

Analysis of the Activities of Securities of Commercial Banks at the RSE “Tashkent”

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ABSTRACT

The article is discussed the development of the stock market in Uzbekistan, the legislation on the issue and sale of securities of commercial banks in the stock market. In addition, the current state of raising capital through the sale of securities of commercial banks at the RSE “Tashkent” is analyzed, scientific proposals and practical recommendations aimed at eliminating the existing shortcomings are developed.

KEYWORDS: *road show, capital, dealing, shares, public offering, initial public offering (IPO), secondary public offering (SPO), investor and etc.*

Introduction

The world experience of investment activity indicates that economic growth is impossible without an effective national stock market, which contributes to the development of the overall economy and the formation of a society of owners [9]. In the context of economic liberalization, the use of stock market instruments to develop the capital market and reduce the share of the state in various sectors of the economy, increase the activity of the stock market and attract capital for enterprises is becoming more active.

In particular, “Sale of state-owned shares (stakes) in the charter capital of business entities in the chemical and oil and gas industry, engineering, banking and insurance companies”, as well as to attract foreign direct investment development of ready-made investment proposals has become a central issue in the Resolution of the Government of the Republic of Uzbekistan dated April 29, 2019 № PR-4300 “On measures to further improve the mechanisms for attracting foreign direct investment in the economy of the Republic”.

7 annexes to this resolution have been prepared, according to which a list of companies with state share in foreign investors, a list of state assets to be sold in the prescribed manner and a list of promising investment projects for foreign investors have been compiled and according to the list, it will be possible to accelerate the attraction of foreign capital. Of course, it is vital to provide this information to foreign investors. Therefore, the resolution also provides for “extensive use of investment and business forums, presentations (“Road Show”) and marketing campaigns”. According to it, the list of recommended international economic and investment forums for the participation of the Republic of Uzbekistan in 2019 has been approved, which indicates a systematic approach to this process [1].

In the near future, a sharp reduction in the share of the state in the charter capital of enterprises of strategic sectors, increasing the role of private property, as well as legislation aimed at modernizing production, attracting foreign direct investment for technical and technological re-equipment, on this basis to increase the production of quality, competitive and export-oriented products will undoubtedly make a huge contribution to the development of our country.

Packages of state shares in the charter capital of companies to be offered for sale to foreign investors have been determined in the above-mentioned resolution of the President of the Republic of Uzbekistan "On measures to further improve the mechanisms for attracting foreign direct investment in the economy of the Republic". In particular, it is planned to sell 25% state shares in JSC "Aloqabank", JSC "Turonbank", JSCB "Asia Alliance Bank", JSC "Kafolat" operating in the field of finance and services and state shares in the construction industry, oil and gas industry, manufacturing enterprises, chemical enterprises to foreign investors [1].

This, we believe, will lay the groundwork for a positive contribution to development of the activities of business entities that are operating at a loss or have low profitability due to the high level of the state share in the areas where high profitability can be achieved in our country or the lack of modern management and effective production trends and their economic development. Taking into account the above, the ongoing reforms in the country (privatization of state assets) are carried out with extensive use of stock market instruments and "the volume of transactions with these financial instruments has increased in recent years due to increasing interest of commercial banks to raise capital through the securities market" [8].

Therefore, in this article we aim to analyze the activity of commercial banks in the securities market in Uzbekistan.

Analysis of the relevant literature

N.R.Tursunova, who has conducted research on the effective organization of the practice of public offering of shares, interprets the practice of IPO as a modern form of financing the activities of corporate structures and focusing on financial resources from international capital markets and focuses on organizational aspects [6].

S.E.Elmirzaev showed the economic nature, advantages and disadvantages of public offering, the practice and organization of public offering [5].

Podgorny conducted research on the development of the stock market in the CIS countries, in particular the Russian Federation, and the attraction of property capital to the national economy through the stock market [9].

I.L.Butikov analyzed the indicators of the Uzbek stock market and showed the untapped potential of the stock market in attracting capital [7].

Analysis and results:

In recent years, as a result of economic reforms carried out in our country, the stock exchange has been growing rapidly. If we look at Figure 1 below, we can see that the volume of exchange trades in 2018 was 2.3 times higher than in 2017, which was the highest growth rate since the establishment of the stock exchange. As we have seen in our analysis, the number of deals and shares sold has been growing in proportion to this. These figures indicate a sharp increase in stock turnover.

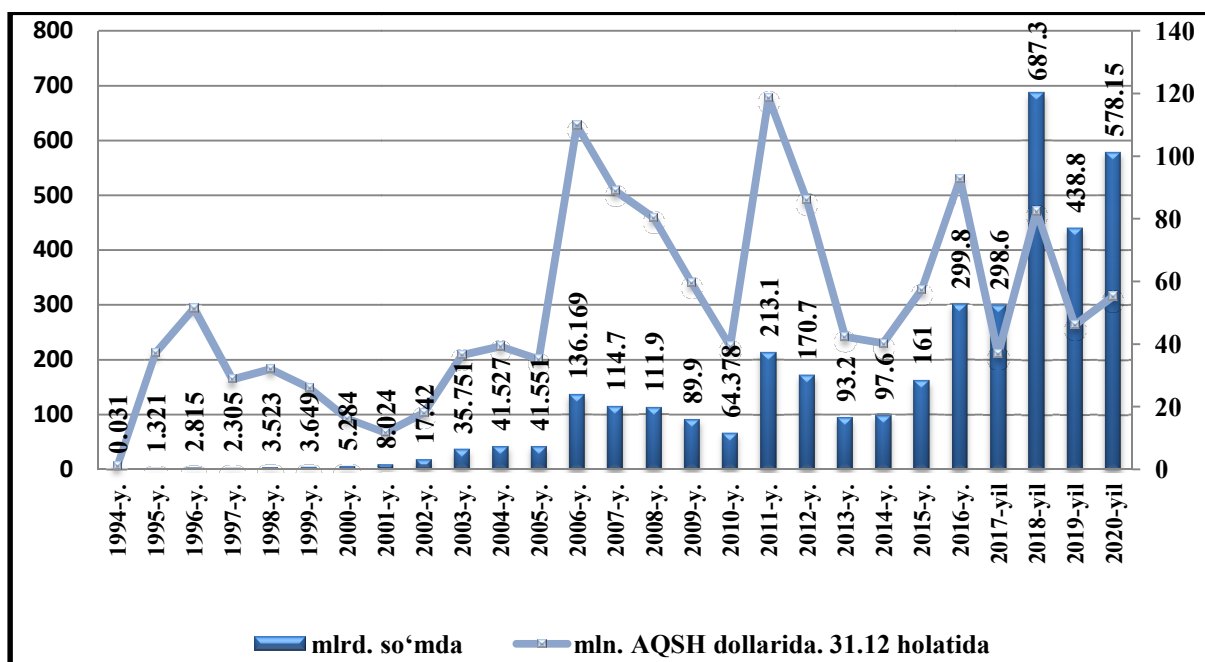


Figure 1. Volume of trades of RSE "Tashkent" for 1994-2019 (billion soums) [11]

It should be noted that 2018 reached a historic high as the year with the largest number of trades in the history of the stock exchange. Until 2018, 2.3 times more securities were traded than in 2016, which was the highest growth in recent years, which is a huge positive figure. However, given the devaluation of the national currency, the dynamics of price changes and the growth rate of GDP, this high growth is not as significant as it seems. In particular, as a result of the devaluation of the Uzbek soum against foreign currencies, the exchange turnover in soums in 2018 was lower than in 2006, 2007, 2011 and 2016 in US dollars. In 2019, it will be even lower than in 1996.

We also don't have a chance to be recognized in 2020 as one of the top 5 results of the last decade. If we analyze the indicators of recent years, the high growth trend in 2018 (excluding the exchange rate) is directly related to the increase in trading in securities of commercial banks, which are representatives of the financial system. This is evidenced by the fact that in 2018, commercial banks accounted for 86% or 591 billion soums in total trade. Therefore, in Table 1 below, we consider the share of securities of commercial banks operating in the country in recent years in exchange trading.

Table 1: Turnover of bank securities in RSE "Tashkent" [11]

Fields	2014 y		2015 y		2016 y		2017 y		2018 y		2019 y		2020 y	
	(billion soum)	%	(billion soum)	%	(billion soum)	%	(billion soum)	%	(billion soum)	%	(billion soum)	%	(billion soum)	%
Banks	85.6	87.7	141.4	87.8	151.7	50,6	257,6	86.3	591,0	86	319.5	72,8	326,7	56,1
Total	97,6	100	161,0	100	299,8	100	298,6	100	687,3	100	438.8	100	578,2	100

Analyzing the data in Table 1 above, we can see that the share of bank securities trading in stock trading is much higher, and this share is growing from year to year. The main reason for the high share of banks in the turnover of the stock exchange in 2015 was the resolution of the President of the Republic of Uzbekistan dated November 26, 2010, № PR-1438, named "In the implementation of the resolution on the priorities for further reform and enhancement of the stability of the financial and banking system of the Republic in 2011-2015 and the achievement of high international ratings"

in which states “increase the total capital of commercial banks by an average of 2.1 times in 2011-2015 through the issuance of additional shares” [3].

It is no exaggeration to say that in 2017 and 2018, the share of trading in shares of commercial banks in the total turnover of the stock exchange will be 86.3% and 86%, respectively, as a result of ongoing reforms in the country. That is, in 2017, according to the Resolution of the President of the Republic of Uzbekistan dated September 12, 2017 № PR-3270 “On measures to further develop and increase the stability of the banking system of the Republic”, commercial banks are trading on the stock exchange by issuing additional shares in order to ensure “an increase in capital by an average of 2 times in 2017-2021 through the issuance of additional shares” [2]. On the one hand, this will help increase the capitalization of commercial banks, on the other hand, it will contribute to the development of the stock market in our country.

Another noteworthy indicator for our analysis is that the interim period, which is not covered by the two laws mentioned above, we can see that in 2016, the share of commercial bank securities decreased in the share of total stock trading, but nevertheless sales volume continued the upward trend, the decrease in the share of total volume was mainly due to the increase in sales of securities of representatives of industry and transport in 2016.

In particular, in 2016, “Uzkiyopolimersavdo” JSC invested 11.2 billion soums and “Sarbon-Neftgaz” JSC worth 11 billion soums or about 4% of the total exchange trades, and “Shifobakhsh Buloq” JSC worth more than 2% of the total exchange trades worth 7.2 billion soums and in the transport sector, 13.6 billion soums worth of shares of “TYVQTZ” JSC (Tashkent Passenger Car Construction and Repair Plant) were sold, which is 4.5% of the total exchange trades. This is evidenced by the fact that in 2016, the sale of securities of industrial enterprises accounted for 24.6% (0,3 % in 2015) of total stock trading, and the share of transport enterprises - 6.2% (0,0002 % in 2015).

As 2018 was the most significant (largest) volume of commercial bank trades on the stock exchange, the data of the 10 most traded banks with securities in the same year are shown in Figure 2 below.

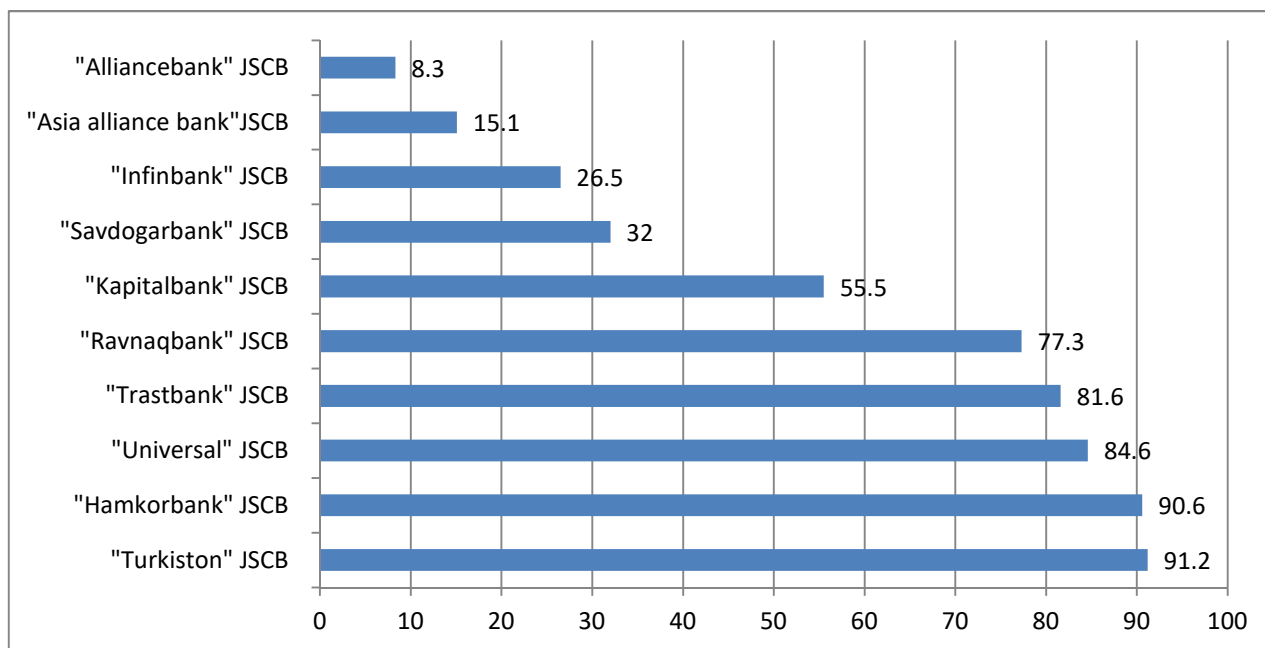


Figure 2. Commercial banks with the largest number of securities sold in RSE “Tashkent” in 2018 (in billion soums) [11].

Without doubt, we can positively assess the activity of commercial banks as issuers on the stock exchange, but it will be very challenge to positively assess the activity of other commercial banks in the stock market during the analysis of 10 out of 30 commercial banks [12], which account for more than 95% of commercial banks. At a time when the reforms in our country (the policy of economic liberalization) are gaining momentum, the fact that the participation of the state in the banking system is not in line with the reforms, encourages us to observe the data in this area.

In particular, until November 1, 2019 at the expense of the Fund for Reconstruction and Development of the Republic of Uzbekistan will increase the authorized capital of JSC “Xalq Bank” by 250 billion soums, the authorized capital of JSCB “Microcreditbank” by 170 billion soums and JSCB “Agrobank” increase of the authorized capital by 290 billion soums [4], a clear example of this is the fact that the bank’s charter stipulates the repayment of 780 billion soums of debt arising from the budget loan of JSCB “Qishloq Qurilish Bank” by increasing the state share.

Such alterations call into question the fact that instead of reducing the share of the state in the banking system, which is one of the elements of a liberal economy in our country, the share of the state in total assets of commercial banks increased to 86% [14] (83% in 2018 [13]). From the above figures, it is more difficult to assess the change in the state's share in the banking system.

But there are also examples that give us a positive assessment: these include the planned sale of a controlling stake in Asia Alliance Bank worth \$ 32 million to Japan’s Sawada Holdings, which was reportedly agreed during a December 2019 visit to Japan by government officials [15]. However, it is not gratifying that this is not done through mass sales on the international stock market, that is, under a “special agreement” of the state

Conclusion and suggestions

Based on the above data, it can be said that while the high share of commercial bank securities in stock market trading is positive and growing from year to year, this activity is: firstly, mainly to comply with government requirements (clearly, to enforce legislative requirements); secondly, it appears to be active in the stock market only as an issuer. However, the fact that commercial banks do not fully use the stock market to attract financial resources and increase capital, increasing their activity in this area also creates new opportunities for the future.

Taking into account the above, to increase the activity of banks in the stock market of our country, we offer the following:

- ✓ *Firstly.* Giving commercial banks independence in making securities issuance decisions, including by increasing the share of the private sector in commercial banks;
- ✓ *Secondly.* Increase the volume of public sales of commercial bank securities in the international financial markets. Expanding the practice of using the international financial market as an area for attracting financial resources and determining the value of the assets of our banks in the international market;
- ✓ *Thirdly.* Accelerate the implementation of IPOs and SPOs on the stock exchange while reducing the state share of banks.

Regerences:

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