



DIRECTIONS FOR INCREASING THE RETURN ON CAPITAL OF COMMERCIAL BANKS DURING THE COVID-19 PANDEMIC

HAMRAYEVOBID AXATOVICH

Abstract

The impact of the global pandemic has had a negative impact on the country's economy, including the activities of commercial banks. As a result, delays in repayment of loans from commercial banks have negatively affected the liquidity and resource base stability of banks, capital adequacy and the level of distribution.

Keywords: Covid-19, commercial bank, loan, loan payments, interest rate, base rate, liquidity, unbalanced liquidity, financial resource, capital market

Author correspondence:

HAMRAYEVOBID AXATOVICH

Associate Professor, Doctor of Philosophy in Economics (PhD), deputy dean of joint faculty of TIF-PSU, Tashkent Institute of Finance, Tashkent, Uzbekistan, Email: dibo-x@mail.ru

INTRODUCTION

In accordance with the Decree of the President of the Republic of Uzbekistan dated April 3, 2020 No PF- 5978 "On additional measures to support the population, sectors of the economy and businesses during the coronavirus pandemic", indebtedness of legal entities amounted to 7.9 trillion soums. 4.7 trillion soums of loans to individuals and sole proprietors postponed from April 1 to October 1, 2020 7 trillion soums. This, in turn, had a negative impact on the liquidity of commercial banks and the stability of the resource base. This negative impact has, in the end, limited the lending capacity of commercial banks.

LITERATURE REVIEW

J.Gudl, the negative impact of the coronavirus pandemic on the lending practices of commercial banks is reflected in the liquidity problem in banks as a result of non-repayment of loans. In order to solve this problem, first of all, the quality of loans guaranteed by the British Government is 330 billion. a pound sterling guarantee was set; second, the Bank of England set the lowest discount rate (0.1%) in its 325-year history on March 19, 2020 [2].

According to a group of Chinese economists, lowering interest rates on loans by lowering the central bank's required reserve requirements will play an important role in mitigating the negative impact of the coronavirus pandemic on lending practices of commercial banks. On March 13, 2020, the People's Bank of China issued a \$ 550 billion loan yuan (US \$ 70.3 billion) to reduce reserve requirements in order to free up funds. In this regard, the rate of one-year loans to solvent



corporations was reduced by 0.1%, and the rate of five-year loans was reduced by 0.05% [3].

Millions of consumers are currently in quarantine or medical facilities. As a result, they have lost their ability to pay on loans, especially mortgages. In addition, business loans to small and medium-sized enterprises are at risk due to the forced suspension of lending in some countries. The entire network is suffering because it has not been able to recover the lost revenue in the future. For example, the rate of decline in production and retail is currently very high [4].

According to a group of U.S. economists, the world economy is facing an economic and financial crisis during the coronavirus pandemic. This crisis is not the result of errors and disruptions in market mechanisms, but the result of a slowdown in economic growth. In this context, the lack of international coordination between the United States and the European Union has serious economic consequences, which are felt both through supply channels and demand channels [5].

According to Dodiev, after the coronavirus pandemic, commercial banks should actively use syndicated loans to finance investment projects in order to develop investment activities. Because in the current situation, a single bank may not have enough funds to finance large investment projects with high returns. Small banks with limited financial resources can also participate in the process of financing investment projects through syndicated loans. It is also advisable to involve foreign commercial banks in financing such large projects. Because it attracts foreign investment to the country and uses the experience of foreign banks in the examination of investment projects [6].

According to Berdiyarov, in order to mitigate the effects of the global economic crisis on commercial banks and increase the liquidity of banks in the event of a pandemic caused by COVID-19 infection, the Central Bank's system of open market operations of Uzbekistan increase its role in regulating liquidity [7].

ANALYSIS AND RESULTS

In accordance with the Decree of the President of the Republic of Uzbekistan dated March 19, 2020 PF-5969 "On priority measures to mitigate the negative impact of the coronavirus pandemic and the global crisis on sectors of the economy"

- take measures to provide state support to strategic enterprises through the repayment of loans under the state guarantee of the Republic of Uzbekistan, as well as the allocation of interest-free budget loans for the implementation of primary costs;

- reimbursement of part of the transportation costs of business entities engaged in foreign trade;

- provide additional measures to support commercial sectors and industries most affected by the spread of coronavirus infection, as well as commercial banks in case of deteriorating loan portfolio quality;

- reimbursement of unpaid revenues in the budget of the Republic of Karakalpakstan, local budgets of the regions and the city of Tashkent due to delays in payment of taxes and the slowdown of entrepreneurial activity through the allocation of interest-free budget loans for up to three years;

- delays in repayment of loans totaling 5 trillion soums on loans provided by commercial banks to tour operators, hotel businesses, transport and logistics companies and other enterprises of the tourism industry, as well as businesses facing financial difficulties due to restrictions on foreign trade operations (excluding fines) extension until October 1, 2020 [8].



In international practice, commercial banks attract the necessary amount of financial resources through the mechanisms and instruments of the securities market, invest the funds in the securities of the government, the Central Bank and large companies. Commercial banks in countries such as Germany and the United Kingdom have accumulated sufficient experience in working in the modern and efficient securities market, attracting funds from investors, companies, banks and the state, and generating huge sums of money to develop the national economy.

For years, U.S. stock exchanges have been the undisputed leader in the world, and between 2017 and 2020, the U.S. still holds more than 50 percent of the world's stock turnover. From this we can conclude that the share of commercial banks in these countries in the securities market is higher than in other countries.

When considering the market price of bank shares, it is important to note the negative impact of the coronavirus (COVID-19) pandemic that occurred in Wuhan, China in January 2020, especially in March and April 2020 in almost all countries of the world. As a result of the proliferation of securities in developed and developing countries, including Uzbekistan, as in all indicators, the prices of securities on stock exchanges have fluctuated significantly.

In the practice of foreign commercial banks, this strategy in the stock market is closer to reality, and the investor is committed to a reliable, stable and long-term return on investment in the bank's securities, albeit at a low level. For this process, it is advisable that the inflation rate of the national currency in the country does not exceed 1.5-3%. Banks in the Commonwealth of Independent States, especially in Uzbekistan, are the main participants in the securities market. For example, in the stock market in 2021, the total turnover of the stock market amounted to 1.26 trillion soums, of which about 312.6 billion soums or 24.8% accounted for commercial banks.

If we take a closer look at these figures, as of January 1, 2022, four of the TOP-10 participants in the exchange with the highest trading volume as issuers on the Republican Stock Exchange "Tashkent" are commercial banks. In particular, the trade turnover of the four banks on the list - Kapitalbank, Savdogarbank and Infinbank - in this market amounted to a maximum of 93.7 billion soums and a minimum of 50.0 billion soums.

In our opinion, the main reasons for these are:

- The high level of devaluation of the national currency in the country reduces the economic benefits of local investors;

- the development of the country's securities market is very weak and individuals, as well as legal entities, have almost no information about them and do not have enough confidence;

- The fact that more than 86.1% of the capital of commercial banks belongs to the state does not provide sufficient incentives for them to operate in the securities market, as they rely mainly on preferential financial resources of the state, and as a result their activities are mainly "treasury banks" remained to perform his duties;

- Poor application of market relations, rules and principles between banks, which does not create a strong competitive environment between them and low levels of customer confidence in the financial and credit system of the country.

Below are the volume of investment and issuance operations of Industrial and Commercial Bank Of China Ltd, the world's first bank in terms of assets, income and net profit (second only to JPMorgan Chase & Cod in terms of capitalization) and their position in banking. are given in Table 1.3 below. Founded in 1984, the Industrial and Commercial Bank Of China Ltd is the second largest



bank in the world after China Of Ltd (1982). In terms of the number of employees in the top ten developed banks, three Chinese banks are in the top three and the Industrial and Commercial Bank Of China Ltd is in second place with 453,048 people.

Table 1

**Balance sheet of Industrial and Commercial Bank of China Ltd
(in million RMV)**

Balance substances (average percent rate)	2019		2020		2021	
Loans	16 282 090	58.8	17 979 409	55.5	19 996 414	57.6
Investment	6 141 181	22.7	7 223 638	22.2	7 999 530	23.0
Central bank requirements	2 979 0028	11.0	2 848 543	8.7	2 888 381	8.3
Other to banks requirements	2 029 662	7.5	2 003 882	6.2	1 772 522	5.1
Earnings assets total	27 431 961	92.0	30 055 472	92.6	32 656 847	94.0
No income assets total	2 802 458	9.5	2 865 115	8.8	2 659 895	7.7
Probably no alloys reserve	-461 121	-1.6	-506 316	-1.4	- 574 932	-1.7
Total assets	29 773 298	100	32 414 271	100	34 741 810	100
Term deposits	20 847 046	70.9	22 670 373	69.9	24 477 111	70.5
Bank and other finance institutes	2 658 948	9.0	2 938 129	9.06	3 287 917	9.4
Precious paper	1,035,442	3.5	1,028,929	3.2	1,072,667	3.1
Total cost liabilities	24 541 436	83.5	26 637 431	82.2	28 837 695	83.0
Total costfreeliabilities	2 085 315	7.1	2 114 998	6.5	1 991 928	5.7
Total liabilities	26 626 751	90.6	28 752 429	88.7	30 829 623	88.7
Total equity	3 146 547	9.4	3 661 842	11.3	3 912 187	11.3
Total liabilitiesTotal liabilities and equity	29 773 298	100	32 414 271	100	34 741 810	100

The table shows that the volume of investments by Industrial and Commercial Bank Of China Ltd. in total assets in 2019 amounted to 22.7%, while in 2021 this figure reached 23.0% or increased by 0.3 percentage points in the analyzed period.

It is noteworthy that the bank's average annual return on investment was 3.29%, while interest income on loans was 4.16%, which means that the return on investment is relatively low. However, it has a higher level of income than the Central Bank (1.46%) and other banks (1.42%).



Table 2

Balance structure of JSCB "Kapitalbank"

№	Balance substances	2019		2020		2021 (3rd quarter)	
		mln . soum	%	mln . soum	%	mln . soum	%
1	MB and other in banks funds	1 166 100.4	21.2	966 286	13.3	2,769,505.6	23.0
2	Loans and leasing operations	2,935,918.2	53.3	4 412 091.2	60.5	6 699 153.5	55.8
3	Investments and other valuable paper	70.2	0.0	185 677.5	2.5	635 975.7	5.3
4	Other assets	1,380,719.5	25.5	1,727,340.4	23.7	1,908,222.8	15.9
Total assets		5 482 808.3	100	7 291 395.1	100	12 012 857.6	100
Total liabilities		4 829 907.7	100	6 424 530.2	100	10 819 530.6	100
1	Simple shares	155 732.1	23.9	155 732.1	18.0	275 373.2	23.1
2	Privileged shares	0	0.0	18 206	2.1	38,000	3.2
3	Added capital	350.0	0.1	57 312.1	6.6	119 574.1	10.0
4	Reserve capital	49 072.2	7.5	59 245.4	6.8	98 816.7	8.3
5	Not distributed benefit	447 746.4	68.5	576 369.3	66.5	661 563.1	55.4
Equity		652 900.6	100	866 864.9	100	1 193 327	100
Total liabilities and equity		5 482 808.3	100	7 291 395.1	100	12 012 857.6	100

In terms of the Bank's assets, the asset diversification is of high quality, with the financial resources involved not only in high-risk loans, but also in terms of investment and liquidity, with the Central Bank accounting for about 15%. and kept in other banks, another noteworthy feature is that these amounts have remained relatively stable over the period under review.

Although Industrial and Commercial Bank Of China Ltd. did not have a significant share, it also carried out issue operations in the securities market, the share of this source in the liabilities of the bank in the period under review was around 3.1-3.5% , if we add up the shares issued by the bank to form the authorized capital, this share is 11-14%.

Based on the results of investment and issuance operations of the Industrial and Commercial Bank Of China Ltd in the securities market, the following conclusions can be drawn:



- Although the return on investment in securities is low, the bank will be able to sell them in the securities market when they need to meet their obligations immediately, because they are placed in highly liquid securities;

- The main reason for the low volume of issues is that this source of passive transactions is very expensive (2.75%) and almost equal to time deposits (1.62%), but due to the long-term and high attractiveness of the bank The bank also focused on the formation of financial resources and diversified its liabilities.

The main task of the mega-regulator is to disrupt the country's financial market, to create a single system of control between them and to develop a common market strategy. We consider the operations of commercial banks in the capital market on the example of investment and issuance operations of JSCB "Kapitalbank", one of the five largest banks in Uzbekistan, for the last 3 years.

According to the table, investment operations of Kapitalbank JSCB in 2019 amounted to 0.001% of total assets, and by 2021 will increase more than 5 times to 635,975.7 million. soums, or 5.3% of total assets. Compared to foreign banks, in 2021 this figure reached 23.0% in the Industrial and Commercial Bank of China Ltd, while in Sberbank of Russia it was 12.2%.

If we look at the issue operations of JSCB "Kapitalbank" for the last 3 years, the ordinary shares of the bank's equity in 2019 amounted to 155,732.1 million. soums, which will almost double by 2021 to 275,373.2 mln. The main reason for this is that on August 16, 2020, the bank will issue 125,938,051 ordinary shares with a par value of 950 soums. If the bank's preferred shares do not exist in 2019, by 2021 it will reach 38,000.0 million. sum. This is due to the fact that on August 27, 2020, the company issued 40,000,000 preferred shares with a par value of 950 soums. Kapitalbank will invest 93.7 billion soums in 20 transactions of RSE "Tashkent" in 2021 with a total of 67 transactions. UZS was included in the list of TOP-10 issuers. The bank's share of total equity in total liabilities was 11.9% in 2019 and 9.93% by 2021.

In 2019, the amount of capital added by JSCB "Kapitalbank" will reach 350.0 million. soums, and by 2021 this figure will reach 119,574.1 mln. We can see that it has reached UZS. In conclusion, the difference between the nominal value of the securities issued by Kapitalbank on the stock exchange and the market price is quite positive. The nominal value of the company's shares is 950 soums, while the stock price is 3,500-4,000 soums. In conclusion, we can see that the market price of Kapitalbank JSCB securities is 3-4 times higher than the nominal value. Another reason for this is that the society calculates dividends on a quarterly basis. We would like to remind you that the society has passed this system in the first quarter of 2021.

In short, the foreign practice has formed the best practices of commercial banks in the securities market, and it is desirable to introduce some of them in the banking practice of our country.



CONCLUSION

Problems related to the participation of commercial banks in the capital market include low economic interest of investors and the population in securities transactions and insufficient information on the activities of the capital market, and the volume of work to be done in this regard is high.

Commercial banks' participation in the capital market as issuers, investors or intermediaries is directly influenced by the level of inflation in the economy, and banks should take into account inflation when they participate in the securities market as issuers.

It is expedient to develop the underwriting activities of commercial banks in the capital market. By carrying out these operations, banks, firstly, contribute to the creation and development of the securities market environment, secondly, generate appropriate revenues and strengthen market confidence in their securities operations and have the opportunity to effectively allocate financial resources.

In our opinion, in order to eliminate the negative impact of the consequences of the coronavirus pandemic on the lending practices of commercial banks of the country, the following measures should be taken:

1. In order to ensure a balance between the growth rate of reserve allocations for loan losses and the growth rate of gross loans, it is first necessary to ensure a low and stable level of doubtful and bad loans in the total volume of classified loans; second, it is necessary to timely write off bad loans from the balance sheets of banks; third, it is necessary to prevent the deterioration of the structure of classified loans by increasing the share of loans to companies with a high sovereign credit rating in the volume of gross loans.

2. Given the deepening problem of unbalanced liquidity in commercial banks in the context of the coronavirus pandemic, it is necessary, first, to increase the volume of reverse repo operations of the Central Bank by increasing the number of objects of these operations; second, it is necessary to increase the ability of banks to meet the regulatory requirement on the instantaneous liquidity ratio by reducing the share of transaction deposits in gross deposits; third, it is necessary to ensure full compliance with the requirement to repay overdue debt to commercial banks on loans guaranteed by the Government.



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