

Some Ways of Improving the Long Term Resource Base of Commercial Banks. Evidence from Uzbekistan

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Abstract

The new regulations of financial market which have been drawn up in the wake of financial market crisis will resolutely change the credit lending conditions for banks. The main purpose is to make the financial system stronger, because bankruptcy of banks is more likely to impact on the whole system. There are several ways to attract long term resources for banks. In fact there were some negative happens in banking system in Uzbekistan. They could influence the activity of the banks negatively and cause some matters to appear. This paper studies the activity of commercial banks and possible ways to solve some issues on forming the long-term resources of them in Uzbekistan.

Keywords: commercial banks, long-term resources, bankruptcy, credit lending conditions, Uzbekistan

1. Introduction

Stable functioning of the banking and financial system focused on the balanced long-term development of economy is one of the factors promoting the successful development of the national economy of Uzbekistan. The government of Uzbekistan is paying special attention to the dynamical development of the country's banking system. "The support of banking system, modernization, technical update and diversification of production, wide introduction of innovative technologies is a reliable way of overcoming the crisis and Uzbekistan's making fresh gains in the world market," the former President of Uzbekistan Islam Karimov said in his book "Global financial and economic crisis, ways and measures on its overcoming in the conditions of Uzbekistan".

Purposeful work on further capitalization of commercial banks is conducted for this reason with the purpose of strengthening of long-term resource base of investments, and within the framework of prevention of consequences of the global financial and economic crisis. If we study the experience of foreign countries in banking sphere, we can find out non-bank financial institutions, especially, non-governmental pension funds, have considerable contribution in forming long-term financial resources.

It should be noted, the development of non-governmental pension funds is related not only to the economy of the country as well as country's pension system that has been formed for a long time.

Furthermore, these types of pension funds' resources are considered "long term money" according to their duration. Because, it is formed from the salary of working staff, and the fund can have this money until they are retired.

Figure 1 gives us information about the amount of some developed countries' non-governmental pension funds' investment in their GDP.

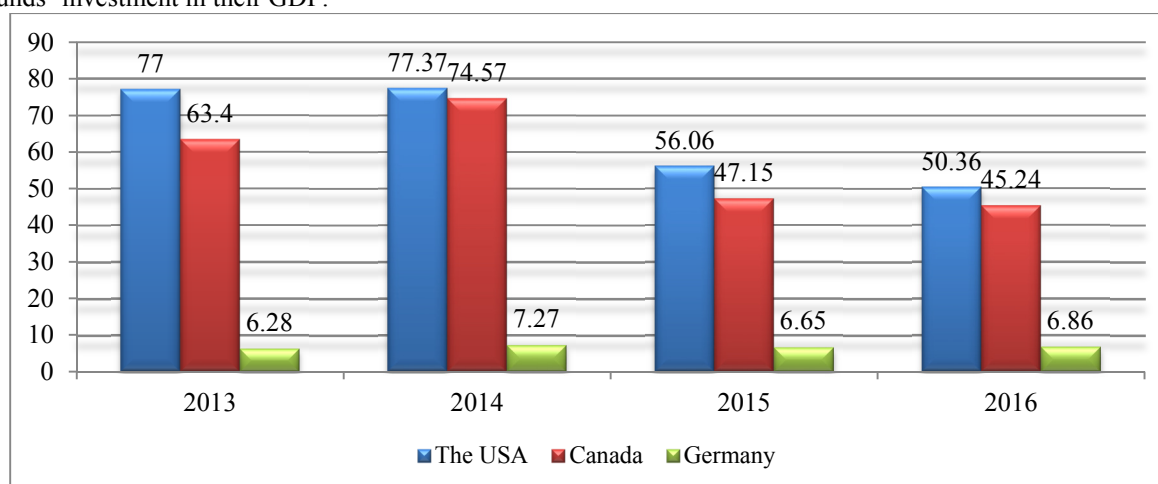


Figure 1. Dynamics about the amount of some developed countries' non-governmental pension funds' investment in their GDP¹.

Source: International Monetary Fund. Global Financial Stability Report.

As Figure 1 shows, the share of private non-government pension funds in developed economies is relatively high in GDP, in the United States and Canada, on January 1, 2013, this figure was 77.0% and 63.4%. On January 1, 2016, because of the sharp fluctuations of prices in the international financial markets and consumer markets,

the volume of investments into the economy declined sharply and accounted for 50.3-45.2 per cent of GDP.

At present, Uzbekistan does not have non-governmental pension funds. Therefore, through the establishment and development of non-governmental pension funds in Uzbekistan commercial banks would increase their long term resource base. Taking into consideration all of them, certain reforms have been made in the pension system of the republic.

2. Literature review

The study of the resource base of banking activity was devoted to the work of many foreign scientists, including T. Koch, D. Polfreman, George. Rosemary Campbell, J. Rivuar, P. Rose, J. Sinko and others; Without denying the importance of the results, the aforementioned scientists should note that a comprehensive study of the resource base of commercial banks, taking into account current requirements, is rare today. In connection with the global financial and economic crisis, the processes of formation and use of financial resources of banks have not only intensified but are also necessary for developing a new concept of understanding the problem, taking into account the advanced communication system, not only between individual components of the bank's functional activities, but also taking into account the complex system of global and national cooperation.

3. Pension system reforms

The current distributive pension system which up to present ensured social protection to pensioners has to a significant extent exhausted its potential and soon may come into conflict with developing market relations.

In this connection, a gradual pension system reform in the direction of strengthening market mechanisms and a step-by-step transition from distribution principles to those of insurance and accumulation in pension provision is planned.

The Law of the Republic of Uzbekistan of December 2, 2004 and Resolution of the Government on the introduction of the accumulation system were adopted.

After introducing the Law, individual accumulation pension accounts were opened for employed people at Halk bank of Uzbekistan. People, who have contributed to the accumulation accounts, will have the right to get money monthly according to the special schedule after they are retired. Halk bank is responsible for the accuracy of this process. These types of accounts have interest rate; it must not be lower than three-quarters of refinancing rate.

It has to be noted, the money in these kinds of accounts is considered as "long-term" money. The drawback is the money that is put willingly into the account by people does not have considerable contribution in forming the fund. The first reason for it is people do not trust in these type of funds very much, because they do not have long history, and the second reason real inflation rate is higher and of course it influences on the money in funds as well as the activity of security market, insurance companies which are the main organizations in forming of long-term resources of banks. In other words, efficiency of their activities will worsen. The following factors impact on this happen:

- Main part of people's earnings is spent on their daily consumptions, so the amount of investment or savings will be reduced. As a result, the amount of necessary funds for long-term development of the country will decline;
- Inflationary profit made up considerable high percentage in entities' and individuals' profit from investment and savings. Therefore it is more likely to influence their investment decisions;
- A considerable decrease in the exchanging rate of the currency impacts on the development of securities market, and it limits the opportunity of raising the amount of long-term financial resources;

The share of accumulative pension funds of citizens in the country's GDP amounted to 0.12% on 1 January, 2013. On January 1, 2017 this figure was 0.18 percent. The accumulated pension funds of citizens do not account for even one percent of GDP, which does not have a positive impact on the development of the economy of the country.

In the leading countries with developed banking and financial system, financial assets of non-governmental pension funds make up the highest percentage of GDP. For example, in the United States in 2015 this indicator was 51.6 percent, 39.1 percent in Canada and 12.2 percent in Germany. Amount of funds transferred to accumulative pension funds of individuals has had an upward trend since 2013 (Table 1)

Table 1. Information on funds transferred to accumulative pension funds of individuals in regions of the Republic of Uzbekistan from 2013 to 2017(million soums)

№	Regions	2013.	2014.	2015.	2016.	2017.
1	Karakalpakstan	11890,0	13673,5	16408,2	19361,7	22265,9
2	Andijan	16074,9	18486,1	22183,3	26176,3	30102,8
3	Bukhara	15474,0	17795,0	21354,1	25197,8	28977,5
4	Jizzakh	6238,7	7174,5	8609,4	10159,1	11682,9
5	Kashkadarya	19626,0	22570,0	27083,9	31959,1	36752,9
6	Navoi	21575,7	24812,1	29774,5	35133,9	40404,0
7	Namangan	12168,0	13993,2	16791,8	19814,4	22786,5
8	Samarkand	19631,2	22575,9	27091,1	31967,4	36762,6
9	Surkhandarya	11980,3	13777,4	16532,9	19508,8	22435,1
10	Syrdarya	5503,9	6329,5	7595,4	8962,6	10307,0
11	Tashkent	29070,1	33430,6	40116,7	47337,7	54438,3
12	Fargona	22478,7	25850,6	31020,7	36604,4	42095,0
13	Khorezm	10625,9	12219,8	14663,8	17303,3	19898,8
14	Tashkent City	62275,1	71616,4	85939,7	101408,8	116620,1
Total		203548,1	264612,6	304304,5	365165,4	430895,1

Source: Data from the Ministry of Finance and the State Statistical Committee of the Republic of Uzbekistan

The strengthening of market relations in Uzbekistan has had a positive impact on the formation and development of various financial institutions. In particular, in recent years, the number of insurance companies increased; therefore, there has been a considerable rise in the amount of their financial resources. Financial resources of insurance companies are considered long term money. According to this, it is desirable to analyze and assess the condition of insurance companies in the insurance business. Because financial resources of insurance companies play an essential role in strengthening long-term resource base of commercial banks. In analyzing the activities of insurance companies, we consider the practice of financial resources formation and investment orientation. Insurance premium collected as a source of formation of insurance companies' resources. It is important to notice that in Uzbekistan and in most countries' economies the share of insurance premiums collected through insuring risks is considerably higher. Insurance premiums of insurance companies in 2002 were 21.7 billion soums, in 2010, it went up to 175.5 billion soums or 8 times more than in 2002. On January 1, 2017 this indicator was 692.6 billion soums, which was 31.8 times more than in 2002, and 3.9 times more than in 2010. The results of the analysis show that number of insurance companies in Uzbekistan, quality of insurance service, insurance premiums as well as the amount of investments are increasing year by year. Nevertheless, these institutions do not contribute to the creation of "long-term money", which does not seem to be a major source of attracting long-term financial resources to commercial banks.

The development of market relations and the efficient use of free funds of the population promotes the stability of the banking and financial system. Insurance companies run their investment activity without many difficulties in Uzbekistan, at present, in order to make more profit, they can invest their funds in different fields (Figure 2). Nevertheless, they have to pay attention to risks that may occur, to prevent of avoid risks they try to invest less risky securities or fields. In the last years they have been investing mostly in securities especially secured and short term securities and putting their funds in bank deposits.

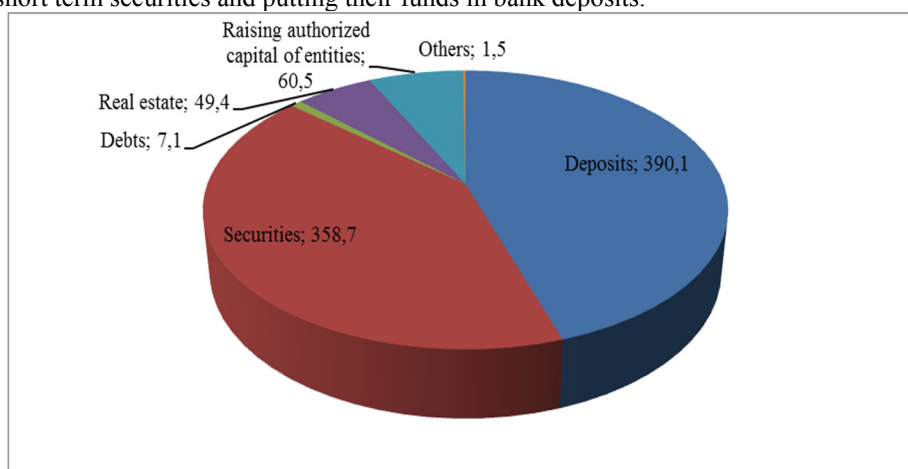


Figure 2. The amount of funds invested by insurance companies in Uzbekistan (billion soums), January 1, 2017

Source: Author's compilations using the data of insurance companies on their webpages

Conclusions and recommendations

As a result of the theoretical and practical research on strengthening the long-term resource base of banks, we have made the following conclusions and recommendations:

- Development of market relations and intensification of international economic integration in Uzbekistan intensify the issue of steady increase of long-term financial resources and ensuring their stability in commercial banks of Uzbekistan;
- Strengthening the long-term resource base of the banking and financial system of the Republic has become a top priority;
- The desire of the people to save ensures the growth of capital in the society. The savings is the most important source of investment, if the amount of savings (capital) is less than the targeted investment, the interest rate increases, as a result of which the investment demand is reduced;
- The main goal of strengthening the long-term resource base of commercial banks is to direct the real sector of the country by attracting free money to banks, as well as consistently increasing the volume of state and non-state pension and investment funds and insurance companies' resources, which are the source of long-term resources of banks.

The following scientific recommendations and practical recommendations have been made to effectively manage the resources of commercial banks

- It is necessary to organize and increase the number of non-state pension funds engaged in targeted pension funds. In particular, in the practice of developed countries, the activity of non-governmental pension funds is being developed considerably;
- It is advisable to introduce the life insurance system of well-known athletes, singers, businessmen and others. This is primarily due to insurance of the lives of individuals and, secondly, the opportunity to transfer large money resources to the economy;
- It is necessary to ensure the transparency of the activities of insurance companies operating in Uzbekistan, as well as their interaction with the insurers. This positively affects their participation in the investment process; Theoretical realization of the abovementioned conclusions and application of the recommendations in the economy and banking practice of the commercial banks provide a possibility to strengthen the long-term resource base of the population, thus promoting the population's confidence in the banking system and ensuring sustainable economic growth in the country

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I was born in Tashkent, Uzbekistan, on March 14, 1983. I graduated bachelor degree in Tourism service in 2004 and master's degree in International tourism management in 2006 at Tashkent State University of Economics in Tashkent Uzbekistan. I worked at Halk bank from 2008 to 2013, in Tashkent Financial Institute from 2013 to 2014. I have been working as an investment intermediary at the First Interbank Depository LLC since 2014 in Tashkent, Uzbekistan. At present I am doing research on improving the long term resource base of commercial banks.