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Improving the System for Increasing the Profitability of Assets of Commercial Banks of Uzbekistan During the Transition to a Digital Banking System

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As a result of the effective reforms carried out in our country in recent years, the gradual implementation of the tasks set for reforming and liberalizing the banking system has led to further improvement in the activities of commercial banks, ensuring their financial stability, and most importantly, increasing and strengthening the public's confidence in the banking system.

As our President Sh.M. Mirziyoyev emphasized: "Within the framework of ensuring the well-being of the population through sustainable economic growth:

necessary conditions should be created to reduce the interest rates offered by banks by 2-3 percentage points based on market mechanisms."¹

The issues at hand include the need to further enhance the financial intermediary role of banks in the economy and to continuously increase the volume of activities related to assets.

Currently, it is crucial for commercial banks in our republic to assess and manage their assets, as well as to improve the quality and profitability of their active operations. This is important not only in the context of transitioning to a market economy but also in developed countries, where the activities of commercial banks are recognized for their "locomotive" function that financially supports the development of economic sectors, both real and financial. Therefore, in order for commercial banks to engage in active operations aimed at generating income, they must first improve their management practices and pay attention to important factors that directly influence liquidity, risk, quality and diversification.

This is another argument confirming that optimizing the composition of commercial banks' assets is a pressing issue.

In international practice, the essence of assets is broadly understood as the economic benefits that will be received in the future as a result of previously conducted operations, the purchase of

¹ Mirziyoyev Sh.M the President of the Republic of Uzbekistan No. PF-37 "On the State Program for the Implementation of the Strategy "Uzbekistan - 2030" in the "Year of Youth and Business Support". February 21, 2024

property, or temporarily granting one's property to third parties for use. Future economic benefits, in turn, depend on the ability of asset owners to utilize production processes, fulfill obligations, or exchange obligations for other assets. The income generated from assets typically takes the form of net cash flows. Therefore, in order for any resource to be considered an asset, it must directly or indirectly ensure the inflow of funds, either individually or in conjunction with other resources.

The assets of commercial banks are reflected in the accounting balance sheet, which represents the allocation of resources and their utilization by commercial banks. In international practice, including in Uzbekistan, the balance sheet of commercial banks mainly consists of two structural components: liabilities and assets. Bank assets are recorded in the active part of the balance sheet.²

Typically, bank assets are formed as a result of active operations. The operations conducted by commercial banks to earn income from their own and attracted funds while maintaining their liquidity are considered active operations. It is precisely through the active operations carried out by commercial banks that they shape their main database. The volume of active operations depends on many factors, such as the amount of the bank's charter capital, the direction of the bank's activities, the composition of its clients, the presence of modern technologies in the bank, and the qualifications of the bank's employees.³

Table 1. Structure and Dynamics of Total Assets of Commercial Banks of the Republic of Uzbekistan (in billion sums)

The nominees	01.01.2020		01.01.2021		01.01.2022		01.01.2023		01.01.2024	
	billion sum	share, in percent	billion sum	share, in percent	billion sum	share, in percent	billion sum	share, in percent	billion sum	share, in percent
Cash and other payment documents in the cash register	6553,2	2,4	9734,6	2,7	10686,3	2,4	19309,1	3,5	20201,8	3,1
Funds at the central bank	14769,0	5,4	18851,4	5,1	31514,6	7,1	36592,1	6,6	33228,0	5,1
Funds at other banks - residents	10089,4	3,7	13146,0	3,6	13302,5	3,0	17423,7	3,1	24368,5	3,7
Funds at other banks - non-residents	15419,9	5,7	21700,5	5,9	25074,0	5,6	37688,3	6,8	28862,5	4,4
Investments and other securities*	3567,8	1,4	11023,6	3,0	19633,7	4,4	31507,9	5,7	32548,3	5,0
Loan deposits, net	207646,3	76,1	270212,8	73,8	316382,4	71,1	378909,2	68,1	457847,1	70,2
Loan deposits, net	5723,1	2,1	8314,2	2,3	11031,9	2,5	14242,9	2,6	19874,9	3,0
Interest accrued on assets	3306,3	1,2	7881,6	2,2	9387,1	2,1	12295,3	2,2	19249,8	3,0
Other private properties of the bank	352,8	0,1	1131,2	0,3	1339,4	0,3	3065,5	0,6	4483,5	0,7
Other assets	5299,1	1,9	4125,1	1,1	6570,6	1,5	5712,1	1,0	11492,7	1,8
Total assets	272726,9	100,0	366121,1	100,0	444922,5	100,0	556746,3	100,0	652157,7	100,0

As seen from Table 1, there has been a growth trend in the absolute amount of credit placements from 2019 to 2023. Its share in GDP has also shown an upward trend during these years. This is a positive development and indicates an increasing provision of the economy with bank loans. However, during the period from 2019 to 2023, the share of credit placements in GDP decreased by 7.7%, which indicates that there are significant issues in the credit activities of commercial banks and highlights the need for improvement.

² Toymuxamedov I. R. et al. The Role of Bank Investment Loans in Increasing the Export Potential of Uzbekistan Enterprises //Spanish Journal of Innovation and Integrity. – 2022. – T. 5. – C. 356-361.

³ Rakhmatov T. S. Improving the practice of commercial banks introducing new types of banking services// Academic Journal of Digital Economics and Stability, Volume 35, Nov-2023, 139-146 pages.

The share of loans in bank assets has been showing a declining trend year after year. If the share of loans in bank assets was 76.1% in 2019, it constituted 70.2% as of January 1, 2024. Thus, although the absolute amount of bank loans has increased, there continues to be a relative declining trend.

Certainly, among the assets of commercial banks, the loans allocated to the real sector of the economy hold a significant position. In this regard, 86.7% of the allocated loans are accounted for by domestic sources. This situation indicates that the role of the banking system in stimulating economic growth is increasingly becoming more significant.

The area where the development level of commercial banks' active operations remains low is the underdevelopment of operations conducted with securities by the republic's commercial banks.

Investments in commercial securities have a relatively low weight in commercial banks' investments in securities.

It is necessary to improve the efficiency of the active operations related to securities of commercial banks. To achieve this, firstly, it is essential to increase the share of investments in securities in the total volume of bank assets; secondly, it is necessary to enhance the system for assessing the financial condition of issuers within the bank.

During the transition to a digital banking system, it is appropriate to implement the following measures to ensure the efficiency of the active operations of our country's commercial banks:

It should be noted that it is necessary to develop measures to prevent the accumulation of large amounts of cash assets in commercial banks. For this purpose, first of all, it is important to increase the share of term and savings deposits in the composition of the deposit base of commercial banks.

It is necessary to improve the system for assessing a client's creditworthiness in commercial banks. This will be of great importance for the effective management of bank assets and for enhancing their quality.

In conclusion, we hope that increasing the efficiency of assets in commercial banks will contribute to the formation of a banking system that fully meets the modern banking requirements of our national economy and will create a foundation for strengthening the competitiveness of banks in domestic and international financial markets.

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