

Concept of the Effective Interrelationship of Bank and Industry Capitals

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Abstract—The given article highlights the current conditions of Uzbek commercial banks loan portfolios at the contemporary stage as an indicator of successful balancing between bank and commercial capitals; it also underlines the overwhelming demand for bank loans from the borrowers. As the bank system is actively developing to credit the economy, its positive results are showing up. The given article illustrates a good sign of progress made by the Uzbek bank system in the recent years.

Keywords—banking; interest rate; investment; bank system and loans.

I. INTRODUCTION

In the Independence years, the basis of formation and steady growth of the developed banking and finance system is created in the Republic. Transition to market economy, development of ownership types and acceleration of good and money relationship necessitates it to create new kinds of the economy financing services. In particular, it plays great role in problem solving process at the bank system in the conditions of preventing the world financial and economic crisis aftershocks, economy modernization. As I.Karimov, the President of Uzbekistan exclaimed “our national banking and finance system is functioning steadily and confidently and is showing impressive performance. Total capital of bank system grew by 24.3 percent in 2012. In the last three years it has doubled. Nowadays the capital sufficiency level has exceeded more than 24 percent and that is triple as much as the internationally agreed standards. The bank system liquidity increased more than 65 percent in 2012. In fact, that number is twice as much as the required minimal rate”[1]. Such kind of impressive performance affected positively not only on bank capital but also on bank assets. Due to effective monetary and credit policies carried out in our country, the asset of national bank system is growing from year to year. This, in turn, will lead to decrease the amount of speculative loans in bank assets and increase the financial resources to real sector of the economy, consequently, will improve the bank contribution to the prospective development of the Republic. In addition, grown bank

capitalization will ensure the on target degree of state investment.

II. RESEARCH METHODOLOGY

The banks’ operational activities focus mainly on providing the businesses with economic growth, equipping them with cutting-edge facilities, enabling them to produce export products. The longer lifecycle of bank clients, the better chances are for them to have longer production lifecycle. This is, in turn, will positively affect to the factors at micro and micro levels.

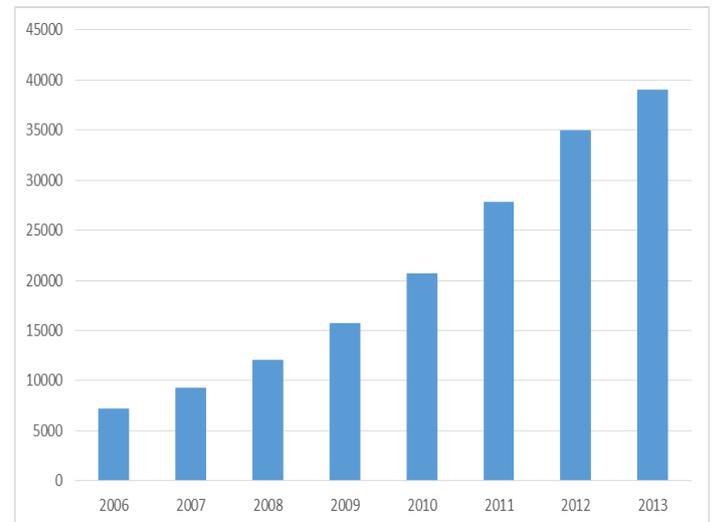


Fig. 1. Total assets of commercial banks, bln Uzbek soum*

*Source: Author’s calculation on the basis of Uzbekistan Central Bank materials.

From the numbers given above one can see that in the period of 2006 through 2012 the volume of bank assets grew by five times. Recent years the total assets of acting commercial banks have exceeded more than 35,7 trillion Uzbek soums in our Republic. Fulfilment of effective bank supervision in accordance with international standards,

regular control over bank liquidity and asset quality enabled domestic banks to get classified as ‘good standing’ by the international ranking agencies.

Positive achievements like that in the bank sector depend mostly on organization of bank system and bank management.

III. LITERATURE REVIEW

Let’s tackle the understanding of bank management and its definitions given by a number of scientists.

According to Prosvetova G.I., “Bank management is all about management of the bank’s financial resources to provide the bank with stability”. [2]

As our economic scientists Vahobov A. and Ortikov O. point out that “bank management process covers all aspects of the bank activities, including its external outlook (furnishing), personnel (work culture with customers), technical provision (communication facilities and computers)” [3]

In our opinion, bank management is the management of the bank in order to generate more profit and provide the bank with social and economic security.

Practice shows that interaction processes of bank and industry capital play a great role both in leading industrial developed countries and in developing countries with emerging market economy.

Performance of the banking sector can be assumed effective only when banks act like middleman between borrowers and depositors that are willing to invest in real sector of economy. Here it is worth to mention that, the real sector of economy needs a great deal of capital investment and restructuring based on up-to-date information technologies as well. However, the bank sector takes blame all the time, firstly, for the fact that it does not fulfill its utmost tasks—issuing loans to the economy. Secondly, it creates hurdles for economic growth. Thirdly, it is less attractive in terms of investment. There exists necessity to develop theoretical and methodological grounds of the interrelationships between bank and industry capitals as the form of cooperation in Uzbekistan.

Effective interrelationship of bank and industry capitals is a prerequisite factor of market economy development. Industry restructuring proposes to invest a great deal of capital into the real sector of economy. It is true because major assets are expected to wear out physically and depreciate soon. Another reason is, they tend to fail to meet the scientific and technical progress. The current problem can be solved through actively crediting the economy based on so-called ‘methodological platform’ that provides the financed project with high economic efficiency.

IV. RESULTS

At the contemporary stage, the bank system of Uzbekistan demonstrates the unexampled high growth rate of loan issuance to the industry producers.

Having studied and analyzed the bank assets thoroughly one can note that during the first nine months in 2013 the total amount of loans issued to the real sector of the Republic of Uzbekistan economy increased by 31.3 percent against the same period from the previous year. At the present, their volume exceeds 22.7 trillion Uzbek soum (see Table 2).

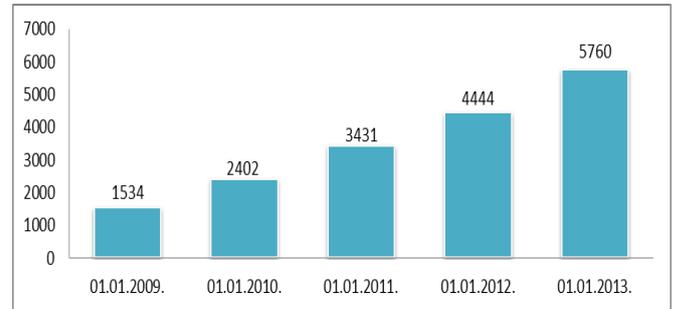


Fig. 2. Bank loans offered to the real sector of the economy of Uzbekistan, bln Uzbek soum

The bank loans that given to small businesses and entrepreneurship were 1,3 times more than the same period in the previous year. As of October 1st, 2013 the bank loans that given to small businesses and entrepreneurship were equal to 5,6 trillion Uzbek soum (Figure 3).

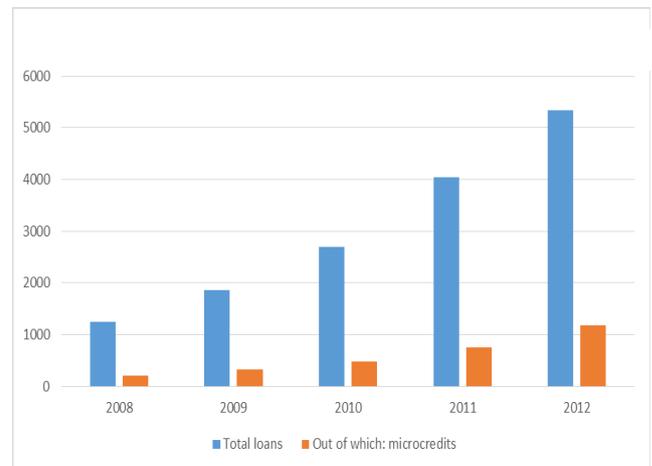


Fig. 3. Bank loans to small businesses and entrepreneurship in Uzbekistan, in trillion Uzbek soum

Good standing of the domestic banks, public trust in them, as well as, increase of real public profit act like a firm basis of individuals and business entities attraction unused currencies to deposit in the banks.

Because of the measures, those are currently being taken, to further increase the capitalization rate of the commercial banks, to attract a wider range of private capitals into the

given sphere are increasing the resource base from year to year. In particular, the given data as compared with the same period of the previous year rose by 30.7 percent. Nowadays their volume exceed 23.2 trillion Uzbek soum (see Table 4).

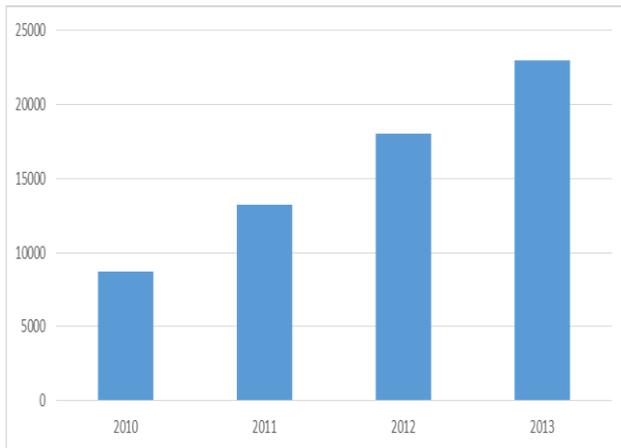


Fig. 4. Deposit balance of the Uzbek commercial banks

Quality of Uzbek banks loan portfolio, in whole, is adequate for an emerging market. The ratio of long-term loans in the loan portfolio is 79 percent. Alongside with the capital increase of private banks, the credit portion aimed for social development sector is also increasing [4].

In the last five years, the NDP (National Domestic Product) of Uzbekistan has exceeded 8 percent. Export receipts are rising and state programs on development of the economy real sector are being carried out. Minimal state debt, fiscal proficient, accumulation of huge reserves, prompt diversification directed to foreign trade in the background of ongoing stagnation of the world’s banking and financial systems – all these factors positively impact on macroeconomic indicators [4]. The indicators of socio and economic development of the country for the 9-month period are illustrated in Table I.

Expanded renovation of technical and technological modernization scales and diversification of industrial manufacturing, which stimulate the production of consumption products caused in, what is called, ‘currency flood’ or ‘money shot’ that rendered by the bank sector of Uzbekistan. This is a good sign of bank and industry alliance progress.

TABLE I. MAIN INDICATORS OF THE REPUBLIC OF UZBEKISTAN SOCIAL AND ECONOMIC DEVELOPMENT DURING THE FIRST 9 MONTHS IN 2013 (IN % AGAINST THE SAME PERIOD IN 2012)

Indicator	Growth rate
Gross Domestic Product	108,1
Industrial manufacturing	109,4
Consumption goods	115,9
Agricultural product	106,8
Construction works	119,2
Retail turnover	114,7
Commercial services	113,0
Total service	112,4

By doing so, transition from factoring to investment growth of economy will be provided. In addition, this will create favorite conditions for both domestic and foreign investments to flow into industry and intellect-intensive production. In such kind of restructured transformations, the subjects will be such called integrated-business groups (FIG – finance and industry groups). The integrated business groups take active part in investing projects in developed countries. This underlines the importance of the industry and bank capitals interrelationship.

Hereby, it is necessary to consider the factors, which hold active bank crediting, are as followings:

– Trendy macroeconomic situation, that is, lack of precise development perspective. Here, the clients tend to be more conservative to plan their activities; moreover, they feel fear to take extra responsibilities and they are unwilling to rush to carry out their investment related plans;

– Poor financial condition of the company, the balance sheet that is full of aggravated accounts receivables and payables, say, tax payments. In financing such types of companies the banks need to create huge reserves that, it initially makes loan issuance not profitable;

– Lack of required level of consumption need— individuals tend to save rather than to spend. «People have come to understand the degree to which they can borrow when there is a risk of losing permanent profit source and, at the same time, liability that they must take care»[5].

– Rise of the banks bad debt problem. The President of Uzbekistan I. Karimov exclaimed, «Serious problem arise in financial and banking system due to the increase of borrower defaults». The problems from the previous years do not fade away. Some credits were restructured; on some credits, compensations were taken. However, in whole, the problems still exist;

– Lack of long-term financing sources enabling to issue loans for the period of three years or longer. It is necessary to attract the unused funds of government, state corporations, and pension and insurance funds into the national bank system. This will enable the bank system to create long-term financing opportunity within the country. As the Russian banking experience has shown, it is necessary to adopt a regulatory document that prevents the depositors from withdrawing their money from the banks any time as they wish no matter for what period they deposit. Otherwise, the deposits taken from the individuals will be assumed ‘checking accounts’ but not ‘saving ones’ [5].

– Lack of the banks as lenders legal protection, that is, lack of precise rules and regulations in many cases.

It is worth to mention here that, the businesspeople and entrepreneurs tend to take advantage of bankruptcy procedure to avoid paying back the bank loans. To greater extent, the liberal norms of the rules and regulations of the

Republic of Uzbekistan allow them to practice it. In many cases, the bankruptcy procedures are initiated by the certain structures with the purpose of taking attractive assets at lower prices or by the owners who are unwilling to repay the bank loans.

Nevertheless, a great deal of effort is being put to finance the medical organizations with low profits and bankrupt companies, to modernize and technical and technological reequipping the production, to further increase the amount of competitive goods both in domestic and external markets. Starting from 2013 proposals have been developed to normalize more than 8 thousand corporations and organizations.

Based on the Presidential Degree #4483 dated 13.11.2012 the State Competition Committee is obliged to carry out systematic measure to analyze financial and economical conditions of low-income organizations and corporations in detail. That task will be carried out, before all, at the cost of modernization and technically and technologically reequipping the production of new competitive goods and products. It requires rationale approach of financing. Here finance and industry groups should take active part in it.

V. DISCUSSION

However there still exists access problems for business entities to the loans in regions. For that reason, it is important to form 'growth points' based on other principles. Here finance and industry groups are supposed to be subjects that affect to create institutional atmosphere not only at the level of group but national economy of Uzbekistan as well. Finance and industry groups, in our opinion, should carry out the following functions:

- to take part in formation institutional atmosphere in the national economy of Uzbekistan which is favorite condition for attraction of both direct foreign and domestic investments into real sector of the economy. Participation of finance and industry groups association in different foreign conferences will enable to arrange business dialogues;

- The existence of the finance and industry groups will help to strengthen the positions in strategically important areas; attraction of finance and industry groups participants and in the territory of special and economic zones (SEZ) will help out to fulfill two objectives: to develop traditional manufacturing and concentrating the investments for formation of 'growth points' of economy and infrastructural development.

What is so important now is it is purposeful not to develop the exact type of business structure but to create institutional conditions in which different types of economic entities will be able to carry out their missions in compliance with economic priorities.

VI. CONCLUSION

In conclusion, it is crucial to work on expansion of production and service volume, their competitiveness, to modernize the production, to improve working conditions rather than wasting precious time in months or even years at the court in order to get the bad debts back. To do so, it is necessary to work out innovational approach of the company-borrowers and bank-lenders 'limited existence' on the basis of bank and industry capitals interrelationship conception.

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