



THE IMPORTANCE OF INCREASING THE ROLE OF COMMERCIAL BANKS IN THE LIBERALIZATION OF THE ECONOMY: EVIDENCE FROM UZBEKISTAN

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Abstract

The general role of commercial banks is to provide financial services to general public and business, ensuring economic and social stability and sustainable growth of the economy. This paper studies the improvement and development in banking system after the reforms. Moreover it analyzes the contribution of commercial banks in economic growth of Uzbekistan. According to studies, the share of banking sector in GDP of Uzbekistan is constantly growing and it indicates the reforms are giving its positive results.

Keywords: Commercial banks, Economic growth, Economy, GDP, Uzbekistan

INTRODUCTION

Loans are a necessary resource for the development of business, production and infrastructure. Therefore, in economic processes, the role of commercial banks is very important, attracting available funds and providing them on credit to entrepreneurs and investors. As a result of systematic measures taken in this direction over the past two years, the scale of lending by banks to investment projects has increased significantly, the loan portfolio has increased 3.2 times. Within the framework of regional development programs, loans for 27 trillion soums were allocated for 6.4 thousand projects.

Along with positive results, there were a number of problems in the banking system. This is evidenced by the receipt in the current year in the Virtual and People's Receptions of the President over 24 thousand appeals regarding the banking sector.



The meeting addressed the issue of problem loans. Although their volume is less than 1.8 percent of total loans, this indicator has increased since the beginning of the year. In the context of regions, 76 percent of bad loans are in the city of Tashkent, 5 percent in Kashkadarya and 3 percent in Bukhara region.

It is also indicated that due to the imperfect development of some projects by khokimiyats and industries, a number of facilities were not put into operation on time and as a result, loan repayment is delayed.

In particular, they criticized the fact that in Tashkent, Samarkand, Jizzakh, Surkhandarya regions and the Republic of Karakalpakstan the implementation of some investment projects for which credit funds have already been allocated has not yet begun.

The amount of bad debt is growing due to the allocation of loans for the repair of the housing stock and housing without a full study of the sources of return of funds and their adequacy. For example, there are bad loans for a large amount associated with partnerships of private homeowners and the construction of multi-storey buildings. The highest rates in the city of Tashkent - 32 billion, Kashkadarya region - 27 billion, Andijan region - almost 20 billion, Bukhara region - 14 billion soums.

The activity of banks in attracting resources for loans is insufficient. Attracting free funds of the population and legal entities, primarily in fixed-term and savings deposits, helps to increase the financial stability of banks.

Serious criticism was given to the situation in which the authorized capital of commercial banks increases mainly due to the state share, and private sector funds are practically not attracted.

Over the past two years, the state allocated almost \$ 1 billion to the authorized capital of banks. Despite the measures taken, the authorized capital of almost all banks with a state share, including KishlokQurilish Bank, Uzpromstroybank, Asaka Bank, Agrobank, Microcredit Bank, Alokabank and Mortgage Bank, the share of shares of individuals and legal entities has declined sharply. In this regard, the necessity of actively attracting private sector funds to the authorized capital of banks was noted.

At the meeting, attention was paid to the insufficient work of the supervisory boards of commercial banks in determining the directions of strategic development and improving their activities. In this regard, the Central Bank and the Ministry of Economy of the Republic of Uzbekistan are instructed to critically study the activities of the supervisory boards of state-owned banks, to review the composition of the boards and increase their effectiveness. It was entrusted to attract highly qualified specialists from abroad to improve the activities of financial institutions.

Being an integral part of the country's credit and settlement system, they regulate cash flows in the economy and maintain the unity of the economic space. Maintaining space - this is one of the most important functions of banks - is realized by them through regular operations that are massive and have a standard form of fixation in the accounting system. These include operations related to lending to customers, making payments, servicing deposits, etc. They bring an overwhelming mass of the bank's income as a commercial enterprises.

In connection with the general tasks facing the regional economy today - improving the welfare of the population and its social protection - one of the main goals of commercial banks is their ability to actively work in the following areas:

- provide financing for the real business sector and, as a result, create additional jobs, increase the profitability of enterprises, increase the wages of the population and the quality of work;
- facilitate the inflow of Western investment, develop partnerships with Western financial and industrial markets;
- enter the Russian banking market with new services for the population, actively attract the deposits of the population;
- increase confidence in banks, solve the problems of transforming savings into investments.

International Standards and Principles in the Activities of Commercial Banks

It is well known that no economic system or financial institutions can bypass international standards and norms in their activities. Therefore, there is no developed or developing country that is achieving progress without having relationship with other countries. We believe that, in this context, commercial banks also operate in accordance with international standards to maintain efficiency, productivity and sustainability as high as possible. When we analyze the banking and financial system of our country, we see that all the national and international standards applied in the banking system have their own importance and the role in commercial banks. In addition to maintaining the high profitability of commercial banks, they have many features that allow them to control their activities. Below are some of the economic standards mentioned above we will explain briefly.

$$K1 = \frac{\text{Bank capital}}{\text{Risky assets}}$$

The minimum allowable level of K1 as of January 1, 2018 is 0.125 (12.5 percent). Basel Committee recommendation is 0.08 (8%).

Level I capital requirement is defined as follows:

$$K2 = \frac{\text{Level I capital}}{\text{Risky assets}}$$

The minimum allowable level of K2 as of January 1, 2018 is 0.95 (9.5%).

In addition to capital adequacy requirements, commercial banks must adhere to the leverage ratio, which is determined by the ratio of intangible assets and goodwill deductible Level 1 capital to total assets:

$$K3 = \frac{\text{Level 1 capital}}{(\text{Total assets} - \text{intangible assets} - \text{goodwill})}$$

The minimum acceptable coefficient of Leverage is 0.06 (6 percent).

The current liquidity ratio K4 is as follows:

$$K4 = \frac{\text{liquid assets and assets to be returned within 30 days}}{(\text{on-demand liabilities and liabilities that must be repaid within 30 days})}$$

Minimum K4 standard 0.3 (30%)

It is clear from experience that some commercial banks place long-term lending and other active operations on demand and short-term deposits with high interest rates. The bank will not be able to fulfill its obligations to its depositors on time. Granting large loans to one borrower, founder and shareholders to a bank is beyond the reach of the bank is extremely risky for a commercial bank. Therefore, the maximum risk for one borrower or a group of related debtors must not exceed 25% of Level 1 bank capital (K5).

The following table shows the effective date of requirements for commercial banks' liquidity and capital adequacy in Uzbekistan.

Table 1. Effective Date of Requirements for Liquidity and Capital adequacy of commercial banks in Uzbekistan

Variables	Effective Date				
	01.09.2015	01.01.2016	01.01.2017	01.01.2018	01.01.2019
K1	10%	11,5%	12,5%	12,5%	13%
K2	7,5%	8,5%	9,5%	9,5%	10%
Level 1 capital	6%	7%	7,5%	7,5%	8%
K3	6%	6%	6%	6%	6%
Current liquidity ratio	30%	30%	30%	30%	30%
Liquidity coverage ratio	-	80%	90%	100%	100%
Net sustainable financing ratio	-	-	-	100%	100%

Source: Regulation "On Requirements to the Adjustment of Capital of Commercial Banks" No 14/3 of June 13, 2015

To ensure that commercial banks always adhere to the aforementioned economic norms, they must effectively organize the following areas:

- improvement of the bank portfolio;
- reducing the risks associated with banking operations;
- maintenance of bank balance liquidity;
- Ensuring adequate capital;
- creation of reserve for losses.

In designing the above economic norms, the norms developed by the Basel Committee have been widely used in view of some important features of the national banking system.

ANALYSIS OF COMMERCIAL BANKS' PERFORMANCE

It is no secret that commercial banks are in the focus of efficiency managers in all financial and economic institutions. The reason for this is that by this index commercial banks are able to determine their prospects. In addition, we are confident that the more efficient a system is, the more incentive it will be for the system. In our country, there are a number of responsible organizations that analyze the activities of commercial banks and evaluate their performance, which annually publish their publications. The main purpose of this is to increase the public's confidence in banks by providing openness and transparency of information. Examples of such organizations are the National Rating Agency "Info-rating", the Central Bank Press Service and the Banking Association Information Service.

Dynamics of Bank's Key Indicators in GDP

At the end of 2017, real GDP growth will be 5.3%, with a nominal volume of 249.1 trillion. sum. The GDP per capita in real terms increased by 3.6% compared to 2016 and amounted to 7,692,000 sums. In particular, the volume of investments into the national economy in 2017 from all sources of financing will amount to 60.7 trillion. or 11.9 billion soums. US dollars. Its share in GDP increased by 0.2 percentage points compared to 2016 and amounted to 24.4%. 43.9% of total investments are owned by enterprises and population, 26.9% - foreign investments and loans, 11.0% - loans of commercial banks and other borrowings, 8.5% - recovery and development of the Republic of Uzbekistan. Funds from the state budget, 5.5% - from the state budget and 3.9% - from the State Targeted Funds.

The rapid growth of money supply and the devaluation of the soum in the economy led to lower real interest rates and increased demand for loans from commercial banks, resulting in increased inflationary pressures and risks, which means increasing the refinancing rate. - from 9 to 14 per cent annually. In 2017, interest rates on deposits and loans of commercial banks in the

country were formed under the influence of money demand and supply, current and expected inflation rates, and the support of the Central Bank.

Table 2: Banks' performance

Variables	2016	2017	2018
GDP	171 423.2	199 325.1	249 136.4
Bank total assets	80 467.6	84 075.0	166 631.8
Assets to GDP	46.9%	42.2%	66.9%
Bank loans	42 756.4	52 610.5	110 572.1
Bank loans to GDP	24.9%	26.4%	44.4%
Deposits	34 257.8	36 341.0	58 668.5
Deposits to GDP	19.9%	18.2%	23.5%
Total capital	8083.2	8 981.3	20 676.1
Total capital to GDP	4.7%	4.5%	8.3%

The table shows that in 2017 it was almost twice as high as the previous two years, with 66.9% of bank assets to GDP, with 44.4% of credit investments; attracted deposits accounted for 23.5% and finally the ratio of total capital to GDP was 8.3%.

Consequently, due to the interconnectedness of the financial system and the banking system, changes in each other are not affected. This is because all managed economic elements of the country are regulated by these two systems. If we find the optimal management mechanism for the banking system, then we can effectively manage the country's economy.

CONCLUSION

Commercial banks play significant role in the financial system of the country. Lending to the real sector of the economy is already bearing fruit. However, there are some disadvantages to this type of lending. For example, credit transactions can take a long time and cause problems in the area of transparency. These disadvantages limit the economic activity of businesses and the population. That is why the main goal is to reduce these shortcomings and create more facilities for businesses through new banking services.

Based on the above conclusions, we can make the following suggestions:

1. Increasing the scope of use of modern information technologies in banks and introducing new tools;
2. Increasing the demand for the services provided by the Bank to the customers;

3. Further development of interbank relations, strengthening contacts with foreign banks and investment organizations;
4. Informing clients about certain types of banking services, introducing active marketing;
5. Establishment of banks' advisory centers;
6. Individual approach to providing services to individuals and legal entities;
7. Elimination of interruptions in the Internet system in the country and the implementation of permanent network reforms;
8. Further simplification of lending to business entities and speeding up the process of crediting;

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O'zbekistonRespublikasiMarkaziybankiboshqaruvining

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Иода Э.В. "Банковский менежмент" ТГТУ 2002 г -300 с