



INCREASING THE ACTIVITY OF COMMERCIAL BANKS IN THE STOCK MARKET BY INCREASING INVESTMENT ATTRACTIVENESS

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Article history:		Abstract:
Received:	14 th January 2025	The article reveals the meaning and significance of the concept of "Increasing the activity of commercial banks in the stock market by increasing their investment attractiveness", increasing the activity of commercial banks in the securities market, the level of profitability and liquidity of commercial banks. in attracting financial resources from the capital market through securities, the level of profitability on preferred shares, the relative profitability of corporate bonds, the share of commercial banks in our country in the securities market was analyzed.
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INTRODUCTION

According to our research, in order to increase the activity of commercial banks in the securities market, we have come to the conclusion that, while it is necessary to eliminate the factors that have a negative impact, on the other hand, the management of the joint-stock company (general meeting of shareholders, bank supervisory board, executive body) must pay special attention to the investment attractiveness of securities. Since in our previous analyses we have discussed the factors that have a negative impact on the active participation of commercial banks in the securities market, below we will focus on the issues of increasing the investment attractiveness of commercial banks' securities and thereby ensuring their activity in the stock market.

As we all know, the main goal of purchasing any security by an investor is to obtain profit, or rather income, over a certain period or on a regular basis. In this case, profitability can be income in the form of dividends or interest, as well as income from the resale of securities owned by the investor as a result of the growth of the price of securities. It is clear that a commercial bank itself, if it intends to invest in the securities of certain issuers, will pay priority attention to the issue of profitability. From this point of view, like any issuer, commercial banks, when offering their securities to investors, should be able to demonstrate confidence in the profitability of their securities and take this aspect into account as a primary factor in their activities. It should also be noted that the proportionality of

dividends and interest, which are considered passive income, to market profitability and satisfaction of the interests of investors also creates opportunities for income from the prices of securities, which are considered active income.

LITERATURE REVIEW

The multifaceted participation of commercial banks in the securities market is to some extent the reason for this. That is, banks are striving to increase their activity in the stock market and diversify the structure of financial resources and income by raising capital through the issue of securities, investing in securities, and placing securities of other issuers on an intermediary basis. Therefore, there are common and distinctive features in the views of researchers on this issue.

I.R. Baibekov conducted research on the formation of bond portfolios through the activities of commercial banks in the stock market. The main attention is paid to the methodology for qualitatively assessing bond issuers in diversifying the bond portfolio from the point of view of diversifying bank income[1].

Commercial banks in the United States may raise capital by placing their stocks, bonds, and certificates of deposit on the stock market, and "invest their funds in the securities market primarily in federal, state, or local bonds." [2] This can be explained by the fact that, due to the Great Depression of 1929-1933, commercial banks were prohibited from investing in high-risk securities. "Banks are prohibited from owning high-risk securities such as stocks or corporate bonds. There are



no restrictions on the purchase of Treasury securities due to their low risk and high liquidity.”[3] In the United States, commercial banks are also not allowed to engage in financial intermediation activities related to securities. It is also clear from the above that certain limits can be set on the banks’ access to the stock market.

N.M. Giblova studied the interaction between the stock market, commercial banks and the real sector of the economy. In it, the researcher shows the real sector of the economy - the issuer of securities as a consumer of investment resources, the primary stock market - a channel providing cash inflows to finance investments, and banks as investors purchasing securities[4]. As we can see, the researcher paid serious attention mainly to the role of commercial banks as investors.

A group of scientists led by O.I. Lavrushin studied in detail the types of banking activities in the securities market within the framework of securities operations of commercial banks, the issuance and placement of their own securities by banks, investment investments of commercial banks in securities, bank operations for servicing government securities and REPO transactions, the activities of banks as professional participants in the securities market, etc.[5]. Mediation activity of commercial banks in the stock market was neglected.

ANALYSIS AND RESULTS

If we turn our attention to the circulation of shares, which plays an important role in the activities of commercial banks, we are convinced that, while the profitability of preferred shares is relatively stable, dividends on common shares are sharply low, as evidenced by the example of the banks we analyzed. It should also be noted that the profitability of common shares does not at all correspond to the level of riskiness of the securities. In particular, the analysis of corporate bonds of Uz sanoatsrulishbank JSCB showed that interest income is paid primarily quarterly. The amount of income is based on the refinancing rate for the last three issues +2, +3, +4 percent. In most cases, dividends are paid only at the end of the year on shares. In this case, the results of the last year were 3.13 percent, 2 percent and 3.3 percent, respectively. As we see, here an investor on shares cannot own an income in the amount of the refinancing rate. In this case, investors' interest in ordinary shares of the bank will be extremely low. It is also inappropriate to comment on the investor's active income that can be obtained as a result of an increase in the share price in such a situation. As a result, a decrease in interest in bank shares is a natural phenomenon, and existing minority

shareholders will also seek to get rid of their shares as soon as possible. It should also be noted here that in the absence of guaranteed profitability, the loss will primarily fall on the minority investor, and his interests will not be ensured.

Here is another point. The interest income on deposits offered by most commercial banks is around 20 percent. In some cases, even higher than 20 percent. This profitability indicator may also lead to the fact that interest in shares will not arise. And we are witnessing this in practice. In general, when determining interest rates on corporate bonds, deposits and savings, decisions are made taking into account the level of inflation. In financial decisions related to dividend payment practices on ordinary shares, the issue of taking into account the inflation rate, which can sharply affect profitability in a market economy, is ignored. This aspect also directly affects the investment attractiveness of shares.

We noted that commercial banks such as Uz sanoatskurilishbank JSCB and Ipotekabank, analyzed in our research, almost systematically adopted and implemented financial decisions to allocate a certain part of their profits to dividends and a certain part to increasing the level of bank capitalization. It should be noted that the payment of partial dividends by the issuer and the allocation of part of the profits to the authorized capital by increasing capitalization, as in any issuer, does not have a positive effect on the liquidity of shares of commercial banks. On the contrary, directing a large part of the profit to dividends serves as an advertisement for the issuer's shares and serves as a basis for an increase in the share price and the success of any subsequent securities issues, as well as for investor interest. Therefore, we believe that in the future, like any issuer, commercial banks should pay special attention to this aspect.

Based on the above, we believe that commercial banks should first of all pay attention to the fact that dividends should be higher than the market yield.

One of the special features in the table above is that banks with state participation mean that the state owns more than 50 percent of the authorized capital. This means that the state either owns a controlling stake in commercial banks or does not participate in the bank's capital at all. In our opinion, it is necessary to prepare commercial banks with state participation for privatization by increasing the investment attractiveness of their securities. In this case, it is necessary to approach commercial banks from the point of view of state participation in terms of ownership of 75 percent plus one share, 50 percent plus one share,



25 percent plus one share. Because this classification proposed by us is reflected in the prevention of the absolute influence and control of the state on the adoption of financial decisions in commercial banks, as well as the absolute influence of other shareholders. And this aspect also serves the phased privatization practices. In practice, the state is not interested in receiving income in the form of dividends from the practice of shareholding in commercial banks, which

leads to the conclusion. The privatization of the state share based on the above classification will also increase the state's interest in income in the form of dividends in the future.

As we know, joint-stock companies can place preferred shares within 20 percent of the authorized capital. Dividends on preferred shares are strictly determined by the charter of the joint-stock company or by the decision of the general meeting of shareholders

Table 1
Share of ordinary and preferred shares in the authorized capital of commercial banks

№	Commercial bank	Authorized capital	Ordinary shares		Preference shares	
			Сўмда	%да	Сўмда	%да
1	Ўзсаноатқурилишбанк ¹	4 634 513 904 398	4 627 483 904 398	99,85	7 030 000 000	0,15
2	Ипотекабанк ²	2 817 444 130 434	2 809 392 130 434	99,71	8052000000	0,29
3	Алоқабанк ³	953 584 520 405	951 406 520 405	99,77	2 178 000 000	0,23
4	Агробанк ⁴	4393016527216	4 392 432 527 216	99,99	584 000 000	0,01
5	Ҳамкорбанк ⁵	104 886 727 865	101 519 602 865	96,79	3 367 125 000	3,21
6	Трастбанк ⁶	225 250 000 000	225 227 000 000	99,99	23 000 000	0,01
7	Қишлоқ қурилиш банк ⁷	1 855 180 101 897	1 854 106 851 897	99,94	1 073 250 000	0,06
8	Микрокредитбанк ⁸	1 044 185 256 468	1044 041 076 468	99,99	144 180 000	0,01
9	Туронбанк ⁹	774 756 696 100	766 311 946 100	98,91	8 444 750 000	1,09

These circumstances in themselves indicate that commercial banks in our republic do not pay priority attention to raising capital through the issuance and placement of preferred shares. However, the

widespread use of preferred shares and the development of the preferred share market are important intermediate stages in the development of the common stock market. Based on this, we believe

¹ <https://uzpsb.uz/uz/for-investors/qimmatli-qogozlar-haqida-malumat/> 30.04.2020 йил ҳолатига.

² <https://www.ipotekabank.uz/investors/shares/> 30.04.2020 йил ҳолатига.

³ https://aloqabank.uz/uploads/ckeditor/1586181085_%D0%A3%D0%A1%D0%A2%D0%90%D0%92.pdf 30.04.2020 йил ҳолатига.

⁴ https://agrobank.uz/uz/page/partners_media 30.04.2020 йил ҳолатига.

⁵ <https://hamkorbank.uz/uz/about-bank/bank-nizomi/> 30.04.2020 йил ҳолатига.

⁶ <http://trastbank.uz/uz/about/charter/> 30.04.2020 йил ҳолатига.

⁷ <http://qishloqqurelishbank.uz/uz/about/muhim-faktlar/ustav.php> 30.04.2020 йил ҳолатига.

⁸ https://mikrokreditbank.uz/www/downloads/ustav/ustav_change26112019.pdf 30.04.2020 йил ҳолатига.

⁹ <https://turonbank.uz/uz/shareholders/documents/charter/> 30.04.2020 йил ҳолатига



that in the current conditions, it is necessary to effectively use the practice of placing preferred shares when raising capital through securities by commercial banks. In this practice, gradually increasing the share of preferred shares to the maximum and regularly paying fixed income on them will lead to an increase in the investment attractiveness of commercial bank shares. Placing corporate bonds with the possibility of conversion, raising funds from the capital market

through the opening of credit lines is also of particular relevance today. In this case, it will be necessary to raise capital based on the order of conversion of placed corporate bonds and attracted credit lines into ordinary shares when the time comes to repay the funds. As a result of the proposal made based on the conducted research, agreements are being made to open credit lines with the possibility of conversion into additional ordinary shares issued by Sanoatskurilishbank JSCB.



Table 2

Agreements on opening credit lines with the possibility of conversion into additional ordinary shares of UzSanoatsqurilishbank, in US dollars ¹⁰

Nº	International financial institutions	Loan amount
1	International Finance Corporation	75 million
2	European Bank for Reconstruction and Development	50 million
3	Asian Development Bank	50 million

In this case, agreements will be made to open credit lines with the International Finance Corporation providing 75 million US dollars, the European Bank for Reconstruction and Development 50 million US dollars, and the Asian Development Bank 50 million US dollars, for a total of up to 175 million US dollars equivalent, with the option of converting all or a certain part of the funds into additional ordinary shares of UzSanoatsurilishbank JSCB at the request of each international financial institution. As a result, it is possible to expect a decrease in the state share as a result of the entry of foreign shareholders into the authorized capital of UzSanoatsurilishbank JSCB. Along with this, it is also possible to predict the acceleration of international experience and digitalization. We believe that this process will ultimately play an important role in the privatization of UzSanoatsurilishbank from the point of view of implementing the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025.

Under this agreement, the Minister of Finance of the Republic of Uzbekistan is authorized to negotiate with the International Finance Corporation, the European Bank for Reconstruction and Development, and the Asian Development Bank. This is explained by the fact that the main shareholders of the bank are the Ministry of Finance and the Fund for Reconstruction and Development under its operational management. During the term of the convertible loan agreements with the International Finance Corporation, the European Bank for Reconstruction and Development, and the Asian Development Bank, the state's share in the authorized capital of Uzsanoatsuriyshbank will be maintained at a minimum of 50 percent plus one share.

After the credit line is converted into ordinary shares, privatization operations will be accelerated.

We consider it important to issue an option to convert the debt to the International Finance Corporation, the European Bank for Reconstruction and Development, and the Asian Development Bank under the credit line opened for Uzsanoatsuriyshbank or a part of it into additional ordinary shares of Uzsanoatsuriyshbank. In this case, it is expedient to conclude an option agreement between the International Finance Corporation, the European Bank for Reconstruction and Development, the Asian Development Bank, and the Ministry of Finance and the Fund for Reconstruction and Development. It should also be noted that in the case of privatization, the circulation of shares, the signing of a preliminary agreement on the repurchase of convertible shares or part of them by the Fund for Reconstruction and Development at the request of international financial institutions in the future ensures the feasibility of the transaction.

In recent years, the issuance of corporate bonds by commercial banks and the practice of raising capital through them have been carried out by a small number of banks. This is confirmed by the fact that currently only four commercial bank bonds are in circulation in an amount exceeding 177 billion soums. These indicators in themselves indicate that commercial banks are using this opportunity to attract financial resources to a very low level.

As we know, in cases where the initial price is set in the public offering of financial assets, the wider the participation of investors, the larger the market for purchasing assets. The same applies to corporate bonds. Based on this, it is advisable to set a lower nominal value for corporate bonds issued by commercial

¹⁰ Ўзбекистон Республикаси Вазирлар Маҳкамасининг «Ўзсаноатқурилишбанк» акциядорлик тижорат банкини халқаро молия институтлари иштирокида хусусийлаштириш ва трансформация қилиш чора-тадбирлари тўғрисида»ги 2021 йил 29-мартдаги 161-сонли қарори



banks and, on this basis, reduce the initial price. Such a practice will lead to the development of the corporate bond market in the future, the qualitative enrichment of the securities portfolio of small individual investors, and the increase in the ability of issuers such as commercial banks to attract financial resources. The development of the national capital market, ensuring the activity of issuers, in particular commercial banks, in the securities market will be of great importance in attracting direct investments and debt capital from the international financial market through securities. In this case, the issuance of shares in order to form the authorized capital, then the issuance of additional shares to increase the authorized capital, as the next stage, the issuance of corporate bonds for circulation and attracting capital, and the holding of IPOs in the national sphere are characteristic stages of the activities of issuers in the national market. Having passed these stages, the desire of issuers to enter the corporate Eurobond market, and then to conduct an IPO at the international level, is of particular importance in the current environment of fierce competition, which is also clearly visible in the international financial market. For the first time among national issuers, Uzsanotskurilishbank JSCB has taken the first successful steps in attracting capital from the international financial market and successfully placed a corporate Eurobond worth \$ 300 million. Other banks and real sector enterprises should also increase their

activity in this regard. "Our banks need to enter the international financial markets and bring in cheap and long-term resources. It is advisable for the National Bank and Ipoteka Bank to issue their Eurobonds this year." It is precisely based on the experience of Uzsanotskurilishbank JSCB, the situation in the national financial market, and international requirements that other commercial banks should pay attention to certain aspects when attracting capital through Eurobonds.

The first thing to pay attention to is undoubtedly the issue of the cost of capital for attracting foreign capital. If we pay attention to the practice of Uzsanotskurilishbank, the services of such large banks as JP Morgan, Citigroup, Commerzbank, Raiffeisen Bank were used as financial consultants in order to place a \$ 300 million Eurobond. However, there is no information about the costs incurred for their services. Whether we like it or not, this cost must also be directly included in the cost of capital. financial consultant, how much money was spent on them. Secondly, it is advisable to disclose the costs of organizing meetings with potential investors (conference room, special souvenirs, and other expenses).

The fact that corporate Eurobonds are placed on the international financial market at an annual coupon rate of 5.75 percent is considered a relatively high rate. The above.

Table 3

Terms of placing proceeds from the placement of international bonds of the Republic of Uzbekistan in deposits of commercial banks through auctions¹¹

Deposit period	Maximum amount of funds to be deposited, mln. USD	Minimum annual interest rate	Term of interest payments	Deposit refund period
5 йиллик депозит	459,6	5,25%	ҳар 6 ойда (10 февраль / 10 август)	10.02.2024 й.
10 йиллик депозит	429,6	5,875%	ҳар 6 ойда (10 февраль / 10 август)	10.02.2029 й.
Жами	889,2	-	-	-

¹¹ Ўзбекистон Республикаси Президентининг 2019 йил 2 апрелдаги ПҚ-4258-сонли «Ўзбекистон Республикасининг илк суверен халқаро облигацияларини жойлаштиришдан тушган маблағлардан самарали фойдаланиш тўғрисида»ги Қарори, 1-илова



As can be seen from the data in the above table, the funds formed on account of 5-year sovereign Eurobonds in the amount of 459.6 million US dollars were transferred to commercial banks for 5-year deposits. Based on the 5-year sovereign Eurobond annual interest rate of 4.75% plus 0.5% margin, the deposit rate is set at 5.25%. As a result, this 5.25 percent deposit is more attractive than the 4 percent foreign currency deposit rate offered by Uzsanoatqurilishbank ATB. In turn, the funds formed at the expense of 10-year sovereign Eurobonds in the amount of 429.6 million US dollars were transferred to commercial banks for 5-year deposits. The interest rate for these deposits is 5.875% based on the 5.375% annual interest rate of the sovereign Eurobond plus a margin of 0.5%.

It can be seen that there is a positive difference between the interest expenses on the funds received from the placement of the first sovereign international bonds of the Republic of Uzbekistan and the interest income from their allocation to the economy. That is, it can be seen that the income from deposits placed in commercial banks and loans allocated to the Navoi Mining and Metallurgical Combine at the expense of funds received from international bonds is higher than the interest paid to foreign investors.

CONCLUSION

-When analyzing the issue of the activity of commercial banks in the stock market, it can be seen that there are many factors that have a negative impact on this. In the banking system, the sharply high state participation in the authorized capital of commercial banks, the consolidation of sectors not related to the banking sector based on state programs, the absence of a healthy competitive environment in the banking system in terms of attracting financial resources, the existence of restrictions on the ownership of shares of commercial banks, the purchase of shares, the high level of inflation, the limited independence of commercial banks in financial and economic activities, the lack of attention to the liquidity of shares, the adoption of financial decisions without taking into account the interests of minority shareholders, the lack of attention to investment attractiveness through dividend practices, and the low desire to attract capital through securities are some of the factors that have a negative impact.

-Today, targeted programs are also one of the problematic issues in the practice of commercial banks in our country. The designation of separate commercial banks for targeted programs by the state is important. Only in this case, we need to create conditions for other commercial banks to operate independently without separate state programs. This aspect increases the

responsibility of commercial banks in attracting financial resources.

-We cannot say that there is currently a healthy competitive environment for commercial banks in the banking system in attracting financial resources. Because with a number of decisions such as the above, the authorized capital of commercial banks with state participation is being systematically increased

-According to our research, in order to increase the activity of commercial banks in the securities market, it is necessary, first of all, to eliminate the factors that have a negative impact, and on the other hand, the management of the joint-stock company (general meeting of shareholders, supervisory board of the bank, executive body) must pay special attention to the investment attractiveness of securities.

-It is known that the main goal of any security purchased by an investor is to obtain profit, or rather income, over a certain period or on a regular basis. In this case, profitability can be income in the form of dividends or interest, as well as income from the resale of securities owned by the investor as a result of an increase in the price of securities. It is clear that a commercial bank itself, if it intends to invest in securities of certain issuers, will pay priority attention to the issue of profitability. From this point of view, commercial banks, like any issuer, must be able to demonstrate confidence in the profitability of their securities when offering their securities to investors and take this aspect into account as a primary factor in their activities. It should also be noted that the proportionality of dividends and interest, which are considered passive income, to market profitability and satisfaction of investors' interests also creates opportunities for income from securities prices, which are considered active income.

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