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## DIRECTIONS FOR IMPROVING THE ACTIVITIES OF COMMERCIAL BANKS (ANALYSIS OF COMMERCIAL BANKS OF UZBEKISTAN)

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### Abstract

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#### Keywords:

*national economy, coronavirus, preferred stock, pandemic, commercial bank, credit, bonds, interest rate, base rate.*

*There have had a negative impact on the economy of Uzbekistan, including the activities of commercial banks. Delays in payments on loans of commercial banks from for a long time, had a negative impact on the liquidity of banks and the stability of the resource base. This article analyzes the activities of commercial banks in the stock market in Uzbekistan, studies the impact of the global pademy, draws scientific conclusions and develops scientific proposals to mitigate it.*

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### INTRODUCTION

In accordance with the Decree of the President of the Republic of Uzbekistan dated April 3, 2020 No PF- 5978 "On additional measures to support the population, sectors of the economy and businesses during the coronavirus pandemic", indebtedness of legal entities amounted to 7.9 trillion soums. 4.7 trillion soums of loans to individuals and sole proprietors postponed from April 1 to October 1, 2020 7 trillion soums. This, in turn, had a negative impact on the liquidity of commercial banks and the stability of the resource base. This negative impact has, in the end, limited the lending capacity of commercial banks.

Even during the current global economic crisis, banks of Uzbekistan are improving their banking services and are actively working on restructuring assets being focused on various types of banking operations related to the support of real economy enterprises. Currently, commercial banks are focused on mitigation of risks while obtaining a stable/high income from their active operations. The domestic stock market is one of the priority areas in the development of the modern financial market.

Banks can actively participate in the stock market because there are all favorable conditions for the banks in the securities market. For example, legislative and regulatory acts regulating the work of banks do not contain restrictions on any functions in the securities market: issuers, investors, investment institutions. Financial solvency of banks and high profitability from banking operations gives the banks opportunity to divert significant resources to operations with securities. Reducing profit from traditional banking operations forces banks to work more actively with other alternative sources of income. Having extensive database about the financial and economic activities of clients, banks act not only

as large issuers, but also as large investors. Actively using their potential, banks become very important members in the securities market which act not only as a direct participant, but also as an important subsidiary institution of the stock market that forms favorable conditions for the development of securities trading in general. Banks' need to attract additional resources to their share and circulating funds by issuing their own securities is one of the factors that activates banks in the securities market.

### **LITERATURE REVIEW**

J.Gudl, the negative impact of the coronavirus pandemic on the lending practices of commercial banks is reflected in the liquidity problem in banks as a result of non-repayment of loans. In order to solve this problem, first of all, the quality of loans guaranteed by the British Government is 330 billion. a pound sterling guarantee was set; second, the Bank of England set the lowest discount rate (0.1%) in its 325-year history on March 19, 2020.

According to a group of Chinese economists , lowering interest rates on loans by lowering the central bank's required reserve requirements will play an important role in mitigating the negative impact of the coronavirus pandemic on lending practices of commercial banks. On March 13, 2020, the People's Bank of China issued a \$ 550 billion yuan (US \$ 70.3 billion) loan to reduce reserve requirements in order to free up funds. In this regard, the rate of one-year loans to solvent corporations was reduced by 0.1%, and the rate of five-year loans was reduced by 0.05% .

Millions of consumers are currently in quarantine or medical facilities. As a result, they have lost their ability to pay on loans, especially mortgages. In addition, business loans to small and medium-sized enterprises are at risk due to the forced suspension of lending in some countries. The entire network is suffering because it has not been able to recover the lost revenue in the future. For example, the rate of decline in production and retail is currently very high.

According to a group of U.S. economists, the world economy is facing an economic and financial crisis during the coronavirus pandemic. This crisis is not the result of errors and disruptions in market mechanisms, but the result of a slowdown in economic growth. In this context, the lack of international coordination between the United States and the European Union has serious economic consequences, which are felt both through supply channels and demand channels.

According to Dodiev, after the coronavirus pandemic, commercial banks should actively use syndicated loans to finance investment projects in order to develop investment activities. Because in the current situation, a single bank may not have enough funds to finance large investment projects with high returns. Small banks with limited financial resources can also participate in the process of financing investment projects through syndicated loans. It is also advisable to involve foreign commercial banks in financing such large projects. Because it attracts foreign investment to the country and uses the experience of foreign banks in the examination of investment projects.

According to Berdiyarov, in order to mitigate the effects of the global economic crisis on commercial banks and increase the liquidity of banks in the event of a pandemic caused by COVID-19 infection, the Central Bank's system of open market operations of Uzbekistan increase its role in regulating liquidity.

## **ANALYSIS AND RESULTS**

Commercial banks in the Republic of Uzbekistan are the only unique institutions that currently use virtually all instruments of the national stock market: shares, government short-term bonds, government medium-term treasury obligations, deposit certificates, deposit savings certificates. , having mastered the business of dealing with promissory notes, they are now emerging in the stock market as both an issuer, an investor and an investment institution.

Under current law, shares issued by commercial banks must be registered shares only. Cash shares issued by commercial banks must contain the following mandatory and written requisites in the language based on the Latin alphabet, which is the state language:

- name of the commercial bank and its legal address;
- name of the security;
- serial number and series of the share form;
- type of share (registered owner);
- types of shares (ordinary or preferential);
- nominal value of the share;
- date of registration of the issue and state identification number;
- the total amount of nominal value of bank shares issued before the date of issue of shares;
- number of shares issued (total, by type and variety);
- percentage of dividends paid on preferred shares;
- signatures of the chairman and chief accountant of a commercial bank;
- official name of the legal entity holding the shares or surnames, names and surnames of individuals; rights to shares.

The issuance of new shares by a commercial bank can be done after full payment of all previously issued shares of the bank (in the primary market). The placement of issued shares is carried out within the period specified in the brochure (prospectus) of the securities issue, but not more than one year.

In 2021, more than 167.5 billion shares worth 6.5 trillion soums were registered in the country, of which commercial banks accounted for about 2.5 trillion soums worth 124.3 billion soums registered shares.

**Table 1**

**Government-registered securities by commercial banks during 2021.**

<b>Issuer name</b>	<b>Nominal value (sوم)</b>	<b>Number of government-registered securities (in million unit)</b>	<b>The amount of government-registered securities (in million sوم)</b>
JSCB Turonbank	1,700	58.8	99 999.9
JSCB Mikrokreditbank	1,068	374.5	399 999.9
JSCB Anorbank	1,000	85.0	85,000.0
JSCB Ipoteka bank	1	122 364.8	122 364.8
JSCB Agrobank	1 168	599.3	699 999.9
TBC Bank	1,000	42.2	42 240.0
JSCB Turonbank	1,700	29.9	50 815.04
JSCB Mikrokreditbank	1,068	148.5	153 639.9
JSCB Kapitalbank	950	125.9	119 641.1
JSCB Turonbank	1,700	273.5	465,000.0
National Bank for Foreign Economic Activity of the Republic of Uzbekistan	1,000	231.3	231 276.6
<b>Jami</b>	<b>X</b>	<b>124 333.8</b>	<b>2 474 977.5</b>

In 2021, the Department of Capital Market Development registered 124,333.8 million securities of commercial banks. The volume of registered securities amounted to 2,474,977.5 million soums. Turonbank JSCB has registered securities three times, the first of which was 29.9 million units with a face value of 1,700 soums, 50,815.04 million soums and 273.5 million units. 465,000 million soums worth of securities. Once again, 58.8 million shares are worth 99,999.9 million soums. Mikrokreditbank JSCB, in turn, twice registered the securities in 2021, the first of which was 3784.5 million securities worth 399,999.9 million soums, the second 148 , 5 million shares worth 153,639.9 million soums. Kapitalbank JSCB issues securities almost every year for the last fiscal year. In 2021, it also issued and registered shares worth 119,641.1 million soums with a par value of 950 soums and 125.9 million shares.

**Table 2**

**Shares issued by JSCB "Kapitalbank" (As of January 1, 2021)**

Emission	Decision acceptance made date	Action type	Action quantity (unit)	Nominal value	The amount of stock issued (in million soum)	The method of placement of the action
16th issue	07.09.2018	Simple	15 179 000	950	14 420,0	Closed
17th issue	21.12.2018	Simple	10 117 900	950	9,612.0	
18th issue	18.10.2019	Simple	52 631 586	950	50,000.0	Closed
19th Issue	27.08.2020	Privileged	40,000,000	950	38,000.0	Open
20th issue	16.08.2021	Simple	125 938 051	950	119 641.1	Closed

The table above shows that Kapitalbank issues shares almost every year. In 2019, 52,631,586 ordinary shares were issued, while 125,938,051 ordinary shares were issued, which will double by 2021. To date, the authorized capital of JSCB "Kapitalbank" is 407,385.17 million soums, which is divided into the following shares:

- total value 369 385 173 100 (three hundred sixty nine billion three hundred eighty five million one hundred seventy thousand hundred) soums, nominal value 950 soums, total number 388 826 498 (three hundred eighty eight million eight hundred and twenty-six thousand four hundred and ninety-eight) ordinary shares with the name of the owner;

- Preferential shares with a total value of 38,000,000,000 (Thirty-eight billion) soums, with a par value of 950 soums and 40,000,000 (forty million) registered owners.

The market price of shares issued by Kapitalbank JSCB is 3-4 times higher than the face value. The company is increasing the value of its capital through the issuance of securities every year. It is also important that the preference shares issued in 2020 are placed in an open manner. It has become common for commercial banks to issue shares in a closed manner.

Corporate bonds are bonds issued by joint stock companies, limited liability companies and additional liability companies. A corporate bond is issued to finance private enterprises. Instead of obtaining high-interest loans from commercial banks, their use is more effective in ensuring the financial stability of the business community by issuing profitable corporate bonds for the general population.

Corporate bonds can be issued through open or closed subscriptions. The main difference between them is that in the case of an open subscription, the placement of securities is between an unlimited number of investors, and in the case of a closed subscription - between a limited number of known investors. That way, the borrower can pre-select potential investors based on their goals. Choosing a closed subscription can save the bond issuer from a mass advertising campaign, thereby reducing costs. The process for issuing corporate bonds for open and closed subscriptions is different.

To issue bonds by open subscription, the borrower will need audited financial statements and rating points. In addition, the company must show positive indicators of profitability, solvency, financial stability and liquidity in the last financial year.

**Table 3**

**Corporate bonds issued by JSCB "Kapitalbank"**

Contents	Issued 1st time bonds	Issued 2nd time bonds	Issued 3rd time bonds	Issued 4th time bonds
Released date	06.03.2007	23.10.2009	17.07.2012	24.04.2020
Quantity (Unit)	2,500	5,000	4,000	50,000
Nominal value (soum)	1,000,000	1,000,000	1,000,000	1,000,000
General size (soum)	2,500,000,000	5 000 000 000	4,000,000,000	50,000,000,000
Maturity date	09.06.2017	16.01.2020	06.10.2014	
Bonds form	Not documented			
Bonds type	Of the owner name shown _ percent corporate bonds			

One of the financial instruments of banks to attract long-term resources is the issuance of corporate securities. Kapitalbank was one of the first commercial banks in the country to issue subordinated bonds. Kapitalbank is currently an active participant in the securities market, issuing bonds five times.

The first of these dates back to 2007. These issued subordinated bonds have a face value of 1,000,000 soums and a total volume of 2,500,000,000 soums. The maturity date of the bonds is set at 10 years, and the bonds were first issued on June 9, 2017. The next issue of the bonds took place in the fall of 2009 and had a face value of 5,000,000 soums and a total value of 5,000,000,000 soums. The third issue of bonds was made in 2012. The company raised 3 times in a short period of time by issuing bonds and raising good funds for the society. The 4th issue of bonds was held in 2020 and 50,000 bonds with a face value of 1,000,000 soums and a total value of 50,000,000,000 soums were issued.

Kapitalbank decided to issue corporate subordinated bonds in accordance with the minutes of the meeting of the Supervisory Board of JSCB No. 36 dated July 27, 2021. According to the decision, 15,000 bonds with a face value of 10,000,000 soums and a total value of 150,000,000,000 soums will be issued, and this issue will be placed in an open manner. This is the 5th issue of the bonds.

Commercial banks use temporarily vacant funds of legal entities and individuals to operate. One way to attract them is to issue certificates of deposit, which are one of the securities in circulation.

Certificates of deposit can be issued as follows:

- in cash (blank);
- in cashless form (in the form of electronic entries in "depot" accounts).

Transactions on non-cash certificates of deposit are issued in the depository department of the issuing banks. The relationship between the issuing bank depository and the client is formalized in the relevant agreement.

The certificate of deposit can be issued to another person. The right to issue non-cash certificates of deposit is formalized on the basis of the client's order by making entries in the depository's "deposit" account.

The issuer is entitled to claim the blank certificate of deposit by simply submitting the certificate of deposit.

In order to grant the right to claim on a blank certificate of deposit with a name, such a deposit is made on the basis of a bilateral agreement between the person giving and purchasing the right to the back of the certificate. The agreement on granting the right of claim on the certificate of deposit is signed by two persons represented by the relevant legal entity for the implementation of such transactions, and is certified by the seal of the legal entity. Each transfer agreement is numbered by the sedent. The agreement on granting the right to demand on the certificate of deposit is signed by both parties in person.

The deposit certificate can be used for early payment. In this case, the commercial bank pays the holder of such a certificate of deposit the amount of the certificate of deposit and interest at a reduced rate, which is set by the bank when issuing this certificate. The issuer shall pay the interest rates originally set by the bank on the terms of issuance and issuance of the certificate of deposit, as well as the interest rate due to the holder of the certificate of deposit after the expiration of the certificate, regardless of the time of purchase.

### **CONCLUSIONS**

The coronavirus pandemic The delay in payments on loans to commercial banks from April 1 to October 1, 2020, had a negative impact on the liquidity and stability of the resource base of banks and led to limited access to credit.

In 2018-2021, the growth trend of the volume of loan deposits of the National Bank and the amount of interest income from loans was observed. However, the coronavirus pandemic has slowed the growth rate of National Bank's interest income on loans.

Delays in payments on loans to individuals and legal entities by commercial banks in 2020 due to the coronavirus pandemic have had a negative impact on the lending practices of the National Bank for Foreign Economic Activity. In particular, in 2020, the level of reserve allocations to cover losses from loans formed by the National Bank for Foreign Economic Activity compared to gross loans increased sharply compared to 2019.

In our opinion, in order to eliminate the negative impact of the consequences of the coronavirus pandemic on the lending practices of commercial banks of the country, the following measures should be taken:

1. In order to ensure a balance between the growth rate of reserve allocations for loan losses and the growth rate of gross loans, it is first necessary to ensure a low and stable level of doubtful and bad loans in the total volume of classified loans; second, it is necessary to timely write off bad loans from the balance sheets of banks; third, it is necessary to prevent the deterioration of the structure of classified loans by increasing the share of loans to companies with a high sovereign credit rating in the volume of gross loans.

2. Given the deepening problem of unbalanced liquidity in commercial banks in the context of the coronavirus pandemic, it is necessary, first, to increase the volume of reverse repo operations of the Central Bank by increasing the number of objects of these operations; second, it is necessary to increase the ability of banks to meet the regulatory requirement on the instantaneous liquidity ratio by reducing the share of transaction deposits in gross deposits; third, it is necessary to ensure full compliance with the requirement to repay overdue debt to commercial banks on loans guaranteed by the Government .

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