



IMPORTANT ISSUES OF INCREASING THE ACTIVE OPERATIONS PROFITABILITY OF COMMERCIAL BANKS

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Abstract. Financial stability of commercial banks directly depends on the profitability of commercial banks' active operations. This is because, firstly, an optimal level of profitability of assets allows a Bank to support normative levels of net interest margin and net interest income, which is an essential condition to ensure commercial banks' financial stability. Secondly, the main aim of any commercial Bank is to maximize its income. Thirdly, the banks' profit is an important source for the formation of the capital base. However, in many countries with transitional economies, including Uzbekistan, there are problems connected with improving the profitability of the commercial banks active operations. In particular, big commercial banks of the Republic of Uzbekistan have a relatively high level of reserve deductions which are intended to cover future loan losses.

Keywords: margin, spread, interest income, non-interest income, financial stability, commercial bank, active operations, profitability, capital base, loan losses.

In this article, it is supposed to examine important issues of increasing the profitability of commercial banks active operations of the Republic of Uzbekistan. Based on the results of the analysis carried out, there were identified problems associated with raising the profitability of active operations of banks.

The author of this article managed to develop research proposals aimed at increasing the profitability of active operations of commercial banks of the Republic.

The gross income of commercial banks consists of interest- and interest-free incomes. However, interest income is more important than non-interest income. This is because the interest income is received from principal activities of any commercial bank.

In the commercial banks assets structure the credits embrace the largest share. Therefore, the profitability of credit operations is very important for any commercial Bank.

Below, we will consider the dynamics of the main indicators, characterizing the profitability of credit operations of Uzbekistan's major commercial banks.

In Agrobank (Agricultural Bank), in the period of 2011-2013, it was observed the tendency of profitability growth per each UZS of credit investments. This growth is justified by the interest income growth on loans over the rate of growth of credit investments during the period under investigation. Even though in 2011-2013 the annual average interest rate of loans decreased (from the analysis by the author of Financial Statements of the National Bank of External Economic Activities, Promstroibank, Mortgage Bank of the Republic of Uzbekistan on the results of 2013).

In the period of 2011-2013, in Qishloq Qurilish Bank, there was a decrease trend in the yield per each UZS of credit investments. This negative phenomenon can be explained by the lag in the growth of rate of interest income on loans in relation to the rate of growth of credit investments of the Qishloq Qurilish Bank. During the analyzed period, the weight in the share of interest income on loans substantially increased in total income of the Qishloq Qurilish Bank (from the analysis by the author of Financial Statements of the National Bank of External Economic Activities, Promstroibank, Mortgage Bank of the Republic of Uzbekistan on the results of 2013).

In the period of 2011-2013, in the mortgage bank, there was observed the tendency of reducing the return per each UZS of credit investments (from the analysis by the author of Financial Statements of the National Bank of External Economic Activities, Promstroibank, Mortgage Bank of the Republic of Uzbekistan on the results of 2013). This is considered as negative phenomenon and it is explained by the following reasons:

– in the period of 2011-2013, the growth rate of interest income on loans was lagging behind the growth of credit investments;

– during the analyzed period, the average interest rate of loans decreased by 1.5 points.

It should be emphasized that in the Mortgage Bank, the interest income on loans is represented by a relatively low share in the total income of the Bank. This is because the Mortgage Bank had not yet taken a worthy place in the national market of loan capital.

In our opinion, the reasons for the interest income growth rate backlog on loans relative to the rate of growth of credit investments of major commercial banks of the Republic of Uzbekistan should be the subject of continuous monitoring and analysis.

It must be emphasized that large banks in Uzbekistan are subjected to an increased credit risk, which, in particular, is connected with the practice of directed lending to those sectors which the government considers necessary to be supported. For example, the National Bank for Foreign Economic Activity of Uzbekistan's loan portfolio has a high concentration on individual subjects of crediting: as of 1 July of 2013, twenty largest borrowers accounted for 56% of the total loans. However, the Government provides guarantees for loans, which fact is somewhat mitigating these risks. The governmental guarantees cover about half of all NBU (National Bank of Uzbekistan) credits, most of which had been given to state-run transport, industry and communications enterprises. According to the statements of the NBU, on July 1, 2013, the share of loans overdue by more than 90 days, did not exceed 1% of gross loans; however, restructured loans and bad loans amounted to 6.7% (at the end of 2012, their share was 9%) (from a calculation by the author on the basis of balance sheet data of the National Bank for Foreign Economic Activity of the Republic of Uzbekistan). Therefore, it would be advisable to set strict limits on lending in accordance with the type of borrowers.

Up to date, in the banking sector of Uzbekistan there is no loan on overdraft and this fact negatively affects the profitability of credit operations of commercial banks. In our opinion, it is necessary to introduce overdraft and current account crediting practice into commercial banks activities of the Republic of Uzbekistan, taking into account the experience of developed countries of the world. As practice shows, overdraft crediting form is well developed in English-speaking countries, and the current account credits - in the German speaking countries. In addition, the provision of credit balance of current accounts of clients at the end of each month should be a mandatory condition for granting overdraft credits and current account credits of commercial banks.

According to O. Lavrushin, the establishing of uniform time-limits for overdraft credits for all the clients is impractical because the actual terms of use of overdraft credits by borrowers are not the same due to the peculiarities in the organization of settlements (Lavrushin, Afanaseva and Kornienko, 2007).

Investments in securities are an important type of assets of commercial banks. In the banks in the US, Japan and Germany, investments in securities, in terms of specific weight, take the second place in the total volume of assets of commercial banks. For example, as of 1 January 2013, the share of investments in government's securities in the total assets amounted to: Barclays Bank of 9.7% (2012); the Bank of America – 7.9% (2012).

In the commercial banks of Uzbekistan, the profitability of investments in securities remains quite low. For example, as of December 31, 2013, the weight of income from investments in securities in total amount of incomes of the bank amounted to in Agrobank – 2.8%, in Qishloq Qurilish Bank – 0.1%, in Mortgage Bank – 6.8%. The relatively low share of the yield of investments in securities is explained by the fact that banks' investment operations with securities are undeveloped. 1 January, 2013, the share of investments in securities in the volume of gross assets of Agrobank, Qishloq Qurilish Bank and Mortgage Bank remained at a very low level. This fact indicates the underdevelopment of investment operations with securities in domestic banks.

Lack of awareness among investors about issuers of securities is one of the main reasons for the underdevelopment of the banks' investment operations with securities. As shown by the results of scientific research by I. Butikov, having a sufficiently capacious information about issuers, a regulatory body, unfortunately, has no right to provide and organize this information to be delivered to the potential investors and real securities holders, and this fact certainly holds back the development of the securities market (Butikov, 2008). Also, in our opinion, the relatively high level of devaluation of the national currency of Uzbekistan negatively affects the investment operations with securities in commercial banks of the Republic. In 2013, the level of devaluation of the national currency – UZS was 9.5% (O'zbekiston Respublikasi Markaziy Banki, 2014).

In our opinion, to increase the yield of banks investments in securities, it would be advisable to increase the volume banks investments in the corporate securities of issuing banks which have acceptable sovereign ratings (BBB) of international rating agencies.

We recommend, as well, increasing the level of diversification of a security portfolio of individual banks in Uzbekistan. The level of diversification of the securities portfolio of individual commercial banks of Uzbekistan is considered to be low, which is adversely affecting the profitability of the securities portfolio of the banks. For example, in Promstroibank, the securities portfolio entirely consists of government securities. It is specified in the economic literature that, although the governments' securities virtually have a zero risk of non-payment, at the same time they do not provide real risk-free income. The return of principal amount and interests does not account for the inflation which is increasing during the period of circulation of securities. Therefore, in our view, the diversification of the securities portfolio of commercial banks, the main attention should be paid to ensuring the optimal level of profitability and liquidity of securities portfolio.

Conclusion, the increase in yield of assets of commercial banks of Uzbekistan requires, first of all, increasing the profitability of credits and banks investments in securities. This is because, first, the return on loans is unstable and relatively low; second, banks investment operations with securities are remaining at a low level. Therefore, the development of research proposals aimed at increasing the profitability of the main types of Bank assets, in terms of ensuring the stability of the banking system of Uzbekistan, is of practical importance.

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