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THE ANALYSIS OF INVESTMENT ACTIVITIES OF COMMERCIAL BANKS

The article discusses the functions of commercial banks as financial intermediaries, theoretical approaches to the “investment activity of commercial banks” and the priorities of increasing the investment activity of commercial banks. The key features of the investment activities of commercial banks at the macroeconomic and microeconomic level are presented. The main directions of the participation of commercial banks in the investment process were identified and recommendations were given for the subsequent successful development of the investment activities of commercial banks.

Key words: banking services, financial stability, banking system, securities market, investment projects, investment lending, investment policies, investment activity

АНАЛИЗ ИНВЕСТИЦИОННОЙ ДЕЯТЕЛЬНОСТИ КОММЕРЧЕСКИХ БАНКОВ

В статье рассматриваются функции коммерческих банков как финансовых посредников, теоретические подходы к «инвестиционной деятельности коммерческих банков» и приоритеты повышения инвестиционной активности коммерческих банков. Представлены основные особенности инвестиционной деятельности коммерческих банков на макроэкономическом и микроэкономическом уровнях. Определены основные направления участия коммерческих банков в инвестиционном процессе и даны рекомендации по дальнейшему успешному развитию инвестиционной деятельности коммерческих банков.

Ключевые слова: банковские услуги, финансовая устойчивость, банковская система, рынок ценных бумаг, инвестиционные проекты, инвестиционное кредитование, инвестиционная политика, инвестиционная деятельность.

TIJORAT BANKLARINING INVESTITSIYA FAOLIYATINI TAHLIL QILISH

Maqolada tijorat banklarning moliyaviy vositachilar sifatida vazifalari, “tijorat banklarining investitsion faoliyati” bo‘yicha ilmiy-nazariy qarashlar yondashuvlar va tijorat banklarining investitsion faolligini oshirishning ustuvor yo‘nalishlari tadqiq qilingan. Shuningdek, makroiqtisodiy va mikroiqtisodiy darajada tijorat banklarining investitsion faoliyatining asosiy xususiyatlari keltirib o‘tilgan. Tijorat banklarining investitsiya jarayonidagi ishtirokining asosiy yo‘nalishlari aniqlangan va tijorat banklarining investitsiya faoliyatini keyingi muvaffaqiyatli rivojlantirish bo‘yicha tavsiyalar ishlab chiqilgan.

Tayanch so‘z va iboralar: bank xizmatlari, moliyaviy barqarorlik, bank tizimi, qimmatli qog‘ozlar bozori, investitsiya loyihalari, investitsion kredit, investitsion siyosat, investitsion faoliyat

Introduction

Modern banking services in Uzbekistan on the basis of development, large-scale reforms are being carried out to increase the competitiveness of commercial banks during the years of independence. Within the framework of the Third Priority Direction of the Strategy of Action on the Development of the Republic of Uzbekistan in five priority areas in 2017-2021: “Enhancing the banking system reform and ensuring sustainability, increasing the level of capitalization and deposit base of banks, their financial stability and reliability expansion of perspective investment projects and crediting of small businesses and private entrepreneurship, as well as the expansion of financial services by introducing new types and increasing quality of their services, attracting capital and allocating free resources of enterprises, financial institutions and population development of the investment market as an alternative source”[1].

The implementation of the above priority tasks, our republic the management of banks requires the introduction of modern methods of management, as well as the development of effective measures to carry out such important directions as increasing the activity of banks in the stock market, providing absolutely new investment banking services through the proper organization of market-management functions.

Today, Uzbekistan faces the task of creating an efficient banking sector with a modern banking infrastructure. The implemented program of reforming the banking system determines the main directions of its liberalization by intensifying the process of privatizing banks, attracting additional foreign and domestic investments into capital of banks, further commercializing their activities, expanding business access to bank financing and increasing investor confidence in banks. In the most general form, the main directions of participation of banks in the investment process include the mobilization of funds by banks for investment purposes, the provision of investment loans, investment in securities, equity participation, etc.

The theoretical generalization of the role and functions of the institutions of the financial markets has led to the emergence of the theory of financial intermediation based on the transformation concept, the essence of which consists in the fact that in the course of mediation, the institutions of financial markets transforms market liabilities. As a result, savings and creditors indirectly, through the acquisition of financial instruments of the intermediary, participate in external financing of resource-deficient economic entities. At the same time, intermediary banks create more attractive forms of obligations for their creditors in terms of reliability and liquidity, assuming the risks of investment.

Literature Review

By reviewing scientist’s researches about investment activities of commercial banks, there are some methodologic aspects and regulation in banking sector.

Specific features of investment activities of commercial banks, scientific research aimed at highlighting the theoretical and methodological aspects of regulation and management of investment banking activities were reflected in researchers' work.

Economies that have a profitable banking sector are better able to withstand negative shocks and contribute to the stability of the financial system (Athanasoglou, Brissimis and Delis, (2005) [2]. On the other hand, banks insolvencies can result in systemic crisis. Therefore, it is important to understand the factors which really affect the banking sector's profitability

According to F.U. Dodiev, (2014) [3], investment activities of banks are activities related to the acquisition of financial assets by the bank as an investor, placement of funds for the creation and organization of real assets. The investment activity of banks is different from the activity of other investors, which perform their investments at the expense of attracted funds. Therefore, the bank appears on the market as an investor on the one hand, and on the other, it is in debt. This situation is an important liquidity issue for banks, which requires balanced management of assets and liabilities by maturity, volume and interest rates.

As Berger (1995) [4] and Trujillo-Ponce (2012) [5] observed that, under the signaling theory, bank management signaled private information that the future prospects are good by increasing capital. Thus, a lower leverage indicates that banks perform better than their competitors who cannot raise their equity without further deteriorating the profitability

Most theories of financial intermediation have been developed for developed market systems that are balanced in terms of money supply and demand and have adequate financial and credit mechanisms. In such economic systems, there are many alternative channels that provide an effective flow of capital, in connection with which the redistributive function of banks is gradually losing its relevance as a subject of scientific and theoretical research, without losing its practical importance as a channel for the transformation of savings into an investment resource of the economy. In such systems, the accumulation and redistribution of financial resources can be carried out on an alternative basis through direct and indirect financing.

This fact determines the differences in approaches to the study of the role of banks in the economy in the works of Western and Uzbek scientists. For domestic specialists, the key function is the transformation of savings into investments, and the functions of reducing information asymmetry and transaction costs are rather secondary or concomitant. The study of the investment activity of commercial banks is reflected in the writings of Professor Sh. Abdullaeva. It is noted that "The primary purpose of commercial banks' investment activity is to ensure their profitability and liquidity (the ability to timely meet the obligations of the bank). Investment policy of commercial banks in the economies of developed countries is the activity of the bank is one of the key directions and plays a key role in ensuring banks' liquidity" [6].

Investment activity of banks is carried out by means of various securities: simple and privileged stocks, bonds, government debt instruments, deposit certificates, promissory notes and others.

The main purpose of the bank's investment portfolio based on the acquisition of securities is not only the bank's first source of income generation (cash and other debts), but also practically without losses, with minimal risk. to have the ability to convert securities into short-term cash.

Analysis and results

Investment activity of commercial banks in the Republic of Uzbekistan in recent years corresponds to the processes of management of shares of large joint-stock companies, investment and privatization funds. In the course of joint-stock companies' management, commercial banks mainly issued bonds and deposit certificates, replenished their money circulation, invested in legal entities and individuals, and invested in priority sectors of the economy.

Currently, commercial banks make extensive use of long-term loans to finance investment projects. But, since the financing of investment projects requires a lot of funds in the long term, not all commercial banks will be able to use the investment design system as well.

In developed countries, investment activities of commercial banks are the second source of credit in the structure of bank revenues in terms of earnings.

The effectiveness of commercial banks' investment activity is influenced by a number of economic and organizational factors. Among these factors, the main ones are the following:

- sustainable development economics of the state;
- availability of various forms of ownership in the sphere of commodity production and service, including the priority of private and joint-stock forms of ownership in banking;
- availability of strict and functioning credit and financial system;
- availability of modern and developed securities market;
- the existence of legal acts and procedures for the circulation of securities and control over the activities of the securities market participants;
- the circulation of securities with the highest quality of commercial banks operating in international investment activity;
- availability and training of highly qualified specialists and entrepreneurs for the sphere of investment activity and the securities market.

The main purpose of effective investment activities of a bank is to ensure the implementation of the investment strategy by selecting the most effective and risk-free financial resources. Based on the main objective, taking into account the chosen strategy and the characteristics of its practical investment activity, a system of specific objectives of the formation of the investment portfolio of the bank will be built. Commercial banks should pay attention to the following when forming an investment portfolio on securities:

- security of investments (investment in the savings market vibration resistance);
- stability of revenue generation;
- the liquidity of the deposits, that is, to make them a commodity (the work done, the service)

- ability to participate in quick purchases or cash in fast and without losses the transformation into money.

Commercial banks should follow the following basic principles for organizing investment activity on the securities market:



Figure 1. Basic principles for organizing investment activity on the securities market [7].

In the investment activity of commercial banks, the following risk factors can be encountered. These are:

- credit risk
- market risk
- interest rate risks.

Credit risk reflects the financial position of the securities issuer, but it is not able to fulfill its financial obligations. In addition, credit risk is also linked to the ability of government and government entities to pay for the loan proceeds.

It is important for the government to have not only loans, but also its ability to pay for its obligations to form the government's securities market and to operate exactly for the entire financial and credit mechanism.

The essence of market risk is unexpected in the securities market. As a result of these changes, some of the securities may be valued as investment objects and their sale can be made only with a large discount.

Getting profit by reducing the risk of commercial bank liquidity the investing of significant investments in investment activity will create an inflow of investment risk in large or small amount in the bank. In this case, the investment activity of commercial banks is associated with the risk of conducting active operations with securities. This, in turn, requires the management of the bank to develop a clear tactic, strategy and action plan in this area, ie, to develop an investment policy.

Reforms in the economy are causes of the commercial banks to grow day by day. Measures aimed at diversifying their activities, introducing new types of banking services and, in turn, expanding the scope of banking revenues, have been

yielding good results. Particularly, in recent years, it has been proven that commercial banks' investment operations in the securities market and some significant improvements in lending to large investment projects have been achieved.

Supporting the technical and technological renewal of the economy, the bank system makes a worthwhile contribution to the consistent implementation of the state investment policy by means of sharp increase of its competitiveness, enhancement of export potential, creation of new enterprises on the basis of innovative and energy-saving technologies, the creation of new types of production on demand in the world market.

In particular, the volume of investment loans, issued by commercial banks, has grown at a steady pace in 2016. They are primarily aimed at financing investment projects included in "State Programs for 2015-2019, primarily aimed at deepening structural transformations, modernization and diversification of the economy's industrial sectors, and forming a modern infrastructure".

Modernization, technical and technological renovation of production, to create competitive products on the basis of modern technology by commercial banks to 20.1 trillion UZS as of January 1, 2018. In the reporting period, the bank issued over 2.4 times more investment loans than in the same period of the last year.

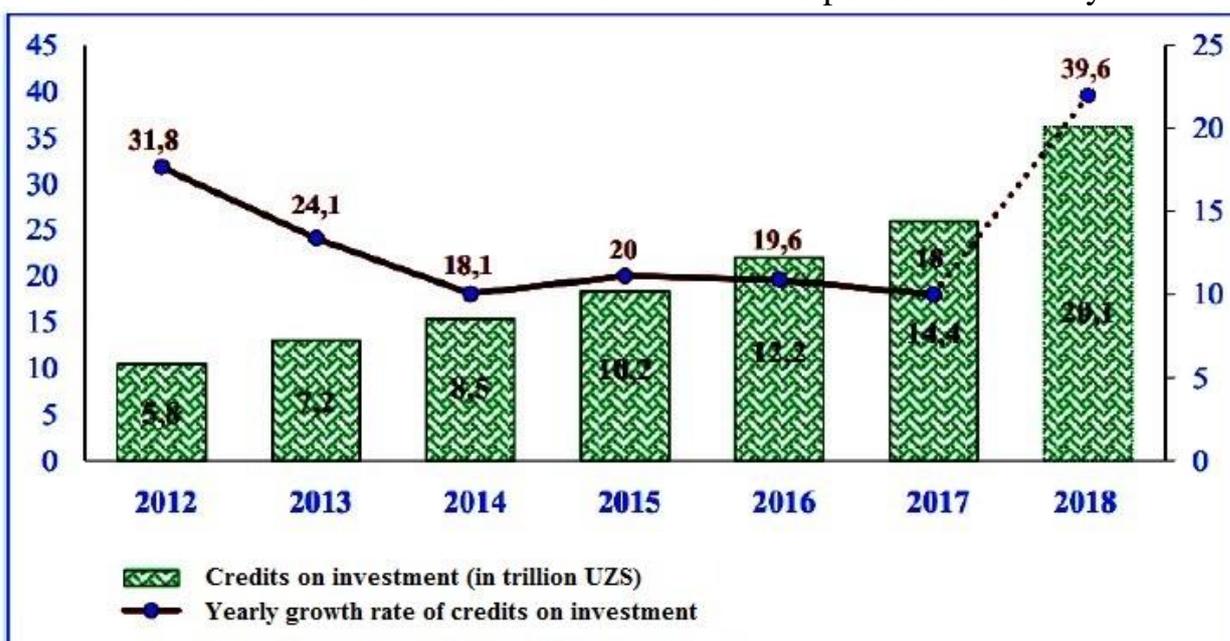


Figure 2. The volume of credits on investment and its yearly growth rate of commercial banks of Uzbekistan in the years, from 2012 to 2018 [8]

As of 1 August 2018, the volume of commercial banks' credits increased by 3.5 times compared to 2012. It is important to pay attention to the important aspect of the issue. In particular, the quantitative indicators of investment loans are constantly increasing. However, annual growth rates of investment loans have a considerable volatility.

In particular, the growth rate of credits on investment in 2012-2014 has sharply decreased from 31.8% to 18.1%. In the period of 2014-2017, there has been almost no significant change in the growth tendencies. It is noteworthy that in 2018,

rapid growth was achieved. In the first seven months of 2018, the volume credits on investment of commercial banks increased by 39.6%. First of all, this is the result of effective implementation of the priority tasks of the investment policy by the banks for 2018. Thus, the investment policy of commercial banks is aimed at establishing a system of targeted investment activity targets and achieving these goals.

Conclusion and proposals

At the current time, the developing trends provide new, more modern and innovative opportunities for Uzbek banks, as well as the occurrence of certain risks. Implementation of investment activities are associated with the potential risk factors, that is, the project cannot achieve full or partial goals. In particular, the following are the main factors that adversely affect the development of investment crediting practices:

- Insufficient capacity of companies to pay a loan, which is often explained by the fact that the quality of the existing management system is not at the level of demand;
- the current state of the exchange rate policy in the country. Basis for exchange rate regime on the basis of demand and supply;
- changes in the refinancing rate to ensure that the level of inflation expectations in the country is within the targets;
- lack of modern, reliable mechanisms to finance investment projects of commercial banks;
- high level of risk in investment crediting;
- lack of skills to prepare quality business plans for their development;
- shortcomings in the legislative framework.

In our opinion, for improving investment activities of commercial banks in the investment project financing system, the followings should be implemented in the finance sector:

- further development of the securities market with the purpose of attracting the population's investment into the investment process, the issue of various securities;
- focus on financing investment projects, which will cover a portion of centralized credit resources, including small businesses, with a view to accelerate structural and technological re-structuring of production;
- expansion of access to non-standard ways of financing investment projects- leasing, franchising, factoring;
- organizing an exhibition of investment projects that are constantly operating on a commercial basis in order to ensure compliance with the quality of investment projects and the efficiency of capital investment;
- creating investment divisions of senior management in the management and management of investment policies, consisting of highly experienced staff on various investment programs;
- it is necessary to independently analyze the market for securities, determine the types and volumes that are introduced into the circle, meet the bank's goals,

know how to generate profitability curves and thus improve the investment activity of commercial banks.

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