
WAYS TO DEVELOP BANKS' INVESTMENT OPERATIONS IN THE SECURITIES MARKET

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Abstract

This article reveals the theoretical and practical aspects of investment operations of commercial banks in the securities market. Also, the problems associated with the development of investment operations of commercial banks in the securities market in our country and ways to address them are presented.

Keywords:

commercial banks, investment, securities, stocks, bonds, bank assets, securities market, liquidity.

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INTRODUCTION

In a market economy, any business entity, regardless of its form of ownership, in particular commercial banks, also carries out activities such as the placement, attraction and management of financial resources through its operations in the financial market.

Participation of commercial banks in investment activities in the securities market is one of the important sources of bank income. Commercial banks receive dividends or interest as a result of investment operations, as well as brokerage income. However, the analysis of the securities market in our country shows that it is limited to the implementation of traditional banking operations by commercial banks. Therefore, the scale and efficiency of investment activities with the participation of commercial banks in the securities market remains low.

In order to increase financial resources in the economy, in the next 5 years to increase the stock market turnover from \$ 200 million to \$ 7 billion, the gradual liberalization of capital movements in the country, as well as the privatization of large enterprises and their shares, including through the stock exchange. Completing the transformation process in commercial banks with a share of 60% by the end of 2026 is one of the most pressing issues today¹. "

¹ Decree of the President of the Republic of Uzbekistan No. PF-60 of 28.01.2022 "On the Development Strategy of New Uzbekistan for 2022-2026"

In accordance with the above, the scientific and theoretical analysis of investment activities of commercial banks in the securities market is one of the most pressing economic issues.

LITERATURE REVIEW.

Many economists in their research work have studied the theoretical and practical aspects of the investment activities of commercial banks in the securities market.

A.L. According to Lazarenko, the investment activity of banks is related to the provision of services such as earning income, managing enterprises or other types of profitable purposes, investing financial resources in the securities of enterprises engaged in production activities on their own behalf and at risk, forming brokerage or other new financial instruments is a process. Also, the period of placement of financial resources in such operations should not be less than 3 years.²

I.N. Dmitrieva sees investment as the placement of financial resources in various operations for a certain period of time in order to generate income by commercial banks³. While A.L.Lazarenko considered the timing of investment operations by commercial banks to be important, I.N. Dmitrieva, on the other hand, is known for her many operations.

In our opinion, The banks mentioned by Lazarenko are outdated in their view that securities transactions are long-term and do not correspond to the standard activities of current banks. Also, investment operations of banks have two characteristics, firstly, they lead to an increase in the income of the economic entity, ie the bank, and secondly, macroeconomic development of the securities market. Because in Uzbekistan, as in other countries, financial resources are mainly concentrated and redistributed in commercial banks.

Today, many economists include other types of operations in the traditional operations of commercial banks, in which government, corporate, and other credit institutions are involved in securities or invest (place) their own funds, form and manage a securities portfolio. In particular, such operations include pricing, investment risks and assessment of investment projects.

In our country, economists study the investment operations of commercial banks in two types. The first is the active operations of these banks related to securities, the second is the operations of financing these large-scale economic projects of these banks.

According to another Russian economist, S.E. Ovsyannikova (10), the investment activity of banks is the process of creating or purchasing financial assets for a certain period of time at the expense of their own funds, in which banks act as investors for direct or indirect income.

O.I.Lavrushin recommended the establishment of investment banks as the main direction of improving the investment activity of commercial banks in the securities market, and to use the following two directions:

- direct placement and sale of securities;
- organization of investment activities through long-term lending.

²Lazarenko, A. L. Upravlenie investitsionnoy deyatelnostyu kommercheskix bankov: osnovnye napravleniya / A.L. Lazarenko // Vestnik OrelGAU . - 2010. - №1 (10). - S. 50-52.

³Дмитриева, И. Н. Сущность инвестиционной деятельности коммерческого банка /И.Н. Дмитриева // Молодой ученый. – 2012. – №8. – С. 94-96.

Uzbek economist M.Abdullaev also commented on the investment activities of commercial banks in the securities market. "Investment activities of commercial banks in the securities market are operations that serve to ensure effective operation in the long run⁴".

RESEARCH METHODOLOGY

Methods such as induction, deduction, synthesis were used in conducting scientific research. In the analysis of the literature, the scientific works of leading economists of developed countries were used. Official statistics were used in the analysis of investment operations of commercial banks in the securities market in Uzbekistan and abroad.

ANALYSIS AND RESULTS.

An important indicator when assessing the state of operations of commercial banks in the securities market, as well as the activity of the primary and secondary securities markets in the country through stock exchanges in general, is the ratio of trade turnover to GDP. The following is information about the top ten countries in the world on these indicators.

More than 70% of the securities turnover on the stock exchanges of the country falls on the share of commercial banks. In particular, the total trade turnover as of January 1, 2020 amounted to 438.8 billion soums. UZS, 72.8% of which amounted to 319.5 bln. soums accounted for the contribution of commercial banks.

Although Uzbek commercial banks have high rates of turnover in the securities market of our country, in our opinion, this is not enough for them, because compared to foreign practice, as well as the volume of transactions in the securities market of some CIS countries, this figure is very weak.

Below is a look at the volume of investment operations of the Industrial and Commercial Bank of China Ltd, the world's largest bank in terms of assets, income and net profit (second only to JPMorgan Chase & Co.) and their position in banking. we pass

Table 1
The ratio of investment of the Industrial and Commercial Bank of China to some key indicators⁵

(as a percentage)

Investment ratio	Years, as of January 1st		
	2018	2019	2020
Ratio to assets	21.9	22	22.7
Ratio to loans	37.9	37.6	38.6
Ratio to capital	277.4	257.3	222.4

As can be seen from the table data, The volume of investments by the Industrial and Commercial Bank of China (ICBC) in total assets in 2017 amounted to 21.9%, while in 2019 this figure reached 22.7% or increased by 0.8 points in the analyzed period.

⁴Abdullaev M. A. "Improving the investment activities of commercial banks in the securities market" dis. ... economics fan. candidate. Andijon - 2008. 144b

⁵www.ipotekabank.uz - Created by the author on the basis of financial statements posted on the website of Ipoteka Bank.

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 2

**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 cost free liabilities	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 liabilities Total 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%).

In terms of the bank's assets, the diversification of assets is of high quality, the attracted financial resources are not only directed to high-risk loans, but also to the Central Bank and other banks in terms of investment and liquidity, about 20%. in the period under review, these quantities have been maintained at a relatively stable proportion. The declining trend of bank investments in relation to total capital in the years under study is due to an increase in bank capital.

We will continue the process of analyzing the operations of foreign banks in the securities market of commercial banks by analyzing the investment operations of Sberbank of Russia, which has the largest banking system in the CIS, and its share in some key indicators of the bank.

Table 3

The ratio of investments of Sberbank of Russia to some key indicators⁶
(as a percentage)

Investment ratio	Years, as of January 1st		
	2018	2019y.	2018
Ratio to assets	12.8	12.5	15.3
Ratio to loans	18.6	20.0	22.4
Ratio to capital	99.8	101.8	101.7

The table shows that during the period under review, Sberbank of Russia had a higher volume of investment operations than issue operations, while the bank conducted intermediation operations with various securities instruments. In particular, while the bank's

⁶www.ipotekabank.uz - Created by the author on the basis of financial statements posted on the website of Ipoteka Bank.

investment operations in the assets of the bank in 2017-2019 amounted to 12.8 and 15.3%, respectively, its share in total loans and capital of the bank also had an upward trend.

The following table shows the ratio of investment operations of the banking system of Uzbekistan to some key indicators (GDP, assets of the banking system, loans).

The table shows that the volume of transactions of Uzbek banks in the securities market is less than 2.0% of the country's GDP in the analyzed period. or in the same period (2.46-1.17) = 1.29 points had a downward trend. Almost the same situation can be observed in the ratio of total investment to loans of the banking system.

Table 4
The ratio of investments in the banking system of Uzbekistan to some key indicators⁷
(as a percentage)

Investment ratio	Years, as of January 1st		
	2018	2019	2018
Ratio to GDP	1.36	0.93	0.63
Ratio of total assets of the banking system	2.46	1.77	1.17
The ratio of total loans to the banking system	3.71	2.27	1.51

The interesting thing is that the volume of operations of commercial banks in the securities market in the analyzed period is not increasing, but declining, while the main indicators of the banking system, assets, loans, capital and deposits tend to grow in absolute terms. At the same time, some of them remained stable relative to the country's GDP, but investment in absolute terms also tended to decline in relation to the country's GDP. From this it can be concluded that the functioning of the securities market in the country, the mechanisms and organizational and legal framework to stimulate the activities of its participants do not have the ability to effectively operate this market.

The following table shows the status of investment operations of ATIB Ipotekabank, one of the five largest state-owned banks in Uzbekistan .

Table 5
Ratio of JSCMB Ipoteka Bank's investments to some key indicators⁸
(as a percentage)

Investment ratio	Years, as of January 1st		
	2018	201 9y.	2018
Ratio to assets	0.6	1.3	1.1
Ratio to loans	0.7	1.5	1.3
Ratio to capital	6.1	15.9	7.0

⁷ Compiled by the author on the basis of statistical data of the Statistics Committee of the Republic of Uzbekistan and the Central Bank

⁸Created by the author on the basis of financial statements posted on the website of Ipoteka Bank.

The table shows the ratio of Ipotekabank's investment operations in the securities market to assets, loans and capital in 2018-2020, and the bank itself is one of the five largest in the country. Its assets, loans and deposits make up about 10 percent of the country's banking system.

However, if we analyze the volume of the bank's operations in the securities market in terms of its ratio to assets, loans and equity, this figure is less than 1.5% of the bank's total assets and loans. As a result of investment operations of banks, their investment and trade (securities) portfolios are formed, the share of investment portfolios of commercial banks in the assets of developed and some developing countries is 12-22%. When we compare the Industrial and Commercial Bank of China and ATIB Ipotekabank with Sberbank of Russia, we can see that this figure is almost 10 times lower. However, when analyzing the data presented in the financial statements of the bank, it can be seen that its investment operations have revived slightly in recent years. In particular, if in 2018 the investments amounted to 256.1 billion soums, this figure, including investments and purchased securities, amounted to 261.8 billion soums. However, for the country's largest bank, this amount is very small, and it is necessary to establish effective management to ensure asset diversification, reduce the share of risky assets, as well as the level of liquidity associated with the fulfillment of obligations through the development of its securities market operations. To this end, the government has decided to sell the state's 25 percent stake in the bank's charter capital to foreign investors, and the bank plans to further develop its activities in the investment market through this strategy.

CONCLUSION

The weak state of investment operations in the banking system leads to the following problems:

- The main part of the assets of banks are risky assets, the quality of asset diversification is very low;
- Banks do not have the ability to immediately eliminate problems that may arise in the performance of operations related to liabilities;
- The absence of highly liquid securities in the assets of banks does not allow them to ensure liquidity and effective management;
- commercial banks do not have a long-term sustainable income strategy;
- The share rights of commercial banks in the activities of other business entities are not formed.

Participation of commercial banks in investment activities in the securities market is one of the important sources of bank income. However, the analysis of the securities market in our country shows that commercial banks are limited to traditional banking operations, and investments in securities are very small. The analysis shows that this is caused by the following problems:

- It is impossible to invest without studying and analyzing the stock market. Currently, there are not enough technical documents and data to analyze the stock market, and there is no analytical system. We think this is one of the main problems.

- Due to the lack of a system of secondary quotations of banks' securities on stock exchanges, it is impossible to trade at any time, and the lack of clear mechanisms for full conversion and repatriation of foreign investors' income from operations in the securities market adversely affects the development of operations performed.

- As a result of unsatisfactory information and commentary, the population is unaware of the shareholder and investor relations, operations in the securities market, and many citizens and other investors are reluctant to invest their free funds in securities.

We believe that by managing the investment of banks' own funds, all efforts to improve the investment policy of commercial banks, by overcoming these problems, it is possible to provide significant economic assistance to enterprises and ordinary citizens in need of investment.

To solve these problems, the following work should be done to further develop and increase the efficiency of investments in securities in banks:

- In order to expand the development and increase the efficiency of investment operations with securities, it is necessary to develop a database on all shares and other securities issued in the Republic and to establish coverage and advertising in the media. An individual or legal entity must have all the information without any barriers to purchase and resell any security.

- There is no doubt that the issuance of securities of enterprises and organizations with regular profits on the stock market will increase the amount of banks' investments in securities. This will lead to an increase in liquid securities in the stock market, which will increase the interest of both banks and other investors in securities. There are many such enterprises in our country, for example, textile enterprises or other enterprises engaged in exports. If necessary, it would be advisable to ensure the participation of state-owned enterprises, as the activities of state-owned enterprises and the risk of their securities are relatively low.

- The issuance of government securities on the stock market, in our opinion, it would be expedient to set the share of income from securities above the inflation rate. As a result, the share of government securities in the portfolio of securities of our banks, as well as Russian banks, may have a significant share. We believe that this will attract banks in the future, as the income from these securities will be guaranteed and risk-free, and will have a significant impact on the development of our national stock market;

- In our opinion, the rating structure of stock market participants based on liquidity of securities also allows banks and other investors to contribute to the development of the stock market. At the same time, banks and other investors can more easily determine which issuer's securities to buy and when to resell them. Therefore, it is possible to invest in the security of the issuer whose shares or bonds are more liquid. The financial condition of all issuers should be taken into account when determining the rating.

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