Section 1. Banking

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Effective bank assets – the important source of economic growth

Abstract: In this article conditions of liberalizing the economy the improvement of financial stability and capitalization of commercial banks, further strengthening of their position in the financial market is of actual importance as the priority directions of economic reforms. In the basis of these problems there are issues such as further improvement in financial mediation role of banks in the economy, the constant increase of the volume of transactions related to assets.

Keywords: Central Bank, commercial bank, effectiveness, legal issues, economic issues.

Introduction: In the activity of commercial banks the share of transactions related to the profit assets is high. For the purposes of getting profits by bank the ground of these transactions are completed by the measures on provision of positive adequacy of local and attracted funds.

Analysis: While extension the participation sphere of the banks of Uzbekistan in economic processes, the volume of their assets is proportionally increased as well (table 1).

Table 1. – Growth rates of assets of the banks of Uzbekistan
For the period of 2008–2014 years, in trillion soums

| Years   | 01.2008 | 01.2009 | 01.2010 | 01.2011 | 01.2012 | 01.2013 | 01.2014 | 01.2015 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| The size of assets | 9.3     | 12.1    | 15.7    | 20.7    | 27.5    | 33.7    | 43.9    | 56.2    |

Central Bank of the Republic of Uzbekistan, traditionally, making analysis of the condition in money-and-credit sphere for each date of the year, determines the main directions of monetary policy for the next year. In the result of rational performance of priority tasks, established regarding effective placement of bank assets in these directions, the financial opportunities of the banks increase.

The increasing of the efficiency of transactions associated with the assets of commercial banks is included in the number of issues having the important macro- and micro-economic significance.

Macroeconomic efficiency of bank assets is determined by the influence of transactions with inter-bank assets on international capital assets and market condition of financial market. Notably, the wastage of bank credits, on international scale, brings to high risk, leading to the crisis in the world’s economy.

Microeconomic efficiency of bank assets is revealed as follows:

– active operations are the main source of increase of profitability of banks. This requires effective placement, proper diversification of Bank assets;
– growth in the volume of active operations of banks facilitates the creation of new production system in such basic industries as oil and gas production, their refining, motor-car construction, textile and food industry, the introduction into the economy of modern technology, advanced methods of marketing and management. Finally, these situations in the economy lead to the creation of new working places and qualitative increase in productivity;
– efficient use of bank assets in the economy takes the important place in the development of investment processes, being the major factors of economic growth;
– Bank assets as the loan are very important in social protection of population. In particular, the allocation of consumer and mortgage loans to the wide population stratum gives the opportunity to increase their purchasing power and thus, the ability to support domestic manufacturers.
Actual analysis of commercial banks activity demonstrates a number of aspects on assets placement.

**Legal issues**

Strengthening the legal foundations of banking activity does not only facilitate the formation of healthy banking system, but also to maintain orderly financial position in strategic sectors of the economy. It is necessary to pay special attention to the following aspects:

- the improvement of base of current legislation on the provision of effectiveness of active operations of banks, and the elimination of the factors leading to the occurrence of problem Bank assets, to pay special attention to the improvement of the control programs of the Central bank in this relation;
- to strengthen requirements regarding the role and responsibility of corporate management authorities on active operations, the improvement and enhancement of the quality of methods and mechanisms of corporate management based on international standards;
- the strengthening of legal frameworks of relations between bank directors and the Board of the bank at the management of Bank assets, in particular, the strengthening of the system of the Board of the Bank control and its role in the restructuring of the Bank regarding finances and etc.

Two-step formation of the banking system in the economy of Uzbekistan provides for the special approach to the legal issues related to banking operations [2].

Strengthening of the legal framework of the banking system in the economy creates the possibility for strengthening investment activity of commercial banks, through the modernization of the economy, technological re-equipment of production capacities, increasing in participation of banks in the process of financial support of small business and private entrepreneurship. In the result of measures taken in this sphere, the indicators of generally accepted international norms, and even higher indicators in some spheres have been achieved under the major indicators of banking system. In particular, within several years the level of current liquidity of the banking system of Uzbekistan makes up more than 65 %, it is in 2 times exceeds the generally-accepted index in the world’s practice. The level of capital adequacy of the banking system makes up 24.7 % or more 3-fold size of the requirement, established by Basel Committee.

**Organizational issues**

At present time, the development of healthy competitive environment in the market of bank services requires deep attention to the following organizational issues on the improvement of the effectiveness of banking assets:

- the increase of responsibility of committees engaged in active operations of commercial banks, the correct assessment of the reduction of risk provisions at assignment of loans, and the risks associated with the liquidity;
- coordination of the activity of departments responsible for provision of correct placement, quality of assets and the level of profitability of bank assets;
- implementation of the required measures on the strengthening of the competence of employees directly associated with the present process.

The strengthening of the requirements to the activity of structural subdivision regarding placement of assets at provision of the effectiveness of commercial banks assets is of great importance. For these purposes, the task was set for banks, in order the Board of the bank widely use the practice on systematic quarterly examination and taking measures regarding the reports of Chairman and Board members, managers of internal audit department on bank assets, loan and investment portfolios, indices of profitability and liquidity.

Besides, for the purposes of diversification of assets, improvement of loan portfolio, control of effective risks management at every bank the Committees on risks control directly reporting to the Board of the bank have been created.

**Economic issues**

Economic issues on the increasing of effectiveness of commercial banks assets provide for determination of final requirements for the implementation process of reasonable placement and constant monitoring of bank assets. They consist of the following:

- introduction of the mechanism on complex analysis of debtors’ solvency on the initial stages of bank assets placement;
- development of measures intended for efficient management of risks through wide diversification of bank assets, improvement of loan portfolio and making required alterations there, considering economic situation;
- strengthening of the mechanism on maintenance of constant and efficiency monitoring of bank assets quality, determination and elimination of problem situations, associated with bank assets on the early stages;
- increase in assets volume through submission of new and advanced bank services to the potential clients and introduction of the system of individual work with such kind of the clients.

As the practice shows, at the evaluation of bank assets profitability, application of economic methods and
models tested in international practice is of actual importance. In particular, at present time, in bank practice the importance of financial condition of bank on the basis of recommendations of Basel Committee on bank supervision grows. The present method gives opportunity to determine serious influence on the efficiency of assets of factors such as the system of evaluation of liquidity level, operation activity, market price, management and risks.

Besides, it is wise to pay attention for the extension of practice of modern procedure for banking activity on scoring analysis for client’s creditworthiness. The results of the analysis are of great importance for efficient management of bank assets and passives as well as for increase in their quality.

Summarizing, it can be said that the increase in effectiveness of commercial banks assets creates the ground for formation of banking-financial system in national economy fully complying with the modern market requirements and strengthening of banks competitiveness in internal and international financial markets.

References:

1. The picture is made on the basis of data of official site of Central Bank of the Republic of Uzbekistan. [Electronic resource]. – Available from: http://www.cbu.uz
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