

CONSIDERABLE ISSUES TO INCREASE THE SUSTAINABILITY OF THE COMMERCIAL BANKS IN THE REPUBLIC OF UZBEKISTAN

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ABSTRACT

This article examines the concept of stability of the country's banking system, its role in the activities of banks, the current conditions of financial stability of banks, the dynamics of indicators characterizing the stability of banks and their current state. The article also presents the problems and challenges in ensuring the stability of the banking system of the country and the conclusions and recommendations developed to solve them.

KEYWORDS: *Banking System, Financial Stability, Bank Capital, Liquidity, Solvency, Risk, Asset Quality, Deposit Base, Profitability, Problem Assets .*

INTRODUCTION

In the current conditions of economic development of the country, the stability of commercial banks plays an important role. The success of the socio-economic reforms implemented by the government of our country largely depends on the development of commercial banks.

The concept of "sustainability" is commonly used in various fields of science and technology related to the study of complex dynamic systems and their operation. With the development of society, the concept of sustainability is widely used in political, social, environmental, economic and scientific-technical (innovative) spheres. The stability of commercial banks, which are the locomotive of modern economic development, is one of the most important issues in the current context of growing interbank competition.

The reforms implemented by the government in recent years in the banking and financial sector serve to further strengthen the financial stability of the banking system. In particular, the President of the Republic of Uzbekistan PF-4947 of February 7, 2017 "Strategy of actions on five priority areas of development of the Republic of Uzbekistan in 2017-2021" and PF-5177 of September 2, 2017 "On priority measures to liberalize foreign exchange policy" Resolution No. PQ-3272 of September 13, 2017 "On measures to further improve monetary policy", PQ-3270 of September 12, 2017 "On measures to further develop and enhance the stability of the banking system of the Republic" The decision serves as an important legal document in strengthening the stability of the banking system. Also, the Decree of the President of the Republic of Uzbekistan PF-5992 dated May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" defined specific tasks on.

Analysis Of The Relevant Literature

Research on the financial stability of commercial banks shows that in the modern economic literature there is no single definition of this term related to banking. The results of various crises in the history of mankind show that the financial stability of banks and the diversity of factors affecting it require more in-depth research on this issue.

According to O.B.Sattarov, one of the leading economists of the country, "the stability of the banking system is a desire to develop while maintaining the level that allows the Central Bank and commercial banks to fully perform their functions" [1].

RM Karimova, such banks are considered stable if they have a stable capital, a liquid balance sheet, sufficient capital adequacy and solvency requirements [2].

In his research, Western economist Peter Stella argues that financial stability is a measure of successful internal management, sustainability, as well as high profitability and profitability for the base period, regardless of macro and microeconomic changes [3].

In her research, A.P. Kornaukhova states that "the financial stability of a commercial bank is the full performance of its functions, the formation of sufficient reserves to cover possible losses, compliance with regulatory requirements, quality banking necessary to reduce risk" [4].

According to the regulations of the Basel Committee, in order for a commercial bank to be recognized as financially stable, it must fully comply with the requirements developed by the Central Bank of the country in accordance with the requirements of the Basel Committee. The Basel Committee interprets financial stability not as a term but as a set of positive regulatory indicators that ensure the sustainable operation of a bank.

PhD I.I. Juraev stressed that "in order to ensure the financial stability of commercial banks, it is necessary to increase the volume of time deposits in banks by more than 60% of total deposits."

[6]

O.P.Ovchinnikova, A.U. Betts propose to classify the stability of banks as follows [5]:

- Financial stability;
- Organizational stability;
- Staff stability;
- Operational stability;
- Banking business stability.

Such a classification of bank stability is important for the further strategic development of banks' relations with the state and society, shareholders and creditors, the population and business entities, bank managers and employees.

Foreign economists T. Kopan, K. Minou emphasize the ability of the bank's financial stability to quickly restore its main function (converting funds into credit) after various adverse effects [7].

Kurbanov R.B. (2020) analyzed financial performance of private banks in Uzbekistan. He argued that the volume of bank assets, asset management ratio and operational efficiency are positively correlated with ROA.[8]

In general, such a conclusion can be made by summarizing the views and opinions of economists. Sustainability of a bank is the ability to fully and timely meet its obligations, to obtain the intended income and to fully perform its functions in the face of various instability.

RESEARCH METHODOLOGY

In preparing this article, the existing theories put forward by foreign scholars were studied and the factors influencing the financial stability of banks in our country were analyzed. The research used mainly comparative assessment and scientific abstraction methods.

Annual reports of commercial banks of the Republic of Uzbekistan and annual reports of the Information Rating Agency were used as statistical sources.

ANALYSIS AND RESULTS

The financial stability of banks has been a major topic of discussion among economists and international experts for many years. A number of financial and banking crises in the world and their conclusions on the impact on the banking system show the need to assess the level of stability of commercial banks, an in-depth analysis of the factors affecting it. The negative effects of the recent global financial and economic crisis, which began in the United States and then spread around the world, have led to instability in the banking sector spreading from one country to another on a global scale. The financial crisis that began in the United States in 2008 alone cost the world's banks \$ 300 billion. Exceeded the U.S. dollar.

COVID-19 is also forecast to see a sharp decline in bank revenues as a result of a pandemic around the world.

According to McKinsey (Global Banking Annual Review), the pandemic is causing non-repayment of large amounts of bank loans, the continuation of which will cost the global banking system 1.5 trillion rubles between 2020 and 2024. \$ 4.7 trillion. It leads to a loss of income of up to US \$ [9].

The untimely repayment of loans provided by banks, firstly, has a negative impact on the bank's liquidity, on the other hand, leads to an increase in the bank's reserves to cover losses and, ultimately, to an increase in bank costs. The increase in bank costs, in turn, has a negative impact on the bank's profitability, profitability and solvency.

The COVID-19 pandemic has been going on in our country since March 2019. The introduction of quarantine measures in the country during the pandemic has led to a decrease in real incomes and solvency of the population and businesses. As a result, our government granted credit vacations, which in turn had a negative impact on the profitability of banks.

In order to provide financial support to the population and businesses during the pandemic, a number of benefits have been introduced in our country. Some of these benefits have led to an increase in problem loans in commercial banks. The analysis shows that problem loans increased in 9 out of 13 banks with a state share (a total of 9.1% to 12.2 trillion soums). In particular, the NPL of the National Bank of Uzbekistan amounted to 2.6 trillion to 3 trillion soums (36%), Uzpromstroybank - from 1.5 trillion to 1.7 trillion soums, Agrobank - from 1.1 trillion to 1.3 trillion soums, People's Bank - from 1.1 trillion to 1.2 trillion soums (45.7%), Ipoteka Bank - from 1.2 trillion to Microcreditbank - from 331 billion to 705 billion soums (91.3%), Aloqabank - from 256 billion to 291 Asia Alliance Bank - from 163 billion to 204 billion soums, Uzagroexportbank - from 34 billion to 52 billion soums [10].

According to the Central Bank, as of July 1, the share of non-performing loans (NPLs) in the portfolio of the People's Bank was 15% (3.2 trillion soums out of 21.3 trillion soums). This is the second largest state-owned bank after Uzagroexportbank (62.6%). At the beginning of June, the volume of problem loans of the People's Bank was 6% (from 20.9 trillion soums to 1.26 trillion soums) [9].

The increase in the share of problem loans in banks can have a negative impact on the liquidity of

banks, causing various problems in the full and timely fulfillment of obligations by banks.

In the table below, we analyze the liquidity standards of commercial banks in the country for 2016-2020.

TABLE 1 LIQUIDITY DYNAMICS OF THE BANKING SYSTEM OF THE REPUBLIC OF UZBEKISTAN [10]

Name of indicators	01.01. 20 17 y.	01.01. 20 18 y.	01.01. 20 19 y.	01.01. 2020 y.	01.01. 2021 y.
Highly liquid assets (billion soum)	18 606.3	37 775	20 202	30 874	50 476
The ratio of highly liquid assets to total assets, in percent	22.1%	22.7%	9.4%	11.3%	14.2%
Liquidity coverage ratio (min. Demand 100%)	177.2%	225.2%	170.7%	208.5%	224.5%
Net sustainable financing rate (min. Demand 100%)	102.6%	110.6%	107.9%	112.8%	109.9%
Instant liquidity ratio (min. Demand 25%)	-	40.1%	30.9%	47.8%	67.4%

The analysis shows that the overall liquidity indicators of commercial banks of the country are sufficient to meet the standards set by national and international requirements. However, the sharp gap between the attracted deposits of the banking system and the allocated loans, the low level of bank capital relative to the country's GDP, the very low level of deposits in the liabilities of state-owned commercial banks create liquidity problems in banks .

For comparison, we consider the analysis of some comparative indicators of the banking system of the country for 2019-2020.

TABLE 2 COMPARATIVE INDICATORS OF THE BANKING SYSTEM OF THE REPUBLIC OF UZBEKISTAN [10]

Indicators	01.01.2020 y.			01.01.2021 y.		
	Overall	<i>hence:</i>		Overall	<i>hence:</i>	
		State-owned banks	Other banks		State-owned banks	Other banks
<i>he ratio of assets to liabilities</i>	123%	124%	119%	119.0%	118.7%	120.3%
Assets	272 727	230 126	42 600	366 121	310 730	55 392
Liabilities	221 696	185 859	35 837	307 770	261 734	46 036
<i>Ratio of credit investments to deposits</i>	232%	284%	99%	241.4%	296.5%	100.6%
Loans	211 581	186 630	24 950	276 975	244 484	32 491
Deposits	91 009	65 740	25 269	114 747	82 461	32 286

If we analyze the data in the table, we can see that in 2019-2020, the country will have a dynamic growth of indicators in the banking system. However, the analysis of some indicators shows that there are some inconsistencies in our banks. In particular, the sharp difference in the ratio between bank loans and deposits is not a positive thing. The analysis shows that the ratio of loans to deposits in 2019 was 232%, while in 2020 it increased to 241.4%. However, the fact that these figures are very high in the state-owned banks has a negative impact on the level of liquidity of

these banks.

In international practice, there are a number of indicators that characterize the financial stability of commercial banks, the main of which are as follows [11]:

- Asset quality;
- Resource base quality;
- Quality of banking services and products;
- Profitability of banking activities;
- Risk management system;
- Quality of bank management.

TABLE 3 INDICATORS OF STABILITY OF THE BANKING SYSTEM OF THE REPUBLIC OF UZBEKISTAN [10]

Indicators	01.01. 2017 y.	01.01. 2018 y.	01.01. 2019 y.	01.01. 2020 y.	01.01. 2021 y.
Total capital	8 981.3	20 676	26 679	51 031	58 351
Capital adequacy ratio (in percent)	14.7%	18.8%	15.6%	23.5%	18.4%
Net profit	1 15 3	1 881	3 200	4 149	5 642
Return on assets (in percent)	2.00%	1.9%	2.0%	2.2%	2.2%
Return on capital (in percent)	17.9%	17.1%	16.2%	16.7%	10.3%

Analyzing the data in Table 3, there are positive trends in a number of indicators that characterize the financial stability of commercial banks in the country. In particular, the capital of commercial banks of the country has a tendency to grow, and its adequacy is fully meeting national and international requirements. Although the level of capitalization of the banking system of the country shows a steady growth trend, the share of added capital and additional capital in its structure remains very low. As of January 1, 2021, the additional capital of the banking system of the country is 0.7% of total capital. This situation shows that the attractiveness of securities of commercial banks of the country is low, as well as the fact that these securities are not yet used as an object of trade in the stock market.

In the period under review, the profitability of commercial banks in the country can not be assessed positively. For example, the return on assets of the banking system has remained virtually unchanged over the past two years. The fact that the return on bank capital has decreased by 7.6% over the past five years could seriously undermine the financial stability of our banks. This, in turn, has a negative impact on the decline of the bank's investment attractiveness and the image of our banks as issuers.

TABLE 4 THE SHARE OF THE BANKING SYSTEM OF THE REPUBLIC OF UZBEKISTAN IN THE COUNTRY'S ECONOMY [10]

Name of indicators	01.01.2017 y.	01.01.2018 y.	01.01.201 9 y.	01.01.20 20 y.	01.01.20 21 y.
GDP	199 325.1	249 136.4	407 514.5	511 838.1	580 203.2
Bank assets, total	84 075.0	166 631.8	214 420	272 727	366 121
The ratio of assets to GDP, in percent	42.2	66.9	52.6	53.3	63.1
Credit investments, total	52 610.5	110 572.1	133 751	211 581	276 975
Ratio of credit investments to GDP, in	26 .4	44 .4	32.8	41.3	47.7

percent					
Total deposits attracted	37 183.2	59 578.7	70 001	91 009	114 747
The ratio of deposits to GDP, in percent	18.7%	23.9%	17.2	17.8	19.8
Total capital	8 981.3	20 676.1	26 679	51 031	58 162
The ratio of total capital to GDP, in percent	4.5%	8.3%	6.5	10.0	10.0

If we analyze the role of commercial banks in the country's economy, we can see that a number of indicators of our banks have a growing trend. In particular, we can assess the growth of bank assets in relation to GDP as positive. The highest growth rate of banking system assets is in 2017. One of the main reasons for this is the reforms implemented in September 2017 to liberalize the exchange rate policy in our country. At the same time, the devaluation of the US dollar against the national currency in our country almost doubled, which led to a sharp increase in the amount of foreign currency assets of banks.

According to economist I. Juraev, as a result of the Central Bank's tight monetary policy, it has an impact on the credit potential of commercial banks. [12].

Although this situation has led to an increase in the share of assets of the country's banking system in GDP, it will lead to a sharp decline in the value of assets of domestic banks in foreign currencies. As a result, the position of domestic banks in international rankings has significantly decreased.

CONCLUSIONS AND SUGGESTIONS

The concept of banking system stability has been in the center of attention since the emergence of banks as an important factor for the state, society and consumers of banking services. At the national level, the role of this factor in ensuring economic stability of the country, the creation of new jobs, the stable operation of the state treasury as a large taxpayer is important for the sustainability of economic entities, high living standards, financial needs. has its importance as a financial institution. For users of banking services, the stability of the banking system is reflected in such factors as a high level of service quality and diversity of services, mutual trust, liquidity of the banking system and the strength of solvency.

In general, the qualification of the banking system is rising to a new level in its development. One of the most pressing issues today is the transformation of the country's banking system, digitalization of banking services, further enhancing the ability of our banks to attract long-term and sustainable resources from international financial markets.

In order to further increase the stability of the banking system of the Republic of Uzbekistan, to achieve its international competitiveness, to further increase the resource potential and financial stability of banks, we consider it appropriate to take the following measures.

1. Ensuring compatibility between long-term deposits and long-term loans of existing commercial banks with state share. In the analyzed period, the ratio of bank loans to bank deposits in commercial banks with a state share in the country at the end of 2020 amounted to 296.5%. This situation has a negative impact on the emergence of liquidity problems in our banks, as well as the development of interbank competition in the country with the support of state-owned commercial banks.
2. It is necessary to ensure sustainable growth of deposits, assets, loans and capital of commercial banks in relation to the country's GDP. While in the analyzed period, these indicators have

shown steady dynamic growth over the past five years, we can see that in some years it also has a downward trend.

3. It is necessary to create ample opportunities for commercial banks to operate on market principles. At the same time, we believe that it is necessary to reduce the participation of commercial banks in financing various programs. It is advisable to finance government programs and establish separate banks that provide various benefits.
4. It is necessary to increase the level of profitability of state-owned commercial banks and accelerate the process of their transformation. Statistics from the central bank show that we can see that the profitability is low at most state-owned commercial banks, especially large commercial banks. Return on bank assets by 2020 Sanoatqurilishbank (2.4%), People's Bank (2.3%), Ipotekabank (2.0%), Qishloqqurilishbank (2.0%), NBU (1.6%), Mikrokreditbank (1, 5%), Agrobank (1.1%), Asaka Bank (1.1%). In contrast, Madad Invest bank (10.4%), Trustbank (9.3%), Davrbank (8.1%), Silk Road Bank (5.1%), Ziraatbank (5.0%), Hamkorbank (4, In banks with private and foreign capital, such as 5%), this figure is much higher. This situation requires further increase in the efficiency of state-owned commercial banks by gradually reducing their share in the state.

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