

Prospects of effective Banking Infrastructure and loaning processes in Uzbekistan

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Abstract: The formation and functioning of the banking system of the Republic of Uzbekistan, the rise of financial and credit institutions to the international level largely depends on solving the problems of financial management of banks particularly, in general integrated management of bank capital and funds, banking services.

Keywords: banking system, bank capital and funds, banking services, Republic of Uzbekistan

Introduction

As the President of the Republic of Uzbekistan Sh.M.Mirziyoev noted, "this year we must take drastic measures to develop the banking system.

Unfortunately, the banking system lags behind modern requirements for the use of digital technologies, the introduction of new banking products and software for 10-15 years.

From 2020, each bank will implement a large-scale transformation program. In this regard, increasing the capital, resource base and income of our banks will be highly focused.

A "project factory" in the banking system to support entrepreneurs should be set up." [6] Sh.M.Mirziyoev stressed the need for radical reform of the financial and banking system.

It is known that the situation with the corona virus, which is spreading around the world, is expected to affect the world economy to varying degrees. The World Bank has released a new report on the economies of Europe and Central Asia entitled "Fighting COVID-19". According to this report, in the context of the pandemic, Uzbekistan's GDP growth is projected to decline sharply to 1.6% in 2020. It is said that the incomes of the poorest people in the country are likely to fall by more than 50 percent. [2]

It should be noted that if the forecast of 1.6% GDP growth becomes a reality, it will be the lowest growth rate for the Uzbek economy since 1995.

Therefore, during the corona virus pandemic in our country, all measures are being taken to support the population, sectors of the economy and businesses.

The following decrees of the head of state were adopted on March 19 and April 3 this year. These are PF-5969 "On priority measures to mitigate the negative impact of the corona virus pandemic and the global crisis on sectors of the economy" and PF-5978 "Additional measures to support the population, industries and businesses during the corona virus pandemic". These decrees approved a package of measures to mitigate the negative effects of the corona virus pandemic and the global crisis on sectors of the economy.

These decrees reflect in detail the issues of withdrawal of funds from banks, exchange of money for foreign currency, restructuring of loans and, in turn, maintaining the liquidity of banks during the epidemiological situation in the country.

"Therefore, the main task of the government should be to create reserves and ensure macroeconomic stability to cover the losses in the economy," said President Shavkat Mirziyoyev [1].

The above situation requires an in-depth scientific analysis of the urgency of identifying problems in the creation and development of banking infrastructure in accordance with the current stage of the study of the infrastructure of commercial banks and ways to overcome them.

Analysis of the relevant literature

There are cases when the term "infrastructure" is used in several senses in the economic literature and in practice.

The term "infrastructure" was first derived from a military dictionary (Latin "Infra" - under, "structure" - location) [12]. It was used in the scientific work of Western scholars in the late 1840s. In the twentieth century, the founder of the introduction of this term into economic circulation stressed the need to adapt the term "infrastructure" to the existing conditions of the surrounding world, which is necessary for the development of industry [11].

It should be noted that it belonged to the main infrastructure tools of the sectors that help to develop effective investments.

In practice, the term "infrastructure" covers three levels:

1. Real material networks (for example, roads, e-mails) in which the activity is carried out and does not exist and is not economically expedient.
2. Operations - the operation of the infrastructure network.
3. Infrastructure markets which lead to different difficulties of infrastructure networks are a combination of supply and demand for the use of networks and competition between elements of infrastructure. [7].

The infrastructure sector in the economy is diverse, with banking infrastructure playing an important role. Ideally, the banking process can be carried out without the use of infrastructure as an interaction of the subject (bank) and the object (client). However at the same time, from the earliest stages of development, banks have used systems other than themselves to increase the efficiency of their operations. The existing infrastructure gives the bank additional advantages.

Since the middle of the last century, in Western literature, infrastructure has been understood as a general condition for the development of social production, aimed at creating favorable conditions for the development of private production. [8] Including P. Samuelson argues that the state invests in infrastructure because "... an increase in state-backed capital" (social additional capital) provides private investors with a certain amount of return on non-cash-generating capital.

Due to the fact that private investors have a very long repayment period, it is difficult to attract them to earn a profit, and the amount of this capital is much higher than in private capital markets.” [8]

This means that the use of banking infrastructure in the development of the banking system is a certain level of profit of the bank. This average value guarantees a minimum value of the competitive value.

On the development of banking infrastructure, Russian scientist OI Lavrushin in his scientific work paid special attention to the structure of banking infrastructure. It is noteworthy that his views did not change during this period. He proposes to divide the banking infrastructure into two parts (internal and external banking infrastructure). [4] According to the scientist, the task of the internal block is to ensure the internal stability of the bank, and the task of the external block is to ensure the bank's interaction with the external environment. Based on this division, it is proposed to group the parts of the inner block as follows:

- 1) The status of the credit institution, the legislation determining the list of operations performed by it;
- 2) Internal rules for compliance with the requirements of the legislation, the protection of the interests of depositors and customers of the bank, his personal interests, in general, the implementation of methodological support operations;
- 3) Accounting, reporting, analysis, computer processing of data, management of banking activities on the basis of modern communication systems;
- 4) Management of the bank.

O.I. Lavrushin grouped the banking infrastructure into internal and external blocks, while Uzbek economist A.V. Kotov, on the other hand, described the banking infrastructure as "a set of institutions that create the necessary conditions for banking and facilitate the creation of banking services and their delivery to consumers" [4].

A similar approach to banking infrastructure was developed by another Russian economist, E.F. Zhukov, in his textbook “Money, Credit, Banking” by O.I. Interpreted in accordance with Lavrushin's scientific views, that is, he divided the banking infrastructure into four areas - informational, methodological, scientific and personnel [3].

Thus, the banking infrastructure includes a variety of enterprises, in other words, a set of agencies and service structures that ensure the efficient operation of banks.

Based on these considerations, it can be said that the banking infrastructure, just like the fund for its creation and development, consists of two parts: internal and external.

For the normal functioning of the bank's staff, first of all, it is necessary to develop the internal banking infrastructure. It includes:

- 1) the criteria determining the status of the credit organization and the list of operations performed by them;
- 2) internal provisions of agreements to ensure compliance with the legislation and to protect their own interests, as well as the interests of depositors and bank customers;
- 3) creation of accounting, reporting, analytical database, computer processing, bank management based on modern communication systems;

- 4) Bank management structure. Each bank should have a number of divisions that meet its objectives as an economic institution and the functional objectives of the bank [5].

The external banking infrastructure includes: information, methodological, scientific and human resources, as well as communication, communications and others.

In the organization of banking activities, banks can successfully develop only in interaction with their other elements and, above all, with the banking infrastructure. It is a set of elements that ensure the viability of the bank.

In a broader sense, the banking infrastructure is a system of interconnected institutions that, in turn, as subsystems of the national banking system, ensure the timely satisfaction of the needs of individuals and legal entities and the state in banking services.

In general, the banking infrastructure is part of the organizational structure of the banking system. Therefore, the banking system itself can be represented as an element of a high-level system - the economic system.

Thus, any element of the banking infrastructure can be identified differently and based on the data obtained; it is possible to develop a banking infrastructure or its development strategy for the banking sector. The need for such development is reflected in the banking infrastructure itself. The state should not only be interested in these issues, but it should act as a leader and a key in development.

It is known that modern banking is closely linked with the creation of the necessary infrastructure. Therefore, in our country, special attention is paid to the work in this direction, and the relevant legal framework is being strengthened. In particular, the laws of the Republic of Uzbekistan "On the exchange of credit information" and "On the Pledge Register" are an important factor in ensuring the stability and capacity building of the banking system. In accordance with the requirements of these laws, the Credit Information Analysis Center Credit Bureau under the Association of Banks of Uzbekistan and the State Unitary Enterprise "Pledge Register" under the Central Bank were established.

In general, the most important task of the financial and credit system, including commercial banks, is to provide banking services aimed at meeting the needs of the population and businesses in the country, which often do not have sufficient creditworthiness. However, this task does not cover the internal potential of regions that do not have sufficient funds, especially at the level of rural settlements, to cover the costs incurred by some banks or at least earn additional income.

Research methodology

In the implementation of scientific work in the development of banking infrastructure conducted interviews with economists and industry representatives, analysis of their written and oral feedback, expert evaluation, process observation, systematic approach to economic events and processes, comparative analysis with the author's experience. Through this, conclusions, suggestions and recommendations in the relevant areas are given.

Analysis and results

Everything is interconnected in the economy, and in general, neither the banking system, nor the infrastructure of the banking system, nor other sectors can be separated from the economy, nor can they operate in isolation. Their development depends on various factors.

This means assessing the factors affecting the banking infrastructure, ie forecasting their activities, identifying the factors that hinder or stimulate the development of the banking infrastructure, identify key measures to optimize and increase the efficiency of the banking business infrastructure. It is impossible to create strategies to improve their performance without taking into account the factors that affect the development of the banking system in general.

All factors affecting the banking infrastructure are divided into two groups: traditionally macro-level factors include 5 factors (natural, political and legal, socio-cultural, technological, economic) and micro-level factors, including factors directly related to the banking infrastructure. Factors at the micro level cannot be separated because they directly affect the subjects of the banking infrastructure and because of their uniformity and lack of a single comparison base; the factors at this level are very diverse, making it difficult to systematize them. In addition, factors at this level have very little impact on the entire banking infrastructure and therefore the risks in this direction are likely to be minimal. In the economic literature, factors influencing pluralism, along with network factors, are generally considered as part of one or another economic environment.

Clearly, while under the positive influence of macroeconomic factors, the development of banking infrastructure is mainly determined by the positive impact of negative factors or network factors.

During the reporting year, the number of branches of commercial banks increased by 3 to a total of 850. As of January 1, 2020, the number of mini-banks in commercial banks was 1,020, and 907 self-service outlets operating 24/7.

At present, 117 non-bank credit organizations, including 56 microcredit organizations and 61 pawnshops operate in the country. [9].

At the same time, in order to regulate the activities of the interbank retail payment system "Uzcart" and effectively organize its activities, in connection with the launch of the software package "Interbank universal netting information system" at the Information Support Headquarters under the Central Bank banking functions were transferred from the Interbank Settlement Center of the National Bank for Foreign Economic Activity of the Republic of Uzbekistan to the Settlement Center of the Central Bank of the Republic of Uzbekistan.

This, in turn, contributes not only to the expansion of the banking infrastructure in the country, but also to the strengthening of the competitive environment between them and the improvement of the quality and scope of banking services.

Table 1.

Information on clients and their accounts registered in the national database of bank depositors of Uzbekistan (As of January 1) [9]

| <i>dates</i> | <i>Number of customers</i> | <i>Number of accounts</i> |
|--------------|----------------------------|---------------------------|
| 2011 | 1100541 | 3612506 |
| 2012 | 1159890 | 3926356 |
| 2013 | 1224732 | 4207601 |
| 2014 | 1285424 | 4289556 |
| 2015 | 1359831 | 4622770 |
| 2016 | 1432849 | 5030704 |
| 2017 | 1515004 | 5364838 |
| 2018 | 1638673 | 5809172 |
| 2019 | 1880634 | 7263621 |

This table above provides data on the number of customers registered in the national database of bank depositors of the Republic of Uzbekistan and the number of their accounts registered in 2010-2019. These data indicate that the number of accounts of customers stored in the database of bank depositors of Uzbekistan is growing from year to year. If in 2010 their number was 3.6 million, by the beginning of 2019 their number exceeded 7.2 million.

It should be noted that in recent years, the volume of transactions on these services through the clearing system of the Central Bank in 2019 increased by 197.2% compared to 2018 and amounted to 20030.4 billion Uzbek sums. [9] This, in turn, indicates the formation of centralized database systems.

As a result of the work carried out, the resource base of the banking system of the country, the amount of capital and their liquidity are becoming stronger. This we can see from the table data below.

Table 2

Composition and dynamics of total capital of commercial banks [9]

| <i>Indicators</i> | <i>01.01.2018 y.</i> | | <i>01.01.2019 y.</i> | | <i>01.01.2020 y.</i> | |
|---------------------------|----------------------|-------------------|----------------------|-------------------|----------------------|------------------|
| | billion sum | share, in percent | billion sum | share, in percent | billion sum | share in percent |
| <i>Total capital</i> | 20676,1 | 100,0 | 26678,9 | 100,0 | 51030,7 | 100,0 |
| <i>Charter capital</i> | 16306,7 | 78,9 | 19673,2 | 73,7 | 41877,0 | 82,1 |
| <i>Additional capital</i> | 68,4 | 0,3 | 89,4 | 0,3 | 142,7 | 0,3 |
| <i>Reserve capital</i> | 1792,8 | 8,7 | 2937,6 | 11,0 | 3844,5 | 7,5 |
| <i>Retained earnings</i> | 2508,3 | 12,1 | 3978,8 | 14,9 | 5166,4 | 10,1 |

As shown in Table 2, as a result of measures taken to increase the capitalization of banks, the total capital of commercial banks increased 2.5 times in 2018-2020, which as of January 1, 2020 amounted to 51.0 trillion sums. The total authorized capital increased by 2.6 times and amounted to 41.9 trillion sums.

If the terms of loans are analyzed, it can be seen that today the share of short-term loans in the activities of banks is growing. As can be seen from Table 2 above, the share of short-term loans in total loans of the country's banks is growing from year to year. It can be noted that in recent years, the share of short-term loans increased from 4.30% in 2017 to 8.55% as of January 1, 2020.

So what is the reason for this? In our opinion, it is safe to say that the term of loans provided by banks to customers today is formed mainly from short-term sources. At the same time, the current situation, which is rich in changes, makes it necessary for banks to restructure loans. It should be noted that during the corona virus pandemic in our country, all measures are being taken to support the population, sectors of the economy and businesses. In particular, within the implementation of the Decree of the President of the Republic of Uzbekistan dated March 19, 2020 number PF-5969, the debt on loans to legal entities in the amount of 7.9 trillion sums was delayed;

The volume of additional restructuring payments on loans of organizations facing financial difficulties due to measures taken to combat corona virus in Uzbekistan and other countries and the sharp decline in economic activity is an additional 7 trillion sums;

- The volume of deferred payments on loans to be repaid by individuals and sole proprietors during the next 6 months of 2020 is 4.7 trillion sums [10].

In turn, the Central Bank of the country asks commercial banks to provide measures to delay payments on loans to legal entities and individuals, individual entrepreneurs facing financial difficulties until October 1, 2020. Also, the central bank has established a procedure for non-application of penalties and recovery measures on collateral for overdue loans of borrowers, which negatively affected the activities of the quarantine regime. It was noted that the amount of interest accrued and deferred on loans by commercial banks is not included in the total income in the calculation of income tax for the period in which the delay is provided.

This certainly has a negative impact on the stability and liquidity of commercial banks. Therefore, the Central Bank of the Republic of Uzbekistan has taken measures to provide commercial banks with additional liquid resources in the amount of 2.6 trillion sums by easing the requirements for required reserves and to introduce a special mechanism to provide them with liquidity of up to 2 trillion sums for 3 years [9].

All this requires further improvement of the credit bureau "Credit Information Analysis Center" in the country. Because the solvency of the banks' customers means that the level of reliability needs to be constantly monitored. The results of the analysis show that the indicators of this organization have also increased significantly.

Table 3
Number of legal entities and individuals on the basis of the Credit Bureau,
(at the end of the year) [9]

| <i>dates</i> | <i>Legal entities</i> | <i>Individuals</i> | <i>Total</i> |
|--------------|-----------------------|--------------------|--------------|
| 2014 y. | 839,0 | 2778,8 | 3617,8 |
| 2015 y. | 876,8 | 2918 | 3794,5 |
| 2016 y. | 1415,0 | 4164,0 | 5578,9 |
| 2017 y. | 589,8 | 7642,0 | 8231,8 |
| 2018 y. | 620,9 | 8189,7 | 8810,6 |
| 2019 y. | 685,7 | 9135,8 | 9821,5 |

In particular, according to Table 3, the number of credit information entities included in the database in 2018 increased by 11.5% to 9 million 821.5 thousand, of which 685.7 thousand were legal entities and 9 million 135.8 thousand were individuals and at the expense of individual entrepreneurs.

Information on fulfillment of obligations on credit transactions in the State Register of Credit Information of the Central Bank and the database of "Credit Information Analysis Center" and "Credit Bureau" LLC, other information to help determine the financial condition, solvency and discipline of credit information entities in the banking sectors; risk management, improving lending procedures and increasing competition in the credit market.

In summary, it can be seen from the above that the banks in our country are successfully developing and improving their growth rates. Also, the application of these examples in the commercial banks of the country will help to further strengthen and increase competition among them.

Conclusions and suggestions

The results of research conducted in the course of scientific research have shown that there are a number of pressing, unresolved issues in improving the practice of mortgage lending in our country, the main of which, in our opinion, are:

The widespread introduction of market mechanisms for the provision of services in the banking system, the proliferation of new types of banking services for the population and businesses and specific measures to increase their popularity are leading to an increase in bank lending.

This creates high credit risks in the banking system, and the Central Bank instructs banks to control such risks, identify them at an early stage and take measures to reduce their negative impact. At the same time, it is necessary to use advanced information technologies to assess the status of loans and the quality of banks' loan portfolios, improve the exchange of credit information, increase the effectiveness of banking supervision and generalize and process credit information.

It should be noted that due to the establishment of the pledge register in the country, the financial and banking system of the country has been provided with infrastructure in accordance with international standards and the interests of creditors have been more reliably protected.

To date, more than 215 users have been registered and a personal account has been opened for them to use the pledge register. The main users are all commercial banks, microcredit organizations and pawnshops, as well as other businesses and individuals. 410,000 entries were made in the pledge register by users and more than 421,000 changes were made to these records, and more than 254,000 entries were removed from the pledge register after the fulfillment of pledge obligations, and about 4,700 copies were obtained from the pledge register. In the pledge register 94.8% of the entries were made by commercial banks and 5.0% by microcredit organizations. [9]

Along with the work done, the State Unitary Enterprise "Pledge Register" continues to work to further improve the pledge register and increase convenience for users.

In addition, in accordance with the Action Strategy for the five priority areas of development of the Republic of Uzbekistan in 2017-2021, as well as in the framework of reforms to implement effective control over monetary policy and the overall stability of the banking system, the following activities are identified as priorities of the Central Bank. In other words, the implementation of online banking operations and the improvement of the information exchange system have been identified as priorities of the Central Bank.

Taking into account the above, in 2017-2021 the Central Bank plans to create a new infrastructure of the State Register of Credit Information.

In this process, technical assistance from the World Bank is involved, and in the framework of this project, a working group consisting of experts from the International Finance Corporation is working closely.

The new system, which is planned to be created in cooperation with the International Finance Corporation, will consist of two components:

- The first part - Credit information exchange system The main function of the software and hardware of the State Register of Credit Information, in other words the creation of a modern software package that provides the collection of primary data from senders of credit information and their operative entry in the register;
- The second part - the creation of analytical software and hardware. Its main function is to generate and analyze various reports from data collected using software tools.

Based on the findings of the study of the state of development of the banking and financial infrastructure of foreign countries, we believe that it is appropriate to apply the following in the development of the banking and financial infrastructure of Uzbekistan;

- It is necessary to improve the regulatory framework for the development of banking infrastructure;
- Increasing the use of modern banking technologies by the population, it is important to increase their financial literacy.

To achieve this goal, it is necessary to increase the number of programs aimed at increasing financial literacy through the National Television and Radio Company of Uzbekistan, regional television and radio networks and other media, and to strengthen the provision of information on services and facilities.

Improving the financial literacy of the population should begin with schools, colleges, lyceums, higher education institutions, with the organization of classes with representatives of the bank;

- Presentation of remote methods in the development of lending mechanisms of banks in Uzbekistan;

It is necessary to analyze the ability of bank employees to obtain loans, to develop a modern system of effective programming, to reform the system of training in this area. In order to increase the efficiency of employees, it is necessary to introduce a rating system for assessing the creditworthiness of borrowers.

- to determine the demand for banking and banking services, what types of services to use and what types of services to approve by conducting surveys among the population and banks, and based on the results of the survey to consistently develop and implement measures by banks;

In conclusion, the reforms and measures taken to develop the banking system in Uzbekistan will lead to the further development of the banking infrastructure, achieving the level of ratings of banks in developed countries in the future. This will lead to the following process: as a result of attracting deposits of the population to bank deposits, the resource base of banks will expand and the dynamics of per capita lending will increase.

It is hoped that these, in turn, will serve as a basis for the full satisfaction of the population's demand for the banking system and its services in the Republic, the elimination of certain differences in banking services in urban and rural areas.

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