines, attracting financing, hedging currency risks and other strategies. One of the methods of liquidity planning is to draw up a calendar plan for cash receipts and expenditures for a certain period of time. This plan will help you assess overall cash flows, identify periods of tight or excess liquidity, and take steps to balance cash flows. It's also important to have an emergency fund in case of unexpected expenses or changes in the market.

Liquidity planning also involves taking into account risk factors, such as changes in interest rates, currency fluctuations, inflation, political risks and other factors that may affect the financial condition of the organization. Regular monitoring of liquidity, analysis of its effectiveness and adjustment of strategies if necessary will help ensure the financial stability and successful functioning of the organization in a changing economic environment. In general, liquidity risk management strategies in commercial banks should be comprehensive, systematic and focused on ensuring financial stability. The development and implementation of effective liquidity risk management strategies allow banks to minimize the likelihood of liquidity problems and ensure stable operation in any market conditions.

Conclusions

In the course of analyzing the factors determining the level of liquidity risk in commercial banks, it was revealed that effective liquidity management plays a critical role in ensuring the financial stability of the banking system. Liquidity risk can arise due to various factors, such as changes in market conditions, insufficient diversification of sources of funding, structural and term risk, and insufficient liquidity planning. To successfully manage liquidity risk in commercial banks, it is necessary to develop and implement comprehensive strategies that include a variety of funding sources, structural and term risk management, liquidity planning, monitoring and reporting. These strategies will help banks minimize the likelihood of liquidity shortages and ensure stable operation in any market conditions.

In addition, it is important to note that the level of liquidity risk may vary depending on the size and characteristics of the bank, its activities and market characteristics. Therefore, each bank must develop individual liquidity risk management strategies, taking into account its specific characteristics. An analysis of the factors that determine the level of liquidity risk in commercial banks highlights the importance of effective liquidity management to ensure financial stability and protection against possible liquidity problems. The development and

implementation of appropriate liquidity risk management strategies is a key element of the successful operation of the banking system and contributes to ensuring its sustainability in the long term.

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