



IMPORTANCE OF FINANCING COMMERCIAL BANKS THROUGH BONDS

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ABSTRACT

This article analyzes the participation of state and private joint-stock commercial banks operating in our country in the global and local bond market, and highlights the importance of banks in the bond market in recent years. Also, the need to expand the activity of the stock market by attracting commercial banks to the bond market and the existence of unused opportunities were mentioned. The opinion of foreign and local economists on the relationship between the bond market and commercial banks is studied, and opinions and comments are presented on the importance of banks in the bond market.

KEYWORDS

Joint-stock commercial banks, bond market, capital market, corporate bonds, Eurobonds, listing, issue, yield, coupon rate, diversification, deposit, stock exchange.

INDRODUCTION

During the new stage of the economy as a result of the improvement of financial relations, the importance of various financial institutions is increasing. In this regard, commercial banks are considered particularly important and act as a bridge that connects all subjects of financial relations and ensures their integration. In particular, commercial banks can appear as a party executing the operation in almost all processes related to securities in the stock market. For example, commercial banks can be issuers of corporate bonds or investors of other types of bonds, as well as acting as underwriters when placing bonds on the stock exchange, acting as a custodian bank participating in the process of keeping securities. In addition, banks provide their financial services and advice to subjects who want to carry out operations related to securities during their activities. Taking these



processes into account, we can say that banks are commercial organizations with wide opportunities in the financial market.

In our country, the participation of banks in operations related to bonds is expanding. In particular, the main investor of government bonds are commercial banks, and the main part of government bonds issued by the Central Bank is placed among commercial banks. This allows commercial banks to increase their funds in a relatively safe environment. Commercial banks are also important in relation to bonds because they provide competitive services due to the availability of bank deposit services. Because the main purpose of bond issuance and organization of deposit services is to attract additional funds for use. Taking into account the above, it can be noted that banks are the subject of complex operations.

LITERATURE REVIEW

Many foreign and Uzbek economists have conducted scientific research on the participation and importance of commercial banks in the capital market, especially in the bond market.

For example, according to Biswa Nath Bhattacharyay, “having developed domestic bond markets increases the resilience of the domestic financial sector to external influences.”¹ That is, the development of the local bond market reduces the dependence of the financial sector on external sources and allows attracting debt capital from the domestic market.

Patara Thumrongwit, Yoonbai Kim, Chong Soo Pyun said: “The bond market plays a crucial role in the efficient functioning of capital markets. By channeling savings, it provides funds to long-term borrowers. In doing so, it sets standard interest rates for debt instruments of different maturities and risks, both of which serve as key benchmarks for households' decisions to save and lend , and business decisions to borrow and invest for long-term projects.”²

Among our local scientists, Sh. A. Toshmatov conducted his research on “the activity of commercial banks in the international bond market and the possibilities of attracting sufficient funds through it”.³

¹ Biswa Nath Bhattacharyai. Determinants of bond market development in Asia. Journal of Asian Economics. [Volume 24](#), February 2013, Pages 124-137

² Patara Thumrongwit, Yoonbai Kim, Chong Soo Pyun. International Review of Economics & Finance. [Volume 27](#), June 2013, Pages 529-541

³ Toshmatov Sh.A. Placement of international bonds of Uzbekistan in world financial markets: risk and forecasts. <https://review.uz/oz/post/location-of-risk-va>



Also, according to the research of S. Omonov, one of our local economists, “in order to attract investments to the economy of our country, it is necessary to develop local capital markets, in particular, to attract capital for lending to small and medium-sized businesses by issuing bonds, which further increases the importance of capital markets. is increasing”⁴, which means that issuing bonds is important for attracting capital for small and medium-sized businesses, and it also contributes sufficiently to the development of the capital market.

RESEARCH METHODOLOGY. In highlighting the importance of financing commercial banks through bonds comparison, scientific abstraction methods were used, and the current state of participation of commercial banks in the bond market in our republic was studied using methods such as comparative analysis and statistical analysis.

ANALYSIS AND RESULTS. The high level of profitability of banks depends on the correct banking policy carried out in it, in particular, on the level of attracted funds. The main task of banks in the economy is to provide financial resources to various sectors. At the same time, the bank also needs financing from other subjects or sources. Banks use a number of ways to raise funds in order to sustain their operations in this ongoing process. Among them, the most popular ones are by obtaining bank loans based on the refinancing rate of the Central Bank, by attracting deposits from individuals and legal entities, by issuing corporate and international bonds, etc. Today, increasing the activity of commercial banks in the bond market is considered as part of the state's economic policy. In the process of studying the activity of commercial banks in the bond market, we are witnessing that the capitalization of commercial banks in the stock market in our country is not at the required level. There are several negative factors affecting this.

First of all, it can be shown that the requirements to commercial banks for bond issuance are high and the issuance process requires a large amount of money.

If we pay attention to individual factors, the most serious factor is undoubtedly the high level of state intervention in the activity of banks. This is due to the regular increase of the state's share in the authorized capital of commercial banks. As a result of the allocation of funds to the authorized capital within the framework of the implementation of state programs, today the controlling package

⁴ Omonov SU Real state of investment funds as institutional investors in Uzbekistan. // International Research Journal of Management and Commerce, Volume 9, Issue 04 April 2022. P. 42.



of shares of most banks is owned by the Reconstruction and Development Fund of the Republic of Uzbekistan.

A number of commercial banks with stable financial results, such as "Uzsanoatkurilishbank" JSC, "Milliy Bank" JSC, "Ipoteka Bank" JSC, can also be seen participating in the international bond market in 2019-2020-2021.

Table 1

Placement of eurobonds by joint-stock commercial banks⁵

No	Issuer	Amount	Term	Coupon percentage	Placement date
1	"Uzsanoatkurilishbank" JSC	300 mln. US dollars	5 years	5.75%	02.12.2019
2	"Milliy Bank" JSC	300 mln. US dollars	5 years	4.85%	14.10.2020
3	"Ipoteka Bank" ATIB	300 mln. US dollars	5 years	5.50%	19.11.2020
		785 billion soums (75 million US dollars)	3 years	16.0%	16.04.2021
		1.4 trillion soums	3 years	20.5%	25.04.2024

According to Table 1, after the initial participation of "Uzsanoatkurilishbank" JSC in the international bond market, the participation of JSC "Milliy Bank" and "Ipoteka Bank" JSC in the international bond market was observed. All these banks have 300 million to the international market. issued a bond in the amount of US dollars. USD 300 million is the minimum issue value that can be issued on the international bond market (Table 1). At this point, it should be noted that "Ipoteka bank" JSC (ipoteka bank otp group) remains the only bank that has placed its bonds in the national currency soum in the international bond market. 1.4 trillion issued by the mortgage bank in 2024. Soum Eurobonds were placed in accordance with the recommendations of JP Morgan Chase, which is the underwriter bank. In general , it is possible to witness that the issuance of corporate bonds by commercial banks in our country is carried out by a few commercial banks. In particular, "although

⁵ It was prepared by the author based on the sites <https://www.sqb.uz>, <https://nbu.uz>, <https://www.ipotekabank.uz>.



a number of commercial banks have issued corporate bonds to the local market, the practice of attracting capital through bonds is passive”⁶ was also noted in the scientific research conducted within the capital market.

Table 2

By the end of 2023, bonds of commercial banks available on the Main Board trading floor of the Tashkent Stock Exchange⁷

Issuer	Excretion and absorption	Coupon rate	Price of 1 bond (soums)	Number of bonds issued
"Asia Alliance Bank" JSC	15.07.2019-15.07.2026	+4% to CB base rate	1,000,000.00	50,000
"Kapitalbank" JSC	13.05.2020-21.05.2027	+5% to CB base rate	1,000,000.00	50,000

2023 is the ear results “Tashkent” RSE the stock market quotes 2 per sheet commerce bank bonds included be their coupon rate Central bank main rate garden lip placed and 7 ears for a peiod of time released

Commerce of banks bonds using attract funds to do practice today's in the day expanded going from practices one is an example for Self - industrialization bank London fund of the stock exchange main in the market USA dollar and national in currency his own next international bonds placed Placed international bonds Reg S and 144 A in the format placed , this while Europe , USA , Near East and another from the regions investors attraction to do enable gives

Bank London fund to the stock exchange placed international 21 to bonds 70 from the state more than offers , a total of 900 mln from the dollar more than suggestions fell , in this common 400 mln dollar and 2.25 trillion m amount funds attraction done. Next, if we analyze the bond market of our country, the indicators show that the bond market in our country is not sufficiently developed, we

⁶ SO'. Omonov. Increasing the activity of institutional investors in the capital market: Doctor of Philosophy (PhD) thesis on economics - Tashkent. 2023

⁷ Tashkent Republic Stock Exchange . Historical analysis - 2023

can get acquainted with the 3-year indicators after the picture below.

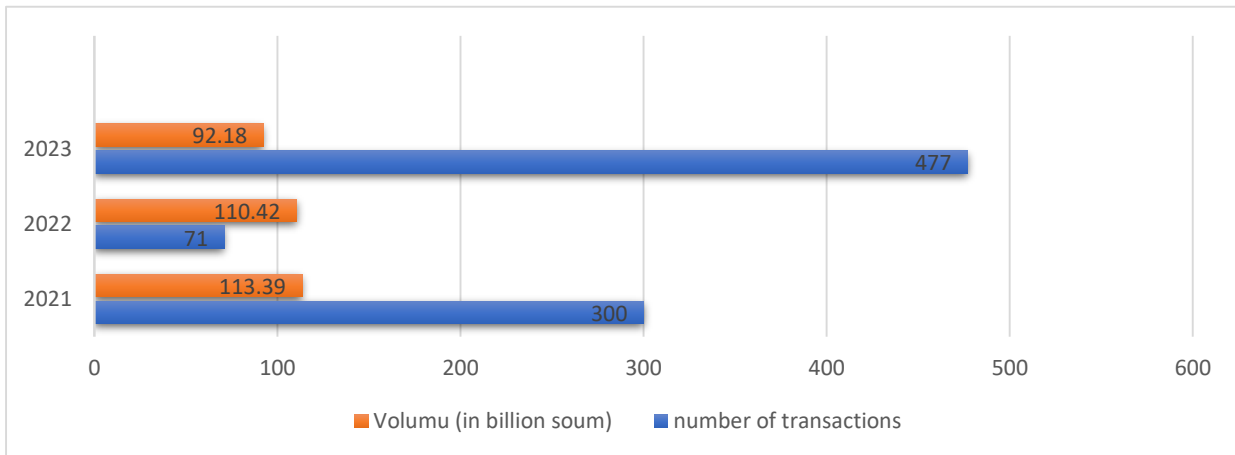


Figure 1. The number and volume of stock exchange deals on bonds⁸

From the data presented in Figure 1, we can see that in the last three years, the number of stock transactions has increased, but their volume has decreased quantitatively. This graph shows the volume (in billion soums) of commercial bank bonds between 2021 and 2023 and the number of transactions passed through the exchange. In 2021, the volume of bonds was the highest - 113.39 billion soums, in 2022 this indicator decreased slightly and amounted to 110.42 billion soums, and in 2023 the volume decreased significantly to 92.18 billion soums.

Focusing on the number of transactions concluded on the stock exchange, the number of transactions concluded on the stock exchange in 2021 was 300, and in 2022, the number of transactions decreased sharply to 71. In 2023, the number of deals increased sharply to 477, but the volume recorded the lowest result in the last three years.

Although the volume of bonds in 2021 and 2022 is almost the same, there is a big difference between the number of deals: in 2022, the number of deals has decreased significantly.

Despite the decrease in bond volume in 2023, the number of exchange deals increased significantly, which may indicate increased activity in the market or the bonds being offered to more investors. This shows the need to create conditions for further expansion of the bond market, because the bond market is one of the most important sources of financial debt for the state and the real sector of the economy.

⁸ It was prepared by the author based on the information of the Tashkent Stock Exchange



Bond financing of commercial banks in Uzbekistan is one of the urgent issues, and it is important for the development of the market and the financial stability of banks. However, this process faces several challenges.

First of all, there is low confidence in the issuance of bonds by banks. The financial market in Uzbekistan is still at the stage of development, and its infrastructure is not fully formed. There is insufficient transparency in the market, which reduces investor confidence in bonds. Bonds issued by commercial banks are not given credit ratings or they are given to a limited extent, which creates additional risks for investors. As a result, banks face difficulties in attracting sources of financing by issuing bonds.

Secondly, it is related to the narrowness of the investor base. In most cases, public enterprises and financial institutions buy bonds, but the private sector and small investors do not actively participate in this market. This situation restricts competition in the financial market and reduces opportunities for commercial banks to attract new funds. Investors also have limited experience and knowledge of bond trading, which slows market penetration.

Thirdly, the technical infrastructure and regulatory mechanisms of the bond market are not sufficiently developed. In particular, platforms and mechanisms facilitating bond trading do not exist or operate to a limited extent. This complicates trading processes between banks and investors and reduces liquidity. At the same time, the costs associated with issuing bonds are also high, which creates an additional financial burden for banks.

Fourth is the complexity of the regulatory requirements applied to commercial banks. Requirements imposed by the Central Bank and other regulatory bodies complicate the process of issuing bonds and reduce the efficiency of this process in terms of time and cost. In particular, regulatory requirements are sometimes inflexible and do not create favorable conditions for promoting bond issuance.

A number of measures are required to solve these problems. The state should carry out large-scale reforms to develop the financial market, expand the investor base, improve the ability of banks to issue bonds, and modernize the infrastructure. At the same time, it is also important to simplify regulatory requirements and provide banks with more flexible financing tools. These measures not only create new financing opportunities for commercial banks, but also have a positive impact on the overall development of the country's financial market.



CONCLUSION

Bond financing of commercial banks plays an important role in the financial system. This process allows banks to attract long-term and cheaper funds. Collecting resources through bonds increases the lending power of banks, ensures stability and creates the basis for the implementation of various investment projects. At the same time, this method benefits banks and investors, increases liquidity in financial markets and has a general positive effect on the economy. Finally, bond financing is recognized as an efficient and sustainable source of finance for banks. By analyzing the importance of financing commercial banks through bonds, the following conclusions were formed:

1. **Ensuring financial stability:** Financing of commercial banks through bonds allows banks to attract long-term and stable funds. This increases their liquidity and strengthens their operational stability.
2. **Expanding credit resources:** By issuing bonds, banks attract more funds and expand lending opportunities in the economy. It contributes to the development of financial markets and economic growth.
3. **Diversification and risk reduction:** Bond financing allows banks to diversify their sources of financing, which reduces the cost and risks of capital.

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