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**ANALYSIS OF THE ACTIVITIES OF STATE-OWNED COMMERCIAL  
BANKS IN UZBEKISTAN IN THE SECURITIES MARKET**  
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**Abstract**

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**Keywords:** *bank loans, financial institutions, international capital markets, economic growth, bonds, corporate governance*

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*In our country, state and corporate structures finance their activities with a limited range of resources, mainly through their own funds, shares, bank loans, leasing. This article examines and analyzes the problems in attracting foreign capital, such as the fact that commercial banks have not yet organized the international circulation of shares, the practice of public offering of shares on international stock exchanges, the circulation of Eurobonds is relatively narrow.*

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**INTRODUCTION**

In our country, state and corporate structures finance their activities with a limited range of resources, mainly through their own funds, shares, bank loans, leasing. Financial security through the circulation of corporate bonds is extremely narrow. The fact that they have not yet organized the international circulation of shares, the practice of public placement of shares on international stock exchanges, the relatively narrow scope of the circulation of Eurobonds, show that there are problems in attracting foreign capital. "Our banks need to enter international financial markets and bring cheap and long-term resources. The National Bank and Ipoteka Bank should issue their own Eurobonds this year. "

The issues of attracting sovereign debts through the issuance of Eurobonds, the effective organization of financial security in joint stock companies are constantly discussed by the world's leading research centers, internationally recognized universities, international financial and economic organizations, international financial institutions, international auditing organizations, international rating agencies, transnational corporations. the fact that it is the focus of attention also reflects the relevance of the topic of this study.

**LITERATURE REVIEW**

The most popular form of borrowing is the issuance of these securities. In this context, let us consider the definition of the stock market and the stock market in the economic literature and vocabulary. E.F. Zhukov writes: "Currently, there are three markets for securities involved in financing the economy: over-the-counter, stock (stock) and street." Other economists, such as Ya.M. Mirkin, see the concepts of stock market and stock market as one concept. However, if we consider that in all three markets there is a single commodity quote, which can be called "stock values", it becomes clear that the concepts of "stock market" and "stock market" are very similar.



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The securities market ensures the efficient functioning of the whole economy: it helps economic entities to attract investors' financial resources, investors to increase their reserves by investing in financial instruments, and the state to implement its economic policy. The financial market and the stock market are mechanisms that ensure the exchange of financial assets through the seller and the buyer meeting.

J.Tielens, B. van Aarle, J.Van Hovelar assessed the impact of Eurobonds on the dynamics of sovereign debt on the example of EU member states Portugal, Ireland and Greece. Sovereign debt scenarios have been developed without Eurobonds and through full Eurobonds. And the effectiveness of the use of Eurobonds to reduce macroeconomic shocks and uncertainties has been identified.

### **ANALYSIS AND RESULTS**

Uzbekistan has had very successful deals in the Eurobond market, with strong support from investors to revise the price and place it at an acceptable final price, and ultimately these results have been used by Uzbek state-owned companies, corporations and other financial institutions as a base benchmark for future Eurobonds issuance. In other words, served as a template, a line. In particular, on November 25, 2019 at the London Stock Exchange on international bonds worth \$ 300 million issued by JSCB "Uzpromstroybank" received orders from more than 150 investors for \$ 1.2 billion and international bonds with a coupon rate of 5.75%. can be cited. It should be noted that these international bonds were placed among investors from the United Kingdom (30%), the United States (16%), Europe (40%) and Asia and the Middle East (14%).

These results were also covered by foreign media, and JSCB "Uzpromstroybank" issued international bonds on the London Stock Exchange, thus becoming a participant in the international capital market. The \$ 300 million Eurobonds were highly valued by investors.

JSCB "Uzpromstroybank" has opened an international capital market for corporate issuers. According to him, international bonds of Uzpromstroybank worth \$ 300 million, listed on the London Stock Exchange and sold on international capital markets, were highly valued by investors.

International capital markets play an important role in ensuring sustainable economic growth in our country and attracting private investment, including foreign investment, in projects in the country. In this regard, in February 2019, for the first time in the history of our country, the successful placement of sovereign bonds of the Republic of Uzbekistan worth \$ 1 billion in international capital markets created new opportunities for commercial banks and enterprises in our country.

JSCB "Uzpromstroybank" has made preparations for the issuance of international corporate bonds on the basis of recommendations of international investment banks (financial consultants) such as JP Morgan, Citigroup, Commerzbank, Raiffeisen Bank. Meetings and negotiations with about sixty investors were held in Zurich, Frankfurt and London on November 18-22, 2019.

During the talks, investors were briefed on the ongoing reforms in the country under the leadership of President Shavkat Mirziyoyev, including the banking sector, the Government Strategy for Capitalization and Transfer of Loans to the Fund by the Fund for Reconstruction and Development of Uzbekistan, prospects for privatization of banks in Uzbekistan. Sources of formation of other resource base of the bank, information on the expected assets of Uzpromstroybank after the transformation, credit policy, the dynamics of problem assets were provided.



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It should be noted that the process of transformation of the bank (including preparations for privatization) and the participation of the International Finance Corporation in it, as well as the improvement of corporate governance were welcomed by major investors.

Due to the fact that the bank's business model is aimed at further strengthening and gradual privatization of commercial activities, JSCB "Uzpromstroybank" was accepted by investors as a commercial bank, not a state bank, and Russia's Moskovsky Credit Bank (5.3% for 5 years), Georgia's TBC Bank (5.75% coupon for 5 years), compared to Turkish banks such as Akbank (6% for 5 years).

On November 25, 2019, on the recommendation of financial consultants based on investors' proposals, the initial yield rate for the bank's 5-year international bonds was set at 6.50% and the transaction was announced at 08:23 London time. The volume of orders reached 300 million at 10:00. dollars (the transaction was fully covered) and 800mln at 12:10 p.m. dollars (the transaction was fully covered 2.5 times).

At 12:25 London time, the bond yield rate was reduced by 0.125% and the new rate was announced at 6.375%. This strategy was approved by investors, and by 13:05 the volume of orders reached 1 billion. dollars. At 14:00, the order book reached 1.2 billion. dollars, which closed the transaction by more than 4 times.

As a result of high demand, financial consultants were able to reduce the rate of return to 6%. The transaction ended at 17:00 London time with a coupon rate of 5.75%.

For the first time in the history of Uzbekistan, corporate international bonds issued by Uzpromstroybank will serve as a benchmark for other commercial banks and enterprises.

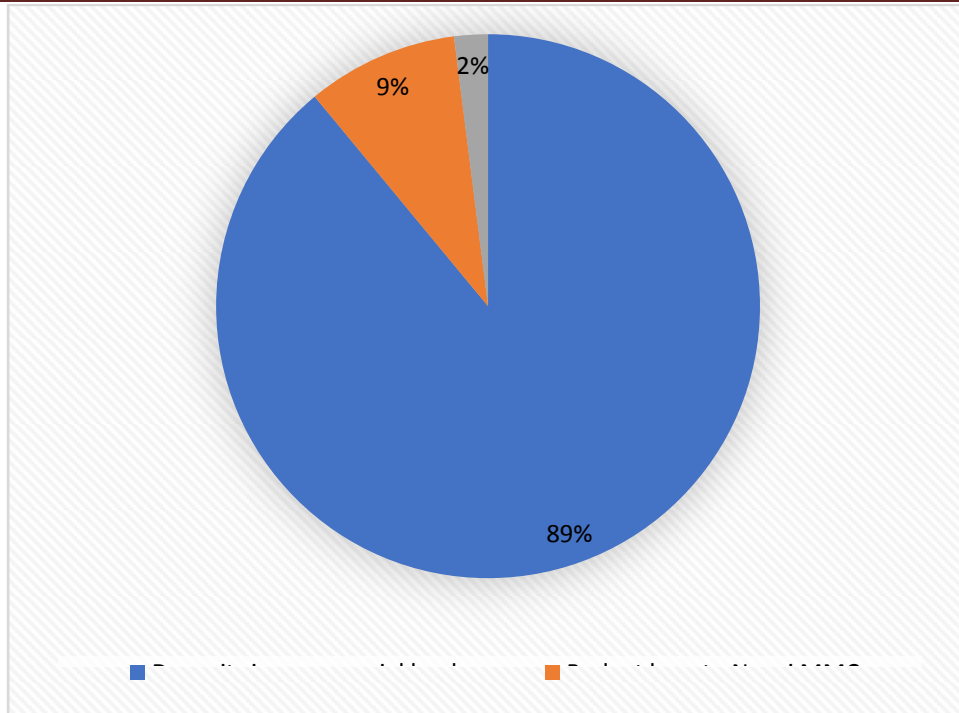
The positive reception of this bold step towards the world market by international investors is another high assessment of the large-scale economic reforms being implemented by the world community under the leadership of President Shavkat Mirziyoyev.

In February 2019, in accordance with the Resolution of the President of the Republic of Uzbekistan dated July 21, 2018 No. PP-3877 "On additional measures to diversify sources of external financing" for the first time in the world financial markets the total volume of the Republic of Uzbekistan sovereign international bonds (hereinafter referred to as international bonds of the Republic of Uzbekistan).

We know that the proceeds from the placement of international bonds of the Republic of Uzbekistan will be directed to the goals set by the President of the Republic of Uzbekistan and the Cabinet of Ministers.

Accordingly, in order to effectively place the proceeds of the successful placement of sovereign international bonds (Eurobonds) of the Republic of Uzbekistan, on April 2, 2019 the President of the Republic of Uzbekistan adopted Resolution No. PP-4258 "On effective use of proceeds from the placement of the first sovereign international bonds of the Republic of Uzbekistan". .

According to the resolution, proposals of the Ministry of Finance and the Central Bank of the Republic of Uzbekistan on the placement of international bonds of the Republic of Uzbekistan in order to effectively use funds from the placement of international bonds of the Republic of Uzbekistan, including investment projects of strategic importance for further improving the welfare of the country approved (Figure 1):



**Figure 1. Directions for effective use of funds from the placement of international bonds of the Republic of Uzbekistan, mln. In U.S. dollars<sup>1</sup>**

As can be seen from the picture above, 89% of the \$ 999.1 million in proceeds from sovereign Eurobonds were deposited in commercial bank deposits through auctions of \$ 889.2 million. The Ministry of Finance of the Republic of Uzbekistan has also directed \$ 20 million to Agrobank to open a credit line as a subordinate loan. The remaining \$ 89.9 million was allocated to the Navoi Mining and Metallurgical Combine by the Ministry of Finance of the Republic of Uzbekistan as a budget loan in foreign currency.

We will focus on each of the areas of effective use of funds from the placement of international bonds of the Republic of Uzbekistan.

First of all, the conditions for placing \$ 889.2 million of proceeds from the placement of sovereign Eurobonds on deposits in commercial banks through auctions are as follows (Table 1):

<sup>1</sup>Prepared by the author on the basis of the Resolution of the President of the Republic of Uzbekistan dated April 2, 2019 No PP-4258 "On the effective use of funds from the placement of the first sovereign international bonds of the Republic of Uzbekistan."



**Table 1**

**Terms of placement of proceeds from the placement of international bonds of the Republic of Uzbekistan on deposits of commercial banks through auctions<sup>2</sup>**

| Deposit term     | Deposit to be placed of funds maximum amount , mln. In U.S. dollars | Minimal annual percent rates | Interest fees term                       | Deposits return term |
|------------------|---|------------------------------|--|----------------------|
| 5 year deposit   | 459.6   | 5.25%                        | every 6 months (February 10 / August 10) | 10.02.2024 y.        |
| 10 -year deposit | 429.6   | 5,875%                       | every 6 months (February 10 / August 10) | 10.02.2029 y.        |
| <b>Total</b>     | <b>889.2</b>  | -                            | -  | -                    |

The table above shows that \$ 459.6 million from 5-year sovereign Eurobonds has been deposited in commercial banks for a period of 5 years, ie until February 10, 2024. In this case, a 5-year term foreign currency deposit is placed at a minimum annual rate of 5.25% and is interest income. It should be noted that the rate of 5.25% is set on the basis of a margin of 4.75% plus 0.5% on which the sovereign Eurobonds are placed. In addition, interest on these deposits is paid by commercial banks every six months, ie until February 10, 2024, on February 10 and August 10 each year.

In turn, the funds from the 10-year sovereign Eurobonds of the Republic of Uzbekistan in the amount of 429.6 million US dollars were placed by auction among joint-stock commercial banks until February 10, 2029, ie for a period of 10 years. At the same time, a 10-year foreign currency deposit is placed at a minimum annual rate of 5.875% and interest income is calculated. It should also be noted that the rate of 5,875% is set on the basis of a margin of 5,325% plus 0.5%, which is placed on the 10-year sovereign Eurobonds. In addition, interest on these 10-year deposits is paid by commercial banks every six months, ie until February 10, 2029, on February 10 and August 10 each year. In determining the terms, special attention is paid to the terms of the cuveren's obligations on Eurobonds.

**Table 2**

**Terms of opening a credit line by the Ministry of Finance of the Republic of Uzbekistan as a subordinate loan to JSCB "Agrobank" from the placement of international bonds<sup>3</sup>**

| 10 -year credit line               |                      |  |                    |
|------------------------------------|----------------------|--|--------------------|
| Loan volume , mln. In U.S. dollars | Annual percent rates | Interest fees term                       | Credit return term |
| 20                                 | 5,875%               | every 6 months (February 10 / August 10) | 10.02.2029 y.      |

Part of the proceeds from the placement of international bonds of the Republic of

<sup>2</sup>Appendix 1 to the Resolution of the President of the Republic of Uzbekistan dated April 2, 2019 No PP-4258 "On the effective use of funds from the placement of the first sovereign international bonds of the Republic of Uzbekistan"

<sup>3</sup>Appendix 2 to the Resolution of the President of the Republic of Uzbekistan dated April 2, 2019 No PP-4258 "On the effective use of funds from the placement of the first sovereign international bonds of the Republic of Uzbekistan"



Uzbekistan in the amount of \$ 20 million was placed by the Ministry of Finance of the Republic of Uzbekistan as a subordinated loan to the joint-stock commercial bank "Agrobank" on the following terms (Table 2).

According to the table above, \$ 20 million from the placement of 10-year sovereign Eurobonds of the Republic of Uzbekistan in the joint-stock commercial bank "Agrobank" was placed as a subordinate debt by the Ministry of Finance of the Republic of Uzbekistan. This serves as a credit line for the bank. The 10-year long-term subordinate debt repayment period is set for February 10, 2029. In turn, the interest rate on this line of credit is fixed at 5.875%. However, the minimum interest rate on deposits placed by auction between commercial banks is 5,875%. The debt obligations of commercial banks to the Ministry of Finance of the Republic of Uzbekistan, which are generally recognized as subordinate debt, are as follows (Table 3).

**Table 3**

**Debt obligations of commercial banks to the Ministry of Finance of the Republic of Uzbekistan, recognized as subordinated debt<sup>4</sup>**

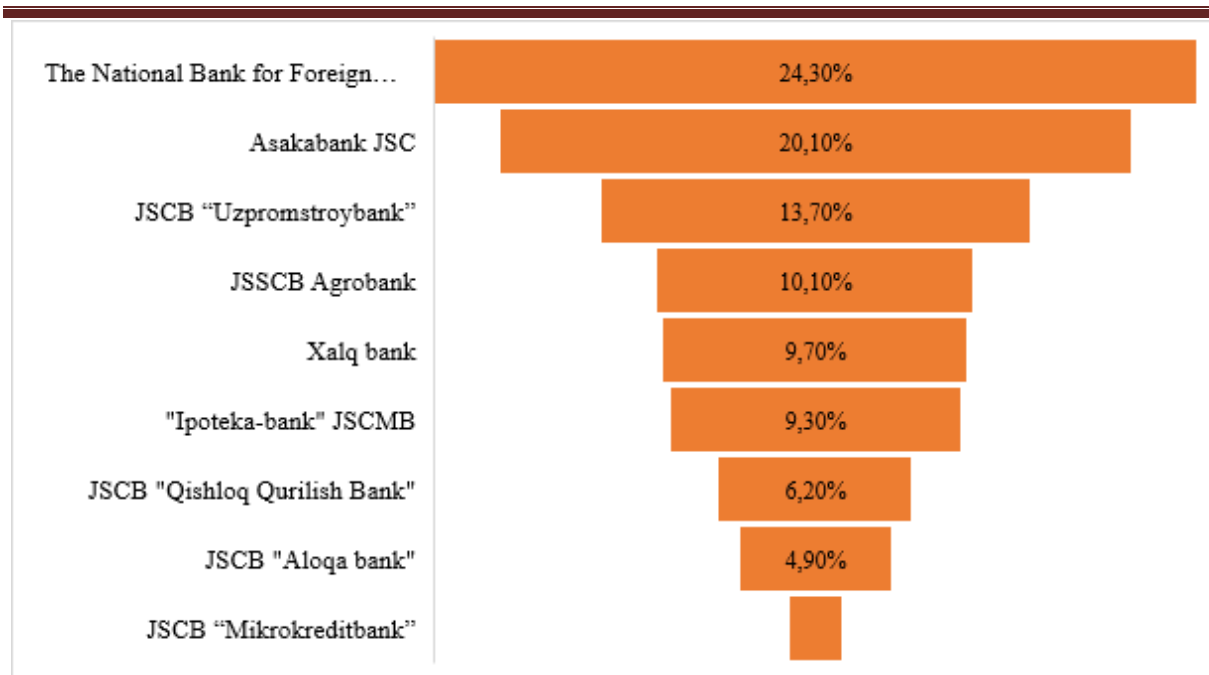
| Commercial banks  | Agreement        |                 | Volume            |
|---|------------------|-----------------|-------------------|
|   | Date             | Number          |                   |
| National Bank for Foreign Economic Activity of the Republic of Uzbekistan | 22.05.2013<br>y. | 03-07-13 / 2-13 | 17 271 mln. soum  |
|   | 07.04.2014<br>y. | 03-05-14 / 3    | 67 660 mln. soum  |
|   | 21.04.2015<br>y. | 03-05-15 / 3    | 39 369 mln. soum  |
|   | 09.03.2016<br>y. | 03-05-16 / 3    | 136 693 mln. soum |
|   | 13.07.2017<br>y. | 03-05-17 / 3    | 31 368 mln. soum  |
|   | 25.12.2017<br>y. | 03-05-17 / 21   | 67 320 mln. soum  |
|   | 05.04.2017<br>y. | ABR-3471        | 26.58 mln. doll.  |
|   | 29.06.2016<br>y. | IBRD 83930      | 31.62 mln. doll.  |
|   | 30.06.2018<br>y. | IBRD 88240      | 56 mln. doll.     |
| Uzpromstroybank Joint-Stock Commercial Bank                               | 25.12.2017<br>y. | 03-05-17 / 24   | 48 150 mln. soum  |
|   | 24.09.2018<br>y. | 03-05-18 / 36   | 83 830 mln. soum  |
|   | 24.09.2018<br>y. | 03-05-18 / 41   | 140 160 mln. soum |
|   | 23.11.2018<br>y. | 03-05-18 / 48   | 66 570 mln. soum  |

<sup>4</sup>Appendix 4 to the Resolution of the President of the Republic of Uzbekistan No. PP-4258 of April 2, 2019 "On the effective use of funds from the placement of the first sovereign international bonds of the Republic of Uzbekistan"



|   |                  |               |                   |
|---|------------------|---------------|-------------------|
|   | 30.06.2018<br>y. | IBRD 88240    | 16.6 mln. doll.   |
| Asaka State Joint-Stock<br>Commercial Bank                            | 25.12.2017<br>y. | 03-05-17 / 23 | 47 970 mln. soum  |
|   | 24.09.2018<br>y. | 03-05-18 / 35 | 88 880 mln. soum  |
|   | 24.09.2018<br>y. | 03-05-18 / 40 | 132 630 mln. soum |
|   | 23.11.2018<br>y. | 03-05-18 / 45 | 59 160 mln. soum  |
|   | 05.04.2017<br>y. | ABR-3471      | 12.9 mln. doll.   |
| Joint-stock commercial mortgage<br>bank "Ipoteka-bank"                | 30.03.2015<br>y. | 03-05-15 / 2  | 201 450 mln. soum |
|   | 09.03.2016<br>y. | 03-05-16 / 2  | 179 948 mln. soum |
|   | 07.04.2014<br>y. | 03-05-14 / 4  | 42 693 mln. soum  |
| Joint-stock commercial Khalk<br>Bank of the Republic of<br>Uzbekistan | 25.12.2017<br>y. | 03-05-17 / 22 | 49 230 mln. soum  |
|   | 24.09.2018<br>y. | 03-05-18 / 37 | 85 740 mln. soum  |
|   | 24.09.2018<br>y. | 03-05-18 / 39 | 121 130 mln. soum |
| Joint-stock commercial bank<br>"Qishloq Qurilish Bank"                | 10.02.2014<br>y. | 03-05-14 / 2  | 223 043 mln. soum |
| Joint-stock commercial bank<br>"Aloqabank"                            | 19.02.2018<br>y. | MAR-6110      | 2.97 mln. doll.   |
|   | 30.06.2018<br>y. | IBRD 88240    | 10.03 mln. doll.  |

89.9% of the proceeds from the placement of the first international bonds of the Republic of Uzbekistan, ie sovereign Eurobonds. The Ministry of Finance of the Republic of Uzbekistan, as an exception, has allocated US dollars to the Navoi Mining and Metallurgical Combine as a budget loan in foreign currency. In order to effectively use the proceeds from the placement of sovereign international bonds, special attention was paid to the placement of these funds on the basis of market mechanisms. In particular, taking into account the need for long-term financial resources for commercial banks in the process of expansion and modernization of production capacity, in accordance with the Decree of the President of the Republic of Uzbekistan No. PP-4258 dated April 2, 2019, by auction, ie on the basis of effective market mechanisms. As a result of the auction held among commercial banks, the funds were placed in the following deposits (Figure 2):



**Figure 2. Depositing funds from Eurobonds between banks,<sup>5</sup>**

Proceeds from the placement of international bonds were deposited with the National Bank of TIF with the largest share (24.3%), the smallest share (1.7%) belonged to Microcredit Bank. These funds were deposited in commercial banks with a margin of + 0.5% of the initial interest rate (4.75% and 5.375%) on international bonds.

In addition, a subordinated credit line in the form of a subordinate loan to finance joint-stock commercial bank "Agrobank" in the amount of \$ 20 million (at 5.875%) and \$ 89.9 million (\$ 39.95 million at 5.75%, \$ 49.95 million). USD 6.375%) to finance strategic projects of Navoi Mining and Metallurgical Combine.

Of the total \$ 999.1 million in deposits and loans disbursed to the Uzbek capital market, a total of \$ 428.1 million in interest and \$ 387.55 million in expenses over 10 years and \$ 5.4 million in the first five years, the next five 2.72 million per annum in annual interest income. Overall, the accumulated profit on international bonds placed for 5 and 10 years is growing steadily, reaching 40.6 million after 10 years. USD.

It should be noted that the placement of the bulk of the proceeds from the placement of sovereign Eurobonds on deposits in commercial banks is also important, as it does not increase the expenditures of the state budget and does not incur additional costs from the budget.

## CONCLUSION

During the operation of commercial banks, the issuance of shares to form the authorized capital, the issuance of additional shares to increase the authorized capital, the issuance of corporate bonds, the issuance of corporate Eurobonds and international public offering of shares are carried out on a sequential basis. In this case, the next issue will be successful if each issue of securities is based on a mutually beneficial relationship with the owners of securities and the interests of the investor are satisfied. In the stock market of any country, the state is the most reliable issuer, and government bonds determine the break-even point. The main participants (buyers) in the government bond market in our country are state

<sup>5</sup>Toshmatov Sh.A. Placement of Uzbek international bonds in world financial markets: risks and forecasts. <http://review.en/>





and commercial banks. We need to ensure the liquidity of the government securities market of our country and its openness to all types of investors, which in turn will lead to some success. The development of the national capital market in the future will serve to increase the sovereign credit rating, credit rating of commercial banks and other joint-stock companies. This, in turn, will contribute to a sharp decline in interest rates on sovereign Eurobonds and corporate Eurobonds in international financial markets.

The interest rate on a Eurobond will be lower if the project to which the funds to be directed, whether sovereign or corporate Eurobond, are directed, is evaluated clearly and prospectively. From this point of view, in the future, state and corporate issuers should pay special attention to this aspect.

The transfer of funds raised for the placement of the first sovereign Eurobonds to commercial banks is not strategically important and only serves to cover the costs associated with the placement and payment of interest. Therefore, the placement of Eurobonds on the basis of specific projects in the future will also reduce interest rates. For the placement of sovereign or corporate Eurobonds to serve as a benchmark for other issuers, the capital value of Eurobonds must be disclosed.



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