

Impact Factor:

ISRA (India) = 4.971
ISI (Dubai, UAE) = 0.829
GIF (Australia) = 0.564
JIF = 1.500

SIS (USA) = 0.912
ПИИИ (Russia) = 0.126
ESJI (KZ) = 8.997
SJIF (Morocco) = 5.667

ICV (Poland) = 6.630
PIF (India) = 1.940
IBI (India) = 4.260
OAJI (USA) = 0.350

SOI: [1.1/TAS](https://doi.org/10.1/TAS) DOI: [10.15863/TAS](https://doi.org/10.15863/TAS)

International Scientific Journal Theoretical & Applied Science

p-ISSN: 2308-4944 (print) e-ISSN: 2409-0085 (online)

Year: 2020 Issue: 06 Volume: 86

Published: 30.06.2020 <http://T-Science.org>

QR – Issue



QR – Article



Abdijabbor Yunusovich Nurmukhamedov
Tashkent state university of economics
Senior teacher


Elyor Bozorboy o'g'li Davlatov
Tashkent state university of economics
Assistant teacher

DEVELOPMENT OF COMMERCIAL BANK SECURITY MARKETS IN UZBEKISTAN

Abstract: This article illustrates role of security operations of Uzbek commercial banks with analyzed data. In order to define role of commercial banks in security markets, we investigate commercial bank share in Stock exchange Tashkent and then looked over bank balance sheet to determine fund accumulation and investment to securities. We found some problems and offered some recommendation to deal with those problems.

Key words: security, investment, balance sheet, market capitalization, funds, GDP, commercial bank
Language: English

Citation: Nurmukhamedov, A. Y., & Davlatov, E. B. (2020). Development of commercial bank security markets in Uzbekistan. *ISJ Theoretical & Applied Science*, 06 (86), 476-480.

Soi: <http://s-o-i.org/1.1/TAS-06-86-91> **Doi:**  <https://dx.doi.org/10.15863/TAS.2020.06.86.91>
Scopus ASCC: 2000.

Introduction

After the collapse of the Soviet Union, the modern banking system has been created step by step in Uzbekistan. Like many transition economies, Uzbekistan started its banking reforms with creating a two-tier system that included the central bank and commercial banks. Central bank conducts monetary policy and regulates commercial banks. Commercial banks in Uzbekistan are universal banks. To be more precise, they have services for bank customers such as deposit, credit and transaction services. It is also allowed by law to participate in financial markets, especially security markets without any obstacles. The research topic is concerned with improving ways of bank security activities in Uzbekistan. Although commercial banks are main participants in Tashkent Stock Exchange Market, all commercial bank investments on this market make up only about 1.1% of all bank assets in 2018. This means that commercial bank security business has not developed yet in Uzbekistan.

Furthermore, Central bank of Uzbekistan is unable to use Open Market operations as an instrument to expand or contract the amount of money

in the Banking system. One of the main reasons is that government securities purchase was stopped on 1st of January in 2013. Here may appear question if the government does not emit securities, the Central bank can use other instruments such as corporative bond, bank deposit certificates. However, the open market operation is implemented with only government securities. Government authorities show the government budget surplus as the main reason for not allowing government security business. Another reason for under developing of this market, there is little scientific research which is dedicated to the improvement of bank security markets in Uzbekistan.

For the last two years, the government of Uzbekistan has made reforms on the economy in order to accomplish tasks put forward by Strategy Action for the development of Uzbekistan in 2017-2021. One priority direction of Strategy Action is liberalization of the national economy. Development of short and long-term financial markets is one main sub-section of the liberalization of the national economy. Importantly, President Republic of Uzbekistan Shavkat Mirziyoyev made a resolution on 13th September in 2017 about "Further development

Impact Factor:

ISRA (India) = 4.971
ISI (Dubai, UAE) = 0.829
GIF (Australia) = 0.564
JIF = 1.500

SIS (USA) = 0.912
PIIHQ (Russia) = 0.126
ESJI (KZ) = 8.997
SJIF (Morocco) = 5.667

ICV (Poland) = 6.630
PIF (India) = 1.940
IBI (India) = 4.260
OAJI (USA) = 0.350

of the monetary policy of Central bank of Uzbekistan". One section is devoted to the development of the national financial market, including the government security market in the medium and long-term prospect so as to establish effective monetary policy. The government of Uzbekistan has been developing bilateral political and economic relations with foreign countries. The attraction of foreign investors to the country was chosen as a key factor of economic growth. It is necessary to have a solid financial system and a transparent banking system to attract foreign investors.

Above-mentioned shortcomings and achieving strategic goals indicate the importance of research topic and require new scientific investigation which is based on foreign experience. This paper not only provides theoretical literature but also includes an analysis of security operations of Uzbek commercial banks.

Literature review

Security operations of commercial banks are debatable among scientific society. I. Butikov states that commercial banks have three major operations in security markets (2001). They participate as buyer, seller and institutional investor in security markets. As he states, commercial banks of Uzbekistan are universal banks which means that it is allowed them to be a participate of financial markets with the certificate given for general banking services [1].

Open market operations are a monetary instrument widely used in developed economies to influence monetary aggregates. However, it had not been effectively employed by the Central Bank of Uzbekistan. The CBU offered very limited scope of securities (chiefly zero-coupon short-term Treasury Bills) to a small group of financial institutions (almost exclusively banks). However, these securities had two major problems. Firstly, they yielded negative interest rates in real terms up to 2003. Secondly, they were often not re-paid in cash upon maturity. Instead, new issues were used to replace old ones. At some stage, the situation worsened to the point that the CBU forced some state-owned commercial banks to purchase Treasury Bills. The National bank was often picked by authorities as a major buyer since it had

large amounts of excess liquidity generated from deposits of individuals (Akimov 2009) [2].

Commercial banks of Uzbekistan invest to security in two reasons. Firstly, they invest government bonds in order to keep liquidity. On the other hand, when bank faces liquid problem, it is easy to solve the problem by selling liquid government bonds. However, this did not work from 2013 to 2017 because government of Uzbekistan stopped to sell bonds because of the government surplus. The government has been recently started again to sell government bonds so commercial banks now are able to invest government bonds to hold liquidity. Secondly, commercial banks of Uzbekistan invest corporate bonds or stocks of new companies to make a profit (Bobakulov 2018) [3].

Households and companies are not interested in investing commercial bank securities. One of the main reasons is that yields of securities in real terms are negative because of the high inflation rate (Karimov, Hojimatov 2019) [4].

One of the main problems relevance to security operations of commercial banks is that Uzbek commercial banks do not tend to sell securities written in foreign currency such as USA dollars (Khusanboev, Davlatov, Bekmurodova)[5].

Methodology

The article authentically deals with giving theoretical data about commercial bank security operations which were discussed by local and foreign expertise. We also used statistical data of Central bank of Uzbekistan and annual reports of commercial banks to make a comparison in different years. On this article, many different research methods are used comparative assessment and scientific abstract methods. Data is collected from many difference sources.

Analysis and results

In this analyses part, there will be at attempt to compare some of the indicators of commercial banks in Uzbekistan especially indicators with securities. Firstly, we decided to analyze role of banking system in economy. In order to have pure results, we looked through banking system indicators to the share of GDP. The table below shows our indicators which will be analyzed below.

Table 1. Role of Banking system in economy (in Uzbek sum) [6]

Indicators	2017	2018	2019
GDP	302 536,8	406 648,5	511 838,1
Bank assets	166 631,8	214 419,6	272 726,9
Bank assets to GDP (%)	55,1	52,7	53,3
Loans	110 572,1	167 390,6	211 580,5
Loans to GDP (%)	36,5	41,2	41,3

Impact Factor:

ISRA (India) = 4.971	SIS (USA) = 0.912	ICV (Poland) = 6.630
ISI (Dubai, UAE) = 0.829	PIHIQ (Russia) = 0.126	PIF (India) = 1.940
GIF (Australia) = 0.564	ESJI (KZ) = 8.997	IBI (India) = 4.260
JIF = 1.500	SJIF (Morocco) = 5.667	OAJI (USA) = 0.350

Deposits	59 578,7	70 001,4	91 009,0
Deposits to GDP (%)	19,7	17,2	17,8
Bank capital	20 676,1	26 678,9	51 030,7
Bank capital to GDP (%)	6,8	6,6	10,0

The table above shows role of banking system in economy. As it can be clearly seen from the table above, we compared three years 2017, 2018 and 2019 with 4 main bank indicators and their shares to GDP in percentage.

GDP of Uzbekistan grew up from 302.536 billion sum to 406,648 billion in 2018. There has been a rise in GDP in 2019 making it 511,838 billion sums. At the same time, bank assets also faced the same trend such as bank assets making up 166 billion sums in 2017 rose to 214 billion sums in 2018. The proportion of bank assets to GDP were 55,1% in 2017, 52,6% in 2018 and 53,3. You may see that the proportion decreased in 2018 because of the larger growth of GDP than the growth of bank assets. The main reason of bank assets growth was the government's share in banking sector so government has increased bank capital in the last years.

The second indicator in our list is loans. Loans are main indicator which is analyzed in financial sector. Our bank loans also increased from 110,5 billion sums in 2017 to 167,3 billion sums in 2018 and to 211.5 billion sums in 2019. The share of loans to GDP was 36,5% in 2017, increased by 4,6% in 2018 and made up 41,3% in 2019.

The third indicator in our list is deposits which made up 59 billion in 2017 and rose to 70 billion in 2018. The proportion of bank deposits to GDP constituted 19,7 % in 2017 and 17,2% in 2018. One of the main reasons which bank deposits declined over the few years is high inflation. High inflation

decreases real interest rate. According to We know that nominal interest in Uzbek banks are higher than even banks in developed countries. Unfortunately, inflation rate decreases real return of savings. People tend to take out saving deposits and invest other sectors which inflation cannot affect the real return of investment. For example, households invest to livestock because it increases if inflation increases and it is even more liquid than putting your money bank deposits.

Bank capital is one the main indicator of banking system because bank capital shows how stronger banks are in economy. On the other hand, the more banks own capital the more it is easy to cover liabilities. As we can see from the table above, capital of banking system of Uzbekistan rose from 20,6 billion sum to 26,6 billion sums in 2018.

The role of banks in the financial market is different in different countries. There is no obstacle for Uzbek commercial banks as a participant of financial Markets. Our banks can be member of Tashkent stock exchange market and Uzbekistan republican currency exchange market with the general license which given for activity of commercial banks. There is no need to get another license from Central bank.

We start now to analyze the share of commercial banks in Republican Stock Exchange "Tashkent" in last 4 years. A glance at the table below reveal changes Uzbek commercial banks in the structure of the Republican Stock Exchange "Tashkent" in 2016-2019

Table 2. Commercial bank's share in the structure of the Republican Stock Exchange "Tashkent" in 2018 (%) [7]

Industries/Years	2016	2017	2018	2019
Industry	24.6	0.3	2.3	9.0
Banks	50.6	86.3	86	72.8
Construction	1.2	0.5	2.3	8.2
Agro-industrial complex	5.3	9.2	5.3	6.35
Insurance	0.9	0.5	1.6	1.54
Others	9.7	2.2	2.4	2.07

The pie chart above illustrates the proportion of main sectors of economy in the structure of the Republican Stock Exchange Tashkent. Overall, although the number of transactions made commercial banks saw a slight fall, it has stayed the biggest in the given period on the table. As it can be clearly seen from the table provided, the share of commercial banks in the stock exchange market is the biggest pie in 2017 with 86.3% (257.6 billion sums) of all the

amount of transactions. The lowest transactions made in 2016 with the amount of 154.8 billion sums. We may conclude that banks are particular participant and sharks of the Stock market according to the data above but it is not in reality. In order to understand the situation, we analyze bank balance sheet. It indicates us how much proportions of bank assets are directed to stock market. In the following charts shows some types of commercial bank assets in 2016-2019.

Impact Factor:	ISRA (India) = 4.971	SIS (USA) = 0.912	ICV (Poland) = 6.630
	ISI (Dubai, UAE) = 0.829	ПИИИ (Russia) = 0.126	PIF (India) = 1.940
	GIF (Australia) = 0.564	ESJI (KZ) = 8.997	IBI (India) = 4.260
	JIF = 1.500	SJIF (Morocco) = 5.667	OAJI (USA) = 0.350

Table 3. Some components of assets of Uzbek commercial banks (%) [8]

Asset types /Years	2016	2017	2018	2019
Cash	1.6	2.9	2.5	2.4
Deposits at CBU	14.2	8.9	5.3	5.4
Loans	61.9	65.1	76.8	76.1
Securities	1.8	1.0	1.1	1.2
Real estate	2.1	1.4	1.6	2.1

The table above gives some information about asset structure of all commercial banks in Uzbekistan during 2016-2019. Overall, loans are the biggest proportion of commercial bank assets during the given period.

The amount of cash also increased during the years for example, making up only 1.6% of assets were held as cash in 2016 rose to average 2.6% in the coming next years. Most of the reason is lack of liquid assets in banks reserve that's why they try to hold more cash even it does not pay interest. In developed countries, most banks hold liquid assets such as government bonds. It can pay interest and can be easily exchanged cash if banks need.

As we mentioned above, nearly three quarter of assets dedicated to loans. Loans made up 108.4 billion sums in 2017 and increased to almost two times in 2019 with 207.6 billion sums (76.1% of all bank assets). We can give two different views about this growth. First of all, loan growth is positive if it turns into investment and it results economic growth. Second of all, it is very risky in inflationary period. T. Bobakulov states that loan growth stimulated inflation American economy in 1960-1970. As you can see above the table, share to GDP is 41.3%.

Now, it is time to analyze investment operations of commercial banks of Uzbekistan during that period. Investment to securities was less than even cash during the time period. For instance, Investment to securities was 1.4 billion sum which is only 1.8% of all bank assets in 2016. After that, there was a gradual decline in the amount of money invested to securities in 2017, 2018 and 2019 with the percentage of 1.0, 1.1, and 1.2 of all assets respectively. In 2019, the amount of investment to securities was 3.5 billion sums.

As we analyzed, investment operations of commercial banks in financial markets have not yet developed. There are some reasonable cases of the situation which we describe on the conclusion part of our work.

Question may appear how do commercial banks of Uzbekistan accumulate funds from financial markets? Are most of their funds accumulated from financial markets? In order to answer to this question, we need to analyze liability part of commercial bank's balance sheet. The table below shows some components of liability side of commercial banks of Uzbekistan in 2016-2019.

Table 4. Some components of Liabilities of Uzbek commercial banks (%)

Liability types /Years	2016	2017	2018	2019
Deposits	49.5	40.8	37.3	41.1
Account of Central bank of Uzbekistan (CBU)	0.4	0.4	0.27	0.8
Loan from other banks	35.7	49.9	55.6	47.5
Securities issued	0.3	0.1	0.01	1.3
Other Liabilities	8.4	4.1	2.0	1.7

The table above authentically deals with giving information about the liability types of commercial banks of Uzbekistan during the period 2016-2019. As we mentioned above the least proportion of bank funds are accumulated with the help of securities. To be more precise, the amount of bank security issuance making up 0.3% of all liabilities increased slowly to 1.3% of all liabilities in 2019. In this year the amount of security issuance was only 216 billion sums. If we make a analyze of deposits, it was the biggest proportion of all liabilities of commercial banks in Uzbekistan. It made up 49.5 percent in 2016 and declined slowly over the next 3 years before ending up

41.1 percent in 2019. What conclusion can we make from the table above? Our commercial banks did not accumulate funds from financial markets but deposits were convenient for them. One of the main reasons is underdevelopment of security markets in Uzbekistan. It can be seen market capitalization of commercial banks to GDP of Uzbekistan. It was around 0.08% in 2019. We give more details of the problems and recommendations on the conclusion part of our paper.

Conclusion

Financial markets have been developed step by step in Uzbekistan after breakdown of Soviet Union in

Impact Factor:	ISRA (India) = 4.971	SIS (USA) = 0.912	ICV (Poland) = 6.630
	ISI (Dubai, UAE) = 0.829	ПИИИ (Russia) = 0.126	PIF (India) = 1.940
	GIF (Australia) = 0.564	ESJI (KZ) = 8.997	IBI (India) = 4.260
	JIF = 1.500	SJIF (Morocco) = 5.667	OAJI (USA) = 0.350

1991. Commercial banks of Uzbekistan are the main participants of security markets which is one of the main parts of financial markets. Commercial banks of Uzbekistan are universal banks which means that they deal with investment banking services at the same time. The market share of commercial bank in Republican stock exchange Tashkent was the largest in the few years. However, when we analyzed consolidated balance sheet of commercial banks of Uzbekistan, we defined that investment to securities was the least proportion of bank assets. There are a number of reasons of the situation:

Firstly, majority of the securities in the market are low profitability and high inflation makes it more attractive. For example, Qizilqumsement announced 20% profitability of their share and inflation is 16% so real return for banks is only 4% which is much less than other investments.

Secondly, there are not securities which nominal is foreign currency. If there are some securities denominated on foreign currency in the market, commercial banks may interest to invest even if high inflation and devaluation condition. Our

recommendation is that government should allow all participants of security markets to issue securities denominated on foreign currency. Then, it will be more attractive not only for commercial banks but also for foreign investors.

Thirdly, another main problem of security market is information asymmetry. Not all companies give detailed and pure information about their business performance and strategies. It is difficult for investors to evaluate and forecast business of the companies which offered securities in the market.

Also, commercial banks of Uzbekistan tend to accumulate with deposit that of financial markets. Bankers state that it is full of paper work and takes much time to process so attracting deposits and other funds are comfortable for us.

To conclude, commercial banks of Uzbekistan have big market share but investment to securities constituted the least amount among assets and resource accumulation by financial markets made up also the least amount among liabilities.

References:

1. Butikov, I. (2001). *Security markets*. (p. 248). Tashkent: Konsauditinform.
2. Akimov, A., & Brian, D. (2009). *The Uzbek Approach to Financial System Development: An Analysis of Achievements and Failures*. (p.13). Griffith Business school discussion papers.
3. Bobakulov, T., & Abdullaev, U. (2018). *Monetary policy*. (p. 356). Tashkent: Iqtisod-Moliya.
4. Karimov, N., & Hojimatov, R. (2019). *Investments*. (p. 412). Tashkent: Iqtisodiyot.
5. Khusanboev, A., Davlatov, E., & Bekmurodova, G. (2018). Uzbek and German banks in security markets. *Journal of "Iqtisodiyot va innovatsion texnologiyalar"*, issue 6.
6. (2019). *Annual report of Central bank of Uzbekistan for 2019*, Retrieved from www.cbu.uz
7. (n.d.). *Market overview for 2016-2019*, Retrieved from www.uzse.uz
8. (n.d.). *Consolidated balance sheet of commercial banks 2016-2019*, Retrieved from www.cbu.uz