INCREASING THE ACTIVITY OF COMMERCIAL BANKS IN THE STOCK MARKET OF UZBEKISTAN

J. Buriyev  
Tashkent Financial Institute

U. Musayeva  
Tashkent Financial Institute

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INCREASING THE ACTIVITY OF COMMERCIAL BANKS IN THE STOCK MARKET OF UZBEKISTAN

The article analyzes the mechanisms for organizing the operating activities of banks in the stock market as issuers, investors and investment institutions.

Key words: bank, bank system, stock market, securities, equity and debt securities, issuers, investors.

Introduction
A qualitatively new stage of deepening economic and social reforms, as well as the increased needs of the subjects of the economy of Uzbekistan in investment resources for the needs of their innovative development, requires the intensification of the activities of commercial banks in the emerging stock market of Uzbekistan. The President of the Republic of Uzbekistan Sh. Mirziyoyev in his Address on the most important, priority tasks of the country's development for 2019 in order to bring economic reforms to a new, higher level indicated the need to solve a number of priority tasks. One of them is the accelerated pace to continue reforms in the banking and financial system, to widely introduce modern market mechanisms into the sphere [2]. Today, the most challenging problem in the banking system is that 86 percent of the banks' capital is owned by the state. This impedes healthy competition in the banking system and negatively affects the quality of services provided. The development of financial markets, including stock, should be one of the main goals in the new economic conditions. It is necessary to further expand the range of modern
banking services by introducing new financial instruments and issuing bonds, as well as developing the sphere on the basis of advanced information technologies.

**Literature review**

The issues of improving the operational activities of banks in the stock market were studied in the works of leading foreign and national scientists. In the writings of the authors V.A.Galanov and A.I.Basov the stock markets of foreign countries are analyzed, including issues related to the issue of securities, as well as the role of banks in the formation of national stock markets [3]. Author V.A.Koltinuk in his works covers transactions and settlements in the securities market, the banking systems of foreign countries are analyzed [4].Author O.I.Lavrushin analyzed the types of banking activities in the securities market as issuers of securities, intermediaries and investors [5]. The author I.L.Butikov carried out a comprehensive analysis of the theoretical and practical foundations of the formation of the securities market in his work, and the prerequisites that open up great opportunities for banks to expand the scope of work and enhance their activities in the stock market are indicated [6].

**Analysis and Results**

World practice confirms that through the intensification of issue, investment and intermediary operations, it is possible to significantly expand the scope of financial support for the modernization of enterprises in the real sector of the economy of Uzbekistan. However, to further increase the operational activities of commercial banks in the stock market of Uzbekistan, it is necessary to restructure the issuing and client policies of banks, introduce qualitatively new investment strategies for their development, create powerful databases in them and upgrade the qualification level of banking specialists in the field of investment management.

The world practice of investment management shows that the tendency to expand the scale of banks using the potential of equity and debt securities is global in nature. In most developed countries, commercial banks are increasingly using the potential of stock market instruments.

Among the most common instruments of the securities market in world practice that ensure the increase in the profitability of foreign banks, one should include their investments in ordinary and preferred shares, coupon and couponless bonds, savings and deposit certificates, as well as income received from investing in state short-term bonds, state treasury bonds, municipal securities, corporate shares or bonds [7].

Given the joint-stock nature of most modern commercial banks, the issue of ordinary and preferred shares is used by them both to increase the level of capitalization of the banking business and to expand their client base. On the other hand, participation in the share capital of the bank is beneficial to the shareholders themselves, as being served in a commercial bank, they get the opportunity to use many of its services on favorable terms, from receiving free consultations to access to its databases. Foreign experience shows that the pace and quality of institutional
strengthening and the functional development of the emerging stock market of Uzbekistan largely depends on the activity of banking institutions that can act as the most reliable issuers, the largest institutional investors and experienced investment institutions.

With the transition of most commercial banks in Uzbekistan to new forms of management, their owners and management faced the problem of finding reliable and profitable sources of financing innovative development programs for various aspects of their activities. In recent years, they have come to understand that the most promising financial instruments that can solve this problem can be equity and debt securities that can ensure the attraction of real investment in the economy of Uzbekistan.

The decree of the President of the Republic of Uzbekistan dated July 12, 2007 № PD-670 “On measures to further increase the capitalization of banks and enhance their participation in investment processes to modernize the economy”. According to that, commercial banks of Uzbekistan were obliged to place no less than 25% of the volume of newly issued shares through the Republican Stock Exchange “Toshkent”.

Decree of the President of the Republic of Uzbekistan for PD-3066 dated June 16, 2017. “On additional measures to increase financial stability and the level of capitalization of commercial banks”, Decree of the President PD-3270 dated September 12, 2017. “On measures to further develop and increase the stability of the banking system of the Republic ”and other legislative acts aimed at scaling up their own issuing activities.

Table 1

VOLUMES OF FUNDS AIMED AT INCREASING THE AUTHORIZED CAPITAL OF COMMERCIAL BANKS AS OF 01.10.2019 (BILLION SUM) [8]

<table>
<thead>
<tr>
<th>№</th>
<th>Name of the bank</th>
<th>Declared authorized capital, billion sums</th>
<th>Additional issue of shares including</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>2015</td>
</tr>
<tr>
<td>1.</td>
<td>Asaka bank</td>
<td>5 683,0</td>
<td>4 972,9</td>
</tr>
<tr>
<td>2.</td>
<td>Халк банк</td>
<td>2 039,1</td>
<td>1 691,8</td>
</tr>
<tr>
<td>3.</td>
<td>Узпромстройбанк</td>
<td>2 169,2</td>
<td>2 160,9</td>
</tr>
<tr>
<td>4.</td>
<td>Микрокредитбанк</td>
<td>794,0</td>
<td>706,0</td>
</tr>
<tr>
<td>5.</td>
<td>Агробанк</td>
<td>2 162,9</td>
<td>1 899,4</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>12 848,2</td>
<td>11 431,0</td>
</tr>
</tbody>
</table>
In the above table 1, you can see the dynamics of the increase in the authorized capital of commercial banks by issuing an additional issue of shares for the period from 2015 - 2019. The analysis shows that over the past 5 years, the authorized capital of Halk Bank has increased 7 times, AKB Asakabank 10 times, AKB Promstroybank 3 times, AKB Microcreditbank 3.5 times, and AKB Agrobank 6 times. It should be noted that an increase in the authorized capital of banks led to an increase in the state share, which in turn is currently the main factor holding back the development of the secondary stock market.

Table 2

<table>
<thead>
<tr>
<th>Years</th>
<th>Total trading volume</th>
<th>Commercial banks</th>
<th>Share,%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>299.8</td>
<td>151.8</td>
<td>50.6</td>
</tr>
<tr>
<td>2017</td>
<td>298.6</td>
<td>257.6</td>
<td>86.3</td>
</tr>
<tr>
<td>2018</td>
<td>687.3</td>
<td>591.6</td>
<td>86.1</td>
</tr>
<tr>
<td>Total</td>
<td>1 285.7</td>
<td>1 001.0</td>
<td>77.86</td>
</tr>
</tbody>
</table>

In the above table 2, the analysis of the volume of transactions with securities of banks on the Republican Stock Exchange “Toshkent” shows that by the end of 2018, the bulk of the volume of transactions is carried out by commercial banks. The total volume of bank transactions with securities in 2016 amounted to 151.8 billion sums, by the end of 2018, the volume increased by 439.8 billion sums, and the share of banks in the total trading volume amounted to 77.86%.

The volume of transactions made by broker banks at the Republican Stock Exchange “Toshkent” in 2017 amounted to 185.56 million sums, by the end of 2018, the indicator increased by 167.94 billion sums and the volume of transactions amounted to 168.13 billion sums. [9]

The growth in the scale of issue operations of banks in the republic was also facilitated by the tendency to increase the capacity of the national market of deposits and savings certificates, which was due to the lack of large organizational and time costs for their issuance and circulation by banks, as well as the constant demand for them from bank customers because of their profitability and ease of handling.

Despite the ever-increasing scale of the issue of shares and bank certificates of deposit, the passivity of most banks in the republic in exploiting the potential of bank bonds, which can attract significant financial resources for the needs of increasing the investment activity of banks in the field of portfolio investment, should be recognized. Confirmation of the insufficient efficiency of banks' investment activities in servicing the needs of stock market participants is that the growth rate of interest income of commercial banks in Uzbekistan for the period from 2000 to 2018 is much higher than the growth rate of income from their operations with securities.
In the table 3 above, you can see the dynamics of the increase in assets and the total capital of Asaka Bank for 2015-2018, the Bank's assets amounted to 30 355.1 billion sums, while the growth compared to the same period last year amounted to 6 081.5 billion. As of 10/01/2019 the total capital of the bank grew by 10 697.4 billion sum and amounted to 41 052.5 billion sum. The authorized capital of Asaka Bank for the period from 01.01.2017 as of 01.01.2018, it increased by 1,582.8 billion sum, and as of 01.10.2019, this indicator increased by an additional 3,390.1 billion sum. It should also be noted that a significant part in the structure of the investment portfolio in recent years is made up of securities purchase and sale accounts. The analysis shows that the return on the securities portfolio does not exceed 6% per annum. In order to diversify its investment portfolio and generate additional income, the bank acquired state securities in the amount of 230.4 billion sum with a fixed rate of 15% per annum. The issue of government securities was carried out in accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 1016 dated December 14, 2018, “On measures to organize the issue of state treasury bonds and bonds of the Republic of Uzbekistan”.

In my opinion, the main reasons for the passive participation of domestic banks in the management of securities portfolios are associated with shortcomings in the work of issuers, i.e. with the lack of balanced development strategies, insufficient transparency of financial activities, and a low level of corporate governance.

It should be noted that the national banking system makes little use of the

### Table 3
**Key indicators of Asaka Joint-Stock Commercial Bank for 2015-2019 (billionsum) [8]**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>01.01.2016</th>
<th>01.01.2017</th>
<th>01.01.2018</th>
<th>01.01.2019</th>
<th>01.10.2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>7 403,9</td>
<td>10 448,3</td>
<td>24 273,6</td>
<td>30 355,1</td>
<td>41 052,5</td>
</tr>
<tr>
<td><strong>Total Capital, of which</strong></td>
<td>915,7</td>
<td>1 023,8</td>
<td>3 083,2</td>
<td>3 168,0</td>
<td>60 37,2</td>
</tr>
<tr>
<td>Authorized capital</td>
<td>516,1</td>
<td>516,1</td>
<td>2098,9</td>
<td>2098,9</td>
<td>5 683,0</td>
</tr>
<tr>
<td>Net profit</td>
<td>85,2</td>
<td>95,4</td>
<td>51,0</td>
<td>857,1</td>
<td>91,7</td>
</tr>
<tr>
<td><strong>Investment portfolio, of which</strong></td>
<td>206,7</td>
<td>203,4</td>
<td>345,4</td>
<td>403,4</td>
<td>653,2</td>
</tr>
<tr>
<td>Sales accounts</td>
<td>42,1</td>
<td>40,7</td>
<td>74,5</td>
<td>8,0</td>
<td>230,4</td>
</tr>
<tr>
<td>Investments in securities</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>50,0</td>
<td>50,0</td>
</tr>
<tr>
<td>Investments in the authorized capital of other companies</td>
<td>164,6</td>
<td>162,7</td>
<td>270,9</td>
<td>345,4</td>
<td>372,8</td>
</tr>
<tr>
<td><strong>Portfolio return</strong></td>
<td>5%</td>
<td>3%</td>
<td>3%</td>
<td>6%</td>
<td>3%</td>
</tr>
</tbody>
</table>
potential of securities to expand the scale of investment support for the modernization of enterprises in the real sector of the economy. As a result, the bulk of investment resources for these purposes is formed at the expense of enterprises' own profits, foreign direct investments and long-term bank loans. The presence of these circumstances significantly reduces the investment potential of banks, which could be directed to the needs of innovative development of the real sector of the economy of Uzbekistan.

**Conclusions and offers**

The results of the study presented in the framework of this article allow us to draw the following conclusions:

- the growing importance of equity and debt securities to strengthen the resource and client base of commercial banks is due to their huge socio-economic potential;
- the expansion of the issue of equity and debt securities should become a prerequisite for improving the quality of financing for all parties to their activities and guaranteeing the successful establishment of joint stock ownership in the banking sector;
- the effective use of the potential of securities provides a significant assistance in improving the structure of banking capital, expanding the resource and client base of commercial banks;
- for the implementation of a promising area of financial management, commercial banks in Uzbekistan must learn to work in the stock market and gain the necessary level of trust of participants in this market as reliable issuers, the largest investors and experienced investment institutions;
- noting the importance of using the potential of stocks to strengthen the resource base of foreign banks and making additional profit, we must not forget that issuing and investing in the stock market is a complex process that requires serious training and professionalism from banking specialists.

Based on the foregoing, according to the results of the study, we consider it necessary to introduce a number of the following proposals aimed at enhancing the activities of banks and expanding the scale of banking operations in the stock market of Uzbekistan:

1. Concentration of the necessary financial resources of domestic and foreign investors in commercial banks for the flow of capital with a focus on priority sectors of the economy of Uzbekistan;
2. Organization of targeted state support for the activities of banks actively involved in expanding the scale of securities issuance to finance innovative development programs for key enterprises in the real sector of the economy;
3. For the development of the secondary market of equity securities, it is necessary to reduce the state's share in the authorized capital of the bank, to use the opportunities of the "golden share".
4. Raise the professional level of managers and specialists of investment divisions of commercial banks in issues of issuing, placing and using the potential of
securities to finance their large investment projects.

5. The key condition for increasing the investment attractiveness of securities of Uzbek enterprises for Uzbek banks should be corporate governance standards and their effective dividend policy related to the rational use of net profit of past years.

6. In order to expand the scope of intermediary activities of banks in the securities market, it is advisable to expand the range of operations carried out by them in the securities market.

LIST OF USED LITERATURE

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   www.uzpsb.uz - JSCB "Uzpromstroybank";
   www.mikrokreditbank.uz - JSCB Mikrokreditbank;
   www.agrobank.uz. - Joint-Stock Commercial Bank "Agrobank"
   www.uzse.uz - Republican Stock Exchange “Toshkent”.