INTEREST RISK MANAGEMENT PRACTICE IN COMMERCIAL BANKS

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Effective management of interest rate policy and interest rate risk of banks requires studying its important subjects - loans and deposits, including the central bank and its activities and policies, knowledge of their methods of operation, functions and operations. In order to achieve economic stability, the monetary policy of the Central Bank is of great importance in effectively managing the economy and regulating the money supply in the economy. In the Republic of Uzbekistan, like in many developed countries of the world, there is a two-tier banking system. Its first tier is managed by the Central Bank, which is considered the "bank of banks", which regulates the activities of commercial banks of other forms of ownership and money circulation in the country. The second tier of the banking system is formed by commercial banks of various forms of ownership, which provide credit and settlement services to economic entities, carry out active and passive and intermediary operations. The Central Bank develops the main directions of the monetary policy of the Republic of Uzbekistan, which include analysis and prospective indicators of the economic situation, economically justified limits of the money supply in circulation, and the main directions of interest rate policy.

In world practice, the interest rate policy of the central bank is one of the main instruments of monetary policy. Currently, through the implementation of interest rate policy, central banks have a significant impact on the money supply in the economy and the management of interest rates of commercial banks. In turn, regulating and managing interest rate risk in commercial banks is one of the main tasks of the modern banking system.

Commercial banks are actively participating in the market of financial services in order to increase the competitiveness of our country's economy. They provide various services to legal entities and individuals.The number of types of deposits that are offered to the population and are convenient and beneficial for its various strata is increasing. Legal entities, including small businesses and private entrepreneurs, are given short- and long-term loans in various directions, the volume of leasing operations of banks is increasing.

One of its distinctive features is that banks set prices for banking operations and services not in the form of an amount, but in the form of an annual interest rate, tariff, and exchange rate. For example,

first, the price is set for services such as deposits and loans in the form of interest;

secondly, the price is determined in the form of a tariff for brokerage, trust, management of securities according to the client's instructions and other similar services;

Third, the price in the form of an exchange rate is mainly applied to cash foreign currency transactions between corporate and legal entities. This is the bank's price, which is understood as the difference between buying and selling currency.

The word interest is derived from the Latin word "pro-centum", which in Uzbek means one hundredth. In the practice of commercial banks, several interest rates are widely used in attracting and placing resources. Interest rates are developed by the relevant department for corporate and individual clients in accordance with the bank's interest rate policy and are approved at the beginning of each year for implementation in practice based on the decision of the bank's Board of Directors.

The main public economic function of commercial banks is financial intermediation, which organizes the transfer of cash flows from entities with a large amount of funds to entities in need of funds. In the performance of these functions, banks receive income in the form of interest, which is the basis for their development. In turn, the placement of funds is based on certain interest rates above the borrowing rate. Development of the interest policy of commercial banks is of great importance in the organization of banking business.

All banking institutions provide operations and services typical of commercial banks and receive a certain amount of income from them. At the same time, they try to attract customers' free funds to the bank and use them effectively. Therefore, when banks establish partnership relations with customers, they should set prices for their services that are convenient for the customer. Because, in conditions of interbank

competition, no matter what service the customer needs, he will choose the bank that offers prices that are convenient for him.
Interest rate policy is a set of measures that coordinate the determination of interest rates in the implementation of bank operations related to the attraction and placement of funds. Interest rate policy is understood as an internal document of the bank, which provides for the maximization of income by providing services to clients based on various methods and techniques, approaches and directions, and principles. Interest rate policy is one of the components of the bank's business plan and, along with credit, deposit, and tariff policies, plays an important role in the bank's activities.
Interest policy focuses on ensuring the stability of the money market and the attractiveness of bank deposits, including maintaining positive real interest rates on household deposits and increasing the share of long-term deposits in the deposit portfolio of commercial banks, as well as ensuring acceptable interest rates on loans to the real sector of the economy. Classification of interest rates is the determination of interest rates taking into account the amount, term, purpose, level of security, direction of the sector and other factors of the funds being attracted and placed.
The main goal of interest rate policy is to ensure the profitability and efficiency of banking activities by ensuring the commonality of approaches and management mechanisms in the process of carrying out operations related to the attraction and placement of funds.
Effective management of the interest rate policy involves the following:
protecting the interests of bank shareholders and depositors;
ensuring the level of liquidity of the bank by strengthening its resource base;
establishing a margin by ensuring an acceptable level of profit;
increasing the share of interest income in bank income by managing interest rates for effective use of funds in the representative account.
Interest rate policy also takes into account the level of inflation, growth in the money supply, interbank interest rates, and the refinancing rate. The higher the level of these indicators, the higher the interest rates on loans and deposits, and vice versa. Each year, the Central Bank of the Republic of Uzbekistan sets the refinancing rate, taking into account various parameters.

The main directions of attracting resources. In carrying out its activities, the bank attracts free funds of legal entities and individuals to the bank's circulation. In particular, the resources for the implementation of active operations consist of the bank's own funds and borrowed funds.

The policy of the bank in the field of attracting resources is determined based on the following:

rates set by the Central Bank for funds deposited into mandatory reserves;

level of administrative management cost recovery;

term, amount of funds involved, and method of interest calculation and payment;

level of targeting of the funds involved.

Interest rates on securities issued by the bank are determined based on the interest policy of the bank.

Determination of interest rates on funds attracted to term deposits from legal entities and individuals is carried out on the basis of the local financial market situation and the dynamics of changes in the refinancing rate of the Central Bank.

In order to effectively manage interest rate risk, it is possible to provide for the terms of changing interest rates on long-term credit investments. The factors that lead to the revision of the interest rate should be reflected in the bilateral agreement concluded between the bank and the borrower. The basis for changing interest rates may be changes in the Central Bank's refinancing rate or local financial market rates, an increase in bank expenses associated with servicing the loan portfolio, and other reasons.

In order to assess the impact of interest rate fluctuations on the deposit market on the bank's financial position and cash flow, the bank's interest rate risk is regularly analyzed. In this case, the management of the rates of attracting and placing funds is carried out through the analysis of the financial situation of the bank in the regions and the fulfillment of the defined parameters of the business plan in terms of income.

The control over the interest policy and individual interest rates implemented by the bank is carried out within the current general control system of the bank.

The activities of banks in the field of attracting deposits, including the determination of interest rates on attracted deposits, the timely return of deposits and accrued interest payments in accordance with deposit agreements concluded between the bank and the client, are carried out in accordance with the deposit and interest policies of the banks. Banks determine the level of interest rates on attracted deposits based on the Central Bank refinancing rate and changes in the inflation rate in recent years.

The Central Bank regularly monitors the level of interest rates on deposits of banks in order to protect the interests of bank depositors, borrowers and creditors, prevent unjustified increases in interest rates on deposits and the emergence of associated risks, and ensure the stability of the banking system.

In this case, the Central Bank will separately study the interest policy and financial condition of the banks in which the weighted average interest rate on deposits exceeds the refinancing rate, in order to determine the validity of the interest policy, including the interest rate.

The Central Bank finds that the average weighted interest rate on the attracted deposits of a particular bank is unreasonably high, that this bank:

the level of return on assets and capital;

share of interest income in gross income and ratio of assets;

the ratio of interest income to interest expenses;

ratio of interest expenses to total liabilities;

interrelationship between the cycle periods of the funds involved and the profitability of bank assets;

Critically examines and analyzes the impact on indicators such as the level of efficiency of use of funds attracted to deposits, and whether they are lower or higher than average indicators for the banking system.

It should be noted that the monetary policy implemented by the Central Bank, while ensuring that the inflation rate remains within the established forecast indicators, has a positive impact on the investment activity of banks. The Central Bank is constantly changing the refinancing rate in order to meet the economy's demand for money and ensure macroeconomic growth rates, and based on the level of inflation.

Various factors affect the bank interest rate. We will focus on the factors affecting the interest rate on bank loans. The main ones are:

1. The ratio of supply and demand in the money market, that is, how much loanable money is in demand on the market and how much loanable money is issued in

relation to it. If the demand increases, the interest rate increases, if the supply increases, it decreases.

2. The level of profit expected from the use of borrowed money, or rather, the use value of this money. If borrowed money brings more profit to the entrepreneur or satisfies the needs of the consumer more fully, the interest rate will be high, otherwise it will decrease.

3. Term and condition of debt repayment. If the loan is given for a long time and can be easily repaid in small installments, the borrower may agree to a higher interest rate. If the loan is given for a short time, it must be paid in one go, the borrower prefers a low interest rate. So, the longer the loan is given, the more you can use it to see income, and the interest payment on this account will be light.

4. In what currency is the loan granted? If the loan is given in a freely convertible currency, the interest is set high, if it is given in the national currency, the interest is set relatively low.

5. Inflation rate. If inflation occurs, the money lent partially loses its value before it is returned to the owner. In this case, the owner of the money loses. Therefore, as noted above, interest is set taking into account inflation.

6. The level of risk of lending. If the return of the loan is guaranteed, the interest rate is low, if it is risky and the return of the loan is doubtful, the interest rate is high. The difference between high and low interest rates reduces the risk of lending to a certain extent for money holders, because a low interest rate in one place is compensated by a high interest rate in another.

List of used literature:

1. World Bank. 2020. Small beginnings for great opportunities: Lessons learned from 20 years of microfinance projects in IFC. IFC Smart Lessons Book. Washington, DC: World Bank Group.
2. Basel Committee on Banking Supervision. Basel-III: A global regulatory framework for more resilient banks and banking systems-Basel III, 2021.
3. Regulation No. 3002 "On mandatory reserves of commercial banks deposited with the Central Bank of the Republic of Uzbekistan," registered by the Ministry of Justice of the Republic of Uzbekistan on April 25, 2018.