

# The Role of Rating Agencies in Determining the Activities of Banks. Activity Index of Banks in Uzbekistan

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**Abstract.** *This article discusses the role of commercial banks, which are an important part of the economy, and the role of rating agencies in determining and monitoring how they operate. It also provides detailed statistics on the activity index, financial intermediation, financial popularity of domestic banks during the pandemic.*

**Keywords:** *"Fitch-ratings" International rating agency, Moody's Investors service and standard and poor's, Akhbor-Rating agency, center for economic research and reform, activity index, financial intermediation, financial popularity and etc.*

It is known that commercial banks, as a subject of market relations, play a key role in the sustainable development of the country's economy. It is much harder to imagine an economy without their role. They are mainly used to lend to the economy and, as a result, to stabilize the volume of production and services. This will ultimately lead to an increase in GDP, an indicator of the country's economic development. It should be noted that commercial banks are one of the active participants in the securities market. Banks also invest in the stock market. The investment activity of banks leads to an increase in the liquidity of issuers, an increase in financial resources and the development of securities trading. By issuing securities, commercial banks attract temporarily vacant funds at the disposal of individuals and businesses and place them as credit investments.

In general, the nature and functions of banks, as well as the operations and services they provide, determine their role in the economy. The role of banks in the economy should focus on the factors of their formation, development processes and operations. The role of banks has certain characteristics, such as their functions. Banks, regardless of their form of ownership, carry out operations of general importance in the economy. Therefore, banks, regardless of their form of ownership or specialization, have a special role in the economy.

In addition to controlling the above features, international rating agencies and organizations have been established to further stabilize their activities and increase their efficiency, including *"Fitch-ratings" International Rating Agency, Moody's Investors Service and Standard And Poor's* and others. In our country, there are also organizations that determine the ratings of similar banks, such as the rating agency *"Akhbor-Rating" and the Center for Economic Research and Reform.*

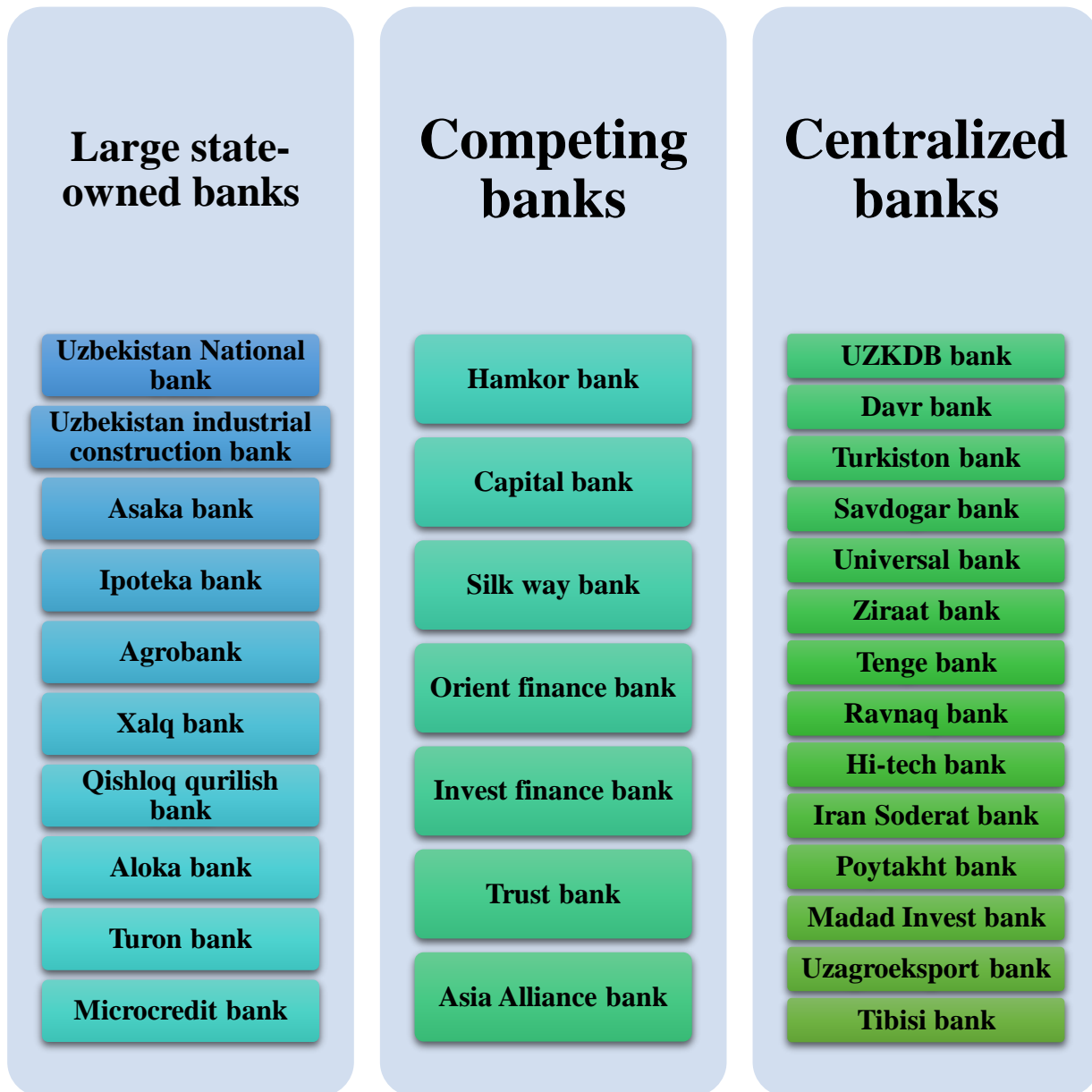
*Halilullah Hamidov*, a senior researcher at the Center for Economic Research and Reforms, presented the results

of a study on the *"Bank Activity Index"* in order to continuously assess the share of private banks in the banking assets of Uzbekistan this year, as well as the effectiveness of reforms and transformation in the banking sector. This index consists of two subindexes:

- *Financial Intermediation and Publicity Index;*
- *Financial Stability Index.*

In its study, the center estimated the activity index for 27 commercial banks. However, there are currently 31 commercial banks operating in the banking system of Uzbekistan. Of these, 13 are state-owned banks, 16 are private banks or banks with foreign capital. In July 2019, *Tenge Bank* became a subsidiary of Halyk Bank of Kazakhstan. Georgia's TBC, which bought a stake in Payme's payment services, has been operating the bank since April.

It should be noted that banks are divided into three groups: large state-owned banks; competing banks; centralized banks (despite the fact that Savdogar Bank has 19 branches in 13 regions and Universal Bank has 4 branches in 3 regions, these banks are included in the group of centralized banks based on the volume of assets, loans, equity and deposits).



Taking into account the problems in the banking system outlined in the Strategy for Banking Reform of the Republic of Uzbekistan for 2020-2025, the first sub-index of the Banking Activity Index was the Financial Intermediation and Publicity Index. In determining this indicator, attention was paid to the ratio of savings and time deposits to total loans, the share of funds received from other banks and financial institutions in total liabilities, and the importance of government borrowings in the formation of bank assets.

*Financial intermediation*

The ability of commercial banks to attract funds to the banking system and to direct these funds to finance the most financially and economically viable projects determines the activity of banks as financial intermediaries. One of the indicators of financial intermediation is the ratio of deposits from the real sector to loans. The higher this indicator is, the more positive it is for the Banking Activity Index, and if it is lower, that means it is more negative. As of June 1, 2020, the ratio of household deposits to loans in the banking sector averaged 7.4% in the 10 largest state-owned banks, 32.5% in competing banks and 26.3% in centralized banks. These figures indicate the importance of liabilities in addition to household deposits for large state-owned banks in lending.

In 7 of the 10 largest state-owned banks, the share of deposits and loans from other banks and financial institutions in total liabilities is more than 25%. In particular, *this figure is 51.6% in the National Bank, 50.1% in Asaka Bank, 43.2% in Uzbekistan industrial construction bank, 39.8% in Agrobank. Microcredit Bank accounts for 36.6%*. Also, the analysis of deposits and loans for each branch of the bank shows that competing and centralized banks financed the bulk of their loans from attracted deposits. The share of government borrowings in the liabilities of large state-owned banks remains high. As of June 1, 2020, *the share of government funds in the liabilities of Qishloq Qurilish Bank is 40.5%, in Ipoteka Bank - 31.5%, in Agrobank - 27.4%, in Microcredit Bank - 21.2% and 14.9% in the Xalq Bank.*

#### *Financial popularity*

The financial popularity of banks reflects the level of access to financial services for small and medium-sized businesses and the level of involvement of the "bankless" population in the banking sector. According to a survey conducted by the World Bank in 2019 among 1,239 enterprises and firms in Uzbekistan, only 22.2% of firms have bank loans / credit lines (the average for Europe and Central Asia is 37.5 percent), 15.1 percent of firms' applications for loans were rejected (the average for Europe and Central Asia is 9.1 percent). Taking into account these factors, the number of entrepreneurs who received a loan for each branch of the bank can be considered as one of the criteria for measuring the popularity of banking services. Silk Road Bank, Agrobank and Hamkorbank have the highest rates in this area. Each branch of Silk way Bank received an average of 548 loans, compared to 497 and 467 in Agrobank and Hamkorbank, respectively. The share of loans to the 10 largest borrowers in centralized banks in the total loan portfolio averages 54%. In particular, as of June 1, 2020, this figure is relatively high in UzKDBank, Hi-Tech Bank, Tenge Bank, Ravnaq Bank, Ziraat Bank and Poytakht Bank. In the group of large banks with a state share, the ratio of loans issued by the National Bank and Asaka Bank to the top 10 customers in total loans is more than 50%. In this group, 4 banks (*Turon Bank, Uzbekistan industrial construction bank, Aloka Bank and Microcredit Bank*) have a rate of 27% to 39%. Among the competing banks, only Orient Finance Bank's top 10 clients account for about 50% of the loan portfolio. The share of loans to the private sector of the economy remains relatively low in the four largest state-owned banks. In particular, *this figure is 41% in the National Bank, 59.2% in the Uzbekistan industrial construction bank, 56.7% in Agrobank and 66.5% in Asaka Bank.* Bank activity index rating: Capital Bank, Hamkorbank and Aloqabank are in the top 3 of the Banking Activity Index for May 2020. Capitalbank took the 1st place in the overall rating (both in terms of financial intermediation and profitability). In particular, the share of deposits and time deposits in total loans of Capitalbank increased to 82%,

while the share of deposits and loans from other banks and financial institutions in total liabilities and the share of public funds in liabilities exceeded the average of the banking system. much lower (3.2 and 0.14 percent, respectively). Hamkorbank took the 2nd place in the overall ranking (1st place in terms of financial popularity, 2nd place in terms of profitability). In particular, the bank ranked 3rd in the ranking of the average number of loans to individuals (4323 people per branch). The share of loans issued to Hamkorbank's top 10 customers is low (14.3%). Among the largest state-owned banks, Aloqabank ranked 3rd in the overall ranking due to its low liabilities to the government and the high ratio of savings and time deposits to total loans. Tengebank and Poytakhtbank, which started operating in 2019, have a low ratio of savings and time deposits to total loans, while Tengebank's liabilities include a high share of deposits and loans from other banks and financial institutions. led to 25th and 27th place respectively. Nevertheless, these banks are the top 3 leaders in terms of liquidity.

## For the month of May 2020

No	Banks	Rating on financial intermediation	Rating on financial popularity	Capital adequacy rating	Asset quality rating	Rating on management effectiveness	Earning potential rating	Liquidity rating	Overall rating
1	Капитал банк	1	6	26	7	9	1	11	1
2	Ҳамкор банк	11	1	22	6	16	2	6	2
3	Алоқа банк	4	7	10	22	2	11	23	3
4	Универсал банк	3	4	21	5	17	22	10	4
5	Давр банк	6	13	24	2	3	5	17	5
6	Азия Альянс банк	8	8	23	12	10	4	12	6
7	Инфин банк	7	15	25	3	4	10	19	7
8	Траст банк	5	14	13	18	15	21	4	8
9	Равнақ банк	13	12	11	8	7	14	24	9
10	Агробанк	20	5	15	1	25	9	20	10
11	Халқ банк	10	18	9	14	18	6	22	11
12	Ипак йўли банк	24	3	20	13	23	3	8	12
13	Асака банк	17	10	14	17	6	8	16	13
14	Ориент Финанс банк	9	19	8	11	8	26	5	14
15	Турон банк	12	22	12	4	19	18	14	15
16	Туркистон банк	2	21	27	9	1	12	27	16
17	Ипотека банк	19	20	16	16	5	7	9	17
18	Қишлоқ қурилиш банк	14	2	18	21	13	16	26	18
19	Ўзмилий банк	22	16	5	10	11	17	13	19
20	Зираат банк	23	24	3	23	20	13	15	20
21	Хай-Тек банк	15	23	4	15	12	15	25	21
22	Микрокредит банк	16	9	7	20	24	24	21	22
23	Саноатқурилишбанк	18	11	17	19	22	25	18	23
24	Ўзагроекспортбанк	21	27	1	26	21	20	7	24
25	Тенге банк	26	25	2	24	26	19	2	25
26	ЎзКДБ банк	25	26	19	25	14	23	3	26
27	Пойтахт банк	27	17	6	27	27	27	1	27

Based on the above, it can be concluded that the banks of Uzbekistan have not stopped their activities and stability, even in the face of the pandemic. However, the pandemic affected all businesses, both private and public, and even forced them to suspend operations. The next step is to organize the activities of banks remotely, which will certainly be effective in this situation.

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