



FACTORS AFFECTING THE INCOME BASE OF COMMERCIAL BANKS IN UZBEKISTAN

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Article history:	Abstract:
Received: 7 th September 2023 Accepted: 7 th October 2023 Published: 14 th November 2023	<p>The study covers the main aspects affecting the financial performance and stability of commercial banks. This study analyzes various external and internal factors such as macroeconomic conditions, market conditions, innovative technologies and regulation that affect the profitability and earnings composition of commercial banks. The study also explores the importance of effective risk and credit management for banks to ensure a stable revenue base.</p> <p>The results of this study can be useful to both the banking industry and regulatory authorities by helping to better understand and manage the factors affecting the profit base of commercial banks and to develop appropriate strategies to ensure sustainable financial development.</p>

Keywords: income base, commercial banks, influencing factors, macroeconomic environment, market conditions, regulation, risks, stability, regulators.

INTRODUCTION: Commercial banks are an integral part of the modern financial system and play an important role in ensuring economic stability and growth. One of the main factors that determine the success and stability of banks is their income base. This base represents the sum of all sources of income that the bank can generate during its activity.

The study of the factors affecting the profit base of commercial banks is of strategic importance both for the banks themselves and for regulatory bodies and economic analysts. Understanding these factors allows banks to better manage their resources, develop effective strategies, and adapt to changing market conditions.

The study of the factors affecting the profit base of commercial banks remains relevant, as it allows banks and regulatory authorities to adapt to changing conditions, increase the stability of the financial system, and ensure economic stability.

RESEARCH METHODOLOGY: Statistical table and analytical comparison, logical and comparative direction, grouping methods in society are also widely used in the budgets of foreign and general scientists on this topic.

RESULTS AND DISCUSSION: In our country, factors affecting the income base of commercial banks are divided into external and internal factors.

In our republic, the repair factors affecting the income of commercial banks can be considered to be high in quality, low level of money supply of the enterprise, the level of depreciation of the national currency and the high refinancing rate of the Central Bank.

The table below gives an estimate of the rate of increase in the level of data and the rate of refinancing of the Central Bank (*Table 1*).

Table 1
Annual rate of investment in the Republic of Uzbekistan and annual rate of central bank refinancing ¹ in percent

Indicators	2018 y.	2019 y.	2020 y.	2021 y.	2022 y.
Annual rate of inflation	14,3	15,1	11,1	10,0	12,3
The annual level of the central bank refinancing rate	16,0	16,0	14,0	14,0	15,0

From the data of Table 1, it can be seen that the annual rate of inflation in our republic had a

downward trend in 2018-2021, but in 2022 compared to 2021, it increased significantly by 2.3 percentage

¹ The table was compiled by the author based on the statistical data of the Central Bank of the Republic of Uzbekistan.



points. According to the official statement of the Central Bank of Uzbekistan, this is explained by the following reasons: «External shocks that will increase the level of inflation in our country in 2022 - a sharp fluctuation in the prices of goods and raw materials in the world, interruptions in logistics and delivery (at the expense of reducing the total supply); from internal factors, the increase in monthly incomes, competitive conditions in the markets and disruptions in supply, and the increase in the volume of remittances (from consumer demand) had an increasing effect.»

In our republic, the annual level of the refinancing rate of the Central Bank had a downward trend in 2018-2021. This is explained by the fact that the annual level of inflation in this period has a tendency to decrease.

It can be seen from the given data that the annual level of the refinancing rate of the Central Bank

was increased by 1.0 percentage points in 2022 compared to 2021. This is explained by the fact that the annual interest rate of inflation increased by 2.3 percentage points during this period.

At the same time, it should be noted that in accordance with the decree of the president of the Republic of Uzbekistan dated November 18, 2019-5877 «on improving monetary policy through the gradual transition to the inflation target regime», for the first time in the history of our country, a gradual transition to the inflation target regime began [**Error! Reference source not found.**]. Based on the requirements of this Decree, it is required to ensure that the annual rate of inflation does not exceed 5.0 percent in 2023 [1].

In turn, the high refinancing rate of the Central Bank leads to high interest rates of commercial banks» national currency loans.

Table 2

The refinancing rate of the Central Bank and the average annual interest rate of commercial banks» national currency loans in the Republic of Uzbekistan²

Indicators	2018 y.	2019 y.	2020 y.	2021 y.	2022 y.
The annual level of the central bank refinancing rate	16,0	16,0	14,0	14,0	15,0
Average annual interest rate of commercial banks» loans in national currency	20,5	24,2	22,3	20,8	21,9

From the data of Table 2, it can be seen that the annual level of the refinancing rate of the Central Bank in our republic had a downward trend in 2018-2021. As a result, the average annual interest rate of commercial banks» national currency loans decreased during this period.

In our republic, the refinancing rate of the Central Bank increased by 1.0 percentage points in 2022

compared to 2021. This caused the average annual interest rate of commercial banks» national currency loans to increase by 1.1 percentage points in this period.

It has been scientifically proven by economists that the change in the refinancing rate of the Central Bank and the change in the inflation rate are the main factors affecting the interest rates of commercial banks» national currency loans [2].

² The table was compiled by the author based on the statistical data of the Central Bank of the Republic of Uzbekistan.

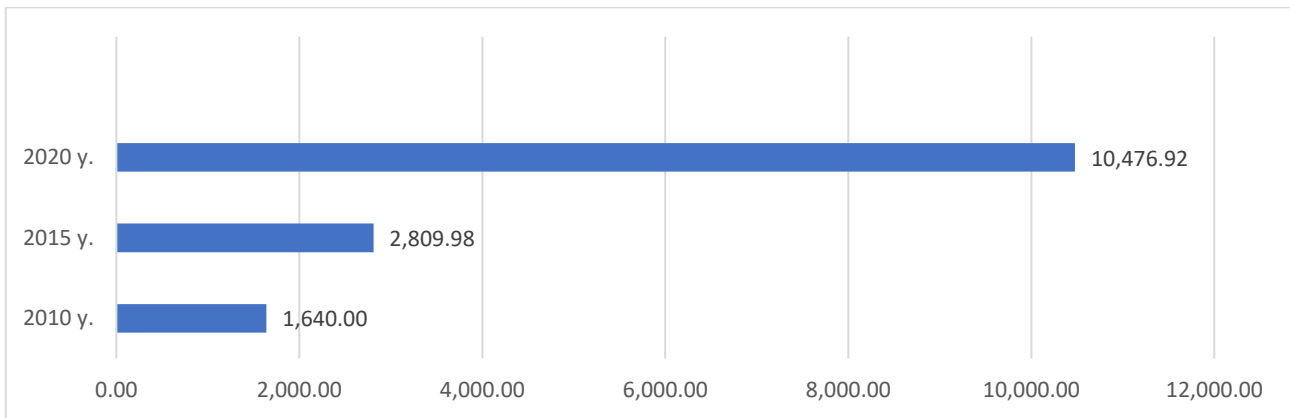


Figure 1. The amount of receivables between enterprises of the Republic of Uzbekistan, trillion. soum (as of March 1)

It can be seen from the data of Figure 1 that, firstly, in 2018-2022, the amount of receivables among enterprises of Uzbekistan was large; secondly, as of March 1, 2022, the amount of receivables increased at a higher rate compared to the same date in 2018.

The problem of insolvency in the national economy creates a strong negative impact on the

liquidity of enterprises. This, in turn, prevents enterprises from increasing their use of financial services of commercial banks.

Another factor that negatively affects the profit base of commercial banks is the high rate of depreciation of the national currency.

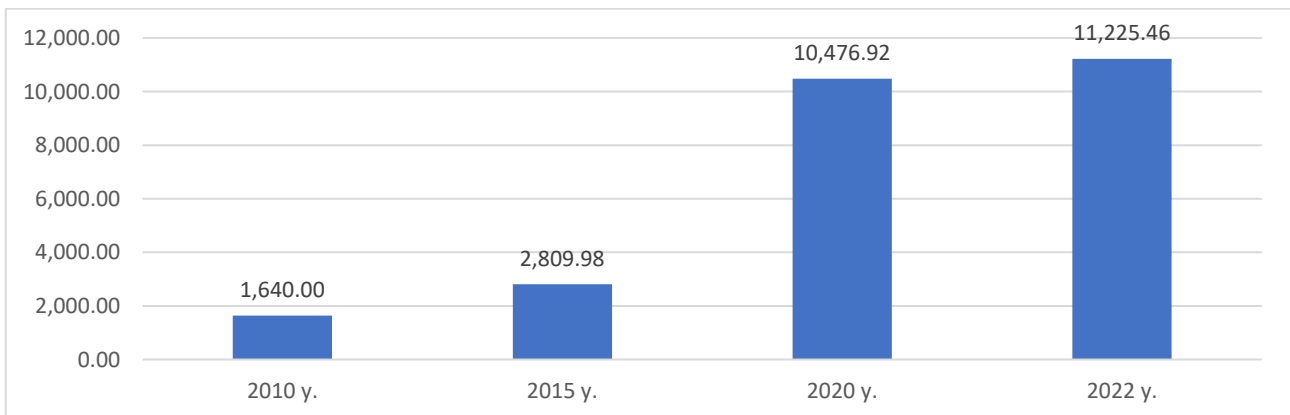


Figure 2. National currency - nominal exchange rate of soum against 1 US dollar, soum (as of December 31)

From the data of Figure 2, it can be seen that in 2010-2022, the rate of depreciation of the national currency, the soum, against the US dollar was very high. This created a serious threat to the financial security of commercial banks. In particular, the probability of non-return of loans issued by commercial banks in foreign currencies has increased. In addition, the real value of banks' assets in national currency decreased.

Now we will consider the internal factors affecting the profit base of commercial banks.

One of the internal factors affecting the profit base of commercial banks is the decrease in the level of net interest margin.

The level of the performed analyzes showed that there was a tendency to decrease the level of net interest margin in Asakabank in 2019-2021, and in Aloqabank in 2019-2022. In our opinion, the decrease in the level of net interest margin in these banks is explained by the following reasons:



1. Failure to ensure proportionality between the growth rate of net interest income and the growth rate of gross assets.

In JSC «Aloqabank» in 2022 compared to 2021, the annual growth rate of net interest income was 24.0

percent, while the growth rate of gross assets was 27.3 percent.

2. Increased level of interest expenses of commercial banks compared to interest income.

Table 3
The level of interest expenses in relation to interest income in JSC «Asakabank» and JSC «Aloqabank», in percent ³

Banks	2018 y.	2019 y.	2020 y.	2021 y.	2022 y.
Asakabank	69,3	66,6	71,4	79,1	64,3
Aloqabank	57,4	67,4	69,1	66,2	66,2

From the data of Table 3, it can be seen that in Asakabank, in 2019-2021, there was an increasing trend in the level of interest expenses compared to interest income. In Aloqabank, the level of interest expenses compared to interest income increased significantly in 2022 compared to 2018. Also, in 2019 compared to 2018, in 2020 compared to 2019, an increase in the level of interest expenses compared to interest income was observed.

One of the factors that have a serious negative impact on the income base of commercial banks of our republic is the large amount of problem loans.

According to the official information of the Central Bank of the Republic of Uzbekistan, «as of January 1, 2022, in the distribution of problem loans by

segments, 72 percent of them (12 trillion soums) are business entities, 28 percent (5 trillion soums) corresponds to the contribution of individuals. 4.7 trillion soums or 6.8 percent of the loans allocated to the population by commercial banks became problem loans. 2.4 trillion soums of the population's problem loan debtors 51% of loans allocated for business development, 1.4 trillion soums or 30% of mortgage loans, 409 billion soums or 9% of consumer loans, 346 billion soums or 7% of microloans and 135 billion soums, or 3 percent, are accounted for by car loans».

The lack of development of the securities market in our republic is one of the factors that negatively affects the income base of commercial banks.

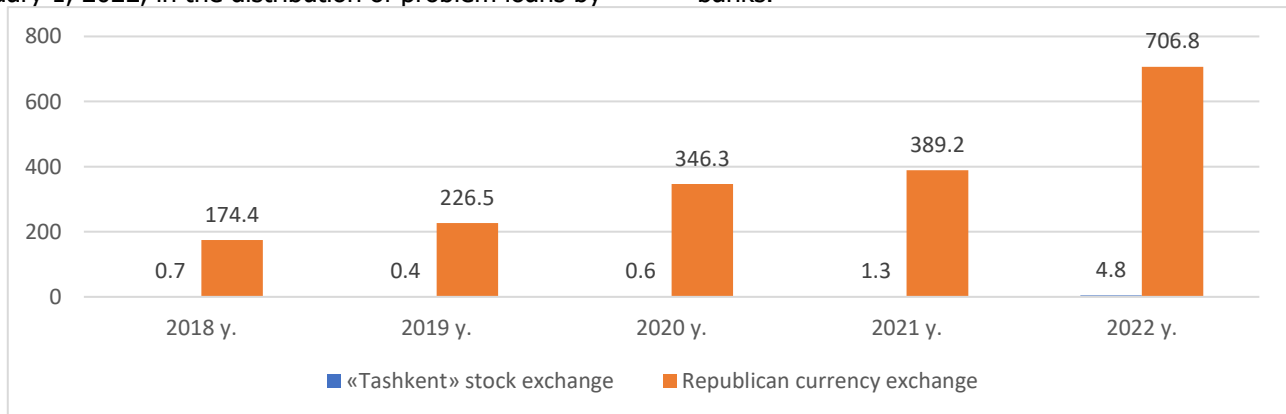


Figure 3. The volume of annual operations of the stock market of the Republic of Uzbekistan - «Tashkent» stock exchange and the currency market - the Republican currency exchange (rvb), trillion. soum ⁴

From the data of Figure 3, it can be seen that the volume of operas in the securities market in our republic

is very small compared to operas in the foreign exchange market. For example, as of January 1, 2022,

³ The figure was compiled by the author based on the financial statements of AT "Asakabank" and AT "Aloqabank".

⁴ The picture was compiled by the author based on the annual reports of the "Tashkent" stock exchange and the Republican currency exchange.



the volume of operas on the Tashkent Stock Exchange is 4.8 trillion. som. This is 147 times less than the volume of operas performed during the same period on the Republican currency exchange. This makes it clear that the securities market is underdeveloped. Therefore, in order to increase financial resources in the economy in the new Uzbekistan development strategy for 2022-2026, approved by the Presidential Decree of January 28, 2022-Decree No. 60 of the president of the Republic of Uzbekistan, in the next 5 years, bringing the stock market turnover from US \$ 200 million to US \$ 7 billion is recognized as necessary conditions for [5].

It should be noted here that commercial banks of our republic are allowed to participate in securities as investors, issuers, and intermediaries..

CONCLUSION: We can emphasize the importance and relevance of the research. The analysis of the above factors is necessary for the regulatory authorities studying the management and regulation strategies of the banking system. The main findings of this study are as follows:

1. The income base of commercial banks is the main indicator of their successful activity. Understanding the factors affecting this base allows banks to optimize their operations and increase profitability.

2. Macroeconomic changes, regulatory requirements, innovations in technology and other factors have a significant impact on banks» profit base. Banks must adapt their strategies and operations to effectively manage these impacts.

3. Effective risk and credit management is important for banks to ensure a stable income base. Banks should develop strategies that minimize potential losses and improve the quality of the loan portfolio.

4. In today's economic environment, where banks are challenged by global events, technological innovations and regulatory changes, research remains highly relevant.

As a result, understanding and taking into account the factors affecting the income base will help banks develop sustainable strategies and ensure long-term profitability, which in turn will serve the stability and development of the entire banking system.

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