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Article

The Need For Privatization of Private Banks in Uzbekistan

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Abstract: The article substantiates the need to reduce the state's share in the banking system of the Republic of Uzbekistan, based on the results of comparative analyses of indicators of profitability, efficiency and safety of the functioning of banks with a high share of the state and other forms of ownership. Reducing the state's share in commercial banks will create a competitive environment in the economy and lead to an increase in the quality of services provided in the banking system.

Keywords: Transformation, development strategy, profitability, efficiency, profitability and listing

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Introduction. In the era of global development, the competitive environment in the world economy is gaining more priority. The practice of financing in the formation of the necessary economy for the development of society is also prone to fierce competition. Undoubtedly, the role of the banking system in attracting additional financial resources to the economy is incomparable. Improving the efficiency of the banking system is important not only for the country's economy, but also for social spheres. Therefore, the transformation of the banking system is one of the issues in the constant focus of governments.

The main part. In the process of privatization of banks with state share, the adoption of the Decree of the President of the Republic of Uzbekistan dated May 12, 2020 "On the strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025" No. PF-5992 introduced radical changes to the country's banking system. At the first stage of reforming the activities of large banks, the process of preparation for the privatization process is carried out by transforming the activities of banks. The second stage provides for the complete sale of the state's share to strategic investors. The Decree of the President of the Republic of Uzbekistan dated January 28, 2022 "On the development strategy of the new Uzbekistan for 2022-2026" No. PF-60 was adopted, and the next five-year development program of our country was developed. A decision was made to gradually liberalize the movement of capital in our country, complete the transformation processes in commercial banks with state participation, increase the share of the private sector in banking assets to 60 percent by the end of 2026.

One of the main reasons for the need to privatize the state share in state-owned banks is the low efficiency of state-owned banks compared to banks with other forms of ownership. Through a comparative analysis of performance indicators of banks belonging to different forms of ownership, it is possible to express an objective opinion about the need to privatize the state share in banks with a state share. There are many methods for evaluating the performance indicators of banks, and it is one of the main criteria for capital injection by investors.

Bank efficiency indicators can be divided into three important groups. These are indicators of high profitability, high efficiency and operational safety. As profitability indicators of commercial banks, it is possible to cite indicators such as return on equity (ROE), return on assets (ROA) and loan portfolio profitability (see Table 1).

Table 1

Comparative information on profitability indicators of commercial banks[1]

	Years	Uzprom stroybank	Asaka bank	Aloqa bank	Halq bank	Ipak Yuli bank	Trast bank	Kapital bank
ROE , %	2015	10,3	14,4	17,2	3,5	23,5	26,5	45,0
	2016	10,6	11,2	17,5	34,1	32,2	25,2	29,1
	2017	54,2	5,4	22,8	0	38,7	32,6	33,4
	2018	7,7	4,1	15,3	0	34,8	38,4	17,7
	2019	12,8	3,2	15,4	3,4	37,9	46,6	21,2
	2020	1,9	4,2	8,4	10,2	20,5	48,3	18,7
	2021	13,2	2,7	7,7	0	30,2	46,5	34,5
	2022	8,6	3,1	11,7	0	28,9	44,6	52,6
ROA, %	2015	0,9	1,6	2,5	0,3	2,3	3,5	3,1
	2016	0,9	1,0	2,4	3,6	3,0	3,0	2,4
	2017	5,2	0,5	3,1	0	3,8	3,8	3,0
	2018	0,8	0,4	2,8	0	4,1	4,5	1,5
	2019	1,8	0,4	2,9	0,8	5,0	6,1	2,0
	2020	0,3	0,5	1,5	2,1	3,1	7,5	1,9
	2021	1,6	0,3	1,1	0	4,9	7,5	3,3
	2022	1,0	0,3	1,4	0	4,7	7,8	4,6
Profitability of the loan portfolio, %	2015	5,8	10,4	14,4	18,9	17,5	15,9	15,6
	2016	6,0	8,1	14,8	19,6	16,3	17,1	16,3
	2017	5,1	5,4	13,3	18,6	15,6	18,3	17,0
	2018	5,6	5,5	15,5	22,2	16,5	18,0	14,2
	2019	7,9	7,4	16,3	23,4	17,2	22,1	16,9
	2020	9,5	8,6	15,4	21,2	19,4	26,3	14,7
	2021	10,3	7,9	15,6	19,8	19,3	28,4	17,5
	2022	11,2	9,1	16,8	23,2	20,8	34,3	19,8

In the data of the table, there is a large discrepancy between the profitability indicators of the commercial banks with a state share and commercial banks belonging to other forms of ownership.

Return on equity (ROE = Net profit / Average cost of capital) is an indicator of the bank's efficiency in using its own funds. ROE is the most important financial indicator that generates income for any investor, business owner, and it shows how efficiently the capital invested in the business is used.

Return on equity (ROE) indicator is lower in commercial banks with state share compared to commercial banks with other forms of ownership. The main reasons for the sharp difference in this multiplier in banks with a state share and banks belonging to other forms of ownership are low efficiency of corporate management under the influence of high state intervention in the activities of banks of the first group, disproportionate net profit and equity capital of banks under the influence of funds introduced by the state in order to increase the authorized capital of banks. We can cite reasons such as growth and the provision of low-interest social security loans through state-owned banks. This situation can cause concern for investors who are thinking of putting in funds on their own.

Return on assets, (ROA = Net profit / Average cost of assets) is a coefficient reflecting the efficiency of using assets to generate income. Calculation of this multiplier is relevant for banks. It

[1] It was calculated by the researcher based on annual audit reports of commercial banks.

shows how much profit the bank receives for each unit invested by its shareholders and creditors. A high value of the indicator reflects the level of efficient use of bank assets, but at the same time, it may reflect the high risk of operations. This indicator, like the return on capital, is at a much lower level in banks with a state share compared to banks belonging to other forms of ownership. Low profitability indicators in state-owned banks may be due to insufficient customer base or the bank's conservative credit policy. In banks belonging to other forms of ownership, the high rate of this indicator is the result of a significant share of the cheap customer base, successful speculative operations and placement of assets in high-yield operations.

Profitability of the loan portfolio (Interest income/Average cost of the loan portfolio) is a coefficient reflecting the profitability of the loan for each unit allocated by the bank. The fact that this indicator is lower in state-owned banks can be explained by the fact that the bulk of loans issued on the basis of state programs are accounted for by these banks.

The following indicators can be used as performance indicators for commercial banks: the ratio of expenses to income, the ratio of income to assets, and profitability (see Table 2).

Table 2

Comparative information on performance indicators of commercial banks[2]

	Years	Uzprom stroybank	Asaka bank	Aloqa bank	Halq bank	Ipak Yuli bank	Trast bank	Kapital bank
The cost-to-income ratio, %	2015	86,8	84,0	83,6	98,0	85,1	73,0	82,9
	2016	87,4	87,4	84,5	75,0	81,8	75,9	85,5
	2017	49,2	94,7	80,1	113,0	78,2	74,1	81,3
	2018	86,6	93,5	81,1	25,0	75,2	70,0	88,0
	2019	77,8	94,7	82,1	96,0	72,0	62,7	86,8
	2020	97,0	92,9	89,1	89,0	82,9	57,9	86,5
	2021	82,4	95,8	91,8	125,8	74,5	54,8	78,1
	2022	90,0	95,5	90,3	108,4	77,5	57,7	75,0
The ratio of income and assets, %	2015	6,4	8,8	13,9	18,0	13,2	11,2	15,4
	2016	6,7	6,7	13,4	13,0	13,2	10,7	13,5
	2017	7,3	6,9	12,7	19,0	15,0	13,3	13,9
	2018	5,3	5,3	10,7	15,0	14,9	12,2	11,1
	2019	7,7	6,8	14,4	15,4	15,6	14,9	14,1
	2020	8,2	6,6	13,3	16,0	16,1	15,1	12,4
	2021	8,8	6,7	11,4	19,2	16,7	13,9	11,0
	2022	9,8	7,3	12,8	17,8	17,7	16,9	14,1
Profitability %	2015	15,2	19,1	16,4	2,0	17,5	37,1	20,6
	2016	14,4	14,5	15,6	33,0	24,3	31,8	17,0
	2017	103,1	5,6	19,9	0	27,8	35,0	22,9
	2018	15,4	7,0	18,9	0	33,0	43,0	13,7
	2019	28,5	5,6	17,9	4,0	38,9	59,6	15,2
	2020	3,1	7,7	12,2	13,0	20,6	72,9	15,6
	2021	21,3	4,5	8,9	0	34,1	82,5	28,0
	2022	11,2	4,7	10,7	0	29,1	73,4	33,4

The cost-to-income ratio shows what part of the unit of income received by the bank goes to expenses.

This situation is a sign that our banks still have a low level of profitability and that expenses are not optimized. Analyzing the structure of expenses, we see that the main expenses of banks are salaries, building maintenance and other operating expenses. Optimization of expenses in a commercial bank, in turn, has a positive effect on the profitability and cost effectiveness of the bank, causes an increase in the amount of dividends paid, increases the market value of the bank's shares in the future and increases interest in the bank's shares.

[2] It was calculated by the researcher based on annual audit reports of commercial banks.

The ratio of income and assets is one of the coefficients that determine the profitability of bank assets. Through this indicator, we will be able to determine the average profitability of bank assets.

Profitability (Net Profit / Total Expenses) – Used to determine the share of expenses incurred per unit of net profit earned by the bank. This indicator shows the effectiveness of the costs incurred. The efficiency of expenses made by banks with a state share is seen to be low compared to banks belonging to other forms of ownership, which indicates that the funds allocated to banks by the state are not being used effectively.

In the studied period, the efficiency of expenses made by banks with a state share is seen to be low compared to banks belonging to other forms of ownership, which indicates that the funds allocated to banks by the state are not being used effectively.

It is possible to cite indicators such as the authorized capital, loan-to-deposit ratio and asset-to-liability ratio of commercial banks as operational security indicators (see Table 3).

Table 3

Comparative information on operational safety indicators of commercial banks[3].

	Years	Uzprom stroybank	Asaka bank	Aloqa bank	Halq bank	Ipak Yuli bank	Trast bank	Kapital bank
Authorized capital, mln. soum	2015	706,9	550,2	112,7	245	94,8	41,9	80,3
	2016	706,4	550,2	123,4	299	112,6	41,9	80,3
	2017	1 460,0	2 132,9	244,5	1047	161,8	101,9	80,3
	2018	1 884,9	2 132,9	889,9	1647	282,7	161,9	104,4
	2019	4 640,0	5 717,2	959,5	4234	406,4	226,9	154,4
	2020	4 640,0	5 667,2	959,5	4234	534,2	361,9	172,6
	2021	4 640,0	5 667,2	959,5	7433	534,2	361,9	375
	2022	4 640,0	5 891,0	959,5	7433	604,0	562,0	406
The ratio of loans to deposits %	2015	78	105	125	61	69	48	52
	2016	378	89	119,8	65,9	105,7	48,9	51,1
	2017	613	191,6	84,1	81,1	115	56,6	46,7
	2018	362	217	136	99	137	55	63
	2019	327	325	115	164	183	66	66
	2020	348,8	351,6	115,8	184	168,7	61,1	73,6
	2021	342,3	366,6	114,1	168,2	149,9	50,4	60,9
	2022	323	254,6	119	159,5	122,4	55,6	63,6
The ratio of assets to liabilities, %	2015	109,8	111,4	117,1	109	110,3	114,4	107,8
	2016	110,1	110,9	115,9	109	111	113,2	112,2
	2017	110,3	114,5	116,6	116	112,7	113,4	110,6
	2018	110	112	125	122	115	113	111
	2019	122	121	123	120	116	119	114
	2020	114,6	112,6	140,4	134	119,4	119,3	111,5
	2021	114,2	111,9	114,3	121,5	119,1	119	109,9
	2022	113,6	112,6	112,8	110,5	119,4	123	109,4

Authorized capital is the capital formed by the founders of the bank in order to start the bank's activities and fulfill its obligations. According to the data of the table, the authorized capital of banks with a state share is increasing sharply only at the expense of funds introduced by the state. This situation has a negative impact on the deposit attraction policy of these banks.

The ratio of loans to deposits represents the relationship between the loans allocated by the bank and the deposits attracted. This means that banks are not even able to use the available funds of customers for lending.

The ratio of assets to liabilities is an indicator that determines the level of the bank's ability to fulfill its obligations. Therefore, the ratio of bank assets and liabilities is considered as an

[3] It was calculated by the researcher based on annual audit reports of commercial banks.

indicator of its reliability. From the data in the table, we can see that the performance indicators of banks with a state share are lower than banks belonging to other forms of ownership.

At the same time, shares of state-owned banks are sold at a level lower than their nominal value on the "Tashkent" republican stock exchange, while shares of private banks are sold several times higher than their nominal value (see Table 4).

Table 4

Comparative information on shares of banks listed on the "Tashkent" stock exchange. (as of 01.04.2024)[4]

№	State-owned banks	Common stock		Preferred stock	
		Nominal price	Market price	Nominal price	Market price
1	Uzpromstroybank	19,0	10,3	19,0	34,9
2	Agro bank	1 168,0	535,03	1 168	18 999
3	BRB	119,25	116,9	119,25	384,0
4	Microcredit bank	1 068,0	921,0	1 068,0	5 302,0
5	Turon bank	1 700,0	900,0	1 700,0	2 501,04
6	Aloqa bank	121,0	91,0	121,00	699,0
№	Other banks	Nominal price	Market price	Nominal price	Market price
1	Ipoteka bank	1,0	1,14	1,0	2,96
2	Kapital bank	950,0	5 284,0	-	-
3	Hamkor bank	5,00	29,45	5,00	28,97
4	Ipak Yuli bank	10,0	165,0	10,0	-
5	Trast bank	1 000,0	10 001,0	1 000,0	288 000,0
6	Universal bank	5 000,0	8 800,0	-	-
7	Garant bank	100,0	232,0	-	-
8	Okto bank	1 000,0	7 000,0	-	-

As can be seen from the table, the market value of ordinary voting shares of state-owned banks is valued below their nominal value. And on the contrary, the market value of ordinary shares with voting rights in banks belonging to other forms of ownership is valued higher than their nominal value.

This situation indicates a lack of interest in the shares of banks with state participation and that the majority shareholders (mainly two state organizations) are not active in the stock market. In banks of other forms of ownership, a system for protecting the interests of minority shareholders has been formed, which creates the basis for changing the quotes of bank shares and receiving additional investments. This situation is the basis for changing the quotes of bank shares and receiving additional investments, since minority shareholders are more active in the stock market than majority shareholders.

Table 5

Comparative information on the main indicators of the banking system[5]. (as of 01.01.2024)

Indicators	Amount and share	Total	State-owned banks	Other banks
Asset	amount (billion soums)	652 157,0	441 777,0	210 380,0
	share, %	100,0	67,7	32,3
Capital	amount (billion soums)	97 079,0	63 239,0	33 840,0
	share, %	100,0	65,1	34,9

[4] It was compiled by the researcher based on the information of the site https://uzse.uz/abouts/msq/

[5] It was compiled by the researcher based on the data of the website www.cbu.uz/oz/statistics/.

Credit	amount (billion soums)	471 406,0	333 298,0	138 107,0
	share, %	100,0	70,7	29,3
Deposit	amount (billion soums)	241 687,0	124 358,0	117 329,0
	share, %	100,0	51,0	49,0

As can be seen from the table, as of January 1, 2024, state-owned banks account for 67.7% of total bank assets, 65.1% of total bank capital, 70.7% of total outstanding loans, and 51% of total deposits. Only 37.3 percent of the loans of banks with a state share are secured by deposits, and the remaining 62.7 percent of loans are made at the expense of state resources. The efficiency of private banks is several times higher than the efficiency of banks with a state share (see Table 5).

After the independence of our country, attention has been paid to reduce the share of the state in the banking system. Regulatory and legal documents on the privatization of banks with a large state share have been adopted in different years. However, only 2 state-owned banks have been privatized to date.

In 2022, Uzagroexportbank, with the support of the consulting company Grant Thornton, sold a 100% package of state shares in the authorized capital of the bank to a foreign company in the form of Support Level LLC in the amount of 5.0 million US dollars. The fee was paid in one go. It was agreed to increase the authorized capital of the bank to 29 billion soums and invest at least 50 million US dollars in the development of the bank's infrastructure, technologies and products.

In 2023, the state share in Ipoteka Bank was privatized by direct sale to an investor for USD 330 million with the support of the international law firm White & Case LLP, a consultant to Raiffeisen Bank (Austria) and the international audit company Pricewaterhousecoopers. The new owner of the bank was the Hungarian OTP Bank.

CONCLUSION

In our opinion, the state share of the above indicators is lower in operating banks compared to banks related to other forms of ownership, which is due to the difference in the organization of the bank management system and the approach to ownership. That is, the concept of "the state does not belong to anyone" reduces the efficiency of large state banks. This situation in itself embodies the privatization of the state share in the banking system as an urgent problem. In recent years, reforms have been carried out to reduce state participation in the banking system of Uzbekistan. As a result of the reforms, 2 large banks were privatized. The process of privatization of several banks is being carried out consistently.

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